

Common Defense

Spring 2019

A Magazine for Arizona Defense Attorneys



2018 AADC Judicial Receptions



Receptions held in Tucson
and Phoenix
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**Snell & Wilmer Mourns The Death
Of Former Chair John J. Bouma**

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**AADC Supports National High
School Mock Trial Tournament**

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President's Message



Adam Lang, Esq.

Spring Awakening

Spring is my favorite time of the year. Other than glimpses of the scorching summer to come, it is hard to get any better. Ski trips, Spring Break, Spring Training, March Madness, the NFL Draft, hockey and basketball playoffs, perfect weather, birthdays for both of my kids, and more.

Spring is also my favorite time to be part of the AADC. With only a couple months remaining in the current fiscal year, we can look back on what we have accomplished and the events ahead of us. This year has been exciting:

- After years of traditional golf tournaments benefitting the Arizona Chapter of the ALS Foundation, we converted the tournament to an event at Top Golf, and by all accounts, it was a great success. Attendance, fundraising, and buzz were all up. We are already planning our next one for September 2019. We look forward to you joining us.
- At our Fall Kickoff, we hosted a cocktail party on a rooftop patio with a sunset view as we celebrated the beginning of a

new year for the organization and had a chance to honor two outstanding attorneys – Thom Slack and Burr Udall. These attorneys exemplify the very best of our profession.

- Prior to the winter holidays, we honored Judge Janet Barton at a reception at Bitter and Twisted in Phoenix and Judge Charles Harrington at the Arizona Inn in Tucson with the Judicial Excellence Award for their years of service on the bench and their commitment to the profession. Both receptions were attended by dozens of attorneys and judges. We once again thank Judge Barton and Judge Harrington for their memorable remarks and stories at those receptions. We all continue to learn a great deal from them.
- We created an employment substantive law group, giving our employment law practitioners more resources and continuing to expand our reach into other areas of the defense bar.
- We held advocacy lunches and CLEs on a vast array of topics, including shaping issues for appeal, succession planning, SpaceX Hyperloop technology, the Fair Labor Standards Act, products liability, unique aspects of defending public entities, topics in D & O liability, data privacy, and OSHA.
- Our legislative group continues to send out weekly updates on the status and progression of various bills before the Arizona legislature, which may impact the defense bar, the profession, and our

clients. Not only do we monitor those bills, but, as necessary, the legislative committee and its lobbyist, John Moody, are available to meet with stakeholders on those bills that engender specific interest amongst our members.

- Our amicus brief committee continuously looks to oppose or support various positions that benefit our membership and our clients.
- On April 13, 2019, the AADC YLD held its annual charity softball tournament at the Tempe Sports Complex to benefit Southwest Human Development. The YLD, once again, knows how to put on a great event.

The Annual Meeting

So what does May and June have to offer? Our annual meeting of course. This year's meeting will be held on May 31, 2019, at the Court of Appeals near the State Capitol. We have a packed day planned for you. The meeting will begin with a live oral argument in front of the Arizona Court of Appeals. This year's case will be [Brian Symons v. PJO Insurance Brokerage, LLC](#), a matter arising out of a professional negligence claim alleging that the defendant/appellee, an insurance producer, failed to meet its standard of care by failing to produce a suitable insurance policy. The issue on appeal, which all trial attorneys can appreciate, relates to the purportedly untimely disclosure of evidence and its impact on the outcome of the trial.

Following the oral argument, judges from the Court of Appeals have graciously agreed to

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All views, opinions, and conclusions expressed in articles of this magazine are those of the authors and are not necessarily that of the Arizona Association of Defense Counsel, and/or the Board of Directors.

Correspondence and articles are welcome and should be sent to the Editor. Email articles for submission to Amy Wilkens at awilkens@lorberlaw.com. The right is reserved to select materials to be published. Material accepted for publication becomes property of the Arizona Association of Defense Counsel.

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President's Message *(continued)*

participate in a panel discussion about practicing before appellate courts. Once the panel discussion concludes, we will have the good fortune of networking in smaller groups of meeting participants at lunches graciously hosted by AADC sponsors. Sponsors, thank you for all you do for us. After lunch, we have a good lineup of presenters and up to three hours of CLE (all ethics!). It really should be a great event and hope you can make it. Please register online at www.azadc.org. We would love to have you. Members and non-members are all invited.

Become More Active in AADC

Well, I hope I have given you a flavor of the AADC's varied and interesting activities we engaged in this year. We are always looking to add new directors, members, and sponsors, and we are always open to new ideas. If you are interested in learning more about the AADC or getting further involved, or if you know of other attorneys who might enjoy what the AADC has to offer, please reach out to one of our directors. We think you will be pleased when you do.

Onto Summer . . . Stay cool. Be safe. And have a great one my friends.

Best,
Adam Lang, Esq.
President



Nathaniel Curtis
Senior Director

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Let's Get Out of The Weeds; Understanding Arizona's Medical Marijuana Laws

By John Lomax, Marian Zapata-Rossa, and Rubi Bujanda
Firm ?



John Lomax



Marian Zapata-Rossa



Rubi Bujanda

Can an employer terminate the employment of a medical marijuana card holder who tests positive after a work-related injury? A recent decision tackles this question and represents a first look at the legal issues under Arizona's medical marijuana law. Employers and their counsel should familiarize themselves with this decision.

Facts of the Case

In *Whitmire v. Wal-Mart Stores Inc.*, a Customer Service Supervisor sued her employer, Wal-Mart, for various employment law claims, including discrimination under the Arizona Medical Marijuana Act ("AMMA") and disability discrimination under the Arizona Civil Rights Act ("ACRA"). At the time when the employee was hired, she had signed an acknowledgement form confirming her receipt of Wal-Mart's drug and alcohol

policy, which stated that she could be terminated if a drug test evidenced *any* detectable amount of illegal substances.

After sustaining a work-related injury, the employee was given a drug test for which she tested positive for marijuana metabolites at the highest level the test could record. Even though she was a valid medical marijuana cardholder, her employment was terminated based on the positive drug test. As part of its defense in the lawsuit, Wal-Mart's Personnel Coordinator signed a declaration stating that, upon her reasonable belief, the high level of metabolites detected by the drug test indicated the employee was impaired during her shift that day.

