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"On the Hook":

Legal Malpractice Liability for Failure to Advise About Availability of Insurance

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The potential availability of insurance coverage for intellectual property infringement matters has been known for years. Similarly, the obligation of intellectual property counsel, like all attorneys, to provide full and complete advice to clients is firmly established. Recently, in *Darby & Darby v. VSI International, Inc.* (N.Y. Sup. Ct. N.Y. County Aug. 28, 1998) ("*Darby*"), these two doctrines were merged in a significant holding that the "failure to investigate" a client's insurance coverage or "alert them to the potential availability of insurance" to cover infringement claims may constitute legal malpractice.

The Darby decision unequivocally reaffirms the need for the intellectual property bar to advise clients, faced with infringement claims, about insurance. The Darby decision expanded upon the earlier case of *Jordache Enterprises, Inc. v. Brobeck Phleger & Harrison*, (Cal. Ct. App. 1996), *rev'd on other grounds* (Cal. 1998), in which the California Court of Appeals implicitly recognized that a client could maintain a legal malpractice claim against a law firm for its failure to so advise about the possibility of insurance.

The Darby Facts

In *Darby*, the client retained an intellectual property law firm to represent it in trademark and patent infringement lawsuits pending in Florida. After three years, the original law firm was replaced by another intellectual property firm. The new law firm immediately requested that VSI turn over its insurance policies for review. Shortly thereafter, the new law firm sent notice to VSI's general liability insurance companies. Insurance was obtained for the remainder of the defense costs incurred in the litigation. Notably, however, the insurance company refused to reimburse VSI for the defense costs incurred prior to receiving notice of the claim.

The original law firm later brought suit against the client seeking allegedly unpaid legal fees. VSI counterclaimed on the grounds that the law firm had committed legal malpractice by, among other things, failing to advise VSI of the possibility that its general liability insurance policies might cover the costs of defending the intellectual property lawsuits.

The law firm moved to dismiss VSI's malpractice counterclaim, arguing that its professional responsibilities only extended to the actual litigation, and that it was not a law firm's responsibility to provide advice about matters relating to the "financing" of litigation. It further argued that VSI, as the insurance policyholder, was solely responsible for evaluating the potential for insurance coverage and submitting a claim to its insurance company.

In opposition, VSI maintained that an attorney's obligations should not be so limited. In particular, VSI contended that an attorney hired to represent a client in litigation is not merely a legal technician whose responsibilities are limited to legal strategy, but also a counselor whose duties include advising a client about all matters pertaining to litigation so as to minimize a client's liability.

The New York Supreme Court rejected the law firm's arguments and held that "the failure to investigate [a client's] insurance coverage or alert them to the potential availability of insurance to cover their litigation expenses may have consti-

tuted legal malpractice." The Court found "particularly noteworthy" the fact that counsel who succeeded the original law firm had "promptly pursued the insurance issue to [the client's] substantial benefit."

The Long-Standing Duties Owed By Attorneys to Clients

The *Darby* decision comports with the fundamental notion that, as counselors with specialized expertise, attorneys owe their clients ethical and fiduciary obligations to act competently and to render the highest level of care and service. For example, the Lawyer's Code of Professional Responsibility, Ethical Consideration 6-1 expressly provides that "Because of the lawyer's vital role in the legal process, the lawyer should act with competence and proper care in representing clients. The lawyer should strive to become and remain proficient in his or her practice and should accept employment only in matters which he or she is or intends to become competent to handle."

The proficiency contemplated by the Code of Professional Responsibility requires that attorneys familiarize themselves with new developments of the law affecting their practice. In relevant part, Ethical Consideration 6-2 counsels that "A lawyer is aided in attaining and maintaining competence by keeping abreast of current legal literature and developments, participating in continuing legal education programs, concentrating in particular areas of the law, and by utilizing other available means..." Disciplinary Rule 6-101 provides that an attorney who fails either to represent a client in a competent manner or to keep abreast of new developments in the law may be subject to disciplinary action.

Additionally, attorneys are fiduciaries to their clients. An attorney is, therefore, obligated to represent a client with unmitigated loyalty, care, and trust. The New York Court of Appeals, for instance, in *In re: Cooperman* (N.Y. 1994), described the attorney/client relationship as the "highest trust between people". Among other things, fiduciary status imposes upon an attorney the duty to provide the best advice that is compatible with the needs and desires of the client.

The unique relationship between attorneys and clients imposes upon an attorney an ethical and fiduciary obligation to advise a client about the possibility of insurance for defending against intellectual property lawsuits.

Intellectual Property Infringement Insurance

Insurance coverage for intellectual property infringement actions generally arises under the "advertising injury" clause of either the 1973 or 1986 standard-form comprehensive general liability ("CGL") insurance policy.

In relevant part, the 1973 Broad Form Liability Endorsement reads as follows:

> The company will pay on behalf of the insured all sums which the insured shall become legally obligated to pay as damages because of personal injury or advertising injury to which this insurance applies . . . arising out of the conduct of the named insured's business . . .

"Advertising injury", was defined as "injury arising out of an offense committed during the policy period occurring in the course of the named insured's advertising activities, if such injury arises out of libel, slander, defamation, violation of right of privacy, piracy, unfair competition, or infringement of copyright, title or slogan."

In 1986, the definition of "Advertising Injury" was changed to mean an 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.

Although the Insurance Service Office's Introduction and Overview for the 1986 CGL Policy Revision indicated that no change in scope was intended with regard to the personal and advertising injury coverage within the policy, a policyholder nevertheless should check its liability insurance policies to verify the exact language of the advertising injury coverage provision. Other insurance policies, such as directors and officers policies,

professional malpractice policies, and employment professional liability policies, should likewise be consulted.

Tips to Avoid Being "On the Hook"

- Alert clients facing infringement claims in writing of the possibility of insurance coverage.
- Offer to send notice to all relevant insurance companies.
- Do not assume that any client knows about the possibility of insurance coverage.
- Do not accept boilerplate denials of insurance coverage.
- Use, but do not rely exclusively on, insurance brokers for determining relevant insurance coverage and giving notice.

In sum, the *Darby* case follows the long-standing notion that, as counselors, attorneys retained to represent a client in litigation are obligated to advise the client about all matters pertaining to the litigation so as to minimize a client's liability. Intellectual property attorneys are no different. Ignoring such obligations exposes an attorney and his or her firm to the possibility of malpractice liability. ■

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