

VIRGINIA:

IN THE CIRCUIT COURT OF THE CITY OF ALEXANDRIA

**NATIONAL RIFLE ASSOCIATION
OF AMERICA,**

Plaintiff,

v.

ACKERMAN MCQUEEN, INC.

And

MERCURY GROUP, INC.

Defendants.

**Case Nos. CL19001757,
CL19002067**

**PLAINTIFF'S MEMORANDUM OF LAW IN SUPPORT OF PLAINTIFF'S
PLEA IN BAR IN 19002067 (Filed July 12, 2019 Post-Consolidation)**

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Plaintiff National Rifle Association of America (the “NRA”) submits this memorandum of law in support of its plea in bar with respect to Defendants’ Counterclaims as to Count III (Abuse of Process) in Case No. CL19002067, the second filed action in this consolidated proceeding (the “Second Action”). For the reasons stated below, the NRA’s plea in bar should be granted, and Count III of the Counterclaims for abuse of process should be dismissed with prejudice.

I.

INTRODUCTION

Defendants Ackerman McQueen, Inc. and Mercury Group, Inc. (together, “AMc” or “Defendants”) have sought to frustrate the NRA’s constitutional right to seek relief from this Court for AMc’s myriad breaches of the Services Agreement between the parties and other common law duties, through the filing of a series of counterclaims in this consolidated proceeding. On May 23, 2019, AMc filed its first set of Counterclaims in Case No. CL19001757 (the “First Action”), asserting claims for abuse of process predicated in substantial part on the NRA’s decision to pursue litigation to enforce its clear and unfulfilled right under the parties’ agreement to inspect AMc’s books and records relating to AMc’s work for the NRA. On June 16, 2019, AMc doubled down and filed another set of counterclaims, this time in the Second Action: those counterclaims included another claim for abuse of process (Count III), which targeted the NRA’s initiation and prosecution of litigation intended to validate its contractual rights and to seek relief from AMc’s additional unlawful acts. As explained in the NRA’s demurrer, filed on June 13, 2019, among other things, all the of abuse of process counterclaims fail as a matter of law for multiple reasons. *See Plaintiff’s Demurrer to Defendants’ Counterclaim at ¶¶ 2-3, p. 2.*

In addition to the demurrer, the NRA also filed a plea in bar as to AMc’s counterclaim in the Second Action for abuse of process (Count III). It did so in part to address new facts AMc

alleged in the second set of counterclaims concerning five subpoenas issued by the NRA. *See* Exhibits 1 - 4 (subpoenas served on Daniel Boren, Oliver North, Lance Olson, and Robert Pincus, respectively).¹ In relevant part, the counterclaim avers that the NRA's subpoenas were served on five individuals who Defendants allege are "NRA Board Members" constitute an abuse of process because none of the depositions were held and their sole purpose was not to schedule real depositions, but to issue "public warnings" to alleged NRA "Board Members." *See, e.g.,* Second Counterclaims at ¶ 107, p. 38.

AMc's theory that issuing facially valid subpoenas that are reasonably calculated to lead to information relevant to the claims and defenses at issue in this proceeding amounts to an abuse of process. Moreover, it threatens to transform the use of common litigation tools into weapons that can be turned affirmatively against the party seeking presumptively legitimate discovery. Consistent with the above, given the important First Amendment rights at issue, the tort of abuse of process is disfavored and narrowly construed. *See Mocek v. City of Albuquerque*, 813 F.3d 912, 936 (10th Cir. 2015) ("This tort [of abuse of process] should be construed narrowly in order to protect the right of access to the courts and as such it is disfavored in the law") (internal quotations omitted); *United States v. Pendergraft*, 297 F.3d 1198, 1206 (11th Cir. 2002) ("These sanctions include tort actions for malicious prosecution and abuse of process, and in some cases recovery of attorney's fees, but even these remedies are heavily disfavored because they discourage the resort to courts."). Against this backdrop, it is not surprising that AMc's problematic legal theory fails due to a host of legal flaws, and for the reasons explained below.

¹ All citations to exhibits in this memorandum are to exhibits attached to the Declaration of Robert Cox ("Cox Decl."), filed concurrently herewith.

In addition, the evidence the NRA has submitted in support of its plea in bar clearly demonstrates that, among other things, the NRA has in good faith pursued the depositions of the five subpoena recipients diligently. Among other things, the NRA has successfully taken the depositions of two subpoena recipients and it is actively attempting to schedule the depositions of the remaining three, vitiating Defendants' claim that the sole purpose of the subpoena was not to take depositions, but to issue so-called "public warnings." Moreover, four of the five subpoenas were not served on either the Defendants or any of their employees. Accordingly, any claim predicated on those subpoenas must be dismissed for lack of causation and/or harm. For these reasons and the others described below, the Court should grant the plea in bar and dismiss the abuse of process claim (Count III) with prejudice.

II.

APPLICABLE LEGAL STANDARDS

"A plea in bar presents a distinct issue of fact which, if proven, creates a bar to the plaintiff's right of recovery." *Hilton v. Martin*, 654 S.E.2d 572, 574 (Va. 2008). The moving party may introduce evidence in support of the plea for the Court's consideration. *See Hawthorne v. VanMarter*, 692 S.E.2d 226, 233 (Va. 2010) ("The issue raised by a plea in bar may be submitted to the circuit court for decision based on a discrete body of facts identified by the parties through their pleadings, or developed through the presentation of evidence supporting or opposing the plea."); *Upper Occoquan Sewage Auth. V. Blake Constr. Co.*, 587 S.E.2d 721, 726 (Va. 2003) (affirming the lower court's decision in a plea bar trial noting that the jury's decision was supported by the evidence in the record).

III.

ARGUMENT

A party claiming an abuse of process carries the burden of pleading and proving “(1) the existence of an ulterior purpose; and (2) an act in the use of the process not proper in the regular prosecution of the proceedings.” *See Ely v. Whitlock*, 385 S.E.2d 893, 897 (Va. 1989); *Donohoe Construction v. Mount Vernon Assoc.*, 369 S.E.2d 857, 862 (Va. 1988). The party must also demonstrate that the abuse of process was the proximate cause of the alleged harm. *Valdes v. GAB Robins N. Am., Inc.*, 924 So.2d 862, 867 & n. 2 (Fla. Dist. Ct. App. 2006) (noting that “[a] cause of action for abuse of process requires” a showing of “damage to the plaintiff *as a result of* the defendant’s action”) (emphasis added); *Al-Kidd v. Gonzales*, No. 1:05-CV-093-EJL-MHW, 2012 WL 4470782, at *5 (D. Idaho Sept. 27, 2012) (“Abuse of process is a tort action where, in order to recover, the defendant’s conduct must be a proximate cause of the harm, not merely an incidental motive or collateral effect.”).²

When evaluated against the governing law and the evidence the NRA has submitted in support of its plea in bar, AMc’s abuse of process claim is revealed as litigation gamesmanship devoid of any legal and/or factual merit. The Court should dismiss Count III with prejudice.

A. Filing A Lawsuit Is Per Se Barred From Serving As The Basis For An Abuse Of Process Claim.

Defendants contend that the commencement of the Section Action constitutes an abuse of process. *See* Second Counterclaim at ¶ 92, p. 34. These allegations fail to state a claim because,

² *Delaney v. Ashcraft*, No. CV 05-6045, 2006 WL 8440880, at *6 (W.D. Ark. Jan. 20, 2006), *report and recommendation adopted*, No. CV 05-6045, 2006 WL 8440468 (W.D. Ark. Feb. 8, 2006) (“[T]he elements of a cause of action for abuse of process [include] . . . that [the defendant’s] acts were a proximate cause of [the plaintiff’s] damages.”) (internal quotations omitted).

as a matter of black-letter-law, the commencement of a lawsuit *cannot serve as the basis for a claim of abuse of process.*

This fundamental legal principle is universally applied to prevent interference with, and the chilling of the rights afforded by the First Amendment to the United States Constitution to petition the Courts, as well as to avoid conflict with requirements of the tort of malicious prosecution. *See Donohoe Constr. Co.*, 369 S.E.2d at 862 (“The gravamen of the tort lies in the abuse or the perversion of the process *after it has been issued.*”) (internal quotations omitted) (emphasis added); *Triangle Auto Auction, Inc. v. Cash*, 380 S.E.2d 649, 650, 651 (Va. 1989) (similar); *7600 Ltd. P’ship v. QuesTech, Inc.*, No. 19 Cir. L148381, 39 Va. Cir. 268 (Va. Cir. Fairfax May 22, 1996) (“Under Virginia law, an abuse of process can only apply after process has been issued, i.e., after a case has been initiated. *Initiating and prosecuting a baseless suit or splitting claims to initiate and prosecute separate suits . . . cannot constitute abuse of process.*”) (emphasis added).

Based on these governing and well-reasoned authorities, Defendants’ claims for abuse of process must be dismissed to the extent that they are based on the filing of the initial Complaint in the Second Action. *See Berry v. Clark*, 42 Va. Cir. 1, at *2 (Va. Cir. Ct. Richmond 1997) (abuse of process claim failed where party “failed to allege any wrongful act . . . after the original pleadings were filed”); *Seeber v. Martin*, 1992 WL 884593, at *1 (Va. Cir. Ct. Fairfax 1992) (“Since the plaintiffs have alleged no improper actions by the defendant after they made the initial complaint to the Animal Control Board, they have not alleged sufficient facts to sustain a cause of action for abuse of process.”); *accord* RESTATEMENT (THIRD) OF TORTS: LIABILITY OF ECONOMIC HARM § 26, Tentative Draft (2018) (“Although a lawsuit or criminal case may begin with the issuance of a summons or subpoena, those particular forms of process do not support liability under

[abuse of process] when the recipient merely complains that they were used to start a case that should not have been brought.”).

Similarly, Defendants allege that their abuse of process claim is also based on the NRA’s filing of its Motion for Leave to File Amended Complaint. *See* Second Counterclaim at ¶¶ 93-98, pp. 34-36. As a matter of law, not to mention common sense, filing of a motion for leave to submit an amended complaint cannot be an abuse of process because the filing of the motion for leave is inextricably intertwined with filing the complaint itself, which is per se non-actionable, as discussed immediately above. In the alternative, as a matter of law, the mere filing of a motion is not “process.” *See Ubl v. Kachouroff*, 937 F. Supp. 2d 765, 770-72 (E.D. Va. 2013) (attorney’s execution of declaration was not “process.”); Ronald Mallen, *1 Legal Malpractice* § 6:47 (2019 ed) (“A motion for leave to file a complaint or for admission of an attorney to a court to argue an appeal is not such a process.”) (footnotes omitted). Accordingly, Defendants’ abuse of process claims based on the Motion for Leave fail to state a claim for relief.

B. The Litigation Privilege Bars The Abuse of Process Claim.

Virginia law recognizes that the “litigation privilege” serves as a complete defense that broadly protects litigation-related communications and communicative conduct from serving as the basis for a tort claim. *See Watt v. McKelvie*, 248 S.E.2d 826, 829 (Va. 1978) (holding that statements made during the course of a judicial proceeding and relevant to the subject matter of the litigation are absolutely privileged and “may not be used to impose civil liability upon the origination of the statements”); *see also id.* (“We believe the public interest is best served when individuals who participate in law suits are allowed to conduct the proceeding with freedom to speak fully on the issues relating to the controversy.”); *Cf. Mansfield v. Bernabei*, 727 S.E.2d 69, 74 (Va. 2012) (dismissing claim under Virginia law while noting the United States Court of Appeals for the Fourth Circuit follows the Restatement (Second) of Torts, which recognizes an

“absolute privilege may bar defamation claims on the basis of pre-filing, litigation-related communications”).

The Virginia Supreme Court has recognized that “the maker of an absolutely privileged communication is accorded complete immunity from liability even though the communication is made maliciously and with knowledge that it is false.” *Lindeman v. Lesnick*, 604 S.E.2d 55, 58 (Va. 2004); *Lockheed Info. Mgmt. Sys., Co. v. Maximus, Inc.*, 524 S.E.2d 420, 424 (Va. 2000) (holding that “false, misleading, or defamatory communications, even if published with malicious intent, are not actionable if they are material to, and made in the course of, a judicial . . . proceeding[.]” as they have an “absolute privilege”). Given its universal application to torts predicated on communications made in litigation, the litigation privilege bar likewise applies to claims alleging an abuse of process. *See EMI Sun Village, Inc. v. Catledge*, 2019 WL 2714325, at *6-7 (11th Cir. June 29, 2019) (rejecting abuse of process claims due to litigation privilege under Florida law). Defendants’ remaining abuse of process theories should be rejected because the NRA is protected by the litigation privilege given the communicative nature of the challenged conduct.

The North Theory. Defendants claim that the “NRA used this Court’s public proceeding as a vehicle to defame AMc and its employee, Lt. Col. Oliver North, and to accomplish other ulterior purposes” by filing its motion to amend. *See* Second Counterclaim at ¶ 98, p. 36. Similarly, Defendants contend that the “proposed Amendment was intended to serve an ulterior motive of spreading false statements about the North-AMc Contract” *See id.* at ¶ 94, p. 35. As a matter of law, the litigation privilege categorically bars these allegations from serving as a predicate for an abuse of process claim, because they are based entirely of allegations of “defam[ation]” and/or “false statements, which plainly involves communications and

communicative conduct. *See Massey v. Jones*, 28 S.E.2d 623, 626 (Va. 1944) (holding that an “absolute privilege protects an individual against liability for defamatory words spoken in the course of a judicial proceeding, when such words are pertinent and relevant to the subject of inquiry, or in response to the question, irrespective of malice or falsity.”); *Ranney v. Nelson*, No. 218653, 2004 WL 1318882, at *2 (Va. Cir. Ct. Fairfax Apr. 20, 2004) (“It is well settled that there exists an absolute privilege in judicial proceedings. Under that privilege, words spoken or written in a judicial proceeding that are relevant and pertinent to the matter under inquiry are absolutely privileged.”) (internal quotations omitted); *accord Lockheed Info.*, 524 S.E.2d at 424; *Ritchie v. Sempra Energy*, 703 F. App’x 501, 504-05 (9th Cir. 2017) (dismissing abuse of process claim based on the litigation privilege, because the doctrine “provides that communications in any . . . judicial proceeding . . . are privileged”). In addition, the NRA’s litigation statements about Mr. North’s relationship and contract with AMc are manifestly relevant to, and concern in part the basis for, the NRA’s contention that Defendants breached their contractual and fiduciary duties to the NRA. Complaint at ¶¶ 22-33, 36-37, pp. 10-15, 16-17. Accordingly, there can be no doubt that Defendants’ abuse of process claims based on statements made in this proceeding concerning Mr. North must be dismissed.

The AMc Theory. Defendants contend that on May 24, 2019, the NRA “compounded its abuses of the procedures of this Court by filing a pleading entitled Plaintiff’s Emergency Motion for Entry Of An Order Staying This Action So That Plaintiff May Conduct Limited Discovery Into Defendants’ Theft Of Plaintiff’s Property.” *See* Second Counterclaim at ¶¶ 101-104, pp. 36-37. Defendants contend that “[t]his ‘Emergency’ pleading was disclosed to the public and the press as part of the NRA’s smear tactic directed against AMc, seeking to implicate AMc in a criminal act

without any basis in fact.” *See id.* at ¶ 103, p. 36. Defendants then allege that this situation resulted in an “outrageous libel.” *See id.* at ¶ 104, p. 37.

However, as Defendants implicitly concede, this aspect of Defendants’ abuse of process claim is likewise barred by the litigation privilege because it seeks to hold the NRA liable for the statements made in its litigation filings that they characterize as “smear tactics.” *Lockheed Info.*, 524 S.E.2d at 424 (“false, misleading, or defamatory communications, even if published with malicious intent, are not actionable if they are material to, and made in the course of, a judicial . . . proceeding[.]” as they have an “absolute privilege”); *Boyce v. Pruitt*, 2010 WL 7375630, at *4 (Va. Cir. July 28, 2010) (“One who speaks or writes with absolute privilege does so with impunity, free from risk of liability, even for malicious statements or knowing falsehoods.”). The statements in the motion to stay identified by Defendants as part of this theory are undisputedly relevant to the filing in question because they reasonably described the significance of Defendants’ long-term and ongoing refusal to return the NRA’s property, conduct that the NRA alleges is a breach of the Services Agreement in its complaint in the Second Action. Complaint at ¶¶ 7-21, 27-28, 33-36, pp. 7-9, 12-13, 14-15 . The litigation privilege, therefore, bars any recovery for this so-called “outrageous libel.”

The Subpoenas Theory. As the final conduct-based aspect of its abuse of process claim in the Second Counterclaim, Defendants allege that “the NRA issued subpoenas for high profile depositions of NRA Board Members” *See* Second Counterclaim at ¶¶ 105-106, p. 37. Defendants contend that the subpoenas were issued to these individuals “to issue a public warning to the NRA’s own board members” *See id.* at ¶ 107, p. 38. This aspect of their abuse of process claims is barred by the litigation privilege as well, because, once again, Defendants are attacking the communicative nature of the conduct in question. Indeed, the Defendants themselves

admit that the conduct itself was communicative in nature – the subpoenas were tantamount to a “public warning.” *Microsoft Corp. v. M. Media*, No. CV-17-347-MWF (AJWX), 2018 WL 5094969, at *6 (C.D. Cal. Mar. 13, 2018) (holding that “serving subpoenas approved by the Court” are “forms of conduct found to be communicative and protected by the litigation privilege”); *Heckler & Koch, Inc. v. German Sport Guns GmbH*, 71 F. Supp. 3d 866, 894 (S.D. Ind. 2014) (holding that defendants’ counterclaims were barred by litigation privilege because communications, which included serving subpoenas, “arose in the context of litigation and were pertinent to [the] litigation”).

The Bad Motives Theory. Defendants hope to save their counterclaims from the prohibitions of the litigation privilege by accusing the NRA of acting with bad motives. *See, e.g.*, Second Counterclaim at ¶¶ 22-32, 48-55, 57-59, p. 29-30, 33-34, 35. In this respect, the counterclaim devolves into invective and becomes littered with improper *ad hominem* attacks that can be stricken as concerning “redundant, immaterial, impertinent, or scandalous matter[s].” *Cf.* Fed. R. Civ. P. 12(f). The NRA, however, has elected not to pursue such relief at this time. Instead, the salient point is that allegations of improper motives are *irrelevant* to whether the litigation privilege applies to the abuse of process claim because, as the Virginia Supreme Court has made clear, “the maker of an absolutely privileged communication is accorded complete immunity from liability even though the communication is made maliciously and with knowledge that it is false.” *Lindeman*, 604 S.E.2d 55 at 58. In short, given the communicative nature of the conduct underlying Defendants’ abuse of process theories, whether the NRA acted with bad motives is legally irrelevant.

C. The Issuance Of Five Subpoenas To So-Called “NRA Board Members” Does Not Amount To An Abuse of Process.

An abuse of process “lies in the abuse or the perversion of the process *after* it has been issued” and that such “abuse or perversion” harmed the claimant. *Donohoe*, 369 S.E.2d at 862 (emphasis added). *See also Valdes*, 924 So.2d at 867 & n. 2; *Al-Kidd*, 2012 WL 4470782, at *5; *Delaney*, 2006 WL 8440880, at *6. The evidence the NRA has submitted in conjunction with its plea in bar establishes that no reasonable basis exists to conclude that AMc can satisfy the second and third elements of an abuse of process claim with respect to the NRA’s issuance of five subpoenas.

Significantly, Defendants claim injury due to subpoena of one of Defendants’ employees, , Oliver North, and four subpoenas of persons who are not and were not at any time employees, officers or directors of Defendants. There is no conceivable basis that Defendants could have been harmed by the issuance of subpoenas to others. Indeed, no particular theory of causation or harm is pled in the Counterclaims that stems from these particular subpoenas. *See EMI Sun Village*, 2019 WL 2714325, at *6-7 (holding that the third element of an abuse of process claim is that “the plaintiff was injured as a result of defendant’s actions”) (internal quotations omitted). Because the Defendants have no factual basis to claim that the issuance of subpoenas to others caused them harm, the Court should grant the plea in bar and dismiss the abuse of process claim with prejudice to the extent it relies on these four subpoenas.

As noted above, Defendants’ subpoenas theory turns on the issuance of five subpoenas by the NRA to so-called NRA “Board Members” (Daniel Boren, Oliver North, Lance Olson, Robert Pincus, and Anthony Ferate), as well as the related allegation that “not one of these depositions were held, as the purpose was not to schedule a real deposition, but rather issue a public warning to the NRA’s own board members” Second Counterclaim at ¶ 107, p. 38. Critically, it is

undisputed that Robert Pincus and Anthony Ferate are not NRA “Board Members.” Defendants’ theory of liability hinges on the allegation that NRA “Board Members” were subpoenaed, and those “Board Members” subpoenas communicated a “public warning” to other NRA Board Members. The fact that Messrs. Robert Pincus and Anthony Ferate were not NRA Board Members vitiates Defendants’ own theory of liability and demonstrates that serving subpoenas on these two individuals did not cause Defendants harm. *See EMI Sun Village*, 2019 WL 2714325, at *6-7 (the third element of an abuse of process claim requires that “the plaintiff was injured as a result of defendant’s actions”) (internal quotations omitted). For this reason as well, the Court should grant the plea in bar and dismiss the abuse of process claim with prejudice to the extent it relies on these two subpoenas.

Most importantly, contrary to Defendants’ allegations, the NRA has actively pursued the depositions of the subpoena recipients, thereby negating any allegation or inference of an improper use of process (assuming a subpoena equates to process). *See Holmes v. Slay*, No. 4:12CV2333 HEA, 2015 WL 1349598, at *11 (E.D. Mo. Mar. 25, 2015) (“The cause of action for an abuse of process is complete as soon as the acts complained of are committed.”). The NRA deposed Mr. Pincus on June 28, 2019, and Mr. Ferate on July 8, 2019. *See Ex. 5 & 6*.

In addition, the NRA has contacted Mr. Olson several times to request dates for his deposition. In his most recent communication with counsel for the NRA, Mr. Olson stated that he retained an attorney and asked that attorney to contact the NRA’s counsel with proposed deposition dates. *See Ex. 7* (9/3/19 Email from Lance Olson to Robert Cox). It now seems likely that Mr. Olson’s deposition could very well occur in October. *Ex. 8* (9/23/19 Email from Montgomery Brown to Robert Cox). Counsel for the NRA has contacted counsel for Mr. Boren and Mr. North and requested dates for their depositions. In light of this undisputed evidence, there is no

reasonable basis to believe that the “sole” purpose for serving the subpoenas was to issue “public warnings” to NRA board members. To the contrary, the evidence demonstrates that the NRA has diligently pursued all of the five subpoenas in good faith for the purpose of obtaining evidence that is reasonably calculated to lead to the development of its claims and defenses in this case.

IV.

CONCLUSION

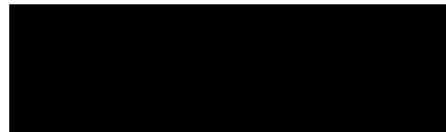
For all the foregoing reasons, the Court should sustain the NRA’s plea in bar as to Count III of Defendants’ Second Counterclaims, dismiss with prejudice Count III of Defendants’ Second Counterclaims in its entirety, and grant the NRA such other and further relief as justice may require or allow.

Dated: October 1, 2019

Respectfully submitted,

NATIONAL RIFLE ASSOCIATION
OF AMERICA

By counsel



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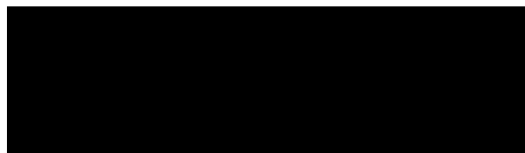
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CERTIFICATE OF SERVICE

I hereby certify that on October 1, 2019, I caused the foregoing to be served via electronic mail and first-class mail upon:

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EXHIBIT 1

SERVICE OTHER THAN BY VIRGINIA SHERIFF
COMMONWEALTH OF VIRGINIA
VA. CODE §§ 8.01-293, 8.01-320, 8.01-325

Case No. CL19002067
Service No. _____ (Clerk's use only)

City of Alexandria Circuit Court
National Rifle Association of America v. Ackerman McQueen, Inc. and Mercury Group, Inc.
Daniel Boren, 3600 NW 174th Street, Edmond, OK 73012

is the name and address of the person upon whom service of the following is to be made:

- Summons and Complaint
- Subpoena Duces Tecum (Civil) - Attorney Issued, Plaintiff's Complaint and Jury Demand

I, the undersigned, swear/affirm that

1. I am an official or an employee of an official who is authorized to serve process of the type described in the attached Proof of Service and my title and bailiwick are as follows:

I am a private process server (list name, address and telephone number below).
Natalie Godfrey, Served by Elite, LLC 1340 Old Chain Bridge Rd #107 McLean, VA 22101, (703) 556-5656

2. I am not a party to, or otherwise interested in, the subject matter in controversy in this case.

3. I am 18 years of age or older.

4. I served, as shown below, the above-named person upon whom service of process was to be made with copies described above.

— Date and time of service: May 29, 2019, 8:35 pm CDT

— Place of service: 3600 NW 174th Street, Edmond, OK 73012

STREET ADDRESS, CITY AND STATE

— Method of service:

<input checked="" type="checkbox"/> Personal Service	<input type="checkbox"/> Not Found
<input type="checkbox"/> Being unable to make personal service, a copy was delivered in the following manner:	
<input type="checkbox"/> Delivery to family member (not temporary sojourner or guest) age 16 or older at usual place of abode of person to be served after giving information of its purport. List name, age of recipient, and relation of recipient to party	
<input type="checkbox"/> Posted on front door or such other door as appears to be the main entrance of usual place of abode (other authorized recipient not found).	
<input type="checkbox"/> (Garnishment Summons Only, § 8.01-511) Copy mailed to judgment debtor after serving the garnishee on date of service below unless a different date of mailing is shown.	
DATE OF MAILING	

5/31/19
DATE

[Redacted Signature]

UU SIGNATURE

Name (Print or Type) Natalie Godfrey
State/Commonwealth of Oklahoma, City County of Oklahoma

Subscribed and sworn to/affirmed before this _____
by Natalie Godfrey Process Server

5/31/2019
DATE
PRINT NAME OF SIGNATORY

NOTARY PUBLIC (My commission expires _____)
Registration No. _____



CHAD SCHULMER
Notary Public
State of Oklahoma
Commission # 11010222 Expires 11/15/19

EDMOND, OKLAHOMA, CLERK
2019 JUN - 4 PM 2:16
CLERK OF COURTS
CITY OF ALEXANDRIA

**SUBPOENA FOR WITNESS (CIVIL)
ATTORNEY ISSUED**

Commonwealth of Virginia
VA. CODE §§ 8.01-407; 16.1-265; Supreme Court Rules 1:4, 4:5

FILED
CLERK OF COURTS
CITY OF ALEXANDRIA

Case No. CL19002067

2019 MAY 29 P 3:26

8:30 am
HEARING DATE AND TIME

Circuit Court for the City of Alexandria
520 King St, Alexandria, VA 22314

Court

National Rifle Association of America

v./In re: Ackerman McQueen, Inc. and Mercury Group, Inc.

TO THE PERSON AUTHORIZED BY LAW TO SERVE THIS PROCESS:

You are commanded to summon

Daniel Boren

NAME

3600 NW 174th St

STREET ADDRESS

Edmond

OK

73012

CITY

STATE

ZIP

TO the person summoned: You are commanded to appear

in the

Court

at

a place to be agreed by witness and parties

ADDRESS (DEPOSITION USE IN CIRCUIT COURT ONLY)

on

June

12

at

8:30 am

to testify in the above-named case.

This subpoena is issued by the attorney for and on behalf of

National Rifle Association of America

PARTY NAME

Robert H. Cox

NAME OF ATTORNEY

33118

VIRGINIA STATE BAR NUMBER

1921 Gallows Road, Suite 750

OFFICE ADDRESS

(703) 883-0880

TELEPHONE NUMBER OF ATTORNEY

Tysons Corner, VA 22182

OFFICE ADDRESS

(703) 883-0899

FACSIMILE NUMBER OF ATTORNEY

DATE ISSUED

SIGNATURE OF ATTORNEY

Notice to Recipient: See page two for further information.

RETURN OF SERVICE (see page two of this form)

TO the person summoned:

If you are served with this subpoena less than 5 calendar days before your appearance is required, the court may, after considering all of the circumstances, refuse to enforce the subpoena for lack of adequate notice. If you are served less than 5 calendar days before your appearance is required and you are a judicial officer generally incompetent to testify pursuant to § 19.2-271, this subpoena has no legal force or effect. If you are served with this subpoena less than 5 calendar days before your appearance is required, you may wish to contact the attorney who issued this subpoena and the clerk of the court.

This SUBPOENA FOR WITNESS is being served by a private process server who must provide proof of service in accordance with Va. Code § 8.01-325.

TO the person authorized to serve this process: Upon execution, the return of this process shall be made to the clerk of court.

NAME:	
ADDRESS: HOME <input type="checkbox"/> 3600 NW 174th St., Edmond, OK 73012 -or- WORK <input type="checkbox"/> 4001 N. Lincoln Blvd., Oklahoma City, OK 73105	
<input type="checkbox"/> PERSONAL SERVICE	Tel. No. (405) 767-8921
Being unable to make personal service, a copy was delivered in the following manner:	
<input type="checkbox"/> Delivered to a person found in charge of usual place of business or employment during business hours and giving information of its purport.	
<input type="checkbox"/> Delivered to family member (not temporary sojourner or guest) age 16 or older at usual place of abode of party named above after giving information of its purport. List name, age of recipient, and relation of recipient to party named above:	
<input type="checkbox"/> Posted on front door or such other door as appears to be the main entrance of usual place of abode, address listed above. (Other authorized recipient not found.)	
<input type="checkbox"/> not found	....., Sheriff
DATE	By, Deputy Sheriff

CERTIFICATE OF COUNSEL

I, Robert H. Cox, counsel for Plaintiff, hereby certify that a copy of the foregoing subpoena for witness was Served by e-mail & first class to David Scherrer, counsel of record for Defendant on the _____ day of _____,

DELIVERY METHOD

SIGNATURE OF ATTORNEY

IN THE CIRCUIT COURT FOR THE
CITY OF ALEXANDRIA

FILED
CLERK OF COURTS
CITY OF ALEXANDRIA

2019 MAY 29 P 3:25

WARD SENCHIAN, CLERK

DEPUTY CLERK

National Rifle Association of America,

Plaintiff,

v.

Ackerman McQueen Inc.,

and

Mercury Group, Inc.

Defendants.

Civil Case No. CL19002067

Notice of Deposition of Daniel Boren

TO: Defendants, by and through their counsel David Schertler, Schertler & Onorato LLP, 901 New York Avenue, NW, Washington, DC 20001.

PLEASE TAKE NOTICE that pursuant to Rule 4:5 of the Rules of the Supreme Court of Virginia, Plaintiff National Rifle Association of America ("Plaintiff"), by and through its counsel of record,

shall take the deposition of: **Daniel Boren,**


upon oral examination on: **June 12, 2019 at 8:30am,**

at: **a place to be agreed by witness and the parties.**

The deposition shall be taken before a notary public or other official authorized by law to administer oaths, and may be recorded by sound, videotape, and/or stenographic means for use as evidence, and for all other purposes allowable by law.

Dated: May 24, 2019

Respectfully submitted,


James W. Hundley
(VA Bar No. 30723)
Robert H. Cox
(VA Bar No. 33118)
BRIGLIA HUNDLEY, P.C.
1921 Gallows Road, Suite 750
Tysons Corner, Virginia 22182
703.883.0880

703.883.0899 [facsimile]
jhundley@brigliahundley.com

CERTIFICATE OF SERVICE

I hereby certify that on May 24, 2019, I caused Plaintiff's Notice of Deposition of Daniel Boren to be served via electronic mail and first-class mail upon:

David Schertler

Schertler & Onorato, LLP

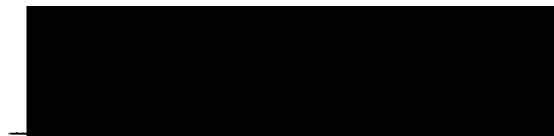
901 New York Avenue, N.W.

Suite 500

Washington, D.C. 20001

dschertler@schertlerlaw.com

Counsel for the Defendants



James W. Hundley (VA Bar No. 30723)

Robert H. Cox (VA Bar No. 33118)

SERVICE OTHER THAN BY VIRGINIA SHERIFF
COMMONWEALTH OF VIRGINIA
VA. CODE §§ 8.01-293, 8.01-320, 8.01-325

Case No. CL19002067
Service No. _____ (Clerk's use only)

City of Alexandria Circuit Court
National Rifle Association of America v. Ackerman McQueen, Inc. and Mercury Group, Inc.
Daniel Boren, 3600 NW 174th Street, Edmond, OK 73012

is the name and address of the person upon whom service of the following is to be made:

- Summons and Complaint
 Subpoena Duces Tecum (Civil) - Attorney Issued, Plaintiff's Complaint and Jury Demand

I, the undersigned, swear/affirm that

1. I am an official or an employee of an official who is authorized to serve process of the type described in the attached Proof of Service and my title and bailiwick are as follows:

I am a private process server (list name, address and telephone number below).
Natalie Godfrey, Served by Elite, LLC 1340 Old Chain Bridge Rd #107 McLean, VA 22101, (703) 556-5656

2. I am not a party to, or otherwise interested in, the subject matter in controversy in this case.

3. I am 18 years of age or older.

4. I served, as shown below, the above-named person upon whom service of process was to be made with copies described above.

— Date and time of service: May 29, 2019, 8:35 pm CDT

— Place of service: 3600 NW 174th Street, Edmond, OK 73012

STREET ADDRESS, CITY AND STATE

— Method of service:

<input checked="" type="checkbox"/> Personal Service	<input type="checkbox"/> Not Found
<input type="checkbox"/> Being unable to make personal service, a copy was delivered in the following manner:	
<input type="checkbox"/> Delivery to family member (not temporary sojourner or guest) age 16 or older at usual place of abode of person to be served after giving information of its purport. List name, age of recipient, and relation of recipient to party	
<input type="checkbox"/> Posted on front door or such other door as appears to be the main entrance of usual place of abode (other authorized recipient not found).	
<input type="checkbox"/> (Garnishment Summons Only, § 8.01-511) Copy mailed to judgment debtor after serving the garnishee on date of service below unless a different date of mailing is shown.	
DATE OF MAILING	

5/31/19
DATE

OO SIGNATURE

Name (Print or Type) Natalie Godfrey

State/Commonwealth of Oklahoma

City County of Oklahoma

Subscribed and sworn to/affirmed before this

by Natalie Godfrey

Process Server

PRINT NAME OF SIGNATORY

TITLE

5/31/2019
DATE

NOTARY PUBLIC (My commission expires
Registration No. _____)

CHAD SCHULMEIER
Notary Public
State of Oklahoma
Commission # 11010222 Expires 11/29/19

EDMOND, OKLAHOMA
2019 JUN - 4 PM 2:16
CLERK OF COURTS
CITY OF ALEXANDRIA

[Faint, illegible text covering the majority of the page, possibly bleed-through from the reverse side.]

STATION
SOUTH - 4
B.M. S. 19

[Faint, illegible text in the right margin, possibly bleed-through from the reverse side.]

**SUBPOENA DUCES TECUM (CIVIL) –
ATTORNEY ISSUED** VA CODE §§ 8.01-413, 16.1-89, 16.1-265;
Commonwealth of Virginia Supreme Court Rules 1:4, 4:9

Case No.: CL19002067

HEARING DATE AND TIME

Circuit Court for the City of Alexandria

Court

520 King St, Alexandria, VA 22314

COURT ADDRESS

National Rifle Association of America

v./In re: Ackerman McQueen, Inc. and Mercury Group, Inc.

TO THE PERSON AUTHORIZED BY LAW TO SERVE THIS PROCESS:

You are commanded to summon

Daniel Boren

NAME

3600 NW 174th St

STREET ADDRESS

Edmond

OK

73012

CITY

STATE

ZIP

TO the person summoned: You are commanded to make available the documents and tangible things designated and described below:

See Attachment A

at a place to be agreed by witness and parties at 8:30am on June 12, 2019

LOCATION

DATE AND TIME

to permit such party or someone acting in his or her behalf to inspect and copy, test or sample such tangible things in your possession, custody or control.

This Subpoena Duces Tecum is issued by the attorney for and on behalf of

National Rifle Association of America

PARTY NAME

Robert H. Cox

NAME OF ATTORNEY

33118

VIRGINIA STATE BAR NUMBER

1921 Gallows Road, Suite 750

OFFICE ADDRESS

703-883-0880

TELEPHONE NUMBER OF ATTORNEY

Tysons Corner, VA 22182

OFFICE ADDRESS

703-883-0899

FACSIMILE NUMBER OF ATTORNEY

5/24/19

DATE ISSUED

SIGNATURE OF ATTORNEY

Notice to Recipient: See page two for further information.

RETURN OF SERVICE (see page two of this form)

TO the person summoned:

If you are served with this subpoena less than 14 days prior to the date that compliance with this subpoena is required, you may object by notifying the party who issued the subpoena of your objection in writing and describing the basis of your objection in that writing.

This SUBPOENA DUCES TECUM is being served by a private process server who must provide proof of service in accordance with Va. Code § 8.01-325.

TO the person authorized to serve this process: Upon execution, the return of this process shall be made to the clerk of court.

NAME:	Daniel Boren
ADDRESS:	HOME [] 3600 NW 174th St., Edmond, OK 73012 -or- WORK [] 4001 N. Lincoln Blvd., Oklahoma City, OK 73105
<input type="checkbox"/> PERSONAL SERVICE	Tel. No. (405) 767-8921 (Work)
Being unable to make personal service, a copy was delivered in the following manner:	
<input type="checkbox"/>	Delivered to family member (not temporary sojourner or guest) age 16 or older at usual place of abode of party named above after giving information of its purport. List name, age of recipient, and relation of recipient to party named above:
<input type="checkbox"/>	Posted on front door or such other door as appear to be the main entrance of usual place of abode, address listed above. (Other authorized recipient not found.)
<input type="checkbox"/> NOT FOUND	_____, Sheriff
DATE	_____ by _____, Deputy Sheriff

CERTIFICATE OF COUNSEL

I, Robert H. Cox, counsel for Plaintiff, hereby certify that a copy of the foregoing subpoena duces tecum was sent by email + first class to David Scherler, counsel of record for Defendant, on the 24th day of May, 2019.

SIGNATURE OF ATTORNEY

NOTICE: Upon receipt of the subpoenaed documents, the requesting party must, if requested, provide true and full copies of those documents to any other party or to the attorney for any other party, provided the other party or attorney for the other party pays the reasonable cost of copying or reproducing those documents. This does not apply when the subpoenaed documents are returnable to and maintained by the clerk of the court in which the action is pending. Va. Code § 8.01-417

IN THE CIRCUIT COURT FOR THE
CITY OF ALEXANDRIA

National Rifle Association of America,

Plaintiff,

v.

Civil Case No. CL19002067

Ackerman McQueen Inc.,

and

Mercury Group, Inc.

Defendants.

ATTACHMENT A
TO SUBPOENA DUCES TECUM

DEFINITIONS

1. The term “**complaint**” shall mean the Complaint filed in this case, recorded by the Court under Civ. No. CL19002067.
2. The terms “**communication**,” “**communicate**,” and “**communicated**” shall mean any oral, written, or recorded utterance, notation, or statement of any nature whatsoever, by and to whomsoever made, including, but not limited to, correspondence, e-mails, text messages, conversations, facsimiles, letters, telegrams, cables, telexes, dialogues, discussions, negotiations, interviews, consultations, telephone calls, agreements, and other understandings, among two or more persons. The term “**communication**” includes written summaries of any of the foregoing communications.
3. The terms “**document**” and “**record**” shall mean all writings of any sort and each term should be construed in its broadest sense to include, but not be limited to, all original and non-identical copies, whether by reason of marginalia or other notes or alterations, and all preliminary or subsequent drafts of the following items, whether printed or recorded or reproduced by any other mechanical or electronic process, or written or produced by hand: agreements, communications, correspondence, letters, telegrams, cables, telexes, memoranda, records, books, journals, summaries of records or papers, minutes, calendars, affidavits, recordings (video or audio), electronic mail, text messages, memoranda of telephone calls, conversations, telephone calls, meetings, contracts, notes, marginal comments appearing on or affixed to any document, day timers, date books, messages, letters of credit, invoices, statements of account, financial statements, receipts, promissory notes, security agreements, deeds of trust, instruments purporting to grant or evidencing any security interest or lien, loan agreements, projections, working papers,

securities, ledgers, cancelled checks and bank drafts (front and back), check stub receipts, and other data, documents, papers, or writings of whatever description including, but not limited to, any data or information which is electronically recorded or shared, contained in any computer, mobile device, or other information retrievable device or that otherwise can be obtained or translated through detection devices or other means into any reasonably useable or recordable format.

4. The term “**related to**” shall mean concerning, relating to, reflecting, referring to, having a relationship to, pertaining to, identifying, containing, pertinent to, setting forth, showing, disclosing, describing, explaining, summarizing, evidencing, or constituting, directly or indirectly, in whole or in part, or to be otherwise factually, legally or logically connected to the subject matter of the particular Request.

REQUESTS FOR PRODUCTION

1. Produce any and all records or communications dated, drafted, modified, sent or received during the period starting April 10, 2019 and ending May 22, 2019, that refer or relate to any officer, director, agent or employee of Ackerman McQueen, Inc. (“AMc”) or Mercury Group, Inc. (“Mercury”).
2. Produce any and all records or communications which were dated, drafted, modified, issued, saved, sent or received during the period starting April 22, 2019 and ending April 29, 2019, including but not limited to cellular call and text records regarding AMc, Mercury, or Wayne LaPierre.
3. Produce any and all documents dated, drafted, modified, issued, sent or received during the period starting April 1, 2019 and ending May 22, 2019, which refer or relate to fund expenditures by or on behalf of the National Rifle Association of America (“NRA”), or any of its directors, officers, executives, agents or employees, including but not limited to financial records that reflect such expenditures, receipts, or communications referring to such expenditures.
4. Produce any and all records related to reimbursement or payment of any of your expenses by AMc, Mercury or the NRA, or an agent, officer, executive or employee of AMc, Mercury, or the NRA.
5. Produce any and all records or communications dated, drafted, modified, issued, sent or received during the period starting April 22, 2019 and ending May 20, 2019, related to a “leak” or dissemination of previously non-public documents or information, including but not limited to letters or memos by or relating to Oliver North, Wayne LaPierre, Marion Hammer or Tyler Schropp, or letters or memos referenced in contemporaneous media coverage.¹

¹ See, e.g., Stephen Gutowski, *Allan West Calls for Wayne LaPierre Resignation in Wake of Leaked NRA Memos; NRA Leadership Fires Back*, FREE BEACON (May 14, 2019, 4:20 PM), <https://freebeacon.com/issues/allen-west-calls-for-wayne-lapierre-resignation-in-wake-of-leaked-nra-memos-nra-leadership-fires-back>; Betsy Woodruff,

EXHIBIT 2

SUBPOENA DUCES TECUM (CIVIL) –
ATTORNEY ISSUED VA CODE §§ 8.01-413, 16.1-89, 16.1-265;
Commonwealth of Virginia Supreme Court Rules 1:4, 4:9

Case No.: CL19002067

HEARING DATE AND TIME

Circuit Court for the City of Alexandria

Court

520 King St, Alexandria, VA 22314

COURT ADDRESS

National Rifle Association of America

v./In re: Ackerman McQueen, Inc. and Mercury Group, Inc.

TO THE PERSON AUTHORIZED BY LAW TO SERVE THIS PROCESS:

You are commanded to summon

Oliver North

NAME

168 Atlantic Ave.

STREET ADDRESS

Pawleys Island

SC

29585

CITY

STATE

ZIP

TO the person summoned: You are commanded to make available the documents and tangible things designated and described below:

See Attachment A.

FILED
CLERK OF COURTS
CITY OF ALEXANDRIA
2019 JUN -4 AM 9:32
AND SEMONIAN, CLERK
DEPUTY CLERK

at a place to be agreed upon by witness and the parties at 8:30am on June 13, 2019

LOCATION

DATE AND TIME

to permit such party or someone acting in his or her behalf to inspect and copy, test or sample such tangible things in your possession, custody or control.

This Subpoena Duces Tecum is issued by the attorney for and on behalf of

National Rifle Association of America

PARTY NAME

Robert H. Cox

NAME OF ATTORNEY

1921 Gallows Road, Suite 750

OFFICE ADDRESS

Tysons Corner, VA 22182

OFFICE ADDRESS

May 29, 2019

DATE ISSUED

33118

VIRGINIA STATE BAR NUMBER

703-883-0880

TELEPHONE NUMBER OF ATTORNEY

703-883-0899

FACSIMILE NUMBER OF ATTORNEY

SIGNATURE OF ATTORNEY

Notice to Recipient: See page two for further information.

RETURN OF SERVICE (see page two of this form)

TO the person summoned:

If you are served with this subpoena less than 14 days prior to the date that compliance with this subpoena is required, you may object by notifying the party who issued the subpoena of your objection in writing and describing the basis of your objection in that writing.

This SUBPOENA DUCES TECUM is being served by a private process server who must provide proof of service in accordance with Va. Code § 8.01-325.

TO the person authorized to serve this process: Upon execution, the return of this process shall be made to the clerk of court.

NAME:		Oliver North
ADDRESS:		168 Atlantic Ave, Pawleys Island, SC 29585-6218
<input type="checkbox"/> PERSONAL SERVICE	Tel. No.	
Being unable to make personal service, a copy was delivered in the following manner:		
<input type="checkbox"/> Delivered to family member (not temporary sojourner or guest) age 16 or older at usual place of abode of party named above after giving information of its purport. List name, age of recipient, and relation of recipient to party named above:		
<input type="checkbox"/> Posted on front door or such other door as appear to be the main entrance of usual place of abode, address listed above. (Other authorized recipient not found.)		
<input type="checkbox"/> NOT FOUND	....., Sheriff	
DATE	by .....	..... Deputy Sheriff

CERTIFICATE OF COUNSEL

I, Robert H. Cox, counsel for Plaintiff, hereby certify that a copy of the foregoing subpoena duces tecum was delivered by email + first class to David H. Dickerson, counsel of record for Defendants, on the 29th day of May, 2019.


 SIGNATURE OF ATTORNEY

NOTICE: Upon receipt of the subpoenaed documents, the requesting party must, if requested, provide true and full copies of those documents to any other party or to the attorney for any other party, provided the other party or attorney for the other party pays the reasonable cost of copying or reproducing those documents. This does not apply when the subpoenaed documents are returnable to and maintained by the clerk of the court in which the action is pending. Va. Code § 8.01-417

IN THE CIRCUIT COURT FOR THE
CITY OF ALEXANDRIA

National Rifle Association of America,

Plaintiff,

v.

Civil Case No. CL19002067

Ackerman McQueen Inc.,

and

Mercury Group, Inc.

Defendants.

ATTACHMENT A
TO SUBPOENA DUCES TECUM

DEFINITIONS

1. The term “**complaint**” shall mean the Complaint filed in this case, recorded by the Court under Civ. No. CL19002067.
2. The terms “**communication**,” “**communicate**,” and “**communicated**” shall mean any oral, written, or recorded utterance, notation, or statement of any nature whatsoever, by and to whomsoever made, including, but not limited to, correspondence, e-mails, text messages, conversations, facsimiles, letters, telegrams, cables, telexes, dialogues, discussions, negotiations, interviews, consultations, telephone calls, agreements, and other understandings, among two or more persons. The term “**communication**” includes written summaries of any of the foregoing communications.
3. The terms “**document**” and “**record**” shall mean all writings of any sort and each term should be construed in its broadest sense to include, but not be limited to, all original and non-identical copies, whether by reason of marginalia or other notes or alterations, and all preliminary or subsequent drafts of the following items, whether printed or recorded or reproduced by any other mechanical or electronic process, or written or produced by hand: agreements, communications, correspondence, letters, telegrams, cables, telexes, memoranda, records, books, journals, summaries of records or papers, minutes, calendars, affidavits, recordings (video or audio), electronic mail, text messages, memoranda of telephone calls, conversations, telephone calls, meetings, contracts, notes, marginal comments appearing on or affixed to any document, day timers, date books, messages, letters of credit, invoices, statements of account, financial statements, receipts, promissory notes, security agreements, deeds of trust, instruments purporting to grant or evidencing any security interest or lien, loan agreements, projections, working papers,

securities, ledgers, cancelled checks and bank drafts (front and back), check stub receipts, and other data, documents, papers, or writings of whatever description including, but not limited to, any data or information which is electronically recorded or shared, contained in any computer, mobile device, or other information retrievable device or that otherwise can be obtained or translated through detection devices or other means into any reasonably useable or recordable format.

4. The term “**related to**” shall mean concerning, relating to, reflecting, referring to, having a relationship to, pertaining to, identifying, containing, pertinent to, setting forth, showing, disclosing, describing, explaining, summarizing, evidencing, or constituting, directly or indirectly, in whole or in part, or to be otherwise factually, legally or logically connected to the subject matter of the particular Request.

REQUESTS FOR PRODUCTION

1. Produce any and all records or communications dated, drafted, modified, sent or received during the period starting April 10, 2019 and ending May 22, 2019, that refer or relate to any officer, director, agent or employee of Ackerman McQueen, Inc. (“AMc”) or Mercury Group, Inc. (“Mercury”).
2. Produce any and all records or communications which were dated, drafted, modified, issued, saved, sent or received during the period starting April 22, 2019 and ending April 29, 2019, including but not limited to cellular call and text records regarding AMc, Mercury, or Wayne LaPierre.
3. Produce any and all documents dated, drafted, modified, issued, sent or received during the period starting April 1, 2019 and ending May 22, 2019, which refer or relate to fund expenditures by or on behalf of the National Rifle Association of America (“NRA”), or any of its directors, officers, executives, agents or employees, including but not limited to financial records that reflect such expenditures, receipts, or communications referring to such expenditures.
4. Produce any and all records related to reimbursement or payment of any of your expenses by AMc, Mercury or the NRA, or an agent, officer, executive or employee of AMc, Mercury, or the NRA.
5. Produce any and all records or communications dated, drafted, modified, issued, sent or received during the period starting April 22, 2019 and ending May 20, 2019, related to a “leak” or dissemination of previously non-public documents or information, including but not limited to letters or memos by or relating to Oliver North, Wayne LaPierre, Marion Hammer or Tyler Schropp, or letters or memos referenced in contemporaneous media coverage.¹

¹ See, e.g., Stephen Gutowski, *Allan West Calls for Wayne LaPierre Resignation in Wake of Leaked NRA Memos; NRA Leadership Fires Back*, FREE BEACON (May 14, 2019, 4:20 PM), <https://freebeacon.com/issues/allen-west-calls-for-wayne-lapierre-resignation-in-wake-of-leaked-nra-memos-nra-leadership-fires-back>; Betsy Woodruff,

**SUBPOENA FOR WITNESS (CIVIL) –
ATTORNEY ISSUED**

Case No. CL19002067

Commonwealth of Virginia
VA. CODE §§ 8.01-407; 16.1-265; Supreme Court Rules 1:4, 4:5

8:30 am

HEARING DATE AND TIME

Circuit Court for the City of Alexandria

Court

520 King St, Alexandria, VA 22314

ADDRESS OF COURT

National Rifle Association of America

v./In re: Ackerman McQueen, Inc. and Mercury Group, Inc.

TO THE PERSON AUTHORIZED BY LAW TO SERVE THIS PROCESS:

You are commanded to summon

Oliver North

NAME

168 Atlantic Ave.

STREET ADDRESS

Pawleys Island

SC

CITY

STATE

29585
ZIP

FILED
CLERK OF COURTS
CITY OF ALEXANDRIA
2018 JUN -4 AM 9:32
AND SEMONIAN, CLERK
DEPUTY CLERK

TO the person summoned: You are commanded to appear

[] in the _____ Court

at _____ a place to be agreed upon by witness and the parties

ADDRESS (DEPOSITION USE IN CIRCUIT COURT ONLY)

on June _____, _____ 13 at 8:30 am to testify in the above-named case.

This subpoena is issued by the attorney for and on behalf of

National Rifle Association of America

PARTY NAME

Robert H. Cox

NAME OF ATTORNEY

1921 Gallows Road, Suite 750

OFFICE ADDRESS

Tysons Corner, VA 22182

OFFICE ADDRESS

5/29/19
DATE ISSUED

33118

VIRGINIA STATE BAR NUMBER

(703) 883-0880

TELEPHONE NUMBER OF ATTORNEY

(703) 883-0899

FACSIMILE NUMBER OF ATTORNEY

SIGNATURE OF ATTORNEY

Notice to Recipient: See page two for further information.

RETURN OF SERVICE (see page two of this form)

TO the person summoned:

If you are served with this subpoena less than 5 calendar days before your appearance is required, the court may, after considering all of the circumstances, refuse to enforce the subpoena for lack of adequate notice. If you are served less than 5 calendar days before your appearance is required and you are a judicial officer generally incompetent to testify pursuant to § 19.2-271, this subpoena has no legal force or effect. If you are served with this subpoena less than 5 calendar days before your appearance is required, you may wish to contact the attorney who issued this subpoena and the clerk of the court.

This SUBPOENA FOR WITNESS is being served by a private process server who must provide proof of service in accordance with Va. Code § 8.01-325.

TO the person authorized to serve this process: Upon execution, the return of this process shall be made to the clerk of court.

NAME:	Oliver North	
ADDRESS:	168 Atlantic Ave, Pawleys Island, SC 29585-6218	
<input type="checkbox"/> PERSONAL SERVICE	Tel. No.	
Being unable to make personal service, a copy was delivered in the following manner:		
<input type="checkbox"/> Delivered to a person found in charge of usual place of business or employment during business hours and giving information of its purport.		
<input type="checkbox"/> Delivered to family member (not temporary sojourner or guest) age 16 or older at usual place of abode of party named above after giving information of its purport. List name, age of recipient, and relation of recipient to party named above:		
<input type="checkbox"/> Posted on front door or such other door as appears to be the main entrance of usual place of abode, address listed above. (Other authorized recipient not found.)		
<input type="checkbox"/> not found	, Sheriff	
DATE	By	, Deputy Sheriff

CERTIFICATE OF COUNSEL

I, Robert H. Cox, counsel for Plaintiff, hereby certify that a copy of the foregoing subpoena for witness was serviced by email + first class mail to David H. Dickerson, counsel of record for Defendant on the 29th day of May, 2019.



SIGNATURE OF ATTORNEY

IN THE CIRCUIT COURT FOR THE
CITY OF ALEXANDRIA

FILED
CLERK OF COURTS
CITY OF ALEXANDRIA
2019 JUN -4 AM 9:32
WARD SEMONIAN, CLERK
DEPUTY CLERK

National Rifle Association of America,

Plaintiff,

v.

Civil Case No. CL19002067

Ackerman McQueen Inc.,

and

Mercury Group, Inc.

Defendants.

Notice of Deposition of Lt. Col. Oliver North

TO: Defendants, by and through their counsel of record David Schertler, Schertler & Onorato, LLP, 901 New York Avenue, N.W., Suite 500, Washington, DC 20001.

PLEASE TAKE NOTICE that pursuant to Rule 4:5 of the Rules of the Supreme Court of Virginia, Plaintiff National Rifle Association of America ("Plaintiff"), by and through its counsel of record,

shall take the deposition of: **Lt. Col. Oliver North,**


upon oral examination on: **June 13, 2019 at 8:30am,**

at the offices of: **a place to be agreed by witness and the parties.**

The deposition shall be taken before a notary public or other official authorized by law to administer oaths, and may be recorded by sound, videotape, and/or stenographic means for use as evidence, and for all other purposes allowable by law.

Dated: May 29, 2019

Respectfully submitted,


James W. Hundley
(VA Bar No. 30723)
Robert H. Cox
(VA Bar No. 33118)
BRIGLIA HUNDLEY, P.C.
1921 Gallows Road, Suite 750

Tysons Corner, Virginia 22182
703.883.0880
703.883.0899 [facsimile]
jhundley@brigliahundley.com

CERTIFICATE OF SERVICE

I hereby certify that on May 29, 2019, I caused Plaintiff's Notice of Deposition of Oliver North via electronic mail and first-class mail upon:

David Schertler

David Dickieson

Schertler & Onorato, LLP

901 New York Avenue, N.W.

Suite 500

Washington, D.C. 20001

dschertler@schertlerlaw.com

Counsel for the Defendants



James W. Hundley (VA Bar No. 30723)

Robert H. Cox (VA Bar No. 33118)

SUBPOENA DUCES TECUM (CIVIL) –
ATTORNEY ISSUED VA CODE §§ 8.01-413, 16.1-89, 16.1-265;
Commonwealth of Virginia Supreme Court Rules 1:4, 4:9

Case No.: CL19002067

HEARING DATE AND TIME

Circuit Court for the City of Alexandria

Court

520 King St, Alexandria, VA 22314

COURT ADDRESS

National Rifle Association of America

v./In re:

Ackerman McQueen, Inc. and Mercury Group, Inc.

TO THE PERSON AUTHORIZED BY LAW TO SERVE THIS PROCESS:

You are commanded to summon

Oliver North

NAME

168 Atlantic Ave.

STREET ADDRESS

Pawleys Island

SC

29585

CITY

STATE

ZIP

TO the person summoned: You are commanded to make available the documents and tangible things designated and described below:

See Attachment A.

at a place to be agreed upon by witness and the parties at 8:30am on June 13, 2019

LOCATION

DATE AND TIME

to permit such party or someone acting in his or her behalf to inspect and copy, test or sample such tangible things in your possession, custody or control.

This Subpoena Duces Tecum is issued by the attorney for and on behalf of

National Rifle Association of America

PARTY NAME

Robert H. Cox

NAME OF ATTORNEY

33118

VIRGINIA STATE BAR NUMBER

1921 Gallows Road, Suite 750

OFFICE ADDRESS

703-883-0880

TELEPHONE NUMBER OF ATTORNEY

Tysons Corner, VA 22182

OFFICE ADDRESS

703-883-0899

FACSIMILE NUMBER OF ATTORNEY

May 29, 2019

DATE ISSUED

SIGNATURE OF ATTORNEY

Notice to Recipient: See page two for further information.

RETURN OF SERVICE (see page two of this form)

TO the person summoned:

If you are served with this subpoena less than 14 days prior to the date that compliance with this subpoena is required, you may object by notifying the party who issued the subpoena of your objection in writing and describing the basis of your objection in that writing.

This SUBPOENA DUCES TECUM is being served by a private process server who must provide proof of service in accordance with Va. Code § 8.01-325.

TO the person authorized to serve this process: Upon execution, the return of this process shall be made to the clerk of court.

NAME:		Oliver North
ADDRESS:		168 Atlantic Ave, Pawleys Island, SC 29585-6218
<input type="checkbox"/> PERSONAL SERVICE	Tel. No.	.....
Being unable to make personal service, a copy was delivered in the following manner:		
<input type="checkbox"/>	Delivered to family member (not temporary sojourner or guest) age 16 or older at usual place of abode of party named above after giving information of its purport. List name, age of recipient, and relation of recipient to party named above:	
<input type="checkbox"/>	Posted on front door or such other door as appear to be the main entrance of usual place of abode, address listed above. (Other authorized recipient not found.)	
<input type="checkbox"/> NOT FOUND	....., Sheriff	
DATE	by	..... Deputy Sheriff

CERTIFICATE OF COUNSEL

I, Robert H. Cox, counsel for Plaintiff, hereby certify that a copy of the foregoing subpoena duces tecum was delivered by email + first class to David H. Dickerson, counsel of record for Defendants on the 29th day of May, 2019.

.....
SIGNATURE OF ATTORNEY

NOTICE: Upon receipt of the subpoenaed documents, the requesting party must, if requested, provide true and full copies of those documents to any other party or to the attorney for any other party, provided the other party or attorney for the other party pays the reasonable cost of copying or reproducing those documents. This does not apply when the subpoenaed documents are returnable to and maintained by the clerk of the court in which the action is pending. Va. Code § 8.01-417

IN THE CIRCUIT COURT FOR THE
CITY OF ALEXANDRIA

National Rifle Association of America,

Plaintiff,

v.

Civil Case No. CL19002067

Ackerman McQueen Inc.,

and

Mercury Group, Inc.

Defendants.

ATTACHMENT A
TO SUBPOENA DUCES TECUM

DEFINITIONS

1. The term "**complaint**" shall mean the Complaint filed in this case, recorded by the Court under Civ. No. CL19002067.
2. The terms "**communication**," "**communicate**," and "**communicated**" shall mean any oral, written, or recorded utterance, notation, or statement of any nature whatsoever, by and to whomsoever made, including, but not limited to, correspondence, e-mails, text messages, conversations, facsimiles, letters, telegrams, cables, telexes, dialogues, discussions, negotiations, interviews, consultations, telephone calls, agreements, and other understandings, among two or more persons. The term "**communication**" includes written summaries of any of the foregoing communications.
3. The terms "**document**" and "**record**" shall mean all writings of any sort and each term should be construed in its broadest sense to include, but not be limited to, all original and non-identical copies, whether by reason of marginalia or other notes or alterations, and all preliminary or subsequent drafts of the following items, whether printed or recorded or reproduced by any other mechanical or electronic process, or written or produced by hand: agreements, communications, correspondence, letters, telegrams, cables, telexes, memoranda, records, books, journals, summaries of records or papers, minutes, calendars, affidavits, recordings (video or audio), electronic mail, text messages, memoranda of telephone calls, conversations, telephone calls, meetings, contracts, notes, marginal comments appearing on or affixed to any document, day timers, date books, messages, letters of credit, invoices, statements of account, financial statements, receipts, promissory notes, security agreements, deeds of trust, instruments purporting to grant or evidencing any security interest or lien, loan agreements, projections, working papers,

securities, ledgers, cancelled checks and bank drafts (front and back), check stub receipts, and other data, documents, papers, or writings of whatever description including, but not limited to, any data or information which is electronically recorded or shared, contained in any computer, mobile device, or other information retrievable device or that otherwise can be obtained or translated through detection devices or other means into any reasonably useable or recordable format.

4. The term “**related to**” shall mean concerning, relating to, reflecting, referring to, having a relationship to, pertaining to, identifying, containing, pertinent to, setting forth, showing, disclosing, describing, explaining, summarizing, evidencing, or constituting, directly or indirectly, in whole or in part, or to be otherwise factually, legally or logically connected to the subject matter of the particular Request.

REQUESTS FOR PRODUCTION

1. Produce any and all records or communications dated, drafted, modified, sent or received during the period starting April 10, 2019 and ending May 22, 2019, that refer or relate to any officer, director, agent or employee of Ackerman McQueen, Inc. (“AMc”) or Mercury Group, Inc. (“Mercury”).
2. Produce any and all records or communications which were dated, drafted, modified, issued, saved, sent or received during the period starting April 22, 2019 and ending April 29, 2019, including but not limited to cellular call and text records regarding AMc, Mercury, or Wayne LaPierre.
3. Produce any and all documents dated, drafted, modified, issued, sent or received during the period starting April 1, 2019 and ending May 22, 2019, which refer or relate to fund expenditures by or on behalf of the National Rifle Association of America (“NRA”), or any of its directors, officers, executives, agents or employees, including but not limited to financial records that reflect such expenditures, receipts, or communications referring to such expenditures.
4. Produce any and all records related to reimbursement or payment of any of your expenses by AMc, Mercury or the NRA, or an agent, officer, executive or employee of AMc, Mercury, or the NRA.
5. Produce any and all records or communications dated, drafted, modified, issued, sent or received during the period starting April 22, 2019 and ending May 20, 2019, related to a “leak” or dissemination of previously non-public documents or information, including but not limited to letters or memos by or relating to Oliver North, Wayne LaPierre, Marion Hammer or Tyler Schropp, or letters or memos referenced in contemporaneous media coverage.¹

¹ See, e.g., Stephen Gutowski, *Allan West Calls for Wayne LaPierre Resignation in Wake of Leaked NRA Memos; NRA Leadership Fires Back*, FREE BEACON (May 14, 2019, 4:20 PM), <https://freebeacon.com/issues/allen-west-calls-for-wayne-lapierre-resignation-in-wake-of-leaked-nra-memos-nra-leadership-fires-back/>; Betsy Woodruff,

EXHIBIT 3

IN THE DISTRICT COURT OF THE STATE OF IOWA
IN AND FOR IOWA COUNTY

NATIONAL RIFLE ASSOCIATION OF
AMERICA,
Plaintiff/Petitioner,
v.

ACKERMAN MCQUEEN, INC. AND
MERCURY GROUP, INC.,
Defendants/Respondents.

Case No. *IFIE000172*

**APPLICATION FOR CIVIL
OUT OF STATE SUBPOENA**

COMES NOW, the undersigned Attorney and in support of the Application for Civil Out of State Subpoena states as follows:

1. The undersigned respectfully requests that the attached Foreign Subpoena be issued in the above captioned matter at the request of the attorney for one of the parties in the foreign action as noted on the blank subpoena.
2. The undersigned has been retained for the limited purpose of filing this application on behalf of Iowa Process Service to obtain an issued subpoena. Upon the filing of this document and the receipt of the issued subpoena from the clerk, pursuant to rule 1.404(4), the undersigned's limited representation has been completed.

/s/Nicholas A. Carda

Nicholas A. Carda, AT0011203
1701 48th St., Suite 100
West Des Moines, IA 50266
(515) 267-9000 Telephone
(515) 267-8100 Fax
ncarda@mcenroelaw.com

E-FILED 2019 JUN 24 2:14 PM IOWA - CLERK OF DISTRICT COURT

Iowa Process Service
901 North Buxton
Indianola, Iowa 50125
877-816-4696- Telephone
877-818-9844- Fax

Rule 1.1901 – Form 13: Subpoena Form to Testify at Deposition or Produce Documents

THE IOWA DISTRICT COURT FOR IOWA COUNTY

National Rifle Association of America,)	
Plaintiff/Petitioner,	)	No.
v.)	
Ackerman McQueen, Inc., and Mercury Group, Inc.,	)	SUBPOENA TO TESTIFY AT A DEPOSITION OR
Defendants/Respondents.	)	TO PRODUCE DOCUMENTS IN A CIVIL ACTION

To: Lance Olson, 785 William Avenue, Marengo, IA 52301

YOU ARE COMMANDED to appear at the time, date, and place specified below to testify at a deposition to be taken in this civil action. If you are an organization that is not a party in this case, you must designate one or more officers, directors, or managing agents, or designate other person who consents to testify on your behalf about the following matter, or those set forth in an attachment:

Place: Coralville Marriott Hotel and Conference Center, 300 East 9th St, Coralville, IA 52241

Date: July 22, 2019 Time: 9:30am

The deposition will be recorded by this method: videography and stenography.

You or your representative must also bring with you to the deposition the following books, documents, electronically stored information, or tangible things, and permit their inspection, copying, testing, or sampling of the material:

See Attachment A.

Form of electronically stored information to be produced: in form/format in which your records are ordinarily maintained, copied to a USB thumb drive.

Date: _____

Signature of Clerk of the District Court

OR

Attorney's signature

PLEASE NOTE: If you require the assistance of auxiliary aids or services to participate in court because of a disability, immediately call your district ADA coordinator at 319-308-3020, Ext.1105. (If you are hearing impaired, call Relay Iowa TTY at 1-800-735-2942).

The name, address, e-mail, and telephone number of the attorney representing the National Rifle Association of America, who issues or requests this subpoena:

Robert H. Cox
BRIGLIA HUNDLEY, P.C.
1921 Gallows Road, Suite 750
Tysons Corner, VA 22182
Phone: 703-883-0880; Fax: 703-883-0899; rcox@brigliahundley.com

IN THE CIRCUIT COURT FOR THE
CITY OF ALEXANDRIA

National Rifle Association of America,

Plaintiff,

v.

Civil Case No. CL19002067

Ackerman McQueen Inc.,

and

Mercury Group, Inc.

Defendants.

ATTACHMENT A
TO SUBPOENA DUCES TECUM

DEFINITIONS

1. The term "**complaint**" shall mean the Complaint filed in this case, recorded by the Court under Civ. No. CL19002067.
2. The terms "**communication**," "**communicate**," and "**communicated**" shall mean any oral, written, or recorded utterance, notation, or statement of any nature whatsoever, by and to whomsoever made, including, but not limited to, correspondence, e-mails, text messages, conversations, facsimiles, letters, telegrams, cables, telexes, dialogues, discussions, negotiations, interviews, consultations, telephone calls, agreements, and other understandings, among two or more persons. The term "**communication**" includes written summaries of any of the foregoing communications.
3. The terms "**document**" and "**record**" shall mean all writings of any sort and each term should be construed in its broadest sense to include, but not be limited to, all original and non-identical copies, whether by reason of marginalia or other notes or alterations, and all preliminary or subsequent drafts of the following items, whether printed or recorded or reproduced by any other mechanical or electronic process, or written or produced by hand: agreements, communications, correspondence, letters, telegrams, cables, telexes, memoranda, records, books, journals, summaries of records or papers, minutes, calendars, affidavits, recordings (video or audio), electronic mail, text messages, memoranda of telephone calls, conversations, telephone calls, meetings, contracts, notes, marginal comments appearing on or affixed to any document, day timers, date books, messages, letters of credit, invoices, statements of account, financial statements, receipts, promissory notes, security agreements, deeds of trust, instruments purporting to grant or evidencing any security interest or lien, loan agreements, projections, working papers, securities,

ledgers, cancelled checks and bank drafts (front and back), check stub receipts, and other data, documents, papers, or writings of whatever description including, but not limited to, any data or information which is electronically recorded or shared, contained in any computer, mobile device, or other information retrievable device or that otherwise can be obtained or translated through detection devices or other means into any reasonably useable or recordable format.

4. The term “**related to**” shall mean concerning, relating to, reflecting, referring to, having a relationship to, pertaining to, identifying, containing, pertinent to, setting forth, showing, disclosing, describing, explaining, summarizing, evidencing, or constituting, directly or indirectly, in whole or in part, or to be otherwise factually, legally or logically connected to the subject matter of the particular Request.

REQUESTS FOR PRODUCTION

1. Produce any and all records or communications dated, drafted, modified, sent or received during the period starting April 10, 2019 and ending May 22, 2019, that refer or relate to any officer, director, agent or employee of Ackerman McQueen, Inc. (“AMc”) or Mercury Group, Inc. (“Mercury”).
2. Produce any and all records or communications which were dated, drafted, modified, issued, saved, sent or received during the period starting April 22, 2019 and ending April 29, 2019, including but not limited to cellular call and text records regarding AMc, Mercury, or Wayne LaPierre.
3. Produce any and all documents dated, drafted, modified, issued, sent or received during the period starting April 1, 2019 and ending May 22, 2019, which refer or relate to fund expenditures by or on behalf of the National Rifle Association of America (“NRA”), or any of its directors, officers, executives, agents or employees, including but not limited to financial records that reflect such expenditures, receipts, or communications referring to such expenditures.
4. Produce any and all records related to reimbursement or payment of any of your expenses by AMc, Mercury or the NRA, or an agent, officer, executive or employee of AMc, Mercury, or the NRA.
5. Produce any and all records or communications dated, drafted, modified, issued, sent or received during the period starting April 22, 2019 and ending May 20, 2019, related to a “leak” or dissemination of previously non-public documents or information, including but not limited to letters or memos by or relating to Oliver North, Wayne LaPierre, Marion Hammer or Tyler Schropp, or letters or memos referenced in contemporaneous media coverage.¹

¹ See, e.g., Stephen Gutowski, *Allan West Calls for Wayne LaPierre Resignation in Wake of Leaked NRA Memos; NRA Leadership Fires Back*, FREE BEACON (May 14, 2019, 4:20 PM), <https://freebeacon.com/issues/allen-west-calls-for-wayne-lapierre-resignation-in-wake-of-leaked-nra-memos-nra-leadership-fires-back>; Betsy Woodruff,

Leaked Documents: NRA Racked up \$24 Million in Legal Bills, DAILY BEAST (May 11, 2019 2:56 PM),
<https://www.thedailybeast.com/leaked-documents-nra-racked-up-dollar24-million-in-legal-bills-3?ref=home>.

Rule 1.1901 – Form 13: Subpoena Form to Testify at Deposition or Produce Documents

THE IOWA DISTRICT COURT FOR IOWA COUNTY

National Rifle Association of America, Plaintiff/Petitioner	)	No.
)	
vs.	)	PROOF OF SERVICE OF SUBPOENA TO
	)	TESTIFY AT A DEPOSITION OR TO
Ackerman McQueen, Inc., and Mercury Group, Inc., Defendant/Respondent	)	PRODUCE DOCUMENTS IN A CIVIL ACTION

PROOF OF SERVICE

This subpoena for (name of individual and title, if any) _____ was received by me on (date) _____.

I personally served the subpoena on the individual at (place) _____ on (date) _____; or

I left the subpoena at the individual's dwelling house or usual place of abode with (name) _____, a person residing therein who is at least 18 years old; or

I served the subpoena on (name of individual) _____, who is designated by law to accept service of process on behalf of (name of organization) _____ on (date) _____; or

I returned the subpoena unexecuted because _____; or

Other (specify): _____

WITNESS FEES

No witness fee requested or required under Iowa Code section 622.74.

I have tendered to the witness fees for one day's attendance in the amount of \$ _____ and the mileage allowed by law in the amount of \$ _____, for a total of \$ _____.

My fees are \$ _____ for travel and \$ _____ for services, for a total of \$ _____.

I declare under penalty of perjury that this information is true.

Date: _____

Server's signature

Printed name and title

Server's address

Additional information regarding attempted service, etc.: _____

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a genuine copy of the foregoing document was served upon the persons named below and at the address indicated on the 14th day of June, 2019 by the following method (email and first class mail): David Schertler, David Dickieson, Schertler & Onorato, LLP, 901 New York Avenue, N.W., Suite 500, Washington, DC 20001

Name and address of party or attorney: _____

Signature of server

Iowa Rules of Civil Procedure 1.1701(4) and 1.1701(5)

1.1701(4) Protecting a person subject to a subpoena.

a. Avoiding undue burden or expense; sanctions. A party or attorney responsible for issuing and serving a subpoena must take reasonable steps to avoid imposing undue burden or expense on a person subject to the subpoena. The issuing court must enforce this duty and impose an appropriate sanction, which may include lost earnings and reasonable attorney's fees, on a party or attorney who fails to comply.

b. Command to produce materials or permit inspection.

(1) *Appearance not required.* A person commanded to produce documents, electronically stored information, or tangible things, or to permit the inspection of premises, need not appear in person at the place of production or inspection unless also commanded to appear for a deposition, hearing, or trial.

(2) *Objections.* A person commanded to produce documents or tangible things or to permit inspection may serve on the party or attorney designated in the subpoena a written objection to inspecting, copying, testing or sampling any or all of the materials or to inspecting the premises, or to producing electronically stored information in the form or forms requested. The objection must be served before the earlier of the time specified for compliance or 14 days after the subpoena is served. If an objection is made, the following rules apply:

1. At any time, on notice to the commanded person, the serving party may move the issuing court for an order compelling production or inspection.

2. These acts may be required only as directed in the order, and the order must protect a person who is neither a party nor a party's officer from significant expense resulting from compliance.

c. Attendance. Any party shall be permitted to attend at the same time and place and for the same purposes specified in the subpoena. No prior notice of intent to attend is required.

d. Quashing or modifying a subpoena.

(1) *When required.* On timely motion, the issuing court must quash or modify a subpoena that:

1. fails to allow a reasonable time to comply;

2. requires a person who is neither a party nor a party's officer to travel more than 50 miles from where that person resides, is employed, or regularly transacts business in person, except that a person may be ordered to attend trial anywhere within the state in which the person is served with a subpoena;

3. requires disclosure of privileged or other protected matter, if no exception or waiver applies; or

4. subjects a person to undue burden.

(2) *When permitted.* To protect a person subject to or affected by a subpoena, the issuing court may, on motion, quash or modify the subpoena if it requires:

1. disclosing a trade secret or other confidential research, development, or commercial information; or

2. disclosing an unretained expert's opinion or information that does not describe specific occurrences in dispute and results from the expert's study that was not requested by a party.

3. a person who is neither a party nor a party's officer to incur substantial expense to travel more than 50 miles to attend trial.

(3) *Specifying conditions as an alternative.* In the circumstances described in rule 1.1701(4)(d)(2), the court may, instead of quashing or modifying a subpoena, order appearance or production under specified conditions if the serving party:

1. shows a substantial need for the testimony or material that cannot be otherwise met without undue hardship; and

2. ensures that the subpoenaed person will be reasonably compensated.

1.1701(5) Duties in responding to a subpoena.

a. Producing documents or electronically stored information. These procedures apply to producing documents or electronically stored information:

(1) *Documents.* A person responding to a subpoena to produce documents must produce them as they are kept in the ordinary course of business or must organize and label them to correspond to the categories in the demand.

(2) *Form for producing electronically stored information not specified.* If a subpoena does not specify a form for producing electronically stored information, the person responding must produce it in a form or forms in which it is ordinarily maintained or in a reasonably usable form or forms.

(3) *Electronically stored information produced in only one form.* The person responding need not produce the same electronically stored information in more than one form.

(4) *Inaccessible electronically stored information.* The person responding need not provide discovery of electronically stored information from sources that the person identifies as not reasonably accessible because of undue burden or cost. On motion to compel discovery or for a protective order, the person responding must show that the information is not reasonably accessible because of undue burden or cost. If that showing is made, the court may nonetheless order discovery from such sources if the requesting party shows good cause, considering the limitations of rule 1.504(1)(b). The court may specify conditions for the discovery.

b. Claiming privilege or protection.

(1) *Information withheld.* A person withholding subpoenaed information under a claim that it is privileged or subject to protection as trial-preparation material must:

1. expressly make the claim; and

2. describe the nature of the withheld documents, communications, or tangible things in a manner that, without revealing information itself privileged or protected, will enable the parties to assess the claim.

(2) *Information produced.* If information produced in response to a subpoena is subject to a claim of privilege or of protection as trial-preparation material, the person making the claim may notify any party that received the information of the claim and the basis for it. After being notified, a party must promptly return, sequester, or destroy the specified information and any copies it has; must not use or disclose the information until the claim is resolved; must take reasonable steps to retrieve the information if the party disclosed it before being notified; and may promptly present the information to the court under seal for a determination of the claim. The person who produced the information must preserve the information until the claim is resolved.

STATE OF IOWA JUDICIARY

Case No. IFIF000172

County Iowa

Case Title NATIONAL RIFLE ASSOC V. ACKERMAN MCQUEEN ET AL

If you require the assistance of auxiliary aids or services to participate in court because of a disability, immediately call your district ADA coordinator at (319) 398-3920 . (If you are hearing impaired, call Relay Iowa TTY at 1-800-735-2942.)

Date Issued 06/26/2019 04:05:32 PM



Clerk of Court of Iowa

County

/s/ Julie Hassenius



State of Iowa Courts

Type: OTHER SUBPOENA

Case Number **Case Title**
NATIONAL RIFLE ASSOC V. ACKERMAN MCQUEEN ET AL

So Ordered

I, Julie A. Hassenius, do hereby certify that I am the Clerk of District Court in and for Benton County, Iowa and that I have the possession and control of official records for said County and am charged with the duty of keeping said records and that this is a true copy of said records.

Julie A. Hassenius, Clerk of District Court, Benton County,
Sixth Judicial District of Iowa

SUBPOENA DUCES TECUM (CIVIL) –
ATTORNEY ISSUED VA CODE §§ 8.01-413, 16.1-89, 16.1-265
Commonwealth of Virginia Supreme Court Rules 1.4, 4.9

Case No.: CL19002067

HEARING DATE AND TIME

Circuit Court for the City of Alexandria

Court

520 King St, Alexandria, VA 22314

COURT ADDRESS

National Rifle Association of America

v./In re: Ackerman McQueen, Inc. and Mercury Group, Inc.

TO THE PERSON AUTHORIZED BY LAW TO SERVE THIS PROCESS:

You are commanded to summon

Lance Olson

NAME

785 William Avenue

STREET ADDRESS

Marengo

CITY

IA

STATE

52301

ZIP

TO the person summoned: You are commanded to make available the documents and tangible things designated and described below:

See Attachment A requesting certain documents, communications, and electronically stored information. You are directed to produce electronically stored information in the native form or format in which it is ordinarily maintained. Iowa R. Civ. P. 1.1701(1)(c). Specifically, e-mail, text message and other electronically stored data should be produced in the form(s) or format(s) in which such data is found on your electronic device(s) or computer(s). If you have questions or concerns about complying with this directive, please contact the undersigned attorney.

at Coralville Marriott Hotel and Conference Center, 300 East 9th Street, *Coralville, Iowa 52241*
LOCATION at 9:30am on July 22, 2019
DATE AND TIME

to permit such party or someone acting in his or her behalf to inspect and copy, test or sample such tangible things in your possession, custody or control.

This Subpoena Duces Tecum is issued by the attorney for and on behalf of

National Rifle Association of America

PARTY NAME

Robert H. Cox

NAME OF ATTORNEY

1921 Gallows Road, Suite 750

OFFICE ADDRESS

Tysons Corner, VA 22182

OFFICE ADDRESS

June 21, 2019

DATE ISSUED

33118

VIRGINIA STATE BAR NUMBER

703-883-0880

TELEPHONE NUMBER OF ATTORNEY

703-883-0899

FACSIMILE NUMBER OF ATTORNEY

SIGNATURE OF ATTORNEY

Notice to Recipient: See page two for further information.

RETURN OF SERVICE (see page two of this form)

TO the person summoned:

If you are served with this subpoena less than 14 days prior to the date that compliance with this subpoena is required, you may object by notifying the party who issued the subpoena of your objection in writing and describing the basis of your objection in that writing.

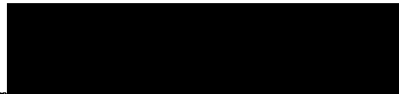
This SUBPOENA DUCES TECUM is being served by a private process server who must provide proof of service in accordance with Va. Code § 8.01-325.

TO the person authorized to serve this process: Upon execution, the return of this process shall be made to the clerk of court.

NAME:	Lance Olson
ADDRESS:	HOME [] 785 William Ave, Marengo, IA 52301 WORK [] 145 Court Ave, Marengo, IA 52301
<input type="checkbox"/> PERSONAL SERVICE	Tel. No. (319) 642-5651 (Home)
Being unable to make personal service, a copy was delivered in the following manner:	
<input type="checkbox"/> Delivered to family member (not temporary sojourner or guest) age 16 or older at usual place of abode of party named above after giving information of its purport. List name, age of recipient, and relation of recipient to party named above:	
<input type="checkbox"/> Posted on front door or such other door as appear to be the main entrance of usual place of abode, address listed above. (Other authorized recipient not found.)	
<input type="checkbox"/> NOT FOUND	, Sheriff
DATE	by , Deputy Sheriff

CERTIFICATE OF COUNSEL

I, Robert H. Cox, counsel for Plaintiff, hereby certify that a copy of the foregoing subpoena duces tecum was served by email and first class mail to David Dickieson, counsel of record for Defendants on the 21st day of June, 2019.



SIGNATURE OF ATTORNEY

NOTICE: Upon receipt of the subpoenaed documents, the requesting party must, if requested, provide true and full copies of those documents to any other party or to the attorney for any other party, provided the other party or attorney for the other party pays the reasonable cost of copying or reproducing those documents. This does not apply when the subpoenaed documents are returnable to and maintained by the clerk of the court in which the action is pending. Va. Code § 8.01-417

IN THE CIRCUIT COURT FOR THE
CITY OF ALEXANDRIA

National Rifle Association of America,

Plaintiff,

v.

Civil Case No. CL19002067

Ackerman McQueen Inc.,

and

Mercury Group, Inc.

Defendants.

ATTACHMENT A
TO SUBPOENA DUCES TECUM

DEFINITIONS

1. The term "**complaint**" shall mean the Complaint filed in this case, recorded by the Court under Civ. No. CL19002067.
2. The terms "**communication**," "**communicate**," and "**communicated**" shall mean any oral, written, or recorded utterance, notation, or statement of any nature whatsoever, by and to whomsoever made, including, but not limited to, correspondence, e-mails, text messages, conversations, facsimiles, letters, telegrams, cables, telexes, dialogues, discussions, negotiations, interviews, consultations, telephone calls, agreements, and other understandings, among two or more persons. The term "**communication**" includes written summaries of any of the foregoing communications.
3. The terms "**document**" and "**record**" shall mean all writings of any sort and each term should be construed in its broadest sense to include, but not be limited to, all original and non-identical copies, whether by reason of marginalia or other notes or alterations, and all preliminary or subsequent drafts of the following items, whether printed or recorded or reproduced by any other mechanical or electronic process, or written or produced by hand: agreements, communications, correspondence, letters, telegrams, cables, telexes, memoranda, records, books, journals, summaries of records or papers, minutes, calendars, affidavits, recordings (video or audio), electronic mail, text messages, memoranda of telephone calls, conversations, telephone calls, meetings, contracts, notes, marginal comments appearing on or affixed to any document, day timers, date books, messages, letters of credit, invoices, statements of account, financial statements, receipts, promissory notes, security agreements, deeds of trust, instruments purporting to grant or evidencing any security interest or lien, loan agreements, projections, working papers, securities,

ledgers, cancelled checks and bank drafts (front and back), check stub receipts, and other data, documents, papers, or writings of whatever description including, but not limited to, any data or information which is electronically recorded or shared, contained in any computer, mobile device, or other information retrievable device or that otherwise can be obtained or translated through detection devices or other means into any reasonably useable or recordable format.

4. The term “**related to**” shall mean concerning, relating to, reflecting, referring to, having a relationship to, pertaining to, identifying, containing, pertinent to, setting forth, showing, disclosing, describing, explaining, summarizing, evidencing, or constituting, directly or indirectly, in whole or in part, or to be otherwise factually, legally or logically connected to the subject matter of the particular Request.

REQUESTS FOR PRODUCTION

1. Produce any and all records or communications dated, drafted, modified, sent or received during the period starting April 10, 2019 and ending May 22, 2019, that refer or relate to any officer, director, agent or employee of Ackerman McQueen, Inc. (“AMc”) or Mercury Group, Inc. (“Mercury”).
2. Produce any and all records or communications which were dated, drafted, modified, issued, saved, sent or received during the period starting April 22, 2019 and ending April 29, 2019, including but not limited to cellular call and text records regarding AMc, Mercury, or Wayne LaPierre.
3. Produce any and all documents dated, drafted, modified, issued, sent or received during the period starting April 1, 2019 and ending May 22, 2019, which refer or relate to fund expenditures by or on behalf of the National Rifle Association of America (“NRA”), or any of its directors, officers, executives, agents or employees, including but not limited to financial records that reflect such expenditures, receipts, or communications referring to such expenditures.
4. Produce any and all records related to reimbursement or payment of any of your expenses by AMc, Mercury or the NRA, or an agent, officer, executive or employee of AMc, Mercury, or the NRA.
5. Produce any and all records or communications dated, drafted, modified, issued, sent or received during the period starting April 22, 2019 and ending May 20, 2019, related to a “leak” or dissemination of previously non-public documents or information, including but not limited to letters or memos by or relating to Oliver North, Wayne LaPierre, Marion Hammer or Tyler Schropp, or letters or memos referenced in contemporaneous media coverage.¹

¹ See, e.g., Stephen Gutowski, *Allan West Calls for Wayne LaPierre Resignation in Wake of Leaked NRA Memos: NRA Leadership Fires Back*, FREE BEACON (May 14, 2019, 4:20 PM), <https://freebeacon.com/issues/allen-west-calls-for-wayne-lapierre-resignation-in-wake-of-leaked-nra-memos-nra-leadership-fires-back/>; Betsy Woodruff,

Leaked Documents: NRA Racked up \$24 Million in Legal Bills, DAILY BEAST (May 11, 2019 2:56 PM),
<https://www.thedailybeast.com /leaked-documents-nra-racked-up-dollar24-million-in-legal-bills-3?ref=home>.

VIRGINIA:

IN THE CIRCUIT COURT FOR THE
CITY OF ALEXANDRIA

NATIONAL RIFLE ASSOCIATION OF)
AMERICA,)

Plaintiff,)

v.)

Civil Case No. *CL19002067*

ACKERMAN MCQUEEN, INC.,)

and)

MERCURY GROUP, INC.)

Defendants.)

