SideBAR

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Opening Statements

Chair's Message

RIchard J. Pocker

Complexity has become the hallmark of federal court litigation in the 21st Century, and this edition of *SideBAR* provides a window on several of the more nuanced and specialized issues and practice niches where "general practitioners" sometimes fear to tread. Conceived, assembled and edited by the ever-impressive Rob Kohn, it continues the section's tradition of bringing interesting, challenging legal issues to the attention of our members. From patent infringement defenses to the analysis of the *Twombly/Iqbal* pleading "revolution" (my histrionic characterization, not theirs), the range of topics is both diverse and topical.

In past editions, your input to and participation in the section's work has been encouraged and solicited, with a special emphasis on your experience with and attitudes towards the procedural and logistical changes that have engulfed federal civil practice in the past decade. I renew that solicitation, as we make a grievous mistake if we (as practitioners) blindly endorse or acquiesce in rule and policy changes devised by others, whether they be legislators, judicial officers or alleged experts. The judicial system exists to serve the people in resolving disputes, and none of the aforementioned groups has any better understanding

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Editor's Notes

Robert E. Kohn

In this issue of *SideBAR*, we cover a wide range of topics: doctor privileges and health care legislation; IP rights and foreign counterfeiting; inequitable conduct as a defense in patent infringement litigation; product liability litigation; and social media. We address the new pleading standard that governs dismissal motions under Rule 12(b)(6), and explore developments in the doctrine of work product protection from discovery. We are fortunate, as always, to receive these insightful articles from all across the United States; federal law and litigation creates a common bond that unites the members of the Federal Litigation Section.

Future editions of *SideBAR* need your contributions. Please let us know if you or a colleague have written about a litigation topic, or even if you see a useful or interesting article that *SideBAR* readers might like to see reprinted here. And, thank you for reading.

About the Editor

Robert E. Kohn litigates business and intellectual property disputes in the Los Angeles area. He also argues appeals in federal and state courts at all levels. A former clerk to the Hon. Joel F. Dubina of the Eleventh Circuit, Kohn attended Duke Law School. He is a member of the District of Columbia and California bars. Kohn co-chairs the committee on Federal Rules of Procedure and Trial Practice.

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Briefing the Cause

Practical Ways to Protect Intellectual Property Rights from Foreign Counterfeiters

Erik M. Pritchard and Bradley D. Liggett

Introduction

It is said that it is not a matter of *if* a popular consumer product will be counterfeited, but only a question of *when*. Faced with such a bleak outlook, intellectual property rights holders and their counsel often find themselves searching for practical ways to protect against knockoffs. This article suggests practical avenues to combat illegal counterfeiting.

Monitor the Market

No one knows how to distinguish the genuine product from a fake better than the product's creator. Therefore, rights holders must take an active role in policing the market to sniff out imitations.

Investigation should start with the most likely channels of distribution of counterfeit goods. These channels will vary according to the type of good sold, but a good place to start would be flea markets and similar places at a local level. At a national level, the Internet is one of most likely places where counterfeit goods are found, especially online auction sites. One auction site, eBay, has streamlined processes whereby registered rights holders can have infringing goods removed from the site. Visit pages.ebay.com/vero to find out how to become a registered rights holder with eBay.

Rights holders also can hire private investigators to monitor the market. Depending upon the scope and volume of sales of the targeted products, the choices range from a traditional "private eye" to full service counter-piracy firms.

Educate the Public

Public outreach should focus on why buying counterfeit goods is not in a consumer's interest. Advertisements should warn consumers about the poor quality, safety and durability of infringing goods. Additionally, rights holders should strive to educate the public on how to distinguish a genuine product from a fake, such as by special holograms or registered serial numbers. Rights holders also should work with distributors to ensure that they do not unwittingly pass on fakes to consumers.

Stop Them at the Border

The first place that foreign counterfeit goods will appear in the United States is at the border. The Customs and Border Patrol (CBP) has the authority to determine whether imported goods infringe upon existing intellectual property rights. Once the CBP determines that goods are counterfeit, the goods are seized and the rights of the owners of the seized goods are forfeited.

At the most basic level, rights holders can report known violations to the CBP's Help Desk by calling (562) 980-3119 ext. 252, or by emailing a complaint to ipr.helpdesk@dhs.gov. However, the CBP encourages rights holders to participate more actively through recordation. Recordation is a process whereby rights holders can record their previously registered trademarks and copyrights with the CBP. Recorded trademarks and copyrights take precedence over those not recorded. Recordation can be completed online at apps.cbp.gov/e-recordations. Additionally, the CBP Help Desk will coordinate with owners of recorded intellectual property rights to develop product identification training materials to assist officers at ports of entry to detect counterfeit goods.

Catch Them by Surprise

When there is a risk that counterfeiters, if discovered, will immediately remove infringing goods from the jurisdiction or destroy them and other evidence of wrongdoing, a rights holder can petition a federal court to have the goods and accompanying records seized without the infringers knowing about it beforehand. *See* 15 U.S.C. § 1116. This procedure is called an *ex parte* seizure order. A court will grant an *ex parte* seizure order only if the applicant demonstrates that

1. any court order other than a seizure order would be inadequate,
2. it has not publicized the requested seizure,
3. it is likely to succeed in a lawsuit for counterfeiting,
4. immediate and irreparable injury will occur without an order,
5. the infringing goods are likely to be in a specified location
6. a weighing of the balance of harms favors the rights holder, and
7. the infringers would destroy, move, hide, or otherwise make evidence inaccessible to the court if they knew about the seizure beforehand.

A significant benefit of an *ex parte* seizure order is that it can be used anywhere goods are found in the United States, whereas the procedures of the Customs and Border Patrol are most effective at the border and at other points of entry into the United States.

Seek Protection from the International Trade Commission

The International Trade Commission (ITC) provides another avenue for stopping goods at the border. Under Section 337 of the Tariff Act of 1930, the ITC has the authority to investigate allegations of infringement of intellectual property rights. If the ITC determines that infringement has occurred, it can issue an exclusion order barring the infringing products from entry into the United States, as well as a cease and desist order directing the violating parties to cease infringing activities. The ITC also can issue temporary exclusion orders and temporary cease and desist orders, pending the outcome of a Section 337 investigation. The ITC accepts complaints about patent infringement, trademark and copyright infringement, whereas the CBP deals only with trademark and copyright infringement.

Threaten Legal Action

A letter from an attorney can intimidate infringers into stopping their activities. However, "cease and desist" letters also alert counterfeiters to the fact that they have been discovered, so some illegal operations may move out of the area or make greater efforts to conceal their activities. Thus, threatening legal action may work best in the case of relatively minor, "good faith" counterfeiting.

Take Them to Court

Litigation is the only avenue through which rights holders can recover damages suffered as a result of infringing activities, such as lost profits. Litigation also allows rights holders to seek a temporary restraining order against infringing activities pending the outcome of a trial, which can be beneficial considering the duration of a typical lawsuit. Favorable rulings from a court will make it much easier to fight future infringement of the same product.

Keeping the litigation in the United States should be a top priority for rights holders. The U.S. has a long history of protecting intellectual property. U.S. laws and courts are generally more favorable to rights holders when compared to those of developing nations or of nations that do not have a robust history of protecting individual rights. Although not inexpensive, pursuing litigation in the U.S. is often less costly than doing so in foreign jurisdictions.

