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Liability Insurance Coverage for Trade Dress Infringement

By Peter S. Selvinⁱ

Introduction

Commercial General Liability ("CGL") policies typically contain a coverage section dealing with "advertising injury". While the exact formulation of the covered "offenses" that constitute "advertising injury" may vary depending on the particular policy form, the "advertising injury" offenses typically include the following:

- Oral or written publication of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services;
- Oral or written publication of material that violates a person's right of privacy;
- The use of another's idea in your 'advertisement'; or
- Misappropriation of advertising ideas or style of doing business.

This form of coverage has been utilized by insureds in a variety of business tort cases and especially in cases dealing with IP claims. Thus, "advertising injury" coverage has been found applicable in cases involving patent, trademark and copyright infringement, as well as cases involving libel, slander and defamation.

But in securing such coverage it is not enough that the IP infringement fits within one of the policy's advertising injury "offenses." In order to secure coverage, an insured must ordinarily demonstrate that the infringement occurred in connection with its advertising activities and that there is a causal relationship between those advertising activities and the claimant's injuries.ⁱⁱ

In the case of trade dress infringement, however, the link between an insured's advertising activities and the claimant's injury seems readily apparent. The trade dress of a product is essentially its total image and overall appearance. It "involves the total image of a

product and may include features such as size, shape, color or color combinations, texture, graphics or even particular sales techniques.”ⁱⁱⁱ

Examples of legally protectable “trade dress” include:

- The distinctive shape of a Coca-Cola bottle;
- Kodak’s yellow and red color combination;
- The overall design of a Ferrari automobile; and
- A restaurant’s shape and general appearance of its exterior, color scheme, signage, servers’ uniforms and other distinctive features.

Because these product features are inseparable from the “marketing” of the product itself, some courts have suggested that a claim for trade dress infringement inherently satisfies the requirement that the injury arise and be causally related to the insured’s adversity activities.^{iv}

The purpose of this article is to examine the opportunities for coverage, under a CGL policy, for claims of trade dress infringement. This discussion will be organized around three topics – (a) the underlying “offenses” that are triggered by such a claim; (b) how the Courts have addressed the “causal connection” requirement in the context of such a claim; and (c) the relevant exclusions.

Fitting Trade Dress Infringement Into A Policy “Offense”

The first step in the coverage analysis is to fit trade dress infringement into one of the “offenses” within the CGL policy’s “Advertising Injury” coverage grant.

In this regard, several cases have characterized a claim of trade dress infringement to constitute, by its very nature, “misappropriation of advertising ideas or style of doing business” which is a typical “offense” in policies of this type.^v A minority of courts, particularly the Sixth and Eighth Circuits, have taken a dissenting view.^{vi} Other courts have taken a middle-ground position, to the effect that trade dress infringement may, under certain circumstances, constitute a “misappropriation of advertising ideas or style of doing business”.^{vii}

In those policy forms which do not include the “misappropriation of advertising ideas or style of doing business” offense, insureds have sought to fit claims of trade dress infringement

into offenses arising from the “disparagement” by the insured of another’s goods, products or services. These attempts have met with mixed results.

For example, in *Michael Taylor Designs, Inc. v. Travelers Prop. Casualty Co. of America*^{viii}, the insured was sued by a former supplier for trade dress infringement. The former supplier alleged that the insured had improperly offered for sale “cheap synthetic knockoffs” of the supplier’s wicker furniture products. The essence of the supplier’s claim was damage to the reputation of its products that would result from consumers encountering the alleged “knockoffs” marketed by the insured and believing them to be products manufactured by the supplier.

The insured’s liability carrier had declined to cover the insured until the supplier, in an amended complaint, had expressly alleged that the insured’s conduct amounted to “disparagement” of the supplier’s goods. The question presented in the case was whether the factual allegations of the original complaint were sufficient to give rise to a duty to defend, despite the claims having been couched in the language of trade dress infringement rather than in terms of disparagement.^{ix}

The Court concluded that because the trade dress claim “raised the possibility of a disparagement claim” the duty to defend was triggered.^x In this regard, the Court noted that the plaintiff-supplier had essentially alleged damage to the reputation of its products that would result from consumers encountering “cheap synthetic knock-offs” and believing them to be products manufactured and marketed by the supplier.^{xi}

The Court in *Jarrow Formulas, Inc. v. Steadfast Insurance Company*^{xii} took a different view. In that case, Jarrow had been sued by a former licensor concerning Jarrow’s sale and promotion of a nutritional supplement. The underlying complaint contained a cause of action for trade dress infringement. Among other things, the plaintiff in the underlying action alleged that Jarrow’s advertising and marketing of its supplement product inaccurately and unfairly implied that Jarrow’s product was somehow affiliated or related to the plaintiff’s supplement product.

