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Tenth Circuit Finds Potential Insurance Coverage for Patent Infringement Claims Under "Advertising Injury" Provisions

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On October 17, the U.S. Court of Appeals for the Tenth Circuit, applying Colorado law, reversed a district court decision and held that a patent infringement claim may constitute an "advertising injury," thereby triggering, at a minimum, defense coverage under a variety of provisions in commercial general liability policies providing coverage for "misappropriation of advertising ideas." *DISH Network Corp. v. Arch Specialty Ins. Co.*, ___ F.3d ___, 2011 WL 4908108 (10th Cir. Oct. 17, 2011). In reaching its decision, the Tenth Circuit reviewed and analyzed an array of insurance coverage cases that had addressed the nature and scope of coverage under the "advertising injury" provisions, which highlight the nuanced issues that arise in coverage disputes in underlying intellectual property lawsuits.

Underlying Patent Infringement Suit and Tender of Claims

This coverage action arose out of an underlying patent infringement suit filed by Ronald A. Katz Technology Licensing, L.P. (the underlying plaintiff) against DISH Network (DISH) in California federal district court. The underlying plaintiff alleged that DISH infringed one or more claims in each of 23 patents by

> making, using, offering to sell, and/or selling . . . automated telephone systems, including without limitation the DISH Network customer service telephone system that allow [DISH's] customers to perform pay-per-view ordering and customer service functions over the telephone.

Id. at *1.

When the suit was brought, DISH sought coverage under primary and excess general liability insurance policies issued between 2001 and 2004 by five different insurers.[1] Each of the policies at issue provided that the insurer would defend and indemnify DISH against claims alleging "advertising injury," defined

1. Defendants Arrowood Indemnity Company and Travelers Indemnity Company of Illinois provided primary insurance policies and defendants XL Insurance America, Inc., Arch Specialty Insurance Company, and National Union Fire Insurance Company of Pittsburgh, Pennsylvania, provided excess coverage.

in pertinent part in most of the policies as an injury arising out of "misappropriation of advertising ideas." When the insurers denied coverage, DISH brought suit seeking (i) a declaration that the insurers had a duty to defend and indemnify DISH in the underlying patent infringement action and (ii) damages for breach of contract and bad faith.

On summary judgment, the U.S. District Court for the District of Colorado, applying Colorado law, dismissed the coverage claims as not falling within the "advertising injury" coverage grant. On appeal, after a comprehensive review of case law throughout the country, the Tenth Circuit reversed and remanded to the district court on the grounds that "the complaint potentially alleges advertising injury arising from the misappropriation of advertising ideas," thereby triggering a defense obligation under the well-established "potential of coverage" standard. *Id.* at *3. The Tenth Circuit did not address indemnity issues or other coverage defenses.

Tenth Circuit's Coverage Determination

At the trial court level, the district court rejected the policyholder's argument that the use of a patented interactive telephone system to advertise could constitute "misappropriation of advertising ideas or style of doing business." The district court found that the underlying complaint did not allege that the patented technologies were themselves "incorporated as an element of [DISH]'s communications and interactions with its customers," and therefore the allegations could not fall within the "advertising injury" provisions.

In reversing the district court, the Tenth Circuit found that patent infringement claims may qualify as an advertising injury if the patent "involve[s] any process or invention which could reasonably be considered an advertising idea." *Id.* at *8. The Tenth Circuit first noted that the "bulk of the published case law addressing patent infringement as advertising injury deals with products the insured happened to advertise, rather than a means of advertising that the insured used to market its own products." *Id.* at *13. The court then found that, in this case, DISH "allegedly committed patent infringement by using RAKTL's technology to sell [DISH]'s own non-infringing satellite television products and services." *Id.* at *14. The *DISH* court distinguished between those cases addressing advertisement of an infringing product (that would not be covered by the "advertising injury" provisions) and those cases addressing infringement of a patented advertising idea itself (that would be covered). *Id.* at *17–18. The court concluded that the scope of "advertising injury" was ambiguous in this context and must be construed in favor of coverage, at least for purposes of triggering a defense obligation. *Id.* at *19.

The Tenth Circuit's pro-policyholder decision follows in the footsteps of two recent cases decided in the Ninth Circuit and the Washington State Court of Appeal that found that where "an advertising technique itself is patented, its infringement may constitute advertising injury." *Id.* at *6 (citing *Hyundai Motor Am. v. Nat. Union Fire Ins. Co. of Pittsburgh, Pa.*, 600 F.3d 1092, 112 (9th Cir. 2010); *Amazon.com Int'l, Inc. v. Am. Dynasty Surplus Lines Ins. Co.*, 85 P.3d 974, 977 (Wash. Ct. App. 2004)).

What to Keep in Mind

In reaching its decision, the Tenth Circuit surveyed numerous cases across the country that have wrestled with the thorny coverage issues arising from patent infringement claims and coverage under "advertising injury" provisions typically found in standard commercial liability policies. These decisions reflect significant disparities in "advertising injury" coverage for patent infringement claims, depending on specific underlying facts and a particular jurisdiction's interpretative principles.

Accordingly, *DISH* is an important reminder that a policyholder faced with a patent infringement lawsuit, or other intellectual property lawsuit, should always consider potentially available insurance coverage under its commercial liability policies. The law in this area is unsettled and will continue to evolve as intellectual property lawsuits raise new and novel issues of insurance coverage.

If you have any questions or would like further information on the issues discussed in this LawFlash, please contact either of the following Morgan Lewis attorneys:

Washington, D.C.
Paul A. Zevnik 202.739.5755 pzevnik@morganlewis.com

Los Angeles
Michel Yves Horton 213.612.7300 mhorton@morganlewis.com

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