

# DESIGN PROFESSIONAL COUNTERCLAIMS: THE GOOD, THE BAD, AND THE BEAUTIFUL

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**THE ASSERTION OF A COUNTERCLAIM CAN BE A POWERFUL TOOL TO HELP REDUCE LIABILITY AND MAXIMIZE RECOVERY AGAINST A PLAINTIFF. WHAT OPTIONS DO ATTORNEYS AND DESIGN PROFESSIONALS HAVE IN THEIR IMPLEMENTATION?**

## INTRODUCTION

For most attorneys representing design professionals, work centers on defending malpractice actions or pursuing actions to recover unpaid fees. For many attorneys in this line of work, clients are becoming increasingly agitated with what are, in their view, frivolous claims asserted against them. Many clients inquire about the availability of measures to deter future claims, including assessing the validity of counterclaims. Not only can the pleading of a strong counterclaim serve as a deterrent factor, but it may also help your client avoid the typical zero-sum recovery the client usually experiences; that is, the client pays out as much in attorney's fees as he or she will eventually recover on their affirmative fee claim. This paper will explore the options design professional attorneys have for asserting offensive claims against parties who have filed suit against their clients, discuss a model effort in that regard, and explore some of the insurance coverage issues counterclaims can trigger.

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### **SELTZER V. MORTON—A MODEL OF WELL-PLEAD OFFENSIVE CLAIMS IN A DEFENSE ACTION**

In *Seltzer v. Morton*, the Montana Supreme Court recently addressed an appeal by a major international law firm of a \$21.1 million verdict entered against it under the theories of abuse of process and malicious prosecution.<sup>1</sup> The case originated when Steve Morton, heir to the Morton Salt Company fortune, attempted to sell a painting called “Lassoing a Longhorn” at an Idaho art auction, believing the painting was an original by the famous Western painter, Charles M. Russell.<sup>2</sup> When Morton initially contacted the auction house, the appraiser, assuming the painting was a Russell original, appraised the painting at \$650,000.<sup>3</sup> By the time Morton got around to trying to sell the painting, the art house had become suspicious about the authenticity of the painting and contacted Steve Seltzer, an art expert specializing in the works of his grandfather, O.C. Seltzer, and to a lesser extent, Charles M. Russell.<sup>4</sup>

By analyzing only a photograph of the painting, Seltzer was of the opinion that the painting was the work of his grandfather, O.C. Seltzer, and not Russell.<sup>5</sup> To verify Seltzer’s opinion, the art house contacted Ginger Renner, the world’s foremost expert on Russell artwork. After reviewing a transparency reproduction of the painting, Renner too was of the opinion that it was the work of Seltzer, not Russell.<sup>6</sup> Based on these opinions, the art house contacted Morton, informing him that they would not sell his painting as an authentic Russell.<sup>7</sup>

After receiving this news, Morton took the actual painting to Ginger Renner’s residence, where she again opined that, based on the palette and style of the painting, it was “unquestionably the work of O.C. Seltzer.”<sup>8</sup> The next day, Morton sent a letter to Renner expressing his thanks and his “state of shock” in discovering that the painting was not a Russell.<sup>9</sup> Armed with the opinions of Renner and Seltzer, Morton wrote a demand letter and attempted to hold the Kennedy Galleries in New York City liable for selling him a fraudulent painting.<sup>10</sup>

Following his demand to the Kennedy Galleries, Morton twice tried to sell the painting as an authentic Russell, but was rebuffed on both occasions.<sup>11</sup> Unsuccessful in these attempts, Morton contacted Dennis Gladwell of the 900-lawyer law firm Gibson, Dunn & Crutcher (“GDC”) to assist him in pressuring Renner and Seltzer to change their opinions concerning the painting’s authenticity.<sup>12</sup> After Gladwell’s initial attempts at convincing the experts to change their opinions failed, he filed suit against Seltzer in Montana federal district court for defamation, intentional interference with business relations, declaratory relief, injunctive relief, negligence, and punitive damages on the theory that Seltzer’s “erroneous” opinion about the painting’s origins had caused the painting’s value to decrease from between \$650,000 and \$800,000 to under \$50,000.<sup>13</sup>

After being served, Seltzer retained his friend and prominent Montana plaintiff’s attorney Zander Blewett to defend him against the claims. Following discovery, Seltzer moved for summary judgment, supported by ten affidavits of art experts, including his own and that of Ginger Renner, who opined that the painting was not an authentic Russell.<sup>14</sup> In an attempt to refute Seltzer’s proof,

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Morton contacted several other art experts but was unable to procure anyone to support his claim that the painting was a Russell. As a result the case was dismissed with prejudice pursuant to an unconditional stipulation of the parties, whereby Morton and Gladwell acknowledged that they could not prevail on the merits.<sup>15</sup>

Seltzer immediately filed suit in Montana state court against Morton, Gladwell, and GDC alleging both malicious prosecution and abuse of process.<sup>16</sup> The matter was eventually tried to a jury, which found in favor of Seltzer, awarding him \$1.1 million in compensatory damages and assessing punitive damages in the amounts of \$100,000 against Morton, \$50,000 against Gladwell, and \$20 million against the law firm of Gibson, Dunn & Crutcher.<sup>17</sup> The trial court judge, citing federal due process concerns, reduced the punitive damages award against GDC to \$9.9 million, while upholding the rest of the verdict, including the punitive damage awards against both Gladwell and Morton individually.<sup>18</sup>

Seltzer subsequently appealed to the Montana Supreme Court based on the punitive damage award reduction. All three defendants filed cross-appeals claiming lack of evidence to support the abuse of process or punitive damage verdicts.<sup>19</sup> In upholding the defendants' liability for abuse of process, the Court noted that Seltzer's claim was not based on the isolated fact that the defendants had sued him, but rather that they had filed suit as "an instrument of coercion, rather than as a legitimate means to resolve a genuine dispute."<sup>20</sup> The Court also quoted from the trial court's judgment referencing the defendants' ulterior motives in bringing the action:

The manifest and acknowledged objective of the lawsuit was not to obtain an adjudication of the merits of the asserted claims, but rather to threaten Seltzer and force a negotiated retraction and disavowal of his opinion thereby enabling the Mortons to sell the painting at full market value as an authentic Russell.<sup>21</sup>

The Court also upheld the compensatory damages award of \$1.1 million based on the evidence Seltzer presented concerning the emotional distress he suffered as a result of the defendants' acts, the harm to his personal and professional reputation, and the defense costs he incurred in defending himself in the initial lawsuit.<sup>22</sup>

In reviewing the trial court's decision to reduce the punitive damages verdict against GDC, the Court was required to consider the three "guideposts" articulated by the United States Supreme Court in *BMW of North America, Inc. v. Gore*<sup>23</sup> and assess the reasonableness of the punitive damages award.<sup>24</sup> Using these "guideposts", the Court upheld the punitive damages reduction, and in doing so, continually referenced the reprehensibility of GDC's conduct:

This conduct evinced an indifference to and a reckless disregard of Seltzer's financial, psychological, and physical wellbeing, as well as his personal and professional reputation. None of the conduct at issue was accidental; GDC acted with actual malice, as found by the jury, and GDC does not contest that finding.<sup>25</sup>

The Court went further, stating: "Abusive conduct toward an individual which causes the type of harm at issue here merits considerable punishment regardless of the setting in which it takes place. However, the fact that GDC

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utilized the judicial system as a tool to accomplish intimidation and oppression makes this behavior uniquely egregious.”<sup>26</sup> In what many believe to be the harshest statement uttered by the Court, Justice James Nelson, writing for the majority, concluded that GDC’s abuse of the judicial system amounted to “legal thuggery.”<sup>27</sup> Despite these harsh criticisms, the Court affirmed the trial court’s reduction of the punitive award to \$9.9 million based on the due process clause and the fact that there was neither history of similar conduct from GDC nor any evidence that GDC had acted with a “significant profit motive.”<sup>28</sup>

Although this case is an extreme example of a wealthy plaintiff and his powerful law firm abusing the judicial system to obtain an objective, there are plaintiffs across the nation filing frivolous claims against solvent defendants, including design professionals. When defending a suit with little or no merit—like Steve Seltzer was when he was sued by Morton and GDC—it is up to the attorney representing the design professional to consider raising viable counterclaims to deter the initial claims and to assist clients in recovering monetary judgments for the inconvenience of defending themselves.

## **SPECIFIC COUNTERCLAIMS**

### **Breach of Contract**

When defending a design professional against any client’s malpractice claim, the most logical counterclaim is the basic breach of contract action. The elements of this claim are simple: the existence of a contract, a breach, and damages.<sup>29</sup> If your client has not been fully paid for the services he or she has provided, a breach of contract counterclaim is warranted.

Some design professionals are leery of being the instigator of a claim to recover their fees because of the tendency of defendants to counterclaim for professional negligence. A classic example of this conundrum is the Nebraska case of *Getzschman v. Miller Chemical Co.*<sup>30</sup> In *Getzschman*, an architect sued a homeowner for unpaid fees associated with a home expansion project.<sup>31</sup> The homeowner, in turn, filed a counterclaim against the architect, claiming professional negligence based on allegations that the architect had designed a home exceeding their budgetary constraints.<sup>32</sup> Fortunately for the architect, the jury found in his favor while rejecting the defendant’s counterclaim. The Nebraska Supreme Court affirmed, finding no contractual obligation existed on the part of the architect for cost estimation.<sup>33</sup>

Although the plaintiff in *Getzschman* was successful in his breach of contract action, many design professionals are not so lucky and therefore many are apprehensive about initiating lawsuits to recover fees out of fear that their fee claim will be met with an even larger malpractice claim. One company who provides E & O coverage for design professionals has found that 40% of all malpractice claims against design professionals stem from fee disputes.<sup>34</sup> On the other hand, when an owner instigates a suit against a design professional, there is no fear of a retributive pleading, and therefore asserting a counterclaim can both provide leverage in settlement negotiations or a potential basis for recovering defense costs.

When considering asserting only a breach of contract counterclaim, recovery

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will likely be restricted to purely economical losses.<sup>35</sup> To recover non-economic or punitive damages in a breach of contract suit, there must be an allegation of tort damages involving aggravating circumstances.<sup>36</sup> If relying solely on a breach of contract claim, the client, even if completely successful, will likely be faced with a zero-sum recovery due to high litigation costs. The exception, of course, is when both the defense costs and the affirmative claim expenses are both being paid for by the professional liability insurance carrier.

### **Emotional Distress**

Unlike a breach of contract claim, an independent counterclaim for the tort of intentional infliction of emotional distress allows recovery for non-economic damages and, if certain factors are present, punitive damages as well. The tort must be proven independently because emotional distress damages are not recoverable for a simple breach of contract, even if the breach is committed in bad faith.<sup>37</sup> As such, claims for emotional distress are usually coupled with defamation or other intentional tort theories.<sup>38</sup> Therefore, when filing an emotional distress counterclaim on behalf of a design professional, it is imperative to assert allegations of emotional harm resulting independently from the breach of contract itself.

Emotional distress damages are only recoverable if the distress is so severe that no reasonable person could be expected to endure it; hurt feelings, anger, and frustration are not recoverable.<sup>39</sup> Additionally, pure litigation-induced emotional distress is not compensable.<sup>40</sup> As Judge Posner stated, “It would be strange if stress induced by litigation could be attributed in law to the tortfeasor. An alleged tortfeasor should have the right to defend himself in court without thereby multiplying his damages. . . .”<sup>41</sup>

Jurisdictions vary on the requirements for establishing an intentional or negligent infliction of emotional distress claim. Some jurisdictions require an accompaniment of physical harm, while others allow recovery for “pure” emotional distress, that is, emotional distress unaccompanied by any physical injury.<sup>42</sup> No matter what jurisdiction you are filing in, it is important to specifically set forth independent grounds for the emotional distress claims and avoid relying on simple conclusory statements.<sup>43</sup>

In *Boisjoly v. Morton Thiokol, Inc.*,<sup>44</sup> a design engineer brought emotional distress claims against his employer based on events surrounding the tragic Space Shuttle Challenger mission. The engineer’s emotional distress claims were based on two theories: (1) that his employer recommended the launch despite his warnings, knowing it would cause him emotional distress; and that (2) during the investigation of the disaster, his employer attempted to discredit him and terminate his employment.<sup>45</sup> The court dismissed these claims because, even if true, the allegations were insufficient to establish acts that were “so outrageous in character, and so extreme in degree, as to go beyond all possible bounds of decency, and to be regarded as atrocious, and utterly intolerable in a civilized society.”<sup>46</sup> Given the conduct alleged, the standard for an emotional distress claim is clearly quite high.

Although the court in *Boisjoly* dismissed the engineer’s emotional distress claims, the Tennessee Court of Appeals upheld a jury award of emotional

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distress damages to an architect in a defamation case in *Myers v. Pickering Firm, Inc.*<sup>47</sup> The architect brought claims against a competitor for publishing a false report concerning the plaintiff's work on a large retirement home.<sup>48</sup> A jury awarded the plaintiff \$150,000 for emotional distress, which the appellate court upheld based on the plaintiff's evidence of the humiliation and depression he incurred as a result of the report's contents.<sup>49</sup>

### **Defamation—Slander & Libel**

Defamation is defined differently by different courts, but can be summarized as a communication intending to harm another's reputation.<sup>50</sup> As a result, defamation claims lend themselves well to design professionals who have been the victims of attacks on their reputations. The tort of defamation can be split into two categories—slander and libel. The only difference between the two is that libel covers defamation that is written or printed, while slander covers spoken defamatory words.<sup>51</sup> It is also important to note that slander, unlike libel, is an individual tort, giving rise to independent claims for each defamatory statement made.<sup>52</sup>

Although jurisdictions differ on the elements of a defamation claim, the most common approach courts follow is the RESTATEMENT (SECOND) OF TORTS test, which requires the establishment of four basic elements: 1) a false and defamatory statement concerning the plaintiff; 2) an unprivileged publication of that statement to a third party; 3) fault amounting to at least negligence on the part of the publisher; and 4) either actionability of the statement irrespective of special harm or the existence of special harm caused by the publication.<sup>53</sup> It is important, however, to note that defamation claims must be based on statements made outside judicial proceedings, including the pleadings, which are privileged.<sup>54</sup> Name calling in a complaint against a design professional will not trigger any viable counterclaim for defamation.