The relevant policy excluded coverage for claims arising from the misappropriation of advertising ideas or styles of doing business. Instead, the policy defined “advertising injury” to mean, among other things, an oral or written publication that “slanders or libels a person or organization or disparages a person’s or organization’s goods, products or services”.

The issue addressed by the Court was whether the plaintiff's allegations of trade dress infringement were sufficient to constitute "disparagement" within the meaning of the policy. Distinguishing the *Michael Taylor Designs* case, the Court found that essence of the underlying complaint was not a disparagement of the licensor's supplement product, but rather a claim that the Jarrow's product failed to conform to its advertised level of quality or performance. For this reason, coverage was denied for the claim.

Finding A Causal Connection Between Trade Dress Infringement And The Insured's "Advertising Activities"

At the core of finding advertising injury coverage in the context of IP litigation is the distinction between a *product or service* on the one hand and the *advertisement* for that product or service on the other. In a recent California case, *Oglio Entertainment Group, Inc. v. Hartford Casualty Insurance Company*, the Court affirmed the denial of coverage in a case in which a musical artist sued his former record label for hiring artists who allegedly imitated the plaintiff's personality and musical style.^{xiii} Plaintiff's theory of liability was, among other things, that his former record label had violated his right of publicity.

In affirming the denial of coverage the Court emphasized the following distinction: the underlying complaint did not allege that [the former record label] copied, in an *advertisement*, [the plaintiff's] *advertising idea or style of advertisement*, but that [the former record label] sought out artists to copy [the plaintiff's] *product* and later *sold* a competing *product*, injuring [plaintiff's] sales and the value of his professional name."^{xiv}

In the trade dress context, however, the distinctive features of the product (which make up its trade dress) are inseparable from advertising for the product itself. Put differently, the product is its own advertising.

This principle was applied in *R.C. Bigelow, Inc. v. Liberty Mutual Ins. Co.*^{xv}. In that case, Bigelow, a manufacturer and distributor of specialty teas, was sued by Celestial Seasonings ("Celestial"). Celestial's complaint asserted, among other claims, a cause of action for trade dress infringement.

In that cause of action, Celestial alleged that in 1994 Bigelow had introduced its herbal teas in new packaging with trade dress confusingly similar to that of Celestial's boxes. Unlike the facts in *Oglio*, Celestial's product itself was in many ways equivalent to its advertising:

Celestial accused Bigelow of copying its distinctive trade dress, including the size and shape of the box, the orientation of the Principal Display Panel ("PDP"), the

panel that faces the consumer when the package is displayed, the placement and type of graphics, the hand-drawn artwork symbolic of the particular tea flavor contained in the package, the color palette consisting of "bright, pure-hued contrasting colors, which creates a multi-colored, coordinated and distinctive presence when different tea flavors are displayed to the consumer," and the placement of words on the PDP.^{xvi}

The Court in *Bigelow* found that these allegations were sufficient to satisfy the causal requirement between the advertising and the claimant's injury. The Court held that "the alleged 'offense' is creating consumer confusion by the use of copied trade dress...If, as Celestial alleged, Bigelow's copied trade dress created consumer confusion, the ads could be found to have contributed to such confusion."^{xvii}

A number of other Courts have similarly ruled that the causal nexus requirement is met where advertisements depicted products with confusingly similar trademarks or trade dress.^{xviii} There is a minority view on this point. Thus, some courts have ruled that the copying of a trademark or trade dress is the cause of an alleged advertising injury and have declined to consider advertising that depicts such copied marks or dress to have 'caused' the advertising injury.^{xix}

Finally, two points need to be made about the "causal connection" requirement.

First, although coverage claims in the IP context often founder because the insured cannot adequately meet this requirement, the pertinent case law does not require that the advertising activities be the *only* cause of the advertising injuries.^{xx} Thus, to the extent that it can be demonstrated that the claimant's injury was caused, at least in part, by the advertising, the insured may well have met its threshold burden.^{xxi}

Second, and perhaps more importantly, at the duty to defend stage, the insured is not required to conclusively establish causation.^{xxii}

Key Exclusions To Coverage

In approaching exclusions, there are a couple of principles to bear in mind. First, exclusions are to be read narrowly, with a view toward maximizing the coverage grant.^{xxiii} Second, where application of an exclusion is only a possibility, the carrier's duty to defend nonetheless continues.^{xxiv}

Some of the key exclusions that arise in the context of coverage for trade dress claims include the following:

