UNITED STATES DISTRICT COURT
DISTRICT OF COLORADO
Judge John L. Kane

Civil Action No. 16-cv-1850-JLK

MINUTE KEY, INC.,

Plaintiff,

v.

THE CHARTER OAK FIRE INSURANCE COMPANY,

Defendant.

ORDER DENYING CROSS-MOTIONS FOR SUMMARY JUDGMENT re DUTY TO DEFEND (Docs. 16, 17)

Kane, J.

Minute Key, Inc., is a vendor in the key copying kiosk business and holds a general commercial liability insurance policy issued to it by Travelers Insurance subsidiary Charter Oak Fire Insurance Company ("Travelers"). After Minute Key became embroiled in a product disparagement lawsuit for making false representations of patent infringement against a competitor, Travelers denied coverage. Minute Key filed suit for breach of insurance contract and declaratory relief. The matter is before me on Minute Key's assertion that the competitor's lawsuit was for "personal" or "advertising" injury subject to coverage under the policy, while Travelers contends the injury arose out of an "actual or alleged [patent] infringement" and therefore falls within the policy's intellectual property coverage exclusion. The parties have agreed to submit the threshold

question of Travelers' duty to defend under the policy for resolution on cross-motions for summary judgment. Applying the standards articulated by the Colorado Supreme Court in *Hecla Mining Co. v. New Hampshire Ins. Co.*, 811 P.2d 1083, 1090 (Colo. 1991) and *Cyprus Amax Minerals Co. v. Lexington Ins. Co.*, 74 P.3d 294, 299 (Colo. 2003), I conclude the competitor's disparagement complaint stated claims at least potentially and arguably within the policy's coverage provisions, triggering Travelers' duty to defend.

BACKGROUND.

The Policy.

For the time period from June 23, 2013 to June 23, 2014 (the "Policy Period"), Minute Key purchased a commercial general liability policy from Travelers (the "Policy") with $1 million in limits for "Personal Injury" and "Advertising Injury." Coverage B, entitled "Personal and Advertising Injury Liability," provides in relevant part that

> *a. We will pay those sums that the insured becomes legally obligated to pay as damages because of "personal and advertising injury" to which this insurance applies. We will have the right and duty to defend the insured against any "suit" seeking those damages . . . .*

Under Section F of Endorsement CG D4 71 02 09, the terms "advertising injury" and "personal injury" are defined as follows:

> ***"Advertising injury:*** *(a) "Means injury, other than "personal injury," caused by one or more of the following offenses:*
>
> *(1) Oral or written publication, including publication by electronic means, of material in your "advertisement" that slanders or libels a person or organization or disparages a person's or organization's goods, products or services, provided that the claim is made or the "suit" is brought by a person or organization that claims to have been slandered or libeled, or that claims to have had its goods,*

products or services disparaged;

"Personal injury": *(a) "Means injury, other than "advertising injury," caused by one or more of the following offenses:*

* **

(4) Oral or written publication, including publication by electronic means, of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or service, provided that the claim is made or the "suit" is brought by a person or organization that claims to have been slandered or libeled, or that claims to have had its goods, products or services disparaged . . . .

Exclusion a. in Coverage B provides that:

a. This insurance does not apply to:

"Personal injury" or "advertising injury" arising out of oral or written publication . . . of material, if done by or at the direction of the insured with knowledge of its falsity.

Exclusion i. in Coverage B provides

i. This insurance does not apply to:

Intellectual Property

"Personal injury" or "advertising injury "arising out of any actual or alleged infringement or violation of any of the following rights or laws, or any other "personal injury" or "advertising injury" alleged in any claim or "suit" that also alleges any such infringement or violation:

* * *

(2) Patent

The crux of the coverage dispute at issue is that the product disparagement lawsuit filed against Minute Key began as a declaratory judgment action brought by Minute Key's competitor seeking a declaration of noninfringement and invalidity under

the Patent Act. Minute Key sought to dismiss the action by signing a covenant not to sue on the patent, but the competitor sought and was granted leave to amend its complaint to assert claims for unfair competition and product disparagement under the Lanham and Ohio Deceptive Trade Practices Acts. The question is whether the disparagement action's genesis in patent infringement allegations made by Travelers' insured against the competitor brings that action into the intellectual property exclusion for purposes of "personal and advertising injury liability" coverage under Part B of the Policy.

