



# Side BAR

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## OPENING STATEMENTS



### **Full Steam Ahead**

**Robert E. Kohn**

Many members of the Fed. Lit. Section shared their views late last year concerning proposed amendments to the discovery rules in the Federal Rules of Civil Procedure. Based on those views, the section and FBA Executive Director Karen Silberman submitted comments in the name of the Federal Bar Association. A subcommittee of the Judicial Conference Advisory Committee on Civil Rules—the “Duke Conference Subcommittee,” chaired by the Hon. John G. Koeltl—took note, and recommended to withdraw the proposals for new presumptive limitations on depositions, interrogatories, and requests for admissions.

Reading the notes of the Duke Conference Subcommittee makes clear that organized bar groups, such as the FBA, were

persuasive in their comments because they worked to assure consensus among plaintiff- and defendant-oriented practitioners. John McCarthy and Michael Zuckerman worked exceptionally hard to seek that consensus within our section. The successful result obtained by their advocacy is striking.

This section has never been more active and more engaged in supporting the federal bench and bar than it is right now. On July 11, 2014 in Washington, D.C., for instance, please consider joining Katherine Gonzalez of our section’s Governing Board (and me) in attending the FBA’s Conference on Women in the Law. The Hon. Loretta A. Preska, also of our board, will be among the speakers there.

“On the Docket” by Tom McNeill brings us up-to-date on everything the section has been doing to support the pursuit of just, speedy and inexpensive adjudication in federal courts, and to grow the visibility, relevance and value of the FBA

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## Note from the Editor

### Olivera Medenica

In this issue of SideBar, we explore a variety of topics from regulatory frameworks to procedural and substantive pitfalls. We learn from Dorothy Tarver the importance of a carefully drafted forum selection clause and the Supreme Court's recent interpretation in the *Atlantic Marine* decision. We also benefit from Liam O'Brian's analysis of non-solicitation clauses in the context of broker-dealer employment contracts. Wendy Stein walks us through the availability of attorney's fees when statutory damages are elected under the Lanham Act, while Steven Richard explores the procedural framework for live remote testimony in open court.

Your contributions matter and your submissions are welcomed. We review each one of your articles; whether you are interested in highlighting a recent case, a substantive or procedural issue that arose in your practice, or wish to impart how-to practice management advice. There are plenty of topics that are of relevance and interest to our readers. Please reach out to me, and I hope you enjoy this issue of SideBar. **SB**

**About the Editor** • Olivera Medenica has a commercial and intellectual property litigation practice in New York City. She is the president-elect of the Southern District of New York Chapter. She litigates a variety of matters in state and federal court, as well as in arbitration proceedings. She can be reached at [omedenica@wrlawfirm.com](mailto:omedenica@wrlawfirm.com) or (212) 785-0070.

## The Election Results Are In

### John G. McCarthy

In the last issue of SideBAR I reported how the Board of the Federal Litigation Section ("LS") had proposed by-law amendments to modernize our process of electing FLS officers. The National Board approved those amendments at its meeting held in conjunction with the FBA's MidYear Meeting in March. The FLS Board also met during the MidYear Meeting and decided to utilize the new procedures to conduct elections for all three officer positions for two-year terms beginning on October 1, 2014, when the FBA's next fiscal year begins.

I am pleased to report that the new procedures worked well and that the elections have been completed. Notice of the election and requests for additional nominations was circulated to the FLS membership in early April. Electronic notice of the opening of the online balloting process was sent to the entire FLS membership by the National staff on April 28, 2014. The balloting was closed on May 5, 2014. The FLS elected Robert Kohn Chair, Thomas McNeill as Vice Chair and John McCarthy as Secretary/Treasurer for terms expiring on September 30, 2016. Thanks to everyone who participated in the nomination and election process. **SB**

### Chair continued from page 1

to its members who are federal court litigators. I think you may be impressed by the scope of those activities – and I hope you join in. **SB**

**About the Chair** • Robert E. Kohn litigates entertainment, business, and intellectual property disputes, including government contracts and fraud cases, in the Los Angeles area. He also argues appeals in federal and state courts at all levels. Kohn is a former clerk to Hon. Joel F. Dubina of the Eleventh Circuit, and graduated from Duke Law School. He can be reached at [rkohn@kohnlawgroup.com](mailto:rkohn@kohnlawgroup.com) or (310) 917-1011 and followed @RobtKohn.

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## FEDERAL LITIGATION SECTION NEWS

### On the Docket

**Thomas G. McNeill**

The following is a compilation of programs, events and activities presented or sponsored by The Federal Litigation Section. Please contact me if you would like to attend any of the upcoming offerings, receive additional information from event planners and organizers, or inquire about possible Federal Litigation Section sponsorship funding for an FBA Chapter or Division event or program presently in planning.

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### Upcoming Events

*Maritime Punitive Damages*. New Orleans, LA, June 17, 2014. A CLE panel discussion, co-sponsored by the Federal Litigation Section and the Admiralty Section.

*Northwest Regional Working Group*, Portland, OR, June 20-21, 2014. Meeting to assemble regional FBA leaders and judges, and to support them with national Federal Litigation Section resources. Presented by the Federal Litigation Section and co-sponsored by the FBA's Oregon Chapter and the Ninth Circuit Vice Presidents.

*Past, Present and Future of the Right to Counsel in Federal Courts*, Denver, CO, August 8, 2014. Presented by the FBA's Colorado Chapter and Wyoming Chapter, co-sponsored by the Federal Litigation Section.

*First Annual Alaska Federal Bar Conference*, Anchorage, AK, August 22, 2014. Programs on the Criminal Justice Act, the Civil Rights Act, Federal Sentencing and featuring "Constitutional Law Developments in the Territories – Alaska, Hawaii and Puerto Rico's Common Thread" (Speaker: FBA national President, U.S. District Judge Gustavo A. Gelpí of Puerto Rico. Presented by the FBA's Alaska Chapter, co-sponsored by the Federal Litigation Section.

*As Yet Untitled Program on Recent Developments in Federal Employment Law*, Providence, RI, September 4 or 5, 2014. A CLE panel discussion led by U.S. District Judges and national experts, co-presented by the Federal Litigation Section and Labor & Employment Law Section.

*As Yet Entitled Program on Social Media Evidence*, Providence, RI, September 4 or 5, 2014, a CLE panel discussion led by U.S. District Judges and national experts, co-presented by the Federal Litigation Section's Federal Rules of Evidence Committee and the FBA's Rhode Island Chapter.

### Previous Successful Events

*FBA Membership Recruitment event for National Guard Judge Advocates*, Chicago, IL, May 14-16, 2014. Presented by the FBA's Military Task Force and co-sponsored by the Federal Litigation Section, the Veterans and Military Law Section, and the FBA's Chicago Chapter.

*Admiralty Jurisdiction Based on Contract*, San Francisco, CA, May 9, 2014. A CLE panel discussion, co-sponsored by the

Federal Litigation Section and the Admiralty Section.

*Sixth Circuit Appellate Practice Institute*. Cincinnati, OH, May 6, 2014. High level recap of key recent precedents and practice pointers for federal appellate practitioners, as presented by members of the 6th Circuit bench and noted experts. The program concludes with admission for new members to practice before the Sixth Circuit and a Cocktail Event. Keynote Speaker: Donald B. Verrilli, Jr., Solicitor General of the United States. Presented by the FBA's Cincinnati-Northern Kentucky Chapter and the Dayton Chapter, led by the Hon. Michael Newman (SD Ohio, and FBA Treasurer) and co-sponsored by the Federal Litigation Section's Committee on Appellate Law and Practice.

*Brave New World of Federal Practice: New Rules, New Issues in Federal Civil Procedure*, New York, NY, May 5, 2014. A live reprise of the tremendously successful event in Phoenix, January 16-17, 2014 for East Coast practitioners, featuring Chief Judges Loretta Preska (EDNY), Carol Amon (EDNY), Gerald Rosen (ED Mich) and U.S. District Judge John Koeltl (SDNY) and national experts Jim Wagstaffe (San Francisco; Instructor, Federal Judicial Center's New Judges Workshop) and Rob Kohn (Los Angeles, Chair, Federal Litigation Section). Presented by the Federal Litigation Section's Committee on Federal Rules of Procedure and Trial Practice and co-sponsored by the FBA's Southern District of New York Chapter and Eastern District of New York Chapter.

*Brave New World of Federal Practice: New Rules, New Issues in Federal Civil Procedure*, April 30, 2014, Webinar broadcast of the Phoenix event.

*Civil Rights Act of 1964: Then, Now and Moving Forward*, Boston, MA, April 28, 2014. Presented by the FBA's Massachusetts Chapter, co-sponsored by the Federal Litigation Section and the Massachusetts Bar Association.

*Past, Present and Future of the Right to Counsel in Federal Courts*, Memphis, TN, April 18, 2014. Presented by the FBA's Memphis/Mid-South Chapter, co-sponsored by the Federal Litigation Section.

*Federal Law Clerks Cocktail Meet and Greet, Arlington Virginia, March 27, 2014. FBA Mid-Year Meeting*. Presented by the Federal Litigation Section's Federal Law Clerks Committee.

*Electronic Evidence in Federal Court*. Alexandria, Va., March 27, 2014. Timed to precede the Mid-Year Meeting in Arlington, CLE program for federal judges and litigators interactively engaged in how to use – and how not to use – electronic evidence in court. Presented by the Federal Litigation Section's Committee on Federal Rules of Evidence and the FBA's Northern Virginia Chapter.

*Upholding the Rule of Law in Germany's Federal Republic: The Mykonos Case*, New York, N.Y., February, 25, 2014. In 1997, after trial proceedings lasting over three years, Berlin's High Criminal Court convicted four individuals of murdering Iranian dissidents in a Berlin restaurant—and more significantly—explicitly found the murders were ordered at the highest levels of government in Tehran. The historic judgment culminated in an unprecedented diplomatic shift between Iran and Europe: every EU member withdrew its ambassador and cut ties with Iran. The blow forced Tehran to cease terror operations against dissidents



in Europe and ushered in an era of reform in Iranian civil society. This victory of the rule of law against terrorism was made possible by the courage and uncompromising stance of two German attorneys. This event will detail the case, discuss its current implications, and honor the men whose perseverance made it happen. Presented by the FBA's Southern District of New York Chapter and co-sponsored by the Federal Litigation Section.

*Commemoration of the 50th Anniversary of the Passage of the Criminal Justice Act*, Chicago, IL, February 13, 2014, Presented by the FBA's Chicago Chapter, co-sponsored by the Federal Litigation Section.

*Brave New World of Federal Practice: New Rules, New Issues in Federal Civil Procedure*, January 17, 2014, Webinar broadcast of the Phoenix event.

*Brave New World of Federal Practice: New Rules, New Issues in Federal Civil Procedure*, Phoenix, Ariz., January 16, 2014. Current and former Chief U.S. District Judges convened as part of a panel to address over 100 members of the FBA and the public concerning recent developments and proposed changes in federal civil procedure. The event included a discussion by the chair of the Advisory Committee on Civil Rules, which has recently proposed significant amendments to the rules for discovery and case management in civil actions in federal courts. Presented by the Federal Litigation Section's Committee on Federal Rules of Procedure and Trial Practice and co-sponsored by the FBA Phoenix Chapter. Special thanks to the presenters: Chief Judges Loretta Preska (SDNY) and Gerald Rosen (ED Mich), and U.S. District Judge Roslyn Silver (immediate past Chief Judge) and U.S. District Judge David Campbell (both D. Ariz.), Rob Kohn

(Los Angeles, Section Chair) and moderator Jim Wagstaffe (San Francisco).

*Criminal Practice CLE*, Dayton, Ohio, October 10, 2014. The event also marked the installation of U.S. Magistrate Judge Michael Newman as Chapter President, with a keynote address by William K. Suter (recently retired Clerk of the U.S. Supreme Court) and remarks by FBA national President, U.S. District Judge Gustavo A. Gelpi of Puerto Rico. Presented by the FBA's Dayton Chapter and co-sponsored by the Federal Litigation Section.