In addition to these general elements, the status of the parties is a factor in determining the legal standards in a defamation case. When the plaintiff is a public official or a public figure, he or she must prove the defamatory statement was made with actual malice, that is, that the defamer acted with reckless disregard for the truth.<sup>55</sup> This distinction is important because courts have occasionally found that design professionals meet the status of a "limited public figure," which requires the additional proof of actual malice.<sup>56</sup> For example, in *McDowell v. Paiewonsky*, the Third Circuit found an architect in a defamation case was a "limited public figure" because the alleged defamation concerned his work on a public building project. The Court stated, "[A]n individual who voluntarily injects himself or is drawn into a particular public controversy. . . thereby becomes a public figure for a limited range of issues."<sup>57</sup>

When representing a design professional in a defamation action, it is important to review the content of the defamatory remark to see if it falls within the "defamatory per se" category. A statement is "defamatory per se" if the defamatory meaning or message is obvious on its face.<sup>58</sup> If a statement is deemed "defamatory per se," injury to reputation is presumed and therefore no allegation of special damages is required.<sup>59</sup> Defamatory remarks that injure a person in his or her profession are actionable as "defamation per se."<sup>60</sup> However,

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for a remark to be “defamatory per se,” it must strike at the person’s professional competence; therefore expression of mere dissatisfaction with a person’s professional performance is not “defamation per se.”<sup>61</sup> Courts have specifically held that defamatory remarks concerning a design professional’s competence do fall within the “defamation per se” category.<sup>62</sup>

Because design professionals rely heavily on their professional reputations, they are often plaintiffs in defamation claims. However, most claims fail because the design professional is unable to prove that the defamatory remarks concern their ability to practice their profession. For example, in *Clemente v. Impastato*, a New York court found that an angry customer had not defamed an engineer when she alleged the engineer had trespassed on her property and harassed her.<sup>63</sup> The court held that the engineer failed to show how the allegations attacked his ability to practice his profession.<sup>64</sup>

Similarly, the Virginia Supreme Court threw out an architect’s defamation claim against a competitor for accusations the competitor made concerning work experience and excessive professional fees.<sup>65</sup> The court found the remarks to be mere opinion and not of a nature giving rise to defamatory relief.<sup>66</sup> In comparison, an Illinois court remanded a defamation claim to the trial court to determine if a letter written by a material supplier accusing an engineer of “bid rigging” projects was defamatory as an indictment of the engineer’s ability to perform his profession in a proper manner.<sup>67</sup>

### **Lien Foreclosure**

As design professional attorneys know, using a lien foreclosure action is a powerful avenue to assist clients in recouping unpaid fees because in many states the lien foreclosure will include attorney’s fees.<sup>68</sup> Because lien foreclosure actions are statutory in nature, the requirements for who may file, the filing procedures, and what fees may be recovered vary greatly across jurisdictions. Depending upon the jurisdiction, certain design professional services may or may not be covered under a state’s construction lien statutes (also referred to as mechanics’ or materialman’s liens).<sup>69</sup>

Where a lien statute specifically provides that architects or engineers are entitled to assert construction liens, these persons may file a lien if they have provided plans or services in connection with the construction or repair of an improvement, including construction contract administration.<sup>70</sup> Several courts have also held that design professional services are protected under statutes allowing construction liens for “persons’ or ‘whoever’ performs work” on a real estate improvement project.<sup>71</sup>

An attorney must also determine if the client’s plans were actually used in construction. Some courts hold that the architect or engineer may file a lien even if the plans are never used,<sup>72</sup> while others hold that to give rise to a lien claim, the owner must actually use the plans to build something.<sup>73</sup> Any fee claim should involve a review of the requisite state lien statutes and relevant case law to determine if a client’s services fall within the protection of the applicable lien laws.

After determining whether your client’s services are lien-able, it is essential to research the procedural requirements for filing the lien. While the requirements

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differ in each state, generally, three major requirements are necessary for perfecting a lien claim: 1) giving notice to the owner; 2) filing a claim or statement of lien within the required time period; and 3) bringing an action within the prescribed time limit to foreclose on the lien. Within each of these general requirements there usually exist several additional specific requirements, such as proper party and property descriptions, where to file, when to file, etc. It is critical to comply with these requirements because courts tend to strictly construe lien statutes and, thus, a lien will only become enforceable if all procedural prerequisites are met.<sup>74</sup>

If a design professional is successful in bringing a lien foreclosure action, he or she is entitled to foreclose on the subject property to recover his or her debt.<sup>75</sup> Such a vehicle of recovery can turn a simple breach of contract action for unpaid fees against an insolvent developer into a powerful tool to leverage payment. As noted earlier, in many states the design professional is also entitled to recover attorney's fees and costs.<sup>76</sup>

### **Abuse of Process**

As shown in *Seltzer v. Morton*, a counterclaim for abuse of process can be an effective weapon in cases involving claims aimed at coercing or threatening a client to give up something, such as their fee, work product, or architectural copyright, rather than seeking a true judicial resolution of a legitimate dispute. It is significant to note that even if the plaintiff brings a case against your client simply out of ill will or spite, this conduct will not give rise to an action for abuse of process if the plaintiff is using the judicial process for the purpose for which it is intended.<sup>77</sup> A prime example is the case of *Bird v. Rothman*, whereby an Arizona court dismissed an architect's claim that a plaintiff had abused the judicial process by adding him as a defendant in a case for settlement purposes only.<sup>78</sup> In dismissing the architect's claim, the court stated: "There was no proof of an improper use of judicial process here, as the purpose of settlement is includable in the goals of proper process."<sup>79</sup>

The RESTATEMENT (SECOND) OF TORTS defines abuse of process as follows: "One who uses a legal process, whether criminal or civil, against another primarily to accomplish a purpose for which it is not designed, is subject to liability to the other for harm caused by the abuse of process."<sup>80</sup> To bring a successful abuse of process claim, three things must generally be shown: 1) an illegal or improper use of process; 2) an ulterior motive or purpose on the part of the person causing the process to issue; and 3) damage to the plaintiff.<sup>81</sup> Generally, the ulterior motive or purpose element is established by proving the plaintiff brought the action as a form of extortion by trying to obtain a collateral advantage against a defendant.<sup>82</sup>

