

NLWJC-Sotomayor-Box0001-Folder00003

# FOIA MARKER

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**Collection/Record Group:** Clinton Presidential Records

**Subgroup/Office of Origin:** Counsel Office

**Series/Staff Member:** Doug Band

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**OA/ID Number:** 12689

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**Folder Title:**  
Sotomayor - ABA Final [1]

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# Withdrawal/Redaction Sheet

## Clinton Library

| DOCUMENT NO.<br>AND TYPE | SUBJECT/TITLE                                                  | DATE       | RESTRICTION |
|--------------------------|----------------------------------------------------------------|------------|-------------|
| 001a. form               | re: Personal Data Questionnaire - Sotomayor (partial) (1 page) | 04/15/1997 | P6/b(6)     |
| 001b. form               | re: Personal Data Questionnaire - Sotomayor (partial) (1 page) | 04/15/1997 | P6/b(6)     |

### COLLECTION:

Clinton Presidential Records  
Counsel's Office  
Doug Band  
OA/Box Number: 12689

### FOLDER TITLE:

Sotomayor - ABA Final [1]

2009-1007-F

jp1521

### RESTRICTION CODES

#### Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

#### Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

**INVENTORY**

Office of the Counsel to the President  
OEOB, Rm. 128  
Washington, DC 20500

Prepared by: Derek V. Howard, intern

**CONTENTS:** Box 14

\*All files pertain to Sonia Sotomayor

1. Soto- ABA Final
2. Financial Disclosure
3. Personal Data Q.
4. ABA Rec.
5. Soto- ABA
6. Soto- FBI waive
7. Soto- Interview
8. Soto- DOJ Drafts
9. Soto- Draft ABA
10. Writings
11. Update Senate Draft
12. Senate Questionnaire
13. Soto Misc.

ENCLOSURES FILED OVERSIZE ATTACHMENTS

12689

NARA 10152

Soto - \_\_\_\_\_  
Final  
A.B.A

**To: Mike O'Connor**

**From: Sonia Sotomayor**

**Date: April 15, 1997**

Enclosed are the final versions of the following:

- Personal Data Questionnaire
- Addendum to Personal Data Questionnaire
- SF 86
- Supplement to SF 86
- Tax Check Waiver
- Fingerprint card
- FBI form

Please let me know when the forms are distributed. Thank you once again for all your help.

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CLINTON LIBRARY PHOTOGRAPHY

Sotomayor Personal Data QuestionnairePERSONAL DATA QUESTIONNAIRE

1. Full name and social security number.

**SONIA SOTOMAYOR**

(b)(6)

2. Office and home address, zip codes, telephone numbers and area codes. (Name of law firm, if associated.)

[c o l a]

HOME ADDRESS

(b)(6)

BUSINESS ADDRESS 67-267564

**U. S. Courthouse  
500 Pearl Street, Room 1340  
New York, New York 10007.  
(212) 805-0250/51**

3. Date and place of birth.

**June 25, 1954  
New York, New York**

4. Are you a naturalized citizen? If so, give date and place of naturalization.

**No.**

5. Family status.

- a. Are you married? If so, state the date of marriage and spouse's full name including maiden name if applicable.

**I am not married but am engaged to be married in the late Summer/Fall 1997 to Peter Joseph White.**

- b. Have you ever been divorced? If so, give particulars, including the date, the name of the moving party, the number of the case, the court, and the grounds?

**Yes, I was divorced in an action based upon a separation agreement. Sonia Sotomayor de Noonan v. Kevin Edward Noonan, Supreme Court of the County of Kings, Index No. 20872/83.**

**My birth name was Sonia Maria Sotomayor. During my marriage from**

Sotomayor Personal Data Questionnaire

**August 1976 to October 1983, I used the following variations of my married name: Sonia Sotomayor de Noonan, Sonia Maria Sotomayor de Noonan, and Sonia Noonan. In my divorce decree, I reassumed my maiden name without a middle name.**

- c. Names of your children, with age, address and present occupation of each.

**None.**

6. Have you had any military service? If so, give dates, branch of service, rank or rate, serial number, present status, and type of discharge, if applicable.

**No.**

7. List each college and law school you attended, including dates of attendance, the degrees awarded and, if you left any institution without receiving a degree, the reason for leaving.

| <u>School</u>   | <u>Location</u>           | <u>Degree</u>            | <u>Dates Attended</u> | <u>Graduation</u> |
|-----------------|---------------------------|--------------------------|-----------------------|-------------------|
| Princeton       | Princeton,<br>New Jersey  | A.B., Summa<br>Cum Laude | 1972 - 1976           | June 1976         |
| Yale Law School | New Haven,<br>Connecticut | J. D.                    | 1976 - 1979           | June 1979         |

8. List all courts in which you have been admitted to practice, with dates of admission. Give the same information for administrative bodies which require special admission to practice.

**United States District Court, Eastern District of New York, March 30, 1984.**

**United States District Court, Southern District of New York, March 27, 1984.**

**New York, First Department, April 7, 1980.**

9. Describe chronologically your law practice and experience after your graduation from law school and until you became a judge, including:

- a. whether you served as clerk to a judge, and if so, the name of the judge, the court, and the dates of the period you were a clerk.

Sotomayor Personal Data Questionnaire

- b. Whether you practiced alone, and if so, the addresses and dates.
- c. the dates, names and addresses of law firms or offices, companies or governmental agencies with which you have been connected, the nature of your connection with each, and the names addresses and current telephone numbers for individuals who have direct personal knowledge about your work at such law firm, company or government agency.
- d. any other relevant particulars.

| <u>Name of Firm<br/>or Employer</u> | <u>Address</u>                                         | <u>Name of<br/>Supervisor</u>                                                                                                                                                                             | <u>Dates of<br/>Employment<br/>(Month &amp; Year)</u> | <u>Employments<br/>(or activity while<br/>unemployed)</u>   |
|-------------------------------------|--------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------------|
| U.S. Courts                         | 500 Pearl Street<br>Room 1340<br>New York, NY<br>10007 | N/A                                                                                                                                                                                                       | 10/92 to Present                                      | District Court Judge<br>Southern District of<br>New York    |
| Pavia & Harcourt                    | 600 Madison Ave.<br>New York, NY<br>10022              | Managing<br>Partner,<br>George M. Pavia,<br>Sr. Litigator,<br>David A. Botwinik<br>(212) 980-3500                                                                                                         | 1/88 to 10/92<br>4/84 to 12/87                        | Partner<br>Associate                                        |
| New York County                     | 1 Hogan Place<br>New York, NY<br>10013                 | Last Bureau<br>Chief: Warren A.<br>Murray<br>(212) 335-9156<br><br>First Chief:<br>John Fried<br>Andersen, Kill, Olick, P.C.<br>1251 Avenue of the Americas<br>New York, New York 10020<br>(212) 278-1768 | 8/79 to 3/84                                          | Assistant District<br>Attorney in Trial<br>Bureau 50        |
| Sotomayor & Associates              | 10 3rd Street<br>Brooklyn, NY<br>11231                 | N/A                                                                                                                                                                                                       | 1983-1986                                             | Counseling and<br>consulting work for<br>family and friends |

10. a. What has been the general character of your practice, dividing it into periods with dates, if its character has changed over the years?
- b. Describe your typical clients, and mention the areas, if any, in which you have specialized.

Sotomayor Personal Data Questionnaire

From April 1984 until I was appointed a judge in October 1992, I was a general civil litigator at Pavia & Harcourt. My work involved commercial issues, including, but not limited to, the areas of real estate, employment, banking, contract, distribution and agency law. My practice had significant concentration in intellectual property law including trademark, copyright and unfair competition. I also worked in the areas of automobile franchise law, and export commodity trading law under the North American Export Grain Association Contract.

My typical clients were significant European companies doing business in the United States and internationally.

From August 1979 to March 1984, as a state prosecutor, my cases typically involved "street crimes", i.e., murders, assaults, robberies, etc. I also investigated and prosecuted matters involving child pornography, child abuse, police misconduct, and bank fraud. I further prepared the responsive papers for five criminal appeals, two of which I argued and all of which resulted in affirmances of the convictions.

11. a. Did you appear in court regularly, occasionally or not at all? If the frequency of your appearances in court has varied during this period, describe each such variance, giving the dates thereof.

While in private practice as a litigator, I had a largely federal practice, and I appeared regularly in federal court.

While a prosecutor, I had an exclusively state court, criminal practice, and I appeared in state courts of records every day.

- b. What percentage of these appearances was in
  1. Federal courts - approximately 70%  
while in private practice.
  2. State courts of record - approximately 20%  
while in private practice;  
100% while a prosecutor.
  3. Other courts - approximately 10%  
while in private practice.

Sotomayor Personal Data Questionnaire

- c. What percentage of your litigation was
1. Civil - 99% while in private practice.
  2. Criminal - 1% while in private practice and 100% while a prosecutor.
- d. State the number of cases you tried to verdict or judgment (rather than settled) in courts of record, indicating whether you were sole counsel, chief counsel, or associate counsel.

**In private practice, I tried one civil case in federal court to a bench verdict. I tried over fifteen arbitrations to award, almost all as chief hearing counsel with the exception of two in which I served as co-counsel.**

**As a prosecutor, I tried over twenty-two criminal cases to verdict, of which about nineteen were jury trials. In two cases, I was chief counsel and in another, co-counsel. In all other cases, I was sole counsel.**

- e. What percentage of these trials were
1. Jury
  2. Non-jury

**See answer (d) supra.**

- f. Describe ten of the most significant litigated matters which you personally handled and give citations, if the cases were reported. Give a capsule summary of the substances of each case, and a succinct statement of what you believe to be the particular significance of the case. Identify the party or parties whom you represented; describe in detail the nature of your participation in the litigation and the final disposition of the case. Also state as to each case, (1) the dates of the trial period or periods, (2) the name of the court and the judge before whom the case was tried, and (3) the individual name, address and telephone numbers of co-counsel and of counsel for each of the other parties.

