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Civil Litigation Update

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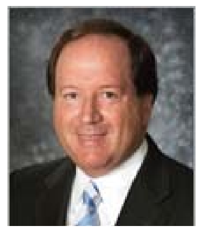
Spring 2013

Are Attorney Communications With Non-Reporting Experts Discoverable? The Answer May Depend on Who You Talk to

By Thomas G. Wilkinson Jr. and Thomas M. O'Rourke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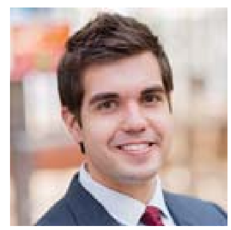
Thomas M. O'Rourke

It may be surprising to hear that there are two categories of expert witnesses under the Federal Rules of Civil Procedure, and that the scope of discovery available from each is different. Indeed, before 2010, the federal rules addressed only a single class of expert witnesses: experts who were required to produce a written report. This category is comprised of those who were "retained or specifically employed" as expert witnesses or "whose duties as a party's employee regularly involve giving expert testimony." Fed. R. Civ. P. 26(a)(2)(B). In 2010, however, Rule 26(a)(2)(C) was added to address testifying experts who are not required to produce an expert report. This category includes experts who will "testify as a fact witness and also provide expert testimony" and "employees of a party who do not regularly provide expert testimony." Fed. R. Civ. P. 26 Advisory Committee's Note, 2010 Amendments. These non-reporting experts must simply produce a "disclosure" that states "the subject matter" of their expert testimony and "a summary of the facts and opinions to which" they are expected to testify. See Fed. R. Civ. P. 26(b)(4)(C).

The reporting requirement is not all that separates the two categories of expert witnesses. This article focuses on the other major distinction, which is set forth in Rule 26(b)(4)(C). This rule extends work product protection to attorney communications with reporting experts, but not to attorney communications with non-reporting experts. Does the discoverability of attorney's communications with a testifying expert really depend upon whether that expert is subject to the reporting requirement? Based upon a few recent decisions, the answer is not entirely clear.

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Thomas G. Wilkinson Jr. (twilkinson@cozen.com) is a member and Thomas M. O'Rourke (tmorourke@cozen.com) is an associate in the Commercial Litigation Department of Cozen O'Connor in Philadelphia. Wilkinson is also the immediate past president of the Pennsylvania Bar Association and a past chair of the Civil Litigation Section.

Communications With Non-Reporting Experts

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Rule 26(b)(4)(C) — Only Communications With Reporting Experts Are Protected?

In 2010, Federal Rule of Civil Procedure 26(b)(4) was amended to rectify perceived problems with expert discovery that arose following the 1993 amendments. Fed. R. Civ. P. 26 Advisory Committee's Note, 2010 Amendments. The 1993 amendments authorized expert depositions and expert disclosures, including, in many instances, detailed expert reports. *Id.* Courts interpreted these new avenues of discovery "as opening the door to ... all communications between counsel and expert relating to the subject matter of the litigation[.]" Gregory P. Joseph, *2010 Expert Witness Rule Amendments*, Prac. Litigator, 51, 51-52 (Nov. 2010). According to the advisory committee, the trend toward complete disclosure had "undesirable effects[,]" including increased discovery costs and more "guarded" interactions between attorneys and expert. Fed. R. Civ. P. 26 Advisory Committee's Note.

To combat these concerns, the 2010 amendments added Rule 26(b)(4)(C) to extend work-product protection to communications between attorneys and *reporting experts*, except to the extent that the communications: (i) relate to the expert's "compensation[;]" (ii) identify "facts or data" the expert considered and (iii) identify "assumptions" that the expert relied upon in forming the opinion at issue. Outside of these exceptions, attorney-expert communications are generally off-limits. Fed. R. Civ. P. 26(b)(4)(C)(i)-(iii) & Advisory Committee's Note.

Although Rule 26(b)(4)(C) was adopted to prevent broad discovery of attorney-expert communications, it does not cover communications between attorneys and non-reporting experts.[1] The advisory committee's note explains that although the "rule does not itself protect" such communications, it "does not exclude protection under other doctrines, such as privilege or independent development of the work-product doctrine." The rule's silence as to non-reporting expert communication raises questions about what, if any, protection will be afforded to these communications. Although few cases have dealt with this issue, two recent opinions have attempted to fashion a rule addressing discovery of non-reporting expert communications following the 2010 amendments.

Does Discovery Depend Upon the "Type" of Non-Reporting Expert At Issue?

In *United States v. Sierra Pacific Industries*, the Eastern District of California held that communications between attorneys and two "non-reporting experts" were discoverable, but stressed that its holding was based upon a careful review of the nature of each non-reporting expert's testimony. 2011 WL 2119078 at **1-2 (E.D. Cal. May 26, 2011). *Sierra* involved property damages caused by a forest fire. The United States, with the assistance of the California Department of Forestry and Fire Protection (CDF), brought suit against Sierra, relying upon an "Origin and Cause Report" prepared by an employee of the U.S. Forest Service and an employee of CDF. *Id.* at **1-2. Both individuals were "present at the fire scene on the day that the fire began and on multiple days thereafter." *Id.* at *3. The United States designated both of them as non-reporting, testifying experts and the defendant did not dispute this classification.

At the experts' depositions, "the United States instructed [them] ... not to answer deposition questions regarding conversations with [its] attorneys[,]" because these communications were protected by the work-product doctrine and attorney-client privilege. *Id.* at *1. In response, the defendant filed a motion to compel the United States to produce the communications, asserting that it had waived any attorney-client privilege or work-product protection by designating the investigators as testifying experts. *Id.* at **1, 5.

In considering defendant's motion, the *Sierra* court attempted to reconcile Rule 26(b)(4)(C)'s "silen[ce] as to communications between a party's attorney and non-reporting experts," and the broader work-product protection it afforded to communications with "reporting experts." *Id.* at **5-7. The court first looked to the advisory committee's note for guidance and determined that the 2010 amendments "neither created a protection for communications between counsel and non-reporting expert [ ] witnesses, nor abrogated any existing protections for such communications." *Id.* at *5. The court concluded, therefore, that "the law prior to the date of the [2010] amendment" generally determines whether communications between an attorney and a non-reporting expert are discoverable. *Id.* at *7. Before 2010, the law within the Ninth Circuit was "that privileges and protections were waived for communications between a party's attorney and a testifying expert," and all such communications were discoverable "regardless of whether the documents ultimately affected [the expert's] analysis." *Id.* at **9, 11.

Rather than resting its decision on pre-existing Ninth Circuit precedent, however, the court concluded that, in certain circumstances, it may be inappropriate to compel discovery of an attorney's communication with a non-reporting expert. The court found support for this conclusion in the following excerpt from the Report of the Civil Rules Advisory Committee:

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> Both the Subcommittee and the Committee concluded that *the time has not yet come to extend the protection for attorney expert communications beyond experts required to give an (a)(2)(B) report.* The potential need for such protection was not raised in the extensive discussions and meetings held before invitation for public comment on this question. There are reasonable grounds to believe that broad discovery may be appropriate as to some "no report" experts, such as treating physicians who are readily available to one side but not the other. Drafting an extension that applies only to expert employees of a party might be tricky, and might seem to favor parties large enough to have on the regular payroll experts qualified to give testimony. Still more troubling, employee experts often will also be "fact" witnesses by virtue of involvement in the events giving rise to the litigation. An employee expert, for example, may have participated in designing the product now claimed to embody a design defect. Discovery limited to attorney-expert communications falling within the enumerated exceptions might not be adequate to show the ways in which the expert's fact testimony may have been influenced.

Id. at 7 (quoting Report of the Civil Rules Advisory Committee, p. 5 (May 8, 2009, amended Jun. 15, 2009) (emphasis added)).

