Fall 2005

L'Abbate, Balkan, Colavita & Contini, L.L.P.

Legal Counsel

for the Design Professional

COPYRIGHT PROTECTION THROUGH EFFECTIVE CONTRACTS

By: Paula M. Gart, Esq.

ALL TOO OFTEN DESIGN PROFESSIONALS seek our advice regarding a disturbingly similar set of facts. In short, owners have been switching design professionals, or using none at all, to complete their projects, while attempting to rely on the original design professional's drawings and specifications to do so. Primarily motivated by the allure of a reduced professional fee, the more unscrupulous owners have either terminated the original designer's services, or simply stopped paying for those services, and provided the design documents to another. Less calculating owners claim entitlement to the full use of the original designer's documents to complete the project since they have paid the original designer's invoices through the design phase. These owners believe that because they paid, they own the original design documents and have the right to use them for any purpose.

The magnitude of an owner's improper use of the original design documents runs the gamut from redrawing or replotting the original drawings to retain similarity to the original design, to unabashed copying of the original drawings and notes with only the title block changed. In all of these circumstances, inquiries from the original designers contain the same refrain—"Can the owner do that and what can I do about it?". This article addresses the original design professional's rights and available tools to

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With a practice group comprised of nineteen lawyers whose combined experience approaches two centuries, we are the most experienced group of attorneys in the area, dedicated exclusively to representing design professionals.

LETTERS TO THE EDITOR

In response to an earlier Practice Tip column regarding the permitted use of proprietary specifications in New York, one of our readers recently questioned whether public bid jobs are permitted to specify patented products or systems:

Dear Legal Counsel,

We have done numerous public bid projects and have come across the question of specifying patented systems or products. What can be done when the most appropriate product or system for a given problem results in a patented system or product, thereby creating a proprietary specification? What about the case where the design itself creates the need for the proprietary specification? Are public bid jobs not permitted to specify patented products or systems, because a patent by nature means that there are no equals?

Dear Reader:

We often receive inquiries regarding the propriety of specifying patented products in the public sector, since it is often the patented products that are considered by the design professional to be "the best". However, a patent alone does not make the product the best product for the end use, and the determination that the patented product is the best does not mean that it has no equal. It simply means that the exact product, having been invented by one manufacturer, cannot be manufactured and sold by another. The patented product or process equally available to all bidders may be specified without contravening competitive bidding mandates, however, we caution against drafting a specification to the advantage of one manufacturer not for any reason in the public interest, but rather to insure the award of the contract to that particular manufacturer or supplier.

The design professional must be prepared to review the contractor's submittal of substitutions purporting to consist of an equal or better product to demonstrate the benefits of the patented product as compared to other available products, that no other product provides substantially equivalent or similar benefits and that the acquisition of the product is relatively cost effective. An analysis that the price to be paid is reasonable in comparison with other methods, taking into consideration the particular benefits of the patented product, should also be performed. In other words, the concept of sole source procurement, i.e., the specification of the patented product or process, will still be subject to the competitive bidding laws and the contractor or supplier will have the opportunity to substitute an equal product or process unless absolutely no possibility of competition is found to exist. The design professional should be prepared to supply the back-up to defend the municipality's decision on the proposed substitution, as well as to provide the analysis of the product's benefits and cost effectiveness.

In This Issue ...

LEGISLATIVE UPDATE

Statute of Repose

The Statute of Repose, introduced to foreclose most litigation against design professionals and contractors that is commenced more than ten years from the completion of their work, continues to be pushed by New York Assemblyman Canestrari. This proposed Bill bars all personal injury, wrongful death and property damage claims commenced ten years or more from the date of substantial completion. If passed, this legislation would repeal the current law which restricts, but does not prohibit, the ability to institute legal action against design professionals and contractors where their services were completed more than ten years prior to the time of the accident. Assemblyman Canestrari's office advises that this proposed legislation is currently in the Higher Education Committee and is not expected to be introduced to the full Assembly until next year. The proposed Bill, under discussion for several years, appears to lack the support of a majority of the Assembly and the Senate at the present time.

