

# Securing Insurance Coverage For Patent Infringement Lawsuits Under CGL Insurance Policies Could Save Millions

BY: STEVEN P. INMAN AND ROBERT KINDER



Steven P. Inman



Robert Kinder

*Steven P. Inman, II is an associate in Dickstein Shapiro LLP's Insurance Coverage Practice. Mr. Inman has experience representing clients in complex insurance matters, obtaining coverage for intellectual property lawsuits, and assisting in patent litigation matters. He can be reached at (310) 772-8328 or [InmanS@dicksteinshapiro.com](mailto:InmanS@dicksteinshapiro.com). Robert Kinder is an associate in the firm's Intellectual Property Practice. Mr. Kinder has experience litigating cases involving business method patents, including cases that interpret the bounds of patentable subject matter. He has also been involved in insurance coverage matters. He can be reached at (202) 420-3029 or [kinderr@dicksteinshapiro.com](mailto:kinderr@dicksteinshapiro.com).*

## NEVER ASSUME INFRINGEMENT CLAIMS ARE NOT COVERED

False assumptions regarding insurance coverage for patent infringement lawsuits could unnecessarily cost companies millions of dollars in legal fees and damages. A company that does not own a specific intellectual property (IP) insurance policy, and regrettably becomes a defendant in a patent infringement lawsuit, should not assume it lacks coverage for such claims, but should immediately seek the advice of competent insurance coverage counsel.

While separate policies exist specifically for losses related to IP claims, an

insured defendant in an infringement lawsuit is often surprised to learn that its standard commercial general liability (CGL) policy may provide coverage for alleged patent infringement. Traditionally, CGL policies have been perceived as not covering IP infringement claims. Indeed, today most CGL policies contain an exclusion that purports to preclude coverage for claims arising out of the infringement of copyright, patent, trademark, trade secret, trade dress, slogan, or other IP rights. However, as recent case law demonstrates, coverage may exist under CGL policies for lawsuits alleging infringement of a patented advertising method.

## ADVERTISING INJURY COVERAGE UNDER CGL POLICIES

CGL policies are third-party policies, meaning that they provide coverage to the insured for losses in connection with alleged harm to a third party caused by the insured. They traditionally provide broader coverage than other types of liability policies. CGL policies typically provide coverage for bodily injury, property damage, personal injury, and advertising injury. Coverage under these policies for losses incurred in IP lawsuits is most likely to be found within the CGL policy's definition of advertising injury.

Advertising injury is defined in most CGL policies by a list of offenses that typically include: "(1) 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; (2) oral or written publication of material that violates a person's right of privacy; (3) **the use of another's idea in your advertisement**; and (4) infringing upon another's copyright, trade dress, or slogan in your advertisement."<sup>1</sup> As discussed below, it is possible that infringement of a patented process or trademark in advertising constitutes the "use of another's idea in [an] advertisement"

portion of the advertising injury definition, triggering the insurer's duties under the policy.<sup>2</sup> The coverage for infringing upon another's copyright, trade dress, or slogan similarly triggers the insurer's duties with respect to lawsuits for trademark infringement. The focus of this article, however, is on pure patent infringement suits and obtaining coverage for the same. In every case, a causal link must exist between the allegations in the lawsuit and an advertising activity to trigger the insurer's duties under the policy.

## THE INSURER'S DUTY TO DEFEND AND DUTY TO INDEMNIFY

An insurer typically has two principal duties under third-party liability policies, including CGL policies: A duty to defend and a duty to indemnify. The duty to defend obligates the insurer to pay expenses that the insured incurs while investigating and defending a lawsuit. Absent policy language to the contrary, an insurer has a duty to defend the insured in any lawsuit that seeks damages not only covered by the policy, but merely potentially covered by the policy.<sup>3</sup> One potentially covered allegation may trigger the insurer's duty to defend the entire lawsuit.<sup>4</sup> For example, and as explained below, a single patent claim involving advertising in a suit with dozens of patents could potentially trigger the insurer's defense obligations. Further, in determining whether an allegation is potentially covered, the insurer must look not only to the factual allegations in the complaint, but also to extrinsic facts that "reveal a possibility that the claim may be covered by the policy."<sup>5</sup>

Because the duty to defend is triggered by the mere potential for coverage rather than actual coverage, an insurer's duty to defend is broader than its duty to indemnify. The insurer's duty to indemnify is its duty to pay amounts that the insured becomes legally obligated to pay because of occurrences or offenses covered under the policy. This includes amounts from any settlement or judgment that the insurer cannot prove must be allocated solely to uncovered claims.

Courts have long held that trademark infringement claims were covered under CGL policies so long as the allegations related to the insured defendant's advertising activity. Patent infringement claims, however, were often not covered until the recent emergence of business method patents that involve advertising or marketing.

