The Business Suit

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Committee Leadership

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From the Chair

A Tale of Two Craft Beers

By Michelle Czapski

As summer is winding down (a sad thing to admit up here in the north), I'd like to take a moment to reflect upon two of my favorite moments from the fleeting season of sunshine this year. Both involve friends, beer, and the power of DRI relationships.

The first occurred in June. Ahh, June, with its ridiculously long days and the promise of plenty of time to do all things summer over the endless weeks to come. In June, I had occasion to go to Vermont for a deposition in a case I have there. I'd never been to Vermont before, and was stunned at how beautiful it is. Of course, I'd heard that it is scenic, but was caught off guard by the truth of that statement. After getting settled in my lakeside hotel room, I met my local counsel for a beer. But, he isn't just any local counsel, and it wasn't just any beer. My local counsel, now my friend, is a member of our CLC, and was recommended to me by many people after I posted a need for help in Vermont. He's been wonderful to work with, from both a professional and a personal standpoint. And, more important to the theme of this article, he took me to a great little beer garden where they served us a delicious light summery pilsner with wildflower tones and just the right amount of hops. With a selection of Vermont cheese, of course. The depo went well, and I got some good admissions. It was because of the beer, cheese, and local counsel, I'm sure.

About a month later, I had another reason to drink a fine brew with a friend from DRI. This time, we were in Detroit, and I was the local counsel. My lead counsel is a longtime friend from DRI, so there was no need for her to send a message asking if anyone knew a Detroit lawyer, and I was pleased to be asked to assist with the case. The case is just getting started, and she was in town for the initial scheduling conference and to get a read on opposing counsel and the judge. Afterwards, we headed to a rooftop establishment near the Detroit River, and sipped some fine Michigan craft beer while gazing across to Canada. People are often surprised that Canada is south from here, but not this geography buff. This time, I enjoyed something a little heavier, in IPA with a nearly naughty name, because we are irreverent in Detroit. The beer was good and the company was better, and we spent longer than we'd expected catching up and laughing about whatever. It was another enjoyable evening courtesy of my DRI ties.

As we hunker down and prepare for our glasses of pumpkin ale and the Annual Meeting in San Francisco, I urge everyone to think about their own DRI network. How much has it enriched your practice and your life? How much more could it do for you if you strengthened the bonds you share with your DRI people? It is a truism that like so many aspects of our lives, you will get out of DRI what you put into DRI. So take a moment to say hello to a contact or two. Post a case development on the Community. Plan to go to the Annual Meeting in October. Because you never know, the next person you talk to might be the referral source for your next case. Cheers!

Michelle Thurber Czapski is a member with Bodman PLC, where she specializes in the defense of life, health, disability and ERISA cases, insurance coverage matters, class actions, and commercial litigation. Ms. Czapski is based in Bodman PLC's Troy, Michigan office, where she chairs the firm's Insurance Practice, leads the firm's attorney training program, and is a member of Bodman's ethics committee. She has served as lead trial counsel in matters across the country and has appeared in courts in numerous jurisdictions. She is active in DRI and the Life, Health and Disability Committee, and served as Program Chair of the 2016 Life Health Disability and ERISA Seminar. Ms. Czapski is the chair of the DRI Commercial Litigation Committee.

From the Editor

By Jamie Weiss

As I prepare this issue of the *Business Suit*, I have just returned from vacation, a leisurely 2300-mile drive through the northeast and Canada with my 11-year-old son. We had an amazing journey, from seeing *Hamilton* in New York to a Red Sox game in Boston to the Hockey Hall of Fame in Toronto. That sounds like fun, you might think, but why am I bringing this up in a DRI newsletter?

Because at each stop, I reflected on the contacts and friends I've made through DRI in each of the cities we stopped in. One of my favorite benefits of being a DRI member is the connections that we make that give us those contacts in cities all across North America. I walked by a law office in Montreal whose nameplate I recognized because I had dinner with one of their lawyers at a Business Litigation seminar several years ago. In Toronto, I had fond memories of taking in a Maple Leafs game last fall with another DRI colleague. In New York, I was reminded of a wonderful lunch last winter with DRI friends from all over. And in Boston, at Fenway Park—I explained to my son how we had a behind-the-scenes tour of the Green Monster at the DRI Annual Meeting a few years ago. All of those experiences and memories would not have happened without my membership, time, and commitment to DRI.

As it happens, this issue of the *Business Suit* comes with three feature articles: the first from Greg Farkas about attorney–client privilege issues in joint representations, the second from Mark Olthoff and James Martin about equitable relief in complex business transactions, and the third from Emily Knight about litigation involving biometric data.

We also have case updates from the Fifth Circuit, and pieces on membership and next year's seminar, which has been officially scheduled for May 8–10 in wonderful Austin, Texas, which was the site of one of my first DRI seminars with the Young Lawyers group six or seven years ago. I can't wait to get back.

