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THE POLICYHOLDER ADVOCATE/IP COUNSELOR NEWSLETTER

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The Second Circuit Narrowly Construes “Personal and Advertising” Injury Coverage to Limit Its Scope for Claims of “Infringement of Slogan” But Affirms Duty to Defend for “Infringement of Title” Claims

In *CGS Indus., Inc. v. Charter Oak Fire Ins. Co.*, 720 F.3d 71 (2d Cir. 2013), the Second Circuit concluded that an insurance policy’s Coverage B did not cover liability alleged in a trademark infringement suit but concluded that a duty to defend because there “sufficient legal uncertainty about the coverage issue” at the time the tender was made. A copy of the decision can be found [here](#).

In the underlying case, CGS Industries, Inc. (“CGS”) supplied jeans to Wal-Mart Stores, Inc. (“Wal-Mart”). Five Four Clothing, Inc. (“Five Four”) sued Wal-Mart for trademark infringement based on the use of a rear-pocket stitching design on the jeans. CGS was later added to the suit and asked its insurer, Charter Oak Fire Ins. Co. (“Charter Oak”), to defend it pursuant to its liability policy that contained coverage for “Advertising Injury,” including infringement of copyright, title or slogan -- but not trademark. CGS later settled the underlying action by payment on behalf of itself and Wal-Mart, and sought indemnification from Charter Oak for the settlement proceeds and for defense costs, including those incurred by Wal-Mart.

The lower court concluded that Charter Oak breached its duty to defend CGS in the underlying action. Accordingly, it went on to hold that Charter Oak was obligated to indemnify CGS for the settlement amount.

Charter Oak appealed, arguing that it did not have a duty to defend CGS under the policy because the stitching did not constitute an infringement of “slogan” or “title” within the meaning of the policy.

Those terms were undefined by the policy, so the appeals court looked to federal law to supply the meaning, holding that the stitching design was not a slogan or title, and therefore was not within the scope of “Advertising Injury” so as to trigger coverage. The court acknowledged that some cases employ different definitions of “slogan” or “title” that could bring the terms within the scope of coverage. So the Court held that these cases created legal uncertainty, which triggered Charter Oak’s broader duty to defend.

MISAPPREHENDED FACTS LED TO ERRONEOUS CONCLUSION

The Panel Improperly Failed to Apply a Layman’s Definition to the Generic “Slogan” and “Title” Infringement Offenses

The Panel’s decision expanding *Hugo Boss*’ tort-centric coverage analysis to the non-torts of “infringement of slogan or title” in a manner inconsistent with prior New York precedent and the cases relied upon by the Panel. A layman construing these phrases, in light of dictionary definitions, would understand that “FF” is an abbreviation for the verbalized slogan/title Five Four. *Hugo Boss*’ rationale does not support extending its “trademarked slogan” definition to less restrictive policies covering infringement of any “slogan,” unlike *federal* law which imported a meaning into the policy term for “trademarked slogan.” But, without that limiting policy language, the generic terms “slogan” and “title” must be construed under

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state law as a lay person would interpret them, or deemed ambiguous and interpreted against Travelers.

As a New York appellate division concluded in analyzing the equally diffuse, generic, lay offense of “misappropriation of advertising ideas,” many courts have concluded these offenses are ambiguous.¹ While “coverage could be limited to specific and formal counsel of action,” Travelers elected to write its policy using broad and generic terms like “slogan” and “title,” with no limiting definition. The *Kelly-Brown v. Winfrey*, 717 F.3d 295 (2d Cir. 2013) (“*Winfrey*”) case emphasized that there is no Second Circuit rule that a slogan, phrase, symbol, or title cannot also be a trademark, contrasting with the Panel’s suggestion that a slogan or symbol is distinct from a trademark.² As *Winfrey* held at *11, quoting 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 7.21 (4th ed. 2010):

It is well established law that both a slogan and a single brand name can serve as co-existent marks. ... “The fact that a slogan is used in conjunction with a previously existing trademark does not mean that the slogan does not also function as a mark, for a product can bear more than one trademark[.]”