*New England Regional Leadership Working Group*, Providence, October 4, 2014. A first-of-its-kind pilot project to assemble regional FBA leaders and judges, and to support them with national Federal Litigation Section resources. Presented by the Federal Litigation Section and co-sponsored by the FBA's Rhode Island Chapter and Circuit Vice Presidents for the First and Second Circuits. **SB**



*Thomas G. McNeill a member of Dickinson Wright PLLC in Detroit, Michigan, where he has tried 35 cases to verdict or award (compiling a record of 34-1). He is the Vice Chair of the Federal Litigation Section and the immediate past president of the Eastern District of Michigan Chapter. McNeill graduated from the University of Notre Dame, his collegiate alma mater, and earned his J.D. at the University of Virginia School of Law.*

## PLEASE VOTE – FEDERAL BAR ASSOCIATION NATIONAL ELECTIONS

Dear Members of the Federal Litigation Section:

Your Section leaders are calling upon you to vote in the upcoming Federal Bar Association National Elections. Pursuant to the Federal Bar Association's Bylaws, the Nominations and Elections Committee will cause a ballot to be transmitted to each member of the Association in good standing by June 15. Elections for FBA National Officers, Board of Directors, and Circuit Vice Presidents will take place electronically this year.

### HOW TO VOTE:

Prior to the opening of electronic voting on June 15, members in good standing will receive a personalized message by email from the FBA that will include a link to the FBA's election page on the ElectionsOnline website, along with an election login username and password. (*Your username and password for the election will differ from your username and password used for [www.fedbar.org](http://www.fedbar.org).*)

Once logged into the ElectionsOnline website, you will be welcomed by name and provided with instructions as to 1) how to obtain biographical information for each candidate (click on a candidate's name) and 2) how to vote for specific candidate (select the button to the left). Below the instructions is the ballot, which lists the names of all eligible nominees, in an order drawn by lot, under the respective office for which each has been nominated, with a space provided for writing in the name of a candidate for each office.

If you have any questions regarding the online elections process, please contact the FBA's national headquarters at (571) 481-9100. **Voting will begin on June 15 at 5:00 p.m. EDT and continue through August 1 and close at 5:00 p.m. EDT.**

Best regards,  
Olivera Medenica

# CIVIL RIGHTS

# ART

DEADLINE

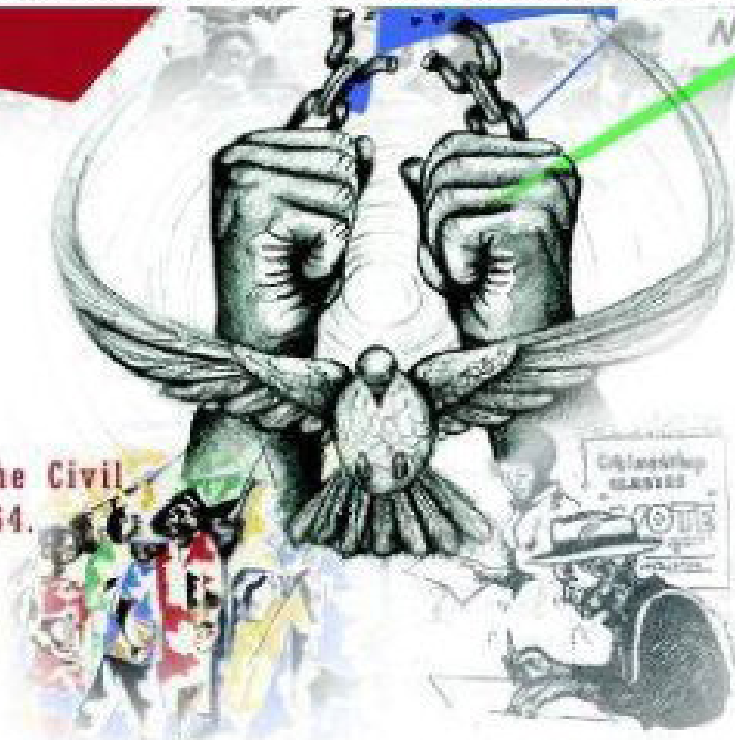
June 10th

# CONTEST

Students in grades 6-12 in Hamilton County are invited to submit artwork.

The Chattanooga Chapter of the Federal Bar Association is holding an art contest to honor

the **50th**  
Anniversary of the Civil Rights Act of 1964.



### GUIDELINES:

- Artwork must be original and can be: **painting**, **drawing**, **collage** or **photography**
- Artwork must be no smaller than 13x20 and no larger than 20x24 inches.
- Do not mat or frame artwork.

Turn in art and entry forms to any City of Chattanooga Youth & Family Development Center (423)643-6801

**July 7th: Two winners will be announced at a luncheon at Second Missionary Baptist Church at 11:30am. Winners will receive an ipad.**

Fifty years ago this July the Congress of the United States enacted the Civil Rights Act of 1964. It is one of the most important civil rights acts passed in our country's history. At a time when African-Americans in Chattanooga could not attend the same schools, eat in the same restaurants, and live in the same neighborhoods as white citizens and could be fired for the color of their skin; it made illegal discrimination in education, public accommodations, housing and employment because of a person's race, religion, ethnicity or gender. The purpose of the art contest is to acknowledge the struggles out of which the Civil Rights Act of 1964 was born and to celebrate the freedoms and equality for all that it promotes and ensures.

**FACEBOOK.COM/CHATTCIVILRIGHTS**

[www.congresslink.org/print\\_basics\\_histmats\\_civilrights64text.htm](http://www.congresslink.org/print_basics_histmats_civilrights64text.htm)

**For More Information: Phone Tracy Wamp at (423)825-5955**

The Chapter reserves the right to refuse to display or consider any entries that are late or contain any vulgar or profane images. Additionally, by submitting your art, you agree that the Chapter may use it, reproduce it, and display it.



## PROFILES

### **SideBar Conversations: Interview with John Okray – Chair, FBA’s Corporate & Association Counsel Division**

**Olivera Medencia**



John Okray chairs the Federal Bar Association’s Corporate & Association Counsel Division and serves as Deputy General Counsel of American Beacon Advisors, Inc. Between his busy in house position and numerous duties at the FBA, he took some time out to share his insights on the FBA, the Corporate & Association Counsel Division, and the natural synergy

between the Division he chairs and the Federal Litigation Section. John received his BA from the University of Massachusetts Boston, JD and MBA from Suffolk University, and LLM in taxation from Boston University School of Law. He holds the Certified Regulatory & Compliance Professional and the Governance Risk Compliance Professional designations.

#### ***How did you get involved with the FBA and the Corporate & Association Counsel Division (“Division”)?***

One of my first interactions with the FBA was attending the FBA/ICI Mutual Funds and Investment Management Conference. This annual conference has been running for decades and is always extremely informative and well attended. Having also joined the Corporate & Association Counsel Division when I signed up for the FBA, I received communications about its activities, publications, etc. I was impressed by the level of responsiveness of the Division leadership and FBA staff. Additionally, since my company’s headquarters is between Dallas and Fort Worth, I had access to both of these cities FBA Chapter activities. Based on the positive experiences I had with the FBA, I was happy to answer a call from the Division leadership looking for members to become more active.

#### ***Describe your role as chair of the Corporate Counsel Division?***

Probably not unlike the role of chairs of other FBA entities, serving as Chair of the Division involves facilitating meetings of the Division’s leadership board, working on specific Division initiatives, acting as a liaison with other groups within the FBA, and promoting the Division generally. Substantively, this can involve co-sponsoring in-person or webinar CLEs with other FBA divisions, sections, or chapters, writing articles for FBA publications, or even being involved in non-FBA publications where you “market” the benefits of the Association and Division. Essentially, I believe the unstated goal of most chairs is to have their entity offer more tangible benefits to members at the end of their term as compared to when they started. Luckily, the Division has a number of vice-chairs that deserve credit for spearheading various Division initiatives.

#### ***You mentioned Division initiatives; can you provide a current example?***

In order to confirm where the Division leadership should devote its time, we recently conducted a survey of our members. Among current or potential activities, the Division’s *Corporate Articles* newsletter ranked first in the member survey, with the Association’s *The Federal Lawyer* magazine right behind. To this end, we were pleased to receive an Outstanding Newsletter Award at the FBA’s 2013 annual convention. We are building on this achievement by adding new types of content. For example, while it is always useful to have substantive articles on particular areas of the law, we will be diversifying into interviews with CEOs and other executives about industry issues that corporate lawyers should understand from the business perspective. We have also expanded our presence in *The Federal Lawyer* through our periodic *Corporate Type* column. For the first time, *The Federal Lawyer* will run an in-house themed issue in March 2014 featuring discussions with a number of high profile general counsels and other leading attorneys from the private, non-profit, and federal government sectors. There will also be an interview with an executive from one of the largest in-house and law firm recruiting firms answering in-depth questions about compensation, transitioning to in-house, etc. We believe the articles in our Division newsletter and the Association magazine not only provide valuable information and insights, but also an opportunity for our members to increase their visibility through publishing.

#### ***Do you see any synergy between the Corporate Counsel Division members and Federal Litigation Section members?***

There are a number of areas of interest to members of both groups, for example, recent developments on arbitrations, class actions, patents, the False Claim Act, and the Foreign Corrupt Practices Act. Federal Litigation Section members are on the front line trying cases of interest to corporations in all industries. Increased collaboration between litigators and in-house counsel should allow corporations to take timely preventative steps to better protect themselves from litigation, regulatory enforcement action, and reputation risks. Another area where there is an opportunity for these groups to partner is with “value-based billing” (also known as alternative fee arrangements). Corporations and their outside law firms continue to explore what billing structures are best suited to particular types of representations, such as fixed fees, budgeted fees with collars, blended rates, reverse contingent fees, success fees, and holdbacks. Similar to the goal of accountable care organizations in healthcare, value-based billing is meant to make law firm work more efficient and improve outcomes for all parties. Progressive law firms and corporate legal departments have already begun to tout the benefits. Members of the Federal Litigation Section are encouraged to reach out to in-house counsel they work with who may be interested in becoming involved in the Association and Corporate & Association Counsel Division. Similarly, corporate counsel can ask their current and prospective outside litigation counsel if they are members of the FBA and Federal Litigation Section.

*Interview continued on page 9*



## APPROACHING THE BENCH

### More Writing for Judges Megan E. Boyd

In my first Writing for Judges article, published in the Fall 2013 edition of the *SideBar*, I discussed easy ways for lawyers to improve their briefs and filings. In this article, I address additional points lawyers should keep in mind when writing for judges.

**Use pleadings to advance your case not air your grievances.** We've all been there—dealing with a difficult attorney who seems to delight in making your life miserable. The attorney won't cooperate, won't agree to reasonable requests, and attempts to stymie you at every turn. It's challenging, but resist the urge to bring the judge into the fight unless you have no alternative. I recently heard a trial judge talk about her frustration with lawyers' conduct toward each other. In several cases, that judge has ordered lawyers to refund some of their fees for unnecessarily expanding litigation by fighting with each other—and has ordered those lawyers to send copies of her rulings to their clients along with the refund checks. How embarrassing! Judges are busy people and quickly become frustrated with lawyers who cannot get along and file unnecessary pleadings because of that disharmony. Before you file a motion based on the opposing party's or its lawyer's conduct, think about these questions: What are the chances that motion will actually be granted? What value will the motion add to the client's case? Is the opposing party's conduct egregious enough to warrant court action? A judge's job is to see cases to resolution, and judges generally don't want to spend time addressing issues that don't advance the litigation. Think twice before filing these types of pleadings.

**Know the standard and write with it in mind.** Whether you're writing a trial court or appellate brief, you must know the standard and keep it in mind at all times. Let's consider the summary judgment standard: in order to obtain a grant of summary judgment, there must be no disputed material facts. Arguing that the facts most support your client's position isn't going to help—fact finders (not judges) decide factual disputes. One disputed material fact—even if small—means no summary judgment. So if there are disputed facts, you've got to argue those facts aren't "material." And on appeal, you're probably not going to get anywhere by arguing the jury's or judge's findings of fact are wrong. In most cases, the standard of review for factual findings is "any evidence," so if there is any evidence in the record to support them, those findings will be upheld. You're either going to have to argue that there is no evidence to support the fact finder's decision (a very difficult argument) or argue that the trial court misapplied the law or misinstructed the jury on the law, both of which are reviewed under a much less deferential standard. Know the standard and write with that standard in mind.

**Don't fudge the facts or law—even a little.** "[A] lawyer's credibility often rubs off on client credibility."<sup>1</sup> Lawyers must have a mastery of the facts of their cases and present those facts honestly and forthrightly to the judge. Even though some lawyers may not

believe it, judges rely heavily on attorneys to educate them about the facts and the law, so be honest. And you can be sure that if one party misstates the facts, the other party will correct that misstatement quickly. Cases on appeal are no different. Many appellate judges read the lower court's opinion first. So if you mischaracterize the facts or the lower court's findings, you're digging yourself a hole before you've even had a chance to argue your client's case. And fudging the law creates a "boy who cried wolf" situation. Judges and their clerks check authority. If a judge believes an attorney is trying to "pull one over" on the judge by citing irrelevant authority or misciting relevant authority, the judge will have a hard time believing anything else the attorney says.