Based upon the report, the court determined that non-reporting experts that resemble "reporting experts" should be distinguished from those who serve as "hybrid fact and expert witnesses" for the purpose of the attorney-expert communication rule. *Id.* at 10; see *PacifiCorp v. Northwest Pipeline GP*¸ 2012 WL 2903976 at *35 (D. Or. Jul 12, 2012). Specifically, the court noted that some "employee experts" are not subject to the reporting requirement because their duties involve intermittent, rather than "regular[,]" expert testimony. *Id.* For the court, there was "no immediately apparent policy reason to treat" attorney communications with these non-reporting experts differently from attorney communications with "reporting" experts. *Id.*

Hybrid fact and expert witnesses, however, such as "treating physicians and accident investigators," offer opinions based upon their "own personal knowledge of the facts[.]" *Sierra Pacific Industries*, 2011 WL 2119078 at *10. Given the factual elements of their testimony, the court determined that it is critical to "prevent, or at any rate expose, attorney-caused bias[ ]" in connection with their testimony. Therefore, the court found it to be appropriate, "at least in some cases," to treat "hybrid" experts "differently than reporting experts" and to permit discovery into their communications with attorneys. *Id.*

Turning to the facts of the case, the *Sierra* court determined that the expert witnesses at issue were "hybrid fact and expert witnesses," because they were "current and former employees" of the United States and had "percipient knowledge of the facts at issue in the litigation." *Id.* In light of the amended federal rules and preexisting Ninth Circuit law, the court held that all of the attorney communications at issue were discoverable, because the United States waived any applicable attorney-client privilege and work-product protection when it designated the investigators as testifying experts. *Id.* at **10-11.

In July 2012, the district of Oregon issued an opinion adopting the approach of the *Sierra* court. *PacifiCorp v. Northwest Pipeline GP*¸ 2012 WL 2903976 at *35 (D. Or. Jul. 12, 2012) (holding that the plaintiff waived any attorney-client privilege or work product protection attributable to its communications with five non-reporting experts, because each expert was a "hybrid fact and expert witnesses" that possessed "percipient knowledge of disputed facts").

Protection for All?

Before the *Sierra* decision, the District of New Jersey held that communications between plaintiffs' attorney and non-reporting employee experts were protected. *Graco, Inc. v. PMC Global, Inc.*, 2011 WL 666056 at **13-14 (D.N.J. Feb. 14, 2011). The plaintiffs raised claims of unfair competition against the defendants and filed a motion for a preliminary injunction. In support of the motion, plaintiff attached affidavits from several of its employees that contained their expert opinions. Defendants then filed a motion to compel information related to the experts, including any communications they had with plaintiffs' counsel. *Id.* at **1, 13.

The *Graco* court determined that the employee experts were "testifying experts" who were not subject to the reporting requirement because they did not "regularly give expert testimony[.]" *Id.* at **13-14. The court "acknowledge[d] a significant divergence between the 1993 version (and related case law) and the 2010 version of Rule 26[,]" and determined that the attorney's communications with the non-reporting experts were "protected by the attorney-client privilege." *Id.* The court did not further explain how, if at all, its attorney-client privilege ruling was influenced by the 2010

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amendments or suggest that work-product protection also applied to the non-reporting expert communications at issue.[2]

By What Standard?

The 2010 amendments leave a gap with respect to discovery of communications with non-reporting experts that creates uncertainty for the courts and litigants. The question remains whether courts should apply pre-existing case law or develop a new standard in light of the policy decisions reflected in the 2010 amendments. Indeed, one of the primary purposes of the 2010 amendments was "to alter the outcome in cases that have relied on the 1993 formulation in requiring disclosure of all attorney-expert communications and draft reports." Advisory Committee's Note, 2010 Amendments. Adopting a policy of liberal expert discovery as to non-reporting experts would appear to conflict with this primary goal.

While a new standard may be necessary to determine the discoverability of non-reporting expert communications in many jurisdictions, the 2010 amendments leave it to the courts to decide what that standard should be. As reflected in *Sierra* and *Graco*, the standard may depend upon the nature of the non-reporting expert's testimony, their status as "employee experts" or the state of the law prior to the 2010 amendments. Until more clarity is established in this area, attorneys will be uncertain as to what standard applies and may choose to "specifically retain" their testifying experts to ensure broader work-product protection under the federal rules.

1 Rule 26(b)(4)(B) extends work product protection to any draft expert report and any draft expert "disclosure" required from non-reporting experts. Therefore, as it relates to drafts, both reporting and non-reporting experts are provided equal protection.

2 The *Sierra* court rejected *Graco*, because the *Graco* court did not explain its reasoning and did not "analyze the state of the caselaw prior to the 2010 amendments as to whether communications by counsel with non-reporting or so-called hybrid expert witnesses waived the [attorney-client] privilege." *Sierra Pacific Indus.*, 2011 WL 2119078 at *9.

PBA Civil Litigation Section Annual Retreat

By Katherine C. Dempsey

After taking a year off, the PBA Civil Litigation Section Retreat returned this year with great success. This year's retreat was held April 5-7 in Gettysburg and was co-sponsored by the PBA's Alternative Dispute Resolution Committee, Federal Practice Committee and Labor and Employment Law Section.

Hosted at The Gettysburg Hotel, right in the town center and within a couple of miles of the Gettysburg Battlefield, this year's retreat offered not only great, informative CLEs but also gave members and their families time to explore beautiful historic Gettysburg during the 150th Battle of Gettysburg anniversary. Section members and their families took time Saturday afternoon and evening to explore the city and battlefield by foot, car, bus and even Segway, with some even brave enough to take some spooky nighttime tours!

Katherine C. Dempsey

Along with the beautiful sites, the retreat, of course, offered a plethora of enlightening CLEs and a chance to network with colleagues of all ages and practice sizes from across the state. The retreat opened on Friday with a panel discussion titled "Avoiding a Battle — When ADR is Appropriate and How to Make It More Effective." Taking part on the panel were Steven Baicker-McKee, Judith Meyer and Michael Last, with Judy Weintraub moderating. All of the panelists provided great insights into their own experience with the ADR process in terms of choosing a mediator, when and/or if to participate in mediation and which type of ADR to choose. The panel also had attendees break into small groups, with each group presenting an ADR experience, good or bad, with the panelists providing their recommendations about how to address such issues in the future.

Katherine C. Dempsey is associate editor of this newsletter and a Civil Litigation Section council member. She is in her fifth year of civil litigation practice and is an associate at Picadio Sneath Miller & Norton PC in Pittsburgh.

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A hot-topic discovery CLE followed the panel discussion. Then-PBA President Thomas G. Wilkinson Jr., Thomas M. O'Rourke and Kevin P. Allen each presented aspects on Pennsylvania discovery directed at expert witness communications. Wilkinson began by discussing the background and procedural history of the *Barrick v. Holy Spirit Hosp. of the Sisters of Christian Charity,* 32 A.3d 800, appeal granted, 52 A.3d 221 (Pa. 2012), case. The *Barrick* case is crucial when addressing the topic of expert communications and discovery and was an especially timely topic given that it was argued before the Pennsylvania Supreme Court just days after the retreat. Other topics discussed by Wilkinson included the 2010 Federal Rule Amendments to Federal Rule of Civil Procedure 26(b)(4), proposed amendment to Pennsylvania Rule of Civil Procedure 4003.5 and Federal Rule of Civil Procedure 26(b)(4)(C)'s exception. O'Rourke then covered non-reporting expert discovery and the distinctions between reporting experts and non-reporting experts as well as the two approaches under *U.S. v. Sierra Pacific Indus.*, 2011 WL 2119078 (E.D. Cal. May 26, 2011), and *Graco, Inc. v. PMC Global, Inc.*, 2011 WL 666056 (D.N.J. Feb. 14, 2011). (The CLE materials on this topic included the article in this issue, "Are Attorney Communications with Non-Reporting Experts Discoverable? The Answer May Depend On Who You Talk To," submitted by Wilkinson and O'Rourke.) The CLE concluded with Allen's presentation addressing the work-product doctrine generally under the Pennsylvania and federal rules. All CLE attendees received the third edition of Allen's book, *The Attorney-Client Privilege and Work-Product Doctrine in Pennsylvania.*

Friday night, attendees and their families joined together for a reception and dinner at the hotel and were treated to a talk by Frank J. Williams, retired chief justice of the Supreme Court of Rhode Island. Williams, a noted Abraham Lincoln scholar and author, gave an insightful discussion as to what President Lincoln would have been like as a judge. His talk was filled with stories of Lincoln sitting for Judge Davis on the Circuit where he rendered decisions against his own law partner and his handling of ethical issues in the representation of his clients.

