UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	2:13-cv-04581-CAS-AJWx	Date	August 4, 2014
Title	SIGNAL PRODUCTS, INC. V. AMERICAN ZURICH INSURANCE COMPANY ET AL.		

Present: The Honorable	CHRISTINA A. SNYDER	
ISABEL MARTINEZ FOR CATHERINE JEANG	LAURA ELIAS	N/A
Deputy Clerk	Court Reporter / Recorder	Tape No.

Attorneys Present for Plaintiff:	Attorneys Present for Defendants:
Linda Kornfeld Jerold Oshinsky	Karen Bizzini Winnie Louie

Proceedings: PLAINTIFF'S MOTION FOR PARTIAL SUMMARY JUDGMENT AS TO DUTY TO DEFEND (dkt. 177, filed June 9, 2014)

DEFENDANTS' MOTION FOR PARTIAL SUMMARY JUDGMENT AS TO DUTY TO DEFEND (dkt. 174, filed June 9, 2014)

I. INTRODUCTION[1]

On March 7, 2013, plaintiff Signal Products, Inc. ("Signal"), filed a complaint against American Zurich Insurance Company ("Zurich") and American Guarantee and

[1] This order quotes portions of various under seal documents submitted in support of the parties' moving papers. At the hearing on August 4, 2014, the Court provided the parties with a tentative order, and inquired if any party objected to such information being unsealed as part of the Court's final order. Signal Products informed the Court that it would prefer if certain information not be contained in the Court's final order, but the parties otherwise consented to the unsealing of the information contained herein. Accordingly, the Court issues both a publicly available redacted version of this order, and a sealed, unredacted version of the order. To the extent any information quoted in the publicly available version was previously under seal, that information is hereby unsealed.

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Liability Insurance Company ("American Guarantee").[2] Signal avers that it purchased commercial general liability insurance policies from Zurich and American Guarantee (collectively, "the insurer").[3] Compl. ¶ 11. Signal's complaint states that Signal was the defendant in a trademark action recently tried to judgment in the United States District Court for the Southern District of New York ("the Gucci action"). Id. ¶¶ 36-44. Signal asserts that the insurer (1) breached its duty to indemnify Signal with regard to the judgment entered against Signal in the Gucci action and (2) breached its duty to defend Signal in the Gucci action, by failing to pay Signal's defense costs. Signal states that it was represented by two firms in the Gucci action, O'Melveny & Myers, LLP ("OMM"), and Steptoe & Johnson, LLP ("Steptoe"). Id. ¶¶ 45-47. Signal alleges that the insurer is obligated to reimburse Signal for the cost of the OMM's and Steptoe's defense of the Gucci action. Id. ¶¶ 75-81.

On December 16, 2013, the Court issued a ruling on two previous motions for summary judgment filed by the parties. Dkt. 152. The Court granted the insurer's motion for partial summary judgment, finding that the insurer did not breach its duty to indemnify because the judgment against Signal in the Gucci action was not covered by Signal's insurance policies. The Court declined to grant summary judgment to Signal on the insurer's duty to defend Signal, and ordered the parties to conduct additional discovery pursuant to Fed. R. Civ. P. 56(d).

On June 9, 2014, Signal filed a renewed motion for partial summary judgment on its claim that Zurich breached its duty to defend by failing to pay defense costs. Dkt. 177. On June 20, 2014, Zurich filed its opposition, dkt. 204, and on June 27, 2014,

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[2] Signal filed its complaint in the Northern District of California. On June 7, 2013, Judge Edward Chen granted Zurich and American Guarantee's motion to transfer the case to the Central District of California. Dkt. 52.

[3] Zurich is Signal's primary insurer, while American Guarantee is Signal's umbrella liability insurer. Signal only moves for summary judgment against Zurich, while conversely, both Zurich and American Guarantee move for summary judgment against Signal. To avoid unnecessary confusion, the Court refers to the defendants collectively as "the insurer," although much of the conduct at issue in these motions was performed by Zurich and not American Guarantee.

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Signal filed its reply, dkt. 214. On June 9, 2013, the insurer filed a cross-motion for partial summary judgment on Signal's claim for breach of the duty to defend. Dkt. 174.[4] On June 20, 2013, Signal filed its opposition, dkt. 201, and on June 27, 2014, the insurer filed its reply, dkt. 209.[5] On August 4, 2014, the Court held a hearing. After considering the parties' arguments, the Court finds and concludes as follows.

II. BACKGROUND

A. Insurance Policies

Plaintiff Signal is a fashion apparel corporation with its principal place of business in Los Angeles, California. Compl. ¶ 4. Defendants Zurich and American Guarantee are both insurance companies with their principal places of business in Schaumburg, Illinois. Id. ¶ 5. Beginning in 2003, both Zurich and American Guarantee sold insurance policies to Signal. Zurich sold seven commercial general liability policies to Signal, with policy periods covering January 29, 2003, to January 29, 2010. Defendants' Statement of Uncontroverted Material Facts ("DSUMF") ¶ 1; Plaintiff's Statement of Genuine Disputes ("PSGD") ¶ 1.[6] These commercial general liability policies provide personal

[4] Signal objects to certain portions of the declaration of David Wehr, which the insurer submitted in support of its motion for summary judgment. Because the Court does not rely on these portions of Mr. Wehr's declaration, this objection is OVERRULED as moot.

[5] The insurer objects to the declaration of Sarah Cox, which Signal submitted in support of its opposition to the insurer's motion for summary judgment. Because the Court does not rely on Ms. Cox's declaration, this objection is OVERRULED as moot.

[6] These policies are numbered CPO 2817167-00 (policy period of January 29, 2003 to January 29, 2004), CPO 2817167-01 (policy period of January 29, 2004 to January 29, 2005), CPO 2817167-02 (policy period of January 29, 2005 to January 29, 2006), CPO 2817167-03 (policy period of January 29, 2006 to January 29, 2007), CPO 2817167-04 (policy period of January 29, 2007 to January 29, 2008), CPO 2817167-05 (policy period of January 29, 2008 to January 29, 2009), and CPO 2817167-06 (policy period of January 29, 2009 to January 29, 2010). DSUMF ¶ 1; PSGD ¶ 1.

and advertising injury liability coverage, as set forth below:

> COVERAGE B PERSONAL AND ADVERTISING INJURY LIABILITY
>
> 1. Insuring Agreement
>
> a. We will pay those sums that the insured becomes legally obligated to pay as damages because of "personal and advertising injury" to which this insurance applies. . . .

DSUMF ¶ 3; PSGD ¶ 3.

Similarly, American Guarantee sold seven umbrella liability policies to Signal, with policy periods covering January 29, 2003, to January 29, 2010.[7] DSUMF ¶ 2; PSGD ¶ 2. These umbrella policies also provide personal and advertising injury liability coverage:

> Under Coverage B, we will pay on behalf of the insured . . . damages the insured becomes legally obligated to pay by reason of liability imposed by law or assumed under an insured contract because of . . . personal and advertising injury covered by this insurance . . . . Coverage B will not apply to any loss, claim or suit for which insurance is afforded under underlying insurance or would have been afforded except for the exhaustion of the limits of underlying insurance.

[7] These umbrella policies are numbered UMB 9310005-00 (policy period of January 29, 2003 to January 29, 2004), UMB 9310005-01 (policy period of January 29, 2004 to January 29, 2005), UMB 9310005-02 (policy period of January 29, 2005 to January 29, 2006), UMB 9310005-03 (policy period of January 29, 2006 to January 29, 2007), UMB 9310005-04 (policy period of January 29, 2007 to January 29, 2008), UMB 9310005-05 (policy period January of 29, 2008 to January 29, 2009), and UMB 9310005-06 (policy period of January 29, 2009 to January 29, 2010). DSUMF ¶ 2; PSGD ¶ 2.

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DSUMF ¶ 6; PSGD ¶ 6.

B. The Gucci Action[8]

Signal manufactures and sells fashion products based on trademarks and other intellectual property that Signal licenses from Guess?, Inc. ("Guess"). On May 6, 2009, Gucci America, Inc. ("Gucci") filed a lawsuit against Guess alleging that Guess's fashion products infringed Gucci's trade dress (the "Gucci action"). On August 13, 2009, Gucci amended its complaint to add Signal and other Guess licensees as co-defendants. With respect to Signal, Gucci alleged that certain Signal handbags and luggage used a design known as the "Quattro G Pattern executed in brown/beige colorways." Gucci asserted that these products infringed on a distinctive Gucci trade dress known as the "Diamond Motif Trade Dress."

