## WORKERS' COMPENSATION COURT LEWIS AND CLARK COUNTY

ROBERT FLYNN and CARL MILLER, ) WCC No. 2006-02 -vs- )	40.00
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-vs- }	
-vs-	
<b>-vs</b> -	
	. 14
MONTANA STATE FUND:	14
MONTANA STATE FUND: ORIGINA	

## TRANSCRIPT OF PROCEEDINGS

Heard at the Offices of the Workers' Compensation Court
1625 Eleventh Avenue
Helena, Montana
February 16, 2006
9:26 a.m.

LAURIE CRUTCHER, RPR
Lesofski & Walstad Court Reporting
21 North Last Chance Gulch, Suite 201, Placer Center
Helena, Montana 59601 (406) 443-2010

## TRANSCRIPT OF PROCEEDINGS

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                 WORKERS' COMPENSATION COURT
                    LEWIS AND CLARK COUNTY
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     ROBERT FLYNN and CARL MILLER, ) WCC No. 2000-0222
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 7
        vs.
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     MONTANA STATE FUND.
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                  TRANSCRIPT OF PROCEEDINGS
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          BE IT REMEMBERED, that the above-captioned
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     proceedings was heard at the Offices of the
19
     Workers Compensation Court, 1625 Eleventh Avenue,
20
     Helena, Montana, on the 16th day of February,
     2006, beginning at the hour of 9:26 a.m., before
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22
     the Honorable James Jeremiah Shea, was reported by
     Laurie Crutcher, Registered Professional Reporter,
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24
     Notary Public.
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1		APPEARANCES	
2	ATTORNEY	APPEARING ON BEHALF OF THE CLAIMANT:	
3		MR. REXFORD L. PALMER	
		Attorney at Law	
4		301 West Spruce	
		Missoula, MT 59802	
5			
6			
7	ATTORNEY	APPEARING ON BEHALF OF THE RESPONDENT:	
8		MR. THOMAS E. MARTELLO	
		Legal Counsel	
9		Montana State Fund	
		5 S. Last Chance Gulch	
10		P.O. Box 4759	
		Helena, MT 59604-4759	
11			
12	ATTORNEY	REPRESENTING OTHER INSURERS:	
13		MR. STEVEN W. JENNINGS	
		Attorney at Law	
14		Crowley Law Firm	
		490 N. 31st St., Ste 500	
15		P.O. Box 2529	
		Billings, MT 59103-2529	
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- 6 No. 2000-0222. This is the time that has been set
- 7 for a hearing regarding attorneys fees pursuant to
- 8 an order that had been issued by this Court on
- 9 January 3rd, 2006. It is now about 9:26 a.m. The
- 10 time set for hearing is 9:00 a.m. for claimants
- 11 who are affected to appear, and state any
- 12 objections or state any position they wanted.
- 13 Nobody has appeared.
- 14 The attorneys present are Rex Palmer on
- behalf of the claimants; and on behalf of Montana
- 16 State Fund is Tom Martello and Steve Jennings. So
- 17 Rex --
- MR. JENNINGS: Your Honor, I represent a
- 19 variety of insurers, and not Montana State Fund.
- THE COURT: I apologize. So that
- 21 correction will be noted. Steve is here on behalf
- 22 the other insurers.
- Rex, when we were off the record, was
- 24 going through just some housekeeping matters and
- 25 kind of an update to the Court, and so I'm just

- 1 going to ask Rex to kind of give us that update
- 2 for the record.
- MR. MILLER: Thank you, Your Honor. I
- 4 mentioned to begin with that in December, on
- 5 December 1st, there was a preliminary hearing
- 6 preparing for this hearing, and the minute entry
- 7 reflects that our calculations at that time were
- 8 that an average recovery for the claimants was
- 9 \$14,000, and that's a typographical error. It was
- 10 actually an estimate of \$1,400 at that time.
- Now it appears as though with updated
- 12 information, about 525 of the 800 claimants that
- 13 had been notified as possible beneficiaries of
- 14 this action, 525 were disqualified either because
- they died before the deadline, or they filed no
- 16 response, or they had no Social Security fees or
- 17 costs that would have entitled them to benefits.
- That left about 273 claimants who
- 19 provided proof of their attorneys fees and costs.
- 20 Many of them did not have that proof, and so with
- 21 the Court's approval, we contacted many of them
- 22 with information allowing us to contact Social
- 23 Security on their behalf. When they provided that
- 24 to us, we provided information and inquiries to
- 25 the Social Security Administration, and we

