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Featured Articles

Is What Is Good For The Goose Good For The Defendant?

by Greg Farkas

Application Of The *Twombly-Iqbal* Pleading Standard To Affirmative Defenses In The Sixth Circuit

The United States Supreme Court's decisions in *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007), and *Ashcroft v. Iqbal*, 556 U.S. 662, 129 S.Ct. 1937 (2009), are widely regarded as having revolutionized federal pleading practice. A complaint now must contain "enough facts to state a claim to relief that is plausible on its face." *Twombly*, 550 U.S. at 570. "Threadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice." *Iqbal*, 556 U.S. at 678. Defendants have relied upon this heightened pleading standard to aggressively challenge complaints through the filing of motions to dismiss.

But are these heightened pleading standards only applicable to complaints? After all, an answer containing affirmative defenses is a pleading as defined by Fed. R. Civ. P. 8. This raises the question of whether the "plausibility" standard articulated by *Twombly* and *Iqbal* with respect to complaints under Fed. R. Civ. P. 8(a) also applies to affirmative defenses pled under Fed. R. Civ. P. 8(c).

District courts have split over this issue. The majority rule is that the *Twonbly-Iqbal* standard applies to the pleading of affirmative defenses. *See*, *e.g., Perez v. Gordon & Wong Law Grp., P.C*, No. 11-cv-033231, 2012 U.S. Dist. LEXIS 41080, at *24 (N.D. Cal. March 26, 2012) (collecting cases and concluding that majority of courts have applied the *Twonbly-Iqbal* standard to affirmative defenses); *Gessle v. Jack in the Box, Inc.*, 3:10-cv-960, 2011 U.S. Dist. LEXIS 99419, at *6 (D. Or. Sept. 2, 2011) (recognizing application of *Twonbly-Iqbal* standard as majority rule and citing cases – adopting same); *Hayne v. Green Motor Sales*, 236 F.R.D. 647, 649-50 (D. Kan. 2009) (finding that the "majority of courts addressing the issue . . . have applied the heightened pleading standard as announced in *Twombly*, and further clarified in *Iqbal*, to affirmative defenses"); *Riemer v. Chase Bank United States, N.A.*, 274 F.R.D. 637, 640 (N.D. Ill, 2011) (noting that more than 100 cases have considered the issue and that while it may be a "stretch" to say "vast majority" have adopted the rule, "it does appear that a majority" have). The minority position is that the *Twonbly-Iqbal* standard is not applicable to affirmative defenses. *See*, *e.g.*, *Lane v. Page*, 272 F.R.D. 581, 589-90 (D.N.M. 2011) (listing cases applying minority rule and adopting same); *Equal Employment Opportunity Commission v. Joe Ryan Enter., Inc.*, 281 F.R.D. 660, 662 (M.D. Ala. 2012) (joining "growing minority" of courts that have refused to apply the *Twonbly-Iqbal* standard to affirmative defenses).

A variety of arguments have been advanced in support of both positions. Proponents of applying the *Twonbly-Iqbal* standard to affirmative defenses have argued that it is illogical or unfair to apply different pleading standards to plaintiffs and defendants. *See*, *e.g., OSF Healthcare Sys. v. Banno*, No. 08-1096, 2010 U.S. Dist. LEXIS 7584, at *3 (C.D. Ill. Jan. 29, 2010); *Holtzman v. B/E Aerospace, Inc.*, No. 07-80551-CIV, 2008 U.S. Dist. LEXIS 42630, at *6 (S.D. Fla. May 29, 2008) ("[*Twombly's*] same logic holds true for pleading affirmative

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defenses -- without alleging facts as part of the affirmative defenses, Plaintiff cannot prepare adequately to respond to those defenses."); *United States v. Quadrini*, No. 2:07-CV-13227, 2007 U.S. Dist. LEXIS 89722, at *11-22 (E.D. Mich. Dec. 6, 2007); *Hayne v. Green Ford Sales, Inc.*, 263 F.R.D. 647, 649-50 (D. Kan. 2009). Courts have also held that applying the standard to affirmative defenses is consistent with the policy goals underlying *Twombly* and *Iqbal*. *See*, *e.g., Palmer v. Oakland Farms, Inc.*, Civ. No. 5:10-cv-00029, 2010 U.S. Dist. LEXIS 63265, at *15 (W.D. Va. June 24, 2010); *Shinew v. Wszola*, Civ. No. 08-14256, 2009 U.S. Dist. LEXIS 33226, at *10-11 (E.D. Mich. Apr. 21, 2009); *Burget v. Capital W. Sec., Inc.*, No. CIV-09-1015-M, 2009 U.S. Dist. LEXIS 114304, at *5-6 (W.D. Okla. Dec. 8, 2009); *Safeco Ins. Co. of Am. v. O'Hara Corp.*, No. 08-CV-10545, 2008 U.S. Dist. LEXIS 48399, at *1-2 (E.D. Mich. June 25, 2008).