Work with Law Enforcement

As well as civil wrongs, infringement of copyright, trademark and patent rights are crimes. But because rights holders are in the best position to detect potential fakes as they flow into the marketplace, law enforcement officials rely on cooperation from rights holders in order to enforce intellectual property laws.

In addition to the local authorities, there are several ways to report intellectual property crimes to federal authorities. Contact information for local FBI field offices can be found at www.fbi.gov/contact/fo/fo.htm. The Immigration and Customs Enforcement's National IPR Coordination Center Complaint Referral Form can be found at www.ice.gov/partners/cornerstone/ipr/IPRForm.htm. For more general information, see the U.S. Department of Justice's Guide to Reporting Intellectual Property Crime, which can be found at www.usdoj.gov/criminal/cybercrime/AppC-ReportingGuide.pdf. Additional information about government resources to combat counterfeiting can be found at www.stopfakes.gov.

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of what does (and more importantly, does not) need to be fixed within that system than do practitioners and our clients.

As we enter 2010, rest assured that our section continues to move forward and grow. In December 2009, the Hawaii Chapter of the FBA sought our section's involvement in their annual conference. Board member Rob Kohn spearheaded that involvement, with a well-received presentation in Honolulu on recent important trends in federal litigation. It was what I believe will be the first of many such presentations members of our section will be making in coordination with other sections and the association's chapters in the future. Discussions have already commenced with other sections regarding joint CLE programs for late this year and 2011.

In addition, section board members and the ubiquitous *SideBAR* editor Rob Kohn are in the process of gathering content for the upcoming edition of *The Federal Lawyer* magazine devoted to litigation, another worthy effort at raising our profile. The 2010 FBA Annual Meeting and Convention is in New Orleans on Sept. 22-25, where the chair position in our section will be passed to Shelline Bennett, our current vice-chair. Our annual hospitality suite and a section meeting at the convention will be ideal opportunities for us to get together and share our enthusiasm for an occupation that is still, without question, the most invigorating and rewarding activity that requires a necktie and/or high heels. Well, aside from performing in a Rat Pack themed nostalgia show. I look forward to seeing you in New Orleans!

About the Chair

Richard J. Pocker is the administrative partner for the Nevada office of Boies, Schiller & Flexner LLP. A former assistant U.S. attorney and later U.S. attorney for the District of Nevada, he began his legal career in the U.S. Army Judge Advocate General's Corps. Pocker is a graduate of the University of Virginia Law School and is admitted to practice law in Nevada, California, Arizona, and Ohio.

The Legal Risks of Social Media in the Business World

Valerie Brennan, William Flanagan, and Emily Glenndinning

I. The Rise of Social Media in the Business World

More than ever, companies are embracing the use of social media applications such as Facebook, MySpace, LinkedIn, and Twitter. A company's social media profile can allow it to connect with customers through an extension of the social media platform that the customers are using already. Companies can use social media to increase their customers' sense of brand connection and create transparency—or at least a perception of transparency—by answering their questions on a public site and by communicating in real-time to make the provider/customer connection stronger. According to Facebook's Press Room[1], there are more than 300 million active users of Facebook worldwide, and more than 150 million users log onto the site at least once each day. It is the rare business that does not want to take advantage of this new way to interact with such vast numbers of potential customers.

In addition to using social media to promote their products, companies also are using social media to recruit employees and, in some cases, to investigate applicants by looking at what they have posted to social media sites. According to a recent study by Harris Interactive conducted for CareerBuilder.com,[2] about half of U.S. employers are using the internet to verify resume details and responses to interview questions and to flush out inappropriate behavior.

With these advantages, however, come numerous legal issues. In this article, we identify some of those issues and provide some practical tips for avoiding liability.

II. Social Media Litigation and Liability

Although the use of social media only recently has become commonplace, it already has resulted in significant litigation. For example, in September 2009, Facebook agreed to pay $9.5 million to establish a privacy foundation in settlement of claims that its controversial Beacon advertising program violated its users' privacy rights.[3] Facebook also agreed to shut down Beacon, which gathered information about its users' consumer habits from companies such as Blockbuster and included that information—including what the users recently purchased—on the user's Facebook feed. What seemed to be a way for the participating companies to advertise their products through these "trusted referrals" became a publicity nightmare as Facebook users complained that their privacy was violated and that it was too difficult to opt out of the program. As these companies and Facebook learned the hard way, companies must take user privacy seriously or face serious consequences.

In addition, several defamation suits involving the internet have been brought recently, one related to postings on Twitter implying involvement in a suspicious death and another concerning moldy apartments. *See Neiditch v. Acar*, No. 09119783 (N.Y. Sup. Ct. July 28, 2009) (libel suit by administrators of apartment building against apartment residents and former employees who tweeted that administrators were involved in the death of the building's property manager; suit also named Twitter as defendant); *Horizon Group Management LLC v. Bonnen*, No. 09-8675 (Ill. Cir. Ct. July 20, 2009) (apartment management company brought suit against former resident who referred to her apartment as moldy in a tweet to her 20 followers). As these cases show, defamation laws apply to communications through social media just as they do to communications by other means, giving companies protection from defamatory comments posted about them on social media sites.

The social media explosion also has amplified the intellectual property issues companies already face, adding new ways in which intellectual property can be infringed and increasing a company's need for increased monitoring of use of its intellectual property. Each new Facebook page or Twitter account is a new way to reach customers, but each also presents new possibilities for intellectual property infringement. Moreover, not all social media outlets have developed or enforce their intellectual property protection policies. Recently, a trademark owner brought suit against Twitter for direct and contributory trademark infringement for allowing the alleged infringer to register its trademark as its Twitter user name, claiming that the alleged infringer was using the user name to masquerade as the trademark owner. *Oneok Inc. v. Twitter Inc.*, No. 4:09-cv-00597 (N.D. Okl. Sept. 15, 2009). According to the complaint, Twitter failed to reassign the user name when asked. (For undisclosed reasons the trademark owner sought to dismiss Twitter without prejudice the day after the filing.)

III. Practical Tips For Avoiding Social Media Litigation and Liability

Both in-house and outside counsel need to be aware of how social media use can give rise to new forms of legal liability and of how it can inform existing legal considerations. The following are some practical guidelines for using social media in the business world:

1. Properly Remove Offensive Content Posted on the Company's Social Media Profile.

As some companies have learned the hard way, they cannot always control what others might post on their social media profiles. Companies should have appropriate policies in place to remove offensive content on their social media sites without jeopardizing protections available under the Digital Millennium Copyright Act's safe harbor provisions and the Communications Decency Act, both of which regulate how content may be removed from internet sites.

2. Advertise Wisely.

Given that using social media sites can be much less expensive than other forms of advertising, it may be tempting for companies

[1] www.facebook.com/press/info.php?statistics

[2] Cited in *More Employers Use Social Networks to Check Out Applicants*, NYTIMES.COM, Aug. 20, 2009 (bits.blogs.nytimes.com/2009/08/20/more-employers-use-social-networks-to-check-out-applicants).

[3] *Lane et al. v. Facebook Inc. et al.*, No. 08-CV-03845-RS, settlement reached (N.D. Cal., San Jose Div. Sept. 18, 2009). The settlement is awaiting court approval.

to rely heavily on their social media presence. Counsel should consider, however, whether frequent updates on products or sales are desirable to the recipients, weighing downsides, costs, and legal restrictions, such as the Telecommunications Privacy Act, the CAN-SPAM Act, and the Children's Online Privacy Protection Act, all of which regulate internet communications. For example, Timberland reportedly paid $7 million to settle a class action suit claiming that its unsolicited text advertisements violated the Telecommunications Privacy Act. *Weinstein v. Airit2me Inc.*, No. 1:06-cv-00484 (N.D. Ill. Sept. 10, 2008).

