Coming Attractions

October 18, 2007
Judges' Night

November 15, 2007
Civil Practice Seminar "Life Under the New E-discovery Rules: Looking Back on the First Year and Forward to What's Next"

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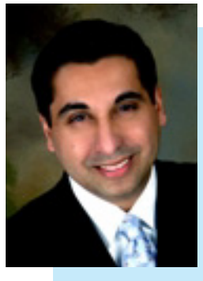
Summer 2007

The Supreme Court's Stricter "Cogent & Compelling" Pleading Standard for Scienter in Securities Fraud Class Actions

by Jay C. Gandhi & Susie S. Yoo

On June 21, 2007, the U.S. Supreme Court again reshaped the securities litigation landscape and, in so doing, erected yet another steep slope for plaintiffs to climb.[1] The Court resolved a significant split among the circuit courts on the mandate that plaintiffs plead a "strong inference" of scienter, *i.e.*, an intent to "deceive, manipulate, or defraud,"[2] in securities fraud class actions. The Court's 8-1 opinion[3] in *Tellabs, Inc. v. Makor Issues & Rights, Ltd.* held that a court "must consider plausible nonculpable explanations for the defendant's conduct" and the "inference must be more than reasonable or permissible" – the inference "must be cogent and at least as compelling as any opposing inference of non-fraudulent intent." The *Tellabs* decision not only renders it more difficult for plaintiffs to withstand a motion to dismiss with conclusory or speculative allegations of fraudulent intent, but also may signal (and foreshadow) the Court's continuing concern and control over the threat of abusive securities class action litigation.

Continued on Page 6



Jay C. Gandhi and Susie S. Yoo are members of the Securities Litigation and Enforcement Group at Paul, Hastings, Janofsky & Walker LLP, resident in the firm's Orange County office.

Paul Hastings represents defendants in similarly alleged securities fraud class actions throughout the country and submitted an amicus curiae brief with the U.S. Supreme Court in support of the defendants in the Tellabs case.

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MESSAGE . . . from the President

by Martha K. Gooding

You all know that the FBA/OC is committed to meeting the needs of federal practitioners in Orange County and serving as a bridge between the federal bench and bar. The FBA/OC also believes in the importance of identifying and serving needs within the broader community in which we all practice. So, in addition to reporting on our various legal CLE programs, I am pleased to use my President's Column this month to highlight some of the ways in which the FBA/OC is extending its reach beyond lawyers and judges to support our community.

First, the FBA/OC continues its support this year for the Public Law Center ("PLC"), Orange County's pro bono law firm, which provides access to justice for low income residents. The FBA/OC has purchased a table at the annual PLC fundraiser, and I look forward to seeing many of our members and Board members at the event. We also started a new initiative this year, in which we provide complimentary admission to two PLC lawyers for all FBA/OC events. We are fortunate to have PLC in our county; we applaud the fine work that Ken Babcock and his colleagues do; and we are very proud to support it.

Second, we continued our community outreach with our annual Bill of Rights Day. In May, a team of FBA/OC members and volunteers went on campus at MacArthur Fundamental Intermediate School and taught approximately 400 students about the Bill of Rights. We will continue the program with a second Bill of Rights Day at another local middle school this fall. Please go to our website (FBAOC.org) for more information and to learn how to become a part of this rewarding program. I am grateful to Scot Kennedy and Jesse Mulholland for spearheading the program again this year and thank them for their efforts and enthusiasm.

Third, we invited 60 Chapman University Law Students to be our guests at our February program, "The Art of the Destructive Cross-Examination." Nearly all of the invited students accepted our invitation, and they were treated not only to an extraoradinary learning experience but also to an invaluable opportunity to meet some of the leaders of our local bench and bar. Chapman University has very generously allowed the FBA/OC to use its beautiful facilities for a number of our programs, and we are pleased to "give back" to the University community in this way.

Finally, in April, we held the first of what we expect to be many luncheons focusing on the Central District's Pro Bono Civil Rights Panel. The lunch was attended by Chief Judge Alicemarie Stotler and 8 other members of the Central District bench, as well as representatives of 16 Orange County law firms. We are enormously grateful for the support of Chief Judge Stotler, our District Judges, and District Executive Sherri Carter in making this event such a success. I am proud that, as a direct result of the luncheon, the number of law firm members on the Pro Bono Civil Rights Panel more than doubled, and at least one case has been assigned to counsel and is headed to trial. If you are interested in becoming a member and accepting representation in one of these cases – which generally result in a jury trial in federal court – please contact Magistrate Judge Fernando M. Olguin at 213.894.0215 or Magistrate Judge Segal at 213.894.1420.

Now, for a look at what's ahead:

Electronic Filing for Civil Cases: It's coming! The criminal practitioners among you have no doubt grown accustomed to filing your documents electronically, and soon your civil colleagues will have to catch up. As of January 2008, electronic filing will become mandatory in the Central District for civil matters. The FBA/OC is gearing up to help civil litigators learn how to use this wonderful new tool and obtain the certification necessary to use the e-filing system: we

Invitation for Public Comment

The current term of the Honorable Erithe Smith, U.S. Bankruptcy Judge for the Central District of California, is due to expire in May 2008. The U.S. Court of Appeals for the Ninth Circuit is considering the reappointment of the judge to a new term of office of 14 years. The court invites comments from the bar and public about Judge Smith's performance as a bankruptcy judge. The duties of a bankruptcy judge are specified by statute, and include conducting hearings and trials, making final determinations, and entering orders and judgments.

Members of the bar and public are invited to submit comments concerning Judge Smith for consideration by the Court of Appeals in determining whether or not to reappoint her. Anonymous responses will not be accepted. However, respondents who do not wish to have their identities disclosed should so indicate in the response, and such requests will be honored.

Comments should be submitted no later than **Wednesday, August 15, 2007** to the following address:

Office of the Circuit Executive
P.O. Box 193939
San Francisco, CA 94119-3939
Attn: Reappointment of U.S.
Bankruptcy Judge Erithe Smith

Facsimile: 415.355.8901

the question in the negative, although the Federal Circuit itself did not address the issue.[20] Related, another Federal Circuit panel has held that any challenge to the license at issue must be made, if at all, through the channels afforded by the Administrative Procedures Act ("APA") when the intended license is published in the Federal Register. Any failure to pursue APA remedies was found fatal under exhaustion doctrine principles.[21]

Framed slightly differently, the question raised in these standing challenges centers around whether the Bayh-Dole Act even gives rise to a private right of action. One district court case has applied general federal principles that address when a statute gives rise to a private right of action and concluded that the Bayh-Dole Act does not give rise to a private right of action.[22] But the Federal Circuit has not addressed this issue yet. All told, there are myriad interesting standing issues on both sides of a case that exist due to the Bayh-Dole Act.

VI. Conclusion

Because of the desire to get taxpayer funded inventions into the marketplace for commercialization and enforcement, along with the desire not to waste taxpayer resources in litigation, under the Bayh-Dole Act and subsequent case law the standing standards differ as between the government-licensed inventions scenario and the non-government licensed inventions scenario. The Bayh-Dole Act also raises other issues in patent infringement litigation that are unique to the context of government-funded inventions, all of which are important for patent litigators to consider when litigating a case involving a licensee of a government invention. Ultimately, as more government inventions enter the private marketplace for commercialization and enforcement, we can certainly expect these issues to be tested further, along with other, new issues.