**I list the ten litigated matters in reverse chronological order. The Attached Addendum contains the requested additional information.**

Sotomayor Personal Data Questionnaire

1. Fratelli Lozza (USA) v. Lozza (USA) & Lozza Spa.
2. Ferrari of Sacramento, Inc. v. Ferrari North America.
3. In re: Van Ness Auto Plaza, Inc., a California Corporation, d/b/a Auto Plaza Lincoln Mercury, Auto Plaza Porsche and Auto Plaza Ferrari,
4. Fendi S.a.s. di Paola Fendi e Sorelle v. Burlington Coat Factory Warehouse Corp., et al.
5. Fendi S.a.s. di Paola Fendi e Sorelle v. Cosmetic World, Ltd., Loradan Imports, Inc., Linea Prima, Inc. a/k/a Lina Garbo Shoes, Daniel Bensoul, Michael Bensoul a/k/a Nathan Bendel, Paola Vincelli and Mario Vincelli.
6. Republic of the Philippines v. New York Land Co., et al., and Security Pacific Mortgage and Real Estate Service, Inc. v. Canadian Land Co., et al.
7. Miserochi & C., S.p.A. v. Alfred C. Toepfer International, G.m.b.H.
8. The People of the State of New York v. Clemente D'Alessio and Scott Hyman.
9. The People of the State of New York v. Richard Maddicks.
10. The People of the State of New York v. Manny Morales aka Joey Hernandez, Joseph Pacheco, and Eduardo Pacheco.

- g. If you believe the responses 11 (a) through 11 (f) do not reflect your experience, please describe any experience which you consider the equivalent of trial experience.

In private practice, the majority of my work involved discovery and pre-trial proceedings for cases which were typically settled before trial, often without any substantive appearance before a judge. I nevertheless conducted a number of preliminary injunction hearings in trademark and copyright cases, and post-motion hearings before magistrate judges on a variety of issues. These hearings, as well as the over fifteen arbitrations in which I participated, required the examination of witnesses and argument similar to that experienced at trial.

Sotomayor Personal Data Questionnaire

12. State the judicial office you now hold, and the judicial offices you have previously held, giving dates and the details, including the courts involved, whether elected or appointed, periods of service, and a description of the jurisdiction of each of such courts with any limitations upon the jurisdiction of each.

**Appointed by President George W. Bush as a United District Court Judge for the Southern District of New York. I commenced service on October 2, 1992.**

13. Attach ten of the most significant opinions you have written and give the citations if the opinions were reported, as well as citations to any appellate review of such opinions. As to each case for which an opinion is submitted, state the name, address and telephone number of counsel for each party.

**I list the Opinions, and citations, in reverse chronological order. The Attached Addendum contains copies of the Opinions and the information requested for counsel appearing in each action.**

1. United States v. The Spy Factory, 951 F. Supp. 450 (S.D.N.Y. 1997).
2. Krueger Int'l v. Nightingale, Inc., 915 F. Supp. 595 (S.D.N.Y. 1996).
3. United States v. Lech, 895 F. Supp. 586 (S.D.N.Y. 1995).
4. Silverman v. Major League Baseball Player Relations Committee, 880 F. Supp. 246 (S.D.N.Y. ), aff'd, 67 F.3d 1054 (2d Cir. 1995).
5. Refac Int'l, Ltd. V. Lotus Development Corp., 887 F. Supp. 539 (S.D.N.Y. 1995), aff'd, 81 F.3d 1576 (Fed. Cir. 1996).
6. Azurite Corp., Ltd. v Amster & Co., 844 F. Supp. 929 (S.D.N.Y. 1994), aff'd, 52 F.3d 15 (2d. Cir. 1995).
7. United States v. Hendrickson, 26 F.3d 321 (2d Cir. 1994) (sitting by designation).
8. Campos v. Coughlin, 854 F. Supp. 194 (S.D.N.Y. 1994).
9. Flamer v. City of White Plains, 841 F. Supp. 1365 (S.D.N.Y. 1993).

Sotomayor Personal Data Questionnaire**10. In re: Arbitration between Coastal Shipping Ltd. and Southern Petroleum Tankers, Ltd., 812 F. Supp. 396 (S.D.N.Y. 1993).**

14. Have you ever held public office other than a judicial office? If so, give details, including the office involved, whether elected or appointed, and the length of your service, giving dates.

**Appointed by Mayor Edward Koch, Member of the Board of Directors, New York City Campaign Finance Board, 1988 to 1992.**

**Appointed by Governor Mario Cuomo, Member of the Board of Directors, State of New York Mortgage Agency, 1987 to 1992.**

**Assistant District Attorney, New York County District Attorney's Office, August 1979 to March 1984.**

15. Have you ever been an unsuccessful candidate for elective judicial, or other public office? If so, give details, including dates.

**No.**

16. Have you ever been engaged in any occupation, business or profession other than the practice of law or holding judicial or other public office? If so, give details, including dates.

**No, except advising and consulting family and friends as Sotomayor & Associates from 1983 to 1986.**

17. Are you now an officer or director or otherwise engaged in the management of any business enterprise?

**No.**

- a. If so, give details, including the name of the enterprise, the nature of the business, the title or other description of your position, the nature of your duties and the term of your service.

**N/A.**

- b. Is it your intention to resign such positions and withdraw from any participation in the management of any such enterprises if you are nominated and confirmed?

**Sotomayor Personal Data Questionnaire**

If not, give reasons.

N/A.

18. Have you ever been arrested, charged or held by federal, state, or other law enforcement authorities for violation of any federal law or regulation, state law or regulation, county or municipal law, regulation or ordinance? If so, give details. Do not include traffic violations for which a fine of \$100.00 or less was imposed.

No.

19. Have you, to your knowledge, ever been under federal, state or local investigation for possible violation of a criminal statute? If so, give particulars.

No.

20. Has a tax lien or other collection procedure ever been instituted against you by federal, state or local authorities? If so, give particulars.

No.

21. a. Have you ever been sued by a client or a party? If so, give particulars.

**I have been sued in my judicial capacity in a case captioned Clarence Walton v. Sonia Sotomayor, United States District Court, Southern District of New York, 95 Civ. 7918 (JSM). Mr. Walton was an employee discharged by the Post Office because of a disability. He brought numerous law suits challenging various aspects of his discharge. I dismissed one of these actions for lack of subject matter jurisdiction and Mr. Walton sued me, as well as other judges of this Court who had handled his other litigations, alleging that we had acted improperly. This action was dismissed as without merit by the Hon. John S. Martin, Jr. in an Order dated September 11, 1996.**

**A pro se defendant in an action brought against him by the SEC captioned SEC v. Softpoint, United States District Court, Southern District of New York, 95 Civ. 2951 (SS), has alleged that I acted without jurisdiction in entering a default judgment against him. I was served with a "Complaint" purportedly filed in the Superior Court, Washoe County, Nevada. The Department of Justice has represented me in this matter and has advised me that no such court exists and that its review of records in Nevada show no filings against me.**

Sotomayor Personal Data Questionnaire

The following are legal actions filed against my law firm for alleged malpractice that occurred during the time I was a partner. I was not involved in any of the work that gave rise to the complaints. In New York, a complaint can be served without filing it in court. Many of the actions described below do not have index numbers because they were never filed.

A) Stanley West, M.D. v. Pavia and Harcourt, Supreme Court of the County of New York, Index No. 30139/91. Served October 31, 1991. Pavia and Harcourt prepared a shareholder's agreement for investors in a restaurant corporation. The firm also represented the subject restaurant corporation in corporate matters. The restaurant failed. Despite written advice by the firm to plaintiff that he should have independent counsel review the shareholder's agreement, plaintiff, the corporation's chief executive officer, sued the firm alleging the firm had acted under a conflict of interest in preparing the shareholder's agreement. Plaintiff seeks to recover his lost investment. This action is still pending.

B) First American Title Insurance Company of New York v. Pavia and Harcourt, Summons and Complaint served on Pavia and Harcourt on August 10, 1990. The action involved a claim that a client of the firm provided materially false information to secure title insurance in a real estate transaction. The claims against the firm were withdrawn before any court filing when the firm demonstrated to plaintiff's satisfaction that it had no knowledge of the alleged misrepresentations in its client's application.

C) Salvati v. 7 Grammercy Park et al., Supreme Court of the County of New York. Summons with Notice served on June 3, 1988. The Summons named a partner of the firm but not the firm. The Summons described the nature of the action as "Breach of Contract, Breach of Fiduciary Obligation, Misrepresentation". Plaintiff, an investor with a Pavia and Harcourt client, sought the return of his investment in a limited partnership, instead of title to an apartment in the real estate transaction in which he had invested. The matter settled with the estate of the Pavia and Harcourt client and the case was dismissed before any Complaint was filed.

D) Ros-Ela Realty Associates v. Pavia and Harcourt, Edgar A. Harcourt and George Pavia, Supreme Court of the County of New York, Index No. 06877/89. Summons and Complaint served on

Sotomayor Personal Data Questionnaire

August 28, 1987. This action, and the events upon which liability were premised, occurred before I became a partner of the firm. The case settled, however, while I was a partner. The plaintiff alleged that Pavia and Harcourt was negligent in preparing a lease agreement by failing to protect the trademark rights of plaintiff's successor-in-interest.

In 1983, I sued for divorce based upon a separation agreement. Sonia Sotomayor de Noonan v. Kevin Edward Noonan, Supreme Court of Kings County, Index No. 20872/83.

In 1982, I was sued by a plaintiff, whom I had prosecuted in a state criminal proceeding, for alleged violations of his civil rights under §1983. The case against me was dismissed for failure to state a cause of action. Willie Jones Robinson v. Justice Alfred Kleiman, et al., United States District Court, Southern District of New York, 82 Civ. 1421 (CBM).

- b. Describe any claim or lawsuit which alleged an act or omission by you as a lawyer.

**None that I recall.**

- c. Have you ever been sanctioned pursuant to Rule 11 or pursuant to any other federal, state or local rule?

**No.**

22. Have you ever been a party or otherwise involved in any other legal proceedings? If so, give the particulars. Do not list proceedings in which you were merely a guardian ad litem or stakeholder. Include all legal proceedings in which you were a party in interest, a material witness, were named as a co-conspirator or a co-respondent, and any grand jury instigation in which you figured as a subject, or in which you appeared as a witness.

**See divorce proceeding described in Response 5 hereof.**

**See also actions described in Response 21(a) hereof.**

23. Have you ever been disciplined or cited for a breach of ethics or unprofessional conduct by, or been the subject of a complaint to, any court, administrative agency, bar association, disciplinary committee, or other professional group? If so, give the particulars.

Sotomayor Personal Data Questionnaire

See Response 21 (a) hereof.

