

BUSINESS LITIGATION ATTORNEYS WHO FAIL TO GIVE NOTICE TO THEIR CLIENT’S INSURERS OF THE CLAIMS THEY DEFEND MAY BE HIT WITH LEGAL MALPRACTICE CLAIMS

By David A. Gauntlett¹

WHY PROMPT NOTICE OF BUSINESS LITIGATION

CLAIMS TO INSURERS IS ESSENTIAL

A group of recent decisions, including several as yet unpublished orders by Texas courts, clarify that some claims for trade secret misappropriation, patent and copyright infringement, as well as most trademark infringement claims may fall within the “advertising injury” or “personal injury” coverage of a standard form Commercial General Liability (“CGL”) Insurance Policy. Indeed, some insurers are so concerned about this possibility that they are surreptitiously adding Intellectual Property Exclusion Endorsements into their CGL policies. Even though these endorsements will only have prospective application to standard form "occurrence" based CGL policies, they should be resisted by policyholders, their insurance brokers and legal counsel. In the present soft insurance market, there is no reason that most policyholders should accept this endorsement.

Defense counsel retained by policyholders need not know the substantive law pertaining to coverage as it impacts the lawsuits they litigate. Nevertheless, they should be able to identify when

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to provide notice to an insurer. If they are unsure they should consult coverage counsel. Defense counsel who fail to take any steps to assure that their clients can obtain the benefits of an insurer funding are in an analogous situation to transactional attorneys who sell a business without soliciting counsel on its tax implications. Recent case law supports a finding of malpractice against any counsel defending a suit whom fail to notify their clients of the need to notify their insurer of the claim. Ross v. Briggs & Morgan, 520 N.W.2d 432 (Minn. App. 1994), *rev'd on other grounds*, 540 N.W. 2d 843 (Minn. 1995) (the court of appeals ruled in favor of a former client of Briggs & Morgan in a legal malpractice action arising out of the failure to tender deceptive trade practice and unfair competition claims.); Jordache Enterprises, Inc. v. Brobeck Pheleger & Harrison, 49 Cal. App. 4th 609, 56 Cal. Rptr. 2d 661, Cal. App. 4th (1996), *review granted*, 96 Daily Journal DAR 15387 (Cal. December 20, 1996) (in a case where over \$30M in attorneys' fees were incurred, the court, as well as the litigants, assumed that the failure to tender could constitute malpractice).

If attorneys don't bring these issues to their clients, they can be assured that others will. Many clients are motivated to investigate coverage after entry of judgment against them, or advice from new counsel retained to handle an appeal following an adverse judgment. Clients who learn of this opportunity too late often have the same reaction as the non-plussed drinker of tomato juice who exclaims: **"I could have had a V-8!"**

Business litigators should document their advice to clients to evaluate coverage and or give notice to their insurers to avoid malpractice claims. The following key decision points should be kept in mind in deciding when notice to an insurer of a claim is appropriate:

WHEN NOTICE SHOULD BE PROVIDED TO INSURERS

1. Receipt of Demand to Cease and Desist from Infringement or to License under Asserted IP Rights

Many CGL policies provide a defense for claims which have not yet been formalized into a lawsuit (i.e. defense of any “claims” or “suit”).

2. Receipt of Complaint

Depending upon what state law governs coverage issues, prompt notice to insurers may be essential to retain any right to coverage. Some jurisdictions such as Arkansas, New York, and Louisiana apply a draconian late notice rule which precludes an insurer from ever obtaining the benefits under its policy for a delay in notice of some period of months.

The majority of states including New Mexico, Oklahoma and Texas place a burden upon the insured to show prejudice in order to bar coverage under a policy for late notice.

Even in those states where prejudice must be shown in order to bar coverage for late notice, all attorneys fees incurred prior to the date of notices (i.e. pre-tender fees), may not be recoverable. A recent decision by the Fifth Circuit, applying Texas law, puts it squarely in this camp.

3. Receipt of Counter-Claim / Third-Party Claim

Insurers will refuse to pay the costs of prosecuting a lawsuit. Insurers may have to pay these costs, however, where an insured plaintiff must respond to a counter-claim or third party claim that involves the same factual elements and legal assertions as proof of the affirmative defenses to the complaint. This obligation flows from the principle recognized in virtually all jurisdictions,

including Texas: (*i.e.*, “in for a dime, in for a dollar”).