[1] "U.S. Government Patents – 2003," United States Patent & Trademark Office, Summary 1977-2003, located at http://www.uspto.gov/go/oeip/taf/govt/summary/sum_gov_cy.htm.
[2] 35 U.S.C. §§ 200-212.
[3] 35 U.S.C. § 200.
[4] 35 U.S.C. § 207(a)(2).
[5] 35 U.S.C. § 207(b)(1).
[6] 37 C.F.R. § 404.5(b)(2).
[7] 37 C.F.R. § 404.7(a)(1).
[8] *Independent Wireless Telegraph Co. v. Radio Corp. of America*, 269 U.S. 459, 468-69 (1926); *Fieldturf, Inc. v. Southwest Rec. Indus.*, 357 F.3d 1266, 1268-69 (Fed. Cir. 2004).
[9] *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991).
[10] *Id.*
[11] *Compare Propat Int'l, Inc. v. Rpost, Inc.*, 473 F.3d 1187, 1190 (Fed. Cir. 2000) (licensee had no standing where it received only the right to pursue enforcement without the right to practice the invention and where licensor had absolute veto right); *Fieldturf*, 357 F.3d at 1269 (because the license was silent on whether the licensee could enforce the patent it was "no more than a bare license"); *Textile Products v. Mead Corp.*, 134 F.3d 1481, 1485 (Fed. Cir. 1998) (exclusive supplier agreement did not amount to exclusive right to practice the underlying patent); *with Vaupel*, 944 F.2d at 875 (licensee had standing despite veto right on sublicensing, right to receive infringement damages and exclusive right in licensor to receive foreign patents on the invention); *Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 1245, 1250 (Fed. Cir. 2000) (licensee had standing where licensor could initiate litigation where licensee did not proceed with litigation).
[12] The standing issues at issue are not Article III ones that obviously cannot be overriden by statute, but rather are prudential standing concerns that may be modified by statute. *See Bennett v. Spear*, 520 U.S. 154, 167 (1992).
[13] *Id.* at 863-64.
[14] *Id.* at 865.
[15] *Id.* at 866-67.
[16] *Chevron U.S.A., Inc. v. Natural Res. Def. Council*, 467 U.S. 837, 844 (1984).
[17] *Nutrition 21*, 930 F.2d at 866-67.
[18] *Id.*
[19] 35 U.S.C. § 207(a)(2) ("grant nonexclusive, exclusive, or partially exclusive licenses under federally owned patent applications, patents, or other forms of protection . . . as determined appropriate in the public interest.").
[20] *See Embrex, Inc. v. Service Engineering Corp.*, 216 F.3d 1343, 1352 (Fed. Cir. 2000); *Service Engineering Corp. v. USDA*, 1999 U.S. Dist. LEXIS 21952, at *11 (D. Md. March 30, 1999).
[21] *See Southern Research Institute v. Griffin*, 938 F.2d 1249, 1253 (11th Cir. 1991).
[22] *See Platzer v. Memorial Sloan Kettering Institute for Cancer Research*, 787 F. Supp. 360, 364-65 (S.D.N.Y. 1992).

will soon begin offering court-approved E-filing training classes. Watch for further announcements and details.

Bench & Bar Lunches: Attendance at our June Bench & Bar luncheon was phenomenal. 172 lawyers and summer associates heard Judge Selna reflect on his years on the federal bench, what makes his job "the world's best," and how we as practitioners can make it "even better." Judge Selna eloquently reminded us of the breadth of both legal and human issues that daily confront our federal judges. Please plan to join us on July 12 for our second Bench & Bar luncheon, when Judge Carter will inspire us with tales of his efforts throughout the world to help spread the rule of law.

Behind the Books: We will reprise our bi-annual "Behind the Books" program, at which the Orange County federal judges and court personnel literally take us behind the scenes of our beautiful Santa Ana courthouse . . . including the judges' chambers. When the FBA/OC first developed this program a number of years ago, it was primarily with new lawyers in mind. (And make no mistake, young lawyers should not think about missing this event.) But every year we have presented this program, it is fun to see how many seasoned lawyers attend too. Guess we all want to feel like an "insider."

Civil Practice Seminar: It's one thing to know the new e-discovery rules. It's another to see how the courts have interpreted and applied them. Join us on November 15 for our annual Civil Practice Seminar, which will re-visit the e-discovery rules one year after their implementation.

Thank you to all our members and Board members for making the first half of our year a resounding success. I look forward to all that we will accomplish together in the coming months.

OCBF & FBA JOIN FORCES ON E-DISCOVERY

On June 9, 2007, the Orange County Bankruptcy Forum and the Federal Bar Association jointly sponsored an electronic discovery MCLE course at Chapman University School of Law. The presenters were Brian Neach of O'Melveny & Myers, Madison Spach of Spach, Capaldi & Waggman, Michael Bandemer of LECG, Inc., and Scott Ayers of Ayers Technical Consulting. The program was moderated by Jess Bressi of Cox, Castle & Nicholson, and the program organizers were Mr. Bressi, Matt Grimshaw of Rutan & Tucker, and Don Sieveke of the Law Offices of Donald Sieveke.

The presenters discussed the implications of the digital revolution and provided pragmatic approaches to solving various electronic discovery issues. Among the many topics discussed were evidence preservation letters; chain of custody issues for using electronic evidence at trial; the discoverability of metadata; the advantages (and disadvantages) of the most common file types used to respond to electronic discovery requests (PDF vs. TIFF vs. native); items that should be discussed during the FRCP Rule 26(f) meeting of counsel; privilege issues associated with electronically stored information; and privacy issues relating to electronically stored information found on a client's computer.

The presenters provided valuable insights on where electronically stored information can be found and how it should be obtained. Lawyers typically remember to ask for information stored on their adversaries' computers, but some fail to include less intuitive locations – like cell phones, iPods (and other MP3-type devices), and flash drives. Even when lawyers remember to look in all the right places, some do not appreciate the differences in how they obtain the information from their opponent. The presenters discussed the advantages (and disadvantages) of obtaining a bit-by-bit copy of an opponent's computer vs. copying only active files on an opponent's computer vs. allowing your opponent to select electronic files to produce vs. receiving print documents.

We thank the presenters, the program organizers, and the others involved for their hard work.

Orange County Welcomes Newest Bankruptcy Judge Robert N. Kwan

by Lynda Bui

Judge Kwan was sworn in on February 5, 2007 by the Honorable Alicemarie Stotler.

On February 5, 2007, the Honorable Robert N. Kwan, 53, was sworn in as the newest judge on the 21-member U.S. Bankruptcy Court for the Central District of California. The U.S. Court of Appeals for the Ninth Circuit appointed Judge Kwan for a 14-year term to succeed the Honorable John E. Ryan, who recently retired. Judge Kwan joins the Honorable Erithe A. Smith and Theodor C. Albert in the Bankruptcy Court's Santa Ana Division, which serves Orange County.

Judge Kwan is a fifth-generation Californian and grew up and attended public schools in Canoga Park, a suburb of Los Angeles, in the 1960s. He is a graduate of Yale College, B.A. 1975, and University of California, Hastings College of the Law, J.D. 1979. Judge Kwan started his career as a lawyer in the U.S. Attorney General's Honor Law Graduate Program as a trial attorney in the Justice Department's Civil Rights Division, where he handled cases and matters to enforce the Voting Rights Act of 1965, which included extensive travel in the southern states.