**In November of 1994 a complaint of alleged misconduct was filed against me with the Judicial Council of the Second Circuit, Docket No. 94-8562. The complainant was a litigant in a class action law suit which was settled. The complainant maintained that I had caused an undue delay in the production of a transcript of a proceeding before me by my refusal to permit a court reporter to release the transcript until I had reviewed it. Complainant also alleged there was a delay in my releasing the unedited transcript to him. In an Order dated December 30, 1994 dismissing the complaint, The Chief Judge of the Circuit, Jon O. Newman, found no basis for the allegations that I had either unduly delayed the release of the edited or unedited transcripts or that I had acted improperly in making two corrections to the transcript.**

24. With respect to your judicial service,

- a. Have you participated in any proceeding in which you had a stock or other financial interest in one of the parties or in the matter in controversy? If so, give particulars.

**No.**

- b. Is there a rule or custom in your court as to judges sitting on such cases? If so, state the rule or custom and whether or not you have complied with it.

**Yes. We comply with the Rules of Judicial Conduct.**

- c. Have you to the best of your knowledge and belief complied with applicable statutes and Canons of the American Bar Association relative to such matters as were in force and applicable at the time? If not, give particulars.

**Yes.**

- d. Have you ever received compensation from outside sources for services rendered (other than fees or expenses for lectures or teaching)? If so, give particulars.

**No.**

25. a. What is the present state of your health?

**My health is good. Please note, I am a juvenile diabetic (insulin dependent**

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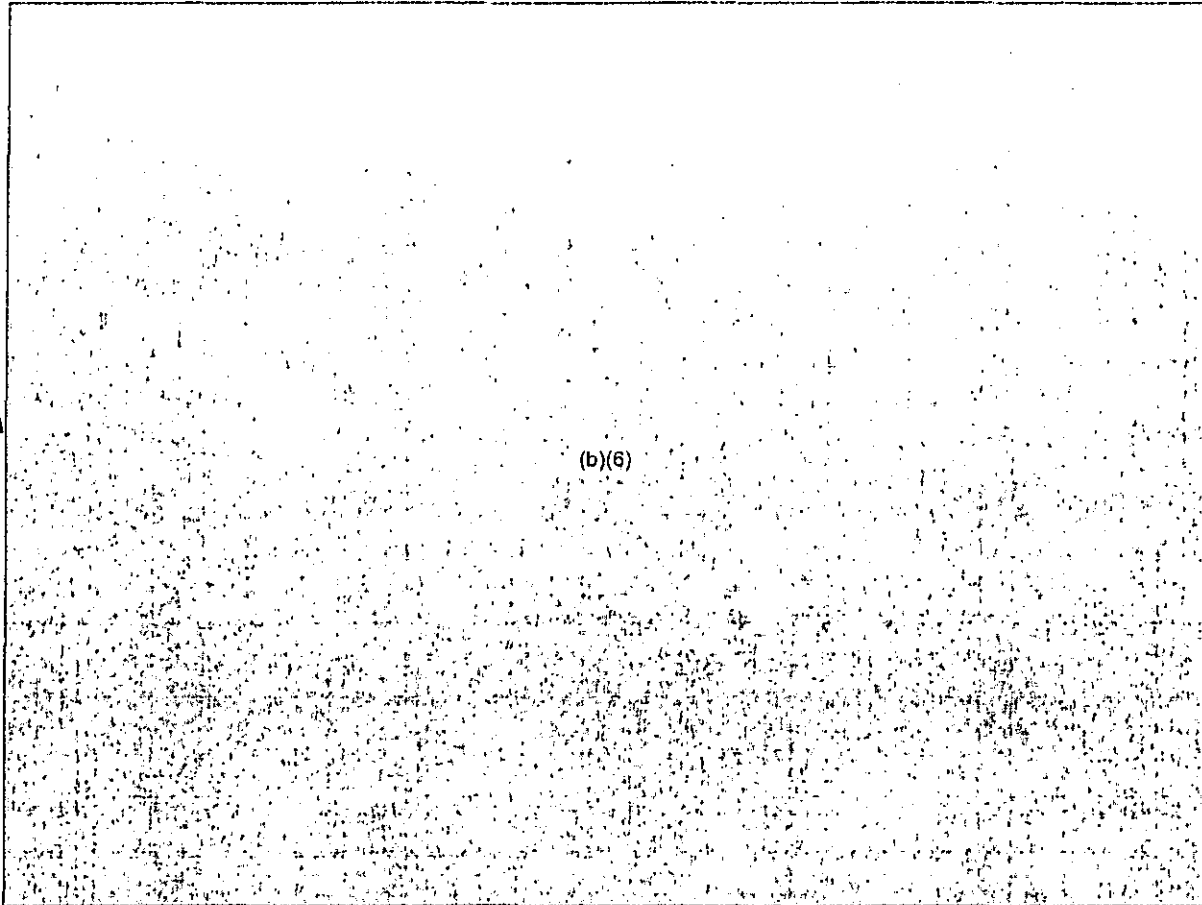
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Sotomayor Personal Data Questionnaire

since age 7). My condition is permanent and subject to continuing treatment. It does not impair my work or personal life.

b.



- c. Do you have a hearing or vision impairment or any other disability which might affect your ability to perform the duties of a trial judge or appellate judge? If so, please describe the disability and how your disability could be accommodated to allow you to perform the duties of a trial or appellate judge.

**See (a) supra. I also wear glasses.**

- d. When did you have your most recent general physical examination?

**January 1997.**

- e. Are you currently under treatment for an illness or physical condition? If so, give details.

**Diabetes -- see (c) supra.**

**Sotomayor Personal Data Questionnaire**

- f. Have you ever been treated for or had any problem with alcoholism or any related condition associated with consumption of alcoholic beverages or any other form of drug addiction or dependency? If so, give details.

No.

- g. Have you ever been treated for or suffered from any form of mental illness? If so, give details.

No.

26. Furnish at least five examples of legal articles, books, briefs, or other legal writings which reflect your personal work. If briefs are submitted, indicate the degree to which they represent your personal work. If there are reported opinions relevant to a submitted brief, give the citation to or a copy of any relevant appellate opinion.

**In response to Question 13, *supra*, I provided ten examples of my Opinions on complex and significant legal issues. In response to this question, I include two published works and three additional Opinions representative of my work on interesting issues of law. Law clerks assist me in the research and drafting of my Opinions, and my published works have been edited and cite-checked by my co-author, staff editor, or both. I consider my Opinions and published works, with the exception of the Suffolk Law Journal article, which was researched and written collaboratively with my co-author, to reflect my personal work.**

**1) Sonia Sotomayor & Nicole Gordon, *Returning Majesty to the Law and Politics: A Modern Approach*, 30 Suffolk U. L. Rev. 35 (1997).**

**2) Note, *Statehood and the Equal Footing Doctrine: The Case for Puerto Rican Seabed Rights*, 88 Yale L.J. 825 (1979).**

**3) Castle Rock Entertainment v. Carol Publ'g Group, Inc., -- F. Supp. -- , 1997 WL 86039 (S.D.N.Y. 1997).**

**4) Haybeck v. Prodigy Serv. Co., 944 F. Supp. 326 (S.D.N.Y. 1996).**

**5) Fisher Scientific Co. v. City of New York, 812 F. Supp. 22 (S.D.N.Y. 1993).**

**Sotomayor Personal Data Questionnaire**

27. a. List all bar associations and professional societies of which you are a member and give the titles and dates of any offices which you have held in such groups.

**Honorary Member, Public Service Committee, Federal Bar Council, 1994 to present.**

**Puerto Rican Bar Association, 1994 to present.**

**Hispanic National Bar Association, 1992 to present.**

**American Bar Association, 1980 to present.**

- b. List also chairmanships of any committees in bar associations and professional societies, and memberships on any committee which you believe to be of particular significance (e.g., Judicial selection committee, committee of censors, grievance committee).

**The Hispanic National Bar Association has just started a Judges Committee of which I have become a member.**

- c. Describe also your participation, if any, on judicial committees, in judicial conferences, and in sitting, by designation, as a temporary member of the court which reviews decisions of your court.

**Pro Se Committee of the S.D.N.Y., 1996 to present.**

**Budget Committee of the S.D.N.Y., 1996 to present.**

**Second Circuit Task Force on Gender, Racial & Ethnic Fairness, 1993 to present.**

**Committee on Rules of Practice and Procedure of the S.D.N.Y., 1993 to present.**

**Grievance Committee of the Southern District of New York ("S.D.N.Y"), 1992 to present.**

**I sat by designation on the Second Circuit Court of Appeals on December 4, 1992.**

28. List all organizations other than bar associations or professional associations or

Sotomayor Personal Data Questionnaire

professional societies of which you are or have been a member, including civic, charitable, educational, social and fraternal organizations.

**Board of Directors, New York City Campaign Finance Board, 1988 to 1992.**

**Board of Directors, State of New York Mortgage Agency, 1987 to 1992.**

**Board of Directors, Puerto Rican Legal Defense and Education Fund, 1980 to 1992.**

**Member, State Advisory Panel for Inter-Group Relations, 1990 to 1991.**

**Member, Selection Committee for the Stanley D. Heckman Educational Trust, 1988.**

**Board of Directors, Maternity Center Association, 1985 to 1986.**

29. List any honors, prizes, awards or other forms of recognition which you have received (including any indication of academic distinctions in college or law school) other than those mentioned in answers to the foregoing questions.