Opponents of applying the *Twonbly-Iqbal* standard to affirmative defenses have noted that nothing in those decisions explicitly refers to affirmative defenses. *See*, *e.g., Lane,* 272 F.R.D. at 591; *Ameristar Fence Prod., Inc. v. Phx. Fence Co.*, No. CV-10-299-PHX-DGC, 2010 U.S. Dist. LEXIS 81468, at *3 (D. Ariz. July 15, 2010); *McLemore v. Regions Bank,* No. 3:08-cv-0021, 2010 U.S. Dist. LEXIS 25785, at *13 (M.D. Tenn. Mar. 18, 2010); *First Nat'l Ins. Co. of Am. v. Camps Servs.*, No. 08-cv-12805, 2009 U.S. Dist. LEXIS 149, at *4 (E.D. Mich. Jan. 5, 2009); *Romantine v. CH2M Hill Eng'rs, Inc.*, No. 09-973, 2009 U.S. Dist. LEXIS 98699, at *4 (W.D. Pa. Oct. 23, 2009). Courts rejecting the application of *Twombly* and *Iqbal* to affirmative defenses have also argued that complaints are governed by Fed. R. Civ. P. 8(a)(2), while affirmative defenses are governed by Fed. R. Civ. P. 8(c), and that the language of the latter does not require a defendant to "show" an entitlement to relief. *See*, *e.g.*, *Hansen v. Rhode Island's Only 24 Hour Truck & Auto Plaza, Inc.*, No. 12-10477-NMG, 2012 U.S. Dist. LEXIS 145129, at *9-10 (D. Mass. Oct. 9, 2012); *Federal Trade Comm'n v. Hope Now Loan Modifications*, LLC, No. 09-1204, 2011 U.S. Dist. LEXIS 24657, at *8-9, *12 (D.N.J. Mar. 10, 2011); *Lane*, 272 F.R.D. at 592-93; *Ameristar Fence Prod., Inc. v. Phoenix Fence Co.*, No. CV-10-299-PHX-DGC, 2010 U.S. Dist. LEXIS 81468, at *3 (D. Ariz. July 15, 2010); *Charleswell v. Chase Manhattan Bank, N.A.*, CIV.A. No. 01-119, 2009 U.S. Dist. LEXIS 116358, at *4 (D.V.I. Dec. 8, 2009). Finally, courts rejecting the application of the *Twonbly-Iqbal* standard to affirmative defenses have noted that differences in access to information and the timing of the filing of the pleadings argue against application of a heightened standard to affirmative defenses. *See*, *e.g., Odyssey Imaging, LLC v. Cardiology Assocs. of Johnston, LLC*, 752 F. Supp. 2d 721, 726 (W.D. Va. 2010); *Leon v. Jacobson Transp. Co.*, No. 10 C 4939, 2010 U.S. Dist. LEXIS 123106, at *3 (N.D. Ill. Nov. 19, 2010); *Holdbrook v. SAIA Motor Freight Line, LLC*, No. 09-cv-02870-LTB-BNB, 2010 U.S. Dist. LEXIS 29377, at *4 (D. Colo. Mar. 8, 2010); *Baum v. Faith Techs., Inc.*, 10-CV-0144-CVE-TLW, 2010 U.S. Dist. LEXIS 56704, at *7-8 (N.D. Okl. June 9, 2010). An extremely useful summary and analysis of these arguments can be found at Nathan Psyno*, Should Twombly and Iqbal Apply to Affirmative Defenses?*, 64 Vanderbilt Law Rev. 1633 (2012).

As of now, it appears that no federal circuit court of appeals has directly resolved this issue. The Sixth Circuit was explicitly presented with the question, but declined to answer it. *Herrera v. McGee,* 680 F.3d 539, 547 n.6 (6th Cir. 2012). Another Sixth Circuit case, decided after *Twombly* and *Iqbal,* held that a statute of repose affirmative defense was adequately pled under a "fair notice" standard. *Montgomery v. Wyeth*, 580 F.3d 455, 468 (6th Cir. 2009). However, there was no analysis of the competing argument for application of the *Twonbly-Iqbal* standard to affirmative defenses, discussion of *Twombly* or *Iqbal* in connection with this holding, or, indeed, any reference to *Twombly* or *Iqbal*.

Without guidance from the Sixth Circuit, district courts within the Sixth Circuit have mirrored the nationwide split on the application of the *Twonbly-Iqbal* standard to affirmative defenses. A number of courts have decided that the standard does apply. *See*, *e.g., Edizer v. Muskingum Univ.*, No. 2:11-cv-799, 2012 U.S. Dist. LEXIS 140010, at *31 (S.D. Ohio Sept. 28, 2012); *Nixson v. Health Alliance,* No. 1:10-cv-0038, 2010 U.S. Dist. LEXIS 133177, at *3-4 (S.D. Ohio Dec. 15, 2010); *Shinew*, 2009 U.S. Dist. LEXIS 33226, at *10-11; *Safeco*, U.S. Dist. LEXIS 48399, at *1-2; *Quadrini*, 2007 U.S. Dist. LEXIS, at

*11-12. Others have reached the opposition conclusion. *International Outdoor, In. v. City of Southgate*, No. 2:11-cv-14719, 2012 U.S. Dist. LEXIS 85952, at *32-33 (E.D. Mich. April 26, 2012) (declining to apply standard to affirmative defenses absent express Sixth Circuit authority); *Paducah River Painting, Inc. v. McNational Inc.,* 5:11-cv-00135, 2011 U.S. Dist. LEXIS 13129, at *8 (W.D. Ky. Nov. 14, 2011); *Holley Performance Prods., Inc. v. Quick Fuel Tech., Inc.*, Case No. 1:07-cv-00185, 2011 U.S. Dist. LEXIS 81710, at *7 (W.D Ky. July 26, 2011); *McLemore*, 2010 U.S. Dist. LEXIS 25785, at *46 (holding standard only applies to complaints); *First Nat'l Ins. Co. of Am. v. Camps Servs.,* No. 08-cv-12805, 2009 U.S. Dist. LEXIS 149, at *4-5 (E.D. Mich. Jan. 5, 2009).

Even within the Northern District of Ohio, district courts have split. The Honorable Judges Jack Zouhary and The Honorable Solomon Oliver, Jr. have held that the *Twonbly-Iqbal* standard is applicable to affirmative defenses. *See HCRI TRS Acquirer, LLC v. Iwer*, 708 F. Supp. 2d 687, 691-92 (N.D. Ohio 2010) (citing policy reasons for applying *Twonbly-Iqbal* standard); *Microsoft Corp. v. Lutain*, No. 1:10-cv-1373, 2011 U.S. Dist. LEXIS 109918, *6-7 (N.D. Ohio Sept. 27, 2011) (finding no logical reason why *Twonbly-Iqbal* standard should not be applied). The Honorable Sara Lioi, The Honorable Christopher A. Boyko, and The Honorable Nancy A. Vecchiarelli have held that the *Twonbly-Iqbal* standard does not apply to affirmative defenses. *See Chiancone v. City of Akron*, No. 5:11-cv-337, 2011 U.S. Dist. LEXIS 108444, *11-12 (N.D. Ohio Sept. 23, 2011) (relying on difference in language between Fed. R. Civ. P. 8(a)(2) and 8(c) and citing *Montgomery*); *Microsoft Corp. v. Delta Computers, Inc.*, No. 1:10-cv-1161, 2010 U.S. Dist. LEXIS 143933, at *4 (N.D. Ohio August 11, 2010) (citing difficulty in pleading facts at the motion to dismiss stage); *Powers v. Fifth Third Mortgage Co.*, No. 1:09-cv-2059, 2011 U.S. Dist. LEXIS 85839, at *7-8 (N.D. Ohio July 18, 2011) (noting differences between Fed. R. Civ. P. 8(a)(2) and 8(c)).