1. “First publication” exclusion. This exclusion typically bars coverage for the publication of material whose first publication took place before the beginning of the policy period.^{xxv} If a product’s features and its packaging can, in this context, be deemed to constitute its “advertising”, the release date of the product and its associated packaging could trigger the potential application of this exclusion.
2. Intellectual property exclusions. Policies often contain exclusions which bar coverage for infringements of certain kinds of intellectual property. Thus, in *Superperformance International*^{xxvi}, the pertinent policy excluded injury arising out of infringement of “trademark, trade name, service mark or other designation of origin or authenticity”. Characterizing the underlying claim of trade dress infringement to be a “variet[y] of [a] trademark claim[]”, the Court found that coverage was barred.
3. “Knowledge of falsity”. This exclusion bars coverage for advertising injuries if the publication of material is done by the insured “with knowledge of its falsity”. The carrier in *Hyman*^{xxvii}, sought to invoke this exclusion as a result of a jury verdict against the insured which included a finding of “willfulness”. The Court in *Hyman* disagreed, determining that even if the insureds had “willfully” created confusion between their products and those of the underlying claimant, such confusion did not amount to communication of a false statement.

Conclusion

Because of the close connection between a product’s trade dress and its “advertising”, counsel involved in cases where IP infringement is alleged ought to tender such claims to their clients’ liability carriers. Even if a trade dress claim has not been expressly alleged, there are still opportunities for coverage. Thus, the fact “that the precise causes of action pled by a third-party complaint may fall outside policy coverage does not excuse the duty to defend where, under the facts alleged, reasonably inferable, or otherwise known, the complaint could fairly be amended to state a covered liability.”^{xxviii}

Thus, even where a trade dress claim has not been expressly pleaded, an insured sued for other forms of IP infringement may nevertheless obtain a defense from its liability carrier. This possibility becomes especially important where the policy at issue may exclude coverage for certain kinds of claims, such as trademark or patent infringement, but not dress trade

infringement. In such an instance, the breadth of a liability carrier's duty to defend may allow a client to avoid having to bear the cost of litigation.

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ⁱⁱ See, e.g., *Bank of the West v. Superior Court*, 2 Cal. 4th 1254, 1277 (1992).

ⁱⁱⁱ *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 980 (11th Cir. 1983).

^{iv} See, e.g., *Poof Toy Products, Inc. v. U.S. Fidelity & Guaranty Co.*, 891 F.Supp. 1228, 1232 (E.D. Mich. 1995) (the essence of the trade dress offense is "that the entire product's appearance and packaging, a form of advertising, is intended to deceive or mislead the public"); emphasis added.

^v See, e.g., *Peerless Lighting Corp. v. American Motorists Ins. Co.*, 82 Cal.App.4th 995, 1000, fn. 4 (2000) ("...infringement of trade dress arguably qualifies as '[m]isappropriation of advertising ideas or style of doing business.'"); *Poof Toy Products, Inc. v. U.S. Fidelity & Guaranty Co.*, 891 F.Supp. at 1232 (E.D. Mich. 1995) (claim of trade dress infringement constituted an "advertising injury", under the enumerated definition "misappropriation of advertising ideas or style to doing business"); *St. Paul Fire and Marine Insurance Company v. Advanced Interventional Systems, Inc.*, 824 F.Supp. 583, 585 (E.D. Va. 1993) ("style of doing business' expresses essentially the same concept as the more widely used term: 'trade dress'"); *R.C. Bigelow, Inc. v. Liberty Mut. Ins. Co.*, 287 F.3d 242, 247-48 (2nd Cir. 2002).

^{vi} See, e.g., *Advance Watch Co. v. Kemper Nat'l Ins. Co.*, 99 F.3d 795, 802 (6th Cir. 1996) (holding that "misappropriation of advertising ideas or style of doing business' does not refer to a category or grouping of actionable conduct which includes trademark or trade dress infringement"); *Callas Enters., Inc. v. Travelers Indem. Co. of Am.*, 193 F.3d 952, 956-57 (8th Cir. 1999).

^{vii} *Hyman v. Nationwide Mutual Fire Ins. Co.*, 304 F.3d 1179, 1191 (11th Cir. 2002).

^{viii} *Michael Taylor Designs, Inc. v. Travelers Prop. Casualty Co. of America* 761 F.Supp.2d 904 (N.D.Cal. 2011)

^{ix} The insurance policy at issue included an endorsement that expressly deleted the provision in the policy that would have otherwise provided coverage for trade dress infringement. Instead, the policy promised coverage only where the insured had "disparaged" the goods, products or services of another.

^x *Michael Taylor Designs, Inc. v. Travelers Prop. Casualty Co. of America* 761 F.Supp.2d at 904 (N.D.Cal. 2011)

^{xi} *Michael Taylor Designs, Inc. v. Travelers Prop. Casualty Co. of America* 761 F.Supp.2d at 911 (N.D.Cal. 2011). See also *Burgett v. American Zurich Ins. Co.*, LEXIS 135449 (E.D. Cal. 2011) (Court finds duty to defend where the underlying complaint makes sufficient allegations that could potentially establish a claim for disparagement by implication).