Justice Frank J. Williams (Ret.)

On Saturday, attendees witnessed an outstanding series of mock oral arguments held before Pennsylvania Supreme Court Justice J. Michael Eakin, Judge John E. Jones III of the U.S. District Court of the Middle District of Pennsylvania and Pennsylvania Superior Court Judge Jacqueline O. Shogan. The arguments were moderated by Nancy Conrad. Three separate cases were argued before the court with attorneys from the Civil Litigation Section, Labor and Employment Section and Federal Practice Committee each presenting a case. At the conclusion of each argument, the panel provided important advice to all attendees, regardless of years in practice. David R. Fine kicked off the Civil Litigation Section argument in the case of *U.S. v. Alvarez,* representing the United States. It was clear early on that the bench was going to be a hot one, asking many questions. Sean R. Sullivan argued on behalf of Alvarez and received just as many questions from the judges. After the argument, the judges noted that Fine's rebuttal was a true rebuttal, not simply a rehashing of the same argument without connection to the opposing party's argument, which is something that they see many attorneys do. For the second oral argument, presented by the Labor and Employment Section, the case was that of *Bayada Nurses, Inc. v. Commonwealth of Pennsylvania, Dep't of Labor and Indus.* with only Judges Jones and Shogan hearing argument. Warren R. Mowrey Jr. argued on behalf of Bayada and Kathryn McDermott Speaks argued for the Department, with both handling the judges' questions skillfully.

The final argument of the day was the case of *S.J.W. & S.S.W. v. Lee's Summit R-7 Sch. Dist.* in which Robert L. Byer argued for the school district and Sharon R. Lopez argued for the students. The judges pointed out that using buzzwords, as Byer did, could enhance an argument. The judges stressed that, although it can be difficult, parties should always try to get back on track with their arguments after questions and not lose their focus — which they felt all participants did well here.

The retreat concluded on Sunday with a very interactive CLE entitled "Communication Skills for Battles in the Courtroom" put on by Professor Sharon Gellar. Gellar is not an attorney but rather teaches improv at the Walnut Street Theater in Philadelphia. She has developed a program called "Improv for Lawyers," which she teaches at Earle Mack School of Law at Drexel University. This program was far from your normal CLE with attendees actively participating in a series of exercises that required members to work collaboratively as a

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Civil Litigation Section Retreat

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group to complete stories and sentences without having any preparation. Thinking on your feet and having a good sense of humor were the lessons of the day and everyone left the retreat with a big smile.

Attendees of all ages and experience levels had wonderful things to say about the retreat and said they would definitely be back for the next one. On a personal note, as a young attorney, I knew little to nothing about the PBA Civil Litigation Section when I first started practicing. However, my first experience with the Section was a retreat two years ago that a partner at my firm suggested that I attend. I had so much fun and met such wonderful people! I encourage all members of the PBA Civil Litigation Section, especially younger members of the bar, to attend the next retreat. It is not like any other bar association event that I have ever attended. It is a great weekend getaway with plenty of free time to relax and explore but also an event where you will learn the hot topics in Pennsylvania law and meet other attorneys, young and old, from across Pennsylvania. We hope to see you at the next Section Retreat!

Photos from the PBA Civil Litigation Section Retreat, April 5-7 in Gettysburg

From left: CLE Presenter and Former Section Chair Steven F. Baicker-McKee, his wife Carol, CLE Presenter Michael Last

Members and their families enjoyed touring the monuments at Gettysburg National Park.

Presenting mock arguments at the Civil Litigation Section Retreat April 6 in Gettysburg

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Photos from the Civil Litigation Section Retreat

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CLE presenter Sharon Gellar gets the attorneys on their feet for "Improv for Lawyers"

From left: Judge John E. Jones III, Justice J. Michael Eakin, Judge Jacqueline O. Shogan and Nancy Conrad

Enjoying the views of the Gettysburg National Battlefield

Learning "Communication Skills for Battles in the Courtroom"

Mark Your Calendars

July 24-26, 2013

PBA YLD Summer Meeting/New Admittee Conference

Toftrees Resort and Conference Center, State College

July 31-Aug 2, 2013

Solo & Small Firm Conference

Omni Bedford Springs Resort, Bedford

More information at www.pabar.org.

Opinions from the Pennsylvania Courts

Peggy M. Morcom, Pennsylvania Case Notes Editor

SUPREME COURT

Voluntary Layoff Option Proviso Under Section 402(b) Applies to Employees Accepting Early Retirement Packages As Part of a Reduction in Force

In *Diehl v. UCBR*, No. 51 MAP 2011 (Dec. 28, 2012) (Baer, J.), the Supreme Court overruled the Commonwealth Court's longstanding interpretation of the "voluntary layoff option" proviso (VLO proviso), contained in Section 402(b) of the Pennsylvania Unemployment Compensation Law, 43 P.S. § 802(b). The Supreme Court held that the VLO proviso applies to employees accepting early retirement packages offered by their employers as a part of a workforce reduction.

Before delving further into the opinion, it is necessary to briefly set forth the statutory provision at issue. Section 402(b) of the UC law provides, in pertinent part, as follows:

> An employee shall be ineligible for compensation for any week —
>
> ****
>
> (b) In which his unemployment is due to voluntarily leaving work without cause of a necessitous and compelling nature, irrespective of whether or not such work is in "employment" as defined in this act:
>
> ****
>
> Provided further, That no otherwise eligible claimant shall be denied benefits for any week in which his unemployment is due to exercising the option of accepting a layoff, from an available position pursuant to a labor-management contract agreement, or pursuant to an established employer plan, program or policy.

By way of factual background, Harold G. Diehl (employee) was employed by ESAB Welding and Cutting Products (employer). Due to changing financial fortunes, employer announced that it would be reducing its workforce pursuant to a plan of involuntary layoffs and voluntary early retirement offers. Employee was not at risk of being laid-off. However, he accepted the early retirement offer.

Employee subsequently sought unemployment compensation benefits. The employee's claim was denied on the basis that he failed to show that his job would have been impacted had he not accepted the employer's plan. Employee appealed the decision to the Unemployment Compensation Board of Review (UCBR). The UCBR affirmed the denial of benefits, noting that employee's unemployment was not due to a necessitous or compelling reason. Notably, there was no discussion of the VLO proviso.

Peggy M. Morcom

Thereafter, employee sought reconsideration from the UCBR. While the UCBR initially affirmed its earlier decision, it eventually granted reconsideration to address employee's issue regarding the VLO proviso. Ultimately, the UCBR again denied benefits based upon the Commonwealth Court's prior decisions, *see, e.g.*, *Renda v. UCBR*, 837 A.2d 685, 694 (Pa. Cmwlth. 2003), holding that the VLO proviso does not apply to situations involving early retirement packages such as that offered to employee.

Employee appealed the UCBR's decision to the Commonwealth Court, which affirmed the denial of benefits in a published opinion. *Diehl v. UCBR*, 4 A.3d 816 (Pa. Cmwlth. 2010). The Commonwealth Court reviewed its prior decisions and held that "based on our history of concluding the VLO proviso does not apply where a claimant accepts an early retirement incentive package, we decline claimant's invitation to again revisit the issue here." *Id.* at 822. The Commonwealth Court further rejected employee's argument that its interpretation of the VLO pro-

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Peggy M. Morcom is an associate with the law firm of Reilly, Wolfson, Sheffey, Schrum & Lundberg LLP, in Lebanon County. She concentrates her practice in the areas of employment law and education law.

