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Marketers of "Celebrity Diet" Found Judicially Estopped from Insurance Coverage for Trade Dress Infringement Claim

by Amy Briggs, Erin Stagg and Britt Anderson

The Ninth Circuit, in *United National Ins. Co. v. Spectrum Worldwide, Inc.*, No. 07-55833, 2009 U.S. App. LEXIS 1827 (9th Cir. February 2, 2009), recently sent a reminder to policyholders that defenses raised in the underlying action may not only affect coverage, but may also leave individual insureds liable for reimbursement to the carrier. In *Spectrum*, the Ninth Circuit held that a marketer was judicially estopped from obtaining advertising insurance coverage for trade dress infringement claims. The Ninth Circuit determined that the marketer made arguments in the underlying trade dress litigation that precluded insurance coverage for the defense of the trade dress claim.

Sunset Health Products, Inc. ("Sunset"), hired Spectrum Worldwide, Inc. ("Spectrum"), the policyholder, to advertise and distribute the Hollywood 48-Hour Miracle Diet drink ("Miracle Diet"). Soon thereafter, the executives of Spectrum introduced a competing product, The Original Hollywood Celebrity Diet drink ("Celebrity Diet"). Spectrum then terminated its contract with Sunset and began marketing Celebrity Diet. In 1998 and again in 1999, Sunset accused Spectrum of infringing its Miracle Diet trade dress and demanded that it stop selling the Celebrity Drink product with its current label. Spectrum ignored the claims, continued selling the Celebrity Diet drink, and made minor changes to the label in 1999 and 2001. In October 2001, Sunset filed a trade dress infringement claim against Spectrum, alleging that Spectrum deliberately made the packaging and labeling of its Celebrity Diet drink confusingly similar to that of Sunset's Miracle Diet drink.

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Shortly after initiating the litigation, Sunset applied to the district court for a preliminary injunction to prevent Spectrum from selling its Celebrity Diet drink. Sunset argued that Spectrum's 1999 and 2001 labels constituted an immediate harm to Sunset. Spectrum argued that the preliminary injunction should not issue because Sunset's claim was really based on Spectrum's 1998 label, and that Sunset had impermissibly delayed for approximately three years before seeking relief from the court. The district court agreed with Spectrum and denied the motion for preliminary injunction. Spectrum's successful arguments as to *when* it introduced the allegedly infringing Celebrity Diet packaging subsequently created an insurance coverage problem, as discussed below.

After the case settled for over $3.2 million, United National Insurance Company ("United") sued its policyholders (Spectrum as well as Spectrum's CFO and CEO), seeking reimbursement for the $420,000 it had contributed to the settlement on Spectrum's behalf. United argued that its policy's "first publication" exclusion applied, which precluded coverage for "advertising injury" arising out of oral or written publication of material where the first publication occurred *before* the beginning of the policy period. According to United, while the policy period began before Sunset sued Spectrum, the "first publication" of the offending packaging and labeling had occurred prior to the beginning of the policy period.

The Ninth Circuit agreed with Sunset and held that because Spectrum had successfully argued in the underlying trade dress infringement action that the offending packaging was first published in 1998, prior to United's policy period, it could not now argue to the contrary. Accordingly, there was no coverage and Spectrum was liable for the return of $420,000 to the carrier. In addition, Spectrum's CFO and CEO were also liable to Sunset because they had failed to challenge the carrier's motion for summary judgment in the district court as to their own liability and were precluded from raising the issue on appeal.

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Amy Briggs Ms. Briggs' complex business litigation practice focuses on insurance coverage and bad faith disputes. Ms. Briggs has represented numerous policyholders, including financial institutions, large real estate

entities, public retirement systems throughout California, pharmaceutical and medical device manufacturers, and nonprofit organizations in coverage disputes. She has successfully litigated first- and third-party coverage and bad faith claims arising under commercial general liability, property, fiduciary liability, employers' liability, and D&O and E&O policies. She has appeared and argued before the California Court of Appeal on multiple occasions. In addition to her litigation experience, Ms. Briggs counsels clients on the interplay between risk management, coverage, and emerging legal issues.

Erin Stagg Ms. Stagg focuses on general commercial litigation. In her first two years of practice, she has already been a member of two trial teams. The first matter, which was resolved on the steps of the courthouse, resulted in an extremely favorable settlement for the client. After a three-month trial, the second matter resulted in the largest jury award in the United States in 2008. In that case, ICO Global Communications (Holdings) Limited prevailed on its breach of contract, fraud, and tortious interference claims against The Boeing Company and its subsidiary, Boeing Satellite Systems International. Ms. Stagg also represents policyholders in breach of contract and bad faith disputes with their carriers and writes on insurance developments on a regular basis.

Britt Anderson Mr. Anderson's practice emphasizes commercial and intellectual property litigation, negotiation, and counseling for high-technology and consumer products companies. He represents clients in federal and state trial and appellate courts in the fields of trademark, false advertising, copyright, rights of publicity, trade secret, domain name, licensing, partnership, contract, business tort, and fraud matters. These cases have frequently been at the forefront of Internet-related law, including trademark and copyright infringement arising from online activities, distribution of mobile content, privacy, click-through agreements, and consumer class actions involving user agreements. Mr. Anderson also has experience in alternative dispute resolution, including private arbitration and mediation.