Signal tendered defense of the Gucci action to the insurer by letter dated May 3, 2010. DSUMF ¶ 13; PSGD ¶ 13. The insurer appointed David Wehr as a claims agent to handle Signal's tender of the Gucci action. Plaintiff's Statement of Undisputed Material Facts ("PSUMF") ¶ 45; Defendant's Statement of Genuine Disputes ("DSGD") ¶ 45. On July 22, 2010, Mr. Wehr sent a letter to Signal's coverage counsel stating that "Zurich will provide a defense to the above lawsuit, subject to a reservation of rights." PSUMF ¶ 69; DSGD ¶ 69. The letter stated that the insurer had retained attorney John Williams of the firm Hinkhouse Williams Walsh LLP to represent Signal as insurer-appointed counsel in the Gucci action. PSUMF ¶ 71; DSGD ¶ 71. This letter also informed Signal that: "You may be entitled to independent counsel due to a potential conflict of interest between Signal Products and the insurers." PSUMF ¶ 70; DSGD ¶ 70. On September 27, 2010, Signal informed the insurer that Signal was not willing to waive its right to independent counsel. PSUMF ¶ 78; DSGD ¶ 78.

The Gucci Action proceeded to bench trial in March 2012. On June 18, 2012, the Gucci court issued an Amended Opinion and Order, Gucci Am., Inc. v. Guess?, Inc., 868 F. Supp. 2d 207, 215 (S.D.N.Y. 2012) (the "Gucci Order"). DSUMF ¶ 22; PSGD ¶ 22.

[8] The facts described in this section are in large part taken from the order in the Gucci action, Gucci Am., Inc. v. Guess?, Inc., 868 F. Supp. 2d 207, 215 (S.D.N.Y. 2012).

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In this order, the Gucci court found, among other things, that Signal "intentionally and wilfully copied" the "Quattro G Pattern executed in brown/beige colorways" from Gucci's "Diamond Motif Trade Dress." Gucci Order at 254. Accordingly, the Gucci court awarded Gucci an accounting of Signal's profits from the infringing products, which totaled $1,834,503. Id.; see also PSUMF ¶ 140; DSGD ¶ 140. Signal now seeks to recover the costs of defending the Gucci action.

III. LEGAL STANDARD

Summary judgment is appropriate where "there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(a). The moving party bears the initial burden of identifying relevant portions of the record that demonstrate the absence of a fact or facts necessary for one or more essential elements of each claim upon which the moving party seeks judgment. See Celotex Corp. v. Catrett, 477 U.S. 317, 323 (1986).

If the moving party meets its initial burden, the opposing party must then set out specific facts showing a genuine issue for trial in order to defeat the motion. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 250 (1986); see also Fed. R. Civ. P. 56(c), (e). The nonmoving party must not simply rely on the pleadings and must do more than make "conclusory allegations [in] an affidavit." Lujan v. Nat'l Wildlife Fed'n, 497 U.S. 871, 888 (1990); see also Celotex, 477 U.S. at 324. Summary judgment must be granted for the moving party if the nonmoving party "fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial." Id. at 322; see also Abromson v. Am. Pac. Corp., 114 F.3d 898, 902 (9th Cir. 1997).

In light of the facts presented by the nonmoving party, along with any undisputed facts, the Court must decide whether the moving party is entitled to judgment as a matter of law. See T.W. Elec. Serv., Inc. v. Pac. Elec. Contractors Ass'n, 809 F.2d 626, 631 & n.3 (9th Cir. 1987). When deciding a motion for summary judgment, "the inferences to be drawn from the underlying facts . . . must be viewed in the light most favorable to the party opposing the motion." Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 587 (1986) (citation omitted); Valley Nat'l Bank of Ariz. v. A.E. Rouse & Co., 121 F.3d 1332, 1335 (9th Cir. 1997). Summary judgment for the moving party is proper

when a rational trier of fact would not be able to find for the nonmoving party on the claims at issue. See Matsushita, 475 U.S. at 587.

IV. DISCUSSION

The parties both move for summary judgment on the issue of the insurer's duty to defend Signal in the Gucci action. In California, an insurer has a broad duty to defend its insured, which "may apply even in an action where no damages are ultimately awarded." Scottsdale Ins. Co. v. MV Transp., 36 Cal. 4th 643, 654 (2005) (citing Horace Mann Ins. Co. v. Barbara B., 4 Cal. 4th 1076, 1081 (1993)). In Montrose Chem. Corp. v. Superior Court, 6 Cal. 4th 287 (1993), the California Supreme Court concluded that when a suit against an insured alleges a claim that "potentially" or even "possibly" may subject the insured to liability for covered damages, an insurer must defend unless and until it can demonstrate that the claim is not covered. Montrose, 6 Cal. 4th at 299-300; see also Pardee Constr. Co. v. Insurance Co. of the West, 77 Cal. App. 4th 1340, 1351 (2000).

When the duty to defend arises, normally an insurer may discharge that duty by appointing counsel to defend the insured. However, insurer-appointed counsel face a conflict of interest when defending cases in which the conduct of the defense could affect whether that claim is covered under the insurance policy. When such a conflict of interest arises, an insurer may be required to provide independent counsel to defend the insured. "California courts first recognized the right to independent counsel at an insurer's expense, if a conflict of interest exists between an insurer and its insured based on possible noncoverage under an insurance policy, in San Diego Navy Federal Credit Union v. Cumis Ins. Society Inc., 162 Cal. App. 3d 358 (1984)." Park Townsend, LLC v. Clarendon Am. Ins. Co., 916 F. Supp. 2d 1045, 1053 (N.D. Cal. 2013). "The Cumis opinion was codified in 1987 by the enactment of Civil Code section 2860, which 'clarifies and limits' the rights and responsibilities of insurer and insured as set forth in Cumis." James 3 Corp. v. Truck Ins. Exchange, 91 Cal. App. 4th 1093, 1100 (2001). Specifically, California Civil Code § 2860 provides that, "[i]f the provisions of a policy of insurance impose a duty to defend upon an insurer and a conflict of interest arises which creates a duty on the part of the insurer to provide independent counsel to the insured, the insurer shall provide independent counsel to represent the insured . . . ."

Typically, litigation about Cumis counsel and the duty to defend focuses on whether the insurer has a duty to defend in the first instance, or on whether there is a

conflict of interest requiring the appointment of independent Cumis counsel. See, e.g., St. Paul Mercury Ins. Co. v. Ralee Eng'g Co., 804 F.2d 520, 522 (9th Cir. 1986); Truck Ins. Exch. v. Atl. Mut. Ins. Co., 2007 WL 2102874, at *1 (N.D. Cal. July 20, 2007). Here, by contrast, the insurer does not dispute that it has a duty to defend Signal in the Gucci action. DSUMF ¶ 14. Nor does the insurer dispute that the defense of the Gucci action involved a potential conflict of interest, requiring the appointment of independent counsel. Id. ¶¶ 15-17.

Instead, the parties dispute the scope of the insurer's obligation to pay for Signal's Cumis counsel. Cf. Seagate Tech. LLC v. Nat'l Union Fire Ins. Co. of Pittsburgh, PA, 737 F. Supp. 2d 1013, 1016 (N.D. Cal. 2010) ("In the present case, ISOP does not dispute that it had a duty to defend Seagate. . . . Thus, the dispute is not over whether ISOP owes Seagate money, but how much money it owes."). Signal contends that two firms acted as Cumis counsel for Signal in the Gucci action: O'Melveny & Myers, LLP ("OMM") and Steptoe & Johnson, LLP ("Steptoe"). Signal seeks reimbursement for fees incurred by OMM and Steptoe, and argues that the insurer has breached its duty to defend by delaying payment of those fees. Conversely, the insurer challenges various aspects of Signal's request for reimbursement. The Court begins with the fees attributable to OMM, then turns to the fees attributable to Steptoe, and finally addresses whether the insurer breached its duty to defend.