Companies also must be aware of the changing landscape of advertising guidelines. Online bloggers sometimes review products or comment on companies; some are compensated for their activities. Blogging and tweeting and offhand remarks made in these seemingly unregulated environments can give rise to claims of improper endorsement if the comments cannot be substantiated or if compensation is not disclosed. The Federal Trade Commission recently has revised its advertising guidelines to address these issues. [4]

3. Review All Social Media Content Before Posting.

Companies must take care that counsel reviews any social media content that might have regulatory implications—such as forward-looking financial statements or communications with competitive ramifications—with the same level of care and consideration used for other forms of communication.

4. Mind Your Company's Intellectual Property.

To combat unlawful infringement of intellectual property, counsel must develop clear policies as to the type of uses the company will object to and those uses it will ignore—such as uses protected by the first amendment, nominative references and parodies—so as to best address uses of true concern. Counsel also must take care to protect intellectual property rights proactively. Just as companies register domain name variants to forestall name-napping, companies must register social media usernames whenever possible. Counsel also should be sure to understand the intellectual property protection policy applicable to each social media application used.

Additionally, companies should take care that they are not inadvertently surrendering ownership over the content of their social media sites simply by using a social media application. For example, Facebook amended its terms in early 2009 to take ownership of all content uploaded by its users; in response to massive protest, Facebook reverted to its original policy shortly thereafter.

5. Implement Effective Policies Regarding Employee Social Media Use.

Companies must realize that many of their employees already are using social media—possibly at work—in ways that might intersect with company interests. Some companies have banned the use of social media in the workplace, some have tried to control its use through workplace policies, and some have co-opted employee use of social media by encouraging their employees to become company representatives on sites such as Facebook and Twitter. Allowing employees to use social media at work or on behalf of the company might have business benefits, but it can create unforeseen risks, particularly if the employee wrongly perceives his behavior as separate from his work identity. Counsel should take care to craft an appropriate social media use policy.

At a minimum, any social media policy must inform employees that references to the company or to its products in social media must be accurate and that the speaker's role in the company must be disclosed. In addition, postings must not reveal confidential information, and they must not contain unprofessional or defamatory statements about the company or its employees. *See e.g. Yoder v. University of Louisville*, No. 09-205 (W.D. Ky. Aug. 3, 2009) (blog posted by nursing student did not violate school confidentiality policy, where it did not identify an obstetric patient by name, but did disclose details of her labor).

Of course, any social media policy also must be careful not to infringe on any employee rights. A policy that is too draconian could prohibit legitimate whistleblowing, an employee's right to participate in union activities, or certain free speech rights.

Given the magnifying effect of social media, companies must be prepared to take action quickly to stop employees from violating the policy by making disparaging comments or disclosing confidential information on social media sites, including by asserting claims for defamation, disclosure of trade secrets, violation of employment or non-disclosure agreements, or other state law business or privacy torts.

6. Use Social Media Carefully to Screen Applicants.

Although it might be tempting to categorically deny employment based on investigations into a job applicant's social media presence, counsel should carefully consider the multiple legal hazards surrounding pre-employment internet screening, such as EEOC Guidance on Pre-Employment Screening, invasion of privacy, state law prohibitions on credit and criminal background checks, federal and state anti-discrimination laws, and state "lifestyle discrimination" laws. Although to date there have been no reported cases that address the use of social media investigations as a basis for making employment decisions, the number of legal issues implicated suggests that it is only a matter of time.

IV. Conclusion

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[4] In October 2009, the Federal Trade Commission published final guidelines "Guides Concerning the Use of Endorsements and Testimonials in Advertising", 16 C.F.R. § 255 (2009), providing that "advertisements that feature a consumer and convey his or her experience with a product or service as typical when that is not the case will be required to clearly disclose the results that consumers can generally expect. In contrast to the 1980 version of the Guides—which allowed advertisers to describe unusual results in a testimonial as long as they included a disclaimer such as "results not typical"—the revised Guides no longer contain this safe harbor." FTC Press Release, "FTC Publishes Final Guides Governing Endorsements, Testimonials" (10/05/2009). The full Guides can be read at: http://www.ftc.gov/os/2009/10/091005endorsementguidesfnnotice.pdf.

Rule 12(b)(6) Motions: Not Just for "Little Green Men" Anymore

By Brian D. Wassom

Only occasionally does a Supreme Court decision (or series of decisions) significantly alter the daily lives of most civil litigation practitioners. The *Anderson v. Liberty Lobby* line of cases in the 1980s, which made summary judgment a more potent weapon, is one such example. The revision of expert witness rules in *Daubert* and *Kumho Tire* is another.

An earthquake of similar magnitude is still reverberating through the world of Rule 12 motions to dismiss. In 2007's *Bell Atlantic Corp. v. Twombly*,[1] the Supreme Court toughened the "notice pleading" requirement of Fed. R. Civ. P. 8, significantly raising the bar that a plaintiff must overcome in order to reach the discovery phase. Unwilling to accept that the Court meant what it said, however, a surprisingly high number of courts and attorneys rationalized that the decision's rationale must have been intended to apply only in *Twombly*'s specific context of anti-trust law.

Not so, said the Court in *Ashcroft v. Iqbal*,[2] decided May 18, 2009. Because "Rule 8 … governs the pleading standard 'in all civil actions and proceedings in the United States district courts,'"[3] *Twombly*'s interpretation of that rule (as further elaborated by *Iqbal*) governs all civil litigation in federal courts. Now, unless certain senators intent on reversing these decisions have their way,[4] jurists and practitioners alike must completely rethink their understanding of what constitutes an acceptable pleading.

What *Twombly* and *Iqbal* Held

In *Twombly*, the Supreme Court rejected the decades-old "no set of facts" standard of *Conley v. Gibson* that had prevailed for the last few decades. It reconceptualized the standard as one of "plausibility." The Sixth Circuit explains that, while this new standard "screens out the 'little green men' cases just as *Conley* did, it is designed to also screen out cases that, while not utterly impossible, are 'implausible.'"[5] "[A] civil complaint [now] only survives a motion to dismiss if it contains sufficient factual matter, accepted as true, to state a claim for relief that is plausible on its face."[6]

"A claim has facial plausibility when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged."[7] The mere *possibility* of liability is insufficient to survive a motion to dismiss. Even when presumed to be true, factual allegations are insufficient when they are "*merely consistent with* a defendant's liability,"[8] or are subject to an "obvious alternative explanation."[9] Well-pled allegations are those that nudge the claim "across the line from conceivable to plausible." *Id.* at 1949. This is "a context-specific [inquiry] that requires [courts] to draw on [their] judicial experience and common sense." *Id.*

"Threadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice."[10] "When there are well-pleaded factual allegations, a court should assume their veracity and then determine whether they plausibly give rise to an entitlement to relief."[11]

These decisions are a backlash against flimsy complaints being used as a gateway to lengthy, costly discovery. "[The plaintiff] is not entitled to discovery [where the complaint alleges any of the elements] 'generally,' [*i.e.*, as] a conclusory allegation [since] Rule 8 does not [allow] pleading the bare elements of [the] cause of action [and] affix[ing] the label 'general allegation' [in hope to develop facts through discovery]."[12]

Practice Tips for Civil Litigators

There are plenty of complaints currently pending that were drafted pre-*Iqbal*, or without an understanding of its requirements. These low-hanging fruit should be subject to easy Rule 12 motions. Even as the new standard sets in, however, Rule 12 motions will still be an increasingly potent weapon for bringing litigation to an early end.