In 1983, Judge Kwan transferred to the Justice Department's Tax Division, where he was a trial attorney handling civil tax cases in the Eastern District of California. Judge Kwan's first exposure to bankruptcy law was being assigned a docket of 200 civil tax cases, a third of which were pending in bankruptcy court, which prompted him to learn bankruptcy as well as tax law. At the same time, Judge Kwan went to night law school at Georgetown and earned an LLM in taxation law in 1985. In 1987, Judge Kwan and his family returned to Southern California, where he worked as an associate in a small firm in general practice.

In 1989, Judge Kwan became an Assistant United States Attorney in Los Angeles, where he handled civil and bankruptcy tax cases and prosecuted criminal tax cases. He became a supervisor in the office, overseeing IRS attorneys designated as Special Assistant United States Attorneys handling tax matters in bankruptcy court. Judge Kwan has regularly appeared in federal court in Orange County since 1989 and had his first Central District trial before the Honorable Alicemarie H. Stotler that year. Judge Kwan believes that his most important bankruptcy work in the district was settling the bankruptcy tax disputes in the Medieval Times bankruptcy cases before Bankruptcy Judge James N. Barr resulting in a $36 million settlement payment to the IRS, and his appellate work leading to decisions in *In re Taffi*, 96 F.3d 1190 (9th Cir. 1996) (replacement value is appropriate standard for valuing secured claims in a Chapter 11 cramdown) and *In re Gardenhire*, 209 F.3d 1145 (9th Cir. 2000) (no equitable tolling for late filed bankruptcy claims).

Judge Kwan is a self-confessed "bar junkie." Judge Kwan served three terms as a trustee of the Los Angeles County Bar Association ("LACBA"), and last year, was the chair of the LACBA

suit on its own or whether a patent owner must be joined as a party.[9] "The policy underlying the requirement to join the owner when an exclusive licensee brings suit is to prevent the possibility of two suits on the same patent against a single infringer."[10] Thus, the inquiry in a standing analysis is often focused on whether the license is limited in time, by geography, or to a specific field of use as well as the substantive nature of other rights retained by the licensor.[11]

So far so good, but the Bayh-Dole Act and its implementing regulations specifically allow the grant of a non-exclusive license concurrent with the right of the licensee to pursue an enforcement action without the government's participation. *See* 35 U.S.C. § 207(a)(92), 37 C.F.R. § 404.5(b)(2). However, in the non-government context, a non-exclusive licensee generally could not pursue an enforcement action against an alleged infringer without the licensor being joined as a plaintiff or real party in interest because all substantial rights would not be conveyed and because of the risk of duplicity of suit. The Federal Circuit has considered this apparent tension, and concluded that in the context of government-funded inventions, the policy goals of the Bayh-Dole Act allow a non-exclusive licensee to pursue an infringement action without the Government's participation where the Government retains rights not specifically addressed by law. This results in a modified standing landscape in the context of government inventions.[12]

IV. Government Licenses & Standing

In *Nutrition 21 v. United States*, 930 F.2d 862, 864 (Fed. Cir. 1991), Nutrition 21 received: a non-exclusive license to make certain products under a government patent and an exclusive license to make other products; and the right to pursue enforcement of the patent against infringers. The Government retained a continuing right to intervene in any litigation. Nutrition 21 filed an infringement action, joining the United States as an unwilling, but allegedly necessary, party for standing purposes. The United States moved to dismiss, arguing that Nutrition 21 could pursue an infringement action against the real defendant in interest without the Government's participation under the Bayh-Dole Act.[13] The Federal Circuit agreed.

The Federal Circuit focused the standing inquiry through the prism of the Bayh-Dole Act. It noted the long-standing *Independent Wireless* standing test, but held that "the relevant law has been changed by Congress."[14] Relying on the Bayh-Dole Act, the Federal Circuit noted the key importance of getting federally funded inventions into private hands for commercialization, while at the same time minimizing the costs suffered by the Government. Accordingly, the Court held that under the Bayh-Dole Act and the license agreement at issue (partially exclusive, partially non-exclusive), Nutrition 21 had standing to pursue the action without the Government as a party notwithstanding the Government's reservation of a continuing right to intervene in any litigation.[15]

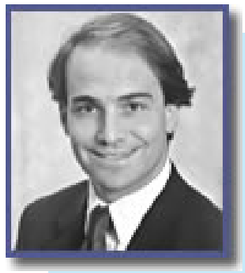
The final, significant wrinkle in a government licensee standing inquiry turns on legal principles only applicable in a government-license context. Specifically, to what extent must courts defer to the Government's interpretation of governing license agreements entered under the regulatory scheme under *Chevron* deference?[16] The *Nutrition 21* court specifically noted that *Chevron* principles of deference require the courts to accord great deference to the agency's construction of the statutory scheme under the Bayh-Dole Act, and the agency's conclusions about the grant of rights in a patent, particularly where the governing regulations may be silent on a given issue in the case.[17] As such, it further held that the court was obligated to "defer to the Commerce Department's interpretation of its authority under 35 U.S.C. § 207(a)(2), as expressed in its license agreement with Nutrition 21."[18]

V. Other Unique Standing Issues Under the Bayh-Dole Act

Other standing questions exist under the Bayh-Dole Act. For example, a defendant infringer may itself attempt to challenge the validity of the license agreement as not serving the public interest.[19] This, then, raises the question of the defendant's standing to pursue such counterclaims: is an infringement defendant within the zone of interests of the Bayh-Dole Act such that it even possesses standing to challenge discretionary agency action about what is in the public interest? The Federal Circuit has affirmed an unpublished district court opinion that answered

Private Enforcement of Government Patents Under the Bayh-Dole Act: Standing

by Peter R. Afrasiabi



Peter R. Afrasiabi is a partner in the law firm of Turner Green Afrasiabi & Arledge LLP.

I. Introduction

The vaults of the United States Government contain many patents, reflecting novel inventions arrived at through research funded by U.S. taxpayers. Government data shows that over the last 30 years, the United States has secured 800-1000 patents per year, yielded from innovations across numerous departments.[1] Many of these patents literally sit undiscovered, neither being enforced nor commercialized and are, instead, simply the embodiment of taxpayer-funded research and development. Some of them, however, do make their way to the private sector for enforcement and commercialization. This is because of the Bayh-Dole Act,[2] which is designed to get federally owned inventions into the private sphere of commercialization and enforcement. But when the Government gets these patents into the hands of licensees, unique issues arise regarding patent standing, issues that are distinct from the typical standing inquiry in patent cases. This article looks at the standing issues that arise in the government-licensee context as well as some other unique issues that arise in patent infringement actions in light of the Bayh-Dole Act.

