2017 IL App (1st) 161899-U

SIXTH DIVISION
June 30, 2017

No. 1-16-1899

IN THE
APPELLATE COURT OF ILLINOIS
FIRST JUDICIAL DISTRICT

SELECTIVE INSURANCE COMPANY OF THE SOUTHEAST, Plaintiff-Appellant, v. CREATION SUPPLY, INC., Defendant-Appellee.	)	Appeal from the Circuit Court of Cook County. No. 12 CH 24438 Honorable Peter Flynn, Judge Presiding.

JUSTICE DELORT delivered the judgment of the court.
Presiding Justice Hoffman and Justice Rochford concurred in the judgment.

ORDER

¶ 1 ***Held:*** The circuit court properly awarded attorney fees and expenses which the defendant insured incurred in its prosecution of an affirmative third-party claim. The attorney fees and costs for the third-party claim were within the scope of the plaintiff insurer's duty to defend. However, once the underlying plaintiffs, dismissed after settlement with the insured, the insurer's duty to defend ceased. We affirm in part, reverse in part, and remand with directions.

¶ 2 This is the second appeal arising from a declaratory judgment action filed by plaintiff Selective Insurance Company of the Southeast (Selective) against defendant Creation Supply, Inc. (Creation Supply). In the first appeal, we found, among other things, that Selective had a

duty to defend Creation Supply in an underlying Oregon lawsuit, which alleged numerous claims of intellectual property infringement involving the import and sale of square-shaped markers. See *Selective Insurance Co. of the Southeast v. Creation Supply, Inc.*, 2015 IL App (1st) 140152-U (unpublished order under Supreme Court Rule 23). Here, Selective challenges the circuit court's order granting a fee petition in favor of Creation Supply, arguing it should not be required to pay attorney fees Creation Supply incurred in prosecuting its affirmative claims for intellectual property infringement against the manufacturer of the markers. In the alternative, Selective contends it should not be required to pay Creation Supply's attorney fees because all claims asserted against Creation Supply were dismissed on August 19, 2013, following a settlement. We affirm in part, reverse in part, and remand with directions.

¶ 3 BACKGROUND

¶ 4 On April 25, 2012, Too Marker Products, Inc. and Imagination International, Inc. (collectively, the underlying plaintiffs) filed a complaint against Creation Supply and its sole proprietor, John Gragg, in the United States District Court for the District of Oregon.[1] *Too Marker Products, Inc. v. Creation Supply, Inc.*, No. 3:12-cv-00735 (D. Ore.). The underlying plaintiffs alleged trademark infringement, violation of trade dress, and unfair competition against their line of "COPIC" double-ended, alcohol-based colored art markers. According to the underlying complaint, Creation Supply and Gragg imported and sold a competing line of "MEPXY" markers having the same squarish bodies and end-caps as the COPIC markers.

¶ 5 On June 13, 2012, Creation Supply requested Selective, an insurance company that issued a business owners' policy to Creation Supply, effective August 19, 2011 to August 19,

[1] Gragg was later dismissed as a defendant from the underlying case.

2012, to defend it in the Oregon lawsuit. Selective denied Creation Supply's request for a defense under the policy in a letter dated June 22, 2012.

¶ 6 Thereafter, on July 2, 2012, Selective filed a declaratory judgment complaint against Creation Supply, Gragg, and the underlying plaintiffs alleging, among other things, that it did not owe a duty to defend Creation Supply or Gragg and that no coverage was available for the underlying claims for attorney fees and costs. Creation Supply and Gragg answered the complaint and asserted counterclaims seeking a declaratory judgment finding that Selective owed them a defense in the underlying claim and alleging breach of contract and bad faith.

¶ 7 On July 11, 2012, Creation Supply filed a complaint against Alpha Art Materials Co., Ltd. (Alpha), the manufacturer of the subject markers, in United States District Court for the Northern District of Illinois. *Creation Supply, Inc. v. Alpha Art Materials Co., Ltd.*, No. 1:12-cv-05456 (N.D. Ill.). Creation Supply sued Alpha for breach of the implied warranty against infringement under section 2-312 of the Uniform Commercial Code (810 ILCS 5/2-312 (West 2012)). Creation Supply also sued for a claim of implied indemnity. Although Creation Supply contested personal jurisdiction in the Oregon lawsuit, it nevertheless filed a third-party complaint against Alpha in Oregon on August 21, 2012, alleging similar infringement claims as asserted in the Illinois lawsuit.