**You've got to earn what you're asking for by convincing the judge you're entitled to it.** I recall a case in which both parties moved for summary judgment. The judge denied both motions, and the parties were outraged, arguing that the judge had to grant one or the other. What the parties missed was that neither had proven entitlement to summary judgment. Neither had shown that the material facts were undisputed. Neither had sufficiently argued that its position was the only one supported by applicable law. So the judge denied both. Getting a case resolved through motions practice isn't a right. Always remember that you are responsible for showing the judge why you're entitled to what you want.

**Draft a reply brief only if you need one.** Judge Frank Easterbrook has famously noted: reply briefs "aren't really reply briefs most of the time; they're just repeat briefs."<sup>2</sup> A reply brief shouldn't be a regurgitation of the arguments in the initial brief. A reply brief should address arguments made by the opposing party in its response brief if those arguments weren't addressed in the initial brief. If you knew what the opposing party would argue in its response and addressed those arguments in your initial brief, you likely don't need a reply brief. But if you do need to file a reply brief, keep it short and to the point. You can reference arguments made in your initial brief, but limit the substance of your reply brief to previously unaddressed issues and arguments. **SB**



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### Endnotes

<sup>1</sup>Stanley v. Tucker, No. 4:09cv162, 2011 WL 7664585, at \*9 (N.D. Fla. Nov. 28, 2011).

<sup>2</sup>13 Scribes J. Legal Writing 1, 9 (2013).

## Asking the Umpire to Hold onto the Ball: Preserving Post-Settlement Jurisdiction in Federal Court

Peter M. Lantka

The scene is ubiquitous: a pack of fresh-faced kids playing baseball in the neighborhood sandlot. The game is progressing nicely until the penultimate run is cut short by the ball's inevitable disappearance over an unkempt fence into the jowls of the meanest dog ever to ruin a pre-teen's triple play. No one thought that the game would result in a home run, and even fewer players thought that their ball would disappear into a nearby, more dangerous lot.

Baseball analogies, apparently by law, are applicable to all walks of life. In this case, we need only replace the baseball players with federal practitioners, the sandlot with an Article III court, and the tattered ball entering Fido's cavernous fangs with a hard-fought settlement agreement rocketing out of a familiar federal forum into state court. Such is the fate for unwary litigants who fail to preserve federal jurisdiction upon settling a case.

By design, federal courts have limited jurisdiction, accessible only to diverse litigants meeting the \$75,000 economic threshold; cases arising out of the Constitution, laws, or treaties of the United States; and cases involving the federal government as a party.<sup>1</sup> Unlike their state counterparts, federal courts' ability to adjudicate disputes is not perpetual; and, even cases properly before the court in their original form may lack jurisdiction upon the parties' entry into a settlement agreement where the court fails to expressly preserve jurisdiction in its dismissal order.<sup>2</sup>

The bellwether case in this area is *Kokkonen v. Guardian Life Insurance Company of America*. *Kokkonen* was a diversity case concerning the termination of a general agency agreement. As is the case in most civil matters, the parties settled their dispute and entered into a *pro forma* stipulation and order of dismissal with prejudice that the trial court signed perfunctorily, under the notation "it is so ordered."

Shortly thereafter, the respondent sought to reopen the lawsuit, contending that the defendant breached the settlement agreement; the Supreme Court found no jurisdiction. The Court stated: "[e]nforcement of the settlement agreement... whether through award of damages or decree of specific performance, is more than just a continuation or renewal of the dismissed suit, and hence requires its own basis for jurisdiction."<sup>3</sup> The Court continued:

The situation would be quite different if the parties' obligation to comply with the terms of the settlement agreement had been made part of the order of dismissal—either by separate provision (such as a provision "retaining jurisdiction" over the settlement agreement) or by incorporating the terms of the settlement agreement in the order. In that event, a breach of the agreement would be a violation of the order, and ancillary jurisdiction to enforce the agreement would therefore exist. That, however, was not the case here.

The judge's mere awareness and approval of the terms of the settlement agreement do not suffice to make them part of his order...

No federal statute makes that connection (if it constitutionally could) the basis for federal-court jurisdiction over the contract dispute. The facts to be determined with regard to such alleged breaches of contract are quite separate from the facts to be determined in the principal suit, and automatic jurisdiction over such contracts is in no way essential to the conduct of federal-court business.<sup>4</sup>

Under the Court's reasoning, upon settlement, the parties' diversity case morphed into a breach of contract action lacking independent federal jurisdiction. Having failed to retain jurisdiction over the lawsuit in the order of dismissal, and with no independent jurisdiction over a new contract action, the case was booted from federal court.<sup>5</sup>

The Supreme Court's reasoning isn't limited to diversity cases. It has been applied to Title VII actions,<sup>6</sup> copyright disputes,<sup>7</sup> and claims against the federal government.<sup>8</sup> Indeed, the proscription against post-settlement jurisdiction is so strong that district courts even lose jurisdiction in cases where parties expressly preserve Article III jurisdiction in their settlement agreements<sup>9</sup> or where a judge orally states his desire to "act as a czar with regard to the drafting of the settlement papers."<sup>10</sup> So long as the final order of dismissal doesn't include language retaining jurisdiction, parties will likely be precluded from continuing in the same court if (and many say when) one party breaches a settlement agreement.

The failure to retain federal jurisdiction can be detrimental to litigants seeking to have a familiar judge adjudicate their disputes. For cases involving federal question issues such as employment discrimination or diversity cases where the settlement value is less than \$75,000, parties must file a new, breach of contract action in state court. Such actions against the federal government fall under the Tucker Act and must be filed in the United States Court of Claims if amount at issue exceeds \$10,000.<sup>11</sup>

So what's the solution? Are federal practitioners forced to forfeit the game at the last minute, watching their precious settlement agreement fly over the judicial sand lot's dilapidated fence? Must we subject ourselves to jurisdiction by a capable, but unfamiliar state-court pinch-hitter? As with most legal questions, the answer is simple: maybe.

Like a Louisville Slugger, *Kokkonen* is a blunt instrument; and in most situations, a federal court will treat cases to enforce a breach of a settlement agreement as a new, independent action in need of its own jurisdictional underpinning. In situations where the parties are diverse and the settlement agreement covers more than \$75,000, jurisdiction is applicable under the court's ancillary powers, and parties may generally move to enforce the agreement without issue.<sup>12</sup> Several courts have also carved out an exception for enforcing settlement agreements under Title VII to the Civil Rights Act, since the underlying cause of action is primarily federal in nature.<sup>13</sup> For all other matters, however, litigants must plan ahead if they want to preserve federal jurisdiction for a potential post-judgment action.



They generally have two options.

The first, and most direct option is to have the court specifically retain jurisdiction over the settlement agreement in its order dismissing the case. Such a tactic comports with *Kokkonen* and creates a clear record of the court's non-relinquishment of power. A second, and somewhat more problematic option, is to agree to retain federal jurisdiction within the settlement agreement and have the document's terms specifically incorporated into the order of dismissal.<sup>14</sup> While less straightforward than the first approach, a court order incorporating a document retaining jurisdiction is better than an order absent jurisdictional reference entirely. Importantly, the order of dismissal must make more than a passing reference to the parties' settlement agreement.<sup>15</sup> As with any issue, it is imperative to check individual circuit law before settling a case. Despite *Kokkonen*, there remains a plurality of views within the circuit courts.

Of course, the third and perhaps most desirable option is to avoid a second lawsuit altogether by not breaching a settlement agreement in the first place. But much like baseball, no one really knows how the next inning of litigation is ever going to play out. **SB**



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#### Endnotes

<sup>1</sup>28 U.S.C. § 1331-32 (2006); 1345-46.

<sup>2</sup>*Kokkonen v. Guardian Life Ins. Co. of Am.*, 511 U.S. 375 (1994)

<sup>3</sup>*Id.* at 378.

<sup>4</sup>*Id.*

<sup>5</sup>*Id.* at 381.

<sup>6</sup>*Munoz v. Mabus*, 630 F.3d 856 (9th Cir. 2010).

<sup>7</sup>*O'Connor v. Colvin*, 70 F.3d 530 (9th Cir. 1995) (finding no jurisdiction despite the trial judge stating that "I will act as a czar with regard to the drafting of the settlement papers and the construction of this settlement and the execution of this settlement.").

<sup>8</sup>*VanDesande v. United States*, 673 F.3d 1342 (Fed. Cir. 2012); *Holmes v. United States*, 657 F.3d 1303 (Fed. Cir. 2011)

<sup>9</sup>*Cross Media Mktg. Corp. v. Budget Mktg.*, 319 F. Supp. 2d 482, 483 (S.D.N.Y. 2004); *Daewoo Logistics Corp. v. BarwilZaatarah Agencies Ltd.*, 07 CIV. 10725 JSR, 2010 WL 3468982 (S.D.N.Y. Aug. 24, 2010).

<sup>10</sup>*Hagestad v. Tragesser*, 49 F.3d 1430, 1433 (9th Cir. 1995)

<sup>11</sup>28 U.S.C. § 1346

<sup>12</sup>*Limbright v. Hofmeister*, 566 F.3d 672, 673 (6th Cir. 2009); *Blue Cross & Blue Shield Ass'n v. Am. Express Co.*, 467 F.3d 634, 638 (7th Cir. 2006); *U.S.I. Props. Corp. v. M.D. Constr. Co.*, 230 F.3d 489, 499-500 (1st Cir. 2000); *Bailey v. Potter*, 478 F.3d 409, 412 (D.C. Cir. 2007); *McCall-Bey v. Franzen*, 777 F.2d 1178, 1186-87 (7th Cir. 1985); *Fairfax Countywide Citizens Ass'n v. Cnty. of Fairfax*, 571 F.2d 1299, 1303 & n.8 (4th Cir. 1978).

<sup>13</sup>*Snider v. Circle K Corp.*, 923 F.2d 1404, 1407-08 (10th Cir. 1991); *Eatmon v. Bristol Steel & Iron Works, Inc.*, 769 F.2d 1503, 1513 (11th Cir. 1985); *EEOC v. Henry Beck Co.*, 729 F.2d 301, 305 (4th Cir. 1984); *EEOC v. Liberty Trucking Co.*, 695 F.2d 1038, 1044 (7th Cir. 1982). But compare *Munoz*, 630 F.3d 856 (district court lacked subject matter jurisdiction to enforce Title VII predetermination settlement agreement between employee and Navy); *Morris v. City of Hobart*, 39 F.3d 1105, 1110 (10th Cir. 1994).

<sup>14</sup>*Miener v. Mo. Dep't of Mental Health*, 62 F.3d 1126, 1128 (8th Cir. 1995).

<sup>15</sup>*Caudill v. N. Am. Media Corp.*, 200 F.3d 914, 917 (6th Cir. 2000); *Miener*, 62 F.3d at 1128; *Scelsa v. City Univ. of N.Y.*, 76 F.3d 37, 41 (2d Cir. 1996); *Miener*, 62 F.3d at 1128; *Hagestad*, 49 F.3d at 1432-33; *Lucille v. City of Chi.*, 31 F.3d 546, 548-49 (7th Cir. 1994).

#### Interview continued from page 6

#### How has the FBA impacted your practice and what have you enjoyed most about chairing the Division?

Among a number of positive experiences, the most enjoyable aspect of being involved in leadership has been building relationships with other FBA members, both inside and outside of the Division. I have had the pleasure of meeting very dynamic attorneys from across the country at all levels of corporations and the federal government, attorneys at law firms from a wide diversity of practice areas, etc. Many in-house attorneys are expected to keep up with best practices across a number of disciplines, such as commercial

contracts, interstate or international commerce, business entity laws, labor matters and employee benefits, intellectual property, taxation, insurance, etc. An example of the impact on my practice is that if I had a securities litigation question, I would feel comfortable calling the chair of the FBA Securities Law Section, an expert in that field. The same is true for members from other FBA subject matter entities. The friends and acquaintances I have developed through being actively involved offer not only a tremendous professional network, but also a collegial group of professionals that I hope to enjoy spending time with at FBA events for years to come. **SB**

## *Will Remote Trial Testimony Become More Accepted In Civil Trials With Enhanced Technology?*

**Steven M. Richard**

As any litigator has experienced, the attendance of a trial witness situated outside the jurisdiction of the trial court, especially a third party with limited factual information on a discrete issue, can be problematic to schedule and expensive to arrange. As amended in 1996, Federal Rule of Civil Procedure 43(a) allows the permissive use of remote trial testimony under strict conditions if a witness cannot appear in court. Compared to other Rules of Civil Procedure relating to trials, there is not a wide body of federal case law applying and interpreting Rule 43(a).