II. The Bayh-Dole Act

Passed in 1980, the Bayh-Dole Act's declared purpose is "to use the patent system to promote the utilization of inventions arising from federally supported research or development . . . to promote the commercialization and public availability of inventions made in the United States by United States industry and labor; to ensure that the Government obtains sufficient rights in federally supported inventions to meet the needs of the Government and protect the public against nonuse or unreasonable use of inventions; and to minimize the costs of administering policies in this area."[3] As such, the Bayh-Dole Act authorizes every federal agency to "grant nonexclusive, exclusive, or partially exclusive licenses under federally owned inventions, royalty-free or for royalties or other consideration, and on such terms and conditions, including the grant to the licensee of the right of enforcement pursuant to the provisions of chapter 29 of this title as determined appropriate in the public interest."[4] Moreover, the Act specifically authorized the Secretary of the Department of Commerce to "promulgate regulations specifying the terms and conditions upon which any federally owned invention . . . may be licensed. . . ."[5]

The Secretary of Commerce did so promulgate regulations regarding the licensing of federally owned inventions, and those regulations further provide that the license "may grant the licensee the right of enforcement of the licensed patent without joining the United States as a party."[6] This is important, because under Section 207(a)(2), the Government may grant licenses that are either exclusive or non-exclusive. Indeed, the regulations specifically further codify that a license may be exclusive, partially exclusive or non-exclusive, but that an assignment in contrast is not an option.[7]

III. Standing in the Non-Government Licenses Situation

The general rule, which traces itself to *Independent Wireless*, is that an exclusive licensee has standing to bring an action for patent infringement, provided the underlying license agreement conveys all substantial rights in the patent.[8] The Federal Circuit has found that the transfer of the exclusive right to sue for infringement is "particularly dispositive" of the conveyance of all substantial rights in a patent because the ultimate question is whether an exclusive licensee can bring

Membership Committee. He remains active in the bar as an *ex officio* director of the Orange County Bankruptcy Forum and an executive committee member of the LACBA Commercial Law and Bankruptcy Section. He has volunteered to help start a new American Inn of Court specializing in bankruptcy law practice in Los Angeles organized by the Central District Consumer Bankruptcy Attorney Association. Judge Kwan was also a co-founder of the National Asian Pacific American Bar Association.

Judge Kwan is thrilled about his appointment as a bankruptcy judge, saying it is a dream job of a lifetime. He believes that his main duty as a judge is to "get it right," and in his view, everything else is really secondary.

As to his personal philosophy about litigation, Judge Kwan agrees with Albert Einstein, who said: "Everything should be made as simple as possible, but not simpler." Judge Kwan's role models are Chief Judge Stotler and Bankruptcy Judge Ryan, whom he respects for their intelligence, industry, and temperament of being fair, respectful and considerate.

When asked what it is like to suddenly be a colleague of the judges whom he appeared in front of for 20 years, he smiled and responded, "a huge psychological adjustment." Judge Kwan is also ecstatic to be assigned to the Santa Ana Division because not only is the Santa Ana federal courthouse a magnificent physical facility, but there is a strong sense of collegiality between the bench and bar in Orange County, which makes it a fabulous place to practice law or be a judge.

Judge Kwan and his wife, Grace, are celebrating their 31st wedding anniversary in July, and they have three beautiful girls, Elizabeth, Margaret and Catherine. He is a Bruin fan as one of his daughters now attends UCLA and will soon be a Cal fan as another will be starting at UC Berkeley in the fall.

Criminal Practice Seminar Addresses Wiretap Evidence, Sentencing & Electronic Filing

On May 17, the Orange County Chapter of the Federal Bar Association hosted its annual criminal practice seminar at Chapman Law School in Orange. The annual seminar brings prosecutors and criminal defense attorneys together over a dinner to share information about practice areas generating significant litigation. This year's seminar addressed the admission of wiretap evidence in federal criminal trials, recent developments in federal sentencing law and the electronic court filing program.

John D. Early, an Irvine criminal defense lawyer and former Assistant United States Attorney in Santa Ana, gave an interesting and informative presentation on federal wiretap law. The use of wiretap evidence in criminal cases has grown significantly in recent years. According to a recent report by the Director of the Administrative Office of the United States Courts, in 2006, over 1,800 wiretaps were requested and authorized under the federal law; whereas, in 2000, less than 1,200 wiretaps were requested and authorized. Notably, courts rarely deny requests for wiretaps; having authorized over 10,000 wiretaps in the past seven years while denying only two requests during this period. Mr. Early and J. Daniel McCurrie, another Irvine criminal defense lawyer and former Deputy Chief of the United States Attorney's Office in Santa Ana, obtained a remarkable victory last year when the federal district court in Santa Ana suppressed months of surreptitiously recorded telephone calls in a federal alien smuggling prosecution due to the government's violation of the wiretap law. The court's order eventually led the government to dismiss all charges against the defendants.

Craig Wilke, Directing Attorney for the Federal Public Defender in Santa Ana, spoke to the participants about recent changes in federal sentencing law. Since the United States Supreme Court's opinion in *United States v.*

Continued on Page 8

Supreme Court Standard -- Continued from Page 1

I. Background – Private Securities Litigation Reform Act of 1995

In 1995, striving to "eliminate abusive securities litigation" whereby professional plaintiffs and their counsel had mastered the art of "extort[ing] a great deal of undeserved settlement money," Congress enacted the Private Securities Litigation Reform Act ("Reform Act"). *In re Vantive Corp. Sec. Litig.*, 283 F.3d 1079, 1084 (9th Cir. 2002); *Ranconi v. Larkin*, 253 F.3d 423, 428 (9th Cir. 2001). Rigorous pleading requirements were among the control measures that Congress included in the Reform Act. The Reform Act requires that plaintiffs must "state with particularity facts giving rise to a *strong inference* that the defendant acted with the required state of mind." 15 U.S.C. § 78u-4(b)(2) (emphasis added). Congress, however, failed to define the phrase "strong inference."

Over the past decade, a split emerged among the federal appeals courts on the proper interpretation of "strong inference." Courts disagreed on the Reform Act's meaning of "strong inference" as measured against the earlier jurisprudence that allegations in a complaint are construed in the light most favorable to plaintiffs. For example, in 2002, the Ninth Circuit held that the heightened pleading requirements of the Reform Act had trumped such earlier jurisprudence, and "the court must consider all reasonable inferences to be drawn from the allegations, including inferences unfavorable to the plaintiffs." *Gompper v. VISX, Inc.*, 298 F.3d 893, 896-97 (9th Cir. 2002); *see also Fidel v. Farley*, 392 F.3d 220, 226 (6th Cir. 2004) ("plaintiffs are entitled only to the most plausible of competing inferences"). In *Tellabs*, however, the Seventh Circuit held that the "strong inference" standard would be met if the complaint "allege[d] facts from which, if true, a reasonable person could infer that the defendant acted with the required intent." 437 F.3d 588, 602 (7th Cir. 2006). Accordingly, the Court granted *certiorari* in *Tellabs* "to resolve the disagreement among the Circuits on whether, and to what extent, a court must consider competing inferences in determining whether a securities fraud complaint gives rise to a 'strong inference' of scienter."

II. The *Tellabs* Journey to the Supreme Court

The *Tellabs* decision arose from a securities fraud putative class action pursuant to Sections 10 and 20 of the Securities Exchange Act of 1934. Tellabs, Inc. was a manufacturer of specialized equipment for fiber optic networks. Shareholders alleged that, during the six-month period between December 11, 2000 and June 19, 2001, Tellabs and its CEO[4] "falsely reassured public investors, in a series of statements that Tellabs was continuing to enjoy strong demand for products and earning record revenues," when in fact the CEO knew the opposite was true. Shareholders allege they were deceived by those statements, and were harmed when the stock, which had reached a high of $67 during the period, plunged to $15.87 a share when Tellabs finally disclosed the truth to the market.

Shareholders alleged that the CEO misled the public in four ways: (i) he made statements that the demand for Tellabs' flagship network device (known as the "Titan 5500") was growing, when, in fact, demand for that product was waning; (ii) he made statements that Tellabs' next-generation networking device (known as the "Titan 6500") was available for delivery and demand for that product was strong and growing, when, in truth, that product was unavailable for delivery and demand was weak; (iii) he misrepresented Tellabs' financial results for the fourth quarter of 2000 (and, in connection with those results, condoned the practice of "channel stuffing," *i.e.*, flooding customers with unwanted products typically at the end of a financial quarter); and (iv) he made a series of overstated financial projections.