¶ 8 Creation Supply moved for summary judgment against Alpha on its infringement claim in Illinois. At a pretrial conference, the district court judge *sua sponte* transferred the case to Oregon, finding that "venue is proper in the District of Oregon and that the convenience of the parties favors a transfer." The transfer became effective on June 19, 2013 and the Illinois and Oregon claims were consolidated in Oregon.

¶ 9 The underlying plaintiffs and Creation Supply settled all their claims and counterclaims on July 29, 2013. The Oregon court dismissed the underlying plaintiffs' lawsuit against Creation Supply without prejudice on August 19, 2013 pursuant to the settlement agreement. Creation Supply's third-party claims against Alpha remained pending in Oregon.

¶ 10 On October 21, 2013, the Oregon court denied Creation Supply's summary judgment motion. Alpha moved for summary judgment on Creation Supply's claims, which the court granted on August 4, 2014. The Oregon court entered final judgment on October 14, 2014.

¶ 11 With this background in mind, we turn back to the coverage litigation in Cook County. The circuit court granted summary judgment in favor of Creation Supply and against Selective on December 19, 2013, finding that Selective owed Creation Supply a duty to defend the underlying lawsuit in Oregon. On January 7, 2014, Creation Supply submitted invoices to Selective for work performed by its counsel, Bishop, Diehl & Lee, seeking payment. Selective did not respond. Selective filed its notice of appeal on January 9, 2014.

¶ 12 On January 12, 2014, Creation Supply filed a postjudgment "Motion to Quantify Damages," in which it requested that the circuit court find Selective's duty to defend encompassed the affirmative claims Creation Supply asserted against Alpha, initially in Illinois, and later in Oregon. Creation Supply argued that the affirmative claims "were part of the same dispute as that of the underlying lawsuit and were brought to defeat or offset any liability that [Creation Supply] would have owed to the plaintiffs in the underlying lawsuit." The circuit court denied Creation Supply's motion on January 22, 2014.[2]

[2] Although the circuit court's order is not included in the record, we may take judicial notice of the on-line docket report of chancery division filings issued by the clerk of the circuit court of Cook County. See, *e.g.*, *All Purpose Nursing Service v. Human Rights Comm'n*, 205 Ill. App. 3d 816, 823 (1990) (citing *People v. Davis*, 65 Ill. 2d 157 (1976)); *Boston v. Rockford*

¶ 13 Creation Supply again sought payment from Selective on February 19, 2014. Selective did not respond.

¶ 14 Creation Supply filed a motion to recover fees and enforce judgment on March 7, 2014, supplemented on April 1, 2014, seeking $305,759.10 in attorney fees and costs, and $12,230.36 in prejudgment interest (hereinafter collectively, the fee petition). The amounts sought did not include Creation Supply's fees and costs incurred in defending the coverage action (which Creation Supply claimed to be $115,353.53 at that point). Creation Supply attached attorney affidavits and redacted invoices setting forth its attorney fees and expenses for the underlying lawsuit and "work performed relative to the contractual indemnity claims against Alpha."

¶ 15 On May 20, 2014, Selective filed a response to Creation Supply's fee petition arguing, among other things, that Creation Supply was not entitled to payment of costs allegedly incurred in prosecuting its affirmative claims against Alpha. Selective contended the affirmative claims were not included as part of the defense in the underlying case and, therefore, were outside the scope of Selective's duty to defend. The circuit court ordered Selective to file specific objections to the invoice entries by August 18, 2014.

¶ 16 On December 9, 2014, Creation Supply filed a motion to supplement the fee petition to include additional invoices for fees and expenses incurred in the prosecution of its affirmative claims against Alpha from July 2014 through the October 14, 2014 final judgment. Selective responded, arguing that the requested fees were not reimbursable because: (1) they were incurred almost one year after the underlying claims asserted against Creation Supply were dismissed and, therefore, were no longer part of "the defense" of claims asserted against Creation Supply; and

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Memorial Hospital, 140 Ill. App. 3d 969, 972 (1986). The docket report is a matter of record which this court may take judicial notice, and its contents are not difficult to ascertain.