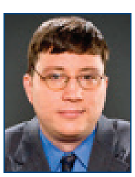
Jamie Weiss is a partner in the litigation group at Ellis & Winters. His complex commercial litigation practice includes matters as diverse as defending real estate developers from accusations of fraud, prosecuting claims on behalf of companies and individuals involving trade secrets and employee mobility, and defending cases involving crane and rigging accidents. Jamie is the publications co-chair for the DRI Commercial Litigation Committee.

Featured Articles

Are You Joined at the Hip?

Application of the Attorney–Client Privilege in Joint Representations

By Greg Farkas



The joint representation of multiple clients by a single attorney or law firm usually starts off on a positive note. The clients, whether they are investors looking to start a business, or family members looking to purchase real estate are getting along well enough to agree to be represented by the same counsel. Before accepting such a representation, the attorney must determine that there are no conflicts between the clients. At that point, things look good.

But, occasionally, the good times do not last. Conflicts between formerly joint clients can create any number of thorny issues. One such issue that may arise is the application of the attorney–client privilege to the former joint clients.

The basics are simple. Communications between the joint clients and counsel are afforded the same protection as communications between a single client and counsel. Assuming the general elements of the attorney–client privilege are satisfied, such communications cannot be discovered by a third-party. All of the joint clients must agree to waive the privilege to disclose communications to a third party. However, the joint clients cannot assert the privilege against each other. When their interests become adverse, the otherwise privileged communications become fair game in a dispute between them. *See, e.g., Squire, Sanders and Dempsey, L.L.P.*, 127 Ohio St.3d 161, 937 N.E.2d 533, 2010-Ohio-4469, ¶ 32; *Emley v. Selepchak*, 76 Ohio App. 257, 262 63 N.E. 919 (9th Dist. 1945); Restatement (Third) of the Law Governing Lawyers §75.

While the general rule is simple, like many simple things, its application can be complex. One such complexity is determining whether a joint client relationship exists. An Ohio appellate court recently addressed this situation in *Hinerman v. The Grill on Twenty First St. LLC*, 5th Dist. Licking No. 17-CA-82, 2018-Ohio-1927. The dispute involved two members of an LLC who had a falling out over the business. The plaintiff sought to depose the attorney who formed the LLC, which is a classic joint representation scenario. The complication in this case was that the defendant disputed that the attorney had represented the other member of the LLC. There apparently was no representation letter outlining the parties to the representation. Nor does it appear that the plaintiff paid the attorney. The attorney testified in support of the privilege objection that his client in drafting the operating agreement for the LLC was the defendant. *Id.* at ¶ 16. However, his deposition testimony prior to the privilege objection was far more equivocal. Id.

The court noted that the creation of an attorney–client relationship involves the subjective belief of the client. *Id.* at ¶ 12. The plaintiff testified he had personally employed the attorney in the past and was never told the attorney was only representing the defendant in forming the LLC. *Id.* at ¶ 15. Based on this testimony, the appellate court concluded that the trial court did not abuse its discretion in finding there was a joint representation.

Hinerman illustrates the importance of clearly documenting the parties and scope of representation in any potential joint representation scenario. The perception of the "clients" matters, and who is paying the bills is not determinative. *Id.* at ¶ 12.

As noted above, the general rule for applying the attorney–client privilege when joint clients become adverse to one another is relatively well established. But what happens when one client becomes adverse to the joint attorney? After all, a client can waive privilege to pursue a malpractice claim against its counsel, and an exception to the attorney–client privilege exists to allow the attorney to defend against such a claim. *See, e.g., Squire, Sanders and Dempsey*, 2010-Ohio-4469 at ¶ 34-53.

One Ohio court addressed this situation in Galati v. Pettorini, 8th Dist. Cuyahoga No. 101712, 2015-Ohio-1305. The plaintiff had been one of 11 joint plaintiffs who filed suit against an insurance company. He later filed a malpractice claim against the attorney in that case and sought discovery of communications with other plaintiffs concerning the handling of the original case. The attorney objected on the basis of the attorney–client privilege. The trial court ordered the documents produced. The court of appeals agreed with the attorney and reversed, holding that the plaintiff "could not and cannot unilaterally waive the privilege of the other . . . clients." *Id.* at ¶ 40.

The court in *Galati* did not cite any authority directly on point on this specific issue. But a California appellate court reached the opposite result in *Anton v. Superior Court of Los Angeles Cty.*, 183 Cal. Rptr. 422 (2d Dist. 2015). The plaintiff had jointly retained the defendant law firm with another party. The plaintiff later sued for malpractice and the other party did not. In the malpractice litigation, the plaintiff sought discovery of communications between the law firm and the other party. The law firm objected based on the attorney–client privilege.

In *Anton*, the appellate court rejected the privilege claim. It held that because there was a joint representation, there was no expectation of confidentiality between the clients. *Id.* at 426. Therefore, no privilege could apply. The court also concluded that "fundamental fairness" prevented application of the privilege. The court explained that applying the privilege in such situations created a "substantial risk" of collusion between the attorney and the non-suing client. Id.

