

Alert

## Second Circuit Finds No Coverage for Trademark Infringement Suit Involving Distinctive Rear-Pocket Stitching on Jeans Sold by Insured to Wal-Mart

By: Robert J. Kelly, Sally A. Clements

June 26, 2013

In a June 11, 2013 decision, the Second Circuit Court of Appeals refused to expand the definition of “slogan” as used in the definition of “advertising injury” and found no coverage for an underlying settlement of a suit against a Wal-Mart supplier. In *CGS Industries, Inc. v. Charter Oak Fire Ins. Co.*, \_\_\_ F.3d \_\_\_, 2013 U.S. App. LEXIS 11700 (2<sup>nd</sup> Cir. June 11, 2013), the appellate court addressed whether Charter Oak Fire Insurance (“Charter Oak”) owed defense and/or indemnity to its insured, CGS Industries Inc. (“CGS”), under a comprehensive general liability (“CGL”) policy in connection with an underlying suit brought by Five Four Clothing, Inc. (“Five Four”) that alleged trademark infringement of the distinctive rear-pocket stitching on its jeans.

Five Four’s underlying trademark infringement suit alleged that Wal-Mart sold jeans manufactured by CGS with Five Four’s distinctive rear-pocket stitching. CGS was later added as a named defendant and sought a defense from Charter Oak. Charter Oak denied coverage on the grounds that the underlying suit did not allege copying of Five Four’s “slogan” or “title” and did not allege a covered offense in the course of advertising as required to find advertising injury coverage. The policy defined “advertising injury” as “[i]njury arising out of one or more specifically listed offenses, including ‘infringement of copyright, title or slogan.’” Charter Oak also denied coverage on the grounds that the allegations of the underlying complaint alleged willful trademark infringement precluding coverage under the policy’s “knowing violation” exclusion and that the policy’s exclusion for liability assumed by contract precluded coverage for the portion of CGS’ settlement of the underlying action that resolved Wal-Mart’s liability.

Relying on its 2001 decision in *Hugo Boss Fashions, Inc. v. Federal Insurance Company*, 252 F.3d 608 (2<sup>nd</sup> Cir. 2001), the Second Circuit found that the term “slogan” included in the definition of “advertising injury” was not ambiguous despite the lack of a definition in either the policy at issue or New York case law; in such cases, federal law could form the basis for the parties’ understanding of the term at the time the contract was entered into.

Federal law is clear that the term “slogan” means “*phrases* used to promote or advertise a house mark or product mark, in contradistinction to the hour or product mark itself.” Therefore, the distinctive stitching on Five Four’s jeans could not, in the Court’s opinion, constitute a “slogan” as used in Charter Oak’s policy. As a result, Charter Oak had no obligation to defend or indemnify CGS based on any underlying claims on the grounds that they alleged infringement of Five Four’s “slogan.”

The Court did find the term “title” as used in the definition of “advertising injury” to be less clearly defined by federal court decisions such that sufficient uncertainty existed as to the meaning of the term to trigger Charter Oak’s defense obligation. However, the Court held the definition of “title” was sufficiently certain to preclude any indemnity obligation to CGS under the policy. The Court also held the policy’s “knowing violation” exclusion could not serve as a basis to deny a defense obligation as Five Four’s trademark claims under the Lanham Act did not require proof of intent to deceive or infringe on Five Four’s trademark.

The Court found that Charter Oak had waived any argument that its defense obligation should terminate when CGS’ and Wal-Mart’s discovery responses confirmed that they had never advertised the jeans, thus negating any potential allegation that advertising injury was caused by an offense committed in the course of advertising. Charter Oak had not argued the timing issue prior to the present appeal.

The CGS decision confirms that New York federal courts will uphold the established definition of “slogan” to preclude coverage under the advertising injury part of a CGL policy where no advertising or promotional “phrases” are at issue. However, insurers may still have a defense obligation for trademark infringement suits involving designs rather than phrases where such designs may constitute the plaintiff’s “title” as “sufficient uncertainty” exists as to this phrase. The CGS decision counsels insurers in such circumstances to carefully consider whether a defense is required under the facts of the case.

Should you need more information on this matter or have any questions, please feel free to contact us.