PLAINTIFF'S COMPLAINT AND JURY DEMAND

Plaintiff the National Rifle Association of America (the "NRA") files this Complaint and Jury Demand against Defendants Ackerman McQueen, Inc. ("Ackerman") and Mercury Group, Inc. ("Mercury" and, collectively with Ackerman, "AMc"), based on personal information as to its own actions and on information and belief as to all other matters, as follows:

PRELIMINARY STATEMENT

After collaborating for more than thirty years, the NRA finds itself at odds with its advertising agency and communications firm, AMc. Already embroiled in a separate lawsuit¹ arising from AMc's refusal to furnish agreed business records, the NRA files this action to redress additional, increasingly brazen breaches of duties owed by AMc to the NRA. Over the past year, even as it withheld important documents and information from the NRA, AMc readily shared snippets of confidential and proprietary materials with hostile third parties, including the news media—in a series of sordid, out-of-context “leaks” engineered by AMc to harm its client.

Defendants' actions are especially egregious because communications with the media and the public are AMc's purported area of expertise. For decades, the NRA trusted AMc to shape and disseminate authorized public communications on its behalf, in order to advance the interests of the NRA and its members. During that time, AMc became a valued asset to the NRA and, by extension, the millions of law-abiding gun owners who depend upon the NRA for its Second Amendment advocacy. As part of their professional obligations, AMc and its employees were required to engage with the news media only with the NRA's full consent, operate with complete transparency, and work in alignment with the NRA's leadership team to craft its communications strategy. Of course, these expectations are fundamentals upon which clients and their public relations advisors operate. Trust and loyalty are necessary elements of any such relationship.

Unfortunately, in a remarkable, material breach of that trust, AMc undertook a campaign to tarnish and ultimately destroy the public image of the NRA and its senior leadership. Motivated to avoid scrutiny of their own business activities, a handful of faithless fiduciaries within (and

¹ See *National Rifle Association of America v. Ackerman McQueen, Inc. and Mercury Group, Inc.*, Civil Case No. CL19001757 (Alexandria, Va.).

without) AMc conspired to conceal important information, “kill” any “messenger” who tried to unearth that information, and ultimately wrest control of the NRA by fomenting a (failed) executive coup. The conspiracy led by AMc had a malicious, singular purpose: to derail inquiries by the NRA into AMc’s business and accounting practices. When the NRA ignored AMc’s initial, veiled threats and reiterated its demands for transparency, the agency and its co-conspirators fired escalating salvos that culminated in an extortion threat delivered by an AMc employee, Lt. Col. Oliver North (Ret.), days before the NRA’s Annual Meeting of Members. North’s directive to NRA CEO Wayne LaPierre was simple: withdraw the NRA’s then-pending lawsuit against AMc, resign immediately from the NRA, and support AMc’s chosen leadership slate for the NRA—or be publicly smeared.

As became widely reported, AMc’s attempt to seize control of the NRA brutally failed.² Thereafter the NRA hoped that AMc and its co-conspirators would abandon their illegal conduct and resume faithfully serving the NRA. Instead, Defendants began to deliver on AMc’s extortion threats. In apparent “off-the-record” exchanges with reporters from multiple media outlets, AMc—and others with whom it conspired—cynically leaked selected portions of confidential business records that were curated to convey a misleading, dire picture of the NRA’s finances, operations, and expense-accounting practices. The bitter, insidious irony is that the records leaked by AMc contain some of the same information the NRA had persistently requested from AMc over the course of many months, in an effort to strengthen its own internal controls. When AMc realized it could not hide the information demanded by the Association forever, it maliciously and

² See, e.g., Danny Hakim, *Wayne LaPierre Prevails in Fierce Battle for the N.R.A.* THE NEW YORK TIMES (Apr. 29, 2019), <https://www.nytimes.com/2019/04/29/us/nra-wayne-lapierre-oliver-north.html>; Mark Maremont, *New York Attorney General Probes NRA as Oliver North Exits as President*, THE WALL STREET JOURNAL (Apr. 27, 2019, 7:30pm), <https://www.wsj.com/articles/oliver-north-out-as-nra-president-11556376506>

selectively publicized a subset of its records in a manner designed to suggest improprieties which AMc knew had not actually occurred.

Consistent with its longstanding trust and reliance on AMc, and hopeful that the leaks were executed by rogue employees without the knowledge of AMc's leadership, the NRA sought AMc's help securing sworn declarations from employees who had access to the leaked information—affirming individually that they were not responsible for any unauthorized disclosures. In this way, the NRA sought to narrow the list of individuals potentially responsible for the leaks, as well as stem ongoing confidentiality violations. Unfortunately, AMc's response to the overture came in the form of a terse missive from outside counsel—refusing any cooperation. Although AMc explicitly “warrant[ed] and agree[d] to prevent disclosure of Confidential Information by its employees” under its contract with the NRA, the agency flatly refused to ask any of its employees to affirm they had honored their confidentiality obligations.

For years, the NRA trusted and depended upon AMc to deliver core, critical services. The NRA never expected it would be forced to sue one of its closest collaborators. At this juncture, however, the NRA has no choice. AMc's ongoing violations of its contractual and fiduciary duties are malicious, material, and must be redressed.

PARTIES AND RELEVANT NONPARTIES

1. Plaintiff NRA is a not-for-profit corporation organized under the laws of the State of New York with its principal place of business located in Fairfax, Virginia. The NRA is America's leading provider of gun-safety and marksmanship education for civilians and law enforcement. It is also the foremost defender of the Second Amendment of the United States Constitution. A 501(c)(4) tax-exempt organization, the NRA has over five million members—and its programs reach many millions more.

2. Defendant Ackerman is a nonresident for-profit business corporation organized under the laws of the State of Oklahoma with its principal place of business in Oklahoma City, Oklahoma. Ackerman is an advertising and public relations agency that has counted the NRA among its largest clients for more than thirty years.

3. Defendant Mercury is a nonresident for-profit business corporation organized under the laws of the State of Oklahoma with its principal place of business in Alexandria, Virginia. Mercury is a wholly owned subsidiary of Ackerman which specializes in public-communications strategy, including on behalf of advocacy groups such as the NRA. At all relevant times, Ackerman acted on behalf of both itself and Mercury pursuant to the Services Agreement (defined below) between Ackerman and the NRA.

4. Nonparty Lt. Col. Oliver L. North (Ret.) ("North") is a resident of the State of Virginia and a former president of the NRA. Unbeknownst to the NRA until recently, North is also a full-time employee of Ackerman.

5. Nonparty William Winkler ("Winkler") is a resident of the State of Oklahoma and the chief financial officer of Ackerman.

JURISDICTION AND VENUE

6. This Court has jurisdiction over Ackerman and Mercury pursuant to Virginia Code § 8.01-328.1 because each of Ackerman and Mercury has transacted business in the Commonwealth of Virginia and contracted to supply services in the Commonwealth of Virginia.

7. Venue is proper in this Court because the cause of action set forth herein arose from the transaction of business in Alexandria, Virginia.

8. Additionally, jurisdiction and venue are proper in this court because Ackerman and Mercury have expressly consented to the exclusive jurisdiction and venue of courts sitting in

Alexandria or Fairfax County, Virginia regarding the matters presented herein in the Services Agreement dated April 30, 2017 (as amended May 6, 2018) (the "Services Agreement").

FACTUAL BACKGROUND

A. **For Decades, the NRA Relied on Ackerman To Perform Public Affairs Services Requiring a High Level of Trust.**

9. The NRA and AMc have worked closely together since the 1980s. Over that time, the NRA has reposed extensive trust and confidence in AMc to perform services including public relations and strategic marketing; planning and placement of media; management of digital media and websites; and the operation of NRATV, a digital-media platform managed by AMc but frequently perceived by the public as the "voice" of the NRA.³ By its nature, this work is publicly and politically sensitive, and requires the NRA to entrust AMc with confidential (and sometimes privileged) information.

10. Since at least 1999, AMc's work on behalf of the NRA has been governed by successive incarnations of a Services Agreement containing detailed specifications for how various types of work performed by Ackerman for the NRA should be budgeted and billed. The Services Agreement between the NRA and AMc dated May 1, 1999 (the "Previous Services Agreement") as well as the current, operative Services Agreement provide that certain categories of services, such as Owned Media and Internet Services, are compensated with an agreed annual fee, while others are required to be invoiced on an *ad hoc* basis based on estimates furnished by AMc and approved by the NRA. Consistent with the sensitive nature of AMc's services, the Services Agreement strictly limits use and disclosure by AMc, and its individual employees (who are

³ See, e.g., Jeremy W. Peters & Katie Benner, *Where The N.R.A. Speaks First and Loudest*, THE NEW YORK TIMES, February 21, 2018, <https://www.nytimes.com/2018/02/21/us/politics/nratv-nra-news-media-operation.html>.

themselves fiduciaries of the NRA), of information acquired during AMc's work on behalf of the NRA.

11. Specifically, Section IV of the Services Agreement provides that AMc "shall not disclose, directly or indirectly, to any third party, any . . . data, materials or information . . . made known to AMc as a result of AMc's providing [contracted-for services] . . . without the prior express written permission of [the] NRA."⁴ AMc may use the NRA's confidential information "only for the limited purpose of providing its [s]ervices to the NRA,"⁵ and AMc "warrants and agrees to prevent disclosure of Confidential Information by its employees, agents, successors, assigns and subcontractors."⁶

12. Notably, AMc serves as the NRA's agent for several purposes pursuant to the Services Agreement, and, therefore, owes fiduciary duties to the NRA. For example, the Services Agreement provides explicitly that AMc may act "on [the] NRA's behalf," and subject to the NRA's control, with respect to purchasing, planning, and placement of media⁷—activities that require the NRA to entrust AMc with nonpublic information about its communication strategy. In its capacity as the NRA's agent, AMc must demonstrate "the same high standard of good faith and loyalty" to the NRA as would be "required . . . of an attorney to his client."⁸ Indeed, owing to the parties' decades of close collaboration, their special relationship of trust and confidence existed prior to, and apart from, the execution of the Services Agreement. The confidentiality provisions of the Services Agreement are, therefore, backstopped and strengthened by common-law and

⁴ Services Agreement § IV.A.1.

⁵ Services Agreement § IV.A.3.

⁶ Services Agreement § IV.A.4.

⁷ Services Agreement §§ I.C, II.B.1.

⁸ See, e.g., *Nicholson v. Shockey*, 192 Va. 270, 270 (1951).

contractual fiduciary duties which forbid any misuse or misappropriation of the NRA's information.

13. Consistent with the substantial scope and dollar value of the services rendered by AMc for the NRA, AMc invoices the NRA for a wide variety of expenses. The Services Agreement contains detailed guidelines identifying categories of expenses that can be invoiced to the NRA, and conditions for their reimbursement—for example, hotel and meal expenses must be specifically authorized in writing by the NRA. Over the parties' decades-long course of dealing, underlying receipts and other support for AMc's expenses were not transmitted contemporaneously with AMc's monthly invoices. However, the NRA was repeatedly assured that appropriate documentation was retained by AMc, and could be audited at the NRA's request. Indeed, the NRA's senior leadership understood that field audits of AMc's expense records were regularly conducted precisely for that purpose.

14. Given its responsibilities, AMc took an active role in shaping the public image of the NRA's principals and executives, including CEO Wayne LaPierre. Based on AMc's advice, and subject to billing procedures AMc set up, LaPierre over a fifteen year period incurred wardrobe and related expenses for countless television appearances, filming of commercials, and other outward-facing brand-development activities. Those activities were specifically directed, choreographed and produced by AMc. Records of the wardrobe expenses, which were initiated at AMc's direction, were maintained by AMc. Of course, AMc should not have incurred (let alone sought reimbursement for) any expenses which it believed inappropriate.

B. Troubled Waters: the NRA's Compliance Efforts and Ackerman's Response.

15. In recent years, the State of New York amended its Not-for-Profit Corporation Law (the "NPCL") to clarify requirements for director independence and the ratification of related-party contracts, among other items. After updating its internal policies and controls to reflect these

amendments, the NRA undertook to strengthen its procedures for documentation and verification of compliance by vendors with their contracts. Beginning in August 2018, the NRA sent letters to more than a hundred vendors—including AMc—that set forth updated invoice-support requirements and provided detailed guidance regarding, for example, expense reimbursement procedures.

16. During the course of this process, the NRA became aware of concerns raised by multiple employees, executives, and board members that AMc's expenses and activities required greater oversight. In sum, there were concerns that Ackerman and Mercury were regularly taking advantage of their favored position and the numerous roles they played for the NRA. As a result, the Association sought to investigate several specific concerns:

- “Out of pocket” expenses that lacked meaningful documentation of NRA approvals, receipts, or other support, despite the requirements set forth in the Services Agreement;
- Lack of transparency regarding AMc's annual budgets under the Services Agreement, as well as adherence to those budgets;
- Lack of transparency regarding AMc's compliance with their obligation to insure that their services are provided at “fair market value”;
- Concerns that AMc was invoicing the NRA for the entire salaries attributable to NRA-Dedicated Personnel, despite certain NRA-Dedicated Personnel allocating substantial time to non-NRA clients;
- Refusal by AMc to provide any data “in writing” (such as viewership numbers, clickthrough rates, or related performance metrics) that enable the NRA to analyze the return on its substantial investment since 2016 in NRATV.⁹

17. Consistent with the broad scope and critical nature of the services performed by AMc for the NRA, the NRA bargained for transparency into AMc's files, books and records

⁹ In addition, certain NRA stakeholders were also concerned that NRATV's messaging—on topics far afield of the Second Amendment—deviated from the NRA's core mission and values.

pursuant to the Services Agreement. Both the Previous Services Agreement and the current Services Agreement incorporate records-examination clauses that require AMc to open its files for the NRA's inspection upon reasonable notice. The full text of the Records-Examination Clause in the Services Agreement appears below:

Services Agreement

- Dated April 30, 2017 (as amended May 6, 2018)
- Between the NRA and "AMc" (defined to include both Ackerman and Mercury)

VIII. EXAMINATION OF RECORDS

During the term of this Services Agreement, AMc authorizes NRA, upon reasonable notice, to examine AMc and Mercury's files, books and records, with respect to matters covered under this Services Agreement.

18. During early- and mid-2018, the NRA sought information from AMc pursuant to the Records-Examination Clause on a common-interest basis to advance parties' mutual interests relating to an ongoing lawsuit. However, after the NRA began to request access to records that would shed light on concerns regarding AMc's business and accounting practices, AMc's responses became evasive and hostile.

19. In August 2018, within days after the NRA announced that it would now require supporting documentation to be transmitted contemporaneously with vendor invoices, a media outlet hostile to the NRA quoted "an anonymous source at Ackerman McQueen"¹⁰—creating serious concerns about AMc's compliance with its confidentiality obligations. When another outlet described the same source as a former (rather than a current) AMc employee,¹¹ the NRA's

¹⁰ Dylan Matthews, *The National Rifle Association, America's most powerful lobby, claims it's in financial crisis. What?*, VOX (Aug. 3, 2018, 4:50pm), <https://www.vox.com/2018/8/3/17648960/nra-national-rifle-association-companies-support-boycott-new-york-lawsuit>

¹¹ Alex Yablon & Mike Spies, *In Court Papers, NRA Stresses Financial Pressures and Says It May Have to Shut Down NRATV*, THE TRACE (Aug. 1, 2018), <https://www.thetrace.org/rounds/nra-carry-guard-insurance-new-york-lawsuit/>

trust in its longtime collaborator dissuaded it from requiring an immediate and full scale investigation. Unfortunately, it now appears that such a complete accounting is required.

20. On August 27, 2018, Winkler sent a letter to the NRA which purported to comply with the NRA's request for a more comprehensive audit of Ackerman's expense records. The letter pointedly identified several categories of items, some relating to travel and entertainment, which it warned would be encompassed in a full production of those records—perhaps believing that the threat of such disclosure would dampen the NRA's demands for transparency. However, the NRA was undeterred, and insisted upon reviewing and verifying details of expenses incurred.

21. In September 2018, for the first time in the parties' decades-long course of dealing, AMc demanded that its outside counsel supervise any document review conducted under the Records-Examination Clause, then demanded payment of outside counsel's legal fees as a precondition for delivery of video footage it produced and for which AMc had already invoiced the NRA. During a telephone call on September 19, 2018, after AMc's counsel insisted that the NRA pay AMc's legal fees without any insight into why the fees were incurred, the NRA's counsel observed that AMc's posture seemed more consistent with an adverse than a common-interest relationship. AMc's counsel then made a startling statement: "AMc views the relationship as adverse."

22. Thereafter, AMc strenuously resisted the NRA's efforts to enforce the Services Agreement, including by embarking on a campaign to "kill the messenger" when the NRA continued to seek access to documents or proposed reductions in AMc's budget. At first, AMc scapegoated the NRA's outside counsel. However, over ensuing months, AMc also refused to respond to basic information requests from NRA executives. After the NRA retained a third-party forensic accounting firm to interface with AMc in an effort to appease AMc and gain its

compliance in January 2019, AMc indicated it would cooperate. Unfortunately, that pledge of cooperation was short-lived, as AMc purported to forbid the accountants from disclosing simple, material information to the NRA—including copies of annual budgets against which AMc was invoicing. When the NRA's General Counsel sought additional information in follow-up to the forensic audit, AMc ignored his letters.

23. As AMc continued to stonewall the NRA's requests for documents and tensions between the parties rose, the NRA was contacted with increasing frequency by journalists acting on purported "leaks" relating to matters on which AMc had worked. The contents of these "leaks" reflected a malicious, out-of-context use of the NRA's confidential information, with an apparent intent to damage the NRA. Indeed, the NRA was advised by multiple confidential sources that leaks were emanating from AMc.

C. **When The NRA Sought Assurances That Ackerman Was Complying With Its Confidentiality Obligations, Ackerman Rebuffed the NRA.**

24. On April 12, 2019, having exhausted its good faith efforts to access key records pursuant to the Services Agreement, the NRA filed a narrowly tailored action in this Court seeking specific performance by AMc of its obligation to share relevant records with the NRA. In retaliation, rather than provide the requested records directly to the NRA (as the NRA had sought for months), AMc conspired with others to disseminate select, out-of-context portions of those records—many obsolete or dated—to a subset of the NRA Board of Directors, in order to sow false impressions regarding the NRA's spending and lend support for a possible executive coup.

25. On April 22, 2019, days before the NRA's Annual Meeting of Members, Winkler doubled down on the tactic he previewed in his August 27, 2018 letter. In letters to select NRA executives, Winkler referenced and excerpted certain expense records which had previously been withheld from the NRA. Importantly, Winkler did not contend—nor does the NRA believe—that

any of the referenced expenses were improper.¹² Nonetheless, they were obviously selected by Defendants to foster salacious, misleading impressions of the NRA's spending practices. Winkler's letters carried an implicit threat, made explicit in a subsequent series of telephone calls: If the NRA failed to withdraw its lawsuit seeking access to AMc's records, AMc would publicize portions of those records tailored to cause maximum reputational damage to the leadership of the NRA.

26. On April 24, 2019, AMc caused its employee, North, to telephone an aide of NRA CEO Wayne LaPierre ("LaPierre") and relay the contents of yet another letter that AMc purportedly planned to disseminate. North emphasized that the letter would be "bad" for LaPierre and the NRA, and he described a laundry list of allegations the letter would contain: an unfavorable (and untrue) depiction of the NRA's finances; sexual harassment accusations against an NRA staff member; and, as previewed in Winkler's letters, excerpts of wardrobe, travel, and entertainment expenses paid by AMc and then invoiced by it to the Association over the years.

27. Tellingly, several categories of information referenced by North consisted of the same information the NRA had tried, but failed, to elicit from AMc under the parties' contractual record-inspection clause. After withholding this information for more than six months in an attempt to stonewall the NRA's compliance efforts, AMc now threatened to strategically, selectively publicize the information in a manner calculated to cause harm to LaPierre and the Association. North stated that AMc would forbear from publicizing the "bad" letter if LaPierre agreed to withdraw the NRA's lawsuit seeking access to AMc's records, resign immediately from the NRA, and support North's continued tenure as NRA President. If LaPierre cooperated, North

¹² Indeed, if Winkler or anyone at AMc had believed the expenses were improper, then AMc's fiduciary obligations required it to inform the NRA of suspected accounting improprieties. Instead, for more than a decade, AMc invoiced the NRA for the expenses without any such comment.

indicated that he could “negotiate with” Ackerman co-founder Angus McQueen to secure an “excellent retirement” for LaPierre.

28. The NRA does not take kindly to threats—and neither did LaPierre. Rather than accede to AMc’s extortion, LaPierre wrote a letter to the NRA’s Board of Directors that gave a transparent account of AMc’s threat and concluded “so long as I have your confidence . . . I will not back down.” As became widely publicized, LaPierre prevailed—and AMc’s coup attempt failed. AMc’s employee, North, is no longer an officer of the NRA.

29. The NRA hoped that in the wake of these events, AMc would resume faithfully serving the NRA as the parties’ contract and Virginia law require. Unfortunately, the NRA continues to receive media inquiries that strongly suggest there are misleading, defamatory “leaks” emanating from AMc. Simply put, the NRA believes that AMc is now delivering on its extortion threat. Tellingly, much of the information “leaked” by AMc concerns travel, wardrobe, and other expenses incurred in connection with AMc projects, based on AMc’s advice, or on trips with itineraries crafted by AMc. Although it disseminates select portions of these records in an effort to convey misleading impressions about spending activities by the NRA’s leadership, AMc knows full well that these particular expenses were proper—because it was deeply involved in their incurrence.

30. Examples of media outlets to whom AMc directly or indirectly disclosed the NRA’s confidential information include The New York Times, The Wall Street Journal, The Daily Beast, and Rolling Stone.

31. To resolve its concerns regarding these disclosures, on May 6, 2019, the NRA requested that several key AMc employees execute sworn declarations attesting that they had not violated their confidentiality obligations under the Services Agreement. The NRA tailored its

request narrowly—seeking declarations only from senior executives who had exposure to the information at issue—and demanded simply that these executives affirm they had complied, and would continue to comply, with their clear legal duties.

32. To the NRA's dismay, AMc flatly refused to provide any cooperation or assurances whatsoever. The NRA brings this action to discover the full extent of AMc's breaches, enjoin those breaches, and recover compensation for the damage it has sustained.

FIRST CAUSE OF ACTION

BREACH OF CONTRACT (Against Ackerman and Mercury)

33. Plaintiff incorporates by reference and realleges each and every allegation in the foregoing paragraphs as if fully set forth herein.

34. The Services Agreement is a legally enforceable contract. The confidentiality provisions of Section IV of the Services Agreement are unambiguous, and bind "AMc" (defined to include both Ackerman and Mercury).

35. The NRA has performed all of its obligations under the Services Agreement.

36. Defendants have breached the provisions of Section IV of the Services Agreement by directly or indirectly disclosing, to third parties, information made known to AMc as a result of AMc's providing Services (as defined under the Services Agreement).

37. Defendants also breached the implied covenant of good faith and fair dealing by conspiring with, and causing, North to issue an extortion threat to the NRA.

38. Defendants' breaches have damaged the NRA. Among other things, the NRA has incurred significant reputational damage, and professional fees, as a result of Defendants' bad-faith, out-of-context "leaks" to reporters. For example, the NRA's attorneys and public affairs

professionals have spent extensive hours fielding inquiries from journalists in an effort to correct the misleading impressions sown by AMc.

39. Defendants' breaches are escalating, and there can be little doubt that if its collaborator of multiple decades continues to maliciously disseminate its confidential information, the NRA will be irreparably harmed. The NRA is entitled to injunctive relief to avert or minimize this irreparable harm.

40. Moreover, AMc's breaches are material—by seeking to destroy the NRA's reputation, AMc has destroyed the purpose of the parties' contract. Accordingly, the NRA is entitled to damages based on all of its remaining rights to performance under the Services Agreement.¹³

SECOND CAUSE OF ACTION

BREACH OF FIDUCIARY DUTY (Against Ackerman and Mercury)

41. Plaintiff incorporates by reference and realleges each and every allegation in the foregoing paragraphs as if fully set forth herein.

42. Over the course of more than thirty years of close collaboration (including decades that preceded the Services Agreement), the NRA reposed extensive trust and confidence in both Ackerman and Mercury. Defendants therefore incurred a common-law fiduciary duty to put the NRA's interests first when rendering services to the NRA, including pursuant to the Services Agreement.

43. In addition, AMc incurred fiduciary duties to the NRA when it acted as the NRA's agent pursuant to multiple provisions of the Services Agreement. For example, on the NRA's

¹³ See Restatement (Second) of Contracts § 236 (1981).

behalf and subject to the NRA's control, AMc entered into contracts and arrangements for the purchase, planning, and placement of media—activities that required AMc to be entrusted with sensitive confidential information pertaining to the NRA.

44. Because it acted in a fiduciary capacity, AMc had a duty of loyalty to the NRA which forbade it from misusing the NRA's confidential information—especially with the malicious intent to damage the NRA.

45. Furthermore, because it acted in a fiduciary capacity, AMc had a duty to disclose all material facts to the NRA regarding the advice and services it provided.

46. AMc breached its fiduciary duty when it conspired to effect an out-of-context, partial disclosure of certain NRA confidential information to (i) a handpicked group of outside directors of the NRA, as well as (ii) the news media.

47. AMc further breached its fiduciary duty by withholding material information from the NRA, including information concerning expense records and the performance of NRATV.

48. Ackerman further breached its fiduciary duties of loyalty and fair dealing by conspiring with and causing its employee, North, to relay an extortion threat to the NRA on April 24, 2019.

49. As a direct and proximate result of AMc's breaches, the NRA has incurred damages, including professional fees expended to redress the consequences of AMc's "leaks." AMc's breaches are escalating, and there can be little doubt that if its collaborator of multiple decades continues to maliciously disseminate its confidential information, the NRA will be irreparably harmed. The NRA is entitled to injunctive relief to avert or minimize this irreparable harm.

50. The NRA furthermore seeks disgorgement of any amounts wrongfully obtained by Defendants on account of their breaches of their fiduciary duties including, without limitation, all fees paid by the NRA to Ackerman and Mercury since the date such breaches began—which the NRA believes occurred no later than August 3, 2018.

DEMAND FOR JURY TRIAL

51. Plaintiff hereby demands a trial by jury on all issues of fact to which it is entitled to a jury trial in this cause.

REQUEST FOR RELIEF

Wherefore, for all the forgoing reasons, Plaintiff requests judgment in its favor against

AMc:

- a. Granting it preliminary and permanent injunctive relief;
- b. Granting it compensatory damages for material, total breach of contract and breach of fiduciary duty totaling \$40 million;
- c. Granting it punitive or exemplary damages; and
- d. Granting such other and further relief as the Court deems just and proper.

Respectfully submitted,



James W. Hundley (VA Bar No. 30723)
Robert H. Cox (VA Bar No. 33118)
Amy L. Bradley (VA Bar No. 80155)
BRIGLIA HUNDLEY, P.C.
1921 Gallows Road, Suite 750
Tysons Corner, VA 22182
jhundley@brighiahundley.com
rcox@brighiahundley.com
abradley@brighiahundley.com
Phone: 703-883-0880
Facsimile: 703-883-0899

**SUBPOENA FOR WITNESS (CIVIL) –
ATTORNEY ISSUED**

Case No. CL19002067

Commonwealth of Virginia
VA CODE §§ 8 01-407, 16 1-265; Supreme Court Rules 1.4, 4.5

HEARING DATE AND TIME

Circuit Court for the City of Alexandria

Court

520 King St, Alexandria, VA 22314

ADDRESS OF COURT

National Rifle Association of America

v./In re: Ackerman McQueen, Inc. and Mercury Group, Inc.

TO THE PERSON AUTHORIZED BY LAW TO SERVE THIS PROCESS:

You are commanded to summon

Lance Olson

NAME

785 William Avenue

STREET ADDRESS

Marengo

CITY

IA

STATE

52301

ZIP

TO the person summoned: You are commanded to appear

in the

Court

at Coralville Marriott Hotel and Conference Center, 300 East 9th Street, Coralville, Iowa 52241

ADDRESS (DEPOSITION USE IN CIRCUIT COURT ONLY)

on July 22, 2019 at 9:30 am to testify in the above-named case.

This subpoena is issued by the attorney for and on behalf of

National Rifle Association of America

PARTY NAME

Robert H. Cox

NAME OF ATTORNEY

1921 Gallows Road, Suite 750

OFFICE ADDRESS

Tysons Corner, VA 22182

OFFICE ADDRESS

June 21, 2019

DATE ISSUED

33118

VIRGINIA STATE BAR NUMBER

(703) 883-0880

TELEPHONE NUMBER OF ATTORNEY

(703) 883-0899

FACSIMILE NUMBER OF ATTORNEY

SIGNATURE OF ATTORNEY

Notice to Recipient: See page two for further information.

RETURN OF SERVICE (see page two of this form)

TO the person summoned:

If you are served with this subpoena less than 5 calendar days before your appearance is required, the court may, after considering all of the circumstances, refuse to enforce the subpoena for lack of adequate notice. If you are served less than 5 calendar days before your appearance is required and you are a judicial officer generally incompetent to testify pursuant to § 19.2-271, this subpoena has no legal force or effect. If you are served with this subpoena less than 5 calendar days before your appearance is required, you may wish to contact the attorney who issued this subpoena and the clerk of the court.

This SUBPOENA FOR WITNESS is being served by a private process server who must provide proof of service in accordance with Va. Code § 8.01-325.

TO the person authorized to serve this process: Upon execution, the return of this process shall be made to the clerk of court.

NAME: Lance Olson	
ADDRESS: HOME <input type="checkbox"/> 785 William Ave, Marengo, IA 52301-1047 -or- WORK <input type="checkbox"/> 145 Court Ave, Marengo, IA 52301	
<input type="checkbox"/> PERSONAL SERVICE	Tel. No. (319) 642-5651
Being unable to make personal service, a copy was delivered in the following manner:	
<input type="checkbox"/> Delivered to a person found in charge of usual place of business or employment during business hours and giving information of its purport.	
<input type="checkbox"/> Delivered to family member (not temporary sojourner or guest) age 16 or older at usual place of abode of party named above after giving information of its purport. List name, age of recipient, and relation of recipient to party named above:	
<input type="checkbox"/> Posted on front door or such other door as appears to be the main entrance of usual place of abode, address listed above. (Other authorized recipient not found.)	
<input type="checkbox"/> not found	, Sheriff
DATE	By , Deputy Sheriff

CERTIFICATE OF COUNSEL

I, Robert H. Cox, counsel for Plaintiff, hereby certify that a copy of the foregoing subpoena for witness was served by email and first class mail to David Dickieson, counsel of record for Defendants on the 21st day of June, 2019.

SIGNATURE OF ATTORNEY

IN THE CIRCUIT COURT FOR THE
CITY OF ALEXANDRIA

National Rifle Association of America,

Plaintiff,

v.

Civil Case No. CL19002067

Ackerman McQueen Inc.,

and

Mercury Group, Inc.

Defendants.

Notice of Deposition of Lance Olson

TO: Defendants, by and through their counsel David Schertler, Schertler & Onorato, LLP, 901 New York Avenue, N.W., Suite 500, Washington, D.C. 20001.

PLEASE TAKE NOTICE that pursuant to Rule 4:5 of the Rules of the Supreme Court of Virginia, Plaintiff National Rifle Association of America ("Plaintiff"), by and through its counsel of record,

shall take the deposition of: **Lance Olson,**


upon oral examination on: **Monday, July 22, 2019 at 9:30 a.m.**

at: **Coralville Marriott Hotel and Conference Center, 300 East 9th Street, Coralville, Iowa 52241**

The deposition shall be taken before a notary public or other official authorized by law to administer oaths, and may be recorded by sound, videotape, and/or stenographic means for use as evidence, and for all other purposes allowable by law.

Dated: June 21, 2019

Respectfully submitted,


James W. Hundley
(VA Bar No. 30723)
Robert H. Cox
(VA Bar No. 33118)
BRIGLIA HUNDLEY, P.C.


1921 Gallows Road, Suite 750
Tysons Corner, Virginia 22182
703.883.0880
703.883.0899 [facsimile]
jhundley@brigliahundley.com
rcox@brigliahundley.com

CERTIFICATE OF SERVICE

I hereby certify that on June 21, 2019, I caused Plaintiff's Notice of Deposition of Lance Olson via electronic mail and first-class mail upon:

David Schertler
David Dickieson
Schertler & Onorato, LLP
901 New York Avenue, N.W.
Suite 500
Washington, DC 20001
dschertler@schertlerlaw.com
ddickieson@schertlerlaw.com

Counsel for the Defendants


James W. Hundley (VSB No. 30723)
Robert H. Cox (VSB No. 33118)

AFFIDAVIT OF SERVICE

Case: IFIF000171 (Iowa Issued) CL19002067 (Virginia Issued)	Court: THE IOWA DISTRICT COURT Commonwealth of Virginia	County: FOR IOWA COUNTY Circuit Court for the City of Alexandria	Job: 3471897
Plaintiff / Petitioner: National Rifle Association of America		Defendant / Respondent: Ackerman McQueen, Inc., and Mercury Group, Inc.	
Received by: Iowa Process Service		For: Briglia Hundley, P.C.	
To be served upon: Lance Olson			

I, Michael Barry, being duly sworn, depose and say: I am over the age of 18 years and not a party to this action, and that within the boundaries of the state where service was effected, I was authorized by law to make service of the documents and informed said person of the contents herein

Recipient Name / Address: Lance Olson, 1200 Block of F15 Blvd, Marengo, IA 52301

Manner of Service: Personal/Individual, Jun 20, 2019, 8:00 am CDT

Documents: Subpoena to Testify at a Deposition or to Produce Documents in a Civil Action, Rules of Service (Iowa Issued); Subpoena Duces Tecum (Civil), Attachment A to Subpoena Duces Tecum, Plaintiff's Complaint and Jury Demand, Subpoena for Witness (Civil), Notice of Deposition of Lance Olson (Virginia Issued) (Received Jun 14, 2019 at 4:47pm CDT)

Additional Comments:

1) Unsuccessful Attempt: Jun 19, 2019, 8:20 pm CDT at 785 William Ave, Marengo, IA 52301
No one home.

2) Unsuccessful Attempt: Jun 20, 2019, 7:10 am CDT at 785 William Ave, Marengo, IA 52301
No one home.

3) Served: Jun 20, 2019, 8:00 am CDT at 1200 Block of F15 Blvd, Marengo, IA 52301 received by Lance Olson. Age: 58; Ethnicity: Caucasian; Gender: Male; Weight: 210; Height: 5'9"; Hair: Brown; Spoke to Lance on the phone, and he agreed to meet me at the given location to accept service.

[Redacted Signature]
 Michael Barry 6-21-19
 Date

Subscribed and sworn to before me by the affiant who is personally known to me.

6-21-19
[Redacted Signature]
 Notary Public
6-21-19
 Date Commission Expires

Iowa Process Service
901 North Buxton St.
Indianola, IA 50125

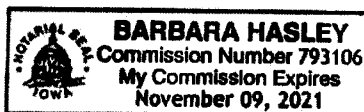


EXHIBIT 4

SUBPOENA DUCES TECUM (CIVIL) –

Case No.: CL19002067

ATTORNEY ISSUED VA. CODE §§ 8.01-413, 16.1-89, 16.1-265,

Commonwealth of Virginia Supreme Court Rules 1.4, 4.9

For the Issuance of a New Jersey Subpoena Under New Jersey Rule 4:11-4 (b). HEARING DATE AND TIME

Circuit Court for the City of Alexandria

Court

520 King St, Alexandria, VA 22314

COURT ADDRESS

National Rifle Association of America

v./In re:

Ackerman McQueen, Inc. and Mercury Group, Inc.

TO THE PERSON AUTHORIZED BY LAW TO SERVE THIS PROCESS:

You are commanded to summon

Robert Pincus

NAME

6706 Weymouth Rd

STREET ADDRESS

Mays Landing

CITY

New Jersey

STATE

08330-1336

ZIP

TO the person summoned: You are commanded to make available the documents and tangible things designated and described below:

See Attachment A.

at a place to be agreed by witness and parties at June 28, 2019 at 8:30am

LOCATION

DATE AND TIME

to permit such party or someone acting in his or her behalf to inspect and copy, test or sample such tangible things in your possession, custody or control.

This Subpoena Duces Tecum is issued by the attorney for and on behalf of

National Rifle Association of America

PARTY NAME

Robert H. Cox

NAME OF ATTORNEY

1921 Gallows Road, Suite 750

OFFICE ADDRESS

Tysons Corner, VA 22182

OFFICE ADDRESS

33118

VIRGINIA STATE BAR NUMBER

703-883-0880

TELEPHONE NUMBER OF ATTORNEY

703-883-0899

FACSIMILE NUMBER OF ATTORNEY

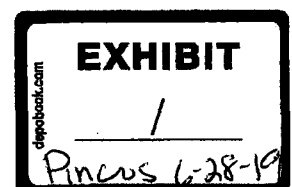
June 14, 2019

DATE ISSUED

SIGNATURE OF ATTORNEY

Notice to Recipient: See page two for further information.

RETURN OF SERVICE (see page two of this form)



TO the person summoned:

If you are served with this subpoena less than 14 days prior to the date that compliance with this subpoena is required, you may object by notifying the party who issued the subpoena of your objection in writing and describing the basis of your objection in that writing.

This SUBPOENA DUCES TECUM is being served by a private process server who must provide proof of service in accordance with Va. Code § 8.01-325.

TO the person authorized to serve this process: Upon execution, the return of this process shall be made to the clerk of court.

NAME:	Robert Pincus
ADDRESS:	6706 Weymouth Rd, Mays Landing, NJ 08330-1336
<input type="checkbox"/> PERSONAL SERVICE	Tel. No.
Being unable to make personal service, a copy was delivered in the following manner:	
<input type="checkbox"/>	Delivered to family member (not temporary sojourner or guest) age 16 or older at usual place of abode of party named above after giving information of its purport. List name, age of recipient, and relation of recipient to party named above:
<input type="checkbox"/>	Posted on front door or such other door as appear to be the main entrance of usual place of abode, address listed above. (Other authorized recipient not found.)
<input type="checkbox"/> NOT FOUND	, Sheriff
DATE	by , Deputy Sheriff

CERTIFICATE OF COUNSEL

I, Robert H. Cox, counsel for Plaintiff, hereby certify that a copy of the foregoing subpoena duces tecum was served by email and first class mail to David Dickieson, counsel of record for Defendants on the 14th day of June, 2019.

[Redacted Signature]
 SIGNATURE OF ATTORNEY

NOTICE: Upon receipt of the subpoenaed documents, the requesting party must, if requested, provide true and full copies of those documents to any other party or to the attorney for any other party, provided the other party or attorney for the other party pays the reasonable cost of copying or reproducing those documents. This does not apply when the subpoenaed documents are returnable to and maintained by the clerk of the court in which the action is pending. Va. Code § 8.01-417

IN THE CIRCUIT COURT FOR THE
CITY OF ALEXANDRIA

National Rifle Association of America,

Plaintiff,

v.

Civil Case No. CL19002067

Ackerman McQueen Inc.,

and

Mercury Group, Inc.

Defendants.

ATTACHMENT A
TO SUBPOENA DUCES TECUM

DEFINITIONS

1. The term "**complaint**" shall mean the Complaint filed in this case, recorded by the Court under Civ. No. CL19002067.
2. The terms "**communication**," "**communicate**," and "**communicated**" shall mean any oral, written, or recorded utterance, notation, or statement of any nature whatsoever, by and to whomsoever made, including, but not limited to, correspondence, e-mails, text messages, conversations, facsimiles, letters, telegrams, cables, telexes, dialogues, discussions, negotiations, interviews, consultations, telephone calls, agreements, and other understandings, among two or more persons. The term "**communication**" includes written summaries of any of the foregoing communications.
3. The terms "**document**" and "**record**" shall mean all writings of any sort and each term should be construed in its broadest sense to include, but not be limited to, all original and non-identical copies, whether by reason of marginalia or other notes or alterations, and all preliminary or subsequent drafts of the following items, whether printed or recorded or reproduced by any other mechanical or electronic process, or written or produced by hand: agreements, communications, correspondence, letters, telegrams, cables, telexes, memoranda, records, books, journals, summaries of records or papers, minutes, calendars, affidavits, recordings (video or audio), electronic mail, text messages, memoranda of telephone calls, conversations, telephone calls, meetings, contracts, notes, marginal comments appearing on or affixed to any document, day timers, date books, messages, letters of credit, invoices, statements of account, financial statements, receipts, promissory notes, security agreements, deeds of trust, instruments purporting to grant or evidencing any security interest or lien, loan agreements, projections, working papers, securities,

ledgers, cancelled checks and bank drafts (front and back), check stub receipts, and other data, documents, papers, or writings of whatever description including, but not limited to, any data or information which is electronically recorded or shared, contained in any computer, mobile device, or other information retrievable device or that otherwise can be obtained or translated through detection devices or other means into any reasonably useable or recordable format.

4. The term “**related to**” shall mean concerning, relating to, reflecting, referring to, having a relationship to, pertaining to, identifying, containing, pertinent to, setting forth, showing, disclosing, describing, explaining, summarizing, evidencing, or constituting, directly or indirectly, in whole or in part, or to be otherwise factually, legally or logically connected to the subject matter of the particular Request.

REQUEST FOR PRODUCTION

1. Produce any and all records or communications dated, drafted, modified, issued, sent or received during the period April 22, 2019 through the present, related to a “leak” or dissemination of previously non-public documents or information, including but not limited to letters or memos (a) by or relating to Oliver North, Wayne LaPierre, Marion Hammer or Tyler Schropp; (b) accessible via a weblink posted on social media¹; or (c) referenced in contemporaneous media coverage.²

¹ See e.g., Instagram post under the user handle “pincusrob,” on or about May 10, 2019, providing the following web address: <ftp://67.190.79.35/sda1/nra2019documents1-clean/>.

² See, e.g., Stephen Gutowski, *Allan West Calls for Wayne LaPierre Resignation in Wake of Leaked NRA Memos: NRA Leadership Fires Back*, FREE BEACON (May 14, 2019, 4:20 PM), <https://freebeacon.com/issues/allen-west-calls-for-wayne-lapierre-resignation-in-wake-of-leaked-nra-memos-nra-leadership-fires-back>; Betsy Woodruff, *Leaked Documents: NRA Racked up \$24 Million in Legal Bills*, DAILY BEAST (May 11, 2019 2:56 PM), <https://www.thedailybeast.com/leaked-documents-nra-racked-up-dollar24-million-in-legal-bills-3?ref=home>.

VIRGINIA:

**IN THE CIRCUIT COURT FOR THE
CITY OF ALEXANDRIA**

**NATIONAL RIFLE ASSOCIATION OF
AMERICA,**

Plaintiff,

v.

ACKERMAN MCQUEEN, INC.,

and

MERCURY GROUP, INC.

Defendants.

Civil Case No. **CL19002067**

2019 MAR 22 PM 2:21

PLAINTIFF'S COMPLAINT AND JURY DEMAND

Plaintiff the National Rifle Association of America (the "NRA") files this Complaint and Jury Demand against Defendants Ackerman McQueen, Inc. ("Ackerman") and Mercury Group, Inc. ("Mercury" and, collectively with Ackerman, "AMc"), based on personal information as to its own actions and on information and belief as to all other matters, as follows:

PRELIMINARY STATEMENT

After collaborating for more than thirty years, the NRA finds itself at odds with its advertising agency and communications firm, AMc. Already embroiled in a separate lawsuit¹ arising from AMc's refusal to furnish agreed business records, the NRA files this action to redress additional, increasingly brazen breaches of duties owed by AMc to the NRA. Over the past year, even as it withheld important documents and information from the NRA, AMc readily shared snippets of confidential and proprietary materials with hostile third parties, including the news media—in a series of sordid, out-of-context “leaks” engineered by AMc to harm its client.

Defendants' actions are especially egregious because communications with the media and the public are AMc's purported area of expertise. For decades, the NRA trusted AMc to shape and disseminate authorized public communications on its behalf, in order to advance the interests of the NRA and its members. During that time, AMc became a valued asset to the NRA and, by extension, the millions of law-abiding gun owners who depend upon the NRA for its Second Amendment advocacy. As part of their professional obligations, AMc and its employees were required to engage with the news media only with the NRA's full consent, operate with complete transparency, and work in alignment with the NRA's leadership team to craft its communications strategy. Of course, these expectations are fundamentals upon which clients and their public relations advisors operate. Trust and loyalty are necessary elements of any such relationship.

Unfortunately, in a remarkable, material breach of that trust, AMc undertook a campaign to tarnish and ultimately destroy the public image of the NRA and its senior leadership. Motivated to avoid scrutiny of their own business activities, a handful of faithless fiduciaries within (and

¹ See *National Rifle Association of America v. Ackerman McQueen, Inc. and Mercury Group, Inc.*, Civil Case No. CL19001757 (Alexandria, Va.).

without) AMc conspired to conceal important information, “kill” any “messenger” who tried to unearth that information, and ultimately wrest control of the NRA by fomenting a (failed) executive coup. The conspiracy led by AMc had a malicious, singular purpose: to derail inquiries by the NRA into AMc’s business and accounting practices. When the NRA ignored AMc’s initial, veiled threats and reiterated its demands for transparency, the agency and its co-conspirators fired escalating salvos that culminated in an extortion threat delivered by an AMc employee, Lt. Col. Oliver North (Ret.), days before the NRA’s Annual Meeting of Members. North’s directive to NRA CEO Wayne LaPierre was simple: withdraw the NRA’s then-pending lawsuit against AMc, resign immediately from the NRA, and support AMc’s chosen leadership slate for the NRA—or be publicly smeared.

As became widely reported, AMc’s attempt to seize control of the NRA brutally failed.² Thereafter the NRA hoped that AMc and its co-conspirators would abandon their illegal conduct and resume faithfully serving the NRA. Instead, Defendants began to deliver on AMc’s extortion threats. In apparent “off-the-record” exchanges with reporters from multiple media outlets, AMc—and others with whom it conspired—cynically leaked selected portions of confidential business records that were curated to convey a misleading, dire picture of the NRA’s finances, operations, and expense-accounting practices. The bitter, insidious irony is that the records leaked by AMc contain some of the same information the NRA had persistently requested from AMc over the course of many months, in an effort to strengthen its own internal controls. When AMc realized it could not hide the information demanded by the Association forever, it maliciously and

² See, e.g., Danny Hakim, *Wayne LaPierre Prevails in Fierce Battle for the N.R.A.* THE NEW YORK TIMES (Apr. 29, 2019), <https://www.nytimes.com/2019/04/29/us/nra-wayne-lapierre-oliver-north.html>; Mark Maremont, *New York Attorney General Probes NRA as Oliver North Exits as President*, THE WALL STREET JOURNAL (Apr. 27, 2019, 7:30pm), <https://www.wsj.com/articles/oliver-north-out-as-nra-president-11556376506>

selectively publicized a subset of its records in a manner designed to suggest improprieties which AMc knew had not actually occurred.

Consistent with its longstanding trust and reliance on AMc, and hopeful that the leaks were executed by rogue employees without the knowledge of AMc's leadership, the NRA sought AMc's help securing sworn declarations from employees who had access to the leaked information—affirming individually that they were not responsible for any unauthorized disclosures. In this way, the NRA sought to narrow the list of individuals potentially responsible for the leaks, as well as stem ongoing confidentiality violations. Unfortunately, AMc's response to the overture came in the form of a terse missive from outside counsel—refusing any cooperation. Although AMc explicitly “warrant[ed] and agree[d] to prevent disclosure of Confidential Information by its employees” under its contract with the NRA, the agency flatly refused to ask any of its employees to affirm they had honored their confidentiality obligations.

For years, the NRA trusted and depended upon AMc to deliver core, critical services. The NRA never expected it would be forced to sue one of its closest collaborators. At this juncture, however, the NRA has no choice. AMc's ongoing violations of its contractual and fiduciary duties are malicious, material, and must be redressed.

PARTIES AND RELEVANT NONPARTIES

1. Plaintiff NRA is a not-for-profit corporation organized under the laws of the State of New York with its principal place of business located in Fairfax, Virginia. The NRA is America's leading provider of gun-safety and marksmanship education for civilians and law enforcement. It is also the foremost defender of the Second Amendment of the United States Constitution. A 501(c)(4) tax-exempt organization, the NRA has over five million members—and its programs reach many millions more.

2. Defendant Ackerman is a nonresident for-profit business corporation organized under the laws of the State of Oklahoma with its principal place of business in Oklahoma City, Oklahoma. Ackerman is an advertising and public relations agency that has counted the NRA among its largest clients for more than thirty years.

3. Defendant Mercury is a nonresident for-profit business corporation organized under the laws of the State of Oklahoma with its principal place of business in Alexandria, Virginia. Mercury is a wholly owned subsidiary of Ackerman which specializes in public-communications strategy, including on behalf of advocacy groups such as the NRA. At all relevant times, Ackerman acted on behalf of both itself and Mercury pursuant to the Services Agreement (defined below) between Ackerman and the NRA.

4. Nonparty Lt. Col. Oliver L. North (Ret.) ("North") is a resident of the State of Virginia and a former president of the NRA. Unbeknownst to the NRA until recently, North is also a full-time employee of Ackerman.

5. Nonparty William Winkler ("Winkler") is a resident of the State of Oklahoma and the chief financial officer of Ackerman.

JURISDICTION AND VENUE

6. This Court has jurisdiction over Ackerman and Mercury pursuant to Virginia Code § 8.01-328.1 because each of Ackerman and Mercury has transacted business in the Commonwealth of Virginia and contracted to supply services in the Commonwealth of Virginia.

7. Venue is proper in this Court because the cause of action set forth herein arose from the transaction of business in Alexandria, Virginia.

8. Additionally, jurisdiction and venue are proper in this court because Ackerman and Mercury have expressly consented to the exclusive jurisdiction and venue of courts sitting in

Alexandria or Fairfax County, Virginia regarding the matters presented herein in the Services Agreement dated April 30, 2017 (as amended May 6, 2018) (the “Services Agreement”).

FACTUAL BACKGROUND

A. For Decades, the NRA Relied on Ackerman To Perform Public Affairs Services Requiring a High Level of Trust.

9. The NRA and AMc have worked closely together since the 1980s. Over that time, the NRA has reposed extensive trust and confidence in AMc to perform services including public relations and strategic marketing; planning and placement of media; management of digital media and websites; and the operation of NRATV, a digital-media platform managed by AMc but frequently perceived by the public as the “voice” of the NRA.³ By its nature, this work is publicly and politically sensitive, and requires the NRA to entrust AMc with confidential (and sometimes privileged) information.

10. Since at least 1999, AMc’s work on behalf of the NRA has been governed by successive incarnations of a Services Agreement containing detailed specifications for how various types of work performed by Ackerman for the NRA should be budgeted and billed. The Services Agreement between the NRA and AMc dated May 1, 1999 (the “Previous Services Agreement”) as well as the current, operative Services Agreement provide that certain categories of services, such as Owned Media and Internet Services, are compensated with an agreed annual fee, while others are required to be invoiced on an *ad hoc* basis based on estimates furnished by AMc and approved by the NRA. Consistent with the sensitive nature of AMc’s services, the Services Agreement strictly limits use and disclosure by AMc, and its individual employees (who are

³ See, e.g., Jeremy W. Peters & Katie Benner, *Where The N.R.A. Speaks First and Loudest*, THE NEW YORK TIMES, February 21, 2018, <https://www.nytimes.com/2018/02/21/us/politics/nratv-nra-news-media-operation.html>.

themselves fiduciaries of the NRA), of information acquired during AMc's work on behalf of the NRA.

11. Specifically, Section IV of the Services Agreement provides that AMc "shall not disclose, directly or indirectly, to any third party, any . . . data, materials or information . . . made known to AMc as a result of AMc's providing [contracted-for services] . . . without the prior express written permission of [the] NRA."⁴ AMc may use the NRA's confidential information "only for the limited purpose of providing its [s]ervices to the NRA,"⁵ and AMc "warrants and agrees to prevent disclosure of Confidential Information by its employees, agents, successors, assigns and subcontractors."⁶

12. Notably, AMc serves as the NRA's agent for several purposes pursuant to the Services Agreement, and, therefore, owes fiduciary duties to the NRA. For example, the Services Agreement provides explicitly that AMc may act "on [the] NRA's behalf," and subject to the NRA's control, with respect to purchasing, planning, and placement of media⁷—activities that require the NRA to entrust AMc with nonpublic information about its communication strategy. In its capacity as the NRA's agent, AMc must demonstrate "the same high standard of good faith and loyalty" to the NRA as would be "required . . . of an attorney to his client."⁸ Indeed, owing to the parties' decades of close collaboration, their special relationship of trust and confidence existed prior to, and apart from, the execution of the Services Agreement. The confidentiality provisions of the Services Agreement are, therefore, backstopped and strengthened by common-law and

⁴ Services Agreement § IV.A.1.

⁵ Services Agreement § IV.A.3.

⁶ Services Agreement § IV.A.4.

⁷ Services Agreement §§ I.C, II.B.1.

⁸ See, e.g., *Nicholson v. Shockey*, 192 Va. 270, 270 (1951).

contractual fiduciary duties which forbid any misuse or misappropriation of the NRA's information.

13. Consistent with the substantial scope and dollar value of the services rendered by AMc for the NRA, AMc invoices the NRA for a wide variety of expenses. The Services Agreement contains detailed guidelines identifying categories of expenses that can be invoiced to the NRA, and conditions for their reimbursement—for example, hotel and meal expenses must be specifically authorized in writing by the NRA. Over the parties' decades-long course of dealing, underlying receipts and other support for AMc's expenses were not transmitted contemporaneously with AMc's monthly invoices. However, the NRA was repeatedly assured that appropriate documentation was retained by AMc, and could be audited at the NRA's request. Indeed, the NRA's senior leadership understood that field audits of AMc's expense records were regularly conducted precisely for that purpose.

14. Given its responsibilities, AMc took an active role in shaping the public image of the NRA's principals and executives, including CEO Wayne LaPierre. Based on AMc's advice, and subject to billing procedures AMc set up, LaPierre over a fifteen year period incurred wardrobe and related expenses for countless television appearances, filming of commercials, and other outward-facing brand-development activities. Those activities were specifically directed, choreographed and produced by AMc. Records of the wardrobe expenses, which were initiated at AMc's direction, were maintained by AMc. Of course, AMc should not have incurred (let alone sought reimbursement for) any expenses which it believed inappropriate.

B. Troubled Waters: the NRA's Compliance Efforts and Ackerman's Response.

15. In recent years, the State of New York amended its Not-for-Profit Corporation Law (the "NPCL") to clarify requirements for director independence and the ratification of related-party contracts, among other items. After updating its internal policies and controls to reflect these

amendments, the NRA undertook to strengthen its procedures for documentation and verification of compliance by vendors with their contracts. Beginning in August 2018, the NRA sent letters to more than a hundred vendors—including AMc—that set forth updated invoice-support requirements and provided detailed guidance regarding, for example, expense reimbursement procedures.

16. During the course of this process, the NRA became aware of concerns raised by multiple employees, executives, and board members that AMc's expenses and activities required greater oversight. In sum, there were concerns that Ackerman and Mercury were regularly taking advantage of their favored position and the numerous roles they played for the NRA. As a result, the Association sought to investigate several specific concerns:

- “Out of pocket” expenses that lacked meaningful documentation of NRA approvals, receipts, or other support, despite the requirements set forth in the Services Agreement;
- Lack of transparency regarding AMc's annual budgets under the Services Agreement, as well as adherence to those budgets;
- Lack of transparency regarding AMc's compliance with their obligation to insure that their services are provided at “fair market value”;
- Concerns that AMc was invoicing the NRA for the entire salaries attributable to NRA-Dedicated Personnel, despite certain NRA-Dedicated Personnel allocating substantial time to non-NRA clients;
- Refusal by AMc to provide any data “in writing” (such as viewership numbers, clickthrough rates, or related performance metrics) that enable the NRA to analyze the return on its substantial investment since 2016 in NRATV.⁹

17. Consistent with the broad scope and critical nature of the services performed by AMc for the NRA, the NRA bargained for transparency into AMc's files, books and records

⁹ In addition, certain NRA stakeholders were also concerned that NRATV's messaging—on topics far afield of the Second Amendment—deviated from the NRA's core mission and values.

pursuant to the Services Agreement. Both the Previous Services Agreement and the current Services Agreement incorporate records-examination clauses that require AMc to open its files for the NRA's inspection upon reasonable notice. The full text of the Records-Examination Clause in the Services Agreement appears below:

Services Agreement

- Dated April 30, 2017 (as amended May 6, 2018)
- Between the NRA and "AMc" (defined to include both Ackerman and Mercury)

VIII. EXAMINATION OF RECORDS

During the term of this Services Agreement, AMc authorizes NRA, upon reasonable notice, to examine AMc and Mercury's files, books and records, with respect to matters covered under this Services Agreement.

18. During early- and mid-2018, the NRA sought information from AMc pursuant to the Records-Examination Clause on a common-interest basis to advance parties' mutual interests relating to an ongoing lawsuit. However, after the NRA began to request access to records that would shed light on concerns regarding AMc's business and accounting practices, AMc's responses became evasive and hostile.

19. In August 2018, within days after the NRA announced that it would now require supporting documentation to be transmitted contemporaneously with vendor invoices, a media outlet hostile to the NRA quoted "an anonymous source at Ackerman McQueen"¹⁰—creating serious concerns about AMc's compliance with its confidentiality obligations. When another outlet described the same source as a former (rather than a current) AMc employee,¹¹ the NRA's

¹⁰ Dylan Matthews, *The National Rifle Association, America's most powerful lobby, claims it's in financial crisis. What?*, VOX (Aug. 3, 2018, 4:50pm), <https://www.vox.com/2018/8/3/17648960/nra-national-rifle-association-companies-support-boycott-new-york-lawsuit>

¹¹ Alex Yablon & Mike Spies, *In Court Papers, NRA Stresses Financial Pressures and Says It May Have to Shut Down NRATV*, THE TRACE (Aug. 1, 2018), <https://www.thetrace.org/rounds/nra-carry-guard-insurance-new-york-lawsuit/>

trust in its longtime collaborator dissuaded it from requiring an immediate and full scale investigation. Unfortunately, it now appears that such a complete accounting is required.

20. On August 27, 2018, Winkler sent a letter to the NRA which purported to comply with the NRA's request for a more comprehensive audit of Ackerman's expense records. The letter pointedly identified several categories of items, some relating to travel and entertainment, which it warned would be encompassed in a full production of those records—perhaps believing that the threat of such disclosure would dampen the NRA's demands for transparency. However, the NRA was undeterred, and insisted upon reviewing and verifying details of expenses incurred.

21. In September 2018, for the first time in the parties' decades-long course of dealing, AMc demanded that its outside counsel supervise any document review conducted under the Records-Examination Clause, then demanded payment of outside counsel's legal fees as a precondition for delivery of video footage it produced and for which AMc had already invoiced the NRA. During a telephone call on September 19, 2018, after AMc's counsel insisted that the NRA pay AMc's legal fees without any insight into why the fees were incurred, the NRA's counsel observed that AMc's posture seemed more consistent with an adverse than a common-interest relationship. AMc's counsel then made a startling statement: "AMc views the relationship as adverse."

22. Thereafter, AMc strenuously resisted the NRA's efforts to enforce the Services Agreement, including by embarking on a campaign to "kill the messenger" when the NRA continued to seek access to documents or proposed reductions in AMc's budget. At first, AMc scapegoated the NRA's outside counsel. However, over ensuing months, AMc also refused to respond to basic information requests from NRA executives. After the NRA retained a third-party forensic accounting firm to interface with AMc in an effort to appease AMc and gain its

compliance in January 2019, AMc indicated it would cooperate. Unfortunately, that pledge of cooperation was short-lived, as AMc purported to forbid the accountants from disclosing simple, material information to the NRA—including copies of annual budgets against which AMc was invoicing. When the NRA's General Counsel sought additional information in follow-up to the forensic audit, AMc ignored his letters.

23. As AMc continued to stonewall the NRA's requests for documents and tensions between the parties rose, the NRA was contacted with increasing frequency by journalists acting on purported "leaks" relating to matters on which AMc had worked. The contents of these "leaks" reflected a malicious, out-of-context use of the NRA's confidential information, with an apparent intent to damage the NRA. Indeed, the NRA was advised by multiple confidential sources that leaks were emanating from AMc.

C. **When The NRA Sought Assurances That Ackerman Was Complying With Its Confidentiality Obligations, Ackerman Rebuffed the NRA.**

24. On April 12, 2019, having exhausted its good faith efforts to access key records pursuant to the Services Agreement, the NRA filed a narrowly tailored action in this Court seeking specific performance by AMc of its obligation to share relevant records with the NRA. In retaliation, rather than provide the requested records directly to the NRA (as the NRA had sought for months), AMc conspired with others to disseminate select, out-of-context portions of those records—many obsolete or dated—to a subset of the NRA Board of Directors, in order to sow false impressions regarding the NRA's spending and lend support for a possible executive coup..

25. On April 22, 2019, days before the NRA's Annual Meeting of Members, Winkler doubled down on the tactic he previewed in his August 27, 2018 letter. In letters to select NRA executives, Winkler referenced and excerpted certain expense records which had previously been withheld from the NRA. Importantly, Winkler did not contend—nor does the NRA believe—that

any of the referenced expenses were improper.¹² Nonetheless, they were obviously selected by Defendants to foster salacious, misleading impressions of the NRA's spending practices. Winkler's letters carried an implicit threat, made explicit in a subsequent series of telephone calls: If the NRA failed to withdraw its lawsuit seeking access to AMc's records, AMc would publicize portions of those records tailored to cause maximum reputational damage to the leadership of the NRA.

26. On April 24, 2019, AMc caused its employee, North, to telephone an aide of NRA CEO Wayne LaPierre ("LaPierre") and relay the contents of yet another letter that AMc purportedly planned to disseminate. North emphasized that the letter would be "bad" for LaPierre and the NRA, and he described a laundry list of allegations the letter would contain: an unfavorable (and untrue) depiction of the NRA's finances; sexual harassment accusations against an NRA staff member; and, as previewed in Winkler's letters, excerpts of wardrobe, travel, and entertainment expenses paid by AMc and then invoiced by it to the Association over the years.

27. Tellingly, several categories of information referenced by North consisted of the same information the NRA had tried, but failed, to elicit from AMc under the parties' contractual record-inspection clause. After withholding this information for more than six months in an attempt to stonewall the NRA's compliance efforts, AMc now threatened to strategically, selectively publicize the information in a manner calculated to cause harm to LaPierre and the Association. North stated that AMc would forbear from publicizing the "bad" letter if LaPierre agreed to withdraw the NRA's lawsuit seeking access to AMc's records, resign immediately from the NRA, and support North's continued tenure as NRA President. If LaPierre cooperated, North

¹² Indeed, if Winkler or anyone at AMc had believed the expenses were improper, then AMc's fiduciary obligations required it to inform the NRA of suspected accounting improprieties. Instead, for more than a decade, AMc invoiced the NRA for the expenses without any such comment.

indicated that he could “negotiate with” Ackerman co-founder Angus McQueen to secure an “excellent retirement” for LaPierre.

28. The NRA does not take kindly to threats—and neither did LaPierre. Rather than accede to AMc’s extortion, LaPierre wrote a letter to the NRA’s Board of Directors that gave a transparent account of AMc’s threat and concluded “so long as I have your confidence . . . I will not back down.” As became widely publicized, LaPierre prevailed—and AMc’s coup attempt failed. AMc’s employee, North, is no longer an officer of the NRA.

29. The NRA hoped that in the wake of these events, AMc would resume faithfully serving the NRA as the parties’ contract and Virginia law require. Unfortunately, the NRA continues to receive media inquiries that strongly suggest there are misleading, defamatory “leaks” emanating from AMc. Simply put, the NRA believes that AMc is now delivering on its extortion threat. Tellingly, much of the information “leaked” by AMc concerns travel, wardrobe, and other expenses incurred in connection with AMc projects, based on AMc’s advice, or on trips with itineraries crafted by AMc. Although it disseminates select portions of these records in an effort to convey misleading impressions about spending activities by the NRA’s leadership, AMc knows full well that these particular expenses were proper—because it was deeply involved in their incurrence.

30. Examples of media outlets to whom AMc directly or indirectly disclosed the NRA’s confidential information include The New York Times, The Wall Street Journal, The Daily Beast, and Rolling Stone.

31. To resolve its concerns regarding these disclosures, on May 6, 2019, the NRA requested that several key AMc employees execute sworn declarations attesting that they had not violated their confidentiality obligations under the Services Agreement. The NRA tailored its

request narrowly—seeking declarations only from senior executives who had exposure to the information at issue—and demanded simply that these executives affirm they had complied, and would continue to comply, with their clear legal duties.

32. To the NRA's dismay, AMc flatly refused to provide any cooperation or assurances whatsoever. The NRA brings this action to discover the full extent of AMc's breaches, enjoin those breaches, and recover compensation for the damage it has sustained.

FIRST CAUSE OF ACTION

BREACH OF CONTRACT

(Against Ackerman and Mercury)

33. Plaintiff incorporates by reference and realleges each and every allegation in the foregoing paragraphs as if fully set forth herein.

34. The Services Agreement is a legally enforceable contract. The confidentiality provisions of Section IV of the Services Agreement are unambiguous, and bind "AMc" (defined to include both Ackerman and Mercury).

35. The NRA has performed all of its obligations under the Services Agreement.

36. Defendants have breached the provisions of Section IV of the Services Agreement by directly or indirectly disclosing, to third parties, information made known to AMc as a result of AMc's providing Services (as defined under the Services Agreement).

37. Defendants also breached the implied covenant of good faith and fair dealing by conspiring with, and causing, North to issue an extortion threat to the NRA.

38. Defendants' breaches have damaged the NRA. Among other things, the NRA has incurred significant reputational damage, and professional fees, as a result of Defendants' bad-faith, out-of-context "leaks" to reporters. For example, the NRA's attorneys and public affairs

professionals have spent extensive hours fielding inquiries from journalists in an effort to correct the misleading impressions sown by AMc.

39. Defendants' breaches are escalating, and there can be little doubt that if its collaborator of multiple decades continues to maliciously disseminate its confidential information, the NRA will be irreparably harmed. The NRA is entitled to injunctive relief to avert or minimize this irreparable harm.

40. Moreover, AMc's breaches are material—by seeking to destroy the NRA's reputation, AMc has destroyed the purpose of the parties' contract. Accordingly, the NRA is entitled to damages based on all of its remaining rights to performance under the Services Agreement.¹³

SECOND CAUSE OF ACTION

BREACH OF FIDUCIARY DUTY (Against Ackerman and Mercury)

41. Plaintiff incorporates by reference and realleges each and every allegation in the foregoing paragraphs as if fully set forth herein.

42. Over the course of more than thirty years of close collaboration (including decades that preceded the Services Agreement), the NRA reposed extensive trust and confidence in both Ackerman and Mercury. Defendants therefore incurred a common-law fiduciary duty to put the NRA's interests first when rendering services to the NRA, including pursuant to the Services Agreement.

43. In addition, AMc incurred fiduciary duties to the NRA when it acted as the NRA's agent pursuant to multiple provisions of the Services Agreement. For example, on the NRA's

¹³ See Restatement (Second) of Contracts § 236 (1981).

behalf and subject to the NRA's control, AMc entered into contracts and arrangements for the purchase, planning, and placement of media—activities that required AMc to be entrusted with sensitive confidential information pertaining to the NRA.

44. Because it acted in a fiduciary capacity, AMc had a duty of loyalty to the NRA which forbade it from misusing the NRA's confidential information—especially with the malicious intent to damage the NRA.

45. Furthermore, because it acted in a fiduciary capacity, AMc had a duty to disclose all material facts to the NRA regarding the advice and services it provided.

46. AMc breached its fiduciary duty when it conspired to effect an out-of-context, partial disclosure of certain NRA confidential information to (i) a handpicked group of outside directors of the NRA, as well as (ii) the news media.

47. AMc further breached its fiduciary duty by withholding material information from the NRA, including information concerning expense records and the performance of NRATV.

48. Ackerman further breached its fiduciary duties of loyalty and fair dealing by conspiring with and causing its employee, North, to relay an extortion threat to the NRA on April 24, 2019.

49. As a direct and proximate result of AMc's breaches, the NRA has incurred damages, including professional fees expended to redress the consequences of AMc's "leaks." AMc's breaches are escalating, and there can be little doubt that if its collaborator of multiple decades continues to maliciously disseminate its confidential information, the NRA will be irreparably harmed. The NRA is entitled to injunctive relief to avert or minimize this irreparable harm.

50. The NRA furthermore seeks disgorgement of any amounts wrongfully obtained by Defendants on account of their breaches of their fiduciary duties including, without limitation, all fees paid by the NRA to Ackerman and Mercury since the date such breaches began—which the NRA believes occurred no later than August 3, 2018.

DEMAND FOR JURY TRIAL

51. Plaintiff hereby demands a trial by jury on all issues of fact to which it is entitled to a jury trial in this cause.

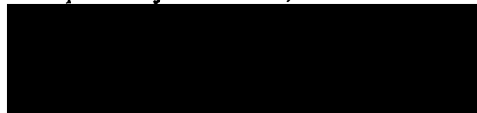
REQUEST FOR RELIEF

Wherefore, for all the forgoing reasons, Plaintiff requests judgment in its favor against

AMc:

- a. Granting it preliminary and permanent injunctive relief;
- b. Granting it compensatory damages for material, total breach of contract and breach of fiduciary duty totaling \$40 million;
- c. Granting it punitive or exemplary damages; and
- d. Granting such other and further relief as the Court deems just and proper.

Respectfully submitted,



James W. Hundley (VA Bar No. 30723)
Robert H. Cox (VA Bar No. 33118)
Amy I. Bradley (VA Bar No. 80155)
BRIGLIA HUNDLEY, P.C.
1921 Gallows Road, Suite 750
Tysons Corner, VA 22182
jhundley@brighundley.com
rcox@brighundley.com
abradley@brighundley.com
Phone: 703-883-0880
Facsimile: 703-883-0899

SUBPOENA FOR WITNESS (CIVIL) – Case No. **CL19002067**
ATTORNEY ISSUED For the issuance of a New Jersey Subpoena Under New Jersey Rule 4:11-4 (b).

Commonwealth of Virginia
VA CODE §§ 8.01-407; 16.1-265; Supreme Court Rules 1:4, 4:5

8:30 am
HEARING DATE AND TIME

Circuit Court for the City of Alexandria Court

520 King St, Alexandria, VA 22314
ADDRESS OF COURT

National Rifle Association of America v. In re: Ackerman McQueen, Inc. and Mercury Group, Inc.

TO THE PERSON AUTHORIZED BY LAW TO SERVE THIS PROCESS:

You are commanded to summon

Robert Pincus
NAME

6706 Weymouth Rd.
STREET ADDRESS

Mays Landing
CITY

NJ
STATE

08330
ZIP

TO the person summoned: You are commanded to appear

[] in the Court

at a place to be agreed by witness and parties
ADDRESS (DEPOSITION USE IN CIRCUIT COURT ONLY)
on June 28 at 8:30 am to testify in the above-named case.

This subpoena is issued by the attorney for and on behalf of

National Rifle Association of America
PARTY NAME

Robert H. Cox
NAME OF ATTORNEY

1921 Gallows Road, Suite 750
OFFICE ADDRESS

Tysons Corner, VA 22182
OFFICE ADDRESS

June 14, 2019
DATE ISSUED

33118

VIRGINIA STATE BAR NUMBER

(703) 883-0880

TELEPHONE NUMBER OF ATTORNEY

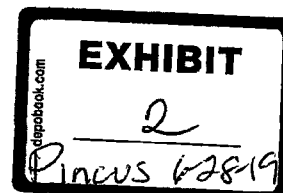
(703) 883-0899

FACSIMILE NUMBER OF ATTORNEY

SIGNATURE OF ATTORNEY

Notice to Recipient: See page two for further information.

RETURN OF SERVICE (see page two of this form)



TO the person summoned:

If you are served with this subpoena less than 5 calendar days before your appearance is required, the court may, after considering all of the circumstances, refuse to enforce the subpoena for lack of adequate notice. If you are served less than 5 calendar days before your appearance is required and you are a judicial officer generally incompetent to testify pursuant to § 19.2-271, this subpoena has no legal force or effect. If you are served with this subpoena less than 5 calendar days before your appearance is required, you may wish to contact the attorney who issued this subpoena and the clerk of the court.

This SUBPOENA FOR WITNESS is being served by a private process server who must provide proof of service in accordance with Va. Code § 8.01-325.

TO the person authorized to serve this process: Upon execution, the return of this process shall be made to the clerk of court.

NAME: Robert Pincus	
ADDRESS: 6706 Weymouth Rd, Mays Landing, NJ 08330-1336	
<input type="checkbox"/> PERSONAL SERVICE	Tel. No.
Being unable to make personal service, a copy was delivered in the following manner:	
<input type="checkbox"/> Delivered to a person found in charge of usual place of business or employment during business hours and giving information of its purport.	
<input type="checkbox"/> Delivered to family member (not temporary sojourner or guest) age 16 or older at usual place of abode of party named above after giving information of its purport. List name, age of recipient, and relation of recipient to party named above:	
<input type="checkbox"/> Posted on front door or such other door as appears to be the main entrance of usual place of abode, address listed above. (Other authorized recipient not found.)	
<input type="checkbox"/> not found	, Sheriff
DATE	By , Deputy Sheriff

CERTIFICATE OF COUNSEL

I, Robert H. Cox, counsel for Plaintiff, hereby certify that a copy of the foregoing subpoena for witness was served by email and first class mail to David Dickieson, counsel of record for Defendants on the 14th day of June, 2019

[Redacted Signature]

SIGNATURE OF ATTORNEY

IN THE CIRCUIT COURT FOR THE
CITY OF ALEXANDRIA

National Rifle Association of America,

Plaintiff,

v.

Civil Case No. CL19002067

Ackerman McQueen Inc.,

and

Mercury Group, Inc.

Defendants.

Notice of Deposition of Robert Pincus

TO: Defendants, by and through their counsel David Schertler, Schertler & Onorato, LLP, 901 New York Avenue, N.W., Suite 500, Washington D.C. 20001.

PLEASE TAKE NOTICE that pursuant to Rule 4:5 of the Rules of the Supreme Court of Virginia, Plaintiff National Rifle Association of America ("Plaintiff"), by and through its counsel of record,

shall take the deposition of: Robert Pincus


upon oral examination on: June 28, 2019 at 8:30am

at: a place to be agreed by witness and the parties

The deposition shall be taken before a notary public or other official authorized by law to administer oaths, and may be recorded by sound, videotape, and/or stenographic means for use as evidence, and for all other purposes allowable by law.

Dated: June 14, 2019

Respectfully submitted,


James W. Hundley (VSB # 30723)
Robert H. Cox (VSB #33118)
BRIGLIA HUNDLEY, P.C.
1921 Gallows Road, Suite 750
Tysons Corner, Virginia 22182
703.883.0880
703.883.0899 [facsimile]
jhundley@brigliahundley.com

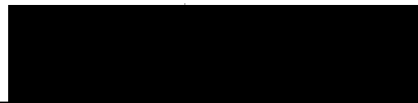
CERTIFICATE OF SERVICE

I hereby certify that on June 14, 2019, I caused Plaintiff's Notice of Deposition of Robert

Pincus to be served via electronic mail and first-class mail upon:

David Schertler
David Dickieson
Schertler & Onorato, LLP
901 New York Avenue, N.W.
Suite 500
Washington, D.C. 20001
dschertler@schertlerlaw.com

Counsel for the Defendants



Robert H. Cox (VA Bar No. 33118)

EXHIBIT 5

In The Matter Of:
National Rifle Association of America v.
Ackerman McQueen, Inc.

Robert Pincus
June 28, 2019



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IN THE CIRCUIT COURT FOR THE
CITY OF ALEXANDRIA

Case No. CL19002067 & CL19001757

VIDEO-RECORDED DEPOSITION OF: ROBERT PINCUS -
June 28, 2019

NATIONAL RIFLE ASSOCIATION OF AMERICA,

Plaintiffs,

v.

ACKERMAN MCQUEEN, INC.,

and

MERCURY GROUP, INC.,

Defendants.

PURSUANT TO NOTICE AND AGREEMENT, the
deposition of ROBERT PINCUS, was taken on behalf of the
Plaintiffs at 1360 Green Street, Silverton, Colorado
81433, on June 28, 2019 at 10:31 a.m., before
Richael M. Silvia, Registered Professional Reporter,
Certified Realtime Reporter, Colorado Realtime
Certified Reporter, and Notary Public within Colorado.

A P P E A R A N C E S

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For the Plaintiff: MICHAEL J. COLLINS, ESQ.
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And: ROBERT H. COX, ESQ.
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For the Defendants: DAVID H. DICKIESON, ESQ.
DAVID SCHERTLER, ESQ.
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ddickieson@schertlerlaw.com
dschertler@schertlerlaw.com

Also Present: Krystal Hughes
Sheryl Andrews, Videographer

EXHIBIT 6

In The Matter Of:
National Rifle Association of America v.
Ackerman McQueen, Inc.

Anthony J. Ferate
July 8, 2019



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IN THE CIRCUIT COURT FOR THE

CITY OF ALEXANDRIA

Case No. CL19002067 & CL19001757

VIDEO-RECORDED DEPOSITION OF: ANTHONY J. "A.J." FERATE
JULY 8, 2019

NATIONAL RIFLE ASSOCIATION OF AMERICA,

Plaintiffs,

v.

ACKERMAN MCQUEEN, INC,

and

MERCURY GROUP, INC.,

Defendants.

PURSUANT TO SUBPOENA, the deposition of ANTHONY
J. "A.J." FERATE, was taken on behalf of the Plaintiffs
at 9400 North Broadway Extension, Sixth Floor, Oklahoma
City, Oklahoma 73114, on July 8, 2019, at 8:33 A.M.,
before Leslie A. Foster, Registered Professional
Reporter, Certified Shorthand Reporter, within Oklahoma.

A P P E A R A N C E S

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For the
Plaintiffs:

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(214) 653-4875
mjc@brewerattorneys.com

And:

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Tysons Corner, VA 22182
(703) 883-9105
rcox@brigliahundley.com

For the Defendants:
(appearing telephonically
and via video conference)

DAVID H. DICKIESON, ESQ.
DAVID SCHERTLER, ESQ.
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901 New York Avenue, NW
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(202) 628-4199
ddickieson@schertlerlaw.com
dschertler@schertlerlaw.com

Also Present:

Krystal Hughes
Phil Karniewicz, videographer

EXHIBIT 7

Robert H. Cox

From: guns@iowatelecom.net
Sent: Tuesday, September 3, 2019 7:49 PM
To: Robert H. Cox
Subject: Re: Deposition

[This message originated from outside of your organization.]

hello....sorry..... ive been on travel....i will have him call this week for sure....sorry for the delay

From: "Robert H. Cox" <rcox@brigliahundley.com>
To: guns@iowatelecom.net
Cc: "Jim Hundley" <jhundley@brigliahundley.com>, "Michael Collins" <MJC@BrewerAttorneys.com>, "Beth Landes" <bal@brewerattorneys.com>
Sent: Tuesday, September 3, 2019 10:04:56 AM
Subject: RE: Deposition

Dear Mr. Olson,

I have not been contacted by your attorney yet. Just checking in to see whether he could contact me this week.

Regards,

Bob

Robert H. Cox
Partner
Briglia Hundley, P.C.
1921 Gallows Rd, Suite 750
Tysons Corner, VA 22182
703.883.0880
703.883.9105 [direct]
703.883.0899 [facsimile]
rcox@brigliahundley.com
www.BrigliaHundley.com



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From: guns@iowatelecom.net <guns@iowatelecom.net>
Sent: Tuesday, August 27, 2019 6:50 PM
To: Robert H. Cox <rcox@brigliahundley.com>
Subject: Re: Deposition

[This message originated from outside of your organization.]
hello....was out today...will get ahold of lawyer tmrw and have him contact you....

From: "Robert H. Cox" <rcox@brigliahundley.com>
To: guns@iowatelecom.net
Cc: "Michael Collins" <MJC@BrewerAttorneys.com>, "Beth Landes" <bal@brewerattorneys.com>
Sent: Tuesday, August 27, 2019 11:10:06 AM
Subject: Deposition

Dear Mr. Olson,

I just tried calling your cell phone number, but it does not have a voicemail box setup to leave a message. I am following up on our call two weeks ago when you informed me that you were retaining a different attorney and wanted to postpone your deposition. You mentioned that the new attorney would contact me about scheduling a new date. I have not heard from your attorney yet.

I would appreciate it if you would have him contact me about scheduling your deposition in September. I recall you stating that you will be attending the NRA meeting in Alaska, so we would be looking for dates the week of September 16-20, 23-27, and September 30 – October 4.

My contact information is below. Thank you.

Regards,

Bob Cox

Robert H. Cox
Partner
Briglia Hundley, P.C.
1921 Gallows Rd, Suite 750
Tysons Corner, VA 22182
703.883.0880
703.883.9105 [direct]
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EXHIBIT 8

Robert H. Cox

From: F. Montgomery Brown <hskrfan@fmbrownlaw.com>
Sent: Monday, September 23, 2019 10:53 AM
To: Robert H. Cox
Cc: Jim Hundley; Amy L. Bradley; Nini Daker; Michael Collins; Beth Landes; Jason McKenney; Krystal R. Hughes
Subject: RE: Lance Olson

[This message originated from outside of your organization.]

Robert- I have arranged for a larger conference room for this matter on October 21, 2019 starting at 11am CDT. The law firm is Weinhardt law Firm, 2600 Grand Avenue, Des Moines, Iowa. Please send formal Notice of depositions listing all participants and identify video/wifi needs. Materials responsive to the SDT will be obtained, scanned and bate-stamped by my office for delivery to you by the end of the month or first week of October. If you have any questions, please advise. FMBrown

F. Montgomery Brown
FMBROWNLAW FIRM, P.L.L.C.
1001 Office Park Road, Suite 108
West Des Moines, Iowa 50265
Telephone: (515) 225-0101
Facsimile: (515) 225-3737
Email: hskrfan@fmbrownlaw.com



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From: Robert H. Cox [mailto:rcox@brigliahundley.com]
Sent: Wednesday, September 18, 2019 4:35 PM
To: F. Montgomery Brown <hskrfan@fmbrownlaw.com>
Cc: Jim Hundley <jhundley@brigliahundley.com>; Amy L. Bradley <abradley@brigliahundley.com>; Nini Daker <ndaker@brigliahundley.com>; Michael Collins <MJC@BrewerAttorneys.com>; Beth Landes <bal@brewerattorneys.com>; Jason McKenney <jcm@brewerattorneys.com>; Krystal R. Hughes <KUH@brewerattorneys.com>
Subject: RE: Lance Olson

Dear Mr. Brown,

We would like to conduct the deposition on Monday, October 21, 2019 in Des Moines starting at 11:00 CDT. We will need to coordinate with you as it gets closer to the time for a Skype/video linkup for counsel for Ackerman.

Regards,

Bob

Robert H. Cox
Partner
Briglia Hundley, P.C.
1921 Gallows Rd, Suite 750
Tysons Corner, VA 22182
703.883.0880
703.883.9105 [direct]
703.883.0899 [facsimile]
rcox@brigliahundley.com
www.BrigliaHundley.com



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From: F. Montgomery Brown <hskrfan@fmbrownlaw.com>
Sent: Wednesday, September 11, 2019 8:19 AM
To: Robert H. Cox <rcox@brigliahundley.com>
Subject: RE: Lance Olson

[This message originated from outside of your organization.]

Counsel- I will be representing Mr. Olson in this matter. Any materials sought by the subpoena duces tecum will be assembled, scanned and bate-stamped in my office and transmitted prior to any deposition date we can agree upon. My client are avaiabe in my office the week of October 21, 2019 for the requested deposition. Please advise. FMBrown

F. Montgomery Brown
FMBROWNLAW FIRM, P.L.L.C.
1001 Office Park Road, Suite 108
West Des Moines, Iowa 50265
Telephone: (515) 225-0101
Facsimile: (515) 225-3737
Email: hskrfan@fmbrownlaw.com



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From: Robert H. Cox [<mailto:rcox@brigliahundley.com>]
Sent: Monday, September 9, 2019 6:39 PM
To: F. Montgomery Brown <hskrfan@fmbrownlaw.com>
Subject: Re: Lance Olson

What the Brewer firm is trying to send you?

On Sep 9, 2019, at 7:16 PM, F. Montgomery Brown <hskrfan@fmbrownlaw.com> wrote:

[This message originated from outside of your organization.]
Thank you sir!. I cant open what they are trying to send me. FMB

F. Montgomery Brown
FMBROWNLAW FIRM, P.L.L.C.
1001 Office Park Road, Suite 108
West Des Moines, Iowa 50265
Telephone: (515) 225-0101
Facsimile: (515) 225-3737
Email: hskrfan@fmbrownlaw.com

<image001.jpg>

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From: Robert H. Cox [<mailto:rcox@brigliahundley.com>]
Sent: Monday, September 9, 2019 5:33 PM
To: F. Montgomery Brown <hskrfan@fmbrownlaw.com>
Subject: RE: Lance Olson

Dear Mr. Brown,

We will send you the operative subpoena documents.

Regards,

Bob

From: F. Montgomery Brown <hskrfan@fmbrownlaw.com>
Sent: Monday, September 9, 2019 5:39 PM
To: Robert H. Cox <rcox@brigliahundley.com>
Subject: Lance Olson

[This message originated from outside of your organization.]
Counsel- I am meeting with Lance Olson tomorrow for possible representation in the deposition matter. Could you send me whatever Mr. Olson has apparently been served with? I will advise promptly of any retention and further representation on my part. FMBrown

F. Montgomery Brown
FMBROWNLAW FIRM, P.L.L.C.
1001 Office Park Road, Suite 108
West Des Moines, Iowa 50265
Telephone: (515) 225-0101
Facsimile: (515) 225-3737
Email: hskrfan@fmbrownlaw.com

<image001.jpg>

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EXHIBIT 9

2012 WL 4470782

Only the Westlaw citation is currently available.
United States District Court, D. Idaho.

Abdullah AL-KIDD, Plaintiff,

v.

Alberto GONZALES, Attorney General
of the United States; et al., Defendants.

No. 1:05-CV-093-EJL-MHW.

|
Sept. 27, 2012.

Attorneys and Law Firms

Cynthia Jane Woolley, Law Offices of Cynthia J. Woolley PLLC, Ketchum, ID, Lee Gelernt, Michael K.T. Tan, American Civil Liberties Union Foundation, Esha Bhandari, ACLU Immigrants' Rights Project, New York, NY, Michael J. Wishnie, ACLU Cooperating Attorney, New Haven, CT, R.Z Keith Roark, Roark Law Firm, Hailey, ID, Robin L. Goldfaden, Katherine K. Desormeau, ACLU Immigrants' Rights Project, San Francisco, CA, Richard Alan Eppink, American Civil Liberties Union of Idaho Foundation, Boise, ID, for Plaintiff.

Brant S. Levine, J. Marcus Meeks, United States Department of Justice, Washington, DC, for Defendants.

ORDER ADOPTING REPORT AND RECOMMENDATION

EDWARD J. LODGE, District Judge.

*1 On June 26, 2012, United States Magistrate Judge Mikel H. Williams issued a Report and Recommendation concerning the Plaintiff's Federal Tort Claims Act claim, recommending that Plaintiff's Motion for Summary Judgment be granted in part and denied in part and that Defendants' Motion for Summary Judgment be denied. Any party may challenge a Magistrate Judge's proposed recommendation by filing written objections within fourteen days after being served with a copy of the Magistrate Judge's Report and Recommendation. 28 U.S.C. § 636(b)(1)(C).¹ The district court must then "make a *de novo* determination of those portions of the report or specified proposed findings or recommendations to which objection is made." *Id.* The district court may accept, reject, or modify in whole or in part,

the findings and recommendations made by the Magistrate Judge. *Id.*; see also Fed.R.Civ.P. 72(b). Both sides filed objections to the Report and Recommendation which the Court has considered *de novo* and finds as follows.