The defendants moved to dismiss pursuant to the rigorous pleading requirements of the Reform Act. The district court agreed, and dismissed the complaint without prejudice. Plaintiffs amended their complaint, including adding references to 27 confidential sources and making further, more specific allegations concerning the CEO's mental state. The district court again dismissed, this time with prejudice. The district court found that plaintiffs had insufficiently alleged that the CEO acted with scienter.

JUDGE JAMES V. SELNA FEATURED AT FIRST BENCH & BAR LUNCHEON FOR 2007

by Angèle Motlagh

The FBA/OC kicked off its annual summer Bench & Bar Luncheon series on June 14, 2007 at the Costa Mesa Hilton with Judge James V. Selna, who spoke to a packed audience of lawyers, summer associates and federal court judges. Judge Selna, who has been on the federal bench for the past four years, hears a range of both criminal and civil cases, which has provided him with a distinct perspective on the justice system and forced him − as he put it − to "constantly reflect on [his] own values." He enjoys the intellectual challenge of complex cases as well as the human dramas that unfold in his courtroom, and shared some anecdotes and valuable advice with the audience.

As he sees it, Judge Selna's job gives him the "duty and privilege to uphold justice everyday" and that is something he does not take lightly. For example, when it comes to criminal cases, he refuses to rush through the facts and takes sentencing very seriously. He believes that the moral goal of the justice system and sentencing is to be mindful of rehabilitation of individuals. That is why Judge Selna considers the circumstances of each defendant as well as his/her intrinsic worth and dignity as a human being, and encourages programs and services to help fight mental illness and addiction.

Judge Selna also considers the victim's experience and chooses sentences that fit the crime. One case Judge Selna discussed, which attracted media attention, involved human trafficking and "enslavement" of a teenage girl kept from attending school and forced to sleep in the family's garage. After the victim provided chilling insight into her ordeal at the sentencing hearing, Judge Selna sentenced the mother to the same amount of time in jail as the victim had been forced to sleep in the garage. Judge Selna's remarks made it clear that his approach is a holistic one, considering all facets, angles and human elements of each case.

The audience also received some sage advice. Judge Selna proposed the following three suggestions all lawyers can benefit from:

- Be thoughtful when making a Rule 12(b)(6) motion. Since less than 5% of motions to dismiss under Rule 12(b)(6) are sustained without leave to amend, Judge Selna emphasized that they should not be brought indiscriminately. Rather, a Rule 12(b)(6) motion should only be brought if it presents a "net plus" benefit to the case.

- Be thorough in establishing diversity jurisdiction involving LLCs. In order to show diversity in a case involving an LLC, each member of the LLC must be diverse.

- Keep in mind professional courtesies. Juries pick up on the lawyers' verbal and nonverbal communication, so unprofessional behavior is counterproductive in front of a jury and in practice.

Judge Selna reminded the newer lawyers to review tentative rulings, which he always posts. He also encouraged both new and seasoned lawyers to take advantage of opportunities to interact with judges, such as at the events held by FBA/OC, in order to feel more comfortable in their courtrooms.

[1] *In re Master Key Litig.*, 507 F.2d 292, 293 (9th Cir. 1974).
[2] While this article is intended to identify some key principles in responding to investigatory subpoenas, it is not intended as legal advice or a guidebook. The issues discussed herein are fact and prosecutor dependant. A complete discussion is well beyond the scope of this article. There is no substitute for an experienced criminal practitioner to guide a client through the crucial and complex issues addressed in this article.
[3] *Ohio v. Reiner*, 532 U.S. 17 (2001).
[4] *Hoffman v. United States*, 341 U.S. 479, 486-87 (1950).
[5] *Anderson v. Maryland*, 427 U.S. 463, 477 (1976); *Fisher v. United States*, 425 U.S. 391, 399 (1976).
[6] *Hoffman*, 341 U.S. at 479.
[7] *Id.* at 486-87.
[8] *Bellis v. United States*, 417 U.S. 85, 87-88 (1974).
[9] *United States v. Doe*, 465 U.S. 605, 610-12 (1984).
[10] *Fisher v. United States*, 425 U.S. 391, 410 (1976).
[11] 487 U.S. 99 (1988).
[12] *Id.* at 110-11.
[13] *Id.* at 119.
[14] *Grand Jury Subpoena Duces Tecum v. United States*, 657 F.2d 5 (2d Cir. 1991).
[15] "Use" immunity is sometimes called "use and derivative use immunity."
[16] *Kastigar v. United States*, 406 U.S. 441, 453 (1972).
[17] 18 U.S.C. § 6002.
[18] *Kastigar,* 406 U.S. at 457.
[19] *Id.* at 460.
[20] *United States v. Mandujano*, 425 U.S. 564, 577 (1976).
[21] Limited use immunity under 18 U.S.C. § 2002 offers substantially less protection than the use immunity discussed above. Limited use immunity is usually granted in so-called "Queen for a Day" letters. These letters from the Assistant United States Attorney promise the witness that their statements will not be used against them by the government in its "case in chief." But the letters typically say that the witness's statements can be used to impeach the witness, evidence derived from the statements can be used against the witness and false statements can be used against the witness (and not just in a perjury prosecution).
[22] U.S. Department of Justice, United States Attorneys' Manual § 9-11.151.
[23] *Id.*
[24] Fed. R. Evid. 501.
[25] United States Justice Department Grand Jury Manual, Antitrust Division (Grand Jury Manual) § III.C.1.
[26] *Id.*
[27] *United States v. Calandria*, 414 U.S. 338, 353 (1974).
[28] *In re Grand Jury*, 111 F.3d 1066, 1071 (3d Cir. 1997) (witness could suppress grand jury subpoena seeking recordings created in violation of wire tap statute).
[29] *United States v. Bergeson,* 425 F.3d 1221, 1225-26 (9th Cir. 2005) (subpoena of lawyer to testify in investigation of client properly quashed; but, courts must still address issue on case by case basis).
[30] *In re Grand Jury Proceedings*, 707 F. Supp. 1207, 1216 (D. HI 1989).
[31] *See Hales v. Henkel*, 201 U.S. 43, 76-77 (1906).
[32] *See Branzburg v. Hayes*, 408 U.S. 665 (1971).
[33] 28 C.F.R. § 50.10.
[34] *Wilson v. United States*, 221 U.S. 361, 379 (1911).
[35] Civil investigations cannot be used as a stalking horse to gather evidence for a criminal case. *See, e.g., United States v. Stucky*, 646 F.2d 1369, 1384 (9th Cir. 1984) (use of civil IRS subpoena to aid criminal investigation improperly broadens government's right to discovery in criminal case and infringes on grand jury).
[36] *Baxter v. Palmigiano,* 425 U.S. 308, 318 (1976).
[37] *See United States v. Certain Real Property*, 55 F.3d 78, 84-86 (2d Cir. 1995).
[38] *See Brock v. Tolkow*, 109 F.R.D. 116 (E.D.N.Y. 1985).
[39] *Keating v. Office of Thrift Supervision*, 45 F.3d 322, 326 (9th Cir. 1995).
[40] *See, e.g., In re Grand Jury,* 659 F. Supp. 628 (D. Md. 1987) (district court refused to quash grand jury subpoena seeking civil discovery covered by protective order where movants claimed they would have asserted Fifth Amendment but for protective order).

