



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

STAPLES, INC.,)
)
Plaintiff/Counterclaim-)
Defendant,)
v.)
)
THOMAS COOK, in his capacity as the)
Secretary of Finance for the State of)
Delaware; PATRICK T. CARTER, in his) C.A. No. 5447-VCS
capacity as the Director of Revenue for the)
State of Delaware; MARK UDINSKI, in his)
capacity as the Director/State Escheator of the)
State of Delaware; and the DEPARTMENT)
OF FINANCE, DIVISION OF REVENUE)
FOR THE STATE OF DELAWARE,)
)
Defendants/Counterclaim-)
Plaintiff.)

**STAPLES, INC.’S OPPOSITION TO DEFENDANT/COUNTERCLAIM-PLAINTIFF’S
MOTION FOR LEAVE TO FILE SUPPLEMENTAL COUNTERCLAIM**

Plaintiff/Counterclaim-Defendant, Staples, Inc. (“Staples”), by and through its undersigned counsel, hereby opposes the Motion For Leave To File Supplemental Counterclaim filed by Defendant/Counterclaim-Plaintiff, Mark Udinski (“Udinski”), in his capacity as the Director/State Escheator of the State of Delaware,¹ and states as follows:

BACKGROUND AND PROCEDURAL POSTURE

1. Almost one year ago, on April 30, 2010, Staples filed its Verified Complaint for Equitable, Declaratory, Injunctive and Other Relief (the “Complaint”) against Defendants.

¹ Udinski, together with Defendants Thomas Cook, in his capacity as the Secretary of Finance for the State of Delaware, Patrick T. Carter, in his capacity as the Director of the Division of Revenue for the State of Delaware, and the Department of Finance, Division of Revenue for the State of Delaware are collectively referred to herein as “Defendants,” “Delaware,” the “State” or the “State of Delaware.”

2. This lawsuit arises from a demand for payment that Defendants made to Staples solely for payment of alleged unclaimed accounts payable (“AP”) and payroll (“PR”) after Defendants completed their audit of Staples’ compliance with the Delaware Escheats Law, 12 *Del. C.* § 1101, *et seq.* (Compl. ¶¶ 1-2, 51, 58, 71, 74).

3. Defendants commenced the audit of Staples in October 2005. (Compl. ¶ 17). Delaware’s audit of Staples covered more property categories than just AP and PR, including gift certificates, merchandise credit, and accounts receivable. (*Id.* ¶ 76). However, in March 2010, Defendants made the decision to bifurcate their demand for payment to include only AP and PR, and Defendants continued with its audit of the other property types. (*Id.*). As alleged in the Complaint, by demanding payment with respect to AP and PR, thereby bifurcating the audit, Delaware places Staples in an uncompromising position, because if Staples asserts any good faith challenge to Delaware’s demand for payment, Delaware is in a position to retaliate against Staples by exercising its discretion in its audit of the other property types in a manner that is even more adverse to Staples than the AP and PR audit. (*Id.* ¶ 78).

4. Defendants currently are auditing accounts receivable credit balances (“AR Credits”), unredeemed gift certificates, and, after concluding in November 2007 that Staples was not liable for manufacturer rebates (D.I. 43, Ex. A ¶ 76), Defendant last month, in March 2011, requested information for manufacturer rebates.

5. Staples’ 9-count Complaint seeks a declaratory judgment that, *inter alia*, Defendants’ demand for payment of alleged unclaimed AP and PR: (a) seeks payment for property that, as a matter of law, is not escheatable; (b) is based on a calculation which is arbitrary, capricious and against the manifest weight of the evidence; (c) is barred, in part, by the statute of limitations; and (d) violates the United States and Delaware Constitutions as violations

of Staples' right to substantive due process and constitutes an unlawful taking. (Compl. ¶¶ 105-198).

6. Udinski filed a counterclaim (the "Counterclaim") seeking to enforce the State's demand for payment of alleged unclaimed AP and PR from Staples. Even though Udinski alleges in his proposed supplemental counterclaim (the "New Counterclaim") that he has been requesting documents related to AR Credits, gift certificates and manufacturer rebates since 2006 (*see* D.I. 43, Ex. A ¶¶ 23, 24, 26, 33, 35, 39, 41, 42, 43, 45 (gift certificates), 52, 54, 56, 59, 61, 62, 64 (AR Credits), 71, 74, 75 (manufacturer rebates), Udinski did not seek to enforce the State's administrative power to summons those documents until now.²

7. The parties have served each other with, and provided written responses to, multiple sets of document requests, interrogatories and requests for admission. Staples has answered all of the written discovery served upon it and produced its documents. All that remains is Staples' production of its privilege log. Defendants have produced written responses to Staples' document requests and interrogatories, and the parties are in the process of meeting and conferring regarding certain of Defendants' objections and responses, and the objections and responses of Kelmar Associates, LLC, the State's contract auditor in connection with the audit of Staples. Staples is prepared to take and defend depositions shortly.