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viso conflicted with the plain language of the statute.

The Supreme Court granted employee's petition for allowance of appeal on the issue of whether the VLO proviso applies to an employee who accepts an early retirement plan offered pursuant to a work force reduction.

After reviewing the various arguments put forth by the parties, the Supreme Court began its analysis by discussing the rules of statutory construction, noting that the words of a statute cannot be disregarded where they are clear and free from ambiguity. *See* 1 Pa.C.S. § 1921(b). In addition, the words of a statute are to be interpreted according to their "common and approved usage." 1 Pa.C.S. § 1903.

The Supreme Court then examined the purpose behind the UC law, and, in particular, noted that "the eligibility sections of the law must be liberally interpreted to provide the maximum amount of benefits allowable under the statute to a claimant who has experienced involuntary unemployment." *Pennflex, Inc. v. Bryson,* 485 A.2d 359, 365 (Pa. 1984). The opposite proposition likewise holds true, and "disqualification provisions … should be narrowly construed and a claimant must not be denied compensation unless he is unequivocally excluded by the plain language of these provisions." *Id.*

After setting forth the basic framework, the Supreme Court looked at the statutory provision at issue and was faced with the task of determining whether the term "layoff," as used in the VLO proviso, included early retirement packages or was confined to temporary separations in employment. After examining the term "layoff" in both legal and common usage dictionaries, and because of the broad interpretation the Court was required to provide eligibility provisions, the Supreme Court concluded that the VLO proviso is not limited to temporary separations.

The discussion did not end there, as the Supreme Court was further tasked with answering whether the VLO proviso only applies to those accepting layoff offers with recall rights as interpreted by the Commonwealth Court. In deciding this issue, the Supreme Court reviewed the Commonwealth Court's line of cases dealing with the VLO proviso. The Supreme Court noted that much of the Commonwealth Court's later precedent dealing with the VLO proviso originated in *W.R. Grace v. UCBR*, 455 A.2d 729 (Pa. Cmwlth. 1983). Therein, the Commonwealth Court rejected the employer's assertion that the employee should not receive unemployment benefits for accepting the employer's layoff option. The Commonwealth Court concluded that "leaving work without a necessitous and compelling cause, is irrelevant so long as: (1) the employee is 'otherwise eligible' for unemployment compensation benefits; and (2) his unemployment is due to exercising a voluntary layoff option, either negotiated by contract or established unilaterally by the employer." *Id.* at 730. The Supreme Court found it relevant that nothing in *W.R. Grace* suggested that the employee was at any risk of losing her job if she did not accept the layoff offer. Further, the Supreme Court noted there was nothing in the opinion that suggested that the VLO proviso was restricted to temporary layoffs with recall rights.

Thereafter, the Supreme Court reviewed the remaining decisions of the Commonwealth Court involving the VLO proviso. The Supreme Court noted that these decisions did not contain any analysis of the language of the VLO proviso. Moreover, the Supreme Court stated that these decisions failed to take into consideration the facts of *W.R. Grace,* which did not involve a situation where the employee feared losing her job in the layoff. In addition, there was no discussion in *W.R. Grace* restricting the VLO proviso to only temporary layoffs with recall rights.

After discussing the Commonwealth Court's cases, the Supreme Court undertook a statutory analysis, and found that the VLO proviso "forbids the denial of UC benefits merely because an employee has accepted, voluntarily, a plan offered by the employer." As such, the Supreme Court rejected the Commonwealth Court's analysis to the extent that it refused to apply the VLO proviso to employees who voluntarily accepted layoff offers or otherwise were not in fear of losing their jobs. The Supreme Court then addressed whether accepting an early retirement plan was the equivalent of accepting a layoff, as provided by the VLO proviso. Finding that both involved the termination of employment that was offered by the employer, the Supreme Court determined that accepting an early retirement package would be covered by the VLO proviso.

The Supreme Court therefore overruled the line of Commonwealth Court cases interpreting the VLO proviso and held that the VLO proviso applies to an "otherwise eligible claimant" who accepts an early retirement plan offered by an employer as part of a workforce reduction.

— Contributed by Sebastian J. Conforto, McQuaide Blasko Inc., Hershey, (717) 533-4444; sjconforto@mqblaw.com

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Supreme Court Holds Insured's Recovery of Delay Damages in UM Case Limited to Amount of Molded Jury Verdict Adjusted to Reflect Policy Limits

In Marlette v. State Farm Mut. Auto. Ins. Co., 57 A.3d 1224 (Dec. 28, 2012) (Opinion by Todd, J.) (McCaffery, J., dissenting), the Pennsylvania Supreme Court held that an insured's recovery of delay damages is limited to the amount of "legally-recoverable damages" to which he is entitled pursuant to a molded verdict adjusted by the court to reflect insurance policy limits and not the full amount of a jury verdict. In so holding, the majority vacated the decision of the Superior Court and remanded the matter to the Superior Court for remand to the trial court for reinstatement of its original award of delay damages.

In July of 2002, Richard Marlette was operating a motor vehicle, with his wife Marleen in the passenger seat, when another vehicle sideswiped their vehicle, causing him to sustain serious physical injuries, suffer lost wages and impairment of earning capacity. The Marlettes filed an action in the Allegheny County Court of Common Pleas in October 2006 against the uninsured driver of the other vehicle and their own insurer, State Farm Mutual Automobile Insurance Company (State Farm) for uninsured motorist (UM) coverage.

Liability was uncontested, and the case proceeded to trial solely on damages. The jury returned a verdict awarding $550,000 to Mr. Marlette for bodily injuries and lost wages and $150,000 to Mrs. Marlette for loss of consortium. Upon motion by State Farm, the trial court molded the $700,000 verdict to reflect the $250,000 policy limit of the UM policy with State Farm (the Marlettes had five cars, and the policy provided for coverage of $50,000 per vehicle, resulting in stacked coverage totaling $250,000). The trial court also credited an earlier payment of $16,693.02 by State Farm to the Marlettes to the $250,000 policy limit, resulting in a molded verdict of $233,306.98.

The Marlettes filed a motion for delay damages pursuant to Pa.R.C.P. 238 on the $550,000 jury verdict (according to precedent, delay damages are not recoverable for awards based on loss of consortium), which State Farm opposed. The trial court granted the Marlettes' motion, but calculated delay damages by applying the appropriate interest rate to the molded verdict of $233,306.98.

The Marlettes and State Farm filed cross-appeals with the Superior Court. The Marlettes argued that the trial court abused its discretion by calculating delay damages based on the molded verdict rather than the actual jury verdict. State Farm argued that the trial court erred in awarding delay damages at all because, when added to the molded verdict amount, it resulted in a judgment in excess of the Marlettes' $250,000 UM policy limit. Alternatively, State Farm argued that the calculation of delay damages must be based on the molded verdict to reflect the Marlettes' UM policy limits.

In a divided opinion, the Superior Court vacated the trial court's judgment and remanded for recalculation of delay damages based on the amount of the jury verdict, holding that delay damages should have been based on the jury verdict rather than the molded verdict. In so holding, the Superior Court distinguished the *Marlette* case from the Supreme Court holding in *Allen v. Mellinger*, 784 A.3d 762 (Pa. 2001), wherein the high court overruled its own precedent in *Woods v. Com., Dep't of Transportation*, 612 A.2d 970 (Pa. 1992), and held that in an action against a Commonwealth agency, delay damages can be awarded only on the statutory cap and not on an actual jury verdict when that verdict exceeds the cap. The Superior Court reasoned that in the *Marlette* case, unlike *Allen*, there was no statutory cap on liability of State Farm because it was a private litigant. The Superior Court determined that the "interplay of the Sovereign Immunity Act with Pa.R.C.P. 238 in *Allen* created a unique scenario, distinctive from that in the *Marlette* case, and so the policy limit for UM coverage could not be equated with a statutorily imposed cap on liability for commonwealth parties.