A party who successfully establishes an abuse of process claim is entitled to recover damage for harm to his or her reputation, the expense he or she incurred in defending against the original claims, including costs and attorney's fees, any specific pecuniary loss resulting from the proceedings, and any emotional distress caused by the proceedings.<sup>83</sup>

The case of *Levingston Shipbuilding Co. v. Inland West Corp.*<sup>84</sup> provides a good example of a design professional asserting a successful abuse of process

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counterclaim. In *Levingston*, a shipbuilding company sued an engineering firm on a frivolous claim of disclosure of trade secrets, prompting the engineering firm to counterclaim on several counts, including abuse of process.<sup>85</sup> The court upheld a jury verdict of \$4 million against the shipbuilding company for filing suit against the engineering firm as a means of “impeding, stopping, or hindering” the development of a rival shipyard for which the engineering firm was chosen as the principal designer.<sup>86</sup> A counterclaim for abuse of process can be brought in the initial lawsuit filed against the design professional.

### **Malicious Prosecution**

Although generally coupled under the same category as an abuse of process claim, a malicious prosecution claim cannot be asserted as a counterclaim. The difference between the two claims is that malicious prosecution is defined as “maliciously causing process to be issued,” while abuse of process is defined as “employing legal process for some purpose other than that which it was intended by the law to effect.”<sup>87</sup>

Again, as with most of these claims, the elements for malicious prosecution vary according to jurisdiction, however, the common elements of this tort are: 1) the institution or continuation of original judicial proceedings by, or at the instance of, the defendant; 2) favorable termination of such proceedings for the plaintiff; 3) malice in instituting the proceedings; 4) lack of probable cause for the proceedings; and 5) damages suffered by the plaintiff.<sup>88</sup> It is the second element, favorable termination, which prevents this claim from being asserted as a counterclaim because a defendant in the original proceeding must first obtain a favorable termination in that proceeding before initiating a malicious prosecution claim.<sup>89</sup> The favorable termination must also be on substantive, not procedural grounds.<sup>90</sup>

Malicious prosecution claims are difficult to establish because the burden is on the claimant to prove both malice and want of probable cause. The type of malice that must be established is malice in fact, that is, that the defendant brought the original proceeding with an evil, wrongful, or improper motive, or with gross indifference or reckless disregard of the rights of others.<sup>91</sup> Lack of probable cause is also difficult to establish because the standard for filing a lawsuit is so low. Although the standard has been articulated in many ways, it can be summed up as facts and circumstances that provide a reasonable ground for instituting a cause of action.<sup>92</sup>

Even if one is able to establish the requisite elements of the claim, a defendant can assert an advice of counsel defense to absolve them of any liability. All that is necessary for successfully asserting this defense is proof that the defendant consulted with an attorney in good faith, fully disclosed all relevant facts, and acted on the attorney’s advice in initiating or continuing the original proceeding.<sup>93</sup>

Additionally, in jurisdictions which require the filing of a certificate of merit prior to bringing a claim of professional malpractice against a design professional, it can be assumed that such a procedural prerequisite would shield a plaintiff from liability for a malicious prosecution claim because it would provide a strong argument that probable cause existed for bringing the action in

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the first place.<sup>94</sup> The same can be said for cases filed in the states of Kansas and Wyoming, which require plaintiffs to bring a potential design malpractice claim in front of a neutral conciliation board prior to filing the claim in district court.<sup>95</sup> If a design professional can clear these hurdles and establish a claim, the malicious prosecution claimant can recover all compensatory damages flowing from the instigation of the original suit, including reputation damages, attorney's fees, and costs incurred in defense in the original proceedings, as well as emotional distress damages.<sup>96</sup>

### **Rule 11 Sanctions**

Another option attorneys have at their disposal when faced with defending against a frivolous claim is the protections offered by Rule 11 of the Rules of Civil Procedure. The policy behind Rule 11 sanctions is to deter attorneys and their clients from filing pleadings, motions or other documents with the court which are not supported by facts and law. Unlike a counterclaim, which is asserted only against an opposing party, Rule 11 sanctions may be assessed against not only a party, but also against a party's attorney and his or her law firm.<sup>97</sup>

Attorneys representing design professionals have successfully moved for Rule 11 sanctions in several matters. In *View Eng'g, Inc. v. Robotic Vision Sys., Inc.*, the Federal Circuit upheld a district court's imposition of Rule 11 sanctions against defense counsel for raising 120 unfounded counterclaims in a patent infringement case.<sup>98</sup> The court, in admonishing defense counsel, stated, "little inquiry, much less a reasonable one, was undertaken. . .in the instant case."<sup>99</sup> Similarly, in *Schmidt Constr. Co. v. Becker-Johnson Corp.*, a Colorado appellate court upheld an award of Rule 11 sanctions against a contractor who filed frivolous claims against an architect.<sup>100</sup> The contractor asserted that the architect was negligent in failing to list water development fees in a construction contract. The trial court dismissed the claim and imposed Rule 11 sanctions against the contractor's attorney based on a determination that the contractor's "complaint was groundless, frivolous, and lacked substantial justification."<sup>101</sup> Rule 11 sanctions will not necessarily compensate the design professional, but they may lessen the pain they feel in attorney's fees while defending a bogus claim.

### **Copyright Infringement**

With the passage of the Architectural Works Copyright Protection Act of 1990, Congress brought architectural works under federal copyright protection, providing architects and, in certain circumstances engineers, with another potential counterclaim against a party using a design professional's work without permission. "Architectural works" are defined as "the design of a building as embodied in any tangible medium of expression, including a building, architectural plans, or drawings. The work includes the overall form as well as the arrangement and composition of spaces and elements in the design, but does not include individual standard features."<sup>102</sup> Sadly for engineers, structures such as interstate highways, bridges, dams, canals, or pedestrian walkways are not covered and are therefore unprotected.

