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THE POLICYHOLDER ADVOCATE/IP COUNSELOR NEWSLETTER

Volume 14, Issue 1: Winter 2010

INDEMNITY AGREEMENTS AND THEIR RELATIONSHIP TO INSURANCE COVERAGE IN SECURING FUNDING FOR INTELLECTUAL PROPERTY LITIGATION

I. INTRODUCTION

A. Who Pays for the Litigation of Intellectual Property Disputes

The ultimate payor may not be the party sued in a number of intellectual property disputes. IP lawsuits often present risk transfer opportunities. Implied indemnity is conferred by the Uniform Commercial Code (“UCC”) upon a buyer of goods subject to undisclosed intellectual property claims for copyright, trademark or patent.¹ Express indemnification may modify rights. Inquiry into whether another party may be responsible for litigation expenses in intellectual property lawsuits is often a rewarding pursuit.

Even if no intellectual property insurance coverage is available, Cybernet/Multi-Media policies, extending coverage to a broad range of intellectual property claims (which typically exclude patent infringement lawsuits), or broadly worded Commercial General Liability policies may cover some copyright and trademark infringement lawsuits.

Pursuit of insurance and indemnification rights can permit re-allocation of defense fees or payment for settlements to a third-party payor. Typical documents to evaluate

include: (1) Insurance contracts issued on a “claims made” basis such as Intellectual Property/Multi-Media/Cybernet or Directors & Officers policies, “occurrence” based Commercial General Liability/Umbrella Excess policies; (2) Indemnification agreements; (3) Indemnification rights implied pursuant to the UCC in contracts between parties against whom intellectual property claims are asserted.

B. Who Provides the Defense

A number of issues arise where the payor is an insurer or indemnitor. Who will control counsel? Will conflicts of interest permit the insured/indemnitee to retain counsel at the insurer’s expense? Where a duty to defend is recognized (either under an insurance contract or indemnity agreement) between the indemnitor and indemnitee as to any of these issues, will statutory provisions such as California Civil Code § 2860 limit the rate of reimbursement for selected independent counsel to that paid by the insurer for similar actions in the same community where the underlying action arose? If the standard for reimbursement is reasonableness, surveys authored by publications such as the AIPLA may set the rates for defending an intellectual property lawsuit.

If indemnification is owed, does it create a duty to reimburse the defense fees after a specific self-insured retention (“SIR”) threshold is exceeded? Or is there a duty to both defend and indemnify where selection of counsel may be controlled by the indemnitor? Is there a provision requiring that the counsel be subject to the approval of the indemnitee? If these issues are not addressed can they be negotiated?

If an indemnification obligation exists, is it best to await resolution of underlying litigation so that the existence of the indemnity relationship and factual disputes as to its applicability do not negatively affect that litigation before resolving insurance coverage indemnification disputes?

ALSO IN THIS ISSUE:

PAGE

Publications by David A. Gauntlett

8

Upcoming Seminars on Insurance Coverage and IP

8

THE POLICYHOLDER ADVOCATE/IP COUNSELOR

C. Can Coverage Issues Be Resolved Where the Underlying Action Proceeds?

These same issues may arise in suits against an insurer. Many jurisdictions following the *Montrose* doctrine in California stay the coverage action and require the insurer to provide a defense, deferring its right to avoid a defense duty and/or seek reimbursement for fees incurred until after the underlying suit is over.²

Other forums like Illinois do not permit reimbursement but permit a declaratory relief action to proceed while the underlying suit is pending. Such forums avoid the potential for inconsistent results in the coverage versus underlying action by limiting coverage analysis to the allegations of the complaint and policy.³

Recurring issues include:

(1) Where the indemnity agreement appears to provide the indemnitor the right to select counsel, but that counsel is not deemed acceptable to the indemnitee, or different rights from those sought to be vindicated by the indemnitor are at issue, who controls counsel?

(2) Can a cost-sharing arrangement be negotiated, leaving the issue of who will pay what portion of the litigation expense to resolution following the conclusion of the underlying suit?

(3) Are there any specific reporting or cooperation requirements that must be fulfilled?

Even corporations with a significant SIR (self-insured retention) often report when the defense fees exceed 50% of the amount of the self-insured retention. Failure to do so may justify the insurer's denial of coverage benefits. Risk management and litigation counsel should therefore align their reporting activities to make sure that these reporting thresholds are met. The same considerations apply to an indemnity agreement although typically such agreements are less detailed in addressing these issues and vest less control with the indemnitor.

