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Seeking Insurance Coverage for Breach of an IP License Agreement

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PRACTICAL POLICYHOLDER ADVICE

Liability insurance policies often contain exclusions related to the alleged or actual infringement of intellectual property rights. These exclusions can be particularly vexing for policyholders as so much of modern commercial litigation has at least some tangential connection to intellectual property rights. Policyholders can and should, however, challenge overly-broad interpretations of intellectual property exclusions and instead seek to have them narrowly construed to apply only to matters explicitly listed therein.

Ongoing litigation in the Northern District of California provides a timely study for policyholders pursuing coverage for a suit alleging a breach of an intellectual property (IP) license agreement. The case is *St. Paul Mercury Insurance Co. v. Tessera, Inc.*, Case No. 5:12-cv-01827 (N.D. Cal.), and two facets of it are particularly interesting. First, the case addresses whether a breach-of-contract suit can also be interpreted as triggering coverage for "libel" or "slander" under a Commercial General Liability (CGL) policy's "Personal Injury Liability" coverage. Second, the policyholder has filed a pending motion to narrowly interpret the scope of an intellectual property exclusion (IP Exclusion). While the District Court has not yet ruled on the motion, whatever it decides may serve as a significant precedent for other policyholders facing similar suits.

The underlying dispute arose from a license agreement between the policyholder, Tessera, Inc., and its licensee, Powertech Technology, Inc. (PTI). Tessera held patents to an encapsulation process for packaging semiconductor chips, and PTI was a chip packager in Taiwan. Under the license agreement, Tessera allegedly permitted PTI to use a patented method of making integrated circuit packages, and also permitted PTI to use or sell those packaged products worldwide. *See Powertech Tech., Inc. v. Tessera, Inc.*, No. 4:11-cv-06121, Dkt. 1, ¶ 1 (N.D. Cal. Dec. 6, 2011).

Tessera later initiated an International Trade Commission (ITC) proceeding against customers of PTI, alleging that the products PTI packaged and sold to its customers infringed Tessera's patents. *See Powertech*, 4:11-cv-06121, Dkt. 124, at p. 2. In response, PTI initiated a separate proceeding in federal court, alleging certain purported breaches by Tessera, including the following: (i) the ITC action breached the license agreement's forum selection clause, which required disputes to be resolved in the Northern District of California; (ii) Tessera did not give PTI 60 days to cure the breach, as required by the license agreement; and (iii) Tessera sought to block the importation of PTI products that it said were not properly licensed. *See Powertech*, 4:11-cv-06121, Dkt. 176, ¶¶ 2–21. Additionally, PTI brought a declaratory judgment claim alleging "patent misuse." *Id*., ¶¶ 56–78.

After being sued by PTI, Tessera tendered its defense to St. Paul Mercury Insurance Company (St. Paul) pursuant to a commercial general liability policy Tessera purchased from St. Paul. *St. Paul Mercury Ins. Co. v. Tessera, Inc.*, No. 5:12-cv-01827, Dkt. 5, ¶ 21 (N.D. Cal. Apr. 13, 2012). In response, St. Paul reserved its rights and eventually brought a declaratory judgment action seeking to establish that it had no duty to defend or indemnify Tessera under the policy. *Id*. The policy itself covered certain categories of "Personal Injury Liability," including "libel" and "slander" in connection with another company's products. *St. Paul Mercury Ins. Co. v. Tessera, Inc.*, 908 F. Supp. 2d 1054, 1057 (N.D. Cal. 2012). In addition, the policy contained an "Intellectual Property" exclusion for "injury or damage . . . that result from any actual or alleged infringement or violation of" a specified set of "rights or laws," including "Copyright," "Patent," "Trade dress," "Trade name," "Trade secret," "Trademark," or "[o]ther intellectual property rights or laws." *See Tessera*, No. 5:12-cv-01827, Dkt. 79-4, at PDF p. 13.