The Superior Court also attempted to distinguish the *Marlette* case from *LaRue v. McGuire*, 885 A.2d 549 (Pa. Super. 2005), which was a slip-and-fall case in which the Superior Court held that delay damages should be calculated based on a $15,000 damages cap, which was stipulated to by the parties in exchange for entry of medical reports into evidence without authentication, when the jury verdict was in excess of $600,000. The Superior Court reasoned that unlike the plaintiff in *LaRue*, the Marlettes did not enter into an agreement with State Farm to limit the insured's potential liability in exchange for a benefit at trial. The Superior Court therefore vacated the trial court's judgment and remanded for recalculation of delay damages based on the full amount of the jury verdict in favor of Mr. Marlette. State Farm filed a petition for allowance of appeal with the Supreme Court.

Justice Todd, writing for the majority in a 5-1 decision, concluded that a plaintiff may recover delay damages only on the amount of "legally-recoverable damages" to which he or she is entitled pursuant to a molded verdict and not on the full amount of a jury verdict in his or her favor. In doing so, the Court expressed dis-

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agreement with the Superior Court's attempts to distinguish the *Allen* and *LaRue* cases. Although the majority of the Superior Court distinguished *Allen* on the basis that the defendant therein was the commonwealth and not a private party, and opined that a statutorily-imposed cap on liability under the Sovereign Immunity Act "cannot be equated" with a policy limit for UM coverage, that reasoning was not sound. The Superior Court also tried to distinguish *LaRue* on the basis that the Marlettes did not enter into an agreement with State Farm to limit the insured's potential liability in exchange for some form of benefit at trial and that the voluntary decision by the plaintiff in *LaRue* is not akin to the inherent "limitation" of the compensatory damages recoverable by the Marlettes in a UM action pursuant to their policy with State Farm.

The Supreme Court considered the *Allen* and *LaRue* opinions and rejected the proposition that a plaintiff could recover delay damages based upon a fact-finder's assessment of damages. The Court reiterated that the Marlettes voluntarily elected, and paid for, a UM policy with a $250,000 coverage limit. Under a UM policy, "the insured is not responsible for paying a deductible prior to recovery but may recover only up to the policy's specified coverage limits." *Jones v. Nationwide Prop. And Cas. Ins. Co.,* 32 A.3d 1261, 1263 (Pa. 2011). Thus, absent a bad faith claim, the Marlettes' "self-imposed limitation on compensatory damages" is sufficiently analogous to the stipulation in *LaRue* and the statutory limitation in *Allen*, wherein the plaintiff had no control over the statutory cap on compensatory damages, to warrant the same treatment under Rule 238.

The Court therefore held, consistent with its decision in *Allen*, that a plaintiff's recovery of delay damages under Pa.R.C.P. 238 is limited to the amount of the legally-recoverable molded verdict as reflected by the insurance policy limits. The Superior Court's decision was vacated and remanded for remand to the trial court for reinstatement of the trial court's original award of delay damages based on a molded verdict.

— Contributed by Carolyn E. Moser, McQuaide Blasko Inc., Hershey, (717) 533-4444;cemoser@mqblaw.com

Pennsylvania Supreme Court Refuses to Extend Physicians' Duty to Third-Persons

In *Seebold v. Prison Health Services*, 57 A.3d 1232 (Pa. 2012) (Opinion by Saylor, J.) the Pennsylvania Supreme Court refused to extend a physicians' duty to warn third parties of a patient's communicable disease. With this ruling, the Court refused to extend a physicians' duty to warn with exception to threats of imminent violence from third parties.

The plaintiff in *Seebold* was a corrections officer who contracted methicillin-resistant staphylococcus aureus (MRSA), a contagious bacterial infection from an inmate. In her medical professional liability case against the provider of health care services for the prisoner, it was alleged that they owed her a "duty to warn" to protect her from acquiring MRSA from those inmates known to be carrying the bacteria in a communicable state. The Court sustained PHS's preliminary objections on the basis that PHS had no duty to the corrections officer, and the decision was appealed to the Superior Court.

The Superior Court reversed the trial court stating that the plaintiff had, in fact, raised a cause of action in accordance with *DiMarco v. Lynch Homes-Chester County, Inc.,* 583 A.2d 422 (Pa. 1990).

On appeal, the Pennsylvania Supreme Court reversed, refusing to impose a new, affirmative duty upon physicians to warn and advise third-party non-patients of the risk of contracting a communicable disease. In so doing, the Supreme Court also held that the Superior Court erred in holding that cause of action was raised in accordance with *DiMarco.*

Citing factors including physician-patient confidentiality, protection of the physician-patient relationship, maintenance of prisoner order and security, and the burden of identifying individuals in prison at elevated risk for transmission, the Supreme Court refused to springboard the imposition of a new, broader duty upon health care providers regarding third-party non-patients other than the duty to warn when faced with a situation where imminent violence is likely from the narrowly held decision of *Emerich v. Phila. Ctr. For Human Dev., Inc.,* 720 A.2d 1032 (Pa. 1998).

The Court concluded that the request for the imposition of a new duty on the part of a physician to undertake third-party interests required a broader policy assessment, deferring the issue to the Pennsylvania General Assembly's policy-making resources.

— Contributed by Matthew P. Keris, Marshall, Dennehey, Warner, Coleman & Goggin, Scranton, (570)496-4600; mpkeris@mdwcg.com

Board of Claims Has Exclusive Jurisdiction Over Bidder's Action Against Commonwealth Agency

In *Scientific Games International, Inc. v. Commonwealth of Pennsylvania, Department of Revenue,* 2013 Pa.

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LEXIS 518 (Pa. March 25, 2013) (Opinion by Saylor, J.), the Supreme Court of Pennsylvania reversed the Commonwealth Court's order holding that the court had jurisdiction to consider a bidder's action challenging the cancellation of a request for proposals and seeking declaratory and injunctive relief. Therein the Supreme Court held that non-monetary, procurement-related claims against the commonwealth are subject to the exclusive original jurisdiction of the Board of Claims pursuant to the Procurement Code, 62 Pa.C.S. §§101-2311.

Scientific Games International, Inc. (SGI), filed an action against the commonwealth, the Department of General Services and Department of Revenue (collectively DGS), seeking declaratory and injunctive relief with respect to the award for a new computer control system for slot machines. GTECH Corp., the provider of the then existing system, intervened. According to the complaint, in response to a public notice of request for proposal (RFP) for the design, development, implementation and maintenance of a control system that would allow the Department of Revenue to monitor slot machines at casinos and other venues in the commonwealth, SGI and GTECH submitted proposals. DGS awarded the contract to SGI, and GTECH filed a protest, including a request that the RFPs be cancelled pursuant to the Procurement Code. DGS denied the protest but shortly thereafter cancelled the RFPs as well as the award to SGI before a contract was fully executed and approved. In response to SGI's Complaint, DGS and GTECH filed preliminary objections, asserting that SGI's claims sounded in contract and fell within the exclusive jurisdiction of the Board of Claims. The Commonwealth Court overruled the preliminary objections, holding the exclusive jurisdiction of such procurement-related matters was before that court. The Commonwealth Court reasoned that the Board of Claims Act had been repealed in 2002 and that the court's decisions recognizing such jurisdiction before the board pre-dated the repeal. The court held that its original jurisdiction over such procurement-related matters is derived from Section 1724(d) of the Procurement Act — "nothing in this section shall preclude a party from seeking non-monetary relief in another forum as provided by law." The Commonwealth Court certified its order regarding the preliminary objections for interlocutory appeal.

