UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

Federal Deposit Insurance Corp. v. Tekfen Construction & Installation Co.

847 F.2d 440 (7th Cir. 1988) · Decided June 1, 1988

SUMMARY

The Seventh Circuit reviewed a Rule 11 sanctions award against Tekfen Construction and Installation Co. in litigation concerning liability for a letter of credit obtained by a construction partnership. The court held that Tekfen's legal theories were not frivolous, particularly because the district court had limited discovery and appeared to recognize the underlying defense. The court vacated the sanctions and denied the FDIC's request for Rule 38 sanctions.

CASE DETAILS

COURT	United States Court of Appeals for the Seventh Circuit
WRITING FOR THE COURT	Cudahy; Cummings; Manion
JURISDICTION	Federal
DECIDED	June 1, 1988
DISPOSITION	vacated
PROCEDURAL POSTURE	Tekfen appealed the district court's award of $2,418.50 in attorney's fees as sanctions under Federal Rule of Civil Procedure 11. The FDIC sought additional sanctions under Federal Rule of Appellate Procedure 38.
STANDARD OF REVIEW	Rule 11 sanctions are generally reviewed deferentially for abuse of discretion, although factual findings may be reviewed for clear error and the legal determination that a Rule 11 violation occurred may be reviewed de novo where the rule's mandatory language requires it. Once a violation is found, the type and amount of the sanction are reviewed for abuse of discretion.
PRECEDENTIAL VALUE	published precedential opinion
PARTIES	Tekfen Construction and Installation Company v. Federal Deposit Insurance Corporation

TOPICS

sanctions appellate procedure standard of review summary judgment commercial litigation

PRACTICE AREAS

civil procedure appellate procedure commercial litigation construction law

QUESTIONS PRESENTED

1. Whether Tekfen's arguments concerning the partnership's authority to bind it and Continental's knowledge were frivolous under Federal Rule of Civil Procedure 11.
2. What standard of review applies to a district court's Rule 11 sanctions determination.
3. Whether the district court properly imposed sanctions for Tekfen's persistence in advancing its legal theory after the court's rulings.

HOLDINGS

1. Tekfen's theory that the partnership's authority could have been revoked or limited by an understanding or course of conduct, and that Continental's knowledge of the lack of authority could defeat liability, was not frivolous.
2. Tekfen's persistence in advancing its theory and seeking reconsideration was within the bounds of proper representation and did not justify Rule 11 sanctions.
3. The ultimate Rule 11 sanctions determination generally receives deferential abuse-of-discretion review, while factual findings may be reviewed for clear error and the legal determination that a violation occurred may be reviewed de novo in appropriate circumstances.

KEY QUOTATIONS

> "*The test is one of objective reasonableness under all the circumstances of the case.*" (443)

> "*Sanctions are ultimately a "judgment call.""* (443)

> "*That ruling is sufficient to undercut any contention that the theory is frivolous.*" (444)

> "*The sanctions must be vacated.*" (445)

FACTUAL BACKGROUND

Tekfen, a Turkish corporation, was a partner in Sangamo Group, which obtained a letter of credit from Continental Illinois to finance construction of a Kuwaiti reservoir. After Continental paid under the letter of credit, the FDIC, as successor in interest, sought reimbursement from Sangamo Group and its partners. Tekfen argued that the American partners either obtained the letter of credit individually or lacked authority to bind Tekfen, and sought limited discovery concerning Continental's knowledge of those circumstances. The district court denied further discovery, granted summary judgment against Tekfen because it had not established Continental's knowledge, and then sanctioned Tekfen for continuing to advance its theory.

PROCEDURAL HISTORY

The FDIC sued Sangamo Group and its partners, including Tekfen, for reimbursement on a letter of credit. The district court denied Tekfen's request for limited discovery, granted summary judgment for the FDIC, denied reconsideration, and separately imposed Rule 11 sanctions based on Tekfen's continued arguments that it was not bound by the letter of credit. While the appeal was pending, the parties settled liability, leaving the sanctions issue for review. The Seventh Circuit vacated the Rule 11 sanctions and denied the FDIC's request for Rule 38 sanctions.

DISPOSITION

vacated

CASES CITED

- Magnus Electronics, Inc. v. La República Argentina, 830 F.2d 1396, 1403 (7th Cir. 1987)
- Brown v. National Board of Medical Examiners, 800 F.2d 168, 171 (7th Cir. 1986)
- Thomas v. Capital Security Services, 836 F.2d 866 (5th Cir. 1988) (en banc)
- R.K. Harp Investment Corp. v. McQuade, 825 F.2d 1101, 1103 (7th Cir. 1987)
- In re Ronco, 838 F.2d 212, 217 (7th Cir. 1988)
- Brown v. Federation of State Medical Boards, 830 F.2d 1429, 1434 & n. 3 (7th Cir. 1987)
- Ordower v. Feldman, 826 F.2d 1569, 1574 (7th Cir. 1987)
- In re Central Ice Cream Co., 836 F.2d 1068, 1072 (7th Cir. 1987)
- Flip Side Productions, Inc. v. JAM Productions, Inc., 843 F.2d 1024, 1035-36 (7th Cir. 1988)
- Anderson v. City of Bessemer City, 470 U.S. 564, 573 (1985)
- Frantz v. United States Powerlifting Federation, 836 F.2d 1063, 1066 (7th Cir. 1987)
- Golden Eagle Distributing Corp. v. Burroughs Corp., 801 F.2d 1531, 1540-41 (9th Cir. 1986)