

A distributor brought a diversity action against a manufacturer in a federal court in State A for breach of contract. The contract was signed in State B and allegedly breached in State C. The distributor filed this action two years after the alleged breach occurred and nine months after discovering the alleged breach. The manufacturer immediately moved to dismiss the action on the ground that the statute of limitations has expired.

The statute of limitations in State A is one year from the date on which the alleged breach occurred, and State A applies the law of the state where the alleged breach occurred.

The statute of limitations in State B is six months from the date on which the alleged breach was discovered, and State B applies the law of the state where the alleged breach occurred.

The statute of limitations in State C is one year from the date on which the alleged breach was discovered, and State C applies the law of the state where the contract was signed.

Is the court likely to grant the manufacturer's motion to dismiss the action?

- A. No, because the manufacturer failed to file an answer.
- B. No, because the statute of limitations under State C law has not expired.
- C. Yes, because the statute of limitations under State A law has expired.
- D. Yes, because the statute of limitations under State B law has expired.

Explanation:

Examples of procedural & substantive issues

Procedural

(processes & procedures)

- Filing deadlines
- Court rules & procedures
- Discovery practices
- Rules of evidence

Substantive

(legal rights & duties)

- Elements of claim or defense
- Burdens of proof
- Statutes of limitations

Federal courts sitting in [diversity](#) (as seen here) must apply **federal law to procedural issues** and **state law to substantive issues**. Substantive issues include the elements of a claim or defense, the applicable [burden of proof](#), and the statute of limitations. Therefore, state law governs the statute of limitations for the distributor's breach-of-contract action against the manufacturer.

The federal court must then determine *which* state's law governs the issue by applying the **choice-of-law rules** of the **state where the court sits**. Here, the federal court sits in State A, so it must apply State A's choice-of-law rules. These rules require a court to apply the law of the state where the alleged breach occurred. Since the alleged breach occurred in State C, State C's law governs the statute of limitations in this action (**Choices C & D**).

State C's statute of limitations for breach-of-contract claims is one year from the date that the alleged breach was discovered. Since the distributor filed this action nine months after discovering the manufacturer's alleged breach, the statute of limitations has not expired. Therefore, the federal court will likely deny the manufacturer's motion to dismiss the action.

(Choice A) [FRCP 12\(b\)](#) allows a defendant to file a motion to dismiss *before* filing an answer. One basis for such a motion is that the plaintiff failed to state a claim on which relief can be granted—eg, that the statute of limitations on the claim expired (as seen here).

Educational objective:

In a federal diversity action, the court must apply federal law to procedural issues and state law to substantive issues (eg, statute of limitations). To determine which state's substantive law applies, a federal court must apply the choice-of-law rules of the state where it sits.

FRCP = Federal Rule of Civil Procedure

References

- Guaranty Trust Co. v. York, 326 U.S. 99, 110 (1945) (holding that state statute of limitations applies in a federal diversity action).

- Klaxon Co. v. Stentor Elec. Mfg. Co., 313 U.S. 487, 496–97 (1941) (explaining that a federal court sitting in diversity must apply the choice-of-law rules of the state in which it sits).

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