

# Ninth Circuit Finds Coverage For Patent Claims Under Standard CGL Policies

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The majority of decisions to address insurance coverage for patent infringement lawsuits under conventional comprehensive general liability ("CGL") policies have held that there is no coverage. Therefore, an urban myth has developed over time that insurance coverage is never available for patent suits. The truth, however, is that a bright-line rule does not exist, and the existence or non-existence of coverage depends on the nature of the patent infringement allegations. Last week, the myth that insurance coverage is unavailable for patent infringement claims was disproven by the Ninth Circuit in *Hyundai Motor America v. National Union Fire Ins. Co. of Pittsburgh, PA, et al.*, No. 08-56527 (April 5, 2010), where the court held that the "advertising injury" section of standard CGL policies cover patent infringement suits when the alleged infringing technology is itself used in the advertising, marketing, or sale of a product.

Failure to explore potential insurance coverage, particularly in areas such as patent infringement where insurance frequently is overlooked, can lead to legal malpractice claims. *See, e.g., Darby & Darby v. VSJ Int'l, Inc.*, 95 N.Y.2d 308 (N. Y. 2000); *Jordache Enter., Inc. v. Brobeck, Phleger & Harrison*, 958 P.2d 1062 (Cal. 1998). As a result of the Ninth Circuit's unequivocal finding of coverage for patent infringement claims in *Hyundai Motor*, it is incumbent upon attorneys involved in patent infringement lawsuits to investigate a client's insurance coverage, or at least to alert the client to the potential availability of insurance to cover infringement claims.

## Insurer's Duty to Defend

CGL policies generally require the insurer to defend and indemnify the insured for a covered claim. The duty to defend is often considered the most important part of an insurance policy, because it provides "litigation insurance," i.e., it protects against the ever-spiraling cost of defending against lawsuits, whether legitimate or not. The duty to defend is triggered by allegations in a complaint, which, if proven, would give rise to the possibility of recovery under the policy. *Horace Mann Ins. Co. v. Barbara B.*, 4 Cal. 4th 1076, 1081(1993). The duty to defend does not depend on whether or not the injured party will prevail against the policyholder, because the insurer agreed to defend even if the allegations in the suit are groundless, false, or fraudulent. *Missionaries of the Co. of Mary, Inc. v. Aetna Casualty & Surety Co.*, 155 Conn. 104, 110 (1967). The duty to defend is especially critical in patent litigation, where the cost of defending the case through trial can be many millions of dollars, and expert witness fees alone can sometimes run into the millions.

## Coverage for Patent Infringement Under Advertising Injury

Insurance coverage for patent infringement is potentially provided by the CGL policy under its advertising injury coverage grant. The advertising injury coverage protects policyholders against suits by their business competitors based on advertisements. Coverage for patent infringement

under a CGL policy arises when the policyholder can establish three elements: (1) an advertising activity by the named insured; (2) allegations that fit into one of the covered “offenses” enumerated in the policy; and (3) an injury that arises out of one of those offenses which was committed during the policy period and in the course of the advertising activity. *EKCO Group, Inc. v. Travelers Indem. Co.*, 273 F.3d 409, 412 (1st Cir. 2001).

## Ninth Circuit: Insurer Must Defend Patent Claims Asserted Against Hyundai

In *Hyundai Motor*, the United States Court of Appeals for the Ninth Circuit found the insurer, under a CGL policy, is obligated to defend Hyundai for a patent infringement suit when the patented technology itself was utilized in marketing. Hyundai’s website contained a parts catalogue feature and a “build your own vehicle (“BYO”)” feature. The BYO feature allowed potential customers to navigate menus (to select, for example, colors, engine and transmission types, and options), and in response to the user’s input the BYO feature displayed customized vehicle images and pricing information. Likewise, the parts catalogue feature displayed interactive parts images and pricing information.

Orion IP, LLC (“Orion”), a patent holding company, sued Hyundai, along with 19 other automakers, in the Eastern District of Texas alleging that the parts catalog and the BYO feature infringed two patents covering methods of generating customized product proposals. Hyundai sought a defense from its insurers contending that the alleged patent infringement constituted an advertising injury, but the insurers denied coverage. A jury in the underlying patent case found against Hyundai and awarded Orion \$34 million in damages. Thereafter, Hyundai sued its insurers for breach of their obligation to defend Hyundai in the patent infringement action. The district court granted summary judgment in favor of the insurers because it found that patent infringement is not an “advertising injury,” and Hyundai was “unable to demonstrate a causal connection between its advertising and Orion’s alleged injury.”

The Ninth Circuit reversed the district court, and remanded the case with instructions to grant summary judgment to Hyundai. The court of appeals found that Orion’s complaint indeed alleged advertising activities because Orion viewed the BYO feature as constituting “marketing methods” or “marketing systems.” Next, the Ninth Circuit determined that patent infringement can qualify as an advertising injury if the patent “involve[s] any process or invention which could reasonably be considered an ‘advertising idea,’ ” i.e., if the third party “allege[d] violation of a method patent involving advertising ideas.” Because Orion patented a method “which could reasonably be considered an ‘advertising idea,’ ” and “allege[d] violation of a method patent involving advertising ideas,” Orion’s patent infringement claim alleged “misappropriation of advertising ideas.”

Finally, the Ninth Circuit found that Orion’s complaint established a causal connection between the advertising encompassed by the BYO feature and the infringement because the “use of the patented method was itself an advertisement that caused the injuries alleged in the third-party complaint.” In concluding that the causal connection was established, the court referred to an earlier case where it found that advertising did not cause patent infringement, but noted in a footnote “where an entity uses an advertising technique that is itself patented, a court might possibly hold that the infringement arises out of or is committed in the advertising.” *Iolab Corp. v. Seaboard Sur. Co.*, 15 F.3d 1500, 1507 n.7 (9th Cir. 1994). Like the *Iolab* footnote that foreshadowed coverage for the patent infringement claim presented by Hyundai, the *Hyundai Motor* court also penned a footnote that left open the possibility that the court may find causal connection in situations where “an

advertisement induces another to infringe a patent.”

The *Hyundai Motor* decision provides a compelling argument for coverage under CGL policies for companies facing patent infringement claims for the use of an advertising method that is patented, or the use of an advertisement that induces another to infringe a patent. No circuit court has rejected coverage under similar facts, which leaves the Hyundai Motor decision as compelling authority in any jurisdiction.