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**Patent Infringement Litigation and the Commercial General Liability Insurance Policy: Are Insurers Obligated to Indemnify and Defend Under "Advertising Injury" Provisions?**

PATENT INFRINGEMENT LITIGATION AND THE  
COMMERCIAL GENERAL LIABILITY INSURANCE POLICY:  
ARE INSURERS OBLIGATED TO INDEMNIFY AND DEFEND  
UNDER “ADVERTISING INJURY” PROVISIONS?

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INTRODUCTION

American patent law has historical and constitutional foundations that protect the interests of inventors.<sup>2</sup> A patent confers the right to exclude others from “making, using, selling, offering for sale, or importing” a claimed invention for a period of twenty years from the date the patent application was filed.<sup>3</sup> This exclusionary right serves the dual purpose of encouraging innovation by guaranteeing protection from infringement<sup>4</sup>, while providing inventors a financial incentive to disclose their inventions. In cases of patent infringement, a patent holder may sue an alleged infringer for damages. However, many insurance providers offer commercial general liability insurance as a safeguard against patent infringement liability.

COMMERCIAL GENERAL LIABILITY INSURANCE POLICIES –  
ADVERTISING INJURY CLAUSE

Commercial general liability (“CGL”) insurance developed as a collection of standardized forms produced by the Insurance Services Office, Inc.<sup>5</sup> These policies are designed to protect an insured party from liability for particular damages incurred by third parties arising out of the insured’s business operations.<sup>6</sup> CGL insurance policies generally consist of coverage for “bodily injury,” “property damage,” and “advertising

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2. U.S. CONST. art. I, § 8, cl. 8 (“The Congress shall have power. . . To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”). *See generally* Patent Act of 1790, Ch. 7, 1 Stat. 109-112 (Apr. 10, 1790) (noting that the first U.S. patent statute was passed in 1790, by the first Congress).

3. 35 U.S.C.A. § 154 (West 2012).

4. Infringement is defined as: “An act that interferes with one of the exclusive rights of a patent, copyright, or trademark holder.” BLACK’S LAW DICTIONARY, 796 (Bryan A. Garner ed., 8th ed. 2004).

5. Todd M. Rowe, *Specialty Insurance for Intellectual Property: Additional Security for Owners of Intellectual Property Assets*, 19 DEPAUL J. ART, TECH. & INTELL. PROP. L. 3 (2008) (discussing the history of commercial general liability policies).

6. Shane R. Heskin, *Ch. 4: Commercial General Liability Policies*, in MASSACHUSETTS LIABILITY INSURANCE MANUAL (Ralph T. Lepore III et al. eds., 2011).

injury.”<sup>7</sup> Coverage B of the typical CGL policy is commonly referred to as the “advertising injury clause.”<sup>8</sup> Coverage under this clause can be triggered in the event of patent infringement.

Advertising injury is typically defined as an injury arising out of one or more of the following offenses<sup>9</sup>:

(a) Oral or written publication of material that slanders or libels a person or organization or disparages a person’s or organization’s goods, products, or services;

(b) Oral or written publication of material that violates a person’s right of privacy;

(c) Misappropriation of advertising ideas or style of doing business; and

(d) Infringement of copyright, title, or slogan.

Coverage is triggered when, during the policy period, the insured commits a specified offense, provided that it is committed in the course of advertising goods, products, or services.<sup>10</sup> Misappropriation of a proprietary “advertising idea” committed in the course of advertising by an insured will typically be covered under the CGL advertising injury clause.<sup>11</sup> However, there must be a causal connection between the alleged advertising injury and the insured’s activities before coverage is triggered.<sup>12</sup> There are several elements that the insured must prove for a court to enforce a CGL insurance policy for advertising injury.

The Eleventh Circuit adopted a three-part test to use when analyzing whether a CGL policy provides coverage for advertising injury.<sup>13</sup> Used in this context, “advertising” means “widespread promotional activities usually directed to the public at large.”<sup>14</sup> The test includes coverage for claims that satisfy the following elements: (1) the suit must have alleged a cognizable advertising injury; (2) the infringing party must have engaged in advertising activity; and (3) there must have been some causal connection between the advertising injury and the advertising

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7. Rowe, *supra* note 5.

8. *Id.*

9. J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS, § 33:5 (4th ed. 1998).

10. Ed Esping, et al., *Risks Covered and Exclusions Under Third Party Liability Insurance Policies*, 39A CAL. JUR. 3D INSURANCE CONTRACTS § 522 (2012).

11. *Sentex Systems Inc. v. Hartford Accident & Indem. Co.*, 882 F. Supp. 930, 941 (C.D. Cal. 1995).

12. Esping, *supra* note 10.

13. *State Farm Fire & Cas. Co. v. Steinberg*, 393 F.3d 1226, 1230-31 (11th Cir. 2004) (discussing the three part test used to provide a uniform analysis of an “ever-expanding array of underlying factual allegations” in an advertising injury claim).