DISCUSSION

The factual and procedural background in this matter has been thoroughly and properly set forth in the Report and Recommendation ("Report"). (Dkt.337.) As such, this Court incorporates that discussion in this Order and will restate the same only as necessary to this Court's discussion of the matter in this Order. In the Report, the Magistrate Judge considered the Cross-Motions for Summary Judgment on Plaintiff's Federal Tort Claims Act ("FTCA") claim. (Dkt.337.) Plaintiff's FTCA claim raises two arguments: abuse of process and false imprisonment. The Report concludes that Plaintiff's Motion for Summary Judgment should be granted in part and denied in part and that the Defendants' Motion should be denied. (Dkt. 337 at 29.) Essentially that Plaintiff be granted summary judgment on the false imprisonment claim and that the abuse of process claim proceed to trial. The Defendants object to this conclusion and ask for a *de novo* review of the issues presented; arguing they are entitled to summary judgment on the Plaintiff's FTCA claim. (Dkt.343.) Defendant's maintain the Plaintiff failed to meet his burden to show a genuine issue of material fact exists on either of his FTCA claim arguments. (Dkt.344.) The Plaintiff does not object to the Report but notes that in the event this Court does not adopt the Report's conclusions then Plaintiff requests entry of summary judgment in his favor on the reserved claim that there was an abuse of process because the material witness statute is unconstitutional as applied to a cooperating witness. (Dkt.341.)

ANALYSIS

1. Discretionary Function Exception

While generally agreeing with the Report's discussion of the law relevant to the discretionary function exception, Defendants object to the Report's conclusion arguing the Plaintiff's FTCA claim arguments are barred by the discretionary function exception because Agent Gneckow did not violate a clearly established constitutional right. (Dkt. 343 at 4.) This exception, Defendants argue, entitles them to summary judgment on both the false imprisonment and abuse of process arguments. In response, the Plaintiff points

out that the discretionary function exception is inapplicable where, as here, the agents violated a mandatory duty; i.e. the requirement of probable cause for an arrest. (Dkt. 346 at 3.)

*2 The discretionary function exception states that the FTCA does not permit recovery for claims arising from the “exercise or performance or the failure to exercise or perform a discretionary function or duty on the part of a federal agency or an employee of the Government, whether or not the discretion involved be abused.” 28 U.S.C. § 2680(a). The Government bears the burden of showing that the discretionary function exception applies. *Reed v. U.S. Dept. of Interior*, 231 F.3d 501, 504 (9th Cir.2000). The United States Supreme Court has established a two-part test to determine whether the discretionary function applies. *Berkovitz by Berkovitz v. United States*, 486 U.S. 531, 536, 108 S.Ct. 1954, 100 L.Ed.2d 531 (1988).

First, the court must determine whether the action is a matter of choice for the employee, such that it involves an element of judgement or choice. *Id.* Second, the exception only applies to actions based on considerations of public policy. *Id.* at 537. Therefore, the government is shielded from liability when the challenged action “involves the permissible exercise of policy judgement.” *Id.* The purpose of the discretionary function exception is to prevent judicial second-guessing of administrative decisions based in social, economic, and political policy. *United States v. Gaubert*, 499 U.S. 315, 323, 111 S.Ct. 1267, 113 L.Ed.2d 335 (1991). When determining whether the discretionary function applies, the court should examine the conduct in question, not the status of the actor. *Berkovitz*, 123 F.3d at 536.

Generally, police investigations are protected by the discretionary function exception because they involve policy considerations. See *Alfrey v. United States*, 276 F.3d 557 (9th Cir.2002). The Ninth Circuit has held that “the discretionary function exception protects agency decisions concerning the scope and manner in which it conducts an investigation so long as the agency does not violate a mandatory directive.” *Vickers v. United States*, 228 F.3d 944, 951 (9th Cir.2000). This protection is afforded because federal investigations often require the officers to consider relevant political and social circumstances. *Alfrey*, 276 F.3d at 565. The discretionary function exception does not apply, however, if the investigators violated a legal mandate.

Galvin v. Hay, 374 F.3d 739, 758 (9th Cir.2004). The

discretionary function only applies if the “decision made is a permissible exercise of policy judgement. *Conrad v. United States*, 447 F.3d 760, 765 (9th Cir.2006) (emphasis added). Thus, if an officer violates the constitution or a statute during his or her investigation, that action is not protected by the discretionary function exception.

The statute at issue on the abuse of process argument is the material witness statute. (Dkt. No. 40, ¶ 56, 111–14). The purpose of the material witness statute is to secure a material witness when it would be impractical to secure that witness through a subpoena. 18 U.S.C. § 3144. “It would be improper for the government to use [the material witness statute] for other ends, such as the detention of persons suspected of criminal activity for which probable cause has not yet been established.” *United States v. Awadallah*, 349 F.3d 42, 59 (2d Cir.2003). The false imprisonment argument asks whether probable cause actually existed based on all of the facts available to Agent Gneckow such that those available facts would have led a reasonable person to believe that probable cause existed to arrest the Plaintiff under the material witness statute. See *State v. Julian*, 129 Idaho 133, 922 P.2d 1059, 1062 (Idaho 1996).

*3 The Government's objection on this point is essentially that there was no violation of any mandatory duty in this case. As the Court determined in its Order adopting the Report concerning the Motions for Summary Judgment as to the individual Defendants, Agent Gneckow did violate a mandatory duty in this case and, therefore, the discretionary function exception is inapplicable here to overcome the FTCA claim for both abuse of process and false imprisonment.²

2. Prosecutorial Immunity

Defendants argue the Report improperly relied upon conduct covered by prosecutorial immunity in denying them summary judgment on the FTCA claims; specifically AUSA Lindquist's conduct. (Dkt. 343 at 5.) Plaintiff responds to the objection asserting there is no authority for the proposition that a law enforcement officer is entitled to absolute prosecutorial immunity under the facts here; the mere involvement of the prosecutor does not immunize law enforcement from liability for a defective factual affidavit. (Dkt. 346 at 1.) Further, Plaintiff points out that AUSA Lindquist's role in securing the material witness arrest warrant

in this case was minimal such that it could not serve as a basis for granting Agent Gneckow immunity in this case.

A. False Imprisonment

Because Agent Gneckow did not provide incorrect or misleading information to AUSA Lindquist, the Defendants argue the Court should conclude that the claim is barred by prosecutorial immunity as it was AUSA Lindquist who made the final decision to request the warrant. (Dkt. 343 at 5–6.) Defendants make clear that this claim challenges the Plaintiff's arrest, not any investigative conduct by Agent Gneckow.

In Idaho, false imprisonment is the unlawful restraint by one person of the physical liberty of another without adequate legal justification or without probable cause. *Clark v. Alloway*, 67 Idaho 32, 170 P.2d 425 (Idaho 1946). Probable cause exists when, under the totality of the circumstances known to the arresting officers (or within the knowledge of the other officers at the scene), a prudent person would believe the individual is subject to arrest. *Dubner v. City and County of San Francisco*, 266 F.3d 959, 966 (9th Cir.2001) (citation omitted). Thus, as claimed here, the false imprisonment argument raises a tort action asking whether probable cause actually existed based on all of the facts available to Agent Gneckow such that those available facts would have led a reasonable person to believe that probable cause existed to arrest the Plaintiff under the material witness statute. *See State v. Julian*, 129 Idaho 133, 922 P.2d 1059, 1062 (Idaho 1996). The facts making up the probable cause determination are viewed from an objective perspective; the officer's subjective beliefs are immaterial. *Id.* at 1062–63.

In this case, Agent Gneckow supplied the information contained in the warrant application. Some of the information was later discovered to be in error; such as the information concerning the price, class, and type of plane ticket the Plaintiff had for his March of 2003 flight to Saudi Arabia. As this Court stated in the Order on the related Report, the Court does not fault Agent Gneckow for not having further investigated the details concerning the ticket in and of itself. On the same note, the Court does not find the fact that law enforcement did not investigate the purpose of the Plaintiff's travel, to further his course of study in Arabic language and Islamic law, prior to seeking the warrant to be the basis for finding a lack of probable cause. Certainly it would have been a good practice to have verified these details, but the Court

does not find liability on this Motion solely because the agent failed to do so in this case. The telling information upon which this claim turns is the information known to Agent Gneckow that was omitted from the warrant application even though it was clearly relevant and, more importantly, went against a finding of probable cause. Specifically, the fact that the Plaintiff is a United States citizen, had a wife and children living in the United States, he had previously cooperated with law enforcement concerning its investigation, and he had never been told by law enforcement that he could not travel outside of the United States or asked to notify law enforcement prior to any such travel. These facts were known and available to Agent Gneckow and, just as this Court found in its Order on the related Report, it was reckless for these facts to not have been included as they would lead an ordinary reasonable person to not find probable cause to issue an arrest warrant in this case. Knowing those omitted facts, probable cause did not exist and law enforcement was required to pursue further investigation before submitting the warrant application because they did not yet have a basis for finding probable cause. *See Ewing v. City of Stockton*, 588 F.3d 1218, 1227 (9th Cir.2009) (stating that once an officer has probable cause, he or she is not required to continue to investigate or seek further corroboration).

*4 To be clear, the Court recognizes it need not conclude that Agent Gneckow acted recklessly in order to grant Plaintiff summary judgment on this claim. The reference in this Order as well as the related Order and both Reports to the finding that Agent Gneckow's actions were reckless is relevant on this claim because the same actions go to the determination at issue here: whether a reasonable and ordinary person would believe probable cause to issue an arrest warrant for the Plaintiff existed here based on the facts available. In recklessly omitting relevant facts from the warrant application, Agent Gneckow did not act reasonably. Furthermore, as discussed herein and in the Order on the related Report, the involvement of AUSA Lindquist does not cure the errors of law enforcement in this case.

B. Abuse of Process

Defendants argue Plaintiff has failed to produce any admissible evidence to proceed on his abuse of process argument. (Dkt. 343 at 10.) In particular, Defendants contend that the Report improperly relied upon conduct by persons not involved with the decision to arrest Plaintiff, the Report's factual determinations do not support the recommendation, and the Report improperly considered inadmissible evidence. (Dkt. 343 at 10–15.) The Report, the Defendants assert,

relies upon the conduct of AUSA Lindquist, not that of Agent Gneckow, to conclude that the claim should proceed to trial. (Dkt. 343 at 6.) Because AUSA Lindquist's conduct is covered by prosecutorial immunity, Defendants argue, it cannot serve as a basis for proceeding with the claim against Agent Gneckow. Plaintiff counters that the Report correctly denies the Defendants' Motion because "there is extensive evidence suggesting (and from which a reasonable juror could infer) that plaintiff was arrested for a purpose other than to secure testimony" and, therefore, a question of fact exists that must be determined by a jury. (Dkt. 346 at 6.)

This Court has reviewed the record *de novo* and is in agreement with the Report's conclusion that genuine issues of material fact exist that preclude entry of summary judgment on this claim. Plaintiff has come forward with evidence, albeit much of it circumstantial, that could lead a jury to find in favor of the Plaintiff on the claim at trial. Defendants question any reliance upon AUSA Lindquist's conduct and object to not focusing solely upon that of Agent Gneckow in making this determination. Agent Gneckow's conduct cannot, however, be evaluated in a vacuum blind to any influences that others may have had on Agent Gneckow's actions related to the arrest warrant. Prosecutorial immunity may protect AUSA Lindquist from liability but it does not obliterate the actions he and other officials took as they may be relevant to Agent Gneckow's conduct. The Court makes no determination at this stage as to whether and what evidence will be admissible at trial. The ruling here is only that Plaintiff has pointed to sufficient evidence to overcome the Motion for Summary Judgment. What happens at trial remains to be seen.

*5 Finally, this Court finds that the Magistrate Judge applied the appropriate legal standard to this claim. (Dkt. 337 at 25.) Under Idaho law, the elements of an abuse of process claim are "(1) an ulterior, improper purpose; and (2) a willful act in the use of process not proper in the regular conduct of the proceeding." *Beco Constr. Co., Inc. v. City of Idaho Falls*, 124 Idaho 859, 865 P.2d 950, 954 (Idaho 1993). Contrary to what Defendants' argue, Plaintiff need not establish that the improper purpose was the Defendants' primary purpose. (Dkt. 343 at 13–14.) Abuse of process is a tort action where, in order to recover, the defendant's conduct must be a proximate cause of the harm, not merely an incidental motive or collateral effect. Such a claim may allege there is one sole cause of the damages or there may be multiple causes of the damages. Where there is alleged to be more than one cause, the jury is instructed that the improper purpose must have been a "substantial factor" in bringing about the damage complained

of. See *Garcia v. Windley*, 144 Idaho 539, 164 P.3d 819, 823–25 (Idaho 2007). The abuse of process claim here appears to allege multiple causes for the harm and, therefore, the Defendants' argument that the improper purpose must be the primary purpose is denied.

3. Probable Cause Defeats False Imprisonment

Defendants challenge the Report's conclusion that Plaintiff is entitled to summary judgment on the false imprisonment claim because there is no substantive analysis of whether probable cause to arrest actually existed. (Dkt. 343 at 6.) Contending the Report only considered its conclusion that Agent Gneckow acted recklessly by not conducting a sufficient follow-up investigation before seeking the warrant. Defendants argue the Report is in error on this point as the false imprisonment claim turns on whether or not probable cause existed; not on whether Agent Gneckow should have conducted further investigation. In addition, the Defendants maintain that Agent Gneckow's conduct was not reckless. (Dkt. 343 at 7.) Plaintiff counters that the Magistrate Judge did resolve the probable cause question as the false imprisonment claim and *Bivens* claims are overlapping. (Dkt. 346 at 3 n. 1.)

"To be liable for false imprisonment in Idaho, a person must unlawfully restrain the physical liberty of another without adequate legal justification or without probable cause." *Clark*, 170 P.2d at 428. Probable cause is a complete defense to a false imprisonment claim. See *Sprague v. City of Burley*, 109 Idaho 656, 710 P.2d 566, 574 (Idaho 1985). The probable cause determination is made from an objective standpoint. *Julian*, 922 P.2d at 1062–1063 ("Because the facts making up a probable cause determination are viewed from an objective standpoint, the officer's subjective beliefs concerning that determination are not material.").

Here, both this Court and the Magistrate Judge considered the probable cause question both on these Motions and in the related Order and Report. Both determined that legal probable cause to issue the arrest warrant did not exist based upon the information known to Agent Gneckow at the time the warrant was sought. Further, this Court has clarified that its probable cause determination does not turn solely upon any failure by Agent Gneckow to conduct a further investigation.

4. Constitutionality of the Material Witness Statute

*6 In the event the Court were to grant summary judgment in favor of the Defendants on either claim, the Plaintiff

objects and requests that the Court rule on his alternative theory as to the abuse of process argument asserting the material witness statute is unconstitutional as applied to a cooperative witness. (Dkt. 341 at 3.) Defendants oppose this alternative argument on the ground that it is without merit because: 1) the FTCA does not waive the United States's sovereign immunity from damages for constitutional torts, 2) the Supreme Court has recognized that the material witness statute will invariably lead to the arrest of those who committed no wrongdoing, and 3) no court has ever held that an arrest that satisfies the elements of the material witness statute could be unconstitutional, or even a common law tort. (Dkt.344.) Because the Court has adopted the Report it does not address the Plaintiff's alternative theory on the abuse of process claim.

ORDER

Having conducted a *de novo* review of the Report and Recommendation, this Court finds that Magistrate Judge Williams' Report and Recommendation is well founded in law

Footnotes

- 1 In this case, the Court granted the parties' request for extension of time to file objections and responses thereto. (Dkt.339.) The parties objections and responses have been timely filed in this matter.
- 2 The Court expressly refers to its prior Order on the related Report and incorporates it herein to this Order as is relevant to its discussion on these cross-motions for summary judgment.

and consistent with this Court's own view of the evidence in the record. Acting on the recommendation of Magistrate Judge Williams, and this Court being fully advised in the premises, **IT IS HEREBY ORDERED** that the Report and Recommendation entered on June 26, 2012 (Dkt.337), should be, and is hereby, **INCORPORATED** by reference and **ADOPTED** in its entirety.

NOW THEREFORE IT IS HEREBY ORDERED as follows:

- 1) Plaintiff's Motion for Summary Judgment Against the United States (Dkt.308) is **GRANTED IN PART AND DENIED IN PART.**
- 2) Defendants' Motion for Summary Judgment (Dkt.307) is **DENIED.**

All Citations

Not Reported in F.Supp.2d, 2012 WL 4470782

2006 WL 8440880

Only the Westlaw citation is currently available.
United States District Court, W.D.
Arkansas, Hot Springs Division.

G.W. DELANEY and Phyllis Delaney, Plaintiffs
v.
Gary ASHCRAFT, Chief of Police in His Official
and Individual Capacity, et al., Defendants

Civil No. 05-6045

Signed 01/20/2006

Attorneys and Law Firms

G.W. DeLaney, Nashville, TN, pro se.

Phyllis DeLaney, Nashville, TN, pro se.

Brian Wade Albright, Hot Springs City Attorney, Hot Springs,
AR, Robert L. Beard, Rainwater, Holt & Sexton, Little Rock,
AR, for Defendants.

**MAGISTRATE JUDGE'S REPORT
AND RECOMMENDATION**

Bobby E. Shepherd, UNITED STATES MAGISTRATE
JUDGE

*1 Before the undersigned for report and recommendation is the motion to dismiss the second amended complaint (hereinafter "complaint") filed by the separate Defendant, Sisters of Mercy Health Systems (hereinafter "Sisters of Mercy"). (Doc. #62). The motion has been referred to the undersigned for report and recommendation by order entered on November 22, 2005. (Doc. #83). The Plaintiffs, G. W. Delaney and Phyllis Delaney, filed a response to the motion to dismiss on November 30, 2005. (Doc. #97).

On December 7, 2005, the Sisters of Mercy filed a supplemental motion to dismiss (Doc. #104). On December 28, 2005, the Plaintiffs filed a motion asking for additional time to respond to the supplemental motion (Doc. #122). On January 3, 2006, an order was entered giving the Plaintiffs until the close of business on January 6, 2006, to respond to the supplemental motion (Doc. #128). Plaintiffs did not file a response in the time specified by the court. The supplemental motion was referred to the undersigned for

report and recommendation by order entered on January 11, 2006 (Doc. 129).

BACKGROUND

This case was filed on June 23, 2005. Plaintiffs' second amended complaint¹ was filed on October 7, 2005. (Doc. #10). The Sisters of Mercy was added as a Defendant in the second amended complaint. Plaintiffs allege that the Sisters of Mercy is the parent company of Saint Joseph's Mercy Health Center. (Doc. #10, ¶ 45).

On October 14, 2005, Plaintiffs filed a motion for an extension of time to serve the amended complaint (Doc. #12). Plaintiffs asked for an extension of time of at least fifteen days to serve the amended complaint (Doc. #12). On October 17, 2005, the Plaintiffs filed a second motion for an extension of time to serve the amended complaint (Doc. #15). Plaintiffs again asked that their time to serve the amended complaint be extended by at least fifteen days (Doc. #15). By order entered on October 17, 2005, this court granted Plaintiffs' motions (Doc. #16). The Plaintiffs were given an extension of time until the close of business on Monday, October 31, 2005, in which to serve the amended complaint. (Doc. #16).

*2 Plaintiffs' second amended complaint is 95 pages in length including 487 numbered paragraphs accompanied by 318 pages of exhibits. The complaint names 38 defendants including the Sisters of Mercy. (Doc. #10).

Plaintiffs, residents of Kentucky, allege, that they obtained an order of temporary custody of a child, Makayla, in September, 2001, in Bowling Green, Kentucky. Subsequently, Plaintiffs allowed the child to be taken to Garland County, Arkansas, by Diane Browning, Plaintiff Phyllis Delaney's sister. A custody battle then erupted between Plaintiffs and Diane Browning when the child was not returned. During this dispute, the plaintiffs attempted to enlist the assistance of local municipal and county law enforcement officers in regaining physical custody of the child but the officers refused to assist and, in fact, hindered Plaintiffs' efforts.

During this time, Plaintiff was the subject of an involuntary commitment proceeding in Garland County initiated by Diane Browning. Browning obtained an order of custody from the Garland County Circuit Court.

Plaintiffs allege that during this time period Plaintiff Phyllis Delaney telephoned “Gail Klemm at St. Joseph’s Hospital” where Diane Browning was employed and advised that she suspected that Browning had been “diverting narcotics.” (Doc. #10, ¶ 98). Plaintiffs allege that “St. Joseph failed to act,” so they sent a letter to the Arkansas Board of Nursing. (Doc. #10, ¶ 104). Plaintiffs allege that “Saint Joseph Mercy Center and the Arkansas Board of Nursing” should have investigated Plaintiffs’ claims of narcotics theft and abuse by Browning and “whether their policies were being violated and the potential effect on others.” (Doc. #10, ¶ 105).

Plaintiffs further allege that they regained physical custody of the child by taking her from a day care center. Plaintiffs returned to Kentucky with the child where Plaintiffs obtained a final order of custody from a Kentucky court on February 26, 2002. According to the complaint, separate Defendant Prosecutor Oliver caused criminal charges of custodial interference, aggravated assault and third degree battery to be filed against Plaintiffs in Garland County, Arkansas, and warrants for the arrest of Plaintiffs were forwarded to law enforcement officers in Kentucky which led to Plaintiffs’ arrests. Later, Defendant Oliver notified Kentucky authorities that he was no longer seeking the extradition of Plaintiffs.

DISCUSSION

The Sisters of Mercy move to dismiss the amended complaint on three grounds. First, it contends it has not been properly or timely served with process. Second, it contends the complaint fails to state a claim upon which relief can be granted. Finally, it contends the applicable statutes of limitation bar all claims against it. We will address each argument in turn.

Insufficiency of Process

The Sisters of Mercy contend the complaint should be dismissed pursuant to Rule 12(b)(5) of the Federal Rules of Civil Procedure based on insufficiency of service of process. It first contends that service of the summons and complaint on a separate entity St. Joseph’s Mercy Health Center did not effect service on it. Movant indicates St. Joseph’s is a separate corporation from the Sisters of Mercy although it is a member of “defendant Sisters of Mercy Health System, St. Louis, Inc.” The Sisters of Mercy contend St. Joseph’s is not the registered agent for service of process for the Sisters of Mercy nor authorized to accept service on its behalf.

*3 Next, it contends it received a summons and complaint by certified mail on November 3, 2005. (Doc. #104). It points out the certified mailing was addressed to the Sisters of Mercy Health Systems. It contends this service was ineffective because Arkansas law, which is incorporated by Federal Rules of Civil Procedure 4(e)(1) and 4(h), require that when service is made by certified mail that the addressee be a natural person specified by name or the registered agent of the corporation. It contends the certified mailing satisfied neither of these requirements.

Finally, the Sisters of Mercy argue that it was not timely served with the summons and complaint. It contends that Plaintiffs only had until October 31, 2005, to complete service of their second amended complaint.

The Sisters of Mercy was added as a defendant until October 7, 2005. Plaintiffs are entitled to an “additional 120 days to serve those defendants who were added by the second amended complaint.” *Carmona v. Ross*, 376 F.3d 829, 830 (8th Cir. 2004)(citations omitted). For this reason, the claims against the Sisters of Mercy are not subject to dismissal because the Sisters of Mercy was not served with process prior to October 31, 2005.

Nevertheless, we believe service has not been properly effected on the Sisters of Mercy. Service of summons and the complaint upon a named party must be accomplished in a manner permitted by Rule 4 of the Federal Rules of Civil Procedure.

In this case, Plaintiffs served, or attempted to serve, the Sisters of Mercy by certified mail. Rule 4(h) provides that summons and complaint can be served upon corporations and associations in the same manner as prescribed for individuals or “by delivering a copy of the summons and of the complaint to an officer, a managing or general agent, or to any other agent authorized by appointment or by law to receive service of process.” Fed. R. Civ. P. 4(h). The subdivision that governs service on individuals, subdivision (e)(1), provides in pertinent part that “service upon an individual ... may be effected ... pursuant to the law of the state in which the district court is located.” Fed. R. Civ. P. 4(e)(1).

Arkansas law permits the serving of the summons and complaint by mail, Ark. R. Civ. P. 4(d)(8)(A)(i). Service by mail is not complete until the date on which the process was delivered. Ark. R. Civ. P. 4(i) (“If service is made by mail ...

service shall be deemed to have been made ... as of the date on which the process was accepted or refused”).

Additionally, Rule 4(d)(8)(A)(i) of the Arkansas Rules of Civil Procedure, requires that the addressee be a natural person specified by name. *See e.g., Grand Slam Stores, LLC v. L&P Builders, Inc.*, — S.W.3d —, 2005 WL 2160157 (Ark. App. Sept. 7, 2005). Or, in the case of a corporation, the Rule provides that “service on the registered agent of a corporation or other organization may be made by certified mail with a return receipt requested.” Ark. R. Civ. P. 4(d)(8)(A)(i).

In this case, the Plaintiffs mailed the summons and amended complaint to the Sisters of Mercy by certified mail on October 31, 2005 (Doc. # 42). The addressee is listed as the “Sisters of Mercy Health Systems.” (Doc. #42). The Sisters of Mercy is not a natural person or the registered agent of the corporation.² There is no indication that the individual who signed for the certified mail is the registered agent of the corporation. Service has therefore not been effected on the Sisters of Mercy.

Failure to State a Claim

*4 The Sisters of Mercy next argue the complaint fails to state any claim against it upon which relief can be granted. Fed. R. Civ. P. 12(b)(6). Specifically, assuming the allegations under the heading “Browning’s Access to Narcotic” are true, (Doc. #10, ¶¶ 98-104), Defendant argues Plaintiffs are not entitled to relief against the Sisters of Mercy.

In considering the Sisters of Mercy’s motion to dismiss for failure to state a claim, we must construe the complaint liberally in favor of the Plaintiffs and accept the allegations of the complaint as true. *Hudson v. Norris*, 227 F.3d 1047, 1054 (8th Cir. 2000). Plaintiffs proceed pro se. The court should not dismiss a pro se complaint “unless it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief.”

Holloway v. Lockhart, 792 F. 2d 760, 761-62 (8th Cir. 1986)(citations omitted). Nevertheless, in treating the factual allegations of the complaint as true pursuant to Rule 12(b)(6), the court “do[es] not ... blindly accept the legal conclusions drawn by the pleader from the facts.” *Westcott v. City of Omaha*, 901 F.2d 1486, 1488 (8th Cir. 1990)(citations omitted).

Plaintiffs' causes of action against the Sisters of Mercy and the other Defendants are enumerated in what Plaintiffs refer to as thirteen separate “counts” beginning at ¶ 372 of the complaint. We consider the Sisters of Mercy’s motion to dismiss as it pertains to each cause of action.

First, Plaintiffs allege that all of the Defendants are liable to them as having denied them equal rights under the law under 42 U.S.C. § 1981. (Doc. #10, ¶¶ 372-380). Section 1981 “provides that all persons shall have the same right to ‘make and enforce contracts’ and the right to ‘the enjoyment of all benefits, privileges, terms, and conditions of the contractual relationship.’ ” *Bediako v. Stein Mart, Inc.*, 354 F.3d 835, 839 (8th Cir. 2004)(quoting 42 U.S.C. § 1981(a)-(b)).

In asserting this claim, Plaintiffs purport to rely upon the Full-and-Equal Benefit clause of § 1981 rather than the Right-to-Contract clause. To establish a prima facie case of discrimination under § 1981, Plaintiffs must show that: (1) they are members of a protected class; (2) the defendants intended to discriminate on a constitutionally prohibited basis; and (3) that the discrimination interfered with a protected activity as defined in § 1981. *Bediako*, 354 F.3d at 839. Further, a showing of state action is required. *Adams v. Boy Scouts of America-Chickasaw Council*, 271 F.3d 769, 777 (8th Cir. 2001)(citing *Youngblood v. Hy-Vee Food Stores, Inc.*, 266 F.3d 851, 855 (8th Cir. 2001)).

Although Plaintiffs allege that the “conduct of all Defendants amount to a violation of” § 1981, the complaint contains no allegation that the Sisters of Mercy interfered with Plaintiffs participation in a “protected activity.” “Even though civil-rights pleadings are viewed liberally, ‘[s]uch pleadings must nonetheless not be conclusory and must set forth the claim in a manner which, taking the pleaded facts as true, states a claim as a matter of law.’ ” *Bediako*, 354 F.3d at 839 (quoting *Nickens v. White*, 536 F.2d 802, 803 (8th Cir. 1976)). Accordingly, Plaintiffs’ § 1981 claim as against Defendant Sisters of Mercy should be dismissed.

Under count two, Plaintiffs also allude to alleged violations, by the Defendants of 42 U.S.C. §§ 1985 & 1986. Plaintiffs’ factual allegations do not support claims based upon these

statutes. A claim under 42 U.S.C. § 1985 is premised upon the existence of an alleged conspiracy which must be motivated by a class-based animus. *Bray v. Alexandria Women's Health Clinic*, 506 U.S. 263, 268-69 (1993). While Plaintiffs have alleged that they are members of an unidentified protected class, they do not allege that the alleged conspiracy was based upon a class based animus. Finally, no claim exists under 42 U.S.C. § 1986 as in order to be liable under § 1986 a defendant must have neglected or refused to prevent a § 1985 conspiracy. See *Steele v. City of Bemidji*, 257 F.3d 902, 906 (8th Cir. 2001)(citing *Brandon v. Lotter*, 157 F. 3d 537, 539 (8th Cir. 1998)); see also *Gatlin v. Green*, 362 F.3d 1089, 1095 (8th Cir. 2004)(a section 1986 claim must be predicated upon a valid section 1985 claim).

*5 Next, in counts two, three, four, five and twelve of the complaint, Plaintiffs assert, pursuant to 42 U.S.C. § 1983, that they were unconstitutionally arrested, detained and denied a fair trial. (Doc. #10; p. 70-81, 91-92; ¶¶ 381-416, 467-70). Plaintiffs allege that all of the Defendants conspired to, and by specific actions, did deprive Plaintiffs of their liberty and the equal protection of the law with respect to: their arrest on February 15, 2002 by Garland County, Arkansas, deputies; in the involuntary commitment proceeding; their arrest in Warren County, Kentucky, on June 9, 2002, on Arkansas warrants; and their arrest on June 12, 2002, on contempt of court in Warren County, Kentucky. Plaintiffs allege that these arrests and resulting imprisonments were unlawful and were maliciously accomplished or resulted from the negligent failure of the Defendants to prevent the same, with the intent to deny the Plaintiffs a fair trial.

Again, the Sisters of Mercy is not identified in any factual allegation contained in the complaint as participating in the actual arrests, as causing these arrests to take place, or failing to prevent the same. The elements of a § 1983 claim are: "(1) the defendants acted under color of state law, and (2) the alleged wrongful conduct deprived the plaintiff of a constitutionally protected federal right."

Kuha v. City of Minnetonka, 365 F.3d 590, 596 (8th Cir. 2003) (citation and quotations omitted). While Plaintiffs allege that certain Defendants provided false statements, manipulated the summons process, authored and prepared false affidavits, and gave false testimony in court, Plaintiffs complaint contains no factual allegations indicating that the Sisters of Mercy perpetrated any of these acts or, in fact, had anything to do with causing or effecting Plaintiffs' arrests or incarceration. Further more, the complaint does not contain

any allegation that the Sisters of Mercy deprived Plaintiffs of a constitutionally protected right by failing to respond, according to Plaintiffs' wishes, after Plaintiffs notified Sisters of Mercy of their allegations against Browning. Plaintiffs complaint is not saved by its containing the naked assertion that the Defendants conspired to perpetrate or accomplish the complained of actions. A conspiracy claim requires allegations of specific facts showing a meeting of the minds among the alleged conspirators. *Snelling v. Westhoff*, 972 F.2d 199, 200-01 (8th Cir. 1992)(en banc). No such specific factual allegations are found in the complaint with respect to the Sisters of Mercy. The complaint, with respect to counts two through five and twelve should be dismissed as to the Sisters of Mercy.

In counts six through eleven and count thirteen Plaintiffs assert state law claims of: malicious prosecution, defamation, intentional infliction of emotional distress, false arrest and imprisonment, assault, battery and abuse of process. (Doc. #10; pp. 82-91, 92-95; ¶¶ 417-66, 471-87).

Under Arkansas law, the elements of a cause of action for malicious prosecution are: "(1) a proceeding instituted or continued by the defendant against the plaintiff; (2) termination of the proceeding in favor of the plaintiff; (3) absence of probable cause for the proceeding; (4) malice on the part of the defendant; and (5) damages." *Sundeen v. Kroger*, 355 Ark. 138, 143 (2003).

The elements of a cause of action for defamation, whether by slander or libel are: "(1) the defamatory nature of the statement of fact; (2) that statement's identification of or reference to the plaintiff; (3) publication of the statement by the defendant; (4) the defendant's fault in the publication; (5) the statement's falsity; and (6) damage." *Northport Health Services, Inc. v. Owens*, 356 Ark. 630, 641 (2004).

The elements of a cause of action for the intentional infliction of emotional distress are: "(1) the actor intended to inflict emotional distress or willfully and wantonly knew or should have known that emotional distress was the likely result of his conduct; (2) the conduct was extreme and outrageous, was beyond all possible bounds of decency, and was utterly intolerable in a civilized community; (3) the actions of the defendant were the cause of the plaintiff's distress; and (4) the emotional distress sustained by the plaintiff was so severe that no reasonable person could be expected to endure it." *Wynn*

v. *Remet*, 321 Ark. 227, 232-33 (1995); AMI Civil 3rd, 404 (1989).

*6 With respect to the claim of false arrest or imprisonment, the complaint must allege: the violation of their personal liberty, consisting of detention without sufficient legal authority. *Limited Stores, Inc. v. Wilson-Robinson*, 317 Ark. 80, 83 (1994). "Any express or implied threat of force whereby one is deprived of his liberty or compelled to go where one does not wish to go is an imprisonment." *Id.*

The elements of a cause of action for assault are: "First, that [the defendant] acted in such a manner as to create a reasonable apprehension of immediate harmful or offensive contact upon the person of [the plaintiff]; Second, that [the defendant] intended to cause that apprehension; and Third, that [the plaintiff] was actually put in that apprehension." AMI Civil 2005, 417. The elements of a cause of action for battery are: "First, that [the defendant] acted with intent to cause some harmful or offensive contact with a person, or acted with the intent to create an apprehension of some harmful or offensive contact with a person; and Second, that harmful or offensive contact with [the plaintiff] resulted." AMI Civil 2005, 418.

Finally, the elements of a cause of action for abuse of process are: "First, that [the plaintiff] has sustained damages; Second, that [the defendant] set in motion a legal proceeding directed at [the plaintiff]; Third, that the proceeding was used to accomplish an ulterior purpose for which it was not designed; Fourth, that [the defendant] willfully used process in a manner not proper in the regular conduct of the proceeding; [and] Fifth, that [the defendant's] acts were a proximate cause of [the plaintiff's] damages." AMI Civil 2005, 416; *Routh Wrecker Service, Inc. v. Washington*, 335 Ark. 232, 238 (1998).

A careful review of Plaintiffs' complaint reveals that it contains no factual allegations that the Sisters of Mercy committed directly or indirectly any of these torts. At most, Plaintiffs allege that the Sisters of Mercy did not act upon the information which Plaintiffs provided to St. Joseph's by disciplining Diane Browning in some way. It is not alleged that this information was conveyed directly or indirectly to the Sisters of Mercy. These "counts" of the complaint are therefore subject to summary dismissal.

Statute of Limitations

Finally, the Sisters of Mercy argue that all allegations concerning the Sisters of Mercy and St. Joseph's center around Phyllis Delaney's reporting on February 12, 2002, to Gail Klemm that Delaney suspected Browning was diverting narcotics (Doc. #10, p. 16, ¶ 98) and when St. Joseph's failed to act Delaney's reporting the same to the Arkansas Board of Nursing. (Doc. #10, p. 17, ¶ 104 & Exhibit 172).³ As this case was not filed until June 23, 2005, the Sisters of Mercy contend all claims against it are barred by the applicable statutes of limitation.

Section 1981, § 1983, and § 1985 do not contain their own statute of limitations. For federal statutes enacted prior to December 1 of 1990, when the statute does not contain its own statute of limitations the "settled practice was to adopt a local time limitation as federal law if it [was] not inconsistent with federal law or policy to do so." *Wilson v. Garcia*, 471 U.S. 261, 266-67 (1985) (footnote omitted); *Reed v. United Transportation Union*, 488 U.S. 319 (1989). The major concern is to find the limitations period that best effectuates "the federal policies at stake and the practicalities of litigation..." *DelCostello v. International Brotherhood of Teamsters*, 462 U.S. 151, 172 (1983).

*7 Federal statutes enacted after December 1, 1990, that do not contain their own statute of limitations, are covered by a catch all 4-year statute of limitations for actions arising under federal statutes, 28 U.S.C. § 1658. Section 1981, 1983, and 1985 were all enacted prior to 1990. However, in 1991 Congress enacted the Civil Rights Act of 1991, 105 Stat. 1071, which, among other things, amended § 1981 by adding a new subsection that defines the term "make and enforce contracts" to include the "termination of contracts and the enjoyment of all benefits, privileges, terms, and conditions of the contractual relationship." 42 U.S.C. § 1981(b). In *Jones v. R.R. Donnelley & Sons Co.*, 541 U.S. 369 (2004), the Supreme Court held that causes of actions which were made possible by the 1991 amendment to section § 1981 are governed by the 4-year federal statute of limitations. *Id.* at 382. Specifically, it held that "hostile work environment, wrongful termination, and failure-to-transfer claims did not allege a violation of the pre-1990 version of § 1981 but did allege violations of the"

1991 amendment to the statute and were governed by the 4-year statute of limitations. *Id.* at 383.

In this case, Plaintiffs bring their claim under the full and equal benefit clause and contend Movant interfered with their rights. This conduct, if actionable under § 1981, was actionable under the original version of § 1981 and was not made possible by the 1991 amendment. The 4-year statute of limitations found in § 1658 therefore does not apply.

Instead, causes of action under § 1981, § 1983, and § 1985 are governed by “the most appropriate or analogous state statute of limitations.” *Goodman v. Lukens Steel Co.*, 482 U.S. 656, 660 (1987) (§ 1981 case). *See also* *Wilson v. Garcia*, 471 U.S. 261, 268 (1985) (§ 1983 case); *Bell v. Fowler*, 99 F.3d 262, 265-266 (8th Cir. 1996) (§ 1985 case). In Arkansas, this is the three year personal injury statute of limitations, Ark. Code Ann. 16-56-105(3) (2005). *See*

Miller v. Norris, 247 F.3d 736, 739 (8th Cir. 2001)(Ark. Code Ann. § 16-56-105(3) is the statute of limitations applicable to § 1983 cases); *Kaster v. State of Iowa*, 975 F.2d 1381, 1382 (8th Cir. 1992)(personal injury state statute of limitations applies to § 1985 cases); *Wagh v. Dennis*, 677 F.2d 666, 667 (8th Cir. 1982)(applying personal injury statute of limitations to § 1981 claim).

Plaintiffs' civil rights causes of action accrued when they knew or had reason to know of harm constituting the basis of the action. *Nasim v. Warden, Maryland House of Corrections*, 64 F.3d 951, 955 (4th Cir. 1995). Accordingly, Plaintiffs had three years from February or March of 2002, when they reported Browning's alleged diverting narcotics to her employer to file claims under § 1981, § 1983, and § 1985.

This action was filed on June 23, 2005 (Doc. #1), well after the expiration of the applicable limitation periods. The complaint is not saved by its naked assertion that all Defendants conspired to perpetuate or accomplish the actions of the other Defendants. A conspiracy claim requires allegations of specific facts showing a meeting of the minds among the alleged conspirators. *Snelling v. Westhoff*, 972 F.2d 199,

200-01 (8th Cir. 1992)(en banc). No such specific factual allegations are found in the complaint with respect to the Sisters of Mercy.

In Arkansas a three year statute of limitations, Ark. Code Ann. § 16-56-105, applies to all tort actions not otherwise limited by law. *O'Mara v. Dykema*, 328 Ark. 310, 317, 942 S.W.2d 854 (1997). The three year statute applies to the malicious prosecution, intentional infliction of emotional distress, *McQuay v. Guntharp*, 336 Ark. 534, 542, 986 S.W.2d 850 (1999), and abuse of process claims. A one year statute of limitation applies to the defamation claim, Ark. Code Ann. § 16-56-104(3), the false arrest or imprisonment claim, Ark. Code Ann. § 16-56-104(2)(B), and the assault and battery claims, Ark. Code Ann. § 16-56-104(2)(A). The causes of action accrue when the wrong occurs and the right to commence the action comes into existence. *Courtney v. First Nat'l Bank*, 300 Ark. 498, 780 S.W.2d 536 (1989); *Gibson v. Herring*, 63 Ark. App. 155, 975 S.W.2d 860 (1998).

*8 The state law claims against the Sisters of mercy are also barred as any actions allegedly attributable to it occurred in February or March of 2002, more than three years prior to the filing of the original complaint in this case. The longest applicable Arkansas statute of limitations is three years.

CONCLUSION

Based upon the forgoing, we recommend that the motion to dismiss of the Sisters of Mercy Health System (Doc. #62) be granted and the complaint be dismissed as against them for the following reasons: (1) Plaintiffs failed to effect service of process on the Sisters of Mercy in the manner prescribed by the applicable procedural rules; (2) the claims against the Sisters of Mercy fail to state claims upon which relief can be granted; and (3) the statutes of limitation bar the claims. Although a dismissal for insufficiency of service of process or for failure to state a claim upon which relief can be granted is ordinarily without prejudice, since the claims against the Sisters of Mercy are also barred by the applicable statutes of limitation, the claims should be dismissed with prejudice.

The parties have ten days from receipt of this report and recommendations to file objections to the same pursuant to 28 U.S.C. § 636(b)(1). The failure to file timely

objections may result in waiver of the right to appeal questions of fact. The parties are reminded that objections must be both timely and specific to trigger de novo review by the district court.

All Citations

Slip Copy, 2006 WL 8440880

Footnotes

- 1 The original complaint was filed on June 23, 2005. Along with the complaint, the Plaintiffs filed an application to proceed *in forma pauperis* (IFP) (Doc. #2). That same day, a report and recommendation was entered recommending denial of the application to proceed IFP (Doc. #4). The report was adopted on July 18, 2005 (Doc. #5), and the filing fee paid the same day. An amended complaint was filed on August 24, 2005 (Doc. #8), and the second amended complaint was filed on October 7, 2005 (Doc. #10). Plaintiffs refer to this complaint in various documents as a "third amended complaint," see e.g., (Doc. # 12 & Doc. #15 motion and amended motion to extend time to serve third amended complaint). This language is also used in the court's order of October 17, 2005 (Doc. #16). The pleading in question is in actuality not Plaintiffs' third amended complaint but their *second* amended complaint.
- 2 According to the public records maintained by the Missouri Secretary of State, the registered agent for the Sisters of Mercy Health System is Bernard A. Duco, Jr., 14528 S. Outer Forty, Ste. 100, Chesterfield, MO 63017. See www.sos.mo.gov/BusinessEntity/soskb.
- 3 The letter to the Arkansas Board of Nursing attached as an exhibit is dated March 21, 2001. As Plaintiffs allege this letter was written after Plaintiff Phyllis Delaney contacted Gail Klemm, the court assumes the date should be March 21, 2002.

End of Document

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2019 WL 2714325

Only the Westlaw citation is currently available.

This case was not selected for publication in West's Federal Reporter. See Fed. Rule of Appellate Procedure 32.1 generally governing citation of judicial decisions issued on or after Jan. 1, 2007.

See also U.S. Ct. of App. 11th Cir. Rule 36-2. United States Court of Appeals, Eleventh Circuit.

EMI SUN VILLAGE, INC., a foreign corporation, Sun Village Juan Dolio, Inc., a foreign corporation, Emi Resorts (S.V.G.), Inc., a foreign corporation, Cofresco Holdings, Inc., a foreign corporation, Villa Santa Ponca, S.A., a foreign corporation, Inmobiliaria Moncey, S.A., a foreign corporation, Sun Village Juan Dolio Associates, LLC, a Delaware limited liability company, Frederick C. Elliott, Plaintiffs-Appellants,

v.

James B. CATLEDGE, Impact, Inc., a Nevada Corporation, Michael Diaz, Diaz Reus & Targ, LLP, a Florida limited liability partnership, Hilda Piloto, Defendants-Appellees.

No. 16-11841

(June 28, 2019)

Synopsis

Background: Plaintiff, a group consisting of an individual and several entities under his control, brought action in diversity against defendants, asserting claims for abuse of process, malicious prosecution, and civil conspiracy, arising out of defendants' initiation of judicial proceedings for which plaintiff's assets were frozen and a special master was appointed, and the defendants' voluntary dismissal of such proceedings. The United States District Court for the Southern District of Florida, Chris M. McAliley, United States Magistrate Judge, 2016 WL 8674508, set aside previous entry of default, dismissed one defendant, dismissed most of the claims, and imposed sanctions. Plaintiff appealed.

Holdings: The Court of Appeals held that:

[1] good cause existed to set aside entry of default;

[2] litigation privilege protected defendants from abuse of process claim;

[3] plaintiff abandoned its malicious prosecution claim;

[4] plaintiff failed to state a civil conspiracy claim;

[5] sanctions were warranted with respect to the malicious prosecution claim; and

[6] sanctions were warranted for objectively frivolous claims for \$160 million in damages.

Affirmed.

Procedural Posture(s): On Appeal; Motion to Set Aside or Vacate Default Judgment; Motion to Dismiss for Failure to State a Claim; Motion for Sanctions.

West Headnotes (6)

[1] Federal Civil Procedure

Plaintiff failed to meet its burden of demonstrating that service of process on defendant occurred, and thus, good cause existed to set aside entry of default against defendant; parties submitted competing affidavits swearing to whether service was made, and only other proof that plaintiff provided of service on defendant was in form of affidavits from five process servers, none of whom swore to serving defendant, and none of them provided corroboration as to plaintiff's story regarding service on defendant. Fed. R. Civ. P. 55(c).

Cases that cite this headnote

[2] Torts

Defendants' conduct that allegedly constituted use of process was protected from plaintiff's abuse of process claim by the litigation privilege under Florida law, where plaintiff alleged that defendants improperly initiated litigation against

it, which defendants eventually dismissed, and as a direct result, plaintiff's assets were frozen and properties were foreclosed, resulting in plaintiff suffering \$160 million loss of value.

Cases that cite this headnote

[3] **Appeal and Error**

Plaintiff abandoned its Florida law malicious prosecution claim against defendants, arising from defendants' lawsuits against plaintiff which were voluntarily dismissed, where only argument that plaintiff offered was that defendants conspired with others to maliciously prosecute plaintiff and took overt acts in furtherance of that conspiracy, which supported only a civil conspiracy claim, not plaintiff's claim for malicious prosecution.

Cases that cite this headnote

[4] **Conspiracy**

Plaintiff failed to state a civil conspiracy claim under Florida law to extent that claim relied on plaintiff's abuse of process or malicious prosecution claim against defendants; plaintiff failed to sufficiently allege an underlying unlawful act, since abuse of process claim was barred by the litigation privilege, and allegations made in malicious prosecution claim, that defendants conspired to maliciously prosecute plaintiff and took overt facts in furtherance of that conspiracy, supported only a civil conspiracy claim.

Cases that cite this headnote

[5] **Federal Civil Procedure**

Sanctions under Rule 11 for making claim that was objectively frivolous were warranted with respect to plaintiff's malicious prosecution claim, where the plaintiff was not a defendant in the allegedly malicious prosecutions, and therefore was not maliciously prosecuted. Fed. R. Civ. P. 11.

Cases that cite this headnote

[6] **Federal Civil Procedure**

Imposition of Rule 11 sanctions against plaintiff for making objectively frivolous claims for \$160 million in damages resulting from its purported inability to sell properties and avoid foreclosures due to its assets being frozen and special master being appointed when defendants initiated litigation against it alleging that plaintiff was involved in a Ponzi scheme and defrauded investors in its timeshare products, where defendants did not proximately cause plaintiff's damages because plaintiff either consented to the losses suffered or otherwise chose not to avoid them by not pursuing transactions and submitting them to the special master for approval. Fed. R. Civ. P. 11.

Cases that cite this headnote

Attorneys and Law Firms

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Appeal from the United States District Court for the Southern District of Florida, D.C. Docket No. 1:13-cv-21594-KMM

Before ED CARNES, Chief Judge, ROSENBAUM, and DUBINA, Circuit Judges.

Opinion

PER CURIAM:

*1 In this appeal, Fred Elliott and several entities under his control challenge the district court's order setting aside the entry of default and dismissing one defendant, its order dismissing most of the claims in their complaint for failing to state a claim upon which relief can be granted, and its orders imposing sanctions.

I. BACKGROUND FACTS AND PROCEDURAL HISTORY

A. Facts

In 1987 Fred Elliott started recruiting investors to purchase and develop property in the Dominican Republic. He eventually brought his son, Derek, into the fold. In 2005 the Elliotts¹ entered into an agreement with James Catledge and Impact, Inc. (a company controlled by Catledge), under which Catledge and Impact sold fractional ownership and timeshare products in the Elliotts' properties. Shortly thereafter the Elliotts learned that Catledge and Impact were breaching certain aspects of the agreement. After trying to help Catledge and Impact cure their breaches, the Elliotts terminated the agreement in June of 2008. October the Elliotts sent a letter to Catledge and Impact demanding that they pay for the damages caused by their breaches.

That same month Catledge hired Michael Diaz and his law firm, Diaz Reus & Targ, LLP, to start a litigation campaign against the Elliotts. They began by joining with some of the Elliotts' investors, including David Rocheford, John Steve Thompson, and Klaus Hofmann, to form what they called the Elliott Client Committee. That committee then recruited some of the Elliotts' other investors to join (and help pay for) lawsuits against the Elliotts. The basic premise of those lawsuits was that the Elliotts had conducted a Ponzi scheme and otherwise defrauded their investors through various fractional ownership and timeshare products — products that Catledge and Impact had marketed and sold. The Elliott Client Committee's litigation campaign included lawsuits filed in the Southern District of Florida, the Turks and Caicos Islands, and the Dominican Republic. The complaint in the present case alleges that the Elliott Client Committee's litigation strategy was to obtain ex parte temporary restraining orders freezing

the Elliotts' assets in various jurisdictions in order to cripple them financially. The committee also conducted a public relations campaign about the litigation campaign.

The first two lawsuits in the litigation campaign were filed on March 3, 2009. One was a class action filed by Diaz in the Turks and Caicos Islands on behalf of many of the Elliotts' investors, including Rocheford, Thompson, and Hofmann.

The other lawsuit was filed by Hilda Piloto in the Southern District of Florida — Hofmann v. EMI Resorts, Inc., No. 1:09-cv-20526-ASG, 2009 WL 1612457 (S.D. Fla. filed Mar. 3, 2009) — on behalf of Hofmann. The complaint in the present case alleges that Diaz drafted the Hofmann complaint and used Piloto and her firm, Arnstein & Lehr LLP,² “as strawmen” to file it. The same day the Hofmann lawsuit was filed, Diaz filed a motion to intervene in that lawsuit on behalf of numerous other individuals — including Catledge — who claimed to have been defrauded by the Elliotts. Diaz and Piloto also jointly moved in it for a TRO.

*2 Both the Turks and Caicos Islands court and the Southern District of Florida court in the Hofmann lawsuit issued TROs³ freezing the Elliotts' assets. The Turks and Caicos Islands court later discharged its TRO,⁴ and in the Hofmann case the district court allowed its TRO to expire after declining to extend it. Each court expressed its unease with the way the plaintiffs before them — including the defendants in the present case — had conducted themselves.

Less than two weeks after Piloto filed the Hofmann lawsuit and after Fred Elliott declined an invitation to meet about settling it, Diaz filed a separate suit against the Elliotts in the Southern District of Florida: Aguilar v. EMI Resorts, Inc., No. 1:09-cv-20657-ASG, 2009 WL 1612265 (S.D. Fla. filed Mar. 13, 2009). The Aguilar lawsuit — which “simply parroted the Hofmann complaint” — was filed on behalf of Catledge and more than 400 individuals who were formerly employed by Impact as sales agents. Those plaintiffs also filed a motion to intervene in the Hofmann case, which was eventually granted.

In the months after the Hofmann lawsuit was filed, the defendants in the present case also sought and obtained TROs from two courts in the Dominican Republic freezing the Elliotts' assets. In doing so they allegedly misrepresented the status of their other lawsuits against the Elliotts.

During the course of the Hofmann litigation, the district court appointed Thomas Scott as a Special Master. Hofmann, No.

1:09-cv-20526-ASG (DE 348; DE 457). The court later made Scott a Special Monitor of the Elliotts' assets with the consent of the parties, as a result of which the Elliotts could not make any transactions without Scott's approval. Hofmann, No. 1:09-cv-20526-ASG (DE 528). Based on a report from Scott, the court referred the subject matter of the Hofmann and Aguilar litigation to authorities, including the U.S. Securities and Exchange Commission, for potential criminal and civil investigations. The SEC launched an investigation and later filed an enforcement action against Catledge, Derek Elliott, and some of the Elliott entities (three of which are plaintiffs in the present case). See SEC v. Catledge, No. 2:12-cv-00887-JCM-NJK, 2012 WL 1913762 (D. Nev. filed May 24, 2012). Derek Elliott entered into a cooperation agreement with the SEC in which he admitted that he had violated the Securities Act of 1933 and the Securities Exchange Act of 1934.

Eventually the defendants voluntarily dismissed all of the actions they had brought against the Elliotts. According to the allegations in the present lawsuit, however, the Elliotts suffered \$160 million worth of damages because of the defendants' litigation campaign.

B. Procedural History

The Elliott group brought this diversity action in the Southern District of Florida. (Derek Elliott is absent from this lawsuit.) The group named ten defendants in its complaint: (1) Catledge; (2) Impact; (3) Diaz; (4) Diaz's law firm; (5) Piloto; (6) Arnstein & Lehr; (7) Rocheford; (8) Smith; (9) Thompson; and (10) Hofmann. It pleaded separate abuse of process claims and malicious prosecution claims against most of the defendants,⁵ a single civil conspiracy claim against every defendant except Impact, and a breach of contract claim against Catledge and Impact. Each claim was brought under Florida law.

*3 Diaz and his law firm jointly filed a motion to dismiss, as did Piloto and Arnstein & Lehr. Hofmann later joined both motions; Rocheford and Smith joined only Piloto and Arnstein & Lehr's motion.

The district court granted the motions to dismiss. It found that the Elliott group's abuse of process claims failed because the underlying conduct was protected by Florida's litigation privilege. It also found that the malicious prosecution claims failed because the defendants "had ample probable cause" to bring the litigation underlying those claims. And the

court found that the civil conspiracy claim necessarily failed because it depended on the abuse of process claims and malicious prosecution claims. As a result, the court dismissed with prejudice all of the abuse of process claims, all of the malicious prosecution claims, and the civil conspiracy claim against every defendant named in each of those claims — including Thompson and Catledge, even though they had not filed or joined a motion to dismiss. The court noted, however, that it had not dismissed the breach of contract claim against Catledge and Impact.

The following week Piloto and Arnstein & Lehr filed a motion for sanctions against the Elliott group and its counsel under Rule 11 of the Federal Rules of Civil Procedure. Diaz and his law firm filed a similar motion a couple of days later. The district court granted the motions in part and denied them in part. It found that the abuse of process claims, malicious prosecution claims, and civil conspiracy claim generally were not objectively frivolous (either legally or factually) and thus did not warrant sanctions.

But the court found that the Elliott group's factual allegations about the \$160 million in damages it claimed were objectively frivolous and did warrant sanctions. The court also found that the malicious prosecution claims brought by one of the Elliotts' LLCs — Sun Village Juan Dolio Associates, LLC — were objectively frivolous and thus warranted sanctions because that LLC was not a party defendant in any of the allegedly malicious prosecutions. After ordering additional briefing, the district court sanctioned all of the plaintiffs and their counsel for the damages claims, as well as the Elliotts' LLC and its counsel for the malicious prosecution claim, and ordered all of the plaintiffs to jointly and severally pay the defendants' reasonable attorney's fees and costs stemming from the plaintiffs' sanctioned conduct.

Before the court entered an order setting the amount of legal fees the Elliott group owed the defendants, Diaz and his law firm settled with the group and filed a joint stipulation of dismissal. The court dismissed Diaz and his firm, and it later awarded Piloto and Arnstein & Lehr \$5,632 in legal fees as a sanction for the damages claims and \$2,000 as a sanction for the Elliotts' LLC's malicious prosecution claim.

Shortly before the district court granted the motions to dismiss, the clerk of court entered defaults against Impact and Catledge. Upon Catledge's motion, the district court later quashed the service of process on Catledge, vacated the entry of default against him, dismissed him from the case, and

closed the case. It also denied without prejudice the Elliott group's motion for default judgment against Impact and the Elliott group's renewed motion for default judgment against Impact. The court ultimately dismissed Impact with prejudice after resolving the sanctions issues because the Elliott group had failed to file another motion for default judgment.

*4 This is the Elliott group's appeal.

II. STANDARDS OF REVIEW

We review only for an abuse of discretion both a district court's ruling on a motion to set aside an entry of default,⁶

EEOC v. Mike Smith Pontiac GMC, Inc., 896 F.2d 524, 528 (11th Cir. 1990), and a district court's decision to impose sanctions under Rule 11, Riccard v. Prudential Ins. Co., 307 F.3d 1277, 1294 (11th Cir. 2002).

"We review de novo the district court's grant of a motion to dismiss under 12(b)(6) for failure to state a claim, accepting the allegations in the complaint as true and construing them in the light most favorable to the plaintiff." Butler v. Sheriff of Palm Beach Cty., 685 F.3d 1261, 1265 (11th Cir. 2012) (quotation marks omitted). "The plaintiff's factual allegations must be enough to raise a right to relief above the speculative level, on the assumption that all the allegations in the complaint are true (even if doubtful in fact)." Id. (quotation marks and brackets omitted). "To survive a motion to dismiss, the plaintiff must plead a claim to relief that is plausible on its face." Id. (quotation marks omitted).

III. DISCUSSION

Although the Elliott group brought a total of sixteen claims against ten defendants, most of those claims and defendants are not before this Court. The group stipulated to the dismissal of its claims against Diaz and his law firm. And in this appeal, it has represented to this Court that Rocheford, Smith, Thompson, and Hofmann are not parties to the appeal. And it has not offered any argument that Impact was wrongly dismissed. So the Elliott group has abandoned its claims against Impact, Rocheford, Smith, Thompson, and Hofmann.

See Sapuppo v. Allstate Floridian Ins. Co., 739 F.3d 678, 681 (11th Cir. 2014) ("We have long held that an appellant abandons a claim when he either makes only passing

references to it or raises it in a perfunctory manner without supporting arguments and authority."); AT&T Broadband v. Tech Commc'ns, Inc., 381 F.3d 1309, 1320 n.14 (11th Cir. 2004) ("Issues not raised on appeal are considered abandoned.").

That leaves only Piloto, Arnstein & Lehr, and Catledge. The Elliott group's briefing focuses primarily on Catledge (together with Diaz and his law firm), so we will start with the Elliott group's challenge to the district court's order quashing service on Catledge, setting aside the entry of default against Catledge, and dismissing him from the case. We will then turn to the district court's dismissal of the Elliott group's abuse of process claims, malicious prosecution claims, and civil conspiracy claim. Lastly we will address the sanctions orders.

A. Setting Aside the Entry of Default Against Catledge

A district court "may set aside an entry of default for good cause," Fed. R. Civ. P. 55(c), such as insufficient service of process, see Aetna Bus. Credit, Inc. v. Universal Decor & Interior Design, Inc., 635 F.2d 434, 435 (5th Cir. 1981) ("In the absence of valid service of process, proceedings against a party are void."). The Elliott group had the burden of proving that its service of process on Catledge (who has not participated in this appeal) was sufficient. Id. ("When service of process is challenged, the party on whose behalf it is made must bear the burden of establishing its validity.").

*5 The district court found that the Elliott group "failed to meet [its] burden to demonstrate that service did occur." On that basis the district court granted Catledge's motions to quash the service of process on him and set aside the entry of default against him. It also dismissed the claims against him.

The Elliott group suggests that determining whether Catledge was served comes down to a swearing match by affidavit pitting his word against the word of Roger Arreola, one of the Elliott group's process servers. Arreola swore that he served Catledge when he just happened to run into Catledge at a fruit stand near a country club where Catledge had a midafternoon tee time with a friend. Catledge swore that he has never been to that fruit stand, that he did not run into Arreola on the day in question, and that he did not have a tee time on that day.

But it is not just Catledge's word against Arreola's. Catledge also submitted affidavits from four other people: a golf pro at

the country club, Catledge's golf partner, a business associate who had lunch with Catledge on the day in question, and Catledge's wife. The golf pro swore in his affidavit that according to the country club's records, Catledge did not have a tee time or play golf on the day in question. He also swore that the country club has a strict policy against revealing to the public information about its members, including their tee times. Catledge's golf partner swore in his affidavit that he did not have a tee time with Catledge on the day in question, that he did not see Catledge on the golf course that day, and that Catledge's usual attire and vehicle do not match Arreola's descriptions of Catledge's attire and vehicle. Catledge's business associate who had lunch with him on the day in question swore in his affidavit that Catledge was not wearing golf clothes at lunch and that, as far as he knew, Catledge did not golf or plan to golf on the day in question. And Catledge's wife swore in her affidavit that she and Catledge left their house together on the day in question shortly after the tee time Arreola claimed Catledge had scheduled. Taken together, those affidavits refute Arreola's story.

The only other proof the Elliott group submitted to show that it had served Catledge was affidavits from five other process servers. But four of them simply swore they were unable to serve Catledge and did not provide any information about whether anyone else had done so. The fifth process server also did not serve Catledge, but he hired Arreola and corroborated some of the broad details of Arreola's story — that Catledge liked to golf, that he usually played at a particular country club with one of his friends, and that friend had a midafternoon tee time on the day Arreola says he ran into Catledge. But the fifth process server failed to corroborate the crucial (and most improbable) part of Arreola's story, which is that Arreola just happened to stop at a particular fruit stand at the same time that Catledge just happened to stop there.

[1] In light of the evidence presented to it, the district court did not clearly err or abuse its discretion in finding that the Elliott group had not served Catledge. Based on that finding, the district court had good cause to set aside the entry of default against Catledge, see Fed. R. Civ. P. 55(c), and dismiss the claims against him.⁷

B. The Elliott Group's Abuse of Process Claim

*6 Although it appears that the Florida Supreme Court has not addressed the elements of an abuse of process claim, the Florida District Courts of Appeal have articulated three elements for such a claim: "(1) the defendant made an illegal, improper, or perverted use of process; (2) the defendant had an ulterior motive or purpose in exercising the illegal, improper or perverted process; and (3) the plaintiff was injured as a result of defendant's action." Hardick v. Homol, 795 So. 2d 1107, 1111 n.2 (Fla. 5th DCA 2001) (citing Thomson McKinnon Sec., Inc. v. Light, 534 So. 2d 757, 760 (Fla. 3d DCA 1988) (citing Della-Donna v. Nova Univ., Inc., 512 So. 2d 1051 (Fla. 4th DCA 1987))).

The district court ruled that the Elliott group's abuse of process claims were barred by Florida's litigation privilege. Under that doctrine, "absolute immunity must be afforded to any act occurring during the course of a judicial proceeding, regardless of whether the act involves a defamatory statement or other tortious behavior ..., so long as the act has some relation to the proceeding." Levin, Middlebrooks, Mabie, Thomas, Mayes & Mitchell, P.A. v. U.S. Fire Ins. Co., 639 So. 2d 606, 608 (Fla. 1994). The litigation privilege applies to actions for abuse of process. LatAm Invs., LLC v. Holland & Knight, LLP, 88 So. 3d 240, 242 (Fla. 3d DCA 2011).⁸

*7 The defendants' conduct during and in relation to the Hofmann and Aguilar litigation as well as the judicial proceedings in the Turks and Caicos Islands and the Dominican Republic is protected by the litigation privilege. See Levin, 639 So. 2d at 608. Even assuming the defendants' submissions and representations to courts in those cases were fraudulent or "involve[d] a defamatory statement or other tortious behavior," that conduct still occurred during "a judicial proceeding" in those courts and "ha[d] some relation to th[ose] proceeding[s]." Id.

To be fair, not all of the conduct that the Elliott group alleges was an abuse of process is protected by the litigation privilege. But the defendants' alleged conduct that is not protected by the litigation privilege — forming the Elliott Client Committee, recruiting the Elliotts' investors to join the committee and the litigation, and conducting a public relations campaign based on the litigation — was not a "use of process." Hardick, 795 So. 2d at 1111 n.2; see Peckins v. Kaye, 443 So. 2d 1025, 1026 (Fla. 2d DCA 1983) ("In an abuse of process action, process may mean an action that is initiated independently such as the commencement of a suit, or one initiated collaterally, such as an attachment.").

[2] In short, the alleged conduct that was a use of process is protected by the litigation privilege, and the alleged conduct that is not protected by the litigation privilege was not a use of process. As a result, the Elliott group's abuse of process claims fail because the allegations are not sufficient to establish the first element of such a claim, which is that "the defendant made an illegal, improper, or perverted use of process." Hardick, 795 So. 2d at 1111 n.2.⁹

C. Malicious Prosecution

Under Florida law:

In order to prevail in a malicious prosecution action, a plaintiff must establish that: (1) an original criminal or civil judicial proceeding against the present plaintiff was commenced or continued; (2) the present defendant was the legal cause of the original proceeding against the present plaintiff as the defendant in the original proceeding; (3) the termination of the original proceeding constituted a bona fide termination of that proceeding in favor of the present plaintiff; (4) there was an absence of probable cause for the original proceeding; (5) there was malice on the part of the present defendant; and (6) the plaintiff suffered damage as a result of the original proceeding. The failure of a plaintiff to establish any one of these six elements is fatal to a claim of malicious prosecution.

*8 Alamo Rent-a-Car, Inc. v. Mancusi, 632 So. 2d 1352, 1355 (Fla. 1994) (citations omitted).

The district court dismissed the Elliott group's malicious prosecution claims upon finding that the defendants "had ample probable cause to bring the underlying litigation based on the evidence of a fraudulent scheme." The district court later found (when addressing the motions for sanctions)

that the malicious prosecution claims brought by one of the plaintiffs — one of the Elliotts' LLCs — failed because that plaintiff was not a party to the allegedly malicious prosecutions. That finding is enough to affirm the district court's dismissal of the LLC's malicious prosecution claim. See Big Top Coolers, Inc. v. Circus-Man Snacks, Inc., 528 F.3d 839, 844 (11th Cir. 2008) ("[W]e can affirm [the district court's decision] on any ground that finds support in the record.") (quotation marks omitted).

Not only that, but the Elliott group stipulated to the dismissal of its claims against Diaz and Diaz's law firm; it has abandoned its malicious claims against Impact, Rocheford, Smith, Thompson, and Hofmann; and its malicious prosecution claim against Catledge was properly dismissed due to insufficient service of process. So the Elliott group's malicious prosecution claims against Piloto and Arnstein & Lehr are the only two remaining.

[3] However, the Elliott group failed to argue in its briefing to this Court that Piloto and Arnstein & Lehr maliciously prosecuted the Elliotts. In its opening brief it focused exclusively on its malicious prosecution allegations against Catledge, Diaz, and Diaz's law firm. The only argument the Elliott group offered that there was any malicious prosecution by Piloto and Arnstein & Lehr was that they "agreed to conspire with Catledge and the Diaz Defendants to maliciously prosecute the Elliotts and that they took overt acts in furtherance of that conspiracy." But that argument supports only the Elliott group's civil conspiracy claim, not its claims for malicious prosecution against Piloto and Arnstein & Lehr. The Elliott group has thus abandoned its malicious prosecution claims against Piloto and Arnstein & Lehr. See Sapuppo, 739 F.3d at 681.

D. Civil Conspiracy

Under Florida law:

A civil conspiracy claim requires: (1) an agreement between two or more parties; (2) to do an unlawful act or to do a lawful act by unlawful means; (3) the doing of some overt act in pursuance of the conspiracy; and (4)

damage to plaintiff as a result of the acts done under the conspiracy.

Philip Morris USA, Inc. v. Russo, 175 So. 3d 681, 686 n.9 (Fla. 2015).

The district court dismissed the Elliott group's civil conspiracy claim because it was contingent on the abuse of process and malicious prosecution claims. We affirm the dismissal of the civil conspiracy claim to the extent it relies on the abuse of process claims or the malicious prosecution claims against Piloto and Arnstein & Lehr, or both, because those underlying claims fail for the reasons we have already discussed.

Evaluating the Elliott group's civil conspiracy claim to the extent it relies on the malicious prosecution claims against defendants other than those three requires some additional analysis. Although the Elliott group is no longer pursuing its malicious prosecution claims against Diaz and his law firm, and although the malicious prosecution claim against Catledge was properly dismissed by the district court due to insufficient service of process, Piloto and Arnstein & Lehr could still be liable for their co-defendants' allegedly malicious prosecution of the Elliott group under the civil conspiracy claim. See Lorillard Tobacco Co. v. Alexander, 123 So. 3d 67, 80 (Fla. 3d DCA 2013) (“[T]he law regarding conspiracy [in Florida] is well-settled, and provides that an act done in pursuit of a conspiracy by one conspirator is an act for which each other conspirator is jointly and severally liable. Conspiracy is not a separate or independent tort but is a vehicle for imputing the tortious acts of one coconspirator to another to establish joint and several liability.”) (citation and quotation marks omitted).

*9 But that would work for the Elliott group only if it had sufficiently alleged its malicious prosecution claims against Diaz, his law firm, and Catledge. It has not. The district court found that all of the defendants “had ample probable cause to bring the underlying litigation.” The Elliott group now argues that three defendants — Diaz, Diaz’s law firm, and Catledge — lacked probable cause to file the Aguilar lawsuit because Catledge and his agents were culpable for the tortious conduct they attributed to the Elliotts.¹⁰ But Diaz and his law firm had probable cause to file the Aguilar lawsuit on behalf of most of the Aguilar plaintiffs.

As the Elliott group acknowledges in its complaint, the district court in the Hofmann and Aguilar litigation referred Special Monitor Scott’s report “to the appropriate authorities” to investigate the potentially criminal activities detailed in the report. 1:09-cv-20526-ASG (DE 956 at 33). Based on that referral, the SEC began an investigation and later filed an action against Catledge, Derek Elliott, and some of the Elliott entities that are plaintiffs in this action. The Elliott group attached to its complaint in the present case the cooperation agreement Derek Elliott entered into with the SEC in which Derek Elliott admitted that he violated the Securities Act of 1933 and the Securities Exchange Act of 1934. So not only did the Hofmann and Aguilar plaintiffs have probable cause for a tort suit against the Elliotts, but the SEC also had probable cause for an investigation of — and ultimately an enforcement action against — them. Because Diaz and his law firm had probable cause to file the Aguilar lawsuit on behalf of the Aguilar plaintiffs,¹¹ the Elliott group’s malicious prosecution claim against Diaz and his law firm fails. See Alamo Rent-a-Car, Inc., 632 So. 2d at 1355 (noting that one of the elements of a malicious prosecution claim is that “there was an absence of probable cause for the original proceeding”).

That does not necessarily mean that there was probable cause for Catledge to sue the Elliott group in the Aguilar lawsuit or for Diaz and his law firm to include Catledge as one of the plaintiffs in that lawsuit. But even if Catledge himself did not have probable cause to sue, he was just one of the more than 400 plaintiffs in Aguilar, and we have already concluded that the other Aguilar plaintiffs had probable cause to bring the lawsuit. The Elliott group’s allegations fail to show the damages it suffered were the result of Catledge being one of the Aguilar plaintiffs and not the result of the claims brought by the 400-plus other Aguilar plaintiffs. So the Elliott group’s malicious prosecution claims fail to the extent they are based on Catledge being one of the plaintiffs in the Aguilar lawsuit.

See id. (noting that one of the elements of a malicious prosecution claim is that “the plaintiff suffered damage as a result of the original proceeding”).

[4] As a result, the Elliott group has not sufficiently alleged a malicious prosecution claim against Diaz, his law firm, or Catledge. That means the Elliott group has not sufficiently alleged an underlying unlawful act, so its civil conspiracy claim against Piloto and Arnstein & Lehr fails as well. See Russo, 175 So. 3d at 686 n.9.

E. Sanctions

*10 Rule 11 requires district courts to impose appropriate sanctions, after notice and a reasonable opportunity to respond, where an attorney or party submits a pleading to the court that: (1) is not well-grounded in fact, i.e., has no reasonable factual basis; (2) is not legally tenable; or (3) is submitted in bad faith for an improper purpose. The objective standard for assessing conduct under Rule 11 is reasonableness under the circumstances and what it was reasonable to believe at the time the pleading was submitted. Sanctions are warranted when a party exhibits a deliberate indifference to obvious facts, but not when the party's evidence to support a claim is merely weak.

Riccard, 307 F.3d at 1294 (brackets, quotation marks, and citations omitted).

[5] The district court sanctioned one of the plaintiffs — one of the Elliotts' LLCs — because its malicious prosecution claim was objectively frivolous. The first element of a malicious prosecution claim is that the plaintiff was a defendant in an allegedly malicious prosecution. Mancusi, 632 So. 2d at 1355. Because the Elliott LLC was not a defendant in the allegedly malicious prosecutions, which of course means that it was not maliciously prosecuted, the district court concluded that the Elliott LLC's claims were objectively frivolous and for that reason it sanctioned the Elliott LLC. That sanction was not an abuse of discretion.

The district court also sanctioned all of the Elliott group plaintiffs because their damages claims were objectively frivolous. The Elliott group argues that the district court's findings were based on "a clearly erroneous reading of the evidence" that "constitute[d] an abuse of discretion."

Attwood v. Singletary, 105 F.3d 610, 612 (11th Cir. 1997). Under the clearly erroneous standard, "we may not reverse just because we would have decided the matter differently. A finding that is plausible in light of the full record — even if another is equally or more so — must govern." Cooper v. Harris, — U.S. —, 137 S. Ct. 1455, 1465, 197 L.Ed.2d 837 (2017) (brackets, quotation marks, and citation omitted).

The Elliott group claimed in its complaint that the defendants' alleged abuses of process, malicious prosecutions, and civil conspiracy prevented the group from selling some properties

and taking actions to avoid the foreclosure of two other properties, causing the group to incur damages in excess of \$160 million. The district court noted that the Elliott group was not, as its complaint implies, wholly barred from making any transactions involving his properties. The group could have conducted sales and other transactions involving its properties so long as each sale or transaction was approved by Scott, the special monitor appointed in the Hofmann and Aguilar litigation. And as the district court emphasized, the Elliott group consented to the appointment of a special monitor.

The Elliott group never presented to Scott "for approval any proposed sale, refinance, or other transaction." As a result, the district court concluded that "the losses [the Elliott group] complain[s] of can only be described as losses [it] consented to or losses [it] chose not to avoid." Bringing a lawsuit for those losses, the court continued, "is absurd and amounts to a deliberate indifference of obvious facts" sufficient to warrant the imposition of sanctions. (Quotation marks omitted.)

In its response to the sanctions motions, the only argument the Elliott group offered on the damages issue is that its damages were not "a result of [its] consent to have ... Scott appointed as a receiver" but were instead caused by "the events set in motion by Defendants' malicious actions, including the foreign restraining orders and the bad publicity generated as a result thereof." After the district court rejected that argument and sanctioned the Elliott group for its damages claims, the group offered some additional arguments¹² in support of its motion to reconsider and in its briefing to this Court.

*11 The Elliott group could have made those arguments in response to the sanctions motions, but it did not. So those arguments were not properly before the district court on a motion to reconsider. See Wilchombe v. TeeVee Toons, Inc., 555 F.3d 949, 957 (11th Cir. 2009) ("A motion for reconsideration cannot be used to relitigate old matters, raise argument or present evidence that could have been raised prior to the entry of judgment. This prohibition includes new arguments that were previously available, but not pressed.") (citation and quotation marks omitted). And they are not properly before this Court. See Juris v. Inamed Corp., 685 F.3d 1294, 1325 (11th Cir. 2012) ("[I]f a party hopes to preserve a claim, argument, theory, or defense on appeal, she must first clearly present it to the district court, that is, in such a way as to afford the district court an opportunity to recognize and rule on it.") (quotation marks omitted); Smith v. Sec'y,

Dep't of Corr., 572 F.3d 1327, 1352 (11th Cir. 2009) (Where “[t]he district court did not consider [an] argument because it was not fairly presented ... we will not decide it.”); Walton v. Johnson & Johnson Servs., Inc., 347 F.3d 1272, 1292 (11th Cir. 2003) (per curiam) (“As a general rule, we do not consider arguments raised for the first time on appeal.”).

[6] The Elliott group’s only argument on this issue that is properly before this Court is that some of its damages were set in motion before Scott’s appointment. The district court found that the group could have avoided those damages had it pursued transactions and submitted them to Scott for

approval, which means the defendants did not proximately cause the Elliott group’s damages because the group either “consented to” the losses it suffered or otherwise “chose not to avoid” them. Given that those findings are plausible, the district court did not abuse its discretion in imposing sanctions on the Elliott group for claiming \$160 million in damages.

AFFIRMED.

All Citations

--- Fed.Appx. ----, 2019 WL 2714325

Footnotes

- 1 For ease of reference, in Part I.A of this opinion we will use “the Elliotts” to refer to Fred and Derek Elliott as well as the various entities under their control that are also plaintiffs in this action. Because Derek Elliott is not a party to this action, in Part I.B and Part III we will use the term “the Elliott group” to refer to Fred and the various entities under the Elliotts’ control, but not Derek.
- 2 Arnstein & Lehr is now known as Saul Ewing Arnstein & Lehr LLP, but we will refer to the firm by its earlier name.
- 3 Technically, the Turks and Caicos Islands court issued a Mareva injunction, which appears to be the British equivalent to a certain type of a TRO. For ease of reference, we will refer to the Mareva injunction as a TRO. That court also appointed a receiver.
- 4 And revoked its appointment of a receiver.
- 5 Specifically Catledge, Diaz, Diaz’s law firm, Piloto, Arnstein & Lehr, Thompson, and Hofmann.
- 6 Catledge actually moved to set aside a default judgment against him under Rule 60(b) of the Federal Rules of Civil Procedure. But the district court never entered a default judgment against Catledge, so the court properly construed Catledge’s motion as a motion to set aside an entry of default under Rule 55(c).
- 7 The district court cited a “lack of jurisdiction with respect to Defendant James B. Catledge” when it dismissed the Elliott group’s claims against him. The dismissal would have been proper under Rule 12(b)(5) (which Catledge cited in his motion) or under Rule 4(m) of the Federal Rules of Civil Procedure, or both, so we affirm based on those rules. See Big Top Coolers, Inc. v. Circus-Man Snacks, Inc., 528 F.3d 839, 844 (11th Cir. 2008) (“[W]e can affirm [the district court’s decision] on any ground that finds support in the record.”) (quotation marks omitted).
- 8 The Florida Supreme Court has held that the “litigation privilege applies across the board to actions in Florida, both to common-law causes of action, those initiated pursuant to a statute, or of some other origin.” Echevarria, McCalla, Raymer, Barrett & Frappier v. Cole, 950 So. 2d 380, 384 (Fla. 2007). The court walked that holding back to some extent in Debrincat v. Fischer, 217 So. 3d 68 (Fla. 2017), by holding that the litigation privilege does not apply to at least some malicious prosecution claims. See id. at 69–71; see also Inlet Beach Capital Invs., LLC v. The Enclave at Inlet Beach Owners Ass’n, Inc., 236 So. 3d 1140, 1141 (Fla. 1st DCA 2018). In light of Debrincat, we recently concluded that Florida’s litigation privilege does not “offer[] per se immunity against any and all causes of action that arise out of conduct in judicial proceedings.” Sun Life Assurance Co. of Can. v. Imperial Premium Fin., LLC, 904 F.3d 1197, 1219 (11th Cir. 2018). When the Florida courts have not addressed whether the litigation privilege applies to a particular cause of action, we must assess the privilege’s applicability to it “in light of the specific conduct for which the defendant seeks immunity” by asking whether applying the privilege “would meaningfully serve the aims of the privilege” or “eviscerate long-standing sources of judicially available recovery.” Id. (quotation marks omitted); see also id. at 1218–20. We do not conduct that analysis here because Florida’s Third District Court of Appeal held that the litigation privilege applies to abuse of process claims in LatAm Investments, LLC v. Holland & Knight, LLP, 88 So. 3d 240. Id. at 242. The Florida Supreme Court did not address LatAm in Debrincat, nor has the court addressed it since, so LatAm appears

to still be good law. See Pace v. Bank of N.Y. Mellon. Tr. Co. Nat'l Ass'n, 224 So. 3d 342, 343 n.2 (Fla. 5th DCA 2017) (citing LatAm after Debrincat was issued for the proposition that the litigation privilege applies to abuse of process claims); see also, e.g., Pardo v. State, 596 So. 2d 665, 665 (Fla. 1992) ("This Court has stated that the decisions of the district courts of appeal represent the law of Florida unless and until they are overruled by this Court.") (quotation marks and brackets omitted). As a result, we must apply the litigation privilege to abuse of process claims. See Fla. Family Policy Council v. Freeman, 561 F.3d 1246, 1256 (11th Cir. 2009) ("We are, of course, bound to follow Florida appellate court decisions interpreting that state's law."). The Elliott group has not argued that the litigation privilege does not apply to abuse of process claims.

- 9 There was much discussion at oral argument about whether Florida's litigation privilege applies (and whether it should apply) to conduct during and in relation to judicial proceedings in foreign jurisdictions. But we will assume that it does apply for the purposes of this appeal based on the Florida Supreme Court's articulation of the privilege, see Levin, 639 So. 2d at 608 (holding that the litigation privilege applies to conduct during and in relation to "a judicial proceeding" generally without any hint of a geographic limitation), and because the Elliott group did not clearly raise an argument to the contrary in the district court or in its briefing to this Court (and it resisted almost every opportunity to do so at oral argument), see Juris v. Inamed Corp., 685 F.3d 1294, 1325 (11th Cir. 2012) ("If a party hopes to preserve a claim, argument, theory, or defense on appeal, she must first clearly present it to the district court, that is, in such a way as to afford the district court an opportunity to recognize and rule on it."); United States v. Willis, 649 F.3d 1248, 1254 (11th Cir. 2011) ("A party seeking to raise a claim or issue on appeal must plainly and prominently so indicate.... Where a party fails to abide by this simple requirement, he has waived his right to have the court consider that argument.") (brackets and quotation marks omitted).
- 10 The Elliott group has focused its arguments in support of its malicious prosecution claims on the Hofmann and Aguilar lawsuits to the exclusion of the litigation in the Turks and Caicos Islands and the Dominican Republic. It has thus abandoned any malicious prosecution claims based on the litigation in the Turks and Caicos Islands and the Dominican Republic. See Sapuppo, 739 F.3d at 681.
- 11 The Elliott group alleges that Diaz and his law firm had "obvious conflicts" of interest in representing the Aguilar plaintiffs. Even if they did, they still had probable cause to file the Aguilar lawsuit.
- 12 The two primary arguments the group added are that some of the damages were suffered before Scott's appointment and that the banks trying to foreclose on some of the Elliott group's properties refused to negotiate with Scott.

71 F.Supp.3d 866
United States District Court,
S.D. Indiana,
Indianapolis Division.

HECKLER & KOCH, INC.,
Heckler & Koch GMBH, Plaintiffs,
v.
GERMAN SPORT GUNS GMBH, American
Tactical Imports, Inc., Defendants.
American Tactical Imports, Inc., German
Sport Guns GmbH, Counter Claimants,
v.

Heckler & Koch, Inc., Heckler & Koch GMBH, G.
Wayne Weber, and Niels Ihloff, Counter Defendants.

No. 1:11-cv-01108-SEB-TAB.

Signed Dec. 24, 2014.

Synopsis

Background: Firearms manufacturer brought action in state court against competitor and arms importer and retailer, alleging claims for breach of settlement agreement from previous trademark infringement action, trademark dilution, and trademark infringement. Action was removed, and competitor and importer counterclaimed for breach of agreement and fraud. Cross-motions for summary judgment were filed.

Holdings: The District Court, Sarah Evans Barker, J., held that:

[1] there was no evidence in support fraud claims against manufacturer under Indiana law;

[2] competitor's claims against firearms manufacturer for tortious interference with business relationship were barred by Indiana's litigation privilege;

[3] covenant not to sue in settlement agreement did not prohibit manufacturer's suit against competitor for trade dress infringement;

[4] fact issues precluded summary judgment on manufacturer's breach of contract claim under Indiana law;

[5] there was no evidence of fraudulent application for renewal, foreclosing competitor's claims for cancellation of trademark and damages;

[6] expert's testimony regarding question of distinctiveness was admissible;

[7] fact issues precluded declaration that manufacturer's trade dress was not protectible under Lanham Act; and

[8] fact issues precluded summary judgment on manufacturer's trade dress infringement claim against competitor.

Plaintiffs' motion granted in part and denied in part; Defendants' motion denied.

Procedural Posture(s): Motion for Summary Judgment.

West Headnotes (62)

[1] Fraud

Elements of Actual Fraud

To prevail on a fraud claim under Indiana law based on an affirmative misrepresentation, a plaintiff must establish that there was: (1) a material misrepresentation of past or existing fact which (2) was untrue, (3) was made with knowledge of or in reckless ignorance of its falsity, (4) was made with the intent to deceive, (5) was rightfully relied upon by the complaining party, and (6) which proximately caused injury or damage.

Cases that cite this headnote

[2] Torts

Litigation privilege; witness immunity

Indiana's "litigation privilege" is a common-law doctrine barring liability for certain statements made in the course of judicial proceedings.

1 Cases that cite this headnote

[3] Fraud

☞ Defenses

Competitor's actual fraud counterclaim against firearms manufacturer was not barred by Indiana's common-law doctrine of litigation privilege; counterclaim for fraud alleged that manufacturer and its agents lied to competitor and firearms importer during previous trademark infringement litigation about having assigned away trademark rights to nine millimeter submachine gun upon which suit was predicated, which was not analogous to a suit for defamation or breach of a non-disparagement covenant.

Cases that cite this headnote

[4] **Fraud**

☞ Intent

Fraud

☞ Knowledge of defendant

An intent to deceive, or scienter, is an element of actual fraud under Indiana law, whether classified as a knowing or reckless misrepresentation or as an additional element to a knowing or reckless misrepresentation.

Cases that cite this headnote

[5] **Fraud**

☞ Intent

Proof of intent to deceive, for purposes of a fraud claim under Indiana law, is determined by a review of all of the relevant factors of the particular case; where a person knowingly or recklessly makes false representations which the person knows or should know will induce another to act, the finder of fact may logically infer an intent to deceive.

1 Cases that cite this headnote

[6] **Fraud**

☞ Reliance on Representations and Inducement to Act

For a claimant to recover under a fraud theory under Indiana law, it must show that it had a right to rely on the misrepresentations and that it did in fact rely on the misrepresentations to its detriment.

Cases that cite this headnote

[7] **Fraud**

☞ Fiduciary or confidential relations

A special relationship between the parties is a per se requirement for constructive fraud liability under Indiana law.

2 Cases that cite this headnote

[8] **Fraud**

☞ Duty to disclose facts

Under Indiana law, a party may be liable for constructive fraud on the basis of its omissions as well as its affirmative misrepresentations, so long as its relationship with the defrauded party is fiduciary in nature, or—in a buyer-seller context—where it enjoys the unique possession of knowledge not possessed by the other and may thereby enjoy a position of superiority over the other.

1 Cases that cite this headnote

[9] **Fraud**

☞ Reliance on Representations and Inducement to Act

Where persons stand mentally on equal footing, and in no fiduciary relation, the law will not protect one who fails to exercise common sense and judgment in a fraud action under Indiana law.

Cases that cite this headnote

[10] **Fraud**

☞ Injury and causation

There was no evidence that firearms manufacturer's alleged misrepresentations during settlement of previous trademark infringement action regarding ownership of intellectual property rights in design of nine millimeter submachine gun caused competitor and firearms importer damages that they would not have suffered otherwise, as required for competitor's and importer's fraud claims against manufacturer under Indiana law.

Cases that cite this headnote

[11] **Fraud**

⇒ Fraudulent Concealment

The law narrowly defines concealment, and generally the concealment must be active and intentional for a fraudulent concealment claim under Indiana law. West's A.I.C. § 34-11-5-1.

Cases that cite this headnote

[12] **Fraud**

⇒ Fraudulent Concealment

For a fraudulent concealment claim under Indiana law, the affirmative acts of concealment must be calculated to mislead and hinder a plaintiff from obtaining information by the use of ordinary diligence, or to prevent inquiry or elude investigation; there must be some trick or contrivance intended by the defrauder to exclude suspicion and prevent inquiry. West's A.I.C. § 34-11-5-1.

Cases that cite this headnote

[13] **Limitation of Actions**

⇒ Concealment of Cause of Action

To invoke the protection provided by Indiana's two year statute of limitations for fraudulent concealment the plaintiff is charged with the responsibility of exercising due diligence to discover the claims. West's A.I.C. § 34-11-5-1.