(2) the affirmative claims against Alpha were unrelated to the defense of the dismissed underlying claims against Creation Supply.

¶ 17 The circuit court determined that an evidentiary hearing on the fee petition was unnecessary and entered a detailed, written preliminary order on June 19, 2015. The court granted the fee petition and found that Creation Supply's third-party affirmative complaint against Alpha in Oregon was encompassed in Selective's duty to defend and that, although the claims against Creation Supply in the underlying lawsuit were dismissed, Creation Supply was entitled to reimbursement for attorney fees and costs for the underlying lawsuit *and* the third-party complaint against Alpha filed in the underlying lawsuit. The court concluded that Creation Supply's third-party complaint potentially benefitted Selective, as well as Creation Supply, because it provided another source of reimbursement for defense costs.

¶ 18 In addition, the circuit court found, in part, that: (1) Creation Supply was not entitled to reimbursement for fees incurred in the prosecution of its lawsuit against Alpha filed in the Northern District of Illinois; (2) Selective's duty to defend survived the dismissal of all claims asserted against Creation Supply in the underlying case in August 2013; and (3) Creation Supply was not entitled to prejudgment interest. The court awarded Creation Supply $305,759.10, less the identifiable fees and expenses attributable to the Illinois Alpha action, the difference between the total amount of the local counsel fees and the $14,475.25 awarded by the court, and other expenses which fell into the category of "overhead." The court directed Creation Supply to file and serve on Selective a revised calculation of the amount due and ordered Selective to pay the revised amount within 14 days of receipt. The court also found its ruling was "without prejudice to [Creation Supply's] ability to claim reimbursement for other amounts, including fees and

expenses attributable to the Illinois Alpha Action, by further motion, supported as indicated herein."

¶ 19 Creation Supply filed a "Notice of Compliance" on June 25, 2015, seeking payment of $217,002.86, "without prejudice to [Creation Supply's] ability" to seek reimbursement for fees and expenses attributable to the Illinois Alpha lawsuit, totaling $77,132.27.

¶ 20 On July 1, 2015, Selective filed a motion to clarify the June 19, 2015 order and stay payment, and responded to Creation Supply's notice of compliance, arguing it failed to comply with the June 19, 2015 order. Selective sought clarification regarding what invoices were potentially subject to appeal and a stay of payment pending entry of a final judgment on the amount of defense costs owed.

¶ 21 Creation Supply filed a motion for additional fees on July 7, 2015, which included a revised calculation of the attorney fees and expenses allegedly owed. Creation Supply claimed an additional $182,087.53 in attorney fees not previously addressed in the circuit court's June 19, 2015 order. Creation Supply also renewed its request to recover $10,956.60 in local counsel fees and $667.37 in costs that the court disallowed due to Creation Supply's failure to provide detailed invoices. Further, Creation Supply renewed its demand for attorney fees and expenses attributable to its claims against Alpha in Illinois.

¶ 22 On May 23, 2016, the circuit court issued an order granting Creation Supply's motion for additional fees and quantifying those fees and expenses. The court noted that Selective did not challenge the reasonableness of the requested fees, but instead essentially repeated the previous arguments it made in its response to the fee petition. Selective did not challenge specific invoices or argue that the additional invoices were unreasonable or unsupported. The court stated that it provided Selective with an opportunity to dispute the reasonableness of the fees in

question, but it chose not to do so. The court declined to revisit the same arguments that it addressed and ruled upon in the June 19, 2015 order. The court also declined to award Creation Supply attorney fees for its claims against Alpha in Illinois.

¶ 23 The circuit court found Creation Supply was entitled to recover a total of $392,147.61, including: (1) $182,087.53 detailed in additional invoices from February 2014 through November 2014; (2) the $217,002.86 set forth in its revised calculation less the identifiable attorney fees attributable to the Illinois Alpha action ($13,906.75) and the coverage claim ($4,660.00); (3) reimbursement for the remainder of local counsel fees totaling $10,956.60; and (4) overhead expenses totaling $667.37.

¶ 24 On June 21, 2016, the circuit court entered final judgment on Creation Supply's fee petition in the amount of $392,147.61, which was offset in the amount of $178,000.00 for payments previously made by Selective to Creation Supply. This appeal followed.