As illustrated above, the application of the attorney–client privilege in the context of malpractice claims involving joint clients is unsettled. When a malpractice claim is based on allegations that a case involving multiple plaintiffs was improperly settled, courts have generally allowed discovery of communications with the non-suing clients about the settlement. *See, e.g., Williamson v. Edwards*, 880 So. 2d 310 (Miss. 2004); *Scrivner v. Hobson*, 854 S.W. 2d 148 (Tx. Ct. App. 1993). To the extent a majority rule exists, under differing fact patterns, it appears that most courts do not apply the privilege in the context of malpractice claims by one of the joint clients. *See, e.g.,* Newsome v. Lawson, 286 F. Supp. 3d 657 (D. Conn. 2017); *Bolton v. Weil, Gotshal & Manges LLP*, 836 N.Y.S.2d 483 (N.Y. Sup. 2005); *Farnsworth v. Van Cott, Bagley, Cornwall & McCarthy*, 141 F.R.D. 310 (D.

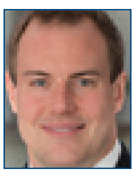
Colo. 1992); *Tunick v. Day, Berry & Howard*, 486 A.2d 1147 (Conn. Super. 1984).

So what is the takeaway? Both attorneys and clients need to be aware that the attorney–client privilege is not as absolute, and potentially can be lost in a variety of ways in joint client representations. As G.I. Joe taught us: "Knowing is half the battle."

Gregory Farkas graduated cum laude from the University of Michigan Law School and is a partner with the law firm of Frantz Ward LLP in Cleveland, Ohio. Greg's practice encompasses a variety of litigation matters, including commercial disputes and the litigation of lender liability, insurance coverage and consumer fraud claims. He has represented defendants in numerous class actions in state and federal courts and has authored several articles concerning class action practice. Greg is a member of the steering committee for the DRI Commercial Litigation Committee.

Court Explores the Contours of Declaratory Judgments, Law and Equity After Failed Business Purchase

By James P. Martin and Mark A. Olthoff



A recent court case from Missouri's Eastern District Court of Appeals provides insight on the intersection of declaratory judgments, legal damages and equitable relief, particularly in disputes over complicated business transactions. The case is *Payne v. Cunningham*, ED 105712 and ED 105850, 2018 WL 1915804 (Mo. Ct. App. April 24, 2018). In it, Missouri joins the growing list of states exploring the right to a jury trial and the available remedies. **The key takeaways of the decision include**:

- Declaratory judgment actions allow for jury findings on specific factual issues, with the court to decide any remaining equitable claims consistent with those findings.
- A plaintiff should be careful to clearly label and explain its claims, particularly if they involve mixed claims of law and equity or contrasting requests for legal relief (damages) and equitable relief (specific performance).
- The clarification of jury-tried issues and judge-tried issues may also impact settlement and trial strategy.

The *Payne* decision is particularly relevant to complicated business transactions and resulting disputes, where parties may enter into a number of contracts and agreements related to the purchase and control of companies.

Background of the Case

Wayne Cunningham and Southtown Dodge, Inc. (the "Dealership") entered into a Stock Purchase Agreement ("SPA") to sell the Dealership to Aaron Payne, Dominic Petrulli, and Curtis Pratt (the "Buyers") in two phases. In the first phase, the Buyers would purchase 21 percent of the Dealership for $500,000 cash. In the second phase, after the dealership's debt was paid down to a certain amount, the Buyers would acquire the remaining 79 percent for $3 million pursuant to a promissory note secured by the shares. For both phases, the Buyer's respective equity holdings were to be 49 percent for Payne, 39 percent for Petrulli, and 15 percent for Pratt. The closing for the first phase was to occur on May 31, 2016, and the deliverables for the closing include a shareholders' agreement, employment agreements for the Buyers and Cunningham, and lease amendment, stock certificates, and the purchase price.

However, when the closing date arrived, the Buyers needed additional time to secure financing to pay the purchase price. As a result, the parties executed the SPA and closing documents, Cunningham signed the stock certificates, and everything was placed in escrow pending payment.

The parties disagreed about the scope of any agreed extension of the time for payment. In any event, on June 27, Cunningham refused Payne's offer to write a check, and then expressly rescinded the entire transaction by email

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later that day. Cunningham also rejected a cashier's check that the buyers tendered on July 18.

The Lawsuit and Trial

The Buyers filed a petition with a single, untitled count, alleging breach of contract (under both SPA and the agreement to extend the time for payment) and seeking a declaration of rights and specific performance under those agreements.