Arizona Drug Testing of Employees Act

The Arizona Drug Testing of Employees Act ("DTEA") grants

employers immunity from liability for taking any adverse actions against employees who receive a positive drug test, or whom the employer reasonably believes have used, possessed, or were impaired by drugs or alcohol while on the employer's premises or during work hours. The employer's good faith belief may be based on the results of a drug test. To avail themselves of immunity under the Act, employers must maintain a proper drug testing policy and drug testing program that complies with the DTEA.

Arizona Medical Marijuana Act

Under the AMMA, a qualified patient diagnosed with a debilitating medical condition can obtain a registry card to buy and use medical marijuana. The AMMA's anti-discrimination provision protects employees who are valid cardholders from being discriminated against (i.e.,

Let's Get Out of The Weeds (continued)

suspended, fired, etc.) for testing positive for marijuana metabolites, unless they used, possessed, or were impaired at work or during work hours. Employees cannot be considered to be under the influence solely based on the presence of marijuana metabolites in an insufficient concentration to cause impairment.

Harmonizing the AMMA and DTEA

While the anti-discrimination provision of the AMMA and the employer immunity provision under the DTEA appear to be at odds, the Court in *Whitmire v. Wal-Mart Stores Inc.* reconciled the two statutes as follows:

- “An employer cannot be sued for firing a registered qualifying patient based on the employer’s good-faith belief that the employee was impaired by marijuana at work, where that belief is based on a drug test that sufficiently establishing the presence of ‘metabolites or components of marijuana’ sufficient to cause impairment.”

Ultimately, because Wal-Mart did not present any evidence establishing that the employee was impaired at work, such as scientific expert testimony opining on the sufficiency of the metabolite levels revealed by the employee’s drug test, or evidence of any symptoms of impairment (such as affected speech, walking, coordination, irrational or unusual behavior) the Court ultimately ruled in favor of the employee on her discrimination claim under the AMMA.

Disability Under the Arizona Civil Rights Act

In addition to her claim under the AMMA, although the employee was not disabled, she brought a disability discrimination claim under the ACRA alleging Wal-Mart was liable because it regarded her as being disabled based on the impairing effects of her medical marijuana use. Because the effects on the employee were temporary and minor, and effective alternatives to using medicinal marijuana that produced no such effects were available, the Court concluded that the impairing effects of medical marijuana on the employee did not render her disabled under the ACRA.

Takeaways for Employers

- Employers should consider revisiting their drug and alcohol, and drug testing policies to ensure they are properly availing themselves of the protections under the DTEA and AMMA and avoiding liability for discrimination claims under the AMMA.

- A positive drug test for marijuana, alone, may be insufficient to insulate an employer from liability under the AMMA and establish a good-faith belief that an employee was impaired at work. If a termination is based on a positive drug test, employers should be prepared to hire an expert to prove that the presence of marijuana metabolites sufficiently caused the employee to be impaired at work, or be able to produce other evidence of impairment.

- Managers and supervisors should be trained on recognizing and documenting symptoms of impairment.

- Employers should also consider federal law, and those with a national presence should consider the medical marijuana laws in each state where they operate as many states’ laws differ from Arizona’s requirements.

- While the effects of medical marijuana use may be insufficient to establish a “regarded-as” claim of disability discrimination, employers should continue to be mindful of whether any underlying medical conditions the employee has are protected under state and federal sick time, medical leave, and disability laws.

Does Your Firm Accept Credit Card Payments? If So, Keep Reading...

By Alison R. Christian, Esq.
Christian Dichter & Sluga



Alison R. Christian, Esq.

I was scrolling through my Google news feed on my cell phone the other day (while sitting silently next to a sleeping toddler) and came across an article written by Philadelphia Insurance Company Cyber Liability Product Manager Evan Fenaroli. The article talked about steps that companies can take to protect credit card data and, since our firm recently started accepting credit cards, it caught my attention. Mr. Fenaroli referenced the Payment Card Industry Data Security Standard (PCI-DSS), an

acronym I had never previously encountered. Apparently the PCI-DSS dictates certain procedural and technological controls that businesses must implement in an effort to protect cardholder data. The article said that “any business or organization which accepts cards as a payment for goods, services, or donations” is subject to the PCI-DSS. Failure to comply can result in hefty fines and penalties – ranging from tens of thousands of dollars to \$500,000 or more – in the event of a data breach. I quickly emailed the article to my partners and office administrator and asked whether anyone knew if our firm is PCI-DSS compliant. I received less than reassuring silence in response. Like me, they had probably never heard of PCI-DSS. Unlike me, they didn’t want to read about PCI-DSS on a weekend.

After some digging, our administrator learned that when we signed up for the credit card program recommended by the State Bar of Arizona, Law Pay,

they sent an email indicating that the “As a benefit to all Law Pay clients, we have included an easy PCI compliance program in your package at no additional cost.” It said that we would receive an email with information on how to get started with our compliance program in a couple months; since a couple months had passed without any word, she followed-up. After completing a security questionnaire and system scan we were the proud holders of a PCI-DSS certificate of compliance!

Firms hear all the time that it is not a matter of if the company will have a data breach, but simply when it will occur. Mr. Fenaroli pointed out that failing to comply with these standards can quickly turn a bad situation worse for firms that accept credit cards. If taking the couple minutes it took to assure compliance saves our firm from being hit with fines and penalties – I’ll take the peace of mind any day! I wanted to share this tip for other firm owners who feel the same.

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AADC CALENDAR OF EVENTS

ADVOCACY LUNCHEONS

Advocacy luncheons are held at Gust Rosenfeld, 1 E. Washington St., 15th floor, from 12-1pm. This CLE qualifies for 1 hour of credit and includes lunch.

2019

September 11
October 9
November 13
December 11

AADC Annual Meeting

May 31, 2019 • 10am – 5pm
Arizona Court of Appeals
1501 W. Washington St.
Phoenix, AZ

There will be 3 hours of ethics CLE Friday afternoon. Go to www.azadc.org to register.

Barry Fish Golf Tournament

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Legislature Overhauls Residential Construction Indemnity and Defect Claims Process

By John M. Gregory, Esq.
Jones, Skelton & Hochuli, P.L.C.



John M. Gregory, Esq.