8. Now, a year after this lawsuit challenging Defendants' demand for payment from Staples was filed, and after the parties have almost completed written discovery and document production, Udinski seeks leave to file the New Counterclaim, which, in essence, is a motion to

² Staples has cooperated with the ongoing audit and strongly denies that Court involvement is needed in connection with the audit. However, Staples welcomes the opportunity to defend itself against Udinski's New Counterclaim, provided Staples can do so in a separate lawsuit that will not delay the progress already made in this lawsuit.

compel the production of materials in the ongoing audit of AR Credits, gift certificates and manufacturer rebates that Udinski alleges he has been requesting for years.

ARGUMENT

I, UDINSKI IMPROPERLY FRAMES HIS MOTION UNDER RULE 15(d)

9. As an initial matter, Udinski improperly frames his motion under Court of Chancery Rule 15(d). That Rule states, in relevant part: “Upon motion of a party the Court may, upon reasonable notice and upon such terms that are just, permit the party to serve a supplemental pleading setting forth transactions or occurrences or events *which have happened since the date of the pleading sought to be supplemented.*” Del. Ct. Ch. R. 15(d) (emphasis added). However, as explained above, the New Counterclaim proposed by Udinski seeks documents from Staples that Udinski has allegedly been requesting since 2006 related to AR Credits, gift certificates and manufacturer rebates. (D.I. 43, Ex. A ¶¶ 23, 24, 26, 33, 35, 39, 41, 42, 43, 45 (gift certificates), 52, 54, 56, 59, 61, 62, 64 (AR Credits), 71, 74, 75 (manufacturer rebates). This was well before Udinski filed the Counterclaim. More importantly, the New Counterclaim does not “supplement” the existing Counterclaim. The existing Counterclaim seeks to enforce a demand for payment of alleged unclaimed AP and PR, whereas the New Counterclaim seeks to compel the production of information related to an ongoing audit of AR Credits, gift certificates and manufacturer rebates. The proposed “supplement” is actually a completely new and different claim against Staples and, thus, should be treated under Rule 15(a)—not Rule 15(d).³

³ In any event, “the discretion of the court to permit or to deny the filing of a supplemental pleading under Rule 15(d) is similar to the discretion of the court with respect to Rule 15(a).” See *Leogrande v. Leogrande*, 799 F. Supp. 1354, 1359 (E.D.N.Y. 1992).

II. UDINSKI'S NEW COUNTERCLAIM IS NOT COMPULSORY

10. Udinski's proposed New Counterclaim should not be permitted because it is not a compulsory counterclaim, as it does not arise out of the same set of facts and it does not require application of the same laws as Staples' Complaint or Udinski's Counterclaim. *See* Del. Ct. Ch. R. 13(a); *see also Moore's Federal Practice – Civil* § 13.42 (“A court is more likely to permit an after-acquired or late maturing claim if it otherwise meets the compulsory counterclaim requirements by arising out of the same transaction or occurrence as the main claim.”).

11. The only factual similarity between the proposed New Counterclaim, on the one hand, and the Complaint and existing Counterclaim, on the other hand, is that Staples and Udinski are two of the same parties. The Complaint requires application of substantive issues of law under the Delaware Escheats Law, the United States Constitution, and the Delaware Constitution, whereas the proposed New Counterclaim requires an analysis of administrative subpoena powers, and the Complaint and Counterclaim involve different property types than the proposed New Counterclaim.

II. COURTS HAVE DENIED REQUESTS TO ADD PERMISSIVE COUNTERCLAIMS UNDER THE CIRCUMSTANCES PRESENT HERE

12. “Although the Court is generally liberal in granting motions to amend, permission is not automatic.” *Sokol Holdings, Inc. v. Dorsey & Whitney, LLP*, 2010 WL 599330, at *2 (Del. Super. Ct. Feb. 19, 2010) (internal quotations and citation omitted). “The Court will not allow an amendment where there is evidence of undue delay, bad faith or dilatory motive on the part of the movant” *Id.* (internal quotations and citation omitted).

13. In *Sokol Holdings*, the court, in denying the plaintiff's motion for leave to add a malpractice claim against the law firm defendant, “took into account the prejudice to [the law firm] which would arise if the [c]ourt allowed the belated introduction of this claim.” *Id.* at *3.

The court, quoting a leading treatise, explained: “[I]f the amendment substantially changes the theory on which the case has been proceeding and is proposed late enough so that the opponent would be required to engage in significant preparation, the court may deem it prejudicial.” *Id.* at *4 (quoting 6 Wright, Miller & Kane, *Federal Practice & Procedure* § 1487 (2d ed.)); *see also Moore’s Federal Practice* § 15.15[2] (3d ed.) (“Prejudice is especially likely to exist if the amendment involves new theories of recovery or would require additional discovery.”). The court in *Sokol* specifically noted that “[t]he addition of the malpractice claim would delay th[e] case by a year or more.” 2010 WL 599330, at *3.

14. As explained below, this Court should deny the proposed New Counterclaim as part of this case because: (a) the existing claims have been litigated for an extended period of time, substantial discovery has been completed, and the amendment will delay the resolution of the existing claims; (b) the subject matter of the existing claims is different from the proposed amendment (*i.e.*, the facts and law are different); and/or (c) the nature of the claims and remedies sought are completely different.

