McKennonSchindler LLP
Experience. Dedication. Results.

California Court Finds Coverage for Patent Infringement Claims Under CGL Policies

In a case of first impression, the Ninth Circuit Court of Appeals held, for the first time under California law, that patent infringement can be covered as a "misappropriation of advertising ideas" under the advertising injury coverage of a general liability policy, where the patent is on a method of web based advertising.

In *Hyundai Motor America v. National Union etc. et al.*, No. 08-56527 (April 5, 2010) Hyundai Motor America was sued for patent infringement after placing certain “build your own vehicle” features on its website. As a result, Hyundai sought a defense from its liability insurers under a comprehensive general liability policies (“CGL”) issued by National Union Fire Insurance Co. of Pittsburgh and American Home Assurance Co. Hyundai (“Defendants”) claimed that the alleged patent infringement concerned an advertising method and thus, the lawsuit alleged an "advertising injury" as defined in the insurance policy. The insurers disagreed and declined to defend Hyundai. Consequently, Hyundai represented itself in the underlying patent infringement action.

Hyundai later sued Defendants in this diversity action, seeking to recover its defense costs in the earlier third-party action. The district court agreed with Defendants that the alleged patent infringement did not constitute an “advertising injury” under the insurance policy and granted summary judgment to Defendants. The Ninth Circuit reversed and remanded finding that it was covered under the advertising injury coverage of the CGL policy . The court held that to establish a duty to defend for an "advertising injury," the insured must have been engaged in advertising during the policy period when the alleged injury occurred, the allegations must have created a potential for liability under a covered offense, and a causal connection must exist between the alleged injury and the advertising. The court explained that the term “advertising” means “widespread promotional activities usually directed to the public at large,” but it does *not* encompass “solicitation.”

In relying on *Amazon.com International, Inc. v. American Dynasty Surplus Lines Insurance Co.*, 85 P.3d 974 (Wash. Ct. App. 2004), the court distinguished its case with those cases dealing with more traditional types of patent infringement claims that are not covered as follows:

> *We find support for our conclusion in the persuasive authority, Amazon.com International, Inc. v. American Dynasty Surplus Lines Insurance Co., 85 P.3d 974 (Wash. Ct. App. 2004) (applying Washington law).[3] In that case, Ama zon.com used music-preview technology on its website; a company named Intouch sued Amazon.com for patent infringement; and Amazon.com's insurers declined to defend it. Id. at 975-76. In addressing Amazon.com's claim against the insurers, the court held:*
>
> *The misappropriation [of advertising ideas] must occur "in the elements of the advertisement itself-- in its text, form, logo, or pictures--rather than in the product being advertised." [Iolab Corp. v. Seaboard Sur. Co., 15 F.3d 1500, 1506 (9th Cir. 1994).]*
>
> *Patent infringement arising from the manufacture of an infringing product is not an advertising injury even if the infringing product is used in advertising. [Id.] But patent infringement may constitute an advertising injury "where an entity uses an advertising technique that is itself patented." [Id. at 1507 n.5.] That was the essence of Intouch's allegation against Amazon. . . . Intouch alleged that its patented music preview technology was an element of Amazon's advertisement. The Intouch complaint thus conceivably alleged misappropriation of an [advertising] idea . . . .*
>
> *Amazon.com, 85 P.3d at 977 (footnotes omitted; footnote citations in brackets). The same analysis applies here: Hyundai "use[d] an advertising technique that is itself patented," and "[t]hat was the essence of [Orion's] allegation against [Hyundai]." Id.*

This is the first time that a court, interpreting California law, has specifically held that *patent infringement* can constitute an advertising injury that may be covered under a liability policy, where the patent is on an advertising process as opposed to a patent on the product being advertised.

By: Robert J. McKennon
Partner
McKennon|Schindler LLP
384 Forest Avenue, Suite 20
Laguna Beach, California 92651
877-MSLAW20
(877) 675-2920