On April 10, 2019, Governor Doug Ducey signed SB 1271 into law. The product of over two years of lobbying and interest group meetings, this bill changes the existing laws relating to residential construction in myriad ways. We look at the law through the context of how it impacts the general contractor-subcontractor relationship.

Reversing Amberwood – Proportional Liability Only

One of the stated purposes of the lobbying effort by one of the primary stakeholders—a subcontractors interest group named “Arizonans for Fair Contracting”—was to limit an indemnitor’s potential obligations only to the extent of its own negligence. This was a direct reaction to the Arizona Court of Appeals case *Amberwood Development, Inc. v. Swann’s Grading, Inc.*, No. 1 CA-CV 15-

0786, 2017 WL 712269. Though not binding law, it was the first case to directly address whether a subcontractor could be responsible for indemnity broader than its own scope of work and without a finding of fault if the contract did not expressly limit its risk that narrowly. The claims themselves needed only “arise out of or in connection with Subcontractor’s work performed for Contractor” under the language of the contract in that case in order for the subcontractor to provide such broad indemnity. In finding that the indemnity obligation could be construed so broadly, even without a finding that a subcontractor was actually at fault, the Court of Appeals sent reverberations throughout the construct defect community.

SB1271 seeks to settle those tremors in part by creating a new statute, A.R.S. § 32-1159.01. Section A of that new statute declares such broad indemnification agreements as seen in *Amberwood* to be against public policy. It voids any such contract “to the extent that it purports to insure, to indemnify or to hold harmless the promisee from or against liability for loss or damage resulting from the negligence of the promisee or the promisee’s indemnitees, employees, subcontractors, consultants or agents other than the promisor.” In other words, a subcontractor cannot be forced to indemnify a general contractor for the fault of the general contractor

or another subcontractor; its indemnity is now limited only to its own negligent workmanship.

Section D attempts to limit the scope of any contractual duty to defend only to claims “arising out of or relating to” the contracting party’s work. As the *Amberwood* case and resulting decision makes clear, however, a claim can arise out of or be connected to a party’s work without the work itself being defective. Thus, it appears that a duty to defend can still be more broadly construed and does not require fault by the subcontractor.

Section B contains a carve out to allow a subcontractor to “fully indemnify” a neighboring landowner who allows a contractor to enter land on or adjacent to the site where a construction project is being performed for someone other than that landowner. On its face, the statute appears to allow for fault-free indemnification of landowners who have no connection to the project. This is a sensible statute since, unlike a general contractor, a neighboring landowner sees no direct monetary benefit from the construction.

Section C addresses the impact of this new statute on insurers. It provides that an insurer is not required to indemnify a party made an additional insured under another party’s insurance policy for the proportion of fault allocated to the additional insured. For example, let’s envision a

New Site



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Legislature Overhauls Residential Construction *(continued)*

scenario where a subcontractor is found 75% at fault for a defect and the general contractor to be 25% at fault for that defect. If the subcontractor named the general contractor an additional insured on its insurance policy, the subcontractor's insurance carrier is not obligated to indemnify the general contractor the 25% of the fault attributed to it. The statute does not limit the duty to defend the additional insured under the policy, however, and does not void the policy overall, so the policy should still be the first place to look when assessing the duties to defend and indemnify an additional insured.

The statute's scope is limited to construction and architect-engineer contracts between private parties for residential dwellings. A.R.S. § 32-1159.01(E). An "architect-engineer professional service contract" is broadly defined as "a written or oral agreement relating to the survey, design, design-build, construction administration, study, evaluation or other professional services furnished in connection with any actual or proposed construction, alteration, repair, maintenance, moving, demolition or excavation of any structure, street or roadway, appurtenance or other development or improvement to land." A.R.S. § 32-1159.01(G)(1). This language is broad enough that it should cover virtually any scope of work performed by an architect or engineer. The term "construction contract" is defined in an equally broad manner as "a written or oral agreement relating to the actual or proposed construction, alteration, repair, maintenance, moving, demolition or excavation of any structure, street or roadway, appurtenance or other development or

improvement to land." A.R.S. § 32-1159.01(G)(2).

The new statute does not apply to contracts to which the state or a political subdivision is a party (A.R.S. § 32-1159.01(F)(1); agreements entered into by agricultural improvement districts under title 48, chapter 17 (§ 32-1159.01(F)(2)); an agreement for indemnification of a surety on a payment or performance bond by its principal or indemnitors (§ 32-1159.01 (F)(3)); an insurance agreement as between the insurer and named insureds (§ 32-1159.01(F)(4)); and public service corporation's rules, regulations or tariffs that are approved by the corporation commission (§ 32-1159.01(F)(7)). Other than the specific changes relating to proportional indemnity, it is not intended to affect insurance policies as between a carrier and its additional insureds (§ 32-1159.01 (F)(5)) or the multiple insureds of a single policy (presumably a wrap-up, OCIP, or builder's risk policy), though it does proportionally limit the liability any insured may have to the other insureds consistent with Sections A, B, and C. (§ 32-1159.01 (F)(6)).

Changes to Claims Made Under the Purchaser Dwelling Act

SB1271 also revised Arizona's Purchaser Dwelling Act, A.R.S. § 12-1361, *et seq.* This statute was most recently revised in 2015 and provided a process for bringing residential construction defect claims as well as a right to repair for builders of residences.

Attorneys' Fees Reinstated

The 2015 amendments to the PDA

removed the provision allowing recovery of attorneys' fees, A.R.S. § 12-1364. The Legislature has reinstated that section with major changes. A Court now *may* award reasonable attorneys' fees to the prevailing party. (§ 12-1364(A)). The homeowner is deemed the prevailing party "if the relief obtained by the purchaser for that contested issue, exclusive of any fees and taxable costs, is more favorable than the repairs or replacements and offers made by the seller..." *Id.* A seller is likewise deemed the prevailing party if the relief is not more favorable. The statute is silent as to what makes relief "more favorable" than repairs, however.

The Legislature provided guidance to the courts in determining how to calculate reasonable attorneys' fees. It limits the fees to those amounts "actually and reasonably incurred" to litigate each "contested issue." (§ 12-1364(B)). In particular, it says the Court should evaluate:

1. The repairs, replacements or offers made by the seller, if any, before the purchaser filed the dwelling action pursuant to section 12-1363.
2. The purchaser's response to the seller's repairs, replacements or offers made or proposed, if any, before the purchaser filed the dwelling action pursuant to section 12-1363.
3. The relation between the fees incurred over the duration of the dwelling action and the value of the relief obtained with respect to the contested issue.
4. The amount of fees incurred in responding to

Legislature Overhauls Residential Construction *(continued)*

any unsuccessful motions, claims and defenses during the duration of the dwelling action.

