Insurance Coverage for E-Commerce Website-Related Patent Litigation

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Carmaker Hyundai recently engineered insurance coverage for a patent infringement defense of its website. The Ninth Circuit Court of Appeals held that the "advertising injury" clause of Hyundai's insurance policies covered the cost of defending a patent infringement lawsuit brought in the eastern district of Texas by patent holding company Orion IP, LLC. Orion IP accused Hyundai of infringement based on its Build Your Own ("BYO") vehicle feature on Hyundai's website. *Hyundai Motor America v. National Union Fire Ins. Co., et al.*, __ F.3d __ (9th Cir., April 5, 2010).

Orion IP asserted U.S. Patent No. 5,367,627 (the '627 Patent) and U.S. Patent No. 5,615,342 (the '342 Patent) against hyundaiusa.com and hyundaidealer.com. The patents claim methods of creating customized proposals using a computer to sell parts or vehicles. As an example, claim 1 of the '342 Patent has limitations that generally involve the steps of: presenting to a user of the computer a plurality of questions; inputting into the computer a plurality of customer answers to the questions, the answers specifying a customer's desired product features and uses; storing in the computer product pictures, product environment pictures and text segments; selecting a particular product picture, environment picture and text segment based on the questions; and generating a customized proposal for the customer using the particular product picture, the particular product environment picture and the particular text segment.

Hyundai invoked the "advertising injury" clause of its policies to cover the cost of defending the case. The insurers refused, and Hyundai brought suit against them in federal district court in California.[2] The district court held that allegations of patent infringement were not advertising injury under California law, and granted summary judgment in favor of the insurers. *Id.* * 2.

On appeal, the Ninth Circuit reached the opposite conclusion. The Ninth Circuit opinion reiterated the settled California case law that "the insurer must defend the entire action even when only one of several causes of action is potentially covered." *Foster-Gardner, Inc. v. Nat'l Union Fire Ins. Co.*, 959 P.2d 265, 273 (Cal. 1998). The operative language of the relevant Hyundai insurance policy forms defined "advertising injury" as follows:

> COVERAGE B. PERSONAL AND ADVERTISING INJURY LIABILITY
>
> 1. Insuring Agreement
>
> a. ...We [Defendants] will have the right and duty to defend the insured against any "suit" seeking those damages [caused by, among other things, "advertising injury"]…
>
> b. This insurance applies to:...

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[2] *A judgment in the amount of $34 million, plus pre-judgment and post-judgment interest, and an on-going 2% royalty on post-verdict parts sales was entered against Hyundai in the underlying lawsuit in the E.D. of Texas. Hyundai did not seek liability coverage for the judgment as part of the lawsuit against its insurers. This judgment was then recently reversed by the* Federal Circuit. Orion IP, LLC v. Hyundai Motor America,*_F.3d_(Fed. Cir. 2010).*

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(2) "Advertising injury" caused by an offense committed in the course of advertising your goods, products or services…

SECTION V — DEFINITIONS

1. "Advertising injury" means injury arising out of one or more of the following offenses:

a. 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;

b. Oral or written publication of material that violates a person's right of privacy;

c. Misappropriation of advertising ideas or style of doing business; or

d. Infringement of copyright, title, or slogan.

In accordance with California law, the Ninth Circuit then focused on the Orion IP complaint language for patent infringement alleging that Hyundai was using “methods practiced on its various websites (including but not limited to www.hyundaiusa.com) making and using supply chain methods, sales methods, sales systems, marketing methods, marketing systems and inventory systems covered by one or more claims of the '342 patent [or '627 patent] to the injury of Orion.” The Ninth Circuit held that such “marketing methods” or “marketing systems,” even though they referred to an operational website, nevertheless “squarely” fit within the definition of “advertising” activities. (Id. at * 5).

The Ninth Circuit also analyzed whether the alleged injury satisfied the “misappropriation of advertising ideas” portion of the “advertising injury” definition. The insurers argued that the Hyundai website itself was the focus of the underlying complaint, albeit that it did advertise products, and that a website was not an “idea” that could be misappropriated. The Ninth Circuit disagreed, finding that the accused features of the Hyundai website were separate from the advertised Hyundai products , and that the website features themselves thus constituted a form of advertising. Importantly, this analysis brings the method of advertising, and not just the advertising content, within the scope of the coverage analysis.

Alternatively, the insurers argued that misappropriation of an advertising idea could only be accomplished by Hyundai as a competitor to another company, and that the non-practicing plaintiff entity in the underlying infringement suit did not qualify. The Ninth Circuit found no support under California law for this argument. The Ninth Circuit therefore held that the allegations of infringement by a “marketing method” or “marketing system” were encompassed within the definition of “misappropriation of advertising ideas.”

The key take-away from this decision is that counsel for an accused infringer should evaluate complaints at the initiation of suit for potential coverage for cost of defense or liability for a patent infringement lawsuit under a standard business insurance policy, particularly in cases where e-commerce as well as advertising in general may be involved. Making the assumption that coverage does not exist could be costly, because many policies require prompt notice to the insurer for coverage to be granted. Thus, close scrutiny of an accused company’s insurance policies with respect to both notice requirements and covered suits, including with respect to advertising injury, is warranted even in patent infringement cases.

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