The Supreme Court of Pennsylvania granted DGS and GTEC's petitions for permission to appeal, both of which focused on the jurisdictional issue. In support of its position that the Board of Claims had exclusive jurisdiction, DGS and GTECH argued that the most recently enacted version of the Procurement Code is "'substantively identical' with the core jurisdictional prescription of the former Board of Claims Act" and that the Supreme Court has continued to recognize the board's expansive jurisdiction over contract disputes. (citations omitted). To the contrary, SGI argued that the general grant of exclusive jurisdiction to the Board of Claims set forth in Section 1724(a) of the Procurement Code pertains to only "claims" as opposed to "issues." Further, SGI echoed the Commonwealth Court's rationale that Section 1724(d) of the Procurement Code is the basis for the Commonwealth Court's exclusive jurisdiction and further argued that said provision operates as a waiver of sovereign immunity.

The Supreme Court rejected the Commonwealth Court's conclusion that Section 1724(d) is the basis for the Commonwealth Court's exclusive jurisdiction. The Supreme Court reasoned that Section 1724(d) does not itself establish any substantive or jurisdictional basis for a claim, but rather Section 1724(d) recognizes that other statutory provisions may do so and preserves the independent effect of those provisions. Moreover, the Court noted that the plain language of Section 1724(d) only operates as a constraint on that section itself, and thus, has no effect on the scope of sovereign immunity established in different sections of the Procurement Code, including the Code's "self-contained reaffirmation of sovereign immunity" in Section 1702(a). Finally, the Court agreed with the appellants' rationale that, where the General Assembly has not specifically provided for non-monetary relief in a claim arising from a commonwealth contract under the Procurement Code, then either the claim is within the exclusive jurisdiction of the Board of Claims, or it is barred by sovereign immunity.

For these reasons, the Court concluded that the Commonwealth Court erred in interpreting Section 1724(d) in such a broad fashion as to confer original jurisdiction actions in the Commonwealth Court over non-monetary claims against the commonwealth. The Court held that such non-monetary claims are cognizable only to the extent they fall within some specific waiver or exception to immunity; no such waiver or exception is found Section 1724(d) of the Procurement Code. Accordingly, the Supreme Court reversed the Commonwealth Court's order and remanded the matter for dismissal.

— Contributed by Jeffrey A. Kubay, Wayman, Irvin & McAuley LLC, Pittsburgh; jkubay@waymanlaw.com.

Pennsylvania Federal Business Decisions

Kelly A. Williams and Henry M. Sneath, Business Decisions Editors

Kelly A. Williams

Henry M. Sneath

Third Circuit Takes Sides in Circuit Split Over TILA Rescission

The Third Circuit took sides in a growing circuit split through its recent decision in *Sherzer v. Homestar Mortgage Services*, 707 F.3d 255 (3d Cir. 2013). As Judge Hardiman explained on behalf of a unanimous panel, "the question presented by this appeal is simple," but "[t]he answer to the question is more complicated."

Under the Truth in Lending Act at 15 U.S.C. § 1635 (TILA), borrowers have two opportunities to rescind loans after closing: a) an absolute right to rescind within three days after closing, which the borrower may exercise by sending a letter to the lender; and b) a qualified right to rescind within three years after closing, which exists if and only if the lender failed to provide certain mandatory disclosures at closing. The question presented was whether a borrower who exercises the qualified right to rescind may simply send a letter to the lender giving notice of his or her intentions, or whether that borrower must file suit against the lender and seek a judicial declaration of rescission.

The statutory text is unclear; hence the appeal. The Fourth and 11th Circuits have previously held that because the statute does not reference any court process, borrowers may exercise the qualified right of rescission simply by sending a letter to the lender. *Gilbert v. Residential Funding, LLC*, 678 F.3d 271, 277-78 (4th Cir. 2012); *Williams v. Homestake Mortgage Co.*, 968 F.2d 1137, 1139-40 (11th Cir. 1992). In contrast, the Ninth and 10th Circuits have held that a rescission cannot occur until either the parties agree to it, or a court issues an order granting it. Thus, if the parties do not agree, the borrowers must file suit within the three-year window after closing to exercise their qualified right to rescind. *Rosenfield v. HSBC Bank, USA*, 681 F.3d 1172, 1188 (10th Cir. 2012); *McOmie-Gray v. Bank of America Home Loans*, 667 F.3d 1325, 1326 (9th Cir. 2012).

In *Sherzer*, the Third Circuit concluded that: 1) the statutory text does not mention a court process as a requirement for rescission under TILA and 2) "TILA is a remedial statute that we must construe liberally." It considered and ultimately rejected arguments, by the lender before it and by its amici, regarding possible legal and practical problems with allowing rescission on demand even months or years after closing. The Third Circuit therefore joined the Fourth and 11th Circuits in holding that a borrower may exercise the qualified right of rescission under TILA by giving the lender written notice of his or her intentions within three years of closing; the borrower need not go further and file suit.

— Contributed by Jason Spak, Picadio Sneath Miller & Norton PC, Pittsburgh; jspak@psmn.com

Property Damage Due to Faulty Workmanship Not an Occurrence Under Commercial General Liability Policy

In *State Auto. Prop. & Cas. Ins. Co. v. Miller,* No. 12-362, 2013 U.S. Dist. LEXIS 39645 (E.D. Pa. Mar. 22, 2013) (opinion by J. Slomsky), the court granted judgment on the pleadings in favor of the insurer, State Auto Property and Casualty Insurance Company (State Auto) and against the defendant insured contractor, Bryan Miller, and the defendant homeowners, the Waggamans. As a result, State Auto did not owe a duty to defend or duty to indemnify Miller.

State Auto issued a commercial general liability policy, effective from April 30, 2005 to April 30, 2006, to Miller. The policy stated "[t]his insur-

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Henry M. Sneath and Kelly A. Williams are partners in the litigation firm Picadio Sneath Miller & Norton PC, in Pittsburgh. They have extensive federal and state court trial experience in cases involving commercial disputes, professional negligence, products liability, intellectual property and insurance coverage.

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ance applies to ... 'property damage' only if … (1) The … 'property damage' is caused by an 'occurrence' that takes place in the 'coverage territory;' (2) The … 'property damage' occurs during the policy period. ..." The policy defined "occurrence" as "an accident, including continuous or repeated exposure to substantially the same general harmful conditions."

Six weeks after the policy expired, Miller and the Waggamans executed an agreement for the sale of property. On Aug. 18, 2006, the Waggamans and Miller executed an addendum to the sales agreement in which Miller contracted to repair a roof leak on the property. Following Miller's failure to repair the roof, Miller and the Waggamans entered into another agreement for Miller to the make the necessary roof repairs. Miller again failed to perform the repairs. The Waggamans hired other contractors to make the repairs and sued Miller, seeking damages for the roof repairs and statutory interest from Aug. 18, 2006. As a result, Miller's counsel requested coverage from State Auto for Miller. State Auto agreed to defend Miller under a reservation of rights but also filed this declaratory judgment action against Miller and the Waggamans.

The court applied the "effect test" to determine whether the property damage was sustained during the policy period. Under this test, "an occurrence happens when the injurious effects of the negligent act first manifest themselves in a way that would put a reasonable person on notice of injury." Thus, an "occurrence" happens when the injury is reasonably apparent, not at the time the cause of the injury occurs. In the present case, the occurrence could not have happened until Aug. 18, 2006, the date of the settlement, which was after the policy expired. The underlying complaint only sought damages from Aug. 18, 2006, and nothing in the complaint alleged that the roof leak was reasonably apparent to the Waggamans prior to the policy expiring.

To determine whether the property damage was an "occurrence" under the policy, the court applied the Pennsylvania Supreme Court's decision in *Kvaerner U.S., Inc. v. Commercial Union Ins. Co.*, 908 A.2d 888 (Pa. 2006), noting "the key term in the ordinary definition of 'accident' is 'unexpected.' This [term] implies a degree of fortuity." The court also relied upon *Specialty Surface Int'l, Inc. v. Continental Casualty Co.*, 609 F.3d 223 (3d Cir. 2010), which held that "[f]aulty workmanship, even when cast as a negligence claim, does not constitute" an "occurrence" and "damages that are a reasonably foreseeable result of the faulty workmanship are also not covered under a commercial general liability policy." Miller's faulty workmanship was the alleged cause of the roof leak. The faulty workmanship and resulting roof leak lacked the requisite fortuity to be considered an accident. Thus, they were not "occurrences" covered under the policy.