- Chart out each element of each cause of action.[13] Plaintiffs, be sure you have alleged specific facts to support each element. Defendants, be ready to pounce on elements lacking direct factual support.
- Chart out each defendant, and the specific actions that suggest his/her/its liability. Allegations should identify the specific facts that give rise to each defendant's liability. Where liability rests on actions taken by, or statements made by, a party, identify those actions/statements with particularity. *Iqbal* dismissed claims against John Ashcroft and other Department of Justice officials that were based on the alleged existence of a "policy," rather than actions of specific individuals.
- Focus particularly on knowledge/intent elements. Where liability rests on a party's knowledge or intent (including the existence of an agreement), make sure you allege all the facts you can that are not only consistent with that allegation, but which nudge the allegation over the line from conceivable to plausible. *Iqbal* required evidence specifically demonstrating each defendant's discriminatory intent—a daunting task for a plaintiff who has not yet taken discovery. One court lamented that, post-*Iqbal*, "even highly experienced counsel will henceforth find it extremely difficult, if not impossible, to plead a section 1983 political discrimination suit without 'smoking gun' evidence."[14]
- Show *and* tell. *Iqbal* requires factual allegations that "show" entitlement to relief. But also make it clear to the court how those facts support each element. You may even want to go as far as specifically pleading each element in the complaint. There are page limits on your response brief to a Rule 12 motion; there are no page limits on complaints.
- Attach documents to the complaint. These can be considered in a Rule 12 analysis. This is an easy way to incorporate a lot of specific facts.
- Avoid "information and belief" allegations as much as possible. Many—but not all—courts applying *Iqbal* have held that these fail to provide plausible factual support.
- Factual research. Do more research into the facts of the case pre-complaint than you may have in the past. Consider hiring a private investigator if necessary.
- Legal research. Do a "(*Twombly* or *Iqbal*) and __" search on Lexis or Westlaw before filing your complaint, to see how

courts have applied *Twombly/Iqbal* in your specific area of law. Learn from others' mistakes in drafting your pleading. Also, research how your judge has applied the standard, since it gives judges significant discretion to decide what is plausible, and to discuss what may be "obvious alternative explanations."

- Plaintiffs, always ask to amend in the alternative. Almost all post-*Iqbal* dismissals have permitted amendment, especially since the standard is such a departure from prior practice.
- Consider filing in state court. If satisfying *Iqbal* will be a problem, file in state court, where the standard does not (yet) apply.
- Defendants, move to delay Rule 26 initial disclosures. By making initial disclosures, you will give your opponent ammunition to bolster its factual allegations.
- Look for "obvious alternative explanations." If the complaint gives no reason to believe that its explanation of a particular set of facts is more likely than an "obvious alternative explanation," then those facts are not plausible support for the complaint.
- What goes around, comes around. Remember that Rule 8 applies to counterclaims too. They are just as subject to scrutiny as are complaints.
- Consider a Rule 12(c) motion instead of Rule 12(b)(6). This prevents plaintiffs from mooting a motion to dismiss by exercising their automatic right to one free amendment.
- *Pro se* complaints are still construed liberally. The Court's only arguable deviation from this new theme has come in the *pro se* context. In *Erickson v. Pardus*[15]—decided shortly after *Twombly*—the Court found a prisoner's factual allegations in support of his 8th Amendment claim to be sufficient, and reiterated that *pro se* pleadings are to be construed more liberally—although it is not clear that the result in *Erickson* would have been different if the complaint had been drafted by counsel.

This area of civil procedure is still in flux. Federal courts everywhere are still just beginning to flesh out the implications of *Iqbal*, which may not be the Supreme Court's last word on the issue. Now more than ever, litigators who stay abreast of these changes will have the upper hand over less-informed opponents.

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Endnotes

[1]550 U.S. 544.

[2]129 S. Ct. 1937.

[3]*Id.* at 1953 (quoting Fed. R. Civ. P. 1).

[4]Sen. Arlen Specter has already introduced the "Notice Pleading Restoration Act" in an effort to overrule *Twombly* and *Iqbal*.

[5]*Courie v. Alcoa Wheel & Forged Prods.*, __ F.3d __, 2009 WL 2497928, *2 (6th Cir. Aug. 18, 2009)

[6]*Id.* (quotations omitted).

[7]*Iqbal*, 129 S.Ct.. at 1949.

[8]*Id.* (emphasis added).

[9]*Id.* at 1951-52.

[10]*Id.* at 1949-50.

[11]*Id.* at 1950.

[12]*Id.* at 1949-54.

[13]*See Twombly*, 550 US at 562 ("a complaint … must contain either direct or inferential allegations respecting all the material elements necessary to sustain recovery") (quoting approvingly from *Car Carriers, Inc. v. Ford Motor Co.*, 745 F.2d. 1101, 1106) (7th Cir. 1984)).

[14]*Ocasio-Hernandez v. Fortuno-Burset*, 2009 US Dist. Lexis 67714, *22 (D.P.R. Aug. 4, 2009).

[15]551 US 89 (2007).

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To develop an effective social media strategy, counsel must understand the company's goals, how to respond to third-party references to the company in social media, and how to address employees' use of social media.

The development of a comprehensive social media policy also requires the involvement of many stakeholders—including public relations/communications, information technology, customer service, marketing, and human resources. Launching that strategy requires continued involvement of these stakeholders, but those companies that exploit social media successfully will find the rewards can far outweigh the risks.

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Sidebar

Exergen Corp. v. Wal-Mart Stores Inc.: *Heightened Pleading Standard for Inequitable Conduct*

By Rachel Clark Hughey

The Federal Circuit recently articulated the standard for pleading inequitable conduct in *Exergen Corp. v. Wal-Mart Stores, Inc.*, Nos. 06-1491, 07-1180, 2009 U.S. App. LEXIS 17311 (Fed. Cir. Aug. 4, 2009), when it affirmed a district court's decision denying a defendant's motion to add an inequitable conduct defense. While it is well-settled that allegations of fraud—such as inequitable conduct—must be plead with particularity pursuant to Federal Rule of Civil Procedure 9(b), the court's application of that law to the facts of the case demonstrates that a high level of detail is required for pleading inequitable conduct.

I. The District Court Denied SAAT's Motion to Amend

In the *Exergen* case, the plaintiff, Exergen, sued the defendant, SAAT, for infringement of three patents, the '813 patent, the '205 patent, and the '685 patent. SAAT sought to amend its answer to add an inequitable conduct defense against Exergen's '685 patent, which if successful would render the patent unenforceable. In its proposed amended pleading, SAAT articulated three specific instances of alleged inequitable conduct during the prosecution of the '685 patent-in-suit: (1) Exergen's previously filed '808 patent was material and not cumulative and intentionally withheld during prosecution with an intent to deceive; (2) the '998 patent cited in an IDS during the prosecution of the '205 patent was material and not cumulative and intentionally withheld with an intent to deceive; and (3) Exergen's statements to overcome rejections during prosecution were contradicted by specific statements from its own website, and the misrepresentation and omission was material and not cumulative and was made with an intent to deceive. The district court denied SAAT's motion to amend because SAAT failed to plead fraud with particularity pursuant to Federal Rule of Civil Procedure 9(b).