At trial, the Sellers moved for a directed verdict at the close of the Buyer's evidence, arguing that the Buyers could not obtain a declaratory judgment because they had an adequate remedy at law (as shown by the Buyer's breach of contract claims). The Buyers contended that, although their claim was for breach of contract, money damages were inadequate, thus warranting a declaration of rights and specific performance of the agreements. After a lengthy argument, the trial court granted the Sellers' motion for directed verdict, reasoning that the Buyers had asserted a breach of contract claim and finding declaratory judgment relief improper.

The Appellate Court's Decision

The appellate court reversed the trial court's directed verdict, and held that the Buyers had made a submissible case for declaratory relief and specific performance. But, because the determination of rights under the contract depended on the existence and terms of the alleged agreement to extend the time for payment, a jury would first have to make fact findings. Based on those facts, the trial court would then determine the rights of the parties, including whether the Buyers were entitled to specific performance.

Under the Missouri Declaratory Judgment Act, a trial court is authorized to declare the rights of parties to a contract, and determine any question of construction or validity. If this involves any factual determinations, then such issues may be tried in the same manner as in other civil actions. On the other hand, if the parties have an adequate remedy at law, such as a breach of contract action for damages, then a court may not issue a declaratory judgment. In fact, prior Missouri cases clearly stated that a petition seeking declaratory judgment that also alleges breach of contract (and asks the court to declare the contract terms) is nothing more than a petition claiming breach of contract.

The appellate court noted that there was confusion about the nature of the Buyer's petition. But a petition for declaratory judgment may seek additional relief, and a court may also grant supplemental relief whenever necessary or proper. The appellate court acknowledged that the Buyers had consistently sought a declaration of their rights under the SPA, which hinged on the factual determination of the existence and length of any agreement to extend payment. Depending on that factual determination, the trial court could then determine whether specific performance was warranted.

The Appellate Court also Clarified the Nature of Declaratory Judgment, Equitable, and Legal Relief

The court clarified that Missouri courts view declaratory judgments the same way the federal courts do—as *sui generis* and, thus, neither exactly legal nor equitable. The label of "legal" or "equitable" typically refers to the type of relief being sought, but even if a party primarily seeks "equitable" relief that does not necessarily prevent a jury trial on some issues.

In federal courts, whether a claim for declaratory judgment is properly classified as legal or equitable turns on the underlying controversy on which it is founded. Essentially, one must look to the kind of suit that would have been brought if there was no declaratory judgment remedy. If the declaratory judgment action is essentially an equitable claim, then there is no right to a jury. But if the suit is essentially a legal claim, then a jury trial is warranted.

Similarly, the Payne court clarified that Missouri is part of the growing trend of states looking at declaratory judgment in a similar fashion. Specifically, under Missouri law, when a declaratory judgment action also involves issues of fact, the trial court must determine what issues should be decided by a jury and what issues should be tried to the court. Thus, in practice, the trial court would typically hold the jury trial first, and then decide the remaining equitable issues consistent with the jury's factual findings.

This case also continues the evolution of Missouri case law after the 2004 abandonment of the equitable cleanup doctrine (under which Missouri courts had previously denied jury trials in lawsuits with mixed claims of law and equity).

Mark A. Olthoff is a shareholder in the Polsinelli law firm in Kansas City, Missouri, where he is a member of the Commercial Litigation Practice Group and co-chair of the firm's Class Actions practice area. He routinely represents

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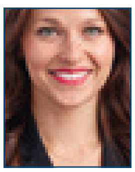
financial services companies, financial institutions and lenders in a variety of complex commercial suits, including class actions, lending lawsuits, and officer and director liability claims, and often helps businesses facing regulatory claims and issues as well. He is a frequent author and speaker on various topics concerning class actions, piercing the corporate veil, business torts, and various financial litigation and regulatory issues. Mark also serves as chair of the Financial Services Litigation SLG for the DRI Commercial Litigation Committee.

James A. Martin is a shareholder in the Polsinelli law firm in St. Louis, Missouri, where he is a member of the Commercial Litigation Practice Group and the Mergers and Acquisitions Litigation Practice Group, with his practice includes an emphasis on business divorces and financial and fiduciary matters.

The Future Is in the Palm of Your Hand and in the Details of Your Eyes, Face, and Fingerprints as Businesses Handling Biometric Data Face a New Wave of Class-Action Litigation

By Emily Knight



Biometric data is quickly gaining popularity among businesses and the public alike. Businesses are increasingly integrating biometrics into security systems, while individuals are interested now more than ever in the handling of their biometric information, especially after California's law enforcement recently used DNA and genealogical tracing to identify and arrest the Golden State Killer. But, as more states begin to regulate the collection and handling of this ultra-personal data, businesses may find themselves exposed to new forms of liability. Given the evolving regulatory landscape surrounding biometric data, companies incorporating this new technology should proceed with prudence to protect themselves from future litigation.

What Is Biometric Data and Why Use It?