Travelers’ Coverage for “Infringement of Slogan or Title” Is Not Limited to Trademark

There is no lay distinction about whether a title or slogan is trademarked or not. Second Circuit law permits, but does not require that a symbol, a phrase, or a title be considered a trademark. The necessary fact intensive analysis is complex. Distinguishing the question of *use of a trademark in commerce*, “[i]n determining whether a use is made ‘as a mark,’ however, we make a more detailed determination of the particular manner in which the mark was used.” *Id.* at 306 (italics added). This is to avoid “conflat[ing] two distinct concepts,” *use of a mark* and *use as a mark*. *Id.* at 305.

Winfrey explained that a symbol may or may not be used as a trademark, *id.* at 306, a slogan or phrase may or may not be used as a trademark, *id.* at 309-10, and a title may or may not be used as a trademark. *Id.* at 309-10. *Winfrey* explained, “[t]he slogan or title becomes a symbolic identifier of a product or product line through repetition.” *Id.* at 310. But there is nothing inconsistent in a slogan or title also being a trademark, and this squares with Charter’s policy coverage for infringement of slogan or title without a trademark infringement exclusion.

Winfrey’s holding that slogans may or may not be trademarks does not conflict with *Hugo Boss*’ “trademarked slogans” discussion at 252 F.3d at 618-19,

which only dealt with the undefined policy term “trademarked slogans” (citing Seventh and Fourth Circuit cases), and made a “distinction between trademarked house or product names, on the one hand, and slogans or other kinds of trademarks, on the other.” The *Winfrey* case emphasized that there is no Second Circuit rule that a slogan, phrase, symbol, or title cannot also be a trademark, contrasting with the Panel’s suggestion that a slogan or symbol is distinct from a trademark. *CGS*, 720 F.3d at 80-81.

Hugo Boss does not hold that an attention getting symbol on the back of jeans cannot be a slogan because it is a house or product mark and cannot be a title as the name or appellation of a pair of jeans. The Panel misapprehended Second Circuit law on slogan, title and trademark as established in *Hugo Boss* and in *Winfrey*. The accused use of the “FF” logo is not characterized as one of the “Five Four Marks.”

Charter’s policy does not exclude coverage for trademark infringement, as the Web Xtend endorsement eliminated the intellectual property exclusion. Nor does it contain any suggestion of any difference in coverage based on whether a title or slogan is or is not “a trademarked name of a brand, product or company” or a “house mark or a product mark.” By presuming otherwise, the Panel effectively, and improperly, created a new exclusion eliminating coverage in a manner contrary to New York law.


As the New York Court of Appeals concluded, the same CGL Panel issued its opinion.³

Panel Misapprehended That “FF Stitching” Was a Trademarked “Design” and Therefore Not a Title or Slogan

Even if the Panel maintains that its narrow definitions for “slogan” and “title” represent their only reasonable constructions, the district court’s coverage analysis on these issues must be affirmed as the Panel’s misapprehended facts led to an erroneous decision. What the underlying plaintiff called the “FF logo” is not necessarily a trademark and is not a mere stitching design element on the accused jeans. But it *is* both a slogan and a title. The Panel erroneously considered the “FF stitching” on the rear pockets of the accused jeans to simply be “the stitching design on a jeans pocket.” It communicates, however, much more to fashion conscious youth, albeit in a coded way somewhat hidden from older generations, i.e., as a title and slogan.


The Panel also inconsistently considered the “FF stitching” to be a trademark when the facts are that the underlying plaintiff did not allege this was a trademark. *CGS*, 720



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

F.3d at 77. The Panel found the “FF stitching” was not either a slogan or a title. *Id.* at 77. But the underlying facts show that the “” logo may not be a trademark, but it serves as both a slogan and a title.

The underlying plaintiff did not necessarily claim it to be a trademark where it is not part of its defined term “Five Four Marks.” Instead, the underlying plaintiff distinguishes its “Five Four Marks” from a non-trademark design, alleging that its “most well recognized denim products are those bearing the ‘FF’ Design which features its original one of a kind ‘FF’ logo ... on the pockets in an assortment of different sizes, patterns and colors.” The underlying allegations, as quoted by both CGS and Charter in their briefs, called the “FF stitching” an “FF Design” or an “FF logo” and specifically distinguished it from “the ‘FF ONE FIVE FOUR’ and ‘FIVE FOUR FF’ marks (hereinafter collectively ‘Five Four Marks’).”