II. The Federal Circuit Demands Sufficient Identification of Who, What, Where, When, Why, and How

On appeal, the Federal Circuit first recognized that allegations of fraud must be stated with particularity pursuant to Rule 9(b) while conditions of mind may be averred generally. The court then explained that to plead the circumstances of inequitable conduct with the requisite particularity, the pleading must identify the "who, what, where, when, and how" of the material misrepresentation or omission. It also asserted that while knowledge and specific intent to deceive may be averred generally, the pleading must "include sufficient allegations of underlying facts from which a court may reasonably infer that a specific individual (1) knew of the withheld material information or of the falsity of the material misrepresentation, and (2) withheld or misrepresented this information with a specific intent to deceive the PTO." Indeed, the court recognized that because one of the purposes of Rule 9(b) is "to protect those whose reputation would be harmed as a result of being subject to fraud charges," a district court may require that such filings be made under seal or require redaction of individuals' names.

Considering the specific facts of the case, the court concluded that SAAT failed to adequately identify the who, what, where, why, and how of the representation and omissions and thus failed to plead inequitable conduct with the required specificity. With respect to "who," the court explained that the pleading referred generally to "Exergen, its agents and/or attorneys," but failed to adequately name the specific individual associated with the filing or prosecution of the application who both knew of the material information and deliberately withheld or misrepresented it. With respect to the "what" and "where," the court explained that the pleading failed to identify which claims, and which limitations in those claims, the withheld references were relevant to, and where in those references the material information was found. With respect to the "why" and "how," the court asserted that the pleading stated generally that the withheld references were "material" and "not cumulative to the information already of record," but did not identify the particular claim limitations, or combination of claim limitations, that were absent from the prior art in the record. The court declared that such allegations are necessary to explain "why" the withheld information is material and not cumulative and "how" an examiner would have used it in assessing the patentability of the claims.

The court also concluded that the facts of the case did not give rise to a reasonable inference of intent to deceive. With respect to the prior art references, the court asserted that the pleading provided no factual basis to infer that any specific individual who owed a duty of disclosure knew of the allegedly material information in the references. The court explained that a reference may be many pages long with teachings relevant to different applications for different reasons, so "one cannot assume that an individual, who generally knew that a reference existed, also knew of the specific material *information* contained in that reference." With respect to the alleged misrepresentation, the court asserted that no facts were alleged from which one could reasonably infer that, at the time of the allegedly false statement, the individual who made the statement to the PTO was aware of an allegedly contradictory statement on Exergen's website. The court concluded "The mere fact that an applicant disclosed a reference during prosecution of one application, but did not disclose it during prosecution of a related application, is insufficient to meet the threshold level of deceptive intent required to support an allegation of inequitable conduct."

III. Meet Rule 9(b)'s Pleading Requirements by Providing Sufficient Detail

While the adequacy of the pleading related to the facts of the case, the *Exergen* court's detailed discussion of the Rule 9(b) plead-

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A Physician's Last Chance

By Michael J. Jordan and John E. Schiller

For those who do not practice health law, we offer some context. Physicians practice at hospitals through a process known as privileging. The privilege to practice at a hospital is not tenure; privileges must be granted by a hospital and are conditioned in certain ways. They are subject to renewal every few years, and can be suspended or revoked "for cause", as defined by a hospital in its by-laws. Hospital by-laws provide a procedure that governs actions on privileges and allow for an internal hospital appeal process.

Under many circumstances, federal law requires the hospital to report a reduction or revocation of a physician's medical staff privileges to the National Practitioner Data Bank (NPDP). The NPDP was created two decades ago, when Congress enacted the Health Care Quality Improvement Act of 1986 (HCQIA). It was intended, inter alia, to ensure that a physician with a bad record could not escape detection by moving from state to state.[1] A report to the NPDB can, for all intents and purposes, end a physician's career, because without hospital privileges, most physicians have substantially reduced earning capacity. The last hope for a physician who faces the loss of privileges is an action in court. In contesting a loss of privileges in state or federal court a physician immediately faces a hospital's claim of protection under HCQIA. This protection comes in the form of a limited review of the hospital's conduct, designed to encourage open and candid self-policing by hospital physicians who serve on peer review committees.

At the risk of oversimplification, for a hospital to enjoy what is the qualified immunity HCQIA affords, it must show that it acted: (1) in the reasonable belief that it was doing so in the furtherance of quality health care; (2) after a reasonable effort to obtain the facts of the matter; (3) after adequate notice and hearing procedures have been afforded the physician involved, or after such other procedures as are fair to the physician under the circumstances; and (4) with a reasonable belief that the action was warranted by the facts known after a reasonable effort to obtain the facts after meeting the requirements of paragraph (3).[2] The predominant view of HCQIA is that the "reasonableness" requirements create an objective standard of performance on the part of a hospital and not a subjective good faith standard.[3] Some have argued that the standard for obtaining qualified immunity is so easily attainable that hospitals could engage in 'sham' peer review.[4]

As practitioners who represent both hospitals and physicians in peer review proceedings, we were skeptical of that viewpoint. We recently encountered a case, however, that highlighted the risks a physician encounters in challenging a peer review decision and shows why a court needs to carefully evaluate whether a hospital has satisfied the HCQIA standards. Our client was (and thankfully remains) a highly sought after specialist who had relocated from another country to practice medicine in the United States as a department head at Hospital A.[5] He soon found himself the subject of several claims of substandard care and came to us when Hospital A had scheduled a hearing on the sole issue of whether the non-renewal of his privileges would be reported to the NPDB. Because he was not a U.S. citizen, Hospital A contended he had no due process rights and could not challenge the revocation of his privileges, only whether such revocation would be reported. As noted above, a report to the NPDB about his loss of privileges would have made it extremely difficult, at the very least, for him to practice medicine in the United States.

The grounds for the non-renewal of his privileges consisted of allegations of substandard medical care involving fourteen patients. Our client was adamant that the care he had provided had been appropriate. He insisted that he was the victim of office politics since he had been selected to serve as department head over a physician who had been in the department many years. In support of his position our client had obtained an independent review of the cases at issue from a highly regarded specialist.

Simply resigning from the medical staff was not an option because a hospital must make a report to the NPDB if a physician resigns while under investigation. Consequently, our only option was to try to force the hospital to give our client a fair hearing on the issue of patient care; a hearing before independent panel members who would understand the medical issues involved. We filed an action in federal court seeking to compel the hospital to conduct a hearing on the issue of revocation. The hospital ultimately voluntarily agreed to do so.[6]

The panel formed by the hospital to hear the case consisted of three physicians who worked at the hospital. None practiced in our client's area of specialty. We challenged the composition of the panel on the day of the hearing based upon language in the bylaws that required that two members of the panel practice in the same specialty as our client. When we threatened to seek a temporary restraining order, the hospital conceded that our position was correct. The hearing was postponed pending the composition of a new panel.

We received notice of a new hearing date that afforded us only six days to prepare. In that notice we were informed that the hearing would address only three alleged cases of substandard care, not the original fourteen that had been used by the hospital to justify the non-renewal of our client's privileges. We will never forget the hearing because we saw what the process is supposed to be all about—justice. The two appointed specialists did not work at Hospital A, but practiced at affiliated hospitals. The third panel member practiced at Hospital A. The two specialists who practiced elsewhere deftly dissected the "allegations" of substandard care brought by the hospital and revealed the charges to be wholly without merit. Although obviously not trial lawyers, they so effectively cross-examined the hospital witnesses that our questioning was unnecessary. Moreover, they raised serious questions about the process that led to the hearing, even asking our client, "[w]hy did they do this to you?"