D. Drafting Narrower Indemnity Agreements Defining Indemnitee Rights in Intellectual Property Lawsuits

One curious aspect of the indemnification for intellectual property claims (especially those for patent infringement) is that it is far easier to procure a broad indemnity agreement than an insurance policy insuring patent infringement risks. The carriers, who understand what the risks of litigation expense and indemnity are, rarely place themselves in a position where they can be responsible for

such expenses. Parties negotiating an indemnity provision where patent rights are at issue should be equally wary since the monetary consequences to indemnitors can be significant.

Exposure for patent indemnity claims can be especially problematic where a sizable settlement is negotiated by the claimant and indemnitee and then enforced by the indemnitee against an indemnitor who may not have directed the defense. How vigorously was the suit litigated? Was the sum settled for reasonable? Was the indemnitor not apprized of settlement negotiations? Did it have sufficient meaningful information to consent to a proposed settlement?

II. INDEMNIFICATION FOR WILLFUL PATENT INFRINGEMENT MAY BE AGAINST PUBLIC POLICY

A. Is a Willful Patent Infringement Finding Based on the Same Standard as an Award of Punitive Damages?

Whether the purpose of an increased damage award should be exemplary (i.e., to punish and deter flagrant acts of patent infringement) or compensatory (i.e., to compensate the patent owner for measurable expenses or losses) is a long-standing controversy in the law.⁴

In *In re Seagate Technology, LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007), the court clarified that willful patent infringement must require a showing of objective recklessness, not mere negligence, thereby overruling an earlier decision, *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983).

The court emphasized there was no affirmative obligation to obtain an opinion of counsel in this connection. Recklessness was sufficient to support a statutory award of damages for copyright infringement based on willful conduct,⁵ as well as in common law usage "which treated actions in 'reckless disregard' of the law as 'willful' violations."⁶

B. New York's Application of Public Policy to Bar Coverage for a Punitive Damage Award Recognizes a Distinction Where the Award Is Compensatory As Well As Punitive in Character

1. New York Case Law on Insurance and Indemnity Suggests that Public Policy Would Bar Indemnification for Actions Undertaken with an Intent to Injure

THE POLICYHOLDER ADVOCATE/IP COUNSELOR

New York cases making reference to the New York standard for an award of punitive damages are in accord with other civil law generally (which would permit such a finding based on recklessness). As “objective recklessness” is the basis for an award of willful infringement damages⁷ and as public policy in New York in the various New York cases finding punitive damages unenforceable will not permit that award to be insurable, these cases thus support a bar to indemnification.

In a seminal insurance coverage case the New York Court of Appeals stated:

We emphasize, however, that if punitive damages are awarded on any ground other than intentional causation of *injury* – for example, gross negligence, recklessness or wantonness – indemnity for compensatory damages would be allowable even though indemnity for the punitive or exemplary component of the damage award would be barred as violative of public policy. Where no finding of an intent to *injure* has been made, nothing in the public policy of this State precludes indemnity for compensatory damages flowing from a defendant’s volitional act.⁸

2. New York’s Application of Public Policy to Bar Coverage for New York Punitive Damage Awards

Subsequent New York cases analyzing punitive damage awards under New York law have reached the same result. Addressing other forms of triable damage awards and analogizing them to punitive damage awards, a New York case found the same public policy rationales implicated. Thus, New York courts have regularly found punitive damage claims under New York law to be uninsurable.

3. New York’s Application of Public Policy May Not Always Bar Coverage for Punitive Damage Awards Based on Non-New York Law

As the Court of Appeals of New York in *Shearson Lehman* subsequently observed, “We have consistently adhered to the view that the purpose of punitive damages is solely to punish the offender and to deter similar conduct on the part of others. Punitive damages are not intended to compensate or reimburse the plaintiff.”⁹

However, there is one caveat. Only when the damage award is purely punitive is indemnification precluded by New York policy.¹⁰ *Shearson Lehman* did not address the

question of whether a lesser and secondary component of an award, not characterized as punitive damages *per se*, may make them an appropriate candidate for inclusion within the same statutory bar as applied to traditional punitive damage remedies.

III. INDEMNIFICATION EXPOSURE AND ITS DISTINCT ASPECTS VIS-À-VIS INSURANCE COVERAGE

Express indemnity “refers to an obligation that arises by virtue of express contractual language, establishing a duty in one party to save another harmless upon the occurrence of specified circumstances.”¹¹ A clause which contains the words “indemnify” and “hold harmless” is an indemnity clause. It may obligate the indemnitor to reimburse the indemnitee for any damages the indemnitee becomes obligated to pay the third person.¹²

Another option for the indemnitor is simply to fund the defense going forward. With assumption of the duty to defend comes control over settlement to the extent it requires a monetary payment. Such a course may be preferable to allowing the underlying action to be adjudicated for several reasons.