Id. The statute further defines a “contested issue” as “an issue that relates to an alleged construction defect and that is contested by a purchaser following the conclusion of the repair and replacement procedures prescribed in section 12-1363.” This presumably means that a Court must look at the same four factors for each and every defect as opposed to viewing the total amount awarded versus the total number of repairs offered. It is therefore conceivable that the attorneys’ fees could become a wash if the parties’ split the results

Note, however, that this statute does not replace any contractual fee provision (§ 12-1364(C)). Where a contract addresses attorneys’ fees, that contract will presumably govern so long as it does not violate the fault allocation provisions of § 32-1159.01.

Subcontractor Participation in the PDA

The 2015 revisions to the PDA were not a model of clarity as to differentiating between claims

against a general contractor and claims against subcontractors. The new revisions make clear how a subcontractor is to be involved during this process.

First, a general contractor must promptly forward any notice of defect received pursuant to the Purchaser Dwelling Act (“PDA Notice”) to his or her subcontractors at their last known address, and specifically allows electronic service. (§ 12-1363 (A)).

The statute was further amended to expressly provide the subcontractor with the right—in addition the general contractor’s already existing right under the statute—to inspect and test the property under the previously existing regime. (§ 12-1363 (B)). The subcontractor may also now make repairs to the dwelling consistent with the general contractor’s existing rights under the statute, though the general contractor is still the party tasked with making the homeowner aware of their intent to make said repairs. (§ 12-1363 (C)). A contractor or subcontractor who makes repairs under the PDA process but who was not involved in the initial construction is liable only to the party that retains them to perform those repairs, and may

be named in an amended PDA notice or subsequent notice. (§ 12-1363 (E)(1)).

Homeowner Affidavits

Homeowners who bring dwelling actions are now required to file an affidavit along with their complaint saying they have “read the entire complaint, agrees with all of the allegations and facts contained in the complaint and, unless authorized by statute or rule, is not receiving and has not been promised anything of value in exchange for filing the dwelling action.” (§ 12-1363(N)). This is a laudable goal in theory, as it should not allow plaintiffs to simply sign up for a lawsuit run by their lawyers without any knowledge of what exactly is being alleged to be wrong with their home. Any lawyer who has taken enough homeowner depositions has seen this scenario play out, where a homeowner says they have no problem or issue with a condition they don’t even believe to be defective while their expert is calling for sometimes extravagant repairs. However, the same lawyer is likely to know that the homeowner will probably just sign any affidavit their lawyer asks them to, not understanding the technical nature of construction

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Legislature Overhauls Residential Construction *(continued)*

or the issues being litigated. So while this is a potentially useful evidentiary tool, it seems unlikely to have any significant impact on the number of claims being brought.

Pursuing Indemnity and Third-Party Claims

The biggest changes in this bill relate to the pursuit of indemnification against subcontractors and help clarify the process of bringing a third-party claim. While this bill provides some relief, it also potentially creates more work during litigation.

First and foremost, the statutes of limitation and repose (specially including A.R.S. 12-552) applying to a general contractor's indemnity claims are now tolled. The tolling period begins the date that the general contractor receives the PDA notice until nine months after a civil suit or arbitration demand are served on the seller. (§ 12-1363 (G)). This presumably contemplates the repair process being completed and the homeowner still being unsatisfied with the quality or scope of repairs. An extension of the statute benefits the

general contractor so it is not left holding the bag on a last-minute claim asserted by a homeowner the statute of repose did not leave enough time to assert its contractual indemnity claims against its subcontractors. It also benefits subcontractors (and their insurers), who now do not have to retain counsel to defend lawsuits that are effectively filed as placeholders while repairs are ongoing but the case is not ready to litigate. Both parties benefit at least in theory from the nine months between the conclusion of repairs and the suit must be filed so they can attempt mediation or other resolution without need for litigation.

Once litigation commences, however, the new PDA is potentially more burdensome to general contractors and their subcontractors. Though the Legislature's stated goal is to provide a "streamlined process" for the resolution of construction defect and indemnity claims (§ 12-1362(E)), the new procedure is anything but. Subcontractors are now required to be joined as third-party defendants to dwelling actions if feasible and subject to the Rules of Civil Procedure (§ 12-1362(D)). Once joined, a finder of fact in a dwelling action is required

to first determine ("Step 1"):

- a. if a construction defect exists AND
- b. the amount of damages caused by the defect AND
- c. each subcontractor whose conduct "whether by action or omission, may have caused, in whole or in part, any construction defect." (§ 12-1362(D)).

Noteworthy about this step is that the homeowner specifically has the burden of proof as to Steps 1.a. and 1.b., but the statute is silent as to who is tasked to proving Step 1.c.. The finder of fact must then determine ("Step 2") the relative degrees of fault of each subcontractor and allocate pro rata shares of fault to them. *Id.* The general contractor has the burden of proving each subcontractor's fault in Step 2, so it would presumably want to take the lead on proving Step 1.c..

Steps 1 and 2 must, to the extent allowed by the Rules of Civil Procedure, be bifurcated to streamline the process. (§ 12-1362(E)). This requirement overlooks the fact that proving the merits of any defect claim is often the most substantial part of a residential construction defect



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Legislature Overhauls Residential Construction *(continued)*

case. Requiring bifurcation of the merits argument from the fault allocation case actually creates two trials where in most circumstances there would have only been one.

Surely the subcontractor whose work is not defective would argue that bifurcation would save him or her the cost of litigation the issue of fault allocation. This is a good point. It overlooks, however, the fact that the contractual duty to defend from non-meritorious claims can still exist without a finding of fault, so he or she could be forced to defend the general contractor all the way through trial anyway. And then even a minimal finding of fault within its scope now requires a second whole trial on the issue of fault allocation, where before the same jury could have decided the issue on just a few more hours' worth of testimony and deliberation in the same trial. So the only cost savings will come to the subcontractor whose work is found to be totally free of fault and does not need a

second trial, while all other parties could potentially see litigation costs soar over fairly minor claims.