We timely learned that the panel had fully exonerated our client. Even the panel member from Hospital A voted in his favor. We were elated for two days. Our client then received a letter from the Medical Center Director at Hospital A stating that he had rejected the Report of the Peer Review Committee—an action he was technically allowed to take under the bylaws—and

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The Evolution of Product Liability Litigation

By Lawrence V. Stawiarski

The epidemic of product liability lawsuits in the United States over the last fifteen years has resulted in substantial cost increases for insurance premiums of manufacturers as well as the price of products to the consumer. Perhaps even more alarming is that this phenomenon is actually causing companies to reconsider introducing new products into certain markets and in some cases to exit an industry altogether. Many litigators do not fully understand all of the facets of product liability nor recognize all that is needed on a company wide level once a lawsuit is filed alleging product liability.

Product liability is defined as legal liability of manufacturers and sellers to compensate buyers, users, and even bystanders, for damages or injuries suffered because of a defect in their product. Product liability laws were originally created to protect consumers from injury due to the manufacturing and sale of unreasonably unsafe products. Manufacturers are not insurers that, in every instance, and under all circumstances, no injury will result from the use of their products. The one common requirement in all product liability claims is a finding of a "defect" in the product. A defect in the product can be established through a variety of legal theories that include the following:

- Negligent design of the product;
- Negligent manufacture of the product;
- Negligent failure to warn about some aspect of the product;
- Breach of an express or implied warranty; or
- Misrepresentation or fraud about the product.

Thus, in all product liability actions, a plaintiff must prove the following: (1) the product is defective, (2) the defect caused the injury or damage, and (3) injury or damage was sustained. Responsibility for an alleged product defect that results in an injury lies with all parties who are in the chain of distribution. Potentially liable parties include: the product manufacturer, a manufacturer of component parts, assembler, the wholesaler and the retail store that sold the product to the consumer.

For a product liability action to arise, at some point the product must have been sold in the marketplace. Historically, a contractual relationship, known as privity of contract, had to exist between the person injured by a product and the supplier of product in order for the injured person to recover. In most states today, however, that requirement no longer exists, and the injured person does not have to be the purchaser of the product in order to recover. Any person who foreseeably could have been injured by a defective product can recover for his or her injuries, as long as the product was sold to someone.

Theories of Liability

The majority of product liability laws vary widely from state to state. The claims most commonly associated with product lawsuits are brought under the theories of negligence, strict liability, breach of warranty and various state consumer protection claims.

a. Negligence: Negligence is a breach of an obligation (i.e. duty) to act with care, or the failure to act as a reasonable and prudent person would under similar circumstances. For a negligence claim to exist, the breach of duty must be a direct cause of the injury. The most common negligence claim in a product liability case is negligent design. A design defect is established when it is determined that even though the product was properly manufactured according to its design blueprints and specifications, it nevertheless failed to perform as safely as an ordinary consumer would expect when used in an intended or reasonably foreseeable manner. In other words, although the product was in its intended condition, there is something inherently wrong with that product that results in an injury.

A manufacturing defect, on the other hand, is established by demonstrating a fault in the fabrication or assembly of a product resulting in a departure of the product from its manufacturing specifications. For example: a compound bow manufactured in production is supposed to be exactly the same as all other models of that bow being produced and assembled at the factory. If the cam system is not properly attached and someone is injured while using the bow, then that bow has a manufacturing defect.

There are also circumstances when a defect in a product cannot be eliminated through some alternative design process. In such cases, a manufacturer may have a duty to warn the user of a product's hidden dangers. The courts have held that manufacturers have a duty to warn users of dangers associated with the intended use or reasonably foreseeable misuse or their products, but that the scope of the duty is not unlimited. Remember that the mere inclusion of instructions and warnings specifying proper usage is insufficient if a known hazard can be either designed out or guarded against. A duty to warn after the date of manufacture is only imposed if a latent defect existed in the product. If a defect existed at the time of manufacturing but it was undiscoverable by both the manufacturer and the consumer at that time, a post manufacture duty to warn may exist. There is, however, no continuing duty to warn or recall due to a post manufacturing safety advance or new technology.

The manufacturer's traditional defense against a negligence claim that the product was not being used in a reasonably foreseeable manner has continued to erode by the requirement that manufacturers must anticipate and design around "foreseeable misuse" of its product. Further, in some states the courts have concluded that evidence of other prior incidents, accidents, and product misuse was proof of the foreseeability of such misuse.

b. Breach of Warranty: Breach of warranty claims in a product liability action usually focus on one of three types: (1) breach of an express warranty, (2) breach of an implied warranty of merchantability, and (3) breach of an implied warranty of fitness for a particular purpose. An express warranty claim focuses on an expressed statement or representation made in writing, orally or by any other means by a manufacturer or the seller that a product has certain characteristics or will meet certain standards (e.g. "This ball point pen is useful for cutting plastic containers").

However, before you advise your client to rethink its entire sales brochure, a distinction is clearly made for statements that

are viewed as part of a sales pitch and not an express representation. An expression of opinion which cannot reasonably be believed or relied upon is "sales talk" or "trade puffing" and is not considered a representation or statement of an express warranty. The various implied warranties that can be applicable cover those expectations common to all products (e.g. that a ladder is not unreasonably dangerous when used for its proper purpose), unless specifically disclaimed by the manufacturer or the seller. To establish a cause of action for breach of an implied warranty, it must be proved that the product was not fit for its intended and reasonably foreseeable purpose (i.e. it was defective) and that it therefore caused the plaintiff's injury.

c. Strict Liability: Rather than focus on the behavior of the manufacturer (as in negligence), strict liability claims focus on the product itself. Under strict liability, the manufacturer is liable if the product is defective, even if the manufacturer was not negligent in making that product defective. Because strict liability is a harsh regime for a manufacturer who is forced to pay for all injuries caused by his products, even if he is not at fault, strict liability is applied only to manufacturing defects and almost never applies to design and warning defects. The first case to apply strict liability to a manufacturing defect involved an exploding Coca-Cola bottle. See *Greenman v Yuba Power Products*, 59 Cal. 2d 57 (1963). This case was the first to throw away the fiction of a warranty and to boldly assert the doctrine of strict liability in tort for defective products.

It has also become very alarming that some state courts have held that strict liability of defective products extends to makers of component product parts that are installed into and sold as part of the final overall product. *Jimenez v Superior Court*, 29 Cal. 4th 473 (2002). Proponents of strict liability for defective products argue that strict liability is necessary because between two parties who are not negligent, one will still have to suffer the economic cost of the injury. The proponents argue that it is preferable to place the economic costs on the manufacturer because it can better absorb them and pass them on to other consumers by the way of higher prices. As such, the manufacturer becomes the insurer of consumers that are injured by its defective products, with premiums paid by other consumers.

Critics charge that strict liability desensitizes product misuse and creates a moral hazard problem on the part of potential buyers. Further, critics argue that applying strict liability to products results in substantially higher transaction costs to manufacturers and suppliers. As the brunt of responsibility has fallen on manufacturers, product liability insurance premiums have risen twice the rate of inflation in recent years. As a result, many U.S. firms have opted to discontinue product research, cut back on introducing new product lines, raised prices and have been adversely impacted by their lack of international competitiveness in products manufacturing and development.