Eventually, the Sixth Circuit, and likely the United States Supreme Court, will need to resolve this dispute. Until then, how can civil litigators in federal court deal with this split in the authority?

One answer is that the maxim "know your judge" applies with particular force to this situation. If you are before a judge who has determined that the *Twonbly-Iqbal* standard is applicable to affirmative defenses, you need to plead accordingly.

Another issue for litigators to consider is that the reflexive pleading of every possible affirmative defense may not be the best strategic decision. While pleading affirmative defenses is subject to Fed. R. Civ. P. 11, some attorneys err on the side of including doubtful defenses to avoid any possibility of waiver. The potential application of the *Twonbly-Iqbal* standard, coupled with the liberal standard for amendment, suggest that counsel should reconsider how they balance these considerations.

Finally, when there is strong factual basis for an affirmative defense already known to defense counsel at the pleading stage, counsel should consider "putting the cards on the table" and disclosing supporting facts in the answer. This practice not only will satisfy the *Twonbly-Iqbal* standard if it is applied to the affirmative defenses, but may also potentially influence how the plaintiff and the court evaluate the merits of the plaintiff's claim.

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Merely a Clue Or a Bright Line Test? Updates on Removal Standards Under the Class Action Fairness Act

by R. Scott Adams

After Congress enacted the Class Action Fairness Act, 28 U.S.C. §§ 1332(d), 1453, and 1711-15 in 2005 ("CAFA"), defendants gained the ability to remove class action cases beyond the general 30 days from the filing of the complaint. Courts have invoked varying standards for when defendants must identify that a case falls within CAFA jurisdiction, thus triggering a 30-day window to remove. By way of reminder, a case is removable under CAFA where (1) diversity jurisdiction exists, (2) the putative class of plaintiffs is 100 or more, and (3) the amount in controversy is $5,000,000.00 or more. 28 U.S.C. § 1332 (d). The general 1-year rule for invoking diversity jurisdiction does not apply under CAFA.

It is important for defense counsel to remain cognizant of the amount in controversy in "other papers" that may provide information about the alleged damages after the case gets underway, such as discovery responses and settlement demands. Courts have defined "other paper" to include any information received by the defendant "whether communicated in a formal or informal manner." *Yarnevic v. Brink's, Inc.*, 102 F.3d 753, 755 (4th Cir. 1996). Other papers do not include papers the defendant receives from the plaintiff before the initial filling of the complaint. *Carvalho v. Equifax Info. Services, LLC*, 629 F.3d 876, 885 (9th Cir. 2010). Also, they do not include papers from a separate cause of action. *Hannah v. Schindler Elevator Corp.*, No. 3:09-CV-353, 2010 WL 143757 (W.D.N.C. Jan. 8, 2010). Finally, they do not include papers that the defendant produces on their own. Other paper under the statute must be given to the defendant by the plaintiff. *B.C. v. Blue Cross of California,* No. CV 11-08961, 2012 WL 12782 (C.D. Cal. Jan. 3, 2012).

Courts follow two general methodologies to evaluate the removability of a case based on a defendants' receipt of "other papers": (1) the subjective "clue" test and (2) the objective "four-corners" of the document approach.

With respect to the original clue test, the court in *Kaneshiro v. N. Am. Co. for Life & Health Ins.*, 496 F. Supp. 452 (D. Haw. 1980), explained that this approach places the burden on the defendant of "scrutinizing the plaintiff's initial pleading, even if it is indeterminate on its face, and of removing within 30 days, at least unless the initial pleading provides "no clue" that the case is actually removable". *Kaneshiro*, 496 F. Supp. At 460. Under this test, a defendant would have an affirmative duty to investigate the complaint and any other documents received from the plaintiff beyond their face value if there was a "clue" the case could be removable. *Id.*

More recently, several courts have adopted a version of the "clue test" that places some obligation when the defendants possess subjective knowledge that gives rise to an obligation to remove. In *Curry v. Applebee's Int'l, Inc.*, No. 1:09-CV-505, 2009 WL 4975274 (S.D. Ohio Nov. 17, 2009), plaintiffs filed a motion to remand based on defendant's untimely removal. Defendants had removed the case on July 20, 2009, five days after a phone conversation with plaintiffs' council about damages entitled to each class member. *Id.* at 3. Plaintiff argued that prior to the July 15, 2009 phone conversation, several "other papers" including a settlement letter were presented to the defendant that would give notice of an amount in controversy exceeding $5,000,000. The court found that although the settlement letter requested an amount less than $5,000,000, 5 percent of total sales, the defendant was aware that plaintiffs were using total sales a "baseline for potential recoverable damages." *Id.* at 8. Therefore there was "sufficient evidence that the amount in controversy was more than likely greater than $5,000,000." *Id.* The court did not explicitly call its reasoning the "clue test, but it required the defendant to make a reasonable inference into the thought process of the plaintiffs. Recently, federal district courts have indicated that they will utilize the "clue test" in certain circumstances. *See e.g.*, *Stenger v. Carelink Health Plans, Inc.*, No. 5:10-CV-109, 2011 WL 2550850 (N.D.W. Va. Jun. 27, 2011).

Turning to the objective "four corners of the document" test, in *Lovern v. General Motors Co.*, 121 F. 3d 160 (4th Cir. 1992), the United States Court of Appeals for the Fourth Circuit held

"we will not require courts to inquire into the subjective knowledge of the defendant…Rather, we will allow the court to rely on the face of the initial pleading and on the documents exchanged in the case by the parties to determine when the defendant had notice of the grounds for removal, requiring that those grounds be apparent within the four corners of the initial pleading or subsequent paper." *Id.* at 162. The *Lovern* case is consistent with other cases from the 3rd and 5th Circuits. See *Foster v. Mutual Fire, Marine & Inland Ins. Co.*, 986 F.2d 48 (3d Cir.1993); *Chapman v. Powermatic, Inc.*, 969 F.2d 160 (5th Cir.1992). More recently, the Ninth Circuit in *Harris v. Bankers Life & Cas. Co.*, 452 F.3d 689 (9th Cir. 2005), expressly rejected the clue test, in favor of the objective standard set forth in *Lovern*. Courts recognize the value in avoiding a standard that might give rise to unnecessary and premature removals by defendants concerned about waiving their ability to remove under CAFA. *See e.g.*, *Dijkstra v. Carenbauer, et al.*, No. 5:11-CV-152, 2012 WL 1533485 (N.D.W.Va. May 1, 2012).