First, to the extent any of the claims are potentially covered by insurance, the breadth of the duty to fund a settlement is typically broader than the duty to indemnify a judgment where the basis for relief is definitively spelled out and proof of actual vs. potential coverage is required.¹³

Second, an indemnitor may have a wider array of challenges to an indemnitee’s claims. Where grounds for denial of indemnification are based on lack of notice or willful infringement, these defenses to indemnification can be interposed more easily following an adjudication since the facts as proven at trial may preclude use of these theories to bar indemnification.

Third, an indemnitor that fails to allow settlement may be exposed to liability in excess of that contemplated by the contract where its failure to settle subjected the indemnitee to greater monetary risks than could have been achieved by a settlement.¹⁴

Unlike an insurance policy, in the absence of a specific provision in an indemnity agreement, an indemnitee is not required to notify the indemnitor, defend, or even give notice of a claim as a condition precedent to recovery under the indemnity agreement.¹⁵ The courts will not infer a notice requirement as a condition precedent to a right to recovery on an indemnity contract where there is no provision requiring it, except in those jurisdictions like New York¹⁶ that require timely notice as an implied provision of the contractual agreement to defend.¹⁷

THE POLICYHOLDER ADVOCATE/IP COUNSELOR

IV. THE EFFECT OF DELAY IN NOTICE TO THE INDEMNITOR BY THE INDEMNITEE LITIGATING A PATENT INFRINGEMENT ACTION FOR WHICH IT SEEKS INDEMNIFICATION RIGHTS

A. The Prejudice Standard

Applying a prejudice requirement to an indemnity agreement, a New York federal district court found no indemnity due as a consequence of a delay in notice to the indemnitor of a claim against the indemnitee.¹⁸ The indemnity agreement did not include a specific prejudice requirement regarding the effect of late notice to the indemnitor of a claim against the indemnitee with respect to the indemnity agreement, and case law suggested that “[a] contractual duty ordinarily will not be construed as a condition precedent absent clear language showing that the parties intended to make it a condition.”¹⁹

While noting that there was a possible analogy to New York insurance law, which makes notice a condition precedent to coverage, the court determined that the actual prejudice standard would apply.²⁰ Absent a showing of prejudice, which the indemnitor did not attempt to make, there was no bar to coverage for late notice on the facts before the court.²¹

In *LTV Corp.*, a Chapter 11 debtor brought an adversary proceeding to recover the amount due under a pre-petition purchase agreement for the debtor’s steel mill.²² The purchaser counterclaimed to recover the costs of correcting environmental violations. The Court of Appeals reversed a finding by the district court finding no right to indemnity, in part because the purchaser failed to comply with the notice requirements precluding the purchaser from recouping its costs of correcting environmental violations. Prejudice arose because the indemnitor had no meaningful opportunity to evaluate the case.²³

Applying a prejudice standard to the enforcement of an indemnity agreement, District Judge Randa held that the seller’s eight-year delay in giving notice to its insurer that a popcorn popper had allegedly caused a fire in the home and its nearly five-year delay in notifying the insurer that seller’s homeowners’ insurer had filed a subrogation action against the seller was unreasonable and presumptively prejudicial.²⁴

The seller breached an implied condition of timely notice in its indemnity agreement with a manufacturer and thus forfeited its right to indemnity. Under Wisconsin law there is a rebuttable presumption of prejudice where more than a year of delay arises, shifting the burden of proof to the insured to show an absence of prejudice.²⁵

The *West Bend* insured could not meet its burden as undisputed facts evidenced that delay well beyond that date occurred. The absence of an opportunity to evaluate or investigate by the insurer until eight years after a fire was key to the court’s decision. By the time this matter came to the attention of Royal’s claims representative, the case “was settled, done deal, check was being issued.” *Id.* at 824. There was an implied condition to provide notice in an indemnification context, even absent its specific contractual requirement.²⁶

Jurisdictions following the implied duty to notify discussed by the *West Bend* court applying Wisconsin law include *Ohio, Alabama, Washington, Massachusetts, and California.*²⁷

B. The Strict Contractual Interpretation Standard

In a case directly addressing indemnification for patent infringement claims, the seller of a wood polymer decking business did not suffer actual prejudice. Nonetheless, a court applying Virginia law found that the buyer waived its contractual right to indemnification for losses sustained in defending a patent infringement claim because the buyer did not timely notify the seller of the initial claim. This despite an allegation that delay in giving notice deprived the seller of an opportunity to negotiate or resolve the matter short of trial and even though the infringement claim was made against the seller prior to the sale of the business and the seller made no effort to settle nor was notice given within two weeks of the commencement of the suit allowing time for settlement discussions.²⁸