Cases that cite this headnote

[14] **Criminal Law**

⇒ Civil liabilities to persons injured; reparation

The Crime Victim Relief Act (CVRA) under Indiana law is punitive in nature and must be strictly construed. West's A.I.C. 34-24-3-1.

Cases that cite this headnote

[15] **Criminal Law**

⇒ Civil liabilities to persons injured; reparation

In order to obtain a civil recovery under Indiana's Crime Victim Relief Act (CVRA), plaintiffs must show a violation of at least one of the code sections listed in the statute and must demonstrate that the violation caused the loss suffered. West's A.I.C. 34-24-3-1.

Cases that cite this headnote

[16] **Criminal Law**

⇒ Application in general

In Indiana, no common-law crimes exist, and the legislature fixes the elements necessary for any statutory crime.

Cases that cite this headnote

[17] **Criminal Law**

⇒ Civil liabilities to persons injured; reparation

Reliance is not an element of a claim under Indiana's Crime Victim Relief Act (CVRA).

West's A.I.C. 34-24-3-1.

Cases that cite this headnote

[18] **Criminal Law**

⇒ Civil liabilities to persons injured; reparation

There was no evidence that firearms manufacturer's alleged misrepresentations during settlement of previous trademark infringement action regarding ownership of intellectual property rights in design of nine millimeter submachine gun caused competitor and firearms importer damages that they would not have suffered otherwise, as required for competitor's and importer's deception claims against manufacturer under Indiana Crime Victim Relief Act (CVRA). West's A.I.C. 34-24-3-1.

Cases that cite this headnote

[19] Criminal Law

☞ Civil liabilities to persons injured; reparation

For purposes of a claim for deception under Indiana Crime Victim Relief Act (CVRA), in order for one party's act to be the proximate cause of another's harm, it must have set in motion a chain of circumstances that in natural and continuous sequence lead to the resulting injury; proximate cause requires, at a minimum, that the harm would not have occurred but for the defendant's conduct. West's A.I.C. 34-24-3-1.

Cases that cite this headnote

[20] Torts

☞ Business relations or economic advantage, in general

In order to prevail on a claim for tortious interference with business relationship under Indiana law, a claimant must establish the following: (1) the existence of a valid relationship, (2) the defendant's knowledge of the existence of the relationship, (3) the defendant's intentional interference with that relationship through some independent unlawful acts, (4) the absence of justification, and (5) damages resulting from defendant's wrongful interference with the relationship.

1 Cases that cite this headnote

[21] Torts

☞ Business relations or economic advantage, in general

Under Indiana law, an action for intentional interference with a business relationship arises where there is no contract underlying the relationship.

1 Cases that cite this headnote

[22] Torts

☞ Business relations or economic advantage, in general

Competitor's claims against firearms manufacturer for tortious interference with business relationship arising out of previous trademark infringement lawsuit between firearms manufacturer and competitor were barred by Indiana's litigation privilege, regardless of whether lawsuit giving rise to claim was brought in good or bad faith, since communications with competitor's business associates, which included the serving of subpoenas, arose in the context of litigation and were pertinent to that litigation.

Cases that cite this headnote

[23] Compromise and Settlement

☞ Nature and Requisites

Under Indiana law, settlement agreements are governed by the same general principles of contract law as any other agreement.

Cases that cite this headnote

[24] Contracts

☞ Application to Contracts in General

When construing a contract under Indiana law, unambiguous contractual language is conclusive upon the parties and the courts.

Cases that cite this headnote

[25] Contracts

☞ Language of contract

Under Indiana law, if an instrument's language is unambiguous, the parties' intent is determined from the four corners of the instrument.

Cases that cite this headnote

[26] Compromise and Settlement

☞ Performance or Breach of Agreement

Compromise and Settlement

☞ Enforcement

Firearms manufacturer's attachment of settlement agreement to complaint alleging breach of settlement agreement between manufacturer and competitor stipulating to

dismissal of previous trademark infringement suit was permitted by agreement's confidentiality clause under Indiana law, since confidentiality clause prohibited disclosure of agreement except for purposes of enforcement.

Cases that cite this headnote

[27] Compromise and Settlement

☞ Rights of parties on breach

There was no evidence that competitor suffered damages from firearms manufacturer's alleged breach of confidentiality agreement in settlement agreement between manufacturer and competitor stipulating to dismissal of previous trademark infringement suit, as required for breach of contract claim under Indiana law.

Cases that cite this headnote

[28] Damages

☞ Breach of contract

Damages

☞ Breach of contract in general

Under Indiana law, a party claiming breach of contract bears the burden of pleading and proving damages; a mere showing of a breach of contract does not necessarily entitle a plaintiff to damages.

1 Cases that cite this headnote

[29] Damages

☞ Breach of contract in general

Under Indiana law, damages for breach of contract may not be awarded on the basis of guess or speculation; rather, a plaintiff must have adequate evidence to allow a jury to determine with sufficient certainty that damages in fact occurred, and, if so, to quantify such damages with some degree of precision.

Cases that cite this headnote

[30] Contracts

☞ Legal remedies and proceedings

Forum-selection clause in settlement agreement between manufacturer and competitor stipulating to dismissal of previous trademark infringement suit, stating that the Southern District shall retain jurisdiction, was not mandatory, and thus not enforceable under Indiana law; forum-selection clause clearly signaled that Southern District court was a proper forum for any dispute that might arise between the signatories, but there was no language manifesting parties' intent to rule out other jurisdictions.

3 Cases that cite this headnote

[31] Contracts

☞ Legal remedies and proceedings

Under Indiana law, a mandatory forum-selection clause is one that contains clear language showing that jurisdiction is appropriate only in the designated forum.

3 Cases that cite this headnote

[32] Contracts

☞ Legal remedies and proceedings

Under Indiana law, forum-selection clauses that do not contain mandatory language are only permissive and not enforceable.

3 Cases that cite this headnote

[33] Contracts

☞ Legal remedies and proceedings

Under Indiana law, where venue is specified with mandatory or obligatory language, the clause will be enforced; where only jurisdiction is specified, the clause will generally not be enforced unless there is some further language indicating the parties' intent to make venue exclusive.

Cases that cite this headnote

[34] Contracts

☞ Legal remedies and proceedings

Under Indiana law, a clause merely specifying that a certain court possesses jurisdiction, even

if it uses the word “shall,” is permissive unless it clearly expresses the exclusive nature of the grant.

1 Cases that cite this headnote

[35] Alternative Dispute Resolution

☞ As ousting jurisdiction of or precluding resort to courts

Release

☞ Covenant not to sue or execute

Covenant not to sue in settlement agreement between manufacturer and competitor stipulating to dismissal of previous trademark infringement suit, which provided an alternate dispute resolution (ADR) process that applied to future trade dress infringement disputes between manufacturer and arms importer, did not prohibit manufacturer's suit against competitor for trade dress infringement related to design of nine millimeter submachine gun.

Cases that cite this headnote

[36] Federal Civil Procedure

☞ Contract cases in general

Genuine issue of material fact existed regarding whether nine millimeter submachine gun at issue in firearms manufacturer's breach of contract claim against competitor differed materially from weapon outlined in covenant not to sue in settlement agreement between manufacturer and competitor stipulating to dismissal of previous trademark infringement suit, precluding summary judgment on manufacturer's breach of contract claim under Indiana law.

Cases that cite this headnote

[37] Trademarks

☞ False or fraudulent registration

Fraud in procuring a trademark registration or in renewing the registration is a potential basis for cancellation by the court. Lanham Act, § 37, 15 U.S.C.A. § 1119.

Cases that cite this headnote

[38] Trademarks

☞ Evidence

A party seeking cancellation of a trademark based on fraud faces a formidable burden of proof with respect to both the persuasiveness of the evidence and the showing of fraudulent intent on the part of the registrant. Lanham Act, § 37, 15 U.S.C.A. § 1119.

Cases that cite this headnote

[39] Trademarks

☞ False or fraudulent registration

Trademarks

☞ Evidence

In order to prevail on claim for cancellation of trademark, a party must show by clear and convincing evidence that the mark owner's misstatements to the United States Patent and Trademark Office (PTO) were (1) made with the knowledge of their falsity, and (2) material to the determination to grant the application. Lanham Act, § 37, 15 U.S.C.A. § 1119.

Cases that cite this headnote

[40] Trademarks

☞ False or fraudulent registration

Firearm manufacturer's alleged misrepresentation to United States Patent and Trademark Office (PTO) that it remained owner of registered trademark in nine millimeter submachine gun was not material to the determination to grant the application for renewal of trademark registration, and thus did not constitute a fraudulent application for renewal, foreclosing competitor's claims for cancellation of trademark and damages, since identity of current owner of mark was not dispositive to the PTO's grant or denial of the application, PTO did not issue notice of deficiency with respect to declaration, and manufacturer would have been provided opportunity to cure deficiency under Lanham Act. Lanham Act, §§ 9, 37, 38, 15 U.S.C.A. §§ 1059, 1119, 1120.

Cases that cite this headnote

[41] **Trademarks**

☞ Distinctiveness; secondary meaning

Trademarks

☞ Functionality

In order to be protectable under the Lanham Act, a claimed trade dress must be both distinctive and nonfunctional. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

Cases that cite this headnote

[42] **Trademarks**

☞ Trade dress

In order to prevail on an infringement claim under the Lanham Act, a plaintiff must show that the trade dress of the competing good is confusingly similar to the protected trade dress. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

Cases that cite this headnote

[43] **Trademarks**

☞ Distinctiveness; secondary meaning

A successful showing of distinctiveness, for purposes of trade dress infringement under the Lanham Act, has two prerequisites; first, the party seeking protection must establish that the putative trade dress is identifiable, that it is pitched at the proper level of generality and describes a concrete design rather than a vague amalgamation of ideas, and second, a plaintiff must show that the trade dress has acquired secondary meaning. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

Cases that cite this headnote

[44] **Evidence**

☞ Matters involving scientific or other special knowledge in general

Evidence

☞ Knowledge, experience, and skill in general

Evidence

☞ Necessity and sufficiency

Courts employ a three-part analysis in determining whether expert witness testimony is relevant and reliable: (1) the witness must be qualified as an expert by knowledge, skill, experience, training, or education, (2) the expert's reasoning or methodology underlying the testimony must be scientifically reliable, and (3) the testimony must assist the trier of fact to understand the evidence or to determine a fact in issue. Fed.Rules Evid.Rule 702, 28 U.S.C.A.

Cases that cite this headnote

[45] **Evidence**

☞ Matters involving scientific or other special knowledge in general

Evidence

☞ Necessity and sufficiency

It is not the trial court's role to decide whether an expert's opinion is correct; the trial court is limited to determining whether expert testimony is pertinent to an issue in the case and whether the methodology underlying that testimony is sound. Fed.Rules Evid.Rule 702, 28 U.S.C.A.

Cases that cite this headnote

[46] **Evidence**

☞ Construction and Repair of Structures, Machinery, and Appliances

Expert's testimony was relevant to question of distinctiveness on competitor's claim seeking declaration that firearms manufacturer's trade dress in nine millimeter submachine gun was not protectible under Lanham Act, and thus was admissible; expert's analysis of the features of the accused firearm when compared to other weapons on the market would be helpful to trier of fact. Fed.Rules Evid.Rule 702, 28 U.S.C.A.; Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

Cases that cite this headnote

[47] **Trademarks**

⇒ Form, Features, or Design of Product as Marks; Trade Dress

The requirement that a trade dress be discrete and identifiable does not preclude a plaintiff from claiming the overall look or design of the product as protected. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

Cases that cite this headnote

[48] Trademarks

⇒ Form, Features, or Design of Product as Marks; Trade Dress

Simply pointing to a product's overall appearance is not enough to state a claim for trade dress infringement; rather, the overall appearance of the trade dress comes into play only after the trade dress is first properly identified with the discrete elements which make up that combination separated out and identified in a list. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

2 Cases that cite this headnote

[49] Trademarks

⇒ Particular Cases or Products

Firearms manufacturer's trade dress in nine millimeter submachine gun was readily identifiable, as required for competitor's claim seeking declaration that trade dress was not protectible under Lanham Act; although shape of individual components, upper profile/sighting mechanism, the magazine, the fire select switch, the trigger guard, and the grip, might vary to some degree across different versions of the weapon, their configuration with respect to each other adhered to a pattern. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

Cases that cite this headnote

[50] Trademarks

⇒ Trade dress

The existence of a utility patent for a given product design or design feature is strong evidence of functionality for purposes of

determining trade dress protection under the Lanham Act. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

Cases that cite this headnote

[51] Federal Civil Procedure

⇒ Copyright, trademark, and unfair competition cases

Genuine issue of material fact existed regarding non-functionality of design of nine millimeter submachine gun in which firearms manufacturer claimed trade dress, precluding summary judgment on competitor's claim seeking declaration that manufacturer's trade dress was not protectible under Lanham Act. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

Cases that cite this headnote

[52] Trademarks

⇒ Functionality

A product whose overall appearance is distinctive can be protected under the trademark laws, even though most of the products constituent elements serve some function. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

Cases that cite this headnote

[53] Trademarks

⇒ Distinctiveness; secondary meaning

In order to qualify as "distinctive" and thus eligible for protection under the Lanham Act, an unregistered trade dress must possess a secondary meaning. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

1 Cases that cite this headnote

[54] Trademarks

⇒ Acquired distinctiveness and secondary meaning in general

A mark has acquired distinctiveness, for purposes of protection under the Lanham Act, even if it is not inherently distinctive, if it has developed secondary meaning, which occurs when, in the minds of the public, the primary significance of a mark is to identify the source of the product rather than the product itself. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

1 Cases that cite this headnote

[55] Trademarks

☞ Distinctiveness; secondary meaning

Trademarks

☞ Trade dress

Proof of secondary meaning, as required for protection of unregistered trade dress under the Lanham Act, can be established through direct consumer testimony, consumer surveys, length and manner of use, amount and manner of advertising, volume of sales, place in the market, and evidence of intentional copying. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

1 Cases that cite this headnote

[56] Federal Civil Procedure

☞ Copyright, trademark, and unfair competition cases

Genuine issue of material fact existed regarding whether firearms manufacturer's trade dress in nine millimeter submachine gun had acquired secondary meaning, precluding summary judgment on competitor's claim seeking declaration that manufacturer's trade dress was not protectible under Lanham Act. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

Cases that cite this headnote

[57] Trademarks

☞ Invalidity of mark or registration; loss of rights

The abandonment of an alleged trade dress is an affirmative defense to a claim for trade dress

infringement. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3).

1 Cases that cite this headnote

[58] Trademarks

☞ Control over use or quality; "naked" licenses

A party may be held to have abandoned its trade dress where it has engaged in naked licensing, that is, allowing others to use the mark without exercising reasonable control over the nature and quality of the goods, services, or business on which the mark is used by the licensee. Lanham Act, § 43(a)(3), 15 U.S.C.A. § 1125(a)(3); Restatement (Third) of Unfair Competition §§ 30, 33 (1995).

Cases that cite this headnote

[59] Federal Civil Procedure

☞ Copyright, trademark, and unfair competition cases

Genuine issue of material fact existed regarding whether firearms manufacturer's trade dress in nine millimeter submachine gun was insufficiently identified, functional, and had acquired secondary meaning, precluding summary judgment on manufacturer's trade dress infringement claim against competitor. Lanham Act, § 43(a), 15 U.S.C.A. § 1125(a).

Cases that cite this headnote

[60] Federal Civil Procedure

☞ Copyright, trademark, and unfair competition cases

Genuine issue of material fact existed regarding whether firearms manufacturer's alleged trade dress in nine millimeter submachine gun was famous, precluding summary judgment on manufacturer's trademark dilution claim against competitor. Lanham Act, § 43(c), 15 U.S.C.A. § 1125(c).

Cases that cite this headnote

[61] **Contracts**

⚙️ **Rights and Liabilities on Breach**

Under Indiana law, a party first guilty of a material breach of contract may not maintain an action against the other party or seek to enforce the contract against the other party should that party subsequently breach the contract.

Cases that cite this headnote

[62] **Federal Civil Procedure**

⚙️ **Contract cases in general**

Genuine issue of material fact existed regarding whether firearms manufacturer's technical breach in confidentiality clause of settlement agreement between manufacturer and competitor stipulating to dismissal of previous trademark infringement suit was material breach of contract, as would vitiate manufacturer's breach of contract claims against competitor, precluding summary judgment on manufacturer's breach of contract claim against competitor under Indiana law.

1 Cases that cite this headnote

Attorneys and Law Firms

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Bruce Benjamin Paul, Douglas B. Bates, Neal F. Bailen, Stites & Harbison, LLP, Jeffersonville, IN, Charles M. Landrum, III, Jason M. Sneed, Sneed PLLC, Davidson, NC, for Defendants/Counter Claimants.

ORDER ON PENDING MOTIONS

SARAH EVANS BARKER, District Judge.

This cause is before the Court on three motions: (1) Defendants' motion to strike Plaintiffs' affirmative defenses to counterclaims [Docket No. 282], filed on March 17, 2014; (2)

Plaintiffs' motion for summary judgment *874 judgment [Docket No. 329], filed on July 17, 2014; and (3) Defendants' motion for summary judgment [Docket No. 331], filed on July 17, 2014. For the reasons set forth below, Defendants' motion to strike is DENIED as moot, Plaintiffs' motion for summary judgment is DENIED in part and GRANTED in part, and Defendants' motion for summary judgment is DENIED in its entirety.

Factual and Procedural Background

This matter has been pending on our docket for more than three years, and its antecedent disputes stretch back still further. The array of motions to strike, motions to dismiss, and motions for reconsideration filed by the parties have given us occasion to explore aspects of the case's factual background, but only now do we arrive at the merits of the intellectual property dispute lying at the core of this sprawling body of litigation. While we have summarized the record previously, we endeavor here to outline the undisputed facts, cognizant that the presence of cross-motions for summary judgment will require us to draw varying inferences from them as we address each of those motions in turn.

Plaintiffs Heckler & Koch, Inc. (HK USA) and Heckler & Koch GmbH (HKG) are firms engaged in the manufacture and sale of firearms—headquartered, respectively, in the United States and Germany.¹ Among products sold under the Heckler & Koch name is the “MP5,” a weapon originally designed as a nine millimeter submachine gun by HKG in the 1960s, and which has since become the basis of a “family” of firearms sharing certain core design features; Heckler & Koch first sold the MP5 in the United States in the 1970s. Docket No. 346–5 (Weber Decl.) at ¶¶ 4, 8; Docket No. 333–5 (HKG “Official History”) at 247–249, 252–264. In 1990, HK USA registered the MP5 as an international class 13 (firearms) trademark with the United States Patent and Trademark Office (“PTO”). Cooper Decl. ¶ 5. HKG registered the MP5 with the German patent office on June 4, 2008. *Id.* at ¶ 6.

Defendants are also engaged in the firearms business: German Sports Guns GmbH (“GSG”) is an arms manufacturer based in Germany, and American Tactical Imports, Inc. (“ATI”) is an arms importer and retailer incorporated and based in New York. Am. Compl. ¶¶ 7–8.² Two individuals, both executives for the Plaintiff companies, are also parties to this suit: Counterclaim Defendant G. Wayne Weber is the president of HK USA, Docket No. 251 at ¶ 5; and Counter

Defendant Niels Ihloff³ is a managing director of HKG and consulted HK USA during the 2009 settlement negotiations. *Id.* at ¶ 6.

A number of the claims and counterclaims in this case are premised on differing interpretations of two parallel series of events that unfolded between 2008 and 2010: first, HK USA's initial suit against the Defendants ("the 2009 litigation"); and second, HKG's attempts to obtain a United States trademark registration for the MP5 weapon.

HK USA filed suit in the Southern District of Indiana against GSG, ATI, and a *875 third firearms manufacturer, Orion Arms Corporation, on January 13, 2009 alleging trademark infringement, trade dress infringement, and other related claims. *See* Docket No. 1; *Heckler & Koch, Inc. v. German Sports Guns GmbH, et al.*, Cause No. 1:09-cv-00039. The crux of the 2009 litigation was HK USA's claim that GSG, ATI, and Orion were engaged in the manufacture and sale of a weapon—styled the "GSG-5"—that copied the design of the Heckler & Koch MP5. *Id.* At the instigation of the parties' respective executives, the parties engaged in settlement negotiations, and on October 8, 2009 they signed a Settlement Agreement ("the Agreement") that stipulated to the dismissal of the infringement suit. The Agreement's preliminary recitals stated that HK USA owned "a federal trademark registration in the mark 'MP5' (Reg. No. 1594109)" and that it claimed to own "in the United States a proprietary trade dress comprised of the designs of certain elements of the MP5 firearms (the 'MP5 trade dress')." Docket No. 45-1 at 1. The Agreement also recited that GSG, ATI, and Orion neither admitted that they had infringed HK USA's rights nor conceded that HK USA even had any such rights:

WHEREAS, GSG, ATI, and Orion have filed in said Lawsuit *Defendants' Answer and Counterclaim* in which they seek a judgment declaring, *inter alia*, that their activities do not infringe, and have not infringed, any intellectual property rights of HK or otherwise violate any law, and that **HK does not own the trademark, trade dress and other intellectual property rights it claims to own.**

Id. (emphasis added); *see also id.* at ¶ 9 ("Defendants make no admission of liability for the claims made against them."). As for the substance of the Agreement itself, the defendant parties agreed to pay HK USA \$300,000 in exchange for the dismissal of the suit. *Id.* at ¶ 1. They also agreed to halt manufacture of the allegedly infringing GSG-5 design, and to cease selling the weapons once a "sell-off" date had passed. *Id.* at ¶ 2. For its part, HK USA covenanted not to sue GSG or any of its commercial partners in connection with a different weapon design, the "GSG-522" firearm:

HK has reviewed the design of the GSG-522 attached hereto as Exhibit "A" (the "GSG-522 Firearm") and covenants not to sue GSG or any of its customers, distributors, dealers or importers for its sale in the United States or anywhere in the world, provided GSG otherwise complies with this Agreement. This covenant extends to airsoft guns in the design of the GSG-522 firearm.

Id. at ¶ 5.

While the 2009 litigation was pending, ownership of the MP5 registered trademark—together with any accompanying trade dress rights—changed hands between HK USA and HKG. The process began on June 8, 2008, when HKG filed an application for an "international registration under the Madrid Protocol" for the MP5 trademark within the United States, triggering a PTO office action. Cooper Decl. ¶ 7. On September 19 of the same year, the PTO wrote back to HKG, informing it that had provisionally refused the application for at least two reasons: first, the MP5 trademark was registered in the name of *HK USA* rather than HKG; second, an application by an unrelated company for an intent-to-use registration for the similar mark "MP5A5" was already pending before the PTO, and would need to be resolved before further action could be taken. *See* Docket No. 332-12 (Defs.' Ex. L); Cooper Decl. ¶ 8. In order to remove this first obstacle to HKG's registration of the MP5 mark in the United States, HK USA president G. Wayne Weber executed an assignment agreement ("the Assignment") transferring to HKG "all right, title *876 and interest in and to the said [MP5] mark, together with the good will of the business symbolized by

the said mark and the respective registration.” Docket No. 251–2 at 5. Weber signed the Assignment on March 19, 2009—some two months after HK USA had initiated the 2009 litigation, and more than six months before the parties to that litigation settled it. But despite the pendency of the litigation, neither Weber nor any other representative of HK USA informed GSG and ATI that the rights upon which the suit was predicated had been transferred. Docket No. 332 at 20 (citing Defs.’ Ex. H).

Meanwhile, HKG continued in its efforts to secure U.S. trademark registration for the MP5, and both of the Heckler & Koch entities continued to represent to the PTO in the interim that HK USA owned the MP5 trademark, notwithstanding the Assignment. On March 23, 2009, HKG, by counsel, wrote to the PTO that an assignment of the MP5 trademark registration from HK USA to HKG was “being worked,” and therefore requested that its application for Madrid Protocol registration be held in abeyance until the questions of ownership and the pending third-party application could be resolved. Docket No. 332–13 at 5–7. Cooper Decl. ¶ 8. Nearly a year later, complying with PTO deadlines for trademark registrants’ periodic filing of affidavits verifying their continued use and intent to renew their marks, HK USA filed a “Section 8/9” declaration with the PTO, holding itself out as the current owner of the MP5 mark. Docket No. 332–15.

In May 2010, the PTO informed HKG that the third party’s competing trademark application had been abandoned, advising HKG that it was nonetheless still necessary for HKG’s ownership of the MP5 mark to be established before the company’s application for U.S. registration of the MP5 could be granted. Cooper Decl. ¶ 10. HKG then recorded the Assignment with the PTO on June 20, 2010; this marked Plaintiffs’ first public acknowledgment of the transfer of rights.⁴ Docket No. 251–2 at 2. The PTO responded by granting HKG’s registration application on November 9, 2010. Cooper Decl. ¶ 10. HKG remains the holder of the registered MP5 trademark. Am. Compl. ¶ 12.

Procedural History

Plaintiffs contend that Defendants have failed to abide by the Settlement Agreement. Specifically, they allege that Defendants have “repackaged” the GSG–5—a “knock-off” weapon designed to “replicate the look and feel of the famous MP5®”—and sold it under the label of the GSG–522. Am. Compl. ¶ 2. By manufacturing, importing, and

selling this GSG–5 in GSG–522’s clothes, Plaintiffs argue, Defendants have both violated their covenant not to sell the GSG–5 and deceptively deviated from the GSG–522 design that they submitted for HK USA’s approval in the Agreement. *Id.* Plaintiffs also allege that Defendants continued to manufacture and sell the GSG–5 under its own label even after the 2010 “sell-off dates.” *Id.* at ¶ 3, 27–32. According to Plaintiffs, this conduct directly contravenes Paragraph 3 of the Settlement Agreement.

Bearing these grievances, Plaintiffs again brought suit against GSG and ATI. *877 The original version of this complaint, later removed from Indiana state court to this Court, was brought by HK USA alone, and it contained only a claim for breach of contract. *See* Docket No. 1. Plaintiffs subsequently sought leave to amend the complaint to add HKG as a plaintiff and to include additional claims for tortious interference and fraud against both Defendants as well as claims of state and federal trade dress infringement, trademark dilution, and unfair competition against GSG alone. Magistrate Judge Baker granted leave to amend, Docket No. 44, and Plaintiffs filed their amended complaint on May 22, 2012. Defendants’ subsequent motion to dismiss the amended complaint [Docket No. 49] was granted in part and denied in part. We dismissed Plaintiffs’ claims for tortious interference with a business relationship, fraud, and common-law “unfair competition,” leaving intact their claims for breach of contract, trademark dilution, statutory and common-law federal trademark infringement, and state-law trademark infringement. Docket No. 214.

Defendants have also asserted a number of counterclaims alleging that Plaintiffs wronged them in surreptitiously assigning the MP5 IP rights during the pendency of the 2009 litigation; Defendants also bring counterclaims for breach of the Settlement Agreement and seek declaratory judgments that Plaintiffs lack trade dress rights in the MP5 weapon design and that Defendants are not liable for breach of the 2009 Agreement. The tort counterclaims implicate not only HK USA, but also Weber, Ihloff and HKG. Weber signed the Assignment, and Defendants allege that Counter Defendant Ihloff, as a high-ranking officer of HKG, also knew of it. Docket No. 251 at ¶ 27. Defendants initially alleged that an additional agreement between HK USA and HKG arranged for the transfer of trade dress rights and related goodwill associated with the MP5, but after discovery they have asserted that HK USA and HKG completed the assignment in a single signed agreement. *Id.* at ¶ 26; Docket No. 251 at ¶ 32(f)(v). On September 20, 2012, Ihloff executed

a “Ratification and Consent” in which he, on behalf of HKG, announced that the company “hereby ratifies, affirms, and agrees to be bound in all respects to the Settlement Agreement” reached between HK USA and the Defendants. Docket No. 251 at ¶ 34. According to Defendants’ theory, Ihloff and HKG were aware of the false representations contained in the Settlement Agreement at the time they ratified it. Docket No. 274 at 35–39.

The Court subsequently dismissed the actual fraud and constructive fraud claims against Plaintiffs and the two Counter Defendants, and it dismissed the deception and tortious interference claims against Ihloff. Docket No. 215. In its order, the Court primarily addressed Defendants’ failure to establish proximate causation between their alleged damages and the misrepresentations of HK USA and its officers. *Id.*

Defendants took two steps in response to the Court’s partial dismissal of their counterclaims against HK USA, HKG, Weber, and Ihloff. First, on October 30, 2013, they filed a motion for leave to file an amended answer and counterclaims. Docket No. 228. Second, they filed a motion for reconsideration. Docket No. 235. On January 14, 2014, Magistrate Judge Baker granted Defendants’ motion for leave to amend, and they accordingly filed an Amended Answer that restated all of the counterclaims present in their first Answer—including those that had been dismissed by the Court—and added allegations against Ihloff and HK GmbH based on their ratification of the Settlement Agreement. *Compare* Docket No. 56 with Docket No. 251. We then granted Plaintiffs’ renewed motion to dismiss as to *878 Counterclaim Count II for constructive fraud, but denied the motion as to all other counts. *See* Docket No. 298. We denied Plaintiffs’ subsequent motion for reconsideration. *See* Docket No. 383.

Legal Analysis

Defendants’ Motion to Strike

On March 17, 2014, Defendants filed a motion to strike elements of Plaintiffs’ Answer and affirmative defenses to Defendants’ Amended Counterclaims. Docket No. 282. The pleading that was the subject of this motion, however, has since been replaced by Plaintiffs’ Amended Answer to Defendants’ Amended Counterclaims [Docket No. 304], filed on May 29, 2014.

Plaintiffs’ amended answer supersedes their previous answer, and it therefore renders Defendants’ motion to strike moot.

See Massey v. Helman, 196 F.3d 727, 735 (7th Cir.1999);

Loren Specialty Mfg. Co. v. Clark Mfg. Co., 241 F.Supp. 493, 500 (N.D.Ill.1965) (noting that amended answers, like amended complaints, supersede the previous pleading); *Horton Archery, LLC v. Farris Bros., Inc.*, 2014 WL 1239382, at *2 (S.D.Miss. Mar. 26, 2014) (noting that the filing of an amended answer moots a pending motion to strike).

We therefore DENY Defendants’ motion to strike without prejudice.

Motions for Summary Judgment

Standard of Review

Federal Rule of Civil Procedure 56 provides that summary judgment should be granted when the record evidence shows that “there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law.” Fed. R. Civ. Pro. 56(a); *Celotex Corp. v. Catrett*, 477 U.S. 317, 322–323, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986). The purpose of summary judgment is to “pierce the pleadings and to assess the proof in order to see whether there is a genuine need for trial.” *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 587, 106 S.Ct. 1348, 89 L.Ed.2d 538 (1986). Disputes concerning material facts are genuine where the evidence is such that a reasonable jury could return a verdict for the non-moving party. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986). In deciding whether genuine issues of material fact exist, the court construes all facts in a light most favorable to the non-moving party and draws all reasonable inferences in favor of the non-moving party. *See id.* at 255, 106 S.Ct. 2505. However, neither the “mere existence of some alleged factual dispute between the parties,” *id.*, 477 U.S. at 247, 106 S.Ct. 2505, nor the existence of “some metaphysical doubt as to the material facts,” *Matsushita*, 475 U.S. at 586, 106 S.Ct. 1348, will defeat a motion for summary judgment. *Michas v. Health Cost Controls of Ill., Inc.*, 209 F.3d 687, 692 (7th Cir.2000).

Plaintiffs and Defendants have both filed motions for summary judgment. Plaintiffs seek summary judgment in

their favor on Counts I and III through IX of Defendants' Counterclaims⁵, while Defendants move for judgment on all of their own counterclaims and all of Plaintiffs' extant claims.⁶

*879 I. Counterclaim Count I—Fraud

[1] Count One of the amended counterclaims alleges actual fraud against HK USA, HK GmbH, Weber, and Ihloff.⁷ To prevail on a fraud claim based on an affirmative misrepresentation, a plaintiff must establish that there was: (1) a material misrepresentation of past or existing fact which (2) was untrue, (3) was made with knowledge of or in reckless ignorance of its falsity, (4) was made with the intent to deceive, (5) was rightfully relied upon by the complaining party, and (6) which proximately caused injury or damage.

Lawyers Title Ins. Corp. v. Pokraka, 595 N.E.2d 244, 249 (Ind.1992); *Angel v. Powelson*, 977 N.E.2d 434, 444–445 (Ind.Ct.App.2012).

Defendants allege that HK USA and its president Weber engaged in fraud when they falsely represented in the 2009 Settlement Agreement that HK USA held the registered trademark and associated rights for the MP5 weapon when, in fact, they had assigned away those rights to HKG some six months earlier.⁸ Plaintiffs insist that summary judgment be granted on the fraud counterclaim because: (1) there is no proof that Plaintiffs acted with intent to deceive, (2) Defendants cannot prove that they relied on any misrepresentations and that such reliance proximately caused them damages, and (3) the claim is barred as a matter of law by Indiana's "litigation privilege." We address Plaintiffs' new litigation privilege defense first, before considering whether Defendants have set forth facts sufficient to satisfy the legal elements of a fraud claim.

A. Litigation Privilege

[2] Indiana's "litigation privilege" is a common-law doctrine barring liability for certain statements made in the course of judicial proceedings. *Van Eaton v. Fink*, 697 N.E.2d 490, 494 (Ind.Ct.App.1998). The privilege is based on the idea that the "public interest in the freedom of expression by participants in judicial proceedings ... is so vital and necessary to the integrity of our judicial system that it must be made paramount to the right of the individual to a legal remedy when he has been wronged." *Briggs v. Clinton Cnty. Bank & Trust Co.*, 452 N.E.2d 989, 997 (Ind.Ct.App.1983). Because it embodies

the value of "freedom of expression," the privilege originally applied only to bar actions for defamation arising out of statements in the course of litigation. See *Hartman v. Keri*, 883 N.E.2d 774, 777 (Ind.2008); *Miller v. Reinert*, 839 N.E.2d 731, 735 (Ind.Ct.App.2005). The Seventh Circuit, however, has recently endorsed a limited expansion of Indiana's privilege "beyond defamation and other similar tort claims to encompass breach of contract claims"; in its 2010 decision in *Rain v. Rolls-Royce Corp.*, 626 F.3d 372 (7th Cir.2010), the court ruled that the privilege barred a breach of contract suit asserting that a party's statements in the course of litigation violated its obligations under a prior "non-disparagement" covenant. 626 F.3d at 376–378.

[3] In reaching this ruling, the *Rain* court noted that Indiana law was silent on the precise question at hand, and the court therefore "examine[d] the reasoning of courts in other jurisdictions addressing the same issue and applying their own law for *880 whatever guidance about the probable direction of state law they may provide." *Rain*, 626 F.3d at 377 (quoting *Pisciotta v. Old Nat'l Bancorp*, 499 F.3d 629, 635 (7th Cir.2007)). Plaintiffs urge that we follow that practice here, and they present a series of state court decisions in California, Florida, and New Jersey that extend the litigation privilege to bar actions for fraud (or similar torts) stemming from representations made in the course of judicial proceedings. See Docket No. 330 at 24–27; *Silberg v. Anderson*, 50 Cal.3d 205, 266 Cal.Rptr. 638, 786 P.2d 365, 370 (1990) (noting that the privilege can extend to all actions except malicious prosecution and approving its application to an intentional tort claim arising out of an attorney's lies about the identity of a witness); *Levin, Middlebrooks, Mabie, Thomas, Mayes & Mitchell, P.A. v. U.S. Fire Ins. Co.*, 639 So.2d 606, 607–608 (Fla.1994) (extending privilege to bar a tortious interference action); *Giles v. Phelan, Hallinan & Schmieg, LLP*, 901 F.Supp.2d 509, 523–524 (D.N.J.2012) (applying the privilege in "expansive" fashion to apply to a number of torts).

In doing so, however, Plaintiffs ignore a caveat crucial to the Seventh Circuit's reasoning in *Rain*—that expansion of the doctrine is appropriate "where immunity from liability is consistent with the purpose of the privilege." 626 F.3d at 377. *Rain* and the cases it cited applied the litigation privilege to claims broadly analogous to defamation; in such contexts,

concern for the integrity of judicial proceedings—including the protection of statements or disclosures otherwise actionable—was thought to outweigh the interests ordinarily protected by tort or contract law. *Id.* (citing *Ellis v. Kaye-Kibbey*, 581 F.Supp.2d 861, 880–881 (W.D.Mich.2008);

Wentland v. Wass, 126 Cal.App.4th 1484, 25 Cal.Rptr.3d 109, 114–115 (2005) (“[W]hether the litigation privilege applies to an action for breach of contract turns on whether its application furthers the policies underlying the privilege”). While it is true that Indiana courts have countenanced the limited expansion of the privilege beyond its original scope as a defense to the specific tort of defamation, we are aware of no case in which they have ventured far beyond this core rationale. *Cf. Estate of Mayer v. Lax, Inc.*, 998 N.E.2d 238, 249 (Ind.Ct.App.2013); *Rain*, 626 F.3d at 378 (“[T]he question [is] whether applying the litigation privilege in this case would promote the due administration of justice and free expression by participants in judicial proceedings.”). Defendants’ counterclaim for fraud alleges that HK USA and its agents lied to GSG and ATI during the 2009 litigation about having assigned away the trademark rights upon which the suit was predicated; we determine that this is not analogous to a suit for defamation or breach of a non-disparagement covenant. *See Estate of Mayer*, 998 N.E.2d at 250 (noting that the privilege does not shield from causes of action “based on the malicious or abusive use of the judicial system”). Barring suits for fraudulent inducement of settlement agreements would undermine, rather than buttress, the integrity and openness of the judicial process that the litigation privilege seeks to protect. *See Tru-Cal v. Conrad Kacsik Instrument Sys., Inc.*, 905 N.E.2d 40, 46 (Ind.Ct.App.2009) (recognizing a cause of action for fraudulent misrepresentation in procuring a settlement of litigation). Accordingly, we decline to anticipate or predict that Indiana courts would construct the privilege so expansively. Defendants’ fraud counterclaim may thus stand or fall on its merits.

B. Material Misrepresentation and Intent to Deceive

The first broad prerequisite for fraud liability is the existence of an intentionally deceptive written statement. In order to give rise to liability, Plaintiffs’ alleged *881 statements in the Settlement Agreement must have been “(1) material misrepresentation[s] of past or existing fact which (2) w[ere] untrue, (3) w[ere] made with knowledge of or in reckless ignorance of [their] falsity, [and] (4) [were] made with the intent to deceive.” *Lawyers Title Ins. Corp. v.*

Pokraka, 595 N.E.2d 244, 249 (Ind.1992). Defendants take issue with this formulation of the fraud standard, insisting that a misrepresentation may be actionable if the responsible party knowingly caused another to rely on it, even if it was not made with an “intent to deceive.” Docket No. 349 at 28–29. In support of this—ostensibly—alternative interpretation

of the governing Indiana law, Defendants cite *Rosenbaum v. Seybold*, 2011 WL 3843946 (N.D.Ind. Aug. 30, 2011), which did indeed recite a different formula. The court there stated that a misrepresentation can serve as the basis for fraud liability where it “was made with knowledge of or in reckless ignorance of its falsity ... [and] was made with the intent to deceive or induce the plaintiff to act.” *Rosenbaum*, 2011 WL 3843946, at *16 (emphasis added).

[4] [5] The distinction, however, is illusory. As the Indiana courts have explained, the concept of intentionality is inseparable from the tort of fraud. “An intent to deceive, or ‘scienter,’ is an element of actual fraud, whether classified as a knowing or reckless misrepresentation or as an additional element to a knowing or reckless misrepresentation.” *Wright v. Pennamped*, 657 N.E.2d 1223, 1230 (Ind.Ct.App.1995). *See also Francis v. AIT Labs.*, 2008 WL 4585423, at *5 (S.D.Ind. Oct. 14, 2008). A tortfeasor’s state of mind, of course, can seldom be proved directly; evidence that a defendant knew, or should have known, that a representation would induce reliance is one of several factors that may be probative of *scienter*. “Proof of intent to deceive is determined by a review of all of the relevant factors of the particular case.... Where a person knowingly or recklessly makes false representations which the person knows or should know will induce another to act, the finder of fact may logically infer an intent to deceive.” *In re McGinnis*, 2010 WL 4956376, at *3 (Bankr.S.D.Ind. Nov. 30, 2010) (citing *Mayer v. Spanel Int’l, Ltd.*, 51 F.3d 670, 673 (7th Cir.1995)).⁹ Defendants’ proposed definition confuses the required state of mind for fraud with a means of proving such a mental state; they are correct, however, to the extent they assert that their fraud counterclaim can survive summary judgment even if only indirect evidence of Plaintiffs’ intentions exists.

Plaintiffs urge that HK USA’s representations regarding its ownership of the MP5 intellectual property in the 2009 Agreement were not actually false—or, alternatively, that the representations were made in forgivable ignorance of their falsity. According to Plaintiffs, this is because the assignment

was not complete until HKG accepted it in June 2010—and HK USA's recitations that they still owned the MP5 intellectual property in the 2009 Agreement were thus both true and made in good faith. We are thus presented with two questions: first, whether the Assignment was complete upon execution; and second, if so, whether HK USA and its agents intentionally deceived Defendants in 2009 by failing to disclose the Assignment.

***882** The first question is one of contract interpretation—and may therefore be decided as a matter of law. *TW Gen. Contracting Servs., Inc. v. First Farmers Bank & Trust*, 904 N.E.2d 1285, 1287–1288 (Ind.Ct.App.2009) (“Summary judgment is especially appropriate in the context of contract interpretation because the construction of a written contract is a question of law.”). Both parties concede that Virginia law governs the Assignment, which was executed in Virginia by HK USA, a firm incorporated in that state. *See* Am. Compl. ¶ 5; Docket No. 251–2 at 5. Pointing to a decision of the Eastern District of Virginia, *McCloskey & Co., Inc. v. Wright*, 363 F.Supp. 223 (E.D.Va.1973), Plaintiffs note the general rule that since mutual assent is required for a contract to be valid, “an assignment does not take effect until the assignee has tendered formal acceptance.” 363 F.Supp. at 228 (citing 6A C.J.S. § 73). We can thus conclude as a matter of law that the Assignment was complete only when HKG had manifested its assent to the transfer.¹⁰

Plaintiffs' contention that HKG did not manifest this assent until it “accepted” the Assignment in June 2010, however, is contradicted both by the text itself and by Plaintiffs' previous statements to the Court. The Assignment speaks of the two entities' meeting of the minds in the past tense, reciting that they had exchanged “good and valuable consideration, receipt of which is hereby acknowledged.” Docket No. 251–2 at 5. In their court filings, Plaintiffs have conceded, implicitly or explicitly, that the Assignment was effective at the date of its execution, just as it appears to be on its face. In a reply brief in support of their motion to amend their complaint, Plaintiffs stated in March 2012 that the MP5 “rights were assigned on March 19, 2009,” and that “[a]ssignment of the registered MP5 marks from HK USA to HK GmbH, a matter of public record, was effectuated March 19, 2009 and recorded on June 20, 2010.” Docket No. 39 at 7, 8–9. More recently, in answering Defendants' amended counterclaims, Plaintiffs stated that the “publicly-filed Short Form Assignment speaks for itself.” Docket No. 265 at ¶ 26. Still more recently, in a November 2014 motion for interlocutory appeal of an earlier

ruling, Plaintiffs unequivocally state, as “undisputed” facts, that: “HK USA assigned the MP5 trademark to HKG on March 19, 2009” and “HK did not disclose the assignment of the trademark to GSG/ATI before the execution of the Settlement Agreement.” Docket No. 399 at 6, ¶¶ 2, 6. The only evidence that Plaintiffs present to support their theory of a belated 2010 “acceptance” by HKG is the declaration of HKG's attorney, Isolde Kurz-Cooper. Cooper Decl. ¶ 10. Plaintiffs do not claim that there was any written memorialization of this acceptance, nor does Cooper provide any further details than this bare assertion. Even assuming that Cooper had the requisite firsthand knowledge to convert her statement into admissible evidence, we decline to accept Plaintiffs' newly-proffered and clearly self-serving theory when it cuts so clearly against the consistent body of their own statements on the question.¹¹ *See Bank *883 Leumi Le-Israel, B.M. v. Lee*, 928 F.2d 232, 237 (7th Cir.1991) (“We have consistently held that a genuine issue of material fact cannot be established by a party contradicting his own earlier statements unless there is a plausible explanation for the incongruity.”) (citing *Richardson v. Bonds*, 860 F.2d 1427, 1433 (7th Cir.1988)).

A genuine issue of material fact remains, however, with respect to Plaintiffs' intent to defraud. HK USA's president G. Wayne Weber, who signed both the Assignment and the Agreement on the company's behalf, did state that he “expected them [GSG, ATI, and Orion] to rely on the representations made by HK” in the discussions leading to the 2009 settlement. Docket No. 332–1 (Weber Aug. 2014 Dep.) at 91–92.¹² Nonetheless, he maintained in his testimony that, in his view at the time, the Assignment had no direct bearing on the ongoing 2009 litigation: “I really didn't compare the two or relate the two. This was an internal document between HKG and HKI, in my opinion.”¹³ Docket No. 330–5 (Weber June 2014 Dep.) at 55–56. In other words, as Plaintiffs have argued, Weber did not see the Assignment as material to the 2009 Agreement because the settlement expressly bound not only HK USA, but any “parents, subsidiaries, successors, and assigns.” Docket No. 45–1 at 5, ¶ 21. A reasonable jury could infer Plaintiffs' deceptive intent from the plain words and meaning of the Assignment itself, but Defendants have offered no evidence that directly contradicts Weber's account. We therefore conclude that the issue of intent cannot be resolved in either party's favor at this stage of the proceedings.

C. Reliance and Proximate Causation

The intertwined issues of reliance and proximate cause have been the focus of the parties' arguments through several stages of the litigation. We conclude, at last, that Defendants have failed to meet their evidentiary burden, and that summary judgment on the fraud counterclaim must therefore be granted in Plaintiffs' favor.

[6] For a claimant to recover under a fraud theory, "it must show that it had a right to rely on the ... misrepresentations and that it did in fact rely on the misrepresentations to its detriment." *Young v. Thompson*, 794 N.E.2d 446, 448 (Ind.Ct.App.2003) (quoting *884 *Scott v. Bodor, Inc.* 571 N.E.2d 313, 321 (Ind.Ct.App.1991)). The right of reliance may often be more difficult to determine than the fact of reliance, for "the legal obligation that a person exercise the common sense and judgment of which he is possessed is a practical limitation on the actionability of various representations." *Plymale v. Upright*, 419 N.E.2d 756, 762 (Ind.Ct.App.1981). In order to prevail on their fraud counterclaim, Defendants must therefore establish that they reasonably relied on HK USA's misrepresentations with respect to its ownership of the MP5 rights contained in the 2009 Settlement Agreement, and that this reliance proximately caused their damages. *See* Docket No. 251 at ¶¶ 38–39.

1. The right of reliance

The parties first join issue on the *right* of reliance—whether a litigant in the position of GSG and ATI in the 2009 litigation could ever reasonably rely on the representations of their party opponents in the preliminary clauses of a settlement agreement. In a previous ruling on Plaintiffs' motion to dismiss the fraud counterclaim, we concluded that Defendants had adequately stated a claim with respect to reliance; in doing so, we refused to foreclose, as a matter of law, the possibility that GSG and ATI could have reasonably relied on Plaintiffs' misrepresentations in signing the 2009 Agreement. *See* Docket No. 215 at 16–17. Plaintiffs now urge that no right of reliance ever existed, for two reasons: first, because the alleged misrepresentations were only "preliminary recitals" to a contract and thus not the proper subjects of reliance; and second, because adversaries in a lawsuit cannot reasonably rely on the representations of their opponents in arm's length settlement negotiations.

Plaintiffs assert that, because the preliminary recitals of a settlement agreement are "typically restatements of the very issues over which the parties disagreed in the litigation,"

they should not be considered "misrepresentations" giving rise to an opponent's reasonable reliance. Docket No. 330 at 17–18. "[I]n nearly 200 years of jurisprudence," they add, "Counterclaim Defendants are not aware of a single Indiana state court opinion holding that the preliminary recitals of a settlement agreement may form the basis of a fraud claim." *Id.* While Plaintiffs are correct that Indiana law has not endorsed recovery for a fraud claim based on such "preliminary recitals," neither has it specifically foreclosed such a possibility. Rather, Indiana courts have recognized that preliminary recitals, although less probative than the language of the "body" of a contract, may be useful in interpreting the contract as a whole. In *Stech v. Panel Mart, Inc.*, 434 N.E.2d 97 (Ind.Ct.App.1982), the Indiana Court of Appeals read a preliminary recital as "clearly establish[ing] the intention of the parties" and as "eras [ing] the ambiguity" which clouded the body of the contract as to its meaning. 434 N.E.2d at 101. *Cf. Kerfoot v. Kessener*, 227 Ind. 58, 84 N.E.2d 190, 199 (1949) (observing that "the preliminary recitals of the contract may be of some value, but they are not contractual, and can not [sic] be permitted to control the express provisions of the contract which are contractual in nature"). The Seventh Circuit, in a decision applying Indiana law, ruled that a party was estopped from reciting in a contract's preliminary clauses that it was "engaged in the business of selling scientific and rare earth metals" and then later claiming to be inexperienced in the subject. *Taurus Holding Co. of Am., Inc. v. Thompson*, 129 F.3d 1268, at *36 (7th Cir.1997).¹⁴ To be sure, where a settlement agreement expressly states that its contents are jointly authored, as does the *885 Agreement here, *see* Docket No. 45–1 at ¶ 15, it is implausible as a matter of fact that one party could "rely" on *any* statement contained in the agreement, or that such reliance would be reasonable—as we discuss below. But we believe it is fair to construe the statements that "HK owns a federal trademark registration in the mark 'MP5'" and "HK claims to own in the United States a proprietary trade dress comprised of the design of certain elements of the MP5 firearms" as the distillation of HK USA's litigation stance, which it was reaffirming in writing by endorsing the jointly-constructed Agreement. Docket No. 45–1 at 1, ¶ 15.

Second, Plaintiffs assert that GSG, ATI and Orion cannot have reasonably relied on HK USA's representations in the Agreement because it was a settlement negotiated at arm's length, and as such, Defendants' "duty ... to be diligent in safeguarding [their] interests" foreclosed any right of reliance. *See Young*, 794 N.E.2d at 449

(citing *Plymale*, 419 N.E.2d at 762). In doing so, they rely primarily on *Prall v. Indiana National Bank*, 627 N.E.2d 1374 (Ind.Ct.App.1994), in which the Indiana Court of Appeals rejected the argument of a party to a liability release agreement that it had been fraudulently induced to sign the agreement by false oral representations.

627 N.E.2d at 1378–1379. There, the court found that the plaintiff had “presented no evidence or argument to show that [defendant’s] alleged misrepresentations about the disbursements induced him to sign the release Also, in executing the release [plaintiff] was an adverse party dealing at arms length with [defendant].” *Id.* at 1379.

We agree with Defendants that the present case is distinguishable, and the general rule Plaintiffs seek to derive from *Prall* is overbroad. *Prall* dealt with an agreement’s integration clause, and the policy interest in reconciling the possibility of claims for fraudulent inducement with the dictates of the parol evidence rule. As the Indiana court in a similar case put it: “The exception for a party who has ‘been induced by a fraudulent misrepresentation to enter the contract,’ must not be stretched or inflated in a way that would ‘severely undermine the policy of the parol evidence rule.’”

Circle Ctr. Dev. Co. v. Y/G Ind., L.P., 762 N.E.2d 176, 180 (Ind.Ct.App.2002) (quoting *Urschel Farms, Inc. v. Dekalb Swine Breeders, Inc.*, 858 F.Supp. 831, 840 (N.D.Ind.1994)). Here, Defendants do not seek to void a release on the grounds that it was fraudulently induced by oral statements; rather, the misrepresentations to which they point are present on the face of the Agreement itself. See *Tru-Cal, Inc. v. Conrad Kacsik Instrument Sys., Inc.*, 905 N.E.2d 40, 46 (Ind.Ct.App.2009) (distinguishing *Prall*, which “dealt with alleged oral misrepresentations made prior to the execution of the contract,” from facts in which “the alleged fraud ... involves a forged employment agreement that was filed in a court of law”).

[7] [8] [9] Plaintiffs also overreach in citing *Prall* as establishing a general rule that “[a] prerequisite to the right of reliance is that the relying party be in a subordinate position.”¹⁵ Docket No. 330 at 19 (citing *886 *Prall*, 627 N.E.2d at 1379). Instead, Indiana law cautions that while a party who was not in a subordinate bargaining position may still be the victim of fraud, such a party has no excuse from its duty to “exercise the common sense and judgment of which he is possessed.” *Thompson*, 794 N.E.2d at 448. “[W]here persons stand mentally on equal footing, and in no fiduciary

relation, the law will not protect one who fails to exercise common sense and judgment.” *Id.* (quoting *Plymale*, 419 N.E.2d at 762). This means, for instance, that a party negotiating at arm’s length—and represented by an attorney—cannot claim to have been defrauded by an agreement he failed to read carefully. See *Plymale*, 419 N.E.2d at 762 (“Common sense dictates, and our system of jurisprudence requires ... that parties engaged in the negotiation of a contract ... be obligated to protect their interest by reading the attendant documents before signing.”). Nor can a party to an agreement claim that he was defrauded if he “plainly had the means at hand to unearth the fraud” before signing on. See *Tru-Cal*, 905 N.E.2d at 46. Here, however, it is not apparent that the falsity of HK USA’s representation could have been revealed by the exercise of reasonable diligence. Although it may true, as Plaintiffs insist, that the PTO website showed a record of HKG’s request that its own application for the MP5 trademark be held in abeyance because an assignment of the rights from HK USA was “being worked,” Docket No. 330–3 at 22, accessing this information would hardly have given GSG and ATI notice that the assignment was complete. See Docket No. 363 at 3. PTO records showed as of October 2009 that HK USA was the registered holder of the MP5 trademark, and indeed it still was; neither the PTO nor anyone else outside the Heckler & Koch corporate family was apparently aware that an assignment of the rights had already been executed. Under such circumstances, we cannot conclude that any reliance upon HK USA’s alleged misrepresentations would have been inherently unreasonable.

2. The fact of reliance

[10] It is upon the *fact* of reliance that Defendants’ fraud counterclaim founders. In denying Plaintiffs’ motion to dismiss, we concluded that Defendants had successfully pleaded their reliance, judging that “it is at least plausible that [Defendants’] willingness to pay \$300,000 to settle the [2009] litigation reflected their judgment that HK’s claims of trademark infringement had merit—a judgment informed by HK’s representations that it owned the MP5 trademark.” Docket No. 215 at 16–17. In a second ruling on Plaintiffs’ motion to dismiss the amended counterclaim, we held that Defendants had also sufficiently pleaded proximate causation. See Docket No. 298 at 17–23.¹⁶ We have also observed, *887 however, that Defendants’ theories face an “uphill evidentiary climb”—for in order to prevail on their claim, they must “reconstruct history, showing that a misrepresentation caused them damages they would not have

suffered otherwise.” Docket No. 298 at 29–30. As the Seventh Circuit has often bluntly stated, “summary judgment is the ‘put up or shut up’ moment in a lawsuit, when a party must show what evidence it has that would convince a trier of fact to accept its version of events.” *Johnson v. Cambridge Indus., Inc.*, 325 F.3d 892, 901 (7th Cir.2003) (quoting *Schacht v. Wis. Dep’t of Corr.*, 175 F.3d 497, 504 (7th Cir.1999)). Measured against that standard, we find Defendants’ evidence of reliance wanting.

The strongest evidence weighing against Defendants is the Settlement Agreement itself. One of the Agreement’s preliminary recitals reads as follows:

WHEREAS, GSG, ATI and Orion have filed in said Lawsuit *Defendants’ Answer and Counterclaim* in which they seek a judgment declaring, *inter alia*, that their activities do not infringe, and have not infringed, any intellectual property rights of HK or otherwise violate any law, and that HK does not own the trademark, trade dress and other intellectual property rights it claims to own.

Docket No. 45–1 at 1. In the body of the Agreement itself, Defendants make the following statement:

9. *No admission of liability.* In entering into this Agreement, Defendants make no admission of liability for the claims made against them in the Lawsuit or otherwise acknowledge the existence of any rights claimed by HK. Similarly, HK makes no admission of the validity of Defendants’ contentions and/or claims in this proceeding against HK.

Id. at ¶ 9 (emphasis added). Defendants counter that these statements in the Agreement are “nothing other than a rephrasing of Defendants’ counterclaim in the 2009 Litigation,” and were not intended to reflect Defendants’ actual *belief* at the time the Agreement was signed. Docket

No. 349 at 25. This argument is a double-edged sword for Defendants: if these contractual statements are not construed as “representations” on their part, then the preliminary recitals on which the entire fraud counterclaim is based—whose language is markedly similar—can hardly be construed as “representations” themselves.¹⁷ See Docket No. 45–1 at 1. The Agreement stipulates that it has been “drafted jointly by all of the parties” in its entirety. *Id.* at ¶ 15. Either this nominal joint authorship renders its characterizations of the parties’ respective positions unfit to be attributed to either party individually—in which case the foundation of the fraud counterclaim falls away entirely for lack of any specific misrepresentation on Plaintiffs’ part—or the parties’ statements therein should be taken at face value, in which case Defendants expressly disclaimed reliance. *Id.* at ¶ 9.

Even if we look beyond the Agreement’s text, Defendants have proven unable to show any affirmative evidence that they relied upon Plaintiffs’ false statement of *888 ownership to their detriment. Defendants argue that they assumed in October 2009 that HK USA owned the trademark and trade dress that it claimed to own, and that it was only based on that assumption that they were willing to pay HK USA \$300,000 and cease production of their GSG–5 weapon. Docket No. 349 at 23. It is a plausible explanation. But there is at least one other plausible explanation—that GSG and ATI settled in order to put an end to expensive litigation, stifle bad publicity, or protect business relationships,¹⁸ and that they meant what they said in the Agreement disclaiming any reliance on HK USA’s claim to have enforceable rights in the MP5. At any rate, argument—no matter how plausible—is insufficient to survive summary judgment; Defendants need *evidence* supporting an inference of reliance. They must show evidence permitting a fact-finder to conclude not only that signing the Agreement with Plaintiffs turned out to be a bad deal for Defendants, but that Defendants entered into that Agreement—and incurred those damages—specifically in reliance upon the misrepresentations at issue.

Defendants point to three pieces of testimony on the question, but none suffices to carry their burden. The first is the deposition of ATI president Anthony DiChario, who answered a question on cross-examination as follows:

Q: So if what I’m understanding is correct, the only thing that would have kept you from signing that very same Settlement Agreement with HK Germany as opposed to HK USA was your belief, whether correct or not, that HK

Germany is not allowed to bring a lawsuit in this country against you; is that right?

...

A: I told you I would not settle the suit with [HK] Germany. There would be no cause to it, no reason, no ability for them to control the commerce here in America unless they had an interest like HK USA here. I know that. I knew that when the suit started and it's not an option. I would not settle.

Docket No. 332-7 (DiChario Dep.) at 307. DiChario's testimony speaks to the strategic considerations governing the decision to settle a hypothetical 2009 suit initiated by HKG rather than HK USA; he did not testify as to whether GSG and ATI actually believed HK USA's representations or acted according to that belief.

Second, Defendants point to the testimony of GSG president Michael Swoboda, who testified in 2012 to his understanding of the nature of his company's fraud counterclaim against HK USA:

Q: Can you describe for me what your understanding was of the nature of those [counter]claims?¹⁹

...

A: One point is as I know that we have made a Settlement Agreement with the company. They have had no rights at all. So I'm a German, I know a little bit [sic] German. I'm not familiar with the U.S. law, but I can speak only for German law. If you make an agreement with company [sic] that has no rights it's fraud and my opinion is [that this] Settlement Agreement we have made is only confetti, nothing more, because this *889 company has had no rights at all, because they refer to the rights of another company.

Docket No. 332-2 (Swoboda Dep.) at 318-319. Mr. Swoboda's testimony establishes that, as of 2012, he believed that his company had been defrauded by HK USA—at least according to the standards of German law. It says nothing at all, however, about whether Defendants relied on the misrepresentations at issue in 2009.

Finally, Defendants refer us to the testimony of their expert Dr. Kenneth Germain, who opined:

The ownership issues that had developed by the time of the Settlement Agreement in the 2009 litigation so significantly undermined the validity of the MP5 registration and the enforceability of the MP5 mark that the HK Entities had unwarranted leverage to extract concessions from GSG/ATI because of the HK Entities' failure to disclose the vulnerability of the trademark to GSG/ATI.

Docket No. 251-3 (Germain Report) at 6. Accepting Germain's opinions as correct for the purposes of this motion would support the conclusion that the Settlement Agreement was worth less than the price Defendants paid for it. But as an outside expert, Germain did not, and could not, testify to the separate question of whether HK USA's "unwarranted leverage" *actually* influenced Defendants' calculations in signing the Agreement.

It seems clear to us that HK USA, at the very least, conducted itself in an underhanded manner by initiating a suit for trade dress infringement, assigning away the rights that formed the basis of the suit, and then settling the suit without disclosing the Assignment. Such behavior may have been subject to sanction by the court with jurisdiction over the 2009 Litigation. Liability for fraud is a different matter, however. As regrettable as it may be to allow such a failure of forthrightness to go unpunished, the law intentionally gives fraud claimants a steep mountain to climb, for "fraud is easy to allege and difficult to prove." See *Bower v. Jones*, 978 F.2d 1004, 1012 (7th Cir.1992). Defendants' claim here is fatally undermined by the plain text of the Agreement disavowing any reliance. While we recognize, of course, the abstract possibility that such language was disingenuous boilerplate, a reasonable fact-finder would need affirmative evidence to find it so. Defendants have come forth with some evidence that the Agreement was harmful to their interests, but not that it was Plaintiffs' misrepresentations, rather than other considerations, that prompted them to enter into it.

We accordingly GRANT Plaintiffs' motion for summary judgment on Counterclaim Count I and DENY Defendants' motion for summary judgment on that count.

II. Counterclaim Count III—Deception Under

Indiana Code § 35-43-5-3(a)

Defendants' Counterclaim Count III seeks treble damages under the Crime Victim Relief Act for Plaintiffs' crime of "deception." Docket No. 251 at ¶¶ 69-72. Both parties seek summary judgment on this count.

Indiana's Crime Victim Relief Act (CVRA), Ind.Code § 34-24-3-1, provides that a person who "suffers a pecuniary loss" as a result of another person's violation of certain criminal statutes may recover treble damages and other costs and fees. Ind.Code § 34-24-3-1. Among the crimes for which victims may obtain recovery under the CVRA is "deception," a Class A misdemeanor defined for purposes of this action as "knowingly or intentionally mak[ing] a false or misleading written statement with intent to obtain property, employment, or an educational opportunity." Ind.Code § 35-43-5-3(2). The factual *890 allegations underpinning Defendants' counterclaim for deception are the same as those upon which the fraud counterclaim is based—that Plaintiffs lied about their ownership of the MP5 intellectual property in the 2009 Settlement Agreement. Docket No. 251 at ¶¶ 69-70.

Plaintiffs seek summary judgment on three grounds: that the counterclaim is barred by the CVRA's statute of limitations, that Defendants have failed to establish the prerequisite elements for tort recovery, and that the counterclaim is barred by Indiana's litigation privilege. Plaintiffs' argument for the application of the litigation privilege merely reprises the theory they presented in relation to the fraud counterclaim, *see* Docket No. 330 at 33; we therefore reject that argument for the same reasons we outlined above. We address Plaintiffs' two remaining arguments in turn.

A. The Statute of Limitations

Because claims under the CVRA are "penal" in nature, Indiana courts have determined that a two-year statute of limitations applies. *Clark v. Univ. of Evansville*, 784 N.E.2d 942, 945-946 (Ind.Ct.App.2003) (citing *Browning v. Walters*, 616 N.E.2d 1040, 1046 (Ind.Ct.App.1993)). As Defendants point out, however, the state's "fraudulent concealment" statute may influence the two-year period's starting point: "If a person liable to an action conceals the fact from the knowledge of the person entitled to bring the action, the action may be brought at any time within the period of

limitation *after the discovery* of the cause of action." Ind.Code § 34-11-5-1 (emphasis added). This provision "effectively moves the date on which the statute of limitation[s] begins to run forward from the date of the alleged tort to the discovery date." *Allredge v. Good Samaritan Home, Inc.*, 9 N.E.3d 1257, 1262 (Ind.2014) (citing *Malachowski v. Bank One, Indianapolis*, 590 N.E.2d 559, 563 (Ind.1992)).

Defendants first asserted this deception counterclaim on July 13, 2012, when they filed their first Answer and Counterclaims. *See* Docket No. 56. The claim is therefore barred by the two-year statute of limitations if Defendants knew of, or should have known of, the alleged deception before July 13, 2010. *See Laun v. Laun*, 2008 WL 90778, at *12-15 (N.D.Ind. Jan. 9, 2008). Plaintiffs insist that, even if the "date of discovery" rule applies, the two years should have begun to run on June 20, 2010, when Plaintiffs filed the Assignment with the PTO—thus, according to their account, giving Defendants "constructive notice" of the alleged deception they had suffered. Docket No. 330 at 31-32 (citing 15 U.S.C. § 1060(4)).

[11] [12] [13] The key issue raised by Plaintiffs' statute of limitations defense is therefore whether, and for how long, Plaintiffs concealed the Assignment from Defendants after the date the alleged harm occurred in 2009. "The law narrowly defines concealment, and generally the concealment must be active and intentional." *Olcott Int'l & Co. v. Micro Data Base Sys., Inc.*, 793 N.E.2d 1063, 1072 (Ind.Ct.App.2003). "The affirmative acts of concealment must be calculated to mislead and hinder a plaintiff from obtaining information by the use of ordinary diligence, or to prevent inquiry or elude investigation. There must be some trick or contrivance intended by the defrauder to exclude suspicion and prevent inquiry." *Johnson v. Blackwell*, 885 N.E.2d 25, 32 (Ind.Ct.App.2008). As to the alleged victim, "to invoke the protection provided by this statute ... the plaintiff is charged with the responsibility of exercising due diligence to discover the claims." *Malachowski*, 590 N.E.2d at 563-564 (citing *Hinds v. McNair*, 235 Ind. 34, 129 N.E.2d 553, 560 (1955)).

*891 This is a strenuous standard, and Plaintiffs lean on it, arguing that, had Defendants exercised due diligence, they would have discovered the publicly-available PTO record of the assignment any time after HKG registered it in June 2010. Docket No. 330 at 32 (citing Docket No. 251-2). But even if it is true that Plaintiffs were guilty of no "active and

intentional” concealment after they registered the Assignment with the PTO, it would be unreasonable to expect GSG and ATI to be vigilant in searching PTO records in June 2010 on the off-chance that they might find that HK USA had deceived them in a long-since-completed negotiation. HK USA's failure to disclose the Assignment when the disclosure would have had relevance—that is, during the 2009 litigation—was arguably the type of concealment necessary to toll the limitations period. Defendants state that they did not learn of the Assignment until Plaintiffs incidentally disclosed it on February 10, 2012 in the connection with the current litigation, and they asserted the deception counterclaim some five months thereafter. *See* Docket No. 39 (Plaintiff's motion to amend complaint). Summary judgment is inappropriate on Plaintiffs' statute of limitations defense where there is at least a question of fact as to whether, in the exercise of reasonable diligence, Defendants should have known about the cause of action before they actually learned of it. *See Laun*, 2008 WL 90778, at *12–15 (finding summary judgment not warranted on a CVRA claim because there was a genuine factual issue regarding the claimant's date of discovery). The statute of limitations issue is ultimately academic, however, because Defendants have not established the necessary elements of their deception claim.

B. Elements of the Deception Claim

[14] [15] The CVRA is “punitive in nature and must be strictly construed.” *Flaherty & Collins, Inc. v. BBR-Vision I, L.P.*, 990 N.E.2d 958, 968 (Ind.Ct.App.2013); *NationsCredit Commercial Corp. v. Grauel Enters., Inc.*, 703 N.E.2d 1072, 1078 (Ind.Ct.App.1998). In order to obtain a civil recovery under the statute, Defendants must accordingly “show a violation of at least one of the code sections listed in the statute and must demonstrate that the violation caused the loss suffered by the plaintiff.” *Flaherty*, 990 N.E.2d at 968 (citing *McLemore v. McLemore*, 827 N.E.2d 1135, 1144 (Ind.Ct.App.2005)).

[16] [17] In addition to proof of a prohibited act and proximate causation, Plaintiffs contend that Defendants are required to establish reliance, just as they were in order to recover for fraud. Docket No. 330 at 32. Plaintiffs rely for this assertion primarily on *Puller Mortgage Associates, Inc. v. Keegan*, 829 F.Supp. 1507 (S.D.Ind.1993), a decision in which the Southern District of Indiana court found that deception and other statutory offenses are “based on and are essentially permutations of” common law fraud—and

thus implicitly endorsed the notion that proof of reliance is a prerequisite of recovery for deception under the CVRA.

829 F.Supp. at 1521. This is not quite correct. As the United States Supreme Court has noted, “[r]eliance is not a general limitation on civil recovery in tort; it ‘is a specialized condition that happens to have grown up with common law fraud.’ ” *Bridge v. Phoenix Bond & Indem. Co.*, 553 U.S. 639, 655–656, 128 S.Ct. 2131, 170 L.Ed.2d 1012 (2008) (quoting *Anza v. Ideal Steel Supply Corp.*, 547 U.S. 451, 477, 126 S.Ct. 1991, 164 L.Ed.2d 720 (2006) (Thomas, J., concurring in part and dissenting in part)). In Indiana, of course, “no common-law crimes exist, and the legislature fixes the elements necessary for any statutory crime. We may not read into a statute that which is not the expressed intent of the legislature.” *Am. Heritage Banco, Inc. v. *892 McNaughton*, 879 N.E.2d 1110, 1117–1118 (Ind.Ct.App.2008) (quoting *Knotts v. State*, 243 Ind. 501, 187 N.E.2d 571, 573 (1963) (additional citations omitted)). A reliance element is prescribed in neither the deception criminal statute, Ind.Code § 35–43–5–3(a), nor the CVRA statute providing for civil recovery, Ind.Code § 34–24–3–1, nor the Indiana case law interpreting the CVRA, *Flaherty & Collins*, 990 N.E.2d at 968; *Squires v. Utility/Trailers of Indianapolis, Inc.*, 686 N.E.2d 416, 420–421 (Ind.Ct.App.1997). We therefore decline, in accord with the Indiana courts, to read an explicit reliance requirement into these statutes. *See Am. Heritage Banco*, 879 N.E.2d at 1118; *Decatur Ventures, LLC v. Stapleton Ventures, Inc.*, 373 F.Supp.2d 829, 851 (S.D.Ind.2005) (“The Plaintiffs must simply show by a preponderance of the evidence that the Defendants committed the crime of deception, and that as a result Plaintiffs suffered a pecuniary loss.”).

[18] [19] Plaintiffs' argument for summary judgment prevails in spite of their definitional overreach, however. Here, as is so often the case, proof of reliance is intertwined with proof of proximate cause. In order for one party's act to be the proximate cause of another's harm, it “must have set in motion a chain of circumstances that in natural and continuous sequence lead to the resulting injury. Proximate cause requires, at a minimum, that the harm would not have occurred but for the defendant's conduct.” *Carey v. Ind. Physical Therapy, Inc.*, 926 N.E.2d 1126, 1129 (Ind.Ct.App.2010) (citing *Hamilton v. Ashton*, 846 N.E.2d 309, 316 (Ind.Ct.App.2006)). The only pathway in this case through which Plaintiffs' written misrepresentations could have harmed Defendants is the Settlement Agreement—

and those misrepresentations could not have been the “but for” cause of Defendants' decision to sign that Agreement unless Defendants *relied* upon them. Defendants attempt to establish proximate cause by pointing to evidence that the Agreement damaged them, chiefly because Plaintiffs' loss of standing after the Assignment undermined the strength of their infringement claims.²⁰ But this evidence suffers from the same fundamental flaw as Defendants' putative evidence of reliance: it may establish the materiality of Plaintiffs' misrepresentations, but it fails to build a bridge between the lie and the loss—in particular, by offering no counterweight to Defendants' own contractual disclaimer of reliance.

For the same reason that we granted Plaintiffs' motion for summary judgment against the fraud counterclaim, we therefore GRANT Plaintiffs' motion for summary *893 judgment as to Defendants' Counterclaim Count III for deception, and DENY Defendants' motion for summary judgment on that count.

III. Counterclaim Count VII—Tortious Interference with Business Relationship

[20] Both parties seek summary judgment on Count VII of Defendants' counterclaims, which alleges that Plaintiffs tortiously interfered with GSG and ATI's business relationships in the course of the 2009 litigation. In order to prevail on a tortious interference claim, a claimant must establish the following: (1) the existence of a valid relationship; (2) the defendant's knowledge of the existence of the relationship; (3) the defendant's intentional interference with that relationship through some independent unlawful acts; (4) the absence of justification; and (5) damages resulting from defendant's wrongful interference with the relationship. *Meridian Fin. Advisors, Ltd. v. Pence*, 763

F.Supp.2d 1046, 1063 (S.D.Ind.2011). *See also* *Levee v. Beeching*, 729 N.E.2d 215, 222 (Ind.Ct.App.2000) (citing *Bradley v. Hall*, 720 N.E.2d 747, 750 (Ind.Ct.App.1999)).

Defendants assert that HK USA committed tortious interference by filing the 2009 lawsuit, maintaining it after it had surreptitiously assigned to HKG the MP5 intellectual property rights, and serving subpoenas on Defendants' business partners during the 2009 litigation. More specifically, they state that Orion Arms Corporation, an ATI customer, ceased making weapons purchases from ATI after Plaintiffs named it as a co-defendant with GSG and ATI in the 2009 lawsuit. Docket No. 330–9 (ATI's Third

Supplemental Answers to Interrogatories) at 5. Defendants list a further 13 ATI customers who they assert reduced their business relationships with Defendants—or ceased them entirely—after Plaintiffs served them with subpoenas on August 24, 2009, in connection with the 2009 litigation.²¹ *Id.* at 6–7. According to ATI president DiChario, these subpoenas and the threat of subpoenas were driving forces behind ATI's decision to settle the 2009 litigation. Docket No. 118–1 (DiChario Decl.) at ¶ 8. Lastly, Defendants add an allegation that was not present in their original pleadings—that their relationship *with each other* was damaged by Plaintiffs' actions, since manufacturer GSG lost the ability to sell retailer ATI “its most profitable product line, the GSG–5 firearms,” as a result of clauses in the Agreement. Docket No. 349 at 44–45. *See also* Docket No. 332 at 49.

[21] As a preliminary matter, we note that damage to the relationship between GSG and ATI themselves is not a valid basis for a tortious interference with business relationship claim. Plaintiffs have designated evidence, uncontroverted by Defendants, that the relationship between GSG and ATI at the time of the settlement of the 2009 litigation was governed by a written “Exclusive Distribution Agreement” between them. Docket No. 347–11 (Exclusive Distribution Agreement)²²; Docket No. 237–10 (Swoboda Dep.) at 159. As the Indiana Court of Appeals explained in *Murat Temple Association v. Live Nation Worldwide, Inc.*, 953 N.E.2d 1125 (Ind.Ct.App.2011), “an action for intentional interference with a business relationship arises where there is no contract underlying *894 the relationship.” 953 N.E.2d at 1132 (citing *Levee v. Beeching*, 729 N.E.2d 215, 220 (Ind.Ct.App.2000)). We therefore consider only Defendants' allegations relating to interference with their non-contractual business relationships. *Id.*

As to Defendants' cognizable claims for tortious interference, Plaintiffs advance four arguments for summary judgment: (1) that the counterclaim is barred by Indiana's litigation privilege, (2) that HK USA's actions in the 2009 Litigation were justified, (3) that HK USA committed no “independent unlawful acts,” (4) that Defendants have failed to show damages. Docket No. 330 at 33–34. We reach only the first of these arguments.

[22] We have already addressed, and rejected, Plaintiffs' general arguments for construing Indiana's litigation privilege to bar Defendants' counterclaims for fraud and deception. This counterclaim, however, is based on a different series

of predicate acts: HK USA's filing and maintenance of the 2009 Litigation against GSG, ATI, and Orion and the serving of subpoenas on Defendants' other business partners in connection with that action. As such, the question of the litigation privilege warrants consideration anew.²³

Plaintiffs contend that "Indiana has explicitly expanded the litigation privilege to preclude tortious-interference claims arising from statements in litigation." Docket No. 330 at 35 (citing *Estate of Mayer v. Lax, Inc.*, 998 N.E.2d 238, 249 (Ind.Ct.App.2013)). In fact, they urge, Indiana courts have countenanced the expansion of the privilege in this context to apply to "statements in litigation even where the statements are not alleged to be defamatory. In other words, a statement is privileged against a tortious-interference claim simply if it is made in litigation." *Id.* at 36 (citing

Watson Rural Water Co. v. Ind. Cities Water Corp., 540 N.E.2d 131, 139 (Ind.Ct.App.1989)). Defendants rest on their previous arguments, apparently confident that the reasoning that excluded Plaintiffs' alleged fraud and deception from the litigation privilege will suffice here. Defendants err in giving the issue such short shrift, for we conclude that the privilege does apply to the tortious interference claim, warranting summary judgment in favor of Plaintiffs.

The two recent Indiana cases cited by Plaintiffs lend weight to their argument. In *Estate of Mayer v. Lax, Inc.*, 998 N.E.2d 238 (Ind.Ct.App.2013), a party brought claims for defamation, negligent supervision and retention, tortious interference with a business relationship, and tortious interference with a contract against its opponent in a prior action, on the grounds that the opponent had brought counterclaims in that action accusing it of conspiracy, bribery, racketeering, and other species of chicanery. 998 N.E.2d at 243–244, 249. Rejecting the *895 argument that the absolute litigation privilege would bar *all* of the derivative claims, the court nevertheless agreed that the privilege could extend beyond the narrow bounds of defamation: "Other torts *related to defamation*, or relying upon defamatory statements as proof of wrongdoing," the court concluded, "may also be barred by the litigation privilege." *Id.* at 249 (emphasis added). Thus, the court applied the privilege to an action for tortious interference, reasoning that the statement upon which the claim was based was analogous to defamation. In

Watson Rural Water Co. v. Ind. Cities Water Corp., 540 N.E.2d 131 (Ind.Ct.App.1989), the court held that a party's public statement of its contested litigation position was both an improper predicate act for tortious interference liability and

shielded by the litigation privilege. 540 N.E.2d at 139. The court explained:

In its counterclaim Watson essentially contends that Indiana Cities' public representations, that it, rather than Watson, had the right to provide water utility service to the hospital and other disputed areas, constituted interference with Watson's business relationships. Such representations made in good faith, simply do not constitute illegal acts sufficient to support a claim of tortious interference with a business relationship. *Furthermore*, insofar as Indiana Cities representations were made within the context of litigation, *such representations are privileged and will not serve as a basis for liability.*

Id. (citing *Briggs v. Clinton Cnty. Bank & Trust Co.*, 452 N.E.2d 989, 997 (Ind.Ct.App.1983)) (emphasis added).

Here, Defendants allege that Plaintiffs maintained a baseless²⁴ lawsuit against them and Orion and subpoenaed a number of their business associates in connection with that suit—with the effect that at least some of those associates curtailed their dealings with Defendants. The gravamen of the claim is that HK USA publicly accused Defendants of infringing its trade dress rights when it lacked a sound basis for doing so; Defendants therefore allege, at least in part, a reputational injury. While this is not a defamation claim, in other words, it occupies the same conceptual neighborhood. *See Kelley v. Tanoos*, 865 N.E.2d 593, 596 (Ind.2007) (noting that a communication is defamatory if it "tend[s] to harm a person's reputation by lowering the person in the community's estimation or deterring third persons from dealing or associating with the person") (quoting *Rambo v. Cohen*, 587 N.E.2d 140, 145 (Ind.Ct.App.1992)).

There is also no doubt that HK USA's communications arose in the context of litigation and were pertinent to that litigation.

See Briggs, 452 N.E.2d at 997 (noting that the "relevancy

or pertinency” of a communication to litigation is a matter of law, and is to be construed liberally). “Lawsuits are not peace conferences. Feelings are often wounded and reputations are sometimes maligned.” *Estate of Mayer*, 998 N.E.2d at 247. Forms of redress do exist for a party that has been injured by another’s misuse of the litigation process; “not everything a lawyer files in court on behalf of a client is absolutely privileged from being the subject of a lawsuit by a third party.”

Id. at 250. *896 See also *Briggs*, 452 N.E.2d at 998. Causes of action for malicious prosecution or abuse of process exist to fulfill this remedial purpose, and the Indiana courts, like those of other states, have recognized that it would be illogical to allow the litigation privilege to apply to claims of that type. See *Estate of Mayer*, 998 N.E.2d at 250 (Holding that malicious prosecution and abuse of privilege “causes of action are based on the malicious or abusive use of the judicial system and are not subject to an absolute privilege”);

Trotter v. Ind. Waste Sys., Inc., 632 N.E.2d 1159, 1164 (Ind.Ct.App.1994) (applying privilege to bar a slander of title claim but not one for malicious prosecution). We conclude that Indiana’s litigation privilege does, however, apply to bar the cause of action Defendants have asserted here.

There is significant conceptual overlap between the litigation privilege and the “lack of justification” element necessary to establish a tortious interference claim. Because we have interpreted Indiana case law in a manner that would bar tortious interference suits based on the filing of a lawsuit, we pause briefly to address a previous, unpublished decision of this Court that employed a different analytical approach. In support of their argument that the acts upon which their tortious interference counterclaim is based were unjustified, Defendants rely on *Square D Co. v. Breakers Unlimited, Inc.*, 2009 WL 1407017, *2 (S.D.Ind. May 19, 2009). There, as here, the court addressed a defendant’s counterclaim that the filing of a lawsuit constituted tortious interference. Though admitting that Indiana precedent was not conclusive of the question, the *Square D* court held that the filing of a lawsuit—at least where not in bad faith—could never give rise to such a claim.

While the Indiana Supreme Court has not spoken directly on this issue, this Court determines that the filing and/or prosecution of a legitimate—that is, not frivolous—lawsuit cannot form the basis of a tortious interference

claim under Indiana law If a party has a legitimate legal claim against a competitor, the party is “justified” in pursuing that claim, even if by doing so it might interfere with its competitor’s business relationships.

2009 WL 1407017, at *2. Relying on the negative implication of this language, Defendants insist that their tortious interference claim remains viable so long as a fact-finder could determine that HK USA’s 2009 suit was in bad faith. Docket No. 349 at 46–47.

The court in *Square D* did not explicitly consider the applicability of the litigation privilege. In a footnote, however, it did ruminate on the possibility that a more categorical bar would apply to this type of suit:

It is possible that if the Indiana Supreme Court considered the issue it might agree with Illinois’s rule that “the only cause of action recognized for the wrongful filing of a lawsuit is one for malicious prosecution or abuse of process.” *Havoco v. [of] America, Ltd. v. Hollobow*, 702 F.3d[F.2d] 643, 647 (7th Cir.1983) [additional citation omitted]. This Court need not decide that question, however, because it is clear that a tortious interference claim cannot be maintained based upon the facts of record in this case.

Like the court in *Square D*, we see no need to venture a prediction as to whether the Indiana Supreme Court would opt to follow Illinois’s rule, whatever policy strengths such a rule may have to recommend it. Based on our reading of the Indiana case law, however—particularly *Estate of Mayer*, which post-dated this court’s opinion in *Square D*—we do conclude that the litigation bars tortious interference claims like those brought here and *897 in *Square D*, regardless of whether the lawsuit giving rise to the claim was brought in good or bad faith.²⁵

We therefore GRANT Plaintiffs’ motion for summary judgment on Defendants’ Counterclaim Count VII for tortious interference with business relationships, and DENY Defendants’ motion for summary judgment on the same count.

IV. Breach of Contract Counterclaims

Defendants assert in their counterclaims that Plaintiffs have breached the 2009 Agreement in a number of respects. They

allege that Plaintiffs breached the Agreement's confidentiality clause (Counterclaim Count IV), its forum-selection clause (Counterclaim Count VI), and its covenant not to sue in connection with the GSG-522 firearms and alternative dispute resolution (ADR) provisions (Counterclaim Count V). Both parties seek summary judgment as to all of these counts.

A. Counterclaim Count IV—Breach of the Confidentiality Clause

The 2009 Agreement contained a confidentiality clause providing that “[e]ach party agrees that the terms of this Agreement shall be maintained confidential and shall not be disclosed except for purposes of enforcement of the Agreement.” Docket No. 45-1, ¶ 24. Defendants allege that Plaintiffs have violated that clause in two respects: (1) by attaching a copy of the Agreement to their Complaint in this suit, *see* Docket No. 251 at ¶ 76; and (2) and by emailing a copy of the final version of the Agreement to an executive with the company Umarex GmbH on two occasions shortly after the Agreement was concluded. *See* Docket No. 349 at 15, ¶¶ 11-12 (citing Docket No. 332, Exs. 4-5).

[23] [24] [25] [26] Defendants' claim that attaching the Agreement to Plaintiffs' complaint constituted breach of contract is foreclosed by the plain text of the confidentiality clause. Under Indiana law, settlement agreements “are governed by the same general principles of contract law as any other agreement.” *Zukerman v. Montgomery*, 945 N.E.2d 813, 819 (Ind.Ct.App.2011). As with other contracts, then, the interpretation of the 2009 Settlement Agreement is a question of law for the Court. *See Motorists Mut. Ins. Co. v. Wroblewski*, 898 N.E.2d 1272, 1275 (Ind.Ct.App.2009) (citing *Briles v. Wausau Ins. Cos.*, 858 N.E.2d 208, 213 (Ind.Ct.App.2006)). “When construing a contract, unambiguous contractual language is conclusive upon the parties and the courts.” *Niezer v. Todd Realty, Inc.*, 913 N.E.2d 211, 215 (Ind.Ct.App.2009) (citing *Trustcorp Mortgage Co. v. Metro Mortgage Co., Inc.*, 867 N.E.2d 203, 212 (Ind.Ct.App.2007)). “If an instrument's language is unambiguous, the parties' intent is determined from the four corners of the instrument.” *Id.* The confidentiality clause here prohibits disclosure of the Agreement except “for purposes of enforcement.” Docket No. 45-1 at ¶ 24. We can think of no clearer fit to this exception than attaching the Agreement to a complaint alleging its breach.²⁶ Both Seventh Circuit precedent and the Indiana Trial Rules command *898 that the text of a written instrument be

disclosed when initiating litigation of which the document is the subject. *See Herrnreiter v. Chi. Hous. Auth.*, 281 F.3d 634, 637 (7th Cir.2002) (“Now that the agreement itself has become a subject of litigation, it must be opened to the public just like other information that becomes the subject of litigation.”) (internal parentheticals omitted); Ind. Trial Rule 9.2(A) (“When any pleading allowed by these rules is founded on a written instrument, the original, or a copy thereof, must be included in or filed with the pleading.”). Plaintiffs' attachment of the Agreement to their complaint was both proper and expressly permitted by the Agreement's confidentiality clause.²⁷

[27] [28] [29] Summary judgment against Defendants is also warranted on their allegation that Plaintiffs violated the confidentiality clause by attaching a copy of the Agreement to emails sent to a Umarex GmbH executive. While Plaintiffs appear to concede that this constituted a violation of the clause, Docket No. 332-6 (Ihloff Dep.) at 296-297,²⁸ Defendants have failed to show any damages flowing from the alleged breach. Under Indiana law, a party claiming breach of contract bears the burden of pleading and proving damages: “A mere showing of a breach of contract does not necessarily entitle a plaintiff to damages.” *Lincoln Nat'l Life Ins. Co. v. NCR Corp.*, 772 F.2d 315, 320 (7th Cir.1985). Damages may not be awarded on the basis of “guess or speculation.” *Dana Companies, LLC v. Chaffee Rentals*, 1 N.E.3d 738, 748 (Ind.Ct.App.2013); *Sammons Commc'ns of Ind., Inc. v. Larco Cable Constr.*, 691 N.E.2d 496, 498 (Ind.Ct.App.1998). Rather, “a plaintiff must have adequate evidence to allow a jury to determine with sufficient certainty that damages in fact occurred, and, if so, to quantify such damages with some degree of precision.” *Shepard v. State Auto. Mut. Ins. Co.*, 463 F.3d 742, 745 (7th Cir.2006) (citing *Fowler v. Campbell*, 612 N.E.2d 596, 603 (Ind.Ct.App.1993)) (further citations omitted).