Several recent CAFA cases dealing with removability employed the objective four corners test. In *Thomas v. Bank of Am. Corp.*, 570 F.3d 1280, 1283 (11th Cir. 2009), the court held that "[a] case does not become removable as a CAFA case until a document is "received by the defendant from the plaintiff, be it the initial complaint or a later received paper ... [that] unambiguously establish[es] federal jurisdiction." *Id.* at 1283. In *Adelpour v. Panda Express, Inc.*, No. 10-02367, 2010 WL 2384609 (C.D. Cal. June 8, 2010), the court determined that the "other paper" defendant used to support his basis for removal were improper because "this type of internal investigation would represent no more than defendants' subjective belief about the amount in controversy based on knowledge in their possession. It is not information drawn from the four corners of any pleading or other paper received from plaintiff." *Id.* at 5. The court held defendants could not use a document they produced as evidence of removability under the "other paper" qualification of 28 U.S.C. § 1446, but in its reasoning adopted the *Lovern* "four corners" of the document approach to evaluating the amount-in-controversy from "other paper." *Id.* at 4- 5.

In conclusion, it is important to consider whether a document received from plaintiff through discovery or settlement discussions, even late in the case, is enough to give rise to CAFA removal. For defendants that prefer to litigate in federal court, it is possible to remove the case well after the litigation has begun. It is important to note that CAFA does provide for interlocutory review by the Courts of Appeals via petition, and therefore, even a successful removal may result in an appeal if the motion to remand is denied.

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Leadership Notes

Two Is Better than One!

by Peter E. Strand

This May, the Commercial Litigation Committee is presenting two top-notch seminars at the same time, in the same place. Our traditional single-seminar format now sports an entirely new structure – essentially two seminars for the price of one. A classic Business Litigation Seminar will be held in tandem with a separate Intellectual Property Seminar.

You will be welcomed in any session in either seminar, but your CLE credits will be offered via either your Business Litigation Seminar or Intellectual Property Litigation Seminar registration. As another plus, you will be able to network with speakers and attendees at both seminars with common breaks and social events.

To jump on this gravy train, you just follow three easy steps:

1. **Save the Date**

First, block your calendar today for May 8-10, 2013, in Chicago at the centrally located InterContinental Hotel on Michigan Avenue. We plan an active calendar of SLG meetings (with valuable CLE offerings) on Wednesday, May 8. The seminars will run concurrently on May 9 and 10.

2. **Select the Seminar that Best Fits Your Practice Needs**

Second, select the seminar that fits your needs. If your practice focuses almost entirely on either Intellectual Property Litigation or Business Litigation, plan to attend that seminar. Separate seminar brochures will be out soon. Keep your eye on the mail for both. Keep the one that relates to your practice area and give the other to a professional colleague who practices in that area as a not-too-subtle invitation hint!

To assist in making your selection, consider the outstanding offerings from the two seminars:

Business Litigation Seminar Highlights

DRI's 2013 Business Litigation Seminar brings you the latest case updates, strategies and tactics to keep you at the forefront of the law. The seminar features illustrious thought leaders covering such timely topics as the Class Action Fairness Act, the Foreign Corrupt Practices Act, IP rights and Antitrust protections, anti-counterfeiting measures, and insurance issues in settling commercial cases.

You'll learn the inside scoop from invited speakers such as in-house counsel from Toyota Motor Sales U.S.A., McDonalds, Tyson Foods, Inc., and Schneider Electric. Also taking the podium will be Marcus Maier, Deputy Director of the Federal Trade Commission, plus other consultants and pre-eminent trial attorneys.

Intellectual Property Seminar Highlights

Based on a problem drawn from an actual case, DRI's 2013 Intellectual Property Litigation Seminar will hit the legal high points of patent infringement, trademark and copyright issues, and protecting trade secrets.

Invited speakers include in-house counsel from Ford Global Technologies, DuPont, McDonald's, and Schneider Electric. Also at the podium will be Judge Fischer from the Eastern District of Pennsylvania speaking on the role of trial lawyers in intellectual property litigation.

You'll also hear from expert consultants and prominent trial attorneys from across the country who regularly practice and try intellectual property cases. They will discuss such timely topics as the America Invents Act, DuPont's $919MM trade secret verdict, practice before the International Trade Commission, *Prometheus* and patentability, and insurance issues in settling IP cases.

3. **Invite Your Colleagues and Clients to Both**

Finally, once you've chosen the seminar you plan to attend, invite colleagues and clients to join you. There is literally something for every attorney who litigates either business litigation or intellectual property cases.

See you this May in Chicago!

About the Author: Peter E. Strand is a senior partner at the Washington, D.C. office of Shook Hardy & Bacon. He can be reached at (202) 639-5617 or pstrand@shb.com.

From the Editor: Calling All Writers

by Russ Jones

In addition to editing quarterly issues of *The Business Suit*, I serve as Publications Chair for the Commercial Litigation Committee. It is my job therefore to make sure that we continue to publish the best content possible for *The Business Suit*, the In-House Defense Quarterly, *The Voice* and For the Defense. To do this, we need more writers!

Writing is not that hard and need not be unduly time-consuming. We all write things every day – memos, briefs, motions – and in doing so we are learning the substantive and procedural things that commercial litigators use to represent their clients. It is not, as I've found, that hard to take what we've learned in our practices and put that into a form suitable for publication. You will be doing a service to your fellow DRI members, many of whom will face the same issues and who will be grateful for the head-start you gave them, and you will help develop your professional profile and stature. So, give some thought to what you have learned and know, and get ready to share that knowledge with others.