The Panel Erred Factually in Holding the “FF Logo” Was Not a “Slogan” Because It Was Trademarked and Not a Phrase

The Panel determined that “the stitching design on a jeans pocket [was not] a slogan” because *Hugo Boss*, 252 F.3d at 619, “found it ‘clear that a ‘slogan’ must be something[] other than the house mark or product mark itself.’ [And] it follows that the FF stitching, which is also not a ‘phrase’ and which in effect is a ‘house mark or product mark’ is not a slogan either.” *CGS*, 720 F.3d at 78. The “” logo is not necessarily a trademark but an apparent stylized abbreviation that would be verbalized as “Five Four.”

It thus serves as a phrase to subtly identify particular denim products to people viewing the clothing from the rear. In contrast to seeing jeans with an overt trademark patch identifying them as Levi’s or Wranglers, the “” logo is a sort of code to young fashionistas. While many lawyers may not understand the message, many younger people would. The claimed “Five Four Marks” likely appearing in print and online advertising on hang tags and inside labels served to decode the “” logo. But the logo itself would not effectively identify the source of the jeans except to the exclusive group “in the know.”

The “FF” may be verbalized as a phrase: “Five Four” and is thus a slogan even if a “slogan” must include a phrase rather than a singular word. *Hugo Boss*, 252 F.3d at 618, confirmed that a trademarked “slogan” can be something “used to *promote or advertise* a house mark or product mark” such as the claimed “Five Four Marks.” That is precisely the alleged function of the “” logo affixed to its denim products. To the extent the “”

logo may be found to associate the jeans with the Five Four manufacturer, the “infringement of slogan” offense is broader than “infringement of trademark slogan” and thus the house mark and product mark distinctions do not apply.

The “” logo is not a merely decorative “stitching design” but a “a brief attention-getting phrase used in advertising ...” just as the abbreviation QVM (understood to stand for the phrase “Quality Vehicle Modifier”) was a slogan under both New York and California law, as a district court concluded in a case the Panel relied on to define slogan. *CGS*, 720 F.3d at 78 n.5


The Panel Erred Factually in Holding the “FF Logo” Was Not a “Title” Because It Was a Trademarked Design Element

The Panel also “conclude[ed] that the stitching on the back pocket of a pair of jeans cannot fairly be called the name or appellation of that pair of jeans” because “‘title’ means the name or appellation of a product and does not cover design elements such as pocket stitching that may serve as a trademark designating the origin of the product[.]”

There is no meaningful distinction between titles and trademarks. “FF” is not trademarked but it is a title because it is the title of a product, the jeans on which it appears. The Panel noted that *A Touch of Class*, 901 F. Supp. at 176–77, found a “title” to be “‘a name or appellation’ such as ‘Big Mac,’ ‘Chap Stick,’ and ‘Cheerios.’” *CGS*, 720 F.3d at 79. (All of these examples are also registered trademarks.)

“FF” is not a mere “design of a package or location of a patch on a pair of jeans” as the Panel suggested but is the (coded) title of the product, Five Four denim jeans. “FF” is the name or appellation of the jeans just as surely as the *Touch of Class* examples are names or appellations of a hamburger, a lip balm, and a cereal. There is no relevant distinction among them.

There is no intellectual property right denoted as “title infringement” or “slogan infringement.” Such claims are ordinarily brought as infringement of trademarks or copyright and must ordinarily be labeled as such. An insurer should not escape liability because claims are labeled as trademark infringement, even though the allegations support “infringement of slogan” and “infringement of title.”

The Panel also erred in applying “the *Hugo Boss* framework” to the infringement of “title” offense, as “*Hugo Boss* addressed ‘trademarked slogans,’ and offers no insight into the meaning of trademarked title.” “” is also a “title” because it allegedly symbolizes and

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communicates Five Four's unique "spirit of modern culture."