- 1 provided that proof back to the State Fund, and
- 2 they've entered that into their records.
- With the new claimants being entered in,
- 4 it now appears that the average recovery will
- 5 \$1,304, and the average fee, if the 25 percent fee
- 6 is approved, will be \$326. Two claimants have
- 7 responded in writing, and the Court's order
- 8 permitted claimants to respond in writing or
- 9 appear today at 9:00 in the morning. It's
- 10 presently almost 9:30. No one has appeared yet,
- and we're still waiting.
- One of the individuals that responded
- 13 was Virgil Hanson. The information we received
- 14 from the State Fund indicated that he had a 1986
- injury, and was represented by James Regnier in
- 16 the workers compensation and the Social Security
- 17 matter.
- 18 Mr. Hanson is suggesting, as I read his
- 19 note, that a 20 percent fee would be preferable to
- 20 a 25 percent fee. His Social Security fee paid to
- 21 Mr. Regnier was \$150, so his entitlement under
- 22 this common fund action would be \$750. A 25
- percent fee would be \$187.50, and the balance to
- 24 him would be \$562.50.
- That other individual that responded was

- 1 David Wagner. He had a 1994 injury, and was
- 2 represented by Pat Sheehy. He questions whether
- 3 any fee should be paid to get what he, quote, "has
- 4 coming." In his instance, Pat Sheehy represented
- 5 him with a 25 percent fee agreement in the Social
- 6 Security action, and he obtained \$997.50; Pat
- 7 Sheehy did. So under this action, his entitlement
- 8 would be \$498.75. A 25 percent fee would be
- 9 \$124.69, with a balance to him of \$374.06.
- 10 He was one who did provide some
- information on his own, but that appears was not
- 12 acceptable to the State Fund, as their preliminary
- 13 reports did not calculate him in as the entitled
- 14 recipient. The information he provided was a
- 15 letter from his attorney, and not the proof from
- 16 the Social Security Administration that the
- 17 Court's order has required. And so we contacted
- 18 him; got his approval; he signed that release; we
- 19 contacted the Social Security Administration; and
- 20 received the proof that the Sheehy letter was
- 21 correct; and we were able to provide that
- 22 information to the State Fund two days before the
- 23 deadline.
- Now, at this point, he hasn't been paid.
- 25 We trust that he will be. He's one that our

- 1 active involvement clearly not only provided the
- 2 initial entitlement by going to the Court and
- 3 establishing this precedent, but it was our effort
- 4 that instrumentally brought his claim to the State
- 5 Fund, and I suspect will be approved. We haven't
- 6 gotten word or whether it will or won't be.
- 7 THE COURT: You won't getting the fee,
- 8 25 percent or otherwise, as pertains to Mr.
- 9 Hanson.
- MR. MILLER: That's right, but he hasn't
- 11 gotten anything. There hasn't been an approval
- 12 from the State Fund. We don't expect a problem
- 13 like that. Certainly if two more days had passed,
- 14 he would have been past the deadline that was
- 15 allowed for his group of claims.
- So that's what we have.
- 17 THE COURT: I misspoke. I said Mr.
- 18 Hanson. That was Mr. Wagner.
- MR. MILLER: Right. So that's the
- 20 information we have. We have a certain amount of
- 21 other calculations information that we've received
- 22 from the State Fund on spreadsheets they've
- 23 provided, and we've added information to that, and
- 24 come up with these numbers. And like I said, I
- 25 think there are about 68 that are still in

- 1 process.
- There are some that are not paid, and I
- 3 believe Chris McCoy is working on those in some
- 4 kind of a factory fashion, trying to get them all
- 5 out.
- 6 THE COURT: Okay. Is there anything you
- 7 want to add, Mr. Martello, Mr. Jennings?
- 8 MR. JENNINGS: Yes, Your Honor. I had a
- 9 bit of a spiel prepared on the law, because we
- 10 believe -- and I'm sure Rex is not going to want
- 11 to hear this -- but we believe that a common fund
- 12 doctrine with respect to this across the board
- 13 percentage of the recovery realized by the
- 14 non-participating beneficiaries is a
- 15 misapplication of the common fund.
- 16 The common fund doctrine does not -- At
- 17 its simplest, the common found doctrine is simply
- 18 an exception to the American rule, which, of
- 19 course, as Your Honor knows, simply allows
- 20 recovery of attorneys fees under some
- 21 circumstances.
- Addressing the common fund in Flynn, in
- 23 the case we're discussing here today, the Supreme
- 24 Court stated that, quote, "Generally the common
- 25 fund doctrine authorizes assigning responsibility