**Secretary of State of Puerto Rico**

**July 4, 1996**

**Award as Distinguished Woman in the Field of Jurisprudence**

**Latino American Law Student Association**

**of Hofstra University School of Law**

**March 15, 1996**

**Award in Recognition of Outstanding Achievement  
and Dedication to the Latino Community**

**District Attorney - New York County**

**January 17, 1995**

**Award For Outstanding and Dedicated Service  
To The People of New York County from  
8-13-79 to 3-16-84**

**National Puerto Rican Coalition, Inc.**

**October 20, 1994**

**Lifetime Achievement Award**

**Sotomayor Personal Data Questionnaire**

**National Conference of Puerto Rican Women  
New York City Chapter  
March 24, 1994  
Certificate of Excellence in Grateful Recognition of  
Outstanding Achievements and Contributions to the Community**

**Cardinal Spellman High School  
Honors Night 1993  
Excellence with a Heart Medal**

**Hispanic National Bar Association Law Student Division  
September 25, 1993  
Lifetime Achievement Award**

**Hispanic National Bar Association  
September 24, 1993  
Award For Commitment to the Preservation of Civil  
and Constitutional Rights for all Americans**

**Bronx Community College  
of the City University of New York  
Paralegal Studies June 17, 1993  
Human Rights Award for Service to Humanity**

**John Jay College of Criminal Justice  
May 27, 1993  
Claude E. Hawley Medal for Scholarship and Service**

**The Puerto Rican Bar Association, Inc.  
1993  
Emilio Nunez Award For Judicial Service**

**Yale Law School:**

**Editor, Yale Law Journal  
Managing Editor, Yale Studies in World Public Order  
Semi-finalist, Barristers Union**

Sotomayor Personal Data Questionnaire**Princeton University:**

**Summa cum laude  
 Member of Phi Beta Kappa  
 Co-winner of the M. Taylor Pyne Senior Honor Prize  
 Honorable Mention: Senior Thesis, Latin American Studies.**

30. Describe any pro bono or community service activities in which you have engaged.

**Response 28 lists my pro bono and community service activities before becoming a judge. The Code of Judicial Conduct limits my ability to provide legal service to the disadvantaged. While a judge, I nevertheless contribute my time as permitted by law to bar and law school activities. I have served as an honorary member of the Public Service Committee of the Federal Bar Council. I also serve on the selection committees for the Root-Tilden-Snow Scholarship granted to selected New York University Law School students interested in public service and the Kirkland Ellis New York Public Service Fellowship granted to a Columbia Law School graduate to support a year's work in public service. I serve on moot court panels and in trial advocacy courses at local law schools; I have also spoken at bar association functions on a variety of issues including judicial clerkships for minority students and women in the law. Finally, I have lectured about trial advocacy skills at the Office of the Attorney General for the State of New York.**

31. State any other information which may reflect positively or adversely on you, or which you believe should be disclosed in connection with consideration of you for nomination for the Federal Judiciary.

**My family, like many first generation immigrant families from Puerto Rico to New York, had no college graduates. My mother, until I reached high school, was a practical nurse. My father, who died when I was nine years old and spoke virtually no English, was a factory worker with a third grade education. No role models from the legal profession populated the Bronx housing projects that were my home.**

**I am, in part, a product of modern media. At age 8, I was inspired to become a lawyer, and later an Assistant District Attorney in New York County, by a prosecutor portrayed in the Perry Mason television program. Despite his repeated "losses" to Perry Mason, the television prosecutor once explained that his job was always satisfying because he saw justice done both when a**

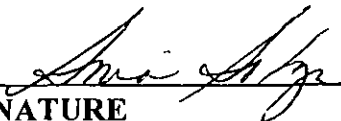
Sotomayor Personal Data Questionnaire

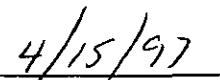
guilty person was convicted and an innocent person was exonerated. I became a judge to do justice by applying the law in this even-handed fashion.

Both because of my work as a prosecutor and because of my upbringing in the Bronx, I know about the suffering of victims and the enormous costs to society of criminal behavior. I also know about the sadness families experience in seeing their relatives succumb to the lure of drugs and other criminal behavior. Because of my professional work and activities in both the public and private sectors, I also know about the needs of government, of big and small businesses, and of individuals in our society.

Many parties before me have expressed gratitude for my simply having recognized and understood the bases of their frustrations, even when I have ruled against them. Because of the limitations of the law, no judge can rule in a way that satisfies all parties. I am grateful that my diverse life experiences, however, have given me the ability to understand the varying perspectives of the parties before me.

Each year I have served as a district court judge, I have grown to appreciate more the complex needs of our society. If appointed as a circuit court judge, I hope to articulate my decisions always respectful of the law and its limitations, and always mindful of the many and varied interests, institutions, and people affected by those rulings.

  
SIGNATURE

  
Date

Sotomayor Personal Data Questionnaire**AMERICAN BAR ASSOCIATION****STANDING COMMITTEE ON FEDERAL JUDICIARY****WAIVER OF CONFIDENTIALITY**

I hereby waive the privilege of confidentiality with respect to any information which concerns me, including any complaints erased by law, and is known to, recorded with, on file with or in the possession of any governmental, judicial, disciplinary, investigative or other official agency, Board of Bar Overseers,\* or any educational institution, or employer, and I hereby authorize a representative of the American Bar Association Standing Committee on Federal Judiciary to request and to receive any such information.

\*\*

  
SONIA SOTOMAYOR

DATE

4/15/97

- \* Please insert the name of the appropriate state or federal authority, e.g. Board of Bar Overseers, Commission on Judicial Conduct, etc.
- \*\* Please type or print name under signature line

Sotomayor Addendum to Personal Data Questionnaire**ADDENDUM TO PERSONAL  
DATA QUESTIONNAIRE****QUESTION 11 F:**

A1.

**Case Name:** Fratelli Lozza (USA) Inc. v. Lozza (USA) & Lozza SpA**Court:** United States District Court, Southern District of New York**Index No.:** 90 Civ. 4170**Judge:** Then District Court Judge Fred I. Parker (sitting by designation)  
Federal Building  
11 Elmwood Avenue  
P.O. Box 392  
Burlington, Vermont 05402  
(802) 951-6401**Date of Trial:** March 16, 1992**Adversaries:** Charles E. Temko  
Temko & Temko  
19 West 44th Street  
New York, New York 10036  
(212) 840-2178**Case Description:** I represented the defendants Lozza (USA) and Lozza SpA in this trademark infringement, trademark abandonment, unfair competition, breach of contract, and rescission action. The plaintiff, a corporation owned and operated by a former shareholder of the defendant corporations, claimed the defendants had breached an agreement with the plaintiff for the trademark use of "Lozza" in the United States, had abandoned use of their marks in the United States, and had infringed certain of the plaintiff's trademarks. I conducted the trial for the defendants, and secured a dismissal of all of the plaintiff's claims. The Court also issued an injunction against the plaintiff's use of the defendants' marks, and of false and misleading terms in its advertising. Findings of Fact, Conclusions of Law and Order reported at 789 F. Supp. 625 (S.D.N.Y. 1992).

Sotomayor Addendum to Personal Data Questionnaire

A2.

Administrative

Case Name: Ferrari of Sacramento, Inc. v. Ferrari North America

Agency: State of California New Motor Vehicle Board  
(Appeared pro hac vice)

Protest No.: PR-973-88

Administrative

Law Judges: Marilyn Wong  
c/o New Motor Vehicle Board  
1507 21st Street, Room 330  
Sacramento, California 95814  
(916) 445-1888

Robert S. Kendell (retired)  
Contact: Michael Sabian  
c/o New Motor Vehicle Board  
1507 21st Street, Room 330  
Sacramento, California 95814  
(916) 445-1888

Dates of Hearing: 10/16/90, 10/17/90, 10/31/90, 11/1/90, and 11/2/90

Co-Counsel: Nicholas Browning, III, Esq.  
Herzfeld & Rubin  
1925 Century Park East, Suite 600  
Los Angeles, California 90067-2783  
(310) 553-0451

Adversaries: Jay-Allen Eisen  
Jay-Allen Eisen Law Corporation  
9A0 9th Street, Suite 1400  
Sacramento, California 95814  
(916) 444-6171

Sotomayor Addendum to Personal Data Questionnaire

Donald M. Licker, Esq.  
 2443 Fair Oaks Boulevard  
 Room 340  
 Sacramento, California 95825  
 (916) 924-6600

**Case Description:** In or about 1988, Ferrari North America ("Ferrari") terminated the plaintiff dealer. Thereafter, the dealer filed a timely protest of the termination with the California New Motor Vehicle Board (the "Board"). At a prehearing settlement conference, Ferrari and the dealer entered into a Stipulated Settlement that permitted Ferrari to terminate the dealer, without a hearing, if the dealer failed timely to cure specified obligations under its franchise agreement with Ferrari. When the dealer breached the terms of the Stipulated Settlement, Ferrari terminated the dealer, with the Board's approval and without a hearing. The dealer then secured a writ of mandate from a California court directing the Board to hold an administrative hearing.

I had primary responsibility for representing Ferrari at the administrative hearing. The Board determined that 1) the dealer had violated the terms of the Stipulated Settlement, 2) the violations constituted good cause for Ferrari's termination of the dealer under California's Automobile Franchise Law, and 3) the plaintiff's loss of its franchise was not an illegal forfeiture under California law.

While the hearing before the Board proceeded after issuance of the mandate, Ferrari also appealed the judgment on the writ, which judgment was reversed on appeal in an unpublished opinion. The California Court of Appeals, Third Appellate District, determined that enforcing the Stipulated Settlement and terminating the dealer, without a hearing, did not violate due process.

Although not listed as counsel for appellant's briefs, I contributed significantly to the drafting of the briefs. The appellate case was captioned Ferrari of Sacramento, Inc., Respondent v. New Motor Vehicle Board and Sam Jennings as Secretary, Appellants, and Ferrari North America, Real Party in Interest and Appellant; No. C008840 in the Court of Appeals of the State of California in and for the 3rd Appellate District; Sacramento Superior Court, Case No. 360734.

Sotomayor Addendum to Personal Data Questionnaire

A3.

**Case Name:** In re: Van Ness Auto Plaza, Inc., a California Corporation, d/b/a Auto Plaza Lincoln Mercury, Auto Plaza Porsche and Auto Plaza Ferrari, Debtors.

**Court:** United States Bankruptcy Court, Northern District of California  
(Appeared pro hac vice)

**Case No.:** 3-89-03450-TC

**Judge:** Hon. Thomas E. Carlson  
U.S. Bankruptcy Court Judge  
235 Pine Street  
San Francisco, California 94104  
(415) 705-3200

**Dates of Hearing:** 1/22/90 and 3/19/90

**Co-Counsel:** Nicholas Browning, III, Esq.  
Herzfeld & Rubin  
1925 Century Park East, Suite 600  
Los Angeles, California 90067-2783  
(213) 553-0451

**Adversaries:** Henry Cohen, Esq.  
Cohen and Jacobson  
Attorneys for Debtor  
577 Airport Blvd., Suite 230  
Burlington, California 90067-2783  
(415) 342-6601

William Kelly, Esq. (retired)  
Home Tel. No. (415) 641-1544

**Case Description:** I represented Ferrari North America ("Ferrari"), a franchisor of a bankrupt dealer, in hearings related to Ferrari's opposition to the rejection of customer contracts, assumption of the dealer's franchise agreement, and confirmation of the proposed sale of the dealer's franchise. At the time, Ferrari was introducing a limited production, and very valuable new car

Sotomayor Addendum to Personal Data Questionnaire

model to the marketplace. A rejection by the dealer of contracts for that model would have frustrated the expectations of customers and subjected Ferrari to potential multiple claims. After a number of hearings, the Bankruptcy Court ruled that the dealer could not reject the customer contracts, although financially burdensome, and then assume the franchise agreement with Ferrari. The case also involved alleged claims by the dealer and customers that Ferrari had violated the California automobile franchise, antitrust, and securities laws. The case settled with the sale of the dealership and resolution of claims among the bankrupt dealer, the new franchise buyer, Ferrari, and customers.

