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Tenth Circuit "Dishes Out" Important Opinion Addressing The Scope Of Advertising Injury Coverage For Patent Infringement Claims

William P. Shelley • 215.665.4142 • *wshelley@cozen.com*
Matthew N. Klebanoff • 215.665.5575 • *mklebanoff@cozen.com*

On October 17, 2011, the U.S. Court of Appeals for the 10th Circuit issued a much anticipated decision addressing the scope of "Advertising Injury" (AI) coverage for patent infringement claims. *Dish Network Corp. v. Arch Specialty Ins. Co.*, No. 10-1445, __ F.3d __ , 2011 U.S. App. LEXIS 20955 (10th Cir. 2011), *rev'g*, 734 F. Supp. 2d 1173 (D. Colo. 2010). The court, applying Colorado law, reversed an order from the District of Colorado that granted summary judgment to the insurers. In the underlying action, the plaintiff alleged that Dish Network Corp. (Dish) had infringed one or more of 23 patents by "making, using, offering to sell, and/or selling … automated telephone systems, including … the Dish Network customer service telephone system, that allow[s] Dish's customers to perform pay-per-view ordering and customer service functions over the telephone." The 10th Circuit concluded that the record was unclear about how Dish actually used the technologies at issue, but that some of the patent holder's most well-known innovations involved interactive call processing.

Faced with the infringement claims, Dish requested a defense from its insurers, who denied coverage. Dish initiated coverage litigation. The district court applied the following three-part test previously articulated by the 10th Circuit to determine if the insurers owed a defense under the AI coverage: (1) the insured engaged in "advertising" during the relevant period, (2) the underlying complaint alleged a predicate AI offense under the policy, and (3) a causal connection existed between the advertising and the alleged injury suffered by the patent-holder.[1] The district court predicated its grant of summary judgment on its finding that the infringement claims failed to satisfy the "misappropriation of advertising ideas or style of doing business" enumerated AI offense contained in Dish's various primary and excess commercial general liability policies. Reasoning that even if Dish had engaged in advertising, the underlying complaint focused on the use of the patented technologies "as a means of conveying content … [it] does not allege that the patented technologies are themselves incorporated as an element of [Dish's] communications and interactions with its customers." 734 F. Supp. 2d at 1184. Thus, according to the district court, unless the infringing technology *itself* was the subject of the advertisement (*i.e.* the message conveyed as opposed to the means of conveyance), there could be no "misappropriation of advertising ideas."

The 10th Circuit disagreed. Tracking the three-part test described above, the court first had to determine whether patent infringement claims could *ever* qualify as AI under a CGL policy. Noting that the Colorado courts had not addressed the issue, the court looked to authority from other jurisdictions, which it found to be inconsistent. For instance, some courts categorically rule out AI coverage for patent infringement claims while others do not. Importantly, however, the court explained that "[t]he 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 [non-infringing] products." Many of the cases cited by the insurers were distinguished by the court on this basis. The court explained that here, "Dish allegedly committed patent infringement by using [patented] technology to sell Dish's own non-infringing … products and services."

The court primarily relied on *Hyundai Motor Am. v. Nat. Union Fire Ins. Co.*, 600 F.3d 1092 (9th Cir. 2010) and *Amazon.com Int'l, Inc. v. Am. Dynasty Surplus Lines Ins. Co.*, 85 P.3d 974 (Wash. Ct. App. 2004), both of which hold that where an advertising technique *itself* is patented, its infringement may constitute advertising

1 This test was first articulated in *Novell, Inc. v. Federal Ins. Co.*, 151 F.3d 983 (10th Cir. 1998) as a two-part test. In *Dish Network*, the 10th Circuit approved the district court's conceptualization of the test in three-parts — with the threshold inquiry focusing on whether any "advertising" occurred. Previously, under *Novell*, this inquiry was subsumed under the predicate AI offense analysis, and thus the 10th Circuit noted that the tests "[do] not differ substantively."

injury. The court also rejected the insurers' contentions that because Dish's policies did not expressly extend coverage for "patent infringement," while specifically enumerating other intellectual property offenses such as copyright, there could be no coverage for the patent infringement claims. The court rejected that argument, holding that the phrase "misappropriation of advertising ideas," in the context of this case, was at least ambiguous and thus could encompass patent infringement claims.

The court acknowledged the rarity of the situation presented here, in which the "allegedly infringed patent is itself an advertising idea rather than merely an advertised product," but ultimately found the reasoning of *Hyundai* and *Amazon.com* persuasive. Moreover, the court found it significant that one of the insurers included an intellectual property exclusion in its policy, which demonstrated that "the other insurers could have used more precise language if the parties had desired to exclude coverage for patent suits." As such, the court held that patent infringement could potentially qualify as AI "if the patent involves any process or invention which could reasonably be considered an 'advertising idea.'"

Next, the court concluded that the use of the alleged infringing technology satisfied the predicate AI offense of "misappropriation of advertising ideas or style of doing business." Highlighting the insurers' broad duty to defend, the court explained that the complaint "potentially alleges advertising simply because it provides no insight into what 'pay-per-view ordering and customer service functions' entail." That is, the court could not categorically rule out the possibility that such activities involved advertising. Further, the court held that the complaint could be read to allege misappropriation of patented advertising ideas developed "expressly for product promotion and dissemination of advertising information." Significantly, the court held that nothing in the term "advertising ideas" suggested that such ideas must have no potential applications outside the field of advertising. Accordingly, the court rejected the district court's reasoning that Dish could not have misappropriated advertising ideas because it did not incorporate the patented technologies "as a substantive element of its communications and interactions with customers." The court then took a more narrow view of the "style of doing business" AI offense language, which it held did not apply.

Importantly, the court also agreed with the minority view of the district court that advertising could include mere one-on-one solicitation and interaction — rejecting the insurers' arguments that advertising needed to be conducted on a larger scale. The court explained that the automated telephone systems were open to the public and Dish Network subscribers, and could be used to promote goods and services over and over again, even if on a one-on-one basis.

Finally, the court concluded that the third "causation" prong of the test was satisfied. Because the complaint alleged that the injury was continuous and ongoing, the court rejected the insurers' arguments that the infringement was complete "before any customer actually heard the system's recorded material." Therefore, this case was unlike cases in which an insured manufactured an infringing product and then simply advertised such a product. Here, by contrast, the complaint alleged continuous infringement that occurred in the context of the method of advertising itself. The court acknowledged that, on remand, several issues remained to be resolved, including the application of an intellectual property exclusion contained in one of the policies as well as the excess insurers' exhaustion arguments.

Dish Network is significant for several reasons. The court adopted an expansive minority view of the term "advertising," which generally is an undefined term in most CGL policies. Additionally, although the court held that the predicate AI offense of "misappropriation of advertising ideas" could include patent infringement claims (notwithstanding the fact that the policies did not expressly mention patent infringement), it is important to note that the court expressly based its decision on the specific policy language at issue. Indeed, one of the policies specifically excluded coverage for patent claims. Significantly, the court explained that the technology at issue need not be confined or even developed *solely* for purposes of advertising. This potentially opens up the possibility of coverage for patent infringement or other intellectual property claims based on *any* technology that can be used as a means to convey advertising information — including one-on-one solicitation.

To discuss any questions you may have regarding the issues discussed in this alert, or how they may apply to your particular circumstances, please contact William P. Shelley at 215.665.4142 or wshelley@cozen.com or Matthew N. Klebanoff at 215.665.5575 or mklebanoff@cozen.com.

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