The Underlying Lawsuit.

On or about October 13, 2013, The Hillman Group, Inc. ("Hillman") filed a complaint against Minute Key in the United States District Court for the Western District of Ohio (the "Declaratory Judgment Complaint")(Doc. 1-2) seeking a declaration that Hillman's products did not infringe Minute Key's '809 patent relating to self-service key duplication machines. In March 2014, Minute Key provided Hillman with a "covenant not to Sue" with respect to the patent issue and sought dismissal of the Declaratory Judgment Complaint. Rather than dismiss the action, Hillman moved for leave to amend its complaint, which motion was granted.

In its Amended Complaint filed September 4, 2014, (the "Disparagement Complaint") Hillman claimed Minute Key disparaged Hillman's products in connection with a competitive business review process undertaken at mutual client Walmart's behest. According to Hillman, the review resulted in Hillman being awarded Walmart's business, and Minute Key retaliated by "undertak[ing] bad faith business practices" including the making of "false and objectively baseless allegations of patent

infringement in order to recoup the Walmart business that had been lost to Hillman." Disparagement Compl. (Doc. 1-3) ¶ 8. In particular, Hillman alleged that in a September 4, 2013 conversation between Minute Key and Walmart, Minute Key told Walmart that Hillman was infringing its '809 patent "covering a fully-automatic kiosk," and that Minute Key would be obtaining a "cease and desist order prohibiting Hillman from using its FastKey machines." *Id.* at ¶ 16. These "knowingly false infringement allegations," Hillman continued, "were made in an attempt to influence Walmart's selection of a vendor and to obtain Walmart business at the expense of Hillman." *Id.* Hillman asserted two causes of action in the Disparagement Complaint: Violation of the Lanham Act, 15 U.S.C. §1125(A)(1)(B) and violation of the Ohio Deceptive Trade Practices Act, Ohio Rev. Code § 4165.02(A)(10). (Doc. 1-3 at pp. 13, 15). Minute Key tendered the Disparagement Complaint to Travelers for coverage on March 12, 2016.

On April 26, 2016, Travelers apprised Minute Key's broker that it intended to deny coverage on the ground that coverage was precluded under Exclusion i. Compl. (Doc. 1), ¶ 26. Minute Key's broker responded that same day, asking Travelers to consider that Exclusion i. "is to be applied when the [insured] is being accused of patent infringement not when the [insured] is accusing another party of patent infringement." *Id.* ¶ 27. Unpersuaded, Travelers issued of letter declining coverage on April 28, 2016, formally invoking Exclusion i and characterizing the personal injury alleged by Hillman in the Disparagement Complaint as "aris[ing] out of Minute Key's statements that Hillman infringed Minute Key's patent" and therefore excluded from coverage under the Policy. *See id.* ¶ 29 (quoting Letter Declining Coverage, attached as Ex. E (Doc. 1-5) to

Minute Key Compl). Travelers also invoked Exclusion a. for claims "arising out of the insured's intentional conduct," stating that "to the extent Hillman was alleging intentional conduct on that [sic] part of Minute Key," Travelers would "reserve[] its rights to assert Exclusion A. Knowing Violation of Rights of Another as an additional defense to coverage." *Id.* ¶ 30.

LEGAL STANDARD.

When federal jurisdiction is predicated on diversity, the court applies the substantive law of the forum state. In Colorado, an insurer's duty to defend is analyzed under contract interpretation principles. *See Thompson v. Maryland Cas. Co.*, 84 P.3d 496, 501-02 (Colo. 2004)(en banc)(citing *Cyprus Amax Minerals Co. v. Lexington Ins. Co.*, 74 P.3d 294 (Colo. 2003) and *Hecla Mining Co. v. New Hampshire Inc. Co.*, 811 P.2d 1083 (Colo. 1991)). Because insurance policy terms are often imposed on a "take-it-or-leave-it" basis, courts assume a "heightened responsibility" in reviewing them to ensure they comply with "public policy and principles of fairness." *Id.* (citing *Huizar v. Allstate Ins. Co.*, 952 P.2d 342, 344 (Colo. 1998)). Accordingly, ambiguous terms in an insurance policy are construed against the insurer. *Id.*