A4. - A5.

**Case Descriptions:** From 1985, my former firm represented Fendi S.a.s. di Paola Fendi e Sorelle ("Fendi") in Fendi's national anticounterfeiting work. Frances B. Bernstein, a partner at Pavia & Harcourt (now deceased), and I created Fendi's anticounterfeiting program. From 1988 until the time I left the firm for the bench, I was the partner in charge of that program. I handled almost all discovery work and substantive court appearances in cases involving Fendi. This work implicated a broad range of trademark issues including, but not limited to, trademark and trade dress infringement, false designation of origin, and unfair competition claims.

Approximately once every two months from 1989 to 1992, I, for Fendi, applied for provisional injunctive relief in district court to seize counterfeit goods from street vendors or retail stores. These applications required extensive submission of evidence documenting Fendi's trademark rights, its protection of its marks, the nature of the investigation against the vendors, and Fendi's right to ex parte injunctive relief. Generally, the street vendors defaulted but others appeared and settled pro se. Two of these cases filed in the Southern District of New York were captioned Jane Doe v. John Doe and Various ABC Companies, 89 Civ. 3122, presided over by the Hon. Thomas P. Griesa (Tel. No. (212) 805-0210), and Fendi S.a.s. Di Paola Fendi e Sorelle v. Dapper Dan's Boutique, 89 Civ. 0477, presided over by the Hon. Miriam G. Cedarbaum (Tel. No. (212) 805-0198).

The following two cases (A4 and A5) involved a trial and a damages hearing on Fendi's trademark claims against the defendants. In the first, the Burlington case, Fendi alleged that defendants knowingly trafficked in counterfeit goods and sought triple profits from the defendants and

Sotomayor Addendum to Personal Data Questionnaire

punitive damages. After extensive discovery, submission of a pre-trial order and memorandum, and Fendi's presentation of its expert at trial, the case settled. I was sole counsel present at trial. In the Cosmetic World case, the Court granted Fendi's summary judgment motion on liability and referred the matter to a magistrate judge for an inquest on damages. See 642 F. Supp. 1143 (S.D.N.Y. 1986). I conducted the contested hearing on damages before the magistrate judge who recommended an award in Fendi's favor.

A4.

**Case Name:** Fendi S.a.s. di Paola Fendi e Sorelle v. Burlington Coat Factory Warehouse Corp., et al.

**Case No.:** 86 Civ. 0671

**Court:** United States District Court, Southern District of New York

**Judge:** Hon. Leonard B. Sand  
U.S. District Judge  
U.S. Courthouse  
500 Pearl Street  
New York, New York 10007  
(212) 805-0244

**Adversaries:** Stacy J. Haigney, Esq.  
Herbert S. Kasner, Esq.  
Attorneys for Burlington Coat Factory Warehouse and  
Monroe G. Milstein  
Burlington Coat Factory Warehouse, Corp.  
263 West 38th Street  
New York, New York 10018  
(212) 221-0010

Dennis C. Kreiger, Esq.  
Esanu, Katsky, Korins & Sieger  
Attorneys for Firestone Mills, Inc. and Leo Freund  
605 Third Avenue, 16th Floor  
New York, New York 10158  
(212) 953-6000

Sotomayor Addendum to Personal Data Questionnaire

**Dates of Trial:** 5/18/87 to 5/19/87

A5.

**Case Name:** Fendi S.a.s. di Paola Fendi e Sorelle v. Cosmetic World, Ltd., Loradan Imports, Inc., Linea Prima, Inc. a/k/a Lina Garbo Shoes, Daniel Bensoul, Michael Bensoul a/k/a Nathan Bendel, Paolo Vincelli and Mario Vincelli

**Case No.:** 85 Civ. 9666

**Court:** United States District Court, Southern District of New York

**Judges:** Hon. Leonard B. Sand  
U.S. District Judge  
U.S. Courthouse  
500 Pearl Street  
New York, New York 10007  
(212) 805-0244

Hon. Joel J. Tyler  
Magistrate Judge, U.S. District Court  
Home address:  
2 Primrose Avenue  
Yonkers, New York 10710  
Telephone unpublished

**Adversary:** Stanley Yaker, Esq.  
Attorney for Paolo Vincelli and Mario Vincelli  
Former Address:  
114 East 32nd Street  
Suite 1104  
New York, New York 10016  
(212) 983-7241  
Telephone not in service. I have been unable to locate Mr. Yaker.

No attorneys appeared for the remaining defendants, who settled pro se.

**Date of Inquest**

**Hearing:** 1/6/88

Sotomayor Addendum to Personal Data Questionnaire

A6.

**Case Name:** Republic of the Philippines v. New York Land Co., et al. (the "Philippines Case") and Security Pacific Mortgage and Real Estate Service Inc. v. Canadian Land Company, et al. (the "Security Pacific Case").

**Case Nos.:** 90-7322 and 90-7398

**Court:** United States Court of Appeals for the Second Circuit

**Panel:** Hon. Thomas J. Meskill  
U.S. Circuit Judge  
114 W. Main Street, Suite 204  
New Britain, Connecticut 06051  
(203) 224-2617

Hon. Lawrence J. Pierce  
U.S. Circuit Judge  
c/o U.S. Courthouse  
40 Foley Square  
New York, New York 10007  
(212) 791-0951

Hon. George C. Pratt  
U.S. Circuit Judge  
U.S. Courthouse  
Uniondale Avenue  
Hempstead Turnpike  
Uniondale, New York 11553  
(516) 485-6510

**Co-Counsel:** Roy L. Reardon, Esq. (455-2840)  
David E. Massengill, Esq. (455-3555)  
Simpson Thacher & Bartlett  
425 Lexington Avenue  
New York, New York 10017  
(212) 455-2000

Sotomayor Addendum to Personal Data Questionnaire

**Adversaries:** Jeffrey J. Greenbaum, Esq.  
James M. Hirschhorn, Esq.  
Sills, Cummis, Zuckerman, Radin, Tischman, Epstein & Gross  
Attorneys for the Republic of the Philippines  
Legal Center  
1 Riverfront Plaza  
Newark, New Jersey 07102  
(201) 643-7000

**Date of Argument:** 6/15/90 (Argued by Roy L. Reardon, Esq. of Simpson, Thacher & Bartlett)

AND

**District Court**

**Case Name:** Republic of the Philippines v. New York Land Co., et al. (the "Philippines Case") and Security Pacific Mortgage and Real Estate Service Inc. v. Canadian Land Company, et al. (the "Security Pacific Case").

**Case Nos.:** The Philippines Case: 86 Civ. 2294  
The Security Pacific Case: 87 Civ. 3629

**Court:** United States District Court, Southern District of New York

**Judge:** Hon. Pierre N. Leval  
U.S. Circuit Judge (Then District Court Judge)  
U.S. Circuit Judge  
U.S. Courthouse  
40 Foley Square  
New York, New York 10007  
(212) 857-2319

**Co-Counsel:** David A. Botwinik, Esq.  
Pavia & Harcourt  
600 Madison Avenue  
New York, New York 10022  
(212) 980-3500

Sotomayor Addendum to Personal Data QuestionnaireParticipating  
Adversaries

Opposing Motion: Jeffrey J. Greenbaum, Esq.  
James M. Hirschhorn, Esq.  
Sills, Cummis, Zuckerman, Radin, Tischman, Epstein & Gross  
Attorneys for the Republic of the Philippines  
Legal Center  
1 Riverfront Plaza  
Newark, New Jersey 07102  
(201) 643-7000

Michael Stanton, Esq.  
Weil, Gotshal & Manges  
Attorneys for Security Pacific  
767 Fifth Avenue  
New York, New York 10153  
(212) 310-8000

Date of Argument: 2/12/90

Case Description: My former firm, Pavia and Harcourt, represented Bulgari Corporation of America ("Bulgari"), an international retailer of fine jewelry, who was a tenant in the Crown Building at 730 Fifth Avenue, New York, New York. The Crown Building was the subject of a foreclosure sale in the Security Pacific Action, and its beneficial ownership was in dispute in the Philippines Action. Bulgari was not a party to these actions. The district court denied Bulgari's request, by way of Order to Show Cause, to approve a rental amount it had reached with the manager of the Crown Building. I primarily drafted the papers presented to the district court and argued the motion. Bulgari's motion attempted to demonstrate that no competent evidence existed to dispute Bulgari's proof that the rental amount agreed upon was at or above fair market value and benefited the Crown Building and its claimants. Bulgari appealed the district court's denial of its approval of the rent agreement on the grounds that the denial was effectively an injunction against Bulgari's exercise of its contractual lease rights to have its rent fixed by agreement during the term of the lease, and that the district court improperly granted the injunction without a hearing. I did not argue the appeal but participated extensively in the drafting of appellant's brief and reply. The district court's Order was affirmed on appeal.

Sotomayor Addendum to Personal Data Questionnaire

A7.