Unlicensed Practice

Assemblyman Canestrari is also focused on the unlicensed practice of architecture and engineering. To these ends, Assemblyman Canestrari has introduced a Bill providing for a nominal fee charged at the time of licensure or renewal of the design professional's license. This fee would provide the funding necessary to enforce the State Education Department's authority to prosecute unlicensed individuals who practice architecture or engineering, as well as those licensed practitioners who facilitate the unlicensed practice of these professions. This Bill is presently in the Rules Committee and without a sponsor in the Senate.

THE RESIDENT ENGINEERING MINEFIELD

By: Douglas L. Pintauro, Esq. and Orin J. Ketyer, Esq.

TYPICAL RESIDENT engineering services generally obligate the engineer to monitor or inspect the contractor's activities for conformance with the contract documents. In fact, resident engineer standard form contracts used by the New York State Department of Transportation ("NYSDOT"), New York City Department of Transportation ("NYCDOT"), New York State Thruway Authority ("NYSTA"), Triboro Bridge and Tunnel Authority ("TBTA"), New York City Economic Development Corporation ("NYCEDC"), as well as other agencies, all contain similar, non-negotiable provisions. What often goes unnoticed, however, is that these standard contracts frequently reference additional documents, such as the general conditions or the Standard Specifications, which not only expand upon the resident engineer's duties and responsibilities, but in some instances contradict the obligations identified in the standard form contract. By way of example, while the contract may simply make reference to the resident engineer's obligation to inspect the contractor's work and activities, the general conditions (which are part of the contract documents and therefore bind the resident engineer) sometimes obligate the resident engineer to direct, supervise and control the contractor's activities, resulting in a dramatic increase in the resident engineer's obligations and liability risks.

One of the more commonly overlooked and misunderstood resident engineer contract provisions relates to the contractor's means and methods of construction. In this regard, certain resident engineering contracts specifically state that the engineer is neither in control of, nor responsible for, the means and methods of construction inasmuch as this is the sole responsibility of the contractor. While this would seem to completely absolve the resident engineer of responsibility for any accidents, injuries, or damages sustained on the job as a result of the contractor's means and methods of construction, oftentimes the resident engineer's contract or the general conditions contains language which suggests otherwise. Specifically, it is not uncommon for NYSDOT, NYCDOT, TBTA, NYSTA and other similar resident engineering contracts to contain the following provision:

"If the resident engineer reasonably believes that the means and methods of construction proposed by the contractor will constitute or create a hazard to the work, or to persons or property, or will not produce finished work in accordance with the terms of the contract documents, such means and methods must be reported to the Commissioner."

Since means and methods are historically viewed as being within the contractor's sole discretion, such contract provisions are often overlooked, ignored or misunderstood by the resident engineer, especially in cases where the contract documents also include the provision that the contractor is solely responsible for the means and methods of construction. The fact is, however, that such provisions do impose certain obligations upon the resident engineer relative to the means and methods of construction. In doing so, they also expose the resident engineer to certain additional liability risks that may arise from the contractor's means and methods.

Resident engineer standard form contracts…frequently reference additional documents…which contradict the obligations identified in the standard form contract.

Considering the above, the resident engineer must remain mindful of several significant factors:

- Such contract provisions only impose an obligation upon the resident engineer when there is a "reasonable" belief that the means and methods of construction will create one of the referenced problems or risks. What is considered reasonable, however, is subjective and, therefore, determined by the surrounding facts and circumstances. Accordingly, it may not be reasonable to question the contractor's means and methods if they have already been reviewed and approved by the owner's professional staff or the project engineer. Considering today's litigious climate, however, if such a problem with the contractor's means and methods is

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Copyright Protection

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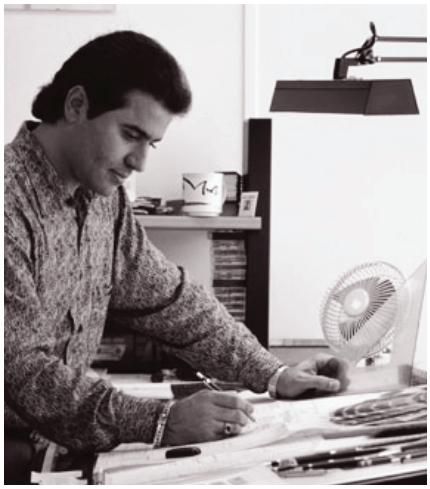
redress this situation and offers options to minimize its future occurrence.