The only evidence of damages upon which Defendants rely falls short of this standard. In his deposition testimony, ATI president DiChario contended that disclosure of the Agreement was harmful to his company. He stated:

Paying \$300,000 [in the Agreement], it could be construed as an admission of guilt by our customers, by our fans, as an admission—or making us look like

we're just not good business people. People can take things out of context and make anything they want with it. It's certainly not the nicest thing to wear around your neck.

Docket No. 332-7 (DiChario Dep.) at 205. This statement is not “evidence” of damages from the email disclosures, for two chief reasons. First, DiChario’s comments were in response to a question about the *filing* of the Agreement as an attachment *899 to the complaint—an act that, as we have already determined, did not breach the confidentiality clause at all. Second, his assertions that the disclosed Agreement “could be construed as an admission of guilt” and “[it’s] certainly not the nicest thing to wear around your neck” do not state specifically that any damages occurred—still less do they provide evidence of any ascertainable type or quantity of monetary harm. *Cf.* *Shepard*, 463 F.3d at 745 (noting that the amount of damages claimed must be “referenced to some fairly defined standard”). The purely conjectural nature of DiChario’s opinion was revealed in a deposition colloquy that took place immediately after the portion excerpted by Defendants:

Q: Have you lost a single sale as the result of the Settlement Agreement being put on public record?

A: No idea. I can't answer that. I haven't even looked at that.

DiChario Dep. at 205.

In support of their motion for summary judgment, Plaintiffs also refer us to the testimony of GSG president Swoboda, a German-speaker who was deposed in the company of an interpreter.²⁹ After telling the interpreter (in German) that the purported breach of confidentiality “had no effect on me,” Swoboda then declined to answer the damages question on the advice of counsel. Docket No. 330-7 (Swoboda Dep.) at 310; Docket No. 330-8 (Stephens Decl.) at ¶ 6.³⁰ While Defendants may be correct that this muddled non-testimony does not conclusively establish that GSG was *not* damaged, Swoboda’s failure to answer the question does nothing to help Defendants meet their evidentiary burden here.

The principal offense of which Defendants complained was no breach at all, and Defendants have failed to show that any breach that did occur produced damages.³¹ See *Dana Companies*, 1 N.E.3d at 748-749. Accordingly,

we GRANT Plaintiffs’ motion for summary judgment on Counterclaim Count IV for breach of the 2009 Agreement’s confidentiality clause, and DENY Defendants’ motion for summary judgment on the same count.

B. Counterclaim Count VI—Breach of the Agreement’s Forum-Selection Clause

[30] The Agreement’s forum-selection clause states: “The parties agree that the United States District Court for the Southern District of Indiana shall retain jurisdiction to enforce this Agreement.” Docket No. 45-1 at ¶ 8. Arguing that this clause is mandatory—requiring that any dispute arising from the Agreement be adjudicated in the Southern District—Defendants contend *900 that Plaintiffs’ initial filing of the current suit in Indiana state court therefore constituted a breach. Docket No. 349 at 51. We conclude that the forum-selection clause is not mandatory, and thus not enforceable.

[31] [32] [33] A mandatory forum-selection clause is “one that contains clear language showing that jurisdiction is appropriate only in the designated forum.” *Duggan O’Rourke, Inc. v. Intelligent Office Sys., LLC*, 2012 WL 4057215, at *2 (S.D.Ind. Sept. 14, 2012). Clauses that do not contain mandatory language are only permissive and not enforceable. “The law is clear: where venue is specified with mandatory or obligatory language, the clause will be enforced; where only jurisdiction is specified, the clause will generally not be enforced unless there is some further language indicating the parties’ intent to make venue exclusive.” *Paper Exp., Ltd. v. Pfankuch Maschinen GmbH*, 972 F.2d 753, 757 (7th Cir.1992) (citing *Docksider, Ltd. v. Sea Technology, Ltd.*, 875 F.2d 762, 763-764 (9th Cir.1989)).

Defendants insist that since the clause uses “ ‘the mandatory language of *shall* ’ and not the ‘permissive language *may*,’ ” its language should be read as mandatory. Docket No. 349 at 51 (citing *Indep. Stationers, Inc. v. Vaughn*, 2000 WL 1449854, *8 n. 7 (S.D.Ind. Jan. 3, 2000); *Paper Exp.*, 972 F.2d at 756) (emphasis added). But the use of the word “shall” in forum-selection clauses is no shibboleth. In the cases Defendants cite, the mandatory intent of the contractual language was evident not on the basis of a single word, but the totality of the parties’ statement. In *Independent Stationers, Inc. v. Vaughn*, 2000 WL 1449854 (S.D.Ind. Jan. 3, 2000), for instance, the court read a forum-selection clause specifying that “any action to enforce this

Agreement ... *may* be brought in the courts of Indiana” as merely permissive; it noted, however, that a clause using the same language, but with the phrase “*shall* be brought” instead, would have been mandatory. 2000 WL 1449854, at *8 n. 7. In *Paper Express Ltd. v. Pfankuch Maschinen GmbH*, 972 F.2d 753 (7th Cir.1992), the Seventh Circuit interpreted a clause providing that “[i]n all disputes arising out of the contractual relationship, the action shall be filed in the court which has jurisdiction for the principal place of business of the supplier.” 972 F.2d at 755. The court determined that the language “*all* disputes ... *shall* be filed” left no doubt about the mandatory nature of the provision. *Id.* at 756.

[34] At the same time, however, a clause merely specifying that a certain court possesses jurisdiction, even if it uses the word “*shall*,” is permissive unless it clearly expresses the exclusive nature of the grant. *See, e.g., Pioneer Life Ins. Co. of Ill. v. Anderson*, 1988 WL 143726, at *1 (N.D.Ill. Dec. 21, 1988) (interpreting a clause stating “Winnebago County, Illinois shall be the place of jurisdiction” as permissive);

Hunt Wesson Foods, Inc. v. Supreme Oil Co., 817 F.2d 75, 77–78 (9th Cir.1987) (ruling that a clause providing that a certain California court “shall have jurisdiction” over contract disputes was permissive, not mandatory). Here, the most natural reading of the Agreement’s forum-selection clause—stating that the Southern District shall *retain* jurisdiction—is that it grants jurisdiction to this Court, but in a non-exclusive fashion. We read the clause as similar to one addressed by the Northern District of Indiana in *Parker v. Hosteller*, 2008 WL 346007 (N.D.Ind. Feb. 6, 2008). There, the contract provided that “[t]he parties ... agree to submit to the personal jurisdiction and venue of a court of subject matter jurisdiction located in the County in which the property sits.”

2008 WL 346007, at *3. Finding that the clause was not “ambiguous, *901 confusing, or vague,” the court reasoned that it “contain [ed] no mandatory language indicating the parties’ intent to make venue exclusive.” *Id.* (distinguishing *Paper Express*). *Cf. Muzumdar v. Wellness Int’l Network, Ltd.*, 438 F.3d 759, 761–762 (7th Cir.2006) (holding that a clause had exclusive intent where it stated that actions “shall be filed *only*” in a certain court). As in *Parker*, though we believe the Agreement’s forum-selection clause clearly signals that this court is a proper forum for any dispute that might arise between the signatories, in the absence of

any language manifesting the parties’ intent to rule out other jurisdictions, we cannot construe it as mandatory.

We therefore GRANT Plaintiffs’ motion for summary judgment on Counterclaim Count VI for breach of the 2009 Agreement’s forum-selection clause, and DENY Defendants’ motion for summary judgment on the same count.

C. Counterclaim Count V—Breach of ADR and Covenant Not to Sue Provisions

Defendants’ Counterclaim Count V alleges that Plaintiffs violated two related provisions of the 2009 Agreement by filing the current suit. Both parties seek summary judgment as to both aspects of this counterclaim. Because Plaintiffs never raise the issue of damages, however, we construe Defendants’ motion on this Count as a partial motion for summary judgment on the question of breach only.³²

1. Paragraph 14—ADR Provision and Covenant Not to Sue ATI

[35] The Agreement provides an alternate dispute resolution (ADR) process that applies to future trade dress infringement disputes between Plaintiffs and ATI. The provision states as follows:

Covenant Not to Sue ATI and Liquidated Damages. In the event HK becomes aware of any products being sold by ATI that HK believes infringes [sic] upon the claimed HK MP5 trade dress or the trade dress of the HK G3 (“Alleged Infringing Products”), HK shall give written notice (“Written Notice”) to ATI. HK and ATI shall meet within ten (10) working days of the submission of the Written Notice to discuss the matter in good faith. ATI will have the option of either: (1) ceasing sales of the Alleged Infringing Products; or (2) identifying the supplier of the Alleged Infringing Products (the “Supplier”). If ATI elects either option, HK covenants not to sue ATI or any of ATI’s customers or distributors for any intellectual property claim, remedy, damage or right it has or may have against ATI or any customers or distributors of ATI for the sale by any of them of the Alleged Infringing Products....

Docket No. 45–1 ¶ 14. It is undisputed that Plaintiffs did not engage in this prescribed ADR procedure before filing the current suit. *See* Docket No. 349 at 20, ¶ 50 (citing Docket No. 33211 at ¶ 8a).

Plaintiffs argue that initiating this litigation without following the notice and ADR procedures did not constitute a breach of the Agreement, because the clause applies narrowly to claims against ATI for trade dress infringement. Docket No. 330 at 41–42. The provision was not implicated, they contend, because their initial complaint against both ATI and GSG stated only a contract claim (not trade dress infringement) and their Amended Complaint *902—which does contain trade dress infringement claims—names only GSG as a Defendant. *Id.* While Plaintiffs' reading of the clause is a bit too narrow, we agree that it does not apply to bar a suit against GSG. It true that the Agreement's ADR requirements are triggered only when HK identifies an infringing product sold by ATI. Docket No. 45–1 at ¶ 14. And indeed, Plaintiffs' Amended Complaint asserts that ATI, along with GSG, is engaged in the sale of weapons infringing Plaintiffs' trademark and trade dress rights. *See* Docket No. 45 at ¶ 3 (“GSG and ATI's advertisement, manufacture and/or sale of the GSG–5 and the 522s violates HK's rights under federal trademark law.”). The resulting covenant not to sue applies not only to ATI, but to “any of ATI's customers or distributors,”³³ Docket No. 45–1 at ¶ 14, and Plaintiffs *have* sued GSG for trade dress infringement, *see* Docket No. 45. However, it appears from Defendants' own statements that ATI is itself a customer of GSG, selling in the United States the weapons that GSG manufactures. *See* Docket No. 349 at 44–45. Moreover, it would be illogical in the context of the Agreement—of which GSG was also a signatory—to refer to ATI's customers and distributors in the abstract if GSG itself fits that description. Because there is no reason to believe that a suit against GSG for trade dress infringement is subject to paragraph 14 of the Agreement, and because Plaintiffs have not named ATI as a Defendant in any of their infringement claims, we conclude that Plaintiffs have not breached the Agreement in this respect.

Accordingly, we GRANT Plaintiffs' motion for summary judgment on Defendants' Counterclaim Count V with respect to paragraph 14 of the Agreement, and we DENY Defendants' motion for summary as to that portion of that count.

2. Paragraph 5—The GSG–522 firearms

[36] Defendants also allege that Plaintiffs have breached paragraph 5 of the Agreement, which reads as follows:

GSG–522 Firearms. HK has reviewed the design of the GSG–522 attached hereto as Exhibit “A” (the “GSG–522 Firearm”) and covenants not to sue GSG or any of its customers, distributors, dealers or importers for its sale in

the United States or anywhere in the world, provided GSG otherwise complies with this Agreement. This covenant extends to airsoft guns in the design of the GSG–522 Firearm.

Docket No. 45–1 at ¶ 5. Defendants contend that Plaintiffs ignored this restriction, filing a “baseless” breach of contract suit against GSG and ATI in their original complaint. Docket No. 349 at 51. Plaintiffs retort that the Agreement's covenant not to sue applies only if GSG sells weapons conforming to the design approved by the parties in 2009; according to Plaintiffs, their current suit is based in part on Defendants' retailing of weapons that are labeled “GSG–522” but which do not conform to the approved design.

The question whether the GSG–522 as it is currently sold differs materially from the GSG–522 as described by the parties in Exhibit A to the Agreement is one of fact. Plaintiffs contend that the GSG–522 has been altered from the approved design to include an “MP5–style” stock, foregrip, *903 and rifle barrel, *see* Docket No. 346 at 7–8 (citing Docket No. 347–7, Sealed Ex. 16), while Defendants assert that “each and every design element” between the approved GSG–522 and the allegedly infringing one is the same. *See* Docket No. 349 at 20, ¶ 48 (citing Docket No. 1, Ex. A). The factual issue presented by this breach claim is intertwined with the factual issues which, as we discuss below, prevent summary judgment on Plaintiffs' trade dress infringement claims.

We therefore DENY both Plaintiffs' and Defendants' motions for summary judgment on Defendants' Counterclaim Count V for breach of contract with respect to paragraph 5 of the Agreement.

V. Counterclaim Counts VIII and IX—Cancellation of Trademark under 15 U.S.C. § 1119 and Damages under 15 U.S.C. § 1120

Defendants seek cancellation of the MP5 trademark, U.S. Trademark Reg. No. 1,594,109, on the grounds that HK USA's “Combined Declaration of Use/Application for Renewal of Registration” under Sections 8 and 9 of the Lanham Act (“the Section 8/9 Application”) contained fraudulent statements to the PTO. They also seek damages on the theory that they have incurred the expenses of this lawsuit as a consequence of the registration's procurement by fraudulent means. *See* Docket No. 215 at ¶¶ 97–106. We conclude that any misrepresentations made by HK USA were not material to the Section 8/9 Application and thus do meet

the high standards necessary for trademark cancellation on the basis of fraud.

[37] [38] [39] The Lanham Act provides: “In any action involving a registered mark the court may determine the right to registration, order the cancelation of registrations, in whole or in part, restore canceled registrations, and otherwise rectify the register with respect to the registrations of any party to the action.” 15 U.S.C. § 1119. Fraud in procuring a trademark registration or, as Defendants allege here, in renewing the registration under Sections 8 and 9, is a potential basis for cancelation by the Court. See *In re Bose Corp.*, 580 F.3d 1240, 1243 (Fed.Cir.2009). A party seeking cancelation, however, faces a formidable burden of proof with respect to both the persuasiveness of the evidence and the showing of fraudulent intent on the part of the registrant. See *Money Store v. Harriscorp Fin., Inc.*, 689 F.2d 666, 670–671 (7th Cir.1982); *W.D. Byron & Sons, Inc. v. Stein Bros. Mfg. Co.*, 54 C.C.P.A. 1442, 377 F.2d 1001, 1004 (1967); *Donovan v. Bishop*, 2011 WL 1560991, at *3 (S.D.Ind. Apr. 21, 2011). In order to prevail on their counterclaim, then, Defendants must show by “clear and convincing evidence” that HK USA’s misstatements to the PTO were “(1) made with the *knowledge* of their falsity, and (2) *material* to the determination to grant the application.” *Oreck Corp. v. Thomson Consumer Elecs., Inc.*, 796 F.Supp. 1152, 1159 (S.D.Ind.1992) (quoting *Marshak v. Sheppard*, 666 F.Supp. 590, 598 (S.D.N.Y.1987)) (emphasis original). “There is no room for speculation, inference or surmise and, obviously, any doubt must be resolved against the charging party.” *In re Bose*, 580 F.3d at 1243.

[40] HK USA’s allegedly fraudulent conduct here consisted of filing the Section 8/9 Application with the PTO on March 17, 2010—representing in its communication to the PTO that it remained the “owner” of the registered MP5 trademark. Docket No. 332–15 (Defs.’ Ex. N). As we have already discussed, *see supra* § I(B), there is at least a genuine issue of fact as to whether HK USA’s claim to own the mark as of March 2010 was false. Defendants’ theory that the misrepresentation was made with the requisite scienter hangs from a thin evidentiary thread, but we can *904 also assume for purposes of this motion that HK USA president Weber knew the statement was incorrect when he submitted the Application on the company’s behalf. See Defs.’ Ex. A (Weber Dep.) at 51–52 (Weber’s testimony that he understood the Assignment to transfer the MP5 rights to HKG).³⁴

Defendants cannot succeed, however, in showing that the misrepresentation was material to the PTO’s consideration of their declaration of continued use and application for renewal.

In order to cancel a trademark registration on grounds of fraud, the charging party must show that a misrepresentation to the PTO was “material to the determination to grant the application”—in other words, one that “would have affected the PTO’s action on the applications.” *Halo Mgmt., LLC v. Interland, Inc.*, 308 F.Supp.2d 1019, 1031 (N.D.Cal.2003) (quoting *Orient Express Trading Co. v. Federated Dept Stores, Inc.*, 842 F.2d 650, 653 (2d Cir.1988)); *Oreck*, 796 F.Supp. at 1159. In neither section of the Lanham Act under which HK USA filed its joint Application is the identity of the current owner of the mark dispositive to the PTO’s grant or denial of the application. Section 9 of the Lanham Act, 15 U.S.C. § 1059, prescribes the procedure for renewal of registrations after 10–year intervals: “[E]ach registration may be renewed for periods of 10 years at the end of each successive 10–year period following the date of registration upon payment of the prescribed fee and the filing of a written application, in such form as may be prescribed by the Director.” 15 U.S.C. § 1059(a). The relevant section of the PTO’s Trademark Manual of Registration Procedure (TMER), a document elaborating on the agency’s evaluating criteria, specifies that “[t]he Trademark Act and the Trademark Rules of Practice do not require that a renewal application be filed by the owner of the registration. Therefore, if the renewal applicant is not the owner of record, the USPTO does not require that the renewal applicant show continuity of title from the original registrant.” Trademark Manual of Registration Procedure § 1606.06 (Oct.2014).

The Section 8 affidavit, with which a Section 9 affidavit is typically combined, avers that the trademark in question has been in continuous use on the registered goods or services since the date of registration. 15 U.S.C. § 1058. Unlike Section 9, Section 8 does require the affidavit to be filed by “the owner.” *Id.* However, the Act provides specifically that “[i]f any submission filed within the time period set forth in subsection (a) is deficient, including that the affidavit was not filed in the name of the owner of the registration, the deficiency may be corrected after the statutory time period, within the time prescribed after notification of the deficiency.” *Id.* at § 1058(c).

As Plaintiffs point out, the PTO has issued neither HK entity a notice of deficiency with respect to their Section 8

declaration, and if it had, the Act provides that HKG would have an opportunity to rectify the error before the MP5 trademark would be endangered. As the statutory language indicates, the primary purpose of declarations under Sections 8 and 9 is “to remove from the register automatically marks which are no longer in use.” *In re Bose*, 580 F.3d at 1246 (quoting *Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 48 (Fed.Cir.1986)). In light of *905 that overriding purpose—and the Act’s provision of an express remedy for incorrect statement of ownership that stops short of denying the application for renewal—we see no indication that the misrepresentation at issue here was material to the PTO’s review.³⁵ See *Artcraft Novelties Corp. v. Baxter Lane Co. of Amarillo*, 685 F.2d 988, 992 (5th Cir.1982) (determining that a Section 8 declaration’s misstatement of ownership was not material “in light of the circumstances—namely, that [defendant] owned the mark when it was registered, but subsequently transferred the mark to his closely held, family corporation”).³⁶

Our determination that HK USA’s alleged misrepresentation was not material, and thus did not constitute a fraudulent application for renewal, forecloses not only Defendants’ counterclaim for cancellation under 15 U.S.C. § 1119, but also Defendants’ counterclaim for resulting damages under 15 U.S.C. § 1120. In order to recover under the Act’s “civil liability” provision, of course, a claimant must prove the underlying fraud on the PTO as well as its own entitlement to damages. See *Gilbert/Robinson, Inc. v. Carrie Beverage—Missouri, Inc.*, 989 F.2d 985, 992–993 (8th Cir.1993), *abrogated on different grounds by* *Lexmark Int’l, Inc. v. Static Control Components, Inc.*, —U.S.—, 134 S.Ct. 1377, 188 L.Ed.2d 392 (2014); *King—Size, Inc. v. Frank’s King Size Clothes, Inc.*, 547 F.Supp. 1138, 1167 (S.D.Tex.1982). Plaintiffs are therefore entitled to summary judgment on both the cancellation claim and the damages claim.

Accordingly, we GRANT Plaintiffs’ motion for summary judgment on Counterclaim Counts VIII and IX, and DENY Defendants’ motion for summary judgment on the same counts.

VI. Counterclaim Count XI—Lack of Trade Dress in Design of MP5 Firearms

[41] [42] [43] Section 43(a) of the Lanham Act provides a cause of action against the unauthorized use by any person of “any word, term, name, symbol, or device, or any combination thereof ... which ... is likely to cause confusion ... as to the origin, sponsorship, or approval of his or her goods.”

15 U.S.C. § 1125(a). Both the courts and Congress have long since recognized that Section 43(a) may apply to protect the design of a product when the resulting appearance is used to identify the product—the “trade dress”—as well as proprietary names or symbols. See 15 U.S.C. § 1125(a)(3) (describing cause of action for “trade dress infringement”);

Wal-Mart Stores, Inc. v. Samara Bros., Inc., 529 U.S. 205, 210, 120 S.Ct. 1339, 146 L.Ed.2d 182 (2000); *Publ’ns Int’l, Ltd. v. Landoll*, 164 F.3d 337, 338 (7th Cir.1998). In order to be protectable under Section 43(a), a claimed trade dress must be both *distinctive* and *nonfunctional*.³⁷ See

*AL- *906 Site Corp. v. VSI Int’l, Inc.*, 174 F.3d 1308, 1326 (Fed.Cir.1999); *Abercrombie & Fitch Stores, Inc. v. American Eagle Outfitters, Inc.*, 280 F.3d 619, 629 (6th Cir.2002) (citing *Wal-Mart Stores*, 529 U.S. at 210, 120 S.Ct. 1339). A successful showing of distinctiveness, in turn, has two prerequisites. First, the party seeking protection must establish that the putative trade dress is identifiable—that it is pitched at the proper level of generality and describes a concrete design rather than a vague amalgamation of ideas.

See *Jeffrey Milstein, Inc. v. Greger, Lawlor, Roth, Inc.*, 58 F.3d 27, 32 (2d Cir.1995); *Weber—Stephen Prods. LLC v. Sears Holding Corp.*, 2013 WL 5782433, at *3 (N.D.Ill. Oct. 25, 2013). Second, a plaintiff must show that the trade dress has acquired “secondary meaning.” *Wal-Mart Stores*, 529 U.S. at 215, 120 S.Ct. 1339.³⁸

Defendants seek a declaratory judgment that Plaintiffs’ claimed trade dress in the design of the MP5 family of firearms is not protectable, and their argument rests on four grounds: (1) the claimed trade is insufficiently identifiable, in that Plaintiffs’ descriptions of it are “generic, unspecific, and inconsistent”; (2) the design in question is functional and thus not entitled to protection; (3) the claimed trade dress has not acquired the necessary “secondary meaning”; and (4) Plaintiffs have abandoned the claimed trade dress, forfeiting any rights they may have to it. Docket No. 32 at 52–70.

A. The Kokalis Expert Report

We address these arguments in turn, but we first pause to address Defendants' objections to the admissibility of the expert report of Peter J. Kokalis, which Plaintiffs have designated in support of the protectability of their trade dress. Docket No. 346–8.³⁹ Defendants' first objection to the report is that it was untimely filed, because it missed the standard Case Management Plan's requirement that expert testimony to be used on summary judgment be disclosed no later than 60 days before the dispositive motion deadline. *See* Docket No. 364 at 10–11 (citing Docket No. 23 (Case Management Plan) at ¶ III(F)). As Plaintiffs point out, however, a number of decisions in this district have determined this Case Management Plan language does not apply to expert testimony designated by the non-moving party in response to a summary judgment motion. As Judge Magnus–Stinson reasoned in similar circumstances:

[I]t is typically unworkable to require the non-moving party to anticipate the grounds on which its opponent may move for summary judgment and whether it will utilize expert testimony in response to the motion. The expert disclosure deadline occurs after the dispositive motions deadline in a typical case management plan, and if a party does not anticipate using expert testimony to move for summary judgment, it should not be required to disclose expert *907 testimony sixty days prior to the dispositive motion deadline.

Dugdale, Inc. v. Alcatel–Lucent USA, Inc., 2011 WL 2261318, at *3 (S.D.Ind. June 7, 2011). *See also Paul Harris Stores, Inc. v. PricewaterhouseCoopers, LLP*, 2006 WL 2644935, at *3–4 (S.D.Ind. Sept. 14, 2006). *But see Pond v. Bd. of Trustees, Ball State Univ.*, 2004 WL 2538645, at *2 (S.D.Ind. Sept. 9, 2004). We agree here with the court's reasoning in *Dugdale*. Plaintiffs have not sought summary judgment on their Lanham Act claims, and they have offered Kokalis's testimony only in response to Defendants' motion on those claims. Since they complied with the amended Case Management Plan's relevant deadline for disclosure of expert testimony, we will not strike the testimony on untimeliness grounds. *See* Docket No. 281 at 2.

[44] [45] Defendants also argue that the Kokalis report should be set aside because it fails to comply with Federal Rule of Evidence 702 and the *Daubert* standard. Courts employ a three-part analysis in determining whether expert witness testimony is relevant and reliable: “[1] the witness must be qualified as an expert by knowledge,

skill, experience, training, or education; [2] the expert's reasoning or methodology underlying the testimony must be scientifically reliable; and [3] the testimony must assist the trier of fact to understand the evidence or to determine a fact in issue.” *Ervin v. Johnson & Johnson, Inc.*, 492 F.3d 901, 904 (7th Cir.2007) (quoting *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 592–593, 113 S.Ct. 2786, 125 L.Ed.2d 469 (1993)) (additional citations omitted). Thus, “[i]t is not the trial court's role to decide whether an expert's opinion is correct. The trial court is limited to determining whether expert testimony is pertinent to an issue in the case and whether the methodology underlying that testimony is sound.” *Smith v. Ford Motor Co.*, 215 F.3d 713, 719 (7th Cir.2000).

[46] Plaintiffs rely on Kokalis's report primarily on the issues of functionality and secondary meaning. Applying the first prong of the *Daubert* analysis, Defendants assert that Kokalis is unqualified to testify to such questions. “While Kokalis may be knowledgeable about the proper use of firearms, he lacks the qualifications for which his report is presented, namely the creation and design of MP5 firearms and the marketplace perception of MP5 firearms.” Docket No. 364 at 13. We find this objection to be misguided. Kokalis's report includes an extensive description of his credentials as an expert on firearms, a consultant to a number of national armed forces, and a published commentator in the field. Docket No. 346–10 at ¶¶ 2–10. Kokalis concedes that he is not a firearm design engineer, but his *curriculum vitae* renders him fit to offer opinion on the design of weapons from a user's perspective and on the place of the MP5 design in the marketplace. *Id.* at ¶ 11. In support of the notion that Kokalis is unqualified to offer expert testimony on consumer perceptions of the MP5, Defendants cite *Sassafras Enterprises, Inc. v. Roshco*, 915 F.Supp. 1 (N.D.Ill.1996), a decision in which the court stated that an expert could not speak to the “mental reactions that other persons would have,” the “basis for his expression of other people's views,” or whether consumers “desire the product with the particular feature because it signifies that producer.”

915 F.Supp. at 8. But the context of *Sassafras* renders it readily distinguishable, and actually helps illustrate that relative strength of Kokalis's qualifications here. In that case, a plaintiff had failed to offer any evidence as to secondary meaning other than the affidavit of its sales representative, who offered the bare assertion that customers associated a product's look with the plaintiff. *Id.* Regardless of whether

the affiant was qualified as an expert, the court concluded that *908 the testimony was conclusory and speculative. Here, Kokalis is not simply presenting his *ipse dixit*; rather, he discusses facts about the MP5's place in the market that, according to Plaintiffs, enable a fact-finder to infer that it has acquired secondary meaning. *See, e.g., id.* at ¶¶ 20–23. Kokalis is not qualified as a mind-reader, but neither is any other expert testifying to secondary meaning.⁴⁰

As to the second *Daubert* factor, Defendants assert Kokalis has failed to identify any scientific “reasoning or methodology” underlying his testimony. Docket No. 364 at 14. Undoubtedly, Kokalis does not derive his opinions on the non-functionality or distinctiveness of the MP5 from any scientific methodology—nor does he claim to. Rather, he claims to derive his opinion from his “knowledge, training, experience, skill, and education” as applied to his review of the facts of this case and an extensive review of the features of the MP5 in comparison to other guns of similar type available on the market.⁴¹ *See* Docket No. 346–8 at ¶¶ 19, 22–78. “The measure of intellectual rigor will vary by the field of expertise and the way of demonstrating expertise will also vary.” *United States v. Conn*, 297 F.3d 548, 556 (7th Cir.2002) (quoting *Tyus v. Urban Search Mgmt.*, 102 F.3d 256, 263 (7th Cir.1996)). “In certain fields, experience is the predominant, if not the sole, basis for a great deal of reliable expert testimony.” *Id.* (citing Fed.R.Evid. 702, 2000 advisory committee note). While a factfinder might assign less weight to Kokalis's testimony because he has not based it on analysis of quantitative consumer survey data, the testimony he does offer is not inadmissible simply because it is based on his personal expertise. *See Amakua Dev. LLC v. Warner*, 2007 WL 2028186, at *18 (N.D.Ill. July 10, 2007) (“[The expert's] methodology consists of reviewing the documents in the case and applying his experience to the facts as they are presented to him by those documents. This is unobjectionable.”). *See also Huss v. Gayden*, 571 F.3d 442, 452 (5th Cir.2009) (“Rule 702 does not mandate that an expert be highly qualified in order to testify about a given issue. Differences in expertise bear chiefly on the weight to be assigned to the testimony by the trier of fact, not its admissibility.”). Whatever the persuasiveness of his views, we believe that Kokalis has established enough of a nexus between his qualifications and the opinions he derives from them to render his opinions at least admissible.

Lastly, Defendants argue that Kokalis's testimony is not helpful to a fact-finder, either because Kokalis fails to grasp the issue adequately or because he defines the MP5 trade dress differently than do Plaintiffs. Such an interpretation results from reading his report out of context. On two occasions, Kokalis stated that he had “difficulty comprehending the point of Defendants' arguments” or that he had “a problem ... understanding” Defendants' summary judgment motion. Kokalis Report ¶¶ 19, 30. These were not confessions *909 of ignorance or bewilderment; instead, Kokalis was employing a fairly common rhetorical device as a manner of criticizing Defendants' understanding of the issues. As to the identification of the trade dress, while it is true that Kokalis uses adjectives such as “color” and “texture” that Plaintiffs themselves do not use in referring to the “overall appearance” of the MP5, his testimony is consistent with Plaintiffs' interrogatory responses on the question to the extent that he considers the “overall appearance” to constitute the trade dress. *See* Kokalis Report at ¶ 16; Docket No. 346–6 at 4–5. And contrary to Defendants' insistence otherwise, Kokalis did not “give up” on attempting to define a trade dress for the MP5 when he stated that “the overall trade dress and individual components of a submachine gun can vary dramatically.” *Cf.* Docket No. 364 at 15 (citing Kokalis Report at ¶ 19). He spoke there of the features that could be said to comprise a trade dress, and in context it is clear that his remark was not a declaration that the MP5 trade dress eludes definition. Kokalis Report ¶ 19. At any rate, such fine-tooth parsing of the accuracy of Kokalis's report, or its consistency with Plaintiffs' other evidence, is not the point of the helpfulness inquiry. *See Smith*, 215 F.3d at 718–719. There is no doubt here that Kokalis's testimony, particularly his analysis of the features of the MP5 when compared to other weapons on the market, is relevant to the question of distinctiveness that the fact-finder may be called upon to resolve.

We therefore reject Defendants' argument that we must disregard the Kokalis expert report, and we proceed to consider the merits of Defendants' trade dress invalidity counterclaim.

B. Sufficiency of Plaintiffs' Identification of the Trade Dress

Defendants assert that “Plaintiffs' claimed MP5 trade dress fails inasmuch as its constituent elements are unspecified, constitute generic gun parts, and are inconsistently claimed.”

Docket No. 332 at 54. *See also Maharishi Hardy*

Blechman Ltd. v. Abercrombie & Fitch Co., 292 F.Supp.2d 535, 542 (S.D.N.Y.2003) (“A trade dress which is either generic, non-specific, or inconsistent among its products cannot be distinctive.”). Defendants are correct to note that before courts can recognize any putative trade dress as “distinctive,” they must be able to discern identifiable characteristics in the design a plaintiff seeks to protect. While there is no concrete, authoritative test guiding the courts’ evaluation of this issue, two points have particular relevance in guiding our consideration here.

[47] First, the requirement that a trade dress be discrete and identifiable does not preclude a plaintiff from claiming the *overall* look or design of the product as protected. “We have defined ‘trade dress’ as the ‘total image of a product, including such features as size, shape, color or color combinations, texture, graphics, or even particular sales techniques.’” *Kohler Co. v. Moen, Inc.*, 12 F.3d 632, 641 n. 11 (7th Cir.1993) (quoting *Roulo v. Russ Berrie & Co., Inc.*, 886 F.2d 931, 935 (7th Cir.1989)). “Doubtless the overall appearance is what matters.... Dissecting a product or package into components can cause a court to miss an overall similarity.” See also *August Storck K.G. v. Nabisco, Inc.*, 59 F.3d 616, 620 (7th Cir.1995) (citing *Kohler*, 12 F.3d at 641 n. 11). However, the claimed protection must be pitched at the proper level of generality. A plaintiff cannot claim protection for the “genus of which the particular product is a species.” *New Colt Holding Corp. v. RJG Holdings of Fla., Inc.*, 312 F.Supp.2d 195, 203 (D.Conn.2004) (quoting *Yurman Design, Inc. v. PAJ, Inc.*, 262 F.3d 101, 115 (2d Cir.2001)). Further, the claimed dress must restrict itself to tangible, rather than ethereal or *910 abstract, design elements. As the Sixth Circuit has explained:

The aura about a product, the cachet that ownership or display of it creates, and the kind of appeal it has to certain consumers do not dress a good in trade. Rather, those intangible ‘things’ emanate from the good, its dress, and the marketing campaign that promotes the dressed good. Trade dress is tangible or otherwise objectively observable by the senses;

its constitution is a matter of subjective interpretation.⁴²

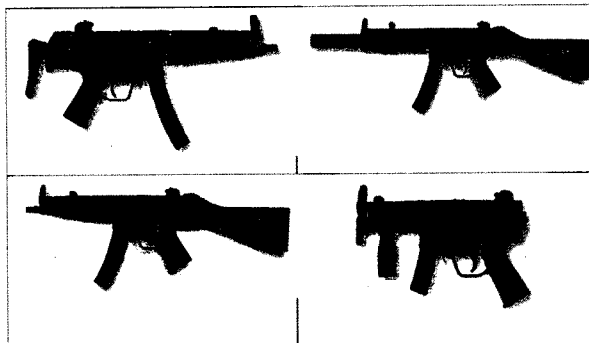
Abercrombie, 280 F.3d at 630–631.

[48] Second, and relatedly, a plaintiff must offer some enumeration of the design elements that comprise the “overall look” of a product if such a holistic trade dress claim is to be cognizable. “Simply pointing to a product’s overall appearance is [not] enough to state a claim for trade dress infringement. Rather, the overall appearance of the trade dress comes into play only *after* the trade dress is first properly identified with the discrete elements which make up that combination ... separated out and identified in a list.” *Weber–Stephen*, 2013 WL 5782433, at *3 (additional citations omitted). As the Second Circuit noted, failing to require some specificity in description would make it “too easy for the question of design and configuration (‘overall look’) to degenerate into a question of quality, beauty, or cachet.... The identification of design elements that compose the asserted trade dress will thus assist in winnowing out claims that are overbroad as a matter of law.” *Yurman*, 262 F.3d at 116–117.

[49] Defendants here object to Plaintiffs’ descriptions of the MP5 trade dress on the grounds that they are impermissibly vague and generic, and that Plaintiffs’ enumerations of the elements of the protected design have been inconsistent over the lifetime of its lawsuits with Defendants. The first description of the MP5 trade dress to which Defendants point was proffered by HK USA in response to an interrogatory in the course of the 2009 litigation. When asked to “identify and describe with particularity each discrete element and each combination of discrete elements comprising the putative trade dress,” HK USA stated that the following photograph was a “fair depiction” of the trade dress:



*911 Docket No. 332-18 (Defs.' Ex. Q) at 3. In a supplemental response to the same interrogatory, HK USA provided photographs of the four variations on the core MP5 model—the MP5 A3, the MP5 SD, the Mp5K, and the MP5 A2—reproduced below, clockwise from the top left:



Docket No. 332-19 (Defs.' Ex. R) at 3-6. Plaintiffs also offered a more comprehensive description to accompany the photographs:

In truth, as pictured above, there are three basic models: the “MP5K”; the “MP5A” (the “MP5A2” features a fixed butt stock and the “MP5A3” features a retractable butt stock); and the “MP5SD.” Although these weapons are compatible with a number of accessories, the recognizability and secondary meaning of the famous MP5 shape is not affected by this fact. **HK believes its trade dress is reflected in the following elements present in all three basic weapons as depicted generally in the pictures ...: (1) the upper profile (including its distinctive front and rear sights); (2) the cocking handle; (3) the magazine; and (4) the unique trigger group (including but not limited**

*912 **to the fire select switch, trigger guard and grip).** It might be that secondary meaning in the marketplace is derived by [sic] a combination of less than all four above-described factors, and again, reference is made to the overall shape of the MP5 weapon as depicted in the

photographs below and not necessarily the word descriptions above standing alone.

Id. at 6-7 (emphasis added). When served with a similar interrogatory in the course of the current litigation, HK USA initially referred back to this previous response. Docket No. 332-20 (Defs.' Ex. S) at 7-8. After HKG became party to the suit, Defendants served it with a similar interrogatory. In response, HKG submitted an illustration of the MP5A2 model and a verbal description that differed somewhat from that offered by HK USA in 2009:

[The] MP5 trade dress can be defined by the overall silhouette of the MP5 weapon in its various modularities. In this action, the trade dress and product configuration sought to be protected is the entirety of the form, shape, and appearance of the well-recognized MP5 weapon. **This can include, but is not necessarily limited to, such aspects of the weapon as the unique and characteristic gun sighting mechanism, curved ammunition magazine, grip, trigger group (including the fire-select switch), trigger guard, barrel stock and body casing, including the foregrip.**

Docket No. 332-8 (Defs.' Ex. H) at 2-4. As Defendants note, HKG's 2012 description departs from HK USA's 2009 description in that it discusses the weapon's “barrel stock” and “body casing,” but does not mention the “cocking handle.” Docket No. 332 at 26. Defendants also point to the deposition of HKG managing director Ihloff, in which he agreed that HK USA's original 2009 illustration of the weapon fairly depicts the “overall look and feel” of the MP5; when asked if HK USA's original verbal description of the trade dress was accurate, he elaborated: “I think it would include or can be described and defined in such a way that there may well be other feature[s], depending on the variants or the registration of the gun.... It typically includes exactly some of these elements as spelled out [in the 2009 interrogatory] or specified here.” Docket No. 332-21 (Defs.' Ex. T) at 103, 113.

Ihloff added that, “from a personal perspective,” there were “details with regards to the sheet metal as well as the type of finishing that is just beyond functional,” and thus also part of the trade dress. *Id.* at 122.

Defendants contend that this body of descriptions contains unduly “generic” language—such as references to the gun’s “barrel stock” without any elaboration—and they assail the lack of specificity Ihloff displayed in his deposition (such as his statement that there “may well be other features” in the trade dress) as underscoring the fatal vagueness of the companies’ efforts to describe the MP5 trade dress. Docket No. 332 at 56–57. Citing the differences in Plaintiffs’ own explanations as well as the (undisputed) existence of numerous variants of the MP5 weapon, Defendants argue that “there is no consistent or constant overall image associated with the product.” *Id.* at 57.

While we acknowledge that Plaintiffs have made statements since 2009 that have been unhelpfully vague and that they have not been fully consistent in defining its contours, we conclude that a core, identifiable description of the putative MP5 trade dress has emerged despite these shortcomings. In comparing Plaintiffs’ photograph of the original model MP5 with those of MP5 variants, a recurring design profile is recognizable; the structural center of the weapons remains consistent from variant to variant, even as the peripheral elements *913 change. Compare Defs.’ Ex. Q at 3 with Defs.’ Ex. R at 3–6. If we leave aside the discrepancies between HK USA’s 2009 description of the trade dress and HKG’s 2012 description and focus only on design components consistently mentioned, those elements are as follows: the “upper profile”/ sighting mechanism, the magazine, the fire select switch, the trigger guard, and the grip.⁴³ See Defs.’ Ex. R at 6–7; Defs.’ Ex. H at 2–4.⁴⁴ While the shape of these individual components may vary to some degree across different versions of the weapon—for instance, the grips of some of the weapons have finger grooves, while others do not—their configuration *with respect to each other* adheres to a pattern. We view the arrangement of these consistently-enumerated design elements, which based on the visual evidence do indeed contribute to a consistent “overall look” of the MP5 line of weapons, as an identifiable basis for a trade dress claim.

Examining the facts of two of the decisions upon which Defendants rely most heavily in stressing the stringency of the identifiability requirement helps illustrate the sufficiency of Plaintiffs’ descriptions here. In *Weber–Stephen Products,*

LLC v. Sears Holding Corp., 2013 WL 5782433 (N.D.Ill. Oct. 25, 2013), the court found that the plaintiff had not sufficiently identified its putative trade dress in a line of outdoor grills, noting that, “[i]nstead of precisely identifying the character and scope of its trade dress, [plaintiff] simply includes photographs of two entire grills—not even close-ups of particular grill features—and describes its trade dress as ‘including, *without limitation*, their distinctive shape, proportions and feature placements.’” 2013 WL 5782433, at *3. “Without more factual detail as to what exactly the grill shapes, proportions, and features are,” the court observed, “these extremely broad categories are insufficient to put the Court and Sears on notice of what Weber believes is its protectable trade dress.” *Id.* Similarly, in *Yurman Design, Inc. v. PAJ, Inc.*, 262 F.3d 101 (2d Cir.2001), the Second Circuit found that the manufacturer of a line of rings and bracelets lacked a viable trade dress claim as a matter of law because its minimalist descriptions of the “overall look and feel” of the various products offered no reasonable insight into what, exactly, supposedly tied the products together. The court’s explanation is instructive:

We need not decide whether Yurman could formulate a description of design elements to support a trade dress claim sufficient to protect a line of Yurman jewelry, because Yurman has not even offered one for our consideration. The trade dress of works that are decorative or artistic may be harder to capture in words, and may need descriptions more broadly framed, or may need drawings; but the party seeking protection must nonetheless be able to point to the elements and features that distinguish its trade dress. Pressed by PAJ on appeal to provide some description of its trade dress, Yurman produced the following: “the artistic combination of cable [jewelry] with other elements.” But the word “artistic” simply begs a question; and unless Yurman seeks protection for cable itself, the jewelry must be supposed to combine cable “with other elements.” *914 This articulation is altogether too broad to be a protectable, source-identifying expression.

262 F.3d at 117–118.

Here, by contrast, Plaintiffs seek to protect the overall design of the MP5 line, but, unlike the claimants in *Weber–Stephen* or *Yurman*, they have described a discernible body of design elements that allows the court to evaluate the claimed trade dress within the realm of tangible reality rather than that of guesswork or abstract aesthetic speculation. They have identified the elements that constitute the overall design of

their product much as a gun manufacturer seeking trade dress protection in a Colt revolver did in *New Colt Holding Corp. v. RJG Holdings of Florida, Inc.*, 312 F.Supp.2d 195 (D.Conn.2004). There, the plaintiff claimed “the overall appearance of the gun” as its protectable trade dress, but it supplemented that description with a brief enumeration of the gun’s salient components. 312 F.Supp.2d at 205. Setting aside the defendant’s objections that these descriptions lacked the requisite specificity and that there had been variations in the shape or appearance of various components of the gun over time, the court nonetheless determined that the plaintiff had identified its trade dress sufficiently, concluding that “any lack of clarity in Plaintiffs’ descriptions stems from their attempts to claim the entire appearance of the revolver and the difficulty inherent in adequately describing all the requisite details.” *Id.* at 206. Although Plaintiffs’ efforts to delineate the scope of their trade dress have not been a model of explanatory precision or of consistency, their descriptions have been detailed enough, and enough in sync with the visual evidence of the appearance of the MP5 weapons, to be readily identifiable.

C. Non-Functionality

The Lanham Act provides that, in an “action for trade dress infringement under this chapter ... the person who asserts trade dress protection has the burden of proving that the matter sought to be protected is not functional.” 15 U.S.C. § 1125(a)(3). The Supreme Court has expanded and refined its operative definition for “functionality” over the years, and it has lately endorsed two complementary formulations. “In general terms, a product feature is functional,” and cannot serve as a trademark, “if it is essential to the use or purpose of the article or if it affects the cost or quality of the article.” *TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 29, 121 S.Ct. 1255, 149 L.Ed.2d 164 (2001) (quoting *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 850 n. 10, 102 S.Ct. 2182, 72 L.Ed.2d 606 (1982)). A feature may also be classified as functional if it “is one the “exclusive use of [which] would put competitors at a significant non-reputation-related disadvantage.” *Qualitex Co. v. Jacobson Prods. Co., Inc.*, 514 U.S. 159, 165, 115 S.Ct. 1300, 131 L.Ed.2d 248 (1995). As the Seventh Circuit has recognized, the core question to be answered is whether a particular design has value for its aesthetic quality—and as a means of source-identification in the marketplace—or, rather, whether the design exists so that the product can

perform its intended function better. *Specialized Seating, Inc. v. Greenwich Indus., LP*, 616 F.3d 722, 727 (7th Cir.2010). “So if a design enables a product to operate, or improves on a substitute design in some way (such as by making the product cheaper, faster, lighter, or stronger), then the design cannot be trademarked” *Jay Franco & Sons, Inc. v. Franek*, 615 F.3d 855, 857 (7th Cir.2010).

The Seventh Circuit has endorsed a list of five factors useful for evaluating claimed feature or product designs within this conceptual framework. These are:

“(1) [T]he existence of a utility patent, expired or unexpired, that involves or *915 describes the functionality of an item’s design element; (2) the utilitarian properties of the item’s unpatented design elements; (3) advertising of the item that touts the utilitarian advantages of the item’s design elements; (4) the dearth of, or difficulty in creating, alternative designs for the item’s purpose; (5) the effect of the design feature on an item’s quality or cost.”

Georgia-Pacific Consumer Prods. LP v. Kimberly-Clark Corp., 647 F.3d 723, 727–728 (7th Cir.2011). In considering the functionality or non-functionality of Plaintiffs’ claimed MP5 trade dress, it is important to emphasize that functionality is fundamentally a question of fact. *Specialized Seating*, 616 F.3d at 726 (“‘Functionality’ certainly isn’t an issue of law; it represents a fact-specific conclusion....”); *Modern Fence Technologies, Inc. v. Qualipac Home Imp. Corp.*, 726 F.Supp.2d 975, 987–988 (E.D.Wis.2010) (citing *Service Ideas, Inc. v. Traex Corp.*, 846 F.2d 1118, 1123 (7th Cir.1988)). It is therefore appropriate for disposition on summary judgment only where a plaintiff is unable to meet its burden of raising a genuine issue of material fact that its trade dress is non-functional. *Invisible Fence, Inc. v. Perimeter Techs., Inc.*, 2007 WL 273129, at *9 (N.D.Ind. Jan. 26, 2007). See also *Clicks Billiards, Inc. v. Sixshooters, Inc.*, 251 F.3d 1252, 1262 (9th Cir.2001).⁴⁵ Cognizant of this standard, we review the applicability to Plaintiffs’ trade dress of the five criteria enumerated by the Seventh Circuit.

1. The existence of a utility patent

[50] The existence of a utility patent for a given product design (or design feature) is “strong evidence of functionality.” *Georgia-Pacific*, 647 F.3d at 728. “If trade dress protection is sought for those features [,] the strong evidence of functionality based on the previous [utility] patent adds great weight to the statutory presumption that features are deemed functional until proved otherwise by the party seeking trade dress protection.” *TrafFix*, 532 U.S. at 29–30, 121 S.Ct. 1255. Any overlap with a patent is a “cheat sheet” for functionality because “any design claimed in a patent is supposed to be useful.” *Jay Franco & Sons, Inc. v. Franek*, 615 F.3d 855, 857 (7th Cir.2010). So persuasive are utility patents as evidence of functionality, in fact, that all of the decisions cited by the *Georgia-Pacific* court in support of its statement that summary judgment may be granted in “appropriate cases” relied strongly on the “presumption of functionality” created by the existence of a relevant patent in the feature. *See TrafFix*, 532 U.S. at 29–30, 121 S.Ct. 1255; *Specialized Seating*, 616 F.3d at 727; *Eco Mfg. LLC v. Honeywell Int’l, Inc.*, 357 F.3d 649, 653 (7th Cir.2003) (“determining summary judgment appropriate where plaintiff had failed to overcome the “heavy burden” created by the existence of a utility patent”); *Franek*, 615 F.3d at 857–859 (noting that the “*TrafFix* presumption” of functionality applied and supported summary judgment). *See also Georgia-Pacific*, 647 F.3d at 728.

[51] Here, Defendants bring to our attention no utility patents for designs overlapping with Plaintiffs’ claimed design features. While the absence of such patents does not preclude the functionality of the design, of course, the lack of a “cheat *916 sheet” creating a presumption of functionality makes it considerably less likely that functionality could be determined on summary judgment. *Cf. TrafFix*, 532 U.S. at 29–30, 121 S.Ct. 1255.

2. Utilitarian properties of the design elements

Defendants present extensive evidence that individual features of the MP5, including those design components that we have recognized as part of Plaintiffs’ identifiable claimed trade dress, have utilitarian properties. This evidence includes HK USA president Weber’s testimony that elements such as the fire-select switch, the trigger guard, and the grip have

features that enhance the user-friendliness⁴⁶ or efficiency of the weapon rather than serving purely aesthetic purposes. *See* Docket No. 333–9 (Defs.’ Ex. JJ) at 71, 73, 124–125, 127, 128, 130–131. As to the gun sighting mechanism, an operator’s manual describes how the two sights on the top of the weapon employ concentric circles to enhance the accuracy of aim. Docket No. 333–10 (Defs.’ Ex. KK) at 68; Docket No. 334–3 (Defs.’ Ex. SS) at 6. *See also* Docket No. 333–14 (Defs.’ Ex. OO) at 115–116; Defs.’ Ex. JJ at 120. Lastly, Weber explained that the MP5 line uses curved magazines in part to facilitate the more efficient feeding of ammunition into the firing chamber and to solve “feed problems” that had previously existed with straight-shaped magazines. Defs.’ Ex. JJ at 136, 140–141; Defs.’ Ex. OO at 134; Defs.’ Ex. KK at 5.

[52] Plaintiffs largely do not dispute the utilitarian qualities of various individual components of the MP5 design. Rather, they stress that a product’s *overall* configuration may still be nonfunctional even if a large portion of its component features are functional. “[A] product whose overall appearance is distinctive can be protected under the trademark laws, even though most of the products constituent elements serve some function.” *Specialized Seating*, 616 F.3d at 727. When concededly utilitarian components comprise a putatively non-functional whole, “the critical question is the degree of utility present in the *overall* design of the mark.” *In re Becton, Dickinson & Co.*, 675 F.3d 1368, 1373 (Fed.Cir.2012). (emphasis added). On one hand, trade dress protection can extend to designs that are “ornamental, fanciful, [and] decorative,” for such aesthetically-based configurations “are not in short supply, so appropriating one of them to serve as an identifying mark does not take away from any competitor something that he needs in order to make a competing brand.”

W.T. Rogers Co., Inc. v. Keene, 778 F.2d 334, 339 (7th Cir.1985). In the broadest sense, this is what separates the shape of a football, unusual and iconic though it might be, from the design of a car’s hood ornament; a football’s shape cannot be a trade dress because its oblong shape is what makes it a football, while a car will serve its purpose no matter which of the infinite styles of front bumper or hood ornaments are placed upon it. *Id.* at 339–340. On the other hand, however, the Seventh Circuit has cautioned, a design may be functional even though it is not the only possible utilitarian configuration. In *Specialized Seating, Inc. v. Greenwich Industries, LP*, 616 F.3d 722 (7th Cir.2010), for instance, the court ruled that a particular design for an x-frame folding chair was functional “not because it is the only way to do things, but because it represents one of many solutions

to a problem,” based on the overall *917 configuration's “favorable strength-to-weight ratio.” 616 F.3d at 727.

Here, Plaintiffs contend that the arrangement of weapon features that constitutes its trade dress is essentially arbitrary, and provides value as a stylistic profile or signature. In fact, they contend, the MP5 is a “heritage firearm,” without any overall utilitarian advantages over modern competitors with more advanced designs. Weber Decl. ¶ 8. In support of this argument, Plaintiffs rely primarily on the expert report of Peter Kokalis, who opines that “[t]he MP5 trade dress constitutes a combination of design elements in an arbitrary and protectable product configuration,” and that “[t]here are infinite potential combinations of material, design elements, and mechanical geometries available to firearm manufacturers.” Docket No. 346–8 (Kokalis Report) at ¶¶ 12, 72.⁴⁷ Weber's testimony is in the same vein: “HK could exchange each of the MP5 design elements with alternative design elements such that the visual appearance of the firearm would be radically different than the MP5 trade dress and the firearm would still fire just as smoothly, accurately, and reliably.” Weber Decl. ¶ 9. Finally, Plaintiffs point to visual evidence of a number of other weapons that contain the same core of features, but whose overall design configuration is nonetheless significantly and recognizably different.⁴⁸ See Kokalis Report, Appx. B.

While the nature of a firearm mandates that any marketable gun contain certain functional features, “the fact that an item serves or performs a function does not mean that it may not at the same time be capable of indicating sponsorship or origin, particularly where the decorative aspects of the item are nonfunctional.” *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 204 (2d Cir.1979). See also Docket No. 346–26 (Pls.' Ex. 26) (PTO trade dress registration for the particular configuration of the Thompson machine gun). Plaintiffs have at least raised an issue of fact as to whether the particular configuration of parts embodied in the MP5 line of weapons is non-functional, despite the inescapably functional nature of some of the components themselves. Cf. *Service Ideas, Inc. v. Traex Corp.*, 846 F.2d 1118, 1123 (7th Cir.1988). We therefore conclude that the utilitarian features of the weapon to which Defendants point are not necessarily fatal to Plaintiff's case for non-functionality.

3. The existence of advertising touting the design's utilitarian qualities

Where a company's advertising “unequivocally link[s]” its product design to functional benefits, a court is justified in weighing its own word against its claim of non-functionality. See *Georgia-Pacific*, 647 F.3d at 730; *Mortar Net USA, Ltd. v. Hohmann & Barnard, Inc.*, 2013 WL 5407183, at *3 (N.D.Ind. Sept. 26, 2013). Here, Defendants point to a limited number of instances in which, they assert, Plaintiffs advertised the MP5 using the language of utility.

First, in what appear to be magazine advertisements, HK USA quoted Alan Ladd in the 1953 film *Shane*, who stated that “[a] gun is a tool”; they then added the tagline that HK produces “power tools for a new century.” Docket No. 333–7 (Defs.' Ex. HH). In another brochure, HK *918 USA boasts that the HK94, which it characterizes as “a direct offspring of Heckler & Koch's renowned family of MP5 Submachine Guns,” is “[d]esigned and built with only one thing in mind: uncompromising performance.” Docket No. 333–6 (Defs.' Ex. GG) at 2. Later in the same item, the company concludes its ad copy with another tagline: “At Heckler & Koch, form follows function.” *Id.* at 4. These items are less than persuasive as evidence of “utilitarian” advertising for two reasons: first, the statements in question are little more than non-specific puffery; second, and more important, none of the statements actually refer to the MP5 line. The assertion that the HK94, “offspring” of the MP5, has value for its “uncompromising performance” is hardly the same as advertising the parent weapon on specifically utilitarian grounds.

Defendants secondly point to a 2001 book, the Heckler & Koch “official history,” which contains the following statement: “A weapon, and particularly a sub-machine gun is undeniably a technical item. But why should one restrict oneself to sheer functionality if there are vacant MP5 surfaces inviting decoration?” Docket No. 333–5 at 264–265. Leaving aside the question of whether the statements contained in such a book are “advertising” materials for the MP5, we do not believe that this statement, when placed in context, touts the MP5 as a functional item. The book's authors refer to the MP5's “vacant spaces” in tongue-in-cheek fashion, by way of introducing a series of photographs—labeled “beauties”—displaying highly elaborate special-edition weapons, including a gold-plated MP5 and a gun decorated with ivory animal motifs apparently given as a gift from the company to the late Shah of Iran. *Id.* at 264. While the design of the MP5 may be pedestrian in comparison

with these one-off curiosities, it is difficult to read this bit of text as a serious assertion that the MP5's design is itself functional rather than aesthetic in value. Lastly, a company-issued calendar, which contains several blurbs discussing the MP5, notes that "current MP5 models still boast of features seldom found on any other weapons." It goes on to describe the quality of the steel use to produce the gun's barrel and the weapon's modularity, while its trigger mechanisms are "a rarity these days." Docket No. 332-22 at 4. But the features of which the calendar boasts in functional terms—namely the quality of the gun's steel and its modular capabilities—are not claimed by Plaintiffs as part of its trade dress; while the trigger unit is part of the trade dress, the reason the calendar describes it as a "rarity" is that most other modern designs have supplanted the original MP5 system with a more fully automatic trigger mechanism. *Id.*

In *Georgia-Pacific*, the Seventh Circuit determined that advertisements for a brand of toilet paper singing the praises of its quilted design—"quilted to create thousands of places for moisture to go" and "gently quilted together to give you and your family exceptional softness and comfort"—weighed in favor of functionality. "[T]he language in the ads is clear—the Quilted Diamond Design is unequivocally linked to functional benefits such as absorbency, softness, and comfort." 647 F.3d at 730. The advertising materials that Defendants have identified here stand in contrast; none urges the consumer to purchase the MP5 on the strength of any particular utilitarian quality. On the flip side of the coin, as Defendants points out, Weber testified that the company's advertising "definitely [doesn't] characterize [the MP5] as a distinctive trade dress." Docket No. 332-2 (Defs.' Ex. C) at 223. For this reason, we find that the Heckler & Koch advertisements have little to say on the question.

***919 4. "The dearth of, of difficulty in creating, alternative designs for the item's purpose"**

As we have noted, a product design is likely to be considered functional if it represents a "solution to a problem"—if, in other words, its protection as trade dress would deprive competitors of a uniquely efficient or useful design, even if other possible designs exist. To use the example of the folding chair design at issue in *Specialized Seating*, this factor is therefore implicated where, though other chair designs are possible, creating an alternative design that achieves a particular, desirable "strength to weight ratio" would be difficult or impossible. 616 F.3d at 727. In the case at hand, then, we must ask a teleological question: whether the particular design of the MP5 makes it tangibly better at

achieving the ends of submachine guns such that locking up the design under the aegis of one brand will harm the consumers' interests.

Plaintiffs again lean on the Kokalis expert report, which states that other designs fulfilling the same purpose are not only possible, but plentiful. Docket No. 246-10 at ¶¶ 17, 22. In fact, Kokalis asserts, a rival manufacturer endeavoring to copy the design of the MP5 for a .22 caliber weapon—such as GSG's allegedly infringing version of its GSG-522—would place itself at a functional *disadvantage*, because a modern gun of smaller caliber can be built lighter and more flexible. *Id.* at ¶ 81. Despite their success in showing the functional value of individual components, Defendants have presented no evidence supporting a theory that the MP5 represents even "one of many solutions to a problem." *Cf. Georgia-Pacific*, 647 F.3d at 731 (citing *Specialized Seating*, 616 F.3d at 727).

5. Effect of the design on the item's quality or cost

As to this final factor, Plaintiffs assert that, although the manufacturing quality of the MP5's components may differentiate them from comparable alternatives, nothing about the design arrangement itself drives the gun's quality or cost. Docket No. 346 at 4, 8 (citing Kokalis Report at ¶¶ 4, 77; Weber Decl. ¶ 10). According to Weber, the MP5 "clones" products sold by GSG, despite having the same design, sell for roughly 80% less because of this difference in manufacturing quality. Weber Decl. ¶ 10. Defendants do not directly assail Plaintiff's evidence on this score; instead, they argue that "[e]xpense does not establish non-functionality; nuclear reactors are expensive to make, while paperclips are not." Docket No. 364 at 30. While it is, of course, true that Plaintiffs' evidence here does not *establish* non-functionality, it is at least relevant to the question of whether the design—as opposed to other factors—differentiates the product in terms of quality or cost.

In sum, we determine that Plaintiffs have at least raised a genuine issue of material fact with respect to the non-functionality of the MP5 design in which they claim trade dress. Defendants' evidence of the functionality of the weapon's components will be highly relevant to a fact-finder, but the question remains whether the design of the whole has an aesthetic or source-identifying value that transcends the utilitarian qualities of its constituent elements. The lack of a utility patent, coupled with the lack of strong evidence in Defendants' favor with respect to any of the remaining evaluative factors identified by the Seventh Circuit, leads us

to conclude that summary judgment against Plaintiffs on the question of functionality is not appropriate.

*920 D. Secondary Meaning

[53] [54] [55] In order to qualify as “distinctive” and thus eligible for protection under the Lanham Act, an unregistered trade dress must possess a secondary meaning. *Wal-Mart Stores*, 529 U.S. at 210–215, 120 S.Ct. 1339; *Bodum USA, Inc. v. La Cafetiere, Inc.*, 621 F.3d 624, 627 (7th Cir.2010). “[A] mark has acquired distinctiveness, even if it is not inherently distinctive, if it has developed secondary meaning, which occurs when, ‘in the minds of the public, the primary significance of a [mark] is to identify the source of the product rather than the product itself.’” *Id.* at 211, 120 S.Ct. 1339 (quoting *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 851 n. 11, 102 S.Ct. 2182, 72 L.Ed.2d 606 (1982)). Proof of secondary meaning can be established through direct consumer testimony, consumer surveys, length and manner of use, amount and manner of advertising, volume of sales, place in the market, and evidence of intentional copying. *Packman v. Chicago Tribune*, 267 F.3d 628, 641 (7th Cir.2001).

[56] Defendants assert that the MP5 design lacks secondary meaning because the market is flooded with MP5 look-alikes or unlicensed or altered versions of the weapon. As evidence, they cite manuals distributed to owners by Plaintiffs themselves, warning that “[t]here are a lot of look-alike products being sold today that are not produced by HK. There are also used MP-5’s available that were not reconditioned by HK, GmbH or HK, Inc.” Docket No. 332–23 (Defs.’ Ex. V) at 12. Defendants also provide evidence of a number of firms in the United States and elsewhere that sell knock-off or imitation MP5s, or that produce kits that can be assembled into weapons resembling the MP5. *See* Docket No. 332 at 27–28, ¶¶ 74–82. Additionally, Defendants assert that Plaintiffs have been lax in allowing the proliferation of these imitators. They note that Plaintiffs have never made a valuation of the alleged MP5 trade dress, Docket No. 332 at 29, ¶ 84, and that HK USA official Steven Galloway conceded that the company had hired an investigative firm to track down copycats after discerning that it had been “negligent” or “inattentive” in “protecting our intellectual property.” Defs.’ Ex. C at 142, 171–172. Citing *McCarthy on Trademarks*, they contend that the MP5 lacks distinctiveness if it is “hemmed in on all sides by similar marks on similar goods.” 2 *McCarthy on Trademarks and Unfair Competition*

§ 11:85 (4th ed.). “When numerous sellers in a product or service line use similar marks, there may be little if any individual distinctiveness and consumers may have difficulty telling one seller from another.” *Id.*

We do not read *McCarthy on Trademarks* to suggest that the existence of a “crowded field” forecloses the existence of secondary meaning if the competitors are imitators who have entered the market to capitalize on the familiarity or cachet of a pre-existing design.⁴⁹ *Cf. Eastland Music Group, LLC v. Lionsgate Entm’t, Inc.*, 707 F.3d 869, 871 (7th Cir.2013) (observing that a plaintiff was “a very junior user and in no position to complain [Plaintiff] entered a crowded field, and its rights are correspondingly weak and narrow.”) (emphasis added). The consumer “confusion” created in such a market of imitators stems not from the fact that a product’s name or design fails to stand out, but rather that it stands out *too much*, attracting other producers who seek to co-opt it. *921 And in fact, as Plaintiffs point out, evidence of intentional copying, far from being fatal to a claim for secondary meaning, is probative of it. *Schwinn Bicycle Co. v. Ross Bicycles, Inc.*, 870 F.2d 1176, 1182 n. 13 (7th Cir.1989).

Here, in addition to the evidence that Defendants have designated regarding the existence of MP5 imitators and repackagers, *see* Docket No. 332 at 27–28, ¶¶ 74–82, Plaintiffs point to evidence that GSG and ATI themselves have engaged in intentional copying. One GSG advertisement exclaims that “The GSG–5 is an identical replication of the MP–5 except one great thing: it’s a 22 cal.” Docket No. 346–19 (Pls.’ Ex. 12) at 2. Another GSG advertisement touts: “The world’s most recognizable tactical carbine is now available for the everyday shooter! The GSG–5 is an identical clone of the renowned MP5 with one major change—it fires .22LR!” Docket No. 346–10 (Pls.’ Ex. 13). Two ATI executives stated in deposition testimony that the GSG–5 intentionally resembled the MP5, making it “more attractive” than other cheap guns on the market. Docket No. 347–5 (Defs.’ Ex. 14) at 35; Docket No. 347–8 (Defs.’ Ex. 19). Though courts in the Seventh Circuit have stopped short of according a presumption of secondary meaning to a trade dress on the strength of evidence of intentional copying, they have recognized such evidence as highly persuasive.

See Schwinn Bicycle, 870 F.2d at 1182 n. 13; *Turtle Wax, Inc. v. First Brands Corp.*, 781 F.Supp. 1314, 1324 (N.D.Ill.1991).

Plaintiffs also present some evidence of the MP5's "place in the market." HK USA president Weber testifies to the MP5's extensive presence at trade shows, Weber Decl. ¶¶ 3–5, 6, 10, and Plaintiffs' expert, Kokalis, avers that the gun has been featured in "well over 100 feature films and countless television episodes, books, and articles." Kokalis Report at ¶ 80. Even more striking evidence of the MP5 design's place in the market is GSG's advertising of its expressly imitative weapons—advertising clearly plays on the fame of the physical profile of the MP5, describing it as "renowned" and the "world's most *recognizable* tactical carbine." Pls.' Ex. 13 (emphasis added). Plaintiffs have also made at least a minimal showing of the MP5's volume of sales and its history of use. Although Plaintiffs' sales data is not comprehensive, it does show that the MP5 sold in considerable volume in the years 2005–2014. Docket No. 335–2 (Defs.' Ex. III).⁵⁰ More persuasively, Plaintiffs note that the MP5 design has been used consistently since 1966—for almost 50 years.

As the court noted in *Turtle Wax, Inc. v. First Brands Corp.*, 781 F.Supp. 1314, 1324 (N.D.Ill.1991), evidence of the commercial success of a product design is entitled to greater weight in proportion to the time the product has been on the market. Secondary meaning, after all, cannot by its very nature develop overnight, for a trade dress with secondary meaning "is not inherently distinctive but is claimed to have become identified with the producer over time." *Schwinn Bicycle*, 870 F.2d at 1182 n. 13. The assertion that a design with such a comparatively venerable pedigree has acquired secondary meaning is therefore considerably more reasonable than a similar claim made on behalf of a recent entry on the market.

In a small but perhaps telling linguistic slip, Defendants argue that they have successfully "put at issue" Plaintiffs' claim of secondary meaning for the MP5. Docket No. 364 at 32. Indeed, as the evidence we *922 have discussed above demonstrates, there is at least a genuine unresolved factual issue as to this element. See *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 767, 112 S.Ct. 2753, 120 L.Ed.2d 615 (1992) (discussing secondary meaning as a question subject to jury fact-finding). It is Defendants' burden, of course, as the moving party, to demonstrate the *absence* of a factual question; because they have failed to do so, summary judgment in their favor on secondary meaning is unwarranted.

E. Abandonment

[57] [58] The abandonment of an alleged trade dress is an affirmative defense to a claim for trade dress infringement.⁵¹ A party may be held to have abandoned its trade dress where it has engaged in "naked licensing"—that is, "allowing others to use the mark without exercising 'reasonable control over the nature and quality of the goods, services, or business on which the [mark] is used by the licensee.'" *Eva's Bridal Ltd. v. Halanick Enters., Inc.*, 639 F.3d 788, 789 (7th Cir.2011) (citing Restatement (Third) of Unfair Competition §§ 30, 33 (1995)). See also *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena*, 293 F.Supp. 892, 918 (S.D.N.Y.1968) ("[A] 'naked' license *may* be the basis for an *inference* of abandonment where the licensor maintains no control over the quality of goods made by the licensee.").

Defendants argue that HK USA engaged in naked licensing in signing the 2009 Agreement with them. They present their case in a conceptually muddled fashion⁵², but its core assertion is that, by "approving" the design for the GSG–522 as attached to the Agreement and covenanting not to sue GSG for the sale of the GSG–522, HK USA gave away the store, thereby forsaking any ability to engage in quality control. Docket No. 332 at 70. "Therefore," Defendants urge, "Plaintiffs contractually precluded themselves from enforcing the quality of a product they contend violates the alleged MP5 trade dress, working an abandonment." *Id.*

The abandonment claim fails because the Agreement did not license the MP5 to Defendants. "[A] license to use a mark ... is a transfer of limited rights, less than the whole interest which might have been transferred." *Exxon Corp. v. Oxxford Clothes, Inc.*, 109 F.3d 1070, 1076 (5th Cir.1997). The essential inquiry is whether, "under cover of the agreement claimed to be a license, 'the licensee is engaging in acts which would infringe the licensor's mark but for the permission granted in the license.'" *Id.* (quoting 2 McCarthy on Trademarks § 18:79). The portion of the 2009 Agreement to which Defendants refer surrendered no rights in the MP5 at all; rather, it stipulated that a certain GSG design for the "GSG–522" weapon did *not* infringe the MP5 trade dress. Docket No. 45–1 at ¶ 5.

Plaintiffs cannot be guilty of naked licensing where they have not granted a license at all. Defendants wisely discard their naked licensing claim in their reply brief, and they have presented no other arguments in support of an abandonment affirmative defense.

Therefore, having concluded that Plaintiffs have sufficiently identified their alleged trade dress and that they have propounded *923 evidence creating a genuine issue of material fact with respect to functionality and secondary meaning, we DENY Defendants' motion for summary judgment on Counterclaim Count XI.

VII. Plaintiffs' Federal Trade Dress Claims

Defendants seek summary judgment on three federal trade dress claims contained in Plaintiffs' Amended Complaint: Count V for trade mark dilution under Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c); Count VI for infringement of an unregistered trade dress under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a); and Count VII for common-law trade dress infringement. Docket No. 332 at 70.

[59] As we have noted, a plaintiff under Section 43 of the Lanham Act must establish that its trade dress is protectable in order to press a claim for infringement or dilution. Defendants reprise here their arguments that Plaintiffs' putative trade dress is insufficiently identified, functional, and lacking secondary meaning. We have already considered and rejected those arguments, determining that summary judgment is unwarranted on the protectability of Plaintiffs' claimed trade dress. *See supra* § VI.

The only new argument Defendants present here concerns Plaintiffs' trade dilution claim. Section 43(c) of the Lanham Act provides:

[T]he owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion,

of competition, or of actual economic injury.

15 U.S.C. § 1125(c)(1) (emphasis added). The Act further clarifies that a mark is defined as "famous" if it is "widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner." 15 U.S.C. § 1125(c)(2)(A). Defendants allege that, because Plaintiffs have failed to identify or sufficiently define their trade dress, they "cannot show as a matter of law that the alleged MP5 trade dress ... is recognized by the general consuming public of the United States" Docket No. 332 at 71.

[60] Defendants fail to offer any support for their contention that the MP5 trade dress is not famous. They correctly note that Plaintiffs must "show that the alleged MP5 trade dress is famous [apart] from the 'MP5' mark *required to be engraved* on each such firearm," but they err in supposing that this statutory requirement is anything other than a restatement of the unremarkable principle that the trade dress rather than the verbal MP5 trademark must qualify for protection. Although they cite two district court cases⁵³ stating that "niche fame" is insufficient to qualify a trade dress as "famous," they make no actual argument that the MP5 trade dress enjoys only niche fame—or that it falls short of establishing any of the elements necessary to prevail on a trade dilution claim.

See *Syndicate Sales, Inc. v. Hampshire Paper Corp.*, 192 F.3d 633, 639 (7th Cir.1999). Defendants' only substantive argument, in fact, is the one-sentence assertion that Plaintiffs cannot *924 make a showing that the MP5 is "famous" because they "cannot even define it consistently or specify non-generic firearm parts." Docket No. 332 at 72. This merely recapitulates their contention that the trade dress is not identifiable—an argument we have already addressed and set aside. *See supra*, § VI(A).

Defendants' motion for summary judgment on Counts V, VI, and VII of Plaintiffs' Amended Complaint is therefore DENIED. Defendants have also moved for summary judgment on Counterclaim Count XII, which seeks a declaratory judgment of Defendants' non-infringement. The parties did not specifically address Counterclaim Count XII, but we DENY Defendants' motion for declaratory judgment of non-infringement for the same reason that we deny Defendants' motion as to Plaintiffs' claims for infringement.

VIII. Plaintiffs' Count IX—State Trademark Infringement

Count IX of Plaintiffs' Amended Complaint states a claim for state trademark infringement under Indiana Code § 24-2-1-13. Docket No. 45 at 12. The Indiana Trademark Act, Ind.Code § 24-2-1 *et seq.*, imposes liability when a defendant uses a “reproduction, counterfeit, copy, or colorable imitation” of a registered mark either: (1) “in connection with the sale, offering for sale, distribution, or advertising of goods or services,” or (2) “on or in connection with which the use is likely to cause confusion or mistake, or result in deception regarding the source of origin of the goods or services.” Ind.Code § 24-2-1-13(1); *Felsher v. Univ. of Evansville*, 755 N.E.2d 589, 599 (Ind.2001). Because Indiana's body of trademark law is “relatively undeveloped,” the Indiana Trademark Act “is intended to provide a system of state trademark registration and protection that is consistent with the federal system of trademark registration.” *Serenity Springs v. LaPorte Cnty. Convention & Visitors Bureau*, 986 N.E.2d 314, 323 (Ind.Ct.App.2013) (citing Ind.Code § 24-2-1-0.5). The state's law therefore tracks the terminology of the Lanham Act almost identically, and the essential elements of a state claim are the same as those of a federal one, with one notable difference. *Id.* Unlike the federal statute, the Indiana Trademark Act makes state registration of a trademark an explicit prerequisite to recovering for its infringement. Ind.Code § 24-2-1-14(a).

Defendants advance two grounds for summary judgment on this claim: that a cause of action for trade dress infringement is not cognizable under the Indiana statute, and that in any case Plaintiffs have failed to meet the incorporated Lanham Act requirements of “nongenericness, specificity, consistency, and nonfunctionality” as a matter of law. Docket No. 332 at 72.

As we have stated, the body of Indiana trademark infringement law is not richly developed. Given that the state's courts have reaffirmed quite recently that the state law aims at creating a “system of state trademark registration and protection that is consistent with the federal system of trademark registration,” however, we can perceive no reason why the state law would not follow in the footsteps of federal law in recognizing trade dress protection. See *Serenity Springs v. LaPorte Cnty. Convention & Visitors Bureau*, 986 N.E.2d 314, 323 (Ind.Ct.App.2013). Defendants have certainly presented no substantive argument in favor of the theory that trade dress is unprotected under state law. We have

already implicitly recognized Count IX as a cognizable cause of action, *see* Docket No. 215 at 24–25 (denying Defendants' motion to dismiss), and we do not disturb that conclusion now.

Recognizing the parallel nature of the federal and state claims, Defendants' only *925 argument for summary judgment on the merits is that Plaintiffs have failed to establish the elements of their Lanham Act claims. Docket No. 332 at 72. Just as we have rejected those arguments once, we do so again here.

Defendants' motion for summary judgment as to Count IX of Plaintiffs' Amended Complaint is therefore DENIED.

IX. Defendants' Counterclaim Count X—Declaratory Judgment for No Breach of Contract by GSG and ATI

Defendants seek a declaratory judgment in their favor that they are not liable to Plaintiffs' for their alleged breach of the 2009 Agreement, on the grounds that Plaintiffs are guilty of a first material breach. Docket No. 251 at 55. Because they “breached the confidentiality clause before the ink was dry” and attaching a copy of the Agreement in an email to an executive with nonparty Umarex shortly after the settlement was signed, Defendants insist, Plaintiffs cannot recover for any subsequent breaches by Defendants as a matter of law. Docket No. 332 at 73.

[61] “[A] party first guilty of a material breach of contract may not maintain an action against the other party or seek to enforce the contract against the other party should that party subsequently breach the contract.” *Boston Scientific Corp. v. Mirowski Family Ventures, LLC*, 2012 WL 5996482, at *9 (S.D.Ind. Nov. 30, 2012) (quoting *Licocci v. Cardinal Assocs., Inc.*, 492 N.E.2d 48, 52 (Ind.Ct.App.1986)). “A material breach is one that goes to the heart of the contract.” *New Berean Missionary Baptist Church, Inc. v. State Farm Fire & Cas. Ins. Co.*, 2010 WL 2010464, at *5 (S.D.Ind. May 18, 2010).⁵⁴ As Plaintiffs point out, the materiality of a breach is a question of fact. See *Canada Dry Corp. v. Nehi Beverage Co., Inc. of Indianapolis*, 723 F.2d 512, 517 (7th Cir.1983); *W. Am. Ins. Co. v. Cates*, 865 N.E.2d 1016, 1022 (Ind.Ct.App.2007).

[62] The parties do not appear to dispute that Plaintiffs' attaching a copy of the Agreement in an email was at least a technical breach of its confidentiality clause. We have already granted Plaintiffs' motion for summary judgment on

the counterclaim for breach of the confidentiality clause on grounds that Defendants failed to demonstrate the existence of damages. *See supra*, § IV(A). It does not necessarily follow, however, that the email was not a material breach. In support of their argument for materiality, Defendants cite only one case, a Florida state court decision. There, in *Gulliver Schools, Inc. v. Snay*, 137 So.3d 1045 (Fla. Dist. Ct. App. 2014), a teacher who settled his employment discrimination claims against his employer signed an agreement that included a confidentiality clause; shortly thereafter, however, he discussed the agreement with his college-age daughter (presumably not a law student), who proceeded to broadcast that information to some 1200 of her Facebook friends.

137 So.3d at 1046–1047. When the teacher later brought a suit against the school for breach of the agreement, the court ruled that his antecedent breach of the confidentiality clause foreclosed any recovery. *Id.* at 1048. Although the court did not expressly discuss the question of materiality, it did state that the confidentiality clause was “central” to the settlement agreement, and that “[t]he significance of this provision is evidenced by the fact that [plaintiffs] entitlement to *926 a significant sum of money is expressly conditioned on his compliance with this provision.” *Id.* at 1048 n. 4.

Plaintiffs, by contrast, argue that such a breach of the Agreement's confidentiality clause was not material because it did not go “to the heart of the contract.” *Cf. Goff v. Graham*, 159 Ind.App. 324, 306 N.E.2d 758, 765 (1974). The “heart” of the 2009 Settlement, they insist, was GSG and ATI's agreement to cease production and sale of the allegedly infringing GSG–5 in exchange for a sum of money and the “approval” of the GSG–522. Docket No. 346 at 69. In support of this notion, they point out that the language of the confidentiality clause itself suggests that the maintenance of secrecy about the existence of a deal was not of paramount importance. *See* Docket No. 45–1, ¶ 24. They also refer us to a Delaware decision that they view as analogous to our facts and as a useful counterpoint to the *Snay* decision leaned upon by Defendants. In *Texas Instruments, Inc. v. Qualcomm, Inc.*, 2004 WL 1631356 (Del. Ch. July 14, 2004), the Delaware court of chancery found that a party's breach of the confidentiality provision of a settlement agreement between two patent litigants was not material, because “peace” in the patent dispute, not confidentiality, was the agreement's central objective. “The [agreement] is not a confidentiality agreement. Nor was confidentiality identified by the parties as a critical term or goal of the [agreement]. The

‘root of the agreement’ or the ‘essence of the contract’ was patent peace between Qualcomm and [Texas Instruments].” 2004 WL 1631356, at *1.

We are not a court of chancery, and we do not enjoy a chancery court's freedom to decide summarily factual questions that are in genuine dispute. We believe that significantly more conclusive evidence of the centrality of the confidentiality clause would be necessary in order to take the question of materiality away from the jury. *See Canada Dry*, 723 F.2d at 517 (“We think that there was enough dispute as to these matters that the issues both of the occurrence of a breach and of its significance were properly left to the jury.”). Defendants fail to meet their burden. While they present a slightly more extended discussion of the issue in their reply brief, they offer only unsupported argument regarding the Restatement factors applied by the Indiana courts, particularly whether confidentiality was central to the “benefit of the bargain.”

See Frazier v. Mellowitz, 804 N.E.2d 796, 802–803 (Ind. Ct. App. 2004) (citing Restatement (Second) of Contracts § 241). For instance, they make the naked, conclusory assertion that “Defendants agreed to the settlement *only* because HKI agreed to keep it confidential.” Docket No. 364 at 37 (emphasis added). This—and Defendants' other such assertions—may be true, and if they are, Plaintiffs' breach may have been material. But we are not in a position to say so. We therefore decline to declare as a matter of law that Plaintiffs' alleged prior material breach of the 2009 Agreement vitiates Plaintiffs' own contract claims.

Defendants' motion for summary judgment on Counterclaim Count X is accordingly DENIED. Because first material breach is the only argument Defendants present in support of their motion for summary judgment against Plaintiffs' own contract claims (Amended Complaint Counts I and II), Defendants' motion for summary judgment on Plaintiffs' Counts I and II is also DENIED.

Conclusion

We have resolved the pending motions as follows. Defendants' motion to strike Plaintiffs' affirmative defenses to counterclaims [Docket No. 282] is DENIED as moot, as detailed above.

*927 Plaintiffs' motion for summary judgment [Docket No. 329] is GRANTED with respect to Counterclaim Counts I,

III, IV, VI, VII, VIII, and IX. The motion is GRANTED as to Counterclaim Count V with respect to paragraph 14 of the Agreement and DENIED with respect to paragraph 5 of the Agreement, as detailed above.

VI, VII, VIII, IX, X, XI and XII and with respect to Counts I, II, V, VI, VII, and IX of Plaintiffs' Amended Complaint.

IT IS SO ORDERED.

Defendants' motion for summary judgment [Docket No. 331] is DENIED with respect to Counterclaim Counts I, III, IV, V,

All Citations

71 F.Supp.3d 866

Footnotes

- 1 As the caption indicates, HK USA and HKG are, together with individual corporate officers G. Wayne Weber and Niels Ihloff, defendants in the counterclaims asserted by GSG and ATI. For the sake of simplicity, however, we will refer to HK USA and HKG collectively throughout this Order, where their individual identities often are not relevant to the discussion.
- 2 GSG and ATI are both Defendants and Counterclaimants; for simplicity, we refer to them jointly throughout as "Defendants."
- 3 Mr. Ihloff's name is misspelled in some of the parties' submissions and captions as "Nils Ihloff."
- 4 Plaintiffs contend that HKG did not "accept" the Assignment until June 15, 2010. Docket NO. 330 at 11, ¶ 26 (citing Cooper Decl. ¶ 10). Plaintiffs' account relies only on the declaration of HKG's attorney Isolde Kurz-Cooper, and the parties vigorously dispute whether such a delayed acceptance occurred, whether "acceptance" is even necessary for an assignment of the type executed by HK USA, and whether such an acceptance has any relevance to the parties' claims and counterclaims. We address some of these contentions below.
- 5 The Court has already dismissed Counterclaim Count II, and Plaintiffs do not seek summary judgment as to Counterclaims Counts X, XI, and XII.
- 6 The Court has already dismissed Counts III, IV, and VIII of Plaintiffs' Amended Complaint; the surviving claims are Counts I, II, V, VI, VII, and IX. Defendants do not frontally challenge Plaintiffs' two contract claims (Counts I and II); rather, they contend in seeking summary judgment on their Counterclaim Count X that any recovery for Plaintiffs on those claims is foreclosed by Plaintiffs' own earlier material breach of the 2009 Agreement. See *infra*, § IX.
- 7 Defendants' initial Answer contained counterclaims alleged fraud against only HK USA and Weber; it is only in this new pleading that they have added HK GmbH and Ihloff as Counter Defendants.
- 8 Defendants also allege that fellow Counterclaim Defendants HKG and Niels Ihloff share liability for the fraud on an agency theory through their later ratification of the Agreement. Docket No. 332 at 49–52. Because we ultimately grant summary judgment on the fraud claim and other counterclaims in which such agency liability is implicated, we do not need to address further this theory.
- 9 These cases involve the construction of a federal bankruptcy statute rather than Indiana law, but they derive the "intent to deceive" element of fraud from the common law. "The word 'fraud' implies a requirement of intent to deceive." *Mayer*, 51 F.3d at 674 (citing *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 96 S.Ct. 1375, 47 L.Ed.2d 668 (1976); *Neal v. Clark*, 95 U.S. 704, 709, 24 L.Ed. 586 (1877)).
- 10 Defendants cite an Eastern District of Virginia bankruptcy decision for the proposition that an assignment becomes valid and "irrevocable" when properly supported by consideration. See Docket No. 370 (Defs.' Sur-Reply) at 7 (citing *In re Himes*, 53 B.R. 948, 951 (Bankr.E.D.Va.1985)). As Defendants' own citations to *Williston on Contracts* make clear, however, an assignment—like any other contract—requires the mutual assent of the parties to be valid. See 29 *Williston on Contracts* § 74:3 (4th ed.). While Defendants are thus correct to assert that an assignment is irrevocable once completed, their argument skips a step.
- 11 Plaintiffs assert in reply that the incongruity between their body of earlier statements and their new theory stems from the fact that they were simply unaware of the thrust of Cooper's testimony on the matter until Cooper informed them of the point on May 26, 2014 as they were preparing for summary judgment. They had not earlier inquired into the matter, Plaintiffs' counsel now state, because they "simply did not believe facts relating to the Assignment were ... important" until after the Court ruled against their motion to dismiss the amended counterclaims in May 2014. See Docket No. 363 at 11. We do not think that inattention to an obviously material factual issue is a "plausible explanation" for Plaintiffs' abrupt change of course. Moreover, the explanation Plaintiffs proffer here is rather undermined by their assertion, in a motion

- filed *after* the ones before us, that the March 2009 execution of the Assignment and HK USA's failure to disclose it in the October 2009 Agreement were "undisputed" facts. See Docket No. 399 at 6, ¶¶ 2, 6.
- 12 While Weber was asked in this deposition, more specifically, if he intended GSG and ATI to rely on the representations HK USA made in the *agreement*, he answered in different form, stating: "I expected them to rely on the representations made by HK *during this meeting*, yes." Weber 2014 Dep. at 92 (emphasis added).
- 13 This account is lent at least some plausibility by the fact that HK USA and HKG are, as their names suggest, corporate affiliates. Though the entities were separated by two "layers" at the time, Heckler & Koch GmbH (HKG) was and is the "ultimate parent" company of Heckler & Koch, Inc. (HK USA). Weber Apr. 2013 Dep. (Docket No. 330–2) at 51–55.
- 14 As Plaintiffs point out, *Taurus Holding* is an unpublished decision without precedential weight. We cite it only for its illustrative value, and not under any misapprehension that it is controlling. Plaintiffs also note that the court in *Taurus Holding Co.* rejected a claim for fraud on the grounds that the claimant had not established its reasonable reliance. See Docket No. 363 at 5. While this is true, it is beside the point; we cited the case in an earlier order—as Defendants cite it now—not on the factual issue of reliance, but to support the notion that Indiana law need not view a contract's preliminary recitals as entirely meaningless.
- 15 A special relationship between the parties is a *per se* requirement for *constructive* fraud liability. A party may be liable for constructive fraud on the basis of its omissions as well as its affirmative misrepresentations, so long as its relationship with the defrauded party is fiduciary in nature, or—in a buyer-seller context—where it enjoys "the unique possession of knowledge not possessed by the other and may thereby enjoy a position of superiority over the other." *Mullen v. Cogdell*, 643 N.E.2d 390, 401 (Ind.Ct.App.1994). As Plaintiffs point out, we have already ruled, on a previous motion to dismiss, that there was no such special relationship between the parties here that could support a constructive fraud claim. See Docket No. 215 at 19–20. The absence of such a relationship is not fatal to a claim for actual fraud, however.
- 16 In doing so, we noted Defendants' plausible allegations concerning the effect of the assignment on Plaintiffs' standing to bring the 2009 lawsuit (and, accordingly, the amount of damages it could have recovered had its assignment of the IP rights been disclosed), as well as the testimony of Defendants' expert Kenneth Germain that the Assignment had weakened the value of the underlying trademark and trade dress rights. See Docket No. 298 at 18–22. We do not need to revisit these conclusions under the more exacting summary judgment standard, because we conclude that Defendants have failed to establish the element of reliance—which is, of course, a prerequisite to the existence of proximate causation and damages in a fraud claim.
- 17 One preliminary clause in the Agreement recites that "HK *claims* to own in the United States a proprietary trade dress comprised of the designs of certain elements of the MP5 firearms (the 'MP5 trade dress')," while another states more emphatically that "HK *owns* a federal trademark registration in the mark 'MP5.'" Docket No. 45–1 at 1 (emphasis added). Since Plaintiffs did not claim in the 2009 Litigation (or now) that Defendants infringed the MP5 trade mark itself, it is the representation concerning trade dress that is more relevant.
- 18 Defendants contend in support of their claim for tortious interference that ATI president DiChario was pressured to settle the 2009 litigation by Plaintiffs' subpoenas of ATI's business partners and the threats of further subpoenas. See Docket No. 118–1 at ¶ 8.
- 19 Defendants' counsel objected to this question on the grounds that it called for a legal conclusion. While the objection likely has merit, we present the testimony since it is Defendants who now designate it in their favor.
- 20 Defendants incorporate here by reference their proximate cause evidence in connection with the fraud counterclaim. See Docket No. 349 at 44; 39–42. Of particular salience is an excerpt from the expert report of Kenneth Germain, in which he opines that "falsehoods imperiling the continued vitality of the MP5 mark almost certainly caused GSG/ATI to settle on terms more favorable to the HK Entities than a weakened or invalid mark would have justified." Docket No. 251–3 at 9, ¶ 19. If accepted as true, this tends to establish that the weakness of HK USA's claim to own the intellectual property rights, unbeknownst to Defendants, made the settlement terms more beneficial for HK USA than they should have been. To the extent that this statement implies that the "falsehoods imperiling the continued vitality" *caused* Defendants to *decide* to settle—rather than caused the Agreement to be unfavorable, we determine that any such assertion by Germain is speculative and outside his expertise, which is in trademarks and intellectual property law, not Defendants' decision-making process. See Docket No. 251–3 at ¶ 1 (expert credentials). As we have stated above, drawing an inference of reliance from the unfavorable nature of the Agreement to Defendants in light of later-disclosed facts is unreasonable when weighed against the structure and language of the Agreement itself.
- 21 These subpoenas were thus served after the Assignment was executed, and allegedly consummated, in March 2009.

