

World Trademark Review Daily

Clothing stitching isn't covered 'advertising injury', says federal court
United States - Edwards Wildman Palmer LLP

Other issues
Infringement

July 23 2013

In deciding the case of *CGS Industries Inc v Charter Oak Fire Ins Co* (No 11-2647-cv, June 11 2013), the US Court of Appeals for the Second Circuit has provided clarity as to how it will interpret the terms 'title' and 'slogan' in an insurance policy's Coverage B in the context of allegations of trademark infringement of clothing patterns.

Five Four Clothing Inc sued *Wal-Mart Stores Inc* and *CGS Industries Inc* for trademark infringement based on the use of a rear-pocket stitching design on the jeans that *CGS* supplied to *Wal-Mart*. In response, *CGS* asked *Charter Oak Fire Ins Co* to defend it pursuant to its liability policy that contained coverage for "advertising injury". The policy included coverage for infringement of copyright, title or slogan. It was silent, however, with respect to trademark, so *Charter Oak* took the position that the claims of trademark infringement were not covered. *CGS* later settled the underlying action and sought indemnification from *Charter Oak* for the settlement proceeds and for defence costs, including those incurred by *Wal-Mart*.

The lower court concluded that *Charter Oak* had breached its duty to defend *CGS* and that *Charter Oak* was obligated to indemnify *CGS* for the settlement amount, but not for *Wal-Mart's* defence costs. *Charter Oak* appealed, arguing that it had no duty to defend *CGS*, and, accordingly, no obligation of indemnity because the stitching did not constitute an infringement of 'slogan' or 'title' within the meaning of the policy.

The terms 'slogan' and 'title' were not defined by the policy, so the appellate court looked to federal law to supply the meaning. The court observed that federal courts frequently interpret a 'slogan' to be a phrase "used to promote or advertise a house mark or product mark, in contradistinction to the house or product mark itself". Likewise, the court in *Hugo Boss Fashions Inc v Federal Ins Co* (252 F3d 608, 615, 2d Cir 2001) held that a slogan must be something other than a "house mark or product mark". The court determined that the stitching on the jeans could not reasonably be considered a 'phrase' and was, in effect, a "house mark or product". Accordingly, *Charter Oak* had no duty to defend or indemnify *CGS* based on a claim of infringement of slogan.

The court went on to analyse whether the stitching design constituted infringement of 'title', observing that " '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". The court concluded that the stitching "cannot fairly be called the name or appellation of that pair of jeans". A few federal cases, however, have defined 'title' in such a way that could bring the term within the scope of coverage. Although the court disagreed with the reasoning in those cases, the court concluded they created sufficient legal uncertainty so as to trigger *Charter Oak's* broader duty to defend. Notably, from *Charter Oak's* standpoint, none of those cases were decided by the Second Circuit, and therefore none was controlling precedent.

Based on the *CGS Industries* decision, clothing designs and patterns may not be considered 'slogans' so as to trigger the duties of defence or indemnification under Coverage B. However, at least until those isolated cases that adopt a differing definition of 'title' are sufficiently distinguished or overturned, designs and patterns may be considered a 'title' so as to trigger the duty to defend, even though there is no subsequent duty to indemnify.

The court ultimately held that, in breaching the duty to defend, *Charter Oak* became liable for *GCS's* defence costs. The court, however, observed that the breach could not create coverage where none otherwise existed, and therefore, *Charter Oak* had no duty to indemnify *CGS*. Interestingly, in the same week that the court issued the *CGS Industries* decision, the New York Court of Appeals issued a decision in *K2 Inv Group v Am Guar & Liab Ins Co* (No 106 (June 11 2013)), which held that "by breaching its duty to defend [the insured], [the insurer] lost its right to rely on these exclusions in litigation over its indemnity obligation" and was therefore bound to pay the judgment against the insured up to the limits of the policy. The distinction between these two cases may be that in *K2 Inv Group*, the breach estopped the insurer from applying an exclusion where there would otherwise be coverage, whereas in *CGS Industries*, the breach did not affect the insurer's indemnity obligations where there was no coverage under the policy.

Matt Murphy, Edwards Wildman Palmer LLP, Providence

World Trademark Review *Daily*

World Trademark Review (www.worldtrademarkreview.com) is a subscription-based, practitioner-led, bi-monthly publication and daily email service which focuses on the issues that matter to trademark professionals the world over. Each issue of the magazine provides in-depth coverage of emerging national and regional trends, analysis of important markets and interviews with high-profile trademark personalities, as well as columns on trademark management, online issues and counterfeiting.