Under federal copyright law, an architectural work is protected from the

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moment of creation, that is, when it is first fixed in a tangible medium.<sup>103</sup> Registration of the copyright is unnecessary to create copyright protection, unless the owner of the copyright wants to bring a suit for copyright infringement.<sup>104</sup> It is also important to note that architectural works developed by a member of an architectural firm are actually owned by the firm, not by the individual designer.<sup>105</sup> Copyright owners have the exclusive right to: 1) reproduce; 2) transform or adapt; 3) distribute; and 4) display the copyrighted work.<sup>106</sup>

When a client of a design professional is in possession of plans he or she has not yet paid for and has started, or is in the process of starting, construction of the subject structure, the design professional has two options: 1) seek injunctive relief to halt the construction until the matter is resolved; and/or 2) sue for copyright infringement damages. If the professional chooses the latter option, it is a prerequisite that he or she first register the copyright before bringing an infringement action.<sup>107</sup> By registering the copyright, the design professional will be able to recover statutory damages of not less than \$750 and not more than \$30,000 plus attorney's fees and costs.<sup>108</sup> A court may also award up to \$150,000 in general damages if the design professional can prove "willful" infringement.<sup>109</sup>

When representing a design professional in an infringement matter, first file for injunctive relief under 17 U.S.C. § 502. By filing the injunction, a court can use its equitable powers to halt construction of the subject building. Filing the injunction as early as possible also prevents a court from having to consider the matter moot, as the Fourth Circuit did when an architect sought injunctive relief against a homeowner after the house had already been completed.<sup>110</sup>

To be successful on a copyright infringement claim, two elements must be established: 1) ownership of a valid copyright; and 2) copying by a defendant.<sup>111</sup> Because the second element can be difficult to prove directly, circumstantial evidence can be used to show the defendant had access to the copyrighted work and the defendant's alleged infringing work is "substantially similar" to the copyrighted work.<sup>112</sup>

A court will consider four factors in determining whether to issue a preliminary injunction for copyright infringement: 1) the likelihood of success on the merits; 2) whether the movant will experience irreparable injury without the restraint; 3) whether the party to be enjoined will be irreparably injured if the restraint is granted; and 4) whether the public interest will be served by the restraint.<sup>113</sup> Courts have held that establishing a prima facie case of copyright infringement raises a presumption of irreparable harm and therefore a copyright plaintiff who establishes a prima facie infringement claim is entitled to a preliminary injunction "without a detailed showing of irreparable harm."<sup>114</sup>

There are several reported cases involving design professionals seeking preliminary injunctions based on copyright infringement claims with courts generally granting such relief.<sup>115</sup> However, there are other cases where architects were denied injunctive relief because construction of the subject building was substantially completed prior to filing suit<sup>116</sup> and where the plaintiff architect failed to provide sufficient evidence that the defendant had actually copied the copyrighted plans.<sup>117</sup>

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## INSURANCE COVERAGE

As an advocate for your client, it is in your client's best interests to seek insurance coverage for both defensive and offensive claims. Although most design professional defense matters trigger insurance coverage, a majority of courts have held that insurance coverage does not exist for prosecuting counterclaims. Because most standard professional liability policies only require an insurer to provide a "defense," courts are reluctant to extend this obligation to cover any offensive counterclaims a design professional defendant may wish to assert on his or her own behalf.

Since most insurance policies are silent on the specific issue of who is liable for the costs incurred in prosecuting counterclaims, courts are forced to construe the general terms of the policy to see if coverage for a counterclaim is triggered. Although most courts have held that costs associated with bringing affirmative claims are not the responsibility of the insurer, some courts apply a two-part test to determine if such costs must be borne by the insurer. The test is whether the offensive claims are defensive in nature and reasonable and necessary to limit or defeat liability.<sup>118</sup>

A review of case law across the country shows a general judicial disfavor for requiring insurance companies to bear the costs of asserting counterclaims.<sup>119</sup> These courts have generally agreed that they will not construe the duty to provide a "defense" to trigger coverage for taking affirmative action to recover money on behalf of the insured.<sup>120</sup> As succinctly stated by a North Carolina court, "[a]n insurer, being obligated to defend claims brought 'against' the insured, is not required to bear the cost of prosecuting a counterclaim on behalf of the insured."<sup>121</sup> Similarly, the Ohio Court of Appeals held:

The terms of the insurance contract, which defined [the insurer's] duty to defend, in no way obligated [the insurer] to compensate [the insured] for the expense of prosecuting its counterclaim. [The insured], in its contract with [the insurer], bargained only for the insurer to pay for defending the insured against litigation. It did not bargain for legal representation where the insured is the plaintiff. Nor does Ohio law mandate such services by an insurer. [The insured] would like this court to expand the duty to defend in Ohio, but we decline to do so.<sup>122</sup>

While the majority of courts have refused to extend the duty to defend to cover costs incurred in prosecuting offensive counterclaims, there have been a few courts that have required insurance coverage when the counterclaims asserted factually related to the defense of the original claim.<sup>123</sup> These courts have based their opinions on two theories: 1) the counterclaims are so linked to the plaintiff's claims that they cannot be separated;<sup>124</sup> and 2) the counterclaims were asserted as a strategic defensive move to limit or defeat liability.<sup>125</sup>

Typically an attorney representing a design professional in a defense action will be unable to procure insurance coverage for any counterclaims his or her client wishes to assert. The reason, again, is the plain language of the insurance contract. For example, CNA's standard Professional Liability and Pollution Incident Liability Insurance Policy never addresses who is responsible for paying the costs incurred in prosecuting a counterclaim. Instead, the relevant portions of the policy provide:

### I. COVERAGE AGREEMENTS

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A. We will pay all amounts in excess of the Deductible up to the Limit of Liability that you become legally obligated to pay as a result of:

1. a wrongful act,

\* \* \* \* \*  
that results in a claim anywhere in the world, provided that on the Knowledge Date set forth in Item 4. on the Declarations none of your officers, directors, principals, partners, or insurance managers knew of any act, error, omission, or event that could reasonably be expected to become the basis of that claim.

\* \* \* \* \*  
C. We have the right and duty to defend any claim against you seeking amounts that are payable under the terms of this Policy, even if any of the allegations of the claim are groundless, false, or fraudulent. We will designate or, at our option, approve counsel to defend the claim. We are not obligated to defend any claim or pay any amounts after the applicable Limit of Liability has been exhausted.<sup>126</sup>

The terms claim and wrongful act are defined as follows:

### III. DEFINITIONS

D. Claim means a demand for money or services, naming you and alleging a wrongful act or pollution incident.

\* \* \* \* \*  
T. Wrongful act means an error, omission, or other act that causes liability in the performance of professional services for others by you or by any person or entity, including joint ventures, for whom you are liable. A wrongful act cannot arise from dishonest, fraudulent, malicious, or criminal conduct committed by you or at your direction or with your prior knowledge.<sup>127</sup>

According to the terms of this policy, CNA is only required to provide a defense for claims made *against its insured*; therefore under the approach of most courts, no coverage would exist for pursuing offensive counterclaims on behalf of the insured against someone else.<sup>128</sup>

Although an insurance provider may not be obligated to provide coverage for pursuing offensive claims, if segregation of the costs associated for bringing those claims is difficult or impossible to calculate, the carrier is obligated to cover all applicable costs, including the costs incurred for bringing the non-covered counterclaims.<sup>129</sup> However, several courts have rejected the argument that a defendant's offensive counterclaims were either "inextricably intertwined" with the original plaintiff's claims, or were plead as a strategic matter to limit or defeat liability, leaving the design professional to pay for the counterclaim on his or her own.<sup>130</sup>

Given this situation, the question becomes how the cost of asserting counterclaims can be segregated from true defense costs. Most courts have allowed insurers to allocate costs associated with bringing offensive counterclaims in order to recover those expenses.<sup>131</sup> Although insurers are allowed to recover those expenses allocated to the pursuit of counterclaims, the

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burden of proving the allocation of these costs falls on the insurer.<sup>132</sup> Courts have generally required a low burden of proof for determining a proper allocation.<sup>133</sup> While there appears to be no legal authority on this topic, it can be assumed that because insurers are not obligated to pay the costs of pursuing counterclaims, they in turn have no right to recover any attorney's fees the insured may recover in the successful pursuit of its counterclaims. If the design professional pays to pursue his or her own counterclaim, the carrier should not be able to collect on any subsequent recovery the design professional may obtain, including attorney's fees.