A. OMM Fees

OMM represented Signal, Guess, and the other Guess licensees in the Gucci action. PSUMF ¶ 15; DSGD ¶ 15. OMM first participated in the Gucci action as counsel for Guess. PSUMF ¶ 16; DSGD ¶ 16. After Signal was added to the Gucci action in May 2009, Signal engaged OMM to defend it as well. Signal's engagement letter with OMM stated that OMM would "look only to Guess for payment of [its] fees," with the expectation that there will later be an "apportionment . . . between [Signal], Guess and the other Licensee Co-Defendants." PSUMF ¶ 18; DSGD ¶ 18.[9]

[9] The insurer disputes the legal effect of this engagement letter, DSGD ¶ 18, but does not appear to dispute that the letter contained this language. See DSGD ¶ 17.

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In November 2010, while the Gucci litigation was ongoing, Signal received an invoice from Guess requesting that Signal pay Guess $750,000. PSUMF ¶ 25; DSGD ¶ 25. Signal paid the invoice to Guess. PSUMF ¶ 31; DSGD ¶ 31. Signal contends that this $750,000 invoice represented a partial interim payment for OMM's defense of Signal: OMM had billed Guess for the cost of the joint defense, and Guess was now passing a portion of that cost on to Signal. PSUMF ¶¶ 26-29. As discussed below, the insurer contests this characterization of the $750,000 payment. DSGD ¶¶ 26-29.

Subsequently, on May 20, 2014, Signal received a letter from Guess, which purported to set forth a final accounting of the OMM fees incurred in the Gucci action. PSUMF ¶ 131; DSGD ¶ 131. This letter stated that the OMM fees associated with the joint defense of Guess, Signal, and the other Guess licensees totaled [REDACTED]. PSUMF ¶ 132; DSGD ¶ 132. The letter stated that Guess had received insurance reimbursements for [REDACTED] of these fees, leaving an outstanding unreimbursed balance of $6,097,461. PSUMF ¶ 133; DSGD ¶ 133. The Guess letter demanded that Signal reimburse Guess for half of this outstanding balance, or $3,048,730. PSUMF ¶ 134; DSGD ¶ 134. Signal, in turn, has demanded that the insurer reimburse it for $1,909,080 of this amount, which includes the prior $750,000 interim payment in November 2010. As yet, the insurer has only paid Signal $250,000 in August 2012 as an "interim payment" toward Signal's defense costs. PSUMF ¶¶ 101, 103; DSGD ¶¶ 101, 103. On December 4, 2012, the insurer sent Signal an additional check for $177,416.06, labeled as "Full & Final Compromise of Signal's claim for defense costs." PSUMF ¶ 121; DSGD ¶ 121. Signal did not cash this check, and returned it to the insurer. PSUMF ¶ 122; DSGD ¶ 122.

The parties now both move for summary judgment on the OMM fees. The insurer moves for partial summary judgment that it is not required to reimburse Signal for the $750,000 interim payment paid to Guess. Signal, conversely, moves for summary judgment requiring the insurer to reimburse Signal for $1,909,080, which Signal contends represents the fees incurred in OMM's defense of Signal.

1. The Insurer's Motion for Summary Judgment on the $750,000 Payment

The insurer advances two arguments for why it is not required to reimburse Signal

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for this $750,000 payment. First, the insurer argues that the $750,000 was paid to Guess pursuant to a separate indemnification agreement between Signal and Guess, and thus does not constitute "defense costs" within the meaning of the insurance policies. Second, the insurer contends that, because Signal paid the $750,000 to Guess without first obtaining the insurer's consent, reimbursement is barred by the "No Voluntary Payments" provision of Signal's insurance policies. The Court considers each of these arguments in turn.

First, with regard to its argument that the $750,000 does not constitute reimbursable defense costs, the insurer contends that Signal paid Guess this amount as part of its obligation to indemnify Guess under the Trademark License Agreement between Signal and Guess. This Trademark License Agreement includes the following provisions:

> 19.1 Indemnification.
>
> LICENSEE shall indemnify, protect, hold harmless and defend GUESS . . . from and against any and all claims, suits, liabilities, expenses and damages, including costs of suit and attorneys' fees, arising out of or in any way connected with: the design, creation, manufacture, sale, distribution, labeling or Advertisement of any Product by or on behalf of LICENSEE . . . .
>
> 19.2 Defense Counsel.
>
> LICENSEE shall defend GUESS with counsel acceptable to GUESS, with respect to each and every claim for which GUESS is indemnified by LICENSEE under this Agreement. LICENSEE shall pay for the services of such counsel upon counsel's presentation of legal bills or requests for retainer.

DSUMF ¶ 44; PSGD ¶ 44. Pursuant to this agreement, Guess submitted a claim to Signal "for indemnity and defense" of the Gucci action on May 12, 2009. DSUMF ¶ 45; PSGD ¶ 45. On October 28, 2010, Signal requested copies of OMM's invoices, for purposes of determining Signal's budget. DSUMF ¶ 49; PSGD ¶ 49. Guess responded that same day, stating: "yes, there will be amounts due from our licensees for legal fees on the Gucci matter. Our insurance is covering approximately 1/3 only of our legal fees. I

believe the reimbursement number we are requesting from Signal is $500,000 from the inception of the case in May 2009 to the present." DSUMF ¶ 50; PSGD ¶ 50. Guess then sent Signal the invoice, dated November 3, 2010, seeking payment of $750,000. DSUMF ¶ 18; PSGD¶ 18. This invoice labeled the $750,000 as "FIRST INSTALLMENT OF 2009 AND 2010 CONTRACT YEAR GUCCI LEGAL FEES REIMBURSEMENT." Kornfeld Decl. Ex. 36. On January 4, 2011, Signal paid this invoice. DSUMF ¶ 19; PSGD ¶ 19.

Based on this evidence, the insurer contends that Signal paid the $750,000 invoice pursuant to its obligation to indemnify Guess under the Trademark License Agreement. The insurer particularly relies on Guess's October 28, 2010 email, which referred to "amounts due from our licensees for legal fees on the Gucci matter," and discussed fees going back to "the inception of the case in May 2009." Because Signal did not become a defendant in the Gucci action until August 2009—three months after the case was first filed against Guess in May 2009—the insurer contends that Guess's reference to fees "from the inception of the case" demonstrate that the fees in question are Guess's fees for the Gucci action, rather than Signal's fees. The insurer also cites a number of subsequent discussions between Guess and Signal, which all discuss the scope of Signal's obligation to indemnify Guess, as evidence that Guess was holding Signal responsible for the cost of defending Guess. As Signal's insurance policies only obligate the insurer to pay the costs of Signal's defense, not Signal's obligations to Guess under the Trademark License Agreement, the insurer contends that the $750,000 is not a covered defense cost.

The Court finds this argument unpersuasive. As an initial matter, the insurer misses the mark by focusing on the November 3, 2010 invoice in isolation. The insurer does not dispute that OMM defended Signal as Cumis counsel in the Gucci action. DSUMF ¶ 16. Because OMM acted as plaintiff's Cumis counsel, the insurer is "under both a statutory and contractual obligation to pay fees and costs incurred" by OMM in Signal's defense. Croskey, Heesman & Imre, Cal. Practice Guide: Insurance Litig. § 7:802 (The Rutter Group 2013). The question at issue in this case is therefore what fees and costs were incurred by OMM in defending Signal, not whether a particular invoice is or is not attributable to those costs. Here, Signal contends that OMM billed $1,909,080

in fees and costs attributable to its defense of Signal in the Gucci action. If Signal is able to prove that figure at trial, the insurer must reimburse Signal for the full cost of its defense, even if Signal separately paid the $750,000 invoice, or some portion of it, to indemnify Guess.