Rule 43(a) provides that “[a]t trial, the witnesses’ testimony must be taken in open court unless a federal statute, the Federal Rules of Evidence, these rules, or other rules adopted by the Supreme Court provide otherwise.” The rule allows “[f]or good cause in compelling circumstances and with appropriate safeguards, the court may permit testimony in open court by contemporaneous transmission from a different location.” If the requirements of Rule 43(a) are met and remote testimony is allowed, a subpoena may be issued to compel the witness’s appearance at a location within the limits and under the conditions defined by Rule 45 for the purpose of the transmission of his or her contemporaneous testimony.<sup>1</sup> Appeals courts will review the trial court’s rulings regarding remote testimony under an abuse of discretion standard.<sup>2</sup>

The Advisory Committee notes accompanying the 1996 amendment to Rule 43 offer a conservative interpretation regarding the allowance of a contemporaneous transmission of trial testimony. The Advisory Committee instructs that the exception permitting such testimony should not swallow the general rule requiring witnesses to appear in open court:

The importance of presenting live testimony in court cannot be forgotten. The very ceremony of trial and presence of the factfinder may exert a powerful force for truth-telling. The opportunity to judge the demeanor of a witness face-to-face is accorded a great value in our tradition. Transmission cannot be justified merely by showing that it is inconvenient for the witness to attend the trial.

In fact, the trial judge is not bound to accept a stipulation by the parties agreeing to the presentation of remote trial testimony.

The Advisory Committee notes further state that a deposition offers a “superior” means to secure testimony of a witness who is beyond the reach of a trial subpoena or will encounter difficulties in attending the trial. “Good cause” to justify remote trial testimony is easiest shown on the basis of “unexpected reasons such as accident or illness” and more difficult to establish when a party could “reasonably foresee the circumstances offered to justify transmission of testimony.” Also, remote

testimony may be the best available alternative as opposed to rescheduling the trial to accommodate a witness’s attendance in court and running the risk that other witnesses could become unavailable.

Applying Rule 43(a) and interpreting the Advisory Committee notes, courts have allowed remote testimony in instances of security issues or where a witness would be justifiably made uncomfortable appearing in the courtroom.<sup>3</sup> Geographical constraints alone may not be sufficiently persuasive to allow a party to present remote testimony. While the attendant costs and logistics involving a witness’s international travel may appear to present good cause and compelling circumstances, courts still analyze critically whether a party should have reasonably made alternative arrangements to preserve the testimony sufficiently in advance of the trial.<sup>4</sup> Courts are typically skeptical and unsympathetic to the requests to present the remote testimony of a witness facing domestic travel to the courthouse, but some courts have allowed remote testimony to avoid the time and expense of requiring a witness to travel across multiple state lines.<sup>5</sup>

Of particular importance as technology evolves, the Advisory Committee notes do not specify the means of transmission that may be used. One court has suggested that a preference of “live testimony over testimony by contemporaneous video transmission is to prefer irrationally one means of securing the witness’s testimony which is exactly equal to the other.”<sup>6</sup> Specifically, the Advisory Committee’s commentary is “somewhat less persuasive in light of the improvements that have been made to video conference technologies in the interim.”<sup>7</sup> In fact, video conferencing can be far more impactful at trial than alternative methods such as having two lawyers role playing in the reading of a deposition, particularly because the judge and jurors will observe and access the witness’s credibility and demeanor during the contemporaneous transmission. Also, through remote testimony, the witness may be examined at trial as to subsequently discovered evidence not covered in his or her deposition testimony.

In a case where remote testimony was allowed, the United States District Court for the Southern District of New York explained in detail the safeguards that it utilized to ensure the efficiency of the process.<sup>8</sup> The plaintiff made the necessary arrangements for the video conference to begin at a set time. The court excused the jury and spoke to the witness to establish that he was able to see the bench and the jury box, and the attorneys when they approached a designated spot to ask questions. The court confirmed the quality of the video and audio transmission on a large screen displaying the witness’s face, upper body, and surroundings. After the jury returned, the witness was sworn and direct, cross and redirect examination took place. A slight, non-disruptive time delay occurred between the asking of questions and the answering of questions. Nonetheless, the jury was still able to observe the witness’s demeanor and responsiveness. The court was “comfortable that the technology enabled the witness to observe and comprehend ‘the very ceremony of the trial and the presence of the factfinder’” and that the jury received a close equivalent to the witness’s physical presence in the courtroom.

Time will tell if courts will be more receptive to contemporaneous transmission of trial testimony in cases where a witness cannot appear on the stand in the courtroom. As a practical example, courts have allowed remote testimony as an efficient and cost-saving mechanism in multidistrict litigation cases.<sup>9</sup> Also, practitioners should check the applicable local rules to determine how the trial court expects testimony to be presented and whether it imposes any special requirements to allow remote testimony. While remote testimony must remain an appropriately justified exception rather than the norm, courts should apply Rule 43(a) with a perspective recognizing that the concerns expressed by the Advisory Committee nearly two decade ago may be alleviated by continuing enhancements to technology. **SB**



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#### Endnotes

<sup>1</sup>*Williams v. Arctic Cat, Inc.*, No. 3:11-cv-445, 2014 U.S. Dist. LEXIS 33090, at \*13 (N.D.N.Y. March 13, 2014).

<sup>2</sup>*Eller v. Trans Union, LLC.*, 739 F.3d 467, 477 (10<sup>th</sup> Cir. 2013).

<sup>3</sup>*See, e.g., Jennings v. Bradley*, 419 F. App'x 594, 598 (6<sup>th</sup> Cir. 2011) (unpublished) (three witnesses posed security threats and the fourth would be deprived of necessary mental health support if he had to testify in person); *Parkhurst v. Bell*, 567 F.3d 995, 997, 1002-03 (8<sup>th</sup> Cir. 2009) (child victim of sexual abuse).

<sup>4</sup>*See, e.g., Lopez v. NTI, LLC.*, 748 F. Supp. 2d 471, 480 (D. Md 2010) (difficulty of obtaining visa; expense of international travel).

<sup>5</sup>*See, e.g., Scott Timber, Inc. v. United States*, 93 Fed. Cl. 498, 501 (Fed. Cl. 1020) (approving use of videoconferencing for trial in Washington, D.C., where witness was in Oregon). *Federal Trade Comm'n v. Swedish Match N. Am., Inc.*, 197 F.R.D. 1, 2 (D.D.C. 2000) (finding good cause for videoconferencing where witness was in Oklahoma and hearing was in Washington, D.C.).

<sup>6</sup>*Federal Trade Comm'n*, 197 F.R.D. at 2.

<sup>7</sup>*Santacruz v. French Connection Bakery, Inc.*, No. C07-0118 PVT, 2009 U.S. Dist. LEXIS 132017, at \*2 (N.D. Cal. July 27, 2009).

<sup>8</sup>*Virtual Architecture, Ltd. v. Rick*, C.A. No. 08 Civ. 5866 (SHS), 2012 U.S. Dist. LEXIS 151118, at \* 6-7 (S.D.N.Y. Feb. 7, 2012).

<sup>9</sup>*See, e.g., In Re Actos® (Pioglitazone) Products Liability Litigation*, M.D.L. No. 6:11-md-2229 (Case No. 12-cv-00064), 2014 U.S. Dist. LEXIS 2231 (W.D. La. Jan. 8, 2014).



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## BRIEFING THE CAUSE

### OSHA Issues New Rule for Food Safety Whistleblowers

Earl "Chip" Jones, Linda Jackson, and Jill Weimer,  
Littler Mendelson

Effective Thursday, February 13, 2014, the U.S. Occupational Safety and Health Administration (OSHA) published an interim final rule governing the agency's future handling of whistleblower complaints under Section 402 of the FDA Food Safety Modernization Act (FSMA), which protects workers who disclose food safety concerns.<sup>1</sup> While similar to other whistleblower protection statutes in procedure, the new rule follows a trend making it significantly easier for a claimant to establish a prima facie case under the FSMA's whistleblower protection provisions. Food industry employers should be aware of the new rule and consider implementing plans for managing what may appear to be fairly low-level suggestions or complaints, but could nevertheless qualify as "protected activity" under this new lower threshold for whistleblower protection.

Section 402 of the FSMA protects employees who are engaged in the manufacture, processing, packing, transporting, distribution, reception, holding or importation of food from retaliation when they raise food safety issues with their employer or the government.

The new rule establishes procedures and time frames similar to those under the Sarbanes-Oxley Act (SOX) for the handling of retaliation complaints under the FSMA. The rule includes procedures for filing employee complaints with OSHA (which must be filed either verbally or in written form within 180 days of the alleged retaliation); OSHA investigative actions; a requirement that OSHA issue a written reasonable cause determination within 60 days; the process for appealing OSHA determinations to an Administrative Law Judge (ALJ) for a hearing with *de novo* review; ALJ hearing procedures; the process for seeking review of ALJ decisions by the Administrative Review Board (ARB); and judicial review of the resulting final decision.

Under the new FSMA rule, complaining employees are protected from retaliatory actions<sup>2</sup> as long as they have a reasonable belief — defined in the regulation as a subjective, good-faith belief and an objectively reasonable belief — that the complained-of conduct violates the Federal Food Drug and Cosmetic Act (FDCA). However, the whistleblower need not show that the conduct complained of constituted an actual violation of law.

In order to show the belief is subjectively reasonable, an employee will only need to show that he or she "actually believed" the conduct complained of constituted a violation of relevant law. In order to show an "objectively reasonable" belief, an employee must show that a reasonable person would have held the same belief, having the same information, knowledge, training and experience as the complainant. Often the issue of "objective reasonableness" involves factual issues and cannot be decided in the absence of an adjudicatory hearing.

The interim final rule cites to and adopts the *Sylvester v.*

*Parexel International, L.L.C.*<sup>3</sup> decision, a SOX case in which the ARB reversed an ALJ decision in favor of this more lenient standard for employees. The *Sylvester* decision was the first in what has now become a trend that reduces the previously held standard to require that an employee show only that he or she "reasonably believes" that the conduct complained of violated the statute, not that a violation actually occurred.

Examples of potential violations of the FDCA that could, if reported, form the basis of a FDCA whistleblower claim include: failure to maintain adequate personal cleanliness, failure to wash hands thoroughly, failure to maintain gloves where appropriate and failure to take "other necessary precautions against contamination."<sup>4</sup>

Potential violations of the FDCA, like the examples listed above, may be difficult for an employer to consistently identify, let alone regulate and control beyond whatever mechanisms it already has in place. This difficulty, coupled with the alarmingly light burden of proof placed on the employee making a claim of retaliation after blowing the whistle on an alleged infraction, creates a significant likelihood of increased exposure to employers, particularly when making legitimate decisions regarding terminations or employee discipline.

#### What Can Employers Do?

Given the low bar set by the new rule for meeting the regulation's standard for protection, employers need to examine their current procedures under food safety. What may have been innocuous before—a complaint that someone's shoes are unclean or that jewelry is being worn around processing equipment—may now be considered protected activity.

Section 402 arguably established a very low statutory standard for engaging in protected activity, and now OSHA's new rule, which is consistent with the lax pleading standards applicable to SOX retaliation claims, will make it difficult for food industry employers to manage workers who may complain about events that occur every day. For example, a worker who raises a concern about adherence to or deficiency of a particular Good Manufacturing Practice (GMP) may be engaging in protected activity.

Importantly, employers are not without recourse. A claim can be dismissed pre-investigation if the employer can show that it would have taken the same action regardless of whether the employee had engaged in protected activity. As such, maintaining good evaluation procedures and documentation of performance is now more important than ever. In addition, employers should strive to create a culture that promotes the internal reporting of a violation and ensures a prompt investigation and resolution of such complaints. Studies confirm that employees make fewer external complaints if they perceive their employer to be promoting a culture of compliance.

We recommend the following to prepare for and anticipate the effects of the new rule:

1. Develop a food safety reporting policy;
2. Train line managers and supervisors regarding the importance of dealing with complaints professionally and in a manner consistent with company policy;

3. Log complaints;
4. Document investigations into the subject matter of the complaint and any actions taken as a result; and
5. Ensure that any adverse action taken with respect to an employee who has lodged such a complaint would have been taken absent the complaint and is consistent with past practice.

