

Part III

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30. Antitrust

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Claims or defenses arising under the antitrust laws do not invariably require treatment as complex litigation. Antitrust litigation can, however, involve voluminous documentary and testimonial evidence, extensive discovery, complicated legal, factual, and technical (particularly economic) questions, numerous parties and attorneys, and substantial sums of money, calling for the application of techniques and procedures for the management of complex litigation.¹⁷³⁰ Antitrust claims are not limited to complaints: They are also frequently raised in counterclaims, particularly in patent litigation. Antitrust claims are often brought as class actions and may be filed in several federal and state courts concurrently with or following criminal or administrative proceedings. Antitrust trials usually are long, and there often are controversies over settlements and attorney fees. The earlier sections of this manual will therefore be relevant to many of the issues that arise in the management of complex antitrust litigation, both civil and criminal. In particular, some of the procedures used to manage mass tort and securities cases (see sections 22, 31) may also be of value in multiparty antitrust cases.

30.1 Managing the Issues

Effective management of antitrust litigation requires identifying, clarifying, and narrowing pivotal factual and legal issues as soon as practicable (see generally section 11.3). Unless the judge and the attorneys give early attention to these issues, substantial time may be wasted on claims subject to summary dismissal, on class action disputes not critical to the class-certification ruling, and on discovery not relevant to the later-refined issues regarding liability or damages. Defining the issues at an early stage may enable the court to structure

¹⁷³⁰ Many of the principles and practices of judicial management and of the procedures discussed in this manual were initially developed in antitrust litigation. See William W. Schwarzer, *Managing Antitrust and Other Complex Litigation* (1982); ABA Antitrust Section, *Monograph No. 3, Expediting Pretrial and Trial of Antitrust Cases* (1979); National Commission for the Review of Antitrust Laws and Procedures, *Antitrust Commission Report*, 80 F.R.D. 509 (1979). See also ABA Section of Antitrust Law, *Antitrust Law Developments* (5th ed. 2002).

the litigation so as to limit the scope and volume of discovery, reduce cost and delay, facilitate the prospects of settlement, and improve the trial.

The procedures for pretrial management of complex litigation discussed in section 11 apply generally to antitrust litigation. General principles relevant to structuring trials apply to antitrust litigation, although the judge should take particular care when considering severance of damage issues from other elements of the claim (see sections 11.631–11.632).¹⁷³¹

Issues that may arise in antitrust litigation and may be appropriate for pretrial resolution include the following:

- *Subject-matter jurisdiction.* Jurisdictional issues that may be capable of summary resolution under Federal Rule of Civil Procedure 56 or by a separate Rule 42 evidentiary hearing are (1) whether the requisite effect on interstate commerce can be established¹⁷³² and (2) whether the claim is within the reach of the antitrust laws.¹⁷³³
- *Standing.* A motion under Rule 12 or 56 or by a separate trial under Rule 42 can sometimes resolve the legal issues of whether the claimant enjoys standing to maintain a claim for damages¹⁷³⁴ and whether injury to competition can be demonstrated.
- *Exemptions, immunities.* The application of antitrust laws may be barred or limited by statutory exemptions or immunities, such as

1731. Compare *Ala. v. Blue Bird Body Co.*, 573 F.2d 309, 318–19, 328 (5th Cir. 1978) (disapproving of bifurcation of liability and damages), and *Windham v. Am. Brands, Inc.*, 565 F.2d 59, 70–72 (4th Cir. 1977) (upholding denial of bifurcation), with *In re Plywood Antitrust Litig.*, 655 F.2d 627, 631–36 (5th Cir. 1981) (permissible to try issue of statutory violation, including existence of injury and method of calculating damages, separately from amount of individual damages), and *Franklin Music Co. v. Am. Broad. Cos.*, 616 F.2d 528, 538 (3d Cir. 1979) (upholding bifurcation of liability and damages phases of trial). Bifurcation of liability and damages issues “must be approached with trepidation.” *Response of Carolina, Inc. v. Leasco Response, Inc.*, 537 F.2d 1307, 1324 (5th Cir. 1976).

1732. See, e.g., *McLain v. Real Estate Bd. of New Orleans, Inc.*, 444 U.S. 232 (1980).

1733. Compare *Hunt v. Mobil Oil Corp.*, 550 F.2d 68, 73, 79 (2d Cir. 1977) (pretrial dismissal based on “act of state” doctrine), with *Int’l Ass’n of Machinists & Aerospace Workers v. Org. of the Petroleum Exporting Countries*, 649 F.2d 1354, 1361–62 (9th Cir. 1981) (“act of state” doctrine applied after trial).

1734. See, e.g., *Kansas v. Utilicorp. United, Inc.*, 497 U.S. 199 (1990) (actions by states and utilities consolidated after summary judgment as to standing); *Associated Gen. Contractors v. Cal. State Council of Carpenters*, 459 U.S. 519 (1983) (standing requires analysis of relationship between defendants’ conduct and plaintiff’s injury); *Ill. Brick Co. v. Ill.*, 431 U.S. 720 (1977) (no federal antitrust damages for “indirect” purchases); *Brunswick v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477 (1977) (“antitrust injury” requirement); *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969) (“direct injury” requirement).

those applicable to the insurance industry¹⁷³⁵ or organized labor,¹⁷³⁶ where restraints are imposed or authorized by state action,¹⁷³⁷ or where collective solicitation of governmental action has occurred.¹⁷³⁸ The application of the antitrust laws may also be circumscribed by the primary or exclusive jurisdiction of a regulatory agency.

- *Statute of limitations.* Whether an action or claim is time-barred may be appropriate for early resolution by summary judgment.¹⁷³⁹
- *Market definition.* The definition of the relevant geographic and product market may be critical, and it may determine the existence of market power requisite to prove liability and may also determine the scope of relevant evidence. The parties may be willing to stipulate to, or narrow, the range of dispute over the facts, and at least some facts may be subject to judicial notice. The dispute over the market may be susceptible to resolution under Rule 56 in the absence of disputed evidentiary facts (see section 11.34), or through a separate bench or jury trial under Rule 42. Where extensive fact finding is required, the issue may be referred to a special master, magistrate judge, or court-appointed expert for a report and recommendation (see section 11.5).
- *Theory and proof of damages.* Attention to liability issues in antitrust cases may lead to neglect of injury and damage issues. Early consideration of the proposed theory of damages and proof of cognizable injury may significantly affect the conduct of the litigation. The alleged injury may not qualify as antitrust injury, or the damages claimed may, in whole or in part, not be recoverable under the antitrust laws; if so, claims may be subject to dismissal, the scope of discovery may be reduced, or the method for proving damages may be altered. The extent to which injury and damages will require individualized proof can be critical in determining whether to certify a class of antitrust claim-

1735. See 15 U.S.C. §§ 1011–1015 (2000); *Group Life and Health Ins. Co. v. Royal Drug Co.*, 440 U.S. 205 (1979) (narrow construction of insurance exception).

1736. 29 U.S.C. §§ 101–110, 113–115 (2000); *United States v. Hutcheson*, 312 U.S. 219 (1941).

1737. See *FTC v. Ticor Title Ins. Co.*, 504 U.S. 621 (1992); *Patrick v. Burget*, 486 U.S. 94 (1988); *S. Motor Carriers Rate Conf., Inc. v. United States*, 471 U.S. 48 (1985); *Cal. Retail Liquor Dealers Ass’n v. Midcal Aluminum, Inc.*, 445 U.S. 97 (1980); *Parker v. Brown*, 317 U.S. 341 (1943).

1738. *United Mine Workers v. Pennington*, 381 U.S. 657 (1965); *E. R.R. Presidents’ Conf. v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961).

1739. See, e.g., *Norton-Children’s Hosps. v. James E. Smith & Sons*, 658 F.2d 440 (6th Cir. 1981); *Dayco Corp. v. Goodyear Tire & Rubber Co.*, 523 F.2d 389 (6th Cir. 1975).

ants or whether a consolidated trial of separate but related claims is feasible.

Early scrutiny of the claimed damages can facilitate settlement, either because of the magnitude of the potential exposure or because provable damages are too small to justify the cost of pursuing the litigation. Indeed, in some cases the court may conclude that the initial discovery should focus on the existence and amount of damages. Such discovery may lead to a separate trial on damages issues prior to conducting extensive discovery and a trial on liability issues, such as the existence of a conspiracy (see discussion of sequencing discovery in section 11.422). If relatively little time would be needed for discovery and trial of the issues of impact and damages caused by a particular practice, substantial savings may be effected by postponing significant discovery on liability issues, since any damage verdict could pave the way to an early settlement. If the practice in question is well defined in scope and time, such “reverse bifurcation” may be feasible, subject to the substantive rules of antitrust law. In any event, the pretrial exchange of expert reports, computations, and exhibits regarding injury and damages should be required (see section 11.48), whether a separate trial is held or not.

Consider establishing a schedule for early completion of motion-related discovery and the submission and decision of motions. Merits discovery should be stayed only to the extent that the outcome of a motion will significantly affect the scope of that discovery.

30.2 Transactional and Economic Data, and Expert Opinions

Antitrust cases often involve the collection, assimilation, and evaluation of vast amounts of evidence regarding numerous transactions and other economic data. Some of this material may be entitled to protection as trade secrets or confidential commercial information. Effective management of such cases depends on pretrial procedures that facilitate the production and utilization of this material and its efficient presentation at trial as well as the early resolution of privilege claims. The following are among the measures that may be useful:

- *Limiting scope of discovery.* Early attention to the issues may make feasible reasonable limits on the scope of discovery. Limits may be fixed with reference to the transactions alleged to be the subject matter of the case, to the relevant products or services, or to geographical areas and time periods. Limits should be subject to modification if a need for broader discovery later arises. See generally section 11.423.

- *Confidentiality orders.* Protective orders may facilitate the expeditious discovery of materials entitled to protection as trade secrets or other confidential commercial information (see section 11.432). Especially if the parties are competitors, provisions may preclude or restrict disclosure by the attorneys to their clients. Particularly sensitive information, such as customer names and pricing instructions, may be masked by excision, codes, or summaries without impairing the utility of the information in the litigation.
- *Summaries and computerized data.* The court should encourage the parties to work out arrangements for the efficient and economical exchange of voluminous data. Where feasible, data in computerized form should be produced in computer-readable format. Identification of computerized data may lead to agreement on a single database on which all expert and other witnesses will rely in their testimony. Other voluminous data can be produced by way of summaries or tabulations—subject to appropriate verification procedures to minimize and quickly resolve disputes about accuracy—obviating extensive discovery of source documents. Counsel should produce such exhibits well in advance of trial. See generally sections 11.446 (discovery of computerized data) and 11.492 (summaries).
- *Other sources.* Relevant economic data may be available from government or industry sources more quickly and cheaply than through discovery from the litigants. Accordingly, consider making an early determination regarding the admissibility of such evidence under Federal Rules of Evidence 803(8), (17), and (18).
- *Expert opinions.* Parties may plan to retain economists to study such topics as relevant markets, the concentration of economic power, pricing structures, elasticity of demand, barriers to entry, marginal costs, and the effect of the challenged practices on competition and the claimants. Early in the litigation, it is advisable to call for an identification of the subjects on which expert testimony will likely be offered, determine whether such testimony is necessary, rule at least preliminarily on the appropriate scope of expert testimony, and establish a schedule for disclosure of experts' reports, recognizing that some studies may require considerable time to prepare and review. Agreement on a common database for all experts to use is desirable, and the court can require the parties to agree on methodology and form before

conducting surveys or polls (see section 11.493).¹⁷⁴⁰ Under Federal Rule of Evidence 104(a),¹⁷⁴¹ the judge must hear and decide, before trial, objections to the admissibility of experts' opinions. If significant conflicts exist between the parties' experts on matters of theory, an expert may be appointed by the court under Federal Rule of Evidence 706 (see section 11.51). See generally section 11.48.

30.3 Conflicts of Interest

The judge should identify, early in the litigation, possible conflicts of interest that may lead to disqualification of attorneys¹⁷⁴² (see section 10.23) or recusal of the judge (see section 10.121). These problems may be acute in antitrust actions brought on behalf of large classes of purchasers, because the identification of class members—which can result in disqualification of the judge under 28 U.S.C. § 455¹⁷⁴³—usually may not occur until after substantial proceedings have taken place. Accordingly, it is wise to consider the feasibility of asking the parties to provide a list of known class members.

30.4 Related Proceedings

Antitrust litigation sometimes involves a number of individual and class actions for damages filed in several federal and state courts, and may involve criminal or administrative proceedings as well. Such parallel or related proceedings should be taken into account when developing and implementing a management plan for the litigation.

Recognizing the desirability of centralized management, the Judicial Panel on Multidistrict Litigation commonly transfers civil antitrust cases for pretrial purposes under 28 U.S.C. § 1407, usually to a district in which related civil cases, and sometimes also criminal or civil proceedings brought by the United

1740. See also Reference Manual on Scientific Evidence (Federal Judicial Center, 2d ed. 2000).

1741. See, e.g., *Daubert v. Merrell-Dow Pharm., Inc.*, 509 U.S. 579 (1993).

1742. See, e.g., *Westinghouse Elec. Corp. v. Gulf Oil Corp.*, 588 F.2d 221 (7th Cir. 1978); *Westinghouse Elec. Corp. v. Kerr-McGee Corp.*, 580 F.2d 1311 (7th Cir. 1978).

1743. See *In re Cement Antitrust Litig.*, 688 F.2d 1297 (9th Cir. 1982), *aff'd sub nom. Ariz. v. United States Dist. Court*, 459 U.S. 1191 (1983) (affirming under 28 U.S.C. § 2109). Note that 28 U.S.C. § 455(f) (added following this decision) allows a judicial officer who discovers a financial interest after devoting “substantial judicial time” to a case to avoid recusal by divestment, unless the interest “could be substantially affected by the outcome.” 28 U.S.C. § 455(f) (West 2002).

States, are pending (section 1407 does not apply to criminal cases or civil antitrust actions brought by the United States¹⁷⁴⁴). If centralized management of the entire litigation is impossible or impractical, the affected courts should nevertheless attempt to coordinate proceedings through procedures such as those described in sections 10.123 and 20.14. Injunctions against or stays of parallel actions generally are not available (see section 20.32).

Special problems are presented when conduct that is the basis for civil antitrust claims is also the subject of criminal or administrative proceedings. Indeed, disclosure of a criminal or administrative investigation frequently triggers the filing of civil actions (see section 20.2). Ordinarily, the criminal charges should be tried first, not only because of the requirements of the Speedy Trial Act but also because Fifth Amendment claims tend to disrupt civil discovery. (Completion of a witness's testimony in the criminal case will not necessarily preclude that witness from invoking the Fifth Amendment in subsequent civil proceedings.¹⁷⁴⁵) However, a general stay of all activities in the civil litigation pending completion of the criminal case will rarely be appropriate.¹⁷⁴⁶ Similarly, although a decision by the Federal Trade Commission or some other agency may narrow the issues or reduce the scope of discovery, the judge should weigh the rights and interests of all parties before deciding whether to defer any of the proceedings in the civil actions. For example, enforcement proceedings may result in collateral estoppel.¹⁷⁴⁷

Special problems are also presented where parallel litigation is brought in federal and state courts (see section 20.3) alleging violations of federal and state antitrust laws arising out of substantially the same conduct. Although state and federal claims may substantially overlap, federal antitrust law does not preempt state law.¹⁷⁴⁸ Removal is not permissible except in the unusual case where the court finds that the claim asserted is simply a disguised federal claim,¹⁷⁴⁹ and an

1744. 28 U.S.C. § 1407(g) (West 2002).

1745. See *Pillsbury Co. v. Conboy*, 459 U.S. 248 (1983).

1746. See *Landis v. N. Am. Co.*, 299 U.S. 248, 254–55 (1936); *Texaco, Inc. v. Borda*, 383 F.2d 607 (3d Cir. 1967).

1747. See, e.g., *Parklane Hosiery Co. v. Shore*, 439 U.S. 322 (1979). Moreover, the findings of an agency may be admissible under Federal Rule of Evidence 803(8)(C), perhaps eliminating the need for certain discovery. See, e.g., *In re Japanese Elec. Prods. Antitrust Litig.*, 723 F.2d 238 (3d Cir. 1983), *rev'd on other grounds sub nom. Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574 (1986); *In re Plywood Antitrust Litig.*, 655 F.2d 527 (5th Cir. 1981).

1748. See *Cal. v. ARC Am. Corp.*, 490 U.S. 93 (1989).

1749. See *Federated Dep't Stores v. Moitie*, 452 U.S. 394, 397 n.2 (1981) (reaching merits of defense in antitrust action removed from state court).

injunction is rarely available.¹⁷⁵⁰ The judges involved, however, may coordinate the proceedings informally. See section 20.31.

The availability to different classes of purchasers of separate and distinct remedies in state and federal court, along with the general unavailability of injunctions against state proceedings, can create serious problems in achieving global settlements. Antitrust claims are frequently brought under state antitrust laws that permit indirect purchasers to recover or provide a more favorable measure of damages.¹⁷⁵¹ Thus, a settlement with the federal plaintiffs (direct purchasers) will not bar later state law claims by indirect purchasers.¹⁷⁵² In some circumstances, however, a court may enjoin state proceedings under the All Writs Act¹⁷⁵³ to effectuate a global settlement in a complex litigation.¹⁷⁵⁴

1750. See 28 U.S.C. § 2283 (West 2002) (Anti-Injunction Act); *Younger v. Harris*, 401 U.S. 37 (1971) (federal courts should ordinarily not enjoin pending state criminal proceedings).

1751. See *Alton Box Bd. Co. v. Esprit De Corp.*, 682 F.2d 1267 (9th Cir. 1982); *In re Corrugated Container Antitrust Litig.*, 659 F.2d 1332, 1336 (5th Cir. 1981). See Antitrust Law Developments, *supra* note 1730, at 811–12 (“nineteen states and the District of Columbia have statutes that specifically permit indirect purchasers (who could not recover damages under federal law) to recover damages for state antitrust violations”); 14 Herbert Hovenkamp, Antitrust Law ¶ 2412d (1999) (indirect purchasers under federal and state law); 2 Phillip E. Areeda et al., Antitrust Law ¶ 317f (2d ed. 2000) (res judicata and state law).

1752. *Cal. v. ARC Am. Corp.*, 490 U.S. 93 (1989).

1753. 28 U.S.C. § 1651 (West 2002). See *supra* sections 21.15 & 21.42. See also *FTC v. Dean Foods Co.*, 384 U.S. 597, 603–04 (1966) (citing cases interpreting the Act).

1754. See, e.g., *Battle v. Liberty Nat’l Life Ins. Co.*, 877 F.2d 877 (11th Cir. 1989), *aff’d* 660 F. Supp. 1449 (N.D. Ala. 1987); *In re Corrugated Container*, 659 F.2d 1332 (5th Cir. 1981). *Cf. In re Real Estate Title & Settlement Services Antitrust Litig.*, 869 F.2d 760 (3d Cir. 1989) (directing lower court to vacate injunction for lack of personal jurisdiction); *Alton Box*, 682 F.2d at 1270–73 (upholding denial of injunction sought against nonparty to federal action in different court). See *supra* section 20.32 (jurisdictional conflicts in related state and federal cases).

31. Securities

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31.1 Introduction

The goal of the Securities Act of 1933¹⁷⁵⁵ (1933 Act) and the Securities Exchange Act of 1934¹⁷⁵⁶ (1934 Exchange Act) is to ensure that issuers of public securities provide all necessary and accurate information to investors. The statutes prohibit the sale or purchase of securities through false or misleading statements. Most litigation in the securities area centers on these two statutes and is based on allegations of fraud or misstatements in the purchase, sale, or offering of securities and other alleged market or management abuses. Causes of action also exist under sections 77k, 77l(a), and 77o of the 1933 Act and section 78t(a) of the 1934 Exchange Act. Private rights of action, both express and implied, are available under the statutes,¹⁷⁵⁷ although the Supreme Court in recent years has narrowed the availability of implied remedies through cases

1755. 15 U.S.C. §§ 77a–77aa (2000).

1756. *Id.* §§ 78a–78mm.

1757. Most notably, there is the implied remedy under Securities and Exchange Commission (SEC) Rule 10b-5 for fraud in connection with the purchase or sale of securities and the remedy for fraud in connection with the solicitation of shareholder votes. These two remedies have been so firmly entrenched in the federal jurisprudence that they have survived the general cutback in the recognition of private remedies. Thomas Lee Hazen, *The Law of Securities Regulation* § 1.7, at 65 (3d ed. 1996). *See also* Herman & MacLean v. Huddleston, 459 U.S. 375 (1983).

such as *Central Bank of Denver v. First Interstate Bank of Denver*,¹⁷⁵⁸ which eliminated an implied private right of action against aiders and abettors.¹⁷⁵⁹

Cases alleging securities fraud can present problems similar to those that arise in mass tort litigation. Many cases are brought as class actions, triggering the requirements of Federal Rule of Civil Procedure 23 as well as limitations imposed by the Private Securities Litigation Reform Act (PSLRA).¹⁷⁶⁰ This section discusses some of the issues and problems peculiar to securities litigation, and particularly securities fraud class actions.

31.2 Statutory Framework

The 1933 Act prohibits offering securities to the public for sale or purchase unless they have been registered with the Securities and Exchange Commission (SEC).¹⁷⁶¹ Companies are required to file registration statements that fully disclose all of the information required by the statute and by SEC rules prior to such sale. These registration and disclosure provisions apply to the issuance or distribution of securities, and the statute's protection extends only to the purchaser.¹⁷⁶² Civil liability can be imposed for misrepresentations and omissions in registration statements or where securities are sold in violation of the registration requirements, as well as under the general antifraud provisions of section 77q(a).¹⁷⁶³ The 1934 Exchange Act regulates the public trading of securities. The statute requires that any securities traded on a national exchange must be registered with the SEC, with full disclosure of relevant information about the company. Unlike the 1933 Act, the 1934 Exchange Act protects both sellers and purchasers.

1758. 511 U.S. 164 (1994).

1759. The Supreme Court had previously noted the absence of "aiding and abetting" language in section 10(b) of the Exchange Act and in 17 C.F.R. § 240.10b-5 (1995), but it was not until the decision in *Central Bank of Denver* that the Court held aiding and abetting liability in private actions could not be imposed. As a consequence, civil actions based on theories of aiding and abetting may only be brought by the SEC and then, only where the defendant acts knowingly. See Melissa Harrison, *The Assault on the Liability of Outside Professionals: Are Lawyers and Accountants Off the Hook?*, 65 U. Cin. L. Rev. 473, 505 (1997); see also Private Securities Litigation Reform Act of 1995, Pub. L. No. 104-67, 109 Stat. 737 (codified as amended at 15 U.S.C. §§ 77z-1, 78u-4 to -5 (2000)) (citations to the PSLRA hereafter will refer to the amendments to the 1934 Exchange Act, although parallel provisions were added to the 1933 Act except where noted).

1760. 15 U.S.C. § 78u-4 (2000).

1761. *Id.* § 77e.

1762. Express remedies are provided for in 15 U.S.C. §§ 77k, 77l(a), 77o (2000).

1763. See Hazen, *supra* note 1757, at 7.

Most securities actions under the 1934 Exchange Act allege either violations of section 10(b),¹⁷⁶⁴ which prohibits using any manipulative or deceptive device in connection with the purchase or sale of securities, or violations of SEC Rule 10b-5,¹⁷⁶⁵ which extends liability to include misstatements and omissions, or both. These actions typically take the form of securities fraud class actions. The 1934 Exchange Act also created the SEC to administer and enforce the securities statutes.¹⁷⁶⁶ Both the 1933 Act and the 1934 Exchange Act rely heavily on self-regulation by affected companies, with the SEC providing the necessary oversight. The SEC has the authority to promulgate rules and regulations, investigate potential violations, impose fines, and seek equitable or other relief.¹⁷⁶⁷ In addition to instituting enforcement actions and levying administrative sanctions,¹⁷⁶⁸ however, the SEC can refer conduct to the Department of Justice for criminal prosecution.

31.3 The Private Securities Litigation Reform Act

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The Private Securities Litigation Reform Act of 1995 (PSLRA) sought to prevent frivolous and unmeritorious securities class actions through broad-based legislation reaching both substantive and procedural law, as well as by instituting other reforms in securities actions. The legislation was targeted towards certain perceived abuses of securities class actions arising out of lawsuits brought on behalf of “professional plaintiffs” or plaintiffs with at best a nominal interest in the securities at issue.¹⁷⁶⁹ The PSLRA directs the court to appoint

1764. 15 U.S.C. § 78j(b) (2000).

1765. 17 C.F.R. § 240.10b-5 (1995).

1766. The SEC is composed of five members, appointed by the President with the approval of the Senate, who function as a bipartisan, quasi-judicial agency. 15 U.S.C. § 78d(a) (2000); *see also* 1 Hazen, *supra* note 1757, §§ 1.3–1.3[3].

1767. The SEC also functions as an original and appellate tribunal in connection with licensing and disciplinary charges.

1768. The SEC can, among other things, issue civil fines in administrative proceedings, freeze assets, and seek forfeiture. *See, e.g.*, SEC v. Gonzales de Castilla, 170 F. Supp. 2d 427 (S.D.N.Y. 2001) (SEC issued freeze order on defendant’s assets in insider trading case).

1769. “In place of that practice—a practice wherein the class lawyer selected the class plaintiff—Congress sought to substitute a new model . . . Under the new model, the court would appoint the lead plaintiff who, in turn, would select and direct class counsel.” *In re Network Assocs., Inc. Sec. Litig.*, 76 F. Supp. 2d 1017, 1020 (N.D. Cal. 1999). *See also* Greebel v. FTP

as lead plaintiffs the “person or group of persons” with the greatest financial interest in order to encourage institutional investors, who are more likely to have significant financial holdings at stake as well as greater sophistication and experience in securities matters, to exercise control over the litigation and over counsel.¹⁷⁷⁰ The PSLRA changed the selection criteria for lead plaintiffs from the first to file to the adequacy of the proposed class representative. The PSLRA has had the greatest impact on class actions alleging corporate fraud under 15 U.S.C. § 78j(b) and SEC Rule 10b-5, and its provisions are found in 15 U.S.C. §§ 77z-1 and 77z-2 of the 1933 Act and 15 U.S.C. §§ 78u-4 and 78u-5 of the 1934 Exchange Act.

Efforts by plaintiffs to circumvent the statutory reforms of the PSLRA by filing securities fraud class actions in state court were rebuffed with the passage of the Securities Litigation Uniform Standards Act in 1998 (Uniform Standards Act).¹⁷⁷¹ The Uniform Standards Act preempted state law securities fraud class

Software, Inc., 939 F. Supp. 57, 58 (D. Mass. 1996) (The PSLRA arose from a belief “that the plaintiff’s bar had seized control of class action suits, bringing frivolous suits on behalf of only nominally interested plaintiffs in the hope of obtaining a quick settlement.” (citing S. Rep. No. 104-98, at 8–11 (1995), *reprinted in* 1995 U.S.C.C.A.N. 679, 687–90)); *In re Party City Sec. Litig.*, 189 F.R.D. 91, 103 (D.N.J. 1999) (“Prior to the enactment of the PSLRA, plaintiffs in securities fraud cases tended to profit irrespective of the culpability of the defendants, most of whom chose settlement over prolonged and expensive litigation.” (citing H.R. Conf. Rep. No. 104-369, at 31–35 (1995), *reprinted in* 1995 U.S.C.C.A.N. 730, 730–34)).

1770. *In re USEC Sec. Litig.*, 168 F. Supp. 2d 560, 560–64 (D. Md. 2001); *see In re Donnkenny Inc. Sec. Litig.*, 171 F.R.D. 156, 157 (S.D.N.Y. 1997) (The PSLRA serves to “ensure that institutional plaintiffs with expertise in the securities market and real financial interests in the integrity of the market would control the litigation, not lawyers.” (citing H.R. Conf. Rep. No. 104-369, at 31–35 (1995), *reprinted in* 1995 U.S.C.C.A.N. 730, 730–34)); *Gluck v. CellStar Corp.*, 976 F. Supp. 542, 548 (N.D. Tex. 1997) (institutional investors likely to have largest financial interest, and Congress intended institutional investors to play greater role in directing securities fraud litigation); *Greebel*, 939 F. Supp. at 63 (PSLRA creates presumption in favor of institutional investors). *See also In re Horizon/CMS Healthcare Corp. Sec. Litig.*, 3 F. Supp. 2d 1208, 1212 (D.N.M. 1998) (The PSLRA “appears to reflect a congressional intent to transfer power from counsel who win the race to the courthouse to those shareholders who possess a sufficient financial interest in the outcome to maintain some supervisory responsibility over both the litigation and their counsel.” (citing Michael Y. Scudder, Comment, *The Implications of Market-Based Damages Caps in Securities Class Actions*, 92 Nw. U. L. Rev. 435, 437 (1997))).

1771. 15 U.S.C. §§ 77p, 78bb (2000). The statute exempts four categories of actions: (1) exclusively derivative actions; (2) actions pursuant to contractual agreements between issuers and indenture trustees; (3) actions by states or political subdivisions or pension plans; and (4) certain other actions brought under the corporate laws of the state of incorporation. *Id.* §§ 77p(f), 78bb(f). *See, e.g., Derdiger v. Tallman*, 75 F. Supp. 2d 322, 324 (D. Del. 1999) (case involving claims under Delaware law by issuer to shareholders not subject to Uniform Standards Act provisions).

actions,¹⁷⁷² granted federal courts the authority to stay discovery in private state-court actions¹⁷⁷³ and mandated removal to federal court of state-court securities class actions that fell within the purview of the statute, followed by their automatic dismissal.¹⁷⁷⁴ The enactment of the Uniform Standards Act effectively placed exclusive jurisdiction over fraud-based securities class actions in federal court.

The PSLRA has had a significant impact on case management of securities litigation, including procedures for the appointment of class representatives and counsel, heightened pleading requirements on claims alleging fraud, provisions for discovery stays, and a “safe harbor” for forward-looking statements. Other changes include the adoption of a “90-Day Look-Back Period” in calculating damages under 17 Code of Federal Regulations (C.F.R.) § 10b-5, limiting attorney fees in class actions to a reasonable percentage of the class recovery, and limiting defendants’ liability in section 10(b) cases to their proportionate share (with certain exceptions where joint and several liability may still apply). Much of the case law interpreting the PSLRA obligations has focused on the lead plaintiff and pleading provisions.

31.31 Class Representatives and Lead Plaintiffs

The PSLRA does not establish specific procedures for courts in implementing the lead plaintiff provisions, nor does it identify selection criteria other than financial interest and the traditional adequacy and typicality requirements of Federal Rule of Civil Procedure 23. As a result, the courts have wrestled with the interpretation of the lead plaintiff provisions in light of the legislative goal to remedy lawyer-driven lawsuits. The statute imposes certain preliminary procedural requirements on plaintiffs at the time the complaint is filed. It requires a plaintiff seeking to represent a securities class to file, along with the complaint,¹⁷⁷⁵ a certification that (1) confirms the plaintiff did not purchase the securities at issue at the direction of counsel; (2) shows the plain-

1772. 15 U.S.C. §§ 77p(b), 78bb(f)(1) (2000).

1773. *Id.* § 77z-1(4).

1774. *Id.* § 78bb(f)(2). *See, e.g.,* *Green v. Ameritrade, Inc.*, 279 F.3d 590 (8th Cir. 2002) (district court properly remanded case following removal under Uniform Standards Act where plaintiff filed amended complaint eliminating any securities causes of action, leaving only state-law claims). State-court jurisdiction was preserved over certain covered class actions, such as actions based on the statutory or common law of the state in which the issuer is incorporated and that involve purchases or sales by issuers to equity holders, 15 U.S.C. § 78bb(f)(3)(A) (2000), or actions by a state, political subdivision, or pension plan. *Id.* § 78bb(f)(3)(B).

1775. However, a movant need not file a complaint to seek lead plaintiff status. *See* *Aronson v. McKesson HBOC, Inc.*, 79 F. Supp. 2d 1146, 1155 (N.D. Cal. 1999).

tiff is willing to serve as a representative party on behalf of the class; (3) identifies all transactions by the plaintiff in the security at issue during the relevant time period; (4) identifies all other actions filed during the preceding three years in which the plaintiff served or sought to serve as a representative party; and (5) certifies that the plaintiff's recovery will be limited to his or her pro rata share, except as ordered by the court.¹⁷⁷⁶ The PSLRA (or “the statute”) creates a presumption precluding any plaintiff seeking to serve as lead plaintiff who has been a lead plaintiff in more than five securities class actions during any three-year period.¹⁷⁷⁷ There is a split of authority over whether and when the presumption should be rebutted if an institutional investor is seeking lead plaintiff status.¹⁷⁷⁸

The PSLRA also directs the plaintiff, shortly after filing, to comply with detailed notice provisions informing potential class members of the existence of the securities class action.¹⁷⁷⁹ The PSLRA specifically provides, however, that notices required under the statute “shall be in addition to any notice required pursuant to the Federal Rules of Civil Procedure.”¹⁷⁸⁰ The plaintiff must pub-

1776. 15 U.S.C. § 78u-4(a)(2)(A) (2000). The Northern District of California held in *Aronson* that the certification requirement only applied to plaintiffs filing the complaint, and its provisions did not attach to non-initiating movants for lead plaintiff status. *Aronson*, 79 F. Supp. 2d at 1155–56. *But see* *Chill v. Green Tree Fin. Corp.*, 181 F.R.D. 398 (D. Minn. 1998) (imposing certification requirements on plaintiffs seeking lead plaintiff status, even though they did not file the complaint). The *Aronson* court noted, however, that the local rules for the Northern District of California provide that although not required to file a certification, a plaintiff seeking lead plaintiff status must at the time of its initial appearance state it has reviewed the complaint and adopted the complaint's allegations or identify additional allegations it intends to assert. *Aronson*, 79 F. Supp. 2d at 1155–56 (citing N.D. Cal. Civ. L.R. 3-7(c)).

1777. 15 U.S.C. § 78u-4(a)(3)(B)(vi) (2000).

1778. *Compare In re Enron Corp. Sec. Litig.*, 206 F.R.D. 427 (S.D. Tex. 2002) (discussing whether it would be proper to appoint Florida State Board of Administration (FSBA) as lead plaintiff where it was serving as or seeking lead plaintiff status in nine cases), *and In re Telxon Corp. Sec. Litig.*, 67 F. Supp. 2d 803 (N.D. Ohio 1999) (FSBA would be barred from serving as lead plaintiff where it had served or was serving as lead plaintiff in five other securities class actions in three years), *and Aronson v. McKesson HBOC, Inc.*, 79 F. Supp. 2d 1146 (N.D. Cal. 1999) (FSBA disqualified as lead plaintiff where it was serving as lead plaintiff in six other securities class actions), *with Piven v. Sykes Enters., Inc.*, 137 F. Supp. 2d 1295 (M.D. Fla. 2000) (finding presumptive bar against serving as lead plaintiff created by lead plaintiff status in five other cases could be overcome); *In re Critical Path, Inc. Sec. Litig.*, 156 F. Supp. 2d 1102 (N.D. Cal. 2001); *In re Network Assocs., Inc. Sec. Litig.*, 76 F. Supp. 2d 1017 (N.D. Cal. 1999). *See* Melanie M. Piech, *Was the Selection of Lead Plaintiff and Lead Counsel in Enron Correct?*, 13 Sec. Reform Act Litig. Rep. 6 (Apr. 2002).

1779. *See Greebel v. FTP Software, Inc.*, 939 F. Supp. 57, 60 (D. Mass. 1996) (suggesting that failure to comply with the PSLRA notice provisions would be fatal to maintaining the action as a proposed class action).

1780. 15 U.S.C. §§ 77z-1(a)(3)(A)(iii), 78u-4(a)(3)(A)(iii) (2000).

lish notice of the action in “a widely circulated national business-oriented publication or wire service” within twenty days of the filing of the complaint, advising of the action, the claims asserted therein, and the class period.¹⁷⁸¹ The notice must also state that any purported class member may move to serve as lead plaintiff within sixty days of the date of the notice.¹⁷⁸² Several courts have held that the sixty-day notice requirement is mandatory and precludes consideration of untimely filed motions for lead plaintiff appointment.¹⁷⁸³

Where multiple actions alleging substantially the same claims have been filed by more than one plaintiff, the statute imposes the obligation to provide early notification on the plaintiff who was the first to file. One of the effects of the notice provisions, however, has been to help some attorneys to continue to exert control over securities class actions, a result contrary to the goals of the PSLRA. One court observed that notices have been filed by attorneys on multiple occasions in related cases “over and again, all in an effort to compile the largest portfolio [of clients]” who are then presented by the firm as a “group” for purposes of appointment under the lead plaintiff provisions.¹⁷⁸⁴ The SEC has also cautioned that the notice provisions afford an opportunity to continue the very abuses the PSLRA sought to redress.¹⁷⁸⁵ Scrutiny of the early notices the plaintiff proposes to disseminate, with a critical eye towards any language that “extols” the virtue of the firm or otherwise solicits support for the lawyer-proposed lead plaintiff, may assist in reducing the incidence of these tactics. In

1781. *Id.* §§ 77z-1(a)(3)(A)(i), 78u-4(a)(3)(A)(i). See *Yousefi v. Lockheed Martin Corp.*, 70 F. Supp. 2d 1061, 1067 (C.D. Cal. 1999) (finding that plaintiffs met notice requirements of PSLRA by announcing class action suit in national wire service); *Greebel*, 939 F. Supp. at 63 (*Business Wire* met requirements for widely circulated national business wire service).

1782. *But see* *Chill v. Green Tree Fin. Corp.*, 181 F.R.D. 398, 404 (D. Minn. 1998) (where several notices were published, court would extend the sixty-day notice period beyond original publication date where to do otherwise “would deprive injured investors of any opportunity to seek to be selected as [l]ead [p]laintiff”).

1783. See *Skwartz v. Crayfish Co.*, No. 00 Civ. 6766, 2001 WL 1160745, at *5 (S.D.N.Y. Sept. 28, 2001) (finding motion for appointment as lead plaintiff filed beyond the sixty-day period was untimely, thereby eliminating movant as a candidate for lead plaintiff); *In re MicroStrategy Inc. Sec. Litig.*, 110 F. Supp. 2d 427, 439–40 (E.D. Va. 2000) (rejecting party’s application for lead plaintiff for procedural failure to file timely motion for appointment). *But see* *Chill*, 181 F.R.D. at 404.

1784. See *In re Network Assocs., Inc. Sec. Litig.*, 76 F. Supp. 2d 1017, 1021 (N.D. Cal. 1999) (detailing method used by law firms to accumulate clients for the purpose of aggregating claims and claiming overwhelming support for the lawyer-created “group” as lead plaintiff and the firm as lead counsel). The court in *Network Associates* rejected a motion by 1,725 members collected by attorneys to appoint a subgroup of 10, also chosen by the attorneys, noting there was “no organized decisionmaking apparatus, no coherency, no common ground other than the lawyer. They [the subgroup] too are simply disparate, unlinked, and unrelated investors.” *Id.* at 1023.

1785. *In re Baan Co. Sec. Litig.*, 186 F.R.D. 214 (D.D.C. 1999).

addition, the judge should try to ensure that these early communications to class members encourage them to serve as lead plaintiffs and do not mislead them into believing that they are filling out claims forms. In many cases, however, plaintiffs will publish notice of the action concurrently with the filing of the complaint in order to comply with the twenty-day deadline for publication imposed by the PSLRA. To the extent the court requires judicial approval of the proposed notices prior to publication, perhaps through a standing order, the court will need to complete its review prior to the expiration of the twenty-day period.

The PSLRA contemplates that the court will appoint a lead plaintiff within ninety days of the date on which notice is published. In certain circumstances, such as when a defendant is facing possible bankruptcy, the court should make the lead plaintiff determination as quickly as possible. These time constraints are modified, however, where a motion to consolidate multiple actions has been filed. In such cases, the statute directs the court to appoint the lead plaintiff “as soon as practicable” after resolving the motion to consolidate. Indeed, 15 U.S.C. § 78u-4(a)(3)(B)(ii) directs the court to address and resolve the motion to consolidate prior to rendering a decision on the appointment of lead plaintiffs.¹⁷⁸⁶ The statute further creates a rebuttable presumption that the plaintiff most capable of adequately representing the class is the person or group of persons with the largest financial interest in the relief sought, who also satisfies the requirements of Federal Rule of Civil Procedure 23.¹⁷⁸⁷ The showing under Rule 23 is considered a preliminary inquiry into whether the plaintiff has made a prima facie showing that the adequacy and typicality requirements have been met.¹⁷⁸⁸ This presumption can be rebutted upon proof that the plaintiff either “will not fairly and adequately protect the interests of the class” or is subject to unique defenses that impair the plaintiff’s ability to do so.¹⁷⁸⁹ In most cases, the plaintiff filing the action will also seek appointment

1786. See *Vincelli v. Nat’l Home Health Care Corp.*, 112 F. Supp. 2d 1309 (M.D. Fla. 2000); *Chill*, 181 F.R.D. at 405–08 (considering motion to consolidate, followed by motion to appoint lead plaintiff).

1787. 15 U.S.C. § 78u-4(a)(3)(B)(iii)(I) (2000).

1788. *In re Advanced Tissue Scis. Sec. Litig.*, 184 F.R.D. 346 (S.D. Cal. 1998).

1789. 15 U.S.C. § 78u-4(a)(3)(B)(iii)(II) (2000). The PSLRA only permits purported class members to challenge the adequacy of the presumptive lead plaintiff. *Id.* § 78u-4(a)(3)(B)(i); *Gluck v. CellStar Corp.*, 976 F. Supp. 542 (N.D. Tex. 1997). See *In re Cendant Corp. Litig.*, 264 F.3d 201, 262 (3d Cir. 2001) (“The Reform Act establishes a two-step process for appointing a lead plaintiff: the court first identifies the presumptive lead plaintiff and then determines whether any member of the putative class has rebutted the presumption.”). However, defendants may challenge whether the lead plaintiff meets Rule 23 requirements at the class certification stage. See *In re Lucent Techs., Inc. Sec. Litig.*, 194 F.R.D. 137, 150 n.17 (D.N.J. 2000) (“The

as lead plaintiff, although once the statutory early notification is published, other investors may file competing motions.

The PSLRA does not require courts to hold a hearing on lead plaintiff motions. Courts have approached the decision-making process in various ways, ranging from requiring movants to respond to a written questionnaire prepared by the court, to conducting interviews of the candidates and their counsel at hearings on motions for appointment,¹⁷⁹⁰ to simply considering the parties' submissions and oral argument.¹⁷⁹¹ Although some decisions have allowed discovery as part of the appointment process,¹⁷⁹² the PSLRA severely restricts discovery into the adequacy of the representation by the proposed lead plaintiff.¹⁷⁹³ A member of the proposed plaintiff class can challenge the adequacy of lead plaintiff's representation only by demonstrating "a reasonable basis for a finding that the presumptively most adequate plaintiff is incapable of adequately representing the class."¹⁷⁹⁴ Absent such a showing, a class member objecting to the presumptive lead plaintiff will not be entitled to discovery.

Where the movant is a single investor or institution, the court's task is fairly straightforward. In identifying the plaintiff with the largest financial interest, courts have considered factors such as the number of shares purchased or sold during the class period,¹⁷⁹⁵ the net number of shares purchased, the net funds spent, and approximate losses suffered by the plaintiff.¹⁷⁹⁶ These factors courts have found helpful "because they look to relatively objective indicators . . . rather than to the ultimate question of damages."¹⁷⁹⁷ One option in assessing the merits of competing lead plaintiff petitions is to have those parties seeking lead plaintiff status file a joint submission setting forth their claimed financial interests and comparing their financial stakes in the litigation, preferably through an agreed on method. Such an approach allows the court to assess the merits of competing parties' positions without expending significant

determination, however, that . . . [l]ead [p]laintiffs meet the requirements of Rule 23 does not preclude revisiting the issue at the class certification stage.").

1790. See *In re Network Assocs., Inc. Sec. Litig.*, 76 F. Supp. 2d 1017, 1027 (N.D. Cal. 1999).

1791. *In re Cell Pathways, Inc. Sec. Litig.*, II, 203 F.R.D. 189 (E.D. Pa. 2001).

1792. *In re Network Assocs.*, 76 F. Supp. 2d at 1027 (permitting four-hour depositions of each of the main candidate representatives).

1793. 15 U.S.C. § 78u-4(a)(3)(B)(iv) (2000).

1794. *Gluck*, 976 F. Supp. at 547.

1795. *In re Network Assocs.*, 76 F. Supp. 2d at 1027 ("At least as a first approximation, the candidate with the most net shares purchased will normally have the largest potential damage recovery.").

1796. See *In re Cendant Corp. Litig.*, 264 F.3d 201, 263 (3d Cir. 2001); *In re Critical Path, Inc. Sec. Litig.*, 156 F. Supp. 2d 1102, 1107 (N.D. Cal. 2001).

1797. *Aronson v. McKesson HBOC, Inc.*, 79 F. Supp. 2d 1146, 1158 (N.D. Cal. 1999).

judicial resources wading through or reconstructing underlying figures on which the calculations are based. In addition, the court may find it difficult to reconcile damage calculations based on differing methodologies.

Complications arise where a group seeks appointment as lead plaintiff. Although the PSLRA contemplates that more than one class member may be appointed as lead plaintiff, courts disagree as to whether and when a group will qualify as the presumptively most adequate plaintiff. One issue the courts have struggled with is whether the claims of unrelated investors can be aggregated to meet the financial interest requirement of the PSLRA.¹⁷⁹⁸ Several courts have held that aggregation of claims was proper,¹⁷⁹⁹ although some decisions have allowed groups to serve as lead plaintiff simply because there was no opposition by individual class members, or the only opposition presented was by a competing group.¹⁸⁰⁰ Other courts have concluded that aggregation of numerous unrelated plaintiffs defeats the purpose of the PSLRA's lead plaintiff provisions.¹⁸⁰¹ Those courts permitting groups to be appointed have looked to whether the proposed group demonstrates the ability to control the litigation and the lawyers.¹⁸⁰² The size of the group also has been a determinative fac-

1798. See, e.g., *In re Cendant Corp.*, 264 F.3d at 266 (“The [PSLRA] contains no requirement mandating that the members of a proper group be ‘related’ in some manner.”); *Aronson*, 79 F. Supp. 2d at 1159.

1799. See, e.g., *In re Rent-Way Sec. Litig.*, 209 F. Supp. 2d 493, 518 (W.D. Pa. 2002) (“We see no reason to find that group pled allegations *per se* cannot meet the heightened pleading standards of Rule 9(b) or the PSLRA, and rather will consider the allegations individually.”); *Weltz v. Lee*, 199 F.R.D. 129, 132–33 (S.D.N.Y. 2001) (permitting aggregation); *In re Advanced Tissue Scis. Sec. Litig.*, 184 F.R.D. 346, 352–53 (S.D. Cal. 1998) (rejecting proposal to appoint entire 250-member group as lead plaintiff and approving alternative proposal to appoint six designated group members).

1800. See, e.g., *Yousefi v. Lockheed Martin Corp.*, 70 F. Supp. 2d 1061, 1067–68 (C.D. Cal. 1999); *In re Advanced Tissue*, 184 F.R.D. at 352–53; *In re Milestone Scientific Sec. Litig.*, 183 F.R.D. 404 (D.N.J. 1998); *In re Oxford Health Plans, Inc. Sec. Litig.*, 182 F.R.D. 42 (S.D.N.Y. 1998); *In re Horizon/CMS Healthcare Corp. Sec. Litig.*, 3 F. Supp. 2d 1208 (D.N.M. 1998); *Greebel v. FTP Software, Inc.*, 939 F. Supp. 57, 64 (D. Mass. 1996) (no opposition to motion for group to serve as lead plaintiff).

1801. See, e.g., *Donnkenny Inc. Sec. Litig.*, 171 F.R.D. 156, 157–58 (S.D.N.Y. 1997) (“To allow lawyers to designate unrelated plaintiffs as a ‘group’ and aggregate their financial stakes would allow and encourage lawyers to direct the litigation.”); see also *In re Bank One S’holders Class Actions*, 96 F. Supp. 2d 780, 783 (N.D. Ill. 2000); *In re Network Assocs., Inc. Sec. Litig.*, 76 F. Supp. 2d 1017, 1023–24 (N.D. Cal. 1999) (cannot aggregate unrelated investors to satisfy lead plaintiff); *Aronson*, 79 F. Supp. 2d at 1153–54; *In re Advanced Tissue*, 184 F.R.D. at 352 (rejecting appointment of 250 unrelated individual investors).

1802. See *In re Network Assocs.*, 76 F. Supp. 2d at 1025–26 (citing SEC memoranda discussing meaning of “group of persons” under PSLRA and that the agency’s interpretation was entitled to great deference).

tor.¹⁸⁰³ The SEC has suggested that groups of three to five plaintiffs are permissible.¹⁸⁰⁴ Additional relevant factors have included (1) the prior experience of group members; (2) the structure of the group; (3) communication mechanisms both within the group and with counsel; (4) how the group was formed;¹⁸⁰⁵ (5) the ability of the group to oversee the litigation; (6) the ability of the group to work together; and (7) the existence of a prelitigation relationship among group members.¹⁸⁰⁶ Courts also have been presented with motions for appointment of co-lead plaintiffs. These requests have raised similar, but less troublesome, issues regarding the number of proposed co-leads and whether appointment of a large group of co-lead plaintiffs would impede their ability to control the litigation and supervise counsel.¹⁸⁰⁷

1803. The district court in *In re Baan Co. Securities Litigation*, for example, shared the SEC's view that a group should consist of "no more than three to five persons, a number that will facilitate joint decisionmaking and also help to assure that each group member has a sufficiently large stake in the litigation." *In re Baan Co. Sec. Litig.*, 186 F.R.D. 214, 217 (D.D.C. 1999) (citing Memorandum of the Securities and Exchange Commission, *Amicus Curiae*, at 16–17). See *In re Gemstar-TV Guide Int'l, Inc. Sec. Litig.*, 209 F.R.D. 447, 450 (C.D. Cal. 2002) (holding that a group of three institutional investors and four individual investors was too large and diverse to represent the class); *In re Network Assocs.*, 76 F. Supp. 2d at 1023, 1026–27 (refusing to consider group of 1,725 members and rejecting 10-member subgroup); *Chill v. Green Tree Fin. Corp.*, 181 F.R.D. 398, 408 (D. Minn. 1998) (approval of proposed group comprised of 300 plaintiffs "would threaten the interests of the class, would subvert the intent of Congress, and would be too unwieldy to allow for the just, speedy and inexpensive determination of this action"); *Gluck v. CellStar Corp.*, 976 F. Supp. 542 (N.D. Tex. 1997); see also *In re Tyco Int'l, Ltd. Sec. Litig.*, MDL No. 1335, 2000 WL 1513772, at *4 (D.N.H. Aug. 17, 2000) (mem.) ("[A] group that consists of a small number of large shareholders should be capable of managing [the] litigation and providing direction to class counsel."); *Aronson v. McKesson HBOC, Inc.*, 79 F. Supp. 2d 1146, 1152–54 (N.D. Cal. 1999) (defining group as "a small number of members that share such an identity of characteristics, distinct from those of almost all other class members, that they can almost be seen as being the same person").

1804. *In re Baan Co.*, 186 F.R.D. at 216–17. See also *In re Cendant Corp. Litig.*, 264 F.3d 201, 267 (3d Cir. 2001) (noting that groups of "more than five members are too large to work effectively").

1805. The *Cendant* court included an additional factor where the presumptive lead plaintiff was a group: an inquiry into whether the way in which the group was formed "preclude[d] it from fulfilling the tasks assigned to a lead plaintiff." *In re Cendant Corp.*, 264 F.3d at 266.

1806. *In re Waste Mgmt., Inc. Sec. Litig.*, 128 F. Supp. 2d 401, 413, 432 (S.D. Tex. 2000) (requiring, among other things, a prelitigation relationship other than the loss); *In re Network Assocs.*, 76 F. Supp. 2d at 1026.

1807. See, e.g., *D'Hondt v. Digi Int'l Inc.*, Civ. No. 97-5, 1997 WL 405668, at *5 (D. Minn. Apr. 3, 1997) (mem.) (appointing twenty-one plaintiffs as "co-lead" plaintiffs); *In re Cephalon Sec. Litig.*, No. 96-CV-0633, 1996 WL 515203, at *1 (E.D. Pa. Aug. 27, 1996) (mem.) (finding that PSLRA "does not preclude appointing more than one lead plaintiff"); but see *In re*

The presumptive lead plaintiff must also make a *prima facie* showing that it satisfies the adequacy and typicality requirements of Rule 23.¹⁸⁰⁸ Drawing on the PSLRA, the Third Circuit in *In re Cendant Corp. Securities Litigation*¹⁸⁰⁹ expanded the traditional Rule 23 inquiry into “adequacy” and “typicality” to include whether the presumptive lead plaintiff “has demonstrated a willingness and ability to select competent class counsel and to negotiate a reasonable retainer agreement with that counsel.”¹⁸¹⁰ Information about the firm selected and its ability to conduct the litigation, as well as the manner in which the fee structure was derived, were found to be indicia of whether the lead plaintiff was capable of representing the class.

Thus, a court might conclude that the movant with the largest losses could not surmount the threshold adequacy inquiry if it lacked legal experience or sophistication, intended to select as lead counsel a firm that was plainly incapable of undertaking the representation, or had negotiated a clearly unreasonable fee agreement with its chosen counsel.¹⁸¹¹

The PSLRA places the selection of lead counsel in the hands of the lead plaintiff, subject to the approval of the court,¹⁸¹² although some courts have held that lead counsel be selected through a competitive bidding process, sometimes referred to as an auction.¹⁸¹³ When determining whether to approve lead counsel proffered by the lead plaintiff, courts focus on the selection process used by the lead plaintiff to choose counsel, the proposed fee structure, whether the firm has adequate resources, and the extent of the firm’s (and lead attorney’s) experience in class action securities cases. On some occasions, the appointment of more than one firm as lead counsel may be appropriate in order to protect the interests of the class.¹⁸¹⁴ Courts that have approved the ap-

Donnkenny Inc. Sec. Litig., 171 F.R.D. 156, 157–58 (S.D.N.Y. 1997) (co-lead plaintiffs not permitted by PSLRA).

1808. See *In re Cendant Corp.*, 264 F.3d at 263.

1809. 264 F.3d 201 (3d Cir. 2001).

1810. *Id.* at 265.

1811. *Id.* at 265–66.

1812. 15 U.S.C. § 78u-4(a)(3)(B)(v) (2000). See *Vincelli v. Nat’l Home Health Care Corp.*, 112 F. Supp. 2d 1309, 1315 (M.D. Fla. 2000) (“The decision to approve counsel selected by the lead plaintiff is a matter within the discretion of the district court.”).

1813. See, e.g., *In re Quintus Sec. Litig.*, 148 F. Supp. 2d 967, 969 (N.D. Cal. 2001); *In re Bank One S’holders Class Actions*, 96 F. Supp. 2d 780, 784 (N.D. Ill. 2000); *In re Lucent Techs., Inc. Sec. Litig.*, 194 F.R.D. 137, 156–57 (D.N.J. 2000); *Wenderhold v. Cylink Corp.*, 188 F.R.D. 577, 587 (N.D. Cal. 1999); *In re Cendant Corp. Litig.*, 182 F.R.D. 144, 150–51 (D.N.J. 1998).

1814. *In re Lernout & Hauspie Sec. Litig.*, 138 F. Supp. 2d 39, 46–47 (D. Mass. 2001) (appointing three law firms as co-lead counsel and noting factors warranting appointment of more than one firm including the large amount of monies at stake and pending bankruptcy proceeding of defendant corporation). But see *In re Wells Fargo Sec. Litig.*, 156 F.R.D. 223, 226 (N.D.

pointment of co-lead plaintiffs often have been willing to approve the appointment of more than one counsel to serve as co-lead counsel.¹⁸¹⁵ The sharing of resources and expertise in costly cases may favor the appointment of multiple counsel.¹⁸¹⁶

Factors disfavoring more than one firm include the potential for duplicative services, absence of coordination, the risk of increased litigation time and expense, and the potential for the attorneys to take over or control the litigation—a particular concern of the PSLRA.¹⁸¹⁷ The court in *In re Milestone Scientific Securities Litigation*¹⁸¹⁸ required that before multiple counsel would be appointed, there must be a showing that “the lead plaintiff will be able to withstand any limitation on, or usurpation of, control, and effectively supervise the several law firms acting as lead counsel.”¹⁸¹⁹ Review of the proposed organizational structure of lead counsel may reveal potential conflicts among firms, as well as whether the independence and ability of the lead plaintiff to manage the litigation will be impaired.¹⁸²⁰ In cases where the court has determined that the appointment of multiple law firms as lead counsel is ill-advised, the court can still encourage lead counsel to seek the assistance of other firms where appropriate.¹⁸²¹

Cal. 1994) (finding joint appointment of co-class counsel unwarranted and posing a “‘dangerous probability’ of lessened competition” where the firms seeking joint appointment were large and dominant players).

1815. *Sakhrani v. Brightpoint, Inc.*, 78 F. Supp. 2d 845, 854 (S.D. Ind. 1999) (approving selection of two law firms as co-lead counsel and a third firm as local counsel); *In re Oxford Health Plans, Inc. Sec. Litig.*, 182 F.R.D. 42, 50 (S.D.N.Y. 1998) (appointing three law firms as co-lead counsel); *In re Advanced Tissue Scis. Sec. Litig.*, 184 F.R.D. 346, 353 (S.D. Cal. 1998) (granting plaintiff’s motion to approve selection of two firms as co-lead counsel).

1816. *See, e.g., Vincelli*, 112 F. Supp. 2d at 1315; *In re Milestone Scientific Sec. Litig.*, 187 F.R.D. 165, 176 (D.N.J. 1999); *In re Oxford Health Plans*, 182 F.R.D. at 49–50.

1817. *See Vincelli*, 112 F. Supp. 2d at 1315–16; *In re Advanced Tissue*, 184 F.R.D. at 351.

1818. 187 F.R.D. 165 (D.N.J. 1999).

1819. *Id.* at 177. *See also In re Sprint Corp. Sec. Litig.*, 164 F. Supp. 2d 1240, 1246 (D. Kan. 2001) (approving co-lead counsel but warning that “the court will not approve any possible award of fees and expenses that reflects duplication, inefficiency, or the costs of coordinating the efforts of the two firms . . . [and] will not tolerate co-lead counsel speaking with a divided voice”).

1820. *See In re Milestone Scientific*, 187 F.R.D. at 179.

1821. *See, e.g., id.* at 181 & n.10; *In re Horizons/CMS Healthcare Corp. Sec. Litig.*, 3 F. Supp. 2d 1208, 1211 (D.N.M. 1998) (appointing firm as lead counsel and two local attorneys as liaison counsel).

31.32 Pleading Requirements

Fraud claims, including allegations of securities fraud, must meet the requirements of Federal Rule of Civil Procedure 9(b), which requires that fraud be pleaded with particularity.¹⁸²² The PSLRA reinforced the pleading requirements for securities fraud claims¹⁸²³ by specifically mandating that where these pleading requirements are not met, the district court “shall, on the motion of any defendant, dismiss the complaint.”¹⁸²⁴ Under the PSLRA, the complaint now must include each allegedly misleading statement together with reasons why it is misleading. Any allegations regarding statements or omissions that are made on information and belief must be supported by a particularized statement of facts supporting such belief.¹⁸²⁵ The courts have disagreed as to whether the group pleading doctrine survives the PSLRA. Some have interpreted the PSLRA to preclude plaintiffs from grouping all defendants together in order to survive a motion to dismiss, requiring instead identification of the specific misrepresentations made by each.¹⁸²⁶ Others have adhered to a narrow interpretation of the doctrine, holding that in appropriate circumstances it may still apply.¹⁸²⁷ Some courts have required the plaintiff to plead with par-

1822. Fed. R. Civ. P. 9(b) provides: “In all averments of fraud or mistake, the circumstances constituting fraud or mistake shall be stated with particularity. Malice, intent, knowledge and other condition of mind of a person may be averred generally.”

1823. The enhanced pleading requirements were not included in the PSLRA provisions of the 1933 Act.

1824. 15 U.S.C. § 78u-4(b)(3)(A) (2000). *See* *San Leandro Emergency Med. Group Profit Sharing Plan v. Philip Morris Cos.*, 75 F.3d 801, 812–13, 815 (2d Cir. 1996) (affirming lower court’s ruling that plaintiffs did not allege fraud with sufficient particularity). *But cf.* *Novak v. Kasaks*, 216 F.3d 300, 315 (2d Cir. 2000) (vacating and remanding lower court’s dismissal of the case for failure to allege fraud with particularity).

1825. 15 U.S.C. § 78u-4(b)(1) (2000). *See* *Liberty Ridge LLC v. Realtech Sys. Corp.*, 173 F. Supp. 2d 129 (S.D.N.Y. 2001).

1826. *See, e.g., In re U.S. Interactive, Inc.*, No. 01-CV-522, 2002 WL 1971252, at *4 (E.D. Pa. Aug. 23, 2002) (finding group pleading doctrine could be applied to corporate officers where it was clear, given their high level positions and the nature of writing at issue, that the officer would have been involved directly with its writing, approval of its contents, or privy to information concerning its accuracy); *Allison v. Brooktree Corp.*, 999 F. Supp. 1342, 1350 (S.D. Cal. 1998) (“[T]he continued vitality of the judicially created group-published doctrine is suspect since the PSLRA specifically requires that the untrue statements or omissions be set forth with particularity as to ‘the defendant’ . . .”).

1827. *See e.g., In re Raytheon Securities Litig.*, 157 F. Supp. 2d 131, 152–53 (D. Mass. 2001) (“this Court agrees with the majority of courts that have held that the rationale behind the group pleading doctrine remains sound in the wake of the passage of the PSLRA”); *In re Stratosphere Corp. Sec. Litig.*, 1 F. Supp. 2d 1096, 1108 (D. Nev. 1998) (declining to adopt defendant’s proposition that “group pleading has been sub silentio abolished by the PSLRA”).

ticularity each defendant's specific statements supporting the plaintiff's claim against that defendant.¹⁸²⁸

The degree of specificity required has varied.¹⁸²⁹ Courts have required the plaintiff to identify how the plaintiff learned of the conduct for the basis for its allegations, including confidential sources underlying allegations on information and belief.¹⁸³⁰ To the extent such sources are documentary, courts also have required plaintiffs to identify the document, its author, its date, and its recipient, and to describe the document's contents.¹⁸³¹ Other courts have held the PSLRA's heightened pleading standard does not "require that plaintiffs plead with particularity every single fact upon which their beliefs concerning false or misleading statements are based."¹⁸³² One option is to require plaintiffs (in all cases subject to the provisions of the PSLRA) to file, along with a complaint alleging securities fraud, a "case statement" modeled after those often utilized in Racketeer Influenced and Corrupt Organizations Act (RICO) litigation.¹⁸³³ For example, a judge ordered plaintiffs filing an amended complaint to include, with respect to each false or misleading statement, the following information:¹⁸³⁴

- whether the statements were written or oral;
- the title, author, date of preparation, and persons reviewing any written statements;
- when, where, and the circumstances under which oral statements were made;

1828. See, e.g., *Coates v. Heartland Wireless Communications, Inc.*, 26 F. Supp. 2d 910, 915–16 (N.D. Tex. 1998) (holding group pleading banned by PSLRA); *Allison*, 999 F. Supp. at 1350 (questioning continued vitality of group pleading doctrine); *Zuckerman v. Foxmeyer Health Corp.*, 4 F. Supp. 2d 618, 626–27 & n.4 (N.D. Tex. 1998).

1829. See, e.g., *In re Silicon Graphics, Inc. Sec. Litig.*, 183 F.3d 970 (9th Cir. 1999); *In re McKesson HBOC, Inc. Sec. Litig.*, 126 F. Supp. 2d 1248 (N.D. Cal. 2000); *In re Eng'g Animation Sec. Litig.*, 110 F. Supp. 2d 1183 (S.D. Iowa 2000).

1830. *In re Green Tree Fin. Corp. Stock. Litig.*, 61 F. Supp. 2d 860 (D. Minn. 1999); *In re Silicon Graphics, Inc. Sec. Litig.*, 970 F. Supp. 746 (N.D. Cal. 1997), *aff'd*, 183 F.3d 970 (9th Cir. 1999).

1831. *In re Guess?, Inc. Sec. Litig.*, 174 F. Supp. 2d 1067 (C.D. Cal. 2001). Compare *In re Silicon Graphics, Inc. Sec. Litig.*, 970 F. Supp. 746 (N.D. Cal. 1997), *aff'd*, 183 F.3d 970 (9th Cir. 1999), and *In re Green Tree Fin. Corp. Stock Litig.*, 61 F. Supp. 2d 860 (D. Minn. 1999), with *Novak v. Kasaks*, 216 F.3d 300 (2d Cir. 2000); see also *In re Digi Int'l Inc. Sec. Litig.*, 6 F. Supp. 2d 1089 (D. Minn. 1998).

1832. *Novak*, 216 F.3d at 313.

1833. See *infra* § 35.

1834. *In re Guess?*, 174 F. Supp. 2d at 1079–80.

- all facts supporting the claim that the statement was false or misleading when made;
- details regarding any reports or other sources that plaintiffs allege support or demonstrate the falsity of the statements; and
- all facts giving rise to a strong inference of recklessness, and detailed information regarding any documents or other sources supporting such an inference.

Such statements can be designed to detail both the factual and legal basis for the plaintiff's claim. These statements may prove helpful in assisting a plaintiff with a meritorious case to comply with the PSLRA pleading requirements as interpreted within the jurisdiction, and they may assist the court when ruling on motions brought pursuant to Federal Rule of Civil Procedure 12. The PSLRA requires a plaintiff to have a detailed factual basis for the allegations at the time suit is filed. This suggests that the normal liberality of amendment provided by the Federal Rules may be inappropriate in shareholder class actions. Where it is apparent that repeated amendment of the complaint cannot correct the deficiencies, dismissal with prejudice may be appropriate.

The PSLRA also imposes a uniform standard for pleading scienter in order to survive a motion to dismiss.¹⁸³⁵ Prior to the PSLRA, the Second Circuit, for example, had held that a plaintiff must plead a strong inference of scienter either by (1) alleging facts establishing a motive and opportunity to commit fraud, or (2) presenting circumstantial evidence of recklessness or conscious misbehavior.¹⁸³⁶ Other circuits held that compliance with Federal Rule of Civil Procedure 9(b), permitting general averments of scienter, was sufficient.¹⁸³⁷ Although the PSLRA incorporated language from Second Circuit jurisprudence requiring the plaintiff to allege with particularity all “facts giving rise to a strong inference that the defendant acted with the required state of mind,”¹⁸³⁸ Congress declined to expressly codify the Second Circuit standard.¹⁸³⁹ Nor did

1835. “[T]he PSLRA did not change the scienter that a plaintiff must prove to prevail in a securities fraud case but instead changed what a plaintiff must plead in his complaint in order to survive a motion to dismiss.” *In re Comshare, Inc. Sec. Litig.*, 183 F.3d 542, 548–49 (6th Cir. 1999).

1836. *In re Time Warner Inc. Sec. Litig.*, 9 F.3d 259, 268–69 (2d Cir. 1993).

1837. *See In re GlenFed, Inc. Sec. Litig.*, 42 F.3d 1541, 1545 (9th Cir. 1994) (en banc).

1838. S. Rep. No. 104-98, at 26 (1995), *reprinted in* 1995 U.S.C.C.A.N. 679, 705; *see also id.* at 15, *reprinted in* 1995 U.S.C.C.A.N. at 694 (choosing “a uniform standard modeled upon the pleading standard of the Second Circuit”); H.R. Conf. Rep. No. 104-369, at 41 (1995), *reprinted in* 1995 U.S.C.C.A.N. 730, 740 (“The Conference Committee language is based in part on the pleading standard of the Second Circuit.”).

1839. *See Bryant v. Avado Brands, Inc.*, 187 F.3d 1271, 1282 (11th Cir. 1999) (questioning whether Congress “merely borrow[ed] the Second Circuit’s ‘strong inference’ language without

Congress define the “required state of mind” or change the scienter plaintiffs must prove.¹⁸⁴⁰ The courts construing the PSLRA, however, have split on whether a “strong inference” of scienter can be shown by motive and opportunity alone or whether the statute heightens the Second Circuit standard and more is required.¹⁸⁴¹

31.33 Safe Harbor

The PSLRA’s statutory “safe-harbor” provision protects statements defined as “forward looking” in section 78u-5(i)(1). However, the Act specifically excludes certain statements from the definition of forward-looking and also withdraws the safe-harbor protections from any person convicted of securities violations within the previous three years.¹⁸⁴² Under this provision, liability will not attach to forward-looking statements that are accompanied by appropriate

adopting its motive and opportunity test”); *In re Boeing Sec. Litig.*, 40 F. Supp. 2d 1160, 1173 (W.D. Wash. 1998) (Although modeled after the Second Circuit standard, “[t]he Committee does not intend to codify the Second Circuit’s caselaw interpreting this pleading standard, although courts may find this body of law instructive.” (emphasis omitted) (quoting S. Rep. No. 104-98, at 15 (1995), *reprinted in* 1995 U.S.C.C.A.N. 679, 694 (citations omitted))).

1840. *In re SmarTalk Teleservices, Inc. Sec. Litig.*, 124 F. Supp. 2d 505, 512 (S.D. Ohio 2000); *In re Glenayre Techs., Inc. Sec. Litig.*, 982 F. Supp. 294, 298 (S.D.N.Y. 1997).

1841. 15 U.S.C. § 78u-4(b)(2) (2000). *See, e.g.*, *Novak v. Kasaks*, 216 F.3d 300 (2d Cir. 2000) (adhering to traditional test of motive and opportunity and strong inference); *Bryant*, 187 F.3d at 1283, 1285 (holding that “[PSLRA] does not codify the ‘motive and opportunity’ test formulated by the Second Circuit” and that allegations of motive and opportunity alone are insufficient); *In re Comshare, Inc. Sec. Litig.*, 183 F.3d 542, 551 (6th Cir. 1999) (rejecting motive and opportunity alone as sufficient evidence of scienter); *In re Silicon Graphics Inc. Sec. Litig.*, 183 F.3d 970, 974 (9th Cir. 1999) (“In order to show a strong inference of deliberate recklessness, plaintiffs must state facts that come closer to demonstrating intent, as opposed to mere motive and opportunity.”); *In re Advanta Corp. Sec. Litig.*, 180 F.3d 525, 535 (3d Cir. 1999) (following Second Circuit test but barring “catch-all” allegations and adhering to heightened pleading); *Williams v. WMX Techs., Inc.*, 112 F.3d 175, 177–78 (5th Cir. 1997) (Second Circuit test still viable after PSLRA); *In re Boeing*, 40 F. Supp. 2d at 1174 (finding motive and opportunity alone, while usually insufficient, may be sufficient to plead scienter “if the totality of the circumstances creates a strong inference of fraud”); *In re Stratosphere Corp. Sec. Litig.*, 1 F. Supp. 2d 1096, 1107–08 (D. Nev. 1998) (finding motive and opportunity alone not presumed to be sufficient); *In re Glenayre*, 982 F. Supp. at 297–98 (motive and opportunity relevant, but insufficient on own); *In re Health Mgmt., Inc. Sec. Litig.*, 970 F. Supp. 192, 201 (E.D.N.Y. 1997) (Second Circuit test still viable); *Friedberg v. Discreet Logic Inc.*, 959 F. Supp. 42, 48 (D. Mass. 1997) (Reform Act heightened Second Circuit pleading standard); *Marksman Partners L.P. v. Chantal Pharm. Corp.*, 927 F. Supp. 1297, 1308–11 (C.D. Cal. 1996) (Second Circuit test still viable). *See also* *Greebel v. FTP Software, Inc.*, 194 F.3d 185 (1st Cir. 1999).