- 1 for fees among those individuals who benefit from
- 2 the litigation which created the common fund. The
- 3 doctrine entitles the party who created the fund
- 4 to reimbursement of his or her reasonable
- 5 attorneys fees from the common fund," closed
- 6 quote.
- 7 Your Honor, we read this as stating that
- 8 the right to the attorneys fees belongs to Mr.
- 9 Flynn to have those fees reimbursed. Where are
- 10 those fees? Those fees are the fees that he
- incurred in the Flynn litigation.
- Mr. Palmer would have done this on a
- 13 contingent arrangement, but whether it was an
- 14 hourly arrangement or not, the fee is capped by
- 15 Montana regulation, by the Montana Administrative
- 16 Rules, at 25 percent. That particular rule is
- 17 24.29.3802 sub (3) of the ARM; and the long and
- 18 short of it is that for a case that goes before
- 19 this Court or the Supreme Court on a contingency
- 20 fee, the attorneys fees are capped at 25 percent.
- 21 And let me quote from that regulation.
- 22 "25 percent of the amount of additional
- 23 compensation payments the claimant receives from
- 24 an order of the Workers Compensation Judge or the
- 25 Supreme Court due to the efforts of the attorney."

1 Clearly Mr. Palmer was successful in 2 getting the claimant in this case, Mr. Flynn, 3 additional benefits. Those benefits would have been one half of the attorneys fees incurred by 4 5 Mr. Flynn in pursuing his SSDI. I don't know what those attorneys fees were in Mr. Flynn's case, but 6 7 if we do the average that Mr. Palmer has provided 8 us of \$1,304, 25 percent of that is \$326. 9 are the attorneys fees that Mr. Flynn is entitled 10 to reimbursement for. 11 The 25 percent assessment against each recovering non-participating beneficiary makes 12 13 each non-participating beneficiary pay the entirety of the 25 percent. In essence, Mr. 14 15 Palmer has increased his attorneys fees by a 16 multiple equal to the number of non-participating 17 beneficiaries. That's not the common fund. That doesn't allow us to tax the common fund doctrine 18 19 as held in Flynn, does not allow us to tax the common fund to any degree greater than that 20 necessary to reimburse Mr. Flynn for the attorneys 21 22 fees incurred. 23 As I've stated, the attorneys fees incurred would have been capped at 25 percent of 24 Mr. Flynn's recovery, not at 25 percent of the 25

- 1 common fund, not at 25 percent of the aggregate of
- 2 the individual recoveries from non-participating
- 3 beneficiaries.
- 4 The math here is very clear. Using Mr.
- 5 Palmer's figures that he's provided us with today,
- 6 if we take the \$326, 25 percent figure, from the
- 7 \$1,304 recovery figure that he has provided,
- 8 multiply that times the 273 eligible
- 9 non-participating Flynn beneficiaries, we get a
- 10 recovery by probably -- we get attorneys fees
- 11 charged by Mr. Palmer in the amount of \$73,998.
- 12 Every dollar beyond that which is
- 13 required for attorneys fees reimbursement under
- 14 the common fund comes out of the recovery of a
- 15 workers compensation claimant, but specifically in
- 16 this case, it comes out of the recovery of someone
- 17 who has been held to be eligible for Social
- 18 Security Disability. These are seriously disabled
- 19 people who are now being asked to fund, via this
- 20 across the board 25 percent assessment, who are
- 21 now being asked to fund attorneys fees in excess
- of \$73,000, when under Montana regulation, Mr.
- 23 Palmer's attorneys fees would be capped at 25
- 24 percent of Mr. Flynn's recovery.
- And Rex, I don't know exactly what Mr.

- 1 Flynn's recovery was, half of the attorneys fees
- 2 he incurred in pursuing SSDI; but I'm guessing
- 3 it's on the order of somewhere around your
- 4 average, \$1,304. Every dollar beyond that 25
- 5 percent is coming directly from the benefits due
- 6 and payable to a Flynn claimant who is a disabled
- 7 person. I see no justification for this in the
- 8 common fund doctrine.
- 9 THE COURT: Let me interrupt you for one
- 10 second. They wouldn't be get anything but for the
- 11 establishment, from the benefit of Mr. Palmer's
- 12 work. The pay is coming from additional benefits
- that they're receiving, and they're getting 75
- 14 percent of something, instead of 100 percent of
- 15 nothing.
- MR. JENNINGS: And that's a very good
- 17 point, Your Honor. Mr. Palmer's activities did in
- 18 fact win those benefits for them, but the common
- 19 fund doctrine provides us with a formula for
- 20 finding out and computing Mr. Palmer's fee for
- 21 that. And it's not a right held by Mr. Palmer,
- 22 it's a right held by Mr. Flynn, who is entitled to
- 23 the reimbursement of his attorneys fees.
- 24 And the math that you just did, 100
- 25 percent of nothing or 75 percent of a significant