Statute Retroactivity

The statute expressly applies retroactively "to from and after June 30, 2019." This fixes an error in the 2015 PDA revisions that did not include a retroactive date, leaving questions as to which portions were to be applied and when. While there is no case directly on point, it seems most reasonable to think that, unless the subject contracts specify otherwise, this is a valid assertion of the Legislature's right to retroactively alter a party's substantive rights that have not vested. As a general rule of thumb, rights are not considered "vested" until action (such as a lawsuit) is filed to enforce them. *Brunet v. Murphy*, 212 Ariz. 534, 538 (App. 2006). It therefore stands to reason that these statutes apply to all construction defect claims made from June 30, 2019 onward.

Next Steps

As with any new law, it remains to be seen how the courts will flesh out the contours of these new and revised statutes. Parties have yet to explore the outer confines of what is and is not enforceable about this bill and its changes to the construction statutes. It is important for all practitioners to monitor the way this impacts the practice of construction defect litigation in the coming months and years. It is likewise important for all practitioners to actually read these newly revised statutes and come to their own conclusions about what the changes actually means and how these new changes impact the old law as well as their clients' current contractual indemnity obligations.



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AADC Supports National High School Mock Trial Tournament

By James A. Robles, Esq.
Perry, Childers, Hanlon & Hudson



James A. Robles, Esq.

The AADC continued its long-standing support of the Arizona Foundation for Legal Services and Education's high school mock trial tournament in 2019. High school mock trial teams from across Arizona participated in a

regional tournament in February. The successful regional teams convened at the Sandra Day O'Connor U.S. Courthouse on March 23, 2019 to compete in the day-long event that culminated in the final round, presided over by Hon. Stephen M. McNamee. The jury decided that the winning team and Arizona State Champion was from Veritas Preparatory Academy in Phoenix. The team will represent Arizona at the National High School Mock Trial Championships in Athens, Georgia from May 16th through 18th.

The AADC is proud to sponsor scholarship awards to the three top individual participants. This year's first place winner is Kaelin Stewart from BASIS, Oro Valley, Oro Valley, Arizona. Kaelin

received a scholarship award of \$500.00 for her efforts. Second-place was earned by Anissa Meza-Rodarte from University High School, Tucson, Arizona. The third-place individual award winner was Emily Gates from Veritas Preparatory Academy.

This year's mock trial involved the matter of *Gabriel Torres v. Arcadia Police Department* and required treating contemporary topics such as religious and ethnic differences in schools, bullying, school safety v. school discipline, and use of reasonable force. Congratulations to all participants, to the Veritas Prep Team, and to all the individual award winners for a job well done.



Snell & Wilmer Mourns The Death Of Former Chair John J. Bouma

Reprinted from Snell & Wilmer website, swlaw.com



John J. Bouma, Esq.

Legal giant led firm for more than 30 years; influenced legal and civic landscapes across Arizona and beyond

PHOENIX (January 24, 2019) – Snell & Wilmer mourns the loss of John J. Bouma, who passed away on January 22, 2019.

“John was a lawyer’s lawyer, an Arizona and national leader in the bar, a community champion and a man deeply committed to access to justice for all,” said Matthew P. Feeney, chair of Snell & Wilmer. “For his colleagues at Snell & Wilmer, he was first and foremost our deeply respected long-time leader and a mentor and friend. We join John’s wife, Bonnie, their four children and 12 grandchildren in mourning the loss of a truly good man. John will be missed but his lifelong commitment to our clients, our communities and our firm colleagues, which is woven into our culture, will live on.”

Bouma joined Snell & Wilmer in 1962 and built a celebrated career. He was named chair in 1983 and led the firm for more than 30 years, officially stepping down in early 2015. Following that transition, he remained active in

his practice and continued to serve on the firm’s executive and compensation committees. During Bouma’s tenure, the firm grew to become one of the largest in the West, employing more than 1,000 attorneys and staff.

Bouma practiced in complex commercial litigation, including antitrust, commercial and business torts, professional malpractice defense and alternative dispute resolution. He served as president of the Maricopa County Bar Association, the State Bar of Arizona, the Western States Bar Conference and the National Conference of Bar Presidents. He had been a member of the American Bar Association House of Delegates and its Board of Governors. He was a Fellow of the American College of Trial Lawyers and served on the board of directors and as chair of Attorneys’ Liability Assurance Society, the professional liability insurer for many of the country’s large law firms.



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(continued)

Among his many regional and national awards and recognitions, Bouma was included in annual editions of The Best Lawyers in America® consecutively for the 36 years it has been published and was named by the National Law Journal as one of the “100 Most Influential Lawyers in America.” Bouma served as president of the Phoenix Art Museum and the Arizona Opera, and on the boards of directors for the Art Museum, Valley of the Sun United Way and Greater Phoenix Leadership. He also co-founded the Arizona Equal Justice Campaign, Wildlife for Tomorrow and the Partnership for a Drug-Free America, Arizona Chapter. In addition, the lobby of the Arizona State University Sandra Day O’Connor College of Law was named after Bouma in recognition of his contributions to the school and the community during his more than five decades as a practicing attorney.

Born in Fort Dodge, Iowa, Bouma earned his B.A. from the University of Iowa and his J.D. from the University of Iowa College of Law. He served on the board of trustees and as vice president of the Iowa Law School Foundation, was recognized as part of the University of Iowa College of Law’s Top 150 Alumni and received the University of Iowa Distinguished Alumni Service Award.

About Snell & Wilmer

Founded in 1938, Snell & Wilmer is a full-service business law firm with more than 425 attorneys practicing in 12 locations throughout the United States and in Mexico, including Phoenix and Tucson, Arizona; Los Angeles and Orange County, California;

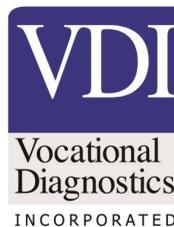
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YLD President's Message

By David Schmidt, Esq.
Udall Law Firm



David Schmidt, Esq.

The Young Lawyers Division has been hitting the ground running into Spring 2019. The YLD kicked off the year with a networking event hosted jointly with the Arizona Insurance Claims Association. At the event, we connected our members with local insurance agents, adjusters, and representatives from several of the AADC sponsors. Due to the success of the event, we are in the process of organizing a similar event on May 22nd. It is our goal

to use these types of in person events to create opportunities for young attorneys to develop professional relationships within the community.