There is a bonus. We are in the process of making the writing task less daunting. For 2013 we are re-designing *The Business Suit* to feature shorter, more timely articles. Less law review, more *Above the Law* (without the gossip). If you would like to be a part of this, let us know.

We very much welcome submissions to this and other DRI publications. For more information about deadlines, styles and the like, feel free to contact me, Brendan Brownfield (bbrownfield@burnhambrown.com), your SLG chair, or the YLS liaisons to get more information. Publishing in *The Business Suit* will get your name and photo out to DRI members and cement your reputation as one of the best lawyers in your area.

We would love to hear from you!

About the author: Russ Jones is a shareholder in Polsinelli Shughart PC, in the firm's Kansas City, Missouri office. Russ chairs Polsinelli's Commercial Litigation Practice Group and is the Chair of the Business Litigation Division within the Litigation Department. He is Publications Chair for DRI's Commercial Litigation Committee and serves as Treasurer of the Kansas City Metropolitan Bar Association. Mr. Jones can be reached at (816) 374-0532 and rjones@polsinelli.com.

Practice Tips

Tips from a Seasoned Practitioner to Newer Commercial Litigators - Business Development Strategies With Existing Clients

by Kathy Lang

I have to admit that when I first began to practice law in a law firm, no one talked to me about obtaining and retaining clients or the importance of having a book of business. I was told to work hard and produce high quality product, and the rest would just naturally occur. Times have certainly changed! Now, at most law firms, even first year lawyer are told of the importance of business development. Yet no one really tells new lawyers how to develop business or what steps they can take to develop their own clients for the future. So I offer the following [hopefully] practical tips for business development for associates in law firms from existing clients:

1. **Do outstanding work on every project**: This may seem self-evident, but the lawyer who always provides exceptional work product, whether in a research memorandum, a brief, discovery, etc., becomes the lawyer who will be constant demand and obtain the

plum assignments from those who assign work. Clients learn quickly which lawyers they can depend on for excellent work, even when that work has to be produced under tight deadlines or challenging circumstances. Even when the assignor asks for a draft, it should not include spelling errors, grammatical mistakes, missing citations, etc.

2. **Understand deadlines:** I am not just referencing the date the brief is due in court or when a project is required under a scheduling order, but the date when the partner in the law firm or the client will need the project to allow for adequate review. Partners and clients generally have many deadlines and on-going projects, so providing them with the work product on the final due day often creates stress, inconvenience, and less time to finalize than might be optimal. Always ask when the final work product should be finished and if not given a specific deadline, build-in sufficient time in your schedule for the partner and/or client to review and comment before the actual deadline.

3. **Be responsive:** Often when a client calls, it is because he/she needs an answer quickly. The client may not have one day or even one hour to wait for a return call. With technology, it is relatively easy to send a quick note or return a call even when not in the office. If you are unreachable, use the out of office function on your computer or change your voicemail to indicate you are not available, but provide the name of someone who can be available in your absence.

4. **Make the client feel they are important to you:** Clients need to know that you care about them and their interests. If you are going to be out of the office for vacation or other reasons for an extended period of time, let the client know in advance, but provide them alternatives if an issue arises while you are gone. I often tell my clients that I am on vacation, but will be available if needed and I provide my contact information. I can count on one hand the number of times anyone has ever used that contact information to interrupt my vacation, but it does let the client know that I will be there when needed.

5. **Think of ways of providing non-billable value to clients:** If you read a case or article that may be of use to a client, send it along [at no charge] with a note that you thought it might be of interest. Likewise, don't feel you have to bill for every request. Sometimes, clients call with a quick question – for example, a reminder of a certain deadline or what a court rule provides. The "good will" you establish for not billing for that 10 minutes of your time will be well worth it.

6. **Understand the client's business:** In commercial litigation, most of our client contacts are business people, whether they are lawyers or lay people. Generally, they are trying to solve a problem for the business and litigation may not be the best solution. If you understand the client's business and goals, it helps you to become a problem solver not just a litigator. You will be viewed as someone who understands the client's goals, not just a lawyer who wants to maximize the fees.

7. **Be a team player:** In commercial litigation, the client may have to manage multiple lawyers or law firms, experts, vendors, and business folks. The client contact does not want to spend time to resolve disputes, disagreements, or power struggles among the team. You should always ask yourself how you can make the client's job easier even if it means additional work for you or doing work that you think someone else should do.

8. **Develop relationships at your own level at a client:** You may not be in a position to develop a relationship with the General Counsel or key contact at the client, but your goal should be to have a relationship with the case handler you interact with on a daily basis, the person in accounting who helps you get information, and other junior members at the client. Whether they stay at the same organization or move on, if you have

a relationship it may result in future business.

9. **Remember details about your client:** Whether it is kids' names, outside interests or preferences on work product, most people appreciate when someone they work with shows an interest by remembering details about them. Send a card at the birth of a child, at a death in the family, for promotion, or even a holiday greeting. All of these help to develop a relationship that can lead to future business.

Try to find common interest with the client: Client entertainment is important and gives you time with the client outside of the office. Not all client contacts like to play golf or go to sporting events, although many do. Look for opportunities to entertain your client contacts in a manner they would appreciate and participate. If the client has young children, an offer to go to the zoo with families might be appreciated and more likely to be accepted than an evening away from family. Be creative but be cautious as many business organizations have limits or restrictions on the type of activities or the dollar amounts that employees can accept from a vendor on an event (which generally includes outside lawyers).

Leadership Spotlight

Rebecca J. Schwartz

Becky is a partner with Shook Hardy & Bacon L.L.P. in Kansas City, Missouri. She is a new member of the DRI Commercial Litigation Committee Steering Committee and 2013 Commercial Litigation Publications Editorial Board.

1. Describe your practice: I specialize in the defense of class action and other complex litigation, and have worked throughout my career in both state and federal courts across the United States. As a class action litigator, I've defended class actions for tobacco, pharmaceutical, medical device, and alcoholic beverage manufacturers – typically in cases involving state consumer protection law claims. I also represent commercial property owners and energy companies in environmental class actions that involve significant property damage and medical monitoring claims. Most recently, my practice has centered on the defense of FACTA, TCPA, and other data security and privacy-related class actions.