1842. 15 U.S.C. § 78u-5(b) (2000).

cautionary statements¹⁸⁴³ tailored to the particular risks.¹⁸⁴⁴ The provision, however, does not apply to statements included in financial or registration statements.¹⁸⁴⁵ Also, it will not protect statements that are knowingly false when made, even if such statements otherwise would fall within the scope of section 78u-5(i)(1).¹⁸⁴⁶ Early review of the complaint may disclose that the statements complained of fall within the safe-harbor provisions and that the claims consequently are subject to dismissal under Federal Rule of Civil Procedure 12 or 56.

31.34 Discovery Stays

The PSLRA provides that all discovery and other proceedings “shall be stayed during the pendency of any motion to dismiss” absent a showing of “undue prejudice”¹⁸⁴⁷ or a showing that “particularized discovery is necessary to preserve evidence.”¹⁸⁴⁸ The safe harbor provisions exempting forward-looking statements from liability also permit a stay of discovery pending resolution of summary judgment motions,¹⁸⁴⁹ although limited discovery targeted towards the applicability of the safe-harbor provisions may be permitted. The discovery stay provisions were designed to protect defendants from fishing expeditions and unnecessary costs of discovery where the legal sufficiency of the

1843. The statute protects individuals making forward-looking statements if accompanied by “meaningful cautionary statements identifying important factors that could cause actual results to differ materially . . .” *Id.* § 78u-5(c)(1)(A)(i).

1844. *See* EP Medsystems, Inc. v. Echocath, Inc., 30 F. Supp. 2d 726 (D.N.J. 1998) (representations effectively “bespeak caution”).

1845. 15 U.S.C. § 78u-5(b)(2)(A)–(B) (2000).

1846. *Fugman v. Arogenex, Inc.*, 961 F. Supp. 1190, 1196–97 (N.D. Ill. 1997).

1847. *See* SG Cowen Sec. Corp. v. United States Dist. Court, 189 F.3d 909, 913 (9th Cir. 1999) (“[F]ailure to muster facts sufficient to meet the Act’s pleading requirements cannot constitute the requisite ‘under prejudice’ to the plaintiff . . .”); *Anderson v. First Sec. Corp.*, 157 F. Supp. 2d 1230, 1242 (D. Utah 2001) (existence of confidentiality agreement between defendant and third-party merger candidate precluded plaintiffs from obtaining specific information and therefore plaintiffs would be unduly prejudiced unless afforded limited discovery); *In re Carnegie Int’l Corp. Sec. Litig.*, 107 F. Supp. 2d 676, 684 (D. Md. 2000) (defendants failed to show undue prejudice); *Med. Imaging Ctrs. of Am., Inc. v. Lichtenstein*, 917 F. Supp. 717, 720–22 (S.D. Cal. 1996) (failing to show undue prejudice standard).

1848. 15 U.S.C. § 78u-4(b)(3)(B) (2000). *See also* *Berkeley Inv. Group, Ltd. v. Colkitt*, 984 F. Supp. 827, 828 (M.D. Pa. 1997) (stay applies where motion to dismiss is directed towards counterclaim asserting claims under the securities laws). “Congress clearly intended that complaints in these securities actions should stand or fall based on the actual knowledge of the plaintiffs rather than information produced by the defendants after the action has been filed.” *Medhekar v. United States Dist. Court*, 99 F.3d 325, 328 (9th Cir. 1996) (per curiam).

1849. 15 U.S.C. §§ 77z-2(f), 78u-5(f) (2000).

complaint had not been determined.¹⁸⁵⁰ The provisions apply to both party and nonparty discovery¹⁸⁵¹ and preempt the mandatory disclosure provisions of Rule 26.¹⁸⁵²

The courts have disagreed on whether the discovery stay provisions apply even though a motion to dismiss has not yet been filed. Several courts have held that the stay provisions are triggered once the defendant indicates an intent to file a motion to dismiss.¹⁸⁵³ The court, in *In re Carnegie International Corp. Securities Litigation*, commented that the defendant had to be given an opportunity to challenge the complaint and “[a]ny other interpretation would encourage unseemly gamesmanship, i.e., a race to serve subpoenas for discovery before a defendant had the opportunity to test the sufficiency of the complaint.”¹⁸⁵⁴ Other courts have required an actual motion to be filed before imposing a stay.¹⁸⁵⁵ Application of the discovery stay provisions does not, however, automatically apply to all claims asserted in the complaint. Where the complaint contains separate state law claims that are distinct from the securities claims, some courts have allowed discovery to proceed on those claims; staying the entire case, however, generally is more efficient.¹⁸⁵⁶

31.4 Initial Pretrial Conference

Securities claims can arise under both federal and state statutes, as well as the common law, and can involve numerous parties. Complaints typically assert numerous claims against various defendants, ranging from companies and securities professionals to accountants and lawyers, with the latter defendants

1850. See, e.g., *Angell Invs., L.L.C. v. Purizer Corp.*, No. 01-C-6359, 2001 WL 1345996, at *2 (N.D. Ill. Oct. 30, 2001).

1851. *In re Carnegie*, 107 F. Supp. 2d at 679–81 (quashing subpoena duces tecum issued to third parties).

1852. *Medhekar*, 99 F.3d at 327–28 (holding that “initial disclosures are a subset of discovery, and that, as such, they are included in the Act’s stay provision”).

1853. See, e.g., *In re Carnegie*, 107 F. Supp. 2d at 683.

1854. *Id.* See also *In re Trump Hotel S’holder Derivative Litig.*, No. 96-CIV-7820, 1997 WL 442135, at *2 (S.D.N.Y. Aug. 5, 1997) (staying discovery even though motion to dismiss had not been filed where lack of dismissal motion was result of agreed on schedule).

1855. See, e.g., *Novak v. Kasaks*, No. 96-CIV-3073, 1996 WL 467534, at *1 (S.D.N.Y. Aug. 16, 1996).

1856. See *Tobias Holdings, Inc. v. Bank United Corp.*, 177 F. Supp. 2d 162, 167 (S.D.N.Y. 2001) (allowing discovery to proceed on plaintiff’s state law claims, where “separate and distinct” from federal securities claims “would not represent an impermissible ‘end run’ around the PSLRA’s automatic stay provisions”); *Angell Invs., L.L.C. v. Purizer Corp.*, No. 01-C-6359, 2001 WL 1345996, at *2 (N.D. Ill. Oct. 30, 2001). *But see In re Trump Hotel*, 1997 WL 442135, at *2 (staying discovery).

implicating issues of privilege and confidentiality.¹⁸⁵⁷ Complaints also may be lengthy, in part as a result of the requirements of Federal Rule of Civil Procedure 9(b) and the PSLRA that fraud be pleaded with particularity.¹⁸⁵⁸ Failure to comply with Rule 9(b) and the more stringent pleading standards of the PSLRA provide a basis for dismissal of securities actions.¹⁸⁵⁹ Defendants frequently seek substantial time to respond to the complaint and to decide whether to file counterclaims, cross-claims, and third-party complaints. Immediately after assignment of the litigation, the judge should consider entering an order suspending the time for all defendants to respond to the complaint in cases where a motion to consolidate is pending or a lead plaintiff has not been selected, as the initial complaint is likely to be amended. The initial conference offers an opportunity to learn about the potential size and complexity of the litigation; set a schedule for amendments, motions, and responsive pleadings; and schedule discovery accordingly.

Early institution of an initial case-management order will help to organize the case and preliminarily identify key legal and factual issues. Of particular significance in assessing securities litigation is early determination of the following issues:

- *The likely size and scope of the case.* Complaints will often name as defendants the company whose securities are involved, its officers, directors, independent accountants, attorneys, and brokerage firms. Standards for both pleading and liability may differ depending on the type of defendant. In addition, many securities cases are brought as class actions, raising issues under Federal Rule of Civil Procedure 23 and the PSLRA.
- *Pending or expected related litigation.* In addition to private actions, the SEC or other administrative agencies may institute proceedings. In some instances, related criminal proceedings may also be pending, which may lead the government to request staying the litigation.¹⁸⁶⁰ A

1857. In addition to claims under the 1933 Act and the 1934 Exchange Act, plaintiffs may include claims under the RICO Act, 18 U.S.C. §§ 1961–1968 (2000), as well as claims for common-law fraud, negligent misrepresentation, and breach of fiduciary duty, among others.

1858. See, e.g., *Greenstone v. Cambex Corp.*, 975 F.2d 22, 25 (1st Cir. 1992); *Whalen v. Carter*, 954 F.2d 1087, 1097–98 (5th Cir. 1992).

1859. See, e.g., *Parnes v. Gateway 2000, Inc.*, 122 F.3d 539, 549–50 (8th Cir. 1997) (holding that lower court properly dismissed claims for failing to meet particularity requirements); *Lovelace v. Software Spectrum Inc.*, 78 F.3d 1015, 1021 (5th Cir. 1996) (holding lower court properly dismissed claims based on failing to adequately plead scienter under Rule 9(b)).

1860. See, e.g., *In re Aid Auto Stores, Inc. Sec. Litig.*, No. CV-98-7395, 2001 WL 1478803, at *1 (E.D.N.Y. July 13, 2001) (order granting government’s motion to intervene and staying discovery pending resolution of criminal proceeding).

party may also be a debtor in bankruptcy, which may result in automatic stays with respect to that party, removal of cases, related adversary proceedings, and objections to the discharge of debts. In addition, separate actions may have been filed regarding fidelity bonds and other insurance coverage issues, or to prevent foreclosure of security interests. All related litigation in the same court, including pertinent aspects of bankruptcy proceedings, ordinarily should be assigned or transferred to one judge for initial supervision and planning.¹⁸⁶¹ The extent to which these cases should be formally consolidated for further pretrial proceedings and trial will depend on the circumstances¹⁸⁶² and, after a period of centralized management, some cases may be appropriately reassigned to other judges. In class actions, the PSLRA provides that the court should consolidate multiple actions where appropriate.¹⁸⁶³ Related cases may also have been filed in different jurisdictions, as the conduct alleged in securities fraud litigation often affects persons in many states. Centralized pretrial management of the federal litigation may be possible through motions to transfer, or through transfer by the Judicial Panel on Multidistrict Litigation under 28 U.S.C. § 1407.¹⁸⁶⁴ In general, the optimal venue for a shareholder class action is the district in which the defendant company is headquartered. To the extent that cases remain in different courts, each court should consider whether formal or informal coordination is possible to minimize the risk of conflict.¹⁸⁶⁵

- *Takeover litigation.* Takeover litigation—actions brought in connection with the attempted acquisition or transfer of control of a corporation by obtaining securities, assets, or stockholder support—often will involve several actions filed almost simultaneously in different

1861. See, e.g., *Aronson v. McKesson HBOC, Inc.*, 79 F. Supp. 2d 1146, 1150 (N.D. Cal. 1999) (fifty-four related class actions assigned to the court by the District Reassignment Committee).

1862. See Fed. R. Civ. P. 42(a).

1863. See *Aronson*, 79 F. Supp. 2d at 1152 (consolidating all cases except shareholder derivative suit, which was deferred for full briefing); *Chill v. Green Tree Fin. Corp.*, 181 F.R.D. 398, 405–07 (D. Minn. 1998) (granting motion to consolidate and consolidating actions into two class actions).

1864. See, e.g., *In re Enron Corp. Sec., Derivative & “ERISA” Litig.*, 196 F. Supp. 2d 1375, 1376 (J.P.M.L. 2002) (transferring all related cases outside the Southern District of Texas to that forum “for centralized pretrial proceedings” pursuant to 28 U.S.C. § 1407); *In re Wash. Pub. Power Supply Sys. Sec. Litig.*, 568 F. Supp. 1250 (J.P.M.L. 1983) (section 1407 transfer order).

1865. For example, coordination may be possible on decisions regarding lead plaintiffs or class notification.

courts seeking a preliminary injunction against violation of the federal antitrust and securities laws. Takeover litigation can be extremely time sensitive, requiring the court's attention to the need for quick resolution of many issues and the impact on the market of even the timing of rulings and hearings. See section 31.7 regarding special problems in takeover litigation.

- *Parties seeking protective orders.* Discovery in securities actions can result in the disclosure of sensitive information, the dissemination of which is potentially detrimental, particularly to corporate defendants.¹⁸⁶⁶ Securities claims can also implicate attorney–client privileges.
- *Referral to a special master.* Securities cases can present complex factual disputes over matters of accounting, corporate finance, market analyses, or the negotiation or implementation of complex settlements.
- *Potential for settlement.* The parties may be amenable to settlement before substantial time and expense is wasted in litigation, and the court may want to explore the possibilities of early settlement.¹⁸⁶⁷

Several foundational issues may preclude the action altogether, and thereby render it subject to early resolution under Federal Rule of Civil Procedure 12(b) or 56. Examples of such issues include

- whether an instrument constitutes a security subject to registration for purposes of liability under the securities laws;¹⁸⁶⁸
- whether the alleged misstatements are material;¹⁸⁶⁹
- whether the conduct falls within the PSLRA's statutory safe-harbor provisions, or the "bespeaks caution" doctrine;¹⁸⁷⁰
- whether a claim is barred by the statute of limitations;¹⁸⁷¹

1866. See, e.g., *SEC v. TheStreet.com*, 273 F.3d 222, 230–31 (2d Cir. 2001) (discussing circumstances under which modification of protective order was appropriate); *In re Cephalon Sec. Litig.*, No. 96-0633, 1998 WL 744067 (E.D. Pa. Oct. 22, 1998) (mem.).

1867. See, e.g., *In re Horizon/CMS Healthcare Corp. Sec. Litig.*, 3 F. Supp. 2d 1208, 1211 (D.N.M. 1998) (settlement reached where litigation stood in the way of acquisition of the defendant by major healthcare provider).

1868. See, e.g., *Assocs. in Adolescent Psychiatry v. Home Life Ins. Co.*, 941 F.2d 561, 564–66 (7th Cir. 1991).

1869. See *Parnes v. Gateway 2000, Inc.*, 122 F.3d 539, 546 (8th Cir. 1997).

1870. See *Bryant v. Avado Brands, Inc.*, 187 F.3d 1271, 1276 n.7 (11th Cir. 1999) (describing the safe-harbor provision and the bespeaks caution doctrine). The bespeaks caution doctrine appears to remain viable after the PSLRA. See *In re Boeing Sec. Litig.*, 40 F. Supp. 2d 1160, 1170 (W.D. Wash. 1998) ("The PSLRA's safe harbor provisions do not supplant the 'bespeaks caution' doctrine.").

- whether a demand must be made on a corporation’s directors;¹⁸⁷²
- whether the “business judgment” rule allows the directors, or a committee they have established, to dismiss or settle the action;¹⁸⁷³
- whether the defendant is a “controlling person” on whom liability may be imposed;¹⁸⁷⁴
- whether and when a “sale” or “purchase” occurred;¹⁸⁷⁵
- whether public availability of material information excuses nondisclosure in an action relying on the “fraud-on-the-market” theory;¹⁸⁷⁶
- whether loss causation can be established—the PSLRA places the burden of proving loss causation on the plaintiff;¹⁸⁷⁷
- whether scienter has been properly alleged and can be established;¹⁸⁷⁸
and

1871. Litigation pursuant to section 10(b) and Rule 10b-5 must be commenced within one year from the discovery of a violation and no more than three years from the date the violation occurred. 15 U.S.C. §§ 77m, 78i(e) (2000); *Lampf, Pleva, Lipkind, Prupis & Petigrow v. Gilbertson*, 501 U.S. 350, 364 (1991). The one-year period begins to run when plaintiffs are on inquiry or constructive notice of the facts giving rise to the claims. *Berry v. Valence Tech., Inc.*, 175 F.3d 699, 703–04 (9th Cir. 1999); *Liberty Ridge LLC v. Realtech Sys. Corp.*, 173 F. Supp. 2d 129, 135 (S.D.N.Y. 2001); *Reisman v. KPMG Peat Marwick LLP*, 965 F. Supp. 165, 170 (D. Mass. 1997). The Supreme Court in *Lampf* established a uniform federal statute of limitations for such claims and further held the doctrine of equitable tolling would not apply. 501 U.S. at 361–62, 363. In some cases, plaintiffs must affirmatively plead compliance with the statute of limitations, with supporting facts. *See, e.g., In re Chaus Sec. Litig.*, 801 F. Supp. 1257, 1265 (S.D.N.Y. 1992).

1872. *See, e.g., Daily Income Fund, Inc. v. Fox*, 464 U.S. 523 (1984).

1873. *See Burks v. Lasker*, 441 U.S. 471, 486 (1979) (state law controls issue of board’s power to discontinue derivative action on federal claim); *see also RCM Sec. Fund, Inc. v. Stanton*, 928 F.2d 1318 (2d Cir. 1991); *Joy v. North*, 692 F.2d 880 (2d Cir. 1982); *Clark v. Lomas & Nettleton Fin. Corp.*, 625 F.2d 49 (5th Cir. 1980).

1874. *See, e.g., Martin v. Shearson Lehman Hutton, Inc.*, 986 F.2d 242, 244 (8th Cir. 1993); *Hollinger v. Tital Capital Corp.*, 914 F.2d 1564, 1572–76 (9th Cir. 1990) (en banc); *In re Indep. Energy Holdings PLC Sec. Litig.*, 154 F. Supp. 2d 741, 772 (S.D.N.Y. 2001); *In re Xerox Corp. Sec. Litig.*, 165 F. Supp. 2d 208, 220 (D. Conn. 2001); *In re Sirrom Capital Corp. Sec. Litig.*, 84 F. Supp. 2d 933, 940 (M.D. Tenn. 1999) (denying motion to dismiss).

1875. *See, e.g., Frankel v. Slotkin*, 984 F.2d 1328, 1333 & n.3, 1337–38 (2d Cir. 1993); *Colan v. Mesa Petroleum Co.*, 951 F.2d 1512, 1522–25 (9th Cir. 1991); *Freeman v. Decio*, 584 F.2d 186, 200 (7th Cir. 1978).

1876. *See In re Apple Computer Sec. Litig.*, 886 F.2d 1109, 1115 (9th Cir. 1989).

1877. 15 U.S.C. § 78u-4(b)(4) (2000). *See EP MedSystems, Inc. v. EchoCath, Inc.*, 235 F.3d 865, 883–85 (3d Cir. 2000); *McGonigle v. Combs*, 968 F.2d 810, 819–20 (9th Cir. 1991); *Norwood Venture Corp. v. Converse Inc.*, 959 F. Supp. 205, 209–10 (S.D.N.Y. 1997). Loss causation requires plaintiffs to do more than allege that “they would not have bought . . . stock had they known the truth; they must allege that they would not have suffered the loss” but for defendant’s actions. *Miller v. New Am. High Income Fund*, 755 F. Supp. 1099, 1108 (D. Mass. 1991).

- whether the defendant may be held liable as a “seller.”¹⁸⁷⁹

In addition, the resolution of various issues—for example, whether the plaintiffs may proceed on a fraud-on-the-market theory¹⁸⁸⁰—will be relevant to whether individual cases may be consolidated for joint trial or should proceed as a class action.¹⁸⁸¹

31.5 Class Actions and Derivative Actions

Where appropriate, the court can use the initial pretrial conference to set a schedule for determining whether one or more of the cases should proceed as a class action under Federal Rule of Civil Procedure 23, or a derivative action under Rule 23.1. In addition to ensuring that the notice and pleading requirements of the PSLRA have been met, the following can be assessed as an initial matter:

- whether there has been more than one class action filed, and the parties’ intent to seek consolidation or transfer;
- if the action has been removed pursuant to the Uniform Standards Act, whether removal was appropriate;¹⁸⁸²
- whether there have been or will be challenges to lead plaintiff certification;
- whether there has been a demonstrable need for limited discovery regarding lead plaintiff certification—in addition to showing a significant financial interest in the relief sought by the class, the plaintiff must also satisfy the typicality and adequacy requirements of Rule 23(a);
- whether appropriate discovery stays pending resolution of any motions to dismiss have been instituted;
- whether lead plaintiff has been selected;
- whether lead counsel has been identified and approved by the court; and

1878. See *Ernst & Ernst v. Hochfelder*, 425 U.S. 185 (1976). See also *Hollinger*, 914 F.2d at 1568–72.

1879. See *Pinter v. Dahl*, 486 U.S. 622, 641–47 (1988).

1880. See *Basic Inc. v. Levinson*, 485 U.S. 224, 241–49 (1988).

1881. See, e.g., *In re LTV Sec. Litig.*, 88 F.R.D. 134 (N.D. Tex. 1980); *Mirkin v. Wasserman*, 858 P.2d 568 (Cal. 1993).

1882. *Derdiger v. Tallman*, 75 F. Supp. 2d 322, 325 (D. Del. 1999) (finding remand required where claims fell within savings clause of 15 U.S.C. § 78bb(f)(3)(A)(ii)).

- whether the complaint alleges claims that are not susceptible to class treatment.

Other matters must be resolved before a class can be defined. The initial complaint occasionally will include some claims (e.g., reliance on oral misrepresentations or the breach of a “suitability” standard) that rarely would be susceptible to class action treatment, along with other claims (e.g., an omission of a material fact from a proxy statement) that may well be presented on behalf of a class. The dates when plaintiffs bought or sold the securities, and what information they possessed on those dates, may not be clear from the complaint, yet may be critical to a decision regarding the class of persons they might properly represent. Whether the plaintiffs may proceed on a fraud-on-the-market theory may depend both on matters developed during discovery and on what claims will be pursued in the case. The court may need to determine whether a particular claim is made derivatively or individually¹⁸⁸³ and whether the same plaintiff may assert both derivative and class claims.¹⁸⁸⁴ In deciding whether a class should be certified, consider what class the plaintiffs may represent, and whether multiple classes or subclasses should be formed. It is advisable to consider sources of potential conflict and their effect, such as

- whether the class members are holders of different types of securities;¹⁸⁸⁵
- whether some class members took certain key actions while others did not;¹⁸⁸⁶
- whether some class members bought or sold before the alleged misconduct and others did so afterwards (or continued to hold the security);¹⁸⁸⁷
- whether some class members had inside information;¹⁸⁸⁸

1883. See *Daily Income Fund, Inc. v. Fox*, 464 U.S. 523, 527–34 (1984).

1884. Compare *Hawk Indus., Inc. v. Bausch & Lomb, Inc.*, 59 F.R.D. 619, 623–24 (S.D.N.Y. 1973), and *Ruggiero v. Am. Bioculture, Inc.*, 56 F.R.D. 93, 95 (S.D.N.Y. 1972), with *Keyser v. Commonwealth Nat’l Fin. Corp.*, 120 F.R.D. 489, 492–93 (M.D. Pa. 1988), and *In re Dayco Corp. Derivative Sec. Litig.*, 102 F.R.D. 624, 629–31 (S.D. Ohio 1984). The court may choose to address any actual conflict arising between the claims at the remedy stage. *Keyser*, 120 F.R.D. at 492 n.8 (citing *Bertozzi v. King Louie Int’l, Inc.*, 420 F. Supp. 1166 (D.R.I. 1976)).

1885. See, e.g., *Margolis v. Caterpillar, Inc.*, 815 F. Supp. 1150, 1157 (C.D. Ill. 1991) (buyers of call options and sellers of put options); *Deutschman v. Beneficial Corp.*, 761 F. Supp. 1080, 1082–83 (D. Del. 1991) (common stock and call options).

1886. See, e.g., *In re Bally Mfg. Sec. Corp. Litig.*, 141 F.R.D. 262, 270 (N.D. Ill. 1992) (those who sold during the class period and those who did not).

1887. See, e.g., *Kovaleff v. Piano*, 142 F.R.D. 406, 408 (S.D.N.Y. 1992); *Deutschman v. Beneficial Corp.*, 132 F.R.D. 359, 382–83 (D. Del. 1990); *In re LTV Sec. Litig.*, 88 F.R.D. 134, 149 (N.D. Tex. 1980).

- whether class members purchased or sold securities at different times based on different information;¹⁸⁸⁹ and
- whether class members are seeking damages or rescission.¹⁸⁹⁰

These differences in the various groups of plaintiffs and proposed class members require the court's early attention. Defendants may raise these differences when opposing class treatment, and in some cases opposing positions may justify denial of class certification. In many instances, however, differences may be resolved by limiting the definition of the class or classes that the plaintiffs may represent, by creating additional classes or subclasses, or by tailoring the relief afforded to different plaintiffs. For example, the court may define a class to exclude (or treat as a subclass) those who, as often occurs in complex securities litigation, are also defendants in the class action or in related litigation. If a subclass should be formed and no representative of that subclass is a party, the court may direct notice to the unrepresented class members, to afford them time to have a representative intervene.¹⁸⁹¹ Although, as discussed in section 21.23, unnecessary classes generally should be avoided, in some securities cases multiple classes or subclasses may be needed to ensure that the interests of all class members are fairly and adequately protected, particularly during settlement negotiations. Occasionally a mandatory class under Federal Rule of Civil Procedure 23(b)(1) or (b)(2) may be proper, but generally classes in securities litigation will be certified under Rule 23(b)(3), with members enjoying the right to notice and an opportunity to opt out. Class members' opting out of a 23(b)(3) class, if adequately disclosed, may cure some conflicts.

Although the PSLRA provides for early notice to class members by the plaintiff who first files a securities class action, class representatives must also comply with Rule 23(c)(2)'s notice provisions. Absent special circumstances, the class representatives must bear not only the cost of providing Rule 23(c)(2) notice, but also the expense of obtaining class members' names and addresses, which frequently are in the possession of the defendants or a transfer agent.¹⁸⁹² When securities are registered in "street" names with brokerage houses or fi-

1888. *See, e.g.,* *Dubin v. Miller*, 132 F.R.D. 269, 274–75 (D. Colo. 1990).

1889. *See, e.g.,* *Hoexter v. Simmons*, 140 F.R.D. 416, 421–22 (D. Ariz. 1991); *Alfus v. Pyramid Tech. Corp.*, 764 F. Supp. 598, 605–06 (N.D. Cal. 1991).

1890. *See, e.g.,* *Larson v. Dumke*, 900 F.2d 1363, 1366–68 (9th Cir. 1990); *Davis v. Comed, Inc.*, 619 F.2d 588, 592–98 (6th Cir. 1980).

1891. *See* Fed. R. Civ. P. 23(d)(2).

1892. *Oppenheimer Fund, Inc. v. Sanders*, 437 U.S. 340 (1978).

nancial institutions, these nominees' assistance will be needed.¹⁸⁹³ Class representatives should make arrangements with nominees to provide the necessary names and addresses or to forward notices where appropriate, or, where necessary, issue a *subpoena duces tecum*.¹⁸⁹⁴ Sometimes—for example, in a class action on behalf of holders of bearer bonds—the identity of class members may not be ascertainable. In such a case, the plaintiffs' attorneys should give notice by publication in media likely to be seen by the class members.

31.6 Discovery

The principles and procedures discussed in section 11.4 for controlling discovery are generally applicable to securities litigation, subject to the discovery stay provisions of the PSLRA where class action litigation is involved. As an initial matter, the judge should consider what information will be needed from the parties to determine whether the litigation should proceed as a derivative action or class action. In cases that do not raise class issues, the parties are subject to Rule 26 disclosures and the court should further ascertain at the initial pretrial conference the scope of discovery likely to be sought by the parties and tailor a discovery schedule accordingly. Additional reciprocal pre-discovery disclosures may expedite and reduce the amount of discovery needed. Similarly, deferral of depositions until the completion of document discovery may help facilitate and expedite the depositions, reducing the burden and cost on the parties. In class actions, the discovery process can begin once the court has resolved any outstanding motions to dismiss; therefore, it is helpful to set a discovery schedule that includes dates for Rule 26 disclosures (which would have been preempted by any stay of discovery) prior to permitting the parties to begin the formal discovery process. Staged discovery may be appropriate, such as where there are certain factual issues that may be key to summary judgment or settlement. Discovery into these areas first may facilitate early resolution or, at minimum, identify areas that remain in dispute.

To avoid duplicative discovery in multiple litigation, it is best to require plaintiffs in related cases to prepare a single set of interrogatories to be propounded to each defendant, and require the parties to coordinate discovery plans. Consider also establishing a common document depository, perhaps online, cross-noticing depositions of common witnesses for use in all cases. Whether claims of attorney–client privilege or other requests for protective

1893. See *Silber v. Mabon*, 18 F.3d 1449, 1453–55 (9th Cir. 1994) (no due process violation where notice mailed to broker holding stock in street name was not sent to class member until after opt-out period, but court should have considered allowing late opt out).

1894. See, e.g., *In re Penn Cent. Sec. Litig.*, 560 F.2d 1138 (3d Cir. 1977).

orders are likely to arise during the course of discovery can be ascertained at the initial conference, and efforts can be made to resolve such issues before they can disrupt the discovery schedule. The court can also establish a schedule for exchanging expert reports and taking depositions early in the litigation and can adopt procedures to facilitate discovery and use at trial of summaries and computerized data. As in other cases, counsel should be expected to stipulate to facts not genuinely in controversy and directed to develop a joint statement of agreed-on (or uncontroverted) facts.

31.7 Takeover Litigation

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- .72 Injunctive Relief 556
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Takeover litigation presents special problems. Several actions and counteractions may be filed almost simultaneously in different courts to enjoin or remedy alleged violations of federal antitrust laws, federal securities laws, and state statutes. Major decisions must often be made rapidly about complex factual, legal, and economic issues that involve large amounts of money and would ordinarily take months or even years to resolve. Fortunately, such litigation typically involves only a few parties, represented by experienced attorneys accustomed to working under severe time constraints and other pressures. The existence of state statutes and corporate defenses, such as shareholders' rights plans ("poison pills"), may render time constraints less severe than suggested by the Williams Act.¹⁸⁹⁵

31.71 Initial Conference

It is wise to hold a preliminary conference with counsel as soon as possible after the commencement of takeover litigation—preferably within a day or two after the complaint is filed. Plaintiff's counsel usually will know or be able to ascertain the identity of counsel for the defendants. The judge should consider whether attorneys for other companies with an interest in the litigation, either as potential intervenors or parties in related cases, should participate. Consider also inviting counsel for government enforcement agencies, such as the Securities and Exchange Commission or the Antitrust Division of the Department

¹⁸⁹⁵ Pub. L. No. 90-439, 82 Stat. 454 (1968) (codified as amended at 15 U.S.C. §§ 78m(d)–(e), 78n(d)–(f) (2000)).

of Justice. Telephone conferences can accommodate attorneys who are not available on short notice for a conference in chambers.

Procedures can be established—such as telephone conference calls or setting aside a period before or after normal office hours for an in-person conference—for emergency or other matters that may arise and require an immediate ruling. The parties should be cautioned, however, that unnecessary “emergency” motions, whose primary purpose may be to influence the market, may subject offending counsel or their clients to appropriate sanctions. All orders in takeover litigation involving entities with publicly traded securities should, to the extent feasible, be announced after the stock market closes. These rulings may have a substantial impact on the stock market for both plaintiffs’ and defendants’ stock and are sometimes monitored by securities professionals in an attempt to take immediate action in response to the court’s actions, often to the disadvantage of less sophisticated market participants. In unusual situations involving important confidential information, consider holding certain proceedings in camera or receiving some evidence under seal. Although the court may order counsel to defer disclosing the results of a court conference, the court will need to examine whether such an order could conflict with the disclosure requirements of the federal securities laws. Because of the limited time within which rulings must be made, the need for the judge to be personally involved in management and supervision is greater here than in other complex litigation. For this reason, some judges avoid referral to a magistrate judge or special master, which may result in critical delays while rulings are reviewed.

A schedule should be established at the initial conference for filing responsive pleadings and motions, defining and narrowing issues, conducting necessary discovery, and holding the next conference. The schedule usually will be substantially compressed compared with those typical of other litigation. For example, the court may require that the answer be combined with any motions and filed well before the twenty-day period prescribed by Federal Rule of Civil Procedure 12(a), and parties may also be required to serve papers by personal delivery rather than through the mail. In setting the schedule, the suggestions and requests of counsel should be considered. Although the schedule should be regarded as firm, unforeseen events may dictate revisions. The attorneys should confer in advance of each conference, seeking through discussion and compromise to narrow, if not eliminate, disagreements as to matters to be considered by the court. If counsel has not done so, the court might consider adjourning the conference for a day or two to permit counsel to develop more detailed proposals for management of the case.

Additional agenda items that may be appropriate for consideration at this initial conference, whether the conference is held in person or by telephone, include whether the parties anticipate filing threshold motions and the exist-

tence and status of any related cases. The parties may contemplate challenging standing, personal jurisdiction, venue, or other threshold matters that, if resolved promptly, might reduce or eliminate the need for discovery. If so, the judge should establish a schedule for expedited resolution of these issues. This is also an appropriate time to ascertain, or direct counsel to ascertain, the status of other related cases, including times set for hearings, and make plans to coordinate the proceedings to the extent possible. If jurisdiction and venue will not be contested, consider requiring the parties to include any related claims that may arise and enjoining them from instituting new litigation in other courts. Because of time constraints, multidistrict transfer under 28 U.S.C. § 1407 is rarely feasible. Transfer of cases to a single district under 28 U.S.C. § 1404 or 1406 may, however, be appropriate; if so, such transfers should be ordered as expeditiously as possible. If the cases remain in separate courts, the judges should confer and attempt to avoid conflicts in schedules.

31.72 Injunctive Relief

The most significant hearing in takeover litigation usually is that on the preliminary injunction. The court's ruling may moot or resolve other issues. Although the complaint typically will include a request for a temporary restraining order (TRO) and an application for a preliminary injunction, a TRO—or any order in takeover litigation—should almost never be granted *ex parte*, particularly given the opportunity for a telephone conference. Ordinarily, any pending request for a TRO should be resolved at the initial conference, and a date should be set for hearing the motion for injunctive relief. Depending on the date of the hearing, the court may, under Federal Rule of Civil Procedure 65(a)(2), order the trial on the merits to be advanced and consolidated with the hearing. In some cases, it is advisable to refuse hearing a motion for preliminary injunction if a hearing on a permanent injunction can be held expeditiously. Before deciding when or whether to hear the application for a preliminary injunction, the court should determine whether a ruling on the application must be rendered by an identifiable date. It is also wise to ascertain from counsel all dates important to the litigation, including those on which any statutory waiting periods expire or significant events (such as a stockholders meeting, or the commencement of acquisition of shares by a competing offeror) are scheduled to occur. The federal statutory waiting period may not be controlling, because of the prevalence of state statutes, such as control share acquisition acts and business combination statutes, as well as shareholders' rights plans (poison pills). Counsel should be questioned about the interplay of such laws and corporate defenses and the effect they will have on the date to be set for the hearing. If the deadline for a ruling cannot be met because of requirements of the litigation, such as criminal proceedings subject to the Speedy

Trial Act, consider reassigning the case to another judge. Counsel's views about the minimum time needed to conduct essential discovery and to conduct the hearing itself should be considered. The court may make a tentative determination on the form of the hearing—for example, whether the motion will be decided on affidavits, depositions, and documents alone, or whether witnesses will be heard in person and, if so, whether their direct testimony will be presented by prepared statements and reports.

One or two additional case-management conferences usually will be needed before the hearing. A meeting (or conference call) among counsel should precede each conference. The primary purposes of these case-management conferences are to ensure that schedules are being met, to narrow or revise the issues based on intervening circumstances (such as an offer being made by another company for the target company's stock, or other defensive measures adopted or proposed to be adopted by the "target" company), and to make final preparations for any scheduled hearing.

Complaints in takeover litigation frequently include a number of claims that the plaintiffs may be willing to eliminate, after further exploration, at least for purposes of the preliminary injunction. Similarly, defenses and counterclaims may be abandoned as the hearing date approaches. The judge can encourage the parties to narrow the scope of the case to the most important issues, setting a date by which they are to specify those allegations the parties will press at the hearing.

Various steps may be taken to expedite and streamline the hearing, including the following:

- holding the hearing on only the affidavits, where no substantial factual disputes exist;
- directing the parties to submit statements of undisputed facts or requests for admission to narrow the scope of the hearing;
- directing counsel to identify any witnesses in advance along with the substance of their testimony and the exhibits they will sponsor;
- requiring that direct testimony be offered in the form of adopted narrative statements, exchanged in advance and subject to motions to strike, to cross-examination, and to redirect at the hearing if issues of credibility are presented;
- directing counsel to exchange proposed exhibits in advance of the hearing, and giving notice that objections may be treated as waived if not made in writing in advance of the hearing;
- resolving objections to foundation before the hearing;
- directing counsel to present stipulated summaries or extracts of any deposition testimony to be used in lieu of lengthy readings of transcripts;

- directing counsel to submit briefs in advance of the hearing, along with proposed findings of fact and conclusions of law; and
- where time is of the essence, ruling from the bench at the conclusion of the hearing, dictating findings and conclusions into the record, and requiring counsel to state immediately, at the hearing, any motions for modified or additional findings and conclusions based on the record.

31.73 Discovery

The court should encourage counsel to submit a jointly agreed on discovery plan for approval. The potential scope of disputed issues in takeover litigation can lead to excessive discovery demands, both for documents and depositions, creating unreasonable burdens on the parties in view of the brief time usually available for compliance. The need to identify and narrow the disputed issues and tailor the discovery plan narrowly in light of those issues should be stressed.

Discovery should begin with an expedited procedure for the production of relevant files, records, and documents necessary for the resolution of the issues. Where the initial conference is held within days of the filing of the complaint, the parties will have been unable to comply with early disclosure mandates of Federal Rule of Civil Procedure 26. The judge should discuss with the parties how to effectuate the goals of Rule 26 within the time pressures imposed by takeover litigation and take steps to avoid excessively voluminous production that will burden rather than assist the parties. The following may be helpful:

- limiting the relevant periods of time for discovery requests;
- requiring the parties to minimize objections and to redact documents and files to eliminate extraneous matter;
- encouraging counsel and the parties to consider alternative means of obtaining testimony in the limited time available, such as through statements from interviews of witnesses or discovery in related litigation; and
- encouraging and approving stipulated protective orders.

31.8 Trial and Settlement

The court should always be prepared for the possibility of trial, even though complex securities cases seldom proceed that far. Procedures similar to

those used for trial and settlement of mass tort litigation¹⁸⁹⁶ may be appropriate for securities litigation. For example, consider consolidating related cases for a joint trial on specified issues, such as the defendants' respective liabilities for alleged misrepresentations and omissions, while leaving for subsequent separate trials other issues, such as damages and individual defenses. In cases subject to the PSLRA, the defendant is entitled, upon request, to have a written interrogatory submitted to the jury on the "defendant's state of mind at the time the alleged violation occurred."¹⁸⁹⁷ The PSLRA further requires that special interrogatories be submitted in jury cases (or findings of fact in bench trials) as to each covered person or each person alleged to have caused or contributed to the plaintiff's loss, regarding (1) whether such person violated the securities laws; (2) the person's percentage of responsibility; and (3) whether the securities violation was committed knowingly.¹⁸⁹⁸ In selected cases, the court may direct the parties to confer with the court about the precise text of appropriate special questions to a jury.

Securities cases typically involve experienced and sophisticated lawyers, as well as large sums of money. It is best to refer settlements to another judge, a special master, or a court-appointed expert with comparable experience and skills. Counsel need court approval to settle class or derivative actions, and when such approval is sought, the court should apply the principles and procedures governing settlements of class actions in general. The PSLRA contains specific provisions relating to settlement of covered class actions, including statements that must be included in proposed or final settlement agreements disseminated to the class¹⁸⁹⁹ and restrictions on settlements under seal.¹⁹⁰⁰ The PSLRA also provides for the discharge of all contribution claims against a covered person who settles before final judgment.¹⁹⁰¹ In derivative actions, non-monetary benefits—such as a change in corporate management or policies—may play a significant role.¹⁹⁰²

The PSLRA provides for the court's mandatory review of the parties' conduct and that of their counsel during the course of the action, and upon final adjudication it requires the court to "include in the record specific findings regarding compliance by each party and each attorney representing any party

1896. See *supra* section 22.9.

1897. 15 U.S.C. § 78u-4(d) (2000).

1898. *Id.* § 78u-4(f)(3)(A). The statute sets out factors to be considered by the trier of fact in determining the percentage of responsibility. *Id.* § 78u-4(f)(3)(C).

1899. *Id.* § 78u-4(a)(7).

1900. *Id.* § 78u-4(a)(5).

1901. *Id.* § 78u-4(f)(7).

1902. See *Bell Atlantic Corp. v. Bolger*, 2 F.3d 1304, 1310–12 (3d Cir. 1993), and cases cited therein.

with each requirement of Rule 11(b) . . . as to any complaint, responsive pleading, or dispositive motion.¹⁹⁰³ The parties should be afforded an opportunity to be heard on the issue before any such finding is made. Sanctions are mandatory, however, once a finding of noncompliance has been made.

1903. 15 U.S.C. § 78u-4(c)(1) (2000).

32. Employment Discrimination

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32.1 Introduction

Employment discrimination litigation¹⁹⁰⁴ can arise in a number of contexts and include both statutory and common-law claims. Individual actions alleging employment discrimination are generally not factually complex. Nonetheless, complexity can be introduced into employment discrimination suits by class action allegations, questions regarding the scope of discovery, the technical nature of expert testimony, and issues relating to the granting of relief, whether by way of judgment or consent decree.

1904. This section is designed to highlight some of the areas in which case-management issues may arise under the most commonly litigated statutes and does not purport to afford comprehensive coverage of all of the issues that may arise in employment discrimination law.

32.2 The Statutory Framework

- .21 Title VII: Discrimination in Employee Hiring and Advancement 564
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The main federal statutes governing employment discrimination litigation are Title VII of the Civil Rights Act of 1964,¹⁹⁰⁵ the Civil Rights Acts of 1866 and 1871 (sections 1981 and 1985(c)),¹⁹⁰⁶ the Age Discrimination in Employment Act of 1967 (ADEA),¹⁹⁰⁷ and the Americans with Disabilities Act of 1990 (ADA).¹⁹⁰⁸ Other federal statutes also afford a basis for employment discrimination claims. These include, but are not limited to, the Equal Pay Act of 1963,¹⁹⁰⁹ the Uniformed Services Employment and Reemployment Rights Act (USERRA),¹⁹¹⁰ the Fair Labor Standards Act,¹⁹¹¹ Title IX of the Educational Amendments of 1972,¹⁹¹² the Family and Medical Leave Act (FMLA),¹⁹¹³ and 42 U.S.C. § 1983.¹⁹¹⁴ These statutes afford a panoply of remedies covering a wide variety of conduct.

1905. 42 U.S.C. § 2000e (2000).

1906. *Id.* § 1981(a) (section 1981 prohibits, among other things, discrimination in employment contracting); *Id.* § 1985 (prohibits conspiracy to interfere with civil rights).

1907. 29 U.S.C. § 623(a) (2000) (the ADEA prohibits discrimination based on age).

1908. 42 U.S.C. § 12112(a) (2000) (the ADA affords protection against employment discrimination based on disability).

1909. 29 U.S.C.A. § 206(d) (2000). The Equal Pay Act prohibits only discrimination based on sex and requires equal pay “for equal work on jobs the performance of which requires equal skill, effort and responsibility, and which are performed under similar working conditions . . .” *Id.* § 206(d)(1). The statute authorizes both public and private actions against employers, but limits a private individual’s right to sue only if there has been no public action filed on the individual’s behalf or the individual has accepted no prior remedies. *Id.* § 216(b).

1910. 38 U.S.C. § 4301 (2000).

1911. 29 U.S.C. § 201 (2000).

1912. 20 U.S.C. § 1681 (2000) (Title IX prohibits discrimination on the basis of sex in federally funded programs or activities).

1913. 29 U.S.C. § 2615 (2000).

1914. *See Evans v. Avery*, 100 F.3d 1033, 1036 (1st Cir. 1996) (“Section 1983 supplies a private right of action against a person who, under color of state law, deprives another of rights secured by the Constitution or by federal law.”); *see also Morris v. Oldham County Fiscal Court*, 201 F.3d 784, 794 (6th Cir. 2000) (“The showing a plaintiff must make to recover on an employment discrimination claim under Title VII mirrors that which must be made to recover on an equal protection claim under section 1983.”). Section 1983 is the vehicle for suits against federal officials under other sources of federal statutory law prohibiting discrimination.

A plaintiff can establish a prima facie case of employment discrimination through “direct” evidence of a defendant’s discriminatory intent.¹⁹¹⁵ When the plaintiff relies only on inferential or circumstantial evidence of discriminatory intent, however, it is common to apply some variation of the four-factor test set out in *McDonnell Douglas Corp. v. Green*.¹⁹¹⁶ In *McDonnell Douglas*, the Supreme Court, in addressing a claim under Title VII, held that to establish a prima facie case of employment discrimination in cases where the plaintiff lacks direct evidence of discriminatory intent, a plaintiff must prove (1) that the plaintiff is a member of a protected class, (2) who applied and was qualified for a job for which the employer was seeking applicants, (3) that, despite plaintiff’s qualifications, he or she was rejected, and (4) that, after the plaintiff was rejected, the position remained open and the employer continued to seek applications from persons of plaintiff’s qualifications.¹⁹¹⁷

McDonnell Douglas also “established an allocation of the burden of production and an order for the presentation of proof in . . . discriminatory-treatment cases.”¹⁹¹⁸ Once the plaintiff has established a prima facie case under the *McDonnell Douglas* standard, the plaintiff creates a rebuttable presumption that the employer engaged in unlawful discrimination.¹⁹¹⁹ The burden of production then shifts to the defendant to produce evidence that its challenged employment decision was based on factors other than the protected status of the plaintiff and based on a legitimate, nondiscriminatory reason.¹⁹²⁰ The pre-

1915. See, e.g., *Hopson v. DaimlerChrysler Corp.*, 306 F.3d 427, 433 (6th Cir. 2002); see also *Costa v. Desert Palace, Inc.*, 299 F.3d 838, 852–53 (9th Cir. 2002) (discussing approaches among the circuits to “direct evidence”), *aff’d*, 123 S. Ct. 2148 (2003); Harold S. Lewis, Jr. & Elizabeth J. Norman, *Employment Discrimination Law and Practice* 115–123 (2001) (discussing modes of proof for Title VII claim).

1916. 411 U.S. 792 (1973). In addition to claims brought under Title VII, the *McDonnell Douglas* test applies to claims for employment discrimination brought under §§ 1981 and 1983 of the Civil Rights Act, and under the ADEA. See, e.g., *Reeves v. Sanderson Plumbing Prods., Inc.*, 530 U.S. 133, 142 (2000) (noting that the issue had not squarely come before the Court but assumed *arguendo* that the *McDonnell Douglas* burden-shifting standard applied where the parties did not dispute its application), and cases cited therein; see also *Fairchild v. Forma Scientific, Inc.*, 147 F.3d 567, 571 (7th Cir. 1998) (variant of *McDonnell Douglas* test applies to ADEA case).

1917. 411 U.S. at 802.

1918. *Reeves*, 530 U.S. at 142 (quoting *St. Mary’s Honor Ctr. v. Hicks*, 509 U.S. 502, 506 (1993)).

1919. *Reeves*, 530 U.S. at 142; *Tex. Dept. of Cmty. Affairs v. Burdine*, 450 U.S. 248, 253–54 (1981). The court in *Jones v. Union Pac. R.R. Co.*, 302 F.3d 735, 742 (7th Cir. 2002) noted that “[t]he need to establish a prima facie case does not always arise; frequently employers concede the prima facie case and simply offer a non-discriminatory justification.” See also *Hopson v. DaimlerChrysler Corp.*, 306 F.3d 427, 428 (6th Cir. 2002) (employer conceded prima facie case).

1920. *Reeves*, 530 U.S. at 142 (citing *Burdine*, 450 U.S. at 254); *Hicks*, 509 U.S. at 506–07.

sumptions created by the *McDonnell Douglas* framework then disappear, and the plaintiff must prove that the employer's proffered reasons were simply a pretext for discrimination.¹⁹²¹ The defendant's burden is one of production only, however, and "[t]he ultimate burden of persuading the trier of fact that the defendant intentionally discriminated against the plaintiff remains at all times with the plaintiff."¹⁹²² The Supreme Court, in *Reeves v. Sanderson*, held that a plaintiff can satisfy this burden through proof of "a *prima facie* case, combined with sufficient evidence to find the employer's asserted justification is false."¹⁹²³ The plaintiff is not required to present independent proof of discrimination.¹⁹²⁴

32.21 Title VII: Discrimination in Employee Hiring and Advancement

Title VII has been referred to as the "centerpiece of employment discrimination law,"¹⁹²⁵ prohibiting discrimination based on sex (including sexual harassment),¹⁹²⁶ race,¹⁹²⁷ religion, and national origin.¹⁹²⁸ Title VII further prohibits retaliation against employees who exercise their rights under the statute. Title VII applies to employers (of fifteen or more employees),¹⁹²⁹ employment agencies,¹⁹³⁰ and labor organizations,¹⁹³¹ as well as state and federal entities.

1921. See, e.g., *Waterhouse v. District of Columbia*, 298 F.3d 989, 994 (D.C. Cir. 2002) (plaintiff failed to establish employer's proffered explanation lacked credence where plaintiff admitted deficiencies cited by employer concerning her performance).

1922. *Hicks*, 509 U.S. at 507 (quoting *Burdine*, 450 U.S. at 253).

1923. 530 U.S. at 148 (emphasis added).

1924. *Id.* at 149; see also *Hopson*, 306 F.3d at 434–35 ("It strains credulity to conclude that, not once, but five times, the other employees who applied for the open positions were so significantly more qualified than Hopson that he was not even worthy of an interview.").

1925. Mack A. Player, *Federal Law of Employment Discrimination in a Nutshell* 12 (3d ed. 1992).

1926. See *Pollard v. E.I. du Pont de Nemours & Co.*, 532 U.S. 843, 853 (2001) (holding that front pay was not an element of compensatory damages to a claim of sexual harassment under Title VII); *Kolstad v. Am. Dental Ass'n*, 527 U.S. 526, 531 (1999) (gender); *Faragher v. City of Boca Raton*, 524 U.S. 775, 777 (1998) (holding that employers may be vicariously liable for sexual harassment by their employees); *Oncala v. Sundowner Offshore Servs., Inc.*, 523 U.S. 75, 79 (1998) (recognizing discrimination under Title VII applies to sexual harassment by those of the same sex); *Harris v. Forklift Sys., Inc.*, 510 U.S. 17, 19–20 (1993) (alleging abusive work environment from sexual harassment).

1927. See *Loum v. Houston's Rests., Inc.*, 985 F. Supp. 1315, 1317 (D. Kan. 1997).

1928. 42 U.S.C. § 2000e-2(a) (2000) (plaintiff may bring Title VII claims based on national origin discrimination). See *Swierkiewicz v. Sorema*, 534 U.S. 506 (2002).

1929. 42 U.S.C. § 2000e-2(a) (2000).

1930. *Id.* § 2000e-2(b).

When the plaintiff has direct evidence of discrimination, plaintiff's prima facie case is met through proof that the employer took an adverse employment action against him or her because of race, age, sex, or religion. The *McDonnell Douglas* standard typically will govern the pretrial evidentiary burdens if direct evidence of discrimination is unavailable. Remedies include both compensatory and punitive damages,¹⁹³² injunctive relief, reinstatement, back pay, attorney fees, and lost profits.¹⁹³³

Title VII established the Equal Employment Opportunity Commission (EEOC),¹⁹³⁴ which also enforces provisions of the ADA and ADEA.¹⁹³⁵ The EEOC functions as an "institution of first-resort" for claims under Title VII. The statute also authorizes the EEOC itself to bring suit against the employer.¹⁹³⁶ Prior to seeking judicial relief, a plaintiff must timely file his or her claim with a regional EEOC office.¹⁹³⁷ The EEOC may grant the plaintiff

1931. *Id.* § 2000e-2(c).

1932. 42 U.S.C. § 1981a(a)(1) (2000). However, both compensatory and punitive damages are subject to the statutory limitations provided in 42 U.S.C. § 1981a(b)(3), limitations that are based on the number of employees of the defendant. *See Pollard v. E.I. du Pont de Nemours & Co.*, 532 U.S. 843, 848 (2001) (holding that front pay is not subject to the statutory limitations provided in § 1981a). Punitive damages are not available against a public employer. 42 U.S.C. § 1981a(b)(1) (2000).

1933. *Pollard*, 532 U.S. at 847. Other recoverable damages may include "consequential losses, such as humiliation, economic dislocations, and loss of credit." *Player*, *supra* note 1925, at 222.

1934. 42 U.S.C. § 2000e-5(a), (e) (2000).

1935. *Id.* The EEOC is comprised of five members appointed by the President, with regional offices throughout the country. *Player*, *supra* note 1925, at 40.

1936. *See EEOC v. Waffle House, Inc.*, 534 U.S. 279, 291 (2002) (where the EEOC files suit, "the employee has no independent cause of action, although the employee may intervene in the EEOC's suit" (discussing 42 U.S.C. § 2000e-5(f)(1))).

1937. 42 U.S.C. § 2000e-5(a), (e) (2000). When the charge must be filed with the EEOC depends on whether the state affords administrative remedies for unlawful employment practices. Where no such legislation exists, the charge must be filed with the EEOC within 180 days of the unlawful practice. Where the state has enacted equal employment legislation and maintains agencies to enforce such laws, however, the charge must first be filed with the state agency. The state agency has 60 days to review the charge and seek to resolve the plaintiff's complaint. The plaintiff then has 30 days from receipt of a notice of dismissal or notice of a right-to-sue letter from the state agency, or 300 days from the unlawful practice complained of, whichever is sooner, to file a charge with the EEOC. *See Lewis & Norman*, *supra* note 1915, § 4.2, at 199–204, for a discussion of the notice provisions and work-sharing arrangements between the state and federal agencies, noting "although Sec 706 appears to require that the state or local filing precede the filing of a charge with EEOC, it is apparent from the Court's approval of deferral and work-sharing agreements that in practice EEOC is often the first, and sometimes the only agency to investigate and conciliate charges, even in deferral states." *See also Tewksbury v. Ottoway Newspapers*, 192 F.3d 322, 324–26 (2d Cir. 1999) (discussing relationship between EEOC and defer-

“statutory notice of the right to sue,”¹⁹³⁸ following an investigation. Alternatively, regardless of whether the EEOC has found the charge to be supported by reasonable cause, the plaintiff may request a right-to-sue letter after 180 days and abandon further EEOC proceedings. Title VII does not restrict a complainant’s right to sue on charges that the commission has found unsupported by reasonable cause.¹⁹³⁹

Congress enacted The Civil Rights Act of 1991 (CRA) in response to Supreme Court decisions that, in Congress’s view, diminished Title VII and section 1981 protections.¹⁹⁴⁰ The CRA gives plaintiffs a right to a jury trial and the right to seek compensatory and punitive damages for claims of intentional discrimination under Title VII.¹⁹⁴¹ “The 1991 Act’s enhanced damages provisions were designed to compensate victims of discrimination for humiliation, trauma, physical distress, medical expenses, and other economic and non-economic harms caused by workplace discrimination.”¹⁹⁴² The 1991 Act also expressly designates claims for disparate impact as within the scope of Title VII relief.¹⁹⁴³ Other changes include requiring employers to demonstrate that a challenged employment practice is “job related for the position in question and consistent with business necessity,”¹⁹⁴⁴ and allowing the award of attorney fees and costs where the plaintiff successfully shows that an employment decision was motivated by an impermissible factor (even though other factors may have been involved). The 1991 Act allows for the recovery of expert fees in all cases where attorney fees are recoverable. In addition, the Act limits the remedies available against an employer who is able to show that it would have taken the

ral-state agency and whether claim is timely filed where EEOC forwards charges to state agency under work-sharing agreement).

1938. See 42 U.S.C. § 2000e-5(f)(1) (2000); see also *Smith v. HealthSouth Rehab. Ctr.*, 234 F. Supp. 2d 812, 814 (W.D. Tenn. 2002) (quoting *Marquis v. Tecumseh Prods. Co.*, 206 F.R.D. 132, 151 (E.D. Mich. 2002)).

1939. *McDonnell Douglas Corp. v. Green*, 411 U.S. 792, 798 (1973).

1940. Civil Rights Act of 1991, Pub. L. No. 102-166, 105 Stat. 1071 (1992).

1941. Title VII initially provided only for declaratory or equitable relief, typically either injunctive or an award of front or back pay. Damages are also now available for discrimination based on sex, religion, or disability. Damages are limited to \$50,000–\$300,000 for claims brought under Title VII; however, states cannot be liable for punitive damages. See, e.g., *Waffle House*, 534 U.S. at 287 (CRA added compensatory and punitive damages to remedies available under ADA).

1942. Daniel F. Piar, *The Uncertain Future of Title VII Class Actions After the Civil Rights Act of 1991*, 2001 BYU L. Rev. 301, 307 (2001).

1943. Civil Rights Act of 1991, Pub. L. No. 102-166, § 105, 105 Stat. 1071 (1992) (codified as amended at 42 U.S.C. § 2000e-2(k)(1)(A) to (3)).

1944. *Id.*

same action even in the absence of the impermissible motivating factor.¹⁹⁴⁵ The employer may still have liability for the unlawful employment practice, but it has a defense against the award of certain types of relief.¹⁹⁴⁶ Remedies include injunctive or declaratory relief, but not reinstatement, hiring, or promotion. Attorney fees and costs directly attributable to pursuit of the plaintiff's Title VII claim may be awarded, but damages may not.

32.22 The Civil Rights Act of 1964: Discrimination in Contracting

Section 1981 of Title 42 of the U.S. Code prohibits, among other things, racial discrimination in employment contracting.¹⁹⁴⁷ The Supreme Court has interpreted the statute to reach discrimination based on ethnicity,¹⁹⁴⁸ and courts have interpreted the Act to prohibit discrimination on the basis of alienage.¹⁹⁴⁹ There is no minimum employer size requirement as there is under other antidiscrimination statutes.¹⁹⁵⁰ In order to maintain a claim under section 1981, the record must show that plaintiff (1) is a member of a protected class; (2) was qualified for the position; (3) was terminated; and (4) was replaced by someone outside the protected class.¹⁹⁵¹ Plaintiffs suing under section 1981 are not required to exhaust administrative avenues.¹⁹⁵² Damages under section 1981 are unlimited and include both compensatory and punitive damages.¹⁹⁵³

The scope of 42 U.S.C. § 1981 was also clarified in the CRA. Prior decisions by the Supreme Court had limited application of the statute to discrimination in the actual *formation* of contracts.¹⁹⁵⁴ The CRA amended section 1981

1945. 42 U.S.C. § 2000e-5(g)(2)(b) (2000).

1946. *Id.*

1947. 42 U.S.C. § 1981 (2000).

1948. *St. Francis Coll. v. Al-Khazraji*, 481 U.S. 604, 613 (1987) (section 1981 applies to discrimination based on ancestry or ethnic characteristics).

1949. *Duane v. GEICO*, 37 F.3d 1036, 1040 (4th Cir. 1994) (discrimination against aliens is prohibited by both public and private persons).

1950. *See, e.g.*, 42 U.S.C. § 2000e(b) (2000) (“fifteen or more employees”).

1951. *LaPierre v. Benson Nissan, Inc.*, 86 F.3d 444, 448 (5th Cir. 1996). “Claims of racial discrimination brought under § 1981 are governed by the same evidentiary framework applicable to claims of employment discrimination brought under Title VII.” *Id.* at 448 n.2.

1952. *See, e.g.*, *Walker v. Thompson*, 214 F.3d 615, 624–25 (5th Cir. 2000) (discussing dissimilarity in administrative filing requirements between Title VII and section 1981 claims).

1953. 42 U.S.C. § 1981a(a)(1), (b)(1) (2000). Compensatory damages under section 1981(b)(1) do not include back pay or interest on back pay. *Id.* § 1981(b)(2).

1954. *Patterson v. Mclean Credit Union*, 491 U.S. 164, 176 (1989) (“Section 1981 cannot be construed as a general proscription of racial discrimination in all aspects of contract relations,

to extend to all aspects of the contractual relationship, including the performance and termination of contracts, as well as “benefits, privileges, terms and conditions of contractual relationship.”¹⁹⁵⁵ Whether the Supreme Court’s decision in *Jett v. Dallas Independent School District*¹⁹⁵⁶ (which held that a municipality may not be held liable for its employees’ violations of the plaintiff’s “right to make contracts” as protected by section 1981 under *respondeat superior*) was overruled by the CRA is unresolved.¹⁹⁵⁷

32.23 Age Discrimination in Employment Act

The Age Discrimination in Employment Act (ADEA) prohibits discrimination on the basis of age against anyone who is at least forty years old¹⁹⁵⁸ and covers employers and employment agencies with at least twenty employees, labor organizations, and the federal government.¹⁹⁵⁹ The EEOC is charged with enforcement of the ADEA. As with Title VII, the plaintiff must file a charge with the EEOC and, if applicable, the state-deferral agency. The Supreme

for it expressly prohibits discrimination only in the making and enforcement of contracts.”); *see also* *Ford v. City of Rockford*, No. 88 C 20323, 1992 WL 309603, at *2 (N.D. Ill. Oct. 15, 1992) (citing *Patterson* and stating that section 1981 does not provide relief unless the plaintiff was discriminated against in the making and formation of contracts).

1955. 42 U.S.C. § 1981(b) (2000); *see also* *Keller v. City of Portland*, No. CV-98-263, 1998 WL 1060222, at *13–14 (D. Or. Nov. 13, 1998) (section 1981 not limited to contractual matters and includes discrimination that deprives individuals of “equal benefits”).

1956. 491 U.S. 701 (1989).

1957. *See* George Rutherglen, *Major Issues in the Federal Law of Employment Discrimination* 102 (Federal Judicial Center 3d ed. 1996). *See, e.g., Ford*, 1992 WL 309603, at *2 (stating Congress overruled *Jett* in enactment of CRA by extending section 1981 to state actors but further holding section 1981 only applies to making and formation of contracts); *Keller*, 1998 WL 1060222, at *14 (1991 amendments to CRA overrule *Jett* and allow suits against municipality directly under section 1981); *Villanueva v. City of Fort Pierce*, 24 F. Supp. 2d 1364, 1368 (S.D. Fla. 1998) (noting that CRA amendments to section 1981 “have created some confusion among the circuits as to whether the CRA overruled the *Jett* rule against simultaneous § 1981 and § 1983 claims” and holding CRA did not overrule *Jett*). *Compare* *Fed. of African Am. Contractors v. Oakland*, 96 F.3d 1204 (9th Cir. 1996), and *Jackson v. City of Chi.*, No. 96 C 3636, 1996 WL 734701, at *8 (N.D. Ill. Dec. 18, 1996), with *Dennis v. Cmty. of Fairfax*, 55 F.3d 151, 156 n.1 (1995).

1958. 29 U.S.C. §§ 623(a), (a)(1) (2000). *See O’Connor v. Consol. Coin Caterers Corp.*, 517 U.S. 308, 312 (1996) (holding that 56-year-old plaintiff who was replaced by 40-year-old could still maintain an action under ADEA, which simply limits the protected class to plaintiffs over 40).

1959. 29 U.S.C. §§ 623(a)–(c) (2000) (sections 623(b) and (c) provide that it shall be unlawful for employment agencies and labor organizations to discriminate based on age); *see also id.* § 630(b) (confining “employer” to “a person . . . who has twenty or more employees”).

Court in *Kimel v. Florida Board of Regents*¹⁹⁶⁰ held that ADEA claims are unavailable against state employers.¹⁹⁶¹

A prima facie case of age discrimination under *McDonnell Douglas* is shown if the plaintiff (1) is 40 years or older, (2) had satisfactory job performance, and (3) has suffered an adverse employment action because of age.¹⁹⁶² Some courts have held that the plaintiff must show that he or she was replaced by or treated differently than a younger employee.¹⁹⁶³ Others, however, have interpreted the Act as requiring only that the plaintiff demonstrate that he or she is a member of the protected class (employees over 40 years old) and was discriminated against on the basis of age, even if the beneficiary of the discriminatory acts was older than the plaintiff.¹⁹⁶⁴ As with Title VII and section 1981, if an employer presents nondiscriminatory reasons for the adverse actions, the presumption created by the prima facie case drops out and the plaintiff must bear the ultimate burden of proving that age was a mitigating factor in the adverse employment decision.¹⁹⁶⁵ Specifically, employers can defend themselves by showing that the challenged employment decision was based on “reasonable factors other than age,” that the employee was disciplined or discharged for good cause,¹⁹⁶⁶ or that the employment decision related to a bona fide occupational qualification.¹⁹⁶⁷ Although ADEA plaintiffs cannot recover compensatory or punitive damages, the Act incorporates the remedies available under the Fair Labor Standards Act, as well as other relief,

1960. 528 U.S. 62 (2000).

1961. *Id.* at 66 (“The ADEA does not validly abrogate the state’s sovereign immunity.”).

1962. *Fairchild v. Forma Scientific, Inc.*, 147 F.3d 567, 571 (7th Cir. 1998).

1963. *Franzoni v. Hartmarx Corp.*, 300 F.3d 767, 772 (7th Cir. 2002); *see also O’Connor*, 517 U.S. at 308 (56-year-old plaintiff replaced by a 40-year-old).

1964. *See, e.g., Cline v. Gen. Dynamics Land Sys., Inc.*, 296 F.3d 466, 469–70 (6th Cir. 2002).

1965. *Fairchild*, 147 F.3d at 572 (employer defendant presented evidence that employee plaintiff was terminated based on legitimate financial reasons, overcoming the presumption of discrimination, and plaintiff failed to show employer’s reason was pretextual).

1966. 29 U.S.C. § 623(f)(1) (2000). In addition, defenses exist where seniority systems are involved. *See Rutherglen, supra* note 1957, at 110 (“The ADEA also contains an exception for certain executives over age sixty-five; and it authorizes the EEOC to create further exceptions in the public interest”) (footnote omitted); *EEOC v. Francis W. Parker Sch.*, 41 F.3d 1073, 1078 (7th Cir. 1994) (noting ADEA contains safe-harbor provision permitting use of seniority system); *see also Hazen Paper Co. v. Biggins*, 507 U.S. 604, 609 (1993) (“[T]here is no disparate treatment under the ADEA when the factor motivating the employer is some feature other than the employee’s age.”), *and id.* at 618 (Kennedy, J., concurring) (“[N]othing in the Court’s opinion should be read as incorporating in the ADEA context the so-called ‘disparate impact’ theory of Title VII . . . and there are substantial arguments that it is improper to carry over disparate impact analysis from Title VII to the ADEA.” (citation omitted)).

1967. *See Rutherglen, supra* note 1957, at 111.

such as injunctive relief, promotion, reinstatement, back and front pay, and attorney fees.¹⁹⁶⁸ Defendants also can be liable for liquidated damages where the plaintiff proves “willful violation” of the Act.¹⁹⁶⁹

It is unclear whether disparate impact claims are available under the ADEA, and the Supreme Court in *Hazen Paper Co. v. Biggins*¹⁹⁷⁰ questioned the use of a disparate impact theory. The CRA amendments expressly codified disparate impact claims only for Title VII.¹⁹⁷¹

32.24 Americans with Disabilities Act

The Americans with Disabilities Act (ADA) prohibits, among other things, employment discrimination against “qualified persons with a disability.”¹⁹⁷² Liability under the ADA is limited to employers with fifteen or more employees.¹⁹⁷³ Although employers are permitted to establish physical criteria necessary for a position, or to prefer some physical attributes over others, the employer “runs afoul of the ADA when it makes an employment decision based on a physical or mental impairment, real or imagined, that is regarded as sub-

1968. 29 U.S.C. § 626(b) (2000). See *Kimel v. Fla. Bd. of Regents*, 528 U.S. 62, 74–75 (2000).

1969. See *Meachem v. Knolls Atomic Power Lab.*, 185 F. Supp. 2d 193, 218 (N.D.N.Y. 2002) (awards of damages for back pay and front pay and punitive damages for willful conduct are authorized under ADEA, but damages for emotional distress are unavailable).

1970. 507 U.S. 604, 610 (1993) (stating “[d]isparate treatment, thus defined, captured the essence of what Congress sought to prohibit in the ADEA” and noting that court had not addressed question of whether a plaintiff could proceed on a disparate impact theory under the ADEA). But see *Smith v. City of Des Moines*, 99 F.3d 1466, 1470 (8th Cir. 1996) (disparate impact claims cognizable under ADEA); *Mangold v. Cal. Pub. Utilities Comm’n*, 67 F.3d 1470, 1474 (9th Cir. 1995) (plaintiff may pursue disparate impact theory under ADEA); *Francis W. Parker*, 41 F.3d 1073, 1077 (7th Cir. 1994) (“[D]ecisions based on criteria which merely tend to affect workers over the age of forty more adversely than workers under forty are not prohibited.”).