#### **CONCLUSION**

When responding to a claim against your design professional client it is important to consider any counterclaims you may assert. Although your client will likely have to foot the bill for the hours you expend in asserting these claims, in the long run this strategy may minimize your client's liability and, if the right facts are present, allow your client a significant recovery against the plaintiff. ≈

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## ENDNOTES

<sup>1</sup>2007 MT 62, 336 Mont. 225, 154 P.3d 561.

<sup>2</sup>*Id.* at ¶ 20.

<sup>3</sup>*Id.*

<sup>4</sup>*Id.* at ¶¶ 21-22.

<sup>5</sup>*Id.* at ¶ 23.

<sup>6</sup>*Id.* at ¶¶ 24, 27.

<sup>7</sup>*Seltzer v. Morton*, 2007 MT 62, ¶ 28, 336 Mont. 225, ¶ 28, 154 P.3d 561, ¶ 28.

<sup>8</sup>*Id.* at ¶ 29.

<sup>9</sup>*Id.*

<sup>10</sup>*Id.* at ¶ 33. There is nothing in the Court opinion explaining why Morton never pursued his potentially viable claim against the Kennedy Galleries.

<sup>11</sup>*Id.* at ¶ 35.

<sup>12</sup>*Id.* at ¶¶ 38-41.

<sup>13</sup>*Seltzer v. Morton*, 2007 MT 62, ¶¶ 44-45, 336 Mont. 225, ¶¶ 44-45, 154 P.3d 561, ¶¶ 44-45.

<sup>14</sup>*Id.* at ¶ 48.

<sup>15</sup>*Id.* at ¶ 49.

<sup>16</sup>*Id.* at ¶ 50.

<sup>17</sup>*Id.*

<sup>18</sup>*Id.* at ¶ 51.

<sup>19</sup>*Seltzer v. Morton*, 2007 MT 62, ¶ 51, 336 Mont. 225, ¶ 51, 154 P.3d 561, ¶ 51.

<sup>20</sup>*Id.* at ¶ 58.

<sup>21</sup>*Id.* at ¶ 62.

<sup>22</sup>*Id.* at ¶ 97.

<sup>23</sup>517 U.S. 559, 568 (1996).

<sup>24</sup>*Seltzer v. Morton*, 2007 MT 62, ¶ 151, 336 Mont. 225, ¶ 151, 154 P.3d 561, ¶ 151.

<sup>25</sup>*Id.* at ¶ 173.

<sup>26</sup>*Id.* at ¶ 175.

<sup>27</sup>*Id.* at ¶ 180.

<sup>28</sup>*Id.* at ¶ 198.

<sup>29</sup>See, e.g., *Credit Assocs., Inc. v. Mogan*, 255 Mont. 307, 310, 843 P.2d 321, 323 (1992).

<sup>30</sup>443 N.W.2d 260 (Neb. 1989).

<sup>31</sup>*Id.* at 263.

<sup>32</sup>*Id.* at 267-68.

<sup>33</sup>*Id.* at 271.

<sup>34</sup>St. Paul Travelers Insurance, *Managing Professional Fees: What to Expect if You File a Lawsuit for Fees*, STAMPED SEALED AND DELIVERED, Third Quarter 2004, available at [www.travelers.com/iwcm/BusIns/BondFP/professionalLiability/Documents/Newsletter/StampedSealedandDelivered9-04.pdf](http://www.travelers.com/iwcm/BusIns/BondFP/professionalLiability/Documents/Newsletter/StampedSealedandDelivered9-04.pdf).

<sup>35</sup>86 C.J.S. *Torts* § 25 (2007).

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- <sup>36</sup>25 C.J.S. *Damages* § 200 (2007).
- <sup>37</sup>38 Am. Jur. 2d *Fright, Shock, Etc.* § 20 (2007).
- <sup>38</sup>86 C.J.S. *Torts* § 68 (2007).
- <sup>39</sup>*Id.*
- <sup>40</sup>See, e.g., *Blakely v. Cont'l Airlines, Inc.*, 992 F.Supp. 731, 736 n.3 (D.N.J. 1998); *Picon v. Bd. of Educ.*, 671 A.2d 1035, 1038-39 (N.J. 1996).
- <sup>41</sup>*Stoleson v. U.S.*, 708 F.2d 1217, 1223 (7th Cir. 1983).
- <sup>42</sup>38 Am. Jur. 2d *Fright, Shock, Etc.* § 11 (2007).
- <sup>43</sup>86 C.J.S. *Torts* § 68 (2007).
- <sup>44</sup>706 F.Supp. 795 (D.Utah 1988).
- <sup>45</sup>*Id.* at 802.
- <sup>46</sup>*Id.* (quoting *Amos v. Corp. of Presiding Bishop*, 594 F.Supp. 791, 831 (D.Utah 1984)).
- <sup>47</sup>959 S.W.2d 152 (Tenn. Ct. App. 1997).
- <sup>48</sup>*Id.* at 156.
- <sup>49</sup>*Id.* at 165.
- <sup>50</sup>See generally 50 Am. Jur. 2d *Libel and Slander* § 6 (2007).
- <sup>51</sup>50 Am. Jur. 2d *Libel and Slander* § 9 (2007).
- <sup>52</sup>*Id.*
- <sup>53</sup>50 Am. Jur. 2d *Libel and Slander* § 21 (2007); RESTATEMENT (SECOND) OF TORTS § 558 (1977).
- <sup>54</sup>See, e.g., *James v. Brown*, 637 S.W.2d 914, 916 (Tex. 1982) (“Communications in the due course of a judicial proceeding will not serve as the basis of a civil action for libel or slander, regardless of the negligence or malice with which they are made.”).
- <sup>55</sup>50 Am. Jur. 2d *Libel and Slander* §§ 26, 31 (2007).
- <sup>56</sup>See, e.g., *McDowell v. Paiewonsky*, 769 F.2d 942, 951 (3d Cir. 1985).
- <sup>57</sup>*Id.* at 947 (quoting *Gertz v. Robert Welch, Inc.*, 418 U.S. 323, 351 (1974)).
- <sup>58</sup>50 Am. Jur. 2d *Libel and Slander* § 136 (2007).
- <sup>59</sup>*Id.* at § 139.
- <sup>60</sup>*Id.* at § 202.
- <sup>61</sup>*Id.* at §§ 202, 205.
- <sup>62</sup>See, e.g., *Pape v. Reither*, 918 S.W.2d 376, 380 (Mo. Ct. App. 1996) (court held that defendant’s statement in a settlement letter that the plaintiff architect had “participated in fraudulent or illegal acts” were defamatory per se because they falsely imputed conduct incompatible with plaintiff’s profession); *Rodriguez v. N. Am. Aviation, Inc.*, 61 Cal. Rptr. 579, 582 (Cal. App. 1967) (court held that employer’s remarks that the plaintiff was “not a competent engineer” were defamatory per se).
- <sup>63</sup>274 A.D.2d 771, 772 (N.Y. App. Div. 2000).
- <sup>64</sup>*Id.* at 773-74.
- <sup>65</sup>*Chaves v. Johnson*, 335 S.E.2d 97, 100-01 (Va. 1985).
- <sup>66</sup>*Id.* at 101.
- <sup>67</sup>*Parker v. House O’Lite Corp.*, 756 N.E.2d 286, 301 (Ill. App. Ct. 2001) (court remanded for the jury to decide whether the defendant had made the defamatory statement with malice).
- <sup>68</sup>53 Am. Jur. 2d *Mechanic’s Liens* § 450 (2007).
- <sup>69</sup>See generally Kimberly C. Simmons, Annotation, *Architect’s Services as within Mechanic’s Lien Statute*, 31 A.L.R.5th 664 (1995).