**Case Name:** Miserocchi & C., S.p.A. v. Alfred C. Toepfer International, G.m.b.H.**Case No.:** 85-7734**Court:** United States Court of Appeals for the Second Circuit**Panel:** Hon. J. Edward Lumbard  
Senior Judge  
U.S. Circuit Judge  
U.S. Courthouse  
Foley Square  
New York, New York 10007  
(212) 857-2300Hon. James L. Oakes  
Then-Chief Judge  
U.S. Circuit Judge  
U.S. Courthouse  
40 Foley Square  
New York, New York 10007  
(212) 857-2400Hon. George C. Pratt  
U.S. Circuit Judge  
U.S. Courthouse  
Uniondale Avenue  
Hempstead Turnpike  
Uniondale, New York 11553  
(516) 485-6510**Adversary:** Stephen P. Sheehan  
Wistow & Baryllick  
61 Weybosset Street  
Providence, Rhode Island 02903  
(401) 831-2700**Date of Argument:** 9/17/84

Sotomayor Addendum to Personal Data Questionnaire

AND

**District Court**

**Case Name:** Miserochi & C., Sp.A. v. Alfred C. Toepfer International, G.m.b.H.

**Case No.:** 84 Civ. 6112

**Court:** United States District Court, Southern District of New York

**Judge:** Hon. Kevin Thomas Duffy  
U.S. District Judge  
U.S. Courthouse  
40 Foley Square  
New York, New York 10007  
(212) 805-6125

**Co-Counsel:** David A. Botwinik, Esq.  
Pavia & Harcourt  
600 Madison Avenue  
New York, New York 10022  
(212) 980-3500

**Adversary:** Stephen P. Sheehan  
Wistow & Barylick  
61 Weybosset Street  
Providence, Rhode Island 02903  
(401) 831-2700

**Date of Argument:** 9/5/84 (argued by David Botwinik of Pavia & Harcourt)

**Case Description:** This action involved the bankruptcy of an Italian corporation, Miserochi & C., SpA ("Miserochi"), with affiliates in London and elsewhere. The London affiliate of Miserochi breached a grain commodity trading contract with my then client, Alfred C. Toepfer International, G.m.b.H. ("Toepfer"). Toepfer demanded arbitration of the dispute against both Miserochi and its London affiliate under the terms of the grain commodity trading agreement between the parties and a guarantee signed by Miserochi. Shortly before the arbitration hearing was to commence, Miserochi moved to stay the arbitration against it, arguing that it was not a party to the arbitration agreement. Although my partner, David A. Botwinik, argued the motion before the district court, I primarily drafted

**Sotomayor Addendum to Personal Data Questionnaire**

Toepfer's responsive papers to the motion to stay arbitration and the cross-motion to compel arbitration. Toepfer argued that Miserocchi was bound to arbitrate both as an alter ego of its London affiliate and under the terms of its guarantee. After the district court ruled in Toepfer's favor, Miserocchi filed a notice of appeal and sought an expedited stay of the district court's Order denying the stay of arbitration and compelling arbitration. I argued the motion to stay. At the conclusion of the argument on the motion, the Second Circuit not only denied the motion for a stay but also dismissed the appeal. I participated extensively as co-counsel in the arbitration that followed and subsequently appeared in the post-confirmation proceedings resulting from the arbitration award rendered in favor of Toepfer. The matter settled before the hearing on appeal of the confirmation order.

**A8.**

**Case Name:** **The People of the State of New York v. Clemente D'Alessio and Scott Hyman**

**Indictment No.:** 4581/82

**Judge:** Hon. Thomas B. Galligan (retired)  
Then-Acting Justice, Supreme Court,  
c/o Administrative Judge's Office  
Juanita Newton  
111 Centre Street  
New York, New York 10013  
(212) 374-4972

**Associate Counsel:** Karen Greve Milton  
Director of Education Training Program  
Association of the Bar of the City of New York  
42 West 44th Street  
New York, New York 10036-6690  
(212) 382-6619

**Adversaries:** Steven Kimelman, P.C.  
Attorney for Scott Hyman  
757 Third Avenue  
New York, New York 10017  
(212) 421-5300

Sotomayor Addendum to Personal Data Questionnaire

James Bernard, Esq.  
 Attorney for Clemente D'Alessio  
 150 Broadway  
 New York, New York 10038  
 (212) 233-0260

**Dates of Trial:** 2/2/83 to 3/2/83

**Case Description:** I was lead counsel in this action in which defendants were charged with selling videotapes depicting children engaged in pornographic activities. Defendant Scott Hyman dealt directly with the undercover agent and attempted to raise numerous defenses at trial based upon his alleged drug addiction. The proof against defendant Clemente D'Alessio was circumstantial and he raised a misidentification defense at trial. This action was the first child pornography case prosecuted in New York State after the U.S. Supreme Court upheld the constitutionality of New York's laws in New York v. Ferber, 458 U.S. 747 (1982). The defendants filed a plethora of motions before and during trial. The defendants' request for severance was denied, as were, after a hearing, the defendants' motions for the suppression of statements, evidence, and identification. Other issues addressed at trial included whether the trial court should or could, upon defendants' request, require the government to stipulate to the pornographic nature of the evidence, whether defendant Hyman could present expert testimony on the effects of drug addiction on mens rea, and whether defendant Hyman was entitled to jury charges on diminished capacity or intoxication. The jury convicted defendants after trial. The defendants received sentences, respectively, of 3½ to 7 years and 2 to 6 years. The convictions were affirmed on appeal. See People v. D'Alessio, 62 N.Y.2d 619, 476 N.Y.S.2d 1031 (Ct. App. 1984); People v. Hyman, 62 N.Y.2d 620, 476 N.Y.S.2d 1033 (Ct. App. 1984).

A9.

**Case Name:** The People of the State of New York v. Richard Maddicks

**Indictment No.:** 886/82

**Court:** Supreme Court of the State of New York, County of New York

**Judge:** Hon. James B. Leff (retired)  
 Justice, Supreme Court  
 c/o Administrative Judge's Office

Sotomayor Addendum to Personal Data Questionnaire

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**Adversary:** Peter A. Furst, Esq.  
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**Dates of Trial:** Almost all of January 1983

**Case Description:** The defendant was dubbed the "Tarzan Murderer" by the local Harlem press because he committed burglaries by acrobatically jumping or climbing from roof tops or between buildings and entering otherwise inaccessible apartments. If the defendant found a person in the apartment, he shot them. I was co-counsel on the case, and prepared and argued the motion, before Justice Harold Rothwax, that resulted in the court consolidating the trial of four murders and seven attempted murders relating to eleven of the defendant's burglaries. The consolidation was unusual in that up to that point, most New York courts had limited consolidation to crimes in which an identical modus operandi had been used. We argued successfully that the commonality of elements in the crimes, although with some variations in modus operandi, warranted consolidation. I participated extensively in preparing for and presenting expert and civilian witnesses at trial. The defendant was convicted after trial, and sentenced to 67½ years to life. The conviction was affirmed on appeal. See People v. Maddicks, 70 N.Y.2d 752, 520 N.Y.S.2d 1028 (Ct. App. 1987).

Sotomayor Addendum to Personal Data Questionnaire

A10.

**Case Name:** The People of the State of New York v. Manny Morales aka Joey Hernandez, Joseph Pacheco, and Eduardo Pacheco

**Indictment No:** 4399/82

**Judge:** Hon. Alfred H. Kleiman (retired)  
Then-Acting Justice, Supreme Court  
c/o Administrative Judge's Office  
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**Adversaries:** Ira I. Van Leer (deceased)  
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**Dates of Trial:** March 25, 1983 to May 12, 1983

**Case Description:** This multiple-defendant case involved a Manhattan housing project shooting between rival family groups. I was sole counsel in this action on behalf of the government. Prior to trial, I conducted various hearings

**Sotomayor Addendum to Personal Data Questionnaire**

opposing defense motions to suppress statements and identifications. This lengthy trial involved witnesses with significant credibility issues. The jury convicted one of the three defendants who was sentenced to 3 to 6 years for Criminal Possession of a Weapon in the Third Degree. The conviction was affirmed on appeal. See People v. Pacheco, 70 N.Y.2d 802, 522 N.Y.S.2d 120 (Ct. App. 1987).

Sotomayor Addendum to Personal Data Questionnaire**QUESTION 13:**

I have listed these cases in reverse chronological order.

1. **United States v. The Spy Factory et al., 951 F. Supp. 450 (S.D.N.Y. 1997).**

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**2. Krueger Int'l v. Nightingale, Inc., 915 F. Supp. 595 (S.D.N.Y. 1996).**

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Sotomayor Addendum to Personal Data Questionnaire3. United States v. Lech, 895 F. Supp. 586 (S.D.N.Y. 1995).

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4. Silverman v. Major League Baseball Player Relations Committee, 880 F. Supp. 246 (S.D.N.Y. 1995), aff'd, 67 F.3d 1054 (2d Cir. 1995).

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5. Refac Int'l, Ltd. v. Lotus Development Corp., 887 F. Supp. 539 (S.D.N.Y. 1995),  
aff'd, 81 F.3d 1576 (Fed. Cir. 1996).

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Sotomayor Addendum to Personal Data Questionnaire

6. **Azurite Corp., Ltd. v. Amster & Co.**, 844 F. Supp. 929 (S.D.N.Y. 1994), aff'd, 52 F.3d 15 (2d Cir. 1995).

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7. **United States v. Hendrickson**, 26 F.3d 321 (2d Cir. 1994) (sitting by designation).

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8. Campos v. Coughlin, 854 F. Supp. 194 (S.D.N.Y. 1994).

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Sotomayor Addendum to Personal Data Questionnaire

9. Flamer v. City of White Plains, 841 F. Supp. 1365 (S.D.N.Y. 1993).

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10. In re: Arbitration between Coastal Shipping, Ltd. and Southern Petroleum Tankers, Ltd., 812 F. Supp. 396 (S.D.N.Y. 1993).

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**SOTOMAYOR RESPONSE TO  
PERSONAL DATA QUESTIONNAIRE  
QUESTION 13**

ble to add to or vary the terms of the Agreement. *Mizuna, Ltd. v. Crossland Federal Savings Bank*, 90 F.3d 650, 659 (2d Cir. 1996); *Readco Inc. v. Marine Midland Bank*, 81 F.3d 295, 299 (2d Cir.1996); *W.W.W. Assoca., Inc. v. Giancontieri*, 77 N.Y.2d 157, 163, 566 N.Y.S.2d 440, 443, 566 N.E.2d 639, 642 (1990). Because conclusions concerning, *inter alia*, the significance of the side note intended by IP and Suwyn require further factual development at trial, summary judgment is not appropriate.

### CONCLUSION

For the reasons set forth above, defendants' motion for summary judgment is denied. See Fed.R.Civ.P. 56(a).

SO ORDERED.



UNITED STATES of America

v.

The SPY FACTORY, INC. d/b/a "Spy Factory," Ronald Kimball, Marlin Richardson, a/k/a "Brud," and Tracy Edward Ford, Defendants.

No. S1 95 cr 737 (SS).

United States District Court,  
S.D. New York.

Jan. 8, 1997.