1971. See *Francis W. Parker*, 41 F.3d at 1073, 1076–77 (rejecting disparate impact theory).

1972. 42 U.S.C. § 12112(a) (2000) (section 12112(a) provides that no employer may “discriminate against a qualified individual with a disability because of the disability of such individual in regard to job application procedures, the hiring, advancement, or discharge of employees, employee compensation, job training, and other terms, conditions, and privileges of employment”). “Disability” is defined as a “physical or mental impairment that substantially limits one or more . . . major life activities . . .” 29 C.F.R. § 1630.2(g)(1) (1999). Thus, the ADA is violated where the employee is able to perform the essential functions of the job “with or without reasonable accommodation which does not impose an undue hardship on the employer.” *Id.*

1973. 42 U.S.C. § 12111(5)(a) (2000).

stantially limiting a major life activity.”¹⁹⁷⁴ Employers are required to make reasonable accommodations for employees or applicants with disabilities. As with other employment discrimination claims, the employer may rebut a claim of ADA discrimination by providing “evidence of a ‘legitimate, nondiscriminatory reason’ for its action.”¹⁹⁷⁵

The provisions of the ADA are enforced by the EEOC in the same manner as Title VII claims.¹⁹⁷⁶ Thus, under the ADA, the EEOC “may bring suit to enjoin an employer from engaging in unlawful employment practices, and to pursue reinstatement, back pay, and compensatory or punitive damages.”¹⁹⁷⁷

32.25 Family and Medical Leave Act

The Family and Medical Leave Act (FMLA) entitles an eligible employee¹⁹⁷⁸ to up to twelve weeks of leave for absences resulting from a disabling health problem, serious illness of a family member or the employee, or the birth or adoption of a child.¹⁹⁷⁹ Actions brought under the FMLA are generally brought in the context of retaliation claims arising out of the employee’s exercise of his or her leave rights.¹⁹⁸⁰ In addition to showing the exercise of leave rights, the plaintiff must have suffered an adverse employment action, and further demonstrate a causal relationship between the exercise of leave rights and the chal-

1974. *Sutton v. United Airlines, Inc.*, 527 U.S. 471, 490 (1999). Major life activity is defined as “functions such as caring for oneself, performing manual tasks, walking, seeing, hearing, speaking, breathing, learning, and working.” 29 C.F.R. § 1630.2(i) (1999). The term “substantially limits” means “(i) [u]nable to perform a major life activity that the average person in the general population can perform; or (ii) [s]ignificantly restricted as to the condition, manner, or duration under which the average person in the general population can perform that same major life activity.” *Id.* § 1630.2(j). *See Sutton*, 527 U.S. at 492–93 (holding that the petitioners “failed to allege adequately that their poor eyesight is regarded as an impairment that substantially limits them in the major life activity of working”). *But see Toyota Motor Mfg., Ky., Inc. v. Williams*, 534 U.S. 184, 197–98 (2002).

1975. *Adreani v. First Colonial Bankshares Corp.*, 154 F.3d 389, 394 (7th Cir. 1998).

1976. *EEOC v. Waffle House*, 534 U.S. 279, 285 (2002) (“Congress has directed the EEOC to exercise the same enforcement powers, remedies, and procedures that are set forth in Title VII of the Civil Rights Act of 1964 when it is enforcing the ADA’s prohibitions against employment discrimination on the basis of disability.”).

1977. *Id.*

1978. As defined by the FMLA, an eligible employee is someone who has worked at least 1,250 hours a year at a company employing fifty or more employees at least twenty weeks of the year. 29 U.S.C. §§ 2611(2)(a) (2000).

1979. 29 U.S.C. § 2612(a)(1) (2000).

1980. *But see Ragsdale v. Wolverine World Wide, Inc.*, 535 U.S. 81 (2002) (holding regulation requiring employer to designate leave as FMLA leave in order for it to count against an employee’s FMLA entitlement was contrary to FMLA).

lenged employment action. Courts have applied the *McDonnell Douglas* burden-shifting standard to FMLA claims.¹⁹⁸¹

32.3 Developments in the Law of Employment Discrimination

Supreme Court decisions have addressed such diverse issues as when punitive damages may be awarded,¹⁹⁸² the intersection of the employment discrimination statutes and the First Amendment,¹⁹⁸³ and the sovereign immunity of the states under the Eleventh Amendment.¹⁹⁸⁴ Several decisions have resolved splits among the circuits. In *Burlington Industries Inc. v. Ellerth*¹⁹⁸⁵ and *Faragher v. City of Boca Raton*,¹⁹⁸⁶ the Supreme Court held that employers who meet a two-factor affirmative defense can avoid liability for acts of supervisors that create a hostile work environment. If an employer can show that it exercised reasonable care to prevent and promptly correct harassing behavior, and the employee unreasonably failed to take advantage of preventive or corrective opportunities provided by the employer, no liability will exist.¹⁹⁸⁷ Same-sex harassment was held actionable under Title VII in *Oncale v. Sundowner Offshore Services Inc.*,¹⁹⁸⁸ which overruled prior precedent in the Fifth Circuit rejecting such claims. “If our precedents leave any doubt on the question, we hold that nothing in Title VII necessarily bars the claim of discrimination because of sex merely because the plaintiff and the defendant (or the person charged with acting on behalf of the defendant) are of the same sex.”¹⁹⁸⁹ In order to prevail, plaintiffs in same-sex harassment cases must show, as must plaintiffs in opposite-sex harassment cases, that the harassment they suffered was due to sex, and that it was sufficiently severe and persistent to create a hostile or abusive work environment.

1981. See, e.g., *Smith v. Allen Health Sys., Inc.*, 2002 WL 31015648 (8th Cir. 2002); *Bylsma v. Bailey*, 127 F. Supp. 2d 1211 (M.D. Ala. 2001); *Miranda v. BBII Acquisition Corp.*, 120 F. Supp. 2d 157 (D.P.R. 2000).

1982. *Kolstad v. Am. Dental Ass’n*, 527 U.S. 526 (1999).

1983. *Boy Scouts of Am. v. Dale*, 530 U.S. 640 (2000).

1984. *Bd. of Trustees of University of Ala. v. Garrett*, 531 U.S. 356 (2001) (holding ADA did not abrogate state’s immunity under the Eleventh Amendment); *Kimel v. Fla. Bd. of Regents*, 528 U.S. 62 (2000) (same with respect to ADEA).

1985. 524 U.S. 742 (1998).

1986. 524 U.S. 775 (1998).

1987. Although the defendant may avoid liability under the federal statutes, liability may still exist under state law in ancillary claims.

1988. 523 U.S. 75 (1998).

1989. *Id.* at 79.

In *Desert Palace, Inc. v. Costa*,¹⁹⁹⁰ the Court resolved a split among the circuits as to whether a plaintiff seeking relief pursuant to Title VII was required to prove by direct evidence that an impermissible motive was a motivating factor in an adverse employment decision in order to establish liability under section 2000e-2(m).¹⁹⁹¹ Noting that the language of Title VII did not impose special evidentiary burdens, the Court held that a plaintiff in a mixed-motive case was required to prove that the employment action was motivated by an impermissible factor only by a preponderance of the evidence, which could be met through either direct or circumstantial evidence. “Section 2000e-2(m) unambiguously states that a plaintiff need only ‘demonstrat[e]’ that an employer used a forbidden consideration with respect to ‘any employment practice.’ On its face, the statute does not mention, much less require, that a plaintiff make a heightened showing through direct evidence.”¹⁹⁹²

Addressing cases arising under other employment statutes, the Court in *Gebser v. Lago Vista Independent School District*¹⁹⁹³ held that, under Title IX, a school district’s liability for the sexual harassment of a student by a teacher required a showing that a school district official with authority to take corrective action had actual notice of the harassment or was deliberately indifferent to it.

The Court declined to hold a school district liable based on a theory of constructive notice, stating “[w]hen Congress attaches conditions to the award of federal funds under its spending power, U.S. Const., Art. I, § 8, cl. 1, as it has in Title IX and Title VI, we examine closely the propriety of private actions holding the recipient liable in monetary damages for noncompliance with the condition . . . Our central concern in that regard is with ensuring that ‘the receiving entity of federal funds [has] notice that it will be liable for a monetary award.’”¹⁹⁹⁴ Imposition of liability based on constructive notice or respondeat superior was inconsistent with the enforcement mechanism of Title IX, which assumed actual notice of the violation by the recipient and an opportunity to remedy noncompliance. In *Nevada Department of Human Resources v. Hibbs*,¹⁹⁹⁵ the Court held that state employees could recover damages where the state violated the family-care provisions of the FMLA. Addressing whether Congress had acted within its authority in abrogating state immunity under the Eleventh Amendment, the Court noted that “the States’ record of uncon-

1990. 123 S. Ct. 2148 (2003).

1991. See 42 U.S.C. § 2000e-2(m).

1992. *Desert Palace*, 123 S. Ct. at 2149–50.

1993. 524 U.S. 274 (1998).

1994. *Id.* at 287 (quoting *Franklin v. Guinn County Pub. Sch.*, 503 U.S. 60, 74 (1992)).

1995. 123 S. Ct. 1972 (2003).

stitutional participation in, and fostering of, gender-based discrimination in the administration of leave benefits is weighty enough to justify the enactment of prophylactic § 5 legislation.”¹⁹⁹⁶

The Court also has addressed the standard for determining when an individual is substantially limited in performing manual tasks within the meaning of the Americans with Disabilities Act (ADA) (see *Toyota Mfg., Kentucky, Inc. v. Williams*¹⁹⁹⁷), holding that the terms “major life activity” and “substantial impairment” should be strictly interpreted.¹⁹⁹⁸ Accordingly, in order for a plaintiff to prove that he or she suffers from a substantial limitation of a major life activity in performing manual tasks, the plaintiff must show that he or she suffers from an impairment “that prevents or severely restricts the individual from doing activities that are of central importance to most people’s daily lives.”¹⁹⁹⁹ This determination must be made on a case-by-case basis.²⁰⁰⁰ In examining whether the plaintiff had shown a substantial limitation in performing manual tasks, the Court rejected a focus limited only to whether the plaintiff was able to perform her specific job as proof of a substantial limitation.²⁰⁰¹ “When addressing the major life activity of performing manual tasks, the central inquiry must be whether the claimant is unable to perform the variety of tasks central to most people’s daily lives, not whether the claimant is unable to perform the tasks associated with her specific job.”²⁰⁰² Thus, a plaintiff seeking to establish such an impairment must show substantial impairment in both job-related and non-job-related manual tasks.

Several Supreme Court decisions have addressed procedural issues relevant to employment discrimination claims. For example, the Court resolved a split among the circuits as to the proper pleading standard in such cases. Several circuits had imposed a heightened pleading standard on plaintiffs, requiring them to plead facts in support of each element of the prima facie *McDonnell*

1996. *Id.* at 1981.

1997. 534 U.S. 184 (2002).

1998. *Id.* at 691 (“If Congress intended everyone with a physical impairment that precluded the performance of some isolated, unimportant, or particularly difficult manual task to qualify as disabled, the number of disabled Americans would surely have been much higher.”).

1999. *Id.* at 185.

2000. *Id.* at 198. The Court found that it was not sufficient for the plaintiff to show that her manual disability implicated a class of manual activities, as held by the Sixth Circuit. *Id.* at 199–200.

2001. *Id.* at 200.

2002. *Id.* at 200–01.

Douglas case in order to survive a motion to dismiss.²⁰⁰³ The Court rejected this heightened pleading standard in *Swierkiewicz v. Sorema*,²⁰⁰⁴ however, stating “[t]his court has never indicated that the requirements for establishing a prima facie case . . . also apply to the pleading standard that plaintiffs must satisfy in order to survive a motion to dismiss.”²⁰⁰⁵ Rather, the complaint is governed by the general notice pleading requirements of Federal Rule of Civil Procedure 8(a).²⁰⁰⁶

Acts falling outside of the statutory time period for filing charges,²⁰⁰⁷ although no longer actionable themselves as discrete acts of discrimination or unlawful practice, may be used to support a claim based on allegations of a hostile work environment. The Court stated in *National Railroad Passenger Corp. v. Morgan*²⁰⁰⁸ “[i]t does not matter, for purposes of the statute, that some of the component acts of the hostile work environment fall outside the statutory time period. Provided that an act contributing to the claim occurs within the filing period, the entire time period of the hostile environment may be considered”²⁰⁰⁹

Finally, the scope and effect of arbitration agreements in employment contracts was discussed in *Circuit City Stores Inc. v. Adams*²⁰¹⁰ and *EEOC v. Waffle House, Inc.*²⁰¹¹ The Court in *Circuit City* rejected a Ninth Circuit decision excluding employment contracts from the scope of the Federal Arbitration Act (FAA). The Court held that section 1 of the FAA contained a limited exclusion applicable only to transportation workers, agreeing with the majority of circuits that employment discrimination claims brought by nontransportation workers could be subject to arbitration.²⁰¹² The scope of the FAA was also addressed in *Waffle House*, resolving a split among the circuits as to whether

2003. 411 U.S. 792 (1973). See, e.g., *Tarshis v. Riese Org.*, 211 F.3d 30 (2d Cir. 2000); *Jackson v. Columbus*, 194 F.3d 737 (6th Cir. 1999); cf. *Sparrow v. United Air Lines, Inc.*, 216 F.3d 1111 (D.C. Cir. 2000); *Bennett v. Schmidt*, 153 F.3d 516 (7th Cir. 1998).

2004. 534 U.S. 506 (2002).

2005. *Id.* at 511. The Court further cautioned that while the *McDonnell Douglas* standard applies in many cases, it does not always control an employment discrimination claim. “For instance, if a plaintiff is able to produce direct evidence of discrimination, he may prevail without proving all the elements of a prima facie case.” *Id.*

2006. *Id.* at 512–13.

2007. See 42 U.S.C. § 2000e-5(e) (2000) (providing that claims must be filed within 180 or 300 days).

2008. 536 U.S. 101 (2002).

2009. *Id.* at 103.

2010. 532 U.S. 105 (2001); see also *Carter v. Countrywide Credit Indus., Inc.*, 189 F. Supp. 2d 606 (N.D. Tex. 2002).

2011. 534 U.S. 279 (2002).

2012. *Circuit City*, 532 U.S. at 113–15.

the Equal Employment Opportunity Commission (EEOC) could seek victim-specific relief in addition to injunctive relief for discrimination claims brought under Title VII and the ADA. The Court held that the EEOC was not a party to any agreements to arbitrate between the employer and employee and that an employee's agreement to arbitrate did not limit the remedies available to the EEOC.²⁰¹³

32.4 Case Management

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32.41 Initial Pretrial Conference

Efficient management of employment discrimination litigation requires that the disputed legal and factual issues be identified and, if possible, narrowed early in the case. The pleadings often will reveal jurisdictional issues that must be addressed at the outset. In some cases, discovery may be necessary on factual issues underpinning a motion to dismiss for lack of subject-matter jurisdiction.²⁰¹⁴ The complaint can be dismissed after notice and hearing, where it is apparent that jurisdiction is improper.²⁰¹⁵ At the initial pretrial conference,

2013. *Waffle House*, 534 U.S. at 297–98.

2014. *See, e.g.*, *Sizova v. Nat'l Inst. of Standards & Tech.*, 282 F.3d 1320, 1326 (10th Cir. 2002) (“Although a district court has discretion in the manner by which it resolves an issue of subject matter jurisdiction . . . a refusal to grant discovery constitutes an abuse of discretion if the denial results in prejudice to a litigant.” (citations omitted)).

2015. *See, e.g.*, *Tang v. State of R.I., Dep't of Elderly Affairs*, 904 F. Supp. 55, 58–59 (D.R.I. 1995) (courts have held that the receipt of a right-to-sue letter is a statutory prerequisite, not a jurisdictional prerequisite).

the court should attempt to identify the specific acts of discrimination that each plaintiff claims to have suffered, as well as the particular relief sought. Many employment discrimination claims are brought as class actions, and early identification of the specific claims being pursued in such cases is necessary for determining whether they qualify for class certification,²⁰¹⁶ as well as for developing an appropriate plan for discovery and trial. The court also should ascertain whether plaintiffs have timely satisfied any administrative prerequisites to the filing of the action.²⁰¹⁷ Inquiry into the following areas, either before or in conjunction with the initial Rule 16 conference, will help identify possible jurisdictional problems:

- Is the case barred by the statute of limitations?²⁰¹⁸
- Has the plaintiff exhausted administrative remedies?²⁰¹⁹
- Do any pending parallel state or agency actions involving the same parties and issues warrant consolidation or a stay of proceedings?²⁰²⁰

2016. *See* Gen. Tel. Co. of Southwest v. Falcon, 457 U.S. 147 (1982).

2017. *Harriss v. Pan Am. World Airways, Inc.*, 74 F.R.D. 24 (N.D. Cal. 1977). Although claims under Title VII require the prior filing by the individual claimant of a charge with the EEOC, claims under 42 U.S.C. § 1981 (racial discrimination) and 42 U.S.C. § 1983 (discrimination by government employers) do not require filing of an administrative charge, but are subject to state statutes of limitations. *See also Sizova*, 282 F.3d at 1325 (noting that although failure to file a charge with the EEOC is a jurisdictional bar to suit, failure to timely file an administrative charge is not jurisdictional).

2018. *See, e.g., Nat'l R.R. Passenger Corp. v. Morgan*, 536 U.S. 101, 108–10 (2002). Courts generally treat discrete employment decisions that occur over a period of time as individual violations for limitations purposes, although a series of adverse actions can constitute a single continuing violation if the plaintiff was unaware he or she was a victim of discrimination until a pattern emerged. *See, e.g., Jones v. Merchs. Nat'l Bank & Trust Co.*, 42 F.3d 1054, 1058 (7th Cir. 1994) (discussing three scenarios under which continuing violation can be shown).

2019. A plaintiff must file a timely charge of discrimination with the EEOC as a prerequisite to maintaining a Title VII, Age Discrimination in Employment Act (ADEA), or Americans with Disabilities Act (ADA) claim. *See* 42 U.S.C. § 2000e-5(e)(1), (f)(1) (2000) (Title VII); 42 U.S.C. § 12117(a) (2000) (ADA); 29 U.S.C. § 626(d) (2000) (ADEA); *see also Jackson v. City of Chi.*, No. 96 C 3636, 1996 WL 734701, at *2 (N.D. Ill. Dec. 18, 1996). A plaintiff's failure to file a charge with the EEOC in a Title VII claim can result in a dismissal of the complaint. *See, e.g., Sizova*, 282 F.3d at 1325 (stating that “exhaustion of administrative remedies is a jurisdictional prerequisite to suit under Title VII”); *Tang*, 904 F. Supp. at 58–59.

2020. *See, e.g., Currie v. Group Ins. Comm'n*, 290 F.3d 1, 12 (1st Cir. 2002) (holding “there is no danger that the plaintiff will be prejudiced by ineffective prosecution of the state law claim. Nor will the defendant be prejudiced by our staying the action”); *Murphy v. Uncle Ben's, Inc.*, 168 F.3d 734, 740 (5th Cir. 1999) (ADEA “does not constitute express Congressional authorization for federal courts to enter injunctions staying state judicial proceedings involving parallel state law age discrimination claims”).

- Is the claim subject to arbitration?²⁰²¹
- Is the plaintiff seeking to pursue claims against unnamed parties?²⁰²²

Issues usually can be narrowed initially without discovery, and disputed jurisdictional facts—such as when a plaintiff received a “right to sue” letter—can be resolved through an expedited hearing if necessary.

Plaintiffs often seek relief that might adversely affect other employees or proposed employees of the defendant. Where potentially affected employees are represented by a labor organization, even if only the employer was named in the administrative charges or is alleged to have engaged in discrimination, consider joining the organization as a necessary party or having it intervene in order to make any decree binding should the plaintiffs prevail.²⁰²³ Similarly, in some cases joinder or intervention of other employees who would be adversely affected by the plaintiffs’ success may be warranted to ensure that all competing interests are adequately represented and to protect against subsequent claims of reverse discrimination.²⁰²⁴

2021. *See, e.g.*, *EEOC v. Waffle House, Inc.*, 534 U.S. 279, 289 (2002) (“The FAA provides for stays of proceedings in federal district courts when an issue in the proceeding is referable to arbitration, and for orders compelling arbitration when one party has failed or refused to comply with an arbitration agreement.”); *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20, 26–27 (1991) (ADEA claims arbitrable under FAA); *Carter v. Countrywide Credit Indus., Inc.*, 189 F. Supp. 2d 606, 612–14 (N.D. Tex. 2002) (Fair Labor Standards Act claims arbitrable under FAA).

2022. In some instances, plaintiffs may seek to bring claims against defendants who were not named in the EEOC charge. The courts have liberally construed the requirement, focusing on whether the party had adequate notice of the charge and an opportunity to participate in the conciliation process. *See Fernandez Molinary v. Industrias La Famosa, Inc.*, 203 F. Supp. 2d 111, 116–17 (D.P.R. 2002) (plaintiff failed to exhaust administrative remedies where plaintiff failed to name respondents in EEOC complaint); *Frazier v. Smith*, 12 F. Supp. 2d 1362, 1369 (S.D. Ga. 1998) (sheriff should have had notice of claim from plaintiff’s naming of Camden County sheriff’s department and allegations of particular events naming sheriff specifically); *Afande v. Nat’l Lutheran Home for the Aged*, 868 F. Supp. 795, 800 (D. Md. 1994) (plaintiff properly named defendant in EEOC charge where plaintiff identified defendant as plaintiff’s supervisor in attached affidavit and defendant availed self of opportunity to participate in EEOC’s resolution and conciliation).

2023. *See Fed. R. Civ. P.* 19, 24 (West 2003).

2024. *See, e.g.*, *Martin v. Wilks*, 490 U.S. 755, 762–65 (1989) (white firefighters challenge to actions taken pursuant to consent decree as reverse discrimination not impermissible collateral attack (superseded in part by statute 42 U.S.C. § 2000e-2(n)(1) (2000))); *Rafferty v. City of Youngstown*, 54 F.3d 278, 282 (6th Cir. 1995) (denying leave to intervene to attack 1996 consent decree where court found union was represented in negotiations that led to consent decree); *EEOC v. United Ass’n of Journeymen*, 235 F.3d 244, 254–55 (6th Cir. 2000) (joinder).

32.42 Class Actions

Many employment discrimination cases, particularly Title VII cases, are brought on behalf of a proposed class. For such actions to proceed, a named representative must have filed a timely charge with the EEOC. Plaintiffs must have exhausted administrative remedies on behalf of the class “and with respect to any claim that was the subject of or could reasonably have been expected to grow out of the EEOC’s investigation.”²⁰²⁵ The statutory basis for the claim can also affect how a class action proceeds. The provisions of Rule 23 will apply to most employment discrimination class actions, but not all. For example, Rule 23’s opt-out provisions do not apply where proposed class claims are brought pursuant to the ADEA or the Fair Labor Standards Act (FLSA).²⁰²⁶ Collective actions under the ADEA are authorized by 29 U.S.C. § 626(b), which adopts the opt-in class mechanism of section 216 of the FLSA. Section 216 of the FLSA, in turn, provides that plaintiffs must affirmatively opt into a collective action in order to be considered a class member.²⁰²⁷ “Rule 23 and § 216(b) class actions are ‘mutually exclusive and irreconcilable’ and those who choose not to opt-in to a class action under § 216(b) are not bound by and may not benefit from the judgment.”²⁰²⁸ There is discretion to authorize notice of the class to similarly situated employees in order to afford them an opportunity to opt in.²⁰²⁹

2025. Rutherglen, *supra* note 1957, at 81–82. *But see* Winbush v. State of Iowa, 66 F.3d 1471, 1478 (8th Cir. 1995) (district court properly allowed intervention without requiring a separate EEOC filing by each intervenor where there was a “similar and sufficient factual basis” between the intervenors and the original plaintiffs).

2026. See 29 U.S.C. § 216(b) (West 2003) (providing that “[n]o employee shall be a party plaintiff . . . unless he gives his consent in writing to become such”); *see also* Lewis & Norman, *supra* note 1915, § 4.9, at 246.

2027. See, e.g., Grayson v. Kmart Corp., 79 F.3d 1086, 1106 (11th Cir. 1996); Anson v. Univ. of Tex. Health Sci. Ctr., 962 F.2d 539 (5th Cir. 1992). While all included plaintiffs need to be similarly situated in order to maintain an opt-in class action under section 216(b), the possibility of varying defenses does not vitiate a collective action. See Lockhart v. Westinghouse Credit Corp., 879 F.2d 43, 52 (3d Cir. 1989) (“While the potential for problems with respect to class management may arise from the assertion of individualized defenses, a district court has the discretion to determine whether such problems would make manageability of the class impossible.”), *overruled on other grounds*, Starceski v. Westinghouse Elec. Corp., 54 F.3d 1089 (3d Cir. 1995).

2028. Hall v. Burk, No. 301CV2487H, 2002 WL 413901, at *2 (N.D. Tex. Mar. 11, 2002) (citation omitted). See Ownes v. Bethlehem Mines Corp., 108 F.R.D. 207, 209–10 (S.D. W. Va. 1985) (Rule 23 is not applicable to collective actions under ADEA).

2029. See Hoffmann-La Roche Inc. v. Sperling, 493 U.S. 165, 169 (1989); Hall, 2002 WL 413901, at *2. In order to serve as the basis for an ADEA class action, the underlying EEOC

In class actions subject to Rule 23, deciding whether the action should be maintained under Rule 23(b)(2) or (b)(3) will make a significant difference with respect to various aspects of the class litigation, in particular the definition of the class, entitlement to damages, class notice, and opt-out rights. Employment discrimination cases that meet the prerequisites of Rule 23(a) may qualify as class actions under Rule 23(b)(2) where the defendant “has acted . . . on grounds generally applicable to the class, thereby making appropriate final injunctive relief with respect to the class as a whole.”²⁰³⁰ They may also qualify under Rule 23(b)(3) on the ground that a common question of fact or law predominates; indeed, where monetary relief is sought, a (b)(3) class is generally the appropriate vehicle.

Class action certification of disparate treatment claims under Rule 23(b) has become more complicated since the 1991 amendments to Title VII.²⁰³¹ Members of a Rule 23(b)(2) class generally are not entitled to recover anything other than incidental damages (i.e., damages to which the plaintiffs would be automatically entitled once liability is established). The 1991 amendments, however, permit plaintiffs alleging intentional discrimination to seek monetary relief in the form of compensatory or punitive damages. These damages would otherwise not be considered “incidental” to the relief sought,²⁰³² making certification under Rule 23(b)(2) inappropriate. At the same time, certification may still be improper under Rule 23(b)(3) because individual concerns may outweigh legal questions common to the class.²⁰³³ In *Allison v. Citgo Petroleum Corp.*,²⁰³⁴ the Fifth Circuit rejected certification under both Rules 23(b)(2) and (b)(3), noting that “the predominance of individual-specific issues relating to the plaintiffs’ claims for compensatory and punitive damages in turn detracts from the superiority of the class action device in resolving these claims.”²⁰³⁵ The court viewed the issue as one of manageability, particularly in light of the

charge must give adequate notice of the scope of the class. *See, e.g., Hipp v. Liberty Nat’l Life Ins. Co.*, 252 F.3d 1208, 1224–25 (11th Cir. 2001).

2030. Fed. R. Civ. P. 23(b)(2) (West 2003).

2031. *See Robinson v. Metro-North Commuter R.R. Co.*, 267 F.3d 147, 157 (2d Cir. 2001) (“Prior to the passage of the 1991 Act, a plaintiff seeking a monetary award for disparate treatment . . . and disparate impact claims under Title VII could recover only back pay and front pay. Because back pay and front pay have historically been recognized as equitable relief under Title VII, neither party was entitled to a jury trial; both disparate treatment and disparate impact claims were tried to the bench.” (footnote omitted)).

2032. *Allison v. Citgo Petroleum Corp.*, 151 F.3d 402, 410 (5th Cir. 1998).

2033. *See, e.g., id.* at 417–18.

2034. 151 F.3d 402 (5th Cir. 1998).

2035. *Id.* at 419 (holding damage claims were not incidental to the class claims for injunctive relief).

number of potential plaintiffs, the length of time over which the discrimination was alleged to have occurred, and the number of departments involved in the alleged discrimination.²⁰³⁶

Other courts have declined to follow the reasoning in *Allison*, or have found that the decision did not establish a bright-line rule that a class seeking compensatory and punitive damages in a jury trial can never be certified.²⁰³⁷ In *Robinson v. Metro-North Commuter Railroad Co.*,²⁰³⁸ for example, the Second Circuit declined to follow *Allison*, holding that the district court should “assess whether Rule 23(b)(2) certification is appropriate in light of ‘the relative importance of the remedies sought, given all of the facts and circumstances of the case.’”²⁰³⁹ In particular, the Second Circuit instructed the district court to ensure that the value to the plaintiffs of the equitable relief sought was predominant (i.e., plaintiffs would still bring the action for injunctive relief even if monetary damages were unavailable) and that class treatment would be “efficient and manageable.”²⁰⁴⁰

Rule 23(c)(4) permits maintaining an action as a class action with respect to particular issues. Several courts have suggested a “hybrid” approach in discrimination cases to deal with the problems created by the enhanced-damages provision of the Civil Rights Act. Hybrid options include a Rule 23(b)(2) class with an opt-out provision²⁰⁴¹ or certifying a Rule 23(b)(2) class with respect to the injunctive aspects of the suit and a Rule 23(b)(3) class to consider the claims for monetary relief.²⁰⁴² Other alternatives include certification of a Rule 23(b)(2) class for class-wide damages and severing the issue of individual dam-

2036. *Id.* at 419–20; *see also* *Jefferson v. Ingersoll Int’l*, 195 F.3d 894 (7th Cir. 1999); *Faulk v. Home Oil Co.*, 184 F.R.D. 645 (M.D. Ala. 1999).

2037. *See, e.g.*, *Robinson v. Metro-North Commuter R.R. Co.*, 267 F.3d 147 (2d Cir. 2001); *Smith v. Texaco, Inc.*, 88 F. Supp. 2d 663, 678 (E.D. Tex. 2000); *Hoffman v. Honda of Am. Mfg. Inc.*, 191 F.R.D. 530, 536 (S.D. Ohio 1999); *Stewart v. Rubin*, 948 F. Supp. 1077, 1090 (D.D.C. 1996).

2038. 267 F.3d 147 (2d Cir. 2001).

2039. *Id.* at 164 (quoting *Hoffman*, 191 F.R.D. at 536).

2040. *Id.* at 164.

2041. *Lemon v. Int’l Union of Operating Eng’r, Local No. 139*, 216 F.3d 577, 580–81 (7th Cir. 2000); *Jefferson v. Ingersoll Int’l, Inc.*, 195 F.3d 894, 898–99 (7th Cir. 1999); *Eubanks v. Billington*, 110 F.3d 87, 96 (D.C. Cir. 1997); *Smith*, 88 F. Supp. 2d at 679–80.

2042. *See Beck v. Boeing Co.*, 203 F.R.D. 459, 465–68 (W.D. Wash. 2001); *Eubanks*, 110 F.3d at 96; *see also Lemon*, 216 F.3d at 581–82 (“Since the Civil Rights Act of 1991 entitles the parties to a jury trial on claims of intentional discrimination . . . a district court that proceeds with divided certification must adjudicate the damages claims first before a jury to preserve the Seventh Amendment right to a jury trial, even if adjudication of these claims decides the equitable claims as well.” (citation omitted)).

ages to be considered later in the suit.²⁰⁴³ Consider whether one of these approaches would be useful and, specifically, whether a Rule 23(b)(3) or (b)(2) class should be certified for bifurcated adjudication of a common issue (Phase I), to be followed by separate trials (coordinated or consolidated as may be appropriate) to adjudicate individual damage claims (Phase II). Once there has been a finding in Phase I of a class-wide violation, “the court should decide the issue of class-wide relief, typically in the form of an injunction prospectively prohibiting the discriminatory practice.”²⁰⁴⁴ There are cases, however, where injunctive relief would not remedy the challenged employment practice, such as where the practice has been discontinued or the plaintiff is no longer employed by the defendant.²⁰⁴⁵ The court can then determine what individual relief is appropriate for class members.

In a motion for class certification, consider whether the complaint challenges an employment practice affecting a class of employees as opposed to challenging the individual treatment of employees. In general, disparate impact cases are more suitable to class treatment, because they arise out of a neutral policy or practice that plaintiffs say has a disproportionate impact on a protected class.²⁰⁴⁶ As a result, plaintiffs can more easily satisfy the typicality and commonality requirements of Rule 23 in such cases.²⁰⁴⁷ Class certification of actions based on disparate treatment claims, however, is more complicated.²⁰⁴⁸

2043. *Kernan Holiday Universal, Inc.*, No. JH90-971, 1990 WL 289505, at *5–7 (D. Md. Aug. 14, 1990); *Morgan v. United Parcel Serv. of Am., Inc.*, 169 F.R.D. 349, 358 (E.D. Mo. 1996). *See also Beck*, 203 F.R.D. at 465–68 (W.D. Wash. 2001) (certifying the liability phase under Rule 23(b)(2) and the damages phase under Rule 23(b)(3), but excluding from the class certification individual claims for back pay).

2044. *Rutherglen*, *supra* note 1957, at 90. Injunctive relief will almost invariably be appropriate where Title VII has been violated. *See, e.g., Int’l Bd. of Teamsters v. United States*, 431 U.S. 324, 361 (1977).

2045. *See, e.g., Cardenas v. Massey*, 269 F.3d 251, 265 (3d Cir. 2001) (holding injunctive relief would not remedy plaintiff’s wrongful treatment where defendant no longer employed plaintiff); *Webb v. Mo. Pac. R.R. Co.*, 98 F.3d 1067, 1068 (8th Cir. 1996) (injunctive relief not appropriate where no discrimination complaints filed and affidavit exhibited effective implementation of antidiscrimination and affirmative action programs since the close of the liability phase of the trial); *see, e.g., Amirmokri v. Baltimore Gas & Elec. Co.*, 60 F.3d 1126 (4th Cir. 1995) (since plaintiff was no longer employed by defendant, equitable relief would be unavailable on harassment claim unless plaintiff prevailed on his constructive discharge claim).

2046. *See, e.g., Griggs v. Duke Power Co.*, 401 U.S. 424 (1971) (discussing whether Title VII prohibits hiring prerequisites and aptitude tests as conditions of employment).

2047. *See Gen. Tel. Co. v. Falcon*, 457 U.S. 147, 159 n.15 (1982); *see, e.g., McKenzie v. Sawyer*, 684 F.2d 62 (D.C. Cir. 1982).

2048. *Swanson v. Perry*, No. 4:01-CV-0258-A, 2002 WL 324283, at *3 (N.D. Tex. Feb. 27, 2002) (noting that disparate treatment claims are necessarily individual, but can still support class action treatment where appropriate).

Where disparate treatment forms the basis of the action, individual issues are more likely to predominate and class certification may not be warranted.²⁰⁴⁹ Plaintiffs seeking class-wide relief on the basis of the impact of a policy on their individual employment conditions must show that their claims are sufficiently similar to those of the proposed class members that they meet the requirements of commonality and typicality for the class.²⁰⁵⁰ The commonality requirement is rarely satisfied by broad allegations of discrimination.²⁰⁵¹ Courts have refused to certify classes where, for example, the named plaintiffs worked in different groups and job types;²⁰⁵² the proposed class included current, past, and present employees in both supervisory and non-supervisory positions in addition to job applicants;²⁰⁵³ or the employees worked in different facilities or

2049. See, e.g., *Donaldson v. Microsoft Corp.*, 205 F.R.D. 558, 565 (W.D. Wash. 2001) (“The mere allegation of individualized discrimination on the basis of race, coupled with proof that other people of color work in the same environment, is insufficient to establish commonality.”); *Zachery v. Texaco Exploration & Prod., Inc.*, 185 F.R.D. 230, 239 (W.D. Tex. 1999) (proposed class was spread across fifteen states in seventeen separate business units, each with varying degrees of autonomy over evaluation and promotion decisions involving 523 autonomous supervisors); *Reyes v. Walt Disney World Co.*, 176 F.R.D. 654, 658 (M.D. Fla. 1998) (disparate treatment claims by their nature “are highly individualized” and plaintiffs were employed by three separate divisions, presumably with a different hierarchy of decision makers, and therefore each plaintiff was subject to “own set of unique circumstances surrounding the adverse employment action about which they now attempt to collectively complain”).

2050. *Gen. Tel. Co.*, 457 U.S. at 156–57 (emphasizing the need for careful attention to the requirements of Rule 23 in the light of the legal and factual issues underlying plaintiff’s cause of action and rejecting proposition that plaintiff’s injury from ethnic discrimination automatically qualifies plaintiff to represent all members of that ethnic class allegedly adversely affected by some manifestation of discrimination). See also *Donaldson*, 205 F.R.D. at 567 (“Courts have recognized that it is not possible to make a finding of commonality where putative class involves extensive diversity in terms of geography, job requirements, and/or managerial responsibilities.”); *Swanson*, 2002 WL 324283, at *3 (“[T]he central problem with the proposed class action [is that it] is composed of individuals with widely varying job classifications, pay scales, supervisory responsibility, and histories of discrimination.”).

2051. See *Zachery*, 185 F.R.D. at 238–39 (geographic dispersion of facilities and localized employment decisions precluded finding of commonality); *Appleton v. Deloitte & Touche L.L.P.*, 168 F.R.D. 221, 231–32 (M.D. Tenn. 1996) (noting class encompassed varying job levels with different criteria used for decision making for each job level); *Swanson*, 2002 WL 324283, at *2–3.

2052. *Kresefky v. Panasonic Communications & Sys. Co.*, 169 F.R.D. 54, 60 & 62–63 (D.N.J. 1996).

2053. *Troupe v. Randall’s Food & Drug, Inc.*, No. CIV.A. 3:98-CV-2462, 1999 WL 552727, at *5 (N.D. Tex. July 28, 1999) (noting proposed class also covered at least “fifty separate stores spread over two large cities and their outlying suburbs” with “management practices vary[ing] widely according to stores across the division”).

geographical locations.²⁰⁵⁴ In *General Telephone v. Falcon*,²⁰⁵⁵ however, the Supreme Court noted that commonality may be satisfied where the plaintiffs can demonstrate that “an employer operated under a general policy of discrimination . . . [that] manifested itself . . . in the same general fashion, such as through entirely subjective decisionmaking processes.”²⁰⁵⁶ Inquiry into whether the practice or conduct complained of involves the entire operation of the employer, or only a specific facility, department, or individual supervisor, will assist in determining whether the requirements of Rule 23 are met.

To ascertain the precise nature of the class claim and determine whether it meets the prerequisites of Rule 23(a), the court should probe beneath the pleadings at an early stage to identify the particular practice or procedure complained of and the extent to which the evidence to be offered in support of the named plaintiffs’ claims will also support the claims of other class members. Some discovery may be needed, although precertification discovery should be held to a minimum.²⁰⁵⁷ Occasionally, the class claims will be consolidated with individual claims, and there may be reasons for proceeding with merits discovery on the latter. If so, the attorneys should be instructed to organize discovery so as to avoid duplication. A ruling that the class representatives’ individual claims have merit will not determine whether class certification is appropriate. The court will still need to determine if common issues predominate. A named plaintiff with a claim that lacks merit, however, will not be an adequate class representative.

Less precision is required in the definition of a Rule 23(b)(2) class. Members of a Rule 23(b)(2) class generally are limited to equitable relief (and appropriate incidental damages), and *res judicata* considerations with respect to individual claims are not significant. On the other hand, in a Rule 23(b)(3) action, plaintiffs’ primary claim is for damages. Thus, the class must be defined with more specificity, and the court must satisfy itself that the determination of individual claims does not preclude the existence of a predominant common question. The ruling on certification should describe the class (and any subclasses) as precisely as possible, both to facilitate planning for discovery, trial,

2054. *Zachery*, 185 F.R.D. at 239 (proposed class spread across fifteen states and involved seventeen business units).

2055. 457 U.S. 147 (1982).

2056. *Id.* at 159 n.15. *But see Appleton*, 168 F.R.D. at 221 (“In applying Footnote 15 [of *General Telephone*], the courts have required plaintiffs to show that a defendant’s decisionmaking process is *entirely* subjective before permitting an across the board attack.”).

2057. *But see Zapata v. IBP, Inc.*, No. CIV.A. 93-2366, 1994 WL 649322, at *1 (D. Kan. Nov. 10, 1994) (staying discovery on merits until after plaintiff moved for certification but permitting discovery relevant to certification and noting that discovery relevant to certification may also be relevant to the merits).

and settlement and to define the persons (and claims) that will be entitled to relief under, or barred by, a final judgment in the action.²⁰⁵⁸ To the extent feasible, this definition should be stated in objective terms: e.g., all female applicants during a specified time who, like the plaintiffs, failed to meet the employer's height and weight requirements. If unclear from the description of the class itself, the ruling should indicate the nature of the claimed class discrimination: e.g., all persons of color employed by the defendant during a specified period who allege that they were denied promotion during that period on account of their race. Criteria that are subjective or depend on the merits of the claim should be excluded. Although Rule 23(c)(1) authorizes a conditional order of certification and modification of that order prior to final judgment, such modification can be prejudicial to class members and interfere with the effective management of the action.²⁰⁵⁹ In cases brought pursuant to the FLSA or ADEA, however, a determination whether similarly situated employees exist will help to determine whether notice of a right to opt in should be given and whether to conditionally certify the class. Once notice has been given and the time for opting in has expired, the judge can reexamine whether the class should be decertified.

Rule 23(c)(2) entitles each class member in a class certified under Rule 23(b)(3) to personal notice and an opportunity to opt out of the class.²⁰⁶⁰ Rule 23 does not provide for opt-out by members of a (b)(2) class. If certain members of the class should be excluded, perhaps because their interests are aligned with management or to avoid conflicts within a class, the class definition should be tailored to reflect their exclusion or to create one or more subclasses.²⁰⁶¹

Notice to class members must be given when a Rule 23(b)(3) class is certified.²⁰⁶² Although not required for a (b)(2) class, notice may still be advisable for a number of reasons, such as to bring to light possible conflicts and to ensure the *res judicata* effect of a judgment. The form of notice—individual mailing, posting on bulletin boards, or inclusion in pay envelopes—will depend on the circumstances of the case. While the cost of notice generally is

2058. See *Cooper v. Fed. Res. Bank of Richmond*, 467 U.S. 867, 876–78 (1984) (related individual claims of discrimination not precluded by a finding of no class discrimination); *Kernan v. Holiday Universal, Inc.*, No. JH90-971, 1990 WL 289505, at *2, 6 (D. Md. Aug. 14, 1990).

2059. *Hall v. Burk*, No. CIV.A. 301CV2487, 2002 WL 413901, at *2–3 (N.D. Tex. Mar. 11, 2002).

2060. Fed. R. Civ. P. 23(c)(2) (West 2003); see also *Ortiz v. Fibreboard Corp.*, 527 U.S. 815, 844 (1999). Rule 23 does not provide for opt-out by members of a (b)(2) class. See *supra* section 21.311 [certification notice].

2061. See *Penson v. Terminal Transp. Co.*, 634 F.2d 989, 993–94 (5th Cir. 1981).

2062. Fed. R. Civ. P. 23(c)(2) (West 2003).

borne by the plaintiffs,²⁰⁶³ relatively cost-free methods of reaching at least current employees usually are available. Moreover, where notice is being given in a (b)(2) action at the employer's request, the employer may be required to bear the cost.

32.43 Discovery

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Five considerations are important in planning the discovery program for employment discrimination litigation:

1. Many aspects of the company's employment practices and its workforce may be potentially relevant as circumstantial evidence.
2. Most of the information will be within the control of the employer, often in computerized form.
3. Except for the government, plaintiffs usually have limited resources.
4. Expert testimony and complex statistical evidence will play an important role at trial.
5. Trial often will be conducted in stages.

32.431 Identification of Source Materials

The judge can simplify and expedite discovery by directing the parties to exchange core information before discovery begins. Core information includes information required under Rule 26 or local rules. It also includes potentially relevant documentary materials, such as statements of employment policies, policy manuals and guides, and an identification and general explanation (perhaps with samples) of the types of records that contain data that may be relevant to the issues in the case. After obtaining this information, plaintiffs may need to depose the personnel director or other individuals responsible for maintaining such records in order to clarify the nature of the information contained in the records, how the information is coded or compiled, and how data may be extracted from the various sources.

Employers frequently maintain the same or similar information in different forms. For example, earnings information may be in a personnel file, in tax

2063. See *Eisen v. Carlisle & Jaquelin*, 417 U.S. 156, 177 (1974).

records, and in payroll records. Job histories of employees may be determined from periodic transfer and promotion records, from individual work record cards, or from personnel files. The company may also have compiled relevant data regarding its workforce and employment practices for reporting to governmental agencies or for use in other litigation. Many aspects of the company's employment practices may have some potential relevance as circumstantial evidence, and various records may contain information about these practices. The parties can determine the most efficient and economical method for the employer to produce, and for plaintiffs to obtain, the most relevant information. Federal Rule of Civil Procedure 26(g) directs counsel to weigh the potential value of particular discovery against the time and expense of production, and Rule 26(b)(2) expects the judge to limit discovery to avoid duplication and unjustified expense.²⁰⁶⁴

32.432 Computerized Records

The time and expense of discovery may sometimes be substantially reduced if pertinent information can be retrieved from existing computerized records. Moreover, production in computer-readable form of relevant files and fields (or even of an entire database) can reduce disputes over the accuracy of compilations made from such data and enable experts for both sides to conduct studies using a common set of data.²⁰⁶⁵ On the other hand, accessing and

2064. See *Aramburu v. Boeing Co.*, 885 F. Supp. 1434, 1444–45 (D. Kan. 1995) (holding that production of 1,700 personnel files would unduly burdensome in light of information already produced by defendant and relevance appeared negligible in light of burden, but giving plaintiff leave to seek reconsideration should additional discovery prove necessary); *Zapata v. IBP, Inc.*, No. CIV.A. 93-2366, 1994 WL 649322, at *3 (D. Kan. Nov. 10, 1994) (requiring defendant to produce computerized records and noting that all discovery is burdensome and burden is on party resisting discovery to demonstrate it would be unduly burdened by the discovery request); *Couplin v. Lee*, 946 F.2d 1152, 1160 (5th Cir. 1991) (district court abused discretion in limiting plaintiff's access to personnel files, and although some limitations can be imposed on ground of burdensomeness, the "more important the information sought in discovery is to the case, the greater the burden the opposing party can be legitimately required to shoulder"). In *Sattar v. Motorola*, for example, the district court denied plaintiff's discovery request for hard copies of over 200,000 pages of E-mail messages. The court instead ordered the defendant to accommodate the plaintiff in one of several alternative ways, such as downloading the data onto diskettes (as opposed to submitting the tapes on which the information was maintained), permitting the plaintiff to use the software needed to read the tapes, or giving the plaintiff access to the defendant's computer system, otherwise the parties would be required to split the costs of hard copies. 138 F.3d 1164, 1171 (7th Cir. 1998).

2065. See *Hines v. Widnall*, 183 F.R.D. 596, 601 (N.D. Fla. 1998) (requiring defendant to produce computer images to plaintiffs even though defendant computerized records after litigation began).

using computer-generated evidence is subject to numerous pitfalls. For a more complete discussion see section 11.446. The parties' computer experts should informally discuss, in person or by telephone, procedures to facilitate retrieval and production of computerized information; the attorneys can then confirm these arrangements in writing.

32.433 Confidential Information

Employees' privacy interests may be protected by excluding from production records or portions of records irrelevant to the litigation (employees' medical histories, for example, are rarely of significance in a discrimination case) or by masking the names of individuals in particular compilations.²⁰⁶⁶ If the company fears exposure to privacy claims were it to disclose personal information voluntarily, consider issuing a protective order barring unnecessary disclosure of sensitive items to facilitate the production of sensitive information. The protective order may identify information regarding the employee, such as names or social security numbers, and may limit the persons to whom plaintiffs' counsel will be permitted to disclose confidential materials. For example, counsel might be allowed to disclose some sensitive information to the plaintiffs or even to class members, but permitted to disclose information about tests only to an expert.

Discovery sought by the defendant employer often targets private information regarding the plaintiffs or nonparty witnesses. In sexual harassment cases, defendants may seek discovery as to the plaintiff's emotional well-being, including medical and psychological records, or the plaintiff's sexual history.²⁰⁶⁷ As always, the plaintiff's (and nonparty witness's) privacy interests

2066. Some jurisdictions have held that employees' tax returns were subject to a quasi-privilege and not generally discoverable in civil actions. *See, e.g., Gattegno v. PriceWaterhouseCoopers, LLP*, 205 F.R.D. 70, 71–72 (D. Conn. 2001) (discussing discoverability of tax returns and approaches taken by different jurisdictions and holding tax returns subject to a quasi-privilege).

2067. *See, e.g., Gatewood v. Stone Container Corp.*, 170 F.R.D. 455, 460 (S.D. Iowa 1996) (“[A] defendant is entitled to discover whether there have been other stressors relating to plaintiff's mental and physical health during the relevant time period which may have contributed to the claimed emotional distress.”); *Fox v. Gates Corp.*, 179 F.R.D. 303, 305–06 (D. Colo. 1998) (plaintiff claiming emotional distress as element of claim waived psychotherapist–patient privilege for communications within applicable time period); *Butler v. Burroughs Wellcome, Inc.*, 920 F. Supp. 90, 92 (E.D.N.C. 1996) (plaintiff's entire medical history is relevant in ADA action and defendant also entitled to inquire into history of sexual abuse and sexual dysfunction, since claim predicated upon mental state arising out of these issues). *But see Burger v. Litton Indus. Inc.*, No. 91 CIV. 0918, 1995 WL 476712, at *2–3 (S.D.N.Y. Aug. 10, 1995) (defendants failed to show that the need for information relating to sex life of nonparty witness outweighed witness's privacy interests and noting that although Federal Rule of Evidence 412 did not apply to civil

should be balanced against the probative value of the information sought.²⁰⁶⁸ Determinations as to whether the plaintiff may have waived any physician–patient privilege also may be required.²⁰⁶⁹

32.434 Preservation of Records

When a charge of discrimination or a civil action has been filed, EEOC regulations require that employers “shall preserve all personnel records relevant to the charge or action until final disposition of the charge or action.”²⁰⁷⁰ The parties may disagree on which records are covered by this mandate, particularly with respect to computerized data that may be periodically erased as new information is electronically stored. A separate order may be needed to clarify what records must be preserved and to provide relief from unduly burdensome retention requirements.

32.435 Statistical Evidence and Expert Testimony

Employment discrimination litigation frequently involves the collection and presentation of voluminous data regarding characteristics of the company’s workforce and its employment practices. In addition to using data already computerized by the company, the parties often prepare new databases, electronically storing information manually extracted from other records. Disagreements may arise about the accuracy of these new databases, and preparing and verifying separate databases involves time and expense. Consider encouraging the parties to agree on joint development of a common database on which their respective experts will conduct their studies. If they cannot agree on a common database, the court should direct them to use pretrial verification procedures to eliminate (or quantify) errors in the different databases. Whenever possible, complex data should be presented at trial through summaries, charts, and other tabulations.²⁰⁷¹

actions, “[i]n order not to undermine the rationale of Rule 412 . . . courts should enter appropriate orders pursuant to Fed. R. Civ. P. 26(c) to protect the victim against unwarranted inquiries and to ensure confidentiality”).

2068. *Gatewood*, 170 F.R.D. at 460 (noting defendant did not have “carte blanche” to “peruse plaintiff’s medical history”).

2069. *See, e.g., Fox*, 179 F.R.D. at 305–06; *Vann v. Lone Star Steakhouse & Saloon*, 967 F. Supp. 346, 349–50 (C.D. Ill. 1997).

2070. 29 C.F.R. § 1602.14 (1999).

2071. In discrimination cases, the parties sometimes attempt to introduce in bulk numerous personnel files, work history cards, and other similar documents. *See, e.g., Crawford v. W. Elec. Co.*, 614 F.2d 1300, 1319 (5th Cir. 1980) (the court may insist on compilations and is not required to “[wade] through a sea of uninterpreted raw evidence”).

Adopting pretrial procedures to facilitate this presentation will reduce disputes over the accuracy of the underlying data and the compilations derived from such data. Indeed, to the extent practicable, disputes at trial regarding statistical evidence should be limited to its interpretation, relevance, and weight, not its accuracy. Experts submitting statistical studies in the form of written reports should include, among other things, the data and information considered in arriving at their conclusions. Such information includes the applicable labor or employment pool, historical data, and other characteristics.²⁰⁷² After reviewing these reports and considering the comments of counsel, it may be appropriate to appoint an independent statistical expert under Federal Rule of Evidence 706. The court should be wary of making such an appointment, however, if the plaintiffs will be able to pay their share of any assessed fees only if they prevail.²⁰⁷³

32.436 Discovery from Class Members

The extent of permissible discovery from class members, as well as its timing and form, will depend on the circumstances of the case. The judge should require the parties to obtain court approval before taking any discovery from class members and should limit that discovery to what is genuinely needed. Depositions of a limited number of proposed class members are sometimes needed prior to a ruling on class certification. In some cases, limited discovery from class members may be conducted in a bifurcated case in the liability phase of the pretrial proceedings, with any remaining discovery deferred.²⁰⁷⁴ Each party ordinarily should be permitted to depose any class member whom the other party plans to call as a witness. Discovery of a class member whose employment history will be used as evidence to show the existence (or nonexistence) of the alleged discrimination may also be appropriate. Whether anecdotal experiences of individual class members are relevant at a Phase I trial will depend on the circumstances of the case. Consider deferring discovery from those class members if such evidence will become relevant at subsequent proceedings only if liability to the class is established. Similarly, class members on whose behalf claims for individual relief are presented after a finding of class-wide liability may be treated as subject to discovery.

2072. Fed. R. Civ. P. 26(a)(2) (2000).

2073. *See generally*, Joe S. Cecil & Thomas E. Willging, *Court-Appointed Experts: Defining the Role of Experts Appointed Under Federal Rule of Evidence 706* (Federal Judicial Center 1993).

2074. *See, e.g.*, *W. Elec. Co. v. Stern*, 544 F.2d 1196, 1198–99 (3d Cir. 1976).

32.44 Summary Judgment

Summary judgment can be an effective tool in employment discrimination cases. Although typically brought by one of the parties, some courts have approved the use of summary judgment *sua sponte* in appropriate cases.²⁰⁷⁵ The courts have consistently held that the *McDonnell Douglas* burden-shifting framework, applicable where the plaintiff's case rests on circumstantial evidence of discrimination, governs summary judgment but should not be introduced to the jury.²⁰⁷⁶ The Ninth Circuit noted in *Costa v. Desert Palace Inc.*²⁰⁷⁷ that the presumption of discrimination may be relevant at trial where the employer does not rebut the prima facie case, but factual disputes remain. In most cases, however, “[r]egardless of the method chosen to arrive at trial, it is not normally appropriate to introduce the *McDonnell Douglas* burden-shifting framework to the jury.”²⁰⁷⁸ Accordingly, once the employer proffers a nondiscriminatory reason for the employment practice at issue, the plaintiff must offer evidence to show that the defendant's asserted reason is pretextual in order to defeat summary judgment in favor of the employer.²⁰⁷⁹ It may be enough for the plaintiff to establish a prima facie case, together with sufficient evidence to challenge the credibility of the employer's proffered explanation, in order to create a triable issue of fact.²⁰⁸⁰ The plaintiff is not required to introduce independent evidence of discrimination in order to avoid summary judgment. Rather, once the plaintiff adequately challenges the credibility of the explana-

2075. See, e.g., *Jones v. Union Pac. R.R. Co.*, 302 F.3d 735, 740 (7th Cir. 2002).

2076. See, e.g., *Costa v. Desert Palace, Inc.*, 299 F.3d 838, 854–55 (9th Cir. 2002), *aff'd*, 123 S. Ct. 2148 (2003); *Garrett v. Hewlett-Packard Co.*, 305 F.3d 1210, 1216 (10th Cir. 2002); see also *Crone v. United Parcel Serv.*, 301 F.3d 942, 944 (8th Cir. 2002) (stating summary judgment would be analyzed under *McDonnell Douglas* burden-shifting standard).

2077. 299 F.3d 838 (9th Cir. 2002), *aff'd*, 123 S. Ct. 2148 (2003).

2078. *Id.* at 855.

2079. *Heap v. County of Schenectady*, 214 F. Supp. 2d 263, 269 (N.D.N.Y. 2002); *Crone*, 301 F.3d at 942, 944–45 (affirming grant of summary judgment for employer where plaintiff failed to demonstrate reason for nonpromotion was pretext).

2080. *Reeves v. Sanderson Plumbing Prods. Inc.*, 530 U.S. 133, 148 (2000) (“This is not to say that such a showing by the plaintiff will *always* be adequate to sustain a jury's finding of liability. Certainly there will be instances where, although the plaintiff has established a prima facie case and set forth sufficient evidence to reject the defendant's explanation, no rational factfinder could conclude that the action was discriminatory.”). The Seventh Circuit in *Jones v. Union Pacific Railroad Co.*, noted that with respect to the issue of pretext, the “question is not whether the employer's reasons for a decision are ‘right but whether the employer's description of its reasons is honest.” 302 F.3d 735, 744 (7th Cir. 2002) (quoting *Kariotis v. Navistar Int'l Transp. Co.*, 131 F.3d 672, 677 (7th Cir. 1997)). However, the court also seemed to require the plaintiff to provide admissible evidence that the employer's reason was pretextual “and that the actual reason was discriminatory.” *Id.* at 743.

tion, it is within the province of the fact-finder at trial to look at the totality of the evidence and then determine whether such evidence creates an inference of discrimination.

32.45 Trial

Employment discrimination class actions have commonly been tried in separate stages under Rule 42(b).²⁰⁸¹ In some cases the class issues may themselves be severed, with the Phase I trials of different class issues conducted separately. The Phase I trial determines whether the defendants have discriminated against the class. Whether the merits of the individual claims of the class representatives should be tried in Phase I depends on whether proof of those claims is essential to establishing liability on the class claim. If class-wide discrimination is found, issues of relief are tried in Phase II. The 1991 CRA entitles parties in disparate treatment cases to request a jury trial. If a jury is requested, the bifurcation of class actions will be substantially more complicated. Although the class-wide issue of discrimination is readily tried to a jury in Phase I, the trial of individual damage claims to a jury in Phase II will result in potentially lengthy trials. In some cases, Title VII permits recovery of front and back pay as well as compensatory damages, including future loss, and pain and suffering. Consider whether fairness to the parties requires that both liability and relief be tried to a single jury.²⁰⁸²

Where the case is tried to the court, the judge should determine, in Phase I, the appropriateness of class-wide injunctive relief. Injunctive relief commonly ordered in employment discrimination cases includes the following: establishing goals to diversify the workforce; implementing mandatory hiring or promotion of specified individuals or groups of individuals; abolishing or restricting testing procedures; instituting training programs; establishing or modifying recruitment policies; or imposing an affirmative action plan in one form or another.²⁰⁸³ Reinstatement may also be a viable remedy depending on the circumstances of the case.²⁰⁸⁴ An immediate appeal of the ruling on injunc-

2081. See *Gen. Bldg. Contractors Ass'n v. Pa.*, 458 U.S. 375, 380 (1982); *Kernan Holiday Universal, Inc.*, No. JH90-971, 1990 WL 289505, at *4-5 (D. Md. Aug. 14, 1990); *United States v. United States Steel Corp.*, 520 F.2d 1043 (5th Cir. 1975).

2082. See, e.g., *Allison v. Citgo Petroleum Corp.*, 151 F.3d 402, 423-24 (5th Cir. 1998) (expressing concern that consideration of overlapping issues by different juries would violate the Seventh Amendment).

2083. John F. Buckley, IV & Michael R. Lindsay, *Defense of Equal Employment Claims* § 14.18, at 14-17 (2d ed. 1995 & Supp. 2000).

2084. Hostility between the parties may militate against consideration of reinstatement. *Simpson v. Ernst & Young*, 100 F.3d 436, 445 (6th Cir. 1996) (amount of award of front pay

tive relief is permissible under 28 U.S.C. § 1292(a). Because resolution of claims for injunctive relief can be an expensive and time-consuming process, such an appeal may be desirable as a means for obtaining early appellate review of a finding of liability. If an appeal under 28 U.S.C. § 1292(a) is unavailable, consider certifying the ruling on class liability for appeal under section 1292(b). The award of attorneys' fees may be deferred until completion of proceedings for individual relief; an interim award, however, frequently is made after a grant of injunctive relief.²⁰⁸⁵

The individual damage claims of the class members should be resolved in Phase II. In some instances, a period of additional discovery may be necessary. In this second stage, the claimants—who, by proof of their membership in the class, are presumed to have been subjected to the discrimination practiced against the class²⁰⁸⁶—are permitted to present their individual claims of injury,²⁰⁸⁷ subject to the right of the employer to raise defenses to those claims that were not resolved during the Phase I proceedings. Further severance may be useful at the individual remedy stage. For example, consider identifying those entitled to relief before the parties proceed with discovery and possible trial regarding the amount of damages. One approach is to require class members to complete information forms disclosing the critical facts on which their claims of individual injury is based (e.g., the job bids that they assert were discriminatorily rejected by the company). It may also be feasible to establish a claims resolution procedure administered by a magistrate judge or special master under Rule 53.²⁰⁸⁸ In some cases, class-wide monetary relief may be ap-

“supplemented by evidence that disclosed the underlying hostility that existed between defendant and Simpson, making reinstatement highly impractical and improbable”); *Avitia v. Metro. Club of Chi., Inc.*, 49 F.3d 1219, 1231 (7th Cir. 1995) (noting that courts should not compel reinstatement “where such debilitating frictions between employer and employee can be anticipated that the court might have to exercise continuing supervision over the employment relationship for many years”). In addition, where reinstatement would require the removal of another employee from the desired position, reinstatement may not be feasible. *See Avitia*, 49 F.3d at 1231–32.

2085. *See* Fed. R. Civ. P. 54(d) (2000).

2086. *Cox v. Am. Case Iron Pipe Co.*, 784 F.2d 1546 (11th Cir. 1986); *King v. Trans World Airlines, Inc.*, 738 F.2d 255 (8th Cir. 1984); *McKenzie v. Sawyer*, 684 F.2d 62 (D.C. Cir. 1982); *Pettway v. Am. Cast Iron Pipe*, 494 F.2d 211 (5th Cir. 1974).

2087. As to whether the amount of damages each class member has sustained must be individually determined or whether damages may be assessed on a class-wide basis, compare *Mitchell v. Mid-Continent Spring Co.*, 583 F.2d 175, 283–84 (6th Cir. 1978), with *Pettway*, 494 F.2d at 259–63 (class-wide formula permissible).

2088. *See, e.g.*, *Bridgeport Guardians, Inc. v. Delmonte*, 248 F.3d 66, 70–72 (2d Cir. 2001); *Ass'n of Mexican-Am. Educators v. State of Cal.*, 231 F.3d 572, 590–91 (9th Cir. 2000); *Reynolds v. Roberts*, 207 F.3d 1288, 1295 n.9 (11th Cir. 2000); *Berger v. Iron Workers Reinforced Rod-*

propriate.²⁰⁸⁹ Where calculation of the pecuniary effects of the discrimination would be nothing more than guesswork based on hypothetical analyses, an individualized determination of the amount a particular class member should recover may not be possible.²⁰⁹⁰ Other factors that may weigh on the appropriateness of class-wide relief include the size of the class, whether the promotion or hiring practices are ambiguous, and the length of time the challenged practices continued.²⁰⁹¹

When the trial of the action is bifurcated, the court should define precisely the issues to be resolved at each stage of the trial. This delineation will not eliminate all duplicative evidence. For example, anecdotal testimony may be admissible as circumstantial evidence at the first trial and, if liability is established, be offered as direct evidence on individual claims in later proceedings. The delineation, however, will enable counsel to prepare more effectively for both stages of the litigation. Issues generally are separated according to the extent they depend on the particular circumstances of individual employers; for example, defenses such as “business necessity”²⁰⁹² and “bonafide occupation qualification”²⁰⁹³ usually are resolved in the first phase, while the issue of whether employees may be excused from applying for a position is typically reserved for decision in later proceedings.

Statistical evidence and expert testimony typically play a significant role in the liability phase of the trial,²⁰⁹⁴ especially where the plaintiff is alleging dispa-

men, Local 201, 170 F.3d 1111, 1117–18 (D.C. Cir. 1999); *Jensen v. Eveleth Taconite Co.*, 130 F.3d 1287, 1289–91 (8th Cir. 1997).

2089. See, e.g., *EEOC v. O & G Spring & Wire Forms Specialty Co.*, 38 F.3d 872 (7th Cir. 1994); *Catlett v. Mo. Highway & Transp. Comm’n*, 828 F.2d 1260, 1267–68 (8th Cir. 1987) (noting class-wide relief in form of award of back pay appropriate but remanding district court’s grant of a class-wide hiring preference for further review). *But see Shipes v. Trinity Indus.*, 987 F.2d 311, 317 (5th Cir. 1993) (stating that “fashioning a class-wide back pay award is exceedingly complex and difficult, and the process is fraught with uncertainty”).

2090. See *Stewart v. Gen. Motors Corp.*, 542 F.2d 445, 452 (7th Cir. 1976) (“subjectivity of defendant’s method of filling job vacancies renders impossible anything like a precise calculation of the pecuniary effects of discrimination”).

2091. See *Shipes*, 987 F.2d at 318.

2092. 42 U.S.C. § 2000e-2(k)(1)(A)(I) (2000).

2093. 29 U.S.C. § 623(f)(1) (2000).

2094. See, e.g., *Hemmings v. Tidyman’s Inc.*, 285 F.3d 1174 (9th Cir. 2002); *Coleman v. Quaker Oats Co.*, 232 F.3d 1271 (9th Cir. 2000); *Bell v. EPA*, 232 F.3d 546, 553 (7th Cir. 2000) (“In a pattern and practice disparate treatment case, statistical evidence constitutes the core of a plaintiff’s prima facie case.”); *Meacham v. Knolls Atomic Power Lab.*, 185 F. Supp. 2d 193, 208 (N.D.N.Y. 2002) (plaintiff in ADEA case must “demonstrate, generally through statistical data, that the employment practice caused a significant disparity in outcome between older employees and younger employees”); *O & G Spring & Wire*, 38 F.3d at 876 (statistical proof alone can establish discrimination case).

rate impact as opposed to intentional discrimination. The probative value of statistical evidence offered by the parties will depend on, among other things, the relevant labor pool,²⁰⁹⁵ the geographic area, and other comparison pools.²⁰⁹⁶ The court must ensure that such evidence meets the requirements of *Daubert v. Merrel Dow Pharmaceuticals*.²⁰⁹⁷ The “Reference Guide on Statistics” in the *Reference Manual on Scientific Evidence*²⁰⁹⁸ may be helpful in assessing statistical evidence in employment discrimination cases.

Judges routinely admit expert testimony regarding statistical evidence, but disagree about the need or value of expert testimony on other issues.²⁰⁹⁹ It is helpful to consider in the pretrial planning stage the extent to which “anecdotal” evidence regarding the individual experiences of various employees, union stewards, supervisors, and managers will be admitted. Plaintiffs or defendants may offer to provide illustrative support for their respective positions and for the studies conducted by their experts.²¹⁰⁰ Some limits on the number of witnesses may be appropriate. To avoid unnecessary duplication, the court should require pretrial disclosure of witnesses’ names and the general subject matter of their expected testimony.²¹⁰¹

2095. See, e.g., *EEOC v. Turtle Creek Mansion Corp.*, No. 3:93-CV-1649, 1995 WL 478833, at *7–9 (N.D. Tex. May 18, 1995); see also *McKenzie v. Sawyer*, 684 F.2d 62, 71 (D.C. Cir. 1982) (“A showing that few if any blacks were hired for a given kind of job is not probative of discrimination without a showing of the numbers of blacks available in the appropriate labor pool.”).

2096. See, e.g., *Aiken v. Memphis*, 37 F.3d 1155 (6th Cir. 1994).

2097. 509 U.S. 579 (1993). See *Wyche v. Marine Midland Bank*, No. 94 CIV. 4022, 1997 WL 109564, at *1 (S.D.N.Y. Mar. 11, 1997).

2098. David H. Kaye & David A. Freedman, *Reference Guide on Statistics*, in *Reference Manual on Scientific Evidence* (Federal Judicial Center, 2d ed. 2000) at 83–178.

2099. *Sherbert v. Alcan Aluminum Corp.*, 66 F.3d 965, 967 (8th Cir. 1995) (operation of forklift within the common knowledge of the jury); *Karibian v. Columbia Univ.*, 930 F. Supp. 143, 144 (S.D.N.Y. 1996) (expert testimony as to plaintiff’s emotional state unnecessary); *Skidmore v. Precision Printing & Packaging, Inc.*, 188 F.3d 606, 618 (5th Cir. 1999) (testimony of psychologist on plaintiff’s emotional distress admissible); *Harper v. S.E. Ala. Med. Ctr.*, 998 F. Supp. 1289, 1297 (M.D. Ala. 1998) (permitting expert testimony on inadequacy of discrimination policy).

2100. See, e.g., *Turtle Creek Mansion*, 1995 WL 478833, at *2–6.

2101. Fed. R. Civ. P. 26(a)(3) (West 2003).

32.46 Settlement

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32.461 Timing

Precertification settlements of discrimination cases brought as class actions present special problems. If the parties propose settlement of only the individual claims of the named plaintiffs and abandonment of the class claim, the judge should ensure that members of the proposed class are not prejudiced. It is appropriate to consider whether the proposed class should be notified of the proposed settlement and given an opportunity to intervene to pursue the class claims. Although the parties should be encouraged to engage in settlement negotiations early in the litigation, formal settlement negotiations in class actions ordinarily should be deferred until there is a certification ruling. In employment discrimination litigation, the parties should explore settlement possibilities as the case proceeds toward trial after the certification ruling and, if those initial efforts are unsuccessful, they should renew their discussions after the liability phase of the trial.

32.462 Affirmative Relief

Many employment discrimination cases terminate in consent decrees or in litigated judgments that order implementation of certain employment practices that may be seen as constituting affirmative action.²¹⁰² Such provisions raise difficult issues concerning their effect on groups of employees that may be adversely affected by the provisions and their vulnerability to subsequent legal challenge. The Civil Rights Act establishes procedures for precluding subsequent challenge by persons (1) who, prior to entry of the order, had actual notice of the potential adverse effect and an opportunity to object, or (2) who were adequately represented.²¹⁰³ Parties to the decree may also seek to intervene or join persons who may claim to be adversely affected.

2102. See, e.g., *Thigpen v. Bibb County, Ga., Sheriff's Dept.*, 223 F.3d 1231 (11th Cir. 2000); *Bishop v. Gainer*, 272 F.3d 1009 (7th Cir. 2001); *Maitland v. Univ. of Minn.*, 155 F.3d 1013 (8th Cir. 1998).

2103. 42 U.S.C. § 2000e-2(n) (2000).

32.463 Attorney Fees

The court should be wary of parties' attempts to settle claims for attorney fees before a settlement of the class claims has been effected or where the defendants offer to settle class claims by payment of a lump sum on condition that attorney fees be waived. The parties should be encouraged to settle claims regarding attorney fees, but these negotiations preferably should not be commenced until the class claims have been resolved by trial or settlement.

32.464 Settlement Hearing

Hearings on approval of class action settlements in employment discrimination litigation may generate vigorous objections. Opposition often stems from misunderstandings about the terms of the proposed settlement and will be mitigated if the notice of settlement provides full information in comprehensible form. Class counsel may also schedule, in advance of the hearing, meetings with the class at which counsel and the class representatives can explain in person the terms of the agreement and can answer questions. At the outset of the hearing, before the judge hears objections from class members or others, counsel should again describe in plain language the key features of the settlement, clarify misunderstandings, and indicate why they believe it to be advantageous to the class. The judge may also explain portions of the proposed settlement that may have been confusing to class members. The judge's notice to the class of the proposed settlement typically should require that any objections or requests to be heard be filed in writing by a specified date. It is prudent, however, to permit persons who have not filed timely objections to express their views at the hearing, including representatives of employees who, while not members of the class, claim they will be adversely affected by the settlement.