2. What's the most interesting case you have handled? One of the most interesting pieces of litigation I've worked on (along with several of my accomplished partners) was filed by residents and business owners from Picher, Oklahoma, a historic lead mining community that was at one time designated a Superfund site. The litigation included both class action and individual lawsuits filed by multiple plaintiffs' firms against multiple defendants, and involved complex environmental property damage and personal injury claims, plus a demand for medical monitoring relief. Add in the involvement of the EPA, issues related to restricted Indian lands, a government-funded relocation program, and, ultimately, an F4 tornado, and you've got a truly epic legal matter!

3. What's the most amusing client story? I'm going to have to claim privilege in response to this question – I will only say that it is pretty amusing to see a highly-accomplished and respected in-house counsel in full KISS band make-up.

4. How did you get involved with the DRI Commercial Litigation Committee? My partner and friend Peter Strand has significant personal and professional magnetism! He invited me to join, and I couldn't resist – especially after he described the terrific people he'd met though his involvement.

5. Have you gotten any benefits from being involved with the DRI Commercial Litigation Committee? I'm still getting

plugged in, but I love the prospect of advancing the defense bar. I'm especially looking forward to attending my first Commercial Litigation Committee meeting in May -- please introduce yourself if you see me in Chicago. That way later I can claim knowing you as a benefit my Committee membership!

6. Tell us something about you that we might not know, but which you are passionate about: I have a secret weekend life as a "picker." When time allows, I scour auctions and estate sales searching for compelling antique and vintage items. Some I keep; others I challenge myself to resell at a profit. One of my best "keeper" items to date has been a commercial milkshake machine (a blast at neighborhood parties). My best resold item to date was a group of nine saddles I bought for a crazy low price at an auction. My husband was highly skeptical of that purchase given that we do not own any horses, he should have known better -- I flipped them in short order!

7. Why did you become a lawyer? This may sound crazy, but I was inspired to be a lawyer by Nina Totenberg's legal reporting on NPR. I was working as a sales professional after college, and just couldn't see doing that forever. I wanted to find a career that would ensure a lifelong intellectual challenge while feeding my competitive nature. Bingo!

8. What do you like about practicing law? First and most, I like the smart, funny, dedicated, and passionate people I get to work with every day, including clients, folks from my firm, and co-defense counsel. But I just really enjoy the whole process of litigating – developing strategies and plans, reacting to the unexpected, overcoming obstacles, and (hopefully!) winning. There's a lot of satisfaction in great teamwork, especially when it results in a great outcome for your client.

9. What don't you like about practicing law? That it can, at times, be so relentlessly demanding, which makes it hard on both attorneys and the ones they love. Sometimes I feel we all have to work doubly hard in order just to achieve "life balance" -- an irony I wish we could eradicate.

Becky can be reached at (816) 559-2235 or rschwartz@shb.com.

Insurance Law

Ninth Circuit Amends Previous Opinion and Expressly Declines to Resolve Whether, Under California law, a Breach of the Good Faith Duty to Settle Can be Found in the Absence of a Settlement Demand

by Prashant K. Khetan and Thomas S. Hay

In a decision that garnered much attention earlier this year, the United States Court of Appeals for the Ninth Circuit held that, under California law, "an insurer has a duty to effectuate settlement where liability is reasonably clear, even in the absence of a settlement demand." *Du v. Allstate Ins. Co.*, 681 F.3d 1118 (9th Cir. 2012). In so ruling, the Ninth Circuit appeared to add to the already varying approaches taken by courts throughout the country on this issue.

On October 5, 2012, however, the same court issued an amended opinion in the case, in which it expressly declined to resolve the legal issue of whether a breach of the good faith duty to settle can be found in the absence of a settlement demand within limits. *Du v. Allstate Ins. Co.*, No. 10-56422, 2012 U.S. App. LEXIS 20889 (9th Cir. Oct. 5, 2012). As a result, *Du* may no longer be cited for this proposition, thus leaving some uncertainty as to whether an insurer can be

exposed to liability under California law for breach of the covenant of good faith and fair dealing if it fails to settle in the absence of a within limits settlement demand.

The Ninth Circuit's Decision in *Du v. Allstate Ins. Co.*

In *Du*, Joon Hak Kim was involved in an accident when his car collided with another vehicle, resulting in injuries to four individuals including Yan Fang Du. Kim was insured by Deerbrook Insurance Company ("Deerbrook"), a subsidiary of Allstate Insurance Company ("Allstate"), and the insurance policy had a $100,000 limit of liability per individual, with an aggregate limit of liability of $300,000 for any single accident. Deerbrook eventually made a $100,000 settlement offer, which was rejected as "too little too late." Du subsequently filed a personal injury lawsuit against Kim, and obtained a jury verdict in excess of $4 million.

In September 2008, Du, acting as Kim's assignee, filed a bad faith suit against Allstate and Deerbrook. Du argued that the insurers breached the covenant of good faith and fair dealing by failing to affirmatively settle Du's claim within Kim's policy limits even after Kim's liability for an excess judgment became clear. At trial, Du proposed the following jury instruction:

> In determining whether Deerbrook Insurance Company breached the obligation of good faith and fair dealing owed to Mr. Kim, you may consider whether the defendant did not attempt in good faith to reach a prompt, fair, and equitable settlement of Yan Fang Du's claim after liability [of its insured Kim] had become reasonably clear.

The district court rejected this jury instruction for two reasons. First, the Court held that an insurer did not have a duty to initiate settlement discussions in the absence of a settlement demand from the third-party claimant. Second, the Court ruled that there was no factual foundation for the instruction because the issue of settlement arose at a sufficiently early time in the underlying litigation.

On appeal, the Ninth Circuit sought to answer the following question: "[d]oes an insurer have a duty, after liability of the insured has become reasonably clear, to attempt to effectuate a settlement in the absence of a demand from the claimant?" Answering in the affirmative, the Ninth Circuit held that, under California law, an insurer has a duty to effectuate settlement where liability is reasonably clear, even in the absence of a settlement demand. In addition to relying on prior Ninth Circuit rulings and California Insurance Code § 790.03(h), the Court explained that the duty to settle exists because of the conflict of interest whenever there is a significant risk of a judgment in excess of policy limits and there is a reasonable opportunity to settle within policy limits. The Ninth Circuit noted that "this conflict obtains regardless [of] whether a settlement demand is made by the injured party." The Court nevertheless affirmed the district court's ruling on the alternative ground that the district court did not abuse its discretion in finding that there was no evidentiary basis for Du's proposed jury instruction.