¶ 25 ANALYSIS

¶ 26 Selective argues that the circuit court erred when it granted Creation Supply's fee petition because Creation Supply's third-party affirmative claims against Alpha were not within the scope of the duty to defend under the language of its insurance policy. Selective also contends the court erred when it required Selective to pay Creation Supply's attorney fees incurred in prosecuting the Alpha claims in Oregon even after all the claims asserted against Creation Supply were dismissed on August 19, 2013.

¶ 27 Our review of the decision to grant Creation Supply's fee petition is limited to the attorney fees and expenses incurred from the prosecution of the third-party complaint Creation Supply filed against Alpha. No claim is raised in this appeal related to Creation Supply's claim against Alpha in the United States District Court for the Northern District of Illinois.

¶ 28 Standard of Review

¶ 29 Selective seeks *de novo* review of the circuit court's decision. However, the circuit court has broad discretion when awarding attorney fees and its decision will not be reversed absent an abuse of discretion. *In re Estate of Callahan*, 144 Ill. 2d 32, 43-44 (1991); *Richardson v. Haddon*, 375 Ill. App. 3d 312, 314 (2007). Although the issue in this appeal is whether the circuit court properly awarded attorney fees, within that determination is whether the circuit court properly applied the language of the insurance policy, which includes the contract provision governing attorney fees. "An insurance policy is a contract, and the general rules governing the interpretation of other types of contracts also govern the interpretation of insurance policies." *Hobbs v. Hartford Insurance Co. of the Midwest*, 214 Ill. 2d 11, 17 (2005). Accordingly, we consider whether Selective's policy, properly construed, prohibits or permits the award of attorney fees under the factual circumstances of this case. This poses a legal issue which we review *de novo*. *Id.*

¶ 30 Whether Attorney Fees From the Prosecution of an Affirmative Claim is Within the Scope of the Duty to Defend

¶ 31 Selective argues that the attorney fees associated with Creation Supply's prosecution of the affirmative claims against Alpha were not incurred in the "defense" of the underlying "suit" brought against Creation Supply under the language of its policy. Selective contends the circuit court erroneously relied on the holding in *Great West Casualty Co. v. Marathon Oil Co.*, 315 F. Supp. 2d 879 (N.D. Ill. 2003) in finding that the costs incurred from Creation Supply's prosecution of the affirmative claims fell within the scope of Selective's duty to defend.

¶ 32 The provision at issue in Selective's policy states:

> "We will pay those sums that the insured becomes legally obligated to pay as damages because of 'bodily injury,' 'property damage' or 'personal and

> advertising injury' to which this insurance applies. We will have the right and duty to defend the insured against any 'suit' seeking those damages. However, we will have no duty to defend the insured against any 'suit' seeking damages for 'bodily injury,' 'property damage' or 'personal and advertising injury' to which this insurance does not apply."

The policy defines the term, "suit" as "a civil proceeding in which damages because of 'bodily injury,' 'property damage,' or 'personal and advertising injury' to which this insurance applies are alleged."

¶ 33 The language of Selective's policy alone belies its argument regarding the scope of the duty to defend. In construing an insurance policy, the court determines the intent of the parties to the contract by construing the policy as a whole, with due regard to the risk undertaken, the subject matter that is insured and the purposes of the entire contract. *Outboard Marine Corp. v. Liberty Mutual Insurance Co.*, 154 Ill. 2d 90, 108 (1992). Where the words in the policy are clear and unambiguous, "a court must afford them their *plain, ordinary, and popular meaning*." (Emphasis in original.) *Id.* However, if the words in the policy are susceptible to more than one reasonable interpretation, they will be considered ambiguous and will be strictly construed in favor of the insured and against the insurer that drafted the policy. *Id.* Nonetheless, courts will not strain to find an ambiguity where none exists. *Hobbs v. Hartford Insurance Co. of the Midwest*, 214 Ill. 2d 11, 17 (2005).