In any event, there are also genuine issues of disputed material fact about the provenance of the $750,000 invoice. OMM's engagement letter with Signal stated that: "We will look to Guess for payment of our fees, charges and expenses in our representation of [Signal]." Consistent with this provision, Signal argues that Guess was paying all of OMM's fees, including the fees incurred defending Signal, and that the $750,000 represented a partial payment of Signal's portion of the OMM fees. Guess's general counsel, Deborah Seigel, testified at deposition that the $750,000 constituted a form of a "retainer," or down payment, for the fees that Guess and Signal expected OMM to bill:

> Q: Okay. Did Guess ever request payment of [the OMM] invoices from Signal at any time.
>
> A: Yes.
>
> Q. Do you recall when?
>
> A: I believe—I think sometime in 2010, we sent them a summary of the total fees and costs that Guess had incurred and discussed—since the lawsuit was ongoing, the demand from Gucci was very, very high, and legal fees were mounting. We discussed some type of a retainer payment, since we didn't know the exact amounts that would be owed.
>
> . . .
>
> Q: And do you know how this $750,000 was calculated?
>
> A: Yeah. I—basically, the summary sheet that we had provided them at the time was close to 5 million, and we just wanted to come up with a number that was a portion of the 5 million as a installment and some type of like – I don't

> know if to call it a retainer or not, because the services were already being used and accrued. But as I already stated before, between the ongoing litigation, the insurance payments that were coming in, and the future bills to be coming in - - because it was still the beginning of the case. Now looking back, there were two more years to go - - we wanted a chunk of money to be applied to these fees. But there was no exact science for how that amount was derived.

PSUMF ¶¶ 27-28. Similarly, Signal's president Jason Rimokh testified that the "$750,000 was an installment to go towards our portion of the legal fees that [OMM] had rung up, our portion." PSGD ¶ 66. A jury could credit this testimony, and find that Signal's payment of the $750,000 invoice to Guess constituted a partial payment towards the costs of OMM's defense of Signal. If so, the $750,000 would constitute "fees and costs incurred" defending Signal, and thus be reimbursable defense costs.

The insurer contests this conclusion on the grounds that Guess "controlled" OMM's defense of the Gucci action. But even assuming that Guess did "control" the defense of the Gucci action, that alone is not enough to warrant summary judgment on the $750,000 payment. As noted above, the insurer does not dispute that OMM defended Signal as Cumis counsel in the Gucci action. Even if that defense was conducted under the direction of Guess, expenses were nonetheless incurred in OMM's defense of Signal. As such, the insurer must reimburse those expenses so long as they are reasonable. See Executive Aviation, Inc. v. National Ins. Underwriters, 16 Cal. App. 3d 799, 810 (1971) ("The insurer's obligation to defend extends to paying the reasonable value of the legal services and costs performed by independent counsel, selected by the insured."); Previews, Inc. v. California Union Ins. Co., 640 F.2d 1026, 1028 (9th Cir. 1981) (same). At most, Guess's alleged "control" of OMM's defense of Signal speaks to the reasonableness of the fees billed by OMM, see, e.g., Wallis v. Centennial Ins. Co., Inc., 982 F. Supp. 2d 1114, 1122 (E.D. Cal. 2013), not whether those fees are defense costs in the first instance.

The same reasoning disposes of the insurer's argument that "Guess alone received and paid all legal fees and costs billed by OMM." Again, it is undisputed that OMM represented Signal in the Gucci action. OMM's engagement letter with Signal expressly provided that OMM would "look only to Guess for payment of [its] fees," with the expectation that there will later be an "apportionment . . . between [Signal], Guess and the

other Licensee Co-Defendants." PSUMF ¶ 18. Consistent with this engagement letter, OMM appears to have only billed Guess in connection with the Gucci action. The insurer cites no authority for the proposition that an insurer is relieved of the obligation to pay Cumis defense costs if those costs are billed through a third party.[10] Indeed, given that all of OMM's fees appear to have been billed to Guess, taking the insurer's argument to its logical conclusion would result in the insurer paying no OMM fees. This result is implausible: the insurer has consistently reiterated that it agreed to defend Signal in the Gucci action, and that it "acknowledged" Signal's selection of OMM as independent counsel. DSUMF ¶¶ 14-17. Having agreed to OMM as Cumis counsel, the insurer cannot now adopt a litigating position that would have the practical effect of relieving it of responsibility for any of OMM's fees. See Gray v. Zurich Ins. Co., 65 Cal. 2d 263, 280 (1966) ("Courts in the field of insurance contracts have tended to require that the insurer render the basic insurance protection which it has held out to the insured.").

In the alternative, the insurer argues that reimbursement of this $750,000 payment to Guess is barred by the "No Voluntary Payments" ("NVP") clause of Signal's insurance policies. The Zurich policies contain the following provision: "No insured will, except at the insured's own cost, voluntarily make a payment, assume any obligation, or incur any expense, other than for first aid, without our consent." DSUMF ¶ 4; PSGD ¶ 4. Similarly, the American Guarantee policies contain the following NVP provision: "The insureds will not, except at their own cost, voluntarily make a payment, assume any obligation, or incur any expense, other than for first aid, without our consent." DSUMF ¶ 7; PSGD ¶ 7.

As a general matter, NVP provisions are both common and enforceable under California law. Dietz Int'l Pub. Adjusters of California, Inc. v. Evanston Ins. Co., 796 F.

[10] The insurer argues that: "Under the general custom and practice in the insurance industry, and Civil Code section 2860, an insured obtains payment for its Cumis counsel's legal services by timely submitting the invoices to its insurer for payment." DSGD ¶ 28. Section 2860 does not contain any requirement that Cumis counsel fees must be billed in this manner. Moreover, even assuming that the insurer correctly characterizes the "genuine custom and practice" in the insurance industry, the insurer has supplied no authority for the proposition that Signal's failure to comply with this custom would absolve the insurer of its responsibility to pay for the cost of Signal's defense.

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Supp. 2d 1197, 1212 (C.D. Cal. 2011). "The [NVP] provision is based on the equitable rule that 'the insurer [is invested] with the complete control and direction of the defense' and is thus not liable for any voluntary payments, expenses, or other obligations assumed by the insured without the insurer's consent." Truck Ins. Exch. v. Unigard Ins. Co., 79 Cal. App. 4th 966, 981(2000) (citing Gribaldo, Jacobs, Jones & Associates v. Agrippina Versicherunges A.G., 3 Cal. 3d 434, 449 (1970)). "They are designed to ensure that responsible insurers that promptly accept a defense tendered by their insureds thereby gain control over the defense and settlement of the claim. . . . In short, the provision protects against coverage by fait accompli." Jamestown Builders, Inc. v. Gen. Star Indem. Co., 77 Cal. App. 4th 341, 346 (1999).

The Court finds that the NVP provision does not bar reimbursement of the $750,000 invoice. Specifically, the Court finds that the NVP provision does not apply to the payment of Cumis counsel fees. The NVP provisions at issue only bar payments made "without [the insurer's] consent." DSUMF ¶¶ 4, 7; PSGD ¶¶ 4, 7. Here, the insurer advised Signal that defendants would defend Signal subject to a reservation of rights, thereby creating a conflict of interest, and triggering Signal's right to independent counsel at the insurer's expense. DSUMF ¶¶ 14-15. By creating this conflict of interest, the insurer consented to Signal hiring independent counsel, and therefore also consented to the expense of that independent counsel. Id. ¶ 17. As the California Supreme Court explained in Gribaldo, Jacobs, Jones & Associates v. Agrippina Versicherunges A.G., when an insured makes a demand for a defense, an insurer is "required to choose between accepting the defense at their expense, consenting to the expenditure of defense costs by [the insured's] attorney, or refusing to defend (in which case [the insured] could have assumed the defense at [the insurer's] expense)." 3 Cal. 3d at 450. Having consented to Signal's representation by independent counsel, the insurer cannot now invoke the NVP provision to bar payment of the costs of that representation.