- 1 something, that's an equitable balance, and it
- 2 might be a good equitable balance, it might be a
- 3 bad equitable balance, I don't know; but we don't
- 4 have to go there, because that's not the common
- 5 fund doctrine. If we're talking about
- 6 incentivising an attorney such as Mr. Palmer to
- 7 fight on behalf of claimants who otherwise might
- 8 get nothing, then we're talking about an entirely
- 9 different concept. We're talking about the
- 10 Private Attorney General theory, which exists for
- 11 the precise reason to incentivise attorneys like
- 12 Mr. Palmer to do what he's done here today.
- That has never been pled here. The
- 14 elements of the Private Attorney General have
- 15 never been proven in the Flynn case. We're not
- 16 dealing with that here. We are dealing with the
- 17 common fund, which only permits Mr. Flynn to
- 18 recover his attorneys fees actually incurred.
- 19 THE COURT: But as a practical
- 20 application, these would -- for the most part --
- 21 not all -- of these cases are going to predate the
- 22 amendments to 2003, which talk about equitable
- 23 resolutions, and arguably has been argued in the
- 24 Thompson case would apply to the Private Attorney
- 25 General theory. We're talking about then if we

- 1 applied the Private Attorney General theory, then
- 2 instead of each individual claimant paying an
- 3 incremental amount of recovery that they got
- 4 because of Mr. Palmer's efforts, then the insurers
- 5 are going to pay based on an hourly rate under the
- 6 Private Attorney General theory, if that's --
- 7 MR. JENNINGS: If that's what's
- 8 applicable, but I can't see how that's applicable,
- 9 Your Honor, because it's never been alleged. And
- in order to invoke the Private Attorney General
- 11 doctrine -- which again is simply nothing more
- 12 than another exception to the American rule -- in
- order to invoke that, we have those three
- 14 elements, I believe it is, of that doctrine that
- 15 it is incumbent upon Mr. Palmer and his client to
- 16 prove, either in this Court or when it went up to
- 17 the Supreme Court. That's never been done in this
- 18 case.
- 19 An additional problem with this across
- 20 the board 25 percent is that totally neglects the
- 21 common fund doctrine, another aspect of the common
- 22 fund doctrine, which states that the
- 23 non-participating beneficiaries are only liable --
- 24 may only be taxed for the attorneys fees in
- 25 proportion that they benefited from the common

- 1 fund.
- We have an average of \$1,304, but that
- 3 average is an average. We have a low ball, and we
- 4 have a high ball. If we just simply tax the
- 5 common fund to 25 percent, the low side is going
- 6 to be paying more than their proportional benefit
- 7 than the high side will be.
- I submitted that math, which the Court
- 9 probably found fairly confusing, in my Rausch
- 10 brief.
- 11 THE COURT: I find most math confusing.
- MR. JENNINGS: In any event, the common
- 13 fund doctrine simply requires non-participating
- 14 beneficiaries to fund the attorneys fees in
- 15 proportion to the amount they benefited from the
- 16 common fund. If we have a guy that benefits a
- 17 dollar, and a guy that benefits \$10, the guy that
- 18 benefits \$10 should be taxed at a higher
- 19 percentage than the guy who benefits at one
- 20 dollar, or who benefits at a dollar.
- 21 With just the 25 percent across the
- 22 board, the insurance companies are now being asked
- 23 to withhold attorneys fees from benefits due
- 24 non-participating claimants for every such
- 25 claimant who falls below the average in excess of

- 1 the percentage that they would be required to put
- 2 forth in satisfaction of the attorneys lien. Does
- 3 the Court follow that?
- 4 THE COURT: I did, except for my
- 5 understanding was -- I thought it was done on an
- 6 individualized basis, that once a determination of
- 7 benefits -- and I guess Tom, you're --
- MR. MARTELLO: I want to interject here.
- 9 First of all, on behalf of State Fund, we have no
- 10 objection to the 25 percent attorney fee. We've
- 11 agreed with that, and we, in this case and in
- 12 other common fund cases, have at times agreed with
- 13 claimants' Counsel with regard to the percentage.
- 14 But I just wanted to add to the comments that Mr.
- 15 Jennings is making, and maybe try to put things in
- 16 perspective here.
- He is correct with regard to what the
- 18 traditional approach is for a common fund.
- 19 However, Montana, being the state that it is, has
- 20 not adopted the traditional approach to common
- 21 fund, and that was evidenced in the Murer case;
- 22 and these arguments that are being made were made
- 23 in Murer, which made it up to the Supreme Court on
- 24 three occasions. And the traditional version, if
- you will, is to take the entirety of the case as