¶ 34 Under Illinois law, an insured contracts for, and has a right to expect, two separate and distinct duties from an insurer: (1) the duty to defend if a claim is made against the insured; and (2) the duty to indemnify if the insured is found legally liable for the occurrence of a covered risk. *Chandler v. Doherty*, 299 Ill. App. 3d 797, 801 (1998). While an insurer's duty to

indemnify arises only if the facts alleged actually fall within coverage, the duty to defend is much broader. *Crum & Forster Managers Corp. v. Resolution Trust Corp.*, 156 Ill. 2d 384, 398 (1993). "To determine whether the insurer has a duty to defend the insured, the court must look to the allegations in the underlying complaint and compare these allegations to the relevant provisions of the insurance policy." *Outboard Marine Corp.*, 154 Ill. 2d at 107-08. If the underlying complaint alleges facts that fall "within or *potentially* within" the coverage of the policy, the insurer is obligated to defend its insured even if the allegations are "groundless, false, or fraudulent." (Emphasis in original.) *United States Fidelity & Guaranty Co. v. Wilkin Insulation Co.*, 144 Ill. 2d 64, 73 (1991). "An insurer may not justifiably refuse to defend an action against its insured unless it is *clear* from the face of the underlying complaint that the allegations fail to state facts which bring the case within, or potentially within, the policy's coverage." (Emphasis in original.) *Id.* The threshold requirement that the complaint must satisfy to present a claim of potential coverage is minimal; the complaint need present only a possibility, not a probability, of recovery. *Bituminous Casualty Corp. v. Gust K. Newberg Construction Co.*, 218 Ill. App. 3d 956, 960 (1991).

¶ 35 In determining whether the allegations in the underlying complaint meet that threshold requirement, both the underlying complaint and the insurance policy must be liberally construed in favor of the insured. *Wilkin Insulation Co.*, 144 Ill. 2d at 73. "[T]he duty to defend does not require that the complaint allege or use language affirmatively bringing the claims within the scope of the policy." *International Insurance Co. v. Rollprint Packaging Products, Inc.*, 312 Ill. App. 3d 998, 1007 (2000). The insured bears the burden of proving its claim falls within the coverage of an insurance policy. *Addison Insurance v. Fay*, 232 Ill. 2d 446, 453 (2009). "Once the insured has demonstrated coverage, the burden then shifts to the insurer to prove that a

limitation or exclusion applies." *Id*. at 453-54. Finally, all doubts are resolved in the insured's favor. *Employers Insurance of Wausau v. Ehlco Liquidating Trust*, 186 Ill. 2d 127, 154 (1999) (citing *Wilkin Insulation Co.*, 144 Ill. 2d at 74).

¶ 36 Under certain circumstances, a court may look beyond the underlying complaint in order to determine an insurer's duty to defend. *Pekin Insurance Co. v. Wilson*, 237 Ill. 2d 446, 458-59 (2010). Indeed, "the trial court should be able to consider all the relevant facts contained in the pleadings, including a third-party complaint, to determine whether there is a duty to defend." *American Economy Insurance Co. v. Holabird & Root*, 382 Ill. App.3d 1017, 1031-32 (2008). We examine Selective's policy language with these principles in mind.

¶ 37 Selective's policy states that it has "the right and duty to defend" Creation Supply "against any 'suit' seeking" damages in the event Creation Supply is found liable, in this case, for "personal and advertising injury." In the first appeal, we found the allegations in the underlying complaint, the photograph of the retail product display of MEPXY markers, and the relevant policy language triggered Selective's duty to defend Creation Supply in the underlying case. *Selective Insurance Co.*, 2015 IL App (1st) 140152-U, ¶¶ 30, 34, 37, 42, 54. In part, we determined that trade dress infringement is a covered "advertising injury" under the terms of Selective's policy and that the underlying complaint alleged trade dress infringement in Creation Supply's advertisement of the MEPXY markers. *Id*. ¶¶ 34, 37.

¶ 38 Creation Supply's third-party complaint alleged that Alpha violated section 2-312 of the UCC because it "offered for sale and sold purportedly infringing goods to [Creation Supply]." Creation Supply also alleged that it "would not have been sued in the state of Oregon for trademark infringement and related claims but for Alpha's actions." Although Alpha was not responsible for the retail display that was the subject of the alleged advertising injury in the

underlying complaint, no "advertising injury" could occur without some public display of the infringing marker. In this case, the shape and design of the MEPXY marker was prominently displayed, which was the source of the underlying trade dress claim. In short, the allegations of the underlying complaint are inextricably intertwined with the allegations in Creation Supply's third-party complaint. Thus, the duty to defend, in this circumstance, further extends to a third-party complaint. *Pekin Insurance*, 237 Ill. 2d at 458-59.