The insurer cites no authority in which a NVP provision barred recovery for attorneys' fees incurred by Cumis counsel. It points to a number of cases involving fees incurred before defense of the action was tendered to the insurer, or where the defense was not tendered at all. See, e.g., Gribaldo, 3 Cal. 3d at 449 ("[P]laintiffs made no request or demand that defendants undertake the defense of any claim."); Truck Ins. Exch., 79 Cal. App. 4th at 981 ("Typically, a breach of [the NVP] provision occurs, if at all, before the insured has tendered the defense to the insurer."); Tradewinds Escrow, Inc. v. Truck Ins. Exch., 97 Cal. App. 4th 704, 710 (2002) ("[NVP] clauses bar

reimbursement for pre-tender expenses based on the reasoning that until the defense is tendered to the insured, there is no duty to defend."). But these cases stand for nothing more than the well-established principle that insurers are not responsible for defense costs incurred before the insurer is given notice of the action. See Croskey, Heesman & Imre, Cal. Practice Guide: Insurance Litig. § 7:691.20 (The Rutter Group 2013). This principle does not apply here, where the relevant fees were allegedly incurred after Signal tendered the defense of the Gucci action to the insurer.[11]

This dearth of authority confirms the Court's conclusion that NVP provisions do not apply to post-tender Cumis counsel fees. Insurers and insured routinely litigate the insurer's obligation to pay for Cumis counsel fees. See, e.g., Bogard v. Employers Cas. Co., 164 Cal. App. 3d 602 (1985). Given the near-universality of NVP clauses in insurance policies, the absence of any cases even discussing the applicability of NVP clauses to post-tender Cumis counsel fees suggests that an insurer's consent is not required before paying those fees. Indeed, if NVP provisions did vest insurers with a veto over the payment of Cumis counsel fees, that veto would seriously undermine the independence of Cumis counsel, who would risk non-payment if their conduct of an insured's defense displeased an insurer. Having given up control of the litigation to Signal and its independent counsel, the insurer may not reassert that control under the guise of the NVP provision. Cf. Cumis Ins. Soc'y, Inc., 162 Cal. App. 3d at 369 (explaining that when a conflict of interest arises, "the insurer may not compel the insured to surrender control of the litigation"). Accordingly, the Court concludes that the NVP provision does not bar reimbursement of the $750,000 invoice.

2. Plaintiff's Motion for Summary Judgment on the OMM Fees

Having concluded that the insurer is not entitled to summary judgment on the

[11] To the extent that Signal seeks reimbursement for defense costs incurred before Signal tendered the defense of the Gucci action to defendants, those costs may be precluded by the NVP provision. Tradewinds Escrow, 97 Cal. App. 4th at 710. But this is only so because the fees were incurred pre-tender, not because Signal paid the $750,000 invoice without the insurer's permission. The insurer has not established as a matter of undisputed fact that the entirety, or any specific portion, of the $750,000 invoice is attributable to pre-tender defense expenses.

OMM fees, the Court turns to Signal's cross-motion for summary judgment on the OMM fees. Unlike the insurer's motion, Signal does not focus on particular OMM invoices. Instead, Signal seeks summary judgment requiring the insurer to pay $1,909,808 as full reimbursement for the cost of OMM's defense of Signal. Signal calculates this $1,909,808 figure on the basis of Guess's May 20, 2014 letter, which set forth the final allocation of costs associated with the Gucci action. PSUMF ¶ 132. As discussed above, this letter stated that the overall cost of the defense in the Gucci action totaled [REDACTED]. From this total, Signal calculates its portion of the fees as follows:

> The Guess letter stated that the total amount incurred in connection with the Gucci Action was [REDACTED], and accordingly allocated to Signal $3,048,730 – fifty percent of the difference between [REDACTED] and Guess' insurance recovery. However, that [REDACTED] included not only the OMM fees, but the $2,279,300 judgment entered against Guess in the Gucci Action. Signal believes that it has no obligation to pay any portion of that judgment, and is not seeking coverage for those amounts from Zurich. Accordingly, Signal has subtracted $2,279,300 from the starting figure to arrive at the total for the OMM fees alone, [REDACTED], subtracted the Guess insurance recovery from that figure, and divided the remainder in half to arrive at the allocated share of $1,909,808.

Pl's Mot. 5 n.1. Signal contends that this allocation, which represents between 13% and 17% of the overall OMM fees, constitutes a reasonable assessment of the costs of OMM's defense of Signal. Accordingly, Signal argues that it is entitled to summary judgment ordering the insurer to pay $1,909,808 in OMM defense costs.

The Court finds that summary judgment must be denied to plaintiff as well. The insurer's defense obligation "extends to paying the reasonable value of the legal services and costs performed by independent counsel." Executive Aviation, 16 Cal. App. 3d at 810. But Signal has not provided sufficient evidence, let alone sufficient undisputed evidence, of "the reasonable value of the legal services and costs performed by" OMM in defense of Signal. Instead, Signal's calculation of the $1,909,808 figure may be summarized as follows:

(1) begin with Guess's overall costs of defending the Gucci action

([REDACTED]);

(2) subtract Guess's insurance recovery ([REDACTED];

(3) divide the remaining balance in half ([REDACTED]); and

(4) subtract the $2,279,300 which Signal attributes to the judgment against Guess in the Gucci action ([REDACTED]).

This calculation does not determine the "the reasonable value of the legal services and costs performed by" OMM, for at least three reasons. First, the calculation is based on the assumption that defending the Gucci action cost [REDACTED], but provides no support for that assumption. Signal takes the [REDACTED] figure from Guess's May 24, 2014 letter, but the Guess letter sets forth no evidence substantiating its assertions about the cost of defending the Gucci action. PSUMF ¶ 132. Nor does the Guess letter provide any assurance that the [REDACTED] figure represents the "the reasonable value of the legal services and costs performed by" OMM. To the contrary, the Guess letter makes clear that Guess's demand "include[s] the judgment amount against GUESS." PSUMF ¶ 132. The judgment against Guess is not part of "the reasonable value of the legal services and costs performed by" OMM, let alone the reasonable value of services performed by OMM in defense of Signal. As noted above, Signal purports to subtract out the judgment against Guess from its calculation of the OMM defense costs, but this merely raises further questions about what, if any, other components of the [REDACTED] would need to be subtracted to reach an appropriate calculation of the costs of OMM's defense. Because the Guess letter does not explain how the [REDACTED] was calculated, and Signal does not provided independent evidence that it is a correct calculation of the costs of defending the Gucci action, there are unresolved issues of material fact about the foundation of Signal's request for fees.

The second step of Signal's calculation is also faulty, because it reckons Signal's defense costs based in part on Guess's insurance recovery. Signal takes the overall OMM fees ([REDACTED]), and subtracts Guess's insurance recovery ([REDACTED]), to calculate the "unreimbursed balance" of $6,097,461. PSUMF ¶ 133. Setting aside the question of whether Signal has offered sufficient factual support for the assertion that Guess recovered [REDACTED] from its insurer, Signal does not explain why Signal's

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defense costs would depend on Guess's insurance recovery. Guess's success—or lack thereof—in recovering defense costs from its insurer has no bearing on "the reasonable value of the legal services and costs performed by" OMM in defense of Signal. If, for example, Guess had not carried liability insurance, this would not mean that all of the defense of the Gucci action would be attributed to Signal. Guess's insurance recovery may be relevant to Signal's obligation to reimburse Guess under the Trademark License Agreement, but it has no bearing on the reasonable value of OMM's defense of Signal, and is thus irrelevant to the insurer's obligation to reimburse Signal for the OMM defense fees.

Lastly, even if Signal's portion of the OMM fees did hinge on Guess's insurance recovery, Signal offers no explanation for why it is responsible for one-half of the unreimbursed portion of the OMM fees. The May 20, 2014, Guess letter states that Guess demanded one-half of the unreimbursed balance from Signal, and the other half from Signal's co-defendant and fellow Guess licensee, Max Fisher Footwear ("MFF"). PSUMF ¶ 133. But while Guess may have allocated fifty percent of it demand to Signal, Guess's allocation has no relevance to the question of what portion of the OMM fees were incurred in defense of Signal.

Instead, that apportionment depends entirely on the value of the work that OMM performed on behalf of Signal. But neither the Guess letter, nor Signal's moving papers, provide sufficient evidence to support an equal allocation between Guess and MFF. Signal provides some evidence about the proportion of OMM's defense efforts attributable to Signal. OMM attorney Robert Welsh, for example, testified at deposition that he would "estimate that about a third of our time was spent on Signal matters" through September 2010. PSUMF ¶ 139. But this crude estimate and cursory testimony is simply too thin a reed on which to rest an apportionment of fees between Signal, Guess, and the other Guess licensees represented by OMM. And it is certainly too weak a foundation for this Court to determine, as a matter of law, that the "the reasonable value of the legal services and costs performed by" OMM in defense of Signal is equal to fifty percent of the unreimbursed costs incurred by Guess in defending the Gucci action.