As a result, the court held that the damage to the home occurred after the policy had expired and that there was no "occurrence" within the meaning of the policy because the property damage was caused by faulty workmanship and was not an accident.

— Contributed by Katherine C. Dempsey, Picadio Sneath Miller & Norton PC, Pittsburgh; kdempsey@psmn.com

Permanent Injunction Issued to 7-Eleven Following Franchisee Fraud

The decision in Civ. Action No. 12-5541, 2013 U.S. Dist. LEXIS 29091 (E.D. Pa. March 1, 2013) (opinion by J. Dubois) centered on alleged fraudulent behavior by owners and employees of a 7-Eleven franchise, Minaxi Enterprises Inc. (Minaxi) in Philadelphia. The court found that 7-Eleven's termination of the franchise agreement without notice was proper and granted its motion for permanent injunction.

The case revolved around a con-

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venience store franchisee relationship between 7-Eleven and defendants in which defendants allegedly failed to properly report sales and information regarding the operation of the store. 7-Eleven's share of the store's profits was therefore reduced, and it sought a permanent injunction due to trademark infringement. As a first step, the court examined the issue of whether the franchise agreement was properly terminated and noted that under Pennsylvania law, a party may terminate without notice when there is a breach of contract going directly to the essence of the contract.

After an extensive discussion of the facts surrounding the unrecorded sales, the court found more than sufficient evidence of fraud by defendants and held that the fraud went to the essence of the contract. The court rejected defendants' claims that there was no evidence that they knew or were reckless as to the unrecorded sales, and that there was no evidence that they intended to defraud 7-Eleven. The court cited the precise detail of 7-Eleven's evidence and the lack of credible testimony by the defendants.

The court then moved to the four equitable elements in a permanent injunction analysis. Looking first to the Lanham Act, the court found that there was a substantial likelihood of confusion by consumers due to defendants' continued use of 7-Eleven's trademark. The court held that 7-Eleven faced irreparable harm as it had lost control of its trademark in relation to the defendants' store and that this loss could not be compensated in monetary terms. Moreover, 7-Eleven suffered irreparable injury from defendants' continued occupancy of the store, which interfered with 7-Eleven's use of its property.

Moving to an analysis of balancing hardships, the court was not persuaded by defendants' argument that the injunction would result in loss of their livelihoods. As they were found to have committed fraud, they could not now complain of the result. Even assuming that they suffered a hardship, 7-Eleven's loss of control of its trademark outweighed any hardship suffered by the defendants. Finally, public interest would be served by granting the injunction due to a general interest in the prevention of fraud as well as an incentive to aid in future accurate sales disclosures and proper collection of taxes.

To conclude, the court briefly addressed defendants' argument that 7-Eleven acted in bad faith by failing to provide notice and opportunity to cure the contractual breach and therefore had "unclean hands." Given that the court previously determined that the termination without notice was proper, the court rejected the bad faith claim and granted 7-Eleven's motion for permanent injunction.

— Contributed by Cara Disheroon, Picadio Sneath Miller & Norton PC, Pittsburgh; cdisheroon@psmn.com

Court Sanctions Infringer for Violating Permanent Injunction With Improper Product Design Around

In *Arlington Industries, Inc. v. Bridgeport Fittings, Inc.*, No. 3:02-CV-0134, 2013 U.S. Dist. LEXIS 37503 (M.D. Pa. Mar. 19, 2013) (opinion by J. Caputo), defendant Bridgeport Fittings (Bridgeport) entered into a settlement agreement with plaintiff Arlington Industries (Arlington) to resolve a patent infringement dispute between the parties. As part of that agreement, Bridgeport entered into a confession of judgment and agreed to a permanent injunction prohibiting it from selling certain quick-connect electrical connectors.

Bridgeport then redesigned its connectors and began selling them. Arlington moved to hold Bridgeport in contempt for violating the injunction, arguing that the new connectors were simply colorable imitations of the infringing products. The district court agreed and held Bridgeport in contempt for violating the court's permanent injunction.

To prevail on a motion for contempt for violating a permanent injunction in a patent case, "the party seeking to enforce the judgment must prove both that the newly accused product is not more than colorably different from the product found to infringe and that the newly accused product actually infringes." *Id.* at *6 (quoting *TiVo, Inc. v. EchoStar Corp.*, 646 F.3d 869, 882 (Fed. Cir. 2011) (en banc)).

The patent owner bears the burden of proof on both the colorably different and infringement questions by clear and convincing evidence. *Id.* at *6.

In considering this question, the court began its analysis with the differences between the features that the patentee used to establish infringement and the redesigned features:

> The primary question on contempt should be whether the newly accused product is so different from the product previously found to infringe that it raises fair ground of doubt as to the wrongfulness of the defendant's conduct. If the differences between the modified features and those previously found to infringe are significant, the newly accused product as a whole shall be deemed more than colorably different from the infringing one, and the inquiry into whether the newly accused product actually in-

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> fringes is irrelevant. However, when a court concludes that there are no more than colorable differences between the infringing product and modified product, a finding that the newly accused product continues to infringe the relevant claims is additionally essential for a violation of an injunction against infringement.

Id. at *7–8 (quoting in part *TiVo*, 646 F.3d at 882–83) (internal citations and quotation omitted).

The court found that it must directly compare the elements that the patentee previously identified as meeting a claim limitation with the modifications made by the infringer. "An accused product is a colorable imitation of an enjoined product if it is the substantial equivalent of the enjoined product," meaning that it performs substantially the same function in substantially the same way to achieve substantially the same results. *Id.* at *9.

The patent at issue involved a method for attaching an electrical cable to a junction box. In an attempt to design around it, Bridgeport modified two parts, making a formerly cylindrical component more conical in shape and modifying an adapter with lugs.

The court heard testimony from experts for both sides, who presented testimony as to why the modifications were or were not (in their opinions) colorably different from the prior infringing device. After weighing the evidence, the court concluded that the modifications were not more than colorably different than the infringing device. The court then analyzed whether the modified product infringed the patent and ultimately decided that it did.

The court concluded that Arlington successfully demonstrated by clear and convincing evidence that Bridgeport violated the terms of the permanent injunction, which resulted in the court holding Bridgeport in contempt.

— Contributed by Robert L. Wagner, Picadio Sneath Miller & Norton PC, Pittsburgh; rwagner@psmn.com

Willful Infringement Sufficiently Pled to Survive Motion to Dismiss

In *Brookville Equipment Corp. v. A.L. Lee Corp.*, No. 13-cv-0059, 2013 U.S. Dist. LEXIS 40662 (W.D. Pa. Mar. 22, 2013) (opinion by J. Schwab), defendant A.L. Lee Corporation (Lee) filed a Rule 12(b)(6) Motion to Dismiss the willful infringement claim asserted by plaintiff Brookville Equipment Corp. (Brookville).

To establish willful infringement, the Federal Circuit has held that a patentee must: (a) show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent and (b) also demonstrate that this objectively-defined risk was either known, or so obvious that it should have been known, to the accused infringer. The Federal Circuit has also held that willfulness does not equate to fraud and that the pleading requirement for willful infringement does not rise to the stringent standard required by Rule 9(b) of the Federal Rules of Civil Procedure. In this regard, district courts are split on the level of detail necessary to plead willful infringement. For example, the Eastern District of Texas has held that a complaint need not detail how the willful infringement occurred, while the District of Delaware has held that a plaintiff alleging willful infringement must plead facts giving rise to at least a showing of objective recklessness of the infringement risk.