### Summary

The interim final rules continue a trend that provides employees more freedom to cast otherwise ordinary complaints about workplace conditions – in this case food safety – as the basis for whistleblower protection in the event they are subject to discipline. While public employers are accustomed to dealing with “free speech” in the workplace, private employers are not. These new whistleblower protection and anti-retaliation laws are essentially creating free speech and adverse action safe zones for employers in all sectors of the economy. Employers should recognize this trend is growing and begin to train supervisors to learn how to manage performance without punishing protected activity or speech. **SB**



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Littler Associate Jill Weimer assisted in the preparation of this article.

### Endnotes

<sup>1</sup> Comments on the final rule and any additional materials must be submitted by April 14, 2014, and may be submitted through the federal eRulemaking portal: [www.regulations.gov/#!documentDetail;D=OSHA\\_FRDOC\\_0001-0496](http://www.regulations.gov/#!documentDetail;D=OSHA_FRDOC_0001-0496).

<sup>2</sup> Actions that are prohibited include, but are not limited to, “discharge, ... intimidating, threatening, restraining, coercing, blacklisting or disciplining, any employee with respect to the employee’s compensation, terms, conditions or privileges of employment.” 29 C.F.R. § 1987.102(a).

<sup>3</sup> ARB Case No. 07-123 (May 25, 2011).

<sup>4</sup> 21 C.F.R. § 110.10.

## Forum Selection Clause and the Supreme Court’s Recent Interpretation in the Atlantic Marine Decision

**Dorothy L. Tarver**

In *Atlantic Marine Constr. Co., Inc. v. United States Dist. Court for the Western District of Texas*, 571 U.S.—, 134 S. Ct. 568 (2013), Atlantic Marine (“Plaintiff”), a Virginia corporation, entered into a subcontract with J-Crew Management, Inc., a Texas corporation, to supply labor and materials to build a development center in Texas. The subcontract contained a forum-selection clause, requiring all disputes arising from the contract be settled in state court in Virginia, or the United States District Court for the Eastern District of Virginia.” *Atlantic Marine Constr. Co.*, 701 F. 3d 736, 737-738 (CA5 2012).

After completing the project, Plaintiff withheld payment to J-Crew for defective construction. J-Crew sued Plaintiff in the Western District of Texas, invoking diversity jurisdiction. In light of the contract’s forum-selection clause, Plaintiff moved to dismiss, arguing that the forum selection clause rendered venue in the Western District of Texas “wrong” under 28 U.S.C. § 1406(a) and “improper” under Federal Rule of Civil Procedure 12(b)(3). *Id.* at 738.

Plaintiff moved to transfer the case to the Eastern District of Virginia under § 1406(a). *Id.* The district court denied Plaintiff’s motion finding §1406 inapplicable because the events giving rise to the litigation occurred in Texas and venue was proper under 28 U.S.C. § 1391. *Id.* The court rejected Plaintiff’s attempt to enforce the forum-selection clause through a challenge to venue and held § 1404(a) was the exclusive means for enforcing a forum selection clause in favor of another federal forum. Transfer-for-convenience analysis involves balancing “public interest” and private interest” factors, with the movant bearing the burden of showing that a transfer is “in the interest of justice” giving the district court great discretion concerning whether to grant the motion. See *Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 241 (1981).

Plaintiff petitioned the Fifth Circuit for a writ of mandamus directing the court to dismiss the case or transfer the case to the Eastern District of Virginia pursuant to § 1406(a). The Fifth Circuit denied Plaintiff’s petition because it failed to establish a “clear and indisputable” right to relief and affirmed the district court’s decision on the grounds that Texas had a public and private interest in adjudicating the dispute and declined to disturb the district court’s decision. *Id.* at 738; see also *Cheney v. United States Dist. Court for D.C.*, 542 U.S. 367, 381 (2004).

The Court granted Plaintiff’s petition for certiorari to resolve a split among the circuits on enforcing forum-selection clauses.

Unlike the Fifth Circuit's approach, some circuits treat forum-selection clauses as matters of venue, subjecting a suit filed in violation of a valid forum selection clause to dismissal for improper venue under Rule 12(b)(3) and § 1406(a). *Id.* at 738.

In a unanimous decision, the Court reversed the Fifth Circuit on December 3, 2013, and remanded the case to Texas, holding that a valid forum-selection clause does not defeat venue; reasoning that venue is governed by statute and whether venue is "wrong" or "improper" depends on whether the court where the suit was filed meets the federal venue statutes requirement. The Court held "§ 1404(a) provides the exclusive mechanism to enforce the forum selection clause. Section 1404(a) codifies the doctrine of *forum non conveniens*, so a court considering a motion to transfer venue would apply those factors to determine whether the transfer is appropriate." 571 U.S. \_\_\_ (2013).

The Court maintained that any determination of venue in a federal district being "wrong" or "improper" is dictated by 8 U.S.C. § 1391 and must fit the statutory categories in § 1391(b):

(1) a judicial district in which any defendant resides, if all defendants are residents of the State in which the district is located;

(2) a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is situated; or

(3) if there is no district in which an action may otherwise be brought as provided in this section, any judicial district in which any defendant is subject to the court's personal jurisdiction with respect to such action.

In asserting that a venue in a federal district is improper "[t]he district court must determine if the case fits within any of the three statutory categories. If so, venue is 'proper' and the case may not be dismissed; if not, the case must be dismissed or transferred under § 1406(a); but a forum-selection clause cannot make a venue wrong or improper." *Id.*

The Court's decision implicates enforceability of forum-selection clauses across state lines. Civil action may be taken to transfer the case to a new venue within the federal courts pursuant to § 1404(a), and "a forum-selection clause becomes relevant and enforceable through a motion to transfer. Transfer within the federal court system is governed by § 1404(a), which authorizes transfer to any district in which the case might have been brought or to any district to which the parties have agreed by contract or stipulation. Transfer to a state or foreign court is governed by the doctrine *forum non conveniens*." *Id.*

The Court noted, "§ 1404(a) is a codification of the *forum non conveniens* doctrine for the federal court system. However, public and private interests must be considered by the district court if a motion to transfer is filed under § 1404(a) or *forum non conveniens*." *Id.* Therefore, "[a] motion to transfer under either rule requires the district court to weigh the convenience of the parties against public-interest considerations. When there is a forum selection clause, courts must give controlling

weight to that clause in all but the most exceptional cases." *Id.*

Continuing, "if parties agreed to the venue provided in the forum-selection clause, the right of either party to challenge the venue later as inconvenient in one's pursuit of litigation and/or convenience has been waived." *Id.*

The Court's decision left unresolved a court's ability to decline to transfer or dismiss cases filed in violation of valid forum-selection clauses; however, the Court reasoned that such cases would be a rarity; stating, "[w]hen the parties have agreed to a valid forum-selection clause, a district court should ordinarily transfer the case to the forum specified in that clause," and "[o]nly under circumstances unrelated to the convenience of the parties should a § 1404(a) motion be denied." *Id.* The Court recognized that the enforcement of forum-selection clauses is crucial to contracting parties who rely on such clauses to control and predict where disputes may occur and to "protect [the parties'] legitimate expectations," commenting that enforcing valid forum-selection clauses "further[s] vital interests of the justice system." *Id.*

In conclusion, litigants seeking to enforce the venue stipulated by a forum-selection clause will benefit by the Court's decision. Forum-selection clauses are valuable as they allow businesses to expand their geographical scope of operations while reducing potential litigation costs. However, the cost of litigating disputes across state lines differs for corporations and small businesses. Corporations have deeper financial pockets and can absorb litigation costs across state lines; while small businesses bear the burden when forced to litigate disputes in a different state.

The *Atlantic Marine* decision will have a profound effect on general contractors, yet the Court's decision does not reflect how forum-selection clauses typically operate in the construction industry. Contractors, particularly larger general contractors, have the resources, experience, manpower, and bonding capability to accept work across state lines. Rigid enforcement of forum-selection clauses provides these contractors with predictability and cost control should disputes arise. Small businesses, such as local sub-contractors hired by the general contractor, bound by out-of-state forum-selection clauses, are at a disadvantage. Despite the potential ramifications of the *Atlantic Marine* decision on the construction industry, the reality is that many modern construction contracts call for alternative dispute resolution in lieu of litigation. **SB**



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## Is There Still Hope For State Law Securities Fraud Class Actions?

Heather A. Kabele

On February 26, 2014, the U.S. Supreme Court decided *Chadbourne & Parke LLP v. Troice*,<sup>1</sup> giving a narrow reading to a provision in the Securities Litigation Uniform Standards Act of 1998 (SLUSA),<sup>2</sup> and thereby potentially permitting a greater number of plaintiffs to pursue state law securities fraud class actions free from SLUSA preclusion.

SLUSA was enacted to curb the increased filing of securities class actions in state courts that followed 1995 securities litigation reform that had made federal securities law claims less attractive to plaintiffs. SLUSA provides that most state law class actions that are brought in state court and allege misrepresentations or omissions of material fact, or use of manipulative or deceptive devices or contrivances, “in connection with” the purchase or sale of a “covered security” (securities traded on a national exchange or issued by a registered investment company), may be removed to federal court so that the federal court may dismiss the action. This is not to say that an investor cannot bring a state law securities fraud claim; the intent of SLUSA is only to preclude use of the class action device to do so.

*Chadbourne & Parke* stems from Allen Stanford’s multibillion dollar Ponzi scheme, for which Stanford was sentenced to 110 years in federal prison and for which the court imposed a civil penalty of \$6 billion. Four groups of plaintiff investors filed civil actions in state and federal courts in Louisiana and Texas against defendants such as insurance brokers and law firms, alleging that the defendants assisted in some capacity in the fraudulent sale of certificates of deposit in Stanford International Bank. Each action presented a case of investors attempting to use the class action device (indeed, a “covered class action” under SLUSA), to bring state law securities fraud claims, premised on what the investors conceded were purchases or sales of “uncovered securities” under SLUSA (certificates of deposit not traded on a national exchange). The investors sought to sidestep SLUSA preclusion by arguing that an integral part of the fraudulent scheme, important to their decisions to purchase the certificates of deposit, consisted of misrepresentations by the Bank to the effect that the Bank had significant holdings of “covered securities” that made the investments in the “uncovered securities” more secure.

The cases were consolidated in the Northern District of Texas, and then dismissed as precluded by SLUSA. The Fifth Circuit reversed, holding that the Bank’s alleged misrepresentation concerning covered securities was too tangentially related to the crux of the fraud to trigger SLUSA preclusion.

The Supreme Court, faced with the determination of how broadly to construe SLUSA’s “in connection with” language, held that SLUSA does not apply in this situation. Specifically, the Court held that a misrepresentation or omission of material fact “in connection with” the purchase or sale of a covered security, for SLUSA purposes, does not extend further than a misrepresentation that is material to

the decision by someone, other than the fraudster, to purchase or sell a covered security. The Court deemed the situation in *Chadbourne & Parke* as one in which the misrepresentation may have been material to the investors’ decisions to purchase or sell an *uncovered* security. That is not enough to trigger SLUSA preclusion.

The 7-2 decision was penned by Justice Breyer. The Court explained that the securities laws are concerned with “securities transactions that lead to the taking or dissolving of ownership positions,” and that the investors here did not believe they were taking an ownership position in covered securities. Rather, it was the fraudster, the Bank, that was falsely assuring that it would buy or had bought for itself shares of covered securities. This case, then, is different than a case in which an investor believes that she is taking an ownership position in a covered security (say, by giving all her money to a broker who says he will invest it but squanders it for his own purposes instead). The Bank’s false assurances that it would buy itself covered securities would not satisfy the “in connection with” requirement, whereas the broker’s pilfering of funds intended to purchase covered securities for someone else would satisfy that requirement and, ultimately, could lead to SLUSA preclusion and dismissal. As the Court stated, where the “only party who decides to buy or sell a covered security as a result of a lie is the liar, that is not a ‘connection’ that matters.”

The dissent by Justice Kennedy, joined by Justice Alito, noted the importance of the Bank’s misrepresentations to the investors’ decisions to purchase the certificates of deposit, and pointed to prior Court precedent giving a broad construction to the “in connection with” language. In prior opinions the Court had held that the alleged fraud must “coincide” with the purchase or sale of a covered security in order to satisfy SLUSA’s “in connection with” requirement.<sup>3</sup> The majority dismissed this argument, noting that all of the prior cases had concerned misrepresentations or omissions material to a transaction by someone other than the fraudster to transact in the requisite securities and thus met the standard set forth by the majority.