Biometric identifiers are the distinctive, measureable characteristics used to recognize an individual—*i.e.* DNA, fingerprints, voiceprints, and iris or retina scans. Biometric data is the information derived from these identifiers, usually reduced to algorithms or equations, and is the information a business digitally stores and uses. Businesses favor biometric data for security purposes because of its increased reliability, efficiency, and security. But unlike knowledge-based, personal information (social security numbers, passwords, etc.), biometric data cannot be replaced. As a result, the collection and use of this data may be far more damaging once compromised.

The Current Regulatory Landscape

Illinois, Texas, Washington, and Colorado have all enacted biometric data statutes. Illinois's Biometric Information Privacy Act ("BIPA") is the most onerous and, therefore, has been the focus of recent litigation.

Brief Overview of the BIPA

The BIPA generally protects any information based on an individual's biometric identifier and is used to identify a person. Under the BIPA, private companies collecting this type of data:

- Must provide notice and obtain consent prior to collecting biometric identifiers. The notice must be written, explain the purpose for collection, and identify the retention period;
- Must implement a written retention policy;
- Cannot sell or profit from an individual's biometric data;
- Cannot disclose data to a third party unless an enumerated exception applies; and
- Must protect biometric data in at least the same manner it protects other sensitive and confidential information.

A business's failure to adhere to these standards may subject it to a private cause of action, with recovery of statutory damages and attorney's fees. For negligent violations, plaintiffs may receive the greater of $1,000 or actual damages for each violation. For intentional or reckless violations, plaintiffs may receive the greater of $5,000 or actual damages for each violation. The BIPA is currently the only statute that creates a private cause of action for violations. The Texas, Washington, and Colorado statutes are enforced by the state attorney general.

Currently, no federal law regulating biometric data exists. However, the FTC maintains broad authority to initiate an unfair or deceptive trade practice action if a company promises a certain level of security but fails to keep this promise. Businesses should also keep in mind the EU's General Data Protection Regulation (GDPR), which broadly prohibits processing biometric data of any EU citizen unless it fits into one of the GDPR's explicitly enumerated bases.

The First Wave of Class-Action Litigation

In the first wave of BIPA class-action litigation, two types of fact patterns have emerged: (1) improper use of facial recognition technology (*i.e.*, social media); and (2) improper collection and use of fingerprints, primarily in the employment context. In both instances, plaintiffs are alleging that the company failed to provide proper notice and/or obtain consent before collecting their biometric identifiers. In other words, plaintiffs are relying on technical violations. But before addressing the validity of these claims, courts have been forced to wrestle with the issue of standing.

Standing Under BIPA

Under the BIPA, only a "person aggrieved" can initiate an action. Companies defending these claims are frequently challenging class standing on the grounds that a cognizable injury does not exist. Yet, the courts' willingness to accept this challenge has been mixed. *See McCollough v. Smarte Carte, Inc.*, No. 16 C 03777, 2016 WL 4077108 (N.D. Ill. Aug. 1, 2016) (dismissing the case because plaintiff failed to satisfy standing requirements); *But see Patel v. Facebook Inc.*, 290 F. Supp. 3d 948 (N.D. Cal. 2018) (explaining that a violation of the BIPA's notice and consent procedures infringe upon the very privacy rights the legislature sought to protect by enacting the statute).

Steps Businesses Can Take Now to Avoid Liability Later

As biometric data gains popularity, it is almost certain that more states will enact legislation; therefore, companies should begin updating their data security policies and procedures now to avoid headaches later.

Businesses that intend to collect and use biometric data should always provide written notice and obtain informed consent. The notice should explain the purpose of collecting, how the data will be used, the company's retention policy, and whether any outside vendors will have access to it. Since almost all biometric data actions right now hinge on notice and consent, it is vital that businesses sufficiently address this step. Companies must also protect biometric data at least in the same manner as other confidential information. This means encryption, limited access, and retention and disposal policies. Additionally, such safeguards will help to protect against liability when a breach occurs, even in the absence of a state statute. In these instances, many states will default to a common law standard of reasonableness.

Despite the recent uptick in class-action litigation, commercial use of biometric data is not going anywhere any time soon. As of now, this area of law remains largely untouched. But a prudent business will begin addressing its biometric data privacy policies and procedures now to avoid potential exposure to class-action litigation later.

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DRI *Business Suit*—Fifth Circuit Update

By Jared B. Caplan, Sabrina N. Jiwani and Christian S. Dewhurst



Arbitration Agreement Held to Be Invalid Due to Lack of Employer's Signature

***Huckaba v. Ref-Chem, L.P.*, 892 F.3d 686 (5th Cir. 2018)**

The Fifth Circuit Court of Appeals recently held in favor of an employer, holding that the express language of an arbitration agreement required both parties' signatures before the parties could be bound by the agreement.