Under Colorado law, an insurer's duty to defend its insured is broader than its duty ultimately to pay or to indemnify him. *Cyprus Amax*, 74 P.3d at 299. To analyze the insurer's duty to defend, courts consider whether the factual allegations in the underlying complaint trigger coverage under an insurance policy's terms. *Thompson* at 502 (citing *Cyprus*, 74 P.3d at 299 and *Hecla*, 811 P.2d at 1089)). An insurer has a duty to defend where a complaint against its insured "alleges any facts that might fall within the

coverage of the policy," even if allegations only "potentially or arguably" fall within the policy's coverage. *Id.* (quoting *Hecla* at 1089). The duty to defend is "designed to cast a broad net in favor of coverage" and it must be construed "liberally with a view toward affording the greatest possible protection to the insured." *Id.* An insurer seeking to avoid its duty to defend thus bears a "heavy burden." *United Fire & Cas. Co. v. Boulder Plaza Residential, LLC,* 633 F.3d 951, 957 (10th Cir. 2011)(citing *Hecla*, 811 P.2d at 1089). This burden "comports with the insured's legitimate expectation of a defense." *Hecla* at 1090.

For this reason,

> '[an] insurer has a duty to defend *unless* the insurer can establish that the allegations in the complaint are solely and entirely within the exclusions in the insurance policy. An insurer is not excused from its duty to defend unless there is no factual or legal basis on which the insurer might eventually be held liable to indemnify the insured.'

Boulder Plaza, 633 F.3d at 957 (quoting *Hecla*).

DISCUSSION.

In order to determine whether an insurer owes a duty to defend, Colorado courts apply the "complaint" or "four corners" rule. *Boulder Plaza* at 957 (citing *Cyprus Amax,* 74 P.3d at 299). The duty to defend "arises when the underlying complaint against the insurer alleges *any* facts that might fall within the coverage of the policy." *See id.* (citing *Hecla,* 811 P.2d at 1089)(emphasis original); *accord KF 103-CV, LLC v. American Family Mut. Ins. Co.,* 630 Fed.Appx. 826, 829 (10th Cir.2015) (citing *Cotter Corp. v. Am. Empire Surplus Lines Ins. Co.,* 90 P.3d 817, 827 (Colo.2004))(the duty of an insurer who has refused to defend its insured is determined "solely on the allegations contained

in the complaint" against the insured, as read against the coverage of the policy.) Significantly, the insured need only show that the underlying claim may fall within policy coverage; "the insurer must prove it cannot." *Cyprus Amax* at 301.

Under these standards, it is clear Minute Key was entitled to a defense to Hillman's Disparagement Complaint. Travelers' reading of Exclusion i. is colorable -- and could ultimately rule the day -- but it is not conclusive. At a minimum the Policy provisions are ambiguous, permitting Hillman's allegations to be construed as asserting personal injury claims for disparagement that are not swept up by the Intellectual Property exclusion notwithstanding their origin in Minute Key's statements (allegations), to Walmart, that Hillman was infringing its '809 patent.

The crux of the dispute is whether an otherwise covered claim for "personal injury . . . caused by . . . [the] oral or written publication . . . of material that . . . disparages a person's goods, products or services" (Section F of Coverage B) falls within the Intellectual Property (IP) Exclusion by virtue of the fact that the disparagement alleged took the form of false allegations of patent infringement made by the insured, about plaintiff, to a mutual client. Travelers argues for the IP Exclusion's broadest reach: any lawsuit "woven with allegations of intellectual property infringement," that would not have arisen "but for" an allegation of patent infringement, or for which allegations of patent infringement were its "impetus" must, according to Travelers, be excluded from coverage under the Policy's plain language. *See* Def's Mot. Summ. J. (Doc. 16) at 4-5. Travelers cites a series of cases to support this reading, but I find them unpersuasive in light of the clearly contrary directives from the Colorado Supreme Court to "cast a broad

net" in defining an insurer's duty to defend under Colorado law and to construe the duty "liberally with a view toward affording the greatest possible protection to the insured." *Thompson*, 84 P.3d at 502 (citing *Cyprus Amax*, 74 P.3d at 297)(en banc)).[1]

According to Minute Key, both the "personal injury" coverage provision of Section F of the Policy and Exclusion i. for injuries arising out of allegations of "intellectual property" violations must be construed in terms of the tortious conduct being alleged by the plaintiff against the insured, i.e., the claim the insurer is being asked to defend. Hillman was not claiming to have suffered injury as a result of any actual or alleged patent infringement (because Hillman was not the patent holder); it was claiming to have suffered an anti-competitive business injury as a result of Minute Key's *false* allegations of patent infringement. Because Hillman's claim is that Minute Key sought to steal business from it by falsely accusing it of patent infringement, Hillman's injury does not "arise out of" any "actual" or "alleged" patent infringement and is outside the scope of the IP Exclusion.