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The Seventh Circuit reversed in pertinent part and concluded that a complaint will survive "if it alleges facts from which, if true, a reasonable person could infer that the defendant acted with the required intent." 437 F.3d at 602. In adopting this less stringent standard, the Seventh Circuit explicitly declined, in contrast to more rigorous standards adopted by other circuit courts, to consider alternative inferences of nonfraudulent intent. The Seventh Circuit was concerned that a stricter standard could potentially infringe upon plaintiffs' Seventh Amendment rights to a jury.

III. The Supreme Court's Ruling in *Tellabs*

In an 8-1 decision, the Supreme Court not only reversed the Seventh Circuit, but reiterated the salient purposes of the Reform Act[5] and laid down a "strict" yardstick for measuring a "strong inference" of scienter.

The Court effectively dismissed the Seventh Amendment issue, finding that "it is the Federal lawmakers' prerogative" to shape the pleading and proof contours of private shareholder actions (including the standards for pleading scienter even though scienter is an ultimate issue for the fact-finder). The Court, instead, chiefly directed its attention to interpreting the "strong inference" language of the Reform Act.

The Court explained that Congress's choice of the word "strong" demanded that any inference necessarily had to be "cogent" or "powerful." The Court next explained that the "strength of an inference cannot be decided in a vacuum." Any "inquiry [as to the strength of an inference] is inherently comparative." Thus, to determine whether plaintiffs have alleged facts that rise to the level of a "strong inference," a court "must consider plausible nonculpable explanations for the defendant's conduct." Moreover, the inference of fraud must be more than merely "reasonable" or even "plausible." A complaint will survive "only if a reasonable person would deem the inference of scienter cogent and at least as compelling as any opposing inference one could draw from the facts alleged."

In other words, the courts must take a two-step analysis to measure a "strong" inference of scienter: (i) an inference of fraud must be "cogent," *i.e.*, powerful; and even if cogent (2) the weight and force of that inference must overcome or be "at least as" convincing as any opposing inferences of non-fraudulent intent advanced by defendants.

The Court did not apply its strict standard to the alleged facts in *Tellabs*, but rather vacated the Seventh Circuit's judgment and remanded for further proceedings consistent with its opinion. However, the Court did appear to provide some practical parameters of this new strict standard. For example, the Court noted that the lack of a "personal financial gain may weigh heavily" against scienter; "omissions and ambiguities count against inferring scienter;" and in determining scienter, the court must consider all sources of information appropriate on a motion to dismiss, such as documents incorporated into the complaint by reference, and matters of which a court may take judicial notice.

IV. The *Tellabs* Road Ahead

The *Tellabs* decision is notable for at least three reasons.

Many securities fraud class actions are filed after pubic companies announce worse-than-expected results or otherwise experience a sudden decline in stock price. Most actions rest on little more than "fraud by hindsight."[6] With *Tellabs'* new strict "cogent and compelling" standard, courts "must" consider and weigh the many innocent explanations that often lie behind a change in forecasted results or a drop in stock price. Courts thus can weed out unmeritorious litigation at an early stage, as intended by Congress, and maintain confidence in U.S. capital markets.

The *Tellabs* decision sets forth a unified, national standard, which should benefit defendants insofar as plaintiffs' attorneys engage in "forum shopping," *i.e.*, seeking to file complaints in jurisdictions with more lax standards on scienter.

Finally, the *Tellabs* decision, coming on the heels of other important, restrictive securities law decisions, such as *Dura Pharmaceuticals*, may foreshadow the Court's trajectory in this arena. The Court is due next year to take up the issue of secondary liability – the extent to which primary liability may attach to secondary actors for a

violation of the federal securities laws.[7] While past performance is never a guarantee of future results, Wall Street should welcome *Tellabs'* arrival and may have cause to be cautiously optimistic that the U.S. Supreme Court will continue its vigilance and contain abusive securities fraud class action litigation.

[1] *See, e.g., Dura Pharmaceuticals, Inc. v. Broudo*, 544 U.S. 336 (2005) (plaintiffs must establish loss causation); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Dabit*, 547 U.S. 71 (2006) (state law securities holder class actions are preempted by the Securities Litigation Uniform Standards Act); *Credit Suisse Securities LLC v. Billing*, 551 U.S. ___, No. 05-1157 (Jun. 18, 2007) (the securities laws preclude plaintiffs' claims under the antitrust laws).

[2] *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 194 & n.12 (1976).

[3] Justice Ginsburg authored the Court's opinion, in which Justices Roberts, Kennedy, Souter, Thomas and Breyer joined. Justices Scalia and Alito filed opinions concurring in the judgment. Only Justice Stevens filed a dissenting opinion.

[4] Shareholders brought suit against Tellabs executives other than the CEO, but those claims (many of which had been previously dismissed) were not before the Court.

[5] For example, citing its earlier opinion in *Dabit*, the Court explained that the Reform Act was "[d]esigned to curb perceived abuses of the §10(b) private action – 'nuisance filings, targeting of deep-pocket defendants, vexatious discovery requests and manipulation of class action lawyers.'"

[6] *See, e.g., DiLeo v. Ernst & Young*, 901 F.2d 624, 627 (7th Cir. 1990) ("The story in this complaint is familiar in securities litigation. At one time the firm bathes itself in a favorable light. Later the firm discloses that things are less rosy. The plaintiff contends that the difference must be attributable to fraud.").

[7] *Stoneridge Inv. Partners, LLC v. Scientific-Atlanta, Inc.*, 127 S. Ct. 1873 (U.S. Mar. 26, 2007) (No. 06-43).

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Booker, 543 U.S. 220 (2005), holding that the federal sentencing guidelines violated the Sixth Amendment right to a jury trial, but still required lower courts to consider the guidelines at sentencing, lower courts have struggled with the inherent tension in the Court's decision. The Supreme Court has continued to find as recently as the current term that judicial fact-finding increasing the maximum sentence violates the Sixth Amendment. *See California v. Cunningham*, 127 S. Ct. 856 (2007) (California's sentencing scheme permitting judicial fact-finding to impose upper term violates Sixth Amendment). Nonetheless, district courts have continued to give deference to the federal sentencing guidelines, and circuit courts have been reluctant to second-guess these sentencing decisions. The Supreme Court was expected to clarify the state of the law in two cases which were recently argued — *Claiborne v. United States*, 127 S. Ct. 551 (2006), and *Rita v. United States*, 127 S. Ct. 551 (2006). These cases address the level of deference a district court should afford to the sentencing guidelines and the standard of review for district court's sentencing decisions. Lower federal courts and members of the criminal bar have been anxiously awaiting these decisions. Unfortunately, on June 4, 2007, the Court's issued a *per curiam* order in *Claiborne* vacating the lower court decision as moot due to the defendant's untimely death. This order is likely to delay clarification on these important issues affecting thousands of pending criminal cases.