4. Entry of Judgment

Entry of judgment, either for or against the defendant, does not negate a prior existing duty to defend on the policyholder’s behalf.

5. Notice of Appeal

An insurer which has a duty to defend a lawsuit will also have a duty to fund an appeal, and dependent on the policy language, collateralize a bond to stay enforcement of a judgment on appeal.

NEW AND EXPANDED RISK SPECIFIC

FORMS OF BUSINESS LIABILITY COVERAGE

In narrowing CGL coverage through incorporation of the Intellectual Property Exclusion Endorsement, some insurers have launched an array of new products that potentially cover a variety of intellectual property claims. These include Technology Errors & Omissions, Multi Media, and Patent Defense Policies.

1. *Intellectual Property Defense Policies*

- a. Patent Defense Reimbursement Policy (Evanston Insurance Co.)
Intellectual Property Insurance Services Corporation
10503 Timberwood Circle, Suite 220
Louisville, KY 40223
Telephone (502) 429-8007; Facsimile (502) 429-0994

- b. American International Specialty Lines Insurance Company (“AIG”)
American International Surplus Lines Agency, Inc.
Harborside Financial Center
401 Plaza Three, 4th Floor
Jersey City, NJ 07311
Telephone (201) 309-1100; Facsimile (201) 309-1186

2. *E&O Policies without Express Intellectual Property Exclusion*

- a. 1996 USF&G Technology E&O Policy
United States Fidelity and Guaranty Company
P.O. Box 1138
Baltimore, MD 21203-1138
Telephone (410) 547-3000; Facsimile (410) 578-7368
- b. Technology Package (Admiral Insurance Co.)
Technology Professional Liability & Commercial General Liability Ins. Coverage
Admiral Insurance Co.
P.O. Box 5725
Cherry Hill, NJ 08034
Telephone (609) 429-9200; Facsimile (609) 428-3390

3. *Multi Media Policies*

- a. Media/Professional Insurance
Media/Professional Insurance
2300 Main Street, Suite 800
Kansas City, MO 64108-2404
Telephone (816) 471-6118; Facsimile (816) 471-6119
- b. Chubb Insurance Company
Federal Insurance Company
15 Mountain View Road, P.O. Box 1615
Warren, NJ 07921
Telephone (908) 903-2000; Facsimile (908) 903-2541

INSURANCE COVERAGE FOR PURSUIT OF

INFRINGEMENTS OF INTELLECTUAL PROPERTY RIGHTS

Some new forms of coverage reimburse policyholders for their affirmative costs in pursuing litigation against infringers of their intellectual property rights. Specific insurance may be procured to protect against patent infringement during a pending application period. Patent infringement suits

are on the rise, and problems inherent in the current U.S. Patent search process place many companies at risk. Patent applications are confidential, which means that there is no fool proof way to search on pending patents. Consequently, there is no way of determining whether your client's company may, in the future, be considered a patent infringer. These policies warrant consideration as part of most policyholder's insurance portfolio.

1. Intellectual Property Pursuit Policies

- a. IP Infringement Abatement Insurance (Homestead Insurance Co.)
Intellectual Property Insurance Services Corp. ("IPIS")
10503 Timberwood Circle, Suite 220
Louisville, KY 40223
Telephone (502) 429-8007; Facsimile (502) 429-0994
- b. Patent Infringement Pursuit Coverage (Emerald Surplus, part of Lloyd's of London)
Litigation Risk Management
5300 N. Braeswood Blvd., Suite 301
Houston, TX 77096-3317
Telephone (713) 661-3454; Facsimile (713) 840-8149

2. Intellectual Property Prosecution

There are three (3) points in the intellectual property prosecution process where it makes sense to consider the potential benefits of insurance coverage:

- Filing an application to obtain intellectual property rights (patent, copyright, trademark);
- Issuance of intellectual property rights (patent, copyright, trademark); and
- Licensing of intellectual property rights (patent, copyright, trademark).

In any event, although the ultimate decision to give notice is for the client, the safest course for business litigators is to follow the refrain: "tender early, tender often."