Kimberly Huckaba sued her former employer, Ref-Chem, L.P. in federal court, alleging sexual harassment, discrimination, and retaliation in violation of Title VII. Ref-Chem then filed a motion to dismiss and compel arbitration, and provided the Court with an Arbitration Agreement the ("Agreement") signed by Huckaba. The Agreement had a signature block for Ref-Chem but was not actually signed by Ref-Chem. Based on the Agreement, the district court granted Ref-Chem's motion to compel and dismissed the case pending arbitration. The district court found that despite Ref-Chem's lack of signature, Huckaba's continued employment after signing the Agreement constituted acceptance of the Agreement by both parties.

The Fifth Circuit evaluated the Agreement under Texas contract law, stating that the question of whether a signature is required to bind the parties to the Agreement is a question of intent. The Court noted that signatures are not necessarily required as long as parties give their consent to the terms of the contract and there is no evidence that both signatures are required to create a binding contract.

The Fifth Circuit explained that Huckaba's continued employment did not create an obligation to arbitrate because her continued employment did not negate the intent of the parties to require a signature for the Agreement to become effective. In particular, the Court noted that the Agreement contained a provision which stated "by signing this agreement the parties are giving up any right they may have to sue each other." That provision, coupled with a clause prohibiting modification by the parties unless it is in writing and signed by both parties, and a signature block for Ref-Chem evidenced intent for the parties to be bound to the Agreement by signing. In applying these rules, the Fifth Circuit held that the Agreement contained more than just a blank signature block—it contained language stating that the parties must sign the Agreement to give it binding effect.

Therefore, the Fifth Circuit concluded that the Agreement was not enforceable, focusing on the distinction between acceptance of the offer and the separate requirement of the intent of the parties that both signatures are required for the Agreement to be binding.

Viacom Has Trademark Rights to "SpongeBob" Restaurant

Viacom International v. IJR Capital Investments, L.L.C., 891 F.3d 178 (5th Cir. 2018)

The Fifth Circuit Court of Appeals found in favor of Viacom, the owner of the "SpongeBob SquarePants" franchise, holding that restauranteur's attempt to open proposed Krusty Krab restaurants infringed on Viacom's trademark.

Viacom International Inc. sued IJR Capital Investments, LLC for unfair competition under the Lanham Act and infringement of Viacom's trademark of The Krusty Krab, a fictional fast food restaurant in the cartoon television series "SpongeBob SquarePants," after IJR took steps to open seafood restaurants using the same name in California and Texas. The district court granted summary judgment for Viacom on its common law trademark infringement and Lanham Act claims. IJR appealed, arguing genuine issues of material fact existed as to whether Viacom owned a valid trademark. The Fifth Circuit affirmed.

To prevail on the Lanham Act and Texas common-law trademark infringement claims, the Fifth Circuit held that Viacom had to establish that (1) it owns a legally protectable mark in The Krusty Krab, (2) the mark was distinctive, and (3) IJR's use of the mark creates a likelihood of confusion as to source, affiliation, or sponsorship. The Fifth Circuit found in favor of Viacom on all three elements.

First, the Court held that Viacom had a valid common-law ownership right in the "The Krusty Krab" mark even though it was never registered, because it is a recurring element of the "SpongeBob" show and has been used in extensive advertising and consumer products. In doing so, the Court of Appeals followed a line of cases that held "Daily Planet" and "Kryptonite" were valid marks based

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on their role in Superman's fictional universe. Second, the Court found that the mark had acquired distinctiveness through secondary meaning given the degree to which the fictional restaurant is featured on the show, the advertising budget of the two SpongeBob movies that featured the mark, and the television and movie viewership and profits. Finally, the Court found a likelihood of confusion between the identical marks, notwithstanding that Viacom's use is for a fictional restaurant. The Court found it "persuasive that both parties use the mark to describe a restaurant (albeit in Viacom's case it is a fictional restaurant under the sea where the namesake character works for restaurant owner, Mr. Krabs)." The Court pointed out that consumers may believe that IJR's restaurant is officially licensed or endorsed, similar to how Viacom's parent company licensed its "Bubba Gump" mark from the movie *Forrest Gump* for use by the seafood restaurant chain Bubba Gump Shrimp Co.

Therefore, the Court affirmed the judgment of the district court on Viacom's claims for trademark infringement and unfair competition.

Tugboat Can Recover Unpaid Freight from Original Non-Vessel Operating Common Carrier

***GIC Services, LLC v. Freightplus USA, Inc.*, 866 F.3d 649 (5th Cir. 2017)**

The Fifth Circuit Court of Appeals found in favor of a tugboat operator, holding that the tugboat, who was not paid by an intermediary in a freight transaction could recover unpaid freight from the original Non-Vessel Operating Common Carrier.