In the amended October 5, 2012 opinion, the Court summarized the arguments from each side. On the one hand, the Court noted that Section 2337 is based on Section 790.03(h)(5), which identifies as an unfair claims settlement practice "[n]ot attempting in good faith to effectuate prompt, fair, and equitable settlement of claims in which liability has become reasonably clear." The Court pointed to several California cases which, it said, have construed Section 790.03(h)(5) as extending the duty to settle beyond mere acceptance of a reasonable settlement demand. On the other hand, the Court discussed several cases cited by the insurer suggesting that no breach of the good faith duty to settle can be found in the absence of a settlement demand within limits. Ultimately, the Court stated that it did not need to resolve this legal issue because it found that the district court did not abuse its discretion in ruling that there was no factual foundation for Du's proposed jury instruction. Thus, the district court's ruling was affirmed.

Other Jurisdictions

Jurisdictions have not reached a consensus regarding whether

there is a duty to settle absent a within-limits settlement demand. In many states, like California, this issue remains unsettled. Other states have adopted a variety of approaches.

In Florida, for example, a settlement demand is not required to trigger an insurer's obligation to settle. *See*, *e.g.*, *Snowden v. Lumbermens Mut. Cas. Co.*, 358 F. Supp. 2d 1125, 1126-28 (N.D. Fla. 2003) (in rejecting insurer's argument that it was entitled to judgment as a matter of law because the claimant never made a settlement offer within policy limits, the Court analyzed decades of Florida insurance law and concluded that although the presence of a settlement offer by the claimant used to be a prerequisite in Florida bad faith failure to settle cases, "more recent cases show that they have relaxed the talismanic requirement of an offer to settle, imposing a totality of the circumstances test instead" in which the presence or absence of an offer to settle is merely one of several criteria used to evaluate bad faith). *See also*, *e.g.*, *Rova Farms Resort, Inc. v. Investors Co. of Amer.*, 323 A.2d 495 (N.J. 1974) (ruling that where the verdict could exceed the policy limit and the third-party claimant is willing to settle within the policy limit, the insurer must initiate settlement negotiations and exhibit good faith in those negotiations).

In Texas, on the other hand, an insurer's duty to consider its insured's interest in settling claims is not triggered until it receives a settlement offer within policy limits. *See*, *e.g.*, *American Physicians Ins. Exch. v. Garcia*, 876 S.W.2d 842 (Tex. 1994) (containing discussion of cases in various jurisdictions on this issue). The Texas Supreme Court has explained that placing the burden of initiating settlement on the insurer could incentivize a delay in settlement negotiations until the eve of trial, and noted that "[f]rom the standpoint of judicial economy, we question the wisdom of a rule that would require the insurer to bid against itself in the absence of a commitment by the claimant that the case can be settled within the policy limits."

Georgia offers a third view on this issue. In *Kinglsey v. State Farm Auto. Ins. Co.*, 353 F. Supp. 2d 1242 (N.D. Ga. 2005), *aff'd* 153 Fed. Appx. 555 (11th Cir. 2005), a federal district court applying Georgia law held that, although the plaintiff need not show that it made a policy limits demand in order to assert that the insurer is liable for a tortious refusal to settle, the plaintiff did need to show that the insurer "knew there was an opportunity to settle within the policy limits." The Court clarified that usually, the insurer will have certainty regarding the settlement posture of a case due to a settlement offer, but the Court did not foreclose the possibility that being able to settle the case is so apparent that the insurer's duty to settle is triggered even without a settlement demand.

Conclusion

With the amendment to the Court's opinion, the *Du* case no longer holds that the duty to settle can be breached absent a within-limits settlement demand from the third party claimant. As noted in *Du*, both carriers and policyholders can raise competing arguments and cite competing authority on the issue. And so California remains with the majority of states for which future litigants and courts are left to tackle the issue.

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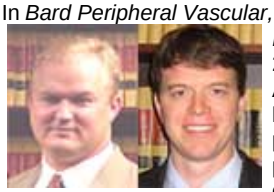
Intellectual Property

Combating Allegations of Willful Infringement: Objective Recklessness As a Question of Law

by Tim F. Williams and J. Parks Workman



In *Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates, Inc.*., 682 F.3d 1003 (Fed. Cir. 2012), the United States Court of Appeals for the Federal Circuit held that the objective prong for proving willful infringement in a patent infringement action is a question of law that is subject to *de novo* review. The decision in *Bard Peripheral* is significant because it establishes that the issue of objective recklessness in determining willful infringement should be decided by the judge and not by a jury. Moreover, the Federal Circuit can review any finding of objective recklessness *de novo*, making it more difficult for allegations of willful infringement to withstand scrutiny.

A finding of willful infringement can result in an award of enhanced damages in a patent infringement case. *See In re Seagate*, 497 F.3d 1360, 1368 (Fed. Cir. 2007). Enhanced damages can result in enormous liability, potentially in the form of treble damages and an award of attorneys' fees. *See* 35 U.S.C. §§ 284; 285. Due to the risk of an enhanced damages award, combating allegations of willful infringement is essential in many patent infringement actions.

Prior to 2007, a patentee could establish willful infringement by satisfying a standard that has been labeled as "more akin to negligence." *Bard Peripheral*, 682 F.3d at 1005 (citing *Seagate,* 497 F.3d at 1371). More particularly, the previous standard for willfulness required that "[w]here . . . a potential infringer has actual notice of another's patent rights, [the potential infringer] has an affirmative duty to exercise due care to determine whether or not he is infringing." *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983).

In 2007, the Federal Circuit in *In re Seagate*, 497 F.3d 1360 (Fed. Cir. 2007) overruled this standard, determining that it ran afoul of Supreme Court precedent requiring a showing of at least recklessness for an award of punitive damages in a civil action. *Id*. at 1371. In its place, *Seagate* established a new two-pronged standard for establishing willful infringement. The *Seagate* two-pronged standard for willfulness includes both an objective prong and a subjective prong. The objective prong requires that "a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *Id.* Once the threshold objective prong has been satisfied, the patentee must still satisfy the subjective prong: "the patentee must also demonstrate that this objectively-defined risk . . . was either known or so obvious that it should have been known to the accused infringer." *Id*.

