Insurer off the hook in patent dispute

BY ALAN COOPER

This story starts out with a correction tape dispenser – one of those devices that releases a small piece of opaque tape that whites out errors on a document.

This device was developed by a Japanese company that hired a Washington law firm to file its patent application.

The story became a case that moved through the U.S. Patent and Trademark Office and through the courts.

Here's how at least part of the story ends: An arbitration panel has ruled that Minnesota Lawyers Mutual Insurance Co. has no duty to defend or indemnify a Washington law firm in a patent dispute in which the insurer faced a potential liability of $8 million.

The action stemmed from a patent application the predecessor of Westerman, Hattori, Daniels & Adrian filed on behalf of two former clients, Seed Rubber Co. and Shigeru Tamai.

The firm did not file an English translation of the application, as required by patent law, but the patent office had an English translation of it as part of a related filing.

A person filed a patent for a similar device, another correction tape dispenser, after the one filed by the firm's clients then challenged the validity of the earlier patent.

The U.S. Patent and Trademark Office ruled that the translation should have been filed with the application but concluded that the failure to do so did not invalidate it.

The law firm's clients and the challenger to the patent appealed to the U.S. Court of Appeals for the Federal Circuit. The clients sought a ruling that no procedural error had occurred, while the challenger sought priority for his application.

While the case was on appeal, the predecessor firm split, and the attorneys in WHDA went to MLM for malpractice insurance.

The policy required MLM to defend and indemnify WHDA for any claim reported during the policy period and for any claim that occurred before the effective date of the policy if "the insured had no knowledge of facts which could reasonably support a claim at the effective date of the policy."

After WHDA purchased the policy and while the case was still on appeal, the challenger to the patent held by Seed and Shigeru Tamai offered to settle the case, but WHDA advised them not to do so.

The Federal Circuit reversed the patent office and, in effect, awarded the patent to the challenger.

Seed Rubber and Tamai filed a legal malpractice action against WHDA, and MLM filed a declaratory judgment action in federal court in Washington seeking a ruling that it had no duty to defend or indemnify.

WHDA asserted its right under a clause in the policy to have the matter decided by arbitration. Three arbitrators were named to the panel — Alfred D. Swersky and Paul F. Sheridan from The McCammon Group and Joseph Warin of Gibson, Dunn & Crutcher LLP in Washington.

Joseph F. Cunnigham of Arlington, MLM's attorney in the arbitration, contended that WHDA should have disclosed the possibility of a claim.

The panel agreed on a 2-1 vote, with Swersky and Sheridan siding with MLM.

The test for disclosure is an objective one, whether "a reasonably prudent practitioner of Patent and Trademark law [would] conclude that the facts reasonably supported a claim," the panel said.

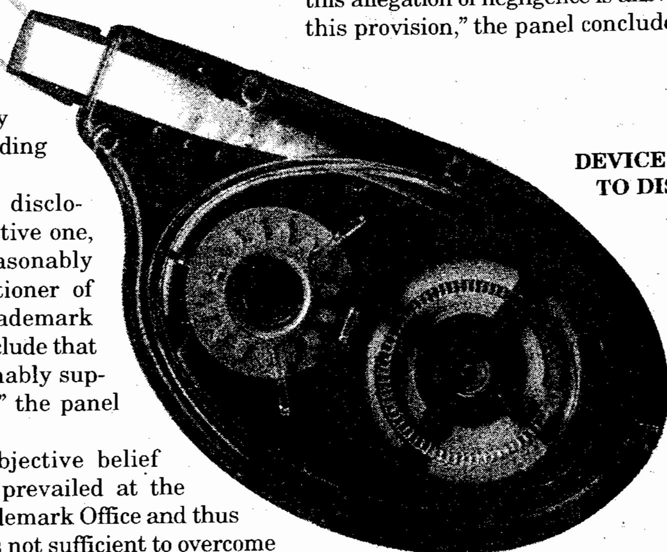
"WHDA's subjective belief that they had prevailed at the Patent and Trademark Office and thus had a 'winner' is not sufficient to overcome the objective analysis," the panel said.

"By reaching the conclusion that they did, WHDA effectively prevented MLM from making an assessment of the risk and making a decision as to whether or not to write an exclusion into the policy."

The law firm's argument that the coverage applied to the advice on settling the claim also ran afoul of the policy language, the panel said.

The policy said, "[A]ny claim arising out of the same, related or continuing legal services which resulted in a CLAIM prior to the first policy issued to the INSURED by US will not be covered," the panel noted.

"Here, the advice given, whether negligently or not, clearly arose out of the ongoing representation of Seed/Tamai by WHDA and the question of coverage for this allegation of negligence is answered by this provision," the panel concluded.



DEVICE SIMILAR TO DISPENSER AT ISSUE