## BUSINESS METHOD PATENTS MAY INVOLVE ADVERTISING OR MARKETING

While patenting methods of doing business is not a new concept, courts were once reluctant to find systems for transacting business patentable. This reluctance was generally repeated throughout the years. With the growth of Internet commerce, businesses began to understand the potential economic incentives that patenting business methods could provide. Soon after the Federal Circuit's decision in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), a surge of business method patents were filed and granted. As the volume of business conducted over the Internet grew, so too did the volume and significance of business method patents. A segment of these patents often involves advertising.<sup>6</sup>

The Supreme Court recently held that business methods could constitute patentable statutory subject matter pursuant to 35 U.S.C. § 101. *Bilski v. Kappos*, 130 S. Ct. 3218 (2010). Recognizing that “[t]echnology and other innovations progress in unexpected ways,” the Court reinforced that Section 101 was a dynamic statute that was purposefully designed to capture new and unforeseeable inventions.<sup>7</sup> Accordingly, methods of advertising, marketing, or otherwise promoting one's business may be patentable so long as the invention falls within the framework set forth in *Bilski*. So the question arises, what types of business method patents could be considered an “advertising injury” when the patented methods are carried out. Two recent cases provide good examples.

### RECENT REGIONAL CIRCUIT DECISIONS OBLIGATE INSURERS TO DEFEND LAWSUITS ALLEGING INFRINGEMENT OF PATENTS INVOLVING ADVERTISING IDEAS

In 2010, the Ninth Circuit examined whether an insurer had an obligation to defend an underlying patent infringement action involving a method of advertising vehicles. *Hyundai Motor Am. v. Nat'l Union Fire Ins. Co. of Pittsburgh, PA*, 600 F.3d 1092 (9th Cir. 2010) (“*Hyundai*”).<sup>8</sup> In *Hyundai*, the court was asked to decide whether a patent infringement suit against Hyundai Motor America (“Hyundai”) constituted an “advertising injury” under a CGL policy. Hyundai originally sought a defense from its liability insurers, but both carriers denied coverage. After the underlying third-party patent suit was resolved—a jury found against Hyundai and awarded

the patent holder \$34 million in damages—Hyundai filed a diversity action against its carriers under California law. Hyundai alleged that “the insurance policy obligated Defendants to defend Hyundai in the patent-holder's action,” and it sought “declaratory relief and its reasonable costs of defense.”<sup>9</sup>

Hyundai maintained a website that included a build-your-own vehicle feature and a parts catalogue feature. The build feature allowed users to answer vehicle preference questions on a menu, such as color and transmission type, and in response to the answered questions, the build feature would create customized vehicle images and pricing information. The parts catalogue feature similarly allowed users to navigate through a series of menus and displayed customized parts images and pricing information.

In the underlying action, two patents were asserted against Hyundai's build and parts catalogue features. The first patent claimed a method of generating customized product proposals for potential customers. Based upon answers to potential customer inquiries, the claimed system was to link product pictures and descriptions, allowing for a computer implemented method of generating a customized proposal. The second patent related to a similar method, but its purpose was to provide parts salespersons with assistance selling parts corresponding to particular products.

The Ninth Circuit explained that there are three required elements to establish a duty to defend for an “advertising injury:”

- (1) [the policyholder] was engaged in “advertising” during the policy period when the alleged “advertising injury” occurred;
- (2) [the patent holder's] allegations created a potential for liability under one of the covered offenses (i.e., misappropriation of advertising ideas); and
- (3) a causal connection existed between the alleged injury and the “advertising.”<sup>10</sup>

The *Hyundai* court examined each of these three elements, explaining that the duty to defend requires a comparison between the allegations of the underlying patent complaint and the terms of the policy at issue.

First, the court noted that “‘advertising’ means ‘widespread promotional activities usually directed to the public at large,’ but it does *not* encompass ‘solicitation.’”<sup>11</sup> The insurers argued that each user's invocation of the build feature on the Hyundai website

constituted an individualized “solicitation” because of the customized proposals. The Ninth Circuit disagreed, holding that the build feature was widely distributed to the public at large, and, as such, the build feature constituted advertising.

Next, the court examined whether the patent infringement claim constituted a “misappropriation of advertising ideas.” Looking to the underlying infringement action, “the proper test is whether the patents at issue ‘involve any process or invention which could reasonably be considered an ‘advertising idea.’”<sup>12</sup> Patent infringement may qualify as an advertising injury if the patent involves any process or invention that could reasonably be considered an advertising idea or, alternatively, “if the third party ‘allege[d] violation of a method patent involving advertising ideas.’”<sup>13</sup> While recognizing that prior decisions had typically “rejected past claims that a patent infringement constitutes an advertising injury,” the court reasoned that “infringement of a patented advertising method could constitute a misappropriation of advertising ideas,” and in this case the court so found.<sup>14</sup>

Finally, the court examined whether a causal connection links the advertisement and the alleged advertising injury. Despite noting that prior decisions found no causal connection when the patents that the insured allegedly infringed concerned the underlying product for sale, the court held that “[w]hen the advertisement itself infringes on the patent, the causal connection requirement is met.” *Id.* at 1102.