On April 13th the YLD board organized the annual Play Softball 4 Kids Tournament. This event is an opportunity to together attorneys, sponsors, and members of the community to battle it out on the ball field for a great cause. For this tournament, the YLD once again partnered with Southwest Human Development, Arizona's largest nonprofit organization dedicated to early childhood development. Through generous community involvement and a raffle drawing, we were able to raise money to help this fantastic organization as they continue their work ensuring positive futures for Arizona's children.

The YLD also hosted a half-day CLE on April 25th. The CLE will focus on helping young attorneys

in the valley develop their skills with case management, evaluations, and the use of pre-trial motions. We were also excited to include a presentation by one of our sponsors on the topic new technologies that attorneys can utilize when an engineering analysis is necessary and how to best present that analysis to a jury.

If you would like to attend the networking event in May, please email me at dschmidt@udalllaw.com. All of us on the YLD board also encourage any young lawyer with interest in participating to contact me, we always welcome new members.



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Phoenix Judicial Reception

On December 11, 2018, at the Phoenix Judicial Reception the AADC was proud to honor Maricopa Superior Court Judge Janet Barton with the Judicial Excellence Award for her contributions to the judiciary and legal system.

Judge Barton obtained her undergraduate degree in accounting from the University of Kentucky in 1975, and her Juris Doctorate, with distinction, from the University of Kentucky College of Law in 1985. Judge Barton joined the firm of Snell & Wilmer in 1985, and was a partner in that firm from 1991 until her appointment to the bench in July of 2000. Judge Barton

has served on each of Maricopa County Superior Court's four major departments, three years on juvenile, five years on civil, four and one half years on criminal and two and one half years on family. Judge Barton was the associate presiding judge of the Superior Court from January 1, 2013 through June 30, 2015 and has been the presiding judge since July 1, 2015. Judge Barton will retire from that position on August 29, 2019.

Judge Barton is a Fellow of the Arizona Bar Foundation, a member of the American Bar Association, the Maricopa Bar Association, Lorna Lockwood Inn of Court (prior Co-President),

past member of the Arizona Tax Research Association Board of Directors, past member of the Arizona Chamber of Commerce Tax Practitioner's Committee, past member of the Phoenix Changer of Commerce City Budget Tax Force, former adjunct professor Sandra Day O'Connor College of Law, and current chair of the Maricopa County Superior Court's Jury Advisory Committee. Judge Barton is also a past member of the Executive Committee for the Greater Arizona Chapter of the March of Dimes and involved with the Arizona Town Hall and Soroptimist International of Phoenix, Inc.



Tucson Judicial Reception

On December 13, 2018, the Arizona Association of Defense Counsel, in conjunction with the Tucson Defense Bar, held its annual Tucson Judicial Reception at the Arizona Inn. Both organizations had the honor of presenting the 2018 Judicial Excellence Award to the Honorable Charles Harrington of Pima County Superior Court for his distinguished service to the legal profession and to the Pima County Superior Court bench.

Judge Harrington was born in Butte, Montana and received a B.A. from Gonzaga University

in biology and a B.S.B.A. (accounting) from the University of Arizona, before attending Gonzaga University School of Law, where he received his J.D. Prior to joining the bench, Judge Harrington practiced civil litigation with the law firms of Bilby Shoenhair, Snell & Wilmer, and Chandler, Tullar, Udall, & Redhair. He was appointed to the Pima County Superior Court bench in 1999.

The AADC also had the pleasure of honoring the following winners of the 2018 University of Arizona

James E. Rogers College of Law Joseph Jenckes Closing Argument Competition, which was held on October 22: Hanees Haniffa, Shawnee Melnick, Sasha Charls, Jesus Alonzo, and Kristian Garibay.



Let's Hear It For The Defense

Rina Rai and Teague Lashnits Obtain Defense Verdict In Products Liability Case

Rina Rai and Teague Lashnits of the law firm Rai & Barone, PC obtained a defense verdict in a product liability/personal injury case in Federal District Court. Plaintiff alleged that he was utilizing his telescoping ladder, designed, manufactured and distributed by Defendants, when the ladder suddenly and unexpectedly collapsed underneath him causing him to fall and suffer serious injuries. Plaintiff suffered a pilon fracture with his exposed tibia imbedding itself into the ground causing a bone infection, which would require nearly two-dozen surgeries. Plaintiff argued that he would need a below-the-knee amputation because of the injury in the near future. Plaintiff alleged that the collapse was the result of a defect in the ladder's design, manufacture and/or warnings. The Defendants argued that the ladder was not defective and that Plaintiff's fall was the result of his own negligent misuse of the ladder and other yard-care equipment. Plaintiff claimed \$6.3 million in past and future medical special damages, pain and suffering and loss of enjoyment of life. After a 7-day trial, the jury returned a verdict in favor of Defendants.

Thomas Hall and Diane Lucas Obtain Defense Verdict

Thomas Hall and Diane Lucas of Hill, Hall & DeCiancio, PLC obtained a unanimous defense verdict in a personal injury case. Defendant rear ended Plaintiff's vehicle on Peoria near 38th Avenue in Phoenix. Plaintiff alleged that she sustained herniated lumbar and lumbosacral disks at L4-5

and L5-S1, with radiculopathy, which required a surgical fusion. Plaintiff claimed she subsequently developed adjacent level disk disease at L3-4 which required a fusion. Plaintiff, age 28, alleged she can no longer work and now requires a cane to walk. Plaintiff claimed past medical specials of \$338,605, future medical expenses of \$4,556,563 and past and future lost wages of \$1,979,177. At trial, Plaintiff's counsel requested \$32,500,000. Defendant requested a defense verdict. After the 11 day trial, the jury unanimously found in favor of the defense. Plaintiff had previously rejected the Defendant's Offer of Judgment, allowing the Defendant to obtain a judgment of \$97,470 against Plaintiff.