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- <sup>70</sup>5 Am. Jur. 2d *Architects* §§ 19-20 (2007).
- <sup>71</sup>*Kirkwold Constr. Co. v. M.G.A. Constr., Inc.*, 513 N.W.2d 241 (Minn. 1994); *Dalton Moran Shook, Inc. v. Pitt. Dev. Co.*, 440 S.E.2d 585 (N.C. Ct. App. 1994); *Stern v. Great Plains Fed. Sav. & Loan Assoc.*, 778 P.2d 933 (Okla. Civ. App. 1989); *Wefel v. Harold J. Westin & Assoc.*, 329 N.W.2d 624 (S.D. 1983).
- <sup>72</sup>See, e.g., *Cubit Corp. v. Hausler*, 845 P.2d 125 (N.M. 1992); *Nakashima Assocs. v. Pacific Beach Corp.*, 641 P.2d 337 (Haw. Ct. App. 1982).
- <sup>73</sup>See, e.g., *D'Orsay Int'l Partners v. Superior Court*, 20 Cal. Rptr. 3d 399 (Cal. App. 2004); *Gollehon, Schemmer & Assocs. v. Fairway-Bettendorf Assocs.*, 268 N.W.2d 200 (Iowa 1978).
- <sup>74</sup>53 Am. Jur. 2d *Mechanic's Liens* § 179 (2007).
- <sup>75</sup>*Id.* at § 331.
- <sup>76</sup>53 Am. Jur. 2d *Mechanic's Liens* § 450 (2007).
- <sup>77</sup>1 Am. Jur. 2d *Abuse of Process* § 6 (2007).
- <sup>78</sup>627 P.2d 1097, 1098 (Ariz. Ct. App. 1981).
- <sup>79</sup>*Id.* at 1100.
- <sup>80</sup>RESTATEMENT (SECOND) OF TORTS § 682 (1977).
- <sup>81</sup>1 Am. Jur. 2d *Abuse of Process* § 5 (2007).
- <sup>82</sup>*Id.* at § 6.
- <sup>83</sup>RESTATEMENT (SECOND) OF TORTS § 681 (1977).
- <sup>84</sup>688 S.W.2d 192 (Tex. Ct. App. 1985).
- <sup>85</sup>*Id.* at 193.
- <sup>86</sup>*Id.* at 195.
- <sup>87</sup>52 Am. Jur. 2d *Malicious Prosecution* § 3 (2007).
- <sup>88</sup>*Id.* at § 8.
- <sup>89</sup>*Id.* at § 11.
- <sup>90</sup>*Id.* at § 42.
- <sup>91</sup>*Id.* at § 46.
- <sup>92</sup>*Id.* at § 68.
- <sup>93</sup>52 Am. Jur. 2d *Malicious Prosecution* § 100 (2007).
- <sup>94</sup>See generally Ellis I. Medoway & William L. Ryan, *The Affidavit/Certificate of Merit Requirement: Avoiding Potential Pitfalls*, CONSTRUCT!, Summer 2005.
- <sup>95</sup>KAN. STAT. ANN. §§ 60-3501 to 3509 (2007); WYO. STAT. ANN. §§ 9-2-1801 to 1812 (2007).
- <sup>96</sup>52 Am. Jur. 2d *Malicious Prosecution* §§ 114-116.
- <sup>97</sup>FED. R. CIV P. 11(c).
- <sup>98</sup>208 F.3d 981 (Fed. Cir. 2000).
- <sup>99</sup>*Id.* at 986.
- <sup>100</sup>817 P.2d 625 (Colo. Ct. App. 1991).
- <sup>101</sup>*Id.* at 626-27.
- <sup>102</sup>17 U.S.C. § 101 (2007).
- <sup>103</sup>*Id.* at § 102.
- <sup>104</sup>*Id.* at § 411(a).
- <sup>105</sup>*Id.* at § 201(b).
- <sup>106</sup>*Id.* at § 106.
- <sup>107</sup>*Id.* at § 411(a).
- <sup>108</sup>17 U.S.C. §§ 504(c)(1), 505 (2007).

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<sup>109</sup>*Id.* at § 504(c)(2).

<sup>110</sup>*Christopher Phelps & Assocs. v. Galloway*, 492 F.3d 532, 543 (4th Cir. 2007).

<sup>111</sup>*Value Group, Inc. v. Mendham Lake Estates, L.P.*, 800 F.Supp. 1228, 1232 (D.N.J. 1992).

<sup>112</sup>*Id.*

<sup>113</sup>*Id.* at 1231.

<sup>114</sup>*Id.* at 1234 (quoting *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1254 (3d Cir. 1983)).

<sup>115</sup>See, e.g., *Value Group, Inc. v. Mendham Lake Estates, L.P.*, 800 F.Supp. 1228 (D.N.J. 1992); *Ronald Mayotte & Assocs. v. MGC Bldg. Co.*, 885 F.Supp. 148 (E.D.Mich. 1994); *Palmetto Builders & Designers, Inc. v. Unireal, Inc.*, 342 F.Supp.2d 468 (D.S.C. 2004).