The Panel acknowledged "a title need not contain words," citing the unpronounceable symbol, identifying both the Artist Formerly Known as Prince and a music album. *CGS*, 720 F.3d at 80. Here the symbol appearing on the jeans is pronounceable and it identifies the product being worn. "F" is properly considered a "stylized abbreviation" for the words Five Four.

THE SETTLEMENT PAYMENT IS RECOVERABLE WHERE POTENTIAL COVERAGE EXISTED WHEN THE CASE SETTLED

New York law prohibits unduly restrictive interpretation of policy language given New York's rule of broad insurance policy construction, even for indemnity purposes. *Auto. Ins. Co. of Hartford v. Cook*, 7 N.Y.3d 131, 138 (2006). As the Panel's Order, following prior precedent of the Second Circuit, implicitly suggests, had potential coverage arisen, the full amount of the settlement should be recoverable.⁴ Such a result is fully consistent with New York law, which does not require a "retrial" of whether facts pled, known or knowable at the time of settlement evidenced actual coverage.

To avoid the unfairness to settling insureds and judicial chaos against which *Uniroyal* cautions, both the Second Circuit and New York courts in decisions post-dating *Servidone* have confirmed "that when there is a denial of coverage, the insured is entitled to settle the claim and recover the settlement amount from the insurer[.]"⁵ In light of the breadth of New York's duty to defend, Charter could not reasonably contest that the case "involved a potential liability based on the facts known to the insured[.]"⁶

This view was reinforced by the New York Court of Appeals June 13, 2013 which the Second Circuit had no occasion to consider in issuing its contemporaneous order and elected not to address on rehearing. Although addressing the enforceability of policy exclusions, its analysis is equally germane to an insurer's duty to settle a potentially covered claim once a defense duty has been recognized:

If the disclaimer is found bad, the insurance company must indemnify its insured for the resulting judgment, even if policy exclusions would

otherwise have negated the duty to indemnify. This rule will give insurers an incentive to defend the cases they are bound by law to defend, and thus to give insureds the full benefit of their bargain.⁷

The settlement is subject to reimbursement where, as here, the underlying action settled before an adjudication of liability.

¹*Allou Health & Beauty Care, Inc. v. Aetna Cas. & Sur. Co.*, 703 N.Y.S.2d 253, 255–56 (2d Dep't 2000) ("[T]he phrase 'misappropriation of advertising ideas or style of doing business' should be defined 'as it would ordinarily be understood by laypersons' [and] ... can include the alleged misuse of another's trademark."). See DAVID A. GAUNTLETT, INSURANCE COVERAGE OF INTELLECTUAL PROPERTY ASSETS §§ 13.03[D][4]–[5], pp. 13–45, 13–48–13–51 (2d ed. 2013); see *Lebas Fashion Imports of USA, Inc. v. ITT Hartford Ins. Grp.*, 50 Cal. App. 4th 548, 565 (1996) ("misappropriation of an advertising idea" is not a recognized tort.).

²*CGS*, 2013 WL 2476998, at *4–5.

³*K2 Inv. Group, LLC v. Am. Guar. & Liab. Ins. Co.*, 21 N.Y.3d 384, 389 (2013) ("If, liberally construed, the claim is within the embrace of the policy, the insurer must come forward to defend its insured no matter how groundless, false or baseless the suit may be.").

⁴*Century 21, Inc. v. Diamond State Ins. Co.*, 442 F.3d 79, 83 (2d Cir. (N.Y.) 2006) (indemnity depends upon whether the facts alleged "suggests any possible factual or legal basis upon which Diamond could be obligated to indemnify Century under any provision of the policy.") (citing *Servidone Constr. Corp. v. Sec. Ins. Co. of Hartford*, 64 N.Y.2d 419, 424 (1985)).

⁵*Park Place Entm't Corp. v. Transcontinental Ins. Co.*, No. 01 Civ. 6546(ELC), 2003 WL 1913709, at *7 (S.D.N.Y. Apr. 18, 2003). See also *Uniroyal, Inc. v. Home Ins. Co.*, 707 F. Supp. 1368, 1378–79 (E.D.N.Y. 1988) (distinguishing *Servidone*, 64 N.Y.2d 419) ("[The insurer's] contention would place settling defendants in the hopelessly untenable position of having to refute liability in the underlying action until the moment of settlement, and then of turning about face to prove liability in the insurance action. ... *Servidone* ... never held that an otherwise covered claim, once settled, must be proven anew by the insured.").