Lori Voepel, Jeff Collins and Don Myles Obtain Favorable Opinion from Arizona Supreme Court in *Twin City Fire v. Leija*

In August 2018, Lori Voepel, Jeff Collins and Don Myles of Jones, Skelton & Hochuli, prevailed in the Arizona Supreme Court in *Twin City Fire Ins. Co. v. Leija*, 244 Ariz. 493 (2018). In *Leija*, the Arizona Supreme Court held that when an employee settles all of his or her third-party tort claims, and a workers' compensation carrier asserts its statutory lien against those settlement proceeds to receive reimbursement for benefits it paid to the employee, the employee is not entitled to a post-settlement trial to determine the percentage of employer fault to reduce or extinguish the carrier's lien. The high court reversed the Arizona Court of Appeals' Opinion, which had extended the rule of "equitable apportionment" under *Aitken*

v. Indus. Comm'n, 183 Ariz. 387 (1995), to such settlements, even though the rule had previously been limited to third-party tort actions tried to verdict and resulting in a damage award and apportionment of fault to parties and non-party employers. In the latter situation, *Aitken* requires that a carrier's lien be reduced by the same percentage of employer fault allocated by the jury, to avoid a situation where the employee is forced "to endure the combined effect of first having his or her award reduced by reason of the employer's fault, and thereafter having to satisfy a lien against this diminished recovery in favor of the employer and its carrier to the full extent of compensation benefits provided." *Aitken*, 183 Ariz. at 392.

After her husband died in a work-related accident, Mrs. Leija and her children applied for and received workers' compensation benefits and sued numerous third-party tortfeasors under A.R.S. § 23-1023(A), alleging those third parties negligently contributed to her husband's death. During settlement negotiations, Twin City asserted its right under § 23-1023(D) to seek full reimbursement against the settlement proceeds for the amount of worker's compensation benefits it had paid and would pay in the future. Twin City offered, however, to reduce its lien by five percent if the Leijas settled all their third-party claims. The Leijas rejected the offer, arguing that under the rationale of *Aitken*, Twin City was required to significantly reduce its lien based on some unknown percentage of alleged comparative fault of Mr. Leija's employer and co-worker in causing the accident. Twin City took the position that

Let's Hear It For The Defense

it is not required to equitably apportion its lien under *Aitken* where the employee's damages and percentage of employer fault are not "fixed by verdict in the third-party action." The Leijas ultimately settled with all third-party defendants for \$1.6 million, after which Twin City filed an action to enforce its lien against the recovery. The Leijas filed a counterclaim, arguing that Twin City breached its duty of good faith and fair dealing by refusing to reduce its lien to account for the employer's alleged comparative fault, and requesting the superior court to set a trial under *Aitken*, solely to establish the employer's proportionate fault and the resulting amount of Twin City's lien. Following two rounds of summary judgment briefing led by Mr. Collins on Twin City's behalf, the superior court rejected both of the Leijas' arguments and entered summary judgment for Twin City.

The Arizona Court of Appeals reversed, holding that "when a worker settles a claim against a third party for less than the limits of the third party's insurance, the worker may obtain a judicial determination of whether the carrier's lien should be reduced to account for the employer's comparative fault." *Twin City v. Leija*, 243 Ariz. 175, 177 (App. 2017). The court reasoned that the fact that the Leijas settled their third-party claims rather than trying them to a verdict does not preclude equitable apportionment under *Aitken*. The court upheld, however, the superior court's ruling in Twin City's favor on the bad faith claim.

The Supreme Court granted review and Ms. Voepel presented

oral argument on behalf of Twin City. Following oral argument, the Supreme Court reversed the court of appeals, agreeing with Twin City that a settlement between an employee and third-party defendant does not necessitate a determination of liability and damages, including the apportionment of fault among parties and non-parties. The Supreme Court explained that there are "good reasons to limit application of the equitable apportionment rule to only those cases that are tried to verdict." *Leija*, ¶ 22. For one, the inequity recognized in *Aitken* will exist in every case that is tried to verdict, but an inequity will not exist in every case where a claimant settles with a third-party defendant. The Court found it is "purely speculative" to assume that merely because a third-party claim settles for less than policy limits, the employee's recovery was reduced by the non-party employer's alleged fault. *Id.* Moreover, the Supreme Court agreed that many factors may influence an employee's decision to settle with a third-party defendant and the settlement amount, including difficulties in proving fault or causation, and avoiding the risk of having a jury apportion a substantial amount of fault to the employee or his employer, and thereby reducing the employee's total award. The Supreme Court also noted that a carrier could be similarly concerned with the risk that a jury would apportion substantial fault to the employee and/or employer, which would also reduce the value of the carrier's lien. This alignment of risks encourages the carrier to reduce its lien so the employee will be incentivized to settle. Finally, the Supreme Court

agreed with Twin City that the post-settlement trial created by the Court of Appeals would itself create "perverse incentives and inequities" because the employee in a third-party action "has every incentive to maximize the percentage of fault allocated to the third-party defendant" whereas the employee would then later "be incentivized to take the diametrically opposite position by maximizing the fault attributable to the employer (and therefore minimizing the fault accruing to the settling third-party defendant) solely to reduce or extinguish the insurance carrier's lien on the settlement proceeds." *Leija*, ¶ 26. On balance, the Supreme Court observed that although a carrier's refusal to reduce its lien may be inequitable in some circumstances, "it is difficult to understand how the possible gamesmanship created by a post-settlement trial process is more equitable than permitting an insurance carrier to exercise its statutorily authorized lien on a claimant's settlement proceeds to the extent of compensation benefits paid" when "there may be no inequity at all." *Id.*, ¶ 27.

The Court added that even in a settlement context, the workers' compensation carrier has an obligation to act in good faith by giving equal consideration to the employee's interests, especially where evidence of employer fault is "clear, undisputed, and substantial." *Id.*, ¶ 28. The Court also reaffirmed, however, that because a carrier's statutory lien has strong protection under the law, the carrier "may reasonably protect its right to recover the lien amount" and is "not required to completely disregard its own interests." *Id.*, ¶ 29

Let's Hear It For The Defense

Dillon Steadman Obtains Defense Verdict

Dillon Steadman of Sanders & Parks, P.C., representing a school district and a staffing agency, secured a defense verdict in February after a four-day jury trial. Plaintiff claimed he was battered during a physical altercation with his 8th grade teacher and sought damages for minor physical injuries and long-term psychological injuries, including post-traumatic stress disorder. Plaintiff's counsel asked the jury to award \$250,000. The jury returned with a defense verdict.