32.465 Implementation

Settlements of employment discrimination cases sometimes specify the persons to whom awards will be made and the amount each person is to be paid. More frequently, however, settlements provide only the basic principles for determining these awards, contemplating further proceedings to ascertain the factual matters on which the awards depend. The settlement may, for example, establish one or more funds to be shared by persons satisfying prescribed criteria; in this situation, class counsel may be required after the settlement to preliminarily identify those class members eligible to participate in distribution, and provide those found ineligible an opportunity to present their claims to the court or a special master. The settlement may provide for a specified payment—whether a flat sum or an amount determined under a formula—to each class member meeting specified criteria. If so, the defendants

may have a financial interest in challenging the claims of class members, and referral to a magistrate judge or special master may be necessary in order to conduct individual hearings. Also, a special master appointed under Federal Rule of Civil Procedure 53 can monitor future implementation of injunctive features of the settlement. Although Rule 53 contemplates that the appointment of a special master “shall be the exception and not the rule,”²¹⁰⁴ Title VII cases have a relaxed standard for assessing whether there are exceptional circumstances that warrant reference to a special master.²¹⁰⁵ The statute authorizes the appointment of a special master where necessary to ensure compliance with Title VII’s mandate to expedite discrimination cases, even though the circumstances might otherwise be unexceptional.²¹⁰⁶

2104. See also *La Buy v. Howes Leather Co.*, 352 U.S. 249, 254 n.4 (1957); *Sierra Club v. Clifford*, 257 F.3d 444, 447 (5th Cir. 2001) (“The fact that a case has been pending for two years is not so exceptional as to require the reference of dispositive matters . . . to a special master.”); *United States v. Microsoft Corp.*, 147 F.3d 935, 955–56 (D.C. Cir. 1998).

2105. See *Goins v. Hitchcock*, 191 F. Supp. 2d 860, 867 (S.D. Tex. 2002) (citing *Hackley v. Roudebush*, 520 F.2d 108 (D.C. Cir. 1975)).

2106. 42 U.S.C. § 2000e-5(f)(5) (2000); see also *Hackley*, 520 F.2d at 154 n.181 (D.C. Cir. 1975) (“That provision was merely included so that the test of Rule 53, which only permits masters to be appointed in exceptional circumstances, would be somewhat relaxed in the area of Title VII, ‘where justice delayed is very often justice denied.’” (quoting House Comm. on Educ. & Labor, 92d Cong., Legislative History of the Equal Employment Opportunity Act 1731 (Comm. Print 1972))).

33. Intellectual Property

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33.1 Introduction

Intellectual property litigation comprises three related areas of the law: patent, copyright, and trademark. Trade secret claims—seeking to protect state-law-based rights in information—can appear under supplemental jurisdiction and often are related to patent issues (e.g., inventorship, ownership, “best mode”).²¹⁰⁷ Copyright actions arise out of the unauthorized copying or exploitation of the “pattern of expression” reflected by writings, music, and art.²¹⁰⁸ Trademark cases, on the other hand, do not involve the protection per se of an invention or original work, but involve disputes over the unauthorized use of those “marks” of a product or service that are associated in the public’s mind with that product or service.²¹⁰⁹ Intellectual property litigation has grown increasingly more complicated as technology, biology, and communications have advanced, expanding claims beyond the traditional mechanical processes originally contemplated by the various statutes in each area. Motions for temporary and permanent injunctive relief, frequently filed on an expedited basis,

2107. James Pooley, Trade Secrets § 3.01[2]–[3] (2003) (discussing statutory requirements for patentability of an invention).

2108. Robert A. Gorman, Copyright Law 4 (Federal Judicial Center 1991).

2109. *Id.* at 5.

create additional complexities. This section focuses primarily on patent litigation, but also discusses issues peculiar to copyright and trademark cases that may increase the complexity of otherwise straightforward litigation.

33.2 Patent Law

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33.21 The Statutory Framework

Patent law derives from Article 1, section 8 of the U.S. Constitution, which authorizes Congress “[t]o promote the progress of . . . useful arts, by securing for limited times to . . . inventors the exclusive right to their . . . discoveries.” Congress exercised this authority through the 1793 Patent Act, most recently revised in 1952 and codified at 35 U.S.C. § 101.²¹¹⁰ Patent law grants the inventor of a product or process, together with its useful improvements, exclusive right to the use and marketing of the invention, and protects the underlying concept or system as “usefully embodied.”²¹¹¹ Obtaining a patent can be lengthy and involved. The applicant must satisfy certain statutory conditions: the invention must be (1) useful;²¹¹² (2) novel;²¹¹³ and (3) non-obvious.²¹¹⁴ The patent document itself contains a set of claims to identify the bounds of the

2110. See *Graham v. John Deere Co.*, 383 U.S. 1, 3 (1966) (discussing constitutional grant of authority and history of Patent Act).

2111. Section 101 of the Patent Act provides: “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.” 35 U.S.C. § 101 (2000).

2112. *Id.*

2113. 35 U.S.C. §§ 101 & 102 (2000). In order to satisfy the requirement of novelty, the invention cannot be anticipated by a product or process that is already in the public domain, or cannot have an insignificant enough difference from that existing in the public domain that it would have been obvious to a person skilled in the art of the invention.

2114. 35 U.S.C. § 102 (2000).

patent owner's monopoly. These claims define the limits of the invention and serve to set the bounds for the patentee's rights. Typically they are the result of a back and forth negotiation between the patent applicant and the U.S. Patent and Trademark Office (PTO). "Because others look to the patent claims to determine what cannot be done without the patent owner's permission, the inventor must present claims that particularly point out and distinctly claim the invention."²¹¹⁵ To further the Act's goals of promoting the "progress of the useful arts,"²¹¹⁶ it also requires the patentee to make certain disclosures as to the best mode of practicing the invention and to include a description sufficient to enable a person of ordinary skill in the art of the invention to do so. Once the patent has been issued, the owner of the patent has the exclusive right to make, use, or sell the invention for twenty years from the date of the original patent application, at which time the patent expires and the invention becomes part of the public domain. Extensions of the patent may be granted under limited circumstances.

Patent litigation typically arises out of the patent owner's assertions of infringement of the patent resulting from unauthorized use of the patented product or process.²¹¹⁷ Actions may also be brought by others to challenge the validity of the patent itself, either through the PTO or by way of a declaratory judgment action in federal court.²¹¹⁸ In addition, appeals from proceedings or decisions of the Patent Office Board of Appeals, such as the denial of a patent, can be brought in the district court for the District of Columbia. Patent appeals from any of the ninety-four district courts go to the Court of Appeals for the Federal Circuit.

Patent cases can and often do involve a number of separate, but related, claims and defenses. In addition to seeking injunctive relief and damages for alleged infringement, plaintiffs may assert causes of action for unfair competition, antitrust, interference with business or contractual relations, and other related claims.²¹¹⁹ Plaintiffs almost always allege willful infringement in order

2115. Herbert F. Schwartz, *Patent Law & Practice* 95 (Federal Judicial Center, 3d ed. 2001). The Supreme Court, in *Markman v. Westview Instruments, Inc.*, commented that "[t]he limits of a patent must be known for the protection of the patentee, the encouragement of the inventive genius of others and the assurance that the subject of the patent will be dedicated ultimately to the public." 517 U.S. 370, 389 (1996) (citing *Gen. Elec. Co. v. Wabash Appliance Corp.*, 304 U.S. 364, 369 (1938)).

2116. Patent Act, ch. 11, 1 Stat. 318 (1793) (current version at 35 U.S.C. § 101 (2000)).

2117. Schwartz, *supra* note 2115, at 40–42.

2118. *Id.* at 42–44.

2119. *Eastman Kodak Co v. Goodyear Tire & Rubber Co.*, 114 F.3d 1547 (Fed. Cir. 1997). Most defendants also include a counterclaim for declaratory relief on essentially the same grounds as their affirmative defenses.

to increase the damages potentially available should their claim prevail or as an avenue to collect attorneys' fees. Most defendants assert defenses of noninfringement, invalidity based on the prior art, and invalidity based on other defects.²¹²⁰ Defendants may plead several of the statutory bars under 35 U.S.C. §§ 102 and 103 or other sections of Title 35, as well as assert misuse of the patent or various equitable defenses. Equitable defenses include laches, unclean hands, estoppel, patent misuse, and inequitable conduct before the PTO.²¹²¹ Just as plaintiffs often allege willful infringement, defendants will often raise a defense of inequitable conduct based on a patentee's failure to satisfy its obligations of full disclosure and candor to the PTO during prosecution of the patent application.²¹²²

33.22 Claim Construction Under *Markman v. Westview Instruments*

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The construction of patent claims is pivotal to infringement actions (or those challenging the validity of a patent), because the patent claims define the patentee's rights. It is only after the claims have been properly construed by the court that the trier of fact can determine whether each element of the claim is present, either literally or under the doctrine of equivalents, in the allegedly infringing product or process.²¹²³ The doctrine of equivalents extends patent

2120. Allegations of invalidity challenge whether the invention met the statutory requirements for patentability, such as novelty or non-obviousness. Section 103(a) of Title 35 precludes issuance of a patent "if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which such subject matter pertains." Section 103(b) excepts biotechnological processes under certain circumstances from the operation of (a). Several primary considerations were identified by the Supreme Court in *Graham v. John Deere Co.*, as relevant to a determination of nonobviousness, such as the scope and content of the prior art, as well as inquiry into "objective" considerations relating to economic success or social need. 383 U.S. 1, 17–18 (1966). See also Schwartz, *supra* note 2115, at 79–82 (discussing various secondary considerations applied by the courts).

2121. See Schwartz, *supra* note 2115, at 155–68.

2122. See *id.* at 155–61; see also *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, 326 F.3d 1226, 1233–34 (2d Cir. 2003).

2123. See, e.g., *Loral Fairchild Corp. v. Sony Corp.*, 181 F.3d 1313, 1321 (Fed. Cir. 1999) ("An infringement analysis entails two steps: (1) the claims must be construed; and (2) the

protection to include accused products or processes that, although not infringing on the literal meaning of the claims, are not substantially different from the patented device.²¹²⁴ In a significant development, the Federal Circuit foreclosed all resort to the doctrine of equivalents for any amendments narrowing a patent claim during prosecution, but the Supreme Court vacated the appellate decision, rejecting the absolute bar rule adopted by the Federal Circuit. The Court, however, held the burden was on the patentee to prove that the amendment should not give rise to estoppel.²¹²⁵

Construing claims may also reveal whether the claim is novel or whether it is obvious in light of the prior art, and the court applies the same claim construction for purposes of analyzing both infringement and validity. As a result, claim construction can be, and often is, outcome determinative.

*Markman v. Westview Instruments*²¹²⁶ reflected a significant development in the construction of patent claims. The Court held that the interpretation of a patent is exclusively a question of law for the court.²¹²⁷ Likening claim construction to the interpretation of other written documents, the Court stated “[t]he judge, from his training and discipline, is more likely to give a proper interpretation to such instruments than a jury; and he is, therefore, more likely to be right in performing such a duty, than a jury can be expected to be.”²¹²⁸ Removing the issue of claim construction from the jury, it said, would also contribute to certainty and uniformity in patent litigation.²¹²⁹ Claim construction is now subject to de novo review by the Federal Circuit, even where construction involves determination of underlying factual issues.²¹³⁰

As a result, many patent cases are resolved once the claim construction is decided, either through summary judgment or settlement, with substantial savings in judicial time and resources that would otherwise be spent in a

properly construed claims must be compared to the allegedly infringing device.”); *NEC Corp. v. Hyundai Elecs. Indus. Co.*, 30 F. Supp. 2d 560, 565 (E.D. Va. 1998) (infringement analysis is a two-step determination).

2124. Schwartz, *supra* note 2115, at 141.

2125. *Festo Corp. v. Soketasu Kinsoku Kogyo Kabushiki Co.*, 535 U.S. 722, 740 (2002).

2126. 517 U.S. 370 (1996).

2127. *Markman v. Westview Instruments*, 52 F.3d 967, 970–71 (Fed. Cir. 1995).

2128. *Markman*, 517 U.S. at 388–89.

2129. *Id.* at 391 (“[W]hereas issue preclusion could not be asserted against new and independent infringement defendants even within a given jurisdiction, treating interpretive issues as purely legal will promote . . . intrajurisdictional certainty through the application of stare decisis . . .”).

2130. *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1456 (Fed. Cir. 1998) (stating court would “review claim construction de novo on appeal including any alleged fact-based questions relating to claim construction”). The determination of whether the patent has been infringed, however, remains a question of fact for the jury.

lengthy, often complicated trial.²¹³¹ Claim construction also puts the court and the parties in a better position to determine what issues remain in the case in light of the court’s construction and to tailor the remaining course of the litigation accordingly.

There is no consistent approach among the courts as to the procedural boundaries of claim-construction proceedings. *Markman* did not establish when or how a patent was to be construed, only that it must be done prior to submission of the case to the jury.²¹³² At least one jurisdiction has adopted a special set of “Patent Local Rules” that dictate a prescribed series of disclosures by each party that help to define the claim-construction issues in dispute and lead directly to briefing on claim construction and a *Markman* hearing.²¹³³ Accordingly, decisions on how to structure claim-construction proceedings involve several interrelated questions, the answers to which can affect subsequent case-management strategies:

- Is a *Markman* hearing necessary? If so, what claim terms need to be construed?
- How should the hearing be structured, and what submissions should be considered?
- When should the hearing be held?
- What is the procedural vehicle through which claim-construction issues are raised?
- What happens if the claim construction is reversed on appeal?

33.221 Holding a *Markman* Hearing

There is no requirement that the court conduct a formal hearing to interpret the patent. Whether a hearing is warranted often turns on the degree of ambiguity in the patent claim. Where the language of the patent claim is clear the judge may be able to construe the claim based solely on the paper record.²¹³⁴ If the language is truly unambiguous, the judge should not resort to the use of extrinsic evidence or testimony.²¹³⁵ The degree of ambiguity not-

2131. See William F. Lee & Anita K. Krug, *Still Adjusting to Markman: A Prescription for the Timing of Claims Construction Hearings*, 13 Harv. J.L. & Tech. 55, 59 (1999); see also *K-2 Corp. v. Salomen S.A.*, 191 F.3d 1356, 1362 (Fed. Cir. 1999).

2132. See generally *Markman*, 517 U.S. 370 (1996).

2133. See, e.g., N.D. Cal. Patent L.R. (2002).

2134. See Schwartz, *supra* note 2115, at 102–14 (discussing meaning of claim language).

2135. See *Vitronics Corp. v. Conceptionics, Inc.*, 90 F.3d 1576, 1583 (Fed. Cir. 1996); *Biovail Corp. Int’l v. Andrx Pharms., Inc.*, 239 F.3d 1297, 1300 (Fed. Cir. 2001) (“When intrinsic evidence unambiguously describes the scope of a patented invention, reliance on extrinsic evi-

withstanding, the court has the discretion to consider both intrinsic and extrinsic evidence, including expert testimony, in interpreting the claims.²¹³⁶ As a consequence, some courts routinely conduct *Markman* hearings before construing the claim.²¹³⁷ *Markman* hearings offer the court the opportunity to question any expert or other witnesses offered (such as the inventor) on issues related to the patent process and the technology. This enables the judge to gain a better understanding of the claims as a whole and the meaning of the patent's terms from the perspective of a person "skilled in the relevant art." The Federal Circuit has cautioned, however, that such extrinsic evidence may not be used for any purpose other than to assist the court in understanding the science and what "one skilled in the art" would understand. Conversely, conducting a *Markman* hearing may require the parties to produce their experts twice, both

dence is improper."); *ADC Telecomm., Inc. v. Siecor Corp.*, 954 F. Supp. 820, 831 (D. Del. 1997); *Ekchian v. Home Depot, Inc.*, 104 F.3d 1299, 1302 (Fed. Cir. 1997). This "intrinsic" evidence has been held to include the language of the patent, its specifications, the prosecution history, and the written description. *See, e.g., Elkay Mfg. Co. v. Ebco Mfg. Co.*, 192 F.3d 973, 976–77 (Fed. Cir. 1999); *NEC Corp. v. Hyundai Elecs. Indus. Co.*, 30 F. Supp. 2d 561, 565 (E.D. Va. 1998) (court will look to claims, written description portion of the specification, and the prosecution history in construing claim and resort to extrinsic evidence only where the intrinsic evidence is insufficient to resolve ambiguities in the claim language). However, in *Pitney Bowes, Inc. v. Hewlett Packard Co.*, the Federal Circuit commented that there were circumstances where the prohibition against consideration of *Vitronics* might properly be relaxed. 182 F.3d 1298, 1309 (Fed. Cir. 1999) ("[C]onsultation of extrinsic evidence is particularly appropriate to ensure that [the judge's] understanding of the technical aspects of the patent is not entirely at variance with the understanding of one skilled in the art.").

2136. *See Pitney Bowes*, 182 F.3d at 1308; *ARG Indus., Inc. v. Cardinal IG Co.*, 239 F.3d 1239, 1249 (Fed. Cir. 2001) (noting times when "extrinsic evidence can and should be used to inform a court's claim construction" and trial court should have considered testimony offered by scientific experts); *see, e.g., Chad Indus., Inc. v. Automation Tooling Sys., Inc.*, 938 F. Supp. 601, 608 (C.D. Cal. 1996) (expert and inventor testimony as well as testimony of patent law expert); *Eastman Kodak Co. v. Goodyear Tire & Rubber Co.*, 144 F.3d 1547, 1555 (Fed. Cir. 1997) (expert testimony considered where language of claim remained ambiguous after looking at intrinsic evidence); *Genentech, Inc. v. Boehringer Mannheim GmbH*, 989 F. Supp. 359, 363 (D. Mass. 1999) (resorting to extrinsic evidence where claim terms were unclear); *see also Schwartz, supra* note 2115, at 116–19 (discussing examples of extrinsic evidence) and cases cited therein.

2137. *See, e.g., Bernhardt L.L.C. v. Collezione Europa USA, Inc.*, No. CIV. 1:01CV00957, slip op. at 1 (M.D.N.C. May 30, 2003) ("Claim interpretation is a matter of law and is usually accomplished with the assistance of a *Markman* hearing."); *S.S. White Burs, Inc. v. Neo-Flo, Inc.*, No. CIV.A. 02-3656, slip op. at 1 (E.D. Pa. May 2, 2003) (stating claim construction "typically occurs following a *Markman* hearing"); *Ill. Tool Works, Inc. v. Powers Fasteners, Inc.*, No. 01C7019, 2002 WL 1998300, at *2 (N.D. Ill. Aug. 28, 2002) (deciding "claim construction is more properly left to a *Markman* hearing"). *But see J.G. Peta, Inc. v. Club Protector, Inc.*, No. 02-1127, 1128, slip op. at 6 n.2 (Fed. Cir. 2003) (saying district courts not required to "conduct evidentiary hearings as part of the claim construction process").

at the hearing on claim construction and again at trial, thereby increasing litigation costs. The court should determine, based on the disputed claim terms and the complexity of technology, whether a hearing is appropriate and what type of evidence will aid the court in construing the claims.

In constructing procedural devices, two practical realities are likely to arise at trial. First, no matter how well considered the court's claim-construction ruling, the parties are likely to "construe the construction"—i.e., disputes will arise regarding the exact meaning of the court's ruling. Second, the meaning of a term previously thought to be undisputed may suddenly become disputed at trial, perhaps because the term's meaning was not considered to be significant at the time of the *Markman* hearing. This typically occurs when both parties initially agree that a term should be given its "usual meaning," and the parties then discover at trial that they disagree on the usual meaning of a previously insignificant claim term.

33.222 Structuring the *Markman* Hearing

Claim construction hearings have "run the gamut from mid-trial sidebar conferences that undergird relevance rulings . . . to virtual mini-trials extending over several days and generating extensive evidentiary records."²¹³⁸ The length of the hearing, the evidence permitted, and the scope of the hearing are all within the discretion of the trial court. Prior to holding a hearing, however, consider requiring the parties to submit, in addition to any briefs, statements setting forth each side's proposed construction of the claims in dispute. Courts have required parties to exchange proposed claim-construction statements that include (1) any contentions regarding specialized meaning to be given claim language; (2) a description of each element of the claim together with supporting specifications or material in the prosecution history; and (3) extrinsic evidence that supports the parties' proposed construction.

Parties also have been required to meet and confer in an effort to narrow the issues and to prepare and submit a joint statement²¹³⁹ that identifies (1) the

2138. *MediaCom Corp. v. Rates Tech., Inc.*, 4 F. Supp. 2d 17, 21 (D. Mass. 1998) (citations omitted). *See also Schering Corp. v. Amgen*, 25 F. Supp. 2d 293, 294 (D. Del. 1998) (one day); *Automation Tooling Sys.*, 938 F. Supp. at 604 (allocating two days to hearing, although only one became necessary); *Ethicon Endo-Surgery, Inc. v. U.S. Surgical Corp.*, 93 F.3d 1572, 1577 (Fed. Cir. 1996) (five days); *Loral Fairchild Corp. v. Victor Co. of Japan, Ltd.*, 906 F. Supp. 798, 802 (E.D.N.Y. 1995).

2139. *See, e.g.*, N.D. Cal. Patent L.R. 3-1 (2002); *see also Genentech, Inc. v. Amgen, Inc.*, 289 F.3d 761 (Fed. Cir. 2002) (district court did not abuse discretion in precluding Genentech from amending its claim chart to include theory of infringement under doctrine of equivalents in light of local rule); *Precision Shooting Equip., Inc. v. High Country Archery*, 1 F. Supp. 2d 1041, 1042 (D. Ariz. 1998) (stating that Northern District of California's local rules "promote judicial effi-

construction of the claims and terms to which the parties agree; (2) each side's construction of disputed claims and terms; (3) each side's rebuttal to the proposed construction submitted by the opposing party; and (4) each proposed witness at the claim-construction hearing together with a description of the witness's testimony.²¹⁴⁰ These procedures apprise the judge of those portions of the patent actually in dispute, helping the judge understand the relevant technology and determine the need, if any, for tutorials or the assistance of court-appointed experts prior to the hearing.²¹⁴¹ These procedures also force the parties to state definitively their competing positions, thereby avoiding the "shifting sands"²¹⁴² approach to claim construction.

33.223 Timing the *Markman* Hearing

Timing is one of the more problematic issues. Claim construction involves interpreting the words of the claim from the perspective of one skilled in the art, construed in light of the patent documents and the prosecution history.²¹⁴³ Theoretically, claim construction can occur at virtually any point in the case: prior to discovery, pursuant to motions for summary judgment,²¹⁴⁴ or following the close of evidence at trial.²¹⁴⁵ Nevertheless, the timing of the *Markman* hearing can significantly affect the pretrial proceedings. Several courts and commentators agree that early *Markman* hearings are preferable to delaying claim construction until after the evidence has been heard at trial.²¹⁴⁶ Although

ciency by presenting to the Court clearly delineated disputes of claim construction and clearly defined issues of infringement and validity prior to any *Markman* hearing or trial").

2140. *Precision Shooting Equip.*, 1 F. Supp. 2d at 1042–43 (using local rules adopted by the Northern District of California as guide); *Pioneer Hi-Bred Int'l, Inc. v. Seed Co.*, No. CIV. 4-98-CV-90577, 90578, 2000 WL 33363188, at *4 (S.D. La. May 5, 2000) (adopting structure of Northern District of California's local rules); *Automation Tooling Sys.*, 938 F. Supp. at 604 (parties submitted statement of issues, exhibit list, and expected testimony).

2141. *See, e.g., Biovail Corp. Int'l v. Andrx Pharms., Inc.*, 239 F.3d 1297, 1301 (Fed. Cir. 2001) (noting it was unnecessary to construe claim terms that were not relevant to the outcome of the case).

2142. *LG Elecs. Inc. v. Q-Lity Computer Inc.*, 211 F.R.D. 360, 367 (N.D. Cal. 2002) (citing *Atmel Corp. v. Info. Storage Devices, Inc.*, No. C. 95-1987, 1998 WL 775115, at *3 (N.D. Cal. Nov. 5, 1998)).

2143. Schwartz, *supra* note 2115, at 101–02 ("Claim construction 'begins and ends' with the actual words of the claims.").

2144. *MediaCom*, 4 F. Supp. 2d at 22.

2145. *See Sofamor Danek Group Inc. v. DePuy-Motech Inc.*, 74 F.3d 1216 (Fed. Cir. 1996).

2146. *MediaCom*, 4 F. Supp. 2d at 22 ("Questions regarding the construction of patents can now safely be addressed in many circumstances prior to the completion of fact discovery, and certainly before trial."); *MacNeill Eng'g Co. v. Trisport, Ltd.*, 126 F. Supp. 2d 51, 54 (D. Mass. 2001) ("It has now become generally accepted that . . . the best time to hold a *Markman* hearing

construing the claim after trial will permit the judge to hear all of the evidence in the case, and thereby better understand the background of the patent and any prior art,²¹⁴⁷ there are several disadvantages:

- causing delay in submitting the case to the jury while the claim is being construed, thereby making the evidence less fresh;²¹⁴⁸
- requiring the jury to disregard evidence and testimony relating to alternative claim interpretations;²¹⁴⁹ and
- forcing the parties to try the case presenting alternative claim constructions—parties will not likely base their case on a claim construction that has yet to be determined.

Holding *Markman* hearings prior to trial allows the court and the parties to narrow the issues and, in some cases, provides an opportunity to focus discovery.²¹⁵⁰ Early claim construction may also facilitate settlement and may permit resolution, either in whole or in part, through dispositive motions, thereby reducing litigation costs.²¹⁵¹ More importantly, once aware of the interpretation being given to the patent, the parties can plan their cases accordingly,

is at the summary judgment stage of the litigation”); *Loral Fairchild Corp. v. Victor Co. of Japan, Ltd.*, 906 F. Supp. 798 (E.D.N.Y. 1995). “With most aspects of the trial hinging on [claim construction]—‘now strictly a question of law of the court’—a conservative court will generally endeavor to make this ruling before trial As in this case, this proceeding to assist the court in ascertaining the law is likely to occur after discovery in which the parties have exchanged information relevant to their understanding of the claims.” *Loral Fairchild Corp. v. Victor Co. of Japan, Ltd.*, 911 F. Supp. 76, 79 (E.D.N.Y. 1996); see also Mark L. Austrian & Shaun Mohler, *Timing is Everything in Patent Litigation—Fulfilling the Purpose of Markman*, 9 Fed. Cir. B.J. 227 (1999).

2147. *Lee & Krug*, *supra* note 2131, at 75; see also *York Prods., Inc. v. Cent. Tractor Farm & Family Ctr.*, 99 F.3d 1568, 1571 (Fed. Cir. 1996) (claims construction after trial before jury instructed); *Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576, 1580 (Fed. Cir. 1996) (noting district court delayed construing claim until all evidence was heard at trial).

2148. *Lee & Krug*, *supra* note 2131, at 75–76; see also *Thorn EMI N. Am., Inc. v. Intel Corp.*, 936 F. Supp. 1186, 1189 (D. Del. 1996) (ruling on claims construction immediately before trial and dismissing jury pending resolution of summary judgment motion sought upon issuance of ruling).

2149. *Lee & Krug*, *supra* note 2131, at 77.

2150. See *MediaCom Corp. v. Rates Tech, Inc.*, 4 F. Supp. 2d 17, 22 (D. Mass. 1998).

2151. *MacNeill Eng’g Co. v. Trisport Ltd.*, 126 F. Supp. 2d 51, 52 (D. Mass. 2001) (noting *Markman* hearings “now required as a practical matter in virtually every patent case before serious settlement negotiations take place”). However, some commentators argue that *Markman* hampers settlement and prolongs the litigation because of the large percentage of reversals on appeal, leading to intransigence by defendants losing on the issue of claim construction and forcing trial in order to have another opportunity at the appellate level. *Lee & Krug*, *supra* note 2131, at 69–70.

eliminating the need to propose alternative claim constructions to the jury and reducing the expense and complexity of the trial.²¹⁵²

A number of scheduling options are available within the various pretrial phases, such as holding the hearing before discovery, after expert discovery but before concluding fact discovery, or after all discovery. There are advantages and disadvantages to each. In most cases, the optimal time for a *Markman* hearing will depend on the court's assessment of which approach will best utilize judicial resources in the specific case before it.²¹⁵³ Construing claims at the close of discovery is advisable if the parties have all relevant and necessary information to articulate the issues or terms in dispute; parties must also be able to provide the court with a full factual background within which to construe the claim.²¹⁵⁴ In addition, should the case settle during discovery or as a result of information developed during discovery, a potentially lengthy and expensive hearing can be avoided.

One option is to permit the parties initially to conduct limited discovery, including that of experts, only on issues relevant to claim construction. The burden would be on the parties to conduct sufficient discovery to reveal all relevant information not considered during the prosecution of the patent that may affect the interpretation of the claim, as well as information bearing on which claims are important to resolution of the dispute. The parties would also have the burden of assisting the judge in understanding the technology and technical language, through the use of tutorials or by consenting to a special master or neutral expert. Once the claims have been construed, general discovery can proceed on the remaining issues, including questions related to validity, infringement, and other matters.

It is often difficult, however, to attempt to separate the discovery needed for claim construction from fact discovery in general, and attempts to do so can increase the number of discovery disputes. It may be advisable, therefore, for the court to focus on the timing of the *Markman* hearing and allow the

2152. Austrian & Mohler, *supra* note 2146, at 228 (“Pretrial discovery, the selection of experts, and the content of their testimony on the issues of validity and infringement will depend almost entirely on claim construction.”). However, the claim construction may be subject to modification following trial and prior to the submission to the jury, where the court concludes after listening to all the evidence presented, and considering the claim in context, that its previous construction was erroneous. See *MacNeill Eng'g Co.*, 126 F. Supp. 2d at 57 (claim construction done during resolution of summary-judgment motions remained open to clarification or modification for jury at trial).

2153. See, e.g., *Toter, Inc. v. City of Visalia*, No. CVF96-6234, 1997 WL 715459, at *3 (E.D. Cal. July 14, 1997) (court finding that in case before it, “an early *Markman* hearing would not promote the interest of judicial economy”).

2154. *Id.* at *2–3.

parties to proceed with fact and expert discovery in accordance with the set schedule, so long as there is sufficient time for necessary discovery to be completed prior to the *Markman* hearing.

33.224 Requesting a *Markman* Hearing

Inextricably tied to the question of when a *Markman* hearing should be held is the court's determination of how counsel should raise the issue procedurally. Some judges have incorporated dates for hearings in early scheduling orders or resorted to the promulgated local rules to address claim construction issues, including timing.²¹⁵⁵ Others have addressed claim construction upon motion by the parties, such as a motion for claim construction or for a *Markman* hearing, or alternatively within the context of summary-judgment motions.²¹⁵⁶ The advantage of claim construction in the context of a motion for summary judgment is that only those elements of the claims that are truly in dispute will be presented for construction. Claim construction can also arise in the context of motions for injunctive relief, although the patent need not be definitively construed in such instances.²¹⁵⁷ When construing claims in conjunction with dispositive motions, however, it is important to separate the question of claim construction from other legal issues in the case. One judge noted the need not to conflate "the legal explication required by *Markman*

2155. See, e.g., *Ill. Tool Works, Inc. v. Powers Fasteners, Inc.*, No. 01C7019, 2002 WL 1160087, at *1 (N.D. Ill. May 23, 2002) (scheduling order). See generally N.D. Cal. Patent L.R. (2002) for examples of local rules governing claim construction.

2156. See, e.g., *Precision Shooting Equip., Inc. v. High Country Archery*, 1 F. Supp. 2d 1041, 1042 (D. Ariz. 1998) (motion filed by defendant seeking a *Markman* hearing); *Toter*, 1997 WL 715459, at *1 (defendant moved for *Markman* hearing pursuant to Fed. R. Civ. P. 42 or the *Markman* decision); *Ahlstrom Mach., Inc. v. Clement*, 13 F. Supp. 2d 45, 46 (D.D.C. 1998) (hearing argument supporting claim construction during hearing on motion for summary judgment); *MediaCom*, 4 F. Supp. 2d at 22 (concluding claim construction should take place within conventional motion practice and that "[f]ree-standing *Markman* hearings are of little use in actual litigation"); Schwartz, *supra* note 2115, at 121 ("The claim construction ruling can be made in a number of different contexts, including the resolution of (1) a motion for preliminary injunction, (2) a motion for summary judgment . . . , (3) a motion for judgment as a matter of law, or (4) requests for jury instructions.") (footnotes omitted). Those courts favoring early *Markman* hearings generally have held them at the close of discovery or used summary judgment as the procedural vehicle through which the claims were construed. *But see* *Control Res., Inc. v. Delta Elecs., Inc.*, 133 F. Supp. 2d 121, 126 (D. Mass. 2001) (conducting *Markman* hearing "prior to and entirely independently of the summary judgment hearing").

2157. See, e.g., *Int'l Communication Material, Inc. v. Ricoh Co.*, 108 F.3d 316, 318 (Fed. Cir. 1997); *Sofamor Danek Group, Inc. v. DePuy-Motech, Inc.*, 74 F.3d 1216, 1221 (Fed. Cir. 1996) ("*Markman* does not obligate the trial court to conclusively interpret claims at an early stage in the case.>").

with the fact finding that the Seventh Amendment ultimately reserves for the American jury.”²¹⁵⁸

33.225 Appeal

Markman implicates case management beyond when or how to conduct a hearing. One significant implication stems from the de novo standard of review applied on appeal to the court’s interpretation of the patent claim.²¹⁵⁹ The Federal Circuit has reversed a significant number of claim constructions since *Markman*.²¹⁶⁰ The parties can be assured of the certainty of the claim interpretation only after proceeding from the *Markman* hearing through discovery, trial, and posttrial motions to the Federal Circuit.²¹⁶¹ Reversal of the district court’s claim construction may result in a new trial, efforts to reopen discovery and revise expert reports, and efforts by the parties to change their theory of infringement.²¹⁶² The impact on judicial time and resources can be substantial. Although interlocutory appeal of the court’s claim construction is theoretically available, the Federal Circuit has been disinclined to grant such petitions. Another alternative is to submit claim construction issues to the jury through special verdicts or interrogatories for an “advisory determination,” which the court can either accept or reject.²¹⁶³ As discussed in section 33.223, however, delaying claim construction until after the trial can carry several disadvantages.

33.23 Defining the Issues in Patent Litigation

Patent cases often involve only one party, or a few interrelated parties, on each side of a case, but can involve more than one patent or claim and multiple allegedly infringing products, and can also include antitrust claims and con-

2158. *Control Res.*, 133 F. Supp. 2d at 126 (quoting *Amgen, Inc. v. Hoescht Marion Rousel, Inc.*, 126 F. Supp. 2d 69, 80 (D. Mass. 2001)).

2159. Although the issue of what standard of review applied on appeal was not addressed by the Supreme Court in *Markman*, the Federal Circuit in the appellate opinion held that the standard of review was de novo.

2160. *Cybor Corp. v. FAS Tech., Inc.*, 138 F.3d 1448, 1476 n.4 (Fed. Cir. 1998) (Rader, J., dissenting and concurring) (noting Federal Circuit’s rate of reversal of claim interpretations was high, reversing 53% of cases in whole or in part, and citing study reporting 40% rate of reversal of claim interpretations by Federal Circuit).

2161. *Id.* at 1476.

2162. See, e.g., *Cybor Corp.*, 138 F.3d at 1475 n.2.

2163. *Laitram Corp. v. NEC Corp.*, 62 F.3d 1388, 1394 (Fed. Cir. 1995) (treating jury’s decision on issue of claim construction, submitted by way of special interrogatories, as an advisory determination and finding that jury’s interpretation of claim was correct). See Fed. R. Civ. P. 39(c) (West 2003).

sumer class actions. The technical nature of the subject matter further complicates the action. Litigation over a patent or a series of related patents sometimes proliferates and leads to multiform federal litigation requiring coordination through MDL proceedings, the imposition of stays on redundant actions, or informal cooperative arrangements. Discovery delays can be lengthy without court management. Some of the obstacles in managing patent litigation can be avoided through consideration of the following issues before or at the initial pretrial conference:

- Is there any related litigation pending in other federal courts that would warrant transfer, dismissal, consolidation, or a stay of proceedings? In many cases, the owner of the patent has filed infringement suits against other defendants in other jurisdictions, or is defending challenges to the validity of the patent elsewhere. Piecemeal litigation in patent cases generally is disfavored.²¹⁶⁴ The initial case-management order should direct counsel to identify other cases relating to infringement of the patent, their status, and the judges to whom they are assigned. Consolidation often is warranted where more than one action involving or related to the patent is pending before the same court.²¹⁶⁵ The judge should review the cases to determine common questions of law,²¹⁶⁶ and also to ascertain whether to exercise the court's discretion to transfer pursuant to section 1404(a)²¹⁶⁷ or whether Judicial Panel on Multidistrict Litigation transfer is appropriate under 28 U.S.C. § 1407 for centralized pretrial proceedings. The MDL panel may decline to order such transfers, however, on the ground that coordination can be achieved through the cooperative efforts of the affected courts and counsel. Often the real parties in interest and the attorneys are the same, or at least related, in all of the cases.

The court also has the discretion to dismiss the case in favor of litigation pending in another jurisdiction “for reasons of wise judicial

2164. *Smiths Indus. Med. Sys., Inc. v. Ballard Med. Prods., Inc.*, 728 F. Supp. 6, 7 (D.D.C. 1989) (“Piecemeal litigation in the complex and technical area of patent and trademark law is especially undesirable. Rather, all of the parties’ related patent and trademark infringement claims should be decided in the same court.”).

2165. *See, e.g., Biochem Pharma, Inc. v. Emory Univ.*, 148 F. Supp. 2d 11, 12 (D.D.C. 2001) (separate actions filed in same court by both plaintiff and defendants challenging decision of Patent Appeal Board would be consolidated and then transferred).

2166. Fed. R. Civ. P. 42(a) (West 2003).

2167. *See Biochem Pharma*, 148 F. Supp. 2d at 13 (D.D.C. 2001) (transferring case to Georgia where “first-filed, well-advanced, related patent infringement action involving the same patent” was pending).

administration.”²¹⁶⁸ The general rule is that the first-filed suit will proceed while other pending litigation is dismissed or stayed.²¹⁶⁹ In some instances (such as where the identity of the parties is not the same or jurisdiction is unavailable over all necessary parties), the priority rule is not followed and other considerations take precedence.²¹⁷⁰ Related proceedings also may be pending before the Patent and Trademark Office, and a stay may be warranted while those proceedings are resolved.²¹⁷¹

- *Have there been any past decisions by other courts involving the same patent?* A final decision holding the patent invalid will preclude further efforts to enforce the patent against others, provided the patentee “had a full and fair chance to litigate” its validity²¹⁷² and regardless of any earlier decisions upholding the patent.²¹⁷³ In such circumstances, however, the patentee must have the opportunity to demonstrate under the factors outlined in *Blonder-Tongue Laboratories v. University of Illinois Foundation*²¹⁷⁴ that “in justice and equity”²¹⁷⁵ it should not be

2168. *Schnadig Corp. v. Collezione Europa U.S.A.*, No. 01C1697, 2001 WL 766898, at *1 (N.D. Ill. July 5, 2001); *see also* *Abbott Labs. v. Selfcare, Inc.*, No. 98C7102, 1999 WL 162805, at *2 (N.D. Ill. 1999) (granting motion to transfer to district where related action pending).

2169. *See, e.g., Amersham Pharmacia Biotech, Inc. v. Perkin-Elmer Corp.*, 190 F.R.D. 644, 645 n.1 (N.D. Cal. 2000) (noting case had been stayed for six months pending resolution of arbitration demand in related litigation).

2170. *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 938 (Fed. Cir. 1993) (“There must, however, be sound reason that would make it unjust or inefficient to continue the first-filed action. Such reason may be the convenience and availability of witnesses, or absence of jurisdiction over all necessary or desirable parties, or the possibility of consolidation with related litigation, or considerations relating to the real party in interest.”); *see also* *Kahn v. Gen. Motors Corp.*, 889 F.2d 1078, 1081–83 (Fed. Cir. 1989) (discussing exceptions to first-filed rule); *William Gluckin & Co. v. Int’l Playtex*, 407 F.2d 177, 178 (2d Cir. 1969) (priority given to second-filed suit where defendant in first suit was customer and balance favored letting second suit proceed); *Schnadig*, 2001 WL 766898, at *1–2 (denying motion to transfer and staying action pending resolution of motion to dismiss for lack of jurisdiction and to transfer in related action filed in another jurisdiction).

2171. Reexamination and reissues are proceedings where stays may be sought pending resolution of the PTO proceedings.

2172. *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 333 (1971).

2173. *Miss. Chem. Corp. v. Swift Agric. Chems. Corp.*, 717 F.2d 1374, 1378 (Fed. Cir. 1983). Although a finding of validity does not preclude subsequent challenges to the patent, it is entitled to some weight. The rationale behind the rule that a single finding of invalidity is fatal to the patent but a finding upholding the patent does not rule the patent valid as against all others, is that although one challenger may be unable to introduce clear evidence of invalidity, another challenger may be able to do so.

2174. 402 U.S. 313, 334 (1971).

collaterally estopped by the adverse decision. On the other hand, a decision upholding the validity of the patent will not bar a new defendant from attacking the patent, and such a decision is not necessarily binding even on the same court under the doctrine of *stare decisis*.

- *Are there multiple patents or claims at issue in the case, and has the plaintiff identified all of the defendant's allegedly infringing products or processes?* Cases involving multiple patents, each with multiple claims, can be a source of confusion, resulting in unduly lengthened and expanded pretrial and trial proceedings. Consider encouraging the parties to agree to proceed on a limited number of representative claims and disputed models, so that findings regarding infringement on the representative claims will apply to all claims.²¹⁷⁶ This may simplify the action and reduce jury confusion.
- *Is venue appropriate?* Section 1400(b) of Title 28 of the U.S. Code governs venue determinations in patent infringement cases. A corporate defendant “is said to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced.”²¹⁷⁷ Thus, in many cases the determination of proper venue and personal jurisdiction coalesce into a single inquiry.²¹⁷⁸ In cases involving multiple defendants, venue must be proper as to each defendant.²¹⁷⁹ Venue relating to other causes of action involving a patent are subject to the general venue statute.²¹⁸⁰
- *Is the case subject to arbitration?* Section 294 of Title 35 provides for voluntary arbitration in patent cases. Agreements to arbitrate must be in writing and usually will be found in license agreements or technology transfer agreements. Issues that can arise include choice of law provisions, whether any arbitration award will be *res judicata* as to issues that were or could have been raised in arbitration, and whether

2175. *Id.*

2176. *See, e.g., Thomson, S.A. v. Quixote Corp.*, 166 F.3d 1172, 1173 (Fed. Cir. 1999) (parties agreed to base outcome of trial on three representative claims); *Renishaw PLC v. Marposs Societa' Per Azioni*, 974 F. Supp. 1056, 1061 (E.D. Mich. 1997) (parties agreed to try case on basis of representative claims, and resolution of those claims would “constitute a final resolution of all the asserted patents as if the case had been tried without representative claims”). *See also* James M. Amend, *Patent Law: A Primer for Federal District Court Judges* 21–22 (1998).

2177. 28 U.S.C. § 1391(c) (West 2003).

2178. *See, e.g., VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1584 (Fed. Cir. 1990); *Cook Group, Inc. v. Purdue Res. Found.*, No. IP02-0406-C-M/S, 2002 WL 1610951, at *1, 2 (S.D. Ind. June 24, 2002).

2179. *Cook Group*, 2002 WL 1610951, at *2 n.1.

2180. 28 U.S.C. § 1391 (West 2003).

collateral estoppel will apply (although section 294 may limit any preclusive effect against nonparties).

- *Is there a need for judicial education?* The judge often will need some general explanation of the substance and terminology of the science or technology addressed by the patent before dealing with the issues in the case or developing a plan for discovery and trial. Some judges ask counsel to provide a concise and objective overview—orally, in writing, or on tape or CD—of these technical matters, including a definition of key terms and concepts, at or before the initial conference. To encourage candor, consider directing that these statements not bind the parties and not be used later in the proceedings. Increasingly, judges are seeking additional pretrial briefing on relevant technological or scientific issues.²¹⁸¹ Although experts will address those issues in their trial testimony, the court may find it more helpful to learn the fundamentals—the vocabulary and general intellectual framework of the subject matter—in a setting with less immediate time constraints in order to deal more intelligently with issues during the trial. Requesting that tutorials be videotaped will allow the court to review the technology behind the patent as often as necessary over the course of the litigation.
- *Is referral to a magistrate judge, special master, or court-appointed expert warranted?* Use of a magistrate judge or court-appointed expert may be warranted in handling discovery in patent cases or in assisting the judge in understanding the technology involved.²¹⁸² Courts also have appointed special masters, with technological expertise in the area, to provide a report and recommendation on technical issues or claim construction in patent cases.²¹⁸³

2181. See, e.g., *Affymetrix, Inc. v. Hyseq, Inc.*, 132 F. Supp. 2d 1212, 1216 (N.D. Cal. 2001) (tutorial and hearing to assist in claims construction); *Xilinx, Inc. v. Altera Corp.*, No. 93-20409SW, 1997 WL 581426, at *1 (N.D. Cal. 1997) (scheduling order issued by court included dates for tutorial and claim-construction hearing).

2182. See, e.g., *TechSearch, L.L.C. v. Intel Corp.*, 286 F.3d 1360, 1368 (Fed. Cir. 2002) (technical advisor); *In re Omerprazole Patent Litig.*, No. MDL 1291, 2001 WL 394843, at *1 (S.D.N.Y. May 18, 2001) (referral to special master for scheduling discovery and protective orders).

2183. See, e.g., *Festo Corp. v. Soketasu Kinsoku Kogyo Kabushiki Co.*, 72 F.3d 857, 865 (Fed. Cir. 1995) (noting district court found case “sufficiently complicated to be referred to a special master for hearing and recommendations on the issues of patent validity and infringement”), *vacated on other grounds*, 520 U.S. 1111 (1997); *Rohm & Haas Co. v. Lonza Inc.*, 997 F. Supp. 635, 638 n.1 (E.D. Pa. 1998) (retaining independent expert to act as technical adviser to

- *Has the plaintiff alleged willful infringement or is the defendant claiming inequitable conduct?* Whether the defendant engaged in willful infringement is an issue for the jury, while issues relating to the plaintiff's inequitable conduct usually require a separate bench trial. Assertions of the defendant's willful infringement or of the patentee's inequitable conduct or fraud on the PTO²¹⁸⁴ may further complicate discovery and trial by opening the door to discovery into matters otherwise protected by attorney–client privilege. Where these assertions have substance, discovery into matters normally protected by attorney–client privilege may be warranted and can undermine the effectiveness of litigation counsel.²¹⁸⁵ Relevant issues include whether litigation counsel was involved in the prosecution of the patent before the PTO or provided pre-litigation advice regarding validity in cases where the patentee is alleged to have acted with unclean hands. A willful infringement claim may require inquiry into whether the defendant continued to market a product after notice of a patent, and whether the defendant received advice of counsel.²¹⁸⁶
- *Should the case be bifurcated?* Consider whether to bifurcate, or even trifurcate, issues for purposes of discovery and for trial. Federal Rule of Civil Procedure 42(b) states “[t]he Court, in furtherance of convenience or to avoid prejudice, or when separate trials will be conducive to expedition and economy, may order a separate trial . . . of any issue” Bifurcation is appropriate where determination of one issue could wholly eliminate the need to try another complicated or time-consuming issue, where used to negate prejudice to a party, and where the need to examine the same witnesses in both phases of the sepa-

court); *Xilinx*, 1997 WL 581426, at *1 (appointing independent technical advisor to assist in understanding the relevant technology).

2184. An assertion that the patentee acted with unclean hands, which is typically based on an alleged misrepresentation or failure to disclose pertinent prior art or test results, merits attention by the court. Fraud may be asserted not only as a defense to the infringement claim, but also as part of the foundation for an antitrust counterclaim. *See Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 173–74 (1965).

2185. *See, e.g., Clintec Nutrition Co. v. Baxa Corp.*, No. 94C7050, 1998 WL 560284, at *4, 5 (N.D. Ill. Aug. 26, 1998) (granting protective order preventing defendant from calling plaintiff's lead trial counsel in proving willful infringement where other witnesses could testify to the meeting at issue).

2186. *Fromson v. W. Litho Plate & Supply Co.*, 853 F.2d 1568, 1572–73 (Fed. Cir. 1988); *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389–90 (Fed. Cir. 1983).

rated trial would be minimal.²¹⁸⁷ The most common type of bifurcation in patent cases involves separating issues of liability from damages. In many patent cases, severing damages from other issues will simplify the fact-finder's task.²¹⁸⁸ Bifurcation of the damages issue may be particularly appropriate where multiple patents are involved.²¹⁸⁹ Issues of willfulness²¹⁹⁰ or equitable defenses²¹⁹¹ are potential candidates for bifurcation,²¹⁹² and separating antitrust counterclaims also is common. Deferral of claims asserting unfair competition or antitrust until resolution of the patent issues frequently results in the claims' voluntary dismissal or settlement. In determining whether bifurcation is appropriate, the judge in *THK America Inc. v. NSK Co.*²¹⁹³ cited these

2187. *HCC, Inc. v. R H & M Mach. Co.*, No. 96 CIV. 4920, 1998 WL 849417, at *1 (S.D.N.Y. Dec. 4, 1998) (finding that bifurcation of liability and damages in case before it would result in duplicative testimony and would be inefficient) (citations omitted).

2188. See, e.g., *Pioneer Hi-Bred Int'l, Inc. v. Asgrow Seed Co.*, No. CIV. 4-98-CV-90577, 90578, 2000 WL 33363188, at *3 (S.D. La. May 5, 2000) (concluding the bifurcation of patent and nonpatent issues was not appropriate "due to the complexity of, and inter-relationship among, the issues," but finding bifurcation of liability and damages warranted). Trifurcation of the statutory issues, equitable defenses, and damages may be advisable. *But see* T.S. Ellis, *Judicial Management of Patent Litigation in the United States: Expected Procedures and Their Effects*, 9 Fed. Cir. B.J. 541, 545 n.11 (2000) (commenting that "[i]n my experience, more often than not, bifurcating the liability and damages issues in the typical patent case does not result in the speedy and efficient resolution of the entire case").

2189. See Ellis, *supra* note 2188, at 545 n.11 ("In such cases bifurcation can lead to a more expeditious and efficient resolution of the case, especially where there are substantial validity and infringement issues and damages proof may vary depending on which, and how many, of a group of patents are held valid and infringed.").

2190. The Federal Circuit has recommended that the willfulness issue be bifurcated for later trial to avoid unfairness. See, e.g., *Quantum Corp. v. Tandon Corp.*, 940 F.2d 642, 643-44 (Fed. Cir. 1991). *But see* *Belmont Textile Mach. Co. v. Superba, S.A.*, 48 F. Supp. 2d 521, 526 (W.D.N.C. 1999) (stating that bifurcation of trial on issues of willfulness and liability "would cause greater delay and might complicate the proceedings by creating a piecemeal quality to the trial, making it harder for the trier of fact to see the case as a whole").

2191. See, e.g., *Herman v. William Brooks Shoe Co.*, No. 95 CIV. 1324, 1998 WL 832609, at *1 (S.D.N.Y. Dec. 1, 1998) (granting motion to reconsider prior order bifurcating trial on issue of inequitable conduct from trial on issue of validity and infringement).

2192. See, e.g., *In re Recombinant DNA Tech. Patent & Contract Litig.*, 850 F. Supp. 769 (S.D. Ind. 1993, 1994) (bifurcation of liability and damages warranted where case involved "extremely complicated technology" in both patent and genetics); *Lemelson v. Apple Computer, Inc.*, 28 U.S.P.Q.2d (BNA) 1412, 1421-24 (D. Nev. June 3, 1993); *THK Am., Inc. v. NSK Co.*, 151 F.R.D. 625, 632-34 (N.D. Ill. 1993) (affirming magistrate order denying bifurcation, and noting defendant's motion seeking bifurcation with two separate trials and two discovery periods was too broad and bifurcation would be costly and duplicative).

2193. 151 F.R.D. 625 (N.D. Ill. 1993).

factors as relevant: “(1) convenience; (2) prejudice; (3) expedition; (4) economy; (5) whether the issues sought to be tried separately are significantly different; (6) whether they are triable by jury or the court; (7) whether discovery has been directed to a single trial of all issues; (8) whether the evidence required for each issue is substantially different; (9) whether one party would gain some unfair advantage from separate trials; (10) whether a single trial of all issues would create the potential for jury bias or confusion; and (11) whether bifurcation would enhance or reduce the possibility of a pretrial settlement.”²¹⁹⁴

Complaints in patent infringement usually consist of broadly drafted, generalized claims of infringement sufficient to satisfy Federal Rule of Civil Procedure 8, but are otherwise of little assistance to the court or the parties. Rule 9(b) governs allegations of fraud and may afford a basis for early dismissal of inadequately pleaded fraud claims. Although an adequate basis for these allegations may exist for purposes of Rule 11, many may prove to be without merit. In addition, answers tend to be pleaded generally—for example, by alleging noninfringement and invalidity without specifying more than the applicable statutory section. In many cases, defendants probably cannot provide an answer in substantial detail if the lawsuit is the first notice regarding alleged infringement of the patent. As a preliminary matter, the defendant will need to order the file history for the patent from the PTO, which often takes several weeks even if a request is made to expedite handling. The defendant also will need to search for prior art, which, depending on the technology, may take months of diligent searching.

Of course, the nature of a patent infringement claim or invalidity defense encourages strategies to delay producing information through discovery or otherwise until the opposing side has disclosed the basis for its claims, contributing to lengthy delays and high costs. One approach is to require the parties to submit detailed statements of their claims and defenses early in the litigation, either at the outset of the case, as part of a discovery scheduling order, or, where the accused product is unavailable or otherwise not subject to examination, following limited discovery.²¹⁹⁵ The plaintiff’s statement is generally expected to contain a detailed explanation of the infringement contentions, perhaps through an element-by-element claims chart for each infringement claim asserted. The claims chart’s purpose is to specify how each element of a claim is present in or “reads on” the allegedly infringing product or process. The de-

2194. *Id.* at 632.

2195. *See, e.g.*, N.D. Cal. Patent L.R. 3.1 (2002) (Disclosure of Asserted Claims and Preliminary Infringement Conditions).

defendant similarly would be required to respond in a corresponding level of detail, including disclosures of all prior art relied upon to support challenges to the patent's validity.²¹⁹⁶ Because claims of infringement and validity are closely intertwined, the parties may seek to avoid disclosures, or they may provide disclosures that lack sufficient detail. "First, the plaintiff does not want to be pinned down to a claim construction until it knows what prior art exists . . . [T]he defendant does not want to disclose the prior art it knows of, or its contentions as to how this art invalidates the claims asserted against it, until after plaintiff announces its claim construction."²¹⁹⁷ Accordingly, the court should scrutinize actions by the parties that are designed to delay disclosures (such as requests for additional discovery); the court should also balance the competing interests in setting disclosure dates.

With judicial encouragement, counsel may be willing to drop marginal claims or defenses at the time of the initial conference, or at least agree that discovery on those issues should be deferred. Consider at the initial pretrial conference whether multi-staged discovery is appropriate, and then set a discovery schedule that affords sufficient time at each stage to permit the parties to obtain factual support for their claims. Depending on how discovery is structured, it may be helpful to set a date at the initial conference by which time the defendant will be required to state those defenses it expects to litigate. The court might also require disclosure of all prior art that the defendant will use to challenge the patent. Under 35 U.S.C. § 282, disclosure of prior art must be made "at least thirty days before the trial." In order to permit adequate time for trial preparation, however, generally it is wise to fix an earlier deadline.

33.24 Injunctive Relief

Intellectual property cases often are candidates for requests for injunctive relief.²¹⁹⁸ Preliminary injunctive relief in patent cases protects the value of the statutory right to exclude, which cannot always be compensated through money damages.²¹⁹⁹ Under the traditional test, followed by the Federal Circuit,²²⁰⁰ a plaintiff seeking a preliminary injunction must demonstrate that

2196. *Id.* at 3.3.

2197. Amend, *supra* note 2176, at 19.

2198. 35 U.S.C. § 283 (2000) authorizes injunctive relief in patent cases.

2199. See, e.g., *Hybritech Inc. v. Abbott Labs.*, 849 F.2d 1446, 1456–57 (Fed. Cir. 1988) ("[B]ecause the principal value of the patent is its statutory right to exclude, the nature of the patent grant weighs against holding that monetary damages will always suffice to make the patentee whole.").

2200. See, e.g., *High Tech. Med. Instrumentation Inc. v. New Image Indus., Inc.*, 49 F.3d 1551 (Fed. Cir. 1995).

(1) it will suffer irreparable injury absent the injunction, (2) its injury will outweigh the harm imposed upon the defendant if the injunction is granted,²²⁰¹ (3) it is likely to succeed on the merits of the case,²²⁰² and (4) issuance of an injunction will not adversely affect the public interest. This four-factor test applies to temporary restraining orders as well. To carry its burden of proving a likelihood of success at trial, the plaintiff must show that the patent is valid²²⁰³ and that it has been infringed. A showing of reasonable likelihood of success and irreparable injury are crucial factors supporting issuance of an injunction in patent cases. Failure to meet either will result in an injunction's denial regardless of findings on the remaining factors,²²⁰⁴ although the court must consider all four factors in granting an injunction.²²⁰⁵ The Federal Circuit has held, however, that where the defendant raises a "substantial question of invalidity," the plaintiff has not met its burden on the validity of the patent and a preliminary injunction will be denied.²²⁰⁶ In addition, although irreparable injury will be presumed upon "a strong showing of likelihood of success on the merits coupled with continuing infringement,"²²⁰⁷ this presumption can be rebutted

2201. See, e.g., *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1025 (9th Cir. 2001) ("Any destruction of Napster, Inc. by a preliminary injunction is speculative compared to the statistical evidence of massive, unauthorized downloading and uploading of plaintiffs' copyrighted works—as many as 10,000 files per second by defendant's own admission.").

2202. Schwartz, *supra* note 2115, at 173 ("[A] patent owner will show a reasonable likelihood of success on the merits if, in light of the presumptions and burdens that apply during trial, the patent owner clearly shows that (a) it will likely prove infringement and (b) its claim will likely withstand a challenge to the validity and enforceability of the patent . . ."). As part of their burden of showing a likelihood of success on the merits, plaintiffs must show the likelihood that they will prevail against any affirmative defenses. See, e.g., *Dr. Seuss Enters. v. Penguin Books USA*, 924 F. Supp. 1559, 1562 (S.D. Cal. 1996) ("The plaintiff's burden of showing a likelihood of success on the merits includes the burden of showing a likelihood that it would prevail against any affirmative defenses raised by the defendant." (copyright/trademark case)), *aff'd*, 109 F.3d 1394 (9th Cir. 1997).

2203. *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1359 (Fed. Cir. 2001) ("The patentee must, however, present a clear case supporting the validity of the patent in suit . . . Such a case might be supported, for example, by showing that the patent in suit had successfully withstood previous validity challenges in other proceedings. Further support for such a clear case might come from a long period of industry acquiescence in the patent's validity.") (citation omitted).

2204. *Reebok Int'l Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1556 (Fed. Cir. 1994).

2205. *Id.* at 1556 (Fed. Cir. 1994) ("a district court must consider all four factors before granting a preliminary injunction to determine whether the moving party has carried its burden of establishing each of the four").

2206. *Amazon.com*, 239 F.3d at 1362–63.

2207. *Reebok Int'l*, 32 F.3d at 1556.

by the defendant.²²⁰⁸ For example, a showing that the plaintiff delayed in seeking an injunction is evidence that the plaintiff has not suffered irreparable harm.²²⁰⁹

Markman hearings are sometimes held in conjunction with preliminary injunction motions, because a determination of reasonable likelihood of success can require construction of the patent in order to assess whether the patent has been infringed by the defendant's product or process. Claims construction conducted at injunction proceedings is not always definitive, however, and the court might change its interpretation of the patent as the litigation progresses. In addition, the parties sometimes request expedited discovery prior to a hearing on injunctive relief.²²¹⁰ In some instances, granting a motion for expedited discovery may be appropriate: more developed records prior to the preliminary injunction hearing will better enable the court to judge the parties' interests and respective chances for success on the merits. In such cases, discovery should be limited in scope to information needed to respond to the motion for injunctive relief.²²¹¹ The parties should be encouraged to reach an agreement prior to a hearing. To this end, consider requiring the parties to meet and confer to determine whether resolution of the issues raised in the motion for injunctive relief is feasible through a stipulated order, eliminating the need for court intervention.

Federal Rule of Civil Procedure 65(c) requires successful plaintiffs to post a bond for damages incurred by the enjoined party in the event that the injunction was wrongfully issued. The enjoined party also may request a stay of the

2208. *Roper Corp. v. Litton Sys., Inc.*, 757 F.2d 1266, 1272 (Fed. Cir. 1985). *See, e.g., Reebok Int'l*, 32 F.3d at 1557–58 (holding that defendant successfully rebutted presumption of irreparable harm by showing the product allegedly infringed is no longer produced or available for sale by plaintiff and money damages adequate to compensate); *Ill. Tool Works v. Grip-Pak, Inc.*, 906 F.2d 679, 681–82 (Fed. Cir. 1990).

2209. *See, e.g., Hybritech Inc. v. Abbott Labs*, 849 F.2d 1446, 1457 (Fed. Cir. 1988).

2210. *Phila. Newspapers, Inc. v. Gannett Satellite Info. Network, Inc.*, No. CIV.A. 98-CV-2782, 1998 WL 404820, at *1–2 (E.D. Pa. July 15, 1998); *Jay's Custom Stringing, Inc. v. Yu*, No. 01CIV.1690, 2001 WL 761067, at *1 (S.D.N.Y. July 6, 2001) (denying temporary restraining order (TRO) and granting expedited discovery and accelerated briefing on the motion for preliminary injunction (not an intellectual property case)); *Chere Amie, Inc. v. Windstar Apparel, Corp.*, 191 F. Supp. 2d 343, 344 (S.D.N.Y. 2001) (expedited discovery pursuant to motion for preliminary injunction). *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1516 (9th Cir. 1992); *Wallace Int'l Silversmiths, Inc. v. Godinger Silver Art Co.*, 916 F.2d 76, 78 (2d Cir. 1990) (declining to order expedited discovery). Motions for TROs are often accompanied by motions for expedited discovery.

2211. *See, e.g., Phila. Newspapers*, 1998 WL 404820, *2 (E.D. Pa. 1998) (noting that “courts generally deny motions for expedited discovery when the movant's discovery requests are overly broad”).

injunction pending appellate review. (Appellate review of the grant or denial of a preliminary injunction is for abuse of discretion.) In such instances, the court may conclude that although a stay is not warranted, some additional time is appropriate before the injunction becomes effective.²²¹²

33.25 Discovery

Discovery sometimes can be conducted according to a prescribed sequence of issues, particularly if severed trials are contemplated under Federal Rule of Civil Procedure 42(b).²²¹³ At the pretrial conference, however, it is helpful to discuss with the parties whether discovery on priority issues will involve examination of the same witnesses and exhibits as discovery on the subsequent issues, causing unnecessary expense and delay,²²¹⁴ and whether deferral of discovery regarding damages may complicate efforts to evaluate the litigation for settlement.

Limitations on the scope of discovery may be appropriate where the court already has construed the patent claims. Regardless of the timing of the claim construction, however, the parties should be prohibited from offering alternative constructions throughout the litigation and thereby expanding the scope of discovery. Where the court has determined that a *Markman* hearing will be held post-discovery, one option is to offer a window of additional and narrowly prescribed discovery post-claim construction, to take into account the judge's interpretation and minimize prejudice to one of the parties arising out of an unexpected interpretation of the claim.

The large number of motions to compel in patent cases may result from legitimate differences of opinion between the parties as to the interpretation to be given terms of art used in discovery requests, thereby causing disputes over whether information falls within the scope of the request. In other instances, the responding party may be using differing definitions to avoid producing information that may be harmful to its case. Instructing the parties that all terms of art used in discovery are to be read broadly, inclusive of all applicable

2212. See Schwartz, *supra* note 2115, at 176–78 (noting that four factors similar to those considered in granting or denying the injunction are considered in deciding whether the injunction should be stayed).

2213. See, e.g., *Pioneer Hi-Bred Int'l, Inc. v. Asgrow Seed Co.*, No. CIV. 4-98-CV-90577, 90578, 2000 WL 33363188, at *1–3 (S.D. La. May 5, 2000) (considering whether discovery should be staged).

2214. *Pioneer*, 2000 WL 33363188, at *3 (granting motion to stay discovery on issue of damages until after liability is determined).

definitions, will minimize motions to compel and accompanying requests for sanctions.²²¹⁵

Allegations of willful infringement present thorny discovery disputes. It is best to ascertain at the initial pretrial conference the extent to which discovery will be sought of matters that may be protected by the attorney–client privilege or work-product doctrine and, if so, whether disclosure will be resisted. Reliance on opinions of counsel is the only prudent course for a defendant to follow in litigation. However, once the defendant asserts reliance on the advice of counsel, the defendant voluntarily waives privilege over the opinion itself, and straightforward application of the general case law regarding voluntary privilege waivers can lead to unanticipated results.²²¹⁶ For example, application of “subject–matter waiver” would require the defendant to disclose all privileged communications on the subject of the opinion—typically infringement and validity. On its face, this approach would require disclosure of all communications with counsel, including trial counsel, regarding infringement and validity.²²¹⁷ If treated also as a traditional waiver of work-product immunity, the waiver would result in disclosure of all of trial counsel’s internal communication and trial preparation materials. Recognizing this dilemma, courts have tended toward practical solutions that balance a plaintiff’s reasonable inquiry into the circumstances surrounding the opinion of counsel and the defendant’s right to mount a defense and maintain confidential communications with trial counsel.²²¹⁸ Consider whether the privilege has been waived and the need to control the scope of discovery from counsel or clients to ensure that the privilege is respected. Particularly in nonjury cases, the trial judge may conclude that it is feasible to call on another judicial officer to conduct any in camera inspections necessary to determine whether sufficient evidence of fraud exists for the privilege to be waived. Use of a special master may be warranted if such

2215. See Amend, *supra* note 2176, at 25–26.

2216. In *Novartis Pharm. Corp. v. Eon Labs. Mfg., Inc.*, 206 F.R.D. 396, 399 (D. Del. 2002), Judge Farnan held that the alleged infringer waived privilege to withhold from discovery any documents or material related to counsel’s noninfringement opinion, including work product.

2217. *VLT, Inc. v. Artesyn Tech., Inc.*, 198 F. Supp. 2d 56, 57 (D. Mass. 2002) (stating that “opinion of counsel letter as part of a defense to a claim of willful infringement operates as a subject matter waiver”).

2218. For example, in situations where the opinion of counsel was prepared by a lawyer at a firm different from trial counsel, courts will limit the waiver to communications with “opinion counsel.” Where the opinion of counsel was prepared by the same firm as the firm serving as trial counsel, but by a lawyer not actively involved in the litigation or a part of the litigation team, courts again often limit disclosure to communications between the opinion writer and the client representative who received the opinion. However, the thorniest issues arise where the opinion writer is an active part of the trial team, although this circumstance is becoming exceedingly rare, in part because of the potential for the opinion writer to be a witness at trial.

disputes will be extensive and cannot be resolved by considering a few specimen documents.

It is helpful to inquire early about use of out-of-court “tests” of allegedly infringing products (including software in copyright actions) or in-court demonstrations. If tests are contemplated, protocols should be established at an early conference with respect to whom may attend or observe, criteria to permit use of the results in court, and when to disclose the results. It is also advisable to set a deadline for pretrial disclosure of any such tests or proposed demonstrations and indicate when objections to the admissibility of such evidence will be considered.

Discovery delays may be eliminated by entering protective orders prior to initial discovery being served. Some courts have incorporated standing protective orders as part of the initial pretrial conference;²²¹⁹ however, the particular patent case may dictate a more tailored order. The parties may prefer restricting disclosure of particularly sensitive information—such as production processes and customer information—to counsel and their experts. This procedure is acceptable, but counsel should be cautioned to exercise restraint in designating materials as confidential.²²²⁰ Issues may also arise where a party’s patent counsel or in-house counsel is also counsel of record in the litigation. In such cases, consider “the nature and extent of the risk involved and the efficacy of protective measures that have been or can be imposed”²²²¹ in determining whether to permit access to the opposing party’s confidential information. Relevant considerations might include whether counsel is in-house or at an outside firm, as well as his or her activities, including any involvement in matters relating to product design or related competitive decisions.²²²² To the extent access is permitted, also consider including a provision in the protective order that restricts any participation in the prosecution of patent applications in the technical area at issue for a designated period of time.²²²³ It is best to address early the identification of experts who will review confidential materials.

2219. See *infra* section 40.25 for a sample order regarding preservation of documents, data, and tangible things.

2220. See also *In re Omerprazole Patent Litig.*, No. MDL 1291, 2001 WL 394843, at *1 (S.D.N.Y. Apr. 18, 2001) (protective order would contain safeguards that avoided inadvertent disclosure of “attorney confidential” information).

2221. Pooley, *supra* note 2107, § 11.03[3] (“[T]hose who object to house counsel access will make an argument . . . [that] no matter the saintly good faith of the individual, there are circumstances in which one’s information is put in jeopardy because of influential, indirect use that may not only be undetectable after the fact by the owner, but may occur beyond the awareness of the person to whom it was entrusted.”).

2222. *Id.*

2223. *Id.* § 11.03[4].

In some cases the parties may prefer to have review of such information done by a court-appointed expert or special master, rather than by someone associated with their adversary. For further protection, filing of sensitive documents may either be waived under Federal Rule of Civil Procedure 5(d) or be made under seal. Finally, consider circumstances under which a party may seek modification of the order and whether, and to what extent, any protective orders should provide for the protection of confidential information that may be sought from third parties.

33.26 Experts

Expert witnesses in patent cases typically fall into one of two categories: (1) technical and damage experts; and (2) patent law experts. Technical experts are those whose special training or experience in the applicable technology or science qualifies them to express opinions bearing on

- the validity or invalidity of the patent, such as the scope and content of the prior art, the level of skill in the art, and the obviousness or nonobviousness of the claimed invention in view of the prior art; and
- whether with respect to the alleged infringement the elements of the claim are met by the accused product or process.