In its summary judgment briefing, Tessera argued that PTI's allegations included a claim for "libel" or "slander" within the terms of the policy's "Personal Injury Liability" coverages. *Tessera*, 5:12-cv-01827, Dkt. 30, at pp. 5-6. According to Tessera, it was alleged to have falsely represented that PTI-packaged products were unlicensed. *Id*. Rejecting Tessera's argument, the District Court held that all of Tessera's allegedly libelous statements were made in the ITC proceeding, and thus were subject to a "privilege" against liability for statements made in litigation. *Tessera*, 908 F. Supp. 2d at 1061. Because there was no possibility of liability, the District Court concluded that the suit did not trigger the policy's "Personal Injury Liability" coverages for "libel" or "slander." Ruling that coverage was not triggered, the District Court declined to address the policy's IP Exclusion as moot. *Id*. at 1063.

On appeal of the summary judgment ruling, the Ninth Circuit reversed the District Court's decision, holding that the District Court had impermissibly considered the merits of the unasserted "libel" or "slander" claim when deciding whether the insurer had a duty to defend: "The existence of a slam-dunk defense, immunity, or privilege with respect to the underlying claim against the insured does not affect an insurance company's duty to defend." *St. Paul Mercury Ins. Co. v. Tessera, Inc.*, 624 F. App'x 535, 536 (9th Cir. 2015). The Ninth Circuit moreover held that it was inappropriate for the District Court to consider the merits even if "Tessera enjoyed a privilege that barred liability." *Id*. As a result, the Ninth Circuit remanded the case to the District Court to decide whether the IP Exclusion applied. *Id*.

On remand, Tessera brought another motion for summary judgment, arguing that the IP Exclusion did not apply. *See Tessera*, No. 5:12-cv-01827, Dkt. 78. As noted above, the IP Exclusion provided that St. Paul would not cover damages resulting from actual or alleged "infringement or violation" of various types of intellectual property rights, including copyright, patent, trade dress, trade name, trade secret, trademark, or "[o]ther intellectual property rights or laws." *Tessera*, No. 5:12-cv-01827, Dkt. 79-4, at PDF p. 13.

In arguing that the IP Exclusion does not apply, Tessera addressed two arguments that St. Paul had made previously in earlier briefing. First, St. Paul had argued that the breach of a patent license agreement constituted a "violation" of "intellectual property rights or laws" under the IP Exclusion. *See Tessera*, 5:12-cv-01827, Dkt. 78, at pp. 5-6. In response, Tessera pointed to case law holding that a license does not transfer patent rights, but rather serves as "a mere waiver of the right to sue by the patentee." *Id*. at pp. 6–7 (*quoting De Forest Radio Tel. & Tel. Co. v. U.S.*, 273 U.S. 236, 242 (1927)). Accordingly, breaching an intellectual property license would either be the breach of the licensor's promise not to sue, or it would be the breach of the licensee's promise to satisfy certain conditions for avoiding a suit. *Id*. at pp. 6–8. Either way, Tessera argues that the issue would arise under state contract law, not intellectual property law.

Second, St. Paul had argued that PTI's claim of "patent misuse" triggered the IP Exclusion. *Id*. at pp. 9-10. On this point, Tessera also cites case law suggesting that the IP Exclusion is not triggered. *Id*. The caselaw holds that "patent misuse" is solely "an equitable defense" alleging that a patent-holder has "impermissibly broadened the 'physical or temporal scope' of the patent grant with anticompetitive effect." *Id*. at p. 9 (*quoting Windsurfing Int'l Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986) (internal quotes omitted)). Thus, the doctrine is focused on the patent holder's alleged anticompetitive conduct – *not* a violation of patent law. Accordingly, Tessera argues it would not violate or infringe any intellectual property laws *even if* it had committed "patent misuse."

Though Tessera's motion is pending and has not yet been ruled upon by the District Court, it provides a studied approach by which a policyholder can closely examine and interpret the allegations in an underlying intellectual property dispute to attempt to preserve coverage notwithstanding an intellectual property exclusion. Moreover, the motion's guiding principle is that exclusions should be read narrowly, and intellectual property exclusions should be treated no differently. Other policyholders would be well advised to take a similar approach when faced with challenges posed by intellectual property exclusions in their own policies.

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