Hopefully, the original design professional's agreement for services was carefully drafted to avoid the transfer of copyright ownership and the attendant exclusive rights to the use of his or her work product. Many owner-prepared agreements insert these undesirable provisions, often in a disguised form. Any express transfer of ownership rights, any provisions stating that the designer's work product is created for the owner as a "work for hire", or any provision of an unlimited license to use the work product under any circumstances, including termination for the owner's convenience, should be removed, or at least amply compensated.

Some design professionals are shocked to discover that by their contract they unwittingly handed their clients the right to use their work product for any purpose whatsoever, including the completion of the project without them. Of course, even where the right to use was contractually transferred, the designer should still be able to recover any outstanding fees for services, along with certain damages resulting from any premature termination not resulting from fault. However, where the right to use was transferred away contractually, lost is the ability to recover damages resulting from the client's unauthorized use of the work product.

Assuming the design professional did not contractually transfer ownership rights or give away the unlimited right to use the work product, the design professional's rights and remedies will be governed by the terms of its agreement for services. Standard form agreements generally provide that the design professional retains all rights of ownership to the design documents, including the copyright. Most standard form agreements limit the owner's authorized use of the design professional's work product to the completion of the project at hand upon full payment. Prohibited is the owner's use of the work product for the completion of the project, or additions to the project, without the original designer's and consultants' written consent. The original designer is not likely to agree to another designer's use of the work product unless adequate compensation is an integral part of the transaction. The standard form agreements also mandate that the owner's improper use of the design documents is at the owner's own risk, without any liability to the original design professional. However, even this beneficial provision should be reinforced with the addition of the owner's obligation to defend and indemnify the original designer in the event the original designer is sued as a result of the completion of the project by another.



Generally, the standardized forms of agreement grant owners the right to use the original design documents to construct, use and maintain the project as long as the owner pays the design professional pursuant to the agreement's payment provisions. Termination of the design professional prior to the project's completion automatically terminates the owner's right to use the design, unless a court or arbitrator later determines that the original designer is in default of the agreement. Only then is the owner contractually permitted to retain replacement credentialed design professionals to make changes, corrections and additions to the original design professional's designs, but even then, only for the purpose of completing and maintaining the project.

Typically, owners take it upon themselves to determine that the original designer performed improperly, thereby justifying handing over the original design documents to the owner's new design professional. The standard form agreements, however, permit only an arbitrator, judge or jury, to determine whether the original designer's services were improperly performed. Permitting the replacement design professional to use the original designs without an adjudication of the original designer's fault may subject both the owner and the replacement design professional to liability for breach of contract if the owner is subsequently found incorrect.

The potential to pursue a breach of contract claim is often unavailable to the original designer solely as a result of deficiencies in his or her contract. Unfortunately, most nonstandardized agreements

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> Design professionals are shocked to discover that…they unwittingly handed their clients the right to use their work product for…the completion of the project without them.

THE WISDOM OF SETTLING A NO-LIABILITY CASE

By: Orin J. Ketyer, Esq.

IT IS AN UNFORTUNATE truism that design professionals can expect to be sued at some point in their careers. As anyone who has been involved in a lawsuit knows, this can be an emotionally charged experience where one's professionalism, competence, reputation and integrity may be called into question.

Adding insult to injury, on occasion the design professional is included in a lawsuit when he or she had no hand in causing the damages being sought. Understandably, a common initial reaction to being sued in a "no liability" case is to stand on principle and vow to fight to the bitter end. In many cases, a scorched earth approach toward such a lawsuit is necessary to place unscrupulous plaintiffs on notice that their tactics will not be tolerated. Vigorously defending a lawsuit believed to be meritless could, however, have a greater impact on a design professional's business than may be initially realized.

