

Insurer's hope for broad liability exclusion goes up in smoke

Counterfeiting
Other issues

United States - **McDermott Will & Emery UK LLP**

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In *Capitol Indemnity Corp v Elston Self Service Wholesale Groceries Inc* (Case 08-1888, March 12 2009), the US Court of Appeals for the Seventh Circuit has held that a liability insurer had a duty to defend its insured against various trademark claims due to the sale of counterfeit cigarettes.

Elston Self Service Wholesale Groceries Inc is a wholesale distributor of cigarettes, among other products. In July 2003 Lorillard Tobacco Co filed suit against Elston for selling counterfeit cigarettes bearing Lorillard's federally registered trademark NEWPORT. Lorillard alleged various [Lanham Act](#) and fraud claims and requested an injunction against continued sale of the cigarettes. Elston submitted Lorillard's claims to its liability insurer, [Capitol Indemnity Corp](#), for coverage under its liability insurance policy. Capitol filed suit against Elston, Lorillard and various related parties, seeking a declaration that it owed no duty to defend or indemnify Elston.

The district court held that Capitol had a duty to defend Elston under the 'advertising injury' clause of the insurance policy, which covered infringement of "copyright, title or slogan" and "misappropriation of advertising ideas". The court held that trademark infringement could be considered as title infringement. Moreover, it reasoned that trademark infringement is a misappropriation of advertising ideas. The court further held that any exceptions set forth in the policy were inapplicable, including the 'prior publication' exception, which relieved Capitol of a duty to defend if such advertising injury arose from the publication of material that took place before the policy term began. As the court found no evidence indicating when Elston began selling the counterfeit cigarettes, the prior publication exception did not apply and Capitol had a duty to defend.

On appeal to the Seventh Circuit, Capitol argued in favour of the prior publication exception, reasoning that the material causing the advertising injury (the cigarette packaging bearing the NEWPORT mark) was first "published" prior to the policy's effective date when Elston sold genuine Newport cigarettes. The Seventh Circuit rejected Capitol's interpretation of the policy language. The court reasoned that the prior publication exception existed to prevent a party from using an insurance policy to cover illegal acts committed prior to purchasing the policy. As there was no allegation of Elston infringing the NEWPORT mark prior to the date of the policy, such use of the mark was not actionable and did not give rise to any injury. The Seventh Circuit affirmed the district court's ruling, finding the prior publication exclusion inapplicable and holding Capitol responsible for defending Elston in its lawsuit against Lorillard.

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