THOUGHT LEADERSHIP

News

FEDERAL COURT EXAMINES TRADEMARK AND TRADE DRESS CLAIMS UNDER EIGHT-CORNERS RULE

Newsbrief
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A federal judge in Dallas recently examined the duty to defend trademark infringement and related claims under the CGL policy's Coverage B. In *Laney Chiropractic v. Nationwide Mut. Ins. Co.*, 4:15-CV-135-Y, 2016 WL 3916005 (N.D. Tex. July 20, 2016), two chiropractic clinics were in an unfair competition dispute. The claimant sued Laney Chiropractic, alleging Laney had stolen trade secret software and set up a competing business offering confusingly similar services using the claimant's registered trademarks and related phrases.

Laney's policy specifically excluded trademark-infringement claims, but covered claims for use of another's advertising idea, or infringement of another's copyright, trade dress, or slogan. The question was whether the claimant's suit against Laney alleged only excluded trademark infringement, or also alleged any potentially covered claim. The court examined the petition against Laney under the Texas eight-corners rule, noting the balancing act required by the rule: the court may draw reasonable inferences from the pleadings that may lead to a finding of coverage, and must resolve all doubts in favor of the duty to defend, ***but*** may not read facts into the pleadings or imagine factual scenarios that might trigger coverage. Moreover, if even one potentially covered claim is included, the carrier must defend the entire suit.

The petition unquestionably alleged infringement of the claimant's trademarked phrases, "Active Release Techniques" and "ART." The question was whether, in the numerous other allegations, there were potentially covered claims for use of another's advertising idea, trade dress, or slogan. The court carefully examined whether any of the wrongful acts alleged involved any of these claims. It rejected the advertising idea, trade dress, and slogan approach, and concluded that the petition ultimately alleged nothing more than excluded trademark-infringement claims, and Nationwide therefore had no duty to defend the suit.

Editor's Note: A tension appears in recent Texas duty-to-defend cases pits the concept of an actually alleged, potentially covered claim versus a claim which is only potentially alleged. The eight-corners rule focuses on the factual allegations rather than legalese, allows reasonable inferences to be drawn from the facts, and requires all doubts to be resolved in favor of accepting the defense. These principles have led some litigants to argue, and some courts to accept, that a potentially covered claim which is only inferred and not actually pleaded may trigger a duty to defend the suit. Here, the court cited Texas precedent appearing to state the covered claim must only be

potentially alleged (*Zurich Am. Ins. Co. v. Nokia, Inc.*, 268 S.W.3d 487, 490 (Tex. 2008)), in contrast to other cases such as *Gilbane Bldg. Co. v. Admiral Ins. Co.*, 664 F.3d 589, 599 (5th Cir. 2011), which construe *Zurich v. Nokia* to mean that while coverage need only be potential, the claim itself must clearly appear in the pleading. This creates confusion in Texas duty-to-defend law which may ultimately require further clarification by the Supreme Court of Texas.