Minute Key's reading of the Policy's coverage and exclusion provisions is plausible, and it is this plausibility that should have triggered Travelers' duty to defend.

[1] *See PTC Inc. v. Charter Oak Fire Ins. Co.*, 123 F. Supp.3d 206 (D. Mass. 2015)(a Massachusetts case decided under Massachusetts law finding IP exclusion sufficiently expansive and unambiguous to include personal injury arising out "allegations of allegations of copyright infringement"); *Northern Ins. Co. of New York v. Ekstrom*, 784 P.2d 320 (Colo. 1989)(in wholly distinguishable context comprehensive automobile liability insurance, negligent entrustment exclusion would apply in any situation where, "but for" the negligent use of the automobile, no liability would result to the entrustor); and *Management Specialists, Inc. v. Northfield Ins. Co.,* 117 P.3d 32 (Colo. App. 2004)(in action by clients for damages related to insured's failure to purchase insurance, insured's argument that claims arose prior to the lapse of insurance would not bring claims within coverage over exclusion for failure to maintain adequate levels of insurance because lapse of insurance was the "impetus" for the lawsuit against the insured).

That the exclusion contemplates the defense of actual (rather than false) allegations of patent infringement is consistent with the second part of the exclusion language providing that Travelers would not have to defend any "personal" or "advertising" injury alleged in a suit "that also alleges any such infringement or violation." The disparagement suit brought by Hillman did not allege any patent infringement or intellectual property violation on the part of Minute Key because it was Minute Key that held the patent and Hillman who claimed to have stood falsely accused.

In any event, Exclusion i. is ambiguous in the context of facts alleged and this ambiguity also precludes a determination in favor of Travelers. Hillman's injuries arise solidly out of Minute Key's tortious misconduct, not any acts of infringement, and were asserted in language squarely within Coverage B's coverage provisions. That the tortious misconduct took the form of false allegations of patent infringement does not, unequivocally, place it within the intellectual property exclusion. An insurer has a duty to defend *unless* it can establish that the allegations in the complaint are "solely" and "entirely" within the exclusions in the insurance policy. This Travelers has failed to do.

I note that during the course of the parties' briefing on Travelers' duty to defend, Hillman's claims against Minute Key in the Disparagement Complaint went to trial and resulted in a verdict and an award of $164,072 against Minute Key. *See* Decl. of Thomas R. Goots dated 10/7/16 (Doc. 17-2). To the extent Travelers argues the Hillman jury verdict triggers the intentional conduct/"knowing falsity" exclusion of Exclusion a., the point is not well taken. The scope of an insurer's duty to defend is determined solely on the allegations in the underlying complaint, and the insurer may not rely on facts that may

or have been determined in the litigation of that complaint to avoid the duty to defend. *Cotter Corp. v. Am. Empire Surplus Lines Ins. Co.*, 90 P3d. 814, 827 (Colo. 2004)(when an insurer refuses to defend its insured, analysis of the insurer's duty to defend is separate from the determination of the duty to indemnify, and is based solely on the factual allegations in the underlying complaint).

CONCLUSION.

The duty to defend issue raised in the parties' cross-motions for summary judgment (Docs. 16 & 17) is resolved in FAVOR of Minute Key and AGAINST Travelers. Travelers had a duty to defend Minute Key on the Hillman Disparagement Complaint and breached its duty under the Policy by declining to do so. Any remaining issues raised in the parties' motions are DENIED as MOOT. The parties shall CONFER regarding the impact of this ruling and file a Joint Status Report on or before August 22, 2017.

Dated this 11th day of August, 2017

John L. Kane
SENIOR U.S. DISTRICT JUDGE