The dissent also noted concern that giving the “in connection with” language a narrow construction in this context would limit the SEC’s enforcement powers under Section 10(b) of the Securities Exchange Act of 1934 (which also contains “in connection with” language). However, the majority took great care to demonstrate how the decision that it has reached, and the lines that it has drawn, would not significantly limit the SEC’s enforcement powers, including because the SEC may bring an action based on fraud in connection with the purchase or sale of *any* security, not limited to a covered security.

The majority noted that its decision would give investors potential relief not available under the federal securities laws: the ability to seek, as appropriate, recovery against aiders and abettors. It remains to be seen how much of an impact this ruling will have on a plaintiff’s ability to pursue state law securities fraud class actions. The Court was faced with a rather unique situation involving a fraudulent scheme

## Courts are Taking a Harder Look at Attorney-Fee Requests

Jessica L. Klander

Minnesota federal district courts are taking a harder look at attorney-fee requests. In two recent decisions, the district courts either denied or drastically reduced the attorney's fees sought, finding the requested amounts "unreasonable." Notably, both fee motions were unopposed and the courts acted *sua sponte* in reducing the awards.

### *Fouks v. Red Wing Hotel Corporation*

*Fouks v. Red Wing Hotel Corp.*, 2013 WL6169209 (D. Minn. Nov. 21, 2013), involved class action claims arising out of the alleged failure to properly redact consumer debit and credit card numbers from receipts pursuant to the Fair and Accurate Credit Transaction Act ("FACTA"). The plaintiffs did not seek actual damages. The parties reached a settlement by which the class members would receive vouchers for discounts at the hotel, the class representatives would both receive \$4,000, and a \$20,000 *cy pres* donation would be made to an area nonprofit. The court preliminarily approved the settlement. The plaintiffs' counsel thereafter brought a motion for final approval of the settlement and for attorneys' fees and costs. The defendant did not oppose the plaintiffs' motion. The district court granted final approval of the settlement as modified but denied, without prejudice, the plaintiffs' motion for attorneys' fees and costs.

The district court found that the plaintiffs' request for \$65,000 in attorneys' fees was "unreasonable" under the circumstances. The court expressed "grave concerns" with the 182 hours allegedly expended and the \$400 hourly rate that was "far in excess of what would be reasonable" on the "short-lived, straight forward case." The court found the billable time unreasonable, in light of the fact that the parties began discussing settlement early, the case did not involve motion practice, and a "majority of counsel's written submissions" were "boilerplate."

The district court also determined that the billing entries were unreasonably lengthy, duplicative, and that the attorney's "exorbitant" \$400 hourly rate was not in line with other Minnesota consumer litigation attorneys. The court concluded that "[FACTA] cases are not complex. In 2003, Congress required electronically-generated debit and credit card receipts to contain no more than five digits. It takes no more than the fingers on one hand to determine statutory compliance; the hours that counsel claims to have spent here are entirely unreasonable."

Accordingly, the district court held that the fees motion was "purely speculative" and denied the motion without prejudice. The court also determined that the settlement would be approved but reduced the class representatives' awards and indicated it would only reconsider a fee motion after the redemption period for the vouchers ended.

### *Zaun v. Al Vento Inc.*

*Zaun v. Al Vento Inc.*, 2013 WL268930 (D. Minn. Jan. 24, 2013), involved putative class action claims arising from

the alleged failure of the defendant to redact the expiration date from its receipts under the Fair Credit Reporting Act ("FCRA") and FACTA. No actual damages were alleged and therefore the claimed relief was limited to only statutory awards. After the parties settled, the plaintiff moved for attorneys' fees and costs. The motion was not opposed by the defendant. The district court nonetheless denied, in part, the plaintiff's motion, reducing the total award from the \$50,000 sought to just \$12,500.

The plaintiff argued that \$50,000 was reasonable because there had been "15 months of hard fought litigation" and a "fully briefed motion to dismiss." The district court rejected these arguments, noting that the motion to dismiss was only necessary because counsel failed to amend the complaint to correct a "glaring deficiency" and therefore "any attorney hours expended on the motion to dismiss were due to counsel's own lack of diligence and should not be fully compensated." The district court also disagreed with the plaintiff's characterization that the case was "hard-fought for 15 months," noting that settlement discussions began early, there was no dispute that a FACTA violation occurred, and the matter was fully-settled within eight months.

The district court also rejected the plaintiff's request for hourly attorney rates of \$400-\$450 and 152 allegedly logged hours because it was "egregiously inflated" given the "simple and straightforward" nature of the case. The district court noted that the attorneys' billing statements did not reflect minimal work, included double-billing, and inconsistencies, even though the pleadings contained largely "boilerplate language" and were nearly identical to another case brought by the named-plaintiff.

The district court explained that while it did "not criticize the use of previous legal arguments in identically situated memoranda; the problem lies in attempting to recover full attorney time for drafting memoranda that so clearly were not drafted for this case. Counsel's billing practices do not inspire confidence in the remainder of the time billed to this matter." Based on these considerations, the plaintiff's attorney-fee award was significantly cut.

In addition to the attorneys' billing practices, the *Zaun* court cited public policy considerations in reducing the award, concluding that "this case, and cases like this one, do not serve the public interest in any way. They do not address any wrong or make anyone whole, because no consumer has or can suffer any actual damages from this particular violation of the statute. These cases exist only to generate attorneys' fees." The district court therefore ordered a 75% reduction of the amount requested.

### Conclusion

These recent decisions illustrate that Minnesota courts are more closely scrutinizing attorney-fee requests to determine if they are "reasonable" under the circumstances. If a particular request is deemed "unreasonable," the court is free to act pursuant to its inherent authority to reduce the award. Attorneys must use caution when bringing attorney fee motions to ensure that

## The Courts Whittle Away Non-Solicitation Clauses: Broker Dealers Beware

Liam O'Brien

Non-solicitation clauses regarding customer accounts<sup>1</sup> (hereinafter "non-solicitation clauses") are a common restrictive covenant found in employment contracts. In the Financial Services Industry, these covenants are evidence of the diverging interests of employers - that want to preclude reps from soliciting customer accounts - and of reps eager to lure customers away to their new firms. State Courts have weighed these competing interests differently. What follows is an analysis of how some courts have construed these non-solicit provisions to undermine their enforceability and effectiveness. Employers and employees would be well-advised to consider these issues before they embark upon a lawsuit or arbitration concerning these clause.

### The Protocol for Broker Recruiting

Where a representative is transferring between two firms that are signatories to the Protocol for Broker Recruiting ("Protocol"), a contractual covenant not to solicit customer accounts is of little concern. The Protocol sets out procedures applicable when a registered representative of one signatory firm departs for another signatory firm.<sup>2</sup> The Protocol first requires that the resigning employee make two lists: the first containing his or her customers' names, addresses, telephone numbers, email addresses and account types, and the second containing all the information in the first, plus client account numbers.<sup>3</sup> The employee must then resign in writing and provide the customer list with account numbers to someone in management.<sup>4</sup> The Protocol provides that the employee cannot share this list with anyone else.<sup>5</sup> The benefit of the Protocol is that participating firms and their employees avoid the litigation and liability that arises when employees bring clients of their former employer to their new firm (so long as the departing employee follows the procedures set out in the Protocol).<sup>6</sup> However the Protocol does not protect against all claims, especially those against pre-resignation solicitation, training costs and raiding.

### Considerations of Enforceability Outside the Protocol

When an employer is not a signatory firm, the issues relating to non-solicitation provisions require more attention and jurisdictional differences will have a tremendous impact on enforceability of a non-solicitation clause.<sup>7</sup> Generally, courts require that a non-solicitation provision must be reasonable in scope and no broader than necessary to protect an employer's legitimate interests.<sup>8</sup> For example, in New York, customer lists that are obtained through years of effort and advertising, involving time, money, and enterprise are deemed confidential and therefore protectable by a reasonable non-solicitation clause.<sup>9</sup> New York courts typically find one-year non-solicitation clauses to be reasonable.<sup>10</sup> Agreements may not however be enforceable where they prevent employees from communicating with clients that they acquired through previous employment or through their own private efforts.<sup>11</sup>

### Undermining the Effectiveness of Non-Solicits

Curiously, and perhaps in response to the prevalence of the Protocol, some state courts have been issuing decisions undermin-

ing the effectiveness of non-solicit clauses even in cases not involving firms that are not signatories to the Protocol. For example, in 2008 the California Supreme Court issued a decision that significantly changed the scope of protection for non-solicitation clauses in that state. In *Edwards v. Arthur Anderson LLP*, 44 Cal.4th 937 (2008), the plaintiff sued his former employer (which had ceased operation after being indicted in the Enron scandal) for prohibiting him from soliciting clients for a year or more after leaving the firm. The Court concluded that California Business and Professions Code §16600 prohibited non-solicitation agreements unless the agreement fell within a specific statutory exception (sale of the goodwill of a business; upon dissolution of a partnership; upon dissolution of an ownership interest in LLC).<sup>12</sup> Arthur Anderson argued for the application of the 9<sup>th</sup> Circuit "narrow restraint" exception, which allowed for non-solicitation agreements so long as they were narrowly tailored.<sup>13</sup> However the Court declined to follow, acknowledging the unambiguous language of §16600 and noting that "if the Legislature intended the statute to apply only to restraints that were unreasonable or overbroad, it could have included language to that effect."<sup>14</sup> In a more recent California decision, a California Superior Court judge limited the enforceability of an Edward Jones non-solicitation provision.<sup>15</sup> In the case, Edward Jones sought a preliminary injunction against their former employee, John Lindsey, claiming he violated his one-year non-solicitation agreement.<sup>16</sup> Although the Judge granted the preliminary injunction, thereby prohibiting Mr. Lindsey from soliciting clients from Edwards Jones for one year following his departure, she did so with limitations.<sup>17</sup> Judge Cody explained that nothing in that agreement prohibited Lindsey from servicing Edward Jones clients who had reached out to him directly.<sup>18</sup> Edward Jones complained that this limitation undermined the effectiveness of the non-solicitation clause because Edward Jones' specialized in one-person offices in small and mid-size markets.<sup>19</sup> With this model, investors would likely contact and follow their rep to a new firm. Consequently, the limited non-solicit clause would do little to protect the interests of Edward Jones and similar firms. We note that Edward Jones, along with J.P. Morgan and a handful of other large firms, has yet to sign the Protocol, perhaps for this exact reason.<sup>20</sup> By undermining the effectiveness of non-solicit provisions, courts effectively undermine a firm's decision not to participate in the Protocol.

California courts are not the only courts undermining the effectiveness of non-solicitation clauses. For example in Georgia, courts have continuously declined to enforce prohibitions against accepting business from former customers and clients.<sup>21</sup> In *Akron Pest Control*, the GA Court of Appeals looked to the legal definition of solicit in reaching their conclusion.<sup>22</sup> Given the definition, the Court concluded that some affirmative action by the employee would be required to find that he violated his non-solicitation agreement.<sup>23</sup> Other federal and state courts have followed this same line of reasoning.<sup>24</sup>

Brokers dealers may be most concerned with the courts willingness to interpret any ambiguity in the agreement in favor of the employee.<sup>25</sup> In *Kennedy*, the court found that an agreement which prohibited the employee from "directly or indirectly perform[ing] any act . . . which would tend to divert" any business from his former employer to be ambiguous and, therefore, unenforceable.<sup>26</sup> Similarly, in a Virginia Eastern District case, the court denied the



employer a preliminary injunction for failing to define the term "solicitation".<sup>27</sup> Numerous other courts have also reached similar decisions, among them Massachusetts and New Jersey courts.<sup>28</sup>

Given these decisions, an employer would be well advised to revisit the language in their non-solicitation provisions to ensure that the provisions are clear and unambiguous. For example, in *American Family Mutual Insurance Co. v. Gustafson*, a District Court in Colorado found in favor of an insurance broker who left American Insurance to start his own insurance agency.<sup>29</sup> Relying on a prior case, American Family argued that Gustafson had violated his non-solicit clause by "inducing" his former policyholders, even when the policyholders had contacted him.<sup>30</sup> In *American Family v. Hollander*, a Magistrate judge for the Northern District of Iowa had concluded that American Family's prohibition of "client inducement" after termination prohibited the employer from responding to inquiries and providing quotes.<sup>31</sup> However, the Colorado court found this conclusion unpersuasive, especially after a representative of the company explained during deposition that the non-solicit did not preclude Gustafson from responding to policy holders' requests for a competing insurance quote.<sup>32</sup> In its opinion following American Family's motion for reconsideration, the Colorado court concluded that in interpreting contracts, courts must give effect to the intent of the parties.<sup>33</sup> These divergent *American Family* decisions should prompt employers to draft unambiguous non-solicitation provisions that clearly outline their intent for placing solicitation restrictions on employees. More obviously, employers should ensure that all representatives of their company have the same understanding of that intent.