<sup>116</sup>*Balsamo/Olson Group, Inc. v. Bradley Place Ltd. P'ship*, 966 F.Supp. 757 (C.D.Ill. 1996).

<sup>117</sup>*Cornerstone Home Builders, Inc. v. Lemanski*, No. 8:04-CV-2585T24TGW, 2005 WL 1863387, at \*3 (M.D.Fla. Aug. 5, 2005).

<sup>118</sup>Robert F. Redemann & Michael F. Smith, *Costs and Fees Incurred in the Duty to Defend—Costs of Asserting Affirmative Claims*, in 1 LAW AND PRACTICE OF INSURANCE COVERAGE LITIGATION § 4:22 (David L. Leitner et al. eds., 2007).

<sup>119</sup>See, e.g., *Spada v. Unigard Ins. Co.*, 80 Fed. Appx. 27, 29 (9th Cir. 2003) (unpublished) (holding that counterclaims and cross-claims do not come within the common meaning of “defense”); *James 3 Corp. v. Truck Ins. Exch.*, 91 Cal.App. 4th 1093, 1104 (2001) (“[T]here is nothing in the policy that contractually obligates [the insurer] to fund and prosecute an insured’s affirmative relief counterclaims or cross-complaints.”); *Int’l Ins. Co. v. Rollprint Packaging Prods., Inc.*, 728 N.E.2d 680, 694 (Ill. App. Ct. 2000) (finding that insured’s counterclaim was not defensive in nature); *Red Head Brass, Inc. v. Buckeye Union Ins. Co.*, 735 N.E.2d 48, 56-57 (Ohio Ct. App. 1999) (holding that insurer is not obligated to pay expenses for prosecuting compulsory counterclaim); *Duke Univ. v. St. Paul Mercury Ins. Co.*, 384 S.E.2d 36, 46 (N.C. Ct. App. 1989) (upholding trial court’s decision not to award Duke University legal fees incurred in prosecuting its counterclaims); *St. Paul Fire & Marine Ins. Co. v. Nat’l Computer Sys., Inc.*, 490 N.W.2d 626, 632 (Minn. Ct. App. 1992) (finding no duty on insurer to pay costs for prosecuting counterclaims); *Town Realty, Inc. v. Zurich Ins. Co.*, 548 N.W.2d 64, 68 (Wis. 1996) (“[I]t is clear that countersuits are not included under the language of the insurance contract in this case.”); *Shoshone First Bank v. Pacific Employers Ins. Co.*, 2 P.3d 510, 517 (Wyo. 2000) (finding no insurance coverage for prosecuting insured’s counterclaim).

<sup>120</sup>*Id.*

<sup>121</sup>*Duke Univ. v. St. Paul Mercury Ins. Co.*, 384 S.E.2d 36, 46 (N.C. Ct. App. 1989).

<sup>122</sup>*Red Head Brass, Inc. v. Buckeye Union Ins. Co.*, 735 N.E.2d 48, 57 (Ohio Ct. App. 1999).

<sup>123</sup>See, e.g., *Ultra Coachbuilders, Inc. v. Gen. Sec. Ins. Co.*, 229 F.Supp.2d 284, 289 (S.D.N.Y. 2002) (counterclaims were so “inextricably intertwined with the defense of defendant’s claims and necessary to the defense of the litigation as a strategic matter,” to require coverage); *Oscar W. Larson Co. v. United Capitol Ins. Co.*, 845 F.Supp. 458, 461 (W.D. Mich. 1993), *aff’d* 64 F.3d 1010 (6th Cir. 1995) (holding coverage existed because counterclaims were prosecuted as a reasonable and necessary attempt to limit or defeat liability); *Safeguard Scientifics, Inc. v. Liberty Mut. Ins. Co.*, 766 F.Supp. 324, 334 (E.D. Pa. 1991) (finding coverage when “the pursuit of the counterclaims was inextricably intertwined with the defense of [the insured’s] claims and was necessary to the defense of the litigation as a strategic matter.”).

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<sup>124</sup>*Ultra Coachbuilders, Inc.*, 229 F.Supp.2d at 289; *Safeguard Scientifics, Inc.*, 766 F.Supp. at 334.

<sup>125</sup>*Oscar W. Larson Co.*, 845 F.Supp. at 461; *Safeguard Scientifics, Inc.*, 766 F.Supp. at 334.

<sup>126</sup>CNA Insurance Professional Liability and Pollution Incident Liability Insurance Policy (2005).

<sup>127</sup>*Id.* at 4, 7.

<sup>128</sup>See n. 119, *supra*.

<sup>129</sup>See, e.g., *Home Ins. Co. v. St. Paul & Marine Ins. Co.*, 229 F.3d 56, 66 (1st Cir. 2000) (holding that the costs associated with defending covered claims were “sufficiently intertwined” with defending non-covered claims to cause insurance carrier to be liable for all defense costs); *Bd. of Trustees of Michigan State Univ. v. Continental Cas. Co.*, 730 F.Supp. 1408, 1412 (W.D. Mich. 1990) (holding that if claims were “so intertwined as to be impossible to separate expenses,” insurance provider would have to cover all of the defense costs); *Hogan v. Midland Nat. Ins. Co.*, 475 P.2d 825, 831 (Cal. App. 1970) (holding that insurance company is entitled to allocation of expenses only upon showing of “undeniable evidence of the allocability of specific expenses.”).

<sup>130</sup>See, e.g., *James 3 Corp. v. Truck Ins. Exch.*, 91 Cal.App. 4th 1093, 1104 (2001) (rejecting argument by insured that the counterclaims were “factually intertwined with the affirmative defenses being asserted,” thereby triggering coverage); *Towne Realty, Inc. v. Zurich Ins. Co.*, 548 N.W.2d 64, 69 (Wis. 1996) (insured argued that the insurer should be liable for the costs incurred in prosecuting counterclaims because it was the “vigorous advancement” of these claims that led to the quick dismissal of the suit); *Parameter Driven Software, Inc. v. Mass. Bay Ins. Co.*, 856 F.Supp. 314, 320 (E.D. Mich. 1993) (court held that even though the insured contended that its assertion of counterclaims was a tactical decision, it did not change the general rule that the insurer was not obligated to pay the costs incurred in bringing those claims).

<sup>131</sup>*Shoshone First Bank v. Pacific Employers Ins. Co.*, 2 P.3d 510, 517 (Wyo. 2000); *St. Paul Fire & Marine Ins. Co. v. Nat’l Computer Sys., Inc.*, 490 N.W.2d 626, 632 (Minn. Ct. App. 1992).

<sup>132</sup>George J. Kenny & John H. Denton, *Third-Party Actions: Defense and Indemnity for Claims by Others—Allocation of Defense Costs between Covered and Noncovered Claims*, in 2 LAW AND PRACTICE OF INSURANCE COVERAGE LITIGATION § 27:9 (David L. Leitner et al. eds., 2007).

<sup>133</sup>*Id.*