Oftentimes, it is beneficial to view a lawsuit in the larger context of the professional's practice. For example, it is not uncommon for a design professional's client (i.e. - the owner) to sue the design professional and its consultants for perceived design errors and omissions, or for failing to ensure that the contractor's work complies with the design documents. Given the fierce competition to attract and retain clients, consideration must be given to how the decision to handle this lawsuit will be received. Indeed, there may be instances where exercising the right to defend oneself may result in the cooling of an existing relationship with a client. Agreeing to settle a lawsuit under circumstances where the design professional arguably did nothing wrong may be a bitter pill to swallow, but maintaining a relationship with a valued client may ultimately be in the best long-term interests of the design professional's practice.

Vigorously defending a lawsuit believed to be meritless could. . .have a greater impact on a design professional's business than. . . initially realized.

Of course, there will be situations where it may be tempting to fight a lawsuit even at the cost of alienating a client. There are, however, business consequences associated with defending a lawsuit that go beyond client relations. As a businessperson, the top priorities are providing quality services for existing clients and developing new business. Defending a lawsuit will require diverting a significant amount of time and resources that would otherwise be spent on developing business. Since most professional liability policies contain clauses which obligate the design professional to cooperate in the defense of the lawsuit in order to avoid the insurer from disclaiming coverage, the design professional may be spending more time with lawyers than with clients or on projects designed to generate business.

During the course of a typical lawsuit, time will need to be set aside for initial meetings with counsel to discuss the details of the project in issue, respond to opposing parties interrogatories, undertake a review of the project file in order to cull relevant documents, as well as review the adversaries' claims and discovery responses with counsel in order to develop effective defense strategies. In addition to participating in the "paper" phase of discovery, it will be necessary to meet with counsel to prepare for depositions. Depending on the nature of the claims asserted, the deposition of the

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About Our Newsletter

Legal Counsel for the Design Professional addresses current legal developments affecting architects and engineers. The articles contained in this publication are for your information. You are advised to consult with legal counsel to address whatever specific issues you may have. Your questions, comments and suggestions are appreciated and should be directed to Douglas L. Pintauro, Esq., L'Abbate, Balkan, Colavita & Contini, L.L.P., 1050 Franklin Avenue, Garden City, New York 11530, telephone no. 516.294.8844, email: dpintauro@lbcclaw.com.

Engineering Minefield

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perceived, the resident engineer may be better served by placing the owner or Commissioner on written notice of those concerns rather than engage in a debate over what is and is not reasonable during the course of a lawsuit.

• These and other similar contract provisions generally refer to means and methods of construction that are proposed by the contractor. This implies that the resident engineer has no obligations relative to the means and methods of construction if the contractor does not submit the planned means and methods to the resident engineer before actually proceeding with construction. While this may be the case, once the resident engineer is aware of the means and methods and "reasonably" believes that they will create one of the enumerated hazards or problems, the resident engineer will be hard pressed to justify why the Commissioner or owner was not apprised of the resident engineer's concerns.

• Significantly, these contract provisions neither obligate nor authorize the resident engineer to report the resident engineer's concerns about the contractor's means and methods to the contractor. To do so, therefore, would not only result in the resident engineer assuming obligations and liabilities that were not part of the resident engineer's bargained for contract, but could constitute a breach of the agreement if the Commissioner or owner was not notified.

Problems with such contract provisions are compounded when the general conditions contain seemingly similar, but very different terms. In fact, it is not uncommon for the NYCDOT and other agencies to use standard form contracts containing the clause noted above with general conditions containing the following provision:

"…the Means and Methods of Construction shall be such as the Contractor may chose; subject, however, to the Engineer's right to reject the Means and Methods of Construction proposed by the Contractor which in the opinion of the Engineer:

— will constitute or create a hazard to the Work, or to persons or property; or

— will not produce finished work in accordance with the terms of the contract; or

— will be detrimental to the overall progress of the project.