¶ 39 Moreover, the definition of "suit" in Selective's policy does not distinguish between an offensive or defensive lawsuit. Any ambiguity arising from the definition of "suit" is strictly construed in favor of the insured and against the insurer that drafted the policy. *Outboard Marine*, 154 Ill. 2d at 108.

¶ 40 Creation Supply sought recovery from what it considered to be the ultimate source of the infringement problem. The third-party complaint derived its facts from the underlying complaint, which included the alleged offense of "[i]nfringing upon another's copyright, trade dress or slogan in your 'advertisement.' " Selective has not shown that the third-party complaint failed to state facts which bring the case within, or potentially within, the policy's coverage. Based on the language of Selective's policy and the close connection between the underlying complaint and the third-party complaint, we find Selective was obligated to pay the expenses incurred from Creation Supply's prosecution of the third-party claim against Alpha.

¶ 41 *Great West* supports this result. There, the court determined whether the insurer, Great West Casualty Company (Great West), was required to pay attorney fees incurred in two third-party indemnification actions prosecuted by its insured, Marathon Oil Company (Marathon). *Great West*, 315 F. Supp. 2d at 880. The decedent, Paul Howe, drove a truck while employed by Heidenreich Trucking Company, Inc. (Heidenreich) and was fatally injured when he loaded his

truck with gasoline purchased by or for Krystal Gas Marketing Company (Krystal) at a Marathon terminal. Marathon was named as an additional insured on Heidenreich's liability policy issued by Great West. Howe's estate filed a negligence lawsuit against Marathon and Marathon filed third-party complaints against Heidenreich and Krystal for contribution and indemnity. *Id*.

¶ 42 The district court found that Great West's duty to defend encompassed attorney fees and costs incurred in the third-party actions aimed at shifting liability for the claim as to which the duty to defend exists. *Id*. at 882. The *Great West* court concluded:

> " 'Defense' is about avoiding liability. Claims and actions seeking third-party contribution and indemnification are a means of avoiding liability just a clearly as is contesting the claims alleged to give rise to liability. A duty to defend would be nothing but a form of words if it did not encompass all litigation by the insured which could defeat its liability, including claims and actions for contribution and indemnification." *Id*. at 882-83.

¶ 43 We find this reasoning persuasive and apply it here. Creation Supply's third-party complaint against Alpha was aimed at shifting the liability for the underlying intellectual property infringement claims against Creation Supply. Simply put, Creation Supply's efforts to seek liability against Alpha ultimately would have aided Selective because whatever amount Creation Supply would have recovered from Alpha would then reduce Selective's obligation to Creation Supply for the defense of the underlying litigation.

¶ 44 Furthermore, *Rollprint* does not support Selective's argument. In *Rollprint*, the insurer, International Insurance Company (International) brought a declaratory judgment action seeking a declaration that it did not owe its insured, Rollprint Packaging Products, Inc. (Rollprint), a duty to defend and indemnify it in a federal employment discrimination lawsuit pursuant to a

commercial general liability insurance policy. The circuit court found, and the appellate court agreed, that International's duty to defend was triggered by the allegations of the federal complaint. *Rollprint*, 312 Ill. App. 3d at 109. The underlying lawsuit dealt with Netzer Novissar's termination from Rollprint's employ. In the course of defending the lawsuit, Rollprint counterclaimed, seeking a finding that it owned various trade secrets, the ownership of which Novissar's claim had put in issue. The reviewing court ruled, however, that International had no obligation to pay legal fees incurred in connection with this ownership of the trade secrets counterclaim. *Id*. at 1014-15.

¶ 45 Because of a lack of controlling Illinois authority, the court looked to cases from other states which had held that an insurer which is obligated to defend is also obligated to provide coverage for certain counterclaims and cross-claims filed by the insured in the underlying action. For example, the court cited *Oscar W. Larson Co. v. United Capitol Insurance Co.*, 845 F. Supp. 458, 461 (W.D. Mich. 1993), which found the insurer's duty with respect to affirmative claims brought by the insured depends upon whether such claims are " 'defensive' in nature," meaning " 'prosecuted to limit or defeat plaintiff's [the insured's] liability [to a third party].' " *Id*. at 1015 (quoting *Oscar W. Larson*, 845 F. Supp. at 461). Such claims are encompassed by the duty to defend whereas offensive claims, such as Rollprint's suit for a declaration as to its ownership of trade secrets, are not.