^{xii} *Jarrow Formulas, Inc. v. Steadfast Insurance Company*, No. 10-801, C.D. Calif., 2011 U.S. Dist. LEXIS 40200

^{xiii} *Oglio Entertainment Group, Inc. v. Hartford Casualty Insurance Company*, 200 Cal.App.4th 573 (2011).

^{xiv} *Oglio Entertainment Group, Inc. v. Hartford Casualty Insurance Company*, 200 Cal.App.4th at 584 (2011); emphasis in original.

^{xv} *R.C. Bigelow, Inc. v. Liberty Mutual Ins. Co.*, 287 F.3d 242 (2nd Cir. 2002).

^{xvi} *R.C. Bigelow, Inc. v. Liberty Mutual Ins. Co.*, 287 F.3d at 249, fn. 1 (2nd Cir. 2002).

^{xvii} *R.C. Bigelow, Inc. v. Liberty Mutual Ins. Co.*, 287 F.3d at 248 (2nd Cir. 2002).

^{xviii} See, e.g., *Energex Systems Corp. v. Fireman's Fund Ins. Co.*, No. 96-CIV-5993 (JSM) 1997 U.S. Dist. LEXIS 8894 (S.D.N.Y. June 24, 1997) at *4 (finding a duty to defend where complaint was concerned with customer confusion, and such confusion was clearly created through advertising); *Massachusetts Bay Insurance Co. v. Penny Preville, Inc.*, No. 95 Civ. 4845, 1996 U.S. Dist. LEXIS 9671, at *7-*8 (S.D.N.Y. July 10, 1996) (finding coverage because allegations provided ample indication of connection between injuries alleged and advertising activities); *Ben Berger & Son, Inc. v. American Motorist Insurance Co.*, No. 94 Civ. 3250, 1995 U.S. Dist. LEXIS 8976, at *3 (S.D.N.Y. June 29, 1995) (finding that “[t]he injury caused by Berger’s infringement of McKinney’s trade dress is an advertising injury because it was Berger’s advertising its similar products in its catalogue, in which McKinney’s own products had previously been advertised, that diluted McKinney’s distinctive trade dress and caused confusion as to the source of the products”); *J.A. Brundage Plumbing & Roto-Rooter, Inc. v. Massachusetts Bay Insurance Co.*, 818 F.Supp. 553, 558 (W.D.N.Y. 1993) (finding coverage for trademark infringement where complaint alleged that injury occurred as a result of advertising), *vacated due to settlement*, 153 F.R.D. 36 (W.D.N.Y. 1994); *Allou Health & Beauty Care, Inc. v. Aetna Casualty and Surety Co.*, 269 A.D.2d 478, 703 N.Y.S.2d 253, 255-56 (2000) (finding sufficient causal connection between trademark infringement alleged in underlying action and insured’s advertising activities to afford coverage under policy).

^{xix} See, e.g., *Advance Watch Co. v. Kemper National Insurance Co.*, 99 F.3d 795, 806-07 (6th Cir. 1996).

^{xx} See *John Deere Ins. Co. v. Shamrock Industries, Inc.*, 696 F.Supp. 434, 440 (D.Minn.1988), *aff’d* 929 F.2d. 413 (8th Cir. 1991). See also *Dogloo, Inc. v. Northern Insurance Company of New York*, 907 F. Supp. 1383, 1391 (C.D. Cal. 1995).

^{xxi} *Dogloo, Inc. v. Northern Insurance Company of New York*, 907 F. Supp. at 1391 (C.D. Cal. 1995).

^{xxii} *Sentex Systems, Inc. v. Hartford Acc. & Indem. Co.*, 882 F.Supp. at 945 (C.D.Cal. 1995).

^{xxiii} See, e.g., *Medassets, Inc. v. Federal Insurance Company*, 705 F.Supp.2d 1368 (N.D.Ga. 2010) (reading the policy’s “trade secret exclusion” so as not to bar coverage, where the plaintiff in the underlying case had characterized the misappropriated information, in the alternative, as trade secrets or merely “confidential information”).

^{xxiv} See, e.g., *CNA Casualty of California v. Seaboard Surety Co.*, 176 Cal.App.3d 598, 613 (1986).

^{xxv} See, e.g., *Dogloo, Inc. v. Northern Insurance Company of New York*, 907 F. Supp. at 1391 (C.D. Cal. 1995); *Superperformance International, Inc. v. Hartford Casualty Co.*, 332 F.3d 215 (4th Cir. 2003).

^{xxvi} *Superperformance International, Inc. v. Hartford Casualty Co.*, 332 F.3d 215 (4th Cir. 2003).

^{xxvii} *Hyman v. Nationwide Mutual Fire Ins. Co.*, 304 F.3d 1179 (11th Cir. 2002).

^{xxviii} *Scottsdale Ins. Co. v. MV Transp.*, 36 Cal.4th 663, 654 (2005).