Applying Virginia law, a federal district court found that even if an indemnitee’s failure to notify the indemnitor of a claim would be subject to a prejudice standard (which the court did not believe accurately reflected Virginia law), the facts evidenced prejudice, which precluded indemnification.²⁹ The indemnitor was deprived of the opportunity to structure license agreements and was subject to greater damage exposure. The indemnitor had no chance to avoid this damage exposure for the sale of the products in a marketplace in greater volume than had been originally contemplated. The court also specifically rejected arguments of estoppel or waiver as grounds for precluding the defense of lack of timely notice on the pertinent facts.³⁰

The same result arose in cases following the law of *New York, Minnesota and Florida*, as well as *Michigan.*³¹

THE POLICYHOLDER ADVOCATE/IP COUNSELOR

V. CONCLUSION

In some jurisdictions an indemnitor can be liable for the full cost of litigating a patent infringement lawsuit as well as a settlement entered therein, even though it did not receive notice of the suit from the indemnitee. This is a consequence of a poorly drafted indemnity provision in a contract where intellectual property claims may impact the rights transferred from one party to another. This situation can arise in a variety of acquisition contexts, as well as in a mere sale of goods where an indemnity agreement changes the UCC provision that requires indemnification for all intellectual property risks. Any indemnity provision worth including should be carefully worded to limit the exposure of an indemnitor who may otherwise find itself taking on obligations that professional indemnitors, such as insurers, would rarely embrace.³²

¹UCC § 2-312 (“(2) Unless otherwise agreed ... seller ... warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like but a buyer that furnishes specifications to the seller must hold the seller harmless against any such claim that arises out of compliance with the specifications. (3) A warranty under this section may be disclaimed or modified only by specific language”).

²*Montrose Chem. Corp. v. Superior Court*, 6 Cal. 4th 287, 301, 302 (1993) (“To eliminate the risk of inconsistent factual determinations that could prejudice the insured, a stay of the declaratory relief action pending resolution of the third party suit is appropriate when the coverage question turns on facts to be litigated in the underlying action. ... [W]hen the coverage question is logically unrelated to the issues of consequence in the underlying case, the declaratory relief action may properly proceed to judgment.”).

³“The general rule of estoppel provides that an insurer which takes the position that a complaint potentially alleging coverage is not covered under a policy that includes a duty to defend may not simply refuse to defend the insured. [T]he insurer has two options: (1) defend the suit under a reservation of rights or (2) seek a declaratory judgment that there is no coverage. If the insurer fails to take either of these steps and is later found to have wrongfully denied coverage, the insurer is estopped from raising policy defenses to coverage.” *Employers Ins. of Wausau v. Ehlco Liquidating Trust*, 186 Ill. 2d 127,150-51 (1999) (citing *Waste Management, Inc. v. International Surplus Lines Ins. Co.*, 144 Ill. 2d 178, 207-08, 579 N.E.2d 322 (1991); *Clemmons v. Travelers Ins. Co.*, 88 Ill. 2d 469, 475, 430 N.E.2d 1104 (1981); *Murphy v. Urso*, 88 Ill. 2d 444, 451, 430 N.E.2d 1079 (1981); *Thornton v. Paul*, 74 Ill. 2d 132, 145, 159, 384 N.E.2d 335 (1978)).

⁴*Cooper Indus., Inc. v. Leatherman Tool Group, Inc.*, 532 U.S. 424, 437 n.11 (2001), *on remand*, 285 F.3d 1146 (9th Cir. 2002); *but see Sensonics, Inc. v. Aerosonic Corp.*, 81 F.3d 1566, 1574 (Fed. Cir. 1996) (Damages for willfulness are punitive and are thus levied against parties found to willfully infringe.).

⁵*Seagate*, 497 F.3d at 1370, citing *Yurman Design, Inc. v. PAJ, Inc.*, 262 F.3d 101, 112 (2d Cir. 2001). *See also Zurich Ins. Co. v. Killer Music Inc.*, 998 F.2d 674, 678-79 (9th Cir. (Cal.) 1993) (“[C]opyright infringement is not one of those activities that is ‘willful’ per se. Zurich admits in its brief that ‘[c]opyright infringement can be innocent or intentional.... Innocent infringement may be covered.’ ... ‘[Zurich] must show that information available to it at that time demonstrated that [Pfeifer] was required to establish that [Killer Music] intended him harm, not merely that it intended to act.’”).