The Liability of Non-Manufacturing Sellers

The development of strict liability in product cases extended liabilities for the first time to parties within the chain of distribution, such as wholesalers, distributors and retailers that had not actively been involved in the product's development. The California courts have justified the extension of strict liability to non-manufacturers reasoning that such parties sometimes play a role in formulating the product's design and as another viable deep pocket source for recovery by an accident victim. In response to the courts' extension of liability to non-manufacturers, many state legislatures have urged the passage of "seller-protection statutes", which vary greatly in form.

Some exempt non-manufacturing sellers from strict liability unless the manufacturer is insolvent or beyond the court's jurisdiction. Other legislation, such as that adopted in Minnesota, uses a certification system whereby a seller can obtain a conditional dismissal from the products liability action if it certifies the correct identity of the manufacturer. Some states apply strict liability against non-manufacturing sellers only in cases involving products that reach the seller in a sealed container, while other states such as Texas provide a broad ruling of non-liability except where the seller has engaged in certain conduct beyond selling the product that renders it liable to the purchaser.

Regardless of the specific form of these statutes, the intent of such legislation is to make non-manufacturing sellers "defendants of last resort." All seller protection statutes preserve an injured person's right to pursue the seller for independent liability claims. Some contain express exceptions to seller immunity. Others apply only to strict liability claims by their own terms.

Establishing a strong defense in the event of a lawsuit

The cost associated with product liability claims can be staggering for both manufacturers and sellers. Even when a business avoids paying out damages, product liability lawsuits are disruptive, can hurt relations with customers and can damage a company's reputation. However, a little bit of prevention planning can go a long way in limiting your client's potential exposure and become an asset in setting forth a strong defense against a lawsuit. If your client manufactures products of any kind, you need to carefully consider the value of putting a Product Audit Plan in place to help minimize your client's product liability risk and establish a strong defense in the event of a lawsuit. Product liability prevention and implementation of a Product Audit Plan deals with all of the following areas and more:

1. *Document your client's commitment to product safety*. Preparation and distribution of a quality control manual that outlines effective procedures for product safety design, testing, and inspection is strongly recommended. The manual should also include steps to ensure traceability, guidance on how to handle customer complaints and a product recall procedure.
2. *Keep detailed records tracing every step in the production process*. For example, keep liability questions in mind at each stage of the design process. One effective way to be able to trace your product and its components is to identify individual products or product lots with dates, serial numbers, and/or batch numbers.
3. *Review and address any complaints filed*. If there are ever problems with the products you make, you will need to trace both

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the upstream path (from vendors who supply materials) as well as the downstream route (to customers who purchase the product). Establish a formalized process for receiving, reviewing, investigating and responding to customer complaints. Set up a system to document and compile all complaints, responses and outcomes. By properly analyzing complaints, you can strategically define corrective action.

4. *Accident Investigation*. Take a proactive role in instantly investigating an incident in the field, learning what to do and what not to do, as opposed to just turning over the situation to the insurance carrier for them to handle.
5. *Maintain proper document retention throughout every product's life cycle*. Make sure to maintain proper documentation throughout the life of every product, from inception to final disposal. Keep records of all information about each product, including test results, product performance, component percentages and complaints. Your client should keep records of the design process, paying particular attention to conversations about safety. An engineer may see in a moment of testing that a proposed safety feature is dangerous or inadequate, but failure to document that moment can be fatal if a lawsuit is ever brought. A jury may not believe a manufacturer that does not have documentation of the safety features that were proposed, implemented or rejected along the product development path. Documentation retention can be critical to your defense in the event of a lawsuit.
6. *Develop a formal written product recall procedure*. If you ever have to recall a product, you can minimize the expense and risk involved by following a written procedure that has been approved by your legal counsel and communicated to your employees. Make sure your recall procedure provides step-by-step details of what to do if a product must be recalled.
7. *Purchasing and Procurement of raw materials and component parts*. To be effective, purchasing must work closely with the company's design, manufacturing and quality control. Purchasing must assure that they are dealing with qualified and reputable suppliers.
8. *Having your product warning labels, assembly and operating instructions, disclaimers and product literature periodically reviewed for compliance*. If your product literature overstates how a product should perform, customers may complain. Worse yet, if your product fails to perform to advertised standards and / or if your warning labels or instructions aren't clearly written and designed, users may harm themselves or others.
9. *Review of contractor and subcontractor agreements for hold harmless agreements, indemnification and shared liability in the event of a lawsuit*. Make sure those contracts help to limit how much liability you assume for a quality product and obtain certificates of adequate liability insurance coverage from subcontractors.

As can be seen from the discussion above, product liability law is complex. What theories of liability govern in your home state? Does your client have any type of product audit program in place? Who oversees your client's document retention policy? How many times has your attorney reviewed your warnings and operating instructions? Consultation with experienced legal counsel is essential and in some circumstances that counsel can become a valued asset as part of your client's product and development team.

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ing requirements for inequitable conduct provide both a reason for district courts to deny motions to amend and a roadmap for alleged infringers to follow when pleading inequitable conduct. If a party sufficiently sets forth the "who" (e.g., the name of the specific individual who knew of the material and deliberately withheld or misrepresented it), "what" (e.g., what claims and what limitations in those claims are relevant), "where" (e.g., where in the withheld prior art references the material information was found), "why" (e.g., why the withheld information is material and not cumulative), and "how" (e.g., how an examiner would have used the information in assessing the patentability of the claims), its inequitable conduct pleading should be sufficient. In its opinion, the *Exergen* court also suggested that a party should set forth "when," but does not elaborate on this element. If the party sets forth the "when" (e.g., time that the conduct occurred), it seems that this element should be met as well. The *Exergen* court was reviewing the district court's denial of a motion to amend a pleading—something it reviews for an abuse of discretion. Thus, this opinion appears to give district courts broad leeway in denying motions to amend pleadings to add inequitable conduct defenses. If, however, a district court allows a party's inequitable conduct claim, the *Exergen* decision should have no impact on the ultimate viability of the claim.

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Approaching the Bench

"Because of" or "Prepared for"? The Questionable Status of Work Product Protection in the First Circuit

By Annapoorni R. Sankaran and Justin F. Keith

In the latest installment of the *Textron* work product saga, businesses involved in litigation throughout New England have seen their ability to protect documents under the work product doctrine erode. The recent *en banc* decision from the U.S. Court of the Appeals for the First Circuit, *United States v. Textron, Inc.*, 577 F.3d 21 (1st Cir. 2009), dramatically alters the scope of work product protection. Every company that finds itself involved in litigation in the First Circuit should be aware of this decision and the limitations it places on a tenet of litigation practice - the work product doctrine.

The case began when the IRS requested certain tax accrual work papers from Textron in connection with an audit in 2003. Tax accrual work papers are documents (in this case, spreadsheets and back-up emails and notes prepared by counsel) that list and analyze items on a tax return that could be subject to challenge by the IRS. The work papers list the dollar amount of each item along with the percentage likelihood that the IRS would prevail in litigation if an item were challenged. When the IRS sought production of the tax accrual work papers, Textron refused to produce them. The IRS issued an administrative summons and sought to enforce it in federal district court in Rhode Island. Textron asserted that the work papers were protected by, among other things, the work product doctrine. The district court agreed and found that, while the work product doctrine does not apply to documents produced in the ordinary course of business or documents that would have been created irrespective of litigation, in this case it was clear that the opinions of the company's counsel and accountants regarding items that might be challenged by the IRS "would not have been prepared at all 'but for' the fact that Textron anticipated the possibility of litigation with the IRS." *Textron*, 577 F.3d at 25.

