MARKS & WEINBERG, P.C.

Meridian Leasing, Inc. v. Associated Aviation Underwriters

409 F. 3d 342 (6th Cir. 2005)

Meridian Leasing, Inc. ("Meridian") purchased an aircraft in March 2001, and insured the aircraft with an all-risk insurance policy. In August 2001, the aircraft malfunctioned and caused extensive damage to the engine of the aircraft. Meridian filed a claim that Associated Aviation Underwriters ("AAU") denied because the damage allegedly fell within the exclusion for wear and tear.

The lower court found that the Policy did not define wear and tear and, using California law, the court held that wear and tear should be given its "ordinary and popular" meaning. According to the court, wear and tear therefore referred to damage resulting from ñnormal or ordinary operation of the aircraft.ò

The Court of Appeals analyzed and upheld the lower courts decision. California law states that a provision in a policy is ambiguous "when it can have two or more reasonable constructions." Additionally, the ambiguities in a contract must be construed against the drafting party. The courts must give effect to the intention of the parties when determining what the ambiguous contract means. In this case, the court determined that terms must be given their "ordinary and popular" meaning unless used in a technical way or given a special meaning by usage. The court interpreted the policy holistically and based on the circumstances of the case.

All-risk insurance policies typically have wear and tear clauses since the insurers do not want to cover inevitable losses. The intent of such clauses is such that the insurance policy only covers damage caused by accidents. As such, the court held that California law requires limiting language to be exacting. In other words, the insurer cannot fail to insure because the exclusionary clause is ambiguous. The court found it reasonable that Meridian expected the policy to cover the damage caused to the engine.

Furthermore, AAU knew the language was ambiguous and that the wear and tear exclusion might be interpreted to mean ordinary or normal operation of the aircraft since a similar conclusion had been reached by another court interpreting the exact same language in another case and determined. As such, the court held that the parties did not intend wear and tear to have a specialized meaning and never intended the policy to exclude events such as the one that occurred in this case. Based on the whole policy, the phrase wear and tear must be given its ordinary meaning otherwise the limitation is at odds with the purpose of the all-risk insurance.