Finally, Cristina Beeman, Supervising Deputy Court Clerk in Santa Ana, spoke to the participants about the Electronic Court Filing program, which became mandatory for all federal criminal cases in the district effective January 1, 2007. Ms. Beeman graciously answered all questions and took suggestions from the participants for improving the system.

rule requires a case-by-case analysis to determine whether a grand jury subpoena is unreasonable or oppressive. No single factor controls. For example, the Ninth Circuit upheld an order quashing a grand jury subpoena seeking a lawyer's testimony against his client. But the court noted that this was not a bright line rule, and that subpoenas seeking such testimony must be addressed on a case by case basis.[29] At a minimum, Rule 17(c) requires that the subpoena: (1) seek evidence that is relevant to the grand jury's investigation; (2) describe the requested documents with reasonable particularity; and (3) request documents spanning a reasonable length of time.[30]

Other Constitutional Protections

Historically, the Fourth Amendment has been applied to grand jury subpoenas. The Fourth Amendment requires that such seizures be "reasonable," and a reasonableness inquiry focuses on the breadth of the subpoena and the time period the request covers.[31]

Subpoenas to news organizations are subject to challenge on First Amendment grounds if they involve harassment, bad faith or grand jury abuse.[32] Under Justice Department Guidelines, the Attorney General must approve all subpoenas directed to news organizations.[33]

Assertion of the Privilege in Civil Investigations

The Fifth Amendment Privilege also can be asserted in civil proceedings. "It is the incriminating tendency of the disclosure, and not the pendency of the prosecution against the witness, upon which the [privilege against compelled self incrimination] depends."[34] In fact, civil investigations often precede a criminal case.[35]

For example, the Federal Trade Commission ("FTC") investigates "unfair or deceptive business practices" in commerce. The FTC has broad authority to investigate and stop business practices that are likely to mislead a reasonable consumer, whether or not the party engaged in commerce knew of the deception. Likewise, the Securities and Exchange Commission ("SEC") has broad authority to investigate "all facts and circumstances" surrounding possible violations of securities laws and rules. There are numerous other regulatory agencies with broad investigative power.

But invoking the Fifth Amendment privilege may cost the client the case. Assertion of the Fifth Amendment in a civil action can raise an "inference of wrongdoing" in the action.[36] Under certain circumstances, assertion of the Fifth Amendment privilege during civil discovery, can preclude use of the shielded evidence at trial.[37]

When faced with the choice of self incrimination or losing a lawsuit, the best choice is often to try and stay the civil case pending resolution of the criminal proceedings. While a court can stay all or part of civil proceedings pending the outcome of a criminal investigation,[38] there is no guarantee.

> A defendant has no absolute right not to be forced to choose between testifying in a civil matter and asserting his Fifth Amendment privilege. Not only is it permissible to conduct a civil proceeding at the same time as a related criminal proceeding, even if that necessitates invocation of the Fifth Amendment privilege, but it is even permissible for the trier of fact to draw adverse inferences from the invocation of the Fifth Amendment in a civil proceeding.[39]

Alternatively, the client may seek a protective order precluding use of her civil discovery responses in the criminal case. Unfortunately, such a protective order is useless if a court refuses to enforce it.[40]

Accordingly, deciding whether and when to invoke the Fifth Amendment is a delicate balance. For most clients, avoiding a criminal accusation is the top priority. On the other hand, losing civil fraud charges against the SEC, FTC and other regulatory agencies can exact a heavy toll. Obviously, if there is another privilege that can be legitimately invoked, it should be. If not, assertion of the Fifth Amendment may be required, despite the cost. Resolution of this issue depends on a thorough understanding of the facts and the client's potential criminal exposure.

chooses to immunize the witness, the witness has strong protection against future prosecution.

The Target

The "target" of an investigation is "a person to whom the prosecutor or grand jury has substantial evidence linking him or her to the commission of a crime and who, in the judgment of the prosecutor, is a putative defendant."[22] When the client is the target of the investigation, she will usually want to limit the flow of information to the government and claim the Fifth Amendment privilege. Generally, once the government has shown an interest in charging the client, the client should not help the government prove its case by waiving privileges and providing information.

Moreover, the government will not want to immunize the client because it has already evidenced its intent to bring charges. However, if the client, through counsel, can demonstrate to the government that the target's proffered testimony is of paramount importance to the government, then perhaps the government can be convinced to immunize the witness.

Of course, there are exceptions to these general rules. For example, the client may decide to cooperate with the government's investigation in the hope of receiving reduced punishment. In that case, the target may choose to waive her Fifth Amendment privilege. Advising a client to cooperate with the government's investigation requires a thorough understanding of the end game, including the client's likely sentence if she fights the charges versus the likely sentence she will receive if she cooperates.

The Subject

The position of the subject is more nuanced. A subject is "a person whose conduct is within the scope of the grand jury's investigation," but who has not been identified as a target.[23] A key factor in advising the subject-client how to proceed is determining how likely it is that he will be charged.

There are a broad range of subjects: some the government views as potential witnesses and some the government views as potential targets. If the subject-client is on the witness-end of the spectrum, the government may be convinced to immunize the client as discussed. Conversely, if the subject-client is on the target-end of the spectrum, immunity may be unlikely and the subject-witness should be advised to assert his Fifth Amendment privilege.

Another key factor is the accuracy of the government's understanding of the facts and the prosecutor's objectivity. If the subject-client has documents or evidence that support his version of the facts and undermines the government's understanding of the facts, then the government may be convinced to immunize the client. This assumes, of course, that the prosecutor is not so wedded to her version of the facts that she can still be convinced. Obviously, this is a delicate negotiating process with far-reaching consequences for the client.

Other Privileges and Protections Against A Grand Jury Subpoena

There are additional privileges and protections that must be explored in responding to a grand jury subpoena. These protections are particularly important to corporations given their lack of protection by the Fifth Amendment.

Other Privileges

Under Rule 501 of the Federal Rules of Evidence, common law privileges apply to federal court investigations.[24] Accordingly, the attorney-client, attorney work product and spousal privileges apply. The physician/patient, accountant/client and intra-family privileges do not.[25] There is a limited priest-penitent privilege.[26]

Additional non-common-law privileges may also apply. The Supreme Court has held that there is no general constitutional "right to privacy" before the grand jury, so witnesses cannot refuse to answer questions on the grounds that the answers are embarrassing or disclose personal affairs.[27] However, courts have quashed grand jury subpoenas that violate statutorily created privacy rights.[28] Accordingly, grand jury subpoenas should be carefully analyzed to determine if they seek evidence protected by federal or state statutes.

Federal Rule of Criminal Procedure 17

Rule 17(c) permits the quashing of "unreasonable or oppressive" subpoenas. The

Legislative Update

by Martha K. Gooding

One of the benefits of National FBA membership is our access to information and updates on legislative activity of interest to the legal profession. The following is a short summary of recent items of interest.

Federal Judicial Pay: Efforts continue to introduce a federal judicial pay bill in Congress, and the National FBA believes a bill is likely to be introduced in the Senate in the near future. There is some bipartisan support for a judicial pay raise, as well as an emerging coalition of pay raise supporters, including, *e.g.*, AFL-CIO and other organized labor, the Sierra Club, the Chamber of Commerce, and Business Roundtable. Both the House and Senate judiciary committees have held hearings on judicial pay this year, each including testimony from Supreme Court justices. Despite these encouraging signs, Congress denied a 1.7% cost of living adjustment to federal judges, Members of Congress and cabinet-level officials as part of its approval of the FY2007 funding legislation. Clearly, more work needs to be done.

Court Security: It appears that Congress is moving toward passage of a court security bill. The Senate has passed a court security bill (S. 378, Court Security Improvement Act), and the House Judiciary Crime Subcommittee held a hearing on its companion bill, HR 660, last month. This reportedly is in response to the Lefkow murders and Atlanta court attack approximately two years ago.

Ninth Circuit Split: During Senate consideration of the court security bill, Senator Ensign of Nevada offered a Ninth Circuit split amendment that failed when Senator Dianne Feinstein raised a budget point of order. The amendment would have created a new 12th Circuit consisting of Alaska, Arizona, Idaho, Montana, Nevada, Oregon and Washington, leaving California, Guam, Hawaii and the Northern Mariana Islands in the 9th Circuit. We undoubtedly will be hearing more about these efforts to split our circuit.