- 22 Defendants have moved to seal this document, arguing that it contains confidential business information. Plaintiffs have cited it only to demonstrate the existence of the contractual relationship, and that is the only purpose for which the Court cites it now.
- 23 In contending that the litigation privilege does not apply to the tortious interference counterclaim, Defendants quote a statement we made in denying Plaintiffs' first motion to dismiss this count. In our Order of September 30, 2013, we said: "Since the 'more than two dozen lawsuits' initiated by HK USA are alleged to be in bad faith, the privilege for good-faith litigation ... is no bar to their serving as the basis for a tortious interference claim." *Heckler & Koch, Inc., et al. v. German Sport Guns GmbH, et al.*, 976 F.Supp.2d 1020, 1037 (S.D.Ind.2013) (citing *Watson Rural Water Co. v. Ind. Cities Water Corp.*, 540 N.E.2d at 139). That language arose in our discussion of the "independent unlawful act" element of the tortious interference claim; we did not address the litigation privilege at all in that Order because the issue was not before us on the motion to dismiss. We used the word "privilege" in a more general, colloquial sense there—and as we discuss below, the holding of *Watson Rural* is fully consistent with the conclusion we reach with regard to the privilege here.
- 24 The counterclaim certainly differs from the typical defamation-type allegation in that the reason Defendants assert the suit to have been baseless was, at least in part, that HK USA lacked any enforceable rights in the trademark rather than Defendants were necessarily innocent of infringing the MP5 trade dress. While the truth or falsity of the communication at issue is, of course, a dispositive issue in a bona fide defamation claim, see *Ind. Nat'l Bank v. Chapman*, 482 N.E.2d 474 (Ind.Ct.App.1985), we do not think the distinction is critical with respect to the applicability of the litigation privilege.
- 25 *Watson Rural* is consistent with this reasoning as well. There, the court held that a tortious interference suit failed for two reasons: (1) the "representations" embodied in a party's litigation position, at least if they are made in good faith, do not constitute "unjustified" conduct, and (2) any such representations, if made in connection with litigation, are privileged. See *Watson Rural*, 540 N.E.2d at 139.
- 26 Plaintiffs' initial complaint in state court alleged only breach of contract; the Amended Complaint added the intellectual property claims. See Docket No. 1, Ex. A (Complaint as removed from state court); Docket No. 45 (Amended Complaint).
- 27 Defendants assert that Plaintiffs could have filed the Agreement under seal, disclosed only limited parts of the Agreement, or declined to disclose it entirely, relying on courts' discretion to allow litigation to proceed despite a technical rules violation under Trial Rule 9.2F. These proffered alternative courses of action miss the point: Plaintiffs' conduct did not violate the confidentiality clause, and the possibility that the court would have let them get away with less disclosure is immaterial.
- 28 While HKG managing director Ihloff did not explicitly state that this action violated the confidentiality clause, Defendants reasonably construe his concession that the Agreement had not been "performed perfectly" as a tacit admission. Docket No. 349 at 15. Plaintiffs do not argue that there was not a technical breach, instead focusing their arguments as to this point on the lack of evidence of damages.
- 29 The parties engage in an acrimonious debate about whether the conduct of Swoboda's interpreter, who was also an attorney, was proper. Because we do not view Swoboda's testimony on this issue as supporting any inferences in Defendants' favor, we need not wade into that issue.
- 30 The "Stephens Declaration" is a sworn statement by Taft Stettinius & Hollister attorney Connie Stephens, a German-speaker who reviewed the videotaped Swoboda testimony and transcribed Swoboda's conversation in German with his attorney/translator. Docket No. 330–8.
- 31 Defendants argue in their brief, without any citation to evidence other than the aforementioned DiChario deposition, that their injury was in being "deprived of the benefit of their bargain." Docket No. 349 at 48. "Such a breach is actionable," they assert, citing *Gulliver Sch., Inc. v. Snay*, 137 So.3d 1045 (Fla.Dist.Ct.App.2014). The Florida case they cite says nothing about the issue of damages; while there is no doubt that a material breach of contract depriving a party of the benefit of its bargain may be "actionable," the element of their cause of action Defendants have failed to establish here is not actionability in the abstract, but damages from this particular alleged breach.
- 32 The amount of damages if a breach is proven is, of course, an issue for the jury, but Plaintiffs could have argued, as they did in connection with the confidentiality clause, that no facts in the record could warrant a reasonable juror to infer that damages existed in some ascertainable amount.
- 33 In granting Plaintiffs' motion for leave to amend their complaint in 2012, we observed that "the dispute resolution provision only applies to ATI." Docket No. 44 at 4. That characterization was accurate enough for purposes of rejecting Defendants' Rule 12 futility argument, but it was something of an oversimplification. The important point on the motion to dismiss—and here—is that the clause does not implicate GSG.

- 34 In their motion for summary judgment, Defendants argue that a jury could infer, primarily from the statements of HKG managing director Ihloff, that ample motive for deception existed for HK USA and HKG—namely, HKG's desire to avoid being drawn into U.S. litigation, and the companies' desire to meet the April 2010 deadline for registration renewal. See Docket No. 332 at 43 (citing Defs.' Ex. F (Ihloff Dep.) at 274, 281–282).
- 35 Defendants point to the expert testimony of Kenneth Germain that “it could not have been the PTO's intent to allow a deficiency known only to the owner but not to the PTO (i.e., because the owner had assigned away its rights before filing the Section 8) to go uncured forever without affecting the validity of the registration.” Ex. E at 6, ¶ 14(b). The materiality of a misrepresentation to the PTO, however, is a question of law for the Court—a question of which Germain's opinion is not probative. See *Gilbert/Robinson, Inc. v. Carrie Beverage—Missouri, Inc.*, 989 F.2d 985, 992–993 (8th Cir.1993).
- 36 *Artcraft* was decided under an earlier version of Section 8 that more expressly allowed successors and assigns to file, but we nonetheless agree with the court's reasoning that a misstatement as to ownership is not material—even if the current version of Section 8 does make it a formal violation subject to the remedy provided in subsection (c).
- 37 In order to prevail on an infringement claim under Section 43(a), a plaintiff must show additionally that the trade dress of the competing good is confusingly similar to the protected trade dress. *Abercrombie & Fitch Stores*, 280 F.3d at 629.
- 38 A trademark may also be “inherently distinctive,” but the Supreme Court in *Wal-Mart Stores* held that, as to trade dress protection, “a product's design is distinctive, and therefore protectible [sic], only upon a showing of secondary meaning.” 529 U.S. at 215, 120 S.Ct. 1339.
- 39 Defendants also object to the expert report of Jeffrey M. Samuels, Docket No. 346–13. We need not address the objections to the Samuels report, whose contents have not proved material to our disposition of any of the motions before us. Defendants' objection based on the untimeliness of the report, however, is unfounded for the same reasons discussed in connection with the Kokalis report.
- 40 Indeed, the impossibility of “reading minds” is part of why consumer survey information is considered so valuable as an indicator of secondary meaning. See *Sassafras*, 915 F.Supp. at 7–8. Plaintiffs have, unfortunately, not presented such data here, but as we discuss below, the evidence they have marshalled is enough to withstand summary judgment.
- 41 To the extent Kokalis offers opinion or factual evidence (such as Appendix C to his report, an internet print-out listing MP5 appearances in popular culture) that is not reasonably derived from his expertise in the field, such evidence can be discounted or disregarded on a more narrow basis. Subject to authentication issues, for instance, Appendix C may serve as documentary evidence of the MP5's popular exposure, but it does not bear the imprimatur of expert opinion.
- 42 The court in *Abercrombie* capped its discussion of the issue by reminding readers of a certain fairy tale: “Lest we lose sight of the body of law here in question, that of trade dress, we are reminded that certain ‘things’ held out as ‘dress’ are not dress at all.” 280 F.3d at 631 (citing Hans Christian Andersen, *The Emperor's New Clothes* (Naomi Lewis, trans., Candlewick Press, 1997)). We reserve judgment on the aptness of the allusion for explaining trade dress rights, but the potency of the imagery is undeniable.
- 43 These last three elements comprise what HK USA in 2009 called the “trigger group.” Defs.' Ex. R at 6–7.
- 44 We agree with Plaintiffs that the companies' considered interrogatory responses carry more weight than HKG managing director Ihloff's (admittedly rather muddled) efforts at describing the trade dress in a 2014 deposition. See *Custom Vehicles, Inc. v. Forest River, Inc.*, 2005 WL 3299499, at *2 (N.D.Ind. Dec. 2, 2005) (noting that a party's deposition testimony does not render “nugatory” its prior interrogatory responses).
- 45 Defendants are correct to note that Plaintiffs bear the ultimate burden of persuasion on the issue of functionality, as specified by Section 43(a) of the Lanham Act. Docket No. 332 at 58–59. They go astray, however, in implying that Plaintiffs must prove non-functionality in order to survive a motion for summary judgment. They also err in their conception of the five-part Seventh Circuit “test” for functionality: it is a list of probative factors rather than prerequisites. See *Georgia-Pacific*, 647 F.3d at 727.
- 46 Macabre though the term “user-friendliness” may be to describe a military-style machine gun, we must consider the weapon in this respect as if it were any other consumer item.
- 47 Plaintiffs filed the Kokalis Report manually rather than on the electronic docket.
- 48 Plaintiffs also point to the existence of a design patent for the GSG–522 (a weapon whose alleged infringement of the MP5 trade dress is at issue in this case), which GSG characterized in an application to the PTO as an “ornamental design for semi-automatic firearm.” Docket No. 346–17.

- 49 Further, while Plaintiffs' alleged inattentiveness to protecting their intellectual property may be a valid equitable issue, we are unaware of any precedent for its relevance to the question of whether the trade dress itself has acquired secondary meaning as defined by the Supreme Court and the Seventh Circuit.
- 50 Because this exhibit has been sealed and the precise volume of sales is not relevant to our resolution of the issue, we need not go into any further detail regarding the sales numbers.
- 51 As such, the abandonment claim would apply not only to Defendants' counterclaim for invalidity, but also as a defense to Plaintiffs' Lanham Act trade dress infringement and dilution claims. Our conclusion that the defense fails as a matter of law applies to its use in conjunction with those claims as well.
- 52 In the same breath as they describe the Agreement as a naked license, they state: "Yet the Agreement is not a license but a freedom to practice within the 'safe harbor.'" Docket No. 332 at 70.
- 53 Namely, *Mike Vaughn Custom Sports, Inc. v. Piku*, 15 F.Supp.3d 735 (E.D.Mich.2014), and *Luv N' Care, Ltd. v. Regent Baby Prods. Corp.*, 841 F.Supp.2d 753, 757–758 (S.D.N.Y.2012).
- 54 Defendants fault Plaintiffs for citing a list of factors relevant to materiality as enumerated in *Frazier v. Mellowitz*, 804 N.E.2d 796, 802–803 (Ind.Ct.App.2004), noting that Indiana courts now look to a different formulation, as encapsulated in Restatement (Second) of Contracts § 241.

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United States District Court,
E.D. Missouri,
Eastern Division.

Michael HOLMES, Plaintiff,

v.

Francis G. SLAY, et al., Defendants.

No. 4:12CV2333 HEA.

Signed March 25, 2015.

Attorneys and Law Firms

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Christopher R. Hoell, Philip Sholtz, Attorney General of Missouri, St. Louis, MO, for Defendants.

OPINION, MEMORANDUM AND ORDER

HENRY EDWARD AUTREY, District Judge.

*1 This 42 U.S.C. § 1983 matter is before the Court on separate motions for summary judgment filed by defendants Bobby Lee Garrett and Shell Sharp, [Doc. No.'s 105 and 108, respectively]. Plaintiff opposes the motions and the motions are fully briefed. For the following reasons, defendants Garrett and Sharp's motions for summary judgment will be granted in part, denied in part and denied in part as moot.

Facts and Background

This action was filed on December 17, 2012 by Plaintiff against the members of the Board of Police Commissioners of the St. Louis Metropolitan Police Department (collectively the "Board") and two former St. Louis police officers, defendants Garrett and Sharp. Plaintiff alleges that his federal civil rights were violated when he was arrested, convicted and imprisoned for a period of over five years based on false evidence manufactured by defendants Garrett and Sharp.

Specifically, Plaintiff alleges that Plaintiff was falsely accused by Sharp of being in possession of approximately 200 grams

of cocaine base. Sharp claimed that a confidential source advised him that "Big Mike," a 270 pound black male wearing a yellow jumpsuit, was selling cocaine from the residence at 5894 Cates, St. Louis, Missouri. Sharp claimed that he established surveillance of the premises in an unmarked vehicle across the street from the residence, during which he observed three "hand-to-hand" transactions between Plaintiff and two unidentified black males. The police report did not identify the vehicles, the license plates or any further description of these two black males. Sharp did not radio any of the other nine officers on standby at a nearby location to advise them about the vehicles suspected to be departing with narcotics. The police report described a transaction between Mr. Holmes and a third black male which Sharp later admitted never happened and/or was a typographical error.

Plaintiff further alleges that Sharp's false claims in the police report and to federal prosecutors regarding these transactions, in order to obtain the wrongful prosecution and conviction of Plaintiff, is part of a pattern whereby Sharp, Garrett and others routinely falsified information in order to obtain warrants, including falsifying information purportedly given by confidential informants and falsifying observations of "transactions" purportedly made during surveillance.

Sharp further claimed in the police report and to federal prosecutors that he radioed the standby officers to come to the scene, and approached the residence at 5984 Cates to do a knock and talk. The door was opened by 85 year old Maetta Griffin, Plaintiff's grandmother, to whom Sharp claimed he told about the information from the alleged confidential informant and the transactions he witnessed during surveillance, and who then gave consent to search the residence.

In the police report, Sharp claimed that when the officers entered the house they saw Plaintiff coming down the stairs. At trial, Sharp testified that he did not see Plaintiff until they reached the second floor landing, where they saw Plaintiff coming down the stairs carrying a brown paper bag. Sharp claimed falsely that Plaintiff dropped this bag in plain sight of the officers and then ran back upstairs. Sharp claimed that Officer Ray detained Plaintiff while Sharp looked into the bag to determine whether it contained controlled substances, and found cocaine.

*2 Sharp claimed falsely that Plaintiff told him he lived on the third floor, and even identified his "bedroom" to the officers. Sharp claimed in the police report and to

federal prosecutors that after searching the room identified by Plaintiff, the officers recovered a roasting pan, glass beakers, a scale, some heroin, \$4000 from an open safe, baggies, a shotgun and two bags of rubber bands. The officers did not search the rest of the house. Sharp admitted that there were two other black males present in the house that day, but could not recall what they looked like or how they were dressed. The police report indicated that both of these men were in the house. Sharp did not ask those people which bedrooms they lived in or otherwise interview them.

Plaintiff alleges that Sharp's claims were false. As in other, similar cases, Sharp manufactured evidence in order to frame Plaintiff for possession of the crack cocaine. Plaintiff did not have or "throw down" a brown bag on the stairs in front of the officers. He was never in possession of the weapons, drugs or other paraphernalia admitted into evidence at his trial.

While still at the home after he was arrested, Defendant Garrett told Plaintiff that he was going to take him downtown and would release him without charging him "as long as he agreed not to go back to that house anymore." Detective Garrett indicated to Plaintiff that he was well aware that Plaintiff had lived in Ferguson for approximately two years and did not reside at his Grandmother's residence where he was arrested.

In addition, in an effort to further carry out Defendants' corrupt conspiracy, Officer Garrett performed surveillance at the scene of the arrest and performed an interview of Plaintiff at the station after his arrest. At this time he encouraged Plaintiff to sign a consent form to search the premises where Plaintiff had been arrested at his Grandmother's residence, which Plaintiff refused to do. Garrett did this in an attempt to validate the search and falsely establish that Plaintiff lived at or was in control of the premises and therefore had authority to consent to the search.

During the interview Defendant Garrett also had Plaintiff sign a "money disclaimer" attesting that Plaintiff had no knowledge of any monies in the house. Garrett did this in furtherance of the officers' corrupt conspiracy, to ensure that Garrett, Sharp and other officers could steal and keep any money found inside the house.

While in the Federal Court house waiting for his trial to begin, Plaintiff also observed Defendants Garrett and Sharp go into a conference room where Garrett and Sharp remained for at least an hour. On information and belief, the purpose of this

meeting was to go over the details of Defendants' conspiracy and ensure that it was completed successfully.

Defendant Garrett's false assertion to federal prosecutors that Plaintiff was an 'admitted drug dealer' was crucial in their decision to pursue the prosecution of Plaintiff arising from the incident on December 9, 2003, and thus instrumental and material in carrying out the malicious prosecution of Plaintiff, ultimately resulting in his illegal and unconstitutional imprisonment. Furthermore, Garrett at all times acted with and coordinated the conspiracy with Defendant Sharp and other officers of the Department to obtain Plaintiff's wrongful conviction.

*3 Plaintiff also alleges that the Board had a policy, or pervasive custom and practice, of reliance on manufactured evidence, and that it failed to train, supervise, control, instruct, or discipline the officers under its control in various respects. Plaintiff alleges that as a result of Garrett and Sharp's conduct, he was found guilty by a jury of possession of more than 50 grams of a substance containing cocaine base with intent to distribute and possession of firearms in furtherance of a drug trafficking crime. Plaintiff was sentenced to 300 months in prison.

Plaintiff alleges that Defendant Garrett was indicted on federal corruption charges related to his official duties and later pleaded guilty to federal criminal charges of theft, conspiracy and making false statements and admitted planting evidence, arresting an innocent man to cover up the theft of money and involvement in falsifying court documents, lab forms and police reports. See *United States v. Garrett*, No. 4:08CR703 ERW (E.D.Mo.). Plaintiff alleges that the investigation also led to defendant Sharp leaving the police department "under charges" of fraudulently concocting affidavits in support of search warrants.

Plaintiff asserts federal civil rights claims against Garrett, Sharp and the Board pursuant to 42 U.S.C. § 1983 and supplemental state law claims against Garrett and Sharp for malicious prosecution, wrongful imprisonment and abuse of process.

Summary Judgment Standard

The standard applicable to summary judgment motions is well settled. Pursuant to Federal Rule of Civil Procedure 56(a), a court may grant a motion for summary judgment if all of

the information before the court shows “there is no genuine dispute as to any material fact and the moving party is entitled to judgment as a matter of law.” See *Celotex Corp. v. Catrett*, 477 U.S. 317, 322, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986).

The initial burden is placed on the moving party. *City of Mt. Pleasant, Iowa v. Associated Elec. Co-op., Inc.*, 838 F.2d 268, 273 (8th Cir.1988) (the moving party has the burden of clearly establishing the non-existence of any genuine issue of fact that is material to a judgment in its favor). Once this burden is discharged, if the record shows that no genuine dispute exists, the burden then shifts to the non-moving party who must set forth affirmative evidence and specific facts showing there is a genuine dispute on a material factual issue.

Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 249, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986).

Once the burden shifts, the non-moving party may not rest on the allegations in its pleadings, but by affidavit and other evidence must set forth specific facts showing that a genuine issue of material fact exists. Fed.R.Civ.P. 56(c); *Herring v. Canada Life Assur. Co.*, 207 F.3d 1026, 1029 (8th Cir.2000); *Allen v. Entergy Corp.*, 181 F.3d 902, 904 (8th Cir.1999). The non-moving party “must do more than simply show that there is some metaphysical doubt as to the material facts.” *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 586, 106 S.Ct. 1348, 89 L.Ed.2d 538 (1986). A dispute about a material fact is “genuine” only “if the evidence is such that a reasonable jury could return a verdict for the nonmoving party.” *Herring*, 207 F.3d at 1029 (quoting *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986)). A party resisting summary judgment has the burden to designate the specific facts that create a triable question of fact, see *Crossley v. Georgia-Pacific Corp.*, 355 F.3d 1112, 1114 (8th Cir.2004), and “must substantiate allegations with sufficient probative evidence that would permit a finding in the plaintiff’s favor.”

Davidson & Assocs. v. Jung, 422 F.3d 630, 638 (8th Cir.2005).

*4 The Court is mindful that in reviewing a motion for summary judgment, it must view the facts in the light most favorable to the non-moving party, give the non-moving party the benefit of any inferences that can logically be drawn from those facts, *Matsushita*, 475 U.S. at 587, and resolve all

conflicts in favor of the non-moving party. *Robert Johnson Grain Co. v. Chemical Interchange Co.*, 541 F.2d 207, 210 (8th Cir.1976).

Discussion

The parties have each presented their respective version of the facts giving rise to this action. Plaintiff disputes the overwhelming majority of Defendants’ facts, and Defendants dispute the overwhelming majority of Plaintiff’s facts.

In Count I of the Amended Complaint, Plaintiff alleges that Defendants Garrett and Sharp violated his constitutional rights by the following acts: a) Manufacturing evidence against Plaintiff, including planting evidence at the scene; b) Sharp’s false statements in the police report and to federal prosecutors, including that Plaintiff dropped the bag of crack cocaine and admitted to residing in the residence; c) Garrett’s claim to prosecutors that Plaintiff had previously admitted to being a “drug dealer”; d) Providing false information in the police report and in other documents and reports prepared pursuant to Defendants’ duties with the Department; e) Providing false information to federal prosecutors in order to wrongfully, illegally and unconstitutionally deprive Plaintiff of his freedom; f) Framing Plaintiff for a crime he did not commit and obtaining his conviction; and g) Allowing Plaintiff to languish in prison for over 5 years and 3 months, despite Defendants’ knowledge that Plaintiff did not commit the crime alleged. Count I asserts that plaintiff was incarcerated without due process of law and that Defendants Garret and Sharp’s actions violated plaintiff’s constitutional rights “including his due process rights to a fair trial and his right to discovery of exculpatory evidence, and other rights preserved under the Fourth, Fifth and Fourteenth Amendments.” The Defendants move for summary judgment on all of Plaintiff’s claims in Count I.

Plaintiff alleges the defendants planted evidence at the scene, provided false information in the police report, and provided false information to federal prosecutors in order to unconstitutionally deprive plaintiff of his freedom.

It is elementary that a police officer’s use of false evidence to secure a conviction violates a defendant’s substantive due process rights. *White v. Smith*, 696 F.3d 740, 754 (8th Cir.2012) (citing *Wilson v. Lawrence County*, 260 F.3d 946, 954 (8th Cir.2001), and *Napue v. Illinois*, 360

U.S. 264, 269, 79 S.Ct. 1173, 3 L.Ed.2d 1217 (1959)). The Eighth Circuit has “recognized that a plaintiff can make out a violation of substantive due process by ‘offer[ing] evidence of a purposeful police conspiracy to manufacture, and the manufacture of, false evidence.’ “ *White*, 696 F.3d at 754 (quoting *Moran v. Clarke*, 296 F.3d 638, 647 (8th Cir.2002) (en banc)). Plaintiff’s allegations that Defendants manufactured false evidence against him are properly analyzed under the rubric of substantive due process.

*5 “To establish a substantive due process violation, [plaintiff] must demonstrate that a fundamental right was violated and that the conduct shocks the conscience.”

Akins v. Epperly, 588 F.3d 1178, 1183 (8th Cir.2009). “[I]n a due process challenge to executive action, the threshold question is whether the behavior of the governmental officer is so egregious, so outrageous, that it may fairly be said to shock the contemporary conscience.” *County of Sacramento v. Lewis*, 523 U.S. 833, 847 n. 8, 118 S.Ct. 1708, 140 L.Ed.2d 1043 (1998). Whether conduct shocks the conscience is a question of law. *Terrell v. Larson*, 396 F.3d 975, 981 (8th Cir.2005) (en banc). “In order to ‘shock the conscience,’ it is not enough that the government official’s behavior meets the ‘lowest common denominator of customary tort liability.’ “ *White v. Smith*, 696 F.3d at 757 (quoting *Lewis*, 523 U.S. at 848–49). “[C]onduct intended to injure in some way unjustifiable by any government interest is the sort of official action most likely to rise to the conscience-shocking level.” *Lewis*, 523 U.S. at 849. “Only the most severe violations of individual rights that result from the ‘brutal and inhumane abuse of official power’ rise to this level.” *White v. Smith*, 696 F.3d at 757–58 (quoted case omitted). Relevant to the allegations in this case, the Eighth Circuit has stated, “There can be little doubt that intentionally manufacturing false evidence to convict a criminal defendant is the sort of ‘brutal and inhumane abuse of official power’ that shocks the conscience.” *Id.* at 758.

Different standards of culpability can apply to determine whether a defendant’s conduct may be considered conscience shocking because “a wide variety of official conduct may cause injury.” *Folkerts v. City of Waverly, Ia.*, 707 F.3d 975, 980 (8th Cir.2013) (quoted case omitted). Where the “state actors have the opportunity to deliberate various alternatives prior to selecting a course of conduct, such action violates due

process if it is done recklessly.” *Wilson*, 260 F.3d at 956 & n. 9 (noting that the “reckless standard normally contains a subjective component similar to criminal recklessness.”). The Eighth Circuit has also described the recklessness standard as “evin[cing] deliberate indifference.” *Scheeler v. City of St. Cloud, Minn.*, 402 F.3d 826, 831 (8th Cir.2005).

In establishing a violation of his substantive due process rights based on the manufacture of false evidence against him, Plaintiff must show that Garrett and Sharp acted intentionally or recklessly, “thereby shocking the conscience.” See *Akins*, 588 F.3d at 1184.

Defendant Sharp moves for summary judgment on plaintiff’s substantive due process claims in Count I, asserting that plaintiff “has failed to offer any evidence that Defendant Sharp knowingly used false evidence to secure a conviction,” and that the evidence used to convict plaintiff was trial testimony for which he has absolute immunity under *Briscoe v. LaHue*, 460 U.S. 325, 345, 103 S.Ct. 1108, 75 L.Ed.2d 96 (1983). Sharp also asserts that plaintiff has failed to produce any evidence supporting a claim that he fabricated evidence.

*6 Plaintiff responds that there was no evidence of Plaintiff’s guilt of any crime. That the case against him was based on Garrett and Sharp’s pretrial actions, including the creation of the false police report and failure to disclose Defendants’ corrupt practices.

Sharp asserts that he is entitled to summary judgment based on qualified immunity because there is no identifiable action that he took that would shock the conscience. *Clemmons v. Armontrout*, 477 F.3d 962,965 (8th Cir.2007).

“At the summary judgment stage, a defendant is entitled to qualified immunity unless ‘(1) the facts, viewed in the light most favorable to the plaintiff, demonstrate the deprivation of a constitutional or statutory right; and (2) the right was clearly established at the time of the deprivation.’ “ *Howard v. Kan. City Police Dep’t*, 570 F.3d 984, 988 (8th Cir.2009).” *Payne v. Britten*, 749 F.3d 697, 708 (8th Cir.2014) (J. Riley, concurring).

Viewing the facts in the light most favorable to plaintiff, the evidence is that Sharp falsely prepared the police report, which contained false statements of fact. Specifically,

although Defendant claims that Plaintiff's fingerprints were found on drug paraphernalia, his fingerprints were not so found. Likewise, Plaintiff's fingerprints were not found on the brown paper bag Defendant claimed was used to perform multiple transactions with individuals on the street and that Plaintiff had been holding moments before Plaintiff was arrested.

These facts give rise to a reasonable inference that Sharp purposefully or with deliberate indifference manufactured false evidence in order to convict Plaintiff. The Eighth Circuit has recognized that a plaintiff can establish a substantive due process violation by offering evidence of the manufacture of false evidence. *White v. Smith*, 696 F.3d at 754; *Moran*, 296 F.3d at 647. "There can be little doubt that intentionally manufacturing false evidence to convict a criminal defendant is the sort of 'brutal and inhumane abuse of official power' that shocks the conscience." *White*, 696 F.3d at 758 (quoting *Moran*, 296 F.3d at 647). The first prong of the qualified immunity inquiry is therefore met.

"[T]he right to be free from a conviction purposefully obtained by false evidence and false testimony has long been clearly established." *Id.* at 759 (citing *Napue*, 360 U.S. at 269, and *Mooney v. Holohan*, 294 U.S. 103, 112, 55 S.Ct. 340, 79 L.Ed. 791 (1935) (per curiam)). The second prong of the inquiry is also met, and Sharp's motion for summary judgment on plaintiff's substantive due process claim is denied, including on qualified immunity grounds.

Defendant Garrett moves for summary judgment on plaintiff's substantive due process claims in Count I. He also argues that even assuming plaintiff's allegations are true, he is entitled to summary judgment based on qualified immunity. Plaintiff's allegations against Defendant Garrett are that he was aware of the false evidence against Plaintiff and allowed the prosecution based on the false charges. In order to state and maintain a Section 1983 action, a "plaintiff must plead that each Government-official defendant, through the official's own individual actions, has violated the Constitution."

Ashcroft v. Iqbal, 556 U.S. 662, 129 S.Ct. 1937, 173 L.Ed.2d 868 (2009). Thus, "each Government official, his or her title notwithstanding, is only liable for his or her own misconduct. *Id.* Plaintiff's claim against Garrett cannot withstand Defendant's qualified immunity challenge. Plaintiff merely alleges that Garrett failed to intervene to stop a false

arrest and prosecution of Plaintiff. The Eighth Circuit has recently held that "outside of the excessive force context, there is no clearly established law regarding a duty to intervene to prevent constitutional violations." *Hess v. Ables*, 714 F.3d 1048, 1052 (8th Cir.2013). As a result, Garrett is entitled to qualified immunity on this claim.

*7 Plaintiff alleges in Count II that defendants Garrett and Sharp conspired and acted together to frame him for a crime he did not commit, by engaging in multiple overt acts. Both Garrett and Sharp move for summary judgment on the § 1983 conspiracy claim on the sole basis that Plaintiff has failed to establish an underlying constitutional tort claim, citing *Gordon v. Hansen*, 168 F.3d 1109, 1115 (8th Cir.1999).

In order to prevail on a claim of § 1983 conspiracy, a plaintiff must show "(1) that the defendant conspired with others to deprive him of constitutional rights; (2) that at least one of the alleged co-conspirators engaged in an overt act in furtherance of the conspiracy; and (3) that the overt act injured the plaintiff. The plaintiff is additionally required to prove a deprivation of a constitutional right or privilege in order to prevail on a § 1983 civil conspiracy claim." *White v. McKinley*, 519 F.3d 806, 814 (8th Cir.2008). (internal citations omitted). Defendants are correct that a claim of civil conspiracy is not an independent cause of action, and can only be sustained after an underlying tort claim has been established. See *Hanten v. School Dist. of Riverview Gardens*, 183 F.3d 799, 809 (8th Cir.1999). Because the Court has concluded that Defendant Sharp's motion for summary judgment should be denied in part on Plaintiff's due process claims, the motions for summary judgment on the conspiracy claim should be denied.

Plaintiff's Amended Complaint asserts supplemental state law claims against defendants Garrett and Sharp for malicious prosecution (Count V), wrongful imprisonment (Count VI), and abuse of process (Count VII). The defendants separately move for summary judgment on each count.

Defendants assert entitlement to official immunity on plaintiff's state law tort claims because the actions in investigating and arresting plaintiff were discretionary, and there is no evidence they committed a willful or malicious wrong related to the investigation or arrest. Plaintiff responds that Defendants are not entitled to official immunity because a

reasonable juror could find that their actions to frame plaintiff for a crime he did not commit were undertaken in bad faith and with malice.

“Under Missouri law, the official immunity doctrine protects public officials from liability for injuries arising out of their discretionary acts or omissions, but not from liability in claims arising from their performance of ministerial acts.”

Reasonover v. St. Louis County, Mo., 447 F.3d 569, 585 (8th Cir.2006)(cited case omitted). “The investigation of a crime is a discretionary act, not a ministerial one.” *Id.* Official immunity does not apply, however, to discretionary acts done in bad faith or with malice. *Id.*; *State ex rel. Twiehaus v. Adolf*, 706 S.W.2d 443, 446 (Mo.1986) (en banc). “The relevant definition of bad faith or malice in this context ordinarily contains a requirement of actual intent to cause injury.” *Twiehaus*, 706 S.W.2d at 447. “A defendant acts with malice when he wantonly does that which a man of reasonable intelligence would know to be contrary to his duty and which he intends to be prejudicial or injurious to another. An act is wanton when it is done of wicked purpose, or when done needlessly, manifesting a reckless indifference to the rights of others.” *Id.* (internal punctuation and quoted case omitted). “Bad faith, although not susceptible of concrete definition, embraces more than bad judgment or negligence. It imports a dishonest purpose, moral obliquity, conscious wrongdoing, breach of a known duty through some ulterior motive or ill will partaking of the nature of fraud.” *Id.* (brackets and quoted case omitted). An allegation of “malicious motive or purpose or of conscious wrongdoing” is sufficient under Missouri law to preclude application of the official immunity doctrine. See *Twiehaus*, 706 S.W.2d at 447.

*8 In this case, plaintiff alleges that defendant Sharp committed intentional torts—malicious prosecution, false imprisonment and abuse of process—based on his actions in providing the information and evidence on which the prosecution's decision to charge was based. These allegations describe a conscious abuse of official duty and power which fall within the scope of malice or bad faith. Under these circumstances, whether official immunity applies is a question of fact which must be considered by the jury. See *Blue v. Harrah's North Kansas City, LLC*, 170 S.W.3d 466, 479–80 (Mo.Ct.App.2005) (summary judgment inappropriate where facts created a genuine dispute about whether officer acted in bad faith or with malice in making arrest, thereby precluding him from claiming official immunity, and issue was for jury). Defendant Sharp's motion for summary

judgment on plaintiff's state law tort claims on the basis of official immunity should therefore be denied.

Defendants Garrett and Sharp separately move for summary judgment on plaintiff's malicious prosecution claim in Count V. Each defendant asserts there was probable cause to arrest Plaintiff; there was a reasonable belief that Plaintiff had committed an offense. Plaintiff responds that there exists disputes as to whether Defendants had probable cause or whether they lied in order to concoct probable cause.

“To establish a prima facie claim for malicious prosecution, a party must plead and prove six elements: (1) commencement of an earlier suit against the party; (2) instigation of that suit by the adverse party; (3) termination of the suit in the party's favor, (4) lack of probable cause for filing the suit; (5) malice by the adverse party in initiating the suit; and (6) damage sustained by the party as a result of the suit.

Edwards v. Gerstein, 237 S.W.3d 580, 582–83 (Mo. banc 2007).” *State ex rel. O'Basuyi v. Vincent*, 434 S.W.3d 517, 519 (Mo.2014) (en banc) (original emphasis deleted). Simply triggering an investigation is insufficient to establish that a defendant instigated the prosecution. *Zike v. Advance Am.*, 2010 WL 1816747, at *7 (E.D.Mo. May 3, 2010).

“Where ... an informant knowingly gives false or misleading information or directs or counsels officials in such a way as to actively persuade and induce the decision to prosecute, the informant may be liable for malicious prosecution.” J.D. Lee & Barry A. Lindahl, *Modern Tort Law Liability & Litigation* § 40:4 (2d ed.2006). This is the rule in Missouri: “Merely providing honest information from which a prosecution ensues is not instigation, although liability may arise from supplying false information to the prosecuting official.” *Crow*, 259 S.W.3d at 115. The instigation element of malicious prosecution has been described by a leading treatise on tort law as follows:

The defendant may be liable either for initiating or for continuing a criminal prosecution without probable cause. But the defendant cannot be held responsible unless the defendant takes some active part in instigating or encouraging the prosecution. The defendant is not liable merely because of approval or silent acquiescence in

the acts of another, nor for appearing as a witness against the accused, even though the testimony be perjured.... On the other hand, if the defendant advises or assists another person to begin the proceeding, ratifies it when it is begun in defendant's behalf, or takes any active part in directing or aiding the conduct of the case, the defendant will be responsible.

*9 Prosser and Keeton on Torts 872 (5th ed.1984).

Here, when the evidence is viewed in the light most favorable to Plaintiff, it tends to show that (1) defendant Sharp knowingly prepared a false police report incriminating Plaintiff, arrested Plaintiff based on the allegations in that report, provided false information to the federal prosecutor, and testified falsely at plaintiff's trial; and (2) defendant Garrett failed to intervene in the false arrest and testified falsely at plaintiff's trial. These facts are sufficient to permit a reasonable jury to find that Garrett and Sharp each affirmatively encouraged Plaintiff's prosecution. Defendants' motions for summary judgment on Plaintiff's malicious prosecution claim should therefore be denied.

Defendants Garrett and Sharp separately move for summary judgment on Plaintiff's wrongful imprisonment claim in Count VI. Defendants argue that probable cause to arrest Plaintiff existed, and therefore, they are entitled to summary judgment.

Plaintiff responds that disputed issues of fact exist concerning whether his detention was legally justified, that preclude summary judgment on this claim. Plaintiff argues that it is for the jury to determine whether Defendants had probable cause or whether they lied in order to concoct that probable cause.

"False imprisonment, also called false arrest, is 'the confinement, without legal justification, by the wrongdoer of the person wronged.'" *Warrem v. Parrish*, 436 S.W.2d 670, 672 (Mo.1969)." *Highfill v. Hale*, 186 S.W.3d 277, 280 (Mo.2006) (en banc). "A person can be liable for false imprisonment if he encourages, causes, promotes, or instigates the arrest." *Id.* (cited cases omitted).

"Whether a person instigated an arrest is a fact-specific inquiry; there is no fixed test that may be applied." *Id.*

(quoted case omitted). The Court finds that issues of material fact exist which preclude summary judgment on Plaintiff's wrongful imprisonment claim. Defendants' motions for summary judgment should therefore be denied on Count VI.

In Count VII, plaintiff asserts a claim against defendants Garrett and Sharp for the state law tort of abuse of process. Defendants move for summary judgment on the grounds that the claim is barred by the applicable statute of limitations, and that it fails on the merits.

Defendants Garrett and Sharp assert that the Missouri five-year statute of limitations for general personal injury claims, § 516.120(2), Mo.Rev.Stat. (2000), applies to abuse of process claims, citing *Corley v. Jacobs*, 820 S.W.2d 668, 672 (Mo.Ct.App.1991). Defendants assert that the statute begins to run from the termination of the acts that constitute the alleged abuse of process, citing *Steinhilber v. Lake Winnebago Home Owner's Association*, 965 F.2d 602, 604 (8th Cir.1992).

Defendants argue that the statute of limitations in this case began to run at plaintiff's trial in June 2006 1998 and expired in June 2011, and they are entitled to summary judgment because the claim is time barred.

*10 Plaintiff responds that defendants fail to cite any Missouri case law addressing the statute of limitations for abuse of process in the context of a claim by an exonerated prisoner where the abuse of process resulted in a wrongful conviction. Plaintiff argues that the statute of limitations does not bar his abuse of process claim for three reasons. First, plaintiff asserts that the Missouri Supreme Court would adopt the analytical framework of *Heck v. Humphrey*, 512 U.S. 477, 114 S.Ct. 2364, 129 L.Ed.2d 383, which holds that a claim for damages for an unconstitutional conviction or imprisonment, or for other actions whose unlawfulness would render a conviction or sentence invalid, does not accrue until the conviction or sentence has been reversed on direct appeal or otherwise set aside. Plaintiff states that his abuse of process claim is premised on the false statements and manufacture of evidence in the police report and search warrant affidavit, the same facts Defendants Garrett and Sharp testified to at trial that resulted in his conviction. Plaintiff argues that an abuse of process claim premised on the statements in the police report and warrant affidavit would have impugned his then-existing conviction, and is therefore tolled under Heck's principles.

Second, plaintiff argues that the statute of limitations on this claim did not begin to run until his conviction was set aside, because he would have been collaterally estopped by his conviction from bringing an abuse of process claim during that time period, citing *Adams v. VanWormer*, 892 S.W.2d 655 (Mo.Ct.App.1994) (convicted murderer was collaterally estopped from claiming in civil lawsuit against police officer and witness involved in criminal trial that these witnesses lied or suborned perjury to wrongly convict him).

Third, plaintiff argues that abuse of process can constitute a “continuing tort” or “continuing wrong” under Missouri law, citing *Davis v. Laclede Gas Co.*, 603 S.W.2d 554, 556 (Mo.1980) (en banc) (“If ... the wrong may be said to continue from day to day, and to create a fresh injury from day to day, and the wrong is capable of being terminated, a right of action exists for the damages suffered within the statutory period immediately preceding suit.”); and *Guirl v. Guirl*, 708 S.W.2d 239, 247 (Mo.Ct.App.1986) (filing and maintaining a petition constituted abuses of process).

Finally, plaintiff argues that Sharp and Garrett raised these same legal arguments in their motions to dismiss, which were denied, and have not raised any new legal or factual grounds to revisit that decision on summary judgment.

A plaintiff must prove three elements to succeed on a claim for abuse of process under Missouri law: “(1) the present defendant made an illegal, improper, perverted use of process, a use neither warranted nor authorized by the process; (2) the defendant had an improper purpose in exercising such illegal, perverted or improper use of process; and (3) damage resulted.” *Stafford v. Muster*, 582 S.W.2d 670, 678 (Mo.1979) (en banc). In contrast to a malicious prosecution claim, a prior favorable termination is not an element of an abuse of process claim. *Moffett*, 283 S.W.2d at 599 (“The purpose for which the process is used, once it is issued, is the only thing of importance.

*11 Consequently in an action for abuse of process it is unnecessary for the plaintiff to prove that the proceeding has terminated in his favor, or that it was obtained without probable cause or in the course of a proceeding begun without probable cause.”) (quoted source omitted).

Because this is a state law claim, the Court applies Missouri law regarding the statute of limitations and any rules that are an integral part of the statute of limitations, such as tolling

and equitable estoppel. See *Walker v. Barrett*, 650 F.3d 1198, 1203–04 (8th Cir.2011). The Missouri five-year statute of limitations applies to a claim for abuse of process. See *Corley*, 820 S.W.2d at 672. The statute of limitations on an abuse of process claim under Missouri law begins to run “from the termination of the acts which constitute the abuse complained of, and not from the completion of the action in which the process issued.” *Id.* (citation omitted). “The cause of action for an abuse of process is complete as soon as the acts complained of are committed.” *Id.* (quoting 72 C.J.S. Process § 112 (1987)).

Barring any exceptions or tolling provision, plaintiff’s abuse of process claim from events that occurred in 2006 are barred by the five-year statute of limitations.

To determine whether tolling principles apply to save the abuse of process claims, the Court must first predict whether the Missouri Supreme Court would apply the *Heck* accrual rule to abuse of process claims, an issue that court has not addressed. See *Blankenship v. USA Truck, Inc.*, 601 F.3d 852, 856 (8th Cir.2010) (recognizing that federal courts make an “Erie-educated guess” when a state supreme court has not addressed an issue).

The Supreme Court in *Heck*, 512 U.S. at 484, held that favorable termination was an essential element of a § 1983 claim based on allegations police officers engaged in an unreasonable investigation leading to the plaintiff’s arrest, knowingly destroyed exculpatory evidence, and caused an illegal voice identification procedure to be used at trial. The Court concluded the § 1983 claims were most analogous to the common law tort of malicious prosecution. The Supreme Court noted the principle that “to permit a convicted criminal defendant to proceed with a malicious prosecution claim would permit a collateral attack on the conviction through the vehicle of a civil suit,” *id.* at 484 (quoted source omitted), and held this principle precluded a § 1983 claim that necessarily required the plaintiff to prove the unlawfulness of his conviction or confinement. *Id.* at 484, 487. The Court also held that a cause of action under § 1983 “for damages attributable to an unconstitutional conviction or sentence does not accrue until the conviction or sentence has been invalidated.” *Id.* at 489.

The *Heck* accrual rule was clarified and limited in *Wallace v. Kato*, 549 U.S. 384, 127 S.Ct. 1091, 166 L.Ed.2d 973 (2007), in which the Supreme Court held that the statute of limitations for a § 1983 claim for unlawful arrest in violation of the Fourth Amendment began to run when the arrestee appeared before an examining magistrate and was bound over for trial, not later when charges were dropped. *Id.* at 390. The Supreme Court looked to the federal common law of false imprisonment as the most analogous cause of action, and held that the claim could not accrue until the tort of false imprisonment ended. *Id.* at 388. The Court then turned to the question of when false imprisonment ends and determined that it ends when the person becomes held pursuant to legal process: Reflective of the fact that false imprisonment consists of detention without legal process, a false imprisonment ends once the victim becomes held *pursuant to such process*—when, for example, he is bound over by a magistrate or arraigned on charges. Thereafter, unlawful detention forms part of the damages for the “entirely distinct” tort of malicious prosecution, which remedies detention accompanied, not by absence of legal process, but by *wrongful institution* of legal process. “If there is a false arrest claim, damages for that claim cover the time of detention up until issuance of process or arraignment, but not more. From that point on, any damages recoverable must be based on a malicious prosecution claim and on the wrongful use of judicial process rather than detention itself.” Thus, petitioner’s contention that his false imprisonment ended upon his release from custody, after the State dropped the charges against him, must be rejected. It ended much earlier, when the legal process was initiated against him, and the statute would have begun to run from that date[.] *Wallace*, 549 U.S. at 38990 (internal citations omitted).

*12 In *Wallace*, the Supreme Court declined to apply the *Heck* rule for deferred accrual, which applies only where there is an outstanding criminal judgment and “delays what would otherwise be the accrual date of a tort action until the setting aside of an extant conviction which success in that tort action would impugn.” *Id.* at 393. The Supreme Court distinguished *Wallace* from *Heck* on the basis that the claim in *Heck* was analogous to the tort of malicious prosecution, rather than false imprisonment. *Id.* at 393–94. The Court stated that while a claim of malicious prosecution would inevitably impugn the validity of a conviction, a claim of false imprisonment only impugns an *anticipated* future conviction

because the claim ends well before the conviction occurs.

Id. at 394.

The Seventh Circuit has characterized *Wallace* as holding “a claim that accrues before a criminal conviction may and usually must be filed without regard to the conviction’s validity.” *Evans v. Poskon*, 603 F.3d 362, 363 (7th Cir.2010). This interpretation of *Wallace*’s holding focuses “on the factual distinction between *Heck* and *Wallace*: the tort of false arrest is complete, and therefore begins to accrue, once the individual is brought before a magistrate; the tort of malicious prosecution is not complete until a conviction occurs and that conviction has been overturned, and therefore the statute of limitations for malicious prosecution does not begin to accrue until that time.” *Parish v. City of Elkhart*, 614 F.3d 677, 681–82 (7th Cir.2010).

As with the unlawful arrest claim in *Wallace*, Plaintiff’s claims for abuse of process under Missouri law were complete and accrued immediately upon the termination of the acts constituting the improper use of process, see *Corley*, 820 S.W.2d at 672, well prior to plaintiff’s criminal conviction. In contrast to the facts in *Heck*, plaintiff did not have to show that the prior criminal proceedings terminated in his favor before he could bring an abuse of process claim. See *Moffatt*, 283 S.W.2d at 599. Plaintiff could have brought suit on his abuse of process claim immediately after the acts he complains of occurred, and for these reasons the Court concludes the claim is time barred.¹² Cf. *Dickerson v. City of Hickman*, 2010 WL 816684, at *5 (W.D.Ky. Mar.4, 2010) (one-year Kentucky statute of limitations for abuse of process claims accrued from the termination of the acts which constituted the abuse complained of, and the claims were time barred). For these reasons, the Court concludes that the Missouri Supreme Court would not apply the *Heck* accrual rule to Missouri abuse of process claims.

Addressing plaintiff’s second argument, Missouri courts have held that certain types of claims are collaterally estopped by a criminal conviction, see, e.g., *VanWormer*, 892 S.W.2d at 657 (criminal conviction collaterally estopped the defendant from claiming he was not guilty and that witnesses lied in the criminal proceeding to wrongly convict him); *Johnson v. Raban*, 702 S.W.2d 134, 138 (Mo.Ct.App.1985) (denial of relief in postconviction proceeding collaterally estopped defendant from relitigating his counsel’s negligence in a legal malpractice action). The Court concludes, however, that plaintiff’s criminal conviction would not have collaterally

estopped him from bringing the abuse of process claim for the same reasons the claim would not have been barred by the *Heck* accrual rule: under Missouri law, the claim accrued when the acts alleged to be abuse of process were completed, and plaintiff was not required to show favorable termination of the criminal proceedings against him to establish an abuse of process claim.

*13 Finally, because the statute of limitations on an abuse of process claim “begins to run from the termination of the acts which constitute the abuse complained of, and not from the completion of the action in which the process issued,” *Corley*, 820 S.W.2d at 672, the Court concludes the Missouri continuing tort or continuing wrong doctrine does not apply to an abuse of process claim. abuse of process claim. This need not be addressed, however, as all of the actions plaintiff claims as abuse of process were completed in 2006, more than five years before this action was filed. For these reasons, the Court concludes that defendants' motions for summary judgment should be granted on plaintiff's abuse of process claims in Count VII, which are barred by the statute of limitations. As a result, the Court does not reach the defendants' arguments concerning the merits of the abuse of process claims.

Conclusion

For the foregoing reasons, the Court concludes that defendants Garrett and Sharp's motions for summary judgment should be granted in part, denied in part, as provided herein.

Accordingly,

IT IS HEREBY ORDERED that defendant Garrett's Motion for Summary Judgment, [Doc. No. 105], is granted in part and denied in part;

IT IS FURTHER ORDERED that defendant Sharp's Motion for Summary Judgment, [Doc. No. 108], is granted in part and denied in part.

A separate judgment will be entered upon the resolution of the remaining issues herein.

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United States District Court, C.D. California.

MICROSOFT CORP.

v.

M. MEDIA, et al.

Case No. CV-17-347-MWF (AJWx)

Filed 03/13/2018

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**Proceedings (In Chambers): ORDER
DENYING DEFENDANTS' REQUEST TO
SUPPRESS AND EXCLUDE [43]; GRANTING
PLAINTIFF'S SPECIAL MOTION TO STRIKE [59]**

MICHAEL W. FITZGERALD, U.S. District Judge

*1 Before the Court are two motions. The first is Defendants Wayne Leung, Mig Jeug Wo, and Sheng Ti Leung's Request to Suppress and Exclude Evidence from Plaintiff's Subpoena and Initial Disclosure (the "Motion to Suppress"), filed on November 27, 2017. (Docket No. 43). Plaintiff Microsoft Corporation filed an Opposition on December 18, 2017 (Docket No. 58), and Defendants' Reply was filed on January 12, 2018. (Docket No. 73).

The other is Microsoft's Special Motion to Strike and Dismiss Defendants' Counterclaims (the "Motion to Strike"), filed on December 18, 2017. (Docket No. 59). Defendants filed an Opposition on January 11, 2018 (Docket No. 67), to which Microsoft replied on January 19, 2018. (Docket No. 76).

Pursuant to Federal Rule of Civil Procedure 78 and Local Rule 7-15, the Court determined that the Motions were appropriate for decision without oral argument, and therefore

vacated the hearing set for January 29, 2018. (See Docket No. 77).

For the reasons discussed below, the Motion to Suppress is **DENIED**. The Motion to Strike is **GRANTED**.

I. BACKGROUND

Microsoft filed the underlying action, alleging copyright, trademark, and unfair competition claims, on January 17, 2017. (See Complaint (Docket No. 1)). Defendants were alleged to have willfully distributed counterfeit and infringing Microsoft software. (See generally *id.*). Default was entered against the two named defendants, M. Media and Sheng Ti Leung, on February 28, 2017. (Docket No. 14). Rather than seek default judgment, Microsoft moved for and was granted leave to serve discovery to identify any other individuals who may have worked with Defendants in the alleged distribution of counterfeits. (See Docket Nos. 16, 19).

The documents Microsoft received in response to its subpoenas led it to seek leave to amend the Complaint to two additional defendants: Wayne Leung and Mig Jeug Wo. (Docket No. 21). After the Court granted leave to amend, Microsoft filed the First Amended Complaint ("FAC") and served the new defendants in September 2017. (Docket Nos. 22, 23).

On September 27, 2017, all of the individual Defendants, including the previously defaulted Defendant Sheng Ti Leung, appeared and answered, and Defendants Wayne Leung and Mig Jeug Wo asserted a Counterclaim, to which Microsoft responded. (Docket Nos. 26, 28, 32). After receiving leave to file amended answers, Defendants filed Amended Answers on November 29, 2017 (Docket Nos. 49, 51), and Defendants Wayne Leung and Mig Jeug Wo separately filed Counterclaims on December 4, 2017. (Counterclaims (Docket No. 54)). Defendants Wayne Leung and Mig Jeug Wo allege six counterclaims: (1) abuse of process; (2) outrageous conduct; (3) invasion of privacy; (4) false light/defamation; (5) intentional infliction of emotional distress; and (6) frivolous litigation. (See generally *id.*).

Meanwhile, on September 29, 2017, the Court set a Scheduling Conference for November 27, 2017, and ordered the parties to file a Joint Rule 26(f) Report no later than 14 days prior to that Conference. (Docket No. 30). On November 13, 2017, the parties stipulated to an extension of time to November 20, 2017 to file their Joint Rule 26(f) Report. (Docket Nos. 35, 36). The Scheduling Conference was held

as planned on November 27, 2018, and the Court issued an order setting dates. (Docket Nos. 41, 42, 47).

II. MOTION TO SUPPRESS

*2 In the Motion to Suppress, Defendants seek to “suppress and exclude” all evidence listed in Plaintiff’s Initial Disclosure for violation of Rule 26, and to “suppress and exclude” all evidence obtained from or through Microsoft’s subpoenas to Paypal and Bonanza.com in July 2017, for violation of Rule 45 and state procedural rules. (Mot. to Suppress at 2).

A. Violation of Rule 26

When a party “fails to provide information or identify a witness as required by Rule 26(a) or (e), the party is not allowed to use that information or witness to supply evidence on a motion, at a hearing, or at a trial” Fed. R. Civ. P. 37(c)(1). The Rule 37 enforcement provision adopted in 1993 was intended as a “broadening of the sanctioning power,” creating an “automatic sanction” and “provid[ing] a strong inducement for disclosure of material.” *Yeti by Molly, Ltd. v. Deckers Outdoor Corp.*, 259 F.3d 1101, 1106 (9th Cir. 2001). “Two express exceptions ameliorate the harshness of Rule 37(c)(1): The information may be introduced if the parties’ failure to disclose the required information is substantially justified or harmless.” *Id.*

Although the parties accuse each other of misrepresenting the Rule 26 conference and initial disclosure process, they appear to largely agree regarding the sequence of events. On October 5, 2017, Microsoft sent a letter to Defendants requesting the parties schedule a Rule 26(f) conference, which was then set for October 16, 2017. (Declaration of Audra Mori (“Mori Decl.”) ¶ 5, Ex. A (Docket No. 58-1)). According to Microsoft, at the conference, the parties discussed the Court’s Order Setting Scheduling Conference, the facts of the case, and the supporting evidence in Microsoft’s possession, including the documents received from Paypal and Bonanza. Microsoft offered to prepare a Joint Rule 26(f) Report for Defendants’ review. (*Id.* ¶ 6). Defendants acknowledge that during the conference, Microsoft discussed the documents received from Paypal and Bonanza. (Declaration of Defendants (“Def. Decl.”) ¶ 6 (Docket No. 45)). However, Microsoft did not permit Defendants to examine the CD-ROM containing the documents at the Conference. (*Id.* ¶¶ 7-8). No date for initial disclosures was set on October 16. (*Id.* ¶¶ 5, 10-11).

Subsequently, on November 8, 2017, Microsoft sent Defendants a draft of the Report and a letter explaining certain aspects of the Report, and asking Defendants to call with questions or comments. (*Id.* ¶ 12; Mori Decl. ¶ 7, Ex. B). On November 10, Defendants wrote that they did not agree with the report, and complained about insufficient time to respond to the report prior to the Court’s November 13 deadline for submission. (Def. Decl. ¶ 13; Mori Decl. ¶ 7). After further discussion on November 13, Microsoft prepared and filed Defendants’ requested stipulation to continue the deadline for the Joint Report, which Defendants approved for filing. (Def. Decl. ¶ 14; Mori Decl. ¶ 8).

Defendants sent a significantly revised Joint Report before the parties’ scheduled November 17 call. Microsoft agreed to the requested expedited settlement conference, and proposed November 27 to exchange Initial Disclosures. (Mori Decl. ¶ 9). Microsoft called Defendants on November 17, as previously scheduled, but Defendants quickly excused themselves from the call before anything substantive was discussed. (*Id.* ¶ 10). That same day, Defendants complained over email that they had not yet received Microsoft’s Initial Disclosures. (Def. Decl. ¶ 15). Because it did not appear Defendants would agree to a mutual future date for exchange of Disclosures, Microsoft unilaterally made its Disclosures on November 17. (Mori Decl. ¶ 11, Ex. D; Def. Decl. ¶ 16). After another round of revisions to the Joint Report, it was filed on November 20. (*Id.* ¶ 12). Defendants served their Initial Disclosures on November 24. (*Id.* ¶ 13).

*3 It does not appear that Microsoft violated Rule 26 in any way. Defendants argue that Microsoft violated Rule 26(a)(1) (C) by not providing Initial Disclosures within 14 days of the October 16 conference. (Mot. to Suppress at 5-6). However, it appears that the parties continued conducting their Rule 26 conference discussions well into November, rendering the Disclosures timely.

Even if Microsoft’s Initial Disclosures could be characterized as untimely, it is clear that Defendants have not suffered any prejudice warranting sanctions under Rule 37:

First, Defendants acknowledge they received and are in possession of Microsoft’s Initial Disclosures, which Defendants received a week before they served their own disclosures, and ten days before the Court’s Scheduling Conference took place on November 27, 2017. (Mot. to Suppress at 4, 6). See *Frontline Med. Assocs., Inc. v.*

Coventry Health Care, 263 F.R.D. 567, 570 (C.D. Cal. 2009) (“Harmlessness may be established if a disclosure is made sufficiently in advance of the discovery cut-off date to permit the opposing party to conduct discovery and defendant against the damages claim.”).

Second, Defendants acknowledge that, at the parties’ October 16 conference, Microsoft described the content of the forthcoming disclosures. (Mot. to Suppress at 3). Rule 26 permits parties to provide “description[s] by category and location” of any documents rather than produce them. Fed. R. Civ. P. 26(a)(1)(A)(ii). Accordingly, even if there was any delay in the production of the documents, Microsoft had already satisfied the requirements of Rule 26 such that Defendants would not have been surprised by the content of the documents. See *Mirzaeyan v. Ziegler*, No. CV 11-1747-AHM (JCx), 2012 WL 13006269, at *2 (C.D. Cal. Aug. 21, 2012) (denying request for sanctions based on late expert disclosure because Defendants’ expert designations should not have surprised Plaintiff); *Guzman v. Bridgepoint Educ., Inc.*, 305 F.R.D. 594, 607 (S.D. Cal. 2015) (noting that failure to disclose identity of a witness has been found harmless where the other party was otherwise on notice prior to the discovery cut-off date, via deposition testimony, of the identity, location, and type of information possessed by a witness).

B. Violation of Rule 45

Defendants also argue that sanctions should be imposed because Microsoft violated Rule 45 and “CPLR 3120” (apparently New York Civil Practice Law and Rule § 3210) when Microsoft issued third-party subpoenas to Paypal and Bonanza. (Mot. to Suppress at 8). Specifically, Defendants claim that Microsoft failed to give notice to Defendants when they served the subpoenas, in violation of Rule 45(a)(4). (*Id.* at 9-10, 12-13; Def. Decl. ¶¶ 17-18). Defendants also raise a variety of technical Rule 45 and California Code of Civil Procedure objections raised by Paypal when it responded to the subpoena and served the documents. (*Id.* at 10-12).

Defendants’ arguments regarding procedural defects in the subpoenas are without merit. First, as Microsoft argues, the subpoenas served on Paypal and Bonanza were valid and served with the Court’s approval after Microsoft sought leave to conduct further discovery to identify additional defendants. (See Docket Nos. 16-19).

Second, Defendants’ references to California and New York state civil procedure rules are inapposite in this federal court proceeding. See *Vess v. Civa-Geigy Corp. USA*, 317 F.3d 1097, 1102 (9th Cir. 2003) (“The Federal Rules of Civil Procedure apply irrespective of the source of subject matter jurisdiction, and irrespective of whether the substantive law at issue is state or federal.”).

*4 That leaves only Rule 45 as a potential basis for sanctions. Rule 45 requires that “if the subpoena commands the production of documents ... before trial, then before it is served on the person to whom it is directed, a notice and a copy of the subpoena must be served on each party.” Fed. R. Civ. P. 45(a)(4). Microsoft had no obligation under Rule 45 to notify Defendants M. Media or Sheng Ti Leung – the only named Defendants at the time of the subpoenas in question – of the third-party subpoenas because default had already been entered against them. See Fed. R. Civ. P. 5(a)(2) (“No service is required on a party who is in default for failing to appear.”); *Aifang v. Velocity VIII L.P.*, No. CV 14-7060-SJO (MRWx), 2016 WL 5420641, at *2 (C.D. Cal. Sept. 26, 2016) (noting no service required on defaulted defendants unless document is a pleading that asserts new claims against defaulted defendants). Nor was Microsoft required to notify Wayne Leung or Mig Jeug Wo of the subpoenas under Rule 45, as those defendants had yet been named and were not parties to the action.

Defendants also reference the boilerplate privilege objections asserted by Paypal in its response to Microsoft’s subpoenas. But as Microsoft argues, those objections were Paypal’s to raise, and Paypal chose to produce the documents despite those objections. (Opp. to Mot. to Suppress at 12; Mori Decl. ¶¶ 2-3).

Not only are Defendants’ arguments regarding technical defects in the subpoenas groundless, but, as discussed above, to the extent Microsoft did commit any technical violations of Rule 45, Defendants have failed to demonstrate any resulting prejudice that would warrant sanctions.

Accordingly, Defendants’ Motion to Suppress is **DENIED**.

III. MOTION TO STRIKE

Microsoft moves to strike all of Defendants Wayne Leung and Mig Jeug Wo’s Counterclaims pursuant to California’s Anti-SLAPP statute, California Code of Civil Procedure §

425.16(b)(1), and to dismiss the Counterclaims under Rule 12(b)(6) for failure to state a claim. (Mot. to Strike at 1).

The Anti-SLAPP statute “was enacted to allow early dismissal of meritless first amendment cases aimed at chilling expression through costly, time-consuming litigation.”

Metabolife Int'l v. Wornick, 264 F.3d 832, 839 (9th Cir. 2001). Motions brought under the statute are evaluated in two steps.

First, the movant must make a threshold showing that the acts giving rise to the challenged claims were in furtherance of the right of petition or free speech. *See, e.g., Hilton v. Hallmark Cards*, 599 F.3d 894, 903 (9th Cir. 2010) (applying California’s Anti-SLAPP law to claims involving greeting cards that utilized a public figure’s likeness).

Then, the burden shifts to the non-movant to establish a reasonable probability of prevailing on the challenged claims. This burden is satisfied if the claims are (1) legally sufficient and (2) substantiated with adequate evidence. *See Navellier v. Sletten*, 29 Cal. 4th 82, 88–89, 124 Cal. Rptr. 2d 530 (2002) (“[I]n order to establish the requisite probability of prevailing (§ 425.16, subd. (b)(1)), the [nonmovant] need only have stated and substantiated a legally sufficient claim.”) (citation and quotation omitted). If the nonmovant fails to meet either of two requirements, his claim is subject to immediate dismissal. *Id.*

The legal sufficiency of a claim is examined under the familiar standards of Rule 8 and 12(b)(6). *See Rogers v. Home Shopping Network, Inc.*, 57 F. Supp. 2d 973, 982 (C.D. Cal. 1999) (“When a federal court is presented with [an Anti-SLAPP motion that challenges the legal sufficiency of the plaintiff’s claims], it must decide the motion in a manner that complies with the standards set by Federal Rules 8 and 12.”). In other words, a claim is considered legally sufficient when the allegations, viewed in light most favorable to Plaintiff, are “plausible on [their] face.” *See Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009). Whether the claim is substantiated with sufficient evidence, however, involves a more nuanced inquiry similar to that undertaken on a motion for summary judgment. *Metabolife*, 264 F.3d at 840. Before dismissing a claim on this ground, federal courts must provide the plaintiff some opportunity to conduct relevant discovery.

Id. at 845 (holding that “the district court erred in not

allowing ... discovery because the discovery-limiting aspects of the anti-SLAPP statute conflict with Federal Rule of Civil Procedure 56.”).

A. Protected Litigation Activity

*5 The first substantive element of an Anti-SLAPP Motion requires the movant to establish that its conduct falls within the scope of the statute. In evaluating the conduct and the scope, the Anti-SLAPP statute is to be construed broadly. Cal. Code Civ. Proc. § 425.16(a). “In the anti-SLAPP context, the critical consideration is whether the cause of action is based on the defendant’s protected free speech or petitioning activity.” *Navellier*, 29 Cal. 4th at 89 (citing *City of Cotati v. Cashman*, 29 Cal. 4th 69, 76–78, 124 Cal. Rptr. 2d 519 (2002)) (holding that Anti-SLAPP had no “intent-to-chill” pleading requirement, and that action by city for declaratory judgment of constitutionality of ordinance was not subject to Anti-SLAPP as it was not “arising from” defendant’s own federal suit).

To make this determination, “a court considers the pleadings, and supporting and opposing affidavits stating the facts upon which the liability or defense is based.” *Id.* Protected litigation activity “includes the filing, funding, and prosecution of a civil action ... [and] qualifying acts committed by attorneys representing clients in litigation.” *Rusheen v. Cohen*, 37 Cal. 4th 1048, 1056, 39 Cal. Rptr. 3d 516 (2006).

The conduct underlying each of Defendants’ six Counterclaims falls within the scope of section 425.16(a). All six counterclaims are based variously on the allegations that Microsoft intentionally brought the underlying action, which is groundless and discriminatory, against Defendants for an improper purpose (Counterclaims ¶¶ 13, 21-23, 25, 32, 50, 47); Microsoft’s court filings contain false and offensive claims (*id.* ¶¶ 6-8, 10, 32, 47); the public records search Microsoft conducted and filed with the Court in support of its Motion to Amend the Complaint in the underlying action was improper (*id.* ¶¶ 11-15, 24, 30-31, 39-40, 43); and Microsoft violated Rules 26 and 45 by delaying exchange of Initial Disclosures and serving improper subpoenas. (*Id.* ¶¶ 18-19, 25-27, 33-34, 44).

This conduct all “clearly arises from litigation activity.” *See Lucky Kim Int'l, Inc. v. SEO in Corp.*, No. CV 09-7542-JHN (FFMx), 2010 WL 11549638, at *3 (C.D. Cal. June 3, 2010) (finding cause of action for abuse of process fell arose from litigation activity “because it arises when one uses the court’s

process for a purpose other than that for which the process was designed” (internal quotations and citations omitted));

Booker v. Rountree, 155 Cal. App. 4th 1366, 1370, 66 Cal. Rptr. 3d 733 (2007) (“[I]t’s hard to imagine an abuse of process claim that would not fall under the protection of the [Anti-SLAPP] statute.”); *Rohde v. Wolf*, 154 Cal. App. 4th 28, 35, 64 Cal. Rptr. 3d 348 (2007) (“Section 425.16 is construed broadly, to protect the right of litigants to the utmost freedom of access to the courts without [the] fear of being harassed subsequently by derivative tort actions.” (citations and quotations omitted)).

Defendants argue that the nexus of the allegations to litigation is insufficient to fall within section 425.16(a). (Opp. to Mot. to Strike at 2-5). However, the case law upon which Defendants rely is distinguishable. For example, Defendants cite several cases in support of the argument that conduct alleged in their Counterclaims did not occur “in connection with an issue under consideration or review” in the proceedings. (Opp. to Mot. to Strike at 2). Both *Paul v. Friedman*, 95 Cal. App. 4th 853, 117 Cal. Rptr. 2d 82 (2002), and *People ex rel. 20th Century Ins. Co. v. Building Permit Consultants, Inc.*, 86 Cal. App. 4th 280, 103 Cal. Rptr. 2d 71 (2000), are distinguishable in that the conduct at issue in those cases took place *prior to* or *outside* any proceedings encompassed by section 425.16(e)(1)-(2). *Paul*, 95 Cal. App. 4th at 865-66 (harassing investigation conducted prior to arbitration and exceeding scope of issues arbitrated “had no connection to the issues under review in the arbitration”); *20th Century Ins. Co.*, 86 Cal. App. 4th at 285 (damage reports created before lawsuit was filed for purpose of demanding performance on contract not within scope of Anti-SLAPP statute). Here, all of the conduct alleged in the Counterclaims took place during the pendency of and in the course of prosecuting the underlying action in this Court.

*6 Likewise, Defendants’ argument that the “principle thrust” of their Counterclaims is Microsoft counsel’s violation of Rule 26, and not the litigation activity itself, is unavailing. (See Opp. at 3-5). In support of that argument, Defendants cite *Jespersion v. Zubiate-Beauchamp*, 114 Cal. App. 4th 624, 630, 7 Cal. Rptr. 3d 715, in which the California Court of Appeal found that a legal malpractice claim did not fall within the scope of the Anti-SLAPP statute. Here, Defendants assert no legal malpractice claim, and unlike the plaintiffs in *Jespersion*, Defendants allege no failure to comply with

the Court’s orders; rather, all of the allegations are premised on “[Microsoft] having filed declarations, motions, or other papers in that action, or upon [Microsoft’s] appearance on other motions.” *Id.* at 630-31.

The first prong of the Anti-SLAPP motion test is therefore satisfied.

B. Reasonable Probability of Success on the Merits

Because Microsoft has satisfied the first prong of the Anti-SLAPP analysis, the Court must now evaluate whether Defendants have met their burden of establishing that the Counterclaims are (1) legally sufficient and (2) substantiated with adequate evidence. The Court evaluates the legal sufficiency of the Counterclaims according to the standards set by Rules 8 and 12. See *Lauter v. Anoufrieve*, 642 F. Supp. 2d 1060, 1109 (C.D. Cal. 2009) (“If an anti-SLAPP motion is based on legal deficiencies in the complaint, a federal court must determine the motion in a manner that complies with the standards set by Federal Rules 8 and 12.”). Here, as Microsoft argues, all of Defendants’ Counterclaims are barred as a matter of law by the litigation privilege.

California’s litigation privilege, codified at California Civil Code section 47(b), “applies to any communication (1) made in judicial or quasi-judicial proceedings; (2) by litigants or other participants authorized by law; (3) to achieve the objects of the litigation; and (4) that have some connection or logical relation to the action.” *Rusheen*, 37 Cal. 4th at 1057 (citations omitted). “Thus, communications with some relation to judicial proceedings are absolutely immune from tort liability by the litigation privilege.” *Id.* (citations and quotations omitted). The privilege “is not limited to statements made during a trial or other proceedings, but may extend to steps taken prior thereto, or afterwards.” *Id.* (citations and quotations omitted). “The breadth of the litigation privilege cannot be understated. It immunizes defendants from virtually any tort liability.” *Grant & Eisenhofer, P.A. v. Brown*, No. CV 17-5968-PSG (PJWx), 2017 WL6343506, at *5 (C.D. Cal. Dec. 6, 2017) (citations and quotations omitted).

“Because the litigation privilege protects only publications and communications, a threshold issue in determining the applicability of the privilege is whether the defendant’s conduct was communicative or noncommunicative.”

Rusheen, 37 Cal. 4th at 1058 (citation and quotations omitted). Here, all of the conduct alleged in the Counterclaims is communicative: making false accusations in the underlying Complaint, filing inaccurate pleadings containing private information, serving subpoenas approved by the Court, and participating in and corresponding regarding discovery conferences. Defendants contend in their Opposition that the alleged conduct is not communicative (Opp. to Mot. to Strike at 18-19), but this argument is belied by the allegations in the Counterclaims, which plainly address “filings of pleadings in the litigation”, “filing of false or perjurious testimony”, and “pleadings and process in a case” — all forms of conduct found to be communicative and protected by the litigation privilege. *Rusheen*, 37 Cal. 4th at 1057-58.

*7 Defendants also argue that the privilege cannot apply because the alleged conduct has no “logical connection” to the subject matter of the action. (Opp. to Mot. to Strike at 17-18). Defendants specifically point to the public records search Microsoft conducted on Westlaw and then filed in support of its Motion to Amend the Complaint. (*Id.*). However, Microsoft’s use of the information obtained in that records search to support Microsoft’s Motion to Amend was relevant to the underlying action; the Motion to Amend the Complaint sought to add new defendants, was granted based on Microsoft’s identification of the new defendants that resulted from that Westlaw search. (*See* Docket No. 22).

Indeed, Anti-SLAPP motions targeting litigation activity via claims such as Defendants’ Counterclaims — intentional infliction of emotional distress, abuse of process, defamation, invasion of privacy — are routinely granted based on the litigation privilege. *See, e.g., Kulkarni v. Upasani*, 659 Fed. Appx. 937, 940 (9th Cir. 2016) (affirming Anti-SLAPP dismissal of state law claims, including defamation and intentional infliction of emotional distress, based on litigation privilege); *Lucky Kim Int’l*, 2010 WL 11549638, at *3 (granting Anti-SLAPP motion to strike abuse of process counterclaim alleging underlying Complaint was groundless, based on litigation privilege); *Blaha v. Rightscorp, Inc.*, No. CV 14-9032-DSF (JCGx), 2015 WL 44776888, at *2-3 (C.D. Cal. May 8, 2015) (granting Anti-SLAPP motion to strike abuse of process claim alleging misconduct in obtaining subpoenas, based on litigation privilege); *G.R. v. Intelligator*, 185 Cal. App. 4th 606, 619, 110 Cal. Rptr. 3d 559 (2010) (affirming Anti-SLAPP dismissal of invasion of privacy claim based on litigation privilege).

Accordingly, the Court concludes that Defendants have failed to meet their burden to demonstrate their Counterclaims are legally sufficient. The Counterclaims are barred as a matter of law by the litigation privilege. The Court does not reach Microsoft’s arguments regarding the inadequate pleading of each counterclaim, but notes that each counterclaim does appear deficient independent of the litigation privilege. For example, Defendants allege no ulterior motive in their claim for abuse of process, *see Rusheen*, 37 Cal. 4th at 1057 (noting that abuse of process claim requires establishing an “ulterior motive in using the process”), and fail to identify any privacy interest underlying their invasion of privacy claim. *See Med. Bd. of Cal. V. Chiarotino*, 225 Cal. App. 4th 623, 631, 170 Cal. Rptr. 3d 540 (2014) (noting that first element of invasion of privacy claim is “the claimant must possess a legally protected privacy interest”).

C. Leave to Amend

Generally, granting an Anti-SLAPP motion to strike an initial pleading without granting leave to amend “would directly collide with Fed. R. Civ. P. 15(a)’s policy favoring liberal amendment.” *Verizon Delaware, Inc. v. Covad Commc’ns Co.*, 377 F.3d 1081, 1091 (9th Cir. 2004); *see also Carolina Cas. Ins. Co. v. Team Equip., Inc.*, 741 F.3d 1082, 1086 (9th Cir. 2014) (“A complaint should not be dismissed without leave to amend unless amendment would be futile.”).

However, the Court has found the Counterclaims deficient not on the basis of inadequate pleading, which could be remedied by amendment, but on the basis that they are barred by the litigation privilege. Absent pleading entirely new Counterclaims premised on entirely different allegations, Defendants cannot possibly remedy their claims. Accordingly, the Court grants the Motion to Strike without leave to amend. *See Grant & Eisenhofer*, 2017 WL 6343506, at *6-7 (granting Anti-SLAPP motion to strike without leave to amend where claims were “stricken pursuant to the anti-SLAPP statute because the underlying conduct is both protected activity and subject to California’s litigation privilege. No amendment could overcome these substantive hurdles”). Moreover, these Counterclaims are, in fact, Defendants’ second attempt at pleading counterclaims.

D. Attorneys’ Fees

*8 As Microsoft contends, litigants who prevail on Anti-SLAPP motions are entitled to an award of attorneys’ fees. *See* Cal. Code Civ. P. § 425.16(c) (“[A] prevailing defendant

on a special motion to strike shall be entitled to recover his or her attorney's fees and costs." The Ninth Circuit has held that this provision applies in federal courts adjudicating Anti-SLAPP motions as well. See *U.S. ex rel. Newsham v. Lockheed Missiles & Space Co., Inc.*, 190 F.3d 963, 972-73 (9th Cir. 1999) (holding that "subsections (b) and (c) of California's Anti-SLAPP statute" in federal court in diversity cases); *Vess*, 317 F.3d at 1110-11 (affirming district court's award of attorneys' fees to successful defendants under Anti-SLAPP statute).

To the extent Microsoft intends to seek attorneys' fees from Defendants, Microsoft may request those fees in a noticed motion supported by adequate documentation of the fees and costs incurred in bringing the Motion to Strike. The Court

encourages the parties to attempt to agree on a reasonable amount, bearing in mind that Defendants are proceeding *pro se*.

IV. CONCLUSION

For the foregoing reasons, the Motion to Suppress is **DENIED**. The anti-SLAPP Motion to Strike is **GRANTED without leave to amend**.

IT IS SO ORDERED.

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813 F.3d 912
United States Court of Appeals,
Tenth Circuit.

Phillip MOCEK, Plaintiff–Appellant,

v.

CITY OF ALBUQUERQUE; Albuquerque
Aviation Police Department; Marshall Katz,
in his official capacity as Chief of Police of the
Albuquerque Aviation Police Department;
Jonathan Breedon; Gerald Romero; Anthony
Schreiner; Robert F. Dilley, also known as Bobby
Dilley; Landra Wiggins; Julio De La Pena;
Does 1–25, inclusive, Defendants–Appellees.

No. 14–2063.

|
Dec. 22, 2015.

Synopsis

Background: Arrestee brought § 1983 and *Bivens* claims and state-law malicious abuse of process claim against city, city's aviation police department, its chief of police and various police officers, and Transportation Security Administration (TSA) agents, alleging that defendants refused to permit him to record on video the official conduct of TSA agents at airport security screening checkpoint and arrested and prosecuted him for refusing to produce documentation of his identity. The United States District Court for the District of New Mexico, James O. Browning, J., 3 F.Supp.3d 1002, granted defendants' motion to dismiss for failure to state a claim. Arrestee appealed.

Holdings: The Court of Appeals, Tymkovich, Chief Judge, held that:

- [1] investigatory stop was supported by reasonable suspicion;
- [2] arresting officer had qualified immunity;
- [3] arresting officer did not violate a clearly established right to protection from First Amendment retaliation; and
- [4] arrestee failed to state a claim for malicious abuse of process.

Affirmed.

Procedural Posture(s): On Appeal; Motion to Dismiss.

West Headnotes (60)

[1] **Federal Courts**

↳ Pleading

Court of appeals reviews a district court's grant of a motion to dismiss for failure to state a claim de novo. Fed.Rules Civ.Proc.Rule 12(b)(6), 28 U.S.C.A.

Cases that cite this headnote

[2] **Federal Civil Procedure**

↳ Insufficiency in general

To survive a motion to dismiss for failure to state a claim, a complaint must state a claim to relief that is plausible on its face. Fed.Rules Civ.Proc.Rule 12(b)(6), 28 U.S.C.A.

11 Cases that cite this headnote

[3] **Federal Civil Procedure**

↳ Insufficiency in general

A claim has facial plausibility, as required to survive a motion to dismiss for failure to state a claim, when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged, and thus, a plaintiff cannot rely on labels and conclusions, and a formulaic recitation of the elements of a cause of action. Fed.Rules Civ.Proc.Rule 12(b)(6), 28 U.S.C.A.

5 Cases that cite this headnote

[4] **Federal Civil Procedure**

↳ Insufficiency in general

On a motion to dismiss for failure to state a claim, the court disregards conclusory statements and looks only to whether the remaining, factual allegations plausibly suggest the defendant is

liable. Fed.Rules Civ.Proc.Rule 12(b)(6), 28 U.S.C.A.

14 Cases that cite this headnote

[5] **Civil Rights**

☞ Government Agencies and Officers

Civil Rights

☞ Good faith and reasonableness; knowledge and clarity of law; motive and intent, in general

United States

☞ Qualified immunity in general

Individual government actors have qualified immunity from suit under § 1983 and *Bivens* unless a plaintiff demonstrates: (1) that the official violated a statutory or constitutional right, and (2) that the right was clearly established at the time of the challenged conduct.

42 U.S.C.A. § 1983.

4 Cases that cite this headnote

[6] **Civil Rights**

☞ Good faith and reasonableness; knowledge and clarity of law; motive and intent, in general

United States

☞ Qualified immunity in general

For the statutory or constitutional right violated by an individual government actor to be clearly established, so that the government actor is not entitled to qualified immunity from liability under § 1983 or *Bivens*, there must be an on-point decision of the Supreme Court or the court of appeals for the circuit, or the clearly established weight of authority from other courts must have found the law to be as the plaintiff maintains, and although a case directly on point is not required, existing precedent must have placed the statutory or constitutional question beyond debate. 42 U.S.C.A. § 1983.

5 Cases that cite this headnote

[7] **Civil Rights**

☞ Good faith and reasonableness; knowledge and clarity of law; motive and intent, in general

United States

☞ Qualified immunity in general

A public official has qualified immunity from liability under § 1983 or *Bivens* for a reasonable mistake of law, a reasonable mistake of fact, or a reasonable mistake based on mixed questions of law and fact. 42 U.S.C.A. § 1983.

2 Cases that cite this headnote

[8] **Arrest**

☞ Grounds for warrantless arrest in general

As a general matter, a warrantless arrest is consistent with the Fourth Amendment when there is probable cause to believe the arrestee has committed a crime. U.S.C.A. Const.Amend. 4.

4 Cases that cite this headnote

[9] **Arrest**

☞ Appearance, acts, and statements of persons arrested

An officer may not arrest someone for concealing identity without reasonable suspicion of some predicate, underlying crime. U.S.C.A. Const.Amend. 4.

Cases that cite this headnote

[10] **Arrest**

☞ Duration of detention and extent or conduct of investigation or frisk

During an investigative stop supported by reasonable suspicion of a predicate, underlying crime, an officer may ask a suspect to identify himself, and a state may criminalize the suspect's failure to comply. U.S.C.A. Const.Amend. 4.

Cases that cite this headnote

[11] **Arrest**

☞ Reasonableness; reason or founded suspicion, etc

The court looks to the totality of the circumstances to determine whether there was reasonable suspicion of wrongdoing, as basis for investigatory stop. U.S.C.A. Const.Amend. 4.

Cases that cite this headnote

[12] Arrest

☞ Reasonableness; reason or founded suspicion, etc

Arrest

☞ Arrest Distinguished

For an officer to have reasonable suspicion for an investigatory stop, the likelihood of criminal activity need not rise to the level required for probable cause, and it falls considerably short of satisfying a preponderance of the evidence standard; rather, the question is whether the facts available to the detaining officer, at the time, warranted an officer of reasonable caution in believing the action taken was appropriate. U.S.C.A. Const.Amend. 4.

Cases that cite this headnote

[13] Arrest

☞ Reasonableness; reason or founded suspicion, etc

Reasonable suspicion for an investigatory stop may exist even if it is more likely than not that the individual is not involved in any illegality. U.S.C.A. Const.Amend. 4.

1 Cases that cite this headnote

[14] Arrest

☞ Particular cases

Officers from city's aviation police department had reasonable suspicion of prospective airplane passenger's disorderly conduct in violation of New Mexico law, as basis for investigatory stop at Transportation Security Administration (TSA) security checkpoint at airport; the setting was uniquely sensitive, TSA agents told officers that prospective passenger had been causing a disturbance, had refused orders to put down his camera, and was filming the agents, arresting officer was entitled to rely in good faith on these representations of prospective passenger's earlier conduct, and officers witnessed at least three TSA agents attending to the situation, having

left behind other duties, even if bystanders were undisturbed. U.S.C.A. Const.Amend. 4.

Cases that cite this headnote

[15] Disorderly Conduct

☞ Nature and Elements of Offenses in General

Under New Mexico law, disorderly conduct consists of conduct that: (1) is violent, abusive, indecent, profane, boisterous, unreasonably loud, or otherwise disorderly, and (2) tends to disturb the peace.

Cases that cite this headnote

[16] Disorderly Conduct

☞ Requisites of annoyance or disturbance in general

Conduct which tends to disturb the peace, as element for disorderly conduct under New Mexico law, is conduct which is inconsistent with the peaceable and orderly conduct of society, and this includes an act that disturbs the peace and tranquility of the community.

1 Cases that cite this headnote

[17] Disorderly Conduct

☞ Requisites of annoyance or disturbance in general

Culpable conduct need not actually disturb the peace, in order to constitute disorderly conduct under New Mexico law, but merely must be of the sort that tends to disturb the peace.

1 Cases that cite this headnote

[18] Disorderly Conduct

☞ Modes of transportation and related facilities

Order and security are of obvious importance at an airport security checkpoint, and as a result, conduct that is relatively benign elsewhere might work to disturb the peace at these locations, as element for disorderly conduct under New Mexico law; many travelers are tense, no one enjoys the screening process, and people are in

various states of disrobing and adjusting clothing without a modicum of privacy.

1 Cases that cite this headnote

[19] **Civil Rights**

☛ Sheriffs, police, and other peace officers

Assuming that officer from city's aviation police department, who arrested prospective airplane passenger for failing to comply with request to produce documentation of his identity during valid investigatory stop for disorderly conduct at Transportation Security Administration (TSA) security checkpoint at airport, misinterpreted New Mexico law regarding the crime of concealing name or identity, officer's mistake of law was reasonable, and thus, officer had qualified immunity in prospective passenger's

§ 1983 action alleging a Fourth Amendment violation. U.S.C.A. Const.Amend. 4; 42 U.S.C.A. § 1983; West's NMSA § 30-22-3.

