# FINDING A DUTY TO DEFEND TRADE DRESS CLAIMS UNDER ADVERTISING INJURY COVERAGE

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The U.S. Court of Appeals for the Second Circuit has ruled that a trade dress counterclaim's "offering for sale" language, coupled with subsequent discovery demands seeking advertising materials, triggered an insurance company's duty to defend.

## The Case

High Point Design manufactures and distributes the Fuzzy Babba slipper, while its competitor, Buyer's Direct, manufactures and distributes the Snoozie slipper. Buyer's Direct sent High Point a cease-and-desist letter alleging that the Fuzzy Babba slipper infringed on the Snoozie's design patent.

High Point responded by seeking a declaratory judgment that the Fuzzy Baba's design does not infringe on the design patent. Buyer's Direct filed a counterclaim for patent and trade dress infringement, alleging that High Point was infringing the patent by manufacturing, importing, selling and/or *offering for sale* the Fuzzy Babba slipper.

Buyer's Direct's subsequent discovery demands (document requests, interrogatories, and notices of deposition) sought advertising, promotion, and marketing materials and information.

High Point provided the counterclaim and discovery demands to its insurance company (Liberty Mutual) seeking a defense in accordance with Liberty's duty to defend potentially covered lawsuits. Liberty disclaimed coverage, citing the policy's trademark infringement exclusion. High Point filed suit seeking coverage for the costs of defending against Buyer's Direct's counterclaim.

## The Policy

The CGL policy obligated Liberty to "pay those sums that the insured becomes legally obligated to pay as damages because of 'personal and advertising injury' to which this insurance applies." The policy defines "personal and advertising injury" as:

> injury … arising out of … [i]nfringing upon another's copyright, trade dress, or slogan in your "advertisement."

The policy excluded the following:

> advertising injury arising out of the infringement of copyright, patent, trademark, trade secret, or other intellectual property rights.

However, this exclusion included an exception, which stated that:

> this exclusion does not apply to infringement, in your "advertisement", of copyright, trade dress or slogan.

As the court noted, "in the convoluted structure apparently favored by insurance companies, the exclusion has its own exclusion."[1]

## The Circuit Court's Decision

The Second Circuit held that the term "offering for sale," as used in Buyer's Direct's counterclaim, as viewed with the additional context of the discovery demands, includes an allegation of trade dress infringement in an advertisement, triggering Liberty's duty to defend. The court ruled that Liberty's duty to defend "did not arise until High Point provided Liberty with discovery demands served in the underlying litigation."[2] The discovery demands provided the needed advertising context to raise the potential applicability of the exception to the exclusion.

Thus, the issue ultimately came down to whether High Point faced a claim in the underlying suit of advertising injury arising from trade dress infringement in one or more of its advertisements. The court reasoned that Liberty's policy covered claims that a High Point advertisement offering to sell High Point's product infringes the trade dress of another company's product. In contrast, the policy did not cover claims that a product itself, or the packaging of a product, infringes on the trade dress of another company's product.

That's a fine line. As the Second Circuit noted, "It strikes us as odd that there is no coverage for liability arising from trade dress infringement caused by an insured's product or its packaging, but there is liability arising from trade dress infringement caused by a photo or drawing of the same product in an advertisement. Nevertheless, that is the distinction the policy makes, and we are obliged to accept it."[3]

The Second Circuit determined that the phrase "offer for sale," similar to the term "marketing," may extend beyond advertising, but also includes activities that constitute "advertising." As the court noted, "Buyer's Direct's claim that it was injured by High Point's 'offering for sale' the infringing slippers suffices to demonstrate that an advertising injury may have resulted from the use of the infringing trade dress in advertisements."[4] The phrase "may have" is important. The duty to defend exists if there is any *potential* for coverage.

The discovery demands played a key role in the ruling. Buyer's Direct's counterclaim did not, by itself, trigger Liberty's duty to defend. New York law allows for the consideration of extrinsic facts beyond the four corners of the complaint to determine the duty to defend.