JSH Attorneys Win on Appeal from New Trial Order Entered Two Years After Defense Verdict

Donald L. Myles, Jr., Lori Voepel, Ashley Villaverde Halvorson, and Jennifer Anderson of Jones, Skelton & Hochuli, prevailed in an appeal overturning a Rule 60(c)(6) order that had set aside a defense verdict in a bad faith case, which was filed by an insured Plaintiff after her house and vehicles were destroyed by fire in 2009. Following a 24-day trial, the jury issued a verdict in the insurer's favor based on overwhelming evidence establishing that the insurer had acted reasonably: (a) by initially denying Plaintiff's insurance claims (which were paid in full after criminal arson charges against Plaintiff were dismissed in 2010); and (b) by not turning over to Plaintiff its internal fire investigator's preliminary C&O report and insurer's claim file until after privilege issues could be judicially resolved.

Nearly two and one half years later, the trial court granted the extraordinary relief available under Rule 60(c)(6), Ariz. R.

Civ. P., and set aside the jury's verdict. It did so based upon a 2014 Department of Public Safety Report (DPS Report) finding that two Phoenix Fire Department Captains had committed misconduct in association with their investigation of Sloan's fire and in securing a criminal indictment against Sloan.

In both the trial court and on appeal, the insurer demonstrated that it did not rely on the Phoenix Fire Department (PFD) investigation and/or Plaintiff's indictment to prove an "arson defense." Rather, it presented evidence of the PFD investigation, as well as its own exhaustive claims investigation and other evidence, to prove its conduct was reasonable at the time it initially denied Plaintiff's insurance claims and her request to turn over the insurer's file and report, both of which occurred in 2009 and 2010. The insurer argued that what an agency (DPS) found in a subsequent investigation over four years later is totally irrelevant to what the insurer based its decisions and conduct on at the time it handled Plaintiff's claims. It also argued that the evidence upon which DPS relied was provided to its investigators by Plaintiff. In other words, at the time of her bad faith trial, Plaintiff already had all of the underlying evidence upon which the DPS report was based.

The Court of Appeals agreed with the insurer that the trial court clearly erred and abused its discretion in ordering the extraordinary remedy of a new trial under Rule 60(c)(6). Because Plaintiff already had the underlying evidence at the time of her initial trial, the opinions contained in the report were the only new

evidence upon which a re-trial could arguably be based. Yet, the trial court erroneously failed to even determine if the opinions would be admissible at a new trial, which was especially problematic because such evidence is not generally admissible. Moreover, the opinions and conclusions in the report were irrelevant to the central issue of whether the insurer acted reasonably in 2009 and 2010 by initially denying Plaintiff's claim and in not turning over its internal files until privilege issues could be judicially resolved. Finally, the Court of Appeals agreed that the report/opinion would not have made any difference in the verdict. The Court reversed the Rule 60(c)(6) order and remanded to the trial court.

After filing an unsuccessful motion for reconsideration, Plaintiff filed a petition for review in the Arizona Supreme Court, which was denied.

Trial dates: April 23-25, 2019
Location: Highland Justice Court

Facts: On February 15, 2018, there was a water heater leak at the rental condo of Ronald and Gloria Luepke in Fountain Hills, Arizona. Ron Luepke called his home warranty company, who sent a plumber to the condo. The plumber contacted Plaintiff, EcoDry Restoration of Arizona for the water mitigation work in exchange for a referral fee of \$1,100. EcoDry presented a work authorization and assignment of benefits to Mr. Luepke prior to starting work but did not explain to Mr. Luepke that he was assigning the right to sue his condominium owner's insurer, Allstate Insurance Company,

Let's Hear It For The Defense

under the terms of the assignment. EcoDry billed \$8,050.00 for their water mitigation services. Allstate wrote a comparative estimate and paid \$2,334.00 to EcoDry for their Services.

Under the authority of the assignment signed by the homeowner, Plaintiff, EcoDry Restoration of Arizona, sued Defendant Allstate Insurance Company for the unpaid balance of their invoice. EcoDry's crew manager testified that he explained to Mr. Luepke that the assignment would allow EcoDry to deal directly with Allstate to make it easier on the homeowners. He admitted that he never explained to Mr. Luepke that he was assigning the right to sue under his policy. EcoDry's owner, Jake McGhan, testified that his company provides superior services to others in the water mitigation industry. During cross examination, he testified that he retained the services of One Claim Solution in 2016, after a meeting with one of his trial counsel Josh Ehmke, during which meeting Mr. Ehmke advised him that he can add 20% Profit & Overhead to every invoice. After the meeting, EcoDry hired One Claim Solution for a fee of 9% of each invoice recovered, and on Mr. Ehmke's advice, EcoDry added Profit & Overhead to every invoice and raised some of its pricing.

Plaintiff EcoDry also called Allstate adjuster Julie Toscano to the stand. Ms. Toscano testified that she did a comparative estimate because EcoDry does not provide any measurements or pictures before tear out is initiated. Also, EcoDry's invoice is not based on Xactimate. Based on her comparative estimate,

Allstate paid what it believed was fair and reasonable for services performed; \$2,334.00. Ms. Toscano testified that EcoDry's invoices are generally 3-4 times higher than other similar companies.

Defendant Allstate called expert Paul Watkins and the homeowner, Ronald Luepke. Paul Watkins testified that this loss was a clean water loss and should have been categorized as Category One. He testified that EcoDry did not need to use containment or utilize negative air fans, specially outside of containment. He testified that Allstate's estimate of 3 days of dry-out was more than sufficient and 10-12 hours of tech time would likely be reasonable (although Allstate accounted for 13.5 hours of tech time). Mr. Watkins also testified about issues with documentation and lack of measurements by EcoDry. Mr. Luepke testified that EcoDry never fully explained the assignment to him and that EcoDry employees gave him an estimate of \$3,000 for the job, which he still believed was too high. Mr. Luepke also testified that the water he observed at his condo was clearly clean water from a water heater in the garage. He testified that he was shocked upon learning that EcoDry's invoice was over \$8,000.00.

Outcome: After deliberating for approximately 1 - 1 1/2 hours, the jury returned a unanimous defense verdict. Following the trial, Allstate filed an application of its reasonable attorney's fees and costs of litigation.



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