In subsequent decisions, the Federal Circuit further clarified the standard associated with the objective prong promulgated in *Seagate*. In particular, the Federal Circuit has stated the "'objective' prong of *Seagate* tends not to be met where an accused infringer relies on a reasonable defense to a charge of infringement." *Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1319 (Fed. Cir. 2010)). Indeed, the ultimate issue for determining whether the objective prong has been satisfied often becomes "whether a defense or noninfringement theory was 'reasonable.'" *Bard Peripheral*, 682 F.3d at 1006.

The Federal Circuit has long recognized that the ultimate question of willfulness is a question of fact. *Id*. (citing, *inter alia, Stryker Corp. v. Intermedics Orthopedics, Inc.*, 96 F.3d 1409, 1413 (Fed. Cir. 1996). However, the issue squarely presented before the Federal Circuit in *Bard Peripheral* was whether the objective prong of the *Seagate* standard for willfulness is a question of fact or a question of law.

The Federal Circuit began its analysis by first observing that the issues in determining willfulness are more complex and difficult to be characterized simply as a question of fact. *Id*. As an example, the Federal Circuit cited *Powell v. Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1236 (Fed. Cir. 2011). In *Powell*, the Federal Circuit clarified that "the answer to whether an accused infringer's reliance on a particular issue or defense is reasonable is a question for the court when the resolution of

that particular issue or defense is a matter of law." *Id.* In the same decision, the Federal Circuit also indicated that questions of willfulness should be considered by a jury "[w]hen the resolution of a particular issue or defense is a factual matter." *Id*. The Federal Circuit continues this line of reasoning by concluding that Supreme Court decisions addressing similar issues also indicate that characterizing willfulness as simply a question of fact oversimplifies the issue. *Bard Peripheral*, 682 F.3d at 1006.

Turning to an analysis of the objective prong of *Seagate* itself, the Federal Circuit noted that "the determination entails an objective assessment of potential defenses based on the risk presented by the patent." *Id.* These defenses are not always pure questions of fact. For example, the Federal Circuit recognized that "[t]hose defenses . . . can be expected in almost every case to entail questions of validity that are not necessarily dependent on the factual circumstances of the particular party accused of infringement." *Id.*

In addressing the complexity raised by *Seagate's* objective prong, the Federal Circuit acknowledged that the decision to label an issue as a question of fact or as a question of law can be simply a matter of allocation. *Id.* More particularly, "[w]hen an 'issue falls somewhere between a pristine legal standard and a simple historical fact, the fact/law distinction at times has turned on a determination that, as a matter of sound administration of justice, one judicial actor is better positioned than another to decide the issue in question.'" *Id*. (citing *Miller v. Fenton*, 474 U.S. 104, 113-14 (1985); *Markman v. Westview Instruments, Inc.,* 517 U.S. 370, 388 (1996)). Concluding that the court is in the best position for making the determination of reasonableness, the Federal Circuit held "that the objective determination of recklessness, even though predicated on underlying mixed questions of law and fact, is best decided by the judge as a question of law subject to *de novo* review." *Id.* at 1006-07.

The Federal Circuit justified the allocation of the objective prong as a question of law by relying on its consistency with other areas of law. *Id.* at 1007. In particular, the Federal Circuit cited Federal Circuit precedent concerning objectively baseless claims for purposes of awarding enhanced damages and attorneys' fees under 35 U.S.C. § 285 and on the Supreme Court's precedent concerning "sham" litigation as being instructive. *Id*. First, the Federal Circuit states that "the standard for showing objective baselessness for purposes of § 285 . . is 'identical to the objective recklessness standard . . . for § 284 willful infringement actions under [*Seagate*].'" *Id.* (citing *iLor, LLC v. Google, Inc.*, 631 F.3d 1372 (Fed. Cir. 2011). Second, the Federal Circuit notes that objective baselessness must be interpreted in light of the Supreme Court's decision concerning "sham" litigation in *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc. ("PRE")*, 508 U.S. 49 (1993). *Bard Peripheral*, 682 F.3d at 1007 (citing *iLor*, 631 F.3d at 1376).

Analyzing *PRE*, the Federal Circuit noted that the Supreme Court equated the "objective baselessness" prong of "sham" litigation to a lack of probable cause to institute an unsuccessful civil suit. *Id.* Relying on this comparison, the Federal Circuit recognized that "when 'there is no dispute over the predicate facts of the underlying legal proceeding, a court may decide probable cause as a matter of law." *Bard Peripheral*, 682 F.3d at 1007-08. Additionally, the Federal Circuit noted that the Supreme Court has emphasized the importance of subjecting questions of probable cause in criminal cases as both questions of law and fact to *de novo* review to unify precedent. *Id.* at 1008. (citing *Ornelas v. United States*, 517 U.S. 690 (1996)).

Based on the above analysis, the Federal Circuit concluded that the objective determination of recklessness is a question of law to be decided by the judge and subject to *de novo* review. *Id.* at 1007. The court also provided guidance in applying its holding. If a defense asserted by an infringer is a purely legal question, the objective recklessness of the theory is a purely legal question to be decided by the judge. *Id.* When the defense is a question of fact or a mixed question of law and fact, the judge may allow the jury to determine the underlying facts. *Id.* at 1008. However, "[t]he ultimate legal question of whether a reasonable person would have considered there to be a high likelihood of infringement of a

valid patent should always be decided as a matter of law by the judge. *Id.* (citations omitted).

In view of *Bard Peripheral*, parties combating allegations of willful infringement may be more likely to obtain resolution of the matter of willfulness as a matter of law prior to submitting the issue of willfulness to the jury. In particular, district courts may be more likely to resolve willfulness issues based on the objective prong of the *Seagate* standard alone. As a result, parties may be able to rely on *Bard Peripheral* to significantly reduce an accused infringer's exposure in a patent infringement action. Moreover, the Federal Circuit can review any findings of objective recklessness *de novo*, providing another layer of scrutiny for combating allegations of willful infringement.

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