

Client Alert

August 2017

Ninth Circuit To Decide Whether Intellectual Property Exclusion Applies to Forever 21 Trademark Suit

The Ninth Circuit will decide whether Great Lakes Reinsurance must defend clothing company, In and Out, against a trademark infringement suit by Forever 21. The dispute focuses on exclusionary language in the general liability policy issued by Great Lakes to In and Out, which broadly bars coverage for claims stemming from violations of intellectual property rights, but which also excepts from the exclusion claims for copyright, trade dress and slogan infringement occurring in the company's advertisements. The appeal concerns last year's ruling by a California federal judge that Great Lakes owed a defense because the underlying complaint raised a potential that In and Out's advertising infringed Forever 21's trade dress.

Forever 21 filed suit against In and Out in 2014 alleging that In and Out "blacked out" or cut Forever 21's marks from clothing it sold, but that it was still apparent to the consumer that the marks were Forever 21 marks. And with regard to the items where the mark was entirely removed, the goods were marketed and advertised in such a way as to create an association between the unauthorized goods and Forever 21's goods. This misuse was alleged to violate Forever 21's rights and confuse consumers into thinking the products purchased at In and Out were genuine Forever 21 products when they were, in fact, unauthorized products that did not originate from Forever 21. Forever 21's suit included counts for trademark infringement, trademark dilution, false advertising, and unfair competition.

In and Out sought a defense and indemnity for the lawsuit from Great Lakes under its commercial general liability insurance policy. The policy provides coverage for In and Out's liability for "personal and advertising injury," which is defined to include infringement of "another's copyright, trade dress or slogan in [In and Out's] 'advertisement.'" However, the policy contains an intellectual property exclusion for injury "arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights." Excepted from the exclusion are claims for infringement contained in In and Out's "advertisement."

Great Lakes denied coverage and brought a declaratory judgment action seeking a declaration that it had no duty to defend or indemnify In and Out against Forever 21's lawsuit. The court granted In and Out's partial summary judgment and held that Great Lakes owed a duty to defend. *Great Lakes Reinsurance UK PLC v. In and Out Fashion, Inc.*, No. 15-cv-05889, 2016 WL 3450732, at *10 (C.D. Cal. June 20, 2016). Specifically, the court found that the alleged infringement of Forever 21's trade dress in an advertisement triggered coverage under the policy. Central to the court's decision was the broad duty to defend standard that triggers a defense when there is a potential for coverage or where the complaint could be amended to state a covered claim. Following that broad standard, the court found that a defense was owed to In and Out because one could infer from the general allegations regarding the image and appearance of the garments that the allegations included infringement of Forever 21's trade dress. In making that finding, the court rejected the insurer's argument that the exclusion's exception for infringement in an advertisement required that the particular form of advertising be alleged. The court likewise rejected the insurer's argument that a specific causal nexus between In and Out's advertising and Forever 21's injury had not been pled. As the court explained, to require such a finding would defeat the broad scope of a general liability insurer's duty to defend.

The case and pending appeal are of particular significance to retailers and those who work regularly with intellectual property rights because the decision illustrates the breadth of defense coverage available for claims of alleged infringement, even in the absence of explicit allegations or evidence of wrongdoing. The lower court's decision also serves as a reminder of the value of exclusionary limitations or exceptions, and how even the mere potential applicability of such a limitation or exception might be sufficient to trigger a defense.

Author

Katherine E. Miller
kmiller@hunton.com

Contacts

Walter J. Andrews
wandrews@hunton.com

Syed S. Ahmad
sahmad@hunton.com

Lawrence J. Bracken II
lbracken@hunton.com

John C. Eichman
jeichman@hunton.com

Michael S. Levine
mlevine@hunton.com

Lorelie S. Masters
lmasters@hunton.com

Sergio Oehninger
soehninger@hunton.com

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