¶ 46 The court explained:

> "Rollprint admits that its counterclaim against Novissar sought to 'enjoin' him from making any future use of the trade secrets for which ownership was contested by the parties in the Novissar lawsuit. This situation is different from that where a third-party action or counterclaim, such as for contribution, is filed to

> limit a defendant's potential liability. The counterclaim filed by Rollprint in the Novissar lawsuit was not necessary for the determination of ownership of the trade secrets which was already at issue in that lawsuit. Rollprint's counterclaim against Novissar was comparable to any action Rollprint might have had to take to enjoin Novissar from using the trade secrets after his termination, even if he had not filed a lawsuit. The counterclaim, therefore, was not defensive in nature." *Id*.

¶ 47 In this case, the language contained in Creation Supply's third-party complaint shows an attempt to limit its potential liability in the underlying lawsuit. The analysis in *Rollprint* supports a finding that Creation Supply's third-party complaint against Alpha was defensive in nature, thus, triggering Selective's duty to defend.

¶ 48 Selective also argues that *Great West* ignored the court's holding in *W.E. O'Neill Construction Co. v. General Casualty Co. of Illinois*, 321 Ill. App. 3d 550 (2001). In *W.E. O'Neill*, the court held one insurer, General Casualty Company of Illinois (General Casualty) was not liable to another insurer, Assurance Company of America (Assurance), for a law firm's fees incurred from contacting other insurers to determine the division of defense costs. *Id*. at 558-59. The court concluded that the fees were not defense costs within the scope of the duty to defend. *Id*. at 558. The court found unpersuasive Assurance's argument that General Casualty was liable for those fees because contacting the other insurers was to the benefit of General Casualty. *Id*. at 558-59. The court stated that "a benefit to the primary insurer is not a test of what is a defense cost." *Id*. at 559.

¶ 49 We agree with the circuit court that *W.E. O'Neill* is inapplicable because in this case, the fees incurred from the third-party complaint were not related to insurance coverage work.

Creation Supply's claims against Alpha were closely related to the underlying plaintiffs' claims. Alpha's liability to Creation Supply, if any, was the result of Alpha manufacturing and selling markers to Creation Supply that led to the underlying lawsuit. In contrast, any liability the other insurers would have had in *W.E. O'Neill* would have resulted from a contractual obligation, the insurance policies, which were entirely separate from the underlying claims.

¶ 50 Accordingly, Creation Supply's prosecution of its third-party complaint against Alpha is within the scope of Selective's duty to defend. The circuit court correctly found that Creation Supply is entitled to the reimbursement from Selective of attorney fees and costs for both the underlying lawsuit and the third-party complaint Creation Supply filed against Alpha.

¶ 51 Whether the Alpha Claims Were Aimed at Shifting Liability

¶ 52 Selective contends that even if the duty to defend encompasses the costs associated with the prosecution of the affirmative claims against Alpha, those claims were not aimed at shifting liability for the claim as to which the duty to defend exists. Selective argues this is because the claim, which was premised upon Alpha's alleged breach of implied warranties of noninfringement, was wholly unrelated to the defense of the potentially covered claims asserted against Creation Supply in the underlying case – infringement of trade dress in Creation Supply's "advertisements." In other words, Selective characterizes Creation Supply's allegations against Alpha as "stand-alone claims for consequential damages." Selective argues that *Great West* only supports contribution claims as having the effect of reducing or eliminating the liability on the potentially covered claim.

¶ 53 The holding in *Great West* is not limited in the manner asserted by Selective. The court in *Great West* specifically identified "a class of affirmative claims which, if successful, have the effect of reducing or eliminating the insured's liability and that the costs and fees incurred in

prosecuting such 'defensive' claims are encompassed in an insurer's duty to defend." *Great West*, 315 F. Supp. 2d at 881. The question is whether the claim would defeat or offset liability. The nature of the claim, whether filed as contribution, indemnification, or a third-party claim, is irrelevant so long as the aim is to shift liability.