⁶*Seagate*, 497 F.3d at 1370-71, quoting *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47, 127 S.Ct. 2201, 2209, 167 L.Ed.2d 1045 (2007), which cited *Trans World Airlines, Inc. v. Thurston*, 469 U.S. 111, 128, 105 S. Ct. 613, 83 L. Ed. 2d 523 (1985), citing W. Keeton, D. Dobbs, R. Keeton, & D. Owen, *Prosser and Keeton on Law of Torts* § 34, p. 212 (5th ed.1984).

⁷*In re Seagate Technology, LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

⁸*Public Service Mutual Ins. Co. v. Goldfarb*, 53 N.Y.2d 392, 400-01 (1981) (citation omitted).

⁹*Zurich Ins. Co., v. Shearson Lehman Hutton, Inc.*, 84 N.Y.2d 309, 316 (1994) (citations omitted).

¹⁰“The trial court indicated at the charge conference that her charge on punitive damages would track this statutory language [i.e., that of Ga. Code Annot. § 51-12-5[a]]. Inasmuch as the court charged the jury that the punitive damage award could include both punitive and compensatory elements and there was evidence to support each, the plaintiff must supply coverage. . . . On the record before us, it appears that the damages awarded in the *Simon* action also had a compensatory purpose and plaintiff must indemnify its insured for them.” *Id.* at 316-17, citing *Home Ins. Co. v. American Home Prods. Corp.*, 75 N.Y.2d 196, 551 N.Y.S.2d 481, 550 N.E.2d 930 (1990).

The Georgia statute analyzed in *Shearson Lehman*, the character of an aggravation claim under Georgia law, would be compensatory or not. Instead of giving the charge to the jury in the alternative, the court suggested that both elements would be included and the subsequent award was apparently based on that basis. *Id.* at 316-17.

¹¹*Prince v. Pacific Gas & Elec. Co.*, 45 Cal. 4th 1151, 1158 (2009) (internal quotation marks omitted).

THE POLICYHOLDER ADVOCATE/IP COUNSELOR

¹²*Trust One Mortg. Corp. v. Invest America Mortg. Corp.*, 134 Cal. App. 4th 1302 (2005).

¹³*New Century Mortgage Corp. v. Great Northern Ins. Co.*, No. 07-640-GMS/MPT, 2009 WL 3444759, at *7 (D. Del. Oct. 26, 2009) (“**5. Settled in Reasonable Anticipation of Liability for a Covered Loss** . . . In *U.S. Gypsum*, the Appellate Court of Illinois articulated that a settlement was reasonable ‘so long as a potential liability on the facts known to the insured is shown to exist, culminating in an amount reasonable in view of the size of possible recovery and degree of probability of claimant’s success against the insured.’ The insured has the burden of proving reasonableness through ‘the pleadings, the pretrial discovery, evidence and testimony presented . . .’ An insured can still satisfy this burden without necessarily proving its own liability. In *Binney & Smith*, for example, the insured consistently argued that the underlying actions were without merit. Nonetheless, the insured offered the affidavit of its in-house counsel who explained the inherent risk of proceeding to trial and the significant liability the company faced.”).

¹⁴*Carey Transp., Inc. v. Greyhound Corp.*, 80 B. R. 646 (S.D.N.Y. 1987).

¹⁵*Boston & M.R.R. v. Bethlehem Steel Co.*, 311 F.2d 847 (1st Cir. (Mass.) 1963).

¹⁶*Fontenot v. Mesa Petroleum Co.*, 791 F.2d 1207 (5th Cir. (La.) 1986).

¹⁷*West Bend Co. v. Chiaphua Indus., Inc.*, 112 F. Supp. 2d 816 (E.D. Wis. 2000) (As the duty to provide prompt or reasonable notice is rooted in the duty of good faith and fair dealing, implied as part of every contract under Wisconsin law, an indemnitee that fails to provide reasonable notice breaches a condition of the contract and forfeits its right to indemnification.).

¹⁸*Red Ball Interior Demolition Corp. v. Palmadessa*, 947 F. Supp. 116, 123 (S.D.N.Y. 1996).

¹⁹*Red Ball*, 947 F. Supp. at 123, quoting *Unigard Security Ins. Co. v. North River Ins. Co.*, 79 N.Y.2d 576, 581, 594 N.E.2d 571 (1992) (citing cases under New York law).