Technical experts include both experts retained by the parties, as well as experts appointed by the court pursuant to Federal Rule of Evidence 706. Damages experts usually have training in accounting, patent licensing, and economics, and will testify about such issues as reasonable royalty, lost profits, price erosion, convoyed sales, and the proper definition of the relevant market. Patent law experts—patent attorneys, patent law professors, or former officials of the PTO—are frequently offered to express background in the form of opinions on the patent process, the duty of disclosure to the PTO, and whether or not that duty has been violated by particular acts or omissions during the prosecution of the patent. The use of patent law experts is controversial and their acceptance varies widely from court to court.²²²⁴

2224. See, e.g., *Endress + Hauser, Inc. v. Hawk Measurement Sys. Pty. Ltd.*, 122 F.3d 1040, 1042 (Fed. Cir. 1997) (stating “this court has on numerous occasions noted the impropriety of patent lawyers testifying as expert witnesses and giving their opinion regarding the proper interpretation of a claim as a matter of law, the ultimate issue for the court to decide”); *Talarico v. Marathon Shoe Co.*, 182 F. Supp. 2d 102, 113–14 (D. Me. 2002) (patent attorney’s testimony helped to articulate defendant’s defense); *Neupak, Inc. v. Ideal Mfg., Sales Corp.*, 168 F. Supp. 2d 1012, 1016–17 (D. Minn. 2001) (patent attorney allowed to testify); *Biomedical Polymers, Inc. v. Evergreen Indus., Inc.*, 976 F. Supp. 98, 100 (D. Mass. 1997) (noting court has discretion whether it will adopt expert legal opinion as own, use it for guidance, or ignore or exclude it).

The Supreme Court’s decision in *Markman* has affected the role of expert testimony in patent cases. Although expert testimony remains admissible in a *Markman* hearing—to aid the court’s understanding of the technology involved where the patent claim is ambiguous, or to explain the meaning of terms of art within the relevant field as one skilled in the art would understand them—the Court cautioned that the trial court is “not, however, obliged to blindly follow such testimony.”²²²⁵ Accordingly, consider the purpose for which expert testimony is being offered and whether, in light of the claim language, such testimony is necessary or would aid in understanding the technology or terms of art as needed to construe the claim.²²²⁶

Setting rules to govern the scope of expert discovery is advisable. Expert reports in patent cases are often extremely complex, and a lengthy report typically will require significant back and forth between expert and counsel. Consider what types of expert material should be produced—for example, technical documents that the expert relied on in forming opinions—and whether draft reports should be excluded from production. At trial, expert testimony should be monitored to ensure that testimony regarding construction or interpretation of the claim is not offered. Expert testimony remains appropriate, however, to explain the technology to the jury. Expert testimony may be appropriate to assist the jury in assessing the accused product or process in light of the claim construction by the court, so that the jury can determine whether the accused product has infringed the claims, either literally or under the doctrine of equivalents. Examples of other areas where expert testimony may prove helpful include the patent examination process and the qualifications of a person of ordinary skill in the art.²²²⁷ Testimony by patent law experts should be avoided where the testimony seeks to give legal opinions or attempts to address “reasonable reliance” by the client on advice of counsel.²²²⁸

The court may also conclude that an independent expert should be appointed under Federal Rule of Evidence 706, particularly if the subject matter is complex and the differences between the experts offered by the parties are

2225. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 387 (1996) (quoting A. Walker, *Patent Laws* § 189, at 173 (3d ed. 1895)).

2226. *See, e.g., Chad Indus., Inc. v. Automation Tooling Sys., Inc.*, 938 F. Supp. 601, 605 (C.D. Cal. 1996).

2227. Amend, *supra* note 2176, at 28. As this is usually stipulated to or established as a predicate fact in the *Markman* hearing, such testimony may be unnecessary.

2228. *See, e.g., Clintec Nutrition Co. v. Baxa Corp.*, No. 94C7050, 1998 WL 560284, at *9 (N.D. Ill. Apr. 26, 1998) (rejecting proposed expert testimony during the *Markman* hearing “as to what the law is” and stating that the expert may only “help interpret the patent and the meaning of its claims, discuss scientific principles, and define terms”).

not attributable to factual disputes that a trial can readily resolve.²²²⁹ For example, such an expert may be helpful if the parties' facilities or processes need to be inspected and they are reluctant to permit access by the opposing experts. A number of issues, including the timing, selection, discovery, and compensation of court-appointed experts, their specific duties, and the handling of expert communications, all require consideration by the court. Limiting the use of court-appointed experts to explaining the general subject matter, without becoming involved in the disputes of the parties, will make it easier to maintain neutrality. The court-appointed expert should generally have no *ex parte* communications with the judge. Finally, consideration may also be given to referral of the patent for reexamination by the PTO under 35 U.S.C. § 302, with citations of prior art furnished under 35 U.S.C. § 301. In some cases, the court may conclude that reference to a special master under Federal Rule of Civil Procedure 53 is warranted.

33.27 Trial

To ensure a fair trial, whether it is a bench trial or a jury trial, the factfinder's comprehension of the issues and of the evidence is critical. Bifurcation of a patent jury trial or a phased trial considering major issues separately can sometimes assist in properly focusing the jury's attention.²²³⁰ For example, issues of infringement can be tried prior to other issues in the case, with the issue of remedies, including damages, often deferred.²²³¹ On the other hand, bifurcation sometimes results in a "piecemeal" trial, making it harder for the jury to see the case as a whole.²²³² Additional techniques designed to improve juror comprehension, as well as to assist in reducing the complexity of patent trials, are discussed in *Patent Law & Practice*,²²³³ published by the Federal Judicial Center. These techniques include

2229. See, e.g., *MediaCom Corp. v. Rates Tech., Inc.*, 4 F. Supp. 2d 17, 23–24 (D. Mass. 1998); *Genentech, Inc. v. Buehringer Mannheim GmbH*, 989 F. Supp. 359, 361 (D. Mass. 1997); *Rodime PLC v. Seagate Tech., Inc.*, No. CV92-6855, 1997 WL 813016, at *1 (S.D. Cal. July 3, 1997) (using court-appointed expert and special master in assessing scope of patent under doctrine of equivalents).

2230. See also Schwartz, *supra* note 2115, at 217 (noting that "jurors may benefit from being able to: (a) consider different patents separately, (b) consider different claims of the same patent separately, or (c) separate method claims from apparatus claims").

2231. Even where infringement has not occurred, the court must still try the issue of the validity of the patent. See *Stevenson v. Sears, Roebuck & Co.*, 713 F.2d 705 (Fed. Cir. 1983).

2232. Schwartz, *supra* note 2115, at 216.

2233. *Id.*

- imposing reasonable time limits on the length of a trial;²²³⁴
- conducting a multiphase trial of the issues before the same jury;²²³⁵
- encouraging the use of juror tutorials at the outset of or during the trial;
- imposing limits on the number of expert witnesses and duplicative fact witnesses;
- encouraging the use of charts, diagrams, models, and other visual aids;
- providing the jurors with exhibit notebooks containing, in addition to the principal exhibits, the patent, any stipulations, preliminary instructions, claim construction (if done at the pretrial phase) and a glossary of technical terms; and
- allowing the parties to provide periodic nonargumentative summations to the jury.

33.3 Copyright and Trademark Law

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33.31 Copyright

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Section 102 of the Copyright Act provides specifically that copyright protection is accorded to “original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”²²³⁶ Under the Act, the work itself must originate with the author, even though the idea itself may have originated elsewhere. The

2234. *See, e.g.*, *Duquesne Light Co. v. Westinghouse Elec. Corp.*, 66 F.3d 604, 609 (3d Cir. 1995). Under Fed. R. Evid. 611(a) (West 2003), the court is to “exercise reasonable control over the mode and order of interrogating witnesses and presenting evidence so as to . . . avoid needless consumption of time . . .” However, the court should avoid imposing rigid hour limits.

2235. *See, e.g.*, *Belmont Textile Mach. Co. v. Superba, S.A.*, 48 F. Supp. 2d 521, 526 (W.D.N.C. 1999).

2236. 17 U.S.C. § 102(a) (2000).

“originality” required is fairly minimal: There must be some element of creativity reflected in the work, and the work must be independently created by the author.²²³⁷ Protected works include, although are not limited to, literary, dramatic, and musical works, audiovisuals, movies, recordings, and art, without regard to their level of value or subjective view of artistry.²²³⁸ The Visual Artists Rights Act of 1990²²³⁹ extends protection to single or limited editions of visual art, such as paintings, sculpture, and photography. The statutory rights accorded under the Copyright Act do not attach until the work has been “fixed,” at which point state common-law rights against copying and related injuries are preempted.²²⁴⁰

Copyright protection is limited to the expression of the idea, not the idea itself.²²⁴¹ “In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.”²²⁴² Copyright protection further will not extend to purely utilitarian works,²²⁴³ or to forms,²²⁴⁴ compilations such as ordinary telephone directories,²²⁴⁵ or where the subject matter necessarily has limited forms of expression.²²⁴⁶ The creative selection, coordi-

2237. *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 345 (1991). For a further discussion of the originality requirement under section 102 of the Act, see Gorman, *supra* note 2108, at 9–15.

2238. Section 102(a) categorizes works of authorship to include literary, musical, and dramatic works, pantomime, choreographs, pictorials, graphics, sculpture, motion pictures, audiovisual works, sound recordings, and architectural works.

2239. 17 U.S.C. § 106A (2000). Authors of works of visual arts have rights to claim authorship and prevent the use of their names with works of visual arts they did not create, or with works of visual art that have been distorted, mutilated, or otherwise modified in a way that harms the author’s honor or reputation. They can also prevent certain intentional distortion, mutilation, or other prejudicial modification and intentional or grossly negligent destruction of their works.

2240. 17 U.S.C. § 102(a) (2000).

2241. Gorman, *supra* note 2108, at 15–23.

2242. 17 U.S.C. § 102(b) (2000).

2243. *See, e.g., Mazer v. Stein*, 347 U.S. 201, 218 (1954).

2244. *Baker v. Selden*, 101 U.S. 99, 101 (1879).

2245. *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 341 (1991). “In order to qualify for copyright protection, a compilation must meet three requirements: ‘(1) the collection and assembly of preexisting data; (2) the selection, coordination, or arrangement of that data; and (3) a resulting work that is original, by virtue of the selection, coordination, or arrangement of the data contained in the work.’” *Lynx Ventures, LLC v. Miller*, 190 F. Supp. 2d 652, 658 (D. Vt. 2002) (quoting *Key Publ’ns, Inc. v. Chinatown Today Publ’g Enters., Inc.*, 945 F.2d 509, 514 (2d Cir. 1991)).

2246. *Morrissey v. Proctor & Gamble Co.*, 379 F.2d 675, 678 (1st Cir. 1967).

nation, or arrangement of unprotected facts or ideas, however, can be protected as long as the work meets the “minimal degree of creativity” standard established by the Supreme Court in *Feist Publications, Inc. v. Rural Telephone Service Co.*²²⁴⁷

The Copyright Act confers certain protection on the owner of a copyright, whether such ownership is vested in the original author, joint authors, employers where the work was created pursuant to employment, or persons to whom a copyright has been transferred or licensed.²²⁴⁸ The Act accords to copyright owners six exclusive rights, which are set forth in section 106: (1) reproduction; (2) derivative works; (3) distribution; (4) performance; (5) display; and (6) digital transmission.²²⁴⁹ A copyright is infringed by the unauthorized exercise of any of these exclusive rights by another. Although the facts in many copyright cases are not necessarily complex, the legal analysis often involves subtle concepts regarding whether section 106 rights have been infringed and whether that infringement was direct or contributory.²²⁵⁰ Infringement can be innocent or intentional, and a plaintiff is permitted under copyright law to assert a claim for contributory or vicarious infringement as long as the plaintiff can also demonstrate an underlying act of direct infringement.²²⁵¹

To prevail in a copyright infringement claim, the plaintiff must prove (1) ownership of a valid copyright; and (2) that at least one of the exclusive rights under section 106 has been violated.²²⁵² The plaintiff must demonstrate either actual copying (as opposed to independent creation) or proof of access to the copyrighted work and that the copied work is “substantially similar” to the original, to prove a violation of section 106.²²⁵³ Equitable remedies in the form of injunctive relief are available in addition to money damages, reflecting either actual damages or, at the plaintiff’s election, statutory damages.²²⁵⁴ Reg-

2247. 499 U.S. at 348.

2248. See 17 U.S.C. § 201 (2000). Section 201(d) establishes rights upon transfer of a copyright. Where the right has been transferred, the person to whom it is transferred “is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title.” *Id.* § 201(d)(2). Any such exclusive transfer or license can be terminated, *id.* § 203, and must be in writing. *Id.* § 204(a).

2249. *Id.* § 106.

2250. 17 U.S.C. § 501 (2000).

2251. *Gershwin Pub’lg Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1161–62 (2d Cir. 1971).

2252. *Ellison v. Robertson*, 189 F. Supp. 2d 1051, 1056 (C.D. Cal. 2002).

2253. See, e.g., *Laureyssens v. Idea Group, Inc.*, 964 F.2d 131, 139–40 (2d Cir. 1992).

2254. 17 U.S.C. § 504 (2000); see also *Gorman*, *supra* note 2108, at 108 (discussing available damages and profits under 17 U.S.C. § 504).

istration is a prerequisite to maintaining a suit for infringement and in order to obtain statutory damages, the copyright must have been registered under the Act prior to infringement.²²⁵⁵

Among the defenses to an infringement claim is a common law doctrine commonly referred to as the “fair use” doctrine, which has now been codified in 17 U.S.C. § 107 to preserve the use of creative artistic works for purposes of teaching, research, criticism, and news reporting.²²⁵⁶ Section 107 sets out several factors to be considered in assessing whether the defendant’s use was “fair,” which are then balanced against the interest in protecting the exclusive rights of copyright owners. These factors include (1) the purpose and character of the defendant’s use, such as whether the use is commercial or private; (2) the nature of the copyrighted work; (3) the amount and substance of the portion of the copyrighted work used in relation to the whole of the copyrighted work; and (4) the effect of the use on the market for the copyright owner’s rights.²²⁵⁷ Congress also has created a statutory “safe harbor” for “providers of online services or network access, or the operator of facilities therefore”²²⁵⁸ through the Digital Millennium Copyright Act (DMCA).²²⁵⁹ The DMCA protects service providers who do not control the content transmitted via their servers, as well as search engines that merely provide links to allegedly infringing content.²²⁶⁰ “The DMCA’s protection of an innocent service provider disappears ‘at the moment the service provider loses its innocence, i.e., at the moment it becomes aware that a third party is using its system to infringe.’”²²⁶¹

2255. 17 U.S.C. §§ 411, 412 (2000).

2256. *Kelly v. Arriba Soft Corp.*, 280 F.3d 934, 942 (9th Cir. 2002).

2257. 17 U.S.C. § 107 (2000); *Harper & Row Publ’g Inc. v. Nation Enter.*, 105 S. Ct. 2218 (1986).

2258. 17 U.S.C. § 512(k)(1)(B) (2000); *see also* Semiconductor Chip Prot. Act of 1984, 17 U.S.C. § 901 (affording protection to computer chips and thereby their codes).

2259. 17 U.S.C. § 512 (2000); *see also* *Religious Tech. Ctr. v. Netcom On-Line Communication Serv., Inc.*, 907 F. Supp. 1361 (N.D. Cal. 1995).

2260. *See* *Ellison v. Robertson*, 189 F. Supp. 2d 1051, 1070–72 (C.D. Cal. 2002); *see also* *ALS Scan, Inc. v. RemarQ Communities, Inc.*, 239 F.3d 619, 622 (4th Cir. 2001) (“As to direct infringement, liability is ruled out for passive, automatic acts engaged in through a technological process initiated by another.” (discussing H.R. Rep. No. 105-551(I), at 11 (1998))). Although the DMCA protects service providers from money damages arising from posting or transmitting infringing content, in most cases injunctive relief will still be available. To avail themselves of the protection of the DMCA safe harbor, however, the defendant service providers must have, and communicate to users, a policy for removing allegedly infringing material. *ALS Scan*, 239 F.3d at 625.

2261. *In re Aimster Copyright Litig.*, 252 F. Supp. 2d 634, 657 (N.D. Ill. 2002) (quoting *ALS Scan*, 239 F.3d at 625).

“At that point, the Act then shifts responsibility to the service provider to disable the infringing matter”²²⁶²

Many of the complexities accompanying copyright litigation arise out of the growth and development of new technologies and transmissions, particularly on-line dissemination.²²⁶³ Works can now be easily replicated and accessed by numerous users, and new categories of works (such as hypertext) have developed.²²⁶⁴ On-line linking and framing can create the potential for copyright infringement, although the mere use of a copyrighted work in a search engine may be a fair use.²²⁶⁵ The increasing use of the Internet as a means of communication, and the ease with which material can be copied, create difficulties in copyright application and protection not contemplated by the current Act and have spawned new legislation targeting these issues.²²⁶⁶ Other developments in copyright law, many attributable to changing technology, are designed either to protect the right in the work itself, such as performance rights in digital transmissions, or to protect the measures used to prevent the copying of works available in digital and other advanced technologies, such as encryption and other programs.²²⁶⁷ The courts have continued to struggle with the challenges presented by computer technologies and computer networks and the role that copyright protection should play. These complexities will vary from case to case, and inquiry into the following areas at the initial pretrial conference will help to assess the need for close supervision:

- *Has the copyright been registered?* Before an action for copyright infringement can be instituted, the copyright must have been registered

2262. *CoStar Group v. Loopnet Inc.*, 164 F. Supp. 2d 688, 700 (D. Md. 2001).

2263. The court in *eBay Inc. v. Bidder’s Edge, Inc.*, 100 F. Supp. 2d 1058, 1067 n.16 (N.D. Cal. 2000), noted that “applying traditional legal principles to the Internet can be troublesome” See also *ImOn, Inc. v. ImaginOn, Inc.*, 90 F. Supp. 2d 345, 346 (S.D.N.Y. 2000) (noting that the Internet “is one of the most fluid, rapidly developing, and virtually daily changing areas of commerce that the law has had to focus upon and endeavor to apply established principles to”).

2264. See, e.g., *ILOG, Inc. v. Bell Logic, LLC*, 181 F. Supp. 2d 3, 13–14 (D. Mass. 2002) (software programs).

2265. See, e.g., *Kelly v. Arriba Soft Corp.*, 280 F.3d 934, 945–47 (9th Cir. 2002) (finding on-line linking and framing violated copyright owner’s public display right). See *Ticketmaster Corp. v. Tickets.Com, Inc.*, No. CV99-7654, 2000 WL 5253909, at *2 (C.D. Cal. Mar. 27, 2000) (hyperlinking did not constitute violation of Copyright Act).

2266. See, e.g., *Digital Millenium & Copyright Act*, 17 U.S.C. § 512 (2000); *Visual Artists Rights Act of 1990*, 17 U.S.C. § 106(A) (2000).

2267. See, e.g., *Intellectual Prop. & Communications Omnibus Reform Act of 1999*, 17 U.S.C. § 1201 (2000).

in the Copyright Office.²²⁶⁸ Registration timing, however, affects the types of damages available. Where the copyright was not registered prior to the infringing activity or within ninety days of the date the work was first published, the plaintiff is precluded from seeking attorney fees or statutory damages.²²⁶⁹

- *Where did the activity take place?* Where the allegedly infringing activity takes place is an important question, in determining personal jurisdiction and venue, and also in determining whom the plaintiff can sue. Plaintiffs may base claims on actions by foreign defendants that occurred outside the United States, or interrelated activities involving both U.S. corporations and foreign affiliates.²²⁷⁰ Foreign defendants add additional complexity to the management of discovery and other pretrial issues.²²⁷¹ Jurisdictional issues may be more complicated where the infringing activity took place over the Internet.²²⁷² The courts have held that where infringing material is posted on a Web site, the infringing acts occurred in the place where the Web site is created and maintained.²²⁷³ Courts have looked to the “nature and quality of commercial activity that an entity conducts over the Internet” in assessing whether personal jurisdiction can be exercised.²²⁷⁴ A relevant inquiry is whether the defendant’s activity was active or passive. “A passive Web site that does little more than make information available

2268. 17 U.S.C. § 411(a) (2000). The Act excepts from its requirements infringement actions “brought for a violation of the rights of the author under Section 106(A)(a)” *Id.* However, if registration is refused, the plaintiff can bring an action for infringement and also challenge the propriety of the refusal to register in that action. *Id.*

2269. *Id.* § 412(2); *see also* Gerig v. Krause Publ’ns, Inc., 58 F. Supp. 2d 1261, 1268–69 (D. Kan. 1999).

2270. *See, e.g.*, Palmieri v. Estifan, 793 F. Supp. 1182 (S.D.N.Y. 1992).

2271. *See, e.g.*, Byrne v. British Broad. Corp., 132 F. Supp. 2d 229, 237–39 (S.D.N.Y. 2001) (denying motion to dismiss based on *forum non conveniens*).

2272. *See, e.g.*, Colt Studio, Inc. v. Badpuppy Enter., 75 F. Supp. 2d 1104, 1109–10 (C.D. Cal. 1999) (personal jurisdiction created from on-line membership subscriptions with consumers in California; subscriptions were continuing in nature); Zippo Mfg. Co. v. Zippo Dot Com, Inc., 952 F. Supp. 1119 (W.D. Pa. 1997); Cybersell, Inc. v. Cybersell, Inc., 130 F.3d 414 (9th Cir. 1997).

2273. Cable News Network, L.P. v. GoSMS.com, Inc., No. 00CIV.4812, 2000 WL 1678039, at *3 (S.D.N.Y. Nov. 6, 2000) (noting that to find that the acts occurred where the Web site could be seen would include “literally anywhere the internet can be accessed”).

2274. *Zippo Mfg.*, 952 F. Supp. at 1124 (distinguishing cases of knowing and repeated transmission of files over the Internet from situations where the defendant has posted information on a Web site that is simply accessible to users in other jurisdictions); Citigroup Inc. v. City Holding Co., 97 F. Supp. 2d 549, 565 (S.D.N.Y. 2000).

to those who are interested in it is not grounds for the exercise of personal jurisdiction.”²²⁷⁵

- *Does the dispute raise issues of international law?* One or more of the various treaties that address copyright issues may become relevant if international components are involved.²²⁷⁶ Plaintiffs may be alleging infringement of foreign copyrights, as well as infringement under the Copyright Act.²²⁷⁷ In addition, conflicts may result in the application of foreign copyright law to resolve disputes.²²⁷⁸
- *Are there any other actions pending in the same or other jurisdictions?* Copyright cases rarely involve infringements sufficient to trigger multidistrict litigation or class actions,²²⁷⁹ but the Internet has created the potential for multiple infringements in numerous jurisdictions. For example, in *In re Aimster Copyright Litigation*,²²⁸⁰ nine actions involving whether the distribution of MP3 music files through a Web site operated by Aimster constituted copyright infringement were transferred for coordinated and consolidated pretrial proceedings by the Judicial Panel on Multidistrict Litigation. Declaratory judgment actions seeking a determination of noninfringement can raise questions of jurisdiction and whether the action should be transferred or stayed.²²⁸¹ In some instances, the action reflects simply a “race to the courthouse.”²²⁸² Finally, issues of collateral estoppel may arise where multiple infringements have occurred.²²⁸³

2275. *Zippo Mfg.*, 952 F. Supp. at 1124.

2276. See, e.g., Uniform Copyright Convention, NAFTA, Berne Convention for the Protection of Literary and Artistic Works, and the Trade Related Aspects of Intellectual Property Rights.

2277. *Boosey & Hawkes Music Publishers, Ltd. v. The Walt Disney Co.*, 145 F.3d 481, 485 (2d Cir. 1998); *Dam Things from Denmark v. Russ Berrie & Co.*, 290 F.3d 548, 554 (3d Cir. 2002).

2278. See, e.g., *Itar-Tass Russian News Agency v. Russian Kurier, Inc.*, 153 F.3d 82, 91–92 (2d Cir. 1998) (finding Russian law would apply to issues of copyright ownership and nature of copyright as to Russian plaintiffs, and U.S. copyright law would be applied to determine issue of whether copyrights were infringed in the U.S. by defendant Russian language newspaper which was published and available in New York).

2279. See, e.g., *In re Literary Works in Elec. Databases Copyright Litig.*, MDL No. 1379, 2001 WL 204212, at *1 (S.D.N.Y. Mar. 1, 2001) (consolidated class action); *In re “The Exorcist” Copyright Infringement Litig.*, 411 F. Supp. 793 (J.P.M.L. 1976).

2280. 177 F. Supp. 2d 1380 (J.P.M.L. 2001).

2281. *MP3Board v. Recording Indus. Ass’n of Am.*, No. C-00-20606, 2001 WL 804502, at *3 (N.D. Cal. Feb. 27, 2001) (staying action in light of similar action pending in New York).

2282. See *MP3Board*, 2001 WL 804502, at *2 (stating “even if this action were deemed to have been filed first, this action was filed as an anticipatory suit and therefore MP3Board would

- *Are there any criminal proceedings pending or matters under criminal investigation?* The Copyright Act provides for criminal penalties, including imprisonment and a fine, for willful copyright infringement,²²⁸⁴ as well as penalties if the defendant engaged in fraud.²²⁸⁵ The Act provides additional remedies in the form of mandatory seizure and forfeiture or destruction.²²⁸⁶ If there is a pending criminal investigation, a motion to stay the civil action pending resolution of the criminal case may occur.
- *Are there any agreements to arbitrate?* The Federal Arbitration Act requires parties to arbitration agreements to arbitrate all matters covered under the agreement “save upon such grounds as exist at law or in equity for the revocation of any contract.”²²⁸⁷ Arbitration clauses are to be broadly construed and will be presumed to apply to all disputes arising under the contract, barring limiting language.²²⁸⁸ Doubts are resolved in favor of arbitration. The courts have held that arbitration agreements arising out of the Copyright Act are enforceable. “Congress has not asserted any ‘policy against arbitration of [a] claim for the infringement of a valid copyright.’”²²⁸⁹ Arbitration agreements are especially common in licensing agreements. The court should inquire into the existence of any agreement that may underlie the claims and whether any or all claims are subject to arbitration. In cases where a portion of the case may be subject to arbitration, consider whether the remainder of the action should be stayed.

not be entitled to rely on the first to file rule” (quoting *MP3Board v. Recording Indus. Ass’n of Am.*, No. C-00-20606, at 6:27 to 7:1 (N.D. Cal. Sept. 26, 2000) (unpublished court order denying plaintiff’s motion for preliminary injunction to prohibit defendants from proceeding in related action before another district court)); *Citigroup, Inc. v. City Holding Co.*, 97 F. Supp. 2d 549, 555 (S.D.N.Y. 2000) (discussing first-filed rule).

2283. See, e.g., *Teevee Toons v. MP3.Com, Inc.*, 134 F. Supp. 2d 546, 546–47 (S.D.N.Y. 2001).

2284. 17 U.S.C. § 506(a) (2000).

2285. See *id.* §§ 506(c)–506(e).

2286. *Id.* § 506(b).

2287. 9 U.S.C. § 2 (2000).

2288. *JVN Music, Inc. v. Rodriguez*, No. 99CIV.11889, 2000 WL 827702, at *3 (S.D.N.Y. June 27, 2000) (“Where there is a broad contractual arbitration clause, it is presumed that all disputes under the agreement are arbitrable unless the clause is in no way susceptible to an interpretation that it covers the particular dispute.”).

2289. *JVN Music*, 2000 WL 827702, at *4 (finding copyright infringement clause arising out of music contract to record exclusively for the plaintiff music company (quoting *Kamakazi Music Corp. v. Robbins Music Corp.*, 684 F.2d 228, 231 (2d Cir. 1982))).

- *Is the plaintiff seeking impoundment as one of the remedies sought?* The plaintiff may be seeking impoundment of the allegedly infringing material pursuant to section 503 of the Copyright Act.²²⁹⁰ Seizure can be ex parte where the plaintiff shows a likelihood the allegedly infringing goods may be destroyed or hidden, although the defendant can request a post-seizure hearing.²²⁹¹ There is judicial discretion under section 503(b) to permanently dispose of the infringing material after final judgment, although destruction is not mandatory, as it is where the defendant is criminally convicted of willful infringement.²²⁹²
- *What is the duration of the copyright?* The 1976 Copyright Act extended the 1909 Copyright Act term from twenty-eight years with an additional renewal term if the author remained alive at the end of the first term to the life of the author plus fifty years.²²⁹³ With the passage of the 1976 Act, “Congress altered the way the term of a copyright is computed so as to conform with the Berne Convention and with international practice.”²²⁹⁴ The Copyright Term Extension Act of 1998²²⁹⁵ extended the term for works created after 1978 an additional twenty years to the author’s life plus seventy years.²²⁹⁶ For a work created before 1978, where the initial term was twenty-eight years, the renewal term was extended to sixty-seven years.²²⁹⁷
- *Has the plaintiff raised state causes of action that are preempted by the Copyright Act?* Jurisdiction is exclusively in the federal courts for actions arising under the Copyright Act.²²⁹⁸ State law claims pertaining to the subject matter of copyrights are preempted,²²⁹⁹ unless there is a qualitative difference between the causes of action and the rights ad-

2290. Section 503 provides for impoundment “of all copies or phonorecords . . . and of all plates, molds, matrices, masters, tapes, film negatives, or other articles by means of which such copies or phonorecords may be reproduced.”

2291. *Pepe (U.K.) Ltd. v. Ocean View Factory Outlet*, 770 F. Supp. 754, 760 (D.P.R. 1991) (ex parte seizure of allegedly counterfeit goods under section 1116(d)); *Paramount Pictures Corp. v. Doe*, 821 F. Supp. 82, 84 (E.D.N.Y. 1993) (impoundment of allegedly pirated films).

2292. 17 U.S.C. § 506(b) (2000).

2293. Gorman, *supra* note 2108, at 37.

2294. *Eldred v. Reno*, 239 F.3d 372 (D.C. Cir. 2001) (citing H.R. Rep. No. 94-1476, at 135 (1976) (reprinted in 1976 U.S.C.C.A.N. 5659, 5751)).

2295. 17 U.S.C. § 302(a) (2000).

2296. *See Eldred*, 239 F.3d at 373–74.

2297. 17 U.S.C. § 304(a) (2000).

2298. 28 U.S.C. § 1338(a) (West 2003).

2299. 17 U.S.C. § 301(a) (2000).

dressed by the Copyright Act.²³⁰⁰ However, state law claims preempted by the Copyright Act are converted into copyright infringement claims under the federal statute.²³⁰¹

- *Do the parties anticipate seeking protective orders?* Motions for protective orders are common in copyright actions.²³⁰²
- *Does the plaintiff assert vicarious or contributory infringement?* The scope of discovery will be affected by assertions of vicarious or contributory infringement.

33.311 Discovery

Two central issues in copyright cases are whether the copyright was infringed and the nature of the infringement. As a result, discovery may be merits based, looking at the infringement itself, or jurisdictional, seeking information on where and how the infringement occurred.²³⁰³ Complex damages calculations often become necessary, and discovery into the defendant's finances, including costs of production, overhead, and cost and expense allocation, among other matters, can be extensive. Protective orders may be sought where discovery pertains to the parties' financial affairs.

Much of the information sought during discovery will be maintained in electronic form. Discovery orders may be necessary to ensure that the form in which information is maintained is not utilized by the parties to hinder or obstruct the discovery process.²³⁰⁴ Consider whether the parties should be re-

2300. See *Tech. Based Solutions, Inc. v. The Elecs. Coll., Inc.*, 168 F. Supp. 2d 375, 380 n.3 (E.D. Pa. 2001) (holding allegations of misappropriation, unfair competition, and unjust enrichment preempted by the Copyright Act but breach of contract claim appeared qualitatively different and would not be preempted); *eBay, Inc. v. Bidder's Edge, Inc.*, 100 F. Supp. 2d 1058, 1072 (N.D. Cal. 2000) (trespass); *Ticketmaster Corp. v. Tickets.Com., Inc.*, No. CV99-7654, 2000 WL 525390, at *3-4 (C.D. Cal. Mar. 27, 2000) (contract, unfair business practices).

2301. 28 U.S.C. § 1338(b) (West 2003).

2302. *Damiano v. Sony Music Entm't, Inc.*, No. CIV.A. 95-4795, 2000 WL 1689081, at *1 (D.N.J. Nov. 13, 2000) (entering protective orders protecting confidentiality over discovery and depositions); *David J. Frank Landscape Contracting, Inc. v. La Rosa Landscape*, 199 F.R.D. 314, 315 (E.D. Wis. 2001) (denying entry of broad protective order where parties failed to explain why materials should be protected from disclosure); *Apple Computer, Inc. v. Micro Team*, No. C98-20164, 2000 WL 1897354, at *1 (N.D. Cal. Dec. 21, 2000) (stipulated protective order); *Kleiner v. Burns*, No. 00-2160, 2000 WL 1909470, at *3-4 (D. Kan. Dec. 15, 2000) (stipulated protective order).

2303. *Nat'l Football League v. Miller*, 54 U.S.P.Q.2d (BNA) 1574 (S.D.N.Y. 2000); *Citigroup, Inc. v. City Holding Co.*, 97 F. Supp. 549 (S.D.N.Y. 2000).

2304. See, e.g., *Williams v. E.I. du Pont de Nemours & Co.*, 119 F.R.D. 648, 650-51 (W.D. Ky. 1987) (permitting discovery of computerized database and encoding in Title VII action).

quired to provide print versions of extensive databases as opposed to transmitting the data in an electronic format. To the extent that print versions are supplied from electronic data, the court should address whether a party will be permitted to provide print versions that contain less information than their electronic counterparts. Additional information available in electronic format may include, for example, hidden notations (metadata) indicating changes or authors. The expense of access or production is also a factor. For example, in cases where reconstruction of data or recovery from obsolete formats is at issue, allocating the costs of electronic discovery may be appropriate.²³⁰⁵ The committee note to Federal Rule of Civil Procedure 34 recognizes that the burden “will vary from case to case, and the courts have ample power under Rule 26(c) to protect respondent against undue burden or expense, either by restricting discovery or requiring that the discovering party pay costs.”

Data retention (or destruction) policies can also be an issue, and different computer back-up procedures may affect the availability, as well as the expense, of discovery. It is advisable to prohibit the routine deletion of relevant documents, particularly E-mail,²³⁰⁶ and determine whether forensic analysis or mirroring of computer hard drives is appropriate. Where the risk of spoliation is high, ex parte seizure and forensic analysis of the offending party’s computer equipment and data-storage facilities may be warranted. However, these measures should not be undertaken lightly, as the economic impact of such measures could be substantial. To the extent a party is permitted access to the source of the electronic information, the court should address how the hard drive contents and data storage facilities will be analyzed for relevant materials. Trade secret and other sensitive or confidential information that is either undiscoverable or otherwise not relevant should be protected from disclosure, and retained computer forensic experts should be closely supervised. One approach is to utilize a court-appointed computer expert, who would be subject to a protective order precluding the disclosure of confidential information and otherwise protecting the privacy rights of the parties. In one case, the court-appointed computer specialist provided a mirror image of the defendant’s hard drive to the defendant’s counsel, who was then to review all recovered documents and produce those that were responsive to prior discovery requests. The defendant’s attorney was to be the “sole custodian” of both the mirror image disk and copies of documents retrieved from it over the course of the litigation.²³⁰⁷

2305. See *Williams*, 119 F.R.D. at 651.

2306. *Playboy Enters., Inc. v. Welles*, 60 F. Supp. 2d 1050, 1053 (S.D. Cal. 1999) (granting plaintiff’s request to search hard drive for deleted E-mail).

2307. *Id.* at 1055.

33.312 Motions

Motions for injunctive relief are frequently sought in copyright cases. The Copyright Act provides for a preliminary injunction “to prevent or restrain infringement of a copyright”²³⁰⁸ and, although not automatic, injunctions are commonly granted where infringement is found.²³⁰⁹ In copyright cases, irreparable harm will be presumed where a likelihood of success in the copyright claim has been shown.²³¹⁰ The fact that money damages may be quantifiable will not, in itself, preclude a finding of irreparable harm.²³¹¹ Similar to the analysis under patent law, however, a finding of delay or laches on the part of the party in seeking injunctive relief can rebut a showing of irreparable harm.²³¹² In addition to enjoining further infringing conduct, the court may order the defendant to recall the infringing products as part of the injunction.²³¹³ The circuits have adopted varying tests in analyzing whether injunctive relief is appropriate.

Summary judgment may be appropriate in cases where copying is not in dispute. Many copyright infringement cases, however, turn on the issue of substantial similarity, which usually must be resolved by the fact-finder.²³¹⁴ Summary judgment is available where the works are “so dissimilar as to protectible elements that no reasonable jury could find for the plaintiff on the question of substantial similarity.”²³¹⁵ In other cases, the similarities relate to nonprotected portions of the work, precluding infringement.²³¹⁶ Summary judgment is also warranted where preliminary issues, unrelated to “substantial similarity,” are dispositive, such as whether the plaintiff obtained a valid copyright²³¹⁷ or the rights of a licensee.²³¹⁸

2308. 17 U.S.C. § 502(a) (2000).

2309. *See, e.g.*, *eBay, Inc. v. Bidder’s Edge, Inc.*, 100 F. Supp. 2d 1058 (N.D. Cal. 2000).

2310. *Concrete Mach. Co. v. Classic Lawn Ornaments, Inc.*, 843 F.2d 600, 611 (1st Cir. 1988).

2311. *Id.* at 611 (“[C]opyright protects the unique and somewhat intangible interest of creative expression. Unlike most property rights, the value of this interest is often fleeting.”).

2312. *See, e.g.*, *Nutrition 21 v. United States*, 930 F.2d 867, 872 (Fed. Cir. 1991) (substantial delay in period of time before seeking injunction sufficient to negate finding of irreparable harm).

2313. *CyberMedia, Inc. v. Symantec Corp.*, 19 F. Supp. 2d 1070, 1079 (N.D. Cal. 1998).

2314. *Hoehling v. Universal City Studios, Inc.*, 618 F.2d 972, 977 (2d Cir. 1980).

2315. *Sturdza v. U.A.E.*, 281 F.3d 1287, 1297 (D.C. Cir. 2002).

2316. *See, e.g.*, *Ets-Hokin v. Skyy Spirits, Inc.*, 323 F.3d 763 (9th Cir. 2003); *Cavalier v. Random House, Inc.*, 297 F.3d 815 (9th Cir. 2002).

2317. *Coles v. Wonder*, 283 F.3d 798, 801–02 (6th Cir. 2002).

2318. *Gardner v. Nike, Inc.*, 279 F.3d 774, 780–81 (9th Cir. 2002).

33.313 Experts

Expert testimony in copyright cases is primarily focused on whether actual copying has occurred. “Copying may be established either by direct evidence of copying or by indirect evidence, including access to the copyrighted works, similarities that are probative of copying between the works, and expert testimony.”²³¹⁹ Thus, for example, in *Repp v. Webber*,²³²⁰ expert testimony was probative on the similarities between two musical works, although a determination of whether in light of those similarities infringement had occurred was a question for the fact-finder.²³²¹ Similarly, “the opinions of experts may be called upon in determining whether there is sufficient similarity between the works so as to conclude that the alleged infringer ‘copied’ the work.”²³²² Once actual copying is established, the inquiry turns to whether the copying was “actionable.”²³²³ Expert testimony may also be appropriate to explain technology or related processes,²³²⁴ but it is generally not admissible on liability.

33.32 Trademarks

Trademark claims are governed by the Lanham Act.²³²⁵ A trademark is “any word, name, symbol or device” used to “identify and distinguish” goods.²³²⁶ Trademarks identify the source or origin of a product. To be accorded protection, the trademark must be “distinctive” or have become identified with a particular source through its use in “commerce.”²³²⁷ The protec-

2319. *Laureyssens v. Idea Group Inc.*, 964 F.2d 131, 140 (2d Cir. 1992).

2320. 132 F.3d 882 (2d Cir. 1997).

2321. *See also Laureyssens*, 964 F.2d at 141 n.9 (noting that there had been no expert testimony as to the ability to create the challenged puzzle based on a visual inspection of the copyrighted puzzle “which would help to resolve whether a question of actual copying has been shown”).

2322. *Dam Things from Denmark v. Russ Berrie & Co. Inc.*, 290 F.3d 548, 562 (3d Cir. 2002).

2323. *Id.*; *see also Segrets, Inc. v. Gillman Knitwear Co.*, 207 F.3d 56, 62 (1st Cir. 2000) (“The test is whether the accused work is so similar to the plaintiff’s work that an ordinary reasonable person would conclude that the defendant unlawfully appropriated the plaintiff’s protectible expression by taking material of substance and value.” (quoting *Concrete Mach. Co. v. Classic Lawn Ornaments, Inc.*, 843 F.2d 600, 607 (1st Cir. 1988))).

2324. *See, e.g., ILOG, Inc. v. Bell Logic, LLC*, 181 F. Supp. 2d 3, 11 (D. Mass. 2002) (noting that expert testimony would be “helpful to organize a particular program into various levels of abstraction”).

2325. 15 U.S.C. § 1051 (2000). The Lanham Act also covers service marks, which distinguish services of one person from another, and trade names. *See id.* § 1127.

2326. *Id.* § 1127.

2327. *Id.* § 1052(f).

tions offered by trademark law are less than those accorded copyright or patents. For instance, unlike owners of patents or copyrights, trademark owners do not have exclusive use of a mark. Protection extends only to prevent the mark from being used by others in a manner likely to cause confusion, mistake, or deception among consumers as to the source of the goods or services. For a discussion of survey research methods applicable to trademark litigation, see section 11.493. Courts have applied a number of factors to assess whether an allegedly infringing use is likely to cause consumer confusion. These factors include the similarity of the marks, the similarity of the parties' products and services, the strength of the plaintiff's mark, evidence of actual consumer confusion, the markets involved, likelihood of confusion, and the sophistication of buyers.²³²⁸

Trademarks are valid and enforceable as long as the mark is used in commerce, the owner adequately seeks to protect its rights to the mark, and the mark has not been abandoned or become generic.²³²⁹ A mark need not be registered with the Patent and Trademark Office, although registration can be considered conclusive evidence of validity and ownership. Where the owner has met the incontestability requirements of section 1065 of the Lanham Act, an allegedly infringing defendant is limited to the defenses set forth in section 1115(b) of the Act.²³³⁰ In addition, a federal trademark registration also affords the owner nationwide rights, well beyond the local geographic market where the mark is used. This attribute of federal registration affords wider protection than state registration. To enforce a trademark in a foreign country, however, the owner must comply with the trademark requirements of that country.

Many of the case-management considerations in a copyright case also apply to trademark cases. Similar issues arise relating to arbitrability, remedies sought, and the scope and issuance of protective orders. Motions for injunctive relief are common in trademark litigation and can be accompanied by requests for seizure of the allegedly infringing goods.²³³¹ The owner of a mark can also seek to freeze the assets of the defendant under certain circumstances.²³³² Damage to the goodwill associated with a trademark will usually meet the require-

2328. *In re E.I. DuPont de Nemours Co.*, 476 F.2d 1357, 1361 (C.C.P.A. 1973).

2329. *See, e.g., Barcamerica Int'l USA Trust v. Tyfield Imps., Inc.*, 289 F.3d 589, 595–98 (9th Cir. 2002).

2330. *Id.* § 1115(b).

2331. *Id.* § 1116(a). Seizure is usually available only where the infringing goods are counterfeits, and the Act sets forth certain requirements that must be met before a seizure order will issue. *Id.* § 1116(d); *see also Ironclad, L.P. v. Poly Am., Inc.*, No. CIV.A. 3:98-CV-2600, 2000 WL 1400762, at *10 (N.D. Tex. July 28, 2000) (courts “routinely grant injunctive relief in trademark infringement actions”).

2332. *See Reebok Int'l Ltd. v. Marnatech Enters., Inc.*, 970 F.2d 552, 588–61 (1992).

ments for irreparable injury, and a showing of the likelihood of consumer confusion together with evidence of prior rights in the mark are significant factors in demonstrating a likelihood of success on the merits.

Technological advances also affect the application of trademark law. Infringement of trademarks in cyberspace complicate issues of origin, affiliation, or sponsorship, as well as the extent of protection accorded trademark use in metatags,²³³³ hyperlinks, and caching. Other considerations include the following:

- Is foreign commerce involved and extraterritorial jurisdiction sought?²³³⁴
- Are the issues presented purely equitable or do they include distinct legal claims that will require a jury trial? For example, whether the plaintiff is entitled to money damages upon a finding of infringement is a jury question. Where the jury awards no damages, leaving only equitable issues, courts have considered whether the jury verdict may be treated as advisory and enter a contrary verdict.²³³⁵
- Where the Internet forms the vehicle for the infringing activity, is the defendant subject to personal jurisdiction? Personal jurisdiction over nonresident owners of Web sites often turns on whether the site is active or passive.
- If the action is *in rem* against an infringing domain name, has the plaintiff met the requirements to bring an *in rem* action pursuant to the Anticybersquatting Consumer Protection Act?²³³⁶
- Has there been a request for expedited discovery?²³³⁷

2333. Metatags are index words in Web pages that identify the page to browsers.

2334. *Reebok Int'l*, 970 F.2d at 554–55.

2335. See, e.g., *Ironclad*, 2000 WL 1400762, at *2–3.

2336. 15 U.S.C. § 1125(d)(2)(A) (2000).

2337. See, e.g., *Phila. Newspapers, Inc. v. Gannett Satellite Info. Network, Inc.*, No. CIV.A. 98-CV-2782, 1998 WL 404820, at *3 (E.D. Pa. 1998) (denying motion for expedited discovery filed in conjunction with preliminary injunction motion where discovery sought was broad and voluminous and “without reasonable boundaries”).

34. CERCLA (Superfund)

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34.1 Introduction

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In 1980, Congress passed the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), 42 U.S.C. §§ 9601–9626 (1994), to respond to the growing problem presented by abandoned or inactive hazardous waste sites.²³³⁸ CERCLA, often referred to as the Superfund, is premised on the “polluter pays” principle.²³³⁹ It permits quick government response to

2338. Estimates of clean-up costs just for sites that were candidates for listing on the Environmental Protection Agency’s National Priorities List (NPL), and excluding Department of Energy facilities, have ranged from \$500 billion to \$750 billion. *See, e.g.,* *United States v. A & N Cleaners & Launderers, Inc.*, 854 F. Supp. 229, 236 (S.D.N.Y. 1994) (citing Office of Tech. Assessment, *Assessing Contractor Use in Superfund*, reprinted in 17 Chem. Waste Litig. Rep. (Law Reps.) 715 (1989)). “[A]ccording to a survey of state hazardous waste officials conducted in 1998 by the Environmental Law Institute, states identified 69,000 ‘known and suspected sites.’ GAO and others have estimated the number of contaminated sites in the country to range from 150,000 to 500,000, although only a small percentage of these sites are likely to warrant placement on the NPL.” Katherine Probst & David Konisky, *Superfund’s Future: What Will It Cost?: A Report to Congress* 85 (2001).

2339. S. Rep. No. 96-848, at 13 (1980) (reflecting adoption of the principle that the polluter should pay for hazardous waste remediation).

threats presented by hazardous contaminants and seeks to place the ultimate cost of cleanup of hazardous sites directly on those responsible for the contaminants.²³⁴⁰

CERCLA's primary goal is to address threats to human health and the environment from the release or threatened release of hazardous substances.²³⁴¹ CERCLA directs the Environmental Protection Agency (EPA) to create and maintain, based on certain criteria, a prioritized list²³⁴² of hazardous sites eligible for cleanup under the Superfund. These sites form the basis for most CERCLA claims. Once the site has been listed, EPA undertakes a Remedial Investigation/Feasibility Study (RI/FS) to develop, among other things, alternative cleanup strategies and determine the scope of the remedial action. In the remedial investigation phase, EPA conducts a detailed investigation at the site, seeking information regarding all site operations, and the extent of contamination at the site.²³⁴³ The feasibility study looks at remedial goals and alterna-

2340. See, e.g., *Tippins Inc. v. USX Corp.*, 37 F.3d 87, 92 (3d Cir. 1994) (“CERCLA . . . has its ‘bite’ in holding responsible parties financially accountable for the costs associated with a remedial action at hazardous waste facilities.”).

2341. Although CERCLA authorizes the President to undertake response actions, much of this authority has been delegated to EPA to function as the lead federal agency with responsibility for site cleanup pursuant to Exec. Order No. 12580, 52 Fed. Reg. 2923 (Jan. 23, 1987). The authority to conduct certain response actions at certain sites under the jurisdiction, custody, or control of other federal agencies, however, has been delegated to those agencies. *Id.*

2342. This list is referred to as the National Priorities List (NPL). See 42 U.S.C. § 9601 (West 2003). If a site is not listed on the NPL, EPA may only undertake removal, not remedial, efforts using the Superfund. See, e.g., *SCA Servs., Inc. v. Thomas*, 634 F. Supp. 1355, 1382 (N.D. Ind. 1986). A removal action is considered a short-term cleanup and typically is undertaken to deal with an imminent threatened release. Expenditures by EPA are “limited by law to \$2 million and a duration of one year (unless a waiver is issued).” Probst & Konisky, *supra* note 2338, at 33.

2343. Section 104(e) of CERCLA grants EPA broad information-gathering authority, including access to information from persons who might know about the presence of hazardous wastes at the site, and it permits imposition of a civil penalty against anyone who unreasonably fails to comply with a section 104(e) information request. 42 U.S.C. §§ 9604(e), 9604(e)(5) (West 2003). See *United States v. Martin*, No. 99 C 1130, 2000 WL 1029188, at *10 (N.D. Ill. July 26, 2000) (assessing a civil penalty of “\$75 per day for each of the 607 days the defendant unreasonably delayed” in responding to government information requests under section 104); *United States v. Barkman*, 784 F. Supp. 1181, 1190 (E.D. Pa. 1992) (“[The defendant’s] delay of over 700 days in answering completely the Information Requests of the EPA constitutes, by virtue of the duration itself, an unreasonable delay.”); *United States v. Tannery*, No. 99 C 1130, 1992 WL 1458802, at *1 (N.D. Tex. Dec. 7, 1992) (imposing maximum penalty of \$13,452,324 on the defendant who failed to comply with the government’s information request). EPA will also have done extensive sampling and testing and may, in some instances, have undertaken a removal action to remedy an immediate hazard. 42 U.S.C. § 9604 (West 2003).

tives. EPA then prepares a record of decision (ROD), which sets forth the remedy selected and the anticipated costs.²³⁴⁴

The cleanup then moves into an engineering phase to design the remedy, called remedial design, and finally into the remedial action phase, where the remedy is actually implemented. Depending on the nature and extent of the contamination and the cleanup technology selected, it can take many years—an average of 11.4 years—to complete a cleanup at an NPL site, especially a site involving contaminated groundwater.²³⁴⁵ Complicating this process, EPA often initially divides a site into more than one “operable unit” corresponding “to different physical areas at a site or different environmental media (such as soil or groundwater).”²³⁴⁶ To the extent that the site includes more than one operable unit, each unit goes through the process described above, although multiple operable units sometimes proceed through the process simultaneously.

EPA can bring a CERCLA action at almost any point in the remedial process with respect to any operable unit or the site as a whole. Remediation need

2344. See 40 C.F.R. § 300.430(c)(5)(I), (f)(4), (f)(5) (1990). The selection of the remedy in the ROD is governed by the National Contingency Plan (NCP) and is solely determined by EPA. EPA is required to publish a proposed plan for remediation in the Federal Register for public comment and then issue a ROD selecting the response action once public comments on the proposed plan have been considered. *United States v. Rohm and Haas*, 721 F. Supp. 666, 674, n.8 (D.N.J. 1989) (“The ROD presents the remedy in general terms and an estimate of its costs. The figure may change during the remedial design phase when detailed engineering plans are developed to implement the general remedial concept.”). Remedies must be in compliance with all applicable or relevant and appropriate requirements (ARARs), which include any federal and state cleanup standards or laws relating to a hazardous substance or remedial action (where more stringent than any federal requirement or contained in a program authorized by EPA). Probst & Konisky, *supra* note 2338, at 34; 42 U.S.C. § 9621(d)(2)(A)(i), (ii) (West 2003).

2345. U.S. GAO Rep. 97-20, *Superfund Times to Complete the Assessment and Cleanup of Hazardous Waste Sites 3* (Mar. 31, 1997). Completion of the remedy is assessed as of the date of completion of construction. EPA considers “remedial action complete when a system for pumping and treating contaminated groundwater has been installed, even though the system may have to operate for years before the contamination is reduced to acceptable levels.” *Id.* at 7. However, “[r]egardless of whether a site is on the NPL, and regardless of whether the EPA undertakes to clean it up or to order the PRPs [potentially responsible parties] to clean it up, a CERCLA site may be cleaned up by *any* party, including but not limited to a state, a locality, a corporation or an individual, who may then sue the PRPs for reimbursement directly under CERCLA § 107(a)(4)(A) [for states] or (B) [any other party] and/or § 113(f).” Maxine Lipeles, *Hazardous Wastes 277* (3d ed. 1997).

2346. U.S. GAO Rep., *supra* note 2345, at 7, 8. See, e.g., *United States v. Occidental Chem. Corp.*, 200 F.3d 143 (3d Cir. 1999) (EPA divided remediation into two operable units); *Kalamazoo River Study Group v. Rockwell Int’l*, 107 F. Supp. 2d 817, 819 (W.D. Mich. 2000) (“four Operable Units consisting of five disposal areas”).

not be complete before EPA acts. CERCLA requires only that there be an imminent release or threatened release of hazardous contaminants to initiate a governmental response, or that the government (or a private plaintiff undertaking cleanup) has incurred response costs.²³⁴⁷ Many of the general principles applicable to complex litigation apply to CERCLA actions.²³⁴⁸ A CERCLA case demands “the attention of the judge as an administrator, adjudicator and mediator like no other civil litigation . . . [C]ourts are called upon to employ procedures in the multi-party Superfund site cases to foster economy and fairness in a process which cannot be economical and often cannot be fair to all participants.”²³⁴⁹ This subsection addresses some of the special features of CERCLA and discusses issues and problems peculiar to this type of litigation.²³⁵⁰

34.11 Statutory Framework

CERCLA cases often arise differently from most other complex litigation and can take several forms. Typically, the process begins after the government (usually EPA) has determined the need for a response action at the site. As part of its investigation, EPA may seek information regarding the identity of all persons or entities that may have owned or operated the site, or generated or transported hazardous substances found at the site. These persons or entities are statutorily liable under CERCLA and considered potentially responsible parties, or PRPs.²³⁵¹ CERCLA affords EPA (and, to a limited extent, private parties that undertake a cleanup effort) several options, the choice of which can shape the subsequent action:

- *Section 107 cost recovery actions.* Section 104 of CERCLA authorizes EPA to conduct certain response actions using monies from the Superfund. Removal actions are considered interim actions and defined

2347. See, e.g., *Romeo v. Gen. Chem. Corp.*, 922 F. Supp. 287, 289 (N.D. Cal. 1994) (suit may be filed once a party has incurred some recoverable response cost).

2348. See *infra* section 10.

2349. Stanley S. Brotman & Jerome B. Simandle, *Superfund Case Management and Settlement Processes*, C352 ALI-ABA 175, 177 *Superfund and Toxic Substances* (Dec. 1, 1988). For an excellent overview, see Ridgway M. Hall, Jr., et al., *Superfund Response Cost Allocation: The Law, the Science, and the Practice*, 49 *Bus. Law.* 1489 (1994).

2350. A number of useful resources provide a good overview of CERCLA and how it has been interpreted and applied by the courts, as well as by EPA. See Lipeles, *supra* note 2345; Robert V. Percival et al., *Environmental Regulation: Law, Science, and Policy* (4th ed. 2003); William H. Rodgers, *Environmental Law* (2d ed. 1994); Allan J. Topol & Rebecca Snow, *Superfund Law & Procedure* (1992 & Supp. 2003).

2351. 42 U.S.C. § 9607(a)(2) (West 2003).

as those necessary to prevent the release of a hazardous substance,²³⁵² while remedial actions are defined as actions consistent with a permanent remedy “taken instead of or in addition to removal actions.”²³⁵³ After EPA has incurred costs at the site and remedial actions are completed, the government can file a cost-recovery action against the PRPs under section 107 to recover those costs. Section 107 also permits innocent plaintiffs, i.e., persons who are not also responsible or potentially responsible parties, to file a cost-recovery action against responsible parties to recover all monies expended in cleaning up a hazardous facility. Liability to the government (as well as to “innocent plaintiffs”) under section 107 is typically joint and several; the appropriate allocation of responsibility among PRPs is typically addressed in private actions for contribution under section 113. These claims for contribution are often asserted as cross-claims or third-party claims by defendants in section 107 actions initiated by the government.

- *Issuance of a section 106 administrative order.* CERCLA section 106(a) authorizes the government to seek injunctive relief or to issue an administrative order compelling responsible parties to clean up, abate, or otherwise remediate contamination at a site where EPA has determined that there is an “imminent and substantial endangerment to the public health or welfare.”²³⁵⁴ Incentives for cooperation are fairly strong: Failure to comply with an administrative order carries civil penalties up to \$27,500 per day for each violation occurring on or after January 30, 1997.²³⁵⁵ PRPs who incur response costs in complying with an administrative order may seek contribution from other liable parties pursuant to section 113(9f)(1) of CERCLA, described below. Section 106 orders issued by EPA can name as few as one and as many as all PRPs at a site, and PRPs who refuse to comply with a section 106 order without “sufficient cause”²³⁵⁶ do so at their peril.

2352. *Id.* § 9601(23).

2353. *Id.* § 9601(24).

2354. *Id.* § 9406(a).

2355. *Id.* § 9604(e)(5), amended by Omnibus Consolidated Rescissions and Appropriations Act of 1996, Pub. L. No. 104-134, 110 Stat. 1321, and Civil Monetary Penalty Inflation Adjustment Rule, 61 Fed. Reg. 69360 (Dec. 31, 1996) (to be codified at 40 C.F.R. pts. 19, 27). Penalties for violation of a section 106 order and treble damages under section 107(c)(3) are cumulative. 42 U.S.C. § 9607(c)(3) (West 2003).

2356. 42 U.S.C. § 9606(b)(1) (West 2003); *see* *United States v. LeCarreaux*, Civ. No. 90-1672, 1991 WL 341191, at *25–27 (D.N.J. July 30, 1991) (financial condition not sufficient cause for failure to comply).

CERCLA explicitly precludes jurisdiction to review section 106 orders, except in an action by EPA to enforce an order or to recover penalties for its violation, in an action for reimbursement by participating PRPs under section 106(b)(2), or pursuant to a cost recovery action under section 107.²³⁵⁷ Typically, EPA will first notify all identified PRPs of its intent to issue a section 106 order in an effort to encourage the PRPs collectively to undertake a remedial action.²³⁵⁸ CERCLA encourages EPA to minimize litigation by facilitating agreements with PRPs.²³⁵⁹ To the extent that the PRPs agree to a cleanup effort, the government will enter into a consent decree with cooperating parties, setting forth the work to be performed and the liabilities assumed.²³⁶⁰ Even in cases where agreement has been reached and a consent order signed, judicial review may nonetheless arise where the PRPs subsequently challenge EPA actions (such as the remedy selected²³⁶¹), oversight costs, consistency with the National Contingency Plan (NCP),²³⁶² or proposed set-

2357. 42 U.S.C. § 9613(h) (West 2003).

2358. *See id.* § 9622(d)(1)(A), (B). In 1995, EPA issued a new model consent decree, which eliminated a provision in its predecessor that “required defendants to commit to performing additional remedy actions in the event the original remedy failed.” Press Release, Dept. of Justice, EPA Announces Model Superfund Consent Decree Designed to Improve Superfund Settlements and Cleanups (July 14, 1995), 1995 WL 414063, at *1 [hereinafter Model Superfund Consent Decree].

2359. 42 U.S.C. § 9622(a) (West 2003). *See also id.* § 9622(g)(1) (EPA will also negotiate settlements with de minimis PRPs (PRPs with extremely small volumetric contributions)); *United States v. Occidental Chem. Corp.*, 200 F.3d 143, 147 (3d Cir. 1999) (“It is through § 122 that PRPs may agree, as opposed to being ordered under § 106(a), to do the remedial work at a site in the first instance.”). Any sums recovered will be applied to reduce cleanup costs at the site. *See United States v. Cannons Eng’g Corp.*, 899 F.2d 79, 91 (1st Cir. 1990) (“The statute immunizes settling parties from liability for contribution and provides that only the amount of the settlement—not the pro rata share attributable to the settling party—shall be subtracted from the liability of the non-settlers.”).

2360. *See CERCLA* §§ 122(d)(1)(A) & (B). It is not unusual for EPA to have reached agreement with PRPs to conduct an RI/FS. However, the PRPs’ failure to agree to undertake any other additional work at the site presents a challenge for subsequent efforts at settlement negotiation during litigation, as well as uncertainty as to total cleanup costs. *See Model Superfund Consent Decree*, *supra* note 2358.

2361. *See, e.g., In re Bell Petroleum Servs., Inc.*, 3 F.3d 889, 904–05 (5th Cir. 1993) (holding EPA could not recover costs for implementation of interim measure found to be “arbitrary and capricious”).

2362. *United States v. N.E. Pharm. & Chem. Co.*, 810 F.2d 726, 747–48 (8th Cir. 1986), *cert. denied*, 484 U.S. 848 (1987); *United States v. Am. Cyanamid Co.*, 786 F. Supp. 152, 158 (D.R.I. 1992); *United States v. Kramer*, 757 F. Supp. 397, 436 (D.N.J. 1991). The NCP is codified at 40 C.F.R. § 300 and specifies the procedures and requirements that apply to removal and remedial actions under CERCLA. Response actions by the government under section 107 must be

tlement agreements between EPA and other PRPs.²³⁶³ In some cases, the primary PRP group may have reached a settlement and entered into a consent decree with the government on removal or remediation efforts, but failed to agree on reimbursement of past costs, which may trigger an action under section 107 by the government on that unresolved portion. Those PRPs that refuse to participate in cleanup actions or otherwise settle with EPA face issuance of the section 106 order, a possible enforcement action, or, if EPA has expended any monies at the site, a cost-recovery action under section 107.²³⁶⁴

- *Section 113 contribution actions.* Private-party PRPs may themselves incur response costs a number of different ways, including by reimbursing the government for its response costs through a judgment or settlement of a section 107 cost-recovery action; by performing actions pursuant to a section 106(a) administrative order; by performing response actions pursuant to a settlement agreement with the government; or even by performing a voluntary cleanup. Private-party PRPs generally will seek to recover an equitable portion of such costs from other PRPs through a contribution action under section 113(f)(a) of

consistent with the NCP. *United States v. Hardage*, 982 F.2d 1436, 1444 (10th Cir. 1992) (“Costs, by themselves, cannot be inconsistent with the NCP As long as the government’s choice of response action is not inconsistent with the NCP, its costs are presumed to be reasonable and therefore recoverable.”). Response costs must be “consistent with” the NCP, as well, for actions by private parties under section 113. *See* 42 U.S.C. §§ 9607(4)(A) & (B) (West 2003). *See also* *Trimble v. Asarco, Inc.*, 232 F.3d 946, 956–57 (8th Cir. 2000) (where plaintiffs had no existing obligation to reimburse attorneys for response costs incurred on their behalf, they did not have a viable cost recovery claim); *Romeo v. Gen. Chem. Corp.*, 922 F. Supp. 287 (N.D. Cal. 1994) (response costs must be cognizable under CERCLA in order to make out prima facie case (citing *Ascon Props., Inc. v. Mobil Co.*, 866 F.2d 1149, 1153–54 (9th Cir. 1989))).

2363. *See, e.g.*, *United States v. Am. Cyanimid Co.*, No. 2:93-0654, 1997 U.S. Dist. LEXIS 4413 (S.D. W. Va. Jan. 27, 1997) (summary judgment granted in part and denied in part for claims against sole PRP who refused to sign on to consent decree). *See also* *United States v. Ot-tati & Goss, Inc.*, 900 F.2d 429, 443–45 (1st Cir. 1990) (raising issue of whether EPA overhead costs could be reduced because EPA was at fault in delaying the litigation).

2364. *See, e.g.*, *Occidental Chem. Corp.*, 200 F.3d at 153 (issuing of a section 106 order against the defendant after settlement negotiations failed); *United States v. LeCarreaux*, Civ. No. 90-1672, 1991 WL 341191 (D.N.J. July 30, 1991) (recalcitrant PRPs held liable for EPA response costs and treble damages in EPA enforcement action). Often PRP groups that have agreed to undertake a cleanup and enter into a consent order will have negotiated with EPA an agreement that nonparticipating PRPs be named in a section 106 order. EPA further has determined that “one important measure to encourage settlement is to maintain aggressive use of Section 106 administrative and judicial enforcement authorities to compel private party response.” *Memorandum: Interim Guidance: Streamlining the CERCLA Settlement Decision Process*, 17 *Envtl. L. Rep.* (Envtl. L. Inst.) 35014 (1987) [hereinafter *Streamlining*].

CERCLA. These actions are brought either as original claims or, where the original PRPs are defendants in a cost-recovery action, as third-party claims.²³⁶⁵ In addition, PRPs that have settled with the government (e.g., pursuant to a consent order) or have otherwise undertaken a removal or remedial effort can file an action for contribution or indemnity under section 113 against nonsettling or nonparticipating PRPs. Where EPA allegedly failed to follow regulations and to perform nondiscretionary acts, section 113(h)(4) also permits citizen suits brought pursuant to section 310.²³⁶⁶

34.12 The Three Phases of CERCLA Litigation

Generally, CERCLA litigation will comprise three interrelated phases, each of which have case-management implications: (1) liability; (2) determination of remedy and recoverable costs, including challenges to response actions for which costs were incurred; and (3) equitable allocation of response costs among defendants. Cases that also involve government claims for damages for destruction, injury, or loss of natural resources may require an additional phase or may considerably complicate the first and second phases. In practice, issues may cut across these phases:

1. *Liability.* CERCLA imposes liability on four classes of defendants for cleanup of a site or facility: (1) past or present owners; (2) past or present operators; (3) generators; and (4) transporters.²³⁶⁷ In order to make out a prima facie case, a plaintiff must show only that the defendant is a responsible party under section 107(a) (i.e., owner, operator, generator, or transporter) and that there has been a release or threatened release of a hazardous substance²³⁶⁸ from a “facility”²³⁶⁹

2365. *But see* Aviall Servs., Inc. v. Cooper Indus., Inc., 263 F.3d 134, 137–38 (5th Cir. 2001) (costs incurred for voluntary cleanup not recoverable in contribution action in the absence of a federal or state action under CERCLA § 106 or § 107(a)).

2366. 42 U.S.C. § 9613(h)(4) (West 2003). *See* Schalk v. Reilly, 900 F.2d 1091, 1095 (7th Cir. 1990) (in order to prevent unnecessary delay, a citizen suit may not challenge a cleanup prior to completion of the remedy); *Ala. v. United States EPA*, 871 F.2d 1548, 1557 (11th Cir. 1989).

2367. 42 U.S.C. § 9607(a) (West 2003).

2368. *Id.* § 9601(22) defines a “release” as “any spilling, leaking, pumping, pouring, emitting, emptying, discharge, injecting, escaping, leaching, dumping, or disposing into the environment.”

2369. *Id.* § 9601(9) defines a “facility” as

(A) any building, structure, installation, equipment, pipe or pipeline (including any pipe into a sewer or publicly owned treatment works), well, pit, pond, lagoon, impoundment,

that has caused the plaintiff to incur “response costs.” It is not necessary for the plaintiff to prove that the defendant “caused” the release, improperly disposed of the waste, or was otherwise “at fault.”²³⁷⁰ Indeed, the plaintiff need only prove that some amount of response cost has been incurred in response to a release or threatened release of a hazardous substance.²³⁷¹ Moreover, where hazardous substances from multiple parties are commingled, the government need not establish that a particular defendant’s release caused the incurrence of response costs.²³⁷² CERCLA defenses are limited and, although disputes about whether a particular defendant qualifies as a responsible party under section 107(a) may require factual development, defendants have usually found it difficult to avoid liability.²³⁷³ Some equitable defenses do exist in an action for contribution under section 113, however, and defenses that negate an element of liability are occasionally successful.²³⁷⁴ Resolution of a PRP’s liability as soon as practicable can facilitate negotiations on allocation and settlement.

Liability is joint and several in government actions under CERCLA unless the defendant can prove that the environmental

ditch, landfill, storage container, motor vehicle, rolling stock or aircraft, or (B) any site or area where a hazardous substance has been deposited, stored, disposed of, or placed, or otherwise come to be located; but does not include any consumer product in consumer use or in any vessel.

2370. *See, e.g., Acushnet Co. v. Mohasco Corp.*, 191 F.3d 69, 77 (1st Cir. 1999) (“To satisfy the causal element, it is usually enough to show that a defendant was a responsible party within the meaning of [section] 9607(a); that cleanup efforts were undertaken . . . and that reasonable costs were expended during the operation.”).

2371. *United States v. Kramer*, 757 F. Supp. 397, 417 (D.N.J. 1991); *United States v. W. Processing Co.*, 734 F. Supp. 930, 936–37 (W.D. Wash. 1990).

2372. *United States v. Alcan Aluminum Corp.*, 990 F.2d 711, 721 (2d Cir. 1993); *United States v. Rohm & Haas Co.*, 939 F. Supp. 1142, 1150 (D.N.J. 1996). (“[F]inding a causal connection between [defendant’s] wastes and USA-EPA’s costs is not required by statute.”).

2373. CERCLA § 107(b) provides a defense to liability for releases caused solely by acts of God, acts of war, or certain acts or omissions of unrelated third parties. 42 U.S.C. § 9607 (West 2003).

2374. *See, e.g., Gould, Inc. v. A & M Battery & Tire Serv.*, 232 F.3d 162, 170 (3d Cir. 2000) (Under the Superfund Recycling Equity Act, section 107(a) liability will not attach to persons “who arranged for recycling of a recycling material.”); *RSR Corp. v. Avanti Dev., Inc.*, 69 F. Supp. 2d 1119, 1126 (S.D. Ind. 1999) (“[A]rranger liability may be defeated when a defendant . . . was not disposing of, or delivering for treatment, a hazardous substance, but was selling a useful product.”); *but see United States v. A & N Cleaners & Launderers, Inc.*, 854 F. Supp. 229 (S.D.N.Y. 1994) (third-party defense and innocent landowner defense unavailable to PRP defendants when they failed to show they satisfied due care and precautionary requirements).

harm is divisible.²³⁷⁵ In determining divisibility of harms, many courts have looked to section 433A of the Restatement (Second) of Torts (1965), which provides that “[d]amages for harm are to be apportioned among two or more causes where (a) there are distinct harms; or (b) there is a reasonable basis for determining the contribution of each cause to a single harm.”²³⁷⁶ This is a narrower inquiry than that undertaken in allocating costs in contribution claims. However, factual issues relating to the divisibility of harm or apportionment may be closely related to factual issues concerning allocation. Even where these issues prove insufficient to defeat joint and several liability, they may be of critical importance in allocation.