In this case, the court analyzed the allegations in the complaint to determine whether sufficient facts were pled to survive a motion to dismiss. In particular, Brookville alleged that on or about Nov. 2, 2011, counsel for Brookville directly notified Lee by letter of its belief that Lee's rerailer device infringed the '190 Patent at issue. Brookville also alleged that counsel for Lee subsequently responded with a letter expressing Lee's belief that Lee's rerailer device did not infringe any valid claim of the '190 Patent. Moreover, Brookville referenced two additional letters exchanged between counsel concerning infringement of the '190 Patent. Finally, Brookville alleged that, notwithstanding Brookville's notification of infringement, Lee continued to manufacture, sell and offer for sale its infringing rerailer device. Brookville attached the aforementioned letters to its response to the motion to dismiss.

The court explained that generally it cannot consider documents outside the complaint without converting the motion to dismiss to a motion for summary judgment. However, an exception exists when the documents are integral or explicitly relied upon in the complaint. In analyzing the merits of the motion to dismiss, the court found the District of Delaware to be persuasive in that in order to state a claim for willful infringement, the complaint must allege factual circumstances in which the patents-in-suit are called to the attention of the defendant. Moreover, the court agreed that the complaint must demonstrate a link between the various allegations of knowledge of the patents-in-suit and the allegations that the risks of infringement were either known or were so obvious that they should have been known. The court concluded that the letters exchanged between counsel

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for Lee and Brookville unequivocally demonstrated that Lee was put on notice by Brookville of the existence of the '190 Patent and the reasons in which Brookville believed that Lee was infringing the '190 Patent. The court, noting that willfulness is a fact-intensive issue that is difficult to resolve at the pleading stage, found that Brookville pled sufficient facts with respect to willfulness to survive a motion to dismiss.

— Contributed by Joseph R. Carnicella, Picadio Sneath Miller & Norton PC, Pittsburgh; (412) 288-4000; jcarnicella@psmn.com

Legislative Update

By Steven Loux, PBA Legislative Counsel

The PBA Legislative Department seeks to inform section members about adopted or pending legislation that affect our practice areas. The section encourages members to express opinions regarding any pending legislation's importance or impact by contacting the PBA Legislative Department or the leaders of the section. To obtain copies of any act cited below, please e-mail Steve at steven.loux@pabar.org, call him at 800-932-0311, Ext. 2246; or directly access bills and other legislative information online at www.legis.state.pa.us.

NEW LEGISLATIVE SESSION

In January, the legislature began its two-year session, which will end in the fall of 2014. There are a number of House and Senate Committees (all controlled by the Republicans) that could be of interest to the Section, including the following:

House CommitteeChairs

Judiciary
Ron Marsico (R)
Thomas Caltagirone (D)

Insurance
Nicholas Micozzie (R)
Anthony DeLuca (D)

Senate Committee Chairs

Judiciary
Stewart Greenleaf (R)
Daylin Leach (D)

Banking and Insurance
Donald White (R)
Michael Stack (D)

LEGISLATION

Below find bills of relevance to the Civil Litigation Section. Reference to a committee means a House committee for House bills, a Senate committee for Senate bills, except where specified otherwise. Unless otherwise noted, the PBA has no position on the bills and is providing each summary for informational purposes only. All dates refer to 2013.

House Bill 43, sponsored by Rep. Kate Harper (R-Montgomery), amends the Volunteer Health Services Act (VHSA) to include within the act with respect to "approved clinics" non-profits "whose purpose is to provide free mental health services offered by licensed volunteers, whether inside or outside a clinic setting, to U.S. military personnel and their families regardless of income." The immunity provided by the VHSA — "A holder of a volunteer license who, in good faith, renders professional health care services under this act shall not be liable for civil damages arising as a result of any act or omission in the rendering of care unless the conduct of the volunteer licensee falls substantially below professional standards which are generally practiced and accepted in the community and unless it is shown that the volunteer licensee did an act or omitted the doing of an act which the person was under a recognized duty to a patient to do, knowing or having reason to know that the act or omission created a substantial risk of actual harm to the patient"—is extended to these mental health service providers as long as they post an explanation of the exemptions from civil liability in a conspicuous place on the premises where the services are provided. The bill was referred to the Professional Licensure Committee on Jan. 8.

HB 57, sponsored by Rep. Keith Gillespie (R-York), amends Title 42 (Judiciary & Judicial Procedure) adding that a benevolent gesture or admission by health care provider or assisted living residence or personal care home prior to the commencement of a medical professional liability action shall be inadmissible as evidence of liability or as evidence of an admission against interest. The bill was referred to the Judiciary Committee on Jan. 10. Similarly, **Senate Bill 379,** sponsored by Sen. Patricia Vance (R-Cumberland and York), amends the Medical Care Availability and Reduction of Error (MCARE) Act,

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adding a new section providing that in any liability action, any benevolent gesture, or admission made prior to the commencement of a medical professional liability action by a health care provider or assisted living residence or an officer, employee or agent of the provider or residence to a patient or resident or the patient's or resident's relative or representative regarding the patient's or resident's discomfort, pain, suffering, injury or death, regardless of the cause shall be inadmissible as evidence of liability or evidence of an admission against interest. The bill received first consideration in the Senate on Feb 5.

HB 76 and SB 76, sponsored, respectively, by Rep. Jim Cox (R-Berks) and Sen. David G. Argall (R-Berks, Carbon, Lehigh, Monroe, Northampton and Schuylkill), the Property Tax Independence Act, replaces the school district-imposed real property tax with, among other things, a sales and use tax on some legal services. HB 76 was referred to the Finance Committee on March 14, and SB 76 was also referred to the Finance Committee on March 14. The PBA opposes both bills.

HB 544, sponsored by Rep. Dan Moul (R-Adams and Franklin), amends "An act encouraging landowners to make land and water areas available to the public for recreational purposes by limiting liability in connection therewith, and repealing certain acts," to make changes to the purpose and definitions sections and allow a court to award attorney fees and direct legal costs to an owner, lessee, manager, holder of an easement or occupant of real property who is found not to be liable for the injury to a person or property pursuant to this act. The bill received first consideration in the House on April 22.

HB 1150, sponsored by Rep. Bryan Cutler (R-Lancaster), provides for transparency of claims against asbestos-related bankruptcy trusts, compensation & allocation of responsibility, for the preservation of resources & the imposition of liabilities. The bill was referred to the Judiciary Committee on April 8.

Your PBA Civil Litigation Section Listserv

A listserv is an electronic mailing list that allows subscribers to exchange information with each other simultaneously. Joining a listserv is like having a live conversation with a group, only all communication is by e-mail. When you subscribe to a listserv, you e-mail all listserv members via just one e-mail address.

To subscribe to the listserv, go to www.pabar.org and sign in under "Member Login" in the upper right corner of the page. Then click on "Sections" to locate the Civil Litigation Section Page. The "Listserv Sign-up" button is on the Section's main page.

Once subscribed to the listserv you will get the following confirmation message: File sent due to actions of administrator traci.raho@pabar.org.

To **unsubscribe**, send a message to listserv@list.pabar.org with "unsubscribe civillitigation" in the body.

To change your e-mail address, you must unsubscribe the old e-mail address using the old e-mail address and subscribe the new e-mail address using your new e-mail address. **Sending an e-mail to the list will not change your e-mail address on the listserv.**

To send a message to members of the listserv, address your e-mail to civillitigation@list.pabar.org.

To reply only to the sender, hit "Reply," and type your personal reply to the sender. This response will only go to the sender, not to the entire listserv membership. You can manually add other recipients outside of the sender or the membership.

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IMPORTANT: When you reply to the message, make sure that the listserv name is included either in the "to" or "cc" fields. If you see the listserv name with "bounce" included in the name, remove that address. The "bounce" address is a black hole. You may have to manually add the listserv address to one of the address fields in order for your reply to make it to the members of that list.

For customer service, contact Traci Raho, PBA Internet coordinator, 800-932-0311, Ext. 2255.