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Ninth Circuit Finds Duty to Defend Manufacturer of Counterfeit NFL Jerseys

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In an important decision for both policyholders and insurers, the Ninth Circuit recently reiterated the breadth of an insurer's duty to defend its insured under California law even where no potentially covered causes of action are alleged in the underlying complaint.

In *Hudson Insurance Company v. Colony Insurance Company*, the Ninth Circuit held that an insurer must defend its insured even where the plaintiff had not actually alleged the single, potentially covered claim for slogan infringement in the first instance. Case No. 09-55275, 10 C.D.O.S. 14054 (9th Cir. Nov. 5, 2010). Because the complaint had alleged *facts* arguably sufficient to support a claim for slogan infringement, however, the carrier's duty to defend was triggered.

NFL Properties, LLC sued All Authentic Corporation for making and selling counterfeit NFL jerseys. All Authentic, the policyholder, was defended by one of its insurers, but another insurer declined coverage altogether. Thus, when the underlying action concluded, the defending insurer (Hudson) sued the non-defending insurer, Colony, arguing that Colony had a duty to defend All Authentic and should have paid some of the legal fees and costs.

The Ninth Circuit agreed and found the potential for coverage in several paragraphs of the underlying complaint. Specifically, NFL Properties alleged that All Authentic offered a counterfeit jersey that read "Steel Curtain" on the back, and further, that the Pittsburgh Steelers had strong common law rights in the mark "Steel Curtain" and also owned the state registration for the mark "Steel Curtain . . . Pittsburgh Steelers." The Ninth Circuit held that these factual allegations were sufficient to trigger coverage under the Colony policy, which clearly covered claims for slogan infringement.

In so holding, the Ninth Circuit rejected each of the three arguments Colony advanced.

First, Colony contended that because NFL Properties had not stated a claim for slogan infringement, the court could not "speculate" about unpled claims to manufacture a potential for coverage. The Ninth Circuit, however, held that the duty to defend is not "measured by the technical legal cause of action pleaded in the underlying third party complaint." Rather, it is determined by the potential for liability as revealed by the facts alleged in the complaint or otherwise known to the insurer. Here, a "fair reading of the complaint" revealed that the phrase

"Steel Curtain," which appeared on the infringing jerseys, is used to promote Steelers fan loyalty. Because it is a "brief, attention-getting phrase used in advertising or promotion," it constituted a slogan that could form the basis of a covered slogan infringement claim.

Second, the Ninth Circuit gave short shrift to Colony's argument that the attorneys for NFL Properties consciously chose not to include a slogan infringement claim and therefore no duty to defend existed. The Ninth Circuit concluded that there was no legal basis for such an argument.

Third, the Ninth Circuit rejected Colony's argument that NFL Properties could not – as a matter of law – assert a slogan infringement claim because it had no standing to do so. Significantly, the Ninth Circuit held that there "is no duty to defend *only* when the third-party complaint unambiguously disclaims or concedes an element" of the otherwise covered cause of action. (Emphasis added.) Because the underlying complaint did not unambiguously do so, the potential for coverage – and Colony's duty to defend – existed.