The court ruled that Liberty breached its duty to defend and the Circuit Court remanded the case back to the District Court to determine the amount of legal fees incurred, starting from the point the discovery demands were provided to Liberty.[5]

## Considerations

### *Policy Language Varies*

Very small differences in policy language can result in very big differences in coverage. Here, a casual reader of the policy may have thought trademark claims were excluded. The potential coverage arose from an exception to an exclusion, so it pays to read insurance policies carefully.

### *The Duty to Defend Can Arise Based on Extrinsic Facts*

Under New York law, courts can consider facts which are outside of the Complaint (or Counterclaim) to establish the potential for coverage and the duty to defend. Likewise, Section 13 of the new Restatement of the Law of Liability Insurance allows courts to look beyond the pleadings to find a duty to defend, but not to defeat one.[6] Many courts find a duty to defend if the insurance company possesses extrinsic information that the claim does fall within coverage.[7]

### *Motion for More Definite Statement*

Particularly in jurisdictions where courts are reluctant to look beyond the pleadings to determine the duty to defend, a policyholder may want to file a motion for a more definite statement in response to a vague or ambiguous pleading.[8] Such a motion could be used to determine the basis for an allegation of "offer to sell" infringement. This could make explicit any allegation of an advertisement injury. In any event, the *High Point* case reveals the potential for coverage where the facts relating to an "offer to sell" are not pled clearly.

## Conclusion

The Second Circuit's decision in High Point highlights the importance of sending to the insurance company all discovery demands and other facts and information that could support coverage. Although allegations of the "offering for sale" of an infringing product may not always establish advertising injury, allegations of an offer to sell is indicative of the potential existence of advertising injury which, in many instances, will trigger an insurance company's duty to defend a claim of infringement under advertising injury coverage.

## Notes

[1] *High Point Design, LLC v. LM Ins. Corp.*, 911 F.3d 89, 94 (2d Cir. 2018).

[2] *Id.* at 92.

[3] *Id.* at 94.

[4] *Id.* at 96.

[5] *Id.* at 98.

[6] *See* Restatement of the Law, Liability Insurance, §13(2): Conditions Under Which the Insurer Must Defend

[7] Kenneth S. Abraham & Daniel Schwarcz, *Insurance Law and Regulation*, 584 (6th ed. 2015).

[8] *See* Fed. R. Civ. P. 12(e).

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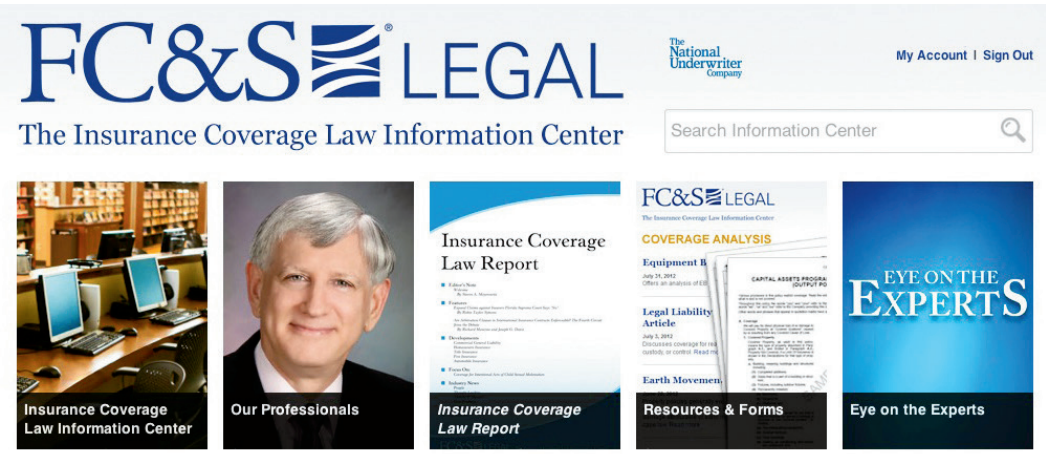


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