

THOUGHT LEADERSHIP

News

JUDGMENT THAT ALLOWED INSURED TO POCKET SANCTIONS AWARD WHEN INSURER PAID DEFENSE COSTS VACATED ON APPEAL

Newsbrief

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The Dallas Court of Appeals on Tuesday negated a trial court judgment in favor of an insured in a dispute over whether a sanctions award of “attorney’s fees and costs in defending the action” belongs to the insured or to the insurer which paid for the insured’s defense. *MGA Insurance Co. v. Charles R. Chesnutt, P.C.*, 2012 WL 50615, No. 05-10-00410-CV (Tex. App.—Dallas Jan. 10, 2012) concerned the proceeds of an attorneys’ fees award in a separate professional malpractice suit in which MGA had provided a defense to Charles Chesnutt, an attorney and principal of Chesnutt, P.C. The court held that Chesnutt, P.C. had failed to establish its entitlement to judgment as a matter of law.

In the resolution of the separate lawsuit, Chesnutt obtained a “death penalty” sanction dismissing the case and awarding attorney’s fees and costs in the amount of \$114,770.50. MGA notified Mr. Chesnutt that it asserted a contractual right to the sanctions award because it paid his attorneys’ fees and defense costs. A year later, Chesnutt withdrew the money from the registry of the court for himself. MGA sued Chesnutt and Chesnutt PC for “money had and received” (also known by the legal term “assumpsit”) and for a declaration that MGA was entitled to the proceeds of the sanctions award.

The trial court granted summary judgment to Chesnutt. The Court of Appeals, however, reversed holding there was a question of fact as to whether the money belonged to Chesnutt, as expressly stated in the judgment in the separate suit, or whether the money “in equity and good conscience” belonged to MGA, which paid the attorney’s fees and costs for which the money was intended as compensation. The court also held Chesnutt failed to identify any clause in the insurance policy that addressed the dispute over the sanctions award, and further ruled against Chesnutt on his various affirmative defenses contending MGA was suing over matters already addressed in the judgment in the separate litigation.