²⁰*Id.* at 123-24 (“[D]espite some superficial similarities between the indemnification agreement and insurance contracts, this Court declines to create a new exception to the general rule that contractual obligations are to be construed as independent promises, rather than conditions precedent to performance. The New York Court of Appeals has declined to extend the insurance exception to reinsurance contracts. . . . The court reasoned that a reinsurer, unlike a primary insurer, is not obligated to the insured to provide a defense against or to investigate a claim, so that notice is not essential to permit the reinsurer to fulfill its contractual obligations. . . . Failure to provide prompt notice to a reinsurer does not excuse the reinsurer’s performance, unless the reinsurer demonstrates actual prejudice. [*Unigard*] at 584, 584 N.Y.S.2d 290, 594 N.E.2d 571. See also *American Home Assurance*, 219 A.D.2d at 149-50, 641 N.Y.S.2d 241 (declining to extend exception to excess insurance contracts).” (citation omitted)).

²¹*Id.* at 124 (“Here, John has no obligation to litigate on Daniel’s behalf (unless Daniel expressly requests that he do so). John’s right to contest a claim, like the reinsurer’s right to participate in the litigation and investigation of a claim, is insufficient to create a presumption that prompt notice is a condition precedent to John’s obligation to pay. Because John has failed to allege any prejudice from the delay, Daniel’s allegedly late notice, even if it did not satisfy his obligation to provide notice ‘as soon as practicable,’ does not excuse John from paying the claim.”).

²²*LTV Corp. v. Gulf States Steel, Inc. of Ala.*, 969 F.2d 1050 (D.C. Cir. 1992).

²³*Id.* at 1062 (“LTV was prejudiced by GSSI’s failure to give notice. In the leading case on notice, the Ohio Supreme Court explained why the failure to provide timely notice in an insurance contract was prejudicial: ‘First, [the delay] deprived [the insurer] of any meaningful opportunity to investigate the accident and determine the relative fault of the parties involved; and second, because the deadline for filing claims against the [deceased’s] estate had passed, [the insurer] lost any ability to assert a claim against the estate. Thus we find that appellants’ failure to provide timely notice was prejudicial to appellee and its right to subrogation.’ *Ruby v. Midwestern Indem. Co.*, 40 Ohio St.3d 159, 532 N.E.2d 730, 732 (1988). LTV has been prejudiced in much the same way. In *Ruby*, the claimants delayed notifying their insurance company for only eleven months. In this case, the record reveals that GSSI informed LTV of the extent of its environmental corrections when it filed its statement of costs in anticipation of the evidentiary hearing on July 15, 1991; this was several years after the obligations to make the repairs arose.”).

²⁴*West Bend Co. v. Chiaphua Indus., Inc.*, 112 F. Supp. 2d 816 (E.D. Wis. 2000).

²⁵*Id.* at 822, citing *Gerrard Realty Corp. v. American States Ins. Co.*, 89 Wis. 2d 130, 277 N.W.2d 863 (1979), quoting 5A APPLEMAN, INSURANCE LAW AND PRACTICE, §§ 3501-3503.

²⁶*Id.* at 826, 827 (“Relying upon basic principles of contract law, other courts have found an implied obligation on the part of the indemnitee to provide reasonable notice, even when the contract does not contain a specific notice requirement. *Cochrane Roofing & Metal Co. v. Callahan*, 472 So.2d 1005, 1007 (Ala.1985); *Town of Fairfield v. D’Addario*, 149 Conn. 358, 179 A.2d 826, 828-29 (1962). Notice of some kind is an implied condition of the indemnification contract for the simple reason that the indemnitor cannot defend or indemnify in connection with a claim that it does not know about. . . . The duty to provide *prompt* or *reasonable* notice is rooted in the duty of good faith and fair dealing, which in Wisconsin is part of every contract. *Gabe’s Construction*, 582 N.W.2d at 121. Fairness requires prompt notice so that an indemnitor may not only respond to a claim, but also protect its interests as the party ultimately paying

THE POLICYHOLDER ADVOCATE/IP COUNSELOR

the bill. When the indemnitee fails to provide reasonable notice, it has breached a condition of the contract and forfeited its right to indemnification. Here, West Bend forfeited its right to indemnification from Chiaphua by waiting nearly eight years to notify Chiaphua concerning the Root-Palazzolo matter. Accordingly, summary judgment will enter in Chiaphua's favor.”).