1 Cases that cite this headnote

[20] **Arrest**

☛ What constitutes such cause in general

Probable cause for an arrest exists if facts and circumstances within the arresting officer's knowledge and of which he or she has reasonably trustworthy information are sufficient to lead a prudent person to believe that the arrestee has committed or is committing an offense, and this is true regardless of the officer's subjective intent. U.S.C.A. Const.Amend. 4.

4 Cases that cite this headnote

[21] **Obstructing Justice**

☛ Failure to obey command or comply with request of officer; failure to assist

Under the New Mexico statute prohibiting concealing one's true name or identity, "name" and "identity" are not synonymous; concealment is not limited to name alone, and failing to give either name or identity may violate the statute. West's NMSA § 30-22-3.

Cases that cite this headnote

[22] **Obstructing Justice**

☛ Failure to obey command or comply with request of officer; failure to assist

Under the New Mexico statute prohibiting concealing one's true identity, suspects must provide police officers the minimal, essential information regarding identity so that they can perform their duties, and in at least some contexts, this requires documentation or the information contained therein. West's NMSA § 30-22-3.

Cases that cite this headnote

[23] **Civil Rights**

☛ Sheriffs, police, and other peace officers

A reasonable mistake in interpreting a criminal statute, for purposes of an officer's determination that there is probable cause to arrest, entitles an officer to qualified immunity for § 1983 liability for a Fourth Amendment violation. U.S.C.A. Const.Amend. 4; 42 U.S.C.A. § 1983.

3 Cases that cite this headnote

[24] **Obstructing Justice**

☛ Failure to obey command or comply with request of officer; failure to assist

Under the New Mexico statute prohibiting concealing one's true identity, suspects must furnish identifying information immediately upon request or, if the person has reasonable concerns about the validity of the request, so soon thereafter as not to cause any substantial inconvenience or expense to the police. West's NMSA § 30-22-3.

1 Cases that cite this headnote

[25] **Arrest**

☛ What constitutes such cause in general

For the probable cause determination for an arrest, officers generally may presume that

statutes that allegedly have been violated are constitutional until declared otherwise. U.S.C.A. Const.Amend. 4.

1 Cases that cite this headnote

[26] Arrest

↳ Grounds for warrantless arrest in general

Once probable cause for an arrest is established, officers are not required to do a more thorough investigation. U.S.C.A. Const.Amend. 4.

1 Cases that cite this headnote

[27] Constitutional Law

↳ Retaliation in general

To state a First Amendment retaliation claim, a plaintiff must allege: (1) he was engaged in constitutionally protected activity; (2) the government's actions caused him injury that would chill a person of ordinary firmness from continuing to engage in that activity; and (3) the government's actions were substantially motivated as a response to his constitutionally protected conduct. U.S.C.A. Const.Amend. 1.

12 Cases that cite this headnote

[28] Constitutional Law

↳ Airports, aviation, and airspace

An airport is a nonpublic forum, where restrictions on expressive activity need only satisfy a requirement of reasonableness. U.S.C.A. Const.Amend. 1.

2 Cases that cite this headnote

[29] Civil Rights

↳ Sheriffs, police, and other peace officers

When prospective airplane passenger was arrested by officer from city's aviation police department in November 2009 for filming at Transportation Security Administration (TSA) security checkpoint at airport, it was not clearly established that a plaintiff asserting a First Amendment retaliation claim could show that a public officer's actions were substantially motivated as a response to

plaintiff's constitutionally protected conduct if the arrest was arguably supported by probable cause, and thus, arresting officer was entitled to qualified immunity from liability in prospective

passenger's § 1983 action asserting that his arrest, which was arguably supported by probable cause to believe that he had violated state's identity concealment statute by refusing to produce documentation of his identity, was retaliation for filming activity that allegedly was protected by First Amendment. U.S.C.A. Const.Amend. 1, 4; 42 U.S.C.A. § 1983.

11 Cases that cite this headnote

[30] United States

↳ War, national emergency, and armed services

Prospective airplane passenger's claim for declaratory relief in *Bivens* action against agents of Transportation Security Administration (TSA) in their official capacities was properly dismissed based on lack of subject matter jurisdiction, where prospective passenger's pleadings did not identify a federal waiver of sovereign immunity. 28 U.S.C.A. § 2201(a); Fed.Rules Civ.Proc.Rule 8(a)(1), 28 U.S.C.A.

Cases that cite this headnote

[31] United States

↳ Officer sued in official capacity

A suit against a federal government agent in his official capacity is treated as a suit against the government, and the federal government may only be sued where it has waived sovereign immunity.

1 Cases that cite this headnote

[32] Declaratory Judgment

↳ Scope and extent of review in general

A district court's determination of whether a case of actual controversy exists, as required for issuance of declaratory judgment, is reviewed de novo to extent that it implicates purely legal issues and goes to district courts' subject matter

jurisdiction, and is reviewed for clear error to extent that it turns on factual conclusions. 28 U.S.C.A. § 2201(a).

3 Cases that cite this headnote

[33] Declaratory Judgment

☞ Necessity, utility and propriety

If a case of actual controversy exists, the district court should weigh case-specific factors in deciding whether to exercise its authority to grant declaratory relief. 28 U.S.C.A. § 2201(a).

3 Cases that cite this headnote

[34] Declaratory Judgment

☞ Federal officers and boards

Prospective airplane passenger failed to sufficiently allege that his past injury resulted in continuing, present adverse effects, as would satisfy actual controversy requirement for issuance of declaratory relief, in *Bivens* action against agents of Transportation Security Administration (TSA) in their official capacities, alleging violation of First Amendment right to film at TSA security checkpoint at airport; prospective passenger did not allege an injury beyond a subjective chilling effect. U.S.C.A. Const.Amend. 1; 28 U.S.C.A. § 2201(a).

1 Cases that cite this headnote

[35] Declaratory Judgment

☞ Federal officers and boards

District court's factual conclusion, that any policy of violating the First Amendment right to film at Transportation Security Administration (TSA) security checkpoints at airport would be administered by TSA rather than TSA agents, was not clearly erroneous, for purposes of determining whether actual controversy existed, as required for issuance of declaratory relief in prospective airplane passenger's *Bivens* action against TSA agents in their official capacities.

U.S.C.A. Const.Amend. 1; 28 U.S.C.A. § 2201(a).

1 Cases that cite this headnote

[36] Civil Rights

☞ Acts of officers and employees in general; vicarious liability and respondeat superior in general

Civil Rights

☞ Governmental Ordinance, Policy, Practice, or Custom

A municipality is not liable under § 1983 solely because its employees caused injury, and thus, a plaintiff asserting a § 1983 claim against a municipality must show: (1) the existence of a municipal policy or custom, and (2) a direct causal link between the policy or custom and the injury alleged. 42 U.S.C.A. § 1983.

22 Cases that cite this headnote

[37] Civil Rights

☞ Liability of Municipalities and Other Governmental Bodies

To be liable under § 1983, a municipality, through its deliberate conduct, must have been the moving force behind the injury. 42 U.S.C.A. § 1983.

10 Cases that cite this headnote

[38] Civil Rights

☞ Municipalities and counties and their officers

Although qualified immunity shields municipal employees from liability under § 1983 where the law is not clearly established, this defense does not apply to municipalities themselves. 42 U.S.C.A. § 1983.

1 Cases that cite this headnote

[39] Civil Rights

⚡ Criminal law enforcement; prisons

In absence of nonconclusory allegations giving rise to inference that city itself had established a deliberate policy or custom that caused injuries to prospective airplane passenger/arrestee, prospective passenger failed to state a claim for municipal liability under § 1983, in action alleging violation of First Amendment right to film at airport's security checkpoint and retaliation for exercising the alleged First Amendment right. U.S.C.A. Const.Amend. 1; 42 U.S.C.A. § 1983.

6 Cases that cite this headnote

[40] Federal Courts

⚡ Determination of question of jurisdiction

The Court of Appeals has an independent obligation to determine whether subject-matter jurisdiction exists, and that obligation extends to any stage in the litigation.

2 Cases that cite this headnote

[41] Federal Courts

⚡ Pleadings

A complaint need not allege a specific sum in order to satisfy the amount in controversy requirement for diversity jurisdiction, if the complaint alleges facts sufficient to convince the district court that recoverable damages will bear a reasonable relation to the minimum jurisdictional floor. 28 U.S.C.A. § 1332(a)(1).

4 Cases that cite this headnote

[42] Federal Courts

⚡ Fictitious or Colorable Claims

If the amount in controversy, for purposes of diversity jurisdiction, is challenged, the party asserting jurisdiction has the burden to show that it is not legally certain that the claim is less than the jurisdictional amount. 28 U.S.C.A. § 1332(a)(1).

2 Cases that cite this headnote

[43] Federal Courts

⚡ Particular Claims or Causes of Action

The fact that the district court could decline to exercise supplemental jurisdiction for a state-law claim did not mean there was no jurisdiction for that claim. 28 U.S.C.A. § 1367(a, c).

3 Cases that cite this headnote

[44] Federal Courts

⚡ Supplemental jurisdiction

The Court of Appeals ordinarily reviews for abuse of discretion the decision of a district court regarding whether to exercise supplemental jurisdiction over a state-law claim. 28 U.S.C.A. § 1367(a, c).

2 Cases that cite this headnote

[45] Federal Courts

⚡ Waiver, estoppel, and consent

The issue of subject-matter jurisdiction cannot be forfeited or waived.

1 Cases that cite this headnote

[46] Federal Courts

⚡ Waiver of Error in Appellate Court

The Court of Appeals need not address the question of whether a district court should choose to decline its subject matter jurisdiction for state-law claims based on supplemental jurisdiction, where the parties do not raise the question on appeal. 28 U.S.C.A. § 1367(a, c).

4 Cases that cite this headnote

[47] Federal Courts

⚡ Pleading

Federal Courts

⚡ Particular cases

Court of Appeals had jurisdiction to consider plaintiff's appellate claim that district court erred

in dismissing, for failure to state a claim, his state-law claim for malicious abuse of process, where the claim remained pending in district court, which had not remanded to state court based on a determination to decline to exercise supplemental jurisdiction. 28 U.S.C.A. § 1367(a, c).

Cases that cite this headnote

[48] Process

☞ Nature and elements in general

Under New Mexico law, the elements of tort of malicious abuse of process are: (1) the use of process in a judicial proceeding that would be improper in the regular prosecution or defense of a claim or charge; (2) a primary motive in the use of process to accomplish an illegitimate end; and (3) damages.

1 Cases that cite this headnote

[49] Process

☞ Abuse of Process

The tort of malicious abuse of process under New Mexico law should be construed narrowly in order to protect the right of access to the courts, and as such it is disfavored in the law.

Cases that cite this headnote

[50] Process

☞ Misuse of process

Malicious abuse of process under New Mexico law can be established by showing that the defendant filed a complaint without probable cause, or by showing under the so-called procedural impropriety theory an irregularity or impropriety suggesting extortion, delay, or harassment, or other conduct formerly actionable under the tort of abuse of process.

Cases that cite this headnote

[51] Process

☞ Probable cause

Under New Mexico law, "probable cause" in the malicious abuse of process context is defined as a reasonable belief, founded on known facts established after a reasonable pre-filing investigation, that a claim can be established to the satisfaction of a court or jury.

1 Cases that cite this headnote

[52] Process

☞ Probable cause

The lack of probable cause must be manifest, for liability under New Mexico law for malicious abuse of process.

1 Cases that cite this headnote

[53] Process

☞ Probable cause

For a claim of malicious abuse of process under New Mexico law, the question is not whether there is probable cause for each and every claim in the criminal complaint, but whether the complaint as a whole is justified by probable cause.

Cases that cite this headnote

[54] Federal Courts

☞ Specification of errors; points and arguments

The Court of Appeals will not manufacture arguments for an appellant.

Cases that cite this headnote

[55] Process

☞ Particular cases

Plaintiff, by merely alleging that underlying criminal complaint included false statements, without explaining how their inclusion vitiated probable cause for entire complaint charging defendant with concealing identity and other crimes, failed to state a claim for malicious abuse of process under New Mexico law.

Cases that cite this headnote

[56] Process

⚡ Misuse of process

Under the procedural impropriety theory of malicious abuse of process under New Mexico law, a plaintiff can abuse legal process even in a meritorious case.

Cases that cite this headnote

[57] Process

⚡ Improper, ulterior, collateral, or unlawful purpose

Improper motive by itself cannot sustain a malicious abuse of process claim under New Mexico law.

Cases that cite this headnote

[58] Process

⚡ Misuse of process

A use of process is deemed to be irregular or improper, as element of malicious abuse of process under New Mexico law, if it: (1) involves a procedural irregularity or a misuse of procedural devices such as discovery, subpoenas, and attachments, or (2) indicates the wrongful use of proceedings, such as an extortion attempt.

Cases that cite this headnote

[59] Process

⚡ Particular cases

Plaintiff's allegation that the grounds cited by officer from city's aviation police department, for arresting plaintiff at airport, were mere pretext for harassing him failed to state a claim for malicious abuse of process under New Mexico law based on procedural impropriety theory, relating to subsequent prosecution of plaintiff for concealing identity and other crimes.

Cases that cite this headnote

[60] Federal Courts

⚡ Amendments and additional proofs

A plaintiff cannot ask the Court of Appeals, in the first instance, for permission to amend the

complaint; that must be done in district court. Fed.Rules Civ.Proc.Rule 15(a)(2), 28 U.S.C.A.

Cases that cite this headnote

Attorneys and Law Firms

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Before TYMKOVICH, Chief Judge, GORSUCH, and HOLMES, Circuit Judges.

Opinion

TYMKOVICH, Chief Judge.

Phillip Mocek was arrested for concealing his identity after filming airport security procedures and being questioned on suspicion of disorderly conduct. He then sued agents of the Transportation Security Administration, officers of the Albuquerque Aviation Police Department, and the City of Albuquerque for alleged constitutional violations. He asserted that he was arrested without probable cause and in retaliation for protected speech. He further contended that the officers and City abused process under New Mexico law.

The district court dismissed each of his claims. We conclude that the individual defendants are entitled to qualified immunity ***920** because a reasonable officer could have believed Mocek violated New Mexico law by failing to show identification during an investigative stop. In addition, it was not clearly established that a plaintiff could maintain a retaliatory arrest claim for an arrest arguably supported by

probable cause. Mocek also fails to state claims for malicious abuse of process or municipal liability. We AFFIRM.

I. Background

Mocek has a practice of refusing to show his photo identification at airport security checkpoints. Prior to 2008, he was able to clear checkpoints by complying with alternative TSA identification procedures. In 2008, the TSA established a policy that those who “simply refuse[d] to provide any identification or assist transportation security officers in ascertaining their identity” would not be allowed past checkpoints, but that people whose I.D.s had been “misplaced” or “stolen” could get through if they cooperated with alternative procedures. App. 014.

A. The Arrest

In November 2009, Mocek arrived at the Albuquerque Sunport for a flight to Seattle. He gave his driver's license—his only form of photo I.D.—to a travel companion who then went through security. At the security podium Mocek gave the TSA agent his boarding pass, but told him he did not have identification. The agent then directed him to a different line, where another TSA agent began an alternative identification procedure. This entailed asking Mocek for other proof of identity, such as a credit card. When Mocek did not comply, the agent told him he would contact the TSA's Security Operations Center and that if the Center could not verify Mocek's identity, Mocek would not be allowed through the checkpoint.

Believing these procedures were atypical, Mocek began filming the encounter. The agent ordered him to stop recording. When Mocek persisted, the agent summoned the police for assistance. While the police were on their way, two other TSA agents appeared. One of them ordered Mocek to stop filming and apparently attempted to grab the camera out of his hand. Mocek remained calm, but continued to record and would not identify himself.

When the police arrived, the agents told them that Mocek was “causing a disturbance,” would not put down his camera, and was “taking pictures” of all the agents. *Id.* at 018–19. One of the officers, Robert Dilley, warned Mocek that if he did not comply with the agents' instructions, he would be escorted out of the airport. Another officer threatened to arrest Mocek. But Mocek continued to film and insisted

that he was in compliance with TSA regulations.¹ Officer Dilley eventually began ushering Mocek out of the airport, but having heard from another officer that Mocek refused to show his identification, he stopped and asked to see Mocek's I.D. Officer Dilley told Mocek that he could be arrested if he did not present identification. *921 Mocek responded that he did not have any identification on him. Officer Dilley then said that Mocek was under investigation for disturbing the peace and was required to present identification. Mocek declared that he would remain silent and wanted to speak to an attorney. Officer Dilley arrested him. At some point, the police confiscated the camera and deleted the video recordings.

B. The Criminal Complaint and Trial

In the officers' incident reports, they stated that Mocek had caused a disturbance by yelling and had disobeyed an order to leave the airport. They ultimately charged him with disorderly conduct, concealing name or identity, resisting an officer's lawful command, and criminal trespass. Their criminal complaint alleged that he “was refusing [to comply] and began causing a disturbance, by yelling.” *Id.* at 022 (internal quotation marks omitted). Mocek contends that the video recordings, which he recovered using forensic software, disprove these allegations. He introduced that footage at his criminal trial and was acquitted on all counts.

C. The District Court Proceedings

Mocek brought this action alleging First and Fourth Amendment violations and seeking damages under 42 U.S.C. § 1983 and *Bivens v. Six Unknown Named Agents of the Federal Bureau of Narcotics*, 403 U.S. 388, 91 S.Ct. 1999, 29 L.Ed.2d 619 (1971), as well as declaratory relief. He contended that (1) the agents and officers violated the Fourth Amendment by arresting him without probable cause to believe he had committed a crime, and (2) the arrest was in retaliation for exercising his alleged First Amendment right to film at a security checkpoint. He additionally sued the officers and City for malicious abuse of process under New Mexico tort law, asserting they had arrested him for purely pretextual reasons and then filed a criminal complaint without probable cause.

The district court granted the defendants' Rule 12(b)(6) motions to dismiss for all claims.

II. Analysis

Mocek claims the district court should not have dismissed the complaint, contending he adequately pleaded that (1) it was clearly established that no probable cause existed to arrest him for concealing identity under New Mexico law, (2) it was clearly established that filming at the checkpoint was protected speech under the First Amendment, and (3) the officers and City maliciously abused the judicial process by filing a criminal complaint against him unsupported by probable cause.

[1] [2] [3] [4] We review the district court's grant of Rule 12(b)(6) motion to dismiss de novo. *McDonald v. Wise*, 769 F.3d 1202, 1210 (10th Cir.2014). To survive a motion to dismiss, a complaint must "state a claim to relief that is plausible on its face." *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570, 127 S.Ct. 1955, 167 L.Ed.2d 929 (2007). "A claim has facial plausibility when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged."

Ashcroft v. Iqbal, 556 U.S. 662, 678, 129 S.Ct. 1937, 173 L.Ed.2d 868 (2009). Thus, a plaintiff cannot rely on "labels and conclusions, and a formulaic recitation of the elements of a cause of action." *Twombly*, 550 U.S. at 555, 127 S.Ct. 1955. We accordingly "disregard conclusory statements and look only to whether the remaining, factual allegations plausibly suggest the defendant is liable." *Khalik v. United Air Lines*, 671 F.3d 1188, 1191 (10th Cir.2012).

*922 We first discuss Mocek's constitutional claims as they pertain to the individual defendants. Next, we consider whether his constitutional claims can stand against the City. Finally, we review his tort claim for malicious abuse of process against the police defendants and the City.

A. Constitutional Claims Against the Individual Defendants

1. Qualified Immunity Standard

[5] [6] [7] Individual government actors are immune from suit under § 1983 and *Bivens* unless a plaintiff demonstrates "(1) that the official violated a statutory or constitutional right, and (2) that the right was clearly

established at the time of the challenged conduct."

Ashcroft v. al-Kidd, 563 U.S. 731, 131 S.Ct. 2074, 2080, 179 L.Ed.2d 1149 (2011) (internal quotation marks omitted). For a violation to be clearly established, "there must be a Supreme Court or Tenth Circuit decision on point, or the clearly established weight of authority from other courts must have found the law to be as the plaintiff maintains."

Morris v. Noe, 672 F.3d 1185, 1196 (10th Cir.2012). "We do not require a case directly on point, but existing precedent must have placed the statutory or constitutional question beyond debate." *al-Kidd*, 131 S.Ct. at 2083. Our inquiry is whether "it would be clear to a reasonable officer that his conduct was unlawful in the situation he confronted." *Morris*, 672 F.3d at 1196 (internal quotation

mark omitted) (quoting *Saucier v. Katz*, 533 U.S. 194, 202, 121 S.Ct. 2151, 150 L.Ed.2d 272 (2001)). An officer is therefore immune for a reasonable mistake of law, reasonable mistake of fact, or a reasonable mistake "based on mixed questions of law and fact." *Pearson v. Callahan*, 555 U.S. 223, 231, 129 S.Ct. 808, 172 L.Ed.2d 565 (2009) (internal quotation mark omitted).

2. Fourth Amendment Claims

Mocek's first claim is that the defendants violated his Fourth Amendment rights by arresting him without a warrant. The district court held there was probable cause to arrest Mocek for concealing his identity when he did not produce an I.D. after the officers requested it. Mocek argues it was clearly established that Officer Dilley had insufficient evidence to arrest him for that crime or any other.

[8] [9] [10] As a general matter, a warrantless arrest is consistent with the Fourth Amendment when there is probable cause to believe the arrestee has committed a crime. *Stearns v. Clarkson*, 615 F.3d 1278, 1282 (10th Cir.2010). In New Mexico, it is a misdemeanor to "conceal[] one's true name or identity ... with intent to obstruct the due execution of the law or with intent to intimidate, hinder, or interrupt any public officer or any other person in a legal performance of his duty." N.M. Stat. Ann. § 30-22-3. But an officer may not arrest someone for concealing identity without "reasonable suspicion of some predicate, underlying crime." *Keylon v. City of Albuquerque*, 535 F.3d 1210, 1216 (10th Cir.2008) (citing *Brown v. Texas*, 443 U.S. 47, 52, 99 S.Ct. 2637, 61

L.Ed.2d 357 (1979)). During an investigative stop supported by reasonable suspicion of a predicate, underlying crime, “it is well established that an officer may ask a suspect to identify himself.” *Hiibel v. Sixth Judicial Dist. Court*, 542 U.S. 177, 186, 124 S.Ct. 2451, 159 L.Ed.2d 292 (2004). A state may criminalize the suspect’s failure to comply. *Id.* at 188, 124 S.Ct. 2451.

Thus, to determine whether Mocek’s arrest comported with the Fourth Amendment, we must first consider whether there was reasonable suspicion to stop him and request his identity. If there was, we next must determine whether probable cause existed to believe he concealed his *923 identity. Although we hold the investigative stop was justified by reasonable suspicion of disorderly conduct, we doubt that there was probable cause to arrest Mocek merely for failing to show documentation proving his identity in this case. Nonetheless, the officers are entitled to qualified immunity because even assuming they misinterpreted New Mexico law, their mistake was reasonable.

a. Reasonable Suspicion

[11] [12] [13] We look to the “totality of the circumstances” to determine whether there was reasonable suspicion of wrongdoing. *United States v. Arvizu*, 534 U.S. 266, 274, 122 S.Ct. 744, 151 L.Ed.2d 740 (2002). “[T]he likelihood of criminal activity need not rise to the level required for probable cause, and it falls considerably short of satisfying a preponderance of the evidence standard.” *Id.* The question is “whether the facts available to the detaining officer, at the time, warranted an officer of reasonable caution in believing the action taken was appropriate.” *United States v. Winder*, 557 F.3d 1129, 1134 (10th Cir.2009) (internal quotation marks omitted) (quoting *Terry v. Ohio*, 392 U.S. 1, 21–22, 88 S.Ct. 1868, 20 L.Ed.2d 889 (1968)). And “reasonable suspicion may exist even if it is more likely than not that the individual is not involved in any illegality.”

United States v. McHugh, 639 F.3d 1250, 1256 (10th Cir.2011) (internal quotation marks omitted).

[14] [15] [16] The district court held the facts known to the officers justified stopping Mocek on reasonable suspicion of disorderly conduct. We agree. Under New Mexico law, disorderly conduct consists of conduct that (1) is “violent, abusive, indecent, profane, boisterous, unreasonably loud,

or otherwise disorderly” and (2) tends to disturb the peace.

Fogarty v. Gallegos, 523 F.3d 1147, 1156 (10th Cir.2008); see also N.M. Stat. Ann. § 30–20–1(A). “Conduct which tends to disturb the peace is that conduct which is inconsistent with the peaceable and orderly conduct of society.” *State v. Correa*, 147 N.M. 291, 222 P.3d 1, 7 (2009) (internal quotation marks omitted). This includes an act that “disturbs the peace and tranquility of the community.” *Id.* at 9 (internal quotation marks omitted).

[17] Mocek argues that he was calm throughout the ordeal and did not disturb other travelers. But the complaint alleges that when police arrived, the TSA agents told them he had been “causing a disturbance,” refused orders to put down his camera, and was filming the agents. App. 018–19. Officer Dilley, the arresting officer, was entitled to rely in good faith on these representations of Mocek’s earlier conduct.

Albright v. Rodriguez, 51 F.3d 1531, 1536 (10th Cir.1995) (holding an officer’s reasonable-suspicion determination could rely on border patrol agent’s representations of events that occurred before the officer arrived); see also *Foote v. Spiegel*, 118 F.3d 1416, 1424 (10th Cir.1997) (“Officers may rely on information furnished by other law enforcement officials to establish reasonable suspicion and probable cause for an arrest.”). In addition, the officers witnessed at least three TSA agents attending to the situation, having left behind other duties. These sorts of disruptions at TSA checkpoints are especially problematic.² Consequently, the officers *924 had grounds to suspect Mocek had engaged or was engaged in disorderly behavior that would tend to disturb the peace at an airport security checkpoint. The fact that bystanders were undisturbed did not eliminate reasonable suspicion. Culpable conduct need not actually disturb the peace, but merely must be of the sort that *tends* to disturb the peace. *State v. James M.*, 111 N.M. 473, 806 P.2d 1063, 1066 (Ct.App.1990).

[18] In concluding there was reasonable suspicion of disorderly conduct, we emphasize the uniquely sensitive setting we confront in this case. See *Correa*, 222 P.3d at 9 (suggesting the “time, place, and manner” of the defendant’s conduct influences whether it “disturb[s] the tranquility of

the community”); cf. *United States v. Guardado*, 699 F.3d 1220, 1223 (10th Cir.2012) (holding the location of an investigative stop is “a factor that contributes to an officer’s reasonable suspicion”). Order and security are of

obvious importance at an airport security checkpoint. See *Corbett v. TSA*, 767 F.3d 1171, 1180 (11th Cir.2014), cert. denied, — U.S. —, 135 S.Ct. 2867, 192 L.Ed.2d 897 (2015); *United States v. Hartwell*, 436 F.3d 174, 179 (3d Cir.2006); *United States v. Marquez*, 410 F.3d 612, 618 (9th Cir.2005); *United States v. Yang*, 286 F.3d 940, 944 n. 1 (7th Cir.2002). As a result, conduct that is relatively benign elsewhere might work to disturb the peace at these locations. Many travelers are tense, no one enjoys the screening process, and people are in various states of disrobing and adjusting clothing without a modicum of privacy.

From a reasonable officer's perspective, Mocek's filming may have invaded the privacy of other travelers or posed a security threat, insofar as it could have been used to circumvent or expose TSA procedures. The possibility that he had malign intentions raised the likelihood that his conduct would compromise orderly operations at the checkpoint. So did the chance that he was violating TSA regulations against interfering with security systems or personnel. See 49 C.F.R. §§ 1540.105(a), 1540.109. Mocek had been resisting the agents' attempts to identify him, and it was clear that passengers who "simply refuse [d] to provide any identification or assist transportation security officers in ascertaining their identity" would not be allowed past checkpoints. App. 014.

Based on the face of the complaint, the information available to Officer Dilley indicated that Mocek had distracted multiple TSA agents, persistently disobeyed their orders, already caused a "disturbance" (according to the agents on the scene), and potentially threatened security procedures at a location where order was paramount. Under these circumstances, a reasonable officer would have had reason to believe, or at least investigate further, that Mocek had committed or was committing disorderly conduct.

Accordingly, Officer Dilley was justified in stopping Mocek and asking him to identify himself as part of the investigation.

Hiibel, 542 U.S. at 186, 124 S.Ct. 2451.

b. Probable Cause

[19] [20] Our next inquiry is whether there was probable cause, or at least arguable probable cause, to arrest Mocek for concealing name or identity under N.M. Stat. Ann. §

30–22–3. See *Cortez v. *925 McCauley*, 478 F.3d 1108, 1120, 1120 n. 15 (10th Cir.2007) (en banc) (explaining that a reasonable belief in probable cause, sometimes referred to as "arguable probable cause," confers qualified immunity). "Probable cause exists if facts and circumstances within the arresting officer's knowledge and of which he or she has reasonably trustworthy information are sufficient to lead a prudent person to believe that the arrestee has committed or is committing an offense." *York v. City of Las Cruces*, 523 F.3d 1205, 1210 (10th Cir.2008) (internal quotation marks omitted). This is true regardless of the officer's subjective intent. *Apodaca v. City of Albuquerque*, 443 F.3d 1286, 1289 (10th Cir.2006) ("The constitutionality of an arrest does not depend on the arresting officer's state of mind."); see also *Whren v. United States*, 517 U.S. 806, 813, 116 S.Ct. 1769, 135 L.Ed.2d 89 (1996) ("Subjective intentions play no role in ordinary, probable-cause Fourth Amendment analysis.").

Mocek argues there was no probable cause to arrest him for concealing name or identity under § 30–22–3 because (1) Officer Dilley never even asked for Mocek's name;³ (2) although Officer Dilley did ask for Mocek's I.D., he did not ask for other identifying information; and (3) the statute does not criminalize the mere failure to produce physical documentation of identity.⁴ Mocek may be correct that Officer Dilley misinterpreted the statute. But even if he did, he at least had arguable probable cause to arrest Mocek because any mistake of law on his part was reasonable.

To view the statute in context, we must first consider the Supreme Court's decision in *Kolender v. Lawson*, 461 U.S. 352, 103 S.Ct. 1855, 75 L.Ed.2d 903 (1983). In that case, California had criminalized the failure to furnish "credible and reliable" identification upon request during an investigative stop. *Id.* at 356, 103 S.Ct. 1855. This meant "identification carrying reasonable assurance that the identification is authentic and providing means for later getting in touch with the person who has identified himself." *Id.* at 357, 103 S.Ct. 1855 (internal quotation marks omitted). The Court held the statute was unconstitutionally vague because the "credible and reliable" requirement was too indefinite and "vest[ed] virtually complete discretion in the hands of the police to determine whether the suspect ... satisfied the statute." *Id.* at 358, 103 S.Ct. 1855.

[21] [22] In New Mexico, where the statute prohibits “concealing one’s true name or identity,” N.M. Stat. Ann. § 30–22–3 (emphasis added), “name” and “identity” are not synonymous. *State v. Andrews*, 123 N.M. 95, 934 P.2d 289, 291 (Ct.App.1997). But courts have not precisely defined what it means to furnish “identity,” except to say that suspects must “provide police officers the minimal, essential information regarding identity so that they can perform their duties.” *Id.* In at least some contexts, this requires documentation or the information contained therein. *Andrews* upheld the conviction of a defendant who gave his name *926 during a traffic stop but failed to provide his driver’s license or equivalent information. *Id.* at 292. The court relied in part on testimony that “this information is necessary for officers to verify a driver’s license and otherwise perform their lawful duties.” *Id.* In addition, the holding was grounded in the court’s view that there was no vagueness concern under *Kolender* because New Mexico drivers, already on notice that they must carry driver’s licenses, could easily discern that the statute required production of a driver’s license or the information therein during a traffic stop. *Id.* at 293. Likewise, there was no risk of arbitrary enforcement. *Id.* Nonetheless, the court expressly declined to “specify[] what identifying information might be appropriate in all situations.” *Id.* at 292.

In light of that careful limitation, we doubt that § 30–22–3 criminalizes the mere failure to produce documentation during a stop for suspicion of disorderly conduct. It is entirely unclear what type of identification a suspect would need to show during such a stop. Nothing on the face of Mocek’s complaint or in case law indicates that any particular document is necessary for the officers to perform their investigative duties, although it is obvious that a person intending to clear security screening and board a plane may need some form of identification.⁵ Other states’ “stop and identify”⁶ statutes also suggest that mere failure to produce documentation is not illegal, as most jurisdictions do not compel suspects to furnish documentation outside the context of traffic violations.⁷

*927 In any event, New Mexico law is not entirely clear on whether someone in Mocek’s shoes might be required to answer basic questions about his identity, such as a request for his address. But Officer Dilley’s *only* request was for documentation, and failing to show documentation, in

isolation, during an investigative stop for disorderly conduct might not amount to concealing one’s identity.

[23] Nonetheless, Officer Dilley is entitled to qualified immunity. A reasonable mistake in interpreting a criminal statute, for purposes of determining whether there is probable cause to arrest, entitles an officer to qualified immunity. *See Pearson*, 555 U.S. at 231, 129 S.Ct. 808 (holding officials are entitled to qualified immunity for reasonable mistakes of law); *Fogarty*, 523 F.3d at 1159 (resolving qualified immunity question by reviewing whether state law under which suspect was arrested was ambiguous). Here, New Mexico courts had explicitly held “[i]dentity is not limited to name alone” and “failing to give either name or identity may violate the statute.” *Andrews*, 934 P.2d at 291. They had also held that at least during traffic stops, the statute requires a driver to produce a driver’s license or the information therein upon request. *Id.* at 292. Although the court declined to “specify[] what identifying information might be appropriate” outside the driving context, *id.*, it nowhere foreclosed the possibility that documentation is required elsewhere. Thus, a reasonable officer could have believed that an investigative stop for disorderly conduct at an airport security checkpoint required the production of some physical proof of identity. And Mocek provided none.

[24] An officer also could have reasonably determined that Mocek intended “to obstruct the due execution of the law or ... to intimidate, hinder or interrupt any public officer or any other person in a legal performance of his duty.” N.M. Stat. Ann. § 30–22–3. Suspects must “furnish identifying information *immediately upon request* or, if the person has reasonable concerns about the validity of the request, so soon thereafter as not to cause any substantial inconvenience or expense to the police.” *State v. Dawson*, 127 N.M. 472, 983 P.2d 421, 424 (Ct.App.1999) (emphasis added). Mocek did not present identification immediately upon request. When asked a second time, he announced that he would remain silent. Given Mocek’s continued refusal to show identification and resolution to remain silent, a reasonable officer could have thought he was intentionally hindering investigative efforts. *See Albright*, 51 F.3d at 1537 (implying that persistent refusal to identify oneself supports inference of intentionally hindering investigation); *see also Hiibel*, 542 U.S. at 186, 124 S.Ct. 2451 (“Obtaining a suspect’s name in the course of a *Terry* stop serves important government interests. Knowledge of identity may inform

an officer that a suspect is wanted for another offense, or has a record of violence or mental disorder.”). Thus, in these circumstances, an officer who reasonably believed identification was required could have also believed that Mocek’s ongoing failure to show it violated the statute.

[25] Mocek’s responses are unavailing. First, he contends that *Kolender* clearly establishes that suspects have no duty to provide physical identification upon request. But *Kolender* is not on point because it nowhere considered a Fourth Amendment claim. That case merely struck down another state’s statute for vagueness under the Fourteenth Amendment, 461 U.S. at 353, 103 S.Ct. 1855, while Mocek does not challenge the constitutional validity of § 30–22–3. At any rate, the validity of the statute is hardly relevant to the probable cause determination *928 because officers generally may presume that statutes are constitutional until declared otherwise. See *Michigan v. DeFillippo*, 443 U.S. 31, 38, 99 S.Ct. 2627, 61 L.Ed.2d 343 (1979) (“Police are charged to enforce laws until and unless they are declared unconstitutional. The enactment of a law forecloses speculation by enforcement officers concerning its constitutionality—with the possible exception of a law so grossly and flagrantly unconstitutional that any person of reasonable prudence would be bound to see its flaws.”); see also *Vives v. City of New York*, 405 F.3d 115, 117–18 (2d Cir.2004) (applying same reasoning to qualified-immunity determination); *Risbridger v. Connelly*, 275 F.3d 565, 573 (6th Cir.2002) (same). Although future courts might limit the scope of *Andrews* more explicitly, police officers are not required to anticipate such limitations.

Even if the validity of § 30–22–3 were relevant to the probable cause determination, Mocek has not shown that the defendants’ broad construction of the statute would render it vague. Unlike the California statute in *Kolender*, the New Mexico statute provides that a suspect is only liable if he intends “to obstruct the due execution of the law or ... to intimidate, hinder, or interrupt any public officer or any other person in a legal performance of his duty.” N.M. Stat. Ann. § 30–22–3. The Sixth Circuit held a disorderly conduct ordinance using similar language⁸ was not vague under *Kolender*. *Risbridger*, 275 F.3d at 574. The plaintiff had been arrested under the ordinance for refusing to present identification when requested. *Id.* at 567–68. He argued that the ordinance was vague as applied. *Id.* at 572. The court disagreed, holding there was no risk of arbitrary or unfettered enforcement because “it is the hindering or obstructing of

an officer in the performance of his duties that constitutes a misdemeanor,” rather than declining to present identification in and of itself. *Id.* In light of that persuasive reasoning, there is no clearly established violation here. Reading § 30–22–3 to prohibit a suspect from concealing physical identification would not necessarily make the statute vague.

Next, Mocek points out that he truthfully told Officer Dilley he did not have identification with him (even though his friend apparently had the driver’s license). He asserts that Officer Dilley violated his duty to reasonably investigate before making an arrest. See *Romero v. Fay*, 45 F.3d 1472, 1476–77 (10th Cir.1995) (“[T]he Fourth Amendment requires officers to reasonably interview witnesses readily available at the scene, investigate basic evidence, or otherwise inquire if a crime has been committed at all before invoking the power of warrantless arrest and detention.”). But Officer Dilley did investigate sufficiently. Another officer had told him, “He don’t want to show his I.D.” App. 019. Officer Dilley could rely on a fellow officer’s representation in finding probable cause. *Footte*, 118 F.3d at 1424. He could also find that testimony more credible than Mocek’s own story that he had no I.D. *Baptiste v. J.C. Penney Co.*, 147 F.3d 1252, 1259 (10th Cir.1998) (“[O]fficers may weigh the credibility of witnesses in making a probable cause determination.”); *Munday v. Johnson*, 257 Fed.Appx. 126, 134 (10th Cir.2007) (“[P]olice officers are not required to forego making an arrest based on facts supporting probable cause simply because the arrestee offers a different explanation.”).

*929 [26] Further, the complaint indicates that Officer Dilley asked Mocek for identification at least twice, explaining that he was under investigation for disturbing the peace and could be arrested if he did not obey. As discussed above, Mocek not only failed to immediately furnish identification, but also impeded any further inquiry by resolving to remain silent. This was ample evidence and time for a reasonable officer to ascertain probable cause. See *Dawson*, 983 P.2d at 424 (“[W]e find ... support for a rule that permits one a few moments to consider the consequences of refusal to identify oneself. But that period would have to be brief.... Any delay in identifying oneself would ‘hinder’ or ‘interrupt’ law enforcement officers.”). And once probable cause is established, “officers are not required to do a more thorough investigation.” *Cortez*, 478 F.3d at 1116 n. 7.

Next, Mocek makes two challenges based on Officer Dilley’s alleged ulterior motives. Mocek first argues that asking for

identification exceeded the scope of the investigation for disorderly conduct and that Officer Dilley used § 30–22–3 as an excuse to arrest him where there were no other grounds for doing so. He relies on Supreme Court language explaining that the request for identification must be “reasonably related to the circumstances justifying the stop” and “not an effort to obtain an arrest for failure to identify after a *Terry* stop yielded insufficient evidence.” *Hiibel*, 542 U.S. at 189, 124 S.Ct. 2451. But the request for Mocek’s identification was a “commonsense inquiry” meant to gather basic information about a suspect, which has “an immediate relation to the purpose, rationale, and practical demands of a *Terry* stop.” *Id.* Mocek’s refusal to cooperate interfered with these efforts to investigate possible disorderly conduct.

Second, Mocek argues the arrest was a mere pretext for seizing his camera and destroying his recordings of the security checkpoint. He cites our holding that police cannot use an administrative search as an excuse to enter a building to seize suspected contraband. See *Winters v. Bd. of Cty. Comm’rs*, 4 F.3d 848, 854 (10th Cir.1993). To hold otherwise, we explained, would allow police “to seize evidence of criminal activity without a warrant when the officer has a particularized suspicion regarding that evidence.” *Id.* Mocek similarly cites *United States v. Pearl*, 944 F.Supp. 51, 52–54 (D.Me.1996), in which the court granted a criminal defendant’s motion to suppress where an officer stopped him without reasonable suspicion and later fabricated evidence to justify the stop. *Winters* and *Pearl* are inapposite. In those cases police clearly lacked probable cause and devised a subterfuge for avoiding the requirement altogether. But it was not clear that Officer Dilley lacked probable cause, and he did not use any artifice to circumvent the law. Moreover, it is beyond debate that an officer’s subjective intent is irrelevant to the probable cause determination. See *Apodaca*, 443 F.3d at 1289.

We therefore hold Officer Dilley is entitled to qualified immunity on Mocek’s Fourth Amendment claim. Mocek also asserts Fourth Amendment claims against the other officers and the TSA agents on the theory that they acted in concert with Officer Dilley. His brief advances no theory as to how they could be liable where the arresting officer had arguable probable cause—at worst, based on a reasonable mistake of law—in choosing to arrest him.⁹ *930 Accordingly, we hold that all of the individual defendants are entitled to qualified immunity.

3. First Amendment Claims

Mocek next contends that he had a First Amendment right to film at the security checkpoint. He asserts that the defendants unconstitutionally retaliated against his exercise of that right when they arrested him for doing so. The district court dismissed this claim after finding it was reasonable to restrict filming at an airport security checkpoint, a nonpublic forum. The defendants add that they are entitled to qualified immunity because they reasonably believed they had probable cause to arrest Mocek, and at the time of the arrest, it was not clearly established that plaintiffs could maintain retaliation claims for arrests supported by probable cause. We agree.

[27] To state a First Amendment retaliation claim, a plaintiff must allege “(1) he was engaged in constitutionally protected activity, (2) the government’s actions caused him injury that would chill a person of ordinary firmness from continuing to engage in that activity, and (3) the government’s actions were substantially motivated as a response to his constitutionally protected conduct.” *Nielander v. Bd. of Cty. Comm’rs*, 582 F.3d 1155, 1165 (10th Cir.2009).

Recognizing his threshold problem under this standard, Mocek asks us to rely on cases from other circuits holding there is First Amendment protection for creating audio and visual recordings of law enforcement officers in public places. See *ACLU v. Alvarez*, 679 F.3d 583, 595 (7th Cir.2012); *Glik v. Cunniffe*, 655 F.3d 78, 82 (1st Cir.2011); *Smith v. City of Cumming*, 212 F.3d 1332, 1333 (11th Cir.2000); *Fordyce v. City of Seattle*, 55 F.3d 436, 439 (9th Cir.1995). *But see Gericke v. Begin*, 753 F.3d 1, 7–8 (1st Cir.2014) (holding the right to film an officer at a traffic stop was not unlimited); *Kelly v. Borough of Carlisle*, 622 F.3d 248, 262 (3d Cir.2010) (holding there was no clearly established “right to videotape police officers during a traffic stop”); *McCormick v. City of Lawrence*, 130 Fed.Appx. 987, 988–89 (10th Cir.2005) (holding it was not clearly established that police violated the First Amendment by destroying recordings of police activity at roadside sobriety checkpoints); *Szymecki v. Houck*, 353 Fed.Appx. 852, 853 (4th Cir.2009) (holding the right to record police activity on public property was not clearly established). Mocek further argues his arrest was substantially motivated by his recording

and would have chilled a person of ordinary firmness from continuing to film.

[28] As an initial matter, an airport is a nonpublic forum, where restrictions on expressive activity need only “satisfy a requirement of reasonableness.” *Int’l Soc’y for Krishna Consciousness v. Lee*, 505 U.S. 672, 683, 112 S.Ct. 2701, 120 L.Ed.2d 541 (1992). Mocek argues that forum analysis and time, place, and manner *931 analysis do not apply in determining whether his conduct was “protected speech” for purposes of a retaliation claim, such that any government conduct intended to stop activity that is *sometimes* protected by the First Amendment is unconstitutional retaliation. But most other circuits have applied forum and time, place, and manner analyses to retaliation claims. See *Gericke*, 753 F.3d at 7–8 (holding, for purposes of a retaliation claim, “[r]easonable restrictions on the exercise of the right to film may be imposed when the circumstances justify them,” including “[t]he circumstances of some traffic stops”);

Dean v. Byerley, 354 F.3d 540, 552 (6th Cir.2004) (holding, for purposes of a retaliation claim, “[b]ecause Michigan has not passed an applicable time, place, or manner restriction, Dean had a constitutionally protected right to engage in peaceful targeted picketing in front of Byerley’s residence” (emphasis added)); *Abrams v. Walker*, 307 F.3d 650, 654 (7th Cir.2002) (rejecting argument that sometimes-protected speech can always support a retaliation claim), *abrogated on other grounds by* *Spiegla v. Hull*, 371 F.3d 928 (7th Cir.2004); *Blomquist v. Town of Marana*, 501 Fed.Appx. 657, 659 (9th Cir.2012) (holding plaintiffs could not maintain a retaliation claim where they “lacked a First Amendment right to picket or otherwise occupy” a nonpublic forum); *Olasz v. Welsh*, 301 Fed.Appx. 142, 146 (3d Cir.2008) (holding, for purposes of a retaliation claim, “restricting ... disruptive behavior constitutes the type of time, place, and manner regulation that survives even the most stringent scrutiny for a public forum”); *cf.* *Carreon v. Ill. Dep’t of Human Servs.*, 395 F.3d 786, 796–97 (7th Cir.2005) (rejecting, in an employment-termination context, a retaliation claim premised on freedom of association where restrictions on association were reasonable in a nonpublic forum).

[29] Thus, even if we agreed there is a First Amendment right to record law enforcement officers in *public*, we would still need to determine whether that conduct is protected at an airport security checkpoint. But we need not answer

this question because Mocek cannot satisfy the third prong of a retaliation claim: that the government’s actions were substantially motivated in response to his protected speech. When Mocek was arrested, it was not clearly established that a plaintiff could show the requisite motive where his arrest was arguably supported by probable cause. Mocek has not addressed Tenth Circuit or Supreme Court precedent compelling that conclusion.

It is true that in *DeLoach v. Bevers*, 922 F.2d 618 (10th Cir.1990), we held an arrest “taken in retaliation for the exercise of a constitutionally protected right is actionable under § 1983 even if the act, when taken for a different reason, would have been proper.” *Id.* at 620. This might have implied that plaintiffs could maintain retaliatory arrest claims even where probable cause existed. But the Supreme Court in a case after *DeLoach* held a plaintiff stating a retaliatory *prosecution* claim must show there was no probable cause to support the indictment. *Hartman v. Moore*, 547 U.S. 250, 265–66, 126 S.Ct. 1695, 164 L.Ed.2d 441 (2006). Addressing the question of whether *Hartman* abrogated *DeLoach*, we held in 2011 that *Hartman*’s rule for retaliatory prosecution claims did *not* apply to “ordinary retaliation cases,” so that a retaliatory arrest claim could lie notwithstanding probable cause. *Howards v. McLaughlin*, 634 F.3d 1131, 1148–49 (10th Cir.2011). The Supreme Court reversed. *Reichle v. Howards*, — U.S. —, 132 S.Ct. 2088, 182 L.Ed.2d 985 (2012). The Court held the *932 law had not been clearly established in the Tenth Circuit at the time of the arrest at issue (June 2006) because “reasonable officers could have questioned whether the rule of *Hartman* also applied to arrests.” *Id.* at 2095. The Court declined to answer the question on the merits.

Mocek was arrested in November 2009. Because the law was not clearly established in June 2006, and because no Supreme Court or Tenth Circuit decision between then and November 2009 clarified the law, the law was not clearly established at the time of Mocek’s arrest. Regardless of Officer Dilley’s motivations, he could have reasonably believed he was entitled to arrest Mocek as long as he had probable cause. And, as discussed above, he could have reasonably believed he had probable cause.

Accordingly, the defendants are entitled to qualified immunity on Mocek’s First Amendment retaliation claim.

4. Declaratory Relief

[30] [31] In addition to damages, Mocek seeks declaratory relief against the defendants in their official capacities. As an initial matter, the district court properly dismissed the claim against the TSA defendants for lack of jurisdiction because Mocek's pleadings never identified a federal waiver of sovereign immunity. A suit against a government agent in his official capacity is treated as a suit against the government,

Kentucky v. Graham, 473 U.S. 159, 166, 105 S.Ct. 3099, 87 L.Ed.2d 114 (1985), and the federal government may only be sued where it has waived sovereign immunity, *Wyoming v. United States*, 279 F.3d 1214, 1225 (10th Cir.2002). Further, a complaint must state the jurisdictional basis for all of the claims alleged therein. Fed.R.Civ.P. 8(a)(1); *Weaver v. United States*, 98 F.3d 518, 520 (10th Cir.1996) (“[Plaintiff’s] pleadings offer no grounds for finding an express waiver of immunity over any of the claims in question and, therefore, no proper grounds for jurisdiction in federal court.”); see also *Celli v. Shoell*, 40 F.3d 324, 327 (10th Cir.1994) (“Federal courts are courts of limited jurisdiction, and the presumption is that they lack jurisdiction unless and until a plaintiff pleads sufficient facts to establish it.”). Because Mocek has not disputed the district court’s conclusion that none of the statutes alleged in his complaint waive sovereign immunity, we find no error.

[32] [33] As for the claims against the police defendants in their official capacities, Mocek challenges only the denial of declaratory relief for his First Amendment claim. “In a case of actual controversy within its jurisdiction,” a district court may declare the parties’ “rights and other legal relations” even where other relief is unavailable. 28 U.S.C. § 2201(a). In making this determination, the district court must consider two questions. First, it must decide whether a case of actual controversy exists. *Surefoot LC v. Sure Foot Corp.*, 531 F.3d 1236, 1240 (10th Cir.2008). We review that issue de novo to the extent that it “implicates purely legal issues and goes to the courts’ subject matter jurisdiction” and for clear error to the extent that it turns on factual conclusions. *Id.* at 1240, 1240 n. 1. If a case of actual controversy exists, the court should then weigh case-specific factors in deciding whether to exercise its authority to grant declaratory relief. *Id.* at 1240. We review that consideration for abuse of discretion. *Id.*

[34] The district court held there was no case of actual controversy because Mocek had not stated a claim for a First Amendment violation. It also noted that even had he stated a claim, there would be no case of actual controversy because if there was any ongoing policy of violating the First Amendment at TSA checkpoints, *933 the TSA itself would likely be responsible for that policy, and not the police. Thus, it found there was no likelihood that the officers would repeat their alleged violation. Mocek asserts that he need not allege a likelihood of recurrence because he has shown that the past injury has continuing, present adverse effects. After thoroughly reviewing the complaint, we hold Mocek has not sufficiently alleged that his past injury resulted in continuing, present adverse effects.

“[P]ast exposure to illegal conduct does not in itself show a present case or controversy regarding injunctive relief ... if unaccompanied by any continuing, present adverse effects.”

City of Los Angeles v. Lyons, 461 U.S. 95, 102, 103 S.Ct. 1660, 75 L.Ed.2d 675 (1983) (internal quotation marks omitted). Mocek relies on *Meese v. Keene*, 481 U.S. 465, 107 S.Ct. 1862, 95 L.Ed.2d 415 (1987), in which the Supreme Court held a filmmaker maintained a case of actual controversy where a statute threatened to categorize three of his films as “political propaganda.” *Id.* at 473–74, 107 S.Ct. 1862. But the Court also held a plaintiff must demonstrate more than a mere “subjective chill.” *Id.* at 473, 107 S.Ct. 1862 (internal quotation marks omitted). Thus, although the plaintiff in *Meese* alleged a risk of injury with evidence indicating the statute would harm his career, the Court noted that “[i]f [he] had merely alleged that the appellation deterred him by exercising a chilling effect on the exercise of his First Amendment rights, he would not have standing to seek its invalidation.” *Id.* Mocek has not alleged any injury beyond a subjective chilling effect. His complaint simply states that he “fears he is now and will again be subjected to such unlawful and unconstitutional actions,” App. 410, and his only argument on appeal is that “where police conduct deters expressive activity protected by the First Amendment, a ‘continuing, present adverse effect’ is shown,” Aplt. Br. at 54. This ignores the plain language of *Meese*, which indicates that a merely subjective chill is not enough.

[35] Moreover, we find no clear error in the district court’s factual conclusion that any policy of violating the First Amendment would be administered by the TSA, rather than the police. Nor does Mocek argue for clear error. Accordingly,

the district court correctly dismissed his claim for declaratory relief.

B. Constitutional Claims Against the City

Mocek next contends that even if the individual defendants are immune, the City is liable under § 1983 because it caused his injuries through unconstitutional policies and practices. The district court properly denied these claims because the complaint does not plausibly allege that Mocek's injuries were caused by a deliberate municipal policy or custom.

[36] [37] [38] A municipality is not liable solely because its employees caused injury. *Graves v. Thomas*, 450 F.3d 1215, 1218 (10th Cir.2006). Rather, a plaintiff asserting a § 1983 claim must show “1) the existence of a municipal policy or custom and 2) a direct causal link between the policy or custom and the injury alleged.” *Id.* Through “its deliberate conduct,” the municipality must have been the “moving force” behind the injury. *Bd. of Cty. Comm'rs v. Brown*, 520 U.S. 397, 404, 117 S.Ct. 1382, 137 L.Ed.2d 626 (1997) (internal quotation marks omitted).¹⁰

*934 [39] Mocek's complaint states that the City had a policy and custom of prohibiting lawful photography at the airport, retaliating against those who filmed at the airport, and failing to train its employees properly. It also asserts that these practices were the “moving force” behind Mocek's injuries and that the City was deliberately indifferent to the risks they posed. But it cites no particular facts in support of these “threadbare recitals of the elements of a cause of action.” *Iqbal*, 556 U.S. at 678, 129 S.Ct. 1937. Aside from conclusory statements, no allegations in the complaint give rise to an inference that the municipality itself established a deliberate policy or custom that caused Mocek's injuries. Consequently, the complaint “stops short of the line between possibility and plausibility of entitlement to relief.” *Twombly*, 550 U.S. at 557, 127 S.Ct. 1955 (brackets and internal quotation marks omitted).

C. Malicious Abuse of Process

Mocek's last substantive argument is that the district court erred in dismissing his state-law malicious abuse of process claim.

1. Jurisdiction

As a threshold matter, we must address the district court's suggestion that it might not have had subject-matter jurisdiction to hear Mocek's state-law claim for malicious abuse of process. The court reasoned that after dismissing all federal causes of action against Mocek, the only basis for hearing the claim would be diversity jurisdiction. And it doubted that there was diversity jurisdiction because Mocek's complaint did not allege that the amount in controversy exceeded \$75,000. Nonetheless, without clarifying the basis for its jurisdiction, the court considered the claim and granted the municipal defendants' motion to dismiss.

[40] Because we “have an independent obligation to determine whether subject-matter jurisdiction exists” that extends to “any stage in the litigation,” *Arbaugh v. Y & H Corp.*, 546 U.S. 500, 506, 514, 126 S.Ct. 1235, 163 L.Ed.2d 1097 (2006), we must resolve the potential jurisdictional issue before reaching the merits. We hold the claim is properly before us either through diversity jurisdiction or through the district court's unchallenged exercise of supplemental jurisdiction.

[41] [42] A federal court has diversity jurisdiction in suits between citizens of different states where the amount in controversy exceeds \$75,000. 28 U.S.C. § 1332(a)(1). The complaint alleges that Mocek is from Washington and the defendants are all from New Mexico, but does not identify a specific amount in controversy. The only dollar amounts it identifies are \$34,000 in legal costs to defend against the criminal charges and \$1000 in bail money. Because these total to less than half of the jurisdictional requirement, the district court questioned whether the requirement was met. But a complaint need not allege a specific sum in order to assert diversity jurisdiction. *Adams v. Reliance Standard Life Ins. Co.*, 225 F.3d 1179, 1183 (10th Cir.2000). Although “[t]he amount claimed by the plaintiff in its complaint generally controls and alone can be sufficient to support subject matter jurisdiction,” *Marcus Food Co. v. DiPanfilo*, 671 F.3d 1159, 1171 (10th Cir.2011) (internal quotation marks omitted), a complaint that does not specify an amount must merely allege facts sufficient “to convince the district court that recoverable damages will bear a reasonable relation to the minimum jurisdictional floor,” *Adams*, 225 F.3d at 1183 (internal quotation mark omitted). If the amount in

controversy is challenged, the party asserting jurisdiction has the burden to show “that it is not legally certain *935 that the claim is less than the jurisdictional amount.” *Woodmen of the World Life Ins. Soc’y v. Manganaro*, 342 F.3d 1213, 1216 (10th Cir.2003).

Here, the complaint states that the alleged harms not only resulted in legal costs, but also “financial and emotional distress.” App. 028. In his prayer for relief, Mocek requests “compensatory, nominal, and special damages, in an amount according to proof, and to the extent permitted by law,” as well as “such other relief as is just and proper.” *Id.* at 033–34. Thus, it is not clear that the amount in controversy is limited to the dollar sums mentioned in the complaint. And no hearing has been held to determine whether Mocek can satisfy his burden of proving jurisdiction. Accordingly, it is premature to conclude that the district court had no diversity jurisdiction over the malicious abuse of process claim.

But even if it had no diversity jurisdiction, the district court was not necessarily barred from hearing the malicious abuse of process claim. A federal court has supplemental jurisdiction to hear any state-law claim that is “so related to” any claims within the court’s original jurisdiction as to “form part of the same case or controversy under Article III of the United States Constitution.” 28 U.S.C. § 1367(a). Exercising this jurisdiction is discretionary; the court may decline to hear a supplemental claim in enumerated circumstances, including where it “has dismissed all claims over which it has original jurisdiction.” *Id.* § 1367(c).

[43] The district court suggested it could not hear the claim under supplemental jurisdiction because it had already dismissed the related federal-question claims. But the fact that the district court could decline to exercise jurisdiction does not mean there was no jurisdiction. *See Carnegie–Mellon Univ. v. Cohill*, 484 U.S. 343, 349, 108 S.Ct. 614, 98 L.Ed.2d 720 (1988) (recognizing “a distinction between the power of a federal court to hear state-law claims and the discretionary exercise of that power”); *Moody v. Great W. Ry. Co.*, 536 F.3d 1158, 1166 (10th Cir.2008) (distinguishing between a remand to state court for lack of federal subject-matter jurisdiction and a “discretionary remand based on a refusal to exercise supplemental jurisdiction”).

[44] [45] [46] [47] Thus, there are two possible jurisdictional bases for the district court’s resolution of the malicious abuse of process claim. Either (1) there was

diversity jurisdiction, in which case the district court correctly heard the claim under § 1332(a)(1); or (2) there was no diversity jurisdiction, but the district court chose to exercise its supplemental jurisdiction under § 1367(a). In the first scenario, we would reach the merits. In the second scenario, we would also reach the merits because, although we ordinarily review for abuse of discretion the decision of whether to exercise supplemental jurisdiction, *Koch v. City of Del City*, 660 F.3d 1228, 1248 (10th Cir.2011), we decline to do so because neither party has asserted that the district court abused its discretion.¹¹ We have jurisdiction on appeal because the claim remains pending unless and until the district court remands it to state court. *Lapides v. Bd. of Regents of Univ. Sys. of Ga.*, 535 U.S. 613, 618, 122 S.Ct. 1640, 152 L.Ed.2d 806 (2002).

2. Merits

Mocek asserts that the police officers and the City are liable for malicious abuse of process under New Mexico tort law. The district court construed Mocek’s argument to rely upon a theory that the officers knowingly filed a complaint against him without probable cause. Accordingly, it dismissed the claim after holding there was probable cause to arrest and charge Mocek for concealing name or identity. On appeal, Mocek challenges the conclusion that there was probable cause to file charges. In addition, he claims the court overlooked his alternative argument that the arrest itself was based on a fabricated pretext. Mocek fails to state a claim under either of these theories.

[48] [49] New Mexico combines the torts of “abuse of process” and “malicious prosecution” into one tort called “malicious abuse of process.” *Durham v. Guest*, 145 N.M. 694, 204 P.3d 19, 24–25 (2009). The elements of the combined tort are “(1) the use of process in a judicial proceeding that would be improper in the regular prosecution or defense of a claim or charge; (2) a primary motive in the use of process to accomplish an illegitimate end; and (3) damages.” *Id.* at 26. This tort “should be construed narrowly in order to protect the right of access to the courts,”

id., and as such it “is disfavored in the law,” *Fleetwood Retail Corp. v. LeDoux*, 142 N.M. 150, 164 P.3d 31, 37 (2007).

[50] Two ways exist to establish an improper use of process in a judicial proceeding. The first is to show that the defendant “fil[ed] a complaint without probable cause.” *Durham*, 204 P.3d at 26. The second, the so-called “procedural impropriety” theory, see *Fleetwood*, 164 P.3d at 36, is to show “an irregularity or impropriety suggesting extortion, delay, or harassment, or other conduct formerly actionable under the tort of abuse of process,” *Durham*, 204 P.3d at 26 (brackets and internal quotation marks omitted).

Mocek asserts both theories, and we consider them in turn.¹²

a. Absence of Probable Cause

Mocek contends that the defendants abused process by filing a criminal complaint against him without probable cause, citing what he describes as false statements in the complaint. Specifically, the officers wrote that he had caused a disturbance by raising his voice and refused to obey a criminal trespass order—statements Mocek claims are contradicted by the recovered video footage and the fact that he was acquitted after trial. He further suggests that the officers were motivated by the illegitimate end of harassment, as evidenced by their deletion of his recordings.

[51] [52] [53] “Probable cause in the malicious abuse of process context is defined as a reasonable belief, founded on known facts established after a reasonable pre-filing investigation that a claim can be established to the satisfaction of a court or jury. *The lack of probable cause must be manifest.*” *Fleetwood*, 164 P.3d at 35 (emphasis added) (internal quotation marks omitted). The question is not whether there is probable cause for each and every claim in the complaint, but whether “the complaint as a whole” is justified by probable cause. *Id.* at 37.

*937 [54] [55] Mocek claims that there was no probable cause, but his cursory arguments cannot establish that a lack of probable cause was “manifest” on the criminal complaint as a whole. He simply reasserts that there was no probable cause to arrest him.¹³ But because there was at least arguable probable cause to arrest him for concealing identity, we cannot conclude that any lack of probable cause was manifest. In addition, even if there was no probable cause for the other three charges,¹⁴ he nowhere argues that they rendered

the complaint *as a whole* obviously devoid of probable cause. Likewise, he does not explain how the inclusion of the allegedly false statements vitiated probable cause for the entire complaint. His failure to develop an argument is especially fatal to a claim for a tort disfavored by the law. Because “[w]e will not manufacture arguments for an appellant,” *Craven v. Univ. of Colo. Hosp. Auth.*, 260 F.3d 1218, 1226 (10th Cir.2001), we find no error in the district court’s conclusions.

b. Procedural Impropriety

[56] [57] [58] Next, Mocek argues that the arrest itself was a malicious abuse of process because Officer Dilley’s grounds for arrest were mere pretext for harassing him. Under this “procedural impropriety theory,” a plaintiff can abuse legal process even in a meritorious case. *Fleetwood*, 164 P.3d at 38. But “improper motive by itself cannot sustain a malicious abuse of process claim.” *LensCrafters, Inc. v. Kehoe*, 282 P.3d 758, 766 (N.M.2012). A plaintiff must also show “the use of process in a judicial proceeding that would be improper in the regular prosecution or defense of a claim or charge.” *Id.* at 767 (internal quotation marks omitted). “A use of process is deemed to be irregular or improper if it (1) involves a procedural irregularity or a misuse of procedural devices such as discovery, subpoenas, and attachments, or (2) indicates the wrongful use of proceedings, such as an extortion attempt.” *Durham*, 204 P.3d at 26.

[59] Mocek identifies no misuse of procedure. He simply relies on a case in which the New Mexico Court of Appeals found that an arrest motivated by “revenge” could support a claim for malicious abuse of process. See *Santillo v. N.M. Dep’t of Pub. Safety*, 143 N.M. 84, 173 P.3d 6, 14 (Ct.App.2007). But *Santillo* raised numerous procedural improprieties in addition to the improper motive: the nature and timing of the arrest (which involved handcuffing a business-owner in front of her customers and confiscating the business’s money and records, despite “ample testimony” from undercover officers that would have sufficed to prove that she made unlicensed sales), the fact that no bond was set, and the prosecution’s “[f]ailure to provide case materials for an extended period of time.” *Id.* at 14. Because Mocek’s brief does not point to anything procedurally improper, he has not shown that the arrest abused process.

D. Request for Leave to Amend the Complaint

[60] Finally, Mocek asks for permission to amend his complaint. In the district court he sought to add claims against the police defendants under the Fifth and Sixth Amendments of the federal Constitution. Although his request was procedurally *938 improper, the court effectively permitted the amendment and ruled on the merits of the claims. Since there was no denial of a motion to amend in the district court, there is nothing to appeal. Of course, Mocek cannot ask us in the first instance for permission to amend the complaint; that must be done in district court. See Fed.R.Civ.P. 15(a)(2)

III. Conclusion

For the foregoing reasons, we AFFIRM the district court's 12(b)(6) dismissal of Mocek's claims. We DISMISS Mocek's request to amend the complaint for lack of jurisdiction.

All Citations

813 F.3d 912

Footnotes

- 1 According to the complaint, a TSA blog post stated that photography and filming were generally allowed at airport security checkpoints as long as they did not capture the TSA's monitors, but that state and local restrictions might still apply. Before arriving at the Albuquerque Sunport, Mocek contacted a local TSA official to inquire about restrictions. The official told him there were no state or local prohibitions against photography or film, but that "advance coordination would need to be made" with the TSA. App. at 016. When Mocek followed up to ask why coordination was necessary, the official explained that it was "a local practice and not available in writing" and that her instruction was "a recommendation." *Id.*
- 2 The Department of Transportation has advised,
A screener encountering [interference with procedures] must turn away from his or her normal duties to deal with the disruptive individual, which may affect the screening of other individuals. The disruptive individual may be attempting to discourage the screener from being as thorough as required. The screener may also need to summon a checkpoint screening supervisor and law enforcement officer, taking them away from other duties. Checkpoint disruptions potentially can be dangerous in these situations.
Civil Aviation Security Rules, 67 Fed. Reg. 8340, 8344 (Feb. 22, 2002) (codified at 49 C.F.R. § 1540.109).
- 3 Mocek additionally alleges that he in fact revealed his name because it was printed on the boarding pass he gave to the TSA agents, though the complaint does not indicate that Officer Dillely knew about the boarding pass.
- 4 Although there was reasonable suspicion of disorderly conduct, the district court did not find, and the defendants do not argue, that there was probable cause to arrest Mocek for that misdemeanor. Nor do they argue that there was probable cause to arrest him for resisting an officer's lawful command, see N.M. Stat. Ann. § 30-22-1(D), or criminal trespass, see N.M. Stat. Ann. § 30-14-1, though he was also charged with those offenses.
- 5 Federal regulations applicable at the time of Mocek's arrest tell us that passengers may need specific documentation to board an airplane. See 49 C.F.R. §§ 1540.107(c) (requiring a "verifying identity document ... when requested for purposes of watch list matching under § 1560.105(c), unless otherwise authorized by TSA on a case-by-case basis"), 1560.105(c)-(d) (requiring aircraft operators to request verifying identity documents from passengers when necessary for watch list matching purposes), 1560.3 (defining "verifying identity document" in detail). And Mocek's own complaint alleges that starting in 2008, "passengers who willfully refused to show I.D. would not be allowed past their checkpoint." App. 014.
- 6 The Supreme Court has referred to these types of statutes, including New Mexico's law, as "stop and identify" statutes. See *Hibel*, 542 U.S. at 182, 124 S.Ct. 2451.
- 7 There seem to be two exceptions: Colorado, see Colo.Rev.Stat. § 16-3-103(1) (an officer may require a suspect to divulge "his name and address, identification if available, and an explanation of his actions"), and Delaware, see 11 Del.Code Ann. § 1321(6) (an officer who suspects a person of loitering may "request [] identification and an explanation of the person's presence and conduct"). In contrast, in many states officers may only request name, address, and an explanation of the suspect's actions. See Ala.Code § 15-5-30; 725 Ill. Comp. Stat. 5/107-14; Kan. Stat. Ann. § 22-2402(1); La.Code Crim. Proc. Ann. art. 215.1; 14 La.Rev.Stat. § 108(B)(1)(c) (also requiring an arrested or detained suspect to "make his identity known"); Mont.Code Ann. § 46-5-401(2)(a); Neb.Rev.Stat. § 29-829; N.Y.Crim. Proc. Law § 140.50(1); N.D. Cent.Code § 29-29-21; Utah Code Ann. § 77-7-15; Wis. Stat. § 968.24. Similarly, some states allow officers to request name, address, business abroad, and destination. See Mo.Rev.Stat. § 84.710(2) (applying only to Kansas City); N.H.Rev.Stat. Ann. §§ 594:2, 644:6 (also requiring a suspect to provide an account of his or her conduct

when suspected of loitering or prowling); R.I. Gen. Laws § 12-7-1. The remaining “stop and identify” laws also appear not to require documentation. See Ariz.Rev.Stat. Ann. § 13-2412; Ark.Code Ann. § 5-71-213(a)(1); Fla. Stat. §§ 856.021(2), 901.151(2); Ga.Code Ann. § 16-11-36(b); Ind.Code § 34-28-5-3.5 (a stopped suspect must provide *either* a “name, address, and date of birth” or a driver’s license, if available, when stopped for an infraction or ordinance violation); Nev.Rev.Stat. § 171.123(3); Ohio Rev.Code Ann. § 2921.29; Vt. Stat. Ann. tit. 24, § 1983. Note that not all states explicitly criminalize non-compliance.

8 The ordinance in that case made “it a misdemeanor to assault, obstruct, resist, hinder, or oppose any member of the police force in the discharge of his/her duties as such.” *Risbridger*, 275 F.3d at 568 (alterations and internal quotation marks omitted).

9 Mocek’s claim against the TSA agents relies on *Tobey v. Jones*, 706 F.3d 379 (4th Cir.2013). In that case, a divided Fourth Circuit panel held that by calling the police to deal with a disruptive traveler, TSA agents could incur liability for a resulting unconstitutional arrest. *Id.* at 386. The Third Circuit expressly disagreed with *Tobey* that an arrest is “an undoubtedly natural consequence of reporting a person to the police.” *George v. Rehiel*, 738 F.3d 562, 583 (3rd Cir.2013). A circuit split will not satisfy the clearly established prong of qualified immunity.

But even if we were persuaded by *Tobey*, Mocek has made no compelling argument as to why its logic should apply here. Officer Dilley arrested him only after he refused to show identification, which occurred well after the agents had called Officer Dilley to the scene. Officer Dilley exercised his own judgment, and even if he was mistaken in his probable cause determination, a reasonable officer could have believed there was probable cause to arrest Mocek for concealing identification.

10 Although qualified immunity shields municipal employees where the law is not clearly established, this defense does not apply to municipalities themselves. *Cordova v. Aragon*, 569 F.3d 1183, 1193 (10th Cir.2009).

11 Although the issue of subject-matter jurisdiction cannot be forfeited or waived, *Gad v. Kan. State Univ.*, 787 F.3d 1032, 1035 (10th Cir.2015), the question of whether a court should choose to decline its jurisdiction is separate, see *Carnegie–Mellon*, 484 U.S. at 349, 108 S.Ct. 614; *Moody*, 536 F.3d at 1166. We need not address the latter when the parties do not raise it. Cf. *Guillemard–Ginorio v. Contreras–Gomez*, 585 F.3d 508, 517 (1st Cir.2009) (“[A]bstention is a waivable defense.”).

12 The district court also discussed the possibility that the officers are absolutely immune under New Mexico law from a claim for malicious abuse of process, see N.M. Stat. Ann. §§ 41-4-4, 41-4-12, but the officers and City do not advance this theory on appeal.

13 Mocek’s briefing for malicious abuse of process simply refers to his Fourth Amendment section and states, “These facts also support Plaintiff’s claim for abuse of process.” *Apl. Br.* at 46.

14 The other charges were resisting an officer’s lawful command, disorderly conduct, and criminal trespass.

703 Fed.Appx. 501

This case was not selected for publication in West's Federal Reporter. See Fed. Rule of Appellate Procedure 32.1 generally governing citation of judicial decisions issued on or after Jan. 1, 2007. See also U.S.Ct. of App. 9th Cir. Rule 36-3. United States Court of Appeals, Ninth Circuit.

Ramon Eugenio Sanchez
RITCHIE, Plaintiff-Appellant,
v.
SEMPRA ENERGY, Defendant-Appellee.

No. 15-56512

Argued and Submitted March
7, 2017 Pasadena, California

Filed July 7, 2017

Synopsis

Background: Owner of real property in Mexico that abutted site of proposed power plant filed suit against builder of the plant, alleging malicious prosecution premised on a Mexican criminal court proceeding against owner, and asserting claims for trespass, conversion, intentional interference with prospective economic advantage, unjust enrichment, imposition of a constructive trust, abuse of process, and unfair business practices. The United States District Court for the Southern District of California, Cathy Ann Bencivengo, J., granted builder summary judgment on claim for malicious prosecution, 2012 WL 12919148, and dismissed all other claims, 2015 WL 12910748. Property owner appealed.

Holdings: The Court of Appeals held that:

[1] district court failed to provide notice and time to respond before granting summary judgment, sua sponte, on other grounds; but

[2] any error was harmless, given lack of evidence supporting malicious prosecution claim;

[3] local action doctrine barred Mexican property owner's California claims based on real property; but

[4] California's litigation privilege applied to tort actions stemming from post-judgment enforcement of preliminary order of eviction; and

[5] local action doctrine did not bar claim for conversion of personal property.

Affirmed in part and reversed in part.

Procedural Posture(s): On Appeal; Motion to Dismiss; Motion for Summary Judgment.

West Headnotes (5)

[1] Federal Civil Procedure

⚡ Motion

When ruling on claim for malicious prosecution, district court failed to comply with federal rule requiring notice to parties and reasonable time to respond before granting summary judgment, sua sponte, on grounds not raised by either party; court first raised issue of possible summary judgment on alter ego grounds in its tentative ruling just two days before it was scheduled to hear the motion, and three days before it issued its order granting summary judgment on that basis, and that abbreviated time period was not sufficient to allow plaintiff to address the complex factual and legal issue involving corporate alter egos, given that court had denied plaintiff's request for additional time to rebut. Fed. R. Civ. P. 56(f).

1 Cases that cite this headnote

[2] Malicious Prosecution

⚡ Civil Actions and Proceedings

There was no evidence that construction company who had been approved to build power plant in Mexico lacked probable cause to pursue action against abutting property owner for dispossession of his land, as required under California law to support the owner's claim against the company for malicious prosecution.

Cases that cite this headnote

[3] Federal Courts

Property; in rem and quasi in rem jurisdiction

Under California law, local action doctrine, which vests exclusive jurisdiction over specified types of actions involving real property in the forum where that property is located, barred Mexican property owner's claims against power plant builder for trespass, conversion, intentional interference with prospective economic advantage, unjust enrichment, imposition of a constructive trust, abuse of process, and unfair business practices, since all claims were based upon injuries stemming from owner's allegedly wrongful eviction from the foreign property. Cal. Civ. Proc. Code § 392.

Cases that cite this headnote

[4] Conversion and Civil Theft

Privilege and immunity

Process

Particular cases

Torts

Business relations or economic advantage, in general

Trespass

Defenses

Property owner's assertions in complaint against builder of power plant, which involved tort claims founded upon builder's attempted post-judgment enforcement of a preliminary order of eviction, were "communications," rather than "conduct," and thus California's litigation privilege applied to owner's action against builder for, inter alia, trespass, conversion, intentional interference with prospective economic advantage, and abuse of process.

Cal. Civ. Code § 47(b).

1 Cases that cite this headnote

[5] Federal Courts

Local actions

Under California law, local action doctrine, which vests exclusive jurisdiction over specified types of actions involving real property in the forum where that property is located, did not bar Mexican property owner's claim against power plant builder for conversion of his personal property, since action involving such property was transitory, rather than local, action. Cal. Civ. Proc. Code § 392.

Cases that cite this headnote

*502 Appeal from the United States District Court for the Southern District of California, Cathy Ann Bencivengo, District Judge, Presiding, D.C. No. 3:10-cv-01513-CAB-KSC

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Before: PAEZ, BERZON, and CHRISTEN, Circuit Judges.

MEMORANDUM *

Ramon Eugenio Sanchez Ritchie appeals the district court's grant of summary judgment *503 to defendant Sempra Energy ("Sempra") on Claim 7 of his Second Amended Complaint ("SAC"), alleging malicious prosecution. Sanchez Ritchie also appeals the district court's dismissal of Claims 1-6 and 8 of his SAC alleging state law claims for trespass, conversion, intentional interference with prospective economic advantage, unjust enrichment, imposition of a constructive trust, abuse of process, and unfair business practices in violation of California Business & Professions Code § 17200 et seq. We affirm in part and reverse in part.

1. The district court erred in prematurely granting summary judgment to Sempra based on its sua sponte observation

that Sanchez Ritchie had failed to allege that Sempra was responsible for the acts of its subsidiary Energia Costa Azul (“ECA”). Sanchez Ritchie did not prove, or even allege, that ECA was the alter ego of Sempra, beyond a bare allegation in the SAC that Sempra “controlled” ECA. But Sempra did not raise the alter ego issue in its motion for summary judgment or its motion to dismiss; it only argued broadly that Sempra was “Not Liable for Malicious Prosecution,” a generic statement insufficient to raise the discrete alter ego issue.

[1] Federal Rule of Civil Procedure 56(f) requires the court to give the parties “notice and a reasonable time to respond” if the court intends to grant summary judgment on grounds not raised by any party. The district court did not do that. It first raised the issue in its “tentative ruling” issued on September 1, 2015. That was just two days before the scheduled hearing on Sempra’s motion for summary judgment and three days before the district court issued its order granting summary judgment. That abbreviated time period was not sufficient to allow Sanchez Ritchie to address the complex factual and legal issue of whether ECA was the corporate alter ego of Sempra. Sanchez Ritchie’s attorney stated at the summary judgment hearing that “I think that Rule 56 would require us to be allowed to meet [the corporate identity] question since it wasn’t presented by Sempra in its motion, and accordingly, we would have sufficient time in which to respond.” He also asked for a continuance to pursue evidence that Sempra controlled ECA “on a day-to-day basis.” The district court erred in granting summary judgment to Sempra on the corporate identity theory without granting Sanchez Ritchie’s requests for additional time to rebut it.¹

2. We conclude, however, that the district court’s procedural error on the alter ego issue was harmless, because the court correctly held in the alternative that no genuine issue of material fact existed regarding the merits of Sanchez Ritchie’s malicious prosecution claim.

[2] To prevail in a malicious prosecution action, a plaintiff must prove that: (1) the defendant commenced a prior action, or directed its commencement, and pursued the action to a termination favorable to the plaintiff; (2) the defendant lacked probable cause to pursue the action; and (3) the defendant initiated the action with malice. *Soukup v. Law Offices of Herbert Hafif*, 39 Cal. 4th 260, 292, 46 Cal.Rptr.3d 638, 139 P.3d 30 (2006) (citing *Sheldon Appel Co. v. Albert & Oliker*, 47 Cal. 3d 863, 871, 254 Cal.Rptr. 336, 765 P.2d 498 (1989)). Sanchez Ritchie does not contest that a

February 2007 order from the Second *504 Criminal Court in Ensenada, Mexico, finding probable cause that Sanchez Ritchie had committed the crime of dispossession of real property (“despojo”), would ordinarily immunize Sempra from a malicious prosecution claim. He nevertheless proposes that the February 2007 order and earlier interim orders were obtained by “fraud or perjury,” and therefore do not signify probable cause. See *Wilson v. Parker, Covert & Chidester*, 28 Cal. 4th 811, 817, 123 Cal.Rptr.2d 19, 50 P.3d 733 (2002).

In support of his fraud arguments, Sanchez Ritchie argues first that Sempra was aware as early as 2001 that he, as opposed to the sellers from whom Sempra purchased the property, was the rightful possessor of the property. For that proposition, Sanchez Ritchie relies on the factual findings from the March 10, 2010 Resolution of the Tenth District Court of Baja California. This argument fails. The findings suggest at most that Sempra knew there were two factions—one led by the sellers, Luis Armando Navarro Peña and Elodia Gomez Castañon, and the other led by Sanchez Ritchie himself—each claiming ownership and possession of the property. “A litigant or attorney who possesses competent evidence to substantiate a legally cognizable claim for relief does not act tortiously by bringing the claim, even if also aware of evidence that will weigh against the claim.” *Wilson*, 28 Cal. 4th at 822, 123 Cal.Rptr.2d 19, 50 P.3d 733.

Sanchez Ritchie next proposes that Sempra was aware of Gomez Castañon’s death at the time ECA pursued criminal charges against Sanchez Ritchie in 2006, and therefore was also aware that ECA’s purchase of Fraccion A was bogus. Sanchez Ritchie offers no admissible support for this allegation. The declaration from Sanchez Ritchie’s expert witness states only that ECA *should* have been aware of Gomez Castañon’s untimely death, had the company done due diligence. If credited, that declaration proves at most that ECA was negligent in its title search, not that ECA actually discovered Gomez Castañon’s death before filing its criminal complaint.²

Finally, Sanchez Ritchie proposes that Sempra knew that Navarro Peña and Gomez Castañon had unsuccessfully filed for a court order in 1999 seeking a declaration that they were the rightful possessors of Lot A-3, and that Sempra withheld such information from the attorney general’s office. But Sanchez Ritchie’s sole evidence that Sempra withheld knowledge of that unsuccessful application is that a document referencing the application was in Sempra’s “business files”

as of 2014, when it was produced in this litigation. Sanchez Ritchie provides no evidence that Sempra knew of the order in 2006, when the criminal complaint was filed.

In sum, the evidence presented by Sanchez Ritchie is insufficient to create a genuine issue of material fact as to whether the interim orders issued in ECA's favor by the Mexican courts were obtained by fraud or perjury. We therefore affirm the district court's grant of summary judgment on Claim 7 of the SAC.

3. The district court did not err in dismissing Claims 1, 3, 4, 5, and 6 of the SAC based on the local action doctrine. Nor did the district court err in dismissing Claim 8 based on the litigation privilege conferred by California Civil Code § 47(b). The district court erred, however, in dismissing *505 Claim 2 of the SAC, alleging conversion of Sanchez Ritchie's personal property.

[3] The local action doctrine “vests exclusive jurisdiction over specified types of actions involving real property in the forum where that property is located.” *Eldee-K Rental Props., LLC v. DIRECTV, Inc.*, 748 F.3d 943, 946 (9th Cir. 2014). “Under California law, there are three broad categories of local actions: (1) actions to recover or determine rights or interests in real property; (2) actions to remedy injuries to real property; and (3) actions to foreclose on liens and mortgages on real property.” *Id.* at 950; *see also* Cal. Civ. Proc. Code § 392. With the exception of Claim 2, all of Sanchez Ritchie's first through sixth claims rest on his claim to ownership or possession of real property in Baja California and on Sempra's allegedly unlawful possession of that property.

[4] Moreover, the bulk of Sanchez Ritchie's claims (including Claim 8, for abuse of process) are also barred by California Civil Code § 47(b), which provides that communications in any “(1) legislative proceeding, (2) judicial proceeding, [or] (3) in any other official proceeding

authorized by law” are privileged. That privilege extends to post-judgment acts necessarily related to the enforcement of an order procured by an allegedly wrongful communicative act. *See Rusheen v. Cohen*, 37 Cal. 4th 1048, 1063, 39 Cal.Rptr.3d 516, 128 P.3d 713 (2006). As most of the torts alleged by Sanchez Ritchie arise out of ECA's attempted post-judgment enforcement of a September 2006 preliminary order of eviction, they are barred by the litigation privilege.

[5] Claim 2, however, is not barred by either the local action doctrine or the litigation privilege. Conversion of personal property, when stated as an independent cause of action, is generally considered a transitory rather than local action. *See Ellenwood v. Marietta Chair Co.*, 158 U.S. 105, 107–08, 15 S.Ct. 771, 39 L.Ed. 913 (1895); *Bigio v. Coca-Cola Co.*, 239 F.3d 440, 450 (2d Cir. 2000). And although ECA secured a court order in September 2006 evicting Sanchez Ritchie from the property, Sanchez Ritchie alleged in the SAC that the order did *not* authorize the taking of his personal property. We conclude that the district court erred in dismissing Sanchez Ritchie's claim for conversion and therefore remand on this claim alone.³

For the foregoing reasons, we affirm the district court's grant of summary judgment to Sempra on Sanchez Ritchie's malicious prosecution claim, affirm the district court's dismissal of Claims 1, 3–6, and 8 of the SAC, and reverse the district court's dismissal of Sanchez Ritchie's claim for conversion.

AFFIRMED IN PART, REVERSED IN PART, and REMANDED. Each party shall bear its own costs on appeal.

All Citations

703 Fed.Appx. 501

Footnotes

* This disposition is not appropriate for publication and is not precedent except as provided by Ninth Circuit Rule 36-3.

1 To be clear, we express no opinion on whether Sempra is, in fact, liable for the alleged tortious acts of its subsidiary. We hold only that Sanchez Ritchie was entitled to a sufficient opportunity to prove that Sempra is so liable.

2 Moreover, ECA purchased Fraccion B from Navarro Peña, not from Gomez Castañon. ECA therefore had an independent basis for pursuing *despojo* charges for trespasses occurring on Fraccion B, even if it had reason to know it did not have good title to Fraccion A.

- 3** Sempra requests that we affirm the district court's dismissal of Claims 1–6 and 8 of the SAC on two alternative grounds, raising the Act of State Doctrine and the *Noerr-Pennington* Doctrine as affirmative defenses. As the district court did not rule on either of these defenses, we decline to reach them. Sempra may raise either or both of these defenses on remand.

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297 F.3d 1198
United States Court of Appeals,
Eleventh Circuit.

UNITED STATES of America, Plaintiff–Appellee,
v.
James Scott PENDERGRAFT, Michael
Spielvogel, Defendants–Appellants.

No. 01–13057.
|
July 16, 2002.

Synopsis

Defendants were convicted in the United States District Court for the Middle District of Florida, No. 00-00021-CR-OC-10, Wm. Terrell Hodges, J., of attempted extortion, mail fraud and conspiracy, and they appealed. The Court of Appeals, Cox, Circuit Judge, held that: (1) threat to sue county unless it settled was not “extortion” under Hobbs Act; (2) attachment of false affidavits to motion mailed to opponent, as part of alleged plan to coerce settlement, did not constitute scheme to “defraud,” within meaning of mail fraud statute; (3) double jeopardy did not bar retrial on conspiracy to commit perjury charge; and (4) prosecutorial did not affect defendants’ substantial rights.

Affirmed in part; reversed and rendered in part; vacated and remanded in part.

West Headnotes (17)

[1] Criminal Law

☞ Amendments and rulings as to indictment or pleas

District court’s denial of motion to dismiss indictment is reviewed for abuse of discretion.

11 Cases that cite this headnote

[2] Criminal Law

☞ Review De Novo

Sufficiency of indictment is legal question that is reviewed de novo.

14 Cases that cite this headnote

[3] Criminal Law

☞ Review De Novo

District court’s denial of motion for judgment of acquittal is reviewed de novo.

3 Cases that cite this headnote

[4] Criminal Law

☞ Arguments and conduct in general

In absence of contemporaneous objection, district court’s failure to correct improper closing argument is reviewed only for plain error.

2 Cases that cite this headnote

[5] Criminal Law

☞ New Trial

District court’s denial of motion for new trial is reviewed for abuse of discretion.

7 Cases that cite this headnote

[6] Extortion

☞ Threat or duress

Threat to sue county unless it settled was not “extortion” under Hobbs Act, even if threat was made in bad faith and supported by fabricated evidence; although objective was wrongful, means used were not. 18 U.S.C.A. § 1951(a).