Owner and corporation operating store selling spying devices brought motion to change venue of Wiretap Act charges against them and to dismiss charges on grounds that Act was unconstitutionally vague. The District Court, Sotomayor, J., held that: (1) court would not change venue, on condition that government would agree to pay for certain costs incurred by owner and corporation, and (2) statute was not unconstitutionally vague as applied to owner and corporation.

Denied.

### 1. Criminal Law §124

Factors routinely considered by courts deciding motions to change venue include location of defendants, location of witnesses, location of events in issue, location of documents and records, disruption of defendants' businesses, expense to parties, location of counsel, relative accessibility of place of trial, docket condition of each district, and other special elements. Fed.Rules Cr.Proc.Rule 21(b), 18 U.S.C.A.

### 2. Criminal Law §124

Factors considered by courts in deciding motions to change venue should be weighed against one another and against backdrop of doing what is in overarching interest of justice. Fed.Rules Cr.Proc.Rule 21(b), 18 U.S.C.A.

### 3. Criminal Law §124

In considering factors used to decide motion to change venue, court should not give any one factor preeminent weight, nor should it assume that quantity of factors favoring one party outweighs quality of factors in opposition. Fed.Rules Cr.Proc.Rule 21(b), 18 U.S.C.A.

### 4. Criminal Law §124

Determination of whether particular case calls for transfer of venue depends upon particular facts and circumstances of that case. Fed.Rules Cr.Proc.Rule 21(b), 18 U.S.C.A.

### 5. Criminal Law §134(1)

To support motion for change of venue on grounds of location of witnesses, defendants must offer specific examples of witnesses' testimony and their inability to testify because of trial's location, and court must rely on concrete demonstrations of proposed testimony. Fed.Rules Cr.Proc.Rule 21(b), 18 U.S.C.A.

### 6. Criminal Law §127

Court would deny motion to transfer venue for trial on Wiretap Act charges to Western District of Texas, on condition that government would make available to defen-

dants, upon good faith showing of need, reasonable funds for transportation to New York City and for subsistence for defendants and witnesses residing in Texas whom might reasonably be called for defense, where transfer would inevitably necessitate some delay in trial, defendants delayed in bringing motion to change venue, and all counsel except one resided in New York, notwithstanding that defendants resided in Texas, there was possibility of disruption of defendants' business and employment, and defendants' expenses in trying case would be higher in New York. Fed.Rules Cr.Proc.Rule 21(b), 18 U.S.C.A.

### 7. Criminal Law §134(1)

There is presumption that criminal prosecution should be retained in original district. Fed.Rules Cr.Proc.Rule 21(b), 18 U.S.C.A.

### 8. Criminal Law §134(1)

Burden is on moving defendant to justify transfer of venue. Fed.Rules Cr.Proc.Rule 21(b), 18 U.S.C.A.

### 9. Criminal Law §13.1(1)

Defendant claiming that statute is fatally vague on its face must show that statute is vague in sense that no standard of conduct is specified at all.

### 10. Criminal Law §13.1(1)

Defendant challenging facial validity of statute on vagueness grounds bears burden of showing statute to be impermissibly vague in all of its applications. U.S.C.A. Const. Amend. 5.

### 11. Criminal Law §13.1(1)

Vagueness challenges to statutes that do not involve First Amendment must be examined in light of specific facts of case at hand and not with regard to statute's facial validity. U.S.C.A. Const.Amend. 1, 5.

### 12. Constitutional Law §42.2(1)

Plaintiff who engages in some conduct that is clearly proscribed by statute cannot complain of statute's vagueness as applied to conduct of others, and court should thus examine complainant's conduct before analyzing other hypothetical applications of law. U.S.C.A. Const.Amend. 5.

### 13. Constitutional Law §42.2(1)

#### Criminal Law §13.1(1)

If statute is challenged for vagueness as applied, court must first determine whether statute gives person of ordinary intelligence a reasonable opportunity to know what is prohibited and then consider whether law provides explicit standards for those who apply it, and because statute is judged on as applied basis, one whose conduct is clearly proscribed cannot successfully challenge it for vagueness. U.S.C.A. Const.Amend. 5.

### 14. Criminal Law §13.1(1)

Objections to statute based on vagueness as applied rest on lack of notice, and hence may be overcome in any specific case where reasonable persons would know that their conduct is at risk. U.S.C.A. Const. Amend. 5.

### 15. Criminal Law §13.1(1)

When assessing statute for vagueness as applied, only actual conduct of defendants involved can be considered and court must disregard other, more innocent or questionable hypothetical conduct. U.S.C.A. Const. Amend. 5.

### 16. Criminal Law §13.1(1)

Exercise of some degree of prosecutorial discretion, alone, does not render statute unconstitutionally vague as applied; instead, court scrutinizes statute to discern whether its language is so imprecise that discriminatory enforcement is real possibility. U.S.C.A. Const.Amend. 5.

### 17. Statutes §205

To establish full meaning of statute, relevant provisions must be read as whole and their ambiguities, if any, must be taken together.

### 18. Constitutional Law §258(3.1)

#### Telecommunications §492

Phrase "primarily useful" as used in prohibition against manufacturing, assembling, possessing, or selling device knowing or having reason to know that its design renders it primarily useful for purposes of surreptitious interception of wire, oral, or electronic communications was not unconstitutionally vague

as applied to owner and corporation operating store that sold spying devices; although statute did not contain examples of devices covered by statute, Senate report accompanying statute contained such list and government seized article from owner referring to Senate report and note from owner requesting that employee return article when employee finished reading it. 18 U.S.C.A. § 2512(1)(b).

See publication Words and Phrases for other judicial constructions and definitions.

19. Constitutional Law ⇨258(3.1)  
Telecommunications ⇨492

Phrase "surreptitious," as used in Wiretap Act was not unconstitutionally vague as applied to owner and corporation operating store that sold spying devices, since term clearly meant secret or clandestine to average person and thus prohibited interception accomplished without consent of all persons to communication. U.S.C.A. Const.Amend. 5; 18 U.S.C.A. § 2512(1)(b).

20. Telecommunications ⇨494.1, 495

Wiretap Act's prohibition of nonconsensual wiretapping is more narrow than prohibition against devices used to accomplish wiretapping and thus only electronic communications providers and government officials can manufacture, sell, or possess more efficient bug devices, although Act permits electronics communications providers, government officials, and private parties, with consent, to intercept communications. 18 U.S.C.A. §§ 2511, 2512.

21. Constitutional Law ⇨258(3.1)  
Telecommunications ⇨492

Fact that government had not prosecuted other merchants for selling and advertising same or virtually similar products did not establish potential for arbitrary and discriminatory enforcement of Wiretap Act, of sort necessary to strike Act for vagueness as applied. U.S.C.A. Const.Amend. 5; 18 U.S.C.A. § 2512(1)(b).

22. Criminal Law ⇨13.1(1)

Fact that differing minds may reach different results when applying statutory fac-

tors does not render statute void for vagueness. U.S.C.A. Const.Amend. 5.

23. Criminal Law ⇨13.1(1), 37.10(1)

Constitution prohibits arbitrary and discriminatory application of law, but does not insist upon mathematical certainty. U.S.C.A. Const.Amend. 5.

24. Criminal Law ⇨13.1(1)

Constitutionality of vague statutory standard is closely related to whether that standard incorporates requirement of mens rea and inclusion of intent provision often saves otherwise vague statute. U.S.C.A. Const.Amend. 5.

25. Constitutional Law ⇨258(3.1)  
Telecommunications ⇨492

Inclusion of scienter requirement in Wiretap Act supported rejecting vagueness challenge brought by defendants charged thereunder. U.S.C.A. Const.Amend. 5; 18 U.S.C.A. § 2512.

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AMENDED OPINION AND ORDER  
SOTOMAYOR, District Judge.

Defendants move, pursuant to Fed. R.Crim.P. 21(b), to change the venue of this action from the Southern District of New

York to the Western District of Texas. Further, defendants move to dismiss a portion of Count 1, as well as Counts 2 through 16 and 17 through 31 of the Indictment on the ground that the statute upon which the prosecution of these counts is based, 18 U.S.C. § 2512, is unconstitutionally vague. For the reasons to be discussed, defendants' motions are DENIED.

BACKGROUND

The Spy Factory "is a retail store concept developed in 1989 to sell personal protection devices and personal security items to the general public and law enforcement agencies." (Defa.' Vagueness Mem. at 3)¹. "At the time of the initial searches and arrests in this case, Spy Factory, which is headquartered in Texas, had 16 stores located throughout the United States." (Id.).

"In 1993, the United States Customs Service ... began an investigation of illegal bugging and wiretapping devices that were imported into the United States and sold by various so-called 'spy shops.'" (Govt Mem. at 2). According to the Government, "Spy Factory was and is the largest chain of retail 'spy shops' in the country." (Id.) Working across the country, but centralizing its efforts in New York City, the Government used undercover agents and confidential informants to gather evidence to prosecute the Spy Factory and the individually-named defendants for "violations of customs laws, Section 2512 of Title III, and the Communications Act of 1934." (Govt Mem. at 4).

"On August 16, 1995, a grand jury sitting in the Southern District of New York returned an eight-count indictment ... charging Spy Factory, its owner, Ronald Kimball, its general manager, Marlin Richardson, a/k/a 'Brud,' and its deputy general manager, Tracy Edward Ford, with a conspiracy to

smuggle and sell illegal bugging and wiretapping devices..." (Govt Mem. at 4). On June 12, 1996, a grand jury returned a 70-count superseding indictment adding to the original indictment "several objects to the conspiracy, and additional substantive violations of Title 18, United States Code, Sections 2512(1)(a), 2512(1)(b), and 545 relating to numerous sales of illegal bugging and wiretapping devices from the Southern District of New York." (Id.) The indictment also included "a conspiracy and substantive counts of money laundering." (Id.).

On June 14, 1996, the Honorable Milton Pollack, then acting as Part One Judge of this District, signed an *ex parte* restraining order that put the assets of Spy Factory "under the control of a special monitor from the accounting firm of KPMG Peat Marwick, LLP, who oversees and controls expenditures of funds, including expenditures for legal expenses in this case." (Defa.' Venue Mem. at 14). "Under the terms of the Restraining Order ... and related letter agreement ... dated August 28, 1996, ... the corporation is limited to \$2,000.00 per month for the payment of legal expenses." (Defa.' Venue Mem. at 14).