A. The Request To Amend Is Too Late And Will Delay Resolution Of The Existing Claims And Counterclaim

15. Here, as noted above, the lawsuit has been pending for a year and the parties have almost completed written discovery. The parties will be preparing to take depositions shortly. If Udinski is permitted to add the proposed New Counterclaim, a resolution of the existing claims will be delayed significantly. Defendants presumably will first begin new written discovery and depositions will be delayed for many months. Defendants would then presumably make another demand for payment for the remaining property types, which would result in additional claims, discovery and an inevitable delay of trial in this case. Courts have denied proposed amendments under similar circumstances. *See Sokol*, 2010 WL 599330, at *2-3; *see also generally*

Corporation Service Co. v. Pizzo, 1995 WL 347813, at *1 (Del. Ch. May 18, 1995) (denying a proposed amendment where it “will generate new counterclaims, discovery, and discovery will inevitably delay the trial” scheduled in the case, which the court recognized “would seriously prejudice the defendants.”); *Timlin v. Kent General Hosp.*, 1995 WL 44250, at *1 (Del. Super. Ct. Feb. 1, 1995) (explaining that “the delay in presentation” and “whether the amendment will add to the complexity of trial,” among others, are factors the court will consider in deciding a motion for leave to amend); *Deere & Co. v. MTD Holdings Inc.*, 2003 WL 22439778, at *6 n.3 (S.D.N.Y. Oct. 28, 2003) (denying the defendant’s motion to amend to add a new counterclaim, explaining, albeit in dicta, that the case was “too far along in the process to add new issues and legal claims,” and explaining that the proposed counterclaim was permissive and that the defendant could maintain the right to assert the claim in a separate proceeding); Donald J. Wolfe, Jr. and Michael A. Pittenger, *Corporate and Commercial Practice in the Delaware Court of Chancery* § 4.06[a][1] (“[D]elay can be used as evidence of prejudice, particularly where the litigation has progressed beyond simple pleadings and the proposed amendment is significant.”).

B. The Proposed Amendment Concerns A Different Subject Matter Than The Existing Claims And Counterclaim

16. Further, the subject matter—the facts and applicable law—of the Complaint and Counterclaims is different from the proposed New Counterclaim. “[C]laims are logically related if the essential facts alleged by the plaintiff constitute, at least in part, the basis of the defendant’s counterclaim.” *Moore’s Federal Practice – Civil* § 13.10. This is not the case here.

17. The Complaint and Counterclaim concern a demand for payment for alleged unclaimed *AP and PR*, whereas the proposed New Counterclaim asks the Court to address discovery issues related to the ongoing audit of *AR Credits, gift certificates and manufacturer rebates*. The law applicable to the Complaint and Counterclaim involves substantive provisions

of the Delaware Escheats Law, the United States Constitution, and the Delaware Constitution, whereas the proposed New Counterclaim implicates the law governing Defendants' administrative subpoena power to compel the production of documents in an examination.

18. In essence, the proposed New Counterclaim is in the nature of a motion to compel compliance with Defendants' administrative subpoena power regarding an ongoing audit. In contrast, the Complaint challenges the legality of Defendants' demand for payment arising from a completed audit and the Counterclaim seeks to enforce that demand for payment.

19. The remedy that Udinski seeks is of a different nature, as well. Udinski's proposed New Counterclaim seeks an order compelling Staples to produce materials, pursuant to Defendants' administrative subpoena power. In sharp contrast, the Complaint and Counterclaim seek orders to prevent or enforce, respectively, the payment of money to the State of Delaware. The Complaint seeks declaratory judgment that the demand for alleged unclaimed AP and PR is unlawful and seeks an injunction against enforcement. The Counterclaim seeks enforcement of the demand for payment.

C. It Would Be Inequitable To Permit Udinski To Add The New Counterclaim

20. Finally, the Court should deny Udinski's motion for leave to file the New Counterclaim for an additional, equitable reason. Defendants made the decision to bifurcate the unclaimed property audit of Staples. It began the audit in October 2005 and issued a demand for just two property types—AP and PR—five years later on March 31, 2010. Defendants could have completed the audit and dealt with all issues related to a single audit in a consolidated manner. Instead, Defendants chose to bifurcate the audit and move to the next stage of the proceedings with just AP and PR. Defendants should not be permitted to delay the resolution of

this lawsuit by improperly injecting discovery issues related to other property types in an audit that is still ongoing.⁴

CONCLUSION

21. For the foregoing reasons, Staples respectfully requests that the Court deny the Motion for Leave To File Supplemental Counterclaim.

Dated: April 14, 2011

Respectfully submitted,

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⁴ If Defendants had completed their audit of AR Credits, gift certificates and rebates and had issued a demand for payment, Staples likely would not oppose an amendment to consolidate the resolution of issues related to the legality of the demand for payment, because the applicable law would be the same and the remedy sought would be the same. Here, in contrast, the nature of the proceedings are completely different, the facts are different and the applicable law is different.