The Coverage Inkwell

*Emerging Coverage Issues in Intellectual Property, Privacy, and Cyber Liability*

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# MICHAEL TAYLOR DESIGNS AFFIRMED

In a short, unpublished opinion that provides minimal discussion or analysis, the Ninth Circuit affirmed *Michael Taylor Designs*, the lawsuit in which a California federal court held that allegations of trademark dilution and counterfeiting implied trade libel for purposes of implicating coverage under an insurance policy. *Michael Taylor Designs, Inc. v. Travelers Prop. Cas. Co. of Am.*, 2012 WL 5385598 (9th Cir. Nov. 5, 2012) (unpublished).

In support of its decision, the Ninth Circuit also cited *Charlotte Russe*, a decision the California Court of Appeals roundly criticized in a decision last month. *Hartford Cas. Ins. Co. v. Swift Distribution, Inc.*, -- Cal. Rptr. 3d --, 2012 WL 5306248 (Cal. Ct. App. Oct. 26, 2012). (*See* also "Swift Distribution with Swift Criticism for Charlotte Russe," *The Coverage Inkwell*, 11/2/12.) Researching the *Michael Taylor Designs* lower court decision will reveal that until now, other California courts have not followed it, but instead have distinguished the cases before them. With the Ninth Circuit's decision to affirm, that may change.

But not all may be bad. (This is a "the glass is quarter-full" attempt to look at it.) In affirming the trial court's decision, the Ninth Circuit appears to have altered the basis of the holding—that the original underlying complaint alleged that MTD sales personnel made statements to customers that falsely implied that the underlying plaintiff's products "were of poor quality." As discussed below, the federal court in *Michael Taylor Designs* made no such explicit finding. The Ninth Circuit's opinion, therefore, appears to misinterpret the lower court's holding. Can the opinion limit it, too?

In *Michael Taylor Designs,* the insured (MTD) was a furniture retailer sued for allegedly infringing the trade dress of one of its former suppliers (Ivy Rosequist) by offering alleged "cheap synthetic knockoffs" of that supplier's high-end wicker furniture products. 761 F. Supp. 2d 904, 907 (N.D. Cal. 2011). Rosequist filed a two count complaint against MTD, alleging breach of contract and violation of the Lanham Act. *Id.* Rosequist's Lanham Act claim alleged that MTD had distributed promotional materials to its customers that contained photographs of Rosequist's distinctive and high-quality furniture, but that MTD then pulled a "bait-and-switch" by selling in its showroom "cheap synthetic knock-offs" of Rosequist's merchandise. *Id.* Rosequist contended that consumers would be confused and misled as to the origin of the knock-off items, thinking that the products were her own. *Id.* Rosequist claimed MTD's actions would "dilute and tarnish" her trade dress. *Id.* Rosequist later amended her complaint to

include a claim for relief entitled "Slander of Goods/Slander of Title," which repeatedly alleged that MTD had "disparaged the quality and origin" of Rosequist's goods. *Id.* at 908. The insurance policy at issue did not provide coverage for trade dress infringement, but did provide coverage for "[o]ral, written or electronic publication of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services." *Id.* at 907, 910-11.

The court concluded that the allegations (including in the original complaint) were sufficient to allege disparagement, explaining that "the very essence of the injury [Rosequist was] alleging was damage to the reputation of Rosequist's products that would result from consumers encountering 'cheap synthetic knock-offs' and believing them to be products manufactured and marketed by Rosequist." *Id.* at 911. The court reached this holding notwithstanding that "undoubtedly, at the time Rosequist's complaint was originally filed, her lawyers did not have a claim for disparagement or trade libel at the forefront of their legal theories." *Id.*

The Ninth Circuit has now affirmed it, *supra*, but did so on an apparent slightly different understanding of the facts. The Ninth Circuit based its holding on an understanding that—in the original complaint—Rosequist alleged that "Taylor's showroom salesmen made statements to Taylor's customers that falsely implied Rosequist's high-end wicker chairs were of poor quality." 2012 WL 5385598 at *2. Specifically, the Ninth Circuit concluded that coverage existed because:

> Here, Rosequist's original complaint alleged Taylor's showroom salesmen made statements to Taylor's customers that falsely implied Rosequist's high-end wicker chairs were of poor quality, and this allegation made it conceivable that Rosequist could state a claim for trade libel. *See, e.g., Charlotte Russe*, 144 Cal. Rptr. 3d at 20-22 (holding a complaint alleging the insured made statements that could give the false impression that the plaintiff's goods were of inferior quality triggered an insurer's duty to defend its insured against allegations of trade libel).

*Id.* (emphasis added). Well, that's not exactly correct.

When arguing in the lower court that coverage was not implicated in the original complaint, the insurer contended that the alleged photographs and alleged "bait and switch" described at most alleged conduct with a potentially negative effect on consumer perceptions, and not an "oral, written or electronic publication of material" containing disparaging statements about Rosequist's furniture. 761 F. Supp. 2d at 912. The court rejected the argument, characterizing it as an "overly restrictive reading of the complaint." *Id.* The lower court explained:

> To be sure, the primary "publications" described in the complaint did not, in and of themselves, constitute disparagement. Marketing brochures containing pictures of Rosequist's actual products cannot be said to impugn the quality of her furniture, standing alone. The

> complaint, however, explained that the alleged purpose of those brochures was to entice customers interested in Rosequist's products into MTD's showrooms, where they would then be "steered instead" to the imitation products. The term "steered" fairly implies some further statements, presumably oral, were being made by MTD personnel to convey the information that the imitation products were the Rosequist furniture depicted in the brochures.

*Id.* (emphasis added).

Thus, the lower court concluded that the term "steered" implied that MTD informed customers that the alleged counterfeit items were genuine, and that such statements constituted a publication of disparaging remarks. That is very different from the Ninth Circuit's understanding that "Rosequist's original complaint alleged Taylor's showroom salesmen made statements to Taylor's customers that falsely implied Rosequist's high-end wicker chairs were of poor quality[.]" Am I playing semantics? I don't think so. To conclude that the sale of counterfeit goods is the same thing as falsely implying the poor quality of the genuine goods requires one to first assume the former to mean the latter. The logic is circular. Are we looking at poor draftsmanship? Or, could the Ninth Court have been thinking of something else? It's unclear.

Does the uncertainty create a crack of light by which *Michael Taylor Designs* may be limited in some way? That also is unclear. *But this is clear*: Insurance companies never intended to insure against counterfeiting. Nor did they intend to bankroll (i.e., indemnify) an insured who is caught selling counterfeit merchandise. A hunch tells me that law enforcement would not be thrilled with such an idea, either. Hopefully, that's what the Ninth Circuit had in mind when it gave the grounds it did for affirming the lower court's decision. Questions and comments are welcome.

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