The Engineer's approval of the contractor's Means and Methods of Construction, or his/her failure to exercise his/her right to reject such means or methods, shall not relieve the Contractor of its obligation to complete the work as provided in this contract…"

Unlike the contract provision which simply obligates the engineer to report means and methods that may reasonably create one of the referenced problems, the general conditions provision specifically empowers the engineer with the right and the obligation to reject the contractor's proposed means and methods which, in the opinion of the engineer, constitute or create a hazard to the work, etc. In short, the general conditions expand the engineer's

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Copyright Protection

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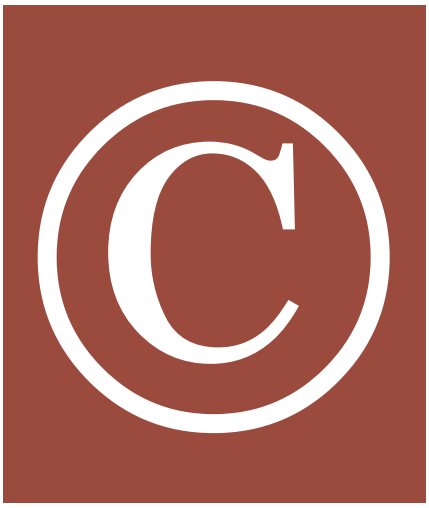
for design services, such as a design professional's typical letter agreement or proposal, fail to address the issue of the owner's unauthorized use, leaving the original designer with no contractual remedy other than the right to enforce his or her copyright as the author of the design documents.

So what may the original design professional do when an owner continues to use the original designs without the original designer? Certainly lawsuits or other dispute resolution proceedings, such as mediation or arbitration, are viable options. If the agreement adequately addresses these issues, the violation of the agreement by the unauthorized use, or misuse, of the designs may result in an award of monetary damages. Even if the



owner's unauthorized use is not adequately addressed, the designer may commence a copyright infringement claim against the owner and the replacement design professional for their use of the original design to complete the project without the consent of the original designer. However, this proceeding is often costly to pursue and may not necessarily result in a favorable or worthwhile judgment.

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WHAT YOU SHOULD KNOW ABOUT PROFESSIONAL LIABILITY INSURANCE CLAIMS

By: Douglas L. Pintauro, Esq.

SINCE THE EARLY 1980s, insurers authorized to issue professional liability policies in New York have been obligated to report any judgment, settlement or other disposition of a claim against a licensed architect or engineer to the New York State Education Department. Specifically, under §315 of the New York Insurance Laws, insurers:

"…authorized to issue professional liability insurance policies in [New York] State [must] report any disposition, whether by judgment or settlement, of any claim made against an individual licensed pursuant to the provisions of Title 8 of the Education Law where the claim was based upon fraud, incompetence or negligence…"

In part, these reports are used by the Education Department to assist it in determining whether or not there is a pattern of fraudulent, incompetent or negligent conduct by any one licensed professional which would warrant further investigation and/or disciplinary action by the Office of Professional Discipline. Since the Education Department cannot investigate every claim, however, it generally focuses on the more severe claims (e.g., building collapses, serious personal injuries, etc.), claims involving health and safety issues, and licensed professionals that have a history or pattern of claims. Accordingly, while investigations arising from the notification of such claims are not typical, they can result in disciplinary action. With that in mind, an architect or engineer that receives an inquiry or request for information from the Office of Professional Discipline should take it seriously and seek the advice of counsel before responding.

While the statute provides that "any disposition" of any claim based on fraud, incompetence or negligence against a licensed professional must be reported, considering the intent of the statute, it seems that claims that are voluntarily discontinued, dismissed without payment, or that result in a defense verdict need not be reported. Notwithstanding these possible exceptions, however, it is clear that any payment, even those considered to be nominal and/or "nuisance value", must be reported.

It should also be noted that the statute only requires claims based upon fraud, incompetence, or negligence to be reported. Consequently, claims premised upon, for example, defamation, tortious interference with contractual relations and perhaps even some breach of contract claims, may not necessarily fall within this provision.

Unfortunately, the potential repercussions from the New York State Education Department should not be the design professionals' only concern with respect to reporting a claim. Specifically, while any report filed in compliance with this statute is deemed to be a confidential communication, it is nevertheless discoverable pursuant to a judicial subpoena issued in a pending action

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SEMINAR BULLETIN

LBC&C recently presented a topical seminar for architects and engineers addressing the pitfalls and opportunities inherent in design professionals' services agreements. This well-attended seminar, presented by firm partners Paula M. Gart and Douglas R. Halstrom, along with Greg Kumm from Prosurance/Redeker Group, Ltd., was given to the Queens Chapters of the American Institute of Architects and of the New York State Society of Professional Engineers.