2. *Determination of remedy and damages.* Under section 121(a) and (b)(1), remedies must be “cost effective.”²³⁷⁷ EPA administrative action in selecting a remedy is likely to be determinative in a cost-recovery action by the government seeking to recover “response costs” incurred in a full or partial remediation at the site. In fact, CERCLA precludes judicial challenge of a selected remedy prior to its implementation.²³⁷⁸ Any judicial review of the government’s choice of remedy is limited to the administrative record.²³⁷⁹ However, parties can and do challenge, among other things, whether the

2375. See, e.g., *Centerior Serv. Co. v. Acme Scrap Iron & Metal Co.*, 153 F.3d 344, 348 (6th Cir. 1998) (“Given the nature of hazardous waste disposal, rarely if ever will a PRP be able to demonstrate divisibility of harm, and therefore joint and several liability is the norm.”). The legislative history of the Superfund Amendments and Reauthorization Act (SARA) reflects that Congress intended liability under CERCLA to be joint and several where appropriate. H.R. Rep. No. 99-253(I) (1985), at 74–75, reprinted in 1986 U.S.C.C.A.N. 2835, 2856.

2376. Restatement (Second) of Torts § 433A (1965). See *In re Bell Petroleum Servs., Inc.*, 3 F.3d 889, 895 (5th Cir. 1993); *Alcan Aluminum Corp.*, 990 F.2d at 722. See also *United States v. R.W. Meyer, Inc.*, 889 F.2d 1497, 1507 (6th Cir. 1989) (discussing liability requirements under Restatement (Second) of Torts § 875.).

2377. 42 U.S.C. §§ 9621(a), (b)(1) (West 2003). See, e.g., *United States v. Am. Cyanamid Co.*, 786 F. Supp. 152, 161 (D.R.I. 1992) (“As long as the actions taken by the government fit within the NCP, the costs are presumed reasonable.”).

2378. 42 U.S.C. § 9613(h) (West 2003).

2379. *Id.* § 9613(j). See *United States v. Akzo Coatings of Am., Inc.*, 949 F.2d 1409, 1423–34 (6th Cir. 1991); *In re Acushnet River & New Bedford Harbor*, 722 F. Supp. 888, 890–92 (D. Mass. 1989); *United States v. Wastecontrol of Fla., Inc.*, 730 F. Supp. 401, 404 (M.D. Fla. 1989) (“Limiting judicial review of response actions to the administrative record also expedites the process of review, avoids the need for time-consuming and burdensome discovery, reduces litigation costs and ensures that the reviewing court’s attention is focused on the information and criteria used in selecting the response” (quoting H.R. Rep. No. 99-253, at 81 (1985), reprinted in 1986 U.S.C.C.A.N. 2835, 2863)); *United States v. Rohm & Haas Co.*, 669 F. Supp. 672, 676–77 (D.N.J. 1987).

costs sought by EPA were “response costs”²³⁸⁰ and whether the remedy was consistent with the NCP.²³⁸¹ When a private party brings a cost-recovery action, the burden is on the plaintiff²³⁸² to prove that the costs incurred were “necessary” at the time the remedial effort was undertaken (i.e., an actual threat existed) and that the costs were consistent with the NCP.²³⁸³ In an action brought by the government, the burden is on the defendant.

3. *Allocation of response costs.* Allocation issues center on equitably apportioning the costs of cleanup among the defendants. Section 113(f)(1) provides that the court “may allocate response costs among liable parties using such equitable factors as the court determines are appropriate.” Because allocation decisions require the application of a host of factors to a complex factual record involving a

2380. Recoverable response costs include (1) the costs of investigating and monitoring releases of hazardous substances and costs incurred in planning and undertaking response actions, including health assessment costs incurred by the Agency for Toxic Substances and Disease Registry (Folino v. Hampden Color & Chem. Co., 832 F. Supp. 757, 763 (D. Vt. 1993)); (2) the costs of administration, including the response agency’s indirect costs associated with cleanups and related enforcement efforts (United States v. Am. Cyanamid Co., 786 F. Supp. 152, 157 (D.R.I. 1992)); (3) the costs of contractors that perform or support response actions on behalf of the response agency (United States v. Lowe, 118 F.3d 399, 404 (5th Cir. 1997)); (4) the costs of attorney time and other litigation expenses incurred by the response agency and the Department of Justice (DOJ) (United States v. Gurley, 43 F.3d 1188, 1200 (8th Cir. 1994)); (5) DOJ indirect costs (United States v. Findett Corp., 75 F. Supp. 2d 982, 989–90 (E.D. Mo. 1999); and (6) prejudgment interest (United States v. Mottolo, 695 F. Supp. 615, 631 (D.N.H. 1988)). Oversight costs, site security costs and actual costs for implementing a remedy also are recoverable. See United States v. Ottati & Goss, Inc., 900 F.2d 429, 443–45 (1st Cir. 1990) (challenging EPA overhead costs because EPA was at fault in delaying the litigation); Kelley v. Thomas Solvent Co., 790 F. Supp. 719 (W.D. Mich. 1990). Response costs have also been held to include natural resource damages that result from a release. 42 U.S.C. § 9607(a)(4)(C) (West 2003). A private plaintiff cannot recover natural resource damages, and any monies recovered by the government for natural resource damages are to be used to “restore, replace, or acquire the equivalent of such natural resources.” 42 U.S.C. § 9607(f)(1) (West 2003). *But see* Struhar v. City of Cleveland, 7 F. Supp. 2d 948, 951 (N.D. Ohio 1998) (response costs did not include medical monitoring).

2381. See, e.g., United States v. Chapman, 146 F.3d 1166, 1169 (9th Cir. 1998) (government must show that it incurred response costs); United States v. Hardage, 982 F.2d 1436, 1443–44 (10th Cir. 1992) (PRP could not show costs were inconsistent with the NCP simply by showing individual costs were excessive or unreasonable); United States v. N.E. Pharm. & Chem. Co., 810 F.2d 726, 747–48 (8th Cir. 1986) (holding that defendants could not dispute costs as unreasonable when they were consistent with the NCP).

2382. See Carson Harbor Vill., Ltd. v. Unocal Corp., 990 F. Supp. 1188, 1193 (C.D. Cal. 1997), *aff’d in part and rev’d in part*, 227 F.3d 1196 (9th Cir. 2000).

2383. See Mass. v. Blackstone Valley Elec. Co., 867 F. Supp. 76 (D. Mass. 1994).

large number of parties, such decisions often represent the most challenging aspects of CERCLA cases.

34.2 Case Management

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CERCLA has been roundly criticized as being draconian, inefficient, and costly, with millions of dollars spent on litigation and attorney fees rather than site cleanup. CERCLA liability virtually ensures that litigation will be complex and protracted for a number of reasons. The scope of liability is extremely broad, reaching a wide range of affected parties, from individuals and corporations, both domestic and foreign, to federal, state, and municipal governments, among others.²³⁸⁴ CERCLA draws within its net not only current and past owners and operators of a contaminated facility, but also generators and transporters of any hazardous material that was sent to the site. The quality and quantity of the waste are not factors in assessing CERCLA liability and provide no grounds for PRPs to avoid liability.²³⁸⁵ In addition, the courts have consistently construed CERCLA provisions expansively to “avoid frustrating [its] legislative purposes.”²³⁸⁶ For example, “owner” or “operator” liability under section 107(a) has been extended to include, among others, shareholders,

2384. 42 U.S.C. § 9601(21) defines “person” as an “individual, firm, corporation, association, partnership, consortium, joint venture, commercial entity, United States Government, State, municipality, commission, political subdivision of a State, or any interstate body.”

2385. See *Acushnet Co. v. Mohasco Corp.*, 191 F.3d 69, 76 (1st Cir. 1999) (CERCLA does not require that there be some minimal quantity of hazardous waste before liability will attach); *B.F. Goodrich v. Betkoski*, 99 F.3d 505, 517 (2d Cir. 1996) (CERCLA’s “‘hazardous substance’ definition includes even minimal amounts”). However, the *Acushnet* court, following in the footsteps of the Second Circuit, stated that, in apportioning costs, fairness and equity could allow “a defendant [to] avoid joint and several liability for response costs in a contribution action under § 9613(f) if it demonstrates that its share of hazardous waste . . . constitutes no more than background amounts of such substances in the environment and cannot concentrate with other wastes to produce higher amounts.” *Acushnet Co.*, 191 F.3d at 77.

2386. *Anspec Co. v. Johnson Controls, Inc.*, 922 F.2d 1240, 1247 (6th Cir. 1991).

officers, employees, easement holders, lenders, and contractors.²³⁸⁷ Issues surrounding the liability of parent companies for activities of their subsidiaries²³⁸⁸ and of the liability of successor corporations²³⁸⁹ are still being vigorously contested,²³⁹⁰ as are issues related to liability for passive contamination. The issue centers on whether there is a distinction between “release” and “disposal,” and whether passive movement of contaminants is sufficient for PRP liability to attach under section 107(a).²³⁹¹ Commonly the problem, many sites targeted by

2387. *See, e.g.,* United States v. Fleet Factors Corp., 901 F.2d 1550 (11th Cir. 1990). This decision imposed lender liability and subsequently led to the clarification of CERCLA applicability to lenders in the Superfund Amendments and Reauthorization Act (SARA) amendments and the Asset Conservation, Lender Liab., and Deposit Ins. Prot. Act of 1996. H.R. 3610, 104th Cong. (1996). *See also* Minyard Enter., Inc. v. Southeastern Chem. & Solvent Co., 184 F.3d 373, 380–81 (4th Cir. 1999) (contractor liable under CERCLA for contamination caused after rupturing underground storage tank during the process of removing it); Redwing Carriers, Inc. v. Saraland Apartments, 94 F.3d 1489, 1512 (11th Cir. 1996) (“[A] ‘disposal’ may occur when a party disperses contaminated soil during the course of grading and filling a construction site.”); United States v. USX Corp., 68 F.3d 811, 822 (3d Cir. 1995) (“[CERCLA] § 107(a)(4) plainly imposes liability on corporate officers and shareholders if they participate in the liability-creating conduct.”); Sidney S. Arst Co. v. Pipefitters Welfare Educ. Fund, 25 F.3d 417 (7th Cir. 1994) (officer or shareholder may be liable under CERCLA when actually participating in operation of the facility); Kaiser Aluminum & Chem. Corp. v. Catellus Dev. Corp., 976 F.2d 1338 (9th Cir. 1992) (contractor who spread contaminated soil over uncontaminated portions of property “disposed” of hazardous waste under CERCLA); Tanglewood E. Homeowners v. Charles-Thomas, Inc., 849 F.2d 1568 (5th Cir. 1988) (person who moves contaminated soil can be a responsible party under CERCLA).

2388. *See, e.g.,* United States v. Bestfoods, 524 U.S. 51 (1998) (limiting operator liability of parent company for subsidiary activity to active participation or control or misuse of corporate form); United States v. Township of Brighton, 153 F.3d 307 (6th Cir. 1998) (municipality may be operator of waste dump where it made repeated and substantial appropriations to fund maintenance and to remedy substandard conditions); Schiavone v. Pearce, 79 F.3d 248, 253 (2d Cir. 1996) (The imposition of operator liability on a corporate parent for a subsidiary’s activity based on the parent’s control is supported by CERCLA’s statutory scheme, even though it may be inconsistent with “traditional rules of corporate liability.”); United States v. TIC Inv. Corp., 68 F.3d 1082, 1091 (8th Cir. 1995) (parent corporation independently liable for activities of subsidiary); *USX Corp.*, 68 F.3d at 822 (liability compatible with goals of CERCLA). *See also* Richard B. Stewart & Bradley M. Campbell, *Lessons from Parent Liability Under CERCLA*, 6 Natural Res. & Env’t 7, 9 (1992).

2389. *See* United States v. Mex. Feed & Seed Co., 980 F.2d 478 (8th Cir. 1992).

2390. *See* Burlington N. & Santa Fe R.R. Co. v. Consolidated Fibers, Inc., No. Civ. A. 5:97-CV-219-C, 1998 WL 460285, at *2 (N.D. Tex. July 24, 1998) (addressing issue of whether corporation was “dead and buried” and not amenable to suit at time CERCLA action filed).

2391. *See* United States v. 150 Acres of Land, 204 F.3d 698, 705 (6th Cir. 2000) (“Although early CERCLA decisions interpreted ‘disposal’ to include passive movement of substances (i.e., with no human activity), two circuits have recently limited ‘disposal’ to spills occurring by human intervention.”). *Compare* Carson Harbor Vill., Ltd. v. Unocal Corp., 227 F.3d 1196,

CERCLA are former hazardous waste disposal sites to which numerous companies may have sent waste over many years. Liability under CERCLA has been held to be retroactive and will attach for disposal or contamination that may have occurred in years prior to the statute's 1980 enactment.²³⁹² Indeed, one case considered whether CERCLA applied to a plant that had operated from 1886 to 1954.²³⁹³ Consequently, the number of PRPs at a given site, and involved in the litigation, can number in the hundreds. These parties usually will be geographically dispersed, although CERCLA provides for nationwide service of process to ensure that these parties do not avoid, on jurisdictional grounds, responsibility for cleanup costs.²³⁹⁴

A CERCLA case also can be complicated because liability is strict, and CERCLA imposes liability without fault, as well as joint and several liability.²³⁹⁵

1205–06, *and* *Nurad, Inc. v. William E. Hooper & Sons Co.*, 966 F.2d 837, 844–47 (4th Cir. 1992), *with* *United States v. CDMG Realty*, 96 F.3d 706, 710–11 (3d Cir. 1996), *and* *United States v. Petersen Sand & Gravel, Inc.*, 806 F. Supp. 1346, 1350–52 (N.D. Ill. 1992). Also unsettled is whether the disruption or movement of contaminated earth constitutes a “disposal.” *Compare* *Tanglewood E. Homeowners v. Charles-Thomas, Inc.*, 849 F.2d 1568, 1573 (5th Cir. 1988) (landfilling and grading by developer constitutes disposal), *with* *Alcan-Toyo Am., Inc. v. N. Ill. Gas Co.*, 881 F. Supp. 342, 345–46 (N.D. Ill. 1995) (owners’ excavation and stockpiling, which did not contribute to the preexisting contamination, did not constitute disposal). *See also* *Geraghty & Miller, Inc. v. Conoco, Inc.*, 234 F.3d 917, 929 (5th Cir. 2000) (possibility that environmental contractors caused migration of hazardous substances precludes summary judgment that contractors are not liable as generators); *Blasland, Bouck & Lee, Inc. v. N. Miami*, 96 F. Supp. 2d 1375, 1380 (S.D. Fla. 2000) (absent negligence, response-action contractor cannot be held liable for failing to remedy contamination but not worsening it).

2392. *See, e.g.*, *Gould, Inc. v. A & M Battery & Tire Serv.*, 232 F.3d 162, 169 (3d Cir. 2000) (Superfund Recycling Equity Act applied retroactively); *In re Penn Cent. Transp. Co.*, 944 F.2d 164, 166 (3d Cir. 1991); *United States v. Monsanto Co.*, 858 F.2d 160, 166–74 (4th Cir. 1988); *United States v. N.E. Pharm. & Chem. Co.*, 810 F.2d 726, 734 (8th Cir. 1986); *HRW Sys. v. Wash. Gas Light Co.*, 823 F. Supp. 318, 329 (D. Md. 1993); *City of Phila. v. Stepan Chem. Co.*, 748 F. Supp. 283, 289 (E.D. Pa. 1990); *Kelley v. Thomas Solvent Co.*, 714 F. Supp. 1439, 1443–45 (W.D. Mich. 1989); *O’Neil v. Picillo*, 682 F. Supp. 706, 729 (D.R.I. 1988), *aff’d*, 883 F.2d 176 (1st Cir. 1989). *But see* *United States v. Olin*, 927 F. Supp. 1502 (S.D. Ala. 1996), *rev’d*, 107 F.3d 1506 (11th Cir. 1997) (the sole exception to a uniform holding by the courts that the purpose and history of CERCLA reflected Congress’s intent that it be applied retroactively; the decision was reversed on appeal by the Eleventh Circuit).

2393. *See* *Fishbein Family P’ship v. PPG Indus., Inc.*, 871 F. Supp. 764 (D.N.J. 1994). *See also* *Allied Corp. v. Acme Solvents Reclaiming, Inc.*, 691 F. Supp. 1100, 1103 (N.D. Ill. 1988) (the relevant conduct spans nearly thirty years, and the operation had been closed for over fifteen years before the court’s ruling).

2394. 42 U.S.C. § 9613(e) (West 2003). Section 9613(e), however, does not authorize service of process in foreign countries. *United States v. Ivey*, 747 F. Supp. 1235 (E.D. Mich. 1990).

2395. *See* *United States v. Monsanto Co.*, 858 F.2d 160 (4th Cir. 1988); *O’Neil*, 682 F. Supp. at 724–26; *United States v. Chem-Dyne*, 572 F. Supp. 802 (S.D. Ohio 1983). *But see* *United*

Often, in cost-recovery actions brought under section 107, the government will name a limited number of PRPs as defendants, usually targeting those considered to have been the largest volumetric contributors of waste to the site. A defendant can avoid the imposition of joint and several liability only where it is able to show that the harm is divisible and can be reasonably apportioned.²³⁹⁶ Defendants seeking to avoid joint and several liability bear the burden of proof on both divisibility and apportionment.²³⁹⁷ As CERCLA liability can be extremely expensive, with site remedial costs averaging over \$26 million,²³⁹⁸ the

States v. A & F Materials Co., 578 F. Supp. 1249, 1252–57 (S.D. Ill. 1984) (adopting moderate approach based on Restatement (Second) of Torts, § 443(A), § 881 (1976), but vesting the court with discretion to impose joint and several liability, even where injury is indivisible, if a fair apportionment method is available). In actions for contribution brought under CERCLA § 113, courts have held that there is no joint and several liability among defendants. Instead, the court is to equitably “allocate response costs among liable parties.” 42 U.S.C. § 9613(f)(1) (West 2003). See *Redwing Carriers, Inc. v. Saraland Apartments*, 94 F.3d 1489, 1514 (11th Cir. 1996).

2396. See *Redwing Carriers, Inc.*, 94 F.3d at 1513 (“Recognizing Congress’ intent that ‘traditional and evolving common law principles’ should define the scope of liability under CERCLA, courts have looked to the Restatement (Second) of Torts, particularly § 433A, for guidance.” (citing *In re Bell Petroleum Servs., Inc.*, 3 F.3d 889, 895 (5th Cir. 1993))); *United States v. Alcan Aluminum Corp.*, 990 F.2d 711, 721–24 (2d Cir. 1993); *In re Bell Petroleum*, 3 F.3d at 894; *United States v. Alcan Aluminum Corp.*, 964 F.2d 252, 269 (3d Cir. 1992). In *Kamb v. U.S. Coast Guard*, 869 F. Supp. 793, 799 (N.D. Cal. 1994), the court held that CERCLA liability could be apportioned where lead contamination at the site was divided into two discrete sections, one of which had not been used by defendants. Other courts have found imposition of joint and several liability appropriate where the site was geographically divisible. See *Pneumo Abex Corp. v. Bessemer & Lake Erie R.R. Co.*, 936 F. Supp. 1250 (E.D. Va. 1996) (reasonable basis for apportionment); cf. *United States v. Broderick Inv. Co.*, 862 F. Supp. 272, 277 (D. Colo. 1994) (defendant not jointly and severally liable where the harm was geographically divisible, contamination from one area has not merged or migrated to others, and defendant had no ownership interest in the land associated with one portion of site). However, although defendants have had some limited success in showing divisibility, more commonly defendants, even if able to prove the exact amount of waste they contributed to the site, find it difficult to prove the resulting proportionate harm to soil or groundwater. See *O’Neil v. Picillo*, 883 F.2d 176, 182 (1st Cir. 1989) (where, of 10,000 barrels excavated, only 300–400 could be attributed to any given defendant, defendants had burden of accounting for uncertainty); *United States v. Ottati & Goss, Inc.*, 630 F. Supp. 1361, 1396 (D.N.H. 1985) (“the exact amount or quantity of deleterious chemicals or other noxious matter” couldn’t be pinpointed to each defendant); *Chem-Dyne Corp.*, 572 F. Supp. at 811 (defendants failed to meet burden as to divisibility of harm).

2397. *New Castle County v. Halliburton NUS Corp.*, 111 F.3d 1116, 1121 n.4 (3d Cir. 1997); *United States v. Colo. & E. R.R.*, 50 F.3d 1530, 1535 (10th Cir. 1995). See also *In re Bell Petroleum*, 3 F.3d at 903 (“[W]hether there is a reasonable basis for apportionment depends on whether there is sufficient evidence from which the court can determine the amount of harm caused by each defendant.”).

2398. See GAO Rep. 96-125, *Superfund—Barriers to Brownfield Redevelopment 3* (June 26, 1996) (“EPA estimates that the average cost to clean up a site on the [NPL] . . . is \$26 mil-

specter of joint and several liability spread among only the few named PRPs, and the inclusion in section 113 of a right to contribution, encourage named PRPs to search out all other potential defendants in order to reduce the PRPs' own portion of the response costs.²³⁹⁹ As a result, CERCLA actions can involve scores of defendants and third-party defendants, as well as multiple claims for indemnification and contribution.²⁴⁰⁰

Although CERCLA affords a right to contribution and indemnity, there is no consensus as to the statutory provision under which PRPs must proceed or the method of determining each PRP's share of liability. Circuits have generally found that non-innocent PRPs (i.e., PRPs who have liability at the site) cannot proceed under section 107 for cost recovery but are limited to bringing an action for contribution under section 113.²⁴⁰¹ The distinction is significant. Whereas there is a six-year statute for cost-recovery actions under section 107,²⁴⁰² actions under section 113 are subject to a three-year limitation period. Further, under section 107 a defendant sued for cost recovery may be jointly and severally liable, but would be only severally liable under section 113 where costs would be apportioned equitably by the court.²⁴⁰³ Under either provision, however, there is no specified method of fair apportionment or factors to be considered, and models of apportionment or allocation vary widely and can result in complex technical inquiries.

Some CERCLA cases brought by the government become complex because the action may have been filed at the early stages of cleanup while administra-

lion.”); Katherine Probst, *Footing the Bill for Superfund Cleanups: Who Pays and How?* 1 (1995) (citing the average cost at \$29.1 million). Some site remedial costs have exceeded \$100 million. William D. Evans, Jr., *CERCLA's Third-Party Practice: Its "Cape Fear" Features*, 9-4 Mealey's Litig. Rep. Superfund 14 (May 24, 1996).

2399. Evans, *supra* note 2398, at 14 (“In April, 1996, the U.S. Environmental Protection Agency (EPA) announced that 56 PRPs had agreed to pay up to \$109 million to settle cleanup claims at the Fike/Artel Superfund Site in Nitro, West Virginia.”).

2400. See, e.g., *New York v. Exxon Corp.*, 744 F. Supp. 474 (S.D.N.Y. 1990) (including 15 primary corporate defendants and approximately 300 third-party defendants); *United States v. Stringfellow*, 661 F. Supp. 1053 (C.D. Cal. 1987) (with more than 100 parties).

2401. See, e.g., *New Castle County*, 111 F.3d at 1121; *Pinal Creek Group v. Newmont Mining Corp.*, 118 F.3d 1298, 1301–06 (9th Cir. 1997); *Redwing Carriers, Inc.*, 94 F.3d at 1497 n.4; *Colo. & E. R.R. Co.*, 50 F.3d at 1535–37; *Akzo Coatings, Inc. v. Aigner Corp.*, 30 F.3d 761, 764 (7th Cir. 1994); *United Techs. Corp. v. Brown-Ferris Indus., Inc.*, 33 F.3d 96, 98 (1st Cir. 1994). *But see* *Town of Wallkill v. Tesa Tape, Inc.*, 891 F. Supp. 955, 959–60 (S.D.N.Y. 1995) (both private and governmental PRPs can maintain claims under both section 107 and section 113); *United States v. SCA Servs., Inc.*, 849 F. Supp. 1264 (N.D. Ind. 1994).

2402. 42 U.S.C. § 9613(g)(2) (West 2003).

2403. Hope Whitney, *Cities and Superfund: Encouraging Brownfield Redevelopment*, 30 Ecology L.Q. 59, 76–77 (2003).

tive proceedings are still ongoing. In such instances, “the litigation in the courthouse proceeds in a clumsy pas de deux with the administrative process before the agency.”²⁴⁰⁴ The status of the cleanup at the time the action is filed can significantly affect both the progress of the litigation and any settlement efforts. Full information regarding the extent of contamination, including scope as well as composition, may not be available. Similarly, estimates of the total cost of remediation, central to allocation and settlement decisions, will not have been made or may still be in the early stages of development, hindering the possibility of a global settlement. Where administrative proceedings are ongoing, it is imperative that the court be informed early on of the administrative status in order to assess its likely effect on the progress of the litigation and on allocation and settlement efforts.

Efficient management of CERCLA litigation helps prevent it from overwhelming the court and the parties and assists in reducing delay. Case-management strategies differ depending on whether the case is brought by the government or by private parties and under which provision of the statute. A critical factor is the number of PRPs. Fairly small sites with a small number of PRPs will not require the oversight necessary in actions arising from larger sites. Cost-recovery and contribution actions that involve numerous parties expand the factual and legal issues. PRPs look for any avenue of escape in an attempt to either avoid or minimize CERCLA exposure, and a court can expect challenges raising a variety of issues.²⁴⁰⁵

2404. Brotman & Simandle, *supra* note 2349, at 188. “Discovery is being taken in the courthouse to identify new parties while the agency propounds section 104 information requests. The Record of Decision (ROD) for Phase I of a cleanup may be under judicial review while the parties battle before the agency in the Phase II RI/FS process; settlement of Phase I issues in court may also depend on the Phase II administrative process coming into focus. Efforts by PRPs in court to allocate liability shares among themselves may deter the agency from preparing a ‘nonbinding preliminary allocation of responsibility’ (NBAR) under SARA § 122(e)(3).” *Id.*

2405. *See, e.g.*, *United States v. Alcan Aluminum*, 964 F.2d 252 (3d Cir. 1992) (also holding that CERCLA liability does not require the presence of a “threshold quantity of a hazardous substance”); *United States v. Alcan Aluminum*, 755 F. Supp. 531, 537 (N.D.N.Y. 1991) (presence of a hazardous substance in waste sufficient for CERCLA liability); *United States v. Carolawn Co.*, 21 *Env’t. Rep. (BNA)* 2124, 2126 (D.S.C. 1984) (rejecting defendant’s argument that hazardous constituents in waste in negligible amounts were not sufficient to meet CERCLA’s “hazardous waste” definition). *See also* *Textron, Inc. v. Barber-Coleman Co.*, 903 F. Supp. 1570, 1581 (W.D.N.C. 1995) (rejecting argument that hazardous substances had biodegraded over time and therefore did not cause contamination that required remediation); *United States v. Conservation Chem. Co.*, 619 F. Supp. 162, 238–41 (W.D. Mo. 1985) (rejecting defendants’ argument that their provision of lime slurry and fly ash for cleanup of an environmental site could not expose them to CERCLA liability); *New York v. Gen. Elec. Co.*, 592 F. Supp. 291, 297 (N.D.N.Y.

There are several questions that recur in CERCLA litigation:

- *What is the status of site cleanup and the impact on the litigation of the process?* For example, have any consent decrees been entered in the case, and what do they cover? Nonsettling PRPs may also challenge proposed settlement consent decrees between the government and other parties.²⁴⁰⁶ Has the action been brought by the government to recover the costs of early response actions at the site, while remedial decisions remain pending?²⁴⁰⁷ Is the remedy for the site appropriate and consistent with the NCP, eliminating those challenges from the litigation?²⁴⁰⁸ What is the history of settlement negotiations and the best way to structure a settlement process?²⁴⁰⁹ In cases where remedial decisions have yet to be made, is a stay of the litigation appropriate?

1984) (rejecting argument that used transformer oil, sold to control dust, was a product not subject to CERCLA); *United States v. A & F Materials Co.*, 582 F. Supp. 842, 844–45 (S.D. Ill. 1984) (sale of spent “caustic solution” could be a waste for purposes of CERCLA). *But see* 3550 *Stevens Creek Assoc. v. Barclays Bank*, 915 F.2d 1355 (9th Cir. 1990) (use of asbestos as a building material did not constitute hazardous waste for purposes of CERCLA).

2406. *See, e.g.*, *United States v. Kramer*, 19 F. Supp. 2d 273, 276 (D.N.J. 1998) (non-settling defendants raised numerous objections to a proposed consent decree between the government and settling defendants).

2407. *See, e.g., id.* (cost-recovery action filed by government because of imminent expiration of statute of limitations on an initial removal action, although remedy had not yet been implemented).

2408. In most cases the remedy (i.e., how the site is to be cleaned up) has been administratively selected by EPA. PRPs can and do raise challenges to the appropriateness of the remedy, as well as to costs that EPA (or private parties) are seeking to recover. An example of a challenge to the remedy might be that EPA is demanding the groundwater be made “drinking water” safe where the water table is not used for residential purposes. Challenges to costs being sought by EPA are typically based on the assertion that the costs were incurred pursuant to response actions inconsistent with the NCP. *United States v. Kramer*, 757 F. Supp. 397, 436 (D.N.J. 1991). However, arguments that costs are the result of response actions inconsistent with the NCP are not defenses to liability, but only to the recovery of specific costs. *Ill. v. Grigoleit Co.*, 104 F. Supp. 2d 967, 980 (C.D. Ill. 2000); *United States v. Cantrell*, 92 F. Supp. 2d 704, 717 (S.D. Ohio 2000). Where the action involves private parties seeking cost recovery, the burden is on the plaintiff to prove that the response actions for which the costs were incurred were “necessary” and “consistent with” the NCP. 42 U.S.C. § 9607(a)(4)(B) (West 2003); *City of Heath v. Ashland Oil, Inc.*, 834 F. Supp. 971, 976 (S.D. Ohio 1993). Response actions “carried out in compliance with the terms of an order issued by EPA pursuant to section 106 of CERCLA, or a consent decree entered into pursuant to section 122 of CERCLA will be considered ‘consistent with the NCP.’” 40 C.F.R. § 300.700(c)(3)(ii) (2003). Other response actions must be in “substantial compliance” with the NCP to allow for private cost recovery. *Id.* § 300.700(c)(3), (c)(5)–(6).

2409. Defendants may seek a global settlement of the litigation, which may be difficult to achieve where remedial decisions remain.

- *What is the likely size and scope of the case?* Is referral to a magistrate judge, special master, or allocation consultant warranted in light of the likely size of the case? Are there sizeable groups of *de minimis* or *de micromis* litigants, and is it possible to settle these groups out early in the litigation? What is the feasibility of exercising supplemental jurisdiction over state law claims given the size and posture of the case? Can the case be segmented and phased and, if so, what sequence will best facilitate resolution?
- *What costs are being sought and what is the best structure for achieving a fair allocation among the PRPs?* Relevant to this inquiry is whether the plaintiff can prove causation and whether any PRP will be able to show divisibility of harm given the characteristics of the site and the contamination. Although CERCLA is a strict liability statute, PRPs nonetheless frequently challenge causation. Most courts have held that proof of liability under CERCLA requires only that the plaintiff prove the PRP deposited waste at a site from which there was a release or threatened release, and the government, particularly, is not required to “fingerprint” waste.²⁴¹⁰ Other factors that can affect the costs recovered by the government, or equitable allocation among the PRPs in contribution claims, include the size of the “orphan shares” and how they are handled. Orphan shares are the shares of companies that are out of business, bankrupt, or dissolved and therefore cannot be assigned a share of responsibility.

2410. See, e.g., *Kalamazoo River Study Group v. Menasha Corp.*, 228 F.3d 648, 654 (6th Cir. 2000); *Alcan Aluminum Corp.*, 964 F.2d at 266. But see *Idaho v. Bunker Hill Co.*, 635 F. Supp. 665, 674 (D. Idaho 1986) (finding damage for which recovery is sought must still be causally linked to the act of the defendant where plaintiff is seeking recovery for injury to natural resources). Actual contamination of the plaintiff's property is unnecessary. *Dedham Water Co. v. Cumberland Farms Dairy, Inc.*, 889 F.2d 1146, 1154 (1st Cir. 1989). Moreover, a plaintiff is not required to prove either that the specific defendant's waste was “released” at the site or that it caused actual contamination, to establish liability. *United States v. Alcan Aluminum*, 990 F.2d 711, 721 (2d Cir. 1993); *United States v. Monsanto Co.*, 858 F.2d 160, 169 (4th Cir. 1988); *Artesian Water Co. v. New Castle County*, 659 F. Supp. 1269, 1281–82, *aff'd*, 851 F.2d 643 (3d Cir. 1988) (neighboring owners may recover response costs incurred as the result of the threat that wastes from a hazardous site could migrate into their wells). However, several courts have held that defendant's waste must have caused the plaintiff to incur response costs before liability can be imposed. See *Acushnet Co. v. Coaters, Inc.*, 937 F. Supp. 988, 994–96 (D. Mass. 1996) (where plaintiffs were unable to prove that the defendant's creosote-treated utility pole butts contributed to response costs incurred by the plaintiffs, defendant would be absolved of CERCLA liability); *Dedham Water Co.*, 889 F.2d at 1152–54 (defendant's waste must have caused the plaintiff to incur response costs through either release or threatened release before liability can be imposed). In addition, causation is a major player in pendent state tort claims for negligence.

34.21 Setting Up the Case

Early institution of an initial case-management order will help organize the case, provide a preliminary identification of legal and factual issues, and educate the court as to the potential size and complexity of the litigation. The case-management order can then be revised as the case progresses. Counsel will welcome a detailed agenda in advance of the conference. It is also helpful to caution the parties to anticipate schedules with firm deadlines for the filing of third-party claims or cross-claims for contribution and indemnity, amendment of the pleadings, the filing and hearing of motions, and the joinder of additional PRPs identified as the litigation progresses. Timely joinder of all PRPs is an important facet of judicial management in a CERCLA case. The court should closely monitor identification of PRPs as discovery progresses. Discuss with counsel the feasibility of an on-line depository for docket information, orders, opinions, or other information that the court or the parties may want to disseminate.

In addition to items recommended in section 11, the following actions are worth considering early on in the case and can be effected either through an order *sua sponte* or through a case-management order issued in conjunction with the initial Federal Rule of Civil Procedure 16 conference:

- consider whether the case is appropriate for liaison or joint counsel, soliciting views of the parties in the method of selecting such counsel, and establishing litigation committees or subcommittees to facilitate communications between various groups of parties, liaison counsel, and the court;
- consider whether the case should be bifurcated or trifurcated into two or more phases, such as liability, amount, and recoverability of response costs and allocation;
- order the early exchange of information between the parties regarding the identity of all known PRPs, including those documents reflecting a party's relationship with the site, and the production by the government to PRPs of all files relating to the site, including documents reflecting the history, operation, investigation, sampling, monitoring, and remedial actions at the site—where EPA is a party, it can be ordered to produce the data it has collected through its site investigation as well as the PRP responses to information requests under section 104(e), and its official record of decision created to determine the appropriate response under section 113(k);
- identify separate private party or government cases regarding the same site, and any pending state or administrative actions at the site, and

- consider whether to consolidate private party and/or government cases;
- identify any other proceedings arguably related to the CERCLA case (e.g., toxic tort, insurance, bankruptcy);
 - require parties to disclose the settlement history, if any, and inquire into the existence of nonbinding allocation agreements or other preliminary allocation attempts—section 122(e)(3) encourages the government to provide a nonbinding preliminary allocation of responsibility (NBAR) to facilitate settlement negotiations (NBARs are not admissible);
 - if the action is based on a settlement consent decree, establish the type of consent decree, whether the decree includes all PRPs, and whether the parties anticipate objecting to or opposing the consent decree or the existence of any other procedural or substantive issue; persons or entities seeking to oppose the entry of the consent decree may seek leave to intervene during the public notice period triggered by the notice of lodging of the consent decree;
 - determine whether the case would benefit from a stay of litigation to allow the parties to engage in serious settlement negotiations or, alternatively, whether the use of alternative dispute resolution strategies would be helpful;²⁴¹¹
 - encourage early discussions for *de minimis* settlements to minimize the transaction costs incurred by small contributors—one commentator has estimated that “those costs can easily reach \$200,000–\$300,000 every six months for small groups of *de minimis* or mid-volume PRPs”;²⁴¹²
 - create a schedule for the identification, discovery, and coordination of experts—a case-management order can promote cordial discussion, providing that discussions among groups of litigants will not constitute evidence of a conspiracy and that an expert’s inadvertent disclosure of confidential information during such discussion will not waive trade-secret or attorney work-product protections (in cases brought by the government, the nature and scope of permissible expert testimony may be more limited than expert testimony relevant in private party contribution actions. (For example, in government cost-recovery

2411. See, e.g., Lauren Stiller Rikleen, *Managing Complex Environmental Disputes: From Superfund to Brownfields—A Model Still Evolving*, 31 Urb. Law. 591, 598–99 (1999).

2412. Martin A. McCrory, *The Equitable Solution to Superfund Liability: Creating a Viable Allocation Procedure for Businesses at Superfund Sites*, 23 Vt. L. Rev. 59, 83 (1993).

cases, expert testimony might be limited to liability issues, divisibility questions, and cost-accounting matters. Consider the schedule of expert identification and discovery in conjunction with the various phases of the litigation. For example, expert testimony or allocation issues in private party contribution cases will not be necessary until the contribution claims are prepared and tried, which, in a case initiated by a government cost-recovery action, is often in the third phase of litigation.);

- establish a schedule for filing and hearing of motions;
- require each side to meet and agree on a statement of the factual and legal issues in dispute, including defenses being asserted to liability and any challenges to government action, particularly challenges to the selection of remedy; stipulations as to liability, or to elements of liability, are useful in streamlining the case, particularly where the parties can agree that such issues are not seriously in dispute; and
- determine the need for a document repository and other shared databases.

34.22 Special Masters and Magistrate Judges

Generally, the use of special masters in CERCLA cases has been approved only for limited pretrial purposes. Several circuits have specifically rejected reference to a special master to make recommendations on dispositive motions or to preside at trial in CERCLA cases.²⁴¹³ Circuits have approved reference where there is a need for extraordinary pretrial management as a result of the large number of parties and vast amounts of evidence, in light of the significant technical issues that pervade CERCLA litigation.²⁴¹⁴ Special masters may also prove helpful in analyzing the database and assisting in the development of an allocation model.²⁴¹⁵ Allocation inquiries typically involve technically complex

2413. *In re United States*, 816 F.2d 1083 (6th Cir. 1987) (reference rejected for dispositive motions and trial even though there were over 200 defendants and over 600 third-party defendants in the case); *In re Armco, Inc.*, 770 F.2d 103 (8th Cir. 1985). *But see* *Washington v. United States*, 930 F. Supp. 474 (W.D. Wash. 1996) (objections to the magistrate judge's report and recommendation sustained on summary-judgment motion).

2414. *See generally* Thomas E. Willging, Laural L. Hooper, Marie Leary, Dean Miletich, Robert Timothy Reagan & John Shapard, *Special Masters' Incidence and Activity: Report to the Judicial Conference's Advisory Committee on Civil Rules and Its Subcommittee on Special Masters* (Federal Judicial Center 2000).

2415. *See, e.g.*, *Chem-Nuclear Sys., Inc. v. Clinton*, No. CIV96-1233, 2000 WL 1898476, at *1 (D.D.C. Sept. 18, 2000) (magistrate judge appointed as special master "for the purpose of recommending findings of fact and conclusions of law on all issues presented" to the court).

issues and review of sampling data, waste synergies, migration, and toxicity, as well as the remedial measures proposed. Reference to a magistrate judge may be appropriate for discovery, particularly to ensure the identification of all necessary PRPs. Reference also may facilitate settlement negotiations, thereby limiting the district judge's involvement and preserving the ability to preside on dispositive motions and at trial.²⁴¹⁶

34.23 Related Litigation

The court and parties may need to make special efforts to identify cases and claims that are related to the CERCLA case. Such proceedings may include actions under other federal environmental statutes, such as the Resource Conservation Recovery Act (RCRA) or the Clean Water Act (CWA), as well as state judicial or administrative proceedings to enforce CERCLA-type laws. The degree of federal–state cooperation will vary. In many instances, however, both federal and state agencies are involved in cleanup enforcement actions and will be working together. In addition, CERCLA requires that any remedies comply with “all applicable or relevant and appropriate requirements” of state environmental laws, potentially adding additional issues to the CERCLA suit.²⁴¹⁷ States also may proceed under state-administered RCRA programs.²⁴¹⁸ In some instances, state requirements may be more stringent than comparable RCRA provisions.²⁴¹⁹ CERCLA also provides for citizen suits under certain circumstances, which could arise in separate actions. Superfund Amendments and Reauthorization Act (SARA) § 310(a) allows citizen suits against any person (including the government) “alleged to be in violation of any standard, regulation, condition, requirement, or order which has become effective” or against the government where it has failed “to perform any act or duty [under CERCLA] . . . which is not discretionary.”²⁴²⁰ Because SARA also contains provisions limiting preenforcement review, the courts have split over how to handle citizen enforcement, including enforcement of other federal laws.²⁴²¹

2416. For an example of a case where a magistrate judge was used both to manage discovery matters and to serve as settlement judge, see *United States v. Kramer*, 19 F. Supp. 2d 273, 278 nn.7 & 9 (D.N.J. 1998).

2417. 42 U.S.C. § 9621(d)(2), (3) (West 2003).

2418. See *id.* § 9626(b).

2419. *Id.* See also Lipeles, *supra* note 2345, at 100.

2420. 42 U.S.C. § 9659(a)(1) (West 2003).

2421. See Topol & Snow, *supra* note 2350, § 2.7 and cases cited in supplement (“[C]ourts have shown a reluctance to permit the citizen suit provisions to serve as the basis for avoiding SARA’s prohibition against pre-enforcement review.”); Marianne Dugan, *Are Citizen Suits CERCLA § 113(h)’s Unintended Victims?*, 27 *Env’tl. L. Rep.* (Env’tl. L. Inst.) 10003 (Jan. 1997).

Further, although CERCLA cases are statutory and do not involve personal injuries, the same release of hazardous substances into the environment that triggers a statutory action may also be the basis for toxic tort cases, implicating the same defendants and raising similar issues. Other private state law claims, filed in state court or in federal court based on diversity, include insurance coverage disputes and tort claims for personal injury or property damage, typically based on negligence, nuisance, trespass, or strict liability. Finally, one or more PRPs may be in bankruptcy, introducing yet another layer of complexity.²⁴²²

If there is related litigation, consider whether coordination with the CERCLA litigation is feasible. For example, coordination of insurance coverage litigation with a CERCLA case could enhance the prospect of settlement of both groups of cases. Discovery of insurance information, however, should proceed as permitted under Rule 26(b). The same group of insurers often will have carried the policies for many of the PRPs. The court may want to avoid any formal consolidation, however, because the principal issues in these actions are distinct. Insurance litigation turns on contractual arrangements.²⁴²³ Incorporating coverage questions into a larger CERCLA action can involve numerous insurers located across the country and can require application of the laws of different states. As noted by one jurist, not only are state courts “better prepared” to decide coverage cases, but “even if similar insureds were grouped together into ‘omnibus’ declaratory judgment motion practice, individual situations might not be congruent.”²⁴²⁴ In addition, coverage litigation can involve more than one waste site at which the insured is a PRP, and therefore involve facts and issues not relevant to the CERCLA litigation at hand. Consider, however, whether an early order requiring production of documents and depositions produced during discovery in related cases would assist in streamlining discovery in the CERCLA case.²⁴²⁵

2422. Generally, governmental regulatory actions, such as EPA actions under CERCLA, are exempt from the automatic stay provisions of the Bankruptcy Act, but a money judgment obtained in a CERCLA proceeding cannot be executed without approval from the bankruptcy court. 11 U.S.C. § 362(b)(4) (West 2003). *See, e.g.*, *United States v. Nicolet, Inc.*, 857 F.2d 202, 209–10 (3d Cir. 1988). *See also* Topol & Snow, *supra* note 2350, § 7.7.

2423. *But see* *City of New Orleans v. Kernan*, 933 F. Supp. 565, 568 (E.D. La. 1996) (holding that the district court “can and should exercise” supplemental jurisdiction over state insurance claims arising out of CERCLA litigation to effect an orderly resolution of the case).

2424. Brotman & Simandle, *supra* note 2349, at 187.

2425. For a consideration of the factors involved in obtaining orders placing the case file under seal, *see infra* § 11.432.

The court should also consider whether it is appropriate to exercise supplemental jurisdiction over state law claims²⁴²⁶ or whether to reject such jurisdiction to avoid unduly complicating the litigation.²⁴²⁷ In cases involving out-of-state defendants, typical in CERCLA actions, constitutional, statutory, and fairness issues arise when nationwide service of process is used to obtain personal jurisdiction over parties to supplemental state law claims lacking an independent basis for federal jurisdiction.²⁴²⁸ Such issues include whether state law claims introduce a right to a jury trial in a case that otherwise would be a bench trial, and whether the jury's findings of fact affect the outcome of what would otherwise be nonjury issues.²⁴²⁹

34.24 Organizing Counsel²⁴³⁰

CERCLA cases are strong candidates for the appointment of liaison or lead counsel, in light of the number of parties usually involved in such cases. Counsel should (1) be sensitive to conflicts between their role as liaison counsel and the representation of their individual client; (2) keep all other counsel informed and encourage their participation in the direction of the group's strategy; and (3) ensure that a balance is maintained between the "common needs of the group and the divergent needs of an individual member"²⁴³¹

Organization of counsel is essential in order for the court and the parties to be able to communicate effectively. It minimizes duplicative discovery and

2426. See 28 U.S.C. § 1367(a) (West 2003) (creating supplemental jurisdiction for claims related to federal question actions). See also *New York v. Shore Realty Corp.*, 759 F.2d 1032, 1050 (2d Cir. 1985) (upholding supplemental jurisdiction over a state law nuisance claim in a CERCLA suit); *Kernan*, 933 F. Supp. at 568 (exercising supplemental jurisdiction over insurance claims); *N.J. Dep't of Env'tl. Prot. v. Gloucester Env'tl. Mgmt. Servs., Inc.*, 719 F. Supp. 325, 334–35 (D.N.J. 1989) (court exercised jurisdiction over state claims even after EPA, which had removed case from state court, was dismissed from the litigation).

2427. See, e.g., *Struhar v. Cleveland*, 7 F. Supp. 2d 948, 954 (N.D. Ohio 1998) (refusing to exercise pendent jurisdiction over plaintiff's state claims after granting summary judgment to defendant on the federal claims arising under CERCLA); *Commerce Holding Co. v. Buckstone*, 749 F. Supp. 441, 446–47 (E.D.N.Y. 1990) (differences in legal issues, standards of proof, a right to jury trial, and remedies warrant exercise of discretion to dismiss pendent state claims without prejudice). See generally *Topol & Snow*, *supra* note 2350, § 7.3, n.29.

2428. See Jon Heller, *Note, Pendent Personal Jurisdiction and Nationwide Service of Process*, 64 N.Y.U. L. Rev. 113 (1989); James J. Connors, *Note, Nationwide Service of Process Under the Comprehensive Environmental Response, Compensation, and Liability Act: The Need for Effective Fairness Constraints*, 73 Va. L. Rev. 631 (1987).

2429. *Lytte v. Household Mfg., Inc.*, 494 U.S. 545, 550–55 (1990); *Dollar Sys. v. Avcar Leasing Sys.*, 890 F.2d 165, 170–71 (9th Cir. 1989).

2430. See generally *supra* section 10.22.

2431. *Brotman & Simandle*, *supra* note 2349, at 182.

motion practice and provides the court with an individual liaison for each group to contact about scheduling and other nonsubstantive matters. It also limits the number of attorneys seeking to argue motions or file papers. Counsel should be advised of relevant guidelines, such as the avoidance of duplicative efforts (e.g., providing in a case-management order that a party waives its right to raise an issue unless it is first presented to a committee of counsel). Subject-matter subcommittees can be created to work on what are likely to be common issues relating to defenses, liability (e.g., standards for successor liability), joinder of parties, jurisdiction, discovery, remediation, and allocation. These committees can be delegated authority to represent the parties in that group for purposes of litigation, management, and trial preparation. To do this, the court will need to determine a fair and efficient grouping of the parties. Lead or liaison counsel then can be selected after consultation with the groups of parties as to method and manner of selection, as well as compensation.

At the outset, it is useful to become familiar with the parties' own efforts to organize themselves in response to EPA's prelitigation investigation at the site. Often the primary PRPs will have formed a group that was represented in negotiations with EPA by common or joint counsel, and this same counsel may also be representing the PRP group in the subsequent litigation. These PRPs are also likely to have grouped themselves (usually by size) in a manner they have already determined to be fair and effective—at least for administrative purposes and for remediating the site—and that may be effective for the litigation as well. In such cases, the primary PRPs also may have established a binding allocation agreement among themselves and reached agreement on how any monies will be distributed, thus minimizing conflicts and cross-claims. The focus would then shift to an effective organization of the remaining parties, usually third-party defendants. In these third-party matters and in cases where no agreement exists within the primary PRP group, conflicting interests are common, and the court and the parties will need to be sensitive to the problems that can arise from grouping parties that may have adverse claims.

The method of organization may vary. One approach is to allow the parties to organize themselves, nominate lead and liaison counsel, propose a mode of payment, define the authority of lead and liaison counsel, and define a committee structure. It may be sufficient for the court to suggest these topics as an agenda for a meeting of counsel. The judicial role would then be simply to evaluate any proposal to ensure that it meets the court's litigation management needs, and to issue an appropriate order for its implementation with any necessary modifications. The judge, of course, retains the final authority over whether to enter an order adopting the parties' recommendations.

Another alternative is to organize the parties based on similar interests with respect to the legal issues, such as using the statutory classifications for liability set out in section 107(a): owners, operators, generators, and transport-

ers.²⁴³² A third approach is to organize the parties by volumetric share of waste sent to the site, thus separating large generators from small or *de minimis* participants.²⁴³³ This is a particularly useful classification for settlement purposes. In fact, the court may establish a separate “settlement committee” of counsel that focuses solely on settlement.²⁴³⁴ Other relevant communities of interest for facilitating settlement may be defined by the type of substance a group of PRPs sent to the site, its toxicity, or where it is located on the site.²⁴³⁵ Regardless of how the parties are organized, the court should ensure that they have agreed to a method of funding (typically pro rata) of group activities or other joint services, as well as the method of compensation of liaison counsel, and that this agreement is put in writing. For example, the parties may undertake joint expert studies, retain an allocation consultant, or engage in private mediation.²⁴³⁶

34.25 Centralized Document Management

CERCLA litigation involves large numbers of documents. Consider the feasibility, in light of the number of parties typically involved, of a central document depository or shared database of documents produced during discovery. The document depository can be managed through an independent entity, with the costs shared pro rata among the parties. Alternatively, to avoid the costs of establishing and maintaining a separate and independent depository, the parties may be willing to vest lead counsel with the responsibility of establishing and maintaining a uniform system of organization for all documents produced. Counsel would also be responsible for providing access for the inspection and copying of documents to all parties, with the parties paying the cost through the agreed on fee arrangement. Document databases can significantly reduce the associated cost and expense of discovery. Large volumes of documents can be copied and distributed economically to the parties. They then can be inspected and copied by interested parties, reducing the burden of production on the producing party and the associated costs for all parties. However the depository is set up, its custodian should be charged with keeping

2432. See, e.g., *N.J. Dep’t of Env’tl. Prot. v. Gloucester Env’t Mgmt. Servs., Inc.*, 668 F. Supp. 404 (D.N.J. 1987) (case-management order appointing five liaison counsel for the plaintiff, the owner, the alleged operators, the alleged generators, and the alleged transporters); *United States v. Kramer*, 757 F. Supp. 397, 410 (D.N.J. 1991).

2433. See, e.g., *Denver v. Adolph Coors Co.*, 829 F. Supp. 340 (D. Colo. 1993) (order regarding approval of *de minimis* and mid-tier settlements).

2434. See *Brotman & Simandle*, *supra* note 2349, at 181 (suggesting negotiation process might benefit from choosing negotiators who are not also serving as lead counsel).

2435. See, e.g., *Kamb v. U.S. Coast Guard*, 869 F. Supp. 793, 799 (N.D. Cal. 1994).

2436. See *Brotman & Simandle*, *supra* note 2349, at 181.

a copy of all documents produced in the case, from whatever source, as well as other litigation documents (such as responses to interrogatories, document requests, and deposition transcripts). Creating a central document depository or a computerized document storage system can help ensure that newly joined parties have access to the product of prior discovery and can hold demands for additional discovery to a minimum. The benefits and detriments of using a document depository are explored more fully in section 11.444.

34.26 Narrowing the Issues²⁴³⁷

Parties often plead defenses that they do not intend to pursue seriously or that fly in the face of settled law. The initial conference can be designed to eliminate such unmeritorious arguments. Requiring each side or group to meet and develop an agreed-on statement of the factual and legal issues in dispute, as well as using the Rule 16 conference to clarify any ambiguities, should help identify the genuinely controverted issues and force abandonment, or quick disposition, of marginal issues. Pressing the lawyers to identify facts supporting each element of each claim or defense and to tie the claim or defense to the legal framework of CERCLA may also help reveal the strengths and weaknesses of parties' positions. Issues can then be outlined in a logical and practical sequence, to facilitate management of motions that might result, for example, in the dismissal of parties to the litigation (e.g., if a party falls within section 107(a) or if one of the narrow statutory defenses applies), or even of the entire litigation (e.g., if the government's remedy is consistent with the NCP). Secondary issues can then be identified and incorporated into the case-management plan, which may also include a proposed structure for settlement discussions and trial. Organizing issues in terms of the liability, the amount and recoverability of costs, and the allocation phases of CERCLA litigation is helpful.

Using the Rule 16 statements, the judge can group types of motions and schedule filing of consolidated motions on similar issues according to a time schedule to avoid duplicative and piecemeal motions. For example, the court may establish a brief window within which particular types of motions may be filed, such as motions under Rule 12 or Rule 56. Certain motions and third-party complaints can be deemed to include all defendants, and answers to third-party complaints can be deemed to include all cross-claims and counterclaims against the third-party plaintiffs. There is sometimes, however, an impact of deeming cross-claims and counterclaims to encompass parties whose

2437. See also *infra* section 11.33.

liability is determined to be *de minimis*. Exempting such parties from a deeming order avoids imposing disproportionate risks of extensive liability on them. Another option is to defer the time for filing cross-claims until after *de minimis* parties have settled the claims against them and generally obtained the benefit of a bar against contribution claims as permitted under sections 122(g)(2) and (5).²⁴³⁸

Summary judgment is a particularly effective tool for eliminating tenuous claims and defenses in CERCLA cases.²⁴³⁹ Over the years, many issues raised by defendants in CERCLA litigation have been resolved, including retroactivity, joint and several liability, and whether CERCLA violates the Commerce Clause or Due Process Clause.²⁴⁴⁰ In addition, the courts have interpreted CERCLA broadly in order to effectuate the statute's remedial purpose,²⁴⁴¹ and well-settled case law, particularly on the scope of CERCLA liability, allows courts to dispose summarily of a number of challenges.²⁴⁴² Summary judgment on the issue of liability is common, often leaving only issues of allocation remaining

2438. See also *infra* section 40.42.

2439. E.g., whether a harm is capable of apportionment among multiple defendants. *In re Bell Petroleum Servs., Inc.*, 3 F.3d 889, 896 (5th Cir. 1993). See also *United States v. Wade*, 577 F. Supp. 1326, 1330 (E.D. Pa. 1983) (granting summary judgment on the liability under CERCLA of certain defendants, but requiring a trial on the issue of joint and several liability and allocation).

2440. See *Solid States Circuits, Inc. v. EPA*, 812 F.2d 383 (8th Cir. 1987); *United States v. Alcan Aluminum Corp.*, 49 F. Supp. 2d 96 (N.D.N.Y. 1999) (addressing challenges based on the Takings Clause, Due Process Clause, and Ex Post Facto Clause); *United States v. Dico*, 189 F.R.D. 536, 544 (S.D. Iowa 1999) (rejecting defendant's due process and takings arguments on motion for judgment on the pleadings).

2441. See, e.g., *Nurad, Inc. v. William E. Hooper & Sons Co.*, 966 F.2d 837, 845 (4th Cir. 1992) (disposal not limited to "active participation" and includes passive migration). One commentator summarizes that federal courts "are shaping CERCLA by judicial interpretation to a degree rarely if ever seen for any other statute." In the first ten years after the enactment of the Superfund, more than 1,000 reported decisions were handed down that bear on Superfund issues. Topol & Snow, *supra* note 2350, § 3.8.E.2.

2442. However, some issues believed to have been resolved have been reexamined, while other cases have suggested a reluctance toward any further or continued expansion of CERCLA. See, e.g., *United States v. Bestfoods*, 524 U.S. 51 (1998) (nothing in CERCLA suggests "that the entire corpus of state corporation law is to be replaced" and holding parent corporation cannot be held liable unless corporate veil pierced); *ABB Indus. Sys., Inc. v. Prime Tech., Inc.*, 120 F.3d 351, 358 (2d Cir. 1997) (former owners and operators not liable for passive migration of contaminants); *Dico, Inc.*, 189 F.R.D. at 543 (finding that the Supreme Court decision in *E. Enters. v. Apfel*, 524 U.S. 498 (1998), had no impact on CERCLA retroactivity). See also *New York Court Rules CERCLA Can Be Applied Retroactively, Rejects Eastern Defense*, 12-9 Mealey's Litig. Rep. Superfund 5 (June 11, 1999) (citing *United States v. Alcan Aluminum*, 49 F. Supp. 2d 96 (N.D.N.Y. 1999)).

to be decided.²⁴⁴³ Summary judgment may also be appropriate to determine the amount of the government's costs in government-initiated cost-recovery actions. Consider using evidentiary hearings under Rule 43(e) to determine the existence of a genuine issue of material fact. It may sometimes be appropriate not only to determine liability through summary judgment, but also to allocate responsibility for paying the response costs.²⁴⁴⁴

Particularly important in CERCLA litigation are prompt rulings on all motions, which can help clarify liability and clear the path for the parties to allocate damages among themselves. Where a primary party's liability turns on a legal issue of first impression, the court should balance the advantages of certifying the questions for interlocutory appeal before allocating damages against the disadvantages of delaying the progress of the case.²⁴⁴⁵

34.27 Joinder

Incentives for locating all possible PRPs can lead to a continuous parade of new parties. The pretrial conference can assist the court in assessing the likely number of additional PRPs that the parties may seek to add and help ensure control over the size and shape of the litigation.²⁴⁴⁶ Where EPA's investigation

2443. *See, e.g.,* NutraSweet Co. v. X-L Eng'g Co., 227 F.3d 776 (7th Cir. 2000) (partial summary judgment granted on issue of liability, and trial ordered for amount for which defendant was responsible). The biggest statutory area in which liability is disputed, and which is often difficult to resolve on summary judgment, is "arranger" liability. *See, e.g.,* Mainline Contracting Corp. v. Chopra-Lee, Inc., 109 F. Supp. 2d 110, 188 (W.D.N.Y. 2000); RSR Corp. v. Avanti Dev., Inc., 69 F. Supp. 2d 1119, 1126 (S.D. Ind. 1999); Freeport-McMoran Res. Partners Ltd. P'ship v. B-B Paint Corp., 56 F. Supp. 823, 853 (E.D. Mich. 1999).

2444. *See* United States v. R.W. Meyer, Inc., 932 F.2d 568 (6th Cir. 1991) (affirming summary judgment allocating response costs among three entities). However, resolution of equitable allocation issues may not be possible where the court has yet to determine the criteria it will use for this process in order to permit the parties to determine what facts are relevant and not in dispute.

2445. *See* United States v. Fleet Factors Corp., 901 F.2d 1550 (11th Cir. 1990) (interlocutory appeal taken to obtain ruling on whether district court correctly interpreted and applied CERCLA provision in denying motion for summary judgment by holder of a security interest in contaminated real property). When the subject of the interlocutory appeal is not central to the entire case, the court may decide to continue with other aspects of the litigation while the appeal is pending. *See supra* section 15.12.

2446. *See, e.g.,* City of Wichita v. Aero Holdings, Inc., No. 98-1360-MLB, 2000 WL 1480490, at *2 (D. Kan. Apr. 7, 2000) (allowing plaintiffs to add over 700 third-party defendants would cause case to "'mushroom' in all directions and greatly delay resolution of the principal case"). The court can guard against indiscriminate and fragmented joinder by requiring the parties to set forth in detail the factual basis for each joinder motion. *See, e.g.,* Brotman & Simandle, *supra* note 2349, at 183-84 (suggesting party seeking joinder be required to respond to a

has been exhaustive, the number of unidentified PRPs remaining will be significantly less. Similarly, a primary PRP group that has undertaken remediation at the site will often have retained an outside investigator who will have identified most other locatable PRPs, again reducing the number of parties likely to be joined at a later date. The judge is advised to discourage joinder of insignificant parties, or parties with no more than *de micromis* liability. Discussions with counsel about the feasibility of joinder of very small or *de micromis* parties will also assist in ensuring that the parties and the court have a realistic view of the scope of the case. Each new party will likely want to catch up with discovery and motion practice, thereby delaying the progress of the action.²⁴⁴⁷ Furthermore, entry of a new party may create a conflict of interest for counsel or grounds for recusal by the judge.²⁴⁴⁸

Targeting the first phase of discovery at identifying all PRPs and developing information about the quantity and quality of waste produced by each PRP during the history of the site can minimize complications arising from joinder issues. Moreover, discovery targeted at site owners and operators, and at transporters, often generates information concerning other PRPs. A reasonable but firm deadline, which might be as long as a year, is advisable for adding parties or cross-claims, absent special issues in individual instances. Once the deadline for joinder is reached, the parties and the court will have an overview of the size and scope of the litigation. At that point, pretrial, settlement, and trial plans can proceed, addressing issues relating to all the parties, while consideration of late presented claims is deferred. This approach may be conducive to a global disposition of the entire litigation. General discovery and other proceedings are sometimes stayed until the joinder deadline. In the interest of avoiding unnecessary paper, the case-management order can provide that all parties joined will be deemed to have denied the claim, obviating the need for a formal pleading. Rulings on Rule 12 motions can also be deemed to apply to new parties absent special circumstances.²⁴⁴⁹

standard set of interrogatories as to factual basis for joining new party as, among other things, “an augment to Rule 11 concerning the integrity of the pleading” and to reduce “the risk of misjoinder or baseless joinder”).

2447. See, e.g., *City of Wichita*, 2000 WL 1480490, at *2 (where court stated that “[c]ase management of more than 700 parties would unequivocally require the implementation of new orders, some of which would necessarily impose arbitrary discovery limitations . . . [which] would be unfair . . . when the current defendants have enjoyed liberal discovery”).

2448. See *United States v. New Castle County*, 116 F.R.D. 19, 24 (D. Del. 1987) (denying motion to name and realign various parties; court noted that adding new parties after deadline would likely produce conflicts of interest for current counsel, would interfere with pretrial and trial case-management plans, and would likely disrupt settlement efforts).

2449. See *supra* section 11.32.

Another approach is to postpone or stay joinder issues, contribution claims, and other cross-claims until the litigation against the initial defendants has been resolved. In cases with large numbers of PRPs, this keeps the organization relatively simple while a plan to remedy the site or to determine the costs of the remedy is devised. The primary PRPs may also be more inclined to reach out-of-court settlements with third parties without the expense of litigation. The disadvantage is that parties joined later may wish to relitigate those issues or reopen discovery. This phased approach is more feasible where the government has initiated the case, or in some contested consent decrees, but it does not work well where the government is not involved in the litigation and the primary PRP group has filed a separate action for contribution.

A third approach is to schedule rolling joinder dates. Rather than permitting motions for joinder at any time, rolling dates give the parties windows within which to file joinder motions, permitting a consolidated hearing on all joinder motions filed during that window, and lessening the burden on the court as well as the parties. Similar orders regarding responsive pleadings and discovery would apply as well. Whatever the approach to the joinder of new parties, possible statute-of-limitations issues, both federal and state, should be considered.

34.28 Managing Discovery

The preservation of evidence is critical in CERCLA cases. In some instances, only a few invoices or the recollection of one or two persons can connect a company to a site, while other cases may involve over a million documents.²⁴⁵⁰ Because relevant evidence may be decades old, PRPs may seek to preserve evidence before filing a complaint. In such cases, Federal Rule of Civil Procedure 27 authorizes prefilings depositions of percipient witnesses (and, when feasible, the production or preservation of documents and other tangible things).²⁴⁵¹

2450. See, e.g., Fike Chemical Superfund Site, Panel Discussion and Perspectives on Multi-Party CERCLA Litigation, Federal Judicial Center, Conference on Environmental Law and Natural Resources at 2 (Oct. 7, 1997) (when operator of site went out of business there were over 1.2 million business records “reflecting tens, if not hundreds of thousands of transactions with dozens of customers”).

2451. See *In re Bay County Middlegrounds Landfill Site v. Kuhlman Elec. Corp.*, 171 F.3d 1044 (6th Cir. 1999) (district court did not abuse discretion in granting petition to take prefilings deposition); *In re Petition of Delta Quarries & Disposal Inc.*, 139 F.R.D. 68 (M.D. Pa. 1991) (granting petition to depose ailing witness alleged to have personal knowledge of identity of companies that disposed hazardous substances at landfill fifteen years earlier).

Once the action has been initiated, CERCLA cases generally require a well-thought-out, structured discovery plan to avoid duplicative discovery, to minimize the burden to the litigants and to the court, and to create a credible database. Multiple, independent waves of discovery should be discouraged in favor of a coordinated approach. Initially, the parties can be required to engage in an informal exchange of information with appropriate protective orders for sensitive relevant information. A number of parties may have responded to EPA information requests under section 104(e), and EPA will have amassed a vast amount of documents, reports, studies, and other information regarding the site, all of which can proceed without a formal request if EPA is a party, or through a coordinated request if EPA is not a litigant. Similarly, the site owner and/or operator, almost always a party, can informally produce any records reflecting transportation and shipment of waste sent to the site, including volume and type of material.

Included among effective discovery tools, particularly in cases where joint or liaison counsel have been appointed, are the development and use of a master set of interrogatories and requests for production for each side or group. An early set of agreed-on interrogatories seeking information from PRPs as to where and how records relating to the generation and disposal of wastes were maintained, as well as identifying those persons with knowledge of generation and disposal practices, can streamline document production and make depositions more efficient. Potential areas of inquiry include the following: site investigations done by any party, including any statements taken; records of any sampling, testing, removal, or remediation conducted at the site; documents in the possession of the parties reflecting materials, hazardous and nonhazardous, shipped to the site; and contracts or other agreements relating to disposal of waste material. Depositions should also be coordinated to preclude multiple depositions of the same party, with designated counsel responsible for conducting the depositions representing their respective sides or groups of parties. One alternative is to require that all document discovery be completed prior to taking any depositions except custodial depositions. Efforts should be made to minimize discovery imposed on *de minimis* parties at the early stages, where it is highly likely that they will settle out of the litigation.

The need for data concerning the parties' respective contributions to the contamination at the site coincides with the need to identify PRPs promptly, but newly joined parties should not be permitted to delay the discovery process while they are getting up to speed in the case. Towards this end, the discovery plan can provide that, except upon a showing of good cause, new parties will be deemed to have accepted the discovery previously propounded or depositions by counsel on behalf of their "group." This would not preclude a party with an individual interest not addressed by previous discovery from obtaining this information. Further, coordinating deadlines for joinder of parties with

the schedule set forth in the discovery plan will help ensure that all parties, including those newly joined, have a fair opportunity to conduct adequate discovery. As discussed earlier, a centralized document repository and computerized data storage and retrieval can facilitate access to all available documents and reduce discovery disputes at the same time that it creates a credible database. Without a credible database, the parties and the court cannot determine whether the proposed remedy is based on faulty assumptions about the nature of the problems, and the parties are not likely to accept proposed settlement allocations. All phases of discovery should be coordinated with plans for resolving motions and for structuring the trial (e.g., on a bifurcated or trifurcated basis).

34.29 Scientific and Technical Expert Testimony

CERCLA cases are prone to battles of experts in highly technical areas, such as chemistry, hydrology, and geology. Environmental experts testify on aspects such as site conditions, migration of contaminants, geological conditions, and toxicity. Continuous testing and sampling of soil and groundwater at a given site, as well as analyzing the synergistic and migratory capacities of contaminants, are often necessary. At a minimum, procedures should be adopted to produce a common database for the experts to analyze. The judge, to reduce unproductive contentiousness and keep the focus on genuine issues, may also encourage creation of an experts' committee with responsibility for defining issues, testing soil and allegedly hazardous materials, creating joint databases, developing proposed factual stipulations, and splitting samples.²⁴⁵² Some judges have directed the parties to have their experts meet without counsel to identify and consider the technical issues relating to the proposed remedial design.²⁴⁵³ Such a meeting can uncover erroneous assumptions and avoid wasting resources on a remedy that might be technically flawed. In addition, such expert assistance may prove helpful in the settlement or allocation process. Where the case appears to be headed for trial, or where motions for summary judgment rely in part on scientific evidence, consider how best to handle *Daubert* issues.²⁴⁵⁴

2452. See *United States v. Price*, 14 *Env'tl. L. Rep.* (Env'tl. L. Inst.) 20, 501 (D.N.J. 1984).

2453. See Jerome B. Simandle, *Resolving Multi-Party Hazardous Waste Litigation*, 2 *Vill. Env'tl. L.J.* 111 (1991).

2454. See *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579 (1993), and discussion *infra* section 23.2.

34.3 Settlement and Trial

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34.31 Allocation

Allocation bears significantly on both settlement and trial. Once liability is established, allocation is usually the most hotly contested issue in CERCLA litigation. Defendants try to prove the harm is divisible in order to avert imposition of joint and several liability in cost-recovery cases by the government, as well as challenging the method for equitable apportionment in private party actions. Other arguments raised by PRPs seeking to avoid joint and several liability include (1) that the material was a product, not a waste; (2) that the amount of hazardous constituents in the waste was negligible; and (3) that the configuration of the waste was such that no hazardous constituents could escape.

A determination as to the divisibility of harm has been held to be “intensely factual,”²⁴⁵⁵ raising technically complex issues, such as relative toxicity, migratory potential, synergistic capacities, and degree of migration of a particular waste, and these issues require the testimony of various technical experts. Apportionment based on equitable principles implicates these as well as other considerations.²⁴⁵⁶ The statutory status of the PRP also can affect decisions on allocation. For example, under section 107(a), both generators and transporters are liable for waste sent to the site. In addition to the liability of the corporation, officers can be liable as individuals. This could mean that two parties are responsible for the same waste. Equity suggests that an apportionment scheme take this into account in assessing the amount to be paid by each.