- 1 one pie, and then what you do is you split out the
- 2 -- and you share what is the costs with regard to
- 3 that pie.
- 4 However, what Montana has done is
- 5 they've taken the approach that the common fund is
- 6 something that is amassed from those that are the
- 7 non-participating beneficiaries, and that then
- 8 creates a common fund of money, out of which
- 9 benefits are going to be paid, including a
- 10 proportionate share of attorneys fees.
- 11 So Montana has taken a different version
- 12 of the traditional common fund, and I think it
- 13 started with Murer, then you've had Broeker,
- 14 you've had FFR, Flynn. There have been a number
- of cases that have continued that version, if you
- 16 will, the Montana version of a common fund.
- 17 THE COURT: I guess let me -- so kind of
- 18 back to -- I guess just to kind of cross the
- 19 bridge that's in front of us, I think in dealing
- 20 with State Fund claimants today, you want to
- 21 preserve a record.
- MR. JENNINGS: Yes, Your Honor. We wish
- 23 to object to the 25 percent.
- 24 THE COURT: Right. And so that for
- 25 purposes of your own clients' interests, whether

- 1 in this case if they had come down or in future
- 2 cases, that there's no sort of argument, an
- 3 estoppel argument or something like that, could be
- 4 made. Is that basically what we're at?
- 5 MR. JENNINGS: That's basically what
- 6 we're getting at. In this case, for our private
- 7 insurers, claimants, and of course in the other
- 8 cases as well.
- 9 THE COURT: Sure. And I think you made
- 10 a good record on it, and I'll certainly allow you
- 11 to -- why don't we do this. I'm glad we went on
- 12 the record. If you want to supplement -- I think
- if you feel like there's anything that I haven't
- 14 allowed you to say, certainly I'm going to allow
- 15 you to supplement your position in writing if you
- 16 need to. I think that you've made an ample record
- 17 as to your position on this, and certainly
- 18 preserved your clients' positions for other
- 19 purposes. I don't think there's going to be an
- 20 argument that you're estopped from asserting that
- 21 position, whether in this case or in other cases.
- But since we're dealing with State Fund
- 23 claimants here, the State Fund's position is that
- 24 they do not object. I've listened to Mr. Palmer
- on the two claimants who have sent in letters, and

1 the circumstances surrounding them. I'm going to 2 approve the 25 percent attorney fee for all the 3 claimants, including Mr. Wagner and Mr. Hanson. And I believe these letters are probably a part of 4 5 -- we've docketed these letters, haven't we? 6 THE CLERK: Yes. 7 THE COURT: So these letters are docketed, so they're in the record, as well as is 8 9 Mr. Palmer's statements regarding the circumstances surrounding his efforts, and how 10 11 these respective claimants have benefited from the work there. So that will be the ruling of the 12 13 Court. I think you've made a very good record in 14 terms of your position on that, but as it pertains 15 to what we're here for today, and these are State 16 Fund claimants, and the State Fund has no objection, I'm going to approve the 25 percent 17 18 attorneys fees as to all of the claimants. 19 anybody else have anything to add? 20 MR. JENNINGS: Nothing further, Your 21 Honor. 22 THE COURT: We'll go off the record. 23 (The proceedings were concluded 24 at 9:50 a.m.)

25

1	CERTIFICATE
2	STATE OF MONTANA )
3	: SS.
4	COUNTY OF LEWIS & CLARK )
5	I, LAURIE CRUTCHER, RPR, Court Reporter,
6	Notary Public in and for the County of Lewis &
7	Clark, State of Montana, do hereby certify:
8	That the proceedings were taken before me at
9	the time and place herein named; that the
10	proceedings were reported by me in shorthand and
11	transcribed using computer-aided transcription,
12	and that the foregoing -19- pages contain a true
13	record of the proceedings to the best of my
14	ability.
15	IN WITNESS WHEREOF, I have hereunto set my
16	hand and affixed my notarial seal
17	this day of March, 2006.
18	Lanu tull
19	LAURIE CRUTCHER, RPR
20	Court Reporter - Notary Public
21	My commission expires
22	March 9, 2008.
23	
2 4	
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LESOFSKI & WALSTAD COURT REPORTING 406-443-2010

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