GIC Services, LLC contracted with Freightplus USA, Inc., a freight shipping company, to arrange for transport of a tugboat—the REBEL—from Houston to Nigeria. Because Freightplus did not own vessels capable of transporting the REBEL, Freightplus contracted with Yacht Path International, Inc.—a broker specializing in transportation of large watercraft—who in turn contracted with Industrial Maritime Carriers, LLC as the "vessel-operating common carrier." GIC agreed to pay Freightplus $111,000, Freightplus agreed to pay Yacht Path $85,000, and Yacht Path agreed to pay IMC $70,000. When all was said and done, GIC paid Freightplus, Freightplus paid Yacht Path, but Yacht Path failed to pay IMC. One of the issues that the Fifth Circuit considered on appeal was whether IMC could pursue a claim against Freightplus for the unpaid freight. The district court held that Freightplus was liable for the freight. Relying on *Strachan Shipping Co. v. Dresser Indus., Inc.*, 701 F.2d 483 (5th Cir. 1983), the Fifth Circuit affirmed the decision of the district court.

In *Strachan*, the Fifth Circuit ruled that the relevant inquiry under such circumstances is "whether the carrier[] intended to release [the shipper] from its obligations and look solely to the forwarder for payment." While Freightplus was not a shipper in this sense, the Court found no reason why *Strachan*'s approach for deciding whether an ocean carrier has released an entity from liability should not apply when it is an intermediary, rather than the primary shipper, being sued for unpaid freight. Therefore, the Fifth Circuit found that the analysis in *Strachan* was applicable.

Applying the rationale from *Strachan*, the Fifth Circuit found that Freightplus had shown that IMC intended to release Freightplus from liability, even though the phrase "freight prepaid" was stamped on the bill of lading. The Court further explained that "there is no economically rational motive for the carrier" to release entities from liability [because] the more parties that are liable, the greater assurance for the carrier that he will be paid."

Therefore, the Fifth Circuit found that Freightplus was liable to GIC for the unpaid freight, even though the parties had no contractual privity.

New Test for Determining What Qualifies as a Maritime Contract

***In re: Larry Doiron, Inc.*, 879 F.3d 568 (5th Cir. 2018)**

The Fifth Circuit Court of Appeals replaced the Davis factor test and issued a new test for determining whether an oil and gas contract is maritime in nature.

Vessel owner, Larry Doiron, Inc. ("LDI"), contracted with Apache Corporation to provide crane services in connection with operations being performed by another Apache contractor, Specialty Rental Tools & Supply, L.L.P. ("STS") pursuant to a master services contract ("MSC"). In the course of these operations, LDI's crane operator negligently struck and injured an STS employee. Anticipating a personal injury claim, LDI initiated a limitation of liability proceeding. The injured worker filed a claim in this proceeding, following which LDI filed a third-party complaint against STS (the worker's employer) seeking indemnity under the terms of the MSC. The issue in the case became whether the MSC was a "maritime" contract. If so, general maritime law applied and the indemnity provision would be enforced; if not, the Louisiana Oilfield Indemnity Act (LOIA) applied and the provision was unenforceable. The district court concluded that maritime law applied and awarded LDI indemnity from STS. The Fifth Circuit reversed.

In reaching this finding, the Fifth Circuit overturned the fact-intensive six factor test established in *Davis & Sons, Inc. v. Gulf Oil Corp.*, 919 F.2d 313 (5th Cir. 1990). Under *Davis*, the Court asked: (1) What does the specific work order in effect at the time of the injury provide? (2) What work did the crew assigned under the work order actually do? (3) Was the crew assigned to work aboard a vessel in navigable waters? (4) To what extent did the work being done relate to the mission of the vessel? (5) What was the principal work of the injured worker? (6) What work was the injured worker actually doing at the time of injury?

Given the complex nature of several of these inquires, the court intended the new test announced in *In Re Doiron* to be simpler and more straightforward. Under this test, the court must first ask, "Is the contract one to provide services to facilitate the drilling or production of oil and gas on navigable waters?" If the answer is "yes" the court must then ask, "Does the contract provide or do the parties expect that a vessel will play a substantial role in the completion of the contract?" If the answer to the second question is "yes," then the contract is a maritime contract. Applying the *In Re Doiron* test, the Court found that the MSC called for STS to provide services that facilitate the drilling and production of oil and gas on navigable waters. However, the Court found that the vessel did not play a substantial role in the completion of the project.

Therefore, the Court found that the LOIA applied and that the indemnity provision was unenforceable.

Provision in Lease Agreement Ambiguous if No Effective Date Provided

***Malik & Sons v. Circle K Stores*, No. 17-30113 (5th Cir. May 15, 2018, unpublished)**

The Fifth Circuit Court of Appeals held that a lease agreement was found ambiguous as to its effective date when the only date provided was written into the lease after the parties had signed.

Malik & Sons, LLC sued Circle K Stores, Inc. for breach of contract, claiming Circle K improperly terminated their lease agreement and failed to pay rent. Malik and Circle K began lease negotiations about a property in Covington, Louisiana on July 29, 2014. Malik signed the lease on July 29, 2014 and sent the lease to Circle K to sign. Notably, the first page of the lease agreement stated:

> "This Ground Lease ("Lease"), dated for reference purposes as _______, 2014, is made and executed by and between Malik and Sons, LLC ("Landlord"), and CIRCLE K STORES INC., a Texas corporation ("Tenant")."