14. Esping, *supra* note 10 (noting that this comprehensive definition of “advertising” does not include personal solicitations).

activity.<sup>15</sup> This test is commonly applied by state and federal courts when interpreting advertising injury clauses.<sup>16</sup>

*DISH NETWORK CORP. v. ARCH SPECIALTY INS. CO.*

This case arises from a patent infringement suit brought by Ronald A. Katz Technology Licensing, L.P. (“RAKTL”) against Dish Network Corporation.<sup>17</sup> RAKTL alleged that Dish infringed by “making, using, offering to sell, and/or selling . . . automated telephone systems . . . that allow [Dish’s] customers to perform pay-per-view ordering and customer service functions over the telephone<sup>18</sup>.” At least six of the claims at issue for possible infringement explicitly mention advertising or product promotion.<sup>19</sup>

Applying Colorado law, the Tenth Circuit held that a patent infringement claim against an insured can fall within the applicable CGL policies’ “advertising injury” coverage as long as the advertising technique is patented, even if coverage is not expressly defined as to extend to patent infringement.<sup>20</sup> In determining whether there is a duty to defend, the court applied the “four corners rule,” which involved a comparison of the terms of the policy with the allegations in the underlying complaint.<sup>21</sup>

Insurers have a heavy burden to overcome in order to avoid the duty to defend.<sup>22</sup> An insured need only show that there is a possibility that the underlying claims may fall within the policy coverage to compel a duty to defend.<sup>23</sup> In the case of ambiguous terms, any ambiguity that exists in a policy “must be construed against the insurer and in favor of coverage.”<sup>24</sup> In *Dish* the court sends a powerful message to insurers to carefully construe the language of their policies.

There are some instances in which patent infringement can be a profitable business strategy, particularly if a company knows it has insurance to indemnify and defend any potential infringement litigation.<sup>25</sup> This can be very expensive, and it is not fair to insurance companies. If the infringement is obvious, and the insured is reckless in infringing,

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15. *Steinberg*, 393 F.3d at 1232.

16. *Rowe*, *supra* note 5, at 8.

17. *Ronald A Katz Tech. Licensing, LP v. EchoStar Comm’ns Corp.*, No. C 07 03151 WDB (N.D. Cal).

18. *Id.*

19. *Dish Network Corp. v. Arch Specialty Ins. Co.*, 659 F.3d 1010, 1013 (2011).

20. *Id.* at 1017.

21. *Id.* at 1015.

22. *Id.*

23. *Id.*

24. *Id.* at 1016 (noting that “ambiguity” exists where a policy term may be interpreted in more than one way).

25. Witte, Grace N., *When an Idea is More Than Just an Idea: Insurance Coverage of Business Method Patent Infringement Suits Under Advertising Injury Provisions of Commercial General Liability Policies*, 18 J. INTELL. PROP. L. 631, 634 (Spring 2011).

insurance companies run the risk of insolvency as a result of such an unanticipated risk. This abuse of the system should not be allowed.

Willful infringement of a patented advertising idea should not be covered under a CGL policy. Business owners should not assume that they are covered just because they have CGL insurance. Additionally, insurers should not use boilerplate forms, but rather should carefully define policy limitations with respect to indemnity for advertising injuries.

In the past, courts have been unwilling to compel coverage in the case of patent infringement under the “advertising injury” provisions of a CGL policy.<sup>26</sup> This is due to the fact that the language defining “advertising injury” in most CGL policies did not include the word “patent.”<sup>27</sup> The reasoning behind this past trend favoring insurers is implicit in that if the parties intended to include coverage for patent infringement, the policy would have expressly included this definition in a provision.<sup>28</sup> However, *Dish* sparks a new trend in CGL policy interpretation, favoring insurance holders and a duty to defend in cases of ambiguous policy language.

The problem of who pays for patent infringement can be solved by drafting express, unambiguous insurance policy contracts.<sup>29</sup> However, when an old policy lacking such express language applies, the interpretation of the policy can potentially cost an insurance provider millions of dollars.<sup>30</sup> While interpretation varies depending on the individual case at issue and the court in which it is disputed, the general trend seems to be moving away from construing ambiguity in favor of insurers to instead taking a more literal approach to policy interpretation. As the court noted in *Dish*, in the case of ambiguous terms, any ambiguity that exists in a policy “must be construed against the insurer and in favor of coverage.”<sup>31</sup> This holding emphasizes the importance of carefully construing the terms of CGL policies.

#### CONCLUSION

In patent infringement cases, ambiguous commercial general liability insurance policies are generally construed in favor of the insured. An insurance provider has a duty to defend and indemnify their insured un-

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26. Walker, Charles G., *Insurance Coverage and Intellectual Property Claims*, 32 AUG. TENN. B.J. 14 (1996).

27. *Id.*

28. *Id.*

29. THIELE, ALAN R. ET. AL., *THE PATENT INFRINGEMENT LITIGATION HANDBOOK: AVOIDANCE AND MANAGEMENT* 48 (American Bar Association 2010).

30. Witte, Grace N., *When an Idea is More Than Just an Idea: Insurance Coverage of Business Method Patent Infringement Suits Under Advertising Injury Provisions of Commercial General Liability Policies*, 18 J. INTELL. PROP. L. 631, 634 (Spring 2011).

31. *Dish Network Corp. v. Arch*, 659 F.3d 1010, 1016 (2011) (noting that “ambiguity” exists where a policy term may be interpreted in more than one way).

less coverage is expressly limited in the insurance contract, or there is an obvious case of fraud. The holding in *Dish* furthers the reasoning expressed in a recent number of decisions favoring coverage in the case of ambiguous CGL policy language. *Dish* also serves as a warning to insurance providers to carefully convey the terms of their insurance contracts in express provisions. Outdated boilerplate forms should be discarded, as any ambiguity may result in a large financial risk in the case of patent infringement.