¶ 54 In this case, Creation Supply could not have asserted its breach of implied warranty claims or indemnity claims against Alpha if it had not first been sued for intellectual property infringement by the underlying plaintiffs. We previously held that trade dress infringement is a covered advertising injury and that, here, the advertising injury in the underlying case allegedly arose from the display of the Alpha-manufactured markers. As a prerequisite for Creation Supply's claim against Alpha for breach of implied warranty, Creation Supply already was the subject of an infringement claim based on the product Alpha manufactured and sold to Creation Supply. Logically, it follows that Creation Supply's claim against Alpha first required a claim for which Creation Supply could be indemnified. Contrary to Selective's characterization, Creation Supply's claims did not "stand alone," but instead were brought to deflect trade dress infringement liability onto Alpha. In short, Creation Supply's claim against Alpha sought to shift liability and, had Creation Supply been successful, it would have reduced Selective's obligation. We reject Selective's argument on this issue.

¶ 55 Whether the Duty to Defend Survives Dismissal of the Underlying Claims

¶ 56 Finally, Selective argues that its duty to defend expired on August 19, 2013, the date the court dismissed the underlying lawsuit. Selective contends that after settlement of the underlying lawsuit, the rationale for finding coverage for the costs associated with the prosecution of the Alpha claims ceased, as there were no pending liability claims against Creation Supply. According to Selective, once the potentially covered liability claimed by the underlying plaintiffs

was fixed at zero dollars[3] and the claims were dismissed, Creation Supply's continued efforts to obtain affirmative relief against Alpha could not have shifted liability for the claim as to which the duty to defend previously existed.

¶ 57 We agree with Selective on this issue. While Illinois law is clear that an insurer's duty to defend is broader than the duty to indemnify, our supreme court has held that this is true "only when the insurer has the potential obligation to indemnify." *Zurich Insurance Co. v. Raymark Industries, Inc.*, 118 Ill. 2d 23, 52 (1987). However, when "the insurer has no potential obligation to indemnify it has no duty to defend." *Id.* See also *Lockwood International, B.V. v. Volm Bag Co.*, 273 F.3d 741, 744 (7th Cir. 2001) ("if in the course of litigation the covered claims fall out of the case through settlement or otherwise, the insurer's duty to defend his insured ceases"). In short, when the uncontroverted facts preclude the possibility of a duty to indemnify, the duty to defend ceases and the duty to indemnify is negated.

¶ 58 In this case, Creation Supply filed a third-party complaint against Alpha in Oregon on August 21, 2012. The underlying plaintiffs and Creation Supply settled all their claims and counterclaims on July 29, 2013. The Oregon court dismissed the underlying lawsuit against Creation Supply on August 19, 2013 without prejudice pursuant to the settlement agreement. Therefore, as of August 19, 2013, the covered claims for intellectual property infringement fell out of the case through settlement, which precluded the possibility of a duty to indemnify after that date and ceased the duty to defend. Creation Supply's third-party claims against Alpha, which were premised upon the allegations of the underlying complaint that initially triggered the

[3] Selective claims that Creation Supply paid nothing in its settlement of the underlying lawsuit, but provided no citation to the record in support of that statement. The record shows, however, that the underlying lawsuit settled and was dismissed on August 19, 2013.

duty to defend, could no longer be afforded coverage after the underlying lawsuit settled and was dismissed.

¶ 59 Accordingly, we reverse on this issue and remand the cause to the circuit court to determine the amount of attorney fees and costs for Creation Supply's third-party claim against Alpha in Oregon from its initiation on August 21, 2012 until the dismissal of the underlying lawsuit on August 19, 2013, and to reduce the June 21, 2016 judgment by that amount.

¶ 60 CONCLUSION

¶ 61 We find the scope of the duty to defend includes attorney fees and costs incurred from the prosecution of Creation Supply's third-party complaint against Alpha in Oregon. The circuit court properly granted Creation Supply's fee petition and we affirm that decision. However, Creation Supply's reimbursement for attorney fees and costs is limited to the time period from the inception of its third-party claim on August 21, 2012 until final judgment was entered dismissing the underlying lawsuit on August 19, 2013. On that issue, we reverse and remand to the circuit court with directions to determine the amount of attorney fees and costs consistent with this order.

¶ 62 Affirmed in part, reversed in part, and remanded with directions.