



To a Tea

By: Jim Astrachan

The first thing we tell a client sued for trademark or trade dress infringement is to make a claim with its comprehensive general liability carrier under the advertising injury provision of the policy. Often the insurance carrier refuses coverage, and often the carrier is just plain wrong.

Last month, the United States Court of Appeals for the Second Circuit held that Liberty Mutual Insurance Company had wrongfully refused to defend a trade dress infringement claim brought against its insured, the tea maker R.C. Bigelow. Bigelow had been sued by competitor Celestial Seasonings.

Trade dress is the overall nonfunctional appearance or configuration of a product which is associated by consumers with the seller of the product. According to Celestial, Bigelow's packaging looked too much like Celestial's.

Bigelow's CGL policy covered "advertising injury", caused by an offense committed in the course of advertising goods, products or services. To qualify, the injury had to arise out of paid announcements in the print or broadcast medias.

Celestial sued Bigelow for trade dress infringement, false advertising, unfair competition, and trade dress and trademark dilution—the proverbial kitchen sink of an unfair competition claim. The crux of the suit was that Bigelow's new line of herbal teas was packaged in boxes that looked similar to Celestial's. Celestial also claimed Bigelow engaged in false advertising because it failed to state that Bigelow's teas were artificially flavored, and were not "all natural", as Bigelow claimed.

Bigelow eventually prevailed on all counts. After being sued in June 1995, Bigelow quickly put its carrier on notice and provided it with a copy of Celestial's complaint, which attached as exhibits, Bigelow's ads depicting the offending packaging. In March 1996, Liberty Mutual denied Bigelow's claim for coverage. Bigelow next sued its carrier for the costs incurred in defending Celestial's suit and for indemnity against any possible liability should Celestial successfully appeal. The District Court ruled in favor of Liberty Mutual on the grounds that trade dress infringement could not occur in the context of advertising.

The appellate court had to determine whether Celestial's suit alleged a claim that fell within the scope of the advertising injury provision of the Liberty Mutual policy. Bigelow asserted that the trade dress infringement and related claims fell within one of the four offenses enumerated in the Personal Advertising Injury Liability Endorsement of the CGL, namely "Copying a person's or organization's advertising ideas or advertising style".

The court ruled in favor of Bigelow. The duty to defend is broader than the duty to indemnify and the obligation of the insurer to defend is not dependent on whether Celestial could have successfully maintained its cause of action, but whether Celestial's complaint alleged facts that brought the injury within the coverage requirements of the policy.

Bigelow recognized that the "all natural" false advertising claim was outside the scope of coverage as being explicitly excluded by the terms of the policy, to wit "The failure of goods...to conform with advertised quality or performance". But Bigelow claimed the trade dress infringement claim was covered because the packaging of Bigelow's teas was shown in its ads, and copies of those ads were attached to Celestial's complaint indicating that Celestial believed that it was injured because of Bigelow's ads.

Other courts have construed similar policy language to deny coverage for trademark or trade dress infringement. But in the Bigelow case the court looked carefully at the nature of trade dress infringement, which is an imitation of another's package and this, the court concluded, amounted to the copying of advertising style or ideas, which was covered under Bigelow's policy.

The inquiry did not yet end, as even if trade dress infringement is covered on its face, the injury must have been caused by Bigelow's advertising, which is the call to purchase in either print or broadcast. Some courts have held that the cause of the trade dress infringement injury is the copying of another's package, not

showing that package, or infringing trademark, in an ad. Other courts have held the opposite, stating that the depiction of the offending product in any ad is sufficient to establish that the injury was caused by the advertising.

The court framed the issue as whether there was an advertising injury that was caused by the offense committed in the course of advertising the insured's products. Here, the alleged offense was creating consumer confusion by the use of copied trade dress. The proper inquiry, then, is did the advertising contribute materially to the injury? If Bigelow copied Celestial's packaging, and the ads showed the packaging, then the ads must have contributed to the offense as they depicted and spread confusion among consumers. If that was not enough to establish coverage, the District Court should have concluded that Celestial was likely to use Bigelow's ads as evidence of the offense, especially since the ads were attached to Celestial's complaint.

Some practice pointers: First, advertising agencies, broadcasters, and publishers cannot rely on their CGL policies to defend or indemnify against claimed advertising injury, as they, as an industry, are excluded under the terms of the policy and most obtain independent coverage. Second, as soon as a claim is asserted, put the carrier on notice. Third, never take the carrier's denial of coverage as the final word on the matter as denial seems to be a *de rigeur* these days. In many, many cases the courts disagree. Fourth, if the carrier hems and haws over coverage, begin the defense with counsel of choice, and argue later over the propriety of doing so. Finally, if you intend to be a plaintiff, be mindful that the

compliant can be drafted in a way that will exclude or provide coverage for the defendant.

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