Signal contends that by only requesting $1.9 million in reimbursement for the OMM fees, it is in fact offering defendants a significant discount, because $1.9 million is a small percentage of the overall OMM fees billed in this action. This may well be so.

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Nonetheless, because Signal has not provided sufficient evidence, let alone sufficient undisputed evidence, of the reasonable value of OMM's defense of Signal, the Court cannot conclude as a matter of law that Signal is entitled to $1,909,808 as reimbursement for the OMM fees.

B. Steptoe Fees

Signal asserts that, in addition to hiring OMM, it also hired Steptoe to represent it in the Gucci action. PSUMF ¶ 22. Steptoe attorneys have served as "outside general counsel" for Signal for over 20 years. PSUMF ¶ 23; DSGD ¶ 23. Signal asserts that Steptoe began working on Signal's defense in the Gucci action in November 2010. PSUMF ¶ 24. According to deposition testimony of OMM attorney Robert Welsh, the defense of the Gucci action "divided up responsibilities between O'Melveny attorneys and Steptoe attorneys." Id. ¶ 142. Mr. Welsh further testified at deposition that OMM and Steptoe were in effect "acting as one large law firm." Id. Steptoe billed approximately $859,103.16 in fees for its representation of Signal in the Gucci action. PSUMF ¶ 32; DSGD ¶ 32. On July 13, 2012, Signal sent the insurer $557,546.27 in Steptoe invoices. PSUMF ¶ 95; DSGD ¶ 95. On December 21, 2012, Signal sent defendants an additional $294,056.89 in Steptoe invoices. PSUMF ¶ 124; DSGD ¶ 124.

The parties now both move for summary judgment on the Steptoe fees. Signal moves for summary judgment on the grounds that Cal. Civil Code § 2860 does not preclude Signal from using Steptoe as secondary Cumis counsel. Conversely, the insurer moves for summary judgment that it is not required to pay the Steptoe fees because those fees are (1) not costs of the defense of the Gucci action and (2) were incurred as unreimbursable voluntary payments.

1. The Insurer's Motion for Summary Judgment on the Steptoe Fees

The insurer moves for summary judgment on the grounds that it has no obligation to reimburse Signal for the fees billed by Steptoe, on two grounds.[12] First, the insurer

[12] The insurer specifically states that it reserves its rights to also challenge Signal's ability to retain two firms as Cumis counsel under Cal. Civil Code § 2860. As discussed below, the Court finds that Cal. Civil Code § 2860 does not preclude the use of two law

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argues that the Steptoe fees were not incurred in connection with the defense of Signal in the Gucci action. Instead, the insurer argues that Signal retained Steptoe to represent Signal in its dispute with Guess over Signal and Guess's respective obligations to pay for the defense of the Gucci action. The insurer points out that Signal retained Steptoe in late 2010, at the same time Guess first billed Signal with the $750,000 initial invoice. DSUMF ¶¶ 18, 27; PSGD ¶¶ 18, 27. The insurer cites the following entries from a privilege log produced in the course of the Gucci action:

Date	**Sender & Recipient**	**Description**
11/4/10	Jason Rimokh [Signal] to Jeffrey Weiner [Steptoe]; Jeffrey Weiner to Jason Rimokh	Emails re defense costs: OMM invoices
11/4/10	Jeffrey Weiner to Jason Rimokh	Emails re defense costs: OMM invoices
11/19/10	Jeffrey Weiner to Jack Rimokh [Signal]; Jason Rimokh; Stanley Salomons [Signal]	Email and attachment re defense costs: OMM invoice and $750K

DSUMF ¶ 36; PSGD ¶ 36. The insurer argues that these communications illustrate that Steptoe was advising Signal on its obligations to Guess, not defending Signal in the Gucci action. Similarly, the insurer points to several billing entries in several of the Steptoe invoices:

Date	**Description**	**Hours**
11/4/10	Legal research and analysis re: indemnification and waiver issues	4.8
12/22/10	Review M. Heimbold draft letter to D. Siegel [Guess] re Gucci indemnity payment and emails to and from Jason Rimokh regarding same.	.6

firms as Cumis counsel so long as the use of a second firm is reasonable and necessary for the defense of the underlying action.

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DSUMF ¶¶ 40-41; PSGD ¶¶ 40-41.[13] Again, the insurer contends that these invoices show that Steptoe was working to defend Signal from Guess's demand for payments, not from Gucci's lawsuit. Because the insurer only has a duty to reimburse Cumis counsel costs incurred in defense of the Gucci action, the insurer argues that the Steptoe fees are not covered defense costs.

This contention fails. Although Signal appears to concede that the insurer is not obligated to reimburse Steptoe fees if those fees were not incurred defending the Gucci action, pl's opp. 20, triable issues of fact remain about the provenance of the Steptoe fees. To be sure, it appears from the billing records and privilege log entries quoted above that at least some of Steptoe's work was not performed in defense of the Gucci action. The insurer, however, does not move for summary judgment on these isolated entries, but instead on the entirety of the Steptoe fees. To prevail, the insurer must show that there is no genuine issue of material fact about whether any of the Steptoe fees were incurred defending Signal in the Gucci action. See Matsushita, 475 U.S. at 587.

The insurer falls short of making this showing. Signal has tendered substantial evidence that Steptoe was involved in the defense of the Gucci action. Among other things, OMM attorney Robert Welsh testified at deposition that responsibilities for defense of the Guess action were divided between OMM and Steptoe attorneys. PUSMF ¶ 142. Steptoe attorney William Pecau examined several witnesses at trial, including Jason Rimokh, the president of Signal. PSUMF ¶ 141. The insurer contests this evidence, arguing that "Mr. Welsh's testimony is gratuitous and not credible." Defs' Reply 24. But "[a] court's role in deciding a summary judgment motion is not to make credibility determinations or weigh conflicting evidence." Van Asdale v. Int'l Game Tech., 577 F.3d 989, 998 (9th Cir. 2009). Accordingly, there exist genuine issues of material fact about whether the Steptoe fees were incurred in defense of the Gucci action.

The insurer argues in the alternative that it is not obligated to repay the Steptoe fees, because Signal did not inform it that it had retained Steptoe as additional Cumis counsel. As such, the insurer reasons, Steptoe's bills were incurred without defendants'

[13] The insurer also quotes several additional privilege log and billing entries, which the Court omits for concision.

consent, and reimbursement is thus precluded by the "No Voluntary Payment" provision of Signal's insurance policies. This argument fails, for two reasons. First, as discussed above, NVP provisions do not bar reimbursement of Cumis counsel fees. Accordingly, to the extent Steptoe was Cumis counsel, the NVP provision does not bar reimbursement of those fees. Conversely, to the extent that the insurer establishes that Steptoe was not acting as Cumis counsel, the insurer does not have to reimburse the Steptoe fees in the first instance, and the NVP provision is irrelevant. And as discussed herein, there are triable issues of fact concerning whether Steptoe acted as Cumis counsel in the Gucci action.

Second, there are also triable issues of fact regarding whether Signal informed the insurer about Steptoe's involvement in the Gucci action. Signal's insurance policies are silent on the method for selecting Cumis counsel, and written notice was therefore not required. Former Steptoe attorney Michael Heimbold submitted a declaration averring that he participated in several phone calls in late 2010 involving John Williams, an attorney with the firm of Hinkhouse Williams & Walsh LLP. Heimbold Decl. ¶ 8. As explained above, the insurer appointed Mr. Williams to represent Signal as insurer-appointed counsel in the Gucci action. DSUMF ¶ 14. Mr. Heimbold states that, during these early phone calls, he informed Mr. Williams that Steptoe had been hired to represent Signal alongside OMM in the Gucci action.[14] Heimbold Decl. ¶ 8. As insurer-appointed counsel, Mr. Williams was enmeshed in a "tripartite attorney-client relationship" between himself, Signal, and the insurer. Bank of Am., N.A. v. Superior Court of Orange Cnty., 212 Cal. App. 4th 1076, 1090 (2013). Williams was therefore in an attorney client relationship with defendants, and Mr. Williams' knowledge is thus imputed to the insurer. See Santangelo v. Bridgestone/Firestone, Inc., 499 F. App'x 727, 730 (9th Cir. 2012); see also PSUMF ¶ 40 ("Mr. Williams had reporting obligations to Zurich and regularly reported to Zurich throughout the Gucci action."); DSGD ¶ 40

[14] The insurer submits testimony from Mr. Williams disputing that he was ever informed of Steptoe's involvement in the Gucci action; the insurer also questions why Signal did not directly inform Mr. Wehr, the claims handler assigned to Signal's case, about Steptoe's involvement in the Gucci action. Such contentions go to Mr. Heimbold's credibility, and the weight of Signal's evidence, and are thus not properly addressed on summary judgment. See Matsushita, 475 U.S. at 587. For this reason, the Court does not reach Signal's request to strike the declaration of Mr. Williams.

