

THOUGHT LEADERSHIP

News

COURT ERRS IN APPLYING “EIGHT-CORNERS” ANALYSIS BEFORE CONSIDERING REFORMATION CLAIM

Newsbrief

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Last Monday, the Fifth Circuit held that while a magistrate judge had constitutional authority to enter final judgment on state-law counterclaims, the judge erred in applying an eight-corners analysis to the insurer’s duty to defend without first considering the insurer’s equitable counterclaim for reformation based on mutual mistake. In *Technical Automation Services Corporation v. Liberty Surplus Insurance Corporation*, 2012 WL 688520 (5th Cir. (Tex.), March 5, 2012), an insured sought a defense under their commercial general liability policy for negligence claims after a chlorine leak caused bodily injuries at a chemical plant. The insurer sought reformation of the policy based on a mutual mistake wherein the wrong endorsement was inserted into the policy. The magistrate refused to consider parol evidence, found that the endorsement was ambiguous and applied the “eight-corners” rule in finding the insurer had a duty to defend. This appeal followed.

The Fifth Circuit held that the magistrate had the constitutional authority to enter final judgment on state-law claims and then turned its focus to the argument that the magistrate erred in interpreting the endorsement before determining whether its inclusion in the policy was the result of mutual mistake. The court observed that when “mutual mistake is alleged, the first task of the court is not to apply, perfunctorily, the “eight-corners” rule and then directly proceed to interpret the insurance policy. Instead, the first matter to address is whether the disputed provision results from an agreement between the parties.” And, the court noted that the parol evidence rule does not apply to determinations of “mutual mistake, even when the contract is unambiguous or fully integrated.” The Fifth Circuit held that the magistrate should have resolved the mutual mistake allegations before interpreting the contract and reversed, vacated and remanded the judgment for further proceedings.