One of the major stumbling blocks in the allocation process is determining the allocation method and the factors to consider. CERCLA § 113(f)(1) gives the court broad discretion in adopting factors to be weighed among PRPs.²⁴⁵⁷

2455. *United States v. Alcan Aluminum Corp.*, 990 F.2d 711, 722 (2d Cir. 1993).

2456. For a discussion of some of the “equities” balanced by a court in rejecting toxicity as a basis for allocation, see *Akzo Nobel Coatings, Inc. v. Aigner Corp.*, 197 F.3d 302, 305 (7th Cir. 1999).

2457. CERCLA § 113(f)(1) provides that “in resolving contribution claims, the court may allocate response costs among liable parties using such equitable factors as the court determines are appropriate.” 42 U.S.C. § 96113(f)(1) (West 2003). See also *Kerr-McGee Chem. Corp. v. Lefton Iron & Metal Co.*, 14 F.3d 321, 326 (7th Cir. 1994) (court may consider factors such as the relative fault of the parties, relevant “Gore factors,” see *infra* note 2460, and any contracts

The simplest form of allocation is a volumetric allocation, basing apportionment on the amount of waste shipped to a site relative to the total amount of waste.²⁴⁵⁸ Another basis for apportionment is to assign the parties to “tiers,” again typically determined by volume, and then apportion liability by tier, with each PRP in that tier assuming a pro rata share. The courts have also looked at factors such as the volume and toxicity of each party’s hazardous waste,²⁴⁵⁹ the degree of involvement and the degree of care exercised by a party, and the extent to which a party cooperated with public officials to prevent harm to the public. These are known as the Gore factors²⁴⁶⁰ and are perceived as providing a good but not exhaustive starting point for apportionment.²⁴⁶¹ Other relevant factors have included the economic status of the parties, traditional equitable defenses such as mitigation, and the expense of doing cleanup work, among

between the parties regarding allocation); *Env’t Transp. Sys. v. Enesco, Inc.*, 969 F.2d 503, 509 (7th Cir. 1992) (court has “power to weigh and consider relevant factors, including [relative] fault”).

2458. *Boeing Co. v. Cascade Corp.*, 207 F.3d 1177, 1187 (9th Cir. 2000) (allocation by volume is reasonable basis for allocation); *Acushnet Co. v. Mohasco Corp.*, 191 F.3d 69, 78 (1st Cir. 1999) (“[T]here is nothing to suggest that Congress intended to impose far-reaching liability on every party who is responsible for only trace levels of waste.”); *Bancamerica Commercial Corp. v. Mosher Steel, Inc.*, 100 F.3d 792 (10th Cir. 1996); *Kalamazoo River Study Group v. Rockwell Int’l*, 107 F. Supp. 2d 817, 840 (W.D. Mich. 2000) (finding quantity of PCBs released was most important Gore factor under circumstances). Although pro rata apportionment is also a very simple method of apportionment and may be appropriate in some cases, courts have held that it was “at the very least, Congress’s intent that courts should equitably allocate costs of cleanup according to the relative culpability of the parties rather than an automatic equal shares rule.” *Env’t Transp. Sys.*, 969 F.2d at 508.

2459. EPA considers toxicity to be “causally related to the cost of cleanup for only a few substances (e.g., PCBs, dioxin).” Superfund Program: Non-Binding Preliminary Allocations of Responsibility (NBAR), 52 Fed. Reg. 19,919, 19,920 (May 28, 1987) [hereinafter NBAR]. EPA has further noted that the scientific community disagrees about degrees of toxicity and synergistic effects. *Id.*

2460. These factors originally appeared in section 3071(a) of House Bill 7020, which was passed by the House in 1980 but not enacted as part of CERCLA. CERCLA, H.R. 7020, 96th Cong. § 3071(a) (2d Sess. 1980). See 126 Cong. Rec. 26, 781 (1980); see also *United States v. R.W. Meyer, Inc.*, 932 F.2d 568, 571 (6th Cir. 1991); *Amoco Oil Co. v. Borden, Inc.*, 889 F.2d 664, 672–73 (5th Cir. 1989).

2461. See generally *Centerior Serv. Co. v. Acme Scrap Iron & Metal Corp.*, 153 F.3d 344, 354 (6th Cir. 1998); *Control Data Corp. v. S.C.S.C. Corp.*, 53 F.3d 930, 935 (8th Cir. 1995); *Env’t Transp. Sys.*, 969 F.2d at 509 (noting that the “Gore factors are neither an exhaustive or exclusive list” of the factors to be considered); *Kalamazoo River Study Group*, 107 F. Supp. 2d at 822 (noting that the Gore factors are a non-exhaustive list enabling the court to “take into account more varying circumstances than common law contribution”).

others.²⁴⁶² Several courts have also used a fault-based approach to apportionment.²⁴⁶³ Sometimes, zero allocation might be appropriate with respect to certain PRPs, as where, for example, the PRP's disposal was "too inconsequential to affect the cost of cleaning up significantly."²⁴⁶⁴ In short, the court can consider "several factors, a few factors, or only one determining factor . . . depending on the totality of the circumstances presented."²⁴⁶⁵ A preliminary determination as to the relevant factors can streamline both discovery and trial. Alternatively, the court can permit the introduction of all evidence deemed relevant to the issue by the parties and then make a determination as to which factors have the most bearing on apportionment under the particular circumstances.

Orphan shares—shares of companies that are bankrupt or no longer in business—can complicate the allocation process. Related issues arising in conjunction with these now-defunct companies include whether or when a corporation is "dead and buried" for purposes of CERCLA, the liability of successor corporations, and the impact of a discharge in bankruptcy on a CERCLA claim. In the allocation process these shares must be borne by someone, and the "determination of who absorbs liability for orphan shares can have significant consequences for PRPs, because the unattributable amount of

2462. *Akzo Nobel Coatings, Inc. v. Aigner Corp.*, 197 F.3d 302 (7th Cir. 1999); *United States v. Davis*, 31 F. Supp. 2d 45, 63 (D.R.I. 1998). For example, EPA, in preparing an NBAR under CERCLA § 122(e), in addition to looking at volume and toxicity, also looks at criteria included in the interim settlement policy, such as the "strength of evidence tracing the wastes at a site to PRPs, ability of PRPs to pay, . . . public interest consideration, . . . [and] inequities and aggravating factors . . ." NBAR, *supra* note 2459, at 19,919. EPA rejected allocation models based on toxicity, concluding instead that the use of volume and settlement criteria was more desirable for "simplicity and other practical reasons." *Id.* at 19,920.

2463. *See, e.g., Browning-Ferris Indus. v. Ter Maat*, 195 F.3d 953 (7th Cir. 1999) (affirming an allocation by the district court that looked to the blameworthiness of the polluter as relevant to an equitable allocation); *United States v. Di Biase*, 45 F.3d 541, 545 (1st Cir. 1995) (although on notice of a potentially dangerous condition, PRP "twiddled his thumbs"); *Kerr-McGee Chem. Corp. v. Lefton Iron & Metal Co.*, 14 F.3d 321 (7th Cir. 1994); *Env't Transp. Sys.*, 969 F.2d at 510–12.

2464. *PMC, Inc. v. Sherwin-Williams Co.*, 151 F.3d 610, 616 (7th Cir. 1998). *See also Acushnet Co. v. Mohasco Corp.*, 191 F.3d 69, 78 (1st Cir. 1999) (zero liability may be appropriate in some circumstances); *Kalamazoo River Study Group v. Rockwell Int'l*, 107 F. Supp. 2d 817, 839 (W.D. Mich. 2000) (holding defendant's PCB contribution to total PCB was minimal and defendant would not be required to contribute to cleanup).

2465. *Akzo Nobel Coatings, Inc.*, 197 F.3d at 305 (rejecting toxicity as means for apportionment); *Env't Transp. Sys.*, 969 F.2d at 509; *United States v. Pesses*, 120 F. Supp. 2d 503 (W.D. Pa. 2000) (basing allocation on Gore factors).

liability . . . can be quite substantial.²⁴⁶⁶ A number of options are available, including apportionment among economically viable defendants only,²⁴⁶⁷ allocation among all liable defendants,²⁴⁶⁸ and apportionment among all viable parties, plaintiffs, and defendants.²⁴⁶⁹

Another allocation determination issue is how to account for partial settlements. Many CERCLA actions will involve multiple settlement agreements. Where the plaintiff is the government, the SARA amendments provide that any settlement received “reduces the potential liability of the others by the amount of the settlement.”²⁴⁷⁰ In government-initiated actions, this translates into a dollar-for-dollar reduction in liability for nonsettlers.²⁴⁷¹ A *pro tanto* approach requires conducting a fairness hearing before the court approves a partial settlement.²⁴⁷² Unresolved is how partial settlements should be credited in private party actions. Some courts have applied the *pro tanto* approach to partial settlement credits in private CERCLA cases. A second method uses a “proportionate share” approach whereby nonsettlor liability is reduced by the proportionate share of fault of the settling defendants.²⁴⁷³ Usually, this approach re-

2466. David Sive & Daniel Riesel, *Although Many Courts Provide for the Equitable Apportionment of Orphan Shares Under CERCLA, the Issue Is Not Yet Settled*, Nat'l L.J., Mar. 3, 1997, at B5.

2467. See, e.g., Unif. Comparative Fault Act § 2(d), 12 U.L.A. 37 (2002); Charter Township of Oshtemo v. Am. Cyanamid Co., 898 F. Supp. 506, 509 (W.D. Mich. 1995) (“Equity . . . dictates that the shares that would have been attributed to parties that are now insolvent should be apportioned among all the solvent PRPs.”).

2468. United States v. Kramer, 953 F. Supp. 592, 598 (D.N.J. 1997); Pneumo Abex Corp. v. Bessemer & Lake Erie R.R. Co., 921 F. Supp. 336, 348 (E.D. Va. 1996) (plaintiff would have no liability for orphan shares); *Charter Township of Oshtemo*, 898 F. Supp. at 509.

2469. See Allied Corp. v. ACME Solvent Reclaiming, Inc., 771 F. Supp. 219, 223 (N.D. Ill. 1990). See also Sive & Riesel, *supra* note 2466, at B5.

2470. 42 U.S.C. § 9613(f)(2) (West 2003). See United States v. Burlington N. R.R. Co., 200 F.3d 679, 697 (10th Cir. 2000) (PRP’s liability would be reduced by government settlement with other PRPs).

2471. This approach, called *pro tanto*, is codified in the Uniform Contribution Among Tortfeasors Act (UCATA), 12 U.L.A. 98 (2002). See *In re Acushnet River & New Bedford Harbor*, 712 F. Supp. 1019, 1027 (D. Mass. 1989) (“[T]he words of the statute are clear: the potential liability of the others is reduced ‘by the amount of settlement,’ not by the settlor’s proportionate share of . . . damages”); United States v. Cannons Eng’g Corp., 720 F. Supp. 1027, 1048 (D. Mass. 1989), *aff’d*, 899 F.2d 79 (1st Cir. 1990); United States v. Rohm & Haas Co., 721 F. Supp. 666, 675 (D.N.J. 1989).

2472. See *City of New York v. Exxon*, 697 F. Supp. 677, 691 (S.D.N.Y. 1988) (“Before approving a CERCLA settlement, the Court must be convinced that it is fair, adequate, and reasonable, and consistent with the Constitution.”).

2473. The proportionate share approach is found in the Uniform Comparative Fault Act (UCFA), 12 U.L.A. 57 (2002). For cases that have applied the proportionate approach in private

quires the settling defendant's percentage of fault be determined at trial in order to reduce the total damages to be attributed to the nonsettlor.²⁴⁷⁴ One practical advantage of a proportionate share approach over a *pro tanto* approach is that extensive fairness hearings are not required.²⁴⁷⁵ The plaintiff, however, would still have to litigate the responsibility of the settling party in order to determine the amount recoverable from nonsettlers, arguably negating some of the benefits of settlement.²⁴⁷⁶ The majority of courts considering the issue of partial settlement credits have adopted the proportionate share approach.²⁴⁷⁷ Others have held that the choice of approaches is within the sound discretion of the court, to be determined on a case-by-case basis.²⁴⁷⁸

There are several alternatives to consider in approaching allocation. One is to encourage the retention of an allocation consultant or expert, with costs apportioned among the parties and with possible settlement as a goal.²⁴⁷⁹ The use of allocation experts has grown in CERCLA cases, and their function is to assist in estimating PRP shares, taking into account volume, toxicity, contribution to the cost of remediation, and similar factors. Second, the court can encourage the use of joint experts to share data and information. Often, the original PRP group will have established a preliminary allocation among themselves in order to apportion the immediate costs of cleanup,²⁴⁸⁰ may have agreed to a process to determine binding allocation and distribution of any

party actions, see, e.g., *United States v. W. Processing Co., Inc.*, 756 F. Supp. 1424, 1430 (W.D. Wash. 1990); *Lyncott Corp. v. Chem. Waste Mgmt.*, 690 F. Supp. 1409, 1419 (E.D. Pa. 1988).

2474. See *Atl. Richfield Co. v. Am. Airlines, Inc.*, 836 F. Supp. 763 (N.D. Okla. 1993).

2475. See, e.g., *Allied Corp. v. Acme Solvent Reclaiming Inc.*, 771 F. Supp. 219, 223 (N.D. Ill. 1990) ("In a complex case such as this one, a fairness hearing would be long and arduous."). For a good discussion of the two approaches and their pros and cons from several perspectives, see Marc L. Frohman, *Rethinking the Partial Settlement Credit Rule in Private Party CERCLA Actions: An Argument in Support of the Pro Tanto Credit Rule*, 66 U. Colo. L. Rev. 711 (1995).

2476. See, e.g., *Rohm & Haas Co.*, 721 F. Supp. at 678.

2477. Frohman, *supra* note 2475, at 748. "The analysis underlying these decisions concludes that, notwithstanding the pro tanto rule's potential advantage in promoting settlement, the proportionate rule is more consistent with CERCLA because of its incorporation of principles of comparative fault, with resultant greater equity, and its alleged greater judicial economy." *Id.* at 748–49. See *McDermott, Inc. v. AmClyde*, 511 U.S. 202, 207–08 (1994).

2478. *Atl. Richfield Co.*, 836 F. Supp. at 765.

2479. See *United States v. Kramer*, 19 F. Supp. 2d 273, 278 (D.N.J. 1998) (parties retained Clean Sites Inc., an outside environmental litigation support firm, as an allocation consultant). The allocation process may be appropriate for the appointment of a special master.

2480. See, e.g., *Kalamazoo River Study Group v. Rockwell Int'l*, 107 F. Supp. 2d 817, 821 (W.D. Mich. 2000) ("Plaintiff's individual group members have allocated among themselves their percentage shares for response costs at the Site . . .").

monies received from litigation,²⁴⁸¹ and may have already retained an independent consultant or arbiter. This process may be proceeding in tandem with the litigation. EPA may also have established an informal allocation, based on its investigation, or may have prepared a nonbinding allocation report (NBAR) under section 122(e)(3), either of which can provide a good starting point for a final allocation.²⁴⁸²

34.32 Settlement

CERCLA cases present unique settlement challenges, and settlement plays an ongoing role in most such cases, regardless of their posture. EPA has recognized the importance of locating as many PRPs as possible as the first step in the settlement process, noting that this step is “one of the most critical to success.”²⁴⁸³ CERCLA expressly encourages settlement and was designed “so that the threat of disproportionate liability would encourage parties to settle early with the United States and discourage dilatory and strategic behavior.”²⁴⁸⁴ The SARA amendments authorize EPA to pursue settlements, and section 122 provides specific procedures and provisions to encourage settlement.²⁴⁸⁵ Section 122 also contains provisions governing the scope of the covenants that can be provided. For example, except in “extraordinary circumstances,” settlement agreements must include “reopeners” for future liability arising from “un-

2481. See *United States v. Amoco Chem. Co.*, 212 F.3d 274, 277 (5th Cir. 2000) (Although not previously obligated to execute a specific trust agreement, and having objected to trust agreement setting forth allocation, the defendant’s signature on amended consent decree, by its terms, created an obligation to “negotiate with the other settling defendants and agree to some system of allocation.”).

2482. An NBAR, once issued, acts in effect as an offer of settlement. If the NBAR is accepted by the PRPs, EPA must provide a written explanation for rejecting the PRPs’ offer. 42 U.S.C. § 9622(e)(3)(E) (West 2003).

2483. *Streamlining*, *supra* note 2364. See, e.g., *United States v. Cannons Eng’g Corp.*, 899 F.2d 79, 83 (1st Cir. 1990) (EPA notified 671 PRPs of possible liability).

2484. *United States v. BASF Corp.*, 990 F. Supp. 907, 912 (E.D. Mich. 1998).

2485. See 42 U.S.C. § 9622 (West 2003); *Streamlining*, *supra* note 2364 (“The new provisions [of SARA] related to special notice, information sharing and negotiating moratoria are particularly important. They attempt to strike a balance between the competing demands of prompting more settlements, conserving limited government resources, and minimizing the delay in the clean-up process.”). See, e.g., *United States v. SCA Servs., Inc.*, 827 F. Supp. 526, 530 (N.D. Ind. 1993); *Am. Cyanamid Co. v. King Indus., Inc.*, 814 F. Supp. 215, 218 (D.R.I. 1993); *Commercial Bank-Detroit v. Allen Indus., Inc.*, 769 F. Supp. 1408 (E.D. Mich. 1991). CERCLA § 122 includes, among others, provisions for mixed funding and *de minimis* settlements that seek to ameliorate the harshness of the Act’s strict joint and several liability. 42 U.S.C. §§ 9622(b)(1), 9622(g) (West 2003).

known conditions.²⁴⁸⁶ EPA has issued numerous policies and guidance documents to inform PRPs of its approach as to these settlement provisions. For example, EPA has issued guidelines to govern settlements with *de minimis* and *de micromis* parties and to offer those parties as much finality as possible.²⁴⁸⁷ Where EPA has not identified *de minimis* parties or at least a *de minimis* volume of disposal, consider encouraging the agency or the parties to do so. Similarly, at a site where a significant amount of waste is attributable to PRPs that are insolvent or defunct, EPA can provide up to a specified amount of “orphan share” funding as a settlement incentive.²⁴⁸⁸ EPA also enters into settlements with major PRPs (typically consent decrees with the United States), which can include agreements to perform all site cleanup, to undertake only certain work at the site, and to pay for all or only a part of past costs at the site, leaving the remaining issues for further negotiations.²⁴⁸⁹ In virtually every instance, however, some form of allocation will have to be agreed to or developed by the PRPs for any real progress on settlement, whether in an enforcement action by the government or a private action for contribution.

2486. *Id.* §§ 9622(c)(1), 9622(f)(2)(6).

2487. *Id.* § 9622(g)(1). The statutory goal is to release such parties before transaction costs accumulate. *De minimis* settlement decrees can also include reopeners, although the DOJ rarely will include a reopener in a *de minimis* settlement. Typically, however, *de minimis* settlements include a premium to account for the possibility that costs were underestimated, and in case the *de minimis* parties have obtained finality. *See, e.g., Cannons Eng'g Corp.*, 899 F.2d 79, at 88.

2488. Orphan share funding is in effect a form of compromise that reflects the shares of defunct PRPs and results in the government recovering less than 100% of its claim from the settling defendants. *See* Office of Enforcement Compliance & Assurance, EPA, Interim Guidance on Orphan Share Compensation for Settlers of Remedial Design/Remedial Action and Non-Time-Critical Removals (1996), available at <http://cfpub.epa.gov/compliance/resources/policies/cleanup/superfund/> (last visited Oct. 21, 2003); Office of Enforcement Compliance & Assurance, EPA, Addendum to the “Interim CERCLA Settlement Policy” Issued on Dec. 5, 1984 (1997), available at <http://cfpub.epa.gov/compliance/resources/policies/cleanup/superfund/> (last visited Oct. 21, 2003). EPA has also issued guidance interpreting section 122(b)(3), which allows EPA to set up “special accounts” to hold money that is collected from PRPs to be used at that site. This allows the government, for example, to settle with certain parties for money and to give some or all of that money, as appropriate, to other parties who will perform site cleanup. *See* EPA, Consolidated Guidance on the Establishment, Management and Use of CERCLA Special Accounts (2002), available at <http://www.epa.gov/compliance/resources/policies/cleanup/superfund/congui-estmgt-specacct.pdf> (last visited Oct. 21, 2003). In addition to issuing these and other policies and guidance, EPA has developed numerous model consent decrees to streamline and speed up the settlement process. *See, e.g.,* Office of Solid Waste & Emergency Response, EPA, Model CERCLA RD/RA Consent Decree (2001), available at <http://www.epa.gov/compliance/resources/policies/cleanup/superfund/mod-rdra-cd.pdf> (last visited Oct. 21, 2003).

2489. CERCLA § 122 and EPA’s Model CERCLA RD/RA Consent Decree largely guide the terms, and especially the covenants, of such consent decrees. 42 U.S.C. § 9722 (West 2003); Model CERCLA RD/RA Consent Decree, *supra* note 2488.

Judicial involvement may be desirable to structure cases for settlement. When organizing counsel, consider whether to create a committee solely for settlement issues, with the parties in agreement on the authority of the settlement representatives.²⁴⁹⁰ Some courts have referred settlement negotiations to a magistrate judge or special master.²⁴⁹¹ The magnitude of these cases and the possibility that recusal would impose a serious hardship on the entire court suggest that the trial judge should not be directly involved in settlement negotiations.²⁴⁹² It is advisable to assess (1) whether a global settlement is possible, or whether the parties are willing to agree to settlement of only certain portions of liability; (2) which parties are interested in settlement; (3) the level at which *de minimis* and *de micromis* buyouts will occur; (4) which parties are willing to participate in good faith in settlement negotiations; and (5) what role the court should play.²⁴⁹³ In some cases, the parties are very interested in initiating settlement discussions. Consider establishing a “settlement track,” with firm deadlines, followed by a “litigation track” if settlement efforts fail. Under such an approach the litigation aspects of the case would be stayed while the parties pursued settlement, letting the parties avoid substantial transaction costs while exploring resolution of the case. Although discovery may be necessary to further settlement negotiations and to undertake an allocation, it can occur on a less formal and narrower basis than if full-blown litigation were underway, and disagreements can be resolved without resort to motion practice. In enforcement cases brought by the government, where liability is not seriously disputed, settlements can often be achieved once the government produces its cost documents (which is often done in pre-filing negotiations) and after resolution of the validity of any asserted defenses on appropriate motions. Close supervision of the settlement process can be essential. In one case where the parties agreed to a settlement process protocol, the settlement judge found that monitoring the process through biweekly conferences, insisting on adherence to the protocol, and ensuring that the attorneys did their “homework” (e.g., submitting the names of consultants by a specific date) in accordance with timeframes set during conferences substantially contributed

2490. Simandle, *supra* note 2453, at 121 (1991). Judge Simandle suggests that the parties be “afforded the opportunity to consider whether they wish to use their existing liaison counsel as the settlement representative, or whether they wish to choose a new settlement liaison counsel whose roles and duties would be confined to the group’s settlement processes.” *Id.* at 122.

2491. *See, e.g.,* United States v. Kramer, 19 F. Supp. 2d 273 (D.N.J. 1998) (referral of settlement to magistrate judge).

2492. *See supra* section 13.11.

2493. *See generally* Brotman & Simandle, *supra* note 2349, at 190–91.

to a global settlement of the action.²⁴⁹⁴ In many CERCLA cases, however, the parties will also be actively involved in continuous settlement negotiations outside of any judicially structured schedule.

Pending administrative proceedings and the site's status may affect the settlement process, and the court may find it easier to conduct the settlement negotiations in phases (e.g., with the first phase addressing past costs). Settlement negotiations will falter without a credible scientific and technical database and a reliable estimate as to the total cost of remediation. The court may also consider having the parties' experts involved in the settlement negotiations.²⁴⁹⁵ In addition, it may be helpful to explore with the parties the use of alternative dispute resolution (ADR) strategies and techniques in designing an approach to settlement.

One judge's settlement process for CERCLA cases includes four major elements:²⁴⁹⁶

1. *Setting the stage.* The initial question is whether the parties have sufficient interest in pursuing settlement. If the parties "agree to seek to agree," they can produce a written good-faith agreement to pursue settlement of specified issues.
2. *Organizing counsel and defining a timetable.* Groups are created along the lines discussed earlier under "Organizing Counsel" (see section 34.24) (i.e., by selecting a settlement liaison for each group of defendants and defining the authority of the liaisons). The initial task of the liaison and the groups is to define a timetable for the process. The timetable should be coordinated with the pretrial process and should adapt the discovery program to settlement needs. A threshold issue for the group is whether to participate in EPA's formulation of the remedial design or to devise an alternative design.
3. *Joining additional parties and creating a database.* The database would consist primarily of data about the contributions of each party to the site. Here, the emphasis is on identifying and joining parties who contributed substantially to the problems and can be expected to contribute substantially to a financial settlement. The parties would then provide necessary information and develop the structure of a database, perhaps with the help of consultants hired

2494. Telephone Interview with U.S. Magistrate Judge Mary Feinberg, Southern District of West Virginia (Nov. 14, 2000) (on file with the Federal Judicial Center) (discussing *United States v. Am. Cyanimid Co.*, No. 2:93-0654, 1997 U.S. Dist. LEXIS 4413 (D. W. Va. Jan. 27, 1997)).

2495. Simandle, *supra* note 2453, at 132.

2496. *Id.* at 119–32.

jointly by the parties. Generally, information about insurance would also be collected.

4. *Allocating responsibility.* This stage involves the hard negotiations and should rely on outside assistance—a special master, a court-appointed mediator, or a consultant hired by the parties—to analyze the data and recommend allocation models.

The role of the district court in the process is to rule promptly on those motions that define the liability of the parties and the contours of the issues. The district judge who remains insulated from settlement discussions can more appropriately preside at a bench trial, if necessary.

34.33 Approval of Consent Decrees

Consent decrees between the government and the parties must receive public notice and comment. The United States “lodges” the consent decree with the court, and notice of the decree’s availability is published in the Federal Register. The government must consider any comments received and may withdraw the decree if the comments disclose facts or considerations that indicate the proposed decree is “inappropriate, improper, or inadequate.”²⁴⁹⁷ If the government continues to support the decree, it will file with the court any comments received, along with a motion for entry of the decree once the public comment period has concluded. Often, nonsettling parties will challenge entry of the consent decree because of the contribution protection it affords to settling parties. Other common challenges are that the settling parties are not bearing their proportionate share of the costs of remediation, that the remedy selected is arbitrary and capricious, or that it is substantively or procedurally unfair.²⁴⁹⁸ Another issue tied to settlement is the manner in which settlement monies will be allocated.²⁴⁹⁹

The court must then decide whether it is necessary or appropriate to hold a hearing on the decree prior to making a decision to enter or reject it. Although it may be appropriate to hold an evidentiary hearing, the cost and expense of a hearing often obviate some of the benefits of settlement, particularly where the parties are *de minimis*. As a result, courts will usually review the administrative record and the papers submitted and determine whether the set-

2497. 42 U.S.C. § 9622(d)(2) (West 2003).

2498. See, e.g., Topol & Snow, *supra* note 2350, § 7.15. “Thus, according to these courts, in order for a settlement to be substantively fair, each settling party must be required to bear cleanup responsibility in an amount that has some relationship to its relative contribution to the adverse environmental conditions at the site.” *Id.* at 160.

2499. See *supra* section 34.12 at ¶ 3, “Allocation of response costs.”

tlement is “fair, reasonable and consistent with the Constitution and the mandate of Congress.”²⁵⁰⁰ Settlements of private contribution or cost-recovery actions are not subject to the same statutory constraints as settlements with the government, and they do not carry the same deferential standard of review.²⁵⁰¹ However, courts have made similar “fair and reasonable” evaluations prior to approving them, and it is good practice to look at various aspects of the settlement negotiations.

34.34 Structuring the Trial

CERCLA cases rarely go to trial, but when they do the trial is likely to be complicated.²⁵⁰² Most parties typically will have settled before trial, leaving only a few parties remaining. A number of third-party claims may also have been resolved.

Consider holding separate trials on liability, damages, and allocation of response costs pursuant to Federal Rule of Civil Procedure 42. Alternatively, consider bifurcating or trifurcating the trial into phases—liability, damages (remediation plans), and allocation.²⁵⁰³ The order of trial (and of the corresponding settlement discussions) can be varied to address dispositive issues first. Addressing challenges to the proposed remedy may crystallize issues relating to response costs and how they should be allocated. EPA ordinarily has to determine the scope of proposed cleanup efforts before the court can allocate responsibility for remediation.

Except for natural resource damage claims, there is no right to a jury trial in CERCLA cases.²⁵⁰⁴ One judge’s approach to a case involving damages to

2500. *New York v. Exxon*, 697 F. Supp. 677, 692 (S.D.N.Y. 1988); Topol & Snow, *supra* note 2350, § 7.15. See *Best Foods v. Aerojet-Gen. Corp.*, No. 1:89-CV-503, 961, 2000 WL 1238910 (W.D. Mich. Aug. 24, 2000) (evaluating whether settlement apportionment was fair). Accordingly, a court is not “empowered to rewrite the settlement agreed upon by the parties” or to “delete, modify, or substitute certain provisions of the consent decree.” *Officers for Justice v. Civil Serv. Comm’n*, 688 F.2d 615, 630 (9th Cir. 1982).

2501. Topol & Snow, *supra* note 2350, at 162.

2502. See, e.g., *United States v. Ottati & Goss, Inc.*, 694 F. Supp. 977 (D.N.H. 1988) (addressing the remedy and allocation), *aff’d in part, vacated in part*, 900 F.2d 429 (1st Cir. 1990); *United States v. Ottati & Goss, Inc.*, 630 F. Supp. 1361 (D.N.H. 1985) (dealing with liability); *Ottati & Goss, Inc.*, 694 F. Supp at 988–1000 (addressing the remedy and allocation).

2503. See, e.g., *Kalamazoo River Study Group v. Rockwell Int’l*, 107 F. Supp. 2d 817 (W.D. Mich. 2000) (liability and allocation); *United States v. Vertac Chem. Corp.*, 79 F. Supp. 2d 1034 (E.D. Ark. 1999) (liability and allocation).

2504. See *United States v. N.E. Pharm. & Chem. Co.*, 810 F.2d 726, 749 (8th Cir. 1986); *United States v. Northern Plating Co.*, 685 F. Supp. 1410, 1413 (W.D. Mich. 1988) (citing *N.E. Pharm. & Chem. Co.*).

natural resources was to focus case management on preparing a single case involving a primary defendant for a jury trial.²⁵⁰⁵ To ascertain the universe of facts at issue, the judge ordered the litigants to request admission of any fact on which they intended to offer evidence and they were precluded from offering any evidence that was not subject to such a request. Each request had to be detailed “to the level of specificity of a patent claim.”²⁵⁰⁶

Special verdict forms (see section 12.451), jury notebooks (see section 12.42), time limits for each side (see section 12.35), interim instructions (see section 12.433), and other jury aids may be appropriate. Setting firm trial dates and using other trial-management procedures are presumed.²⁵⁰⁷

2505. The district court in *In re Acushnet River & New Bedford Harbor*, 712 F. Supp. 994 (D. Mass. 1989), held that there is a right to trial by jury in cases involving recovery of damages to natural resources because such cases are a form of statutory tort.

2506. *In re Acushnet River & New Bedford Harbor*, 712 F. Supp. 1019, 1030–31 (D. Mass. 1989). As the case settled on the eve of trial, the degree to which this procedure would have simplified the trial was never tested. It did, however, lead some of the parties to propound innumerable requests for admission lest an important fact inadvertently be excluded from the “universe.” *Id.*

2507. See generally *supra* sections 11.212, 12.

35. Civil RICO

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35.1 Introduction

Congress enacted the 1920 Racketeer Influenced and Corrupt Organizations Act²⁵⁰⁸ (RICO) to respond to the “infiltration of organized crime and racketeering into legitimate organizations operating in interstate commerce.”²⁵⁰⁹ Congress targeted organized crime through a broad statutory scheme that included severe criminal penalties, fines, imprisonment, asset forfeiture,²⁵¹⁰ and civil remedies in an effort to undermine the economic power of racketeering organizations.²⁵¹¹ The statute further enabled private litigants to act, in effect, as private attorneys general²⁵¹² to sue for injury to their businesses or property caused by a RICO violation.

Civil RICO claims have alleged wrongs actionable under state and common law, as well as other federal statutes.²⁵¹³ Although the statute was targeted

2508. 18 U.S.C. §§ 1961–1968 (West 2003).

2509. Comm’n on the Judiciary, U.S. Senate, Organized Crime Control Act of 1969, S. Rep. No. 91-617, at 76 (1969). In 1969, the President’s Commission on Law Enforcement and Administration of Justice reported that organized crime was extensively involved in legitimate business organizations and utilized tactics such as monopolization, terrorism, extortion, and tax evasion “to drive out and control lawful ownership and leadership.” President’s Comm’n on Law Enforcement & Admin. of Justice, *The Challenge of Crime in a Free Society* (1969).

2510. 18 U.S.C. § 1963(a) (West 2003).

2511. *Id.* § 1964(c). RICO also provides for equitable relief, including divestiture of defendant’s interest in the enterprise, restrictions on future activities, reorganization, or dissolution. *Id.* § 1964(a). See Paul B. O’Neill, “*Mother of Mercy, Is This the Beginning of RICO?*”: *The Proper Point of Accrual of a Private Civil RICO Action*, 65 N.Y.U. L. Rev. 172, 180 (1990).

2512. 18 U.S.C. § 1964(c) (West 2003). See *Rotella v. Wood*, 528 U.S. 549, 557 (2000) (“The object of civil RICO is thus not merely to compensate victims but to turn them into prosecutors, ‘private attorneys general,’ dedicated to eliminating racketeering activity.”).

2513. For example, until the enactment of the Private Securities Litigation Reform Act, RICO claims were frequently asserted in cases alleging securities violations. See, e.g., *Holmes v. Sec. Investor Prot. Corp.*, 503 U.S. 258 (1992); *Powers v. British Vita*, 57 F.3d 176 (2d Cir. 1995).

at organized crime, courts have broadly construed RICO's provisions, and its scope has extended well beyond its original aim. Early efforts by lower courts to restrict claims that appeared to exceed RICO's original goals were overruled by Supreme Court decisions that broadened the statute's reach.²⁵¹⁴ RICO claims can now be found in a variety of contexts, including insurance and business disputes, antiabortion and other protests,²⁵¹⁵ consumer financial services litigation,²⁵¹⁶ family law,²⁵¹⁷ and whistle-blower actions.²⁵¹⁸ Although the nontraditional uses of RICO have continued to expand despite significant criticism by commentators and the courts, Congress has shown little inclination to narrow the statute's focus or reach.²⁵¹⁹

2514. *Sedima S.P.R.L. v. Imrex Co.*, 473 U.S. 479 (1985). See *United States v. Turkette*, 452 U.S. 576, 581 (1981) (Congress intended RICO to reach criminal as well as legitimate organization and breadth of statute signaled congressional intent to supersede authority of courts to restrict its provisions). However, the Supreme Court has acknowledged that the statute does have some limits. See *Reves v. Ernst & Young*, 507 U.S. 170, 184 (1993) ("Congress did not intend to extend RICO liability under § 1962(c) beyond those who participate in the operation or management of an enterprise through a pattern of racketeering activity."); *H.J. Inc. v. N.W. Bell Tel. Co.*, 492 U.S. 229, 239 (1989) (continuity required).

2515. See, e.g., *NOW v. Scheidler*, 510 U.S. 249 (1994).

2516. Robert M. Hatch et al., *RICO Theories, Cases and Strategies in Consumer Litigation: Strategies for Defending Section 1962 Claims*, 53 *Consumer Fin. L. Q. Rep.* 140 (1999).

2517. See *DeMauro v. DeMauro*, 115 F.3d 94, 97 (1st Cir. 1997) (alleging RICO claims for fraudulent concealment of marital assets by wife against husband arising out of divorce proceedings); see also Erin Alexander, Comment, *The Honeymoon Is Definitely Over: The Use of Civil RICO in Divorce*, 37 *San Diego L. Rev.* 541 (2000).

2518. *Beck v. Prupis*, 162 F.3d 1090 (11th Cir. 1998), *aff'd*, 529 U.S. 494 (1999).

2519. "The 'extraordinary' uses to which civil RICO has been put appear to be primarily the result of the breadth of the predicate offenses, in particular the inclusion of wire, mail, and securities fraud, and the failure of Congress and the courts to develop a meaningful concept of 'pattern.'" *Sedima*, 473 U.S. at 500. The Private Securities Litigation Reform Act of 1995 (PSLRA) eliminated conduct actionable as securities fraud as a predicate act, reflecting the only time to date that Congress has restricted the reach of civil RICO. 15 U.S.C. § 78u-4(a) (2000). See, e.g., *Bald Eagle Area Sch. Dist. v. Keystone Fin., Inc.*, 189 F.3d 321, 330 (3d Cir. 1999) (A RICO plaintiff "cannot avoid the RICO Amendment's bar . . . if the conduct giving rise to [the] [RICO] predicate offenses amounts to securities fraud."); *Mathews v. Kidder, Peabody & Co., Inc.*, 161 F.3d 156, 164 (3d Cir. 1998) ("It is clear from the legislative history that the intention behind the RICO Amendment was 'to address a significant number of frivolous actions based on alleged securities law violations.'" (quoting 141 Cong. Rec. H2771 (daily ed. Mar. 7, 1995) (statement of Rep. Cox))); *Krear v. Malek*, 961 F. Supp. 1065, 1076 (E.D. Mich. 1997) (PSLRA applies retroactively to RICO claims). The PSLRA retains a narrow exception permitting RICO allegations against defendants who had been criminally convicted of securities fraud. See Private Securities Litigation Reform Act of 1995, Pub. L. No. 104-67, § 107, 109 Stat. 737, 758 (codified as amended at 18 U.S.C. § 1964(c) (West 2003)).

RICO has been called “arcane,”²⁵²⁰ “tormented,”²⁵²¹ “complicated,”²⁵²² and “agonizingly difficult.”²⁵²³ Litigation under the statute is often time-consuming and burdensome, both because RICO’s inadequately defined scope has resulted in conflicting legal doctrine and because of the breadth of the supporting allegations. RICO litigation can involve multiple defendants and multi-count complaints where each count alleges a separate enterprise and a multitude of predicate acts.²⁵²⁴ In addition, RICO cases are often brought as class actions, which can introduce additional complexities.²⁵²⁵

2520. *Bryant v. Yellow Freight Sys.*, 989 F. Supp. 966, 968 (N.D. Ill. 1997) (RICO “fraught with arcane mysteries”); *Macy’s E., Inc. v. Emergency Envtl. Servs., Inc.*, 925 F. Supp. 191, 193 (S.D.N.Y. 1996) (“arcane eccentricities of RICO jurisprudence”).

2521. *Combs v. Bakker*, 886 F.2d 673, 677 (4th Cir. 1989) (characterizing RICO as a “tormented statute”); *Sadighi v. Daghighfekr*, 36 F. Supp. 2d 267 (D.S.C. 1999) (noting statute’s “torment” was evident in courts’ interpretations of section 1965).

2522. *Tafflin v. Levitt*, 493 U.S. 455, 465 (1990); *Cent. Distribs. of Beer Inc. v. Conn.*, 5 F.3d 181, 184 (6th Cir. 1993) (stating that RICO is “one of the most complex statutes ever enacted by Congress”); *Jennings v. Emry*, 910 F.2d 1434, 1435 (7th Cir. 1990) (noting RICO is a complex statute); *Murray v. Midwest Real Estate Inv. Co.*, No. 98C1569, 1998 WL 919694, at *2 (N.D. Ill. Dec. 30, 1998) (calling RICO “exceedingly complicated”); *Brooks v. Bank of Boulder*, 891 F. Supp. 1469, 1477 (D. Colo. 1995) (“complicated”).

2523. *Sun Sav. & Loan Ass’n v. Dierdorff*, 825 F.2d 187, 196 (9th Cir. 1987) (Burns, J., concurring).

2524. *Chapman & Cole v. Itel Container Int’l B.V.*, 865 F.2d 676, 685 (5th Cir. 1989) (“A RICO cause of action by definition involves complex litigation and high legal costs.”).

2525. *See Smith v. Berg*, 247 F.3d 532, 534 (3d Cir. 2001) (putative class action against real estate developer for misleading plaintiffs to purchase homes they couldn’t afford); *VanDenBroeck v. CommonPoint Mortgage Co.*, 210 F.3d 696, 698 (6th Cir. 2001) (class action by borrowers against lenders); *Maio v. Aetna Inc.*, 221 F.3d 472, 474 (3d Cir. 2000) (class action complaint alleging RICO violations against HMO); *Stachon v. United Consumers Club, Inc.*, 229 F.3d 673, 674 (7th Cir. 2000) (class action suit against buying club); *Moore v. Am. Fed. of Television & Radio Artists*, 216 F.3d 1236, 1243 (11th Cir. 2000) (denying motion for class certification on RICO count where there were only a few common questions of law, and facts and plaintiffs could not satisfy the requirements of Rule 23); *Fogie v. Thorn Ams., Inc.*, 190 F.3d 889, 892 (8th Cir. 1999) (class action alleging violation of RICO in operation of rent-to-own business); *Hamm v. Rhone-Poulenc Rorer Pharms., Inc.*, 187 F.3d 941, 951 (8th Cir. 1999) (finding district court treated case as class action although no class had been certified at the time of ruling on the summary-judgment motion), *cert. denied*, 528 U.S. 1117 (2000); *Price v. Pinnacle Brands, Inc.*, 138 F.3d 602, 604–05 (5th Cir. 1998) (class action alleging claims arising out of purchase of trading cards).

35.2 Statutory Framework

RICO liability hinges on whether the defendant “person”²⁵²⁶ engaged in a pattern of racketeering activity through specific designated offenses, referred to as predicate acts. The specific elements necessary to state a claim vary according to whether the claim is brought under 18 U.S.C. § 1962(a), (b), (c) or (d). The plaintiff must show that the racketeering activity adversely affected an interstate enterprise,²⁵²⁷ and that this adverse impact proximately caused injury to the plaintiff’s business or property.²⁵²⁸ Racketeering activity is defined in section 1961 to include activities that could be charged under a broad array of federal and state criminal offenses.²⁵²⁹ To establish a pattern of racketeering, a plaintiff must show that the defendant was responsible for at least two acts of racketeering within ten years of each other, and that the predicate acts had a common relationship and continuity.²⁵³⁰ Further, to establish the requisite predicate acts, the plaintiff must plead and prove each element of the racketeering offense.²⁵³¹

2526. “Person” is defined in section 1961(3) as including “any individual or entity capable of holding a legal or beneficial interest in property.” The term has been liberally construed. *See* *Jund v. Town of Hempstead*, 941 F.2d 1271, 1282 (2d Cir. 1991) (unincorporated political association); *Pine Ridge Recycling, Inc. v. Butts County*, 855 F. Supp. 1264, 1273 (M.D. Ga. 1994) (counties and solid waste authorities).

2527. RICO: Civil and Criminal Law and Strategy § 7.04[2][e], at 7-45 to 7-47 (Jed S. Rakoff & Howard W. Goldstein eds., 2002).

2528. *See id.* §§ 7.04[2][f], 7.04[2][g].

2529. Section 1961(1) defines “racketeering activity” as “any act or threat involving murder, kidnapping, gambling, arson, robbery, bribery, extortion, dealing in obscene matter, or dealing in a controlled substance which is chargeable under state law and punishable by imprisonment for more than one year,” or which is indictable under a wide variety of enumerated offenses under Title 18 of the U.S. Code. It also covers any act indictable under Title 29, any federal offense involving fraud in connection with Title 11, the sale of securities or controlled substances, as well as any acts indictable under the Currency and Foreign Transaction and Reporting Act or the Immigration and Naturalization Act.

2530. Section 1961(5) defines a “pattern of racketeering” as requiring “at least two acts of racketeering activity, one of which occurred after the effective date of this section and the last of which occurred within ten years (excluding any period of imprisonment) after the commission of a prior act of racketeering activity.” Acts of terrorism were recently added to RICO under section 1961(1)(g), which provides for the inclusion of any act under 18 U.S.C. §§ 2332b(g)(5)(B) & 2332b(a)(1)(B) (“[A]ttempting or conspiring to destroy or damage any structure . . . within the United States . . .”).

2531. *See* Rakoff & Goldstein, *supra* note 2527, § 7.04[2][c], at 7-41 to 7-44.

The following substantive provisions of RICO (18 U.S.C. § 1962) apply to any “person”:

- Section 1962(a) prohibits the investment of income or of the proceeds of income derived from a pattern of racketeering activity or through the collection of an unlawful debt, in an enterprise engaged in or whose activities affect interstate or foreign commerce. It specifically exempts from its scope the purchase of securities for purposes of investment and purchases “without the intention of controlling or participating in the control of the issuer,” as long as the securities do not exceed 1% of the outstanding shares of any one class of securities and do not confer the power to elect directors.
- Section 1962(b) makes it unlawful to acquire an interest in or control of an enterprise engaged in or whose activities affect interstate or foreign commerce through a pattern of racketeering activity or the collection of an unlawful debt.
- Section 1962(c) prohibits anyone employed by or associated with an enterprise engaged in or whose activities affect interstate or foreign commerce from participating in its affairs through a pattern of racketeering activity or the collection of an unlawful debt.
- Section 1962(d) prohibits conspiracies to violate section 1962(a), (b), or (c).²⁵³²

2532. To state a claim under section 1962(d), a plaintiff must plead that defendants agreed to join the conspiracy, agreed to commit predicate acts, and knew that those acts were part of a pattern of racketeering activity. *See* *United States v. Patrick*, 248 F.3d 11, 20 (1st Cir. 2001) (conspiracy can be shown by tacit agreement); *Tel-Phonic Servs., Inc. v. TBS Int’l, Inc.*, 975 F.2d 1134, 1140–41 (5th Cir. 1992); *Glessner v. Kenny*, 952 F.2d 702, 714 (3d Cir. 1991); *Reddy v. Litton Indus., Inc.*, 912 F.2d 291, 294–95 (9th Cir. 1990). Absent sufficient allegations of the substantive violation of subsection (a), (b), or (c), the plaintiff’s claim under section 1962(d) will be dismissed. *See Salinas v. United States*, 522 U.S. 52, 63 (1997). The circuits had split on the issue of whether the defendant must have personally participated in or agreed to participate in the commission of predicate acts. Some courts had required that a defendant agree to commit at least two predicate acts, *see, e.g., Miranda v. Ponce Fed. Bank*, 948 F.2d 41, 47–48 (1st Cir. 1991), while others had held that it was sufficient if a defendant agreed that some member of the enterprise would commit the predicate acts, *see, e.g., United States v. Pryba*, 900 F.2d 748, 760 (4th Cir. 1990). *See also* *United States v. Kragness*, 830 F.2d 842, 860 (8th Cir. 1987). Following the Supreme Court’s decision in *Salinas*, however, the courts have held that a defendant does not need to personally commit predicate acts, or agree to commit them, in order to be liable under section 1962(d). *See, e.g., Patrick*, 248 F.3d at 20; *Smith v. Berg*, 247 F.3d 532, 538 (3d Cir. 2001); *Lachmund v. ADM Inv. Servs., Inc.*, 191 F.3d 777, 784–85 (7th Cir. 1999); *United States v. Frega*, 179 F.3d 793, 810 n.21 (9th Cir. 1999), *cert. denied*, 528 U.S. 1191 (2000).

There has been significant litigation over the proper interpretation of several of the statutory elements common across sections 1962(a), (b), (c), and (d)—such as “enterprise” or “pattern”—as well as conflicts among the circuits over the interpretation of certain elements peculiar to section 1962(c),²⁵³³ such as “conduct or participate.”²⁵³⁴ Although sometimes referred to as “terms of art,”²⁵³⁵ their interpretation remains a matter of debate and has varied among the circuits. Despite the confusion as to the appropriate scope of these elements, a plaintiff’s failure to include factual allegations sufficient to satisfy basic components of each element, at least as that component has been interpreted within the relevant circuit, may result in dismissal.²⁵³⁶ Some of the most litigated statutory terms are discussed below:

- *Enterprise.* Section 1961(4) broadly defines an enterprise as “any individual, partnership, corporation, association, or other legal entity, and any union or group of individuals associated in fact although not a legal entity.”²⁵³⁷ In *United States v. Turkette*,²⁵³⁸ the Court held that RICO’s enterprise element encompassed both legitimate and illegitimate businesses. *Turkette* has been interpreted as establishing that an “enterprise” must exhibit several basic characteristics: (1) there must be a common or shared purpose among the members of the enterprise; (2) there must be some degree of continuity of organizational

2533. Section 1962(c) forms the basis for most of the civil RICO claims. In *Sedima, S.P.R.L. v. Imrex Co.*, 473 U.S. 479 (1985), the Supreme Court set out the four primary elements of a § 1962(c) claim. The plaintiff must show “(1) conduct (2) of an enterprise (3) through a pattern (4) of racketeering activity.” *Id.* at 496 (footnote omitted).

2534. See Rakoff & Goldstein, *supra* note 2527, § 2.03[1], at 2-38 (“Post-*Sedima* RICO jurisprudence has been notable for confusion and inconsistency.”).

2535. Elliott v. Foufas, 867 F.2d 877, 880 (5th Cir. 1989) (each concept “is a term of art which carries its own inherent requirements of particularity”).

2536. Jennings v. Emry, 910 F.2d 1434 (7th Cir. 1990); Schmidt v. Fleet Bank, 16 F. Supp. 2d 340 (S.D.N.Y. 1998).

2537. The Supreme Court has noted in *United States v. Turkette* that “[t]here is no restriction upon the associations embraced by the definition: an enterprise includes any union or group of individuals associated in fact.” 452 U.S. 576, 580 (1981). The courts generally have broadly construed the definition of “enterprise” to include various types of organizations, both legitimate and criminal, as well as combinations of different entities as “associations in fact.” See, e.g., DeFalco v. Bernas, 244 F.3d 286 (2d Cir. 2001) (town); United States v. Patrick, 248 F.3d 11, 17 (1st Cir. 2000) (gang); Bachman v. Bear, Stearns & Co., 178 F.3d 930, 931 (7th Cir. 1999) (“RICO statute reaches informal as well as formal organizations.”); United States v. Beasley, 72 F.3d 1518, 1525 (11th Cir. 1996) (religious cult); Cox v. Adm’r United States Steel & Carnegie, 30 F.3d 1347, 1349 (11th Cir.) (pension fund), *modifying on reh’g*, 17 F.3d 1386 (11th Cir. 1994); Am. Mfrs. Mut. Ins. Co. v. Townson, 912 F. Supp. 291, 295 (E.D. Tenn. 1995) (marriage as enterprise).

2538. 452 U.S. 576, 580–81 (1981).

structure and members; and (3) the enterprise must be separate from the pattern of racketeering activity.²⁵³⁹ The Court further held that to satisfy the enterprise requirement, a plaintiff must show “evidence of an ongoing organization, formal or informal, and . . . that the various associates function as a continuing unit.”²⁵⁴⁰ These requirements are easily met where the enterprise has a legal existence, such as a corporation or partnership.²⁵⁴¹ Where the enterprise is an “association in fact,” however, proof of the various elements becomes more difficult and proof that demonstrates continuity or organizational structure often overlaps with the proof relied on to show a pattern of racketeering activity. The courts have disagreed on the extent to which the same evidence used to prove a pattern of racketeering activity can also be

2539. *Id.* at 583.

2540. *Id.* See *VanDenBroeck v. CommonPoint Mortgage Co.*, 210 F.3d 696, 700 (6th Cir. 2001) (alleged enterprise of mortgage lender and secondary lender market “too unstable and fluid an entity to constitute a RICO enterprise”); *Stachon v. United Consumers Club, Inc.*, 229 F.3d 673, 676 (7th Cir. 2000) (enterprise of defendant, its franchisees, officers, directors, members, participating wholesalers, and participating manufacturers lacked distinct structure and function); *United States v. Gray*, 137 F.3d 765, 772 (4th Cir. 1998) (government evidence showed defendant ran a drug distribution ring that had identifiable structure from the existence of a leader, an assistant, stash house workers, and a system of stash houses used to distribute drugs); *United States v. Parise*, 159 F.3d 790, 795 (3d Cir. 1998) (continuity requirement met even though each member of enterprise didn’t participate in it from beginning to end, and government needed only to show “alleged members who participated at one time or another were part of an ongoing enterprise with a shared ‘organizational pattern’ and ‘system of authority’”); *United States v. Davidson*, 122 F.3d 531, 535 (8th Cir. 1997) (The number and variety of crimes, defendant’s financial support of his “underlings,” and defendant’s continued leadership of the criminal organization, among other things, “demonstrate[d] an ongoing association with a common purpose to reap the economic rewards flowing from the crimes, rather than a series of ad hoc relationships.”); *Amsterdam Tobacco Inc. v. Philip Morris, Inc.*, 107 F. Supp. 2d 210, 215 (S.D.N.Y. 2000) (“The vertical group described by plaintiff here is merely a reiteration of the (alleged) racketeering activity.”). In addition, the RICO enterprise must be separate and distinct from the RICO “person.” See, e.g., *Brannon v. Boatmen’s First Nat’l Bank of Okla.*, 153 F.3d 1144, 1147–48 & n.4 (10th Cir. 1998).

2541. See, e.g., *United States v. Kirk*, 844 F.2d 660, 664 (9th Cir. 1988) (“Although the circuits are divided on the requirements for proof of an enterprise . . . under either test, the existence of a corporation fulfills the requirements of an ascertainable structure apart from the predicate racketeering activity.”) (citation omitted); *Bennett v. Berg*, 685 F.2d 1053, 1061 n.9 (8th Cir. 1982) (“Where a legal entity is alleged as the RICO enterprise, this entity is likely to be clearly distinct from the acts of racketeering.”), *aff’d in part, rev’d in part in reh’g en banc*, 710 F.2d 1361 (8th Cir. 1983).

used to prove the existence of an enterprise.²⁵⁴² Note, however, that evidence satisfying the requirement of “continuity” of the organization may also satisfy the continuity required to show a pattern of racketeering activity. The circuits have varied in whether a plaintiff may prove the existence of an enterprise through proof of a pattern of racketeering activity.²⁵⁴³ Some circuits have interpreted the “separateness” criteria more strictly and have required varying degrees of proof that an organization has a structure independent from that inherent in the pattern of racketeering activity.²⁵⁴⁴ These courts have expressed the concern that to permit proof of the enterprise to be inferred from the pattern of racketeering activity would essentially make “every pattern of racketeering activity [become] an enterprise whose affairs are conducted through the pattern of racketeering.”²⁵⁴⁵

In addition, to the extent that the claim is brought under section 1962(c), a plaintiff must also plead and prove that the “enterprise” is distinct from the defendant “person” against whom damages are sought.²⁵⁴⁶ It is unclear whether this requirement exists for claims

2542. *Turkette*, 452 U.S. at 583 (1981) (“While the proof used to establish these separate elements may in particular cases coalesce, proof of one does not necessarily establish the other.”).

2543. See, e.g., *United States v. Indelicato*, 865 F.2d 1370, 1384 (2d Cir. 1989) (although “enterprise” and “pattern” requirements are distinct elements of the claim, same evidence could be used to prove both elements); *United States v. Perez*, No. 3:97CR48, 1999 WL 200696, at *2 (D. Conn. Feb. 23, 1999) (elements of relatedness and continuity necessary to establish pattern can be proven through nature of RICO enterprise), *aff’d*, 242 F.3d 369 (2000), *cert. denied*, 532 U.S. 989 (2001).

2544. See, e.g., *United States v. Darden*, 70 F.3d 1507, 1521 (8th Cir. 1995) (proof must show enterprise has existence beyond the association necessary to commit the predicate acts); *Amsterdam Tobacco*, 107 F. Supp. 2d at 215 (enterprise would likely not exist were the predicate acts removed from the equation (citing *Schmidt v. Fleet Bank*, 16 F. Supp. 2d 340, 349 (S.D.N.Y. 1998))); *Zola v. Gordon*, 685 F. Supp. 354, 373 (S.D.N.Y. 1988) (enterprise must have an existence beyond that which is merely to commit each of the acts charged as predicated racketeering offenses); *United States v. Riccobene*, 709 F.2d 214, 223–24 (3d Cir. 1983) (same).

2545. *Chang v. Chen*, 80 F.3d 1293, 1298 (9th Cir. 1996) (quoting *Arlington v. Carpenter*, 619 F. Supp. 474, 479 (C.D. Cal. 1985)); see also *United States v. Bledsoe*, 674 F.2d 647, 664 (8th Cir.) (An enterprise cannot be proved absent “proof of some structure . . . separate from the racketeering activity and distinct from the organization which is a necessary incident to the racketeering. The Act simply punishes the commission of two of the specified crimes with a 10-year period.”), *cert. denied sub nom. Phillips v. United States*, 459 U.S. 1040 (1982).

2546. *Cedric Kushner Promotions, Ltd. v. King*, 533 U.S. 158, 158 (2001) (holding that RICO applies “when . . . a corporate employee unlawfully conducts the affairs of the corporation of which he is the sole owner—whether he conducts those affairs within the scope, or beyond the scope, of corporate authority”); see also *Fogie v. Thorn Americas, Inc.*, 190 F.3d 889, 898–99

brought under section 1962(a) or (b). Several cases have held that it is not necessary to show that the “enterprise” is separate and distinct from the “person” where the case arises under other provisions of section 1962.²⁵⁴⁷ Similarly, the courts have disagreed on whether an intra-corporate conspiracy can be alleged under section 1962(d).²⁵⁴⁸ Most courts have ruled that section 1962(c) was designed to punish only the persons who run an enterprise illegally and not the enterprise itself, which often will be an innocent victim of the racketeering activity.²⁵⁴⁹ Plaintiffs have nonetheless attempted to circumvent this requirement by alleging, for example, that the defendant is an affiliate or parent corporation.²⁵⁵⁰ Thus, in the situation where corporate employees are alleged to have conducted the affairs of the corporate enterprise through a pattern of racketeering activity, the courts generally have

(8th Cir. 1999) (finding parent and wholly owned subsidiary cannot be both the enterprise and person, and allegations failed to satisfy distinctiveness requirement); *Jaguar Cars, Inc. v. Royal Oaks Motor Car Co.*, 46 F.3d 258, 264 (3d Cir. 1995) (officers or employees of legitimate corporation properly named as “persons,” with corporation serving as the “enterprise”).

2547. *See, e.g.*, *New Beckley Mining Corp. v. Int’l Union, United Mine Workers*, 18 F.3d 1161, 1163 (4th Cir. 1994); *Landry v. Airline Pilots Ass’n Int’l*, 901 F.2d 404, 425–26 (5th Cir.), *cert. denied*, 498 U.S. 895 (1990); *Yellow Bus Lines, Inc. v. Drivers, Chauffeurs & Helpers Local Union 639*, 883 F.2d 132, 140 (D.C. Cir. 1989) (noting cases where courts have held corporation can be both person and enterprise under section 1962(a)), *rev’d in part on other grounds*, 913 F.2d 948 (D.C. Cir. 1990).

2548. *Compare Fogie*, 190 F.3d at 898–99 (no conspiracy can exist between a corporation and a wholly owned subsidiary), *with Webster v. Omnitrition Int’l, Inc.*, 79 F.3d 776, 787 (9th Cir.) (conspiracy under section 1962(d) could extend to intracorporate conspiracy), *cert. denied*, 519 U.S. 865 (1996).

2549. *See Hatch et al.*, *supra* note 2516, at 142–43.

2550. *See, e.g.*, *Bd. of County Comm’rs v. Liberty Group*, 965 F.2d 879, 885 (10th Cir. 1992); *Yellow Bus Lines*, 883 F.2d at 139–40; *Schofield v. First Commodity Corp.*, 793 F.2d 28, 29–30 (1st Cir. 1986); *Bennett v. United States Trust Co.*, 770 F.2d 308, 315 (2d Cir. 1985). *See Hatch et al.*, *supra* note 2516, at 143–44 and cases cited therein; *see also VanDenBroeck v. CommonPoint Mortgage Co.*, 210 F.3d 696, 701 (6th Cir. 2001) (sole shareholder of corporate “enterprise” can be “person” for purposes of RICO, and is sufficiently distinct from corporation to satisfy separateness requirement); *Brannon v. Boatmen’s First Nat’l Bank of Okla.*, 153 F.3d 1144, 1149 (10th Cir. 1998) (wholly owned subsidiary will be deemed distinct for purposes of section 1962(c) where parent and subsidiary had distinct roles in common course of wrongful conduct); *Emery v. Am. Gen. Fin., Inc.*, 134 F.3d 1321, 1324–25 (7th Cir. 1998) (plaintiff failed to state claim under RICO where parent corporation was alleged as “person” and its only involvement in racketeering scheme was limited to its status as parent of its subsidiary “enterprise”); *Yellow Bus Lines*, 883 F.2d at 141 (“[A]llowing plaintiffs to generate such ‘contrived partnerships’ consisting of an umbrella organization and its subsidiary parts, would render the non-identity requirements of section 1962(c) meaningless. We decline to permit such an ‘end run’ around the statutory requirements.”).

rejected plaintiffs' efforts to hold the corporation liable as a defendant, either directly or vicariously.²⁵⁵¹ Note, however, that some courts permit vicarious liability where an employer is benefited by its employee's section 1962(c) violations if the employer is distinct from the enterprise.²⁵⁵² Claims brought under other subsections have not been subject to similar limitations, and courts have applied general principles of vicarious liability depending on the circumstances and whether the corporation was a victim.²⁵⁵³ Claims alleging association-in-fact enterprises have been dismissed on pretrial motions for failure to identify an enterprise that is more than a corporate entity and its agents conducting their regular business.²⁵⁵⁴

- *Pattern of racketeering activity.* Section 1961(5) defines "pattern" as "at least two acts of racketeering activity within a ten year period." In *H.J. Inc. v. Northwestern Bell Telephone Co.*,²⁵⁵⁵ the Supreme Court addressed the meaning of the pattern requirement, holding a plaintiff must show that the predicate acts "are related and that they are or pose a threat of continued criminal activity."²⁵⁵⁶ A pattern cannot be satis-

2551. See, e.g., *DeFalco v. Bernas*, 244 F.3d 286 (2d Cir. 2001); *Cedric Kushner Promotions, Ltd. v. King*, 219 F.3d 115, 116–17 (2d Cir. 2000) (affirming district court dismissal where defendant alleged as RICO person was an employee of the RICO enterprise acting within the scope of his authority); *Parker & Parsley Petroleum Co. v. Dresser Indus.*, 972 F.2d 580, 584 (5th Cir. 1992); *Miranda v. Ponce Fed. Bank*, 948 F.2d 41, 45 (1st Cir. 1991). *Contra Cox v. Adm'r United States Steel & Carnegie*, 17 F.3d 1386, 1398 (11th Cir. 1994) (person and enterprise not required to be distinct under section 1962(c)), *modified*, 30 F.3d 1347 (11th Cir.), *cert. denied*, 513 U.S. 1110 (1995).

2552. See, e.g., *Brady v. Dairy Fresh Prods. Co.*, 974 F.2d 1149 (9th Cir. 1992).

2553. *Rakoff & Goldstein*, *supra* note 2527, § 1.03(2), at 1-13 to 1-18, and cases cited therein; *Quick v. Peoples Bank of Cullman County*, 993 F.2d 793, 797–98 (11th Cir. 1993) (section 1962(b)); *Brannon v. Boatmen's First Nat'l Bank of Okla.*, 153 F.3d 1144, 1149 (10th Cir. 1998) (section 1962(c)).

2554. See, e.g., *Parker & Parsley*, 972 F.2d at 583; *Brittingham v. Mobil Corp.*, 943 F.2d 297, 300–03 (3d Cir. 1991) ("[A] § 1962(c) enterprise must be more than an association of individuals or entities conducting the normal affairs of a defendant corporation."); *Yellow Bus Lines*, 883 F.2d at 141; *Atkinson v. Anadarko Bank & Trust Co.*, 808 F.2d 438, 439 (5th Cir. 1987).

2555. 492 U.S. 229 (1989). *Northwestern Bell* resolved two conflicts among the circuits: (1) whether the pattern requirement could be met by a showing of only a single scheme, or whether separate multiple schemes must be alleged; and (2) whether a showing of two predicate acts, by themselves, would satisfy the pattern requirement.

2556. *Id.* at 239. As with other provisions of the statute, the Court noted that in defining a pattern of racketeering activity, Congress had intended "to take a flexible approach." *Id.* at 238; see also *Sedima, S.P.R.L. v. Imrex Co.*, 473 U.S. 479, 497 n.14 (1985) (referring to the "continuity plus relationship" language of the Senate Report in attempting to describe a pattern). The circuit decisions following *Sedima* reflected differing views among the circuits as to when a pattern did

fied by sporadic and isolated activity.²⁵⁵⁷ Rather, to satisfy the relatedness requirement, there must be some showing of acts with similar “purposes, results, participants, victims or methods of commission or [that] are otherwise interrelated”²⁵⁵⁸ Continuity can be established where the predicate acts have extended over a substantial period of time (typically at least a year) or, alternatively, where the activity threatens to continue into the future.²⁵⁵⁹ The Court offered examples of several ways in which the continuity prong of the pattern requirement could be satisfied, such as where the racketeering activity is a regular way of conducting an ongoing legitimate business, but emphasized that these were only illustrative of the innumerable possibilities and each case should be considered in light of its particular facts and circumstances.²⁵⁶⁰ Circuit decisions following *Northwestern Bell* have developed varying tests for determining whether the relationship or continuity prongs have been established. For example, several circuits have adopted multifactor tests that consider such things as the nature, number, and temporal relationship of the predicate acts; whether the activity constituted a single scheme as opposed to several schemes; the number of putative victims; and the presence of distinct injuries to establish continuity.²⁵⁶¹ Other courts have broadly con-

or did not exist. *See, e.g.*, *United States v. Polanco*, 145 F.3d 536, 541 (2d Cir. 1998) (“Predicate acts ‘must be related to each other (‘horizontal relatedness’) and they must be related to the enterprise (‘vertical relatedness’).” (quoting *United States v. Minicone*, 960 F.2d 1099, 1106 (2d Cir. 1992))), *cert. denied*, 525 U.S. 1071 (1999); *Morgan v. Bank of Waukegan*, 804 F.2d 970, 975 (7th Cir. 1986) (pattern requires predicate acts involving separate transactions); *Superior Oil Co. v. Fulmer*, 785 F.2d 252, 257 (8th Cir. 1986) (pattern not met where all predicate acts are pursuant to one scheme); *R.A.G.S. Couture, Inc. v. Hyatt*, 774 F.2d 1350, 1355 (5th Cir. 1985) (single scheme sufficient).

2557. *Sedima*, 473 U.S. at 497 n.14.

2558. *Northwestern Bell*, 492 U.S. at 240. *See, e.g.*, *Combs v. Bakker*, 886 F.2d 673 (4th Cir. 1989) (vacating district court decision and holding that pattern requirement did not require different types of predicate acts, or objective).

2559. *Northwestern Bell*, 492 U.S. at 242.

2560. *Id.*

2561. *See, e.g.*, *W. Assocs. Ltd. P’ship v. Market Square Assocs.*, 235 F.3d 629, 634 (D.C. Cir. 2001) (six-factor test was “flexible guide for analyzing RICO allegations on a case by case basis”); *Tabas v. Tabas*, 47 F.3d 1280, 1296 (3d Cir. 1995) (noting that six factors established before decision in *Northwestern Bell* remained relevant in determining whether a pattern existed, although court was not required to apply them in every case); *Wade v. Hopper*, 993 F.2d 1246, 1251 (7th Cir.) (four-factor test), *cert. denied*, 510 U.S. 868 (1993); *Prof’ls, Inc. v. Berry*, 959 F.2d 231 (4th Cir. 1992); *420 East Ohio Ltd. P’ship v. Cocose*, 980 F.2d 1122, 1124 (7th Cir. 1992) (retaining five-factor test but assessing pattern requirement in light of *Northwestern Bell* and looking at the specific facts of each case).

strued *Northwestern Bell* to mean that isolated acts of criminal activity would not give rise to a RICO violation, rather than as establishing a “determinative two-pronged test.”²⁵⁶²

Conversely, several courts have dismissed RICO claims for failure to satisfy the pattern requirement where (1) the allegations involve completed or “close-ended” conduct lasting twelve months or less, where there is no threat of future criminal conduct;²⁵⁶³ or (2) the claims involve only a single (or a few) victims, even though the conduct may have lasted for many months or even years.²⁵⁶⁴ In the latter case, most courts have held that criminal activity directed at only a single victim does not pose a threat of long-term criminal conduct sufficient to satisfy the “continuity” requirement.²⁵⁶⁵ Several courts have noted that particularly where the predicate acts of mail and wire fraud are alleged,

2562. *Sun Sav. & Loan Ass’n v. Dierdorff*, 825 F.2d 187, 192 (9th Cir. 1987). Still others focus on certain factors, such as duration. *Cofacredit v. Windsor Plumbing Supply Co.*, 187 F.3d 229, 241 (2d Cir. 1999) (“Although closed-ended continuity is primarily a temporal concept, other factors . . . are also relevant . . .”); *Tabas*, 47 F.3d at 1294; *Rakoff & Goldstein*, *supra* note 2527, § 1.04[2], at 1-35 to 1-48.

2563. *See, e.g., Efron v. Embassy Suites, Inc.*, 223 F.3d 12, 19 (1st Cir. 2000) (acts comprising single effort over period of twenty-one months was not a pattern), *cert. denied*, 532 U.S. 905 (2001); *Cofacredit*, 187 F.3d at 243–44 (noting closed-ended continuity is not met where conduct occurred over less than two years); *Word of Faith World Outreach Ctr. Church v. Sawyer*, 90 F.3d 118, 123 (5th Cir. 1996) (where alleged acts “were part of a single, lawful endeavor,” acts would not constitute continuing or threat of continued racketeering activity); *Tabas*, 47 F.3d. at 1294; *Midwest Grinding Co. v. Spitz*, 976 F.2d 1016, 1024 (7th Cir. 1992); *Uni*Quality, Inc. v. Infotronx, Inc.*, 974 F.2d 918, 922 (7th Cir. 1992); *Tel-Phonic Servs., Inc. v. TBS Int’l, Inc.*, 975 F.2d 1134, 1140 (5th Cir. 1992); *Kehr Packages, Inc. v. Fidelcor, Inc.*, 926 F.2d 1406, 1412–13 (3d Cir. 1991); *Am. Eagle Credit Corp. v. Gaskins*, 920 F.2d 352, 354 (6th Cir. 1990); *Emcore Corp. v. PricewaterhouseCoopers, LLP*, 102 F. Supp. 2d 237, 252 (D.N.J. 2000) (closed-ended continuity cannot exist where allegations relate to schemes lasting less than fourteen months); *KNK Medical-Dental Specialties, Ltd. v. Tanex*, No. CIV.A. 99-5265, 2000 WL 1470665, at *7 (E.D. Pa. Sept. 28, 2000) (plaintiff failed to allege acts sufficient to show “closed-ended” continuity or threat of continued criminal activity).