²⁷**Ohio:** *Bank One, N.A. v. Echo Acceptance Corp.*, 522 F. Supp. 2d 959 (S.D. Ohio 2007); **Alabama:** *In re Worldcom, Inc.*, 270 Fed. Appx. 59 (2d Cir. (N.Y.) 2008) (applying Alabama law); **California:** *Liberty Mut. Ins. Co. v. Byerly*, 299 F. Supp. 213 (E.D. Wis. 1969) (applying California law); **Massachusetts:** *American Fiber & Finishing, Inc. v. Tyco Healthcare Group, LP*, 273 F. Supp. 2d 155 (D. Mass. 2003); and **Washington:** *In re Paragon Trade Brands, Inc.*, 324 B.R. 829 (Bankr. N.D. Ga. (Atl. Div.) 2005) (applying Washington law).

²⁸*Trex Co., Inc. v. ExxonMobil Oil Corp.*, 234 F. Supp. 2d 572 (E.D. Va. 2002).

²⁹*New Viasys Holdings, LLC v. Hanover Ins. Co.*, No. 2:06cv488, 2007 WL 783179, at *4 (E.D. Va. March 12, 2007) (“[E]ven were the defendant required to demonstrate prejudice from the plaintiff’s failure to provide it with timely notice, the defendant has indicated that the thirteen-month delay hindered ‘its ability to investigate, evaluate and mitigate the issues and potential damages, to preserve evidence, and to adequately and immediately protect its common law and contractual rights vis-a-vis its principal and indemnitors under the indemnity agreement.’ ”).

³⁰*Smurfit Newsprint Corp. v. Southeast Paper Mfg. Co.*, 368 F.3d 944 (7th Cir. (Ill.) 2004) (Applying New York law, the court found that an indemnification agreement covered an arbitrator’s award of severance benefits to union employees and damages for breach where it fell outside of New York’s “no prejudice” rule. Notice was not an express condition precedent to indemnification, but the seller was required to give “prompt written notice” in the indemnification claim. The indemnitor argued that it could show prejudice but in the case before the court, no showing of actual prejudice was actually made. The issue was remanded to the district court to permit the argument that the indemnitor suffered no prejudice due to a delay in notification of the indemnification obligation, thereby avoiding summary judgment on behalf of the indemnitee.).

³¹**New York:** *Combustion Eng’g, Inc. v. Imetal*, 235 F. Supp. 2d 265 (S.D.N.Y. 2002); **Minnesota:** *United States v. Schwartz*, 90 F.3d 1388 (8th Cir. (Minn.) 1996); **Florida:** *Southern Broadcast Group, LLC v. Gem Broadcasting, Inc.*, 145 F. Supp. 2d 1316 (M.D. Fla. 2001); **Michigan:** *Consolidated Rail Corp. v. Ford Motor Co.*, 751 F. Supp. 674 (E.D. Mich. 1990).

³²Public policy limitations may also apply where the basis for liability is a willful patent infringement claim. In *Olan Mills, Inc. v. Linn Photo Co.*, 23 F.3d 1345 (8th Cir. (Iowa) 1994), the Eighth Circuit held that an indemnity agreement was unenforceable where the infringing party had actual notice of the infringement prior to committing the infringing acts. See *Federal Ins. Co. v. Binney & Smith, Inc.*, 913 N.E.2d 43, 48, 49 (Ill. App. Ct. (1st Dist.) 2009) (“ ‘If an insured settles an underlying claim prior to verdict, it must show that it settled an otherwise covered loss in “reasonable anticipation of liability.” ’ ” *U.S. Gypsum Co.*, 268 Ill.App.3d at 625, 205 Ill.Dec. 619, 643 N.E.2d 1226, citing *WestAmerica Mortgage Co. v. TriCounty Reports, Inc.*, 670 F.Supp. 819 (N.D.Ill.1987); *Commonwealth Edison Co. v. National Union Fire Insurance Co. of Pittsburgh, PA.*, 323 Ill.App.3d 970, 978, 256 Ill.Dec. 675, 752 N.E.2d 555 (2001). . . . The determination of whether Binney’s anticipation of liability was reasonable would turn on the ‘quality and quantity of proof’ which Binney would expect to be offered against it in the underlying action. The burden of proving reasonableness falls on the insured” (citation omitted)).

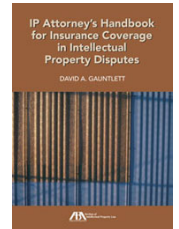
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David A. Gauntlett is the author of *Insurance Coverage of Intellectual Property Assets* published by Aspen Publishers. The book and supplements are available for \$250.00 plus tax where applicable; shipping and handling are free when full payment is enclosed with the order. To order, call Aspen Publishers at **1-800-638-8437**.