As has been previously mentioned, the enforceability of non-solicitation agreements largely depends on jurisdictional differences. Our firm has put together a national survey of restrictive covenants found in employment contracts, specifically non-competition and non-solicitation clauses. This extensive spreadsheet outlines the many considerations of courts in determining the enforceability of these agreements. Among these considerations are relevant state law, the standard of reasonableness, protectable interests, and sufficient consideration. The spreadsheet also outlines the states' stances on modification of the agreement and choice of law provisions.

## Conclusion

Actions seeking enforcement of a non-solicitation clause seem to be as prevalent as the clauses themselves. Courts must weigh the interests of the employer and the employee. However, more and more courts seem disposed to strictly interpreting and narrowly construing any ambiguity in favor of the employee, thereby undermining the effectiveness of these provisions. Moreover, in states such as California, courts have strictly limited or completely prohibited non-solicitation agreements, making it extremely challenging for employers to protect their interests. **SB**



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## Endnotes

<sup>1</sup>There can also be provisions addressing the non-solicitation of employees and other independent contractors. We do not consider issues relating to these types of restrictive covenants in this article.

<sup>2</sup>See 4A N.Y.Prac., Com. Litig. in New York State Courts § 72:25 (3d ed.).

<sup>3</sup>See Protocol for Broker Recruiting, (available here: [www.sifma.org/uploadedfiles/services/standard\\_forms\\_and\\_documentation/broker\\_protocol/brokerprotocol.pdf?n=79732](http://www.sifma.org/uploadedfiles/services/standard_forms_and_documentation/broker_protocol/brokerprotocol.pdf?n=79732)).

<sup>4</sup>*Id.*

<sup>5</sup>*Id.*

<sup>6</sup>See *Id.*

<sup>7</sup>The following states generally disfavor non-solicitation agreements, but see All-State Survey for full analysis: AK, CA, CO, MD, MA, MS, MT, NH, NY, NC, ND, OR, SC, TN, VA.

<sup>8</sup>See, e.g., *Lawrence and Allen v. Cambridge Human Res. Grp., Inc.*, 685 N.E.2d 434, 441 (Ill. App. Ct. 1997).

<sup>9</sup>See, e.g., *Kelly v. Evolution Mkts., Inc.*, 626 F. Supp. 2d 364, 377 (S.D.N.Y. 2009).

<sup>10</sup>See, e.g., *Healthworld Corp. v. Gottlieb*, 12 A.D.3d 278, 786 N.Y.S.2d 8 (N.Y.App.Div.2004).

<sup>11</sup>See *GPS Indus., LLC v. Lewis*, 691 F. Supp. 2d 1327 (M.D. Fla. March 1, 2010).

<sup>12</sup>See *Id.* at 942.

<sup>13</sup>See *Id.* at 948.

<sup>14</sup>*Id.* at 950. It is important to note that California law still allows non-compete clauses that protect trade secrets and confidential information, something that should be of interest to CA employers in the Financial Services Industry. "Section 16600 does not invalidate an employee's agreement not to disclose his former employer's confidential customer list or other trade secrets or not to solicit those customers." Cal Bus & Prof Code § 16600. This exception prompted one CA attorney to predict that the securities industry would turn its focus to fitting information such as client lists into this trade secret exception. Dan Jamieson, Court Voids Non-Compete Contracts, InvestmentNews (Sept. 1, 2008 at 7:56AM). In fact, following the Edwards decision, several CA law firms issued advice to employers recommending they make sure restrictions were limited to the protection of trade secrets and confidential information. *Id.*

<sup>15</sup>See *Edward D. Jones & Co. LP v. John C. Lindsey*, No. 56-2012-00417040-CU-BT-VTA (Cal. Super. Ct. June 1, 2012)(order granting preliminary injunction).

<sup>16</sup>See Mason Braswell, Non-Solicitation Disagreement (Oct. 1, 2013) (available here: [www.onwallstreet.com/ows\\_issues/23\\_10/non-solicitation-disagreement-2686573-1.html?zkPrintable=1&nopagination=1](http://www.onwallstreet.com/ows_issues/23_10/non-solicitation-disagreement-2686573-1.html?zkPrintable=1&nopagination=1)).

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

<sup>18</sup>*Id.*

<sup>19</sup>*Id.*

<sup>20</sup>*Id.*

<sup>21</sup>See, e.g., *Akron Pest Control v. Radar Exterminating Co.*, 455 S.E.2d 601 (Ga. Ct. App. 1995).

<sup>22</sup>*Id.* at 602.

<sup>23</sup>*Id.* at 603.

<sup>24</sup>See, e.g., *Mona Electric Grp., Inc. v. Truland Serv. Corp.*, 56 F. App'x 108 (4th Cir. 2003) (finding the initiation of contact necessary to violate a clause); *Res. Assoc. Grant Writing & Eval. Serv., LLC v. Maberry*, No. CIV-08-0552, 2009 WL 1232133 (D. N.M. Apr. 23, 2009) (deeming solicitation to be an active concept); *J.K.R., Inc. v. Triple Check Tax Service, Inc.*, 736 So. 2d 43, 44 (Fla. Dist. Ct. App. 1999) (explaining the covenant only prevented former employees from taking proactive steps to obtain the business of former clients)

<sup>25</sup>See, e.g., *Kennedy v. Met. Life Ins. Co.*, 759 So. 2d 362 (Miss. 2000).

<sup>26</sup>See *Id.* at 163-164.

<sup>27</sup>See *Prudential Secs., Inc. v. Plunkett*, 8 F. Supp. 2d 514, 518 (E.D. Va. 1998).

<sup>28</sup>See, e.g., *Oceanair, Inc. v. Katzman*, No. 003343BLS,

2002 WL 532475, at \*6 (Mass. Super. Ct. Jan. 22, 2002) (responding to a request for information did not amount to a "solicitation," based on definition set forth in Black's Law Dictionary)', *Rubel & Jensen Corp. v. Rubel*, 203 A.2d 625, 628-29 (N.J. Sup. Ct. App. Div. 1964) (contractual provision precluding employee from "solicit[ing], directly or indirectly" employer's customers did not preclude employee from accepting customers who brought "business to him of their own accord").

<sup>29</sup>See, e.g., *Am. Family Mut. Ins. Co. v. Gustafson*, No. 08-CV-02772-MSK, 2011 WL 782574 (D. Colo. Feb. 25, 2011).

<sup>30</sup>*Id.* at \*7 (referencing *Am. Family Mut. Ins. Co. v. Hollander*, No. C-08-1039, 2009 WL 535990 \*17 (N.D. Iowa Mar. 3, 2009).

<sup>31</sup>*Id.* at \*17.

<sup>32</sup>*Id.* at \*7.

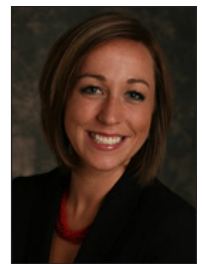
<sup>33</sup>See *Am. Family Mut. Ins. Co. v. Gustafson*, No. 08-CV-02772-MSK, 2012 WL 426636 at \*1 (D. Colo. Feb. 10, 2012) (internal citation omitted).

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the amounts requested are both "reasonable" and adequately supported. **SB**

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that implicated transactions in both covered and uncovered securities. But for investors seeking to bring state law aiding and abetting claims, the decision provides a glimmer of hope for increased use of the class action device to do so. **SB**



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### Endnotes

<sup>1</sup>134 S. Ct. 1058 (2014).

<sup>2</sup>15 U.S.C. §§ 77p, 78bb(f).

<sup>3</sup>See *Merrill Lynch, Pierce, Fenner & Smith Inc. v. Dabit*, 547 U.S. 71 (2006); *SEC v. Zandford*, 535 U.S. 813 (2002).

## Nasty Surprise - The “Springing Recourse Obligation”

Thomas M. Haskins III

Imagine the expression of surprise and dismay on the face of a “limited” guarantor who receives a lender’s demand for payment of the loan *in full*. This scenario is not unusual but totally unexpected.

**The SPE.** A single-purpose entity (SPE) is simply a company whose business purposes are restricted to the ownership, operation, maintenance and sale of one piece of real property. In general terms the SPE is disqualified from maintaining a Chapter 11 proceeding which could adversely affect the rights of the lender to foreclose or insist on performance of the loan agreement according to its negotiated terms. This gives the lender some additional protection and confidence that his rights will be respected by the courts without change. In exchange for the borrower’s agreement to conduct itself as an SPE, lenders often reduce the scope of liability of both the borrower and the guarantors.

**General Liability of Makers and Guarantors.** Unless otherwise agreed, the maker / borrower of a promissory note is fully liable on the promissory note and indebtedness arising under the loan documents. Therefore, the borrower must repay the note from both the assets which are provided as collateral upon which a lien is asserted as well as the borrower’s other assets and credit, unless otherwise agreed by the lender. A lender may grant “non-recourse” status to the borrower and promise that the borrower would not be liable for any part of the indebtedness such that the borrower’s other assets remain unencumbered and no judgment can be entered against the borrower for any shortfall on the note. The same is true for those who guarantee the payment and performance of the borrower’s obligations to the lender.

A broad non-recourse provision is not uncommon but the more common situation is to grant limited non-recourse status to the borrower and those people who guarantee the borrower’s performance of the loan. Limited non-recourse is generally expressed as “carve-outs” or “springing recourse obligations” (SROs).

“Carve-Outs” are a specific list of items for which the non-recourse liability collapses and the borrower and guarantor are liable, typically: real property taxes, tenant security deposits, underfunding of escrows for insurance and reserves and other cash items which the lender reasonably expects will flow with the property back to the lender in the event that the security is reacquired or upon default such that the lender is in the same position it should have been had the loan been performed but for the nonpayment of the debt itself. Generally, each of the carve-outs is a discreet liability such that restoration of the amount of money related to it is the limit of liability.

An SRO means that upon the mere occurrence of a certain event, with or without actual harm to the lender, the borrower and its guarantors will be liable for the full amount necessary to satisfy the loan obligations in their entirety, not only for the amount needed to restore a specific fiscal item. Full recourse

liability of the borrower and guarantors automatically springs from the occurrence of the prohibited bad act or event. *Caveat:* lenders have been known to treat carve-outs in the same manner as SROs; additionally, the breach of a carve-out provision may trigger “springing escrows” to provide immediate deposits and funding as security for those items.

“Bad boy” acts as part of the SRO exceptions often include: (a) the failure of the borrower to maintain its existence as an SPE; (b) amendment of the SPE organizational documents to permit other businesses; (c) failure to maintain separate corporate existence; (e) acquisition of additional properties; (f) incurring of additional debt; (g) violation of operating covenants, e.g. making distributions, intercompany loans or other insider transactions or failing to maintain specific financial ratios; and (g) insolvency of the SPE.

There are two types of insolvency: the balance sheet test or the equitable insolvency doctrine. If assets exceed liabilities, the company is solvent in the sense of a balance sheet test, but even if so, the illiquidity of the company may preclude it from maintaining current payments on its obligations which is “equitable insolvency.” Loan documents are often unclear as to which type of insolvency disqualifies the SPE or whether either of them would do so. Consider that the very decline in real property value of the asset held by an SPE may precipitate balance-sheet insolvency while the failure to make the mortgage payment may be sufficient to invoke equitable insolvency as an event of default and SRO.

Insolvency of the SPE, whether equitable or in the balance sheet sense, can disqualify the SPE, even though the only default in the SPE’s current obligations is the failure to make payments under the loan itself. Borrowers and guarantors have argued that default in the payment of the loan was not intended to be included within the definition of equitable insolvency. They further object to finding balance sheet insolvency as a basis for SROs where the declining value of the collateral is the sole reason for negative net worth or failure to meet financial ratios. They argue that the essence of non-recourse provisions is to require the lender to look only to the collateral for recovery upon default where the borrower has not committed any wrong. This argument fails.

If the language of the SRO provision is not ambiguous and provides no express exception for the loan itself as excluded from consideration in applying a test of insolvency, default in the loan payments alone will be sufficient to spring full recourse liability on the guarantors even if the SPE is current on all of its other obligations and its assets exceed its liabilities.