Both parties agreed that when the lease was signed there was no date in the space provided. Under the lease, Circle K had a 90-day "feasibility period" from the date of full execution of the lease within which to conduct its due diligence. On August 28, 2014, Circle K signed the lease agreement. After depositing it into escrow, Circle K's escrow agent wrote "October 7" in the space provided on the first page.

Later, Circle K sent notice to Malik terminating the lease. The parties did not dispute that this first termination letter was proper under the lease's 90-day feasibility period. However, on November 24, 2014, Circle K sent a second notice letter rescinding the termination, notifying Malik that the effective dates and timing in the lease dated October 7, 2014 are still valid and the lease is still valid. Subsequently, on December 27, 2014, Circle K sent a third notice letter to Malik terminating the lease again. Malik filed suit and contended that the lease was fully executed on August 28, 2014, when Circle K executed it; therefore, Circle K's 90-day feasibility period for termination actually expired November 26, 2014. Malik argued that Circle K's December 27, 2014, termination letter was not valid under the lease.

Circle K argued that its termination was timely because its November 24, 2014, letter and the lease agreement formed a new contract making the effective date October 7, 2014. Circle K also argued that "October 7" was the only date actually written into the lease. However, Malik argued that the October 7 date was not the execution date because it was written in by an escrow agent after both parties had signed the lease. Both parties filed motions for summary judgment and the district court denied the motions as a matter of law, and admitted extrinsic evidence to allow the jury to determine the parties' intent. The jury rendered a verdict in favor of Malik, and Circle K appealed.

In applying Louisiana law, the Fifth Circuit determined that using extrinsic evidence to determine the parties' intent was not improper under the circumstances. The Fifth Circuit concluded that although Circle K offered a plausible interpretation regarding the execution date, Malik offered an alternative, credible interpretation. The Court stated that the lease was susceptible to different interpretations as to the execution date and argued that Circle K's November 24, 2014, letter did not actually identify an execution date but rather used "October 7" as a date for reference purposes.

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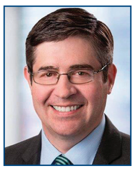
Therefore, the Court concluded that reasonable jurors could have determined the effective date was August 24, 2014, when the lease was "executed" by Circle K. The Fifth Circuit upheld the district court's denial of Circle K's motion for judgment as matter of law and found the lease agreement to be ambiguous as to the execution date, affirming judgment in favor of Malik.

Jared B. Caplan is a partner, and Sabrina N. Jiwani and Christian D. Dewhurst are associates, in Bradley Arant Boult Cummings LLP's Houston office, where their practices focus predominantly on construction and oil and gas litigation.

Membership Update

Don't Let Your Friends Not Join DRI

By Dwight W. Stone II



Okay, I realize the title of this column is corny, a double negative, and really doesn't make sense. That is by design; I am hoping it might make you stop and read further.

My real point is that we all have friends, colleagues and clients who are litigators (or manage litigators) and who would benefit from joining DRI. We should help these folks join our organization! After all, we are members of DRI and the Commercial Litigation Committee because this makes us better and more successful attorneys. Knowing the DRI benefits—great seminars, networking, publication opportunities, access to an array of practical learning resources, the online Communities, the Expert Witness Database, and more—we owe it to our lawyer friends and colleagues to encourage them to join. It is a great way to make a lasting, positive difference in their careers.

As a bonus, DRI will reward you for your recruitment efforts with discounts off the cost of future seminars. And please don't forget to ask them to list Commercial Litigation Committee as the referring committee so we receive the proper credit.

If you have any questions on recruiting new members or on DRI's membership benefits and incentives, please call or email me. I actually enjoy fielding these inquiries, which is part of the awesome responsibility of serving as your CLC membership chair.

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Seminar Update

SAVE THE DATE: 2019 Business Litigation Seminar, May 8–10, 2019, Austin, Texas

By Douglas F. McMeyer

We are excited to announce that the Commercial Litigation Committee's 2019 seminar will be held on May 8–10, 2019, at the Omni Hotel in beautiful Austin, Texas. The committee is excited to hold the seminar in this amazing city for the first time. As in years past, the seminar will be held in conjunction with our friends in IP Litigation. However, the seminar this year will also be offering expanded and targeted breakout sessions. In addition to our traditional young lawyers track, we will be offering specific sessions on individual practice areas. The committee is already committed to including a strong emphasis on class action litigation, but will be selecting additional focus areas in the coming weeks.

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At this time, the committee is at the nascent stages of planning the 2019 seminar and is actively soliciting members who can help us plan the breakout sessions, identify topics, and select speakers. If you have topics or speakers in mind, are interested in presenting, know the Austin area, or are just interested in becoming more involved with the seminar or committee please contact me. There are a number of positions to be filled on the planning committee and all are welcome. We look forward to seeing all of you in Austin!!

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