In October 2011, the Tenth Circuit also examined whether an insured had a duty to defend an action involving patent infringement allegations. *See DISH Network Corp. v. Arch Specialty Ins. Co.*, 659 F.3d 1010 (10th Cir. 2011). The plaintiff in the underlying patent infringement action alleged that DISH Network infringed numerous patents through use of automated telephone systems that allowed customers to perform pay-per-view ordering and customer service functions over the telephone. Interestingly, out of 23 patents in suit, and hundreds of claims, the court focused on a single claim covering “[a] telephone interface system . . . wherein said selective operating format involves advertising a product for sale.”<sup>15</sup> This case highlights the importance of reviewing the entire scope of each asserted patent in an action to determine whether or not any part of any patent may involve advertising or marketing to the public. The Tenth Circuit reasoned that patent infringement claims may qualify as advertising

injury if the patent “involve[s] any process or invention which could reasonably be considered an “advertising idea.””<sup>16</sup>

The *Hyundai* and *DISH Network* decisions are important for many reasons. Both cases highlight that a policyholder faced with a patent infringement lawsuit should always consider the possibility of insurance coverage under its CGL policy. Next, the analysis to determine whether the insurer’s duties are triggered under the policy will involve detailed examination of both the policy and every patent alleged to be infringed in order to determine whether any process or invention could reasonably be considered an advertising idea. As advertising technology becomes more and more advanced, such as location-based advertising over cell phones, it is reasonable that more and more infringement actions may involve patents that could relate to advertising. Patent and insurance coverage practitioners need to be aware of this potential and develop a seamless working relationship.

## WHAT TO DO AFTER BEING SERVED WITH AN INFRINGEMENT LAWSUIT

In the event that an insured is served with a patent or trademark infringement lawsuit or becomes aware of a potential claim, it should not delay in seeking coverage. We recommend that an insured take the following steps to ensure coverage for patent infringement lawsuits under a CGL policy:

First, even before any suits are filed, an insured should have competent insur-

ance coverage counsel audit the language of its insurance policies. Several firms offer this service. Coverage attorneys will recommend language to narrow exclusions and broaden coverage grants that can be negotiated during the insured’s subsequent policy renewal.

Second, an insured should work through counsel to immediately give notice of any lawsuit or potential lawsuit to its CGL insurer and other insurers. The insured should also have its patent attorney fully examine every patent allegedly infringed to determine whether any patent involves advertising. Insurance coverage counsel should also carefully examine the complaint for any allegations causally related to advertising activities. Prompt notice is often essential because many policies contain time frames within which a claim must be reported, or state that a claim must be reported as soon as possible. Coverage may also be limited to claims reported during a policy period. An insured should also give notice of lawsuits and potential lawsuits regardless of whether it believes that coverage may exist under the policy. Never assume that coverage does not exist.

Lastly, upon receiving service or notice of a lawsuit, an insured should immediately forward a copy of the complaint, as well as a copy of its CGL policy and all other liability insurance policies, excess liability policies, and umbrella policies to insurance coverage counsel, or its risk manager, for an appropriate coverage assessment.

Following these few simple steps to secure coverage under CGL policies for either patent or other IP claims related to

advertising could result in large savings for companies faced with expensive litigation and ultimately benefit shareholders. 

## ENDNOTES

- 1 Commercial General Liability Coverage Form, § V, ¶ 14 (ISO Properties, Inc. 2006) (emphasis added).
- 2 See *Hyundai Motor Am. v. Nat’l Union Fire Ins. Co. of Pittsburgh, PA*, 600 F.3d 1092, 1104, 1100 (9th Cir. 2010) (discussed below).
- 3 *Gray v. Zurich Ins. Co.*, 419 P.2d 168, 176 (Cal. 1966).
- 4 *Buss v. Superior Court*, 939 P.2d 766, 775 (Cal. 1997).
- 5 *Horace Mann Ins. Co. v. Barbara B.*, 846 P.2d 792, 795 (Cal. 1993).
- 6 For example, using LexisNexis TotalPatent™, the following search results were obtained for U.S. patents and applications: 8209 with “advertising” in the title, 1427 with “method of advertising” in the text, and 20,472 with “advertising” in the claims.
- 7 *Bilski*, 130 S. Ct. at 3227.
- 8 The real pioneering decision may have come several years earlier. In *Amazon.com International, Inc. v. American Dynasty Surplus Lines Insurance Co.*, a Washington State court held that an insurer had a duty to defend a patent infringement action involving patents covering interactive music preview technology. 85 P.3d 974, 977 (Wash. Ct. App. 2004) (holding that “patent infringement may constitute an advertising injury ‘where an entity uses an advertising technique that is itself patented’” (citations omitted)).
- 9 *Hyundai*, 600 F.3d at 1096-97.
- 10 *Id.* at 1098.
- 11 *Id.* (citation omitted).
- 12 *Id.* at 1100 (citation omitted).
- 13 *Id.* (citation omitted).
- 14 *Id.* at 1101.
- 15 *DISH Network*, 659 F.3d at 1016 (alterations in original) (quoting claim).
- 16 *Id.* at 1020 (citations omitted).