("Undisputed"). Additionally, Mr. Heimbold avers that he spoke with Mr. Wehr, the insurer's claims agent, at a settlement mediation conference on April 27, 2011, and informed him of Steptoe's involvement in the Gucci action. Accordingly, Heimbold's declaration that he informed Mr. Williams and Mr. Wehr of Steptoe's involvement in the Gucci litigation creates a genuine issue of material fact about whether the insurer had notice of Steptoe's retention as Cumis counsel.

2. Plaintiff's Motion for Summary Judgment on the Retention of Steptoe

Signal moves for summary judgment that the insurer may not refuse to pay Steptoe on the grounds that Signal retained more than one firm as independent counsel. The insurer has previously suggested that Cal. Civil Code § 2860 does not require them to reimburse both OMM and Steptoe as Cumis counsel. See, e.g., dkt. 111 at 16 (the insurer's opposition to Signal's previous motion for summary judgment). Although the insurer does not make that argument in its motion for summary judgment, Signal seeks to preemptively preclude the insurer from invoking this argument in future proceedings. Notably, Signal does not move for summary judgment on the overall Steptoe fees, but instead limits its motion to the issue of multiple Cumis counsel.

Whether Cal. Civil Code § 2860 permits an insured to retain multiple firms as Cumis counsel appears to be an issue of first impression. Neither Signal nor the insurer cite any case addressing the issue under California law. Signal cites one Massachusetts trial court decision and one Illinois appellate court finding that multiple firms could be used as independent counsel, but neither decision addresses § 2860 or California insurance law more generally. See Watts Water Technologies, Inc. v. Fireman's Fund Ins. Co., 22 Mass. L. Rptr. 659, 2007 WL 2083769, at *8 (Mass. Super. July 11, 2007) (Massachusetts law); Caterpillar, Inc. v. Century Indem. Co., 2011 WL 488935, at *3 (Ill. App. Ct. Feb. 1, 2011) (Illinois law).

Nor does the text of § 2860 on its face resolve the question. Section 2860 refers only to the insurer's obligation to provide "independent counsel." Cal. Civil Code § 2860. The text of the statute does not define the term "independent counsel," and does not specify whether an insured is entitled to select multiple "independent counsel." Nor does § 2860 explain whether "independent counsel" refers to individual attorneys, a single law firm, or multiple attorneys spread across multiple law firms. In fact, the word "firm" appears nowhere in the statute. The silence of § 2860 on this issue is confirmed

by the legislative history of the statute, which the parties appear to agree is devoid of any reference to the use of multiple law firms as Cumis counsel. See Defs' Opp. 22; Pl's Reply 15.[15]

Despite this statutory silence about the meaning of "independent counsel," as a matter of practice courts have routinely found that law firms comprising multiple attorneys may serve as Cumis counsel. United States Fid. & Guar. Co. v. Superior Court, 204 Cal. App. 3d 1513, 1518 (1988), for example, involved Cumis counsel with "at least 17 attorneys and 25 paralegals" working on the insured's defense. See also Foremost Ins. Co. v. Wilks, 206 Cal. App. 3d 251, 256 (1988); Travelers Prop. Cas. Co. of Am. v. Centex Homes, 2013 WL 4528956, at *7 (N.D. Cal. Aug. 26, 2013). Indeed, Cumis itself involved the appointment of a firm as independent counsel. Cumis, 162 Cal. App. 3d at 361. Because § 2860 codified Cumis, this history implies that § 2860 permits insureds to retain law firms, and not just individual attorneys, to serve as Cumis counsel. See Brown v. Kelly Broad. Co., 48 Cal. 3d 711, 727-28 (1989) ("It is a generally accepted principle that in adopting legislation the [California] Legislature is presumed to have had knowledge of existing domestic judicial decisions and to have enacted and amended statutes in the light of such decisions as have a direct bearing on them." (quotation omitted)). Even here, the insurer appears not to contest that Signal could retain OMM, a large law firm comprising many attorneys, to represent it as Cumis counsel.

Having accepted that multiple attorneys may serve as Cumis counsel, there does not appear to be any principled grounds for requiring as a matter of law that all of those attorneys need to be employed at the same law firm. Certainly § 2860 does not impose such a requirement, given that it does not so much as mention the word "firm." And, as discussed above, the insurer has not cited any case law finding that Cumis counsel must all work at the same firm. Nor does the insurer provide any persuasive reason for why the Court should accept multiple attorneys as Cumis counsel, but draw the line at those attorneys working for different firms. Accordingly, the Court concludes that Cal. Civil Code § 2860 does not conclusively preclude the use of two law firms as Cumis counsel.

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[15] Signal objects to paragraph 7 of the declaration of the insurer's attorney Karen Bizzini, which attaches and describes the legislative history of § 2860. Because the Court does not rely on the statements in Ms. Bizzini's declaration, this objection is OVERRULED as moot.

Nonetheless, while the Court agrees with Signal that § 2860 does not automatically preclude the use of two firms as Cumis counsel, the Court still finds that plaintiff's motion for summary judgment should be denied on this issue. Section 2860 may not conclusively prevent Signal's from retaining a second law firm, but the retention of Steptoe is still subject to the general requirement that Cumis counsel fees must be "reasonable and necessary." Wallis v. Centennial Ins. Co., Inc., 982 F. Supp. 2d 1114, 1121 (E.D. Cal. 2013); see also United Pac. Ins. Co. v. Hall, 199 Cal. App. 3d 551, 557 (1988) ("While Cumis may prohibit an insurer from dictating the tactics of litigation, it does not delegate to Cumis counsel a meal ticket immunized from judicial review for reasonableness."). Because Signal has not established as undisputed that the retention of Steptoe as second Cumis counsel was reasonable and necessary for the defense of the Gucci action, Signal is not entitled to summary judgment finding that § 2860 authorized Signal to retain Steptoe as Cumis counsel.[16]

C. Breach of Duty to Defend

Finally, Signal moves for partial summary judgment that the insurer has breached its duty to defend Signal. Signal seeks this finding, separate and apart from any finding about the scope of the insurer's obligation to reimburse fees, because Signal argues that the insurer's breach of the duty to defend precludes the insurer from relying on several

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[16] The Court notes that Watts Water Technologies, the Massachusetts trial court case cited by Signal, reaches much the same result under Massachusetts law:

> As with the allocation of joint defense work within the joint defense, the governing standard is reasonableness. The insurers must pay for legal work performed at a reasonable cost that is reasonably related to the defense of Watts Regulator, regardless of whether that work is performed by a single law firm or allocated among national counsel and various local counsel. The insurers need not pay for work that is needlessly duplicated, regardless of whether that duplication is performed by attorneys within the same firm or at different firms.

Watts Water Technologies, Inc. v. Fireman's Fund Ins. Co., 2007 WL 2083769, at *8 (Mass. Super. July 11, 2007).

protections offered to insurers by Cal. Civil Code § 2860. See, e.g., Concept Enterprises, Inc. v. Hartford Ins. Co. of the Midwest, 2001 WL 34050685 at *3 (C.D. Cal. May 22, 2001) ("To take advantage of the provisions of § 2860, an insurer must meet its duty to defend . . . ."). In particular, a breaching insurer may not rely on Cal. Civil Code § 2860(c), which provides in pertinent part: "The insurer's obligation to pay fees to the independent counsel selected by the insured is limited to the rates which are actually paid by the insurer to attorneys retained by it in the ordinary course of business in the defense of similar actions in the community where the claim arose or is being defended." Signal argues that the insurer's breach of the duty to defend should deprive it of the benefit of these rate limitations. See Atmel Corp. v. St. Paul Fire & Marine, 426 F. Supp. 2d 1039, 1047 (N.D. Cal. 2005) ("[I]f plaintiff is able to establish a breach of the duty to defend, its damages are not limited by California Civil Code § 2860.").