⁶See *Hotel des Artistes, Inc. v. Gen. Accident Ins. Co. of Am.*, 775 N.Y.S.2d 262, 271 (1st Dep't 2004) ("[I]t will be the insurer's burden to prove that 'the loss compromised by the insured was not within policy coverage' [.]") (quoting *Servidone*, 64 N.Y.2d at 425).

⁷*K2 Inv. Grp.*, 21 N.Y.3d at 391.

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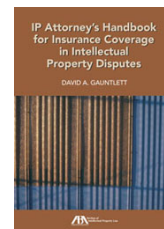
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David A. Gauntlett is the author of *Insurance Coverage of Intellectual Property Assets, Second Edition* (April 25, 2013), published by Aspen Publishers. The book and supplements are available for \$321.00 plus tax where applicable; shipping and handling are free when full payment is enclosed with the order. To order, call Aspen Publishers at **1-800-638-8437**, or visit their website at www.aspenpublishers.com.

David is also the author of *IP Attorney's Handbook for Insurance Coverage in Intellectual Property Disputes* published by the American Bar Association. (\$110.95–

ABA Member; \$103.95–Section of Intellectual Property Law) To order, visit the American Bar Association Online Store at www.ababooks.org. [*Second Edition* coming soon]



- ♦ *New Appleman on Insurance Law Library Edition* chapter on “*Intellectual Property Insurance*” (LexisNexis 2011) (contributor)
- ♦ *Recent Developments in Insurance Coverage Litigation* (with Stephen Groves, Robert Kelly, Christine Davis, Pamela Palmer and Fred Smith) for the Tort Trial & Insurance Practice Law Journal, Winter 2010 (45:2)
- ♦ *New Appleman Insurance Law Practice Guide* chapter on “*Understanding Intellectual Property Insurance*” (LexisNexis 2009) (contributor)
- ♦ *New Appleman on Insurance Critical Issues in Insurance Coverage* – upcoming chapter on “*Insurance Coverage for Antitrust Lawsuits*” (LexisNexis 2011) (contributor)
- ♦ *ICLC's CGL Handbook* chapter entitled “*The Principal Exclusions in Coverage B*” (ABA 2009) (contributing editor)
- ♦ *A Primer on Insurance Coverage Law, and Intellectual Property Claims Under Commercial General Liability Policies* (Insurance of IP assets) (contributing author for Chapter 7) (Tod I. Zuckerman, Robert D. Chesler, Mary Hildebrand and Christopher Keegan)
- ♦ *Free and Open Source Software and Content Desk Reference: A Legal and Risk Management Guide* (Browntree Publications) (contributing author of chapters on F/OSS and F/OC adoption and corporate risk management policies and procedures)

UPCOMING AND RECENT SEMINARS ON INSURANCE COVERAGE AND INTELLECTUAL PROPERTY WHERE DAVID A. GAUNTLETT IS SPEAKING OR ATTENDING

Mr. Gauntlett has been selected a *Super Lawyer* (So. Cal.) (2009-2013) for the following practice areas:
Insurance Coverage, Intellectual Property and Antitrust Litigation

- | | |
|------------------------------|---|
| February 20-22, 2014 | <i>Insurance Coverage for Wage & Hour Class-Action Lawsuits</i> – ABA Annual Meeting – Phoenix, AZ (<i>speaking</i>) |
| March 5-9, 2014 | <i>Insurance Coverage for Wage & Hour Class-Action Lawsuits</i> – ABA Section of Litigation: Insurance Coverage Litigation Committee CLE Seminar – Loews Ventana Canyon, Tucson, AZ (<i>speaking</i>) |
| September 16-18, 2014 | Professional Conduct Lecture on the topic of <i>Various IP Related Insurance Issues</i> – All Ohio Annual Institute on Intellectual Property (“AOAIOIP”) – Cleveland & Cincinnati, Ohio |

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If you have a topic you would like to see addressed in future issues, please feel free to contact us with your suggestions.

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