2564. *See, e.g., Wade*, 993 F.2d at 1252; *Boone v. Carlsbad Bancorporation, Inc.*, 972 F.2d 1545, 1556 (10th Cir. 1992); *Hindes v. Castle*, 937 F.2d 868, 872–76 (3d Cir. 1991) (“[I]t remains an open question whether RICO liability is ever appropriate for a single-scheme, single-victim conduct threatening no future harm.”); *Lange v. Hocker*, 940 F.2d 359, 362 (8th Cir. 1991). *But see Tabas*, 47 F.3d at 1295 (inquiry is not whether there was only one victim or scheme but how long the scheme lasted, the frequency of predicate acts, and whether there is a threat of continuing racketeering activity).

2565. *But see Cocose*, 980 F.2d at 1124 (the fact that no more than a single scheme is present does not automatically bar the requisite continuity, but the presence of a single scheme is still relevant to our inquiry).

the pattern requirement “helps to prevent ordinary commercial fraud from being transformed into a federal RICO claim.”²⁵⁶⁶

- *Conducting or participating in the affairs of an enterprise.* Section 1962(c) prohibits participating in or conducting the affairs of an enterprise through a pattern of racketeering activity. The liability for participating in the conduct of the enterprise through a pattern of racketeering extends only to those who “play some part in directing the enterprise’s affairs.”²⁵⁶⁷ The Supreme Court has made it clear that the defendant need not be in upper management, nor is liability limited only to those with primary responsibility for the affairs of the enterprise.²⁵⁶⁸ The “operation or management” test is not easily satisfied. The courts have held that there is a “difference between actual control over an enterprise and association with an enterprise in ways that do not involve control.”²⁵⁶⁹ For example, the provision of goods or services, including those by outside professionals such as accountants or lawyers, will not, in itself, satisfy the test even though the enterprise may benefit in some way.²⁵⁷⁰ Liability may also extend to lower-level employees who play some material role under the direction of upper

2566. *Menasco, Inc. v. Wasserman*, 886 F.2d 681, 685 (4th Cir. 1989). *See also W. Assoc.*, 235 F.3d at 637.

2567. *Reves v. Ernst & Young*, 507 U.S. 170, 179 (1993) (“Once we understand the word ‘conduct’ to require some degree of direction and the word ‘participate’ to require some part in that direction, the meaning of § 1962(c) comes into focus.”).

2568. *See also United States v. Paris*, 159 F.3d 790, 796 (3d Cir. 1998) (where defendant participated in conduct of enterprise’s affairs and was deeply involved in its operation, fact that he held no formal title or role did not preclude finding that he participated within the meaning of section 1962(c)). *See Amsterdam Tobacco Inc. v. Philip Morris Inc.*, 107 F. Supp. 2d 210, 217 (S.D.N.Y. 2000) (the provision of goods subsequently illegally transported “does not constitute operation or management sufficient to establish a RICO enterprise”); *Bowdoin Constr. Corp. v. R.I. Hosp. Trust Nat’l Bank*, 869 F. Supp. 1004, 1009 (D. Mass. 1994) (dismissing claims against law firms, even though they had knowledge of fraud and counseled concealment, as insufficient to constitute control over operation and management), *aff’d*, 94 F.3d 721 (1st Cir. 1996). *But see DeFalco v. Bernas*, 244 F.3d 286, 311 (2d Cir. 2001) (even though defendant had no role in management of town, evidence reflected his influence over town’s affairs and that he exerted some control through threats and other actions); *In re Sumitomo Copper Litig.*, 104 F. Supp. 2d 314, 325 (S.D.N.Y. 2000) (finding allegations of reciprocal assistance between defendants sufficient to allege substantial assistance by defendant to satisfy operation and management test of *Reves*); *Clark v. Milam*, 847 F. Supp. 409, 418 (S.D. W. Va. 1994) (known concealment can constitute participation in control of enterprise).

2569. *Redtail Leasing, Inc. v. Bellezza*, No. 95 CIV. 5191, 2001 WL 863556, at *4 (S.D.N.Y. July 31, 2001) (citing *Schmidt v. Fleet Bank*, 16 F. Supp. 2d 340, 346 (S.D.N.Y. 1998)).

2570. *Univ. of Md. v. Peat, Marwick, Main & Co.*, 996 F.2d 1534, 1539 (3d Cir. 1993).

management,²⁵⁷¹ although it is unclear whether liability will attach to lower-level employees where they do not also play some management or “directing” role.²⁵⁷² The courts have differed in their approach to this issue.²⁵⁷³ Finally, liability can extend to outsiders who are associated with the enterprise and exert control over it (for example, by bribery), or who participate in the operation or management of the enterprise; however, it generally will not extend to outside accountants and counsel who render assistance but no control.

35.3 Case Management

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35.31 Pleadings

Under Federal Rule of Civil Procedure 8(a)(2), the complaint is to contain “a short and plain statement of the claim showing the pleader is entitled to relief.” The allegations are to be “simple, concise, and direct”²⁵⁷⁴ in order to assist the defendant in understanding the claims alleged against it and the court in conducting the litigation in an orderly fashion.²⁵⁷⁵ Compliance with Rule 8 conserves judicial and party resources that otherwise would be expended in

2571. *Reves*, 507 U.S. at 179; *see, e.g.*, *United States v. Viola*, 35 F.3d 37, 43 (2d Cir. 1994) (noting that *Reves* attached liability to those down “ladder of operation” and defendant “was not on the ladder at all, but rather . . . was sweeping up the floor underneath it”).

2572. *See, e.g.*, *Goren v. New Vision Int’l, Inc.*, 156 F.3d 721, 728 (7th Cir. 1998) (“[S]imply performing services for an enterprise, even with knowledge of the enterprise’s illicit nature, is not enough to subject an individual to RICO liability under § 1962(c)” (referring to non-employees hired to perform specific tasks)).

2573. *See, e.g.*, *MCM Partners, Inc. v. Andrews-Bartlett & Assocs., Inc.* 62 F.3d 967, 978–79 (7th Cir. 1995) (“[D]irection’ requirement includes both those who direct, as well as those who take direction.”) (citation omitted); *Viola*, 35 F.3d at 41 (“[I]t is plain that the simple taking of directions and performance of tasks that are ‘necessary or helpful’ to the enterprise, without more, is insufficient”); *Peat*, 996 F.2d at 1538–39 (“[N]ot even action involving some degree of decision making constitutes participation in the affairs of an enterprise.”).

2574. Fed. R. Civ. P. 8(e)(1).

2575. *See, e.g.*, *Michaelis v. Neb. State Bar Ass’n*, 717 F.2d 437, 439 (8th Cir. 1983) (amended complaint with 98 pages and 144 numbered paragraphs justified dismissal with prejudice, where plaintiff repeatedly violated Rule 8 and “style and prolixity of pleadings would have made an orderly trial impossible”).

deciphering prolix or confusing allegations.²⁵⁷⁶ The length and complexity of RICO complaints are sometimes related to the requirement to plead fraud with particularity in claims alleging mail and wire fraud as predicate acts, while in other circumstances they derive from an attempt to obscure non-compliance with Rule 8 and the inclusion of irrelevant or conclusory allegations.²⁵⁷⁷ The court should consider reviewing a RICO complaint shortly after filing to determine whether it satisfies Rule 8. Some courts faced with a RICO complaint that is unintelligible, confusing, or otherwise violative of Rule 8 have dismissed the complaint *sua sponte* and required the plaintiff to file a “RICO case statement”²⁵⁷⁸ along with an amended complaint.²⁵⁷⁹ Such an approach conserves both judicial and party resources, and precludes the court, upon undertaking review of the sufficiency of a complaint, from having to “forever sift through its pages.”²⁵⁸⁰ Consider also dismissal with prejudice where the plaintiff has been given the opportunity to file an amended complaint and persists in filing a lengthy and confusing document. Although dismissal of a complaint for failure to comply with Rule 8 ordinarily should be with leave to amend,²⁵⁸¹ where the party either fails or is unable to rectify the problem, dismissal with prejudice might be appropriate.²⁵⁸²

2576. See, e.g., *Nevigel v. N. Coast Life Ins. Co.*, 651 F.2d 671, 675 (9th Cir. 1981) (affirming dismissal with prejudice, noting that appellees “had to spend a large amount of time and money” defending against poorly drafted proceedings and that proper consideration was the right of appellees to be free from “costly and harassing litigation and the rights of litigants awaiting their turns to have other matters resolved”); *Gordon v. Green*, 602 F.2d 743, 745 (5th Cir. 1979) (compliance with Rule 8 conserves judicial resources).

2577. See, e.g., *Vicom, Inc. v. Harbridge Merchant Servs., Inc.*, 20 F.3d 771, 776 (7th Cir. 1994) (stating “although RICO complaints often might need to be somewhat longer than many complaints, RICO complaints must meet the requirements of Rule 8(a)(2) and Rule 8(e)(1)”).

2578. See *infra* section 40.44.

2579. *Bryant v. Yellow Freight Sys.*, 989 F. Supp. 966 app. 5 (N.D. Ill. 1997); *Richmond v. Nationwide Cassel L.P.*, No. 93 C 6107, 1993 WL 433794, at *2 (N.D. Ill. Oct. 22, 1993).

2580. *Jennings v. Emry*, 910 F.2d 1434, 1436 (7th Cir. 1990); see also *Vicom*, 20 F.3d at 776 (“But given the fact that Vicom had already amended its complaint once, we think the district court should have given more serious consideration to dismissing Vicom’s amended complaint with prejudice” under Rule 8.); *Hartz v. Friedman*, 919 F.2d 469, 471 (7th Cir. 1990) (district court could properly have dismissed RICO complaint as “egregious” violation of Rule 8); *Gordon*, 602 F.2d at 745 (declining to “struggle” through 4,000 pages of pleadings to determine if dismissal for lack of jurisdiction was proper, court vacated and remanded for dismissal of complaint for violation of Rule 8).

2581. See, e.g., *Richmond*, 1993 WL 433794, at *2; *Gould v. Nat’l Westminster Bank, U.S.A.*, No. 3:99-CV-01892, 2000 WL 1339292 at *5 (D. Conn. Aug. 2, 2000) (“plaintiff is ordinarily allowed to replead his complaint following the granting of a motion to dismiss”).

2582. *Vicom, Inc.*, 20 F.3d at 776; *Michaelis v. Neb. State Bar Ass’n*, 717 F.2d 437, 439 (8th Cir. 1983).

Rule 9(b) also plays a prominent role in RICO cases that allege predicate acts of fraud. In such cases, Rule 9(b) governs the specificity required to plead both the overall RICO elements and the elements of the predicate offenses, as well as the elements of the RICO claim.²⁵⁸³ The impact of RICO allegations on a defendant's reputation makes it important to ensure that the claim is solidly based.²⁵⁸⁴ Courts have varied in the level of specificity the plaintiff must plead to survive a Rule 9(b) motion. Some judges have required the plaintiff to detail the specific fraudulent acts committed by each defendant, where multiple defendants are involved.²⁵⁸⁵ Others insist that the plaintiff detail not only the specific fraudulent statements, but where, when, and how they were communicated.²⁵⁸⁶ The goal is to ensure that complaints sounding in fraud entail more than general and vague statements of alleged misrepresentation, and plaintiffs who fail to plead the underlying predicate acts with the specificity demanded by Rule 9(b) risk dismissal of their RICO claims.²⁵⁸⁷

2583. *Brooks v. Bank of Boulder*, 891 F. Supp. 1469, 1476 (D. Colo. 1995). A number of courts have held that non-fraud RICO claims are governed by Rule 8. *See MCM v. Andrews-Bartlett & Assocs., Inc.*, 62 F.3d 967 (7th Cir. 1995); *McLaughlin v. Anderson*, 962 F.2d 187, 194 (2d Cir. 1992) (holding that the district court should have evaluated plaintiff's extortion claim against the "more lenient pleading standards" of Rule 8(a)); *Mendoza v. Zirkle Fruit Co., No. CS-00-3024*, 2000 WL 33225470, at *4 (E.D. Wa. Sept. 27, 2000); *see also Rakoff & Goldstein, supra* note 2527, § 1.04[1], at 1-32 to 1-35. Some question remains, however, as to whether the requirement of a RICO case statement effectively heightens the pleading standard of Rule 8. *See, e.g., Mendoza*, 2000 WL 33225470, at *5 (noting that plaintiffs raised valid issue but its resolution was not necessary for purposes of court's ruling).

2584. *Schmidt v. Fleet Bank*, 16 F. Supp. 2d 340, 346 (S.D.N.Y. 1998); *see also Brooks*, 891 F. Supp. at 1477 ("A charge of racketeering, with its implications of links to organized crime [and attendant consequences to a person's reputation and goodwill], should not be easier to make than accusations of fraud.").

2585. *Rakoff & Goldstein, supra* note 2527, § 7.04[1] at 7-30 to 7-33.

2586. *Id. See Anatian v. Coutts Bank of Switz.*, 193 F.3d 85, 88 (2d Cir. 1999) (plaintiff failed to allege how communications were fraudulent), *cert. denied*, 528 U.S. 1188 (2000); *Moore v. PaineWebber, Inc.*, 189 F.3d 165, 173 (2d Cir. 1999) (plaintiff also must identify purpose of mailing within the fraudulent scheme, and facts showing fraudulent intent); *Ahmed v. Rosenblatt*, 118 F.3d 886, 889 (1st Cir. 1997) (plaintiff required to state time, place, and content of allegedly fraudulent communications).

2587. *Allen v. New World Coffee, Inc., No. 00 CIV. 2610*, 2001 WL 293683, at *3-4 (S.D.N.Y. Mar. 27, 2001) (dismissing plaintiff's RICO claims where plaintiff failed to plead with specificity); *Poling v. K. Hovnanian Enters.*, 99 F. Supp. 2d 502, 509 (D.N.J. 2000) (dismissing RICO claims for repeated failure to meet Rule 9(b)); *Gottstein v. Nat'l Ass'n for the Self Employed*, 53 F. Supp. 2d 1212, 1218 (D. Kan. 1999) (dismissing RICO claim for failure to set out predicate acts with particularity); *Elliott v. Foufas*, 867 F.2d 877, 882 (5th Cir. 1989) (affirming dismissal of complaint where plaintiff failed to plead with sufficient specificity to state a RICO claim). The courts generally have relaxed Rule 9(b)'s strict pleading requirements where the information needed to plead with the requisite particularity is in the exclusive control of the

The RICO case statement has proven useful in RICO litigation.²⁵⁸⁸ This statement details both the factual and legal basis for the plaintiff's claim.²⁵⁸⁹ One judge's order required, among other things, that the plaintiff do the following:²⁵⁹⁰

- state whether the alleged unlawful conduct violated 18 U.S.C. § 1962(a), (b), (c), or (d);
- list each defendant, and state the alleged misconduct as to each;
- list each victim and state the manner in which they were allegedly injured;
- describe in detail the pattern of racketeering activity (or collection of wrongful debt) alleged for each RICO claim, including the alleged predicate acts, the dates, the participants, and the surrounding facts;
- describe the time, place, and content of each alleged misrepresentation where the RICO claim is based on predicate offenses of mail or wire fraud, as well as the identity of the persons to whom and by whom it was made;
- state whether there had been a criminal conviction for violation of the predicate acts, or if civil litigation had resulted in a judgment with respect to the predicate acts;
- describe the manner in which the predicate acts formed a pattern of racketeering activity, whether they related to each other as part of a common plan, and if so, to describe the plan in detail;
- describe in detail the alleged enterprise, including the names of the persons or entities allegedly constituting the enterprise, its structure and purpose, and the relationship and association of the defendants to the enterprise;
- describe the relationship between the activities of the enterprise and the pattern of racketeering activity, whether the pattern of racketeering

defendant. *Ahmed*, 118 F.3d at 890 (holding the district court was not required to make a second determination of whether additional discovery was needed to permit the plaintiff to make the specific allegations needed to support fraud claim where plaintiff failed to show such information was in the exclusive possession of the defendant).

2588. See, e.g., *Northland Ins. Co. v. Shell Oil Co.*, 930 F. Supp. 1069, 1076 (D.N.J. 1996) (RICO case statement is a case-management tool).

2589. See, e.g., *Carne v. Dunn*, No. Civ. A. 99-2776, 2000 WL 1134394, at *2 (E.D. La. Aug. 10, 2000) (plaintiff filed thirty-nine page RICO case statement).

2590. See *Bryant v. Yellow Freight Sys.*, 989 F. Supp. 966 app. 5 (N.D. Ill. 1997); see also *Int'l Bhd. of Teamsters v. Carey*, No. 00 CIV. 2952, 2001 WL 88210, at *2-3 (S.D.N.Y. Oct. 1, 2001) (order detailing content to be included in case statement); *Darocha v. Crusader Sav. Bank*, No. CIV.A. 92-7264, 1995 WL 118208, at *3-4 (E.D. Pa. May 10, 1995).

activity and the enterprise are separate or merged into one, and what benefits the enterprise receives from the pattern of racketeering;

- describe the direct causal relationship between the alleged injury and the violation of the RICO statute; and
- set forth the facts that support the elements with respect to claims under 18 U.S.C. §§ 1962(a), (b), (c), and (d).

Courts generally have considered the RICO case statement as part of the pleadings. Requiring the plaintiff to file a RICO case statement will assist the court when ruling on motions under Rule 12 and Rule 9(b), in addition to summary-judgment motions under Rule 56. In ruling on motions under Rule 12, courts have considered the facts stated in the RICO case statement in conjunction with the allegations of the complaint.²⁵⁹¹ The RICO case statement, together with a reading of the complaint, will help narrow the issues and identify claims that lack merit, which can then be dismissed (with or without prejudice) before significant time and effort is spent. Finally, these statements can also help to “focus discovery . . . and provide a blueprint for trial.”²⁵⁹²

Some districts have adopted standing orders requiring the filing of a RICO case statement within a certain period of time once the complaint is filed.²⁵⁹³ Other districts, however, only require the plaintiff to file a case statement

2591. See, e.g., *McLaughlin v. Anderson*, 962 F.2d 187, 195 (2d Cir. 1992) (noting district court dismissed complaint after considering both complaint and RICO case statement); *Allen Neurosurgical Assocs., Inc. v. Lehigh Valley Health Network*, No. CIV.A. 99-4653, 2001 WL 41143, at *3 n.1 (E.D. Pa. Jan. 18, 2001) (“The RICO case statement is a pleading that may be considered part of the operative complaint for purposes of a motion to dismiss.”); *Sadighi v. Daghighfekr*, 36 F. Supp. 2d 279, 288 (D.S.C. 1999) (considering both complaint and the second amended RICO case statement on motion to dismiss); *R.C.M. Executive Gallery Corp. v. Rols Capital Co.*, 901 F. Supp. 630, 639 n.8 (S.D.N.Y. 1995) (“On a motion to dismiss, the Court must take as true the allegations contained in the RICO case statements, along with those contained in the complaint.”). *But see Carne*, 2000 WL 1134394, at *2 n.1 (“The case statement provides the plaintiff’s claims of fraud in even more detail than their complaint, though the Court does not rely on these allegations in its rulings.”).

2592. *Northland Ins. Co. v. Shell Oil Co.*, 930 F. Supp. 1069, 1075 (D.N.J. 1996) (citing *RICO Case Statements*, [Nov. 1988–June 1990] RICO Bus. Disputes Guide (CCH) ¶ 7453, at 10,273 (1990)).

2593. *Price v. Pinnacle Brands, Inc.*, 138 F.3d 602, 605 (5th Cir. 1998) (noting plaintiffs had been ordered to file RICO case statement); *Elliott v. Foufas*, 867 F.2d 877, 880 (5th Cir. 1989) (RICO standing order); *Carne*, 2000 WL 1134394, at *2 n.1 (standing order); *Dixon v. Ford Motor Credit*, No. CIV.A. 98-2456, 2000 WL 713259, at *2 (E.D. La. May, 31, 2000); *Poling v. K. Hounanian Enters.*, 99 F. Supp. 2d 502, 508 (D.N.J. 2000) (plaintiff failed to file adequate RICO case statement); *Northland Ins.*, 930 F. Supp. at 1073 (adopting RICO case statement as part of local rules); *Lui Ciro, Inc. v. Ciro Inc.*, 895 F. Supp. 1365, 1377 (D. Haw. 1995) (plaintiffs must file RICO case statement within thirty days of filing complaint).

where he or she “has demonstrated a real lack of understanding of the elements [of RICO]”²⁵⁹⁴ or where the court otherwise determines that such a statement is necessary.²⁵⁹⁵ The failure to timely file a RICO case statement has been grounds for dismissal, as has the filing of a statement that is deficient or otherwise fails to provide the information requested.²⁵⁹⁶ The authority of a court to order a RICO case statement has not been definitively established in most jurisdictions. Nonetheless, while there have been occasional challenges to orders requiring the filing of a RICO case statement as imposing heightened pleading requirements contrary to Federal Rule of Civil Procedure 8(a), these challenges generally have been rejected.²⁵⁹⁷ The courts have found implicit authority for RICO case statements in federal and local rules, as well as federal statutes.²⁵⁹⁸

2594. *Bryant v. Yellow Freight Sys.*, 989 F. Supp. 966, 969 (N.D. Ill. 1997).

2595. *See, e.g., Int’l Bhd. of Teamsters v. Carey*, No. 00 CIV. 2952, 2001 WL 88210, at *1 (S.D.N.Y. Feb. 1, 2001) (plaintiff required to file case statement upon amending complaint); *Office Outfitters, Inc. v. AB Dick Co., Inc.*, 83 F. Supp. 2d 772, 775 (E.D. Tex. 2000) (noting, after hearing on defendant’s motion to dismiss, magistrate judge recommended plaintiffs file RICO case statement and defendants be allowed to renew their motions once the statement was filed).

2596. *Pierce v. Ritter, Chusid, Bivonia & Cohen*, 133 F. Supp. 2d 1344, 1346 (S.D. Fla. 2001) (“[F]ailure to include a RICO statement as required by Local Rule 2.1 is grounds for dismissing both the Federal and State RICO counts.”); *Gould v. Nat’l Westminster Bank*, No. 3:99-CV-01892, 2000 WL 1339292, at *5 (D. Conn. Aug. 2, 2000) (dismissing RICO claim “for complete non-compliance” with standing order); *Paddlewheel Props., Inc. v. Waste Mgmt. of Miss., Inc.*, 23 F. Supp. 2d 670, 674 (S.D. Miss. 1997) (plaintiff’s filing of RICO case statement two weeks after date due under court’s order did not warrant sanction of dismissal of complaint); *Lui Ciro*, 895 F. Supp. at 1377–78 (under circumstances where it appeared plaintiff had no notice of standing order requiring filing of RICO case statement, court would not dismiss complaint under Rule 41(b)).

2597. *See, e.g., Mendoza v. Zirkle Fruit Co.*, No. CS-00-3024–FVS, 2000 WL 33225470, at *5 (E.D. Wash. Sept. 27, 2000) (declining to decide whether requiring RICO case statement conflicted with Rule 8(a)).

2598. *See, e.g., Elliott v. Foufas*, 867 F.2d 877, 880 (5th Cir. 1989) (RICO Standing Order was consistent with requirement of Rule 8 and highlighted for plaintiff particular requirements for pleading RICO claim); *Northland Ins. Co. v. Shell Oil Co.*, 930 F. Supp. 1069, 1071–75 (D.N.J. 1996) (finding support for RICO case statement in Judicial Improvements Act, the Civil Justice Reform Act of 1990, Fed. R. Civ. P. 83 and 16, and court local rules, and stating that it “does not constitute a heightened pleading standard”). *But see Rakoff & Goldstein*, RICO, *supra* note 2527, § 1.04[1], at 1-35 (“Going further still (although perhaps beyond their authority), some federal districts now require plaintiffs in private civil RICO actions to automatically file ‘RICO statements’ particularizing their allegations, regardless of whether or not the claims are predicated on fraud.”). One court has noted that the strongest authority for RICO case statements is afforded under Rule 16. *Northland Ins.*, 930 F. Supp. at 1075.

35.32 Initial Conference

Efficient management of RICO litigation requires early identification and narrowing of the disputed legal and factual issues and identification of the precise statutory violations alleged. For example, some categories of damages, such as claims for personal injury, usually are not allowed under RICO, and one issue that can be addressed at the initial conference is the propriety of the damage claims asserted by the plaintiff.²⁵⁹⁹ The pleadings often will reveal jurisdictional issues that will need to be addressed at the outset. After notice and hearing, the complaint can be dismissed *sua sponte*, either in whole or in part, where jurisdiction is clearly improper.²⁶⁰⁰ State and federal courts have concurrent jurisdiction over RICO claims,²⁶⁰¹ and the court may also find it appropriate in some circumstances (e.g. where the predicate acts involve issues of state law) to refrain from allowing the case to proceed in federal court. In addition, where RICO provides the only basis for subject-matter jurisdiction in federal court, the dismissal of the RICO claims may also warrant dismissal of supplemental state claims under 28 U.S.C. § 1367(a).²⁶⁰² Absent unusual circumstances warranting the exercise of jurisdiction over supplemental state law claims, they can be dismissed without prejudice.²⁶⁰³

Certain issues persistently appear in RICO litigation and can significantly affect the viability of the claim. Addressing these issues early in the case can reveal the presence of fatal flaws in the complaint before the court or the parties expend significant resources. Inquiry into the following areas either before or in conjunction with the initial Rule 16 conference will assist the court and the parties in identifying possible jurisdictional problems:

- *Does the plaintiff have standing?* In order to have standing to pursue a RICO claim, a plaintiff must have “been injured in his business or property by the conduct constituting the violation.”²⁶⁰⁴ The injury to

2599. *Genty v. RTC*, 937 F.2d 899, 918 (3d Cir. 1991); *Grogan v. Platt*, 835 F.2d 844, 847 (11th Cir. 1988).

2600. *Bryant v. Yellow Freight Sys.*, 989 F. Supp. 966, 968 (N.D. Ill. 1997) (“[J]urisdiction is not called into play by a litigant’s mere thoughtless incantation of the RICO acronym.”). *See also Michaelis v. Neb. State Bar Ass’n*, 717 F.2d 437, 439 (8th Cir. 1983); Fed. R. Civ. P. 12(h)(3) (West 2003).

2601. *Tafflin v. Levitt*, 493 U.S. 455, 458 (1990).

2602. *See, e.g., Camelio v. Am. Fed’n*, 137 F.3d 666, 672 (1st Cir. 1998).

2603. *See, e.g., id.* (the district court “erred in retaining jurisdiction over the state law claims after it dismissed the federal claims on which jurisdiction was based”).

2604. *Sedima, S.P.R.L. v. Imrex Co.*, 473 U.S. 479, 495 (1985) (rejecting barriers to bringing a claim erected by lower courts as unsupported by the statutory language and contrary to the plain meaning of section 1964(c)); 18 U.S.C. § 1964(c) (West 2003); *see also LaBabera v. Angel*, 95 F. Supp. 656, 663 (E.D. Tex. 2000) (plaintiff’s cause of action will not accrue until the amount

business or property can be, but is not limited to, competitive injury.²⁶⁰⁵ It does not, however, extend to personal injury, emotional distress or associated economic losses,²⁶⁰⁶ nor can a plaintiff recover where, although injured, he or she ultimately suffered no pecuniary loss.²⁶⁰⁷ In addition, the injury must arise from, and be proximately caused by, the unlawful conduct.²⁶⁰⁸ Most courts have ruled that the only injury compensable under section 1962(a), for example, is that

of damages is clear and definite, and damage assessment is currently premature and speculative). There is some disagreement among the circuits on whether a plaintiff has standing under section 1962(a) only if he or she has been injured by the use or investment of racketeering income, as opposed to where the injuries simply flow from the predicate acts. *Compare* *Fogie v. Thorn Ams., Inc.*, 190 F.3d 889, 895 (8th Cir. 1999) (standing under section 1962(a) exists only for plaintiffs who are injured in the use or investment of racketeering income) *and* *Office Outfitters, Inc. v. AB Dick Co.*, 83 F. Supp. 2d 772, 778 (E.D. Tex. 2000) (plaintiff's injury must flow "from the investment of racketeering income into the [RICO] enterprise") (quoting *Crowe v. Henry*, 43 F.3d 198, 205 (5th Cir. 1995)), *with* *Busby v. Crown Supply, Inc.*, 896 F.2d 833, 837 (4th Cir. 1990) (plaintiffs injured as a result of the predicate actions also have standing). The majority of courts limit standing to persons injured by the use or investment of racketeering proceeds. *See Fogie*, 190 F.3d at 895 (noting that seven of eight circuits addressing the issue limit standing to use and investment).

2605. *Sedima*, 473 U.S. at 497 n.15.

2606. *Berg v. First State Ins. Co.*, 915 F.2d 460, 464 (9th Cir. 1990) (denying RICO recovery for personal injury, including emotional distress resulting in pecuniary losses, arising from cancellation of liability policy); *James v. Meow Media, Inc.*, 90 F. Supp. 2d 798, 814 (W.D. Ky. 2000) ("Personal injuries and mental suffering do not confer a person with standing to bring a RICO claim because those types of damages are not injuries to 'business or property.'"); *Iron Workers Local Union No. 17 Ins. Fund v. Philip Morris, Inc.*, 23 F. Supp. 2d 771, 790 (N.D. Ohio 1998) ("RICO excludes from its ambit damages for personal injury [and] [c]laims for personal property injuries."); *City and County of S.F. v. Philip Morris, Inc.*, 957 F. Supp. 1130, 1138 (N.D. Cal. 1997) (physical injuries not recoverable). The courts have imposed some limitations on when economic losses are compensable. *See, e.g., Mario v. Aetna, Inc.*, 221 F.3d 472, 483–84 (3d Cir. 2000) (injury to business and property means financial loss); *Imagineering, Inc. v. Kiewit Pac. Co.*, 976 F.2d 1303, 1310 (9th Cir. 1992) (holding that "injury" requires proof of concrete financial loss); *Fleischhauer v. Feltner*, 879 F.2d 1290, 1300 (6th Cir. 1989) (plaintiffs could recover only their direct investment in a fraudulent scheme and were not entitled to expectancy damages or lost tax benefits); *Stationary Eng'rs Local 39 Health & Welfare Trust Fund v. Philip Morris, Inc.*, No. C-97-01519, 1998 WL 476265, at *5 (N.D. Cal. Apr. 30, 1998) (financial losses flowing from personal injuries resulting from smoking are not recoverable under RICO).

2607. *Steele v. Hosp. Corp. of Am.*, 36 F.3d 69, 70–71 (9th Cir. 1994) (where plaintiffs did not pay excessive charges out of their own pockets, they did not suffer financial loss); *Dornberger v. Metro. Life Ins. Co.*, 961 F. Supp. 506, 521 (S.D.N.Y. 1997) (plaintiffs must have incurred some out-of-pocket financial loss).

2608. *Holmes v. Sec. Investor Prot. Corp.*, 503 U.S. 258, 267–68 (1992).

resulting from a defendant's investment of racketeering income.²⁶⁰⁹ Claims under section 1962(a) alleging injury resulting from racketeering activity alone, rather than from the use or investment of racketeering income, may thus be subject to early dismissal.²⁶¹⁰ Similar interpretations have been accorded the injury component under section 1962(b). Most courts have required that the alleged injury to the plaintiff proximately result from the defendant's interest in, or control over, an enterprise.²⁶¹¹ On the other hand, a plaintiff suing under section 1962(c) need not prove any kind of special "racketeering injury" but only that at least one of the predicate acts proximately caused the requisite injury to the plaintiff.²⁶¹² Still unclear is whether the plaintiff, to have standing under RICO, must also satisfy any special standing requirement that may relate to the underlying predicate acts.²⁶¹³ In *Beck v. Prupis*, the Supreme Court resolved whether a suit can be maintained under section 1962(d) for conspiracy where the alleged injury results from wrongful acts that do not fall within the offenses

2609. See, e.g., *Discon, Inc. v. NYNEX Corp.*, 93 F.3d 1055, 1063 (2d Cir. 1996) (plaintiff must "allege a 'use or investment' injury that is distinct from the injuries resulting from predicate acts"); *Parker & Parsley Petroleum Co. v. Dresser Indus.*, 972 F.2d 580, 584 (5th Cir. 1992) ("[T]he causal language of section 1964(c) requires that the compensable injury stem from the violation of the RICO section in question, so any injury under section 1962(a) must flow from the use or investment of racketeering income."); *Danielsen v. Burnside-Ott Aviation Training Ctr., Inc.*, 941 F.2d 1220, 1229 (D.C. Cir. 1991) ("[A] plaintiff . . . must plead and prove that his injury flowed from the defendant's use or investment of racketeering income."); *Falise v. Am. Tobacco Co.*, 94 F. Supp. 2d 316, 349 (E.D.N.Y. 2000) (reinvestment of racketeering proceeds into same enterprise is insufficient to satisfy "use or investment" requirement of section 1962(a)). But see *Sadighi v. Daghighfekr*, 36 F. Supp. 2d 279, 289 n.9 (D. S.C. 1999) ("[P]laintiffs have standing to allege a 1962(a) claim when their injuries were proximately caused by either the underlying predicate acts or the investment and use of the income derived from the predicate acts.") (citing *Busby v. Crown Supply, Inc.*, 896 F.2d 833, 837–40 (4th Cir. 1990)).

2610. *Hatch et al.*, *supra* note 2516, at 141–42.

2611. In claims under section 1962(b), see, e.g., *Danielsen*, 941 F.2d at 1229–30; *Kehr Packages, Inc. v. Fidelcor, Inc.*, 926 F.2d 1406, 1411 (3d Cir. 1991); *Airlines Reporting Corp v. Barry*, 666 F. Supp. 1311, 1315 (D. Minn. 1987). In *Beck v. Prupis*, 529 U.S. 494, 506 n.9 (2000), the Court noted "[a]lthough we express no view on this issue, arguably a plaintiff suing for a violation of 1962(d) based on an agreement to violate 1962(a) is required to allege injury from the 'use or invest[ment]' of illicit proceeds."

2612. *Sedima, S.P.R.L. v. Imrex Co.*, 473 U.S. 479, 495–96 (1985).

2613. See, e.g., *Holmes v. Sec. Investor Prot. Corp.*, 503 U.S. 258, 275–76 (1992) (court declined to address issue); *Ford Motor Co. v. Summit Motor Prods., Inc.*, 930 F.2d 277, 286 (3d Cir. 1991) ("[T]he standing inquiry in any civil RICO case depends solely on demonstrating injury to business or property, and not on satisfying any standing requirement attached to the predicate act."); see also *Gregory P. Joseph, Civil RICO, A Definitive Guide* 40–43 (2d ed. 2000).

set forth in section 1961(1).²⁶¹⁴ Although some courts had held that a RICO conspiracy claim may be stated where a plaintiff is injured by any actions that further a RICO conspiracy,²⁶¹⁵ those circuits following the majority rule precluded a plaintiff from maintaining a section 1962(d) conspiracy claim where the overt acts causing the injury do not constitute racketeering activity.²⁶¹⁶ The decision in *Beck v. Prupis* clarified that “consistency with the common law requires that a RICO conspiracy plaintiff allege injury from an act that is analogous to an ‘ac[t] of a tortious character’”²⁶¹⁷

- *Is the case barred by the statute of limitations?* Three Supreme Court decisions are relevant in this context. In *Agency Holding Corp. v. Malley-Duff & Assocs., Inc.*,²⁶¹⁸ the Court held that a private civil RICO action was subject to a four-year statute of limitations period, drawing largely on the limitations period governing the Clayton Act,²⁶¹⁹ upon which RICO’s civil enforcement provisions were modeled.²⁶²⁰ The Court did not say, however, when a civil RICO claim would accrue. The circuits split on the issue, adopting three distinct rules: (1) the injury and pattern discovery rule;²⁶²¹ (2) the injury discovery rule;²⁶²² and (3) the “last predicate act” rule.²⁶²³ In *Klehr v. A.O. Smith Corp.*,²⁶²⁴ the Court

2614. 529 U.S. 494 (2000).

2615. *Schiffels v. Kemper Fin. Servs., Inc.*, 978 F.2d 344, 348–51 (7th Cir. 1992); *Shearin v. E.F. Hutton Group Inc.*, 885 F.2d 1162, 1169 (3d Cir. 1989) (abrogated by *Beck v. Prupis*, 529 U.S. 494 (2000)).

2616. *See, e.g.*, *Beck v. Prupis*, 162 F.3d 1090, 1098–99 (11th Cir. 1998); *Miranda v. Ponce Fed. Bank*, 948 F.2d 41, 48 (1st Cir. 1991); *Reddy v. Litton Indus., Inc.*, 912 F.2d 291, 294–95 (9th Cir. 1990), *cert. denied*, 502 U.S. 921 (1991).

2617. 529 U.S. 494, 505 (2000).

2618. 483 U.S. 143 (1987).

2619. 15 U.S.C. § 15 (2000).

2620. *Agency Holding*, 483 U.S. at 150. “Even a cursory comparison of the two statutes reveals that the civil action provision of RICO was patterned after the Clayton Act.” *Id.* The Court noted that criminal prosecutions would be subject to a five-year limitations period “only because Congress has provided such a criminal limitations period when no other period is specified.” *Id.* at 151–52.

2621. *See, e.g.*, *Annulli v. Panikkar*, 200 F.3d 189, 192 (3d Cir. 1998) (adopting injury and pattern discovery rule after *Klehr v. A.O. Smith Corp.*, 521 U.S. 179 (1997)).

2622. *See, e.g.*, *Grimmet v. Brown*, 75 F.3d 506, 512 (9th Cir. 1996); *McCool v. Strata Oil Co.*, 972 F.2d 1452, 1464 (7th Cir. 1992); *Rodriguez v. Banco Central*, 917 F.2d 664, 666 (1st Cir. 1990); *see also Joseph, supra* note 2613, at 175–76 for discussion and cases cited therein.

2623. *See Keystone Ins. Co. v. Houghton*, 863 F.2d 1125 (3d Cir. 1988) (claim accrued when plaintiff knew each element of RICO claim existed, and period began anew with each new injury and new predicate act that were part of the same pattern) (abrogated by *Klehr v. A.O. Smith Corp.*, 521 U.S. 179 (1997)).

rejected the last predicate act rule to determine when the statute was triggered, but did not resolve what accrual rule *did* apply to RICO claims.²⁶²⁵ *Rotella v. Wood*²⁶²⁶ eliminated the “injury and pattern discovery” rule (whereby “a civil RICO claim accrues only when the claimant discovers, or should discover, both an injury and a pattern of RICO activity”²⁶²⁷). The rejection of the “injury and pattern discovery” rule left intact the rule preferred by the majority of the circuits, under which the limitations period begins to run once the plaintiff knew or should have known of the injury.²⁶²⁸ The Court warned, however, that its decision should not be read as establishing a final rule.²⁶²⁹

- *Are there any pending parallel state or federal civil actions involving the same parties and issues that would warrant consolidation, a stay of proceedings, or abstention?* The “pattern” pleaded in a RICO complaint can involve activities in several states, and related RICO actions may have been filed in other jurisdictions.²⁶³⁰ The court is advised to require the parties to identify and report the status of any related civil

2624. 521 U.S. 179 (1997).

2625. *Id.* at 186–88 (under the “last predicate act” rule, a plaintiff would be able to recover for both the injury caused by the last predicate act and all the injuries caused by all of the racketeering activity, even where that activity fell outside the limitations period; the Supreme Court found that the last predicate act rule was inconsistent with the Clayton Act rule, whereby the statute begins to run when the defendant commits the injurious act).

2626. 528 U.S. 549 (2000).

2627. *Id.* at 553.

2628. *See, e.g.,* *Love v. Nat’l Med. Enters.*, 230 F.3d 765, 774 (5th Cir. 2000) (adopting “separate accrual” rule where separate cause of action accrues at the time of each injury); *The Lares Group, II v. Tobin*, 221 F.3d 41, 44 (1st Cir. 2000) (adopting injury discovery rule and holding cause of action accrued at the time of discovery of each violation of section 1962); *Forbes v. Eagleson*, 228 F.3d 471, 484 (3d Cir. 2000) (adopting injury discovery rule over injury occurrence rule following *Rotella*); *Poling v. K. Hovnanian Enters.*, 99 F. Supp. 2d 502, 511 (D.N.J. 2000) (cause of action does not accrue until all elements of RICO claim exist).

2629. *Rotella*, 528 U.S. at 554 n.2 (“In addition to the possibilities entertained in the Courts of Appeals, Justice Scalia has espoused an ‘injury occurrence’ rule, under which discovery would be irrelevant . . . and our decision in *Klehr* leaves open the possibility of a straight injury occurrence rule.”). *But see Forbes*, 228 F.3d at 484 (declining to adopt “injury occurrence” rule in favor of “injury discovery” rule).

2630. *See, e.g.,* *DeMauro v. DeMauro*, 115 F.3d 94, 95 (1st Cir. 1997) (RICO claim involved property that was subject of pending divorce); *Metro Riverboat Assocs., Inc. v. Bally’s La., Inc.*, 142 F. Supp. 2d 765, 766–67 (E.D. La. 2001) (state court and administrative proceeding also pending relating to gaming license dispute); *see also Slaney v. Int’l Amateur Athletic Fed’n*, 244 F.3d 580, 591–92 (7th Cir. 2000) (dismissal of RICO claims against one defendant appropriate where plaintiff participated in valid arbitration, which decision would be enforced under the New York Convention).

proceedings in state courts or other districts. In some instances, consolidation of these cases may be appropriate.²⁶³¹ In others, abstention or a stay of proceedings pending resolution of the related litigation may be warranted.²⁶³² In *Colorado River Water Conservation District v. United States*,²⁶³³ the Supreme Court held that federal courts may stay proceedings in extraordinary circumstances in deference to duplicative parallel state actions. The Court set out several factors for determining whether abstention was appropriate, including (1) inconvenience of the federal forum; (2) avoiding piecemeal litigation; and (3) the order in which jurisdiction was obtained by the federal and state courts.²⁶³⁴ Courts have considered additional criteria, such as whether the federal plaintiff's rights will be sufficiently protected by the state action and which court first assumed jurisdiction over relevant property.²⁶³⁵ The *Colorado River Water* Court emphasized, however, that abstention "is an extraordinary and narrow exception to the duty of a District Court to adjudicate a controversy properly before it."²⁶³⁶ Other abstention doctrines may also come into play.²⁶³⁷ For example, efficiency and

2631. See generally *supra* section 20.

2632. See, e.g., *Humana, Inc. v. Forsyth*, 525 U.S. 299, 307–08 (1999) (McCarran-Ferguson Act did not block suit under RICO by HMO beneficiaries, and RICO's application to beneficiaries' claims would not "invalidate, impair, or supersede" state regulation of insurance). See also Rakoff & Goldstein, *supra* note 2527, § 11.03[3] at 11-13 to 11-17.

2633. 424 U.S. 800 (1976).

2634. *Id.* at 818

2635. See *Rycoline Prod. Inc. v. C & W Unlimited*, 109 F.3d 883, 890 (3d Cir. 1997) ("The factors the court must consider are: which court first assumed jurisdiction over a relevant res, if any; whether the federal court is inconvenient; whether abstention would aid in avoiding piecemeal litigation; which court first obtained jurisdiction; whether federal or state law applies; and whether the state action is sufficient to protect the federal plaintiff's rights.>").

2636. *Colorado River Water*, 424 U.S. at 813 (citing *County of Allegheny v. Frank Mashuda Co.*, 360 U.S. 185, 188–89 (1959)). Other circumstances where abstention may be appropriate include where federal court intervention would have "an impermissibly disruptive effect on state policies." *Metro Riverboat Assocs.*, 142 F. Supp. 2d at 767. In addition, the constitutional issues involved might be "presented in a different posture by a state court determination of pertinent state law" or a "difficult question of state law bearing on policy problems of substantial public import whose importance transcends the result in the case then at bar." *Colorado River Water*, 424 U.S. at 814; see also *New Orleans Pub. Serv., Inc. v. Council of City of New Orleans*, 491 U.S. 350, 361 (1989); *In re Managed Care Litig.*, 135 F. Supp. 2d 1253, 1260 (S.D. Fla. 2001) ("Burford abstention, also known as the 'primary jurisdiction doctrine' is of dubious applicability where the claim is brought under federal law and the remedy would be left to a state agency.>").

2637. See, e.g., *Burford v. Sun Oil Co.*, 319 U.S. 315, 331–32 (1943); *Quackenbush v. Allstate Ins. Co.*, 517 U.S. 706, 727 (1996) (Burford abstention looks at whether plaintiff's claim

fairness considerations may warrant entry of a stay “pursuant to [the court’s] power to control its docket and to provide for a just determination of the cases pending before it.”²⁶³⁸ In such cases the courts balance the benefits that might accrue from a stay, such as simplification and narrowing of the issues, against the possible burdens or hardships that would be suffered by the parties if the stay were granted.²⁶³⁹

- *Was the case removed from state court pursuant to 28 U.S.C. § 1441, and is remand appropriate?* Section 1441(c) affords the court discretion to remand cases “in which state law predominates.” Recent cases have interpreted section 1441(c) as permitting remand only where the state law claims are separate and independent of the federal claim, and then the court may remand only the state law claims.²⁶⁴⁰
- *Should the court exercise supplemental jurisdiction over state law claims?* Section 1367(a) of Title 28 of the U.S. Code gives federal courts exercising original jurisdiction over federal claims supplemental jurisdiction over claims “that are so related to the claims in the [federal] action that they form part of the same case or controversy” The court can decline to exercise supplemental jurisdiction over state law claims under certain circumstances.²⁶⁴¹
- *Are there any pending criminal proceedings against one or more of the parties?* Criminal racketeering activity is an element of civil RICO liability, and civil RICO defendants often will be, or have been, the subject of criminal investigation or prosecution. The court should determine the existence and status of any related criminal proceedings,

may be “in any way entangled in a skein of state law that must be untangled before the federal case can proceed” (citing *New Orleans Pub. Serv.*, 491 U.S. at 361)).

2638. *Leyva v. Certified Grocers of Cal., Ltd.*, 593 F.2d 857, 864 (9th Cir.), *cert. denied*, 444 U.S. 827 (1979).

2639. *Morris v. Am. Fed. of State, County and Mun. Employees*, No. 99 CIV. 5125, 2001 WL 123886, at *2 (discussing five factors to be considered by courts in deciding whether to grant stay); *Cohen v. Carreo*, 94 F. Supp. 2d 1112, 1118–19 (D. Or. 2000) (where claims in related cases were similar, where plaintiff would suffer little harm if stay was granted and defendant would be overly burdened if the case proceeded, and where stay would assist in narrowing issues, stay should be granted).

2640. *See, e.g.*, *Mincy v. Staff Leasing, L.P.*, 100 F. Supp. 2d 1050, 1056 (D. Ariz. 2000); *Doll v. United States W. Communications, Inc.*, 85 F. Supp. 2d 1038, 1042 (D. Colo. 2000); *Friedman v. Bd. of Educ. Niles Township High Sch. Dist. 219*, No. 97 C 9001, 1998 WL 102698, at *3 (N.D. Ill. Feb. 27, 1998).

2641. *See, e.g.*, *Friedman*, 1998 WL 102698, at *3 (declining to exercise supplemental jurisdiction where state law claims would require determination of novel issues of Illinois constitution).

as they may affect pretrial and trial planning. Where criminal and civil RICO cases are proceeding concurrently, the criminal charges ordinarily should be tried first. Although in some instances a stay of the civil litigation may be appropriate,²⁶⁴² in other cases major portions of discovery and other pretrial activity can proceed without prejudice to the criminal case.²⁶⁴³ The judge should always consider the ongoing criminal proceedings in managing the civil litigation.²⁶⁴⁴

- *Are there any existing agreements to arbitrate that would preclude the case from proceeding in federal court?* Inquire into whether any arbitration agreement may govern the dispute, which would warrant referral of the case to arbitration. The Federal Arbitration Act²⁶⁴⁵ provides that arbitration agreements “shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.”²⁶⁴⁶ The court can issue an order compelling arbitration where there has been a failure or refusal to comply with an arbitration agreement.²⁶⁴⁷ The Act provides for a stay of proceedings in the district court where it determines that the case is subject to arbitration.²⁶⁴⁸ In *Shearson/American Express, Inc. v. McMahon*,²⁶⁴⁹ the Supreme Court held that nothing in the text of RICO or the statute’s legislative history “even arguably evinces congressional intent to ex-

2642. *Morris*, 2001 WL 123886, at *2 (staying action on motion of district attorney pending disposition of criminal indictment). “Denying a stay motion may undermine a defendant’s Fifth Amendment privilege against self-incrimination[,] . . . expand the rights of criminal discovery beyond its limits, and expose the basis of the defense to the prosecution in advance of trial.” *Id.*

2643. *See supra* section 20.2. It may be appropriate in such instances to consider whether a protective order is warranted, protecting civil discovery from government prosecutors. *See Rakoff & Goldstein, supra* note 2527, § 8.03[2], at 8-8 to 8-9 (“However, there is no automatic protection from government prosecutors for testimony sealed pursuant to a civil lawsuit.”).

2644. *Madanes v. Madanes*, 199 F.R.D. 135, 140 (S.D.N.Y. 2001) (privilege against self-incrimination warranted protective order “to place tight restrictions on the dissemination of potentially incriminating information produced in discovery”).

2645. 9 U.S.C. § 1 (2000).

2646. *Id.* § 2.

2647. *Id.* § 4. “The Arbitration Act thus establishes a ‘federal policy favoring arbitration,’ . . . requiring that ‘we rigorously enforce agreements to arbitrate.’” *Shearson/Am. Express, Inc. v. McMahon*, 482 U.S. 220, 226 (1987) (citations omitted).

2648. 9 U.S.C. § 3 (2000). Although the district court will still have jurisdiction over the claim, the scope of review of an arbitrator’s award may be very narrow. Arbitration clauses covering other claims, but excluding claims pursuant to RICO, may nonetheless also be subject to a stay. *See, e.g., Rakoff & Goldstein, supra* note 2527, § 8.03[1], at 8-5 to 8-7 and cases cited therein.

2649. 482 U.S. 220 (1987).

clude civil RICO claims from the dictates of the Arbitration Act,²⁶⁵⁰ and the Court rejected any claim of irreconcilable conflict between arbitration and RICO's underlying purposes, which might have permitted overriding the provisions of the Arbitration Act.²⁶⁵¹ An "overlap" between the civil and criminal provisions does not preclude civil claims from being arbitrated.²⁶⁵²

- *Has the plaintiff adequately alleged proximate cause?* Frequently considered in tandem with the standing analysis, the plaintiff further must plead and prove that the injury suffered is direct, as opposed to derivative.²⁶⁵³ Section 1964(c) requires that the injury to the plaintiff's business or property be "by reason of" the defendant's conduct, which requires that the plaintiff show the injuries were proximately caused by the misconduct of the defendant.²⁶⁵⁴ In *Holmes v. Securities Investor Protection Corp.*, the Court found that the primary focus in assessing proximate cause was the directness of the relationship between the plaintiff's injury and the conduct alleged.²⁶⁵⁵ The circuits have imposed

2650. *Id.* at 238.

2651. *Id.* at 239–42.

2652. Citing its decision in *Sedima, S.P.R.L. v. Imrex Co.*, wherein the Court had held that simply because the same conduct "can result in both criminal liability and treble damages does not mean that there is not a bona fide civil action." *McMahon*, 482 U.S. at 239–40. The Court also rejected arguments that the RICO statute was too complex or that public interest in RICO enforcement precluded arbitration. *Id.*; see also *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20, 26 (1991) (noting that arbitration agreements were enforceable claims under RICO).

2653. See, e.g., *Amsterdam Tobacco, Inc. v. Philip Morris, Inc.*, 107 F. Supp. 2d 210, 219 (S.D.N.Y. 2000) (there is no standing for indirectly injured parties and here plaintiff's injuries were "secondary to the alleged primary purpose of tax avoidance"). Factors considered include whether the RICO offense targeted the plaintiff, whether there existed any intervening causes, whether the harm was a direct result of the racketeering activity, and whether the consequences were foreseeable and specifically intended. *In re Am. Express Co. S'holder Litig.*, 39 F.3d 395, 399–400 (2d Cir. 1994).

2654. *Holmes v. Sec. Investor Prot. Corp.*, 503 U.S. 258, 268–69 (1992); see also *BCCI Holdings, S.A. v. Khalil*, 214 F.3d 168, 174 (D.C. Cir. 2000); *Laborers Local 17 Health and Benefit Fund v. Philip Morris, Inc.*, 191 F.3d 229, 235 (2d Cir. 1999) (examining principles behind proximate cause); *Steamfitters Local Union No. 420 Welfare Fund v. Philip Morris, Inc.*, 171 F.3d 912, 920–21 (3d Cir. 1999). The Court reasoned that the "by reason of" language in RICO should be given the same construction applied by the Court in previously interpreting identical language in the Clayton Act, and that Congress had intended this construction in using the phrase in RICO. *Holmes*, 503 U.S. at 267–68.

2655. *Holmes*, 503 U.S. at 269.

varying requirements on plaintiffs' efforts to meet the proximate cause element.²⁶⁵⁶

- *Are the plaintiff's claims subject to issue or claim preclusion?* If related cases have been concluded, the trial judge must consider potential claim and issue preclusion. RICO provides that a final judgment in favor of the United States in a criminal proceeding estops the defendant from denying the essential allegations of the criminal offense in any civil proceeding brought by the United States.²⁶⁵⁷ Although the statute is silent on the use of such convictions in cases brought by private parties, courts have applied claim and issue preclusion in civil RICO litigation.²⁶⁵⁸ Preclusion may arise from prior civil litigation in federal or state court,²⁶⁵⁹ as well as prior administrative proceedings²⁶⁶⁰ or arbitration awards.²⁶⁶¹ Considerations common to RICO cases, however, may bar application of these doctrines in some cases, including differing burdens of proof,²⁶⁶² an inability to litigate the issue in the prior

2656. *See, e.g.,* *Tex. Carpenters Health Benefit Fund v. Philip Morris, Inc.*, 199 F.3d 788, 789 (5th Cir. 2000) (injuries asserted by health maintenance organizations and insurance plans too attenuated to satisfy proximate cause requirement); *Newton v. Tyson Foods, Inc.*, 207 F.3d 444, 447 (8th Cir. 2000) (injuries alleged by cattle producers too attenuated to confer standing where there were "many intermediaries and many potential causes of the reduced demand for beef in the chain of causation"); *Moore v. PaineWebber, Inc.*, 189 F.3d 165, 169–70 (2d Cir. 1999) (where predicate acts based on fraud, plaintiff must prove transaction and loss causation); *Camelio v. Am. Fed'n*, 137 F.3d 666, 670 (1st Cir. 1998) (although plaintiff who was terminated from employment alleged defendant committed predicate acts, the connection between plaintiff's injury and the predicate offenses was too far removed from plaintiff's loss of employment); *Bieter Co. v. Blomquist*, 987 F.2d 1319, 1326 (8th Cir. 1993) (proximate cause requirement should not be interpreted as "too narrow").

2657. 18 U.S.C. § 1964(d) (West 2003).

2658. *See, e.g.,* *Appley v. West*, 832 F.2d 1021, 1025–26 (7th Cir. 1987); *Anderson v. Jonovich*, 543 F. Supp. 1124, 1132 (W.D. Wa. 1982).

2659. *See, e.g.,* *Saud v. Bank of N.Y.*, 929 F.2d 916, 919 (2d Cir. 1991); *Polur v. Raffe*, 912 F.2d 52, 56–57 (2d Cir. 1990); *Evans v. Dale*, 896 F.2d 975, 977–78 (5th Cir. 1990).

2660. *See* *Fry v. Gen. Motors Corp.*, 728 F. Supp. 455, 459–60 (E.D. Mich. 1989).

2661. *See, e.g.,* *Cent. Transp., Inc. v. Four Phase Sys., Inc.*, 936 F.2d 256, 260 (6th Cir. 1991); *Benjamin v. Traffic Executive Ass'n E.R.R.*, 869 F.2d 107, 110–11 (2d Cir. 1989); *Rudell v. Comprehensive Acct. Corp.*, 802 F.2d 926, 931–32 (7th Cir. 1986). Some courts, however, have held that prior adjudications in bankruptcy court will not bar subsequent civil RICO actions based on claims which could have been raised in bankruptcy. *Barnett v. Stern*, 909 F.2d 973, 978–82 (7th Cir. 1990); *Howell Hydrocarbons, Inc. v. Adams*, 897 F.2d 183, 188–89 (5th Cir. 1990).

2662. *See, e.g.,* *Wilcox v. First Interstate Bank*, 815 F.2d 522, 531 (9th Cir. 1987).

proceeding,²⁶⁶³ and lack of knowledge regarding the facts required to allege a RICO violation.²⁶⁶⁴

- *Are there any other miscellaneous defenses that may warrant dismissal?* In addition to theories of abstention, and although not frequently raised, dismissal may be appropriate under doctrines of primary jurisdiction,²⁶⁶⁵ act of state,²⁶⁶⁶ or exclusive jurisdiction in the bankruptcy court.²⁶⁶⁷
- *Is the plaintiff seeking equitable relief?* The failure to allege an injury compensable under RICO may subject the claim to early dismissal. It is unclear whether equitable relief is available to private litigants under civil RICO.²⁶⁶⁸ Although many courts have held that a private civil plaintiff is not entitled to injunctive relief, the right to seek other equitable remedies is less clear.²⁶⁶⁹

The pleadings play an important role in other ways as well. Where the underlying predicate offenses sound in fraud, Federal Rule of Civil Procedure 9(b)'s strict pleading requirements may result in extensive motion practice directed at dismissing all or parts of the complaint. Motions pursuant to Rule 12 are all but certain. The outcome of these motions can affect the scope of the litigation by obviating discovery and other proceedings related to dismissed

2663. See, e.g., *George v. United Ky. Bank, Inc.*, 753 F.2d 50, 53 (6th Cir. 1985).

2664. See, e.g., *Norris v. Wirtz*, 703 F. Supp. 1322, 1327 (N.D. Ill. 1989).

2665. See, e.g., *H.J., Inc. v. N.W. Bell Tel. Co.*, 734 F. Supp. 879, 882 (D. Minn. 1990) (finding agency had primary jurisdiction over reasonableness of rates, and holding it would undermine congressional scheme of uniform rate regulation if plaintiff could obtain damages based on a rate never found to be reasonable by agency), *aff'd*, 954 F.2d 485 (8th Cir.), *cert. denied*, 504 U.S. 957 (1992).

2666. *W.S. Kirkpatrick & Co. v. Envtl. Tectonics Corp., Int'l*, 493 U.S. 400 (1990).

2667. *Walls v. Wells Fargo Bank*, 255 B.R. 38, 46–47 (E.D. Cal. 2000) (dismissing plaintiff's RICO claims on basis that they were premised only on alleged violation of automatic stay provisions of Bankruptcy Code, which provides exclusive remedy for such violations); *Mendoza v. Zirkle Fruit Co.*, No. CS-00-3024, 2000 WL 33225470, at *10 (E.D. Wash. Sept. 27, 2000) (noting Immigration Reform and Control Act did not preempt claims under RICO).

2668. See, e.g., *Price v. Pinnacle Brands, Inc.*, 138 F.3d 602, 605 (5th Cir. 1998) (stating “[t]here is some question whether RICO affords private litigants the option of equitable remedies”); *Bennett v. Berg*, 685 F.2d 1053, 1064 (8th Cir. 1982) (noting injunctive relief might be available as a remedy), *aff'd in part, rev'd in part in reh'g en banc*, 710 F.2d 1361 (1983).

2669. *Johnson v. Collins Ent. Co.*, 199 F.3d 710, 726 (4th Cir. 1999) (“[T]here is substantial doubt whether RICO grants private parties . . . a cause of action for equitable relief.” (quoting *Dan River, Inc. v. Icahn*, 701 F.2d 278, 290 (4th Cir. 1983))). Compare *In re Fredeman Litig.*, 843 F.2d 821, 828 (5th Cir. 1988), and *Religious Tech. Ctr. v. Wollersheim*, 796 F.2d 1076, 1082–83 (9th Cir. 1986), with *Aetna Cas. & Sur. Co. v. Liebowitz*, 570 F. Supp. 908, 910 (E.D.N.Y. 1983), *aff'd on other grounds*, 730 F.2d 905 (2d Cir. 1984).

claims and possibly by removing the jurisdictional predicate for supplemental state law claims, allowing for their dismissal as well.²⁶⁷⁰ Consider procedures to test the sufficiency of the pleadings early on, before significant litigation activity commences. As in most complex litigation, early institution of an initial case-management order will help to organize the case, provide a preliminary identification of legal and factual issues, and educate the court as to the issues likely to increase the complexity of the litigation. Helpful strategies may include the following:

- Review the complaint upon assignment of the litigation to determine the existence of any jurisdictional or other defects apparent on its face.
- Require the plaintiff to file a RICO case statement, amplifying and clarifying the allegations in the complaint prior to receipt of responsive motions or pleadings. This case statement can require the plaintiff to detail the factual basis for each allegation with specificity, as well as the legal basis supporting the plaintiff's theory on various elements of the RICO claim.²⁶⁷¹
- Require each side to develop an agreed-on statement of the factual and legal issues in dispute, including damages claimed by the plaintiff and defenses to liability being asserted.
- Require the defendant to advise the court and the opposing party of its intention to file a motion under Federal Rules of Civil Procedure 9(b) and 12, and whether the asserted defects can be cured through amendment of the complaint.
- Establish a firm schedule for the filing and hearing of responsive pleadings, including motions under Rules 9(b), 12, and 56.
- Stay formal discovery pending resolution of motions challenging jurisdiction and deficiencies in the complaint.

Where the complaint alleges additional claims not subject to a Rule 12 motion, consider whether discovery should proceed on those claims, pending resolution of any motions seeking dismissal of the RICO claims. The court may also assess whether such an approach would require duplicative discovery or impose additional costs on the parties should the RICO claims survive.

2670. See 28 U.S.C. § 1367 (West 2003); see also *Parker & Parsley Petroleum Co. v. Dresser Indus.*, 972 F.2d 580, 584–90 (5th Cir. 1992); *Spiegel v. Cont'l Ill. Nat'l Bank*, 790 F.2d 638, 649–50 (7th Cir. 1986).

2671. See *Darocha v. Crusader Sav. Bank*, No. CIV.A. 94-7264 1995 WL 118208, at *3 (E.D. Pa. May 10, 1995) (dismissing RICO counts and requiring plaintiff to file RICO case statement with any amended complaint). For an example of a RICO case statement used by the Northern District of Illinois, see *Bryant v. Yellow Freight Sys., Inc.*, 989 F. Supp. 966, app. 5 (N.D. Ill. 1997).

35.33 Discovery

The RICO case statement can help weed out transactions and allegations that are tangential or unrelated to alleged racketeering activity and can thereby reduce the scope of discovery. The court should remind the parties of limits on discovery found in the Federal Rules and require them to fully support any requests for additional discovery beyond that permitted by the rules. Consider also whether there is a need for limitations on the scope of discovery. Discovery issues may arise where related criminal proceedings are ongoing, triggering the defendant's Fifth Amendment privilege against self-incrimination and disputes regarding the discoverability of grand jury material. Unduly curtailing a plaintiff's discovery into alleged wrongdoing should be avoided. Ordinarily, discovery into unrelated alleged criminal acts is disallowed,²⁶⁷² but discovery that relates to other alleged victims of the same pattern of racketeering activity or to acts within the exclusive knowledge of the defendant may be warranted.²⁶⁷³

The specific elements necessary to prove a RICO violation can also pose special problems in discovery. For example, the "pattern" requirement often will involve discovery into a RICO defendant's conduct and practices over an extended period of time and with respect to numerous transactions. Similarly, a plaintiff seeking to show an association-in-fact enterprise will be seeking information on the relationships between the participants and also their communications, activities, and other contacts in an effort to show the structure and continuity of the enterprise. In some circuits, the plaintiff may be unable to use proof of the racketeering activity to prove also the structure and continuity of the enterprise, substantially increasing the plaintiff's discovery burden. In deciding whether to put any limits on discovery, consider the nature of the allegations and the complexity of the case. To the extent possible, it is best to address potential discovery issues early in the litigation, well before depositions begin, in order to avoid unnecessary conflict and discovery motions.

2672. See, e.g., *Jolley v. Welch*, 904 F.2d 988, 992–93 (5th Cir. 1990); *Olive Can Co. v. Martin*, 906 F.2d 1147, 1152–53 (7th Cir. 1990); *Zerman v. E.F. Hutton & Co.*, 628 F. Supp. 1509, 1512 (S.D.N.Y. 1986).

2673. See, e.g., *Michaels Bldg. Co. v. Ameritrust Co., N.A.*, 848 F.2d 674, 679–81 (6th Cir. 1988); *Halperin v. Berlandi*, 114 F.R.D. 8, 11–13 (D. Mass. 1986). However, the breadth of discovery permitted under Rule 26(b)(1) should be given careful consideration prior to any decision to limit areas of inquiry.

35.34 Motion Practice

The threat of treble damages and attorney fee awards, combined with the potential damage to reputation, usually spur a defendant aggressively to pursue early dismissal of RICO claims. Motions attacking the plaintiff's standing to bring the claim or other jurisdictional defects are common and often combined with motions challenging the sufficiency of the complaint on various grounds.²⁶⁷⁴ In addition to Rule 12 and 9(b) motions, procedural motions often play a significant role. Typical procedural motions include motions (1) to stay discovery pending resolution of non-RICO claims, arbitration, or completion of criminal proceeding; (2) for a protective order; and (3) to sever.²⁶⁷⁵ Also consider asking at the initial pretrial conference whether the defendant plans to file motions challenging jurisdiction and, if so, on what grounds. Depending on the length and complexity of the complaint, it may be more efficient to set a schedule that requires that these motions be filed and decided prior to the filing of motions challenging the sufficiency of the allegations.

It may be impossible to determine the sufficiency of some RICO claims until the parties have concluded discovery. Accordingly, consider scheduling a pretrial conference immediately following the close of discovery to determine what claims and defenses remain viable. One alternative is to require the parties to file statements setting out all claims and defenses together with their factual and legal bases. The judge may encourage the parties to reach stipulations. Moreover, in cases where disagreements remain, but where it appears that material facts may be undisputed or without adequate support, encourage the parties to file summary-judgment motions. Alternatively, the court can exercise its Rule 16 power to dispose summarily of a claim or claims as to which no facts remain in dispute.²⁶⁷⁶ Prior to entry of summary judgment *sua sponte*, however, the parties should be given an opportunity to present arguments as to why judgment should not be entered.²⁶⁷⁷ If the elimination of RICO removes the jurisdictional basis for supplemental state law claims, it is

2674. See, e.g., *Combs v. Baker*, 886 F.2d 673, 674 (4th Cir. 1989) (plaintiffs challenged personal jurisdiction as well as subject-matter jurisdiction, venue, sufficiency of the complaint and failure to join an indispensable party).

2675. *Rakoff & Goldstein*, *supra* note 2527, § 8.03[1]–[3], at 8-5 to 8-9.

2676. Cf. *Diaz v. Schwerman Trucking Co.*, 709 F.2d 1371, 1375 n.6 (11th Cir. 1983); *Holcomb v. Aetna Life Ins. Co.*, 255 F.2d 577, 580 (10th Cir. 1958) (“[T]he court has the power [at the pretrial conference] to compel the parties to agree to all facts concerning which there can be no real issue.”).

2677. See *St. Paul Mercury Ins. Co. v. Williamson*, 224 F.3d 425, 435 (5th Cir. 2000) (“The district court may enter summary judgment *sua sponte* if the parties are provided with reasonable notice and an opportunity to present arguments opposing the judgment.”)

wise for the court to reevaluate whether it will retain jurisdiction over those claims.²⁶⁷⁸ Factors to be considered in determining whether to retain jurisdiction include comity, judicial economy, convenience, and fairness.²⁶⁷⁹

35.35 Trial

RICO trials typically are not conducive to bifurcation. Moreover, some of the technical issues in civil RICO trials may be particularly confusing to lay jurors. Consider whether any or all of the following would assist the jury in understanding some of these complexities:

- allowing joint presentation by the attorneys of a preliminary statement, either during *voir dire* or prior to the opening statements, to explain the general nature of the claims and some of the characteristics and elements of a civil RICO case (e.g., that the case is a civil, not criminal action; that the burden of proof is by a preponderance of the evidence, not beyond a reasonable doubt; and that the use of the term “racketeer” does not mean that the defendant is associated with “organized crime”);
- explaining to the jury that although the plaintiff must prove that the defendant committed the underlying predicate act, proof of the commission of that act does not in itself constitute proof that the defendant violated RICO;
- permitting the parties to make mini-opening statements or summaries of the relevant portions of witnesses’ testimony—for example, capsulizing for the jury that certain witnesses are being called to establish the elements of a particular predicate act; and
- permitting the jurors to take notes.

2678. *Guidry v. Bank of La Place*, 954 F.2d 278, 285 (5th Cir. 1992) (in cases where federal claims have been dismissed and no basis exists for federal jurisdiction, district courts are “to decide whether to retain jurisdiction [over state claims] based on considerations of judicial economy, convenience, fairness and comity”); *Scottsdale Ins. Co. v. Dorman*, 153 F. Supp. 2d 852, 858 (E.D. La. 2001) (declining to retain jurisdiction over state law fraud claim after dismissal of RICO cause of action, because plaintiff would not be unduly prejudiced, matter had not proceeded past pleading stage, plaintiff could refile claim in state court, and activity to date in the case had focused on RICO).

2679. *Camelio v. Am. Fed’n*, 137 F.3d 666, 672 (1st Cir. 1998) (“[T]he balance of competing factors ordinarily will weigh strongly in favor of declining jurisdiction over state law claims where the foundational federal claims have been dismissed at an early stage of the litigation.”).

Special verdicts or a general verdict with interrogatories may help avoid confusion. Consider directing the jurors' attention to the sufficiency of each separate statutory and common-law claim submitted for their decision. Issues may be submitted to the jury for decision sequentially, both to simplify deliberations and to obviate deliberation on issues rendered moot by an earlier verdict. Note that some courts have held that the jury should not be informed of the treble damages provision.²⁶⁸⁰

2680. See *Pollock & Riley, Inc. v. Pearl Brewing Co.*, 498 F.2d 1240, 1242 (5th Cir. 1974) (antitrust).

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