The insurer responds with two arguments. First, the insurer argues that it did not breach the duty to defend. Second, the insurer contends that, even if it did breach the duty to defend, that breach does not deprive it of the rate-cap protections offered by § 2860(c) because the insurer timely acknowledged Signal's right to Cumis counsel. As discussed below, the Court finds that disputed issues of fact remain as to whether the insurer breached its duty to defend, and thus does not reach the question of whether the insurer may rely on the § 2860 rate caps.

Signal asserts that the insurer breached its duty to defend in four ways. First, Signal argues that the insurer violated 10 Cal. Code Reg. § 2695.7(b), which provides that "upon receiving proof of claim, every insurer . . . shall immediately, but in no event more than forty (40) calendar days later, accept or deny the claim, in whole or in part." Signal contends that the insurer breached this provision because plaintiff tendered defense of the Gucci action on May 3, 2010, PSUMF ¶ 43; DSGD ¶ 43, but the insurer did not accept defense of the Gucci action until more than 40 days later, on July 22, 2010, PSUMF ¶ 69; DSGD ¶ 69.

Second, plaintiff contends that the insurer breached its duty to defend by adopting unreasonable coverage positions throughout the pendency of the Gucci action. In particular, in the two months between Signal's tender and the insurer's acceptance of the defense of the Gucci action, the insurer's coverage agent, David Wehr, engaged in extended correspondence with Signal and OMM concerning perceived conflicts arising

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out of OMM's representation of both Signal and Guess. PSUMF ¶¶ 51-62; DSGD ¶¶ 51-62. Signal contends that Mr. Wehr only objected to OMM as a pretext for delaying the insurer's acceptance of the Gucci defense, particularly as Mr. Wehr later admitted at deposition that any conflict involving OMM was immaterial to the insurer's obligation to defend Signal. See PSUMF ¶¶ 56-58; DSGD ¶¶ 56-58.

Third, Signal argues that the insurer breached its duty to defend by refusing to pay the Steptoe fees "on the disingenuous ground that Signal was entitled to only a single 'independent' law firm or that Zurich had no notice of Steptoe's retention." Pl's. Mot. 21. Again, Signal emphasizes deposition testimony of Mr. Wehr that he did not research "whether under California law Signal could designate more than one law firm as its independent counsel" before denying reimbursement of the Steptoe fees on this ground. PSUMF ¶ 155; DSGD ¶ 155.

Fourth, and lastly, Signal contends that the insurer breached its duty to defend by agreeing to pay only a portion of the fees owed, and conditioning the partial payment on Signal consenting to reduce the fees under various billing guidelines. PSUMF ¶¶ 115-19; DSGD ¶¶ 155-19. Defendants cite Allstate Ins. Co. v. Barnett, 2011 WL 2415383 (N.D. Cal. June 15, 2011) for the proposition that "[a]n insurer that has a duty to defend breaches that duty if it delays in paying, or fails to pay all of, its insured's independent counsel fees, or fails to pay on frivolous grounds." Pl.'s Mot. 22; see also Buss v. Superior Court, 16 Cal. 4th 35, 49 (1997) ("To defend meaningfully, the insurer must defend immediately. To defend immediately, it must defend entirely.").

The Court finds that genuine issues of material fact exist regarding whether the insurer breached its duty to defend. The Court begins with Signal's assertion that the insurer breached its duty to defend by failing to accept or deny plaintiff's tender within 40 days, as required by 10 Cal. Code Reg. § 2695.7(b). Even assuming for the moment that the insurer violated this regulation, that violation, standing alone, is not sufficient to

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CENTRAL DISTRICT OF CALIFORNIA

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establish that the insurer breached its duty to defend. As the court in Travelers Prop. Cas. Co. of Am. v. Centex Homes, 2013 WL 1411135, at *12 (N.D. Cal. Apr. 8, 2013), explained, "the regulations are not dispositive. They do not provide that a delay exceeding forty days constitutes evidence of bad faith on the part of the insurer." Instead, the Centex court found that "the best course would be to allow the jury, considering the totality of the evidence, to determine whether [the insurer] breached its duty to defend or engaged in bad faith in handling Centex's claim." Id.

The Court adopts the same approach here: although a violation of 10 Cal. Code Reg. § 2695.7(b) may eventually support a finding that the insurer breached its duty to defend, it does not on its own establish such a breach. See Safeco Ins. Co. of Am. v. Parks, 170 Cal. App. 4th 992, 1006 (2009) ("An insurer's failure to comply with [the regulations] does not, in itself, establish a breach of contract or bad faith by the insurer. The regulations may, however, "be used by a jury to infer a lack of reasonableness on [the insurer's] part."); Orange Cnty. Plastering Co., Inc. v. Am. Home Assur. Co., 2011 WL 5117766, at *3 (C.D. Cal. Oct. 28, 2011) ("Violations of the regulations can be evidence of bad faith."); Barnett, 2011 WL 2415383, at *4 n.1. As such, the insurer's delay in responding to Signal's initial tender does not demonstrate as a matter of law that the insurer breached its duty to defend.

Turning to Signal's remaining three arguments, all three arguments hinge on Signal's contention that the insurer has not paid the reimbursement it owes Signal for the fees incurred in OMM and Steptoe's defense of the Gucci action. But as discussed above, Signal has not yet established that defendants owe them reimbursement. Signal has not established as a matter of undisputed fact the amount of fees that the insurer owes in reimbursement for the OMM fees. And Signal has not moved for summary judgment that the insurer is required to reimburse the Steptoe fees. Because Signal has not yet established that the insurer owes them fees, it would be premature for this Court to find as a matter of law that the insurer's failure to pay fees constituted a breach of the insurer's duty to defend.

Moreover, the touchstone in deciding whether an insurer has breached its duty to defend by delaying the payment of Cumis counsel fees is reasonableness, both in the amount of fees and in the timing of their payment. The insurer "was required only to pay fees that were 'reasonable and necessary.'" Wallis, 982 F. Supp. 2d at 1122 (E.D. Cal. 2013). Thus, "withholding any portion of fees cannot constitute a breach *per se*."

Because Signal has not yet established that its fees are "reasonable and necessary," the Court cannot conclude at this juncture that the insurer's refusal to pay those fees breached the insurer's duty to defend. Similarly, the insurer's delay in paying the fees may breach the duty to defend, but only if that delay is unreasonable. As the court in Pepsi-Cola Metro. Bottling Co. v. Ins. Co. of N. Am., Inc., 2010 U.S. Dist. LEXIS 144401 (C.D. Cal. Dec. 28, 2010), explained: "Although California law may not require an insurer to blindly pay unreasonable and unnecessary Cumis defense costs for obvious reasons, unreasonable delays are undoubtedly grounds for a breach of the insurer's duty to defend." Id. at *17 (citing Intergulf Development v. Superior Court, 183 Cal. App.4th 16, 20 (2010)). But "reasonableness is generally a question of fact for the jury." West v. State Farm Fire & Cas. Co., 868 F.2d 348, 350 (9th Cir. 1989). Reasonableness may only be decided as a matter of law when "reasonable minds could not differ." Chateau Chamberay Homeowners Ass'n v. Associated Int'l Ins. Co., 90 Cal. App. 4th 335, 346 (2001). Where, as here, substantial questions remain about the amount of fees owed by the insurer, the Court is unable to conclude as a matter of law that the insurer acted unreasonably. Instead, the better course is to submit the question of the insurer's reasonableness to the jury.

V. CONCLUSION

In accordance with the foregoing, the Court hereby DENIES both plaintiff's and the insurer's motions for summary judgment.

The Status Conference Re Settlement is set for December 1, 2014 at 11:00 a.m. The Jury trial is set for February 17, 2015 at 9:30 a.m.

IT IS SO ORDERED.

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