**Surprise.** The borrower is generally not surprised at the invocation of carve-out liability or SROs because it is the borrower’s own conduct which has caused the problem. On the other hand, guarantors are often surprised. At the inception of the loan, the guarantors expected that their exposure would be nominal because they expected that the SPE was properly set up and would be operated correctly. Thus, the guarantor who is not closely involved in the operations of the project, a “remote guarantor,” may wake up one day to a demand from the lender declaring that not only may funds be due under the carve-outs but also that the non-recourse provisions of the limited guaran-



tee have collapsed and that the guarantor is now fully responsible for the entire amount of the loan.

Moreover, once the SRO has collapsed and the guarantor's liability springs into full bloom, the root of the problem is exposed: the inevitable lawsuit on the guarantee. When either the carve-outs or the SRO provisions spring into play, they permit the lender to declare default under the loan and guaranties and seek judgments against the borrowers and guarantors directly, often without the necessity of foreclosure or liquidating the collateral as a precondition to obtaining a judgment. Lenders will often sue on the notes and guarantees and place a receiver in control of the collateral long before initiating foreclosure. Of course the judgment must be credited by the amount realized from the foreclosure sale of the property.

**Expectations.** Borrowers and guarantors, rightly or wrongly, have assumed that as long as the SPE was properly qualified and that no carve-outs or obvious bad boy provisions were egregiously violated, a default under the loan documents would not trigger their unlimited liability. They were rudely surprised when collateral values declined and lenders sought avenues of recovery on the "road less traveled."

Courts have made it clear that, unless the language of the loan documents is ambiguous, contracts will be enforced according to their terms and that there will be no argument that the intention of the borrower did not include SROs. The mere fact that the borrower has one interpretation and the lender another does not make the language ambiguous. In general, the risk of ambiguity lies upon the drafter of the loan documents, usually the lender. This is why a co-drafting position, stating that the parties and their counsel have jointly drafted the documents, and that no presumption shall arise by virtue of the authorship of any particular provision, is often inserted into loan agreements, in order to avoid the operation of the foregoing rule.<sup>1</sup>

**Conclusions.** Borrowers and guarantors under existing loans should carefully review their loan documents and the status of their operations since the inception of the loan in order to avoid unintended violations, cure them, or resolve such matters before the lender declares default and the SROs are invoked. Loan documents in new financings should be carefully scrutinized not only for the precise language of the SPE and SRO provisions but also for their potential consequences, whether intended or unintended. **SB**



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#### Endnotes

<sup>1</sup>The following cases illustrate these issues and the arguments made by borrowers, guarantors and lenders: 51382 *Gratiot Avenue Holdings v. Chesterfield Development Company v. Morgan Stanley Mortgage Capital Holdings*, 835 F. Supp. 384 (E.D. Mich. 2011) (mortgagor's failure to make payments on loan where nonpayment of the mortgage itself was deemed to create insolvency in violation of the nonrecourse provisions of the loan resulting in springing full recourse); *Wells Fargo Bank, N.A. v. Mitchell's Park, LLC*, 2012 WL 4899888 (N.D. Georgia 2012) (failure to maintain separateness of single purpose entity as well as failure to pay property manager and Wells Fargo as the obligations of payment became due were sufficient to collapse the insulation of borrower and guarantors and trigger the full recourse liability clause); *Blue Hills Office Park, LLC v. J.P. Morgan Chase Bank*, 477 F. Supp. 2<sup>nd</sup> 366 (D. Mass. 2007) (transfer of property triggered full recourse); *LaSalle Bank, N.A. v. Mobile Hotel Properties, LLC*, 367 F. Supp. 2<sup>nd</sup> 1022 (E.D. La. 2004) (amendment of articles of incorporation violated single purpose entity requirements triggering full recourse liability); *First Nationwide Bank v. Brookhaven Realty Associates*, 637 NYS 2<sup>nd</sup> 418 (N.Y. App. Div. 1996) (full recourse liability upon occurrence of borrower's bankruptcy not dismissed within 90 days); *Wells Fargo Bank, N.A. v. Cherryland Mall Limited Partnership*, 812 N.W.2d 799 (Mich. App. 2011) (violation of solvency covenant triggered full recourse to mortgagor and guarantor. See also David A. Jaffe, *Bankruptcy Remote Financings in Jeopardy After Michigan Appellate Court Decision*, Banking & Financial Services Pol'y Rep., Sept. 2012 at 12; Stephen D. Lerner, *Recent Bankruptcy and Financial Restructuring Law: Looking to 2013*, Banking and Financial Restructuring Law 2013 WL 574481 at 20, 22 ("Cherryland and Chesterfield should serve as a wakeup call to guarantors and their counsel that it is time to redraft complicated and potentially ambiguous carve-out provisions so they are clear and concise. It must be clear that not only does the borrower have to be insolvent to trigger guarantor liability, but also the guarantor must be the cause of the insolvency.... As for those representing lenders, this may be a new avenue to explore, given the increased size of foreclosure deficiencies in this depressed real estate market...").

## Availability of Attorney's Fees When Statutory Damages Are Elected Under the Lanham Act May Depend on Jurisdiction

Wendy R. Stein

Monetary remedies available to trademark owners for violations of the Lanham Act are found in 15 U.S.C. § 1117. Under Section 1117, a plaintiff seeking damages for counterfeiting and infringement has the option of seeking either actual or statutory damages, but not both.<sup>1</sup>

Pursuant to Section 1117(a), a plaintiff prevailing on a claim for trademark infringement may recover (1) defendant's profits; (2) damages sustained; and (3) costs of the action.<sup>2</sup> A prevailing plaintiff may also seek, in exceptional cases, "reasonable attorney fees."<sup>3</sup> When counterfeit marks are involved, "a reasonable attorney's fee" may be awarded under Section 1117(b) (along with three times profits or actual damages), unless the court finds extenuating circumstances.<sup>4</sup>

But while subsections (a) and (b) explicitly refer to attorney's fees, the statutory damages provision in subsection (c) does not. That provision states that: "In a case involving the use of a counterfeit mark . . . the plaintiff may elect . . . to recover, instead of actual damages and profits under subsection (a) . . . an award of statutory damages . . ."<sup>5</sup> Because subsection (c) does not mention fees, at least one court has held that fees are not available when statutory damages are elected.<sup>6</sup>

In *K & N Engineering, Inc. v. Bulat*, the district court awarded statutory damages and attorney's fees pursuant to 15 U.S.C. §§ 1117(c) and (b) after granting summary judgment to the plaintiff on infringement and counterfeiting claims.<sup>7</sup> On appeal, the Ninth Circuit reversed, finding that the district court abused its discretion in awarding attorney's fees.<sup>8</sup> The court reasoned that no grounds for awarding fees existed under subsection (b) because the court had not awarded actual damages pursuant to subsection (a). In addition, it found no basis to award fees under subsection (c) because that subsection "ma[de] no provision" for fees.<sup>9</sup>

In *Louis Vuitton Malletier S.A. v. LY USA*, the Second Circuit examined a question left unanswered in *K & N Engineering*, namely whether fees could be awarded under subsection (a) when a statutory damages election was made. The Second Circuit held that a plaintiff electing statutory damages may recover attorney's fees under 15 U.S.C. § 1117(a).

The court recognized that subsection (c)'s lack of an attorney fee provision arguably reflected Congress's intent to preclude recovery of fees when statutory damages were elected.<sup>10</sup> On the other hand, it noted, while subsection (a) permitted recovery of four different types of remedies, including actual damages, profits, costs and attorney's fees, subsection (c) foreclosed only two of these: "actual damages and profits."<sup>11</sup> Thus, the court reasoned, section 1117(a) could be viewed as "the primary or default source of trademark infringement remedies available to a victorious plaintiff, and section 1117(c) . . . [as] a . . . carveout for part of the remedy otherwise available under section 1117(a): 'actual damages and profits.'"<sup>12</sup> Had Congress intended to prohibit fees when statutory damages were elected, it could have, for example, specified that the election foreclosed actual

damages, profits and attorney's fees.<sup>13</sup>

The court relied on legislative history to further support its decision. The court reasoned that Congress added the statutory damages provision in 1996 to address the challenge of proving actual damages in counterfeiting cases. Congress sought to ensure more than *de minimis* compensation to plaintiffs litigating such claims.<sup>14</sup> The court found it unlikely, in light of this stated goal, "that Congress intended to prevent a plaintiff who opt[ed] to recover statutory damages from also receiving attorney's fees."<sup>15</sup> Moreover, the "key legislative-history sources . . . d[id] not indicate that Congress intended a tradeoff between statutory damages and both actual damages and attorney's fees."<sup>16</sup> Thus the Court concluded, attorney's fees are "available under section 1117(a) in 'exceptional' cases even for those plaintiffs who opt to receive statutory damages under section 1117(c)."<sup>17</sup>

While New York courts have followed *LY USA*,<sup>18</sup> California courts have continued to cite *K & N Engineering* for the proposition that attorney's fees are not available when a trademark plaintiff elects statutory damages.<sup>19</sup> One Indiana district court decision published this past March however, followed *LY USA*. In *Coach, Inc. v. Treasure Box, Inc.*,<sup>20</sup> the court recognized that the "structure of [15 U.S.C.] § 1117 has given rise to a question whether recovery of attorney's fees is available when statutory damages" are elected, but nevertheless awarded fees after noting the court's analysis in *LY USA* and the willfulness of defendants' conduct.<sup>21</sup>

### Conclusion

An ambiguity in 15 U.S.C. § 1117 has caused inconsistent decisions depending on jurisdiction with respect to whether attorney's fees are available when statutory damages are elected. A Congressional amendment to section 1117(c) making clear that attorney's fees are available when statutory damages are elected would promote uniformity in the application of federal trademark law. Absent an amendment however, attorneys seeking statutory damages in counterfeiting cases should research how courts in their particular jurisdiction are addressing the availability of fees when statutory damages are elected, if at all. **SB**



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### Endnotes

<sup>1</sup>*Louis Vuitton Malletier S.A. v. LY USA*, 676 F.3d 83, 105 (2d Cir. 2012) ("LY USA").

<sup>2</sup>15 U.S.C. § 1117(a).

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

<sup>4</sup>*Id.* § 1117(b).

<sup>5</sup>*Id.* § 1117(c).

<sup>6</sup>See *K & N Eng'g, Inc. v. Bulat*, 510 F.3d 1079, 1082 (9th Cir. 2007).

<sup>7</sup>*Id.* at 1081.

<sup>8</sup>*Id.* at 1083.

<sup>9</sup>*Id.* at 1082.

<sup>10</sup>*LY USA*, 676 F.3d at 109 n.25.

<sup>11</sup>*See id.* at 109.

<sup>12</sup>*Id.*

<sup>13</sup>*See id.*

<sup>14</sup>*See id.* at 110.

<sup>15</sup>*Id.*

<sup>16</sup>*Id.* (emphasis added). There is no indication in the relevant legislative history that Congress deliberately omitted attorney's fees in section 1117(c). In fact, it appears that Congress based subsection (c) on the statutory damages provision in the Copyright Act (17 U.S.C. § 504(c)), without taking into account certain structural differences between the remedy schemes in the two statutes. For example, while the Lanham Act addresses recovery of damages, profits, costs and attorney's fees all in one section (15 U.S.C. § 1117), the Copyright Act provides for damages and profits in one section (17 U.S.C. § 504), and costs and attorney's fees in another (17 U.S.C. § 505). Thus, while silence about fees in section 504(c) makes sense

(because fees are addressed in a completely separate section of the Copyright Act), the same silence in section 1117(c) creates an ambiguity because fees are specifically mentioned in section 1117(a) and (b). This apparent borrowing of language from the Copyright Act may explain why the statutory damages provision in the Lanham Act carves out only "actual damages and profits" and says nothing about attorney's fees.

<sup>17</sup>*LY USA*, 676 F.3d at 111.

<sup>18</sup>*See, e.g., Lane Crawford LLC v. Kelex Trading (CA) Inc.*, Civ. No. 12-CV-9190, 2013 WL 6481354, at \*6 (S.D.N.Y. Dec. 3, 2013).

<sup>19</sup>*See Tommy Bahama Group, Inc. v. Sexton*, Civ. No. 07-6360, 2009 WL 4673863, at \*12 (N.D. Cal. Dec. 3, 2009), *aff'd*, 476 F. A'ppx 122 (9th Cir. 2012); *see also Partners for Health & Home, L.P. v. Yang*, 488 B.R. 431, 439 (C.D. Cal. 2012) ("fees normally would not be available because the court ha[d] awarded statutory damages.")

<sup>20</sup>Civ. No. 11-CV-468, 2014 WL 888902, at \*1 (N.D. Ind. Mar. 6, 2014).

<sup>21</sup>*See id.* at \*5.

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