The IRS appealed the district court's decision and a divided panel of the First Circuit affirmed. The IRS then filed a petition for en banc review, which was granted. In a dramatic about-face, the en banc court held that, because the tax accrual work papers were required by statutory and audit requirements, they are not protected by the work product doctrine. The majority relies on the First Circuit's decision in *Maine v. United States Dep't of the Interior*, 298 F.3d 60 (1st Cir. 2002) and focuses particularly on one single sentence in the decision—"documents that are prepared in the ordinary course of business or that would have been created in essentially similar form irrespective of the litigation." *Id.* at 70. The majority's holding is premised on its belief that the documents could not have been prepared for litigation because they were required by the company's audit obligations. In a convoluted, if not bizarre chain of reasoning, the majority states that "any experienced litigator would describe the tax accrual work papers as tax documents and not as case preparation materials." *Id.* at 28. The majority, with little real analysis, characterizes the work papers and financial statements and concludes that "every lawyer who tries cases knows the touch and feel of materials prepared for a [litigation]… no one with experience of law suits would talk about tax accrual work papers in those terms." *Id.* at 30. To the majority, if a document does not "feel" like work product, it cannot be protected.

In a spirited dissent, Judge Torruella, joined by Judge Lipez, faults the majority for radically restricting the scope of the work product doctrine in contravention of well-settled and reasoned precedent, while still claiming to uphold the law of *Maine*. As Judge Torruella points out, the First Circuit has now abandoned the familiar "because of" test which asks whether "in light of the nature of the document and the factual situation in the particular case, the document can be fairly said to have been prepared or obtained *because of* the prospect of litigation." *Id.* at 32 (citing *Maine v. United States Dep't of the Interior*, 298 F.3d 60, 68 (1st Cir.2002) (quotation omitted)). In its place, the majority adopts a "prepared for" test, which requires that a party asserting the protection show that the document was "prepared for use in possible litigation." *Id.*

Under the new standard adopted by the majority, the work product doctrine may very well be inapplicable to dual purpose documents that are created for both business purposes and for litigation purposes. Indeed, the documents that Textron sought to protect were not simply, as the majority characterized them, "financial statements" but also contained estimates of Textron's counsel as to the company's chance in prevailing in litigation against the IRS. Indeed, the district court specifically found that the tax accrual papers were prepared to ensure that Textron was adequately reserved with respect to any potential disputes or litigation that would happen in the future and "that there would have been no need to create the reserve in the first place if Textron had not anticipated a dispute with the IRS that was likely to result in litigation or some other adversarial proceeding." *Textron*, 507 F. Supp. 2d at 143-150. Yet, under the new test, the work papers were not protected because the were not "prepared for use" in litigation.

It is not difficult to imagine the scores of categories of documents whose protected status evaporated with the First Circuit's decision in *Textron*. Although it remains to be seen how the courts will apply *Textron* to other types of documents, the requirement that documents be "prepared for use" in litigation will make establishing work product protection difficult for dual purpose documents and documents not created for the express purpose of being used in litigation. For example, internal corporate legal documents relating to risk assessment in virtually any field, including potential patent infringement and analysis, labor law issues, employee benefits, to corporate transactions, may very well no longer be protected by work product doctrine in the First Circuit.

For any business that may find itself involved with litigation

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in the First Circuit, this issue demands Supreme Court review. As Judge Torruella suggests, "the time is ripe for the Supreme Court to intervene and set the circuits straight on this issue which is essential to the daily practice of litigators across the country." *Textron*, 577 F.3d at 43. (Textron's application for extension of time within which to file a petition for writ of certiorari was extended through Dec. 24, 2009, by the U.S. Supreme Court.) Until that happens, companies who may be involved in litigation in the First Circuit are well advised to reevaluate any documents that could fall outside the scope of the work product doctrine under the new standard. Until this issue is resolved, companies should take care before creating documents which may not be protected. The practical result of the *Textron* decision may drive businesses to rely on non-written communications, which could lead to less effective corporate decision-making and erode the lines of communication between both in-house and outside counsel and their clients. Yet the alternative is to open one's files and produce documents that would likely be protected in every other circuit.

Annapoorni R. Sankaran (pictured) is a shareholder of Greenberg Traurig LLP; Justin F. Keith is an associate at the same firm.

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upholding the decision not to renew our client's privileges, and reporting him to the NPDB. We had one option left: return to court. We filed an amended complaint requesting injunctive relief to prevent, inter alia, the filing of a report with the NPDB. The hospital responded with a motion to dismiss on a variety of grounds, including lack of jurisdiction. It also attempted to prevent any discovery prior to the preliminary injunction hearing.

The judge acted quickly and decisively. He granted our motion to amend our complaint, set a hearing date within ten days, overruled the motions to quash subpoenas, and required various hospital employees to appear at the hearing. He also ordered the hospital not to take any action adverse to our client until he ruled on our motion for injunctive relief. The gravamen of our motion was that the hospital could not have acted 'reasonably' under HCQIA, because it disregarded the findings and conclusions of the peer review panel.

Prior to the hearing, Hospital A finally "got the message" and the case was resolved without any reporting, when the Medical Center Director reversed his position and accepted the findings of the Peer Review Committee. But justice was hardly perfect. Our client could not obtain compensation for his legal fees nor compensation for the enormous stress and hardship that the hospital had caused him and his family during the year-long legal struggle. We respect the need for HCQIA immunity as appropriate protection to encourage the important self-policing function that the peer review process entails. However, the case we describe illuminates the severity of the consequences of affording a hospital protection under HQCIA without a full understanding of the internal process that has given rise to the hospital's action.

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Endnotes

[1]The NPDB is a repository of reports concerning physicians in several categories, including those pertaining to malpractice payments made for the benefit of the practitioner, licensing actions taken by state medical boards, adverse professional review actions taken by medical entities, DEA actions and exclusions from Medicare and/or Medicaid programs. These reports are made available to hospitals that, as designated health care entities under the statute, are essentially required to inquire about the background of a physician when he or she applies for clinical privileges. Hospitals are also required to follow up with an inquiry every two years thereafter, as long as the individual remains on staff or retains privileges. Hospitals also have an obligation to make reports to the NPDB when problems arise concerning a staff physician. For example, information must be sent to the data bank whenever a person's clinical privileges have been adversely affected by a professional review action that extends beyond thirty days. They are also required to make a report whenever a physician surrenders privileges while under investigation concerning allegations of incompetent or unprofessional actions, or if the hospital foregoes an investigation on the condition that the doctor surrenders his or her privileges. Physicians have the right to add a personal statement to any report that is submitted to the NPDB by a medical institution and, in addition, may ask the Secretary of Health and Human Services to review a report for alleged inaccuracies. However, it is generally accepted that these reports are rarely reviewed by government officials.

[2]42 U.S.C. §11112(A).

[3]*Poliner v. Tex. Health Sys.*, 537 F.3d 368 (5th Cir. 2008), *cert. denied*, 129 S.Ct. 1002, 2009 U.S. LEXIS 763 (U.S. 2009).

[4]*See, for example*, The Center for Peer Review Justice, www.peerreview.org.

[5]We have modified certain facts in order not to disclose information that would allow the parties to be identified, although the matter is one of limited public record.

[6]Following this agreement, the court subsequently dismissed this lawsuit.


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