Redaction of Personal Judicial Information: Federal judges again have the right to redact certain sensitive personal information (*e.g.*, residences, unsecured locations frequented by a judge, and sensitive information about family members) from financial disclosures forms before they are publicly released. The authority to redact such information originally was granted under a 1978 law, but it lapsed in 2005, leaving the judiciary without redaction authority for more than a year. Unless extended, the current measure will lapse at the end of 2009.

Judiciary Funding for Fiscal Year 2008: The federal judiciary is requesting $6.4 billion in funding for FY 2008, more than a 7.5% increase over its FY 2007 appropriation. The request includes $22 million to increase the non-capital panel attorney rate to $113 per hour – a proposal supported by the FBA, but unsuccessfully requested by the judiciary since FY 2002.

Patent Law: In February, the House passed legislation to establish a pilot patent law program in district courts having the largest patent docket. The program would provide district judges with education and training in patent law, in an effort to reduce a high reversal rate (reportedly more than 30%) by the Federal Circuit. Senators Leahy and Feinstein reportedly are working on a counterpart Senate bill. These efforts are separate from more comprehensive patent reform legislation that is under consideration in the form of HR 1908, the Patent Reform Act of 2007, on which subcommittee hearings have been held. Representative Howard Berman of California, Chair of the House Subcommittee on Courts, the Internet and Intellectual Property, is a strong supporter of patent reform legislation.

INDIVIDUAL RESPONSES TO FEDERAL SUBPOENAS FOR CLIENTS WITH POSSIBLE CRIMINAL EXPOSURE

Mr. Miller, Mr. Bienert and Ms. Narholm are with the law firm of Bienert & Miller in San Clemente.

by Kenneth M. Miller, Thomas H. Bienert, Jr. & Susann K. Narholm

INTRODUCTION

Responding to a federal grand jury subpoena or a discovery request by a regulatory agency can implicate numerous constitutional, statutory and common law privileges. Where the client reasonably fears that her responses could possibly be used against her in a criminal case, the Fifth Amendment privilege may be the single most important right the client has.

Assertion of the Fifth Amendment privilege can shield the client from interrogation by the government and others that is relevant to the "possible" criminal charges.[1] It may also shield documents in the client's possession. But assertion of the privilege can raise an "inference of wrongdoing" in a civil case or a prosecutor's mind. Assertion of the Fifth Amendment privilege involves a careful balancing of the costs, benefits and alternatives.[2]

BACKGROUND

The Fifth Amendment provides that "[n]o person . . . shall be compelled in any criminal case to be a witness against himself . . . ." This "Fifth Amendment privilege" applies even when a witness maintains his innocence,[3] and even when no criminal case is pending. A witness asserting the Fifth Amendment privilege does not have to explain how he would be incriminated. Rather, he need only show that, under the circumstances, such an explanation could be an injurious disclosure.[4]

To invoke the privilege against self incrimination, a person must establish (1) *compulsion* to produce (2) a *testimonial* communication[5] that would (3) *incriminate* the person claiming the privilege. These elements dictate the differences in the way the privilege applies to subpoenas for testimony, document subpoenas and subpoenas for corporate records.

The Fifth Amendment and Client Testimony

The privilege obviously applies where the client's statements would directly incriminate him. But questions can also be indirectly incriminating, by "furnish[ing] a link in the chain of evidence needed to prosecute" the witness.[6] For example, a witness's truthful admission of an interest in a business could supply the government with proof it could use at trial if that business was accused of fraud. Further, evidence is incriminating if it could lead to the discovery of additional evidence needed to prosecute the witness.[7]

The Fifth Amendment and Documents

The Fifth Amendment protects against the compelled production of *personal* documents.[8] But voluntarily prepared business records are not protected. The Supreme Court has reasoned that because there is no *compulsion* in the creation of business records, they do not satisfy the basic elements of the privilege.[9]

While business records themselves are not protected, the act of producing business records may be privileged.

> The act of producing [business records] in response to a subpoena . . . has communicative aspect[s] of its own, wholly aside from the contents of the papers produced. Compliance with the subpoena tacitly concedes the existence of the papers demanded and their possession or control by the [subpoena recipient]. It also would indicate the [recipient's] belief that the papers are those described in the the subpoena.[10]

Generally, neither corporate records, nor the act of producing corporate records, is protected. The Court has long held that corporations have no Fifth Amendment privilege. In *Braswell v. United States,*[11] the Court reasoned that when a corporate custodian produces records, he is only acting in a representative capacity, so there is no personal compulsion.[12] As the *Braswell* dissent noted, this is a surprising and ironic conclusion where the individual custodian is the target of the investigation and the act of producing the documents is clearly incriminating.[13]

The distinction between protected personal records and unprotected corporate records is not always clear. One case held that a desk calendar was a corporate document, but that a pocket calendar was a personal document protected by the Fifth Amendment.[14]

Immunity and the Fifth Amendment

The government can force a witness to testify, over a Fifth Amendment claim, by granting the witness immunity from prosecution. The theory is that once a witness is immunized, she can no longer *incriminate* herself, so the elements of the privilege have not been met.

Two types of immunity are at issue: "transactional" and "use" immunity.[15] Transactional immunity bars prosecution for any offense related to the compelled testimony.[16] Use immunity bars use of the witness's statements and any evidence derived from those statements.[17] The Court has held that use immunity provides the same protection as the Fifth Amendment, because after a grant of use immunity, the prosecutor's case against the witness is in the same condition as if the witness had never testified.[18]

Obviously, the government cannot prosecute a witness who was granted transactional immunity, because prosecution for any offense even related to his testimony is barred. It is also difficult for the government to prosecute a witness who has been given use immunity. The government bears a heavy burden to prove the evidence supporting the charge is "derived from a legitimate source wholly independent of the compelled testimony." [19] Once a witness provides the government with incriminating evidence, it is difficult for the government to prove that subsequent charges are based on evidence that is derived from a completely independent source. There is no immunity for perjury and no limit on using false testimony to prove perjury of an immunized witness.[20]

FIRST CONTACT WITH INVESTIGATION

Responding to Grand Jury Subpoenas

In responding to a grand jury subpoena, the most important question is whether the client is a "target" of the grand jury investigation, a "subject" of the investigation, or merely a "witness." Basically, the client's response usually turns on whether the grand jury is likely to charge him with a crime.

The Witness

If the client is only a witness, he may choose to forego assertion of the privilege. The client's interests may be furthered by engendering the government's goodwill and not giving the impression that the witness has more to hide than the government already knows about. The government generally prefers witnesses that it does not have to immunize because it makes them more credible to a jury. Of course, this is a difficult decision that is fact specific and prosecutor dependant.

On the other hand, the client's proposed testimony may so plainly state a criminal offense that assertion of the privilege is advisable. In that case, counsel will want to try and negotiate immunity for the client. This usually occurs through "attorney proffers" to the government of the client's proposed testimony. The attorney proffers may be followed by face-to-face meetings with government agents under grants of limited use immunity, to further explain the client's proposed testimony.[21]

If the client's honest answers before the grand jury would not significantly increase his criminal exposure over what the government previously believed, then the government will likely grant the witness immunity. After all, the government had already described the client as a mere witness.

Conversely, if the client's honest answers would be much more incriminating than the government believes, then the witness should generally claim the privilege and not engage in negotiations for immunity. If the government then