Paula Gart also recently presented a program focusing on the laws and regulations governing engineers, with a focus on the laws of copyright protection, to members of the Long Island Region of the American Council of Engineering Companies of New York.

Paula presented a similar course geared to architects to the Westchester/ Mid-Hudson Chapter of the American Institute of Architects in July of this year.

Information regarding these and other seminars may be obtained by contacting Margie Morabito at 516-294-8844 or mmorabito@lbcclaw.com.

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contractual obligations by, among other things, now requiring the engineer to approve or reject the contractor's means and methods. In addition, such approval or rejection of the proposed means and methods is not based upon a reasonable standard, but upon the engineer's opinion. Since the engineer's opinion is a less definable standard, the overall effect of such terminology and conflicting provisions is that the engineer's potential liability is increased.

The New York State and New York City agencies' resident engineer contract documents contain other obscure, supplemental, misunderstood, conflicting and unnoticed contract obligations that affect the resident engineer's scope of inspections, site safety responsibilities and overall authority. Since these contracts are rarely negotiable, the resident engineer would be well served to understand the contract obligations and, where appropriate, convey those obligations to its field inspectors in order to minimize claims, or where litigation is inevitable, to minimize the resident engineer's exposure and liability to those claims. ■

The Wisdom of Settling

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design professional can drag on for days. If the case is not resolved, an extensive amount of time will be spent meeting with experts and counsel in preparation for trial. Finally, the trial itself may last for weeks, depending on the case.

The decision whether to litigate or settle can have far-reaching consequences. The impact on client relations and on the design professional's own practice are just two matters that should be carefully considered in this decision process. With so much at stake, it is prudent to consult with experienced counsel to assist in determining the best course of action, keeping in mind that there are always those fights that just need to be fought. ■

What You Should Know

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or proceeding. In short, an adversary in a pending lawsuit can obtain copies of such reports by serving a subpoena upon the New York State Education Department. With this in mind, the design professional should maintain records concerning previously asserted claims so that they can be properly addressed when the past catches up. ■

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Alternatively, knowledgeable legal counsel may successfully lead the parties to consensus without resorting to formal and expensive dispute resolution proceedings. A negotiated settlement may recover all or part of the original designer's unpaid fees, as well as reasonable compensation for the owner's future use of the designs. Importantly, the original designer should strive to obtain legal protection from claims and damages that may result from the completion of the project without his or her input, or as a result of any changes made by the replacement design professional. Of course, if these protections had been agreed upon in the original designer's contract with the owner, a negotiated settlement would have a greater chance of success since the legal "teeth" to facilitate such resolution already exists.

Occasionally, an owner ignores the original design professional's efforts to achieve resolution, and continues its unauthorized use of the original designs, leaving the original designer in the unenviable position of having to commence a proceeding to enforce his or her rights. Whether the designer ultimately pursues these rights is dependent on many factors, such as the amount of unpaid fees, the stage of the project at the time, the design's significance to the designer and its originality and protectibility under copyright law, the extent of the owner's misuse or copying, and an understanding of potential liability exposure to the designer if the project is not completed as originally envisioned. A thorough analysis of all of these issues with legal counsel actively involved in this area of law should be sought prior to investing time and money in this pursuit. Regardless of the decision, design professionals are best served when the protections are negotiated and agreed upon in their contracts before the project begins. ■

About The Firm

LBC&C, founded in 1981, has offices in Garden City, New York, Livingston, New Jersey and Manhattan. From these three locations, the firm provides a wide array of legal services to design professionals throughout the New York Metropolitan area, Long Island, upstate New York counties and central and northern New Jersey. In addition to representing design professionals, the firm also has a recognized practice in other areas of professional liability, as well as environmental, product liability and insurance law. As a full service law firm with a total staff of more than 150, LBC&C provides legal counseling, as well as litigation services, on matters affecting its clients from business issues to employment and labor practices. Always on the alert to new trends in business and changes in the law, LBC&C is continuously striving to keep its clients ahead of their competitors. Working in conjunction with each other, the Practice Groups at LBC&C provide a network of legal experience that can meet any needs faced by today's design professional. For additional information visit our website at www.lbcclaw.com.