David is also the author of *IP Attorney's Handbook for Insurance Coverage in Intellectual Property Disputes* published by the American Bar Association. The book is not yet available, but can be pre-ordered for \$129.95. (**\$110.95**—ABA Member; **\$103.95**—Section of Intellectual Property Law.) To order, visit the American Bar Association Online Store at www.ababooks.org.



UPCOMING PUBLICATIONS BY DAVID A. GAUNTLETT

- ◆ *Intellectual Property Due Diligence in Corporate Transactions*: § 12A (West 2007) (contributor)
- ◆ *Assets & Finance: Audits and Valuation of Intellectual Property-Internal Controls, Materiality and Investment* (West/Thompson Reuters) (Westlaw AFAVIP) (contributor)
- ◆ Also soon to be published are three books:
 - *A Primer on Insurance Coverage Law, and Intellectual Property Claims Under Commercial General Liability Policies* (Insurance of IP assets) (contributing authors for Chapter 7) (Tod Zuckerman, Bob Chesler, Mary Hildebrand and Christopher Keegan)
 - *Free and Open Source Software and Content Desk Reference: A Legal and Risk Management Guide* (Browntree Publications) (contributing author of chapters on F/OSS and F/OC adoption and corporate risk management policies and procedures)
- ◆ *The Licensing Journal* regularly features articles written by Mr. Gauntlett, the latest entitled *Can a Product Be “An Advertisement for Itself” – The Debate Continues* (West/Thompson Reuters 2009) (*publication pending*).
- ◆ *Mealey's Emerging Insurance Disputes* (7/23/ edition) and *Intellectual Property* (7/20 edition) will feature Mr. Gauntlett's article *How Insurers Limit Policy Benefits to Policyholders in Intellectual Property, Antitrust and Business Tort Lawsuits*.
- ◆ *New Appleman Insurance Law Practice Guide* chapter on “*Understanding Intellectual Property Insurance Law*” (LexisNexis December 2009) (contributor).
- ◆ *ICLC's CGL Handbook* (ABA 2009) Chapter entitled “*The Principal Exclusions in Coverage B*” (contributing editor)

UPCOMING SEMINARS ON INSURANCE COVERAGE AND INTELLECTUAL PROPERTY WHERE DAVID A. GAUNTLETT IS SPEAKING OR ATTENDING

Mr. Gauntlett was recently named a *Super Lawyer* (Southern California) for the following practice areas:
Insurance Coverage, Intellectual Property and Antitrust Litigation

- | | |
|---------------------------|--|
| January 6-10, 2010 | 27th Annual CLE Conference, Vail, CO – <i>Attending</i> |
| March 4-6, 2010 | ABA Litigation Section Insurance Coverage CLE Seminar, Tucson, AZ – <i>Attending</i> |
| April 21-23, 2010 | ABA Litigation Section Annual Meeting, New York, NY – <i>Attending</i> |

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The Policyholder Advocate/IP Counselor is published quarterly. The Articles appearing in *The Policyholder Advocate/IP Counselor* do not constitute legal advice or opinions. Such advice and opinion are provided by the firm only upon request.

DUE TO CONTINUED READERSHIP DEMAND, THE POLICYHOLDER ADVOCATE NEWSLETTER WILL CONTINUE TO BE ISSUED QUARTERLY as a supplement to our blogs:

www.GauntlettOnIntellectualProperty/AntitrustInsurance.com
and
www.GauntlettOnInsurance.com

For more information, contact our Director of Business Development, Richard A. Beserra, at (949) 553-1010 x 208.
Email: marketing@gauntlettlaw.com to be added to our newsletter circulation list, or to be removed.

GAUNTLETT & ASSOCIATES – THE POLICYHOLDER ADVOCATE

Gauntlett & Associates specializes in policyholder insurance coverage and litigation regarding copyright, antitrust, patent, trademark, trade secret, business and general coverage disputes, including:

- 1. Insurance Coverage Litigation Focusing on IP, Antitrust and Business Tort Claims**
- 2. Securities Fraud Litigation Insurance Coverage**
- 3. IP Litigation, Representation in Arbitrations and Mediations**
- 4. Mergers and Acquisitions Insurance Coverage Counsel and Advice**
- 5. Expert Witness on Insurance Coverage Issues, Including Fee Disputes**
- 6. Counsel to IP Case-in-Chief Counsel for Insurance Coverage, Including: Choice of Forum and Negotiation**
- 7. Consultant to Corporations Regarding What Type of Policies to Purchase to Protect Against IP Litigation**

*If you have a topic you would like to see addressed in future issues,
please feel free to contact us with your suggestions.*

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