35 Cases that cite this headnote

[7] Postal Service

☞ Nature and elements of offense in general

To commit mail fraud, person must (1) intentionally participate in scheme to defraud and (2) use mails in furtherance of scheme. 18 U.S.C.A. § 1341.

26 Cases that cite this headnote

[8] Postal Service

☞ Knowledge and intent in general

Postal Service

☞ Nature of scheme or device in general

Civil litigants' attachment of false affidavits to motion mailed to opponent, as part of alleged plan to coerce settlement, did not constitute scheme to "defraud," within meaning of mail fraud statute; although litigants may have intended to cause fear, false accusations in affidavits concerned opponent's conduct, and thus litigants knew that opponent would not be deceived and could not have had intent to deceive. 18 U.S.C.A. § 1341.

32 Cases that cite this headnote

[9] **Criminal Law**

☞ Verdict or findings

When jury returns general verdict of guilty in multiple-object conspiracy, verdict may be set aside if one of the conspiracy theories is contrary to law.

2 Cases that cite this headnote

[10] **Double Jeopardy**

☞ Particular grounds for relief

Where jury's general verdict of guilty in multiple-object conspiracy had to be set aside because some conspiracy theories alleged were contrary to law, double jeopardy did not bar retrial of conspiracy charge based on valid theory and for which evidence was sufficient to support conviction. U.S.C.A. Const.Amend. 5.

2 Cases that cite this headnote

[11] **Conspiracy**

☞ Nature and Elements of Criminal Conspiracy in General

To prove conspiracy, government must show (1) existence of agreement among two or more persons, (2) that defendant knew general purpose of agreement; and (3) that defendant knowingly and voluntarily participated in agreement.

1 Cases that cite this headnote

[12] **Conspiracy**

☞ Obstructing justice, bribery, and perjury

Conviction for conspiracy to commit perjury was supported by evidence that defendants' sworn affidavits, claiming that third party had threatened one defendant in telephone call that second defendant had witnessed, were false, and that they had been offered in attempt to coerce settlement of suit against third party's employer.

1 Cases that cite this headnote

[13] **Criminal Law**

☞ Testimony or statement of accused

When defendant testifies, jury is allowed to disbelieve him and to infer that opposite of his testimony is true.

2 Cases that cite this headnote

[14] **Criminal Law**

☞ Necessity of Objections in General

To constitute plain error, conduct must be error that is plain and affects substantial rights.

4 Cases that cite this headnote

[15] **Criminal Law**

☞ Necessity of Objections in General

Appellate court has discretion to correct plain error only when error seriously affects fairness, integrity, or public reputation of judicial proceeding.

3 Cases that cite this headnote

[16] **Criminal Law**

☞ Particular statements, arguments, and comments

Prosecutor's closing argument, stating that black defendant "shucked and jived" on witness stand, did not affect substantial right of white co-defendant and was not plain error; defendant was not charged with counts on which co-defendant was convicted, and evidence against co-defendant on those counts was overwhelming.

3 Cases that cite this headnote

[17] **Sentencing and Punishment**

↳ Consecutive or Cumulative Sentences

When sentencing on multiple counts, district court must divide sentence among counts and specify whether sentences on each count are to run consecutively or concurrently. ■ U.S.S.G. § 5G1.2, 18 U.S.C.A.

1 Cases that cite this headnote

Attorneys and Law Firms

*1199 Lucinda M. Finley, Buffalo, NY, Daniel N. Brodersen, Miller, South & Milhausen, P.A., Winter Park, FL, Bruce Rogow, Beverly A. Pohl, Bruce S. Rogow, P.A., Fort Lauderdale, FL, for Defendants–Appellants.

Charles L. Truncale, Jacksonville, FL, for Plaintiff–Appellee.

Appeal from the United States District Court for the Middle District of Florida.

Before TJOFLAT, RONEY and COX, Circuit Judges.

Opinion

*1200 COX, Circuit Judge:

James Scott Pendergraft and Michael Spielvogel were convicted, following a jury trial, for (1) attempted extortion, in violation of the Hobbs Act, 18 U.S.C. § 1951, (2) mail fraud, in violation of 18 U.S.C. § 1341, and (3) conspiracy to commit extortion, mail fraud, and perjury, in violation of 18 U.S.C. § 371. Spielvogel was also convicted of filing a false affidavit, in violation of 18 U.S.C. § 1623, and making a false statement to the Federal Bureau of Investigation, in violation of 18 U.S.C. § 1001. Pendergraft and Spielvogel appeal, challenging their convictions and sentences.

The charges against Pendergraft and Spielvogel arose out of their threat to seek damages in a lawsuit against Marion County, Florida, and to use false evidence in support of the lawsuit. Because we conclude that their threat was neither “wrongful” within the meaning of the Hobbs Act

nor a “scheme to defraud” within the meaning of the mail-fraud statute, we reverse the attempted extortion and mail-fraud convictions, and we vacate the conspiracy convictions. However, we affirm Spielvogel's convictions for perjury and making false statements.

I. BACKGROUND

A. FACTS

Pendergraft is a physician specializing in maternal-fetal medicine.¹ As part of his practice, he performs abortions, including late-term, or “partial-birth,” abortions. He opened the Orlando Women's Center in Orlando, Florida, in 1996. In 1997, seeking to expand his Florida practice, Pendergraft purchased a medical building in Ocala, Florida, for about \$200,000.

Ocala is the county seat of Marion County. In 1989, an abortion clinic in Ocala, the All Women's Health Center, was destroyed by an arsonist, and Ocala had not had an abortion clinic since. Pendergraft had performed many abortions on Ocala residents in his Orlando clinic and believed he could profit by opening a clinic in Ocala.

Pendergraft's presence in Ocala sparked a lot of controversy. During a meeting of the Marion County Board of Commissioners in October 1997, Steve Klein, a resident of Ocala, proposed that the Board write a letter to Pendergraft asking him to reconsider opening his Ocala clinic. The Board unanimously supported Klein's proposal, and Larry Cretul, the Chairman of the Board, wrote and signed the letter and sent it to Pendergraft. The letter asked Pendergraft to reconsider his plans because of the controversy the clinic would bring to Ocala. Pendergraft received many other letters from concerned citizens of Marion County.

Pendergraft received the Board's letter and, after a few days, showed it to Michael Spielvogel, a business associate whose wife, Mary, worked for Pendergraft as an office administrator. In late October, Spielvogel called Cretul to discuss the possibility of Pendergraft withdrawing from Ocala if the County would purchase the clinic building for a good price.

Immediately after his discussion with Spielvogel, Cretul called the county sheriff's office and expressed some concern that he was being asked to pay for peace. The sheriff's

office relayed Cretul's concern to FBI Special Agent Pamela Piersanti, and the FBI opened an investigation. As part of the investigation, the FBI recorded Cretul's subsequent conversations with Spielvogel. During one of the *1201 conversations, Spielvogel implied that Pendergraft would sell the clinic building for between \$350,000 and \$500,000.

On January 29, 1998, a bomb exploded at the New Woman All Women Health Care Center, an abortion clinic in Birmingham, Alabama, killing an off-duty police officer and injuring a chief nurse. That evening, Cretul and Spielvogel spoke by telephone. Following their conversation, Spielvogel called the FBI and reported that Cretul had threatened him. Specifically, Spielvogel reported that Cretul had said that the Alabama bombing was nothing compared to what would happen to the Ocala clinic. Because the FBI was monitoring Cretul's conversations with Spielvogel, it knew that Spielvogel's allegation was false. The FBI declined to investigate the alleged threat and told Spielvogel of its declination in late February.

On February 24, Pendergraft wrote identical letters to Cretul and several other Ocala citizens who had previously written letters to Pendergraft. In this letter, Pendergraft articulated his reasons for opening the Ocala clinic and acknowledged that he would perform abortions. At the end of his letter, he intimated that he would entertain other plans for the facility, including a sale of it, and asked potential offerors to contact Spielvogel.

At the FBI's request, Cretul called Pendergraft and finally got in touch with him on March 26, 1998. Cretul told Pendergraft that he was worried about the potential controversy and violence that the Ocala clinic would bring, but Pendergraft denied that he wanted or caused violence. Cretul asked Pendergraft how much money it would take to keep him out of Ocala. Pendergraft said that he would stay away three years for \$550,000, five years for \$750,000, and forever for \$1,000,000. Cretul told Pendergraft that his offer felt like extortion, but Pendergraft denied any such intent and offered to cease negotiations. On April 8, the FBI told Cretul to call off negotiations, and thereafter the investigation of Pendergraft was closed.

In July 1998, the Ocala clinic opened amid much controversy. Protestors consistently blocked the driveway to the clinic and harassed those who entered the building. Pendergraft asked the City of Ocala and the Marion County Sheriff's Department if he could hire off-duty law enforcement officers to protect

his clinic. Though such requests were routinely granted to other businesses, Pendergraft's request was denied.

Pendergraft and the Ocala Women's Center filed a federal lawsuit in December 1998, naming Marion County, the City of Ocala, and several individual protestors as defendants. It sought injunctive relief against Marion County that would permit Pendergraft to hire off-duty law enforcement officers.

Marion County retained Virgil Wright to defend the suit. Wright contacted Roy Lucas, Pendergraft's lawyer, and told Lucas that, since the Sheriff's Department was not controlled by Marion County, Marion County should not be a party to the suit. Lucas responded on March 15, 1999, with a letter stating that Cretul's threats, as reported by Spielvogel, violated the Freedom of Access to Clinic Entrances Act, 18 U.S.C. § 248, and exposed the County to actual and punitive damages as well as litigation fees and expenses. Lucas threatened to file an amended complaint that would seek damages against the County and add Spielvogel, Spielvogel's wife, and the Ocala clinic administrator as plaintiffs. Attached to the letter were two unsigned affidavits, one by Spielvogel and one by Pendergraft.

Spielvogel's affidavit reported Cretul's threat and said that Pendergraft witnessed Spielvogel's reaction to the threat when it was made. Pendergraft's affidavit said *1202 that he believed Spielvogel's report that Cretul made threats because of Spielvogel's reaction when he was on the phone with Cretul.

When Wright received Lucas's letter, he contacted Cretul, who told Wright that the FBI taped the phone call during which Cretul was alleged to have made the threat. Wright agreed to assist the FBI in the investigation of Pendergraft and Spielvogel by holding a settlement conference with them. Wright and Lucas agreed to hold a settlement conference on March 22. In a letter confirming the time the conference was scheduled, Lucas said that he would bring a copy of a proposed amended complaint but that he might not need to file it, depending on the discussion.

On March 19, Pendergraft and Spielvogel filed a motion for partial summary judgment in their federal lawsuit. The motion sought to enjoin the protestors from harming clinic workers and to allow Pendergraft to hire off-duty officers. In support of the motion, Pendergraft and Spielvogel filed, among other things, the affidavits they sent to Wright regarding Cretul's threats. These affidavits were signed, dated, and notarized.

Pendergraft and Spielvogel mailed a copy of this motion to Wright.

On March 22, Wright, Lucas, Spielvogel, and Pendergraft attended the settlement conference, and the FBI captured it on videotape. At the conference, Spielvogel again asserted that Cretul had threatened him, and Pendergraft claimed that he was present when Spielvogel received the threatening phone call. While Spielvogel expressed his desire for an immediate settlement, Pendergraft made it clear that he wanted to go to trial. Lucas and Pendergraft informed Wright that the lawsuit could bankrupt Marion County based on prior verdicts in similar cases. Wright told them he would report to Marion County and ask the county what it would like to do.

On April 12, Piersanti, the FBI agent, confronted Spielvogel with evidence that his allegations against Cretul were false, and she asked Spielvogel to cooperate in an investigation of Pendergraft. Spielvogel declined this offer and instead informed Pendergraft of the investigation.

On August 4, 1999, an amended complaint was filed in Pendergraft's lawsuit. It did not add Spielvogel or his wife as plaintiffs. It did not add Larry Cretul as a defendant. Instead of adding a claim for damages against Marion County, it dropped Marion County from the suit entirely. Nevertheless, a grand jury investigation of Pendergraft and Spielvogel was initiated.

B. PROCEDURAL HISTORY

1. The Indictment

On June 13, 2000, the grand jury indicted Pendergraft and Spielvogel. Count One charges that they conspired to commit extortion under 18 U.S.C. § 1951, perjury under 18 U.S.C. § 1623, and mail fraud under 18 U.S.C. § 1341.

Count Two charges Pendergraft and Spielvogel with the substantive offense of attempted extortion for using false affidavits and statements in an attempt to obtain a monetary settlement from Marion County. The indictment alleges that Pendergraft and Spielvogel authored false affidavits accusing Cretul of threatening them and attached these affidavits to a letter sent to Wright. Based on these false affidavits, they threatened, in the letter, to file an amended complaint seeking damages against Marion County. According to the indictment, they then arranged a settlement conference with

Wright during which they threatened a multi-million dollar suit unless Marion County settled.

*1203 In Count Three, Pendergraft and Spielvogel are charged with mail fraud. Their alleged scheme to defraud was the use of false statements about Cretul's threats to obtain a settlement from Marion County. In furtherance of this scheme, they mailed copies of their motion for partial summary judgment, to which the allegedly false affidavits were attached, to Wright and other lawyers in the civil case.

Counts Four and Five charge only Spielvogel with perjury and making a false statement to the FBI. These charges arose out of Spielvogel's accusation, which he included both in his affidavit and in his report to the FBI, that Cretul threatened the Ocala clinic while on the phone with him.

2. Motion to Dismiss the Indictment

Pendergraft and Spielvogel filed a consolidated motion to dismiss the indictment on several grounds. (R.1-26.) They argued, among other things, that Counts One, Two, and Three of the indictment violated Pendergraft's First and Fourteenth Amendment rights. Because he had a right to assert claims against the government, he and Spielvogel could not be charged with extortion for their actions in connection with a lawsuit against the government. Furthermore, they argued, the indictment imperiled the privacy rights of Pendergraft and his patients because it endangered Pendergraft's ability to provide abortions.

Pendergraft and Spielvogel further argued that Counts One, Two, and Three were legally insufficient because a threat to file a lawsuit could never amount to extortion. They relied primarily on *I.S. Joseph Co. v. J. Lauritzen A/S*, 751 F.2d 265 (8th Cir.1984), where the Eighth Circuit held that a threat to sue, even if groundless and in bad faith, could not constitute extortion.

The district court declined to dismiss any of the counts, noting that the indictment tracked the statutory language. (R.1-32.)

3. Motions for Judgment of Acquittal

The case ultimately went to trial. At the close of the Government's case, Pendergraft and Spielvogel made an oral

motion for judgment of acquittal. (R.25 at 128–71.) They argued, among other things, that their litigation activities did not constitute extortion for purposes of the Hobbs Act, that the evidence failed to demonstrate a conspiratorial agreement between Pendergraft and Spielvogel, and that there was no “scheme to defraud” for purposes of the mail-fraud statute. The court denied the motion, and Pendergraft filed a renewed motion in written form. (R.3–99.)

Both Pendergraft and Spielvogel testified in their own defense. Spielvogel admitted, on the stand, that he lied, both in his affidavit and to the FBI, about the content of Cretul's threats. (R.18 at 76–77.) He also testified that he staged the phone call about which Pendergraft testified in his affidavit and that Pendergraft did not find out about it until just before the trial. (R.18 at 78–82.) Pendergraft testified that he witnessed the staged phone call but did not, at that time, know it was staged. (R.17 at 145–46; R.15 at 8–10.) On cross-examination, the Government elicited testimony suggesting that Pendergraft did not, in fact, witness the staged phone call when he said he did. (R.15 at 70–76.) At the close of all the evidence, the court deemed as restated all motions for judgment of acquittal made during the trial and denied them all. (R.19 at 401–06.)

During closing argument, the Government focused on the credibility of Pendergraft and Spielvogel. It argued that, because *1204 Pendergraft and Spielvogel were liars, the jury could conclude that they engaged in the conduct alleged in the indictment. The jury convicted them as charged on every count.

After the verdict, Pendergraft and Spielvogel filed separate renewed motions for judgment of acquittal or, in the alternative, for a new trial. In addition to the grounds raised previously, they argued that the prosecutor had made improper statements in his closing arguments, including his statement that Pendergraft “shucked and jived” on the witness stand.

The district court summarily denied the renewed motions for judgment of acquittal and refused to grant a new trial. (R.4–140.) Pendergraft was sentenced to 46 months in prison and two years of supervised release. He was also fined \$25,000. Spielvogel was sentenced to 41 months in prison and three years of supervised release. He was not fined.

II. ISSUES ON APPEAL

Pendergraft and Spielvogel raise the following issues on appeal:² (1) whether the district court erred by denying their motion to dismiss the indictment and their motions for judgment of acquittal because the conduct at issue was legally insufficient to support convictions for extortion or mail fraud; (2) whether the district court erred by denying their motions for judgment of acquittal because there was insufficient evidence of an illegal conspiracy; (3) whether the district court erred by denying their motions for a new trial because the prosecutor introduced racial prejudice by accusing Pendergraft of “shucking and jiving.”³

III. STANDARDS OF REVIEW

[1] [2] [3] [4] [5] We review the district court's denial of a motion to dismiss the indictment for abuse of discretion, see *United States v. Pielago*, 135 F.3d 703, 707 (11th Cir.1998), but the sufficiency of an indictment is a legal question that we review de novo. See *United States v. Steele*, 178 F.3d 1230, 1233 (11th Cir.1999). We review the denial of a motion for judgment of acquittal de novo. See *United States v. Hansen*, 262 F.3d 1217, 1236 (11th Cir.2001). In the absence of a contemporaneous objection, we review the district court's failure to correct an improper closing argument for plain error. See *United States v. Newton*, 44 F.3d 913, 920–21 (11th Cir.1994). We review the denial of a motion for a new trial for abuse of discretion. See *United States v. Ward*, 274 F.3d 1320, 1323 (11th Cir.2001).

IV. DISCUSSION

A. LEGAL SUFFICIENCY OF THE INDICTMENT

Pendergraft and Spielvogel assert error in the district court's denial of their motion to dismiss the indictment and their motions for judgment of acquittal. In their motions and on appeal, they challenge *1205 Counts One, Two, and Three on the ground that the extortion and mail-fraud charges are legally insufficient and that the Government failed to offer sufficient evidence of an illegal conspiracy. Because we conclude that there was evidence to support the extortion

and mail-fraud allegations in the indictment, we will examine those allegations to determine whether they are legally sufficient to charge an offense.⁴

1. Extortion (Counts One & Two)

[6] The Hobbs Act imposes criminal sanctions on those who affect interstate commerce by extortion. See 18 U.S.C. § 1951(a) (2000). Extortion is defined as “the obtaining of property from another, with his consent, induced by wrongful use of actual or threatened force, violence, or fear, or under color of official right.” *Id.* § 1951(b)(2). In this case, the indictment alleges that Pendergraft and Spielvogel conspired to extort money from Marion County by threatening to file an amended complaint, supported by false affidavits, unless Marion County settled with them. Pendergraft and Spielvogel argue that such threats are not criminal under the Hobbs Act.

Several courts have held that a threat to file a lawsuit, even if made in bad faith, is not “wrongful” within the meaning of the Hobbs Act. See *Vemco, Inc. v. Camardella*, 23 F.3d 129, 134 (6th Cir.1994); *First Pacific Bancorp, Inc. v. Bro*, 847 F.2d 542, 547 (9th Cir.1988); *I.S. Joseph Co. v. J. Lauritzen A/S*, 751 F.2d 265, 267–68 (8th Cir.1984); *G-I Holdings, Inc. v. Baron & Budd*, 179 F.Supp.2d 233, 259 (S.D.N.Y.2001); *Heights Cmty. Cong. v. Smythe, Cramer Co.*, 862 F.Supp. 204, 207 (N.D. Ohio 1994); *Am. Nursing Care of Toledo, Inc. v. Leisure*, 609 F.Supp. 419, 430 (N.D. Ohio 1984). All of these cases have arisen in the civil RICO⁵ context where litigants have included a threat to file a lawsuit as the predicate act of extortion. By rejecting such threats as predicate acts, these courts have implicitly held that threats to sue cannot constitute criminal extortion. Most of these courts have recharacterized the extortion charges as actions for malicious prosecution and have held that malicious prosecution is not a RICO predicate act.

Because an action for malicious prosecution is a civil matter, we are reluctant to recharacterize the criminal extortion charges in this case as actions for malicious prosecution. Instead, we must analyze the Hobbs Act to determine whether it criminalizes the bad-faith threat to sue that is alleged in this case.

We begin, of course, by examining the text of the statute. See *Adams v. Fla. Power Corp.*, 255 F.3d 1322, 1324 (11th Cir.2001). To commit extortion, a person's actions must, in some sense, be “wrongful.” See 18 U.S.C. § 1951(a) (2000). In *United States v. Enmons*, 410 U.S. 396, 93 S.Ct. 1007, 35 L.Ed.2d 379 (1973), the Supreme Court interpreted “wrongful,” within the meaning of the Hobbs Act, to consist of using a wrongful means to achieve a wrongful objective. See *id.* at 399–400, 93 S.Ct. at 1009.

To show a wrongful objective, the Government must show that Pendergraft and Spielvogel had no lawful claim to the money they sought. See *id.* at 400, 93 S.Ct. at 1009–10; *United States v. Nell*, 570 F.2d 1251, 1258 (5th Cir.1978). Pendergraft and Spielvogel sought settlement money from Marion County based on threats allegedly *1206 made to Spielvogel by a county commissioner. The indictment alleges that these threats never actually occurred. This allegation, if true, shows that Pendergraft and Spielvogel had no lawful claim to the settlement money they sought. The wrongful-objective element of extortion is therefore satisfied.⁶

Regarding the wrongful-means element, the question presented is whether their threat to file the lawsuit was “wrongful.” The indictment alleges that the defendants unlawfully used false affidavits and made false statements “in an effort to induce the payment of money by the Marion County government through the fear of economic loss.” (R.1–1 at 7.) The use of fear can be a wrongful means under the Hobbs Act, and fear includes the fear of economic loss. But the fear of economic loss is an “animating force of our economic system,” *United States v. Sturm*, 671 F.Supp. 79, 84 (D.Mass.1987), *vacated and remanded*, 870 F.2d 769 (1st Cir.1989), and, therefore, is not inherently wrongful. See *Hall Am. Ctr. Assocs. Ltd. P'ship v. Dick*, 726 F.Supp. 1083, 1095 (E.D.Mich.1989). We must determine whether the use of economic fear in this case was “wrongful” within the meaning of the Hobbs Act.

The indictment alleges that Pendergraft and Spielvogel produced perjured affidavits that described threats by Larry Cretul, the Chairman of the Marion County Board of Commissioners. Based on the information in these affidavits, Pendergraft and Spielvogel threatened to amend an existing

legitimate lawsuit to include a claim for damages against Marion County. The threat of this additional claim, backed by fabricated evidence, put Marion County in fear of economic loss, and Pendergraft and Spielvogel sought to exploit this fear by obtaining a settlement from Marion County. The bad-faith threat of litigation, according to the indictment, was reasonably calculated to cause fear of economic loss and therefore “wrongful.”

A threat to litigate, by itself, is not necessarily “wrongful” within the meaning of the Hobbs Act. After all, under our system, parties are encouraged to resort to courts for the redress of wrongs and the enforcement of rights. See *Boothby Realty Co. v. Haygood*, 269 Ala. 549, 114 So.2d 555, 559 (1959); 54 C.J.S. *Malicious Prosecution* § 4 at 525 (1987). For this reason, litigants may be sanctioned for only the most frivolous of actions. These sanctions include tort actions for malicious prosecution and abuse of process, and in some cases recovery of attorney’s fees, but even these remedies are heavily disfavored because they discourage the resort to

courts. See *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 247, 95 S.Ct. 1612, 1617, 44 L.Ed.2d 141 (1975); *Kelly v. Serna*, 87 F.3d 1235, 1241 (11th Cir.1996);

Mims v. Teamsters Local No. 728, 821 F.2d 1568, 1570 (11th Cir.1987); *Delchamps, Inc. v. Bryant*, 738 So.2d 824, 832 (Ala.1999); *Cate v. Oldham*, 450 So.2d 224, 225–26 (Fla.1984); *Day Realty Assocs., Inc. v. McMillan*, 247 Ga. 561, 277 S.E.2d 663, 664 (1981).

History has taught us that, if people take the law into their own hands, an endless cycle of violence can erupt, and we therefore encourage people to take their problems to court. We trust the courts, and their time-tested procedures, to produce reliable results, separating validity from invalidity, honesty from dishonesty. While our process is sometimes expensive, and occasionally inaccurate, we have confidence in it. When a citizen avails himself *1207 of this process, his doing so is not inherently “wrongful.”

Moreover, in this case, we are not dealing with a typical threat to litigate. Instead, we are dealing with a threat to litigate against a county government. The right of citizens to petition their government for the redress of grievances is fundamental to our constitutional structure. See U.S. Const. amend. I.⁷ A threat to file suit against a government, then, cannot be “wrongful” in itself.

But, in this case, we have an allegation that Pendergraft and Spielvogel fabricated evidence to support their suit. The fabrication of evidence is certainly not “rightful.” The question is whether the fabrication of evidence makes a threat to sue a government “wrongful.”

We recognize that the fabrication of evidence is criminalized by the perjury statute. While the same conduct can violate several statutes, we do not think that Pendergraft and Spielvogel’s conduct does. The law jealously guards witnesses who participate in judicial proceedings; witnesses should be “unafraid to testify fully and openly.” See

Charles v. Wade, 665 F.2d 661, 667 (5th Cir. Unit B 1982). Because the rigors of cross-examination and the penalty of perjury sufficiently protect the reliability of witnesses, see

Butz v. Economou, 438 U.S. 478, 512, 98 S.Ct. 2894, 2914, 57 L.Ed.2d 895 (1978); *Charles*, 665 F.2d at 667, courts have been unwilling to expand the scope of witness liability, since, by doing so, “the risk of self-censorship becomes too great.” *Charles*, 665 F.2d at 667 (quoting *Imbler v. Pachtman*, 424 U.S. 409, 440, 96 S.Ct. 984, 999, 47 L.Ed.2d 128 (1976) (White, J., concurring)).

Criminalizing false testimony via the Hobbs Act would expand the scope of witness liability. Witnesses might decline to provide affidavits in questionable lawsuits against a government, fearing that they could be charged with conspiracy to commit extortion if the lawsuit fails. Such a possibility is unsettling, and we do not believe that Congress intended to expand the scope of witness liability in this way. The fabrication of evidence, then, does not make a threat to sue a government “wrongful” within the meaning of the Hobbs Act.

While the case before us involves a threat to sue a government, we are troubled by any use of this federal criminal statute to punish civil litigants. Sanctions for filing lawsuits, such as malicious prosecution, lead to collateral disputes and “a piling of litigation on litigation without end.” *Boothby Realty Co.*, 114 So.2d at 559. Allowing litigants to be charged with extortion would open yet another collateral way for litigants to attack one another. The reality is that litigating parties often accuse each other of bad faith. The prospect of such civil cases ending as criminal prosecutions gives us pause.

Moreover, this addition to the federal criminal arsenal would have other disconcerting implications in the civil arena. As

we have noted, the cases rejecting extortion for threats to litigate arise in the civil RICO context when parties attempt to graft a RICO claim on their claims for malicious prosecution. In those cases, the *1208 courts express concern about transforming a state common-law action into a federal crime. We share this concern.

Nevertheless, our holding is a narrow one. We hold that Pendergraft and Spielvogel's threat to file litigation against Marion County, even if made in bad faith and supported by false affidavits, was not "wrongful" within the meaning of the Hobbs Act. Thus, we conclude that the allegations in the indictment for conspiracy to commit extortion and for the substantive offense of attempted extortion fail to charge offenses as a matter of law.

2. Mail Fraud (Counts One & Three)

[7] [8] The indictment also charges Pendergraft and Spielvogel with mail fraud and conspiracy to commit mail fraud. When Pendergraft and Spielvogel filed their motion for a preliminary injunction with the district court, they attached their false affidavits in support. A copy of the motion was served by mail on Marion County's attorney, Virgil Wright, and two other lawyers in the case. To commit mail fraud, a person must (1) intentionally participate in a scheme to defraud and (2) use the mails in furtherance of the scheme.

See 18 U.S.C. § 1341 (2000); *United States v. Smith*, 934 F.2d 270, 274 (11th Cir.1991). The indictment alleges that Pendergraft and Spielvogel intentionally participated in a scheme to extort a monetary settlement from Marion County and mailed the motion with the attached false affidavits in furtherance of that scheme. Pendergraft and Spielvogel argue that their alleged scheme to obtain a settlement did not constitute a "scheme to defraud" for purposes of the mail fraud statute.

Serving a motion by mail is an ordinary litigation practice. A number of courts have considered whether serving litigation documents by mail can constitute mail fraud, and all have rejected that possibility. See *Daddona v. Gaudio*, 156 F.Supp.2d 153, 162-64 (D.Conn.2000); *Auburn Med. Ctr., Inc. v. Andrus*, 9 F.Supp.2d 1291, 1300 (M.D.Ala.1998);

von Bulow v. von Bulow, 657 F.Supp. 1134, 1142-46 (S.D.N.Y.1987); *Paul S. Mullin & Assocs., Inc. v. Bassett*, 632 F.Supp. 532, 540 (D.Del.1986); *Am. Nursing Care*

of Toledo, Inc. v. Leisure, 609 F.Supp. 419, 430 (N.D. Ohio 1984). As in the Hobbs Act context, these courts have rejected this mail-fraud theory on policy grounds, recognizing that such charges are merely "artfully pleaded claims for malicious prosecution." *Auburn Med. Ctr., Inc.*, 9 F.Supp.2d at 1297. Again, prosecuting litigation activities as federal crimes would undermine the policies of access and finality that animate our legal system. Moreover, allowing such charges would arguably turn many state-law actions for malicious prosecution into federal RICO actions.

But, as always, we are primarily concerned with the language of the statute, not its policy implications. While both the mail-fraud and wire-fraud statutes use the phrase "scheme to defraud," neither statute defines what a "scheme to defraud" is. See *Weiss v. United States*, 122 F.2d 675, 681 (5th Cir.1941); *United States v. Lemire*, 720 F.2d 1327, 1335 (D.C.Cir.1983). Instead, the meaning of "scheme to defraud"

has been judicially defined. See *Lemire*, 720 F.2d at 1335. Courts have defined the phrase broadly, allowing it to encompass deceptive schemes that do not fit the common-law definition of fraud. See *Hammerschmidt v. United States*, 265 U.S. 182, 188, 44 S.Ct. 511, 512, 68 L.Ed. 968 (1924); *United States v. Brown*, 79 F.3d 1550, 1557 (11th Cir.1996). Nevertheless, Congress did not strip the word "defraud" of all its meaning, see *Brown*, 79 F.3d at 1557; the word still signifies "the deprivation of something of value by trick, deceit, chicane, or overreaching." *1209 See *Hammerschmidt*, 265 U.S. at 188, 44 S.Ct. at 512.

There are limits to the types of schemes that the mail-fraud statute encompasses. See *Brown*, 79 F.3d at 1556. Indeed, it has long been recognized that, "broad as are the words 'to defraud,' they do not include threat and coercion through fear or force." *Fasulo v. United States*, 272 U.S. 620, 628, 47 S.Ct. 200, 202, 71 L.Ed. 443 (1926); see also *Hammerschmidt*, 265 U.S. at 188, 44 S.Ct. at 512 ("[The words 'to defraud'] do not extend to theft by violence."); *Naponiello v. United States*, 291 F. 1008, 1010 (7th Cir.1923) ("[T]hreats which the victim believes will be carried into execution unless he acquiesces in the demands are not deceits."); *United States v. McKay*, 45 F.Supp. 1007, 1011 (E.D.Mich.1942) ("[R]egardless of how broad an interpretation is put upon the words 'to defraud' they do not include threats and coercion through fear or force.")

In this case, the indictment alleges that Pendergraft and Spielvogel sought to extort money from Marion County by exploiting their fear of economic loss. This fear was caused by Pendergraft and Spielvogel's threat to sue and was aggravated by their production of false affidavits. Once Pendergraft and Spielvogel filed these documents with the court, as attachments to their motion for a preliminary injunction, and served Marion County with the motion, Marion County knew that their threats to lie were serious. The possibility of an unfavorable verdict, based on perjurious testimony, may have caused Marion County to fear the lawsuit. But fear is different from fraud. A scheme to frighten is simply not criminalized by the mail-fraud statute.

However, the use of fear does not immunize particular actions from mail-fraud charges; if deceit, as well as fear, is intended, then the actions may be criminal. See *Huff v. United States*, 301 F.2d 760, 765 (5th Cir.1962). In support of their suit against Marion County, Pendergraft and Spielvogel authored affidavits that falsely accused Cretul of making threats. Such falsity might have deceived some, but it could not deceive Marion County. Cretul, after all, was the Chairman of the Marion County Board of Commissioners, and Pendergraft and Spielvogel were aware of Cretul's position. They knew that Cretul would deny making these threats, and they knew that their affidavits would not trick Cretul into admitting otherwise. If they knew that they could not deceive Marion County, then they could not have had an intent to deceive. See *Pelletier v. Zweifel*, 921 F.2d 1465, 1499 (11th Cir.1991) ("A defendant cannot possibly intend to deceive someone if he does not believe that his intended 'victim' will act on his deception."); *Norton v. United States*, 92 F.2d 753, 755 (9th Cir.1937) ("There can be no intent to deceive where it is known to the party making the representations that no deception can result.").

Since there was no intent to deceive, there was no "scheme to defraud," and we hold that Pendergraft and Spielvogel's mailing of litigation documents, even perjurious ones, did not violate the mail-fraud statute. The allegations in the indictment for conspiracy to commit mail fraud and for the substantive offense of mail fraud therefore fail to charge offenses as a matter of law.

3. Multiple-Object Conspiracy (Count One)

The indictment also alleges, in Count One, that Pendergraft and Spielvogel agreed to author perjured affidavits testifying to threats made by Cretul. They both, in fact, submitted affidavits: Spielvogel's claims that he received a threatening phone call in Pendergraft's presence, and *1210 Pendergraft's claims that he witnessed Spielvogel receiving the phone call. The indictment alleges that this threatening phone call never, in fact, occurred. These allegations, if true, can support a conviction for conspiracy to commit perjury.

[9] However, in Count One, the indictment charges conspiracy to commit extortion and mail fraud along with conspiracy to commit perjury, and the jury returned a general verdict of guilty. When a jury returns a general verdict of guilty in a multiple-object conspiracy, the verdict may be set aside if one of the conspiracy theories is contrary to law. See *Griffin v. United States*, 502 U.S. 46, 59, 112 S.Ct. 466, 474, 116 L.Ed.2d 371 (1991); *Yates v. United States*, 354 U.S. 298, 312, 77 S.Ct. 1064, 1073, 1 L.Ed.2d 1356 (1957). Therefore, because two of the theories asserted in Count One, conspiracy to commit extortion and conspiracy to commit mail fraud, were legally insufficient, we vacate the conviction on Count One.

[10] We must nevertheless determine what the disposition of Count One should be. If the Government presented sufficient evidence of a conspiracy to commit perjury, we must remand this charge for a new trial. However, if the Government failed to present sufficient evidence, the constitutional prohibition against double jeopardy prevents a retrial on this charge. Therefore, we must determine whether the Government presented sufficient evidence of a conspiracy to commit perjury to support a conviction.

[11] [12] To prove a conspiracy, the Government must show (1) the existence of an agreement among two or more persons, (2) that the defendant knew the general purpose of the agreement; and (3) that the defendant knowingly and voluntarily participated in the agreement. See *United States v. Simpson*, 228 F.3d 1294, 1298 (11th Cir.2000). In this case, the Government's conspiracy theory was that Pendergraft and Spielvogel agreed to author perjured affidavits to provide evidence in pursuit of a settlement with Marion County. These affidavits would state that Spielvogel received threats from Cretul over the telephone and that Pendergraft was present and observed Spielvogel's fear after receiving these threats.

When reviewing the sufficiency of the evidence, we are obligated to draw inferences in the Government's favor.

See *United States v. Perez-Tosta*, 36 F.3d 1552, 1556 (11th Cir.1994). While the Government presented no direct evidence of an agreement, there was circumstantial evidence from which a jury could infer an agreement.

During the Government's case, it introduced the affidavits and statements of Spielvogel and Pendergraft. These statements indicated that Cretul threatened Spielvogel on January 29 and that Pendergraft observed Spielvogel receiving these threats. The Government offered evidence that Cretul did not, in fact, make the threats on January 29. Cretul testified that he never made the threats asserted by Spielvogel, and, on the FBI tapes of Cretul's conversations with Spielvogel, Cretul never made the threats that Spielvogel asserted in his affidavit. This demonstrated that Spielvogel's statements were false. Furthermore, Spielvogel was at home when he spoke with Cretul on January 29. The Government and Pendergraft stipulated that Pendergraft was not at Spielvogel's home during Spielvogel's conversation with Cretul on January 29. This was evidence that Pendergraft did not observe what he said he observed. From this circumstantial evidence, the jury could infer that Pendergraft and Spielvogel agreed to fabricate the threats and Pendergraft's observation of the threats.

*1211 [13] And there was further evidence from which a jury could infer an agreement. Spielvogel testified that he staged the phone call with Cretul and pretended to be afraid so that Pendergraft would believe that Cretul made the threats. Pendergraft testified that he witnessed Spielvogel's fear and did not know that the phone call was staged. During cross-examination, the Government raised some doubt regarding whether Pendergraft could have observed Spielvogel's staged phone call when he said he did. Furthermore, both Pendergraft and Spielvogel testified that there was no agreement. When a defendant testifies, the jury is allowed to disbelieve him and to infer that the opposite of his testimony is true. See *United States v. Allison*, 908 F.2d 1531, 1535 (11th Cir.1990). There was sufficient evidence to support a conviction on the conspiracy to commit perjury charge.

Since there was sufficient evidence to support a conviction for conspiracy to commit perjury, this part of Count One is remanded for a new trial.⁸

B. SHUCK & JIVE

Pendergraft and Spielvogel also argue that the prosecutor injected racial prejudice into his closing argument by twice stating that Pendergraft, who is black, "shucked and jived" on the witness stand.⁹ (R.25 at 472 & 486.) Since Pendergraft was convicted on legally insufficient charges, this issue is moot regarding his convictions. However, since Spielvogel was also convicted on Counts Four and Five, and these charges were not legally insufficient, we must determine whether this comment entitles him to a new trial on these counts.

[14] [15] Since neither party made a contemporaneous objection to the "shuck and jive" statements, we review this issue for plain error. To constitute plain error, the comment must be an error that is plain and affects substantial rights. See *United States v. Olano*, 507 U.S. 725, 732, 113 S.Ct. 1770, 1776, 123 L.Ed.2d 508 (1993). We have discretion to correct such errors only when the error seriously affects the fairness, integrity, or public reputation of the judicial proceeding. See *id.*

[16] We believe there may have been error. "Shuck and jive" is a phrase with racial origins. See *Smith v. Farley*, 59 F.3d 659, 664 (7th Cir.1995). It began as slang adopted by American blacks to describe a situation where blacks lie to whites to stay out of trouble. See 15 *Oxford English Dictionary* 388 (2d ed.1989). There is some debate regarding whether this slang has crossed over into mainstream usage. See *Smith*, 59 F.3d at 664. However, even if the phrase is not entirely of a racist character, it is not the sort of characterization that should be employed by an assistant United States Attorney, *1212 whose interest is not that he "shall win a case, but that justice shall be done." *Berger v. United States*, 295 U.S. 78, 88, 55 S.Ct. 629, 633, 79 L.Ed. 1314 (1935); see also *Handford v. United States*, 249 F.2d 295, 296 (5th Cir.1957).

Nevertheless, despite the unsettling nature of the comment, we conclude that it did not affect Spielvogel's substantial rights. First, it was used in reference only to Pendergraft, not to Spielvogel, who is white. Pendergraft was not charged in Counts Four and Five, and any prejudice towards him would not have affected the jury's verdict on these counts. Second, Spielvogel admitted, on the stand, that he lied to the FBI and

in his affidavit, and these lies provided the factual basis for the charges in Counts Four and Five. We find no plain error and no abuse of discretion in the denial of Spielvogel's motion for a new trial on Counts Four and Five.¹⁰

C. SENTENCING ERRORS

Pendergraft and Spielvogel also contend that the district court erred in sentencing on extortion by finding a demand amount from an event that occurred prior to the charged conspiracy.

See ■ United States Sentencing Commission, *Guidelines Manual*, § 2B3.3 (Nov. 2000). Because we set aside the sentences, we do not need to reach this issue.

[17] However, we do note a technical error in the sentencing of Pendergraft and Spielvogel. Instead of imposing sentence on each count of conviction, the district court gave Pendergraft a single sentence of 46 months (R.21 at 91; R.5–151 at 2); similarly, the district court gave Spielvogel a single sentence of 41 months (R.21 at 91; R.5–152 at 2). When sentencing on multiple counts, the Sentencing Guidelines require the district court to divide the sentence among the counts and to specify whether the sentences on each count are to run consecutively or concurrently. See ■ USSG § 5G1.2. This technical error is now moot with regards to Pendergraft, but the district court should re-sentence Spielvogel on Counts Four and Five once the conspiracy to commit perjury charge is finally resolved.

V. CONCLUSION

Pendergraft and Spielvogel were found guilty of conspiring to commit extortion, mail fraud, and perjury. Since both the extortion and mail-fraud charges were legally insufficient, we reverse the district court's denial of their motion for judgment of acquittal and vacate the Count One conspiracy convictions. We acquit Pendergraft and Spielvogel on the charges of conspiracy to commit extortion and mail fraud but remand the charge of conspiracy to commit perjury for a new trial.

Counts Two and Three charged Pendergraft and Spielvogel with attempted extortion and mail fraud respectively, and they were found guilty. Again, because these charges are legally insufficient, we reverse the district court's denial of their motions for judgment of acquittal, reverse the convictions, and enter a judgment of acquittal.

In Counts Four and Five, only Spielvogel was charged with perjury and making *1213 a false report to the FBI. We affirm Spielvogel's convictions on these counts. However, because Spielvogel was not properly sentenced on these counts, we remand them for re-sentencing.

AFFIRMED IN PART; REVERSED AND RENDERED IN PART; VACATED AND REMANDED IN PART.

All Citations

297 F.3d 1198, 15 Fla. L. Weekly Fed. C 820

Footnotes

- 1 Because we are determining whether the actions of Pendergraft and Spielvogel are legally sufficient to support their convictions, we state the evidence in the light most favorable to the Government.
- 2 We have recharacterized some of the issues to focus on the rulings we are asked to review.
- 3 Pendergraft also raises the following issues on appeal: (1) whether the district court erred by denying his motion for a judgment of acquittal because there was evidence that he believed he had a valid claim-of-right against Marion County; (2) whether the district court abused its discretion by admitting a tape of a civil-suit settlement conference; (3) whether the prosecutor improperly vouched for Government witnesses during closing argument; (4) whether the district court erred by enhancing his sentence for extortion based on a monetary demand that was outside the scope of the charged acts; and (5) whether, if a new trial is granted, the trial should be held outside of Ocala. Spielvogel also raises one additional issue: whether the district court erred by precluding his diminished capacity defense. We review each of these issues as well.
- 4 Only Spielvogel was charged in Counts Four and Five, and he does not challenge the legal sufficiency of these substantive counts.
- 5 RICO is an acronym for the Racketeer Influenced and Corrupt Organizations Act, codified at ■ 18 U.S.C. § 1961 et seq.
- 6 Because the jury, from evidence introduced at trial, could have rejected Pendergraft's claim-of-right defense, he was not entitled to judgment of acquittal on the basis of his claim-of-right defense.

7 The State of Florida provides extra security for this right by forbidding state officials or state entities from suing citizens for malicious prosecution. See *Cate v. Oldham*, 450 So.2d 224, 225–26 (Fla.1984). In Florida's view, such suits "can only result in self-censorship. Potential critics of official conduct would be foreclosed from bringing suit because of doubt that they would be permitted to, or could prove the facts, or for fear of the expense for having failed to do so." *Id.* at 227 (quoting *Board of Education v. Marting*, 7 Ohio Misc. 64, 217 N.E.2d 712, 717 (1966)).

8 Pendergraft and Spielvogel assert that the district court abused its discretion by admitting a videotape of the settlement negotiation in which they participated. Though this issue is moot with regard to the extortion and mail-fraud convictions, it is likely to arise again on the conspiracy-to-commit-perjury charge. Rule 408 makes evidence of settlement negotiations inadmissible only when it is offered to prove liability for, invalidity of, or amount of a claim. See Fed.R.Evid. 408; *CNA Fin. Corp. v. Brown*, 162 F.3d 1334, 1338 (11th Cir.1998). Since the videotape was offered as evidence of Pendergraft and Spielvogel's cooperation, and not for a purpose forbidden by Rule 408, the district court did not abuse its discretion by admitting it.

Furthermore, Pendergraft and Spielvogel request, on appeal, a prospective transfer of their proceedings from Ocala.

This is an issue properly addressed to the district court on remand. See Fed.R.Civ.P. 21.

9 Pendergraft and Spielvogel further claim that the prosecutor vouched for the credibility of Government witnesses. We do not think these comments, read in context, rise to the level of plain error.

10 Spielvogel also contends that he should have been allowed to introduce evidence of his diminished capacity to negate his *mens rea*. Spielvogel offered the testimony of Dr. Glenn Ross Caddy, a forensic psychologist, to show that Spielvogel suffered from a personality disorder that made him easily intimidated. However, even if Spielvogel was truly afraid after his conversations with Cretul, this fear in no way shows that Spielvogel did not intend to lie when he made up details about Cretul's threats and reported them to the FBI and in his affidavit. The district court, then, did not abuse its discretion by barring Caddy's testimony. See *United States v. Cameron*, 907 F.2d 1051, 1067 (11th Cir.1990).

937 F.Supp.2d 765
United States District Court,
E.D. Virginia,
Alexandria Division.

Thomas M. UBL, Plaintiff,
v.
Christopher I. KACHOUROFF, Defendant.

No. 1:13-cv-262 (LMB/IDD).

April 8, 2013.

Synopsis

Background: Employee filed suit against employer's attorney after attorney filed declaration in opposition to employee's motion to enforce \$8.9 million settlement agreement entered in employee's qui tam action against employer, asserting claims under Virginia law for abuse of process and negligent infliction of emotional distress. Attorney filed motion to dismiss.

Holdings: The United States District Court for the Eastern District of Virginia, Leonie M. Brinkema, J., held that:

[1] attorney's execution of declaration that it would not consent to proposed \$8.9 million settlement in employee's qui tam action against employer was not "process" as required to support claim for abuse of process, under Virginia law;

[2] even assuming that declaration constituted "process," employee's allegations did not state claim for abuse of process, under Virginia law;

[3] attorney could not be liable to employee for negligent infliction of emotional distress, under Virginia law; and

[4] allegations did not state claims for either negligent or intentional infliction of emotional distress, under Virginia law.

Motion to dismiss granted.

Procedural Posture(s): Motion to Dismiss.

West Headnotes (11)

[1] **Process**

☛ Process, what constitutes

Process

☛ Particular cases

Execution of declaration by employer's attorney that Government would not consent to proposed \$8.9 million settlement in former employee's qui tam action against employer was not "process," as required to support employee's claim against attorney for abuse of process under Virginia law.

Cases that cite this headnote

[2] **Process**

☛ Misuse of process

Process

☛ Improper, ulterior, collateral, or unlawful purpose

Under Virginia law, abuse of process requires (1) the existence of an ulterior purpose; and (2) an act in the use of the process not proper in the regular prosecution of the proceedings.

Cases that cite this headnote

[3] **Process**

☛ Process, what constitutes

In Virginia, an attorney's declaration in support of a pleading does not constitute the sort of "process" or writ which has been lawfully and properly issued, for the purposes of a claim for abuse of process.

Cases that cite this headnote

[4] **Process**

☛ Particular cases

Process

☛ Pleading

Even assuming that execution of declaration by employer's attorney that Government would not consent to proposed \$8.9 million settlement in former employee's qui tam

action against employer constituted process, employee's allegations did not state claim against attorney for abuse of process, under Virginia law, absent allegation that attorney had improper "ulterior purpose" for filing declaration apart from offering it to support response in opposition to employee's motion to enforce settlement.

Cases that cite this headnote

[5] **Process**

↔ Misuse of process

A legitimate use of process to its authorized conclusion, even when carried out with bad intention, is not a malicious abuse of that process that would support a claim for abuse of process, under Virginia law; rather, the gravamen of the tort lies in the abuse or the perversion of the process after it has been issued.

1 Cases that cite this headnote

[6] **Process**

↔ Misuse of process

It is the propriety of the use to which process is put after it is issued that defines the cause of action for abuse of process under Virginia law.

1 Cases that cite this headnote

[7] **Damages**

↔ Particular cases

Employer's attorney could not be liable to former employee for negligent infliction of emotional distress arising out of attorney's declaration that Government would not approve proposed \$8.9 million settlement agreement entered in employee's qui tam action against employer, under Virginia law, where attorney's duty was to employer.

Cases that cite this headnote

[8] **Attorney and Client**

↔ Duties and liabilities to adverse parties and to third persons

An attorney's liability for damages generally is only to his client following some dereliction of duty to the client.

Cases that cite this headnote

[9] **Attorney and Client**

↔ Duties and liabilities to adverse parties and to third persons

Attorney and Client

↔ Nature of attorney's duty

An attorney owes his primary and paramount duty to his client, and the very nature of the adversary process precludes reliance by opposing parties.

Cases that cite this headnote

[10] **Attorney and Client**

↔ Duties and liabilities to adverse parties and to third persons

While it is true that an attorney owes a general duty to the judicial system, it is not the type of duty which translates into liability for negligence to an opposing party where there is no foreseeable reliance by that party on the attorney's conduct.

Cases that cite this headnote

[11] **Damages**

↔ Particular cases

Damages

↔ Particular Cases

Allegations that employer's attorney made material misrepresentations to effect that Government would not support proposed \$8.9 million settlement agreement entered in employee's qui tam action against employer did not state claims against attorney for either negligent or intentional infliction of emotional distress, under Virginia law, absent any allegation of exacerbation of employee's preexisting conditions as natural result of fright or shock caused by declaration, especially in view of employee's pattern of civil litigation and evident familiarity with legal system, as well as

his initiation and pursuit on appeal of qui tam litigation.

Cases that cite this headnote

Attorneys and Law Firms

*767 Stephen James Stine, The Stine Law Firm PLLC, Fairfax, VA, for Plaintiff.

Christopher I. Kachouff, Dominion Law Center PC, Lake Ridge, VA, James Joseph Duane, Regent University Law School, Virginia Beach, VA, for Defendant.

MEMORANDUM OPINION

LEONIE M. BRINKEMA, District Judge.

Before the Court is Defendant's Motion to Dismiss Plaintiff's Amended Complaint ("Motion to Dismiss") [Dkt. No. 3], in which plaintiff seeks to hold the defendant, who is an attorney, liable for misrepresentations the defendant allegedly made over three years ago during civil litigation that the plaintiff filed in this Court. For the reasons stated in open court and more fully developed in this Memorandum Opinion, defendant's Motion to Dismiss will be granted.

I. BACKGROUND

Plaintiff Thomas M. Ubl ("Ubl"), a Florida resident, has alleged abuse of process and negligent infliction of emotional distress claims against Virginia attorney Christopher I. Kachouff ("Kachouff"). Kachouff was one of several opposing counsel in *qui tam* litigation initiated by Ubl against his former employer, IIF Data Solutions, Inc. ("IIF"), and its president, Charles Patten, Sr. Am. Compl. ¶¶ 1–4; see *United States ex rel. Ubl v. IIF Data Solutions*, No. 1:06cv641, 2010 WL 1726767 (E.D.Va. Apr. 28, 2010), *aff'd in part, rev'd in part*, 650 F.3d 445 (4th Cir.2011). Both of Ubl's claims arise from a three-page declaration that Kachouff filed in that *qui tam* litigation to support the defendants' opposition to Ubl's motion to enforce a settlement agreement. See Am. Compl. ¶ 6, Ex. A. In the lawsuit before this Court, Ubl claims that the declaration was false and that Kachouff knowingly submitted it "in an attempt to convince

the Court to deny the Motion to Enforce Settlement on a false premise." *Id.* ¶ 16.¹

*768 Ubl's earlier *qui tam* action involved IIF's acquisition of government contracts after providing the United States General Services Administration ("GSA") with information about its sales practices, which GSA uses to obtain an option for federal agencies to procure products and services at the best possible prices. *Ubl*, 650 F.3d at 448. Ubl alleged that IIF not only misrepresented its commercial price list, hourly rates, and discounts when applying for those contracts, but submitted false claims and overbilled the government after it had secured the contracts. *Id.* at 449. On May 6, 2008, the day trial was to begin, Ubl and IIF executed a settlement agreement; however, that agreement required government approval pursuant to the False Claims Act. *Id.*; see also 31 U.S.C. § 3730(b)(1). The government objected to the proposed \$8.9 million settlement, stating that it "would never consent to the arrangement as it stands now." *Ubl*, 650 F.3d at 449–50. IIF consequently viewed the settlement agreement as void. *Id.* at 450.

Several months later, Ubl represented that he and the government had "resolved in principle between them the issues of the total Settlement Amount," and filed a motion to enforce the original May 6, 2008 settlement agreement. *Id.* at 450–51. The district court denied the motion, finding that "continued negotiations have resulted in material changes to the initial agreement" and IIF had not been a party to those negotiations. See No. 1:06cv641, Oct. 9, 2009 Tr. [Dkt. No. 360], at 12:3–9. That ruling was upheld on appeal. See *Ubl*, 650 F.3d at 452.²

It is from this juncture that the instant civil action arises. In support of defendants' opposition to Ubl's efforts to enforce the May 2008 settlement agreement, Kachouff filed a declaration on October 5, 2009, claiming that based on telephone calls with government officials, he had evidence to believe that Ubl or Ubl's counsel had recommended that IIF be debarred from doing business with the federal government in violation of a term in the May 2008 settlement agreement requiring Ubl "not to refer either Defendant to any agency debaring official." Am. Compl. ¶¶ 4, 7. Ubl now asserts that Kachouff lied in that declaration, and that his lies were intended to persuade the district and appellate courts not to

enforce the settlement agreement. *See id.* ¶¶ 10–11, 16(a)-(b).³

II. STANDARD OF REVIEW

The standard of review for a motion to dismiss under Fed.R.Civ.P. 12(b)(6) requires the Court to assume the facts alleged in the complaint are true and to draw all reasonable inferences in the plaintiff's favor. *Burbach Broad. Co. of Del. v. Elkins Radio Corp.*, 278 F.3d 401, 406 (4th Cir.2002). “Judgment should be entered when the pleadings, construing the facts in the light most favorable to the non-moving party, fail to state any cognizable claim for relief, and the matter can, therefore, be decided as a matter of law.” *O’Ryan v. Dehler Mfg. Co., Inc.*, 99 F.Supp.2d 714, 718 (E.D.Va.2000). In addition, “where the well-pleaded facts do not permit the court to infer more than the mere possibility of misconduct, the complaint has alleged—but it has not ‘show[n]’—that the pleader is entitled to relief.”

Ashcroft v. Iqbal, 556 U.S. 662, 679, 129 S.Ct. 1937, 173 L.Ed.2d 868 (2009) (alteration in original) (quoting Fed.R.Civ.P. 8(a)(2)). “Factual allegations must be enough to raise a right to relief above the speculative level, on the assumption that all the allegations in the complaint are true (even if doubtful in fact).” *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555, 127 S.Ct. 1955, 167 L.Ed.2d 929 (2007). Accordingly, parties must “nudge [] their claims across the line from conceivable to plausible” to survive a Rule 12(b)(6) motion to dismiss. *Id.* at 570, 127 S.Ct. 1955. “A claim has facial plausibility when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.” *Iqbal*, 556 U.S. at 678, 129 S.Ct. 1937.

III. DISCUSSION

In his amended complaint, which was originally filed in state court on June 12, 2012, and removed to this Court under its diversity jurisdiction, Ubl seeks at least \$3 million in damages under theories of abuse of process (Count I) and negligent infliction of emotional distress (Count II). *See* Am. Compl. ¶¶ 20, 24; Pl.’s Opp’n to Def.’s Mot. to Dismiss Am. Compl. (“Opp’n”) at 2 n. 3. Kachouff has moved to dismiss this

litigation on multiple bases; among them, that Ubl’s claims fail to state cognizable causes of action.⁴

A. Abuse of Process

[1] [2] In Count I, Ubl alleges that “[i]n advancing a false declaration in support of his client’s Opposition to the Motion to Enforce, ... Kachouff violated the ethical standards of his profession under the Virginia Rules of Professional Responsibility and he maliciously perverted the legal process in an attempt to convince the Court to deny the Motion to Enforce Settlement on a false premise.” Am. Compl. ¶ 16(a). Under Virginia law, abuse of process requires “(1) the existence of an ulterior purpose; and (2) an act in the use of the process not proper in the regular prosecution of the proceedings.” *Donohoe Constr. Co., Inc. v. Mount Vernon Assocs.*, 235 Va. 531, 369 S.E.2d 857, 862 (1988).

[3] Here, plaintiff has failed to allege that any “process” was abused. In Virginia, an attorney’s declaration in support of a pleading does not constitute the sort of “process or writ which has been lawfully and properly issued” that Virginia courts have considered essential to the tort. *Ross v. Peck Iron & Metal Co.*, 264 F.2d 262, 267 (4th Cir.1959); *see Donohoe*, 369 S.E.2d at 862 (“The distinctive nature of malicious abuse of process lies in the perversion *770 of regularly-issued process...”); *Glidewell v. Murray-Lacy & Co.*, 124 Va. 563, 98 S.E. 665, 670 (1919) (“We need hardly repeat that an action for abuse of process presupposes an originally valid and regular process, duly and properly issued.”). Kachouff properly defines “process” in terms of “the mandate of a court under its seal, whereby a party or an officer of the court is commanded to do certain acts,” and refers to the panoply of Virginia statutes that consider “process” to constitute subpoenas, summonses, injunctions, orders, writs, warrants, and the like. Mem. of Law in Supp. of Def.’s Mot. to Dismiss Pl.’s Am. Compl. (“Mot. to Dismiss”), at 8 (citing Va.Code §§ 1–237, 8.01–119, 8.01–246, 8.01–292).

Ubl contends that those statutes merely provide a non-exhaustive list of examples of process, and that the term’s definition is far broader. To support this argument, he cites case law from jurisdictions outside of Virginia and the Fourth Circuit, *see* Opp’n at 18–19,⁵ but fails to cite any Virginia or Fourth Circuit cases that have interpreted “process” to extend so broadly as to include a declaration submitted by an attorney during litigation. In fact, Virginia courts have

clearly reached the opposite conclusion. See *7600 Ltd. P'ship v. QuesTech, Inc.*, 39 Va. Cir. 268, 1996 WL 34384553, at *2 (Va.Cir.Ct.1996) ("Misrepresentations do not fit within the definition of abuse of process in Virginia."); see also *Atkins v. Ritchie*, No. LC-116, 1980 WL 143159, at *2 (Va.Cir.Ct. Nov. 6, 1980) ("[T]he process that is envisioned in the cause of action for abuse of process is one of a legal nature and is one that might arise out of some kind of writ.").

The only two Virginia cases that Ubl cites, *Glidewell v. Murray-Lacy & Co.*, 124 Va. 563, 98 S.E. 665 (1919), and *Ely v. Whitlock*, 238 Va. 670, 385 S.E.2d 893 (1989), are inapposite. *Glidewell* involved the swearing out of criminal warrants, which the Supreme Court of Virginia has consistently concluded exemplifies "process." 98 S.E. at 666-67; see also *Triangle Auto Auction, Inc. v. Cash*, 238 Va. 183, 380 S.E.2d 649, 651 (1989); *Mullins v. Sanders*, 189 Va. 624, 54 S.E.2d 116, 122 (1949). In *Ely*, defense counsel in a divorce suit filed an ethics complaint against plaintiff's counsel, which the trial judge ordered to be severed and considered after the conclusion of the divorce suit. 385 S.E.2d at 895. Nevertheless, during the divorce suit, defense counsel took depositions in support of her ethics complaint, instead of leaving any investigation to "the authorities charged with the prosecution of ethics complaints." *Id.* at 897. Plaintiff's counsel successfully sued for abuse of process and the Supreme Court of Virginia upheld the verdict, finding that the taking of depositions "sufficed to show 'an act in the use of the process not proper in the regular prosecution of the proceedings.'" *Id.* Like the swearing out of a criminal warrant, the taking of a deposition invokes judicial authority in that the issuance of a summons or a subpoena is used to compel the witness's attendance. See, e.g., Va.Code § 1-237 (" 'Process' includes subpoenas, *771 the summons and complaint in a civil action, and process in statutory actions.").

Ubl's attempt to loosely analogize *Ely*'s holding to cover attorney-filed declarations would sweep within the ambit of the abuse of process cause of action all alleged misrepresentations in attorneys' pleadings and arguments, a result not supported by any Virginia authority. Because Kachouff's declaration does not, as a matter of law, constitute "process," Ubl's claim fails.⁶

[4] [5] Even if an attorney's declaration constituted "process," Ubl has also failed to allege an "ulterior purpose" for filing the declaration apart from offering it to support a pleading. "A legitimate use of process to its authorized conclusion, even when carried out with bad intention, is not a malicious abuse of that process"; rather, "[t]he gravamen of the tort lies in the abuse or the perversion of the process after it has been issued." *Donohoe*, 369 S.E.2d at 862; see also *Ross*, 264 F.2d at 267-68. Kachouff correctly argues that using a declaration to bolster a pleading should be distinguished from the kinds of collateral motives that Virginia courts have found to constitute "ulterior purposes," such as collecting a civil debt by issuing a criminal warrant, *Mullins*, 54 S.E.2d at 122, or embarrassing and extorting money from individuals by serving process on them, *Steverding v. Nebel*, 29 Va. Cir. 347, 1992 WL 885042, at *1-2 (Va.Cir.Ct.1992).

[6] Ubl responds that Virginia does not limit abuse of process claims to unlawful acts only meant to affect collateral proceedings or to achieve a collateral purpose, and implies that this cause of action extends to any act during litigation that is undertaken for an unlawful purpose. He has no support for this argument and ignores the Fourth Circuit's specific statement in *Ross* that "[t]he crux of the tort of abuse of process" depends on whether process was issued "not for the purpose for which it was intended, but for some collateral object." 264 F.2d at 267-68. Indeed, as Kachouff observes, Ubl's position that the actionable "abuse of process" arises from the contents of the declaration at issue is backwards; rather, it is the propriety of the *use* to which process is put *after* it is issued that defines the cause of action. See *Montgomery v. McDaniel*, 271 Va. 465, 628 S.E.2d 529, 533 (2006) (analyzing whether "the pleadings recite a routine use of process"); *Triangle*, 380 S.E.2d at 650 ("Abuse of process involves the wrongful *use* of process *after* it has been issued." (emphases in original)); *Glidewell*, 98 S.E. at 668 ("[T]he abuse consist[s] in its perversion to some unlawful purpose and in the willful and oppressive use of it *after its issue*." (emphasis added)). The amended complaint does not allege that Kachouff used the declaration he filed for any improper purpose; indeed, the amended complaint alleges that defense counsel merely cited the declaration as part of an argument in the *qui tam* litigation which, as discussed above, was a secondary argument not relied upon by either the district or appellate courts for any decision. See *supra* at n. 1. Because plaintiff has failed *772 to allege any facts showing that the declaration was used for any purpose other than to support

a position in litigation, he also fails to sufficiently allege the misuse element of his abuse of process claim, which must, therefore, be dismissed.⁷

B. Negligent Infliction of Emotional Distress

[7] [8] [9] [10] Ubl's negligent infliction of emotional distress claim similarly fails as a matter of law. Kachouff and Ubl were admittedly "in an adversarial relationship" during the underlying *qui tam* litigation. Am. Compl. ¶ 22. The Supreme Court of Virginia has decisively held that an attorney is not liable to an opposing party for negligent infliction of emotional distress, absent foreseeable reliance by that party on the attorney's conduct. See *Ayyildiz v. Kidd*, 220 Va. 1080, 266 S.E.2d 108, 112–13 (1980). As the *Ayyildiz* court explained:

An attorney's liability for damages generally is only to his client following some dereliction of duty to the client.... "[T]he attorney owes his primary and paramount duty to his client. The very nature of the adversary process precludes reliance by opposing parties. While it is true that the attorney owes a general duty to the judicial system, it is not the type of duty which translates into liability for negligence to an opposing party where there is no foreseeable reliance by that party on the attorney's conduct."

Id. at 112 (citation omitted); see also *Covington v. Haboush*, 28 Va. Cir. 360, 1992 WL 884828, at *5 (Va.Cir.Ct.1992) (applying *Ayyildiz* to find that neither the Code of Professional Responsibility nor the sanctions statute gives rise to a private cause of action against an attorney). Although Ubl acknowledges this general principle, he summarily dismisses it as inapplicable to Kachouff's "gross misrepresentations" and tries to recast his claim as intentional infliction of emotional distress. See Opp'n at 21–22 (suddenly referring to the filing of the declaration as an "intentional tort[]" and an "attempt to willfully and intentionally harm [plaintiff] with known falsities"). Of course, an intentional infliction of emotional distress claim would be even more problematic for plaintiff, who would have the heightened burden of pleading sufficiently that defendant's filing of the declaration was "intentional or reckless" in addition to constituting conduct that was "outrageous and intolerable in that it offends against the generally accepted standards of decency and morality" and that had "a causal connection" to "severe" emotional distress.

Womack v. Eldridge, 215 Va. 338, 210 S.E.2d 145, 148 (1974). The amended complaint simply does not allege such facts.

[11] Kachouff also argues that Ubl has failed to allege an adequate physical injury related to the filing of the declaration. "[W]here the claim is for emotional disturbance and physical injury resulting therefrom, there may be recovery for negligent conduct, notwithstanding the lack of physical impact, provided the injured party properly pleads and proves by clear and convincing evidence that his physical injury was the natural result of fright or shock proximately caused by the defendant's negligence."

*773 *Hughes v. Moore*, 214 Va. 27, 197 S.E.2d 214, 219 (1973). Kachouff disputes that there is any allegation in the Amended Complaint sufficient to show that any exacerbation of Ubl's preexisting medical conditions was "the natural result of fright or shock" caused by the filing of the declaration, citing a Virginia case in which the court sustained a demurrer when the plaintiff claimed intentional or negligent infliction of severe emotional distress based on the filing of a complaint against her. See *Berry v. Clark*, 42 Va. Cir. 1, 1997 WL 1070609, at *3 (Va.Cir.Ct.1996) ("The distress must be so severe that 'no reasonable person [should] be expected to endure it.' The pleading fails to allege facts of extreme action, given that the adversarial posture in litigation naturally causes some stress.") (citation omitted). Moreover, Ubl's pattern of civil litigation and evident familiarity with the legal system,⁸ as well as his initiation and pursuit on appeal of the *qui tam* litigation underlying this civil action, undercut any claim of severe physical injury from "fright or shock" connected with opposing counsel filing a declaration to support a pleading in that litigation. For these reasons, Ubl fails to allege sufficient facts to support a claim of negligent or intentional infliction of emotional distress.⁹

IV. CONCLUSION

For the above-stated reasons, the defendant's Motion to Dismiss Plaintiff's Amended Complaint will be granted by an Order issued with this Memorandum Opinion.

All Citations

937 F.Supp.2d 765

Footnotes

- 1 A fair review of both the district and appellate courts' decisions summarizing the litigation establishes that Kachouff's declaration formed no part of their rationale for refusing to enforce the May 6, 2008 settlement agreement. Instead, those courts found dispositive that the government never approved the settlement agreement, rendering it void under its own terms, and that even if Ubl and the government later reached agreement "in principle" on the terms of a settlement agreement, the defendants were not parties to those negotiations and could not be bound by them. See *Ubl*, 650 F.3d at 451–52; *infra* at 768.
- 2 Although it affirmed the denial of plaintiff's motion, the United States Court of Appeals for the Fourth Circuit reversed the district court's separate, post-verdict decision to award the defendants \$501,546.00 in attorneys' fees. *Ubl*, 650 F.3d at 460.
- 3 The Amended Complaint contains two paragraphs numbered "16," which this Opinion labels "¶ 16(a)" and "¶ 16(b)," respectively.
- 4 Kachouff also argues that Ubl's amended complaint is time-barred. See Va.Code §§ 8.01–243(A) (applying two-year limitations period to "every action for personal injuries, whatever the theory of recovery"); 8.01–230 (generally defining accrual to occur on "the date the injury is sustained"). However, the general accrual rule does not apply to Ubl's abuse of process claim. See *id.* §§ 8.01–230 (creating exception for "where otherwise provided under § ... 8.01–249"); 8.01–249(3) (deeming accrual to occur "when the relevant criminal or civil action is terminated" in actions for abuse of process). Moreover, Ubl has argued that the relevant periods were tolled by periods of his physical incapacity, to which he has referred in his complaint. See *id.* § 8.01–229(A)(2)(b); Am. Compl. ¶ 19 ("[T]hese ailments have rendered Mr. Ubl bedridden and incapacitated for months at a time since October 2009."). An affirmative defense based on a statute of limitations can be reached by a motion to dismiss under Fed.R.Civ.P. 12(b)(6) "in the relatively rare circumstances where facts sufficient to rule on an affirmative defense are alleged in the complaint." *Goodman v. Praxair, Inc.*, 494 F.3d 458, 464 (4th Cir.2007). Here, facts sufficient to rule on the statute of limitations have not been alleged in the amended complaint, and therefore the Court declines to reach this argument at this stage of proceedings.
- 5 None of the outside authorities that Ubl cites have concluded that an attorney's declaration constitutes "process." Indeed, one of them observed, in dismissing an abuse of process claim, that
It is not simply that any form of legal process, i.e., the filing of a motion or document with the court, is automatically considered process in the context of a claim for abuse of process; process in this form is used in the litigation of any matter. Within the context of tortious abuse of process, process refers to times when the authority of the court is used. *Rentea v. Rose*, No. M2006–02076–COA–R3–CV, 2008 WL 1850911, at *4 (Ct.App.Tenn. Apr. 25, 2008).
- 6 At oral argument, plaintiff's counsel suggested that he could cure the deficiencies of his abuse of process claim through an amendment. But nothing in the proposed amendment would remedy the defects described above. "[L]eave to amend a pleading should be denied *only when* the amendment would be prejudicial to the opposing party, there has been bad faith on the part of the moving party, or the amendment would be futile." *Edwards v. City of Goldsboro*, 178 F.3d 231, 242 (4th Cir.1999) (quoting *Johnson v. Oroweat Foods Co.*, 785 F.2d 503, 509 (4th Cir.1986)) (emphasis in original). Counsel's proposed amendment would be futile because he is unable to identify any "process" to which he can anchor his cause of action. Cf. *Donohoe*, 369 S.E.2d at 862. Therefore, leave to amend has been denied.
- 7 Ubl urges that refusing to recognize his abuse of process claim "would be tantamount to permitting an attorney or party opponent to freely enter into unethical conduct, perjury, discovery abuses, and other unlawful conduct as long as it concerned the original litigation and not an outside proceeding." Opp'n at 16. His concern that dismissing his claim would allow attorneys to file untrue declarations with impunity is defeated by the existence of various means for punishing such conduct, including prosecution for perjury or sanctions under Fed.R.Civ.P. 11, 37, or 60(b).
- 8 Ubl filed unrelated *qui tam* litigation in 1997, which was dismissed without prejudice after the government investigated the allegations and declined to intervene. See *Ubl v. Savin Corporation ("Savin I")*, No. 1:97–mc–117–JCC–TCB (E.D.Va. filed Nov. 17, 1997). Ubl re-filed his complaint in 1999, but voluntarily dismissed it with the government's consent. See *Ubl v. Savin Corporation ("Savin II")*, No. 1:99–mc–81–JCC (E.D.Va. filed Nov. 1, 1999). Eight years later, Ubl sought to "reopen his earlier action in order to obtain a share of funds that he claims are the proceeds of a Government settlement with the Defendant in his action," but the court denied his motion, finding it "utterly meritless." *Savin I*, Dkt. No. 22,

2006 WL 1050650, at *4 (E.D.Va. Apr. 18, 2006), *aff'd* 217 Fed.Appx. 237 (4th Cir.2007). Kachouff also indicates that as recently as June 2011, Ubl filed a breach of contract action in Ohio state court and settled the litigation, moved to enforce the judgment, and pursued a levy to execute the judgment, all while proceeding *pro se*. See Def.'s Reply to Pl.'s Opp'n to Def.'s Mot. to Dismiss ("Reply"), Exs. C–D (containing copies of the docket sheet and complaint in *Ubl v. Int'l Trade Network*, No. 11CVF01342 (Willoughby Mun. Ct. filed June 20, 2011)).

- 9 In his motion to dismiss, Kachouff briefly advanced the theory that Ubl's state law claims are preempted by the power of federal courts to police their own proceedings. See Mot. to Dismiss at 12–13. Kachouff cited virtually no case law to support this argument and did not renew it in his reply brief. Moreover, there is no support for his position that state law claims against an attorney are not cognizable in a federal court sitting in diversity. Because his other arguments are dispositive of the instant motion, this argument will not be further addressed.

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924 So.2d 862

District Court of Appeal of Florida,
Third District.

Jose VALDES and Juana
Valdes, his wife, Appellants,

v.

GAB ROBINS NORTH AMERICA, INC.,
Southern Underwriters, Inc., Capital
Assurance Services, Inc., Capital Assurance
Company, Inc., and Reggie Phillips, Appellees.

No. 3D04-208.

Feb. 22, 2006.

Rehearing Denied April 18, 2006.

Synopsis

Background: After criminal charges for workers' compensation misrepresentation by false or misleading statement were dismissed, claimant and his wife filed a suit against his workers' compensation carriers, adjusters, and their employees that alleged causes of action for civil conspiracy, false imprisonment, malicious prosecution, abuse of legal process, outrageous conduct, intentional infliction of emotional distress, and loss of consortium. The Circuit Court, Miami-Dade County, Barbara Levenson, J., dismissed the claims against all defendants. Claimant and his wife appealed.

Holdings: The District Court of Appeal, Wells, J., held that:

[1] claimant failed to state a cause of action for civil conspiracy;

[2] claimant failed to state causes of action for outrageous conduct and intentional infliction of emotional distress;

[3] claimant failed to state causes of action for malicious prosecution and abuse of process; and

[4] claimant failed to state a cause of action for false imprisonment.

Affirmed.

Procedural Posture(s): On Appeal; Motion to Dismiss.

West Headnotes (10)

[1] Conspiracy

↳ Pleading

Workers' compensation claimant failed to state a cause of action for civil conspiracy against his workers' compensation carriers, adjusters, and their employees; complaint attempted to allege a conspiracy between a corporation and its predecessor, and it attempted to allege a conspiracy between a corporation and its agents and employees, without further alleging that the agents and employees had a personal stake separate and distinct from the corporation.

1 Cases that cite this headnote

[2] Damages

↳ Workers' Compensation

Workers' compensation claimant failed to state causes of action for outrageous conduct and intentional infliction of emotional distress against his workers' compensation carriers, adjusters, and their employees; the actions of carriers and adjusters in investigating claimant and reporting claimant to the Division of Insurance was not the type of conduct that was so outrageous in character and extreme in degree as to go beyond the bounds of decency and be deemed utterly intolerable.

18 Cases that cite this headnote

[3] Malicious Prosecution

↳ Necessity

Process

↳ Pleading

Workers' compensation claimant failed to state causes of action for malicious prosecution and abuse of process against his workers' compensation carriers, adjusters, and their employees; the malicious prosecution claim failed to allege a bona fide termination of a prior proceeding in claimant's favor, and claimant

failed to allege any improper willful acts by defendants during the prior action.

3 Cases that cite this headnote

[4] Malicious Prosecution

☞ Nature and Elements of Malicious Prosecution in General

The elements of a malicious prosecution claim are: (1) an original criminal or civil judicial proceeding against the present plaintiff was commenced or continued; (2) the present defendant was the legal cause of the original proceeding against the present plaintiff as the defendant in the original proceeding; (3) the termination of the original proceeding constituted a bona fide termination of that proceeding in favor of the present plaintiff; (4) there was an absence of probable cause for the original proceeding; (5) there was malice on the part of the present defendant; and (6) the plaintiff suffered damage as a result of the original proceeding.

9 Cases that cite this headnote

[5] Malicious Prosecution

☞ Necessity

A plaintiff in a malicious prosecution case must, as an essential element of that cause of action, establish that the prior litigation giving rise to the malicious prosecution suit ended with a bona fide termination in that party's favor.

3 Cases that cite this headnote

[6] Malicious Prosecution

☞ Mode of Termination

A "bona fide termination," in the context of a malicious prosecution claim, means that the first suit, on which the malicious prosecution suit is based, ended in a manner indicating the original defendant's, and current plaintiff's, innocence of the charges or allegations contained in the first suit, so that a court handling the malicious prosecution suit, can conclude with confidence, that the termination of the first suit was not only

favorable to the defendant in that suit, but also that it demonstrated the first suit's lack of merit.

4 Cases that cite this headnote

[7] Malicious Prosecution

☞ Mode of Termination

Suits that terminate because of technical or procedural reasons or considerations other than the merits of the first suit, are not bona fide terminations and will not support a malicious prosecution suit.

3 Cases that cite this headnote

[8] Malicious Prosecution

☞ Mode of Termination

Malicious Prosecution

☞ Compromise and Settlement

Florida courts take the view that bargaining or negotiating for the termination of litigation does not always negate the bona fide nature of the termination, for the purpose of a malicious prosecution claim; whether a withdrawal or abandonment of a lawsuit constitutes a bona fide termination in favor of a person against whom the suit was brought, depends on the total circumstances surrounding the withdrawal or abandonment.

Cases that cite this headnote

[9] Process

☞ Nature and Elements in General

A cause of action for abuse of process requires: (1) an illegal, improper, or perverted use of process by the defendant; (2) an ulterior motive or purpose in exercising the illegal, improper, or perverted process; and (3) damage to the plaintiff as a result of the defendant's action.

11 Cases that cite this headnote

[10] False Imprisonment

☞ Persons Procuring or Instigating Arrest

Workers' compensation claimant, who after being videotaped allegedly engaged in physical

activities had been arrested for workers' compensation/misrepresentation, failed to state a cause of action for false imprisonment against his workers' compensation carriers, adjusters, and their employees; the complaint failed to allege any facts that supported the allegation that defendants directly or indirectly procured claimant's arrest or detention.

1 Cases that cite this headnote

Attorneys and Law Firms

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Parenti, Falk, Waas, Hernandez & Cortina, Coral Gables, and Paul H. Field, Miami; Cooney, Mattson, Lance, Blackburn, Richards & O'Connor and Warren B. Kwavnick, Ft. Lauderdale, for appellees.

Before FLETCHER, WELLS, and SHEPHERD, JJ.

Opinion

WELLS, Judge.

Jose Valdes and Juana Valdes appeal an order dismissing with prejudice their Corrected Amended Complaint against the appellees, Mr. Valdes' workers' compensation carriers and adjusters. We affirm.

On January 15, 1985, Jose Valdes sustained an on-the-job injury while working for a construction company and was declared permanently disabled. From 1994 through 1999, Valdes received total disability benefits from his employer's workers' compensation insurance.

Sometime in 1999, appellees had Valdes videotaped while he was engaged in a number of physical activities. Valdes subsequently was queried during a deposition about the activities captured on videotape and then was reported to the State of Florida Division of Insurance Fraud for engaging in insurance fraud.

On December 9, 1999, Valdes was arrested by the State and charged with *865 "Workers' Compensation/Misrepresentation by False or Misleading Statement," a second degree felony. His workers' compensation benefits

were terminated the following day. The criminal charges against Valdes ultimately were dropped, and Valdes was paid the workers' compensation benefits owed from the time they were terminated.

In November of 2002, Valdes and his wife filed suit against Capital Assurance Company, Inc. (also known as Capital Assurance Services, Inc.) and its predecessor, Southern Underwriters, Inc. (collectively Capital), the insurer responsible for paying Valdes' workers' compensation benefits. He also sued Capital's claims handler/adjuster, GAB Robins North America, Inc., and its employee, Reggie Phillips. The complaint, without distinguishing between individual defendants, attempted to allege causes of action sounding in civil conspiracy, false imprisonment, malicious prosecution, abuse of legal process, outrageous conduct, intentional infliction of emotional distress and loss of consortium.

Capital moved to dismiss, claiming immunity under sections 440.105, 440.1051 and 626.989 of the Florida Statutes and claiming that the complaint failed to state a cause of action under any of the seven theories asserted. The trial court agreed with the defendants for both reasons and dismissed all seven claims. GAB Robins, which had previously answered the Corrected Amended Complaint, moved for judgment on the pleadings based on dismissal of the complaint as to the other defendants. After Valdes declined to amend, the action was dismissed with prejudice as to all defendants.

Looking, as we must, solely to the allegations of the complaint, we affirm dismissal of all counts because the complaint fails to allege the essential elements of each of these causes of action. See *Susan Fixel, Inc. v. Rosenthal & Rosenthal, Inc.*, 842 So.2d 204, 206 (Fla. 3d DCA 2003) ("Because a ruling on a motion to dismiss for failure to state a cause of action is an issue of law, it is reviewable on appeal by the de novo standard of review. When determining the merits of a motion to dismiss, the trial court's consideration is limited to the four corners of the complaint, the allegations of which must be accepted as true and considered in the light most favorable to the nonmoving party.").

[1] The civil conspiracy count fails to state a cause of action because it improperly attempts to allege a conspiracy between a corporation and its predecessor, see *St. Petersburg*

Yacht Charters, Inc. v. Morgan Yacht, Inc., 457 So.2d 1028, 1041 n. 4 (Fla. 2d DCA 1984)(noting that “[a] corporation cannot conspire with itself”), and because it attempts to allege a conspiracy between the corporation and its agents and employees, without further alleging that the agents and employees had a personal stake separate and distinct from that of the corporation. See *Lipsig v. Ramlawi*, 760 So.2d 170, 180–81 (Fla. 3d DCA 2000)(finding that “neither an agent nor an employee can conspire with his or her corporate principal or employer” unless they have “a personal stake in the activities that are separate and distinct from the corporations’ interest”)(quoting *Cedar Hills Properties Corp. v. Eastern Fed. Corp.*, 575 So.2d 673, 676 (Fla. 1st DCA 1991)).

[2] The outrageous conduct and intentional infliction of emotional distress counts, which we treat as the same claim, similarly fail to state a cause of action. See *Baker v. Florida Nat’l Bank*, 559 So.2d 284, 287 (Fla. 4th DCA 1990)(recognizing that the “tort of outrageous conduct” and the tort of intentional infliction of emotional distress are the same claim); *866 *Estate of Morton v. U.S. Fid. & Guar. Co.*, 460 So.2d 526, 527 (Fla. 4th DCA 1984) (noting that a claim for intentional infliction of emotional distress and for the “tort of outrage ... should constitute but one cause of action”). While the anxiety and stress of being charged by the Division of Insurance Fraud with making false statements and being arrested by the State in connection with those charges is understandable, the appellees’ behavior in investigating Valdes and then allegedly falsely reporting to the Division of Insurance that Valdes had committed fraud is not the type of conduct that is so outrageous in character and extreme in degree as to go beyond the bounds of decency and be deemed utterly intolerable in a civilized society. See, e.g., *LeGrande v. Emmanuel*, 889 So.2d 991, 994 (Fla. 3d DCA 2004)(confirming that a cause of action for intentional infliction of emotional distress requires allegations of outrageous conduct that goes so far beyond all bounds of decency as to be regarded as odious and utterly intolerable in a civilized community); *State Farm Mut. Auto. Ins. Co. v. Novotny*, 657 So.2d 1210, 1212–1213 (Fla. 5th DCA 1995)(“To be sufficient, the recitation of facts must arouse resentment in an average member of the community, and cause him to exclaim ‘outrageous.’ It is not enough that the intent is tortious or criminal; it is not enough that the defendant intended to inflict emotional distress; and it is not enough if the conduct was characterized by malice or aggravation which would entitle the plaintiff to punitive damages for another tort.”) (citations omitted).

[3] [4] [5] [6] [7] [8] Valdes’ malicious prosecution and abuse of process claims are also fatally infirm. The malicious prosecution claim fails to allege the “bona fide” termination of a prior proceeding in Valdes’ favor.¹ Alleging only that a prior action ended favorably, is not enough:

It is axiomatic that a plaintiff in a malicious prosecution case must, as an essential element of that cause of action, establish that the prior litigation giving rise to the malicious prosecution suit ended with a “bona fide termination” in that party’s favor. This is a fancy phrase which means that the first suit, on which the malicious prosecution suit is based, ended in a manner indicating the original defendant’s (and current plaintiff’s) innocence of the charges or allegations contained in the first suit, so that a court handling the malicious prosecution suit, can conclude with confidence, that the termination of the first suit was not only favorable to the defendant in that suit, but also that it demonstrated the first suit’s lack of merit. Therefore, suits that terminate because of technical or procedural reasons or considerations other than the merits of the first suit, are not “bona fide terminations” and will not support a malicious prosecution suit.

Because lawsuits that end as the result of settlements or joint stipulations generally do not clearly demonstrate the lack of merit of the first suit, they are usually found insufficient to constitute *867 “bona fide terminations” of the prior litigation. However, Florida courts take the view that bargaining or negotiating for the termination of litigation does not always negate the bona fide nature of the termination. Whether a withdrawal or abandonment of a lawsuit constitutes a bona fide termination in favor of a person against whom the suit was brought, depends on the total circumstances surrounding the withdrawal or abandonment. It is favorable if the dismissal indicates the lack of merit of the case against the defendant in a civil case.

Doss v. Bank Of America, N.A., 857 So.2d 991, 994–95 (Fla. 5th DCA 2003) (citations omitted)(footnote omitted).

[9] Valdes’ failure to allege any improper willful acts by the appellees during the course of the prior action requires dismissal of the abuse of process claim as well.² *Peckins v. Kaye*, 443 So.2d 1025, 1026 (Fla. 2d DCA 1983)(confirming that ulterior motives alone are insufficient to support an abuse of process claim and that “[t]here must be an improper willful

act during the course of the proceedings to constitute an abuse of process”).

[10] The false imprisonment count also was properly dismissed because it failed to allege any ultimate facts to support the conclusory allegation that appellees either directly or indirectly procured Valdes' arrest or detention. Valdes solely alleged that appellees falsely reported to the Division of Insurance Fraud that they had proof that he had committed insurance fraud. This is insufficient:

[I]t is not enough ... that the actor has given information to the police about the commission of a crime, or has accused the other of committing it, so long as he leaves to the police the decision as to what shall be done

about any arrest, without persuading or influencing them.

Pokorny v. First Fed. Sav. & Loan Ass'n of Largo, 382 So.2d 678, 682 (Fla.1980)(quoting Restatement (Second) of Torts, § 45A cmt. c (1965)).

Because we agree that the complaint was properly dismissed for failure to state a cause of action, we do not address the remainder of the issues raised and affirm.³

The dismissal order is, therefore, affirmed.

All Citations

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Footnotes

- 1 The elements of a malicious prosecution claim are:
(1) an original criminal or civil judicial proceeding against the present plaintiff was commenced or continued; (2) the present defendant was the legal cause of the original proceeding against the present plaintiff as the defendant in the original proceeding; (3) the termination of the original proceeding constituted a bona fide termination of that proceeding in favor of the present plaintiff; (4) there was an absence of probable cause for the original proceeding; (5) there was malice on the part of the present defendant; and (6) the plaintiff suffered damage as a result of the original proceeding.
Alamo Rent-A-Car, Inc. v. Mancusi, 632 So.2d 1352, 1355 (Fla.1994).
- 2 A cause of action for abuse of process requires: (1) an illegal, improper, or perverted use of process by the defendant; (2) an ulterior motive or purpose in exercising the illegal, improper, or perverted process; and (3) damage to the plaintiff as a result of the defendant's action. *Hardick v. Homol*, 795 So.2d 1107, 1111 n. 2 (Fla. 5th DCA 2001).
- 3 The consortium claim, of course, also fails. See *ACandS, Inc. v. Redd*, 703 So.2d 492, 493-94 (Fla. 3d DCA 1997) (holding that loss of consortium is a derivative claim that is dependent on the spouse's ability to recover in a cause of action against the same defendant).