On September 16, 1996, less than four months before the scheduled trial date of January 14, 1997, and approximately one year after the first pre-trial conference in this action, the defendants filed their pretrial motions in this action. The defendants moved, *inter alia*, for a change of venue from the Southern District of New York to the Western District of Texas, where Spy Factory is headquartered and where all the defendants and most of the defense witnesses reside. The defendants claim that trial in New York is beyond the means of at least two of the defendants to afford and that

1. The defendants and the Government agreed to file their pretrial motions together. Defendants, however, submitted separate memoranda of law addressing the various issues raised in their pretrial motions. One memorandum of law, entitled "Memorandum of Law in Support of Defendant the Spy Factory, Inc.'s Pre-Trial Motions," addressed the constitutionality of Section 2512. It will hereinafter be referred to as "Defa.' Vagueness Mem." A separate memorandum of law, entitled "Defendants' Joint Motion for Change of

Venue and Incorporated Memorandum of Law," addressed the motion for a change of venue and will hereinafter be referred to as "Defa.' Venue Mem." Finally, the defendants' remaining issues of law pertaining to suppression and discovery issues were briefed in a third memorandum of law which will hereinafter be referred to as "Defa.' Discovery Mem." The Government submitted one memorandum of law which addressed all of the defendants' pretrial motions. It will hereinafter be referred to as "Govt Mem."

forcing defendants and their counsel and witnesses to travel to, and be lodged in, New York, "one of the most expensive cities in the world." (Def.'s Venue Mem. at 4), would impose a tremendous financial burden upon them. Further, defendants insist that if they are forced to stand trial in the Southern District of New York, their businesses and employment in San Antonio would be seriously jeopardized. They contend that given these considerations, "the interests of justice" require that the trial be moved to San Antonio, Texas.

The Government counters that defendants unduly delayed their filing of the change of venue motion and that such delay should militate against the Court's granting of the motion. Furthermore, the Government argues that if the trial were transferred to Texas, not only would the Government incur significant financial expenses to move all its case-related materials and personnel out-of-state, but that the trial itself inevitably would be delayed so that local assistant United States attorneys in Texas could familiarize themselves with the intricacies of the case. With respect to the defendants' assertions that their businesses and employment prospects would suffer if they were tried in New York, the Government minimizes this argument by contending that "inconvenience and interference with normal occupational and personal activities occur whenever a defendant is involved in a trial [sic] facing serious charges." (Govt Mem. at 43). They conclude, "[t]he defendants' contention that they plan to carry on their normal occupational activities during the lunch hour and after-hours of this major trial in which they face serious charges is highly dubious, and is insufficient in light of the delay and other factors in this case to warrant a change of venue." (Govt Mem. at 44).

With respect to the personal financial burden that at least two of the defendants would have to endure by having the case tried in

2. The Court found that Mr. Richardson's salary and readily available assets are currently insufficient to pay for legal representation. Nevertheless, in order not to delay the trial further and in the interest of fairness to Mr. Richardson whose defense would be affected by the substitution of counsel, the Court is prepared, upon approval of the Chief Judge of the District, to appoint Mr.

New York, the Government contends that the financial impact on the defendants of trial in New York can be alleviated considerably. At an oral argument held on December 13, 1996, the Court determined that both defendants Tracy Ford and Marlin Richardson qualified for appointment of CJA counsel.<sup>2</sup> The Court asked the Government whether it would agree to pay the travel and lodging expenses of these defendants in the same manner it had offered to do in *United States v. Wheaton*, 463 F.Supp. 1073, 1078 (S.D.N.Y.), *aff'd sub nom.*, *United States v. Williams*, 614 F.2d 1293 (2d Cir.1979). During a conference held with the Court on December 19, 1996, the Government agreed to pay for the travel and lodging costs of defendants Tracy Ford and Marlin Richardson and their attorneys during the trial. The Government also agreed to pay for three trips home for defendants Ford and Richardson and their counsel during the course of the trial so that the effect of the defendants' separation from their families and businesses would be alleviated to some extent. At the same conference, the Government noted that the Criminal Justice Act would cover any expenditures necessary to bring relevant defense witnesses for these defendants to New York for trial.

The defendants also move to dismiss the majority of the counts in the Indictment on the grounds that the statute upon which the prosecution is based, 18 U.S.C. § 2512, is unconstitutionally vague as applied to them. In short, the defendants argue that the terms "primarily" and "surreptitious" in the statute render its meaning unconstitutionally vague, especially when read in connection with § 2511 of the statute, which purports to legalize some forms of "surreptitious" interceptions, i.e., interceptions of conversations in which at least one party to the conversation consents, while other forms of "surreptitious" interceptions remain illegal, i.e., interceptions of conversations in which no party to the conversation consents to its interception.

Richardson's current attorney, Mr. Ederer, as CJA counsel during the trial, conditioned on the placement of a lien on Mr. Richardson's home. Once Mr. Richardson's home is sold, he is to reimburse the Government for its CJA expenditures. Mr. Richardson must also agree not to encumber his property without further permission of the Court.

The Government responds that the terms "primarily" and "surreptitious" are sufficiently clear to provide notice to the defendants that their conduct was unlawful, particularly when considered in conjunction with the legislative history of the act which provides specific examples of prohibited items. With respect to the defendants' argument that Section 2511 causes confusion in the interpretation of "surreptitious" under Section 2512, the Government maintains that there is no conflict between the two provisions because Section 2512 deals with the prohibition of certain devices while Section 2511 speaks to the permissibility of certain conduct. In sum, the Government insists that any reasonable person would know that Spy Factory's conduct was "at risk" under the act. (Govt. Mem. at 8).

In their pretrial motions, defendants made several discovery requests and moved for the suppression of evidence seized in the search of Spy Factory stores. For the reasons set forth on the record at the December 13, 1996 conference, the Court denies the discovery requests in part and grants others, in part, and denies the suppression motion. (12/13/96 Tr. at 39-59).

As of May 6, 1996, the Court had set a trial date of January 14, 1997. After oral argument on the instant motions, however, defendant Tracy Ford decided, after a *Curcio* hearing, that a potential conflict of interest<sup>3</sup> with his counsel necessitated substitution of counsel. After conferring with new CJA counsel as to the time necessary to prepare the case, the Court adjourned the trial date until February 18, 1997.

## DISCUSSION

### I. CHANGE OF VENUE

#### A. THE STANDARD UNDER FED. R.CRIM.P. 21(b)

Federal Rule of Criminal Procedure 21(b) provides that "[f]or the convenience of par-

3. The Government brought the potential conflict of interest issue to the Court's attention after it learned from the defendants' motion papers that the attorneys' fees for defendants Ford and Richardson had initially been paid from Spy Factory funds. None of the defense counsel, including Ford's attorney, at any time raised the potential

ties and witnesses, and in the interest of justice, the court upon motion of the defendant may transfer the proceeding as to that defendant or any one or more of the counts thereof to another district." Rule 22 of the Federal Rules of Criminal Procedure states that such a motion to transfer "may be made at or before arraignment or at such other time as the court or these rules may prescribe." Fed.R.Cr.P. 22.

#### B. THE PLATT FACTORS

[1-4] The following ten factors introduced in *Platt v. Minnesota Mining & Mfg. Co.*, 376 U.S. 240, 84 S.Ct. 769, 11 L.Ed.2d 674 (1964), are routinely considered by courts deciding motions to change venue.

1. Location of the Defendants
2. Location of the Witnesses
3. Location of the Events in Issue
4. Location of Documents and Records
5. Disruption of the Defendants' Business(es)
6. Expense to the Parties
7. Location of Counsel
8. Relative Accessibility of the Place of Trial
9. Docket Condition of Each District
10. Other Special Elements

See *United States v. Russell*, 582 F.Supp. 660, 662 n. 2 (S.D.N.Y.1984) ("While not specifically adopting these factors, the Court implicitly approved them in *Platt*, and courts have consistently used them ever since."). A Court should weigh the ten *Platt* factors against one another and against the backdrop of doing what is in the overarching interest of justice. A Court should not give any one factor preeminent weight nor should it assume that the quantity of factors favoring one party outweighs the quality of factors in opposition. See *United States v. Maldo-*

of this conflict with the Court—even though attorneys for both Ford and Richardson stated at the December 13, 1996 *Curcio* hearing that they were aware of the conflict and had previously discussed it with their clients. (12/13/96 Tr. at 16-17).

*nado-Rivera*, 922 F.2d 934, 966 (2d Cir.1990) ("No one of these considerations [the *Platt* factors] is dispositive, and 'it remains for the court to try to strike a balance and determine which factors are of greatest importance.'") (citing *United States v. Stephenson*, 895 F.2d 867, 876 (2d Cir.1990)), *cert. denied*, 501 U.S. 1211, 111 S.Ct. 2811, 115 L.Ed.2d 984 (1991). Rather, a Court should look to all of the factors and determine whether the interests of justice would be better served by changing the trial venue. In essence, "[t]he determination of whether a particular case calls for transfer depends upon the peculiar facts and circumstances of that case." *United States v. Posner*, 549 F.Supp. 475, 477 (S.D.N.Y.1982).

### 1. Location of the Defendants

The first of the *Platt* factors, the location of the defendants, weighs in favor of a change of venue in this action. All three of the individual defendants reside in San Antonio, and Spy Factory was incorporated in Texas and is headquartered in San Antonio. Furthermore, it has been said that as a matter of "policy" courts should, "whenever possible," try defendants "where they reside." *United States v. Russell*, 582 F.Supp. 660, 662 (S.D.N.Y.1984); *see also United States v. Cashin*, 281 F.2d 669, 675 (2d Cir. 1960) ("Recognizing the unfairness and hardship to which trial in an environment alien to the accused exposes him, and the important policies underlying the venue provisions of the Constitution and Bill of Rights, the Supreme Court has declared that venue statutes should, whenever possible, be construed so to permit trial at the residence of the defendant.") (citations and internal quotation marks omitted); *United States v. Aronoff*, 463 F.Supp. 454, 457 (S.D.N.Y.1978) ("As ... many other judges have recognized, it can be a hardship for a defendant to face a trial far away from home and from 'appropriate facilities for defense.' ... It has been stated, therefore, that as a matter of policy, a defendant should ordinarily be tried, whenever possible, where he resides.") (citations omitted). Thus, while the Supreme Court has said that the defendant's residence has no "independent significance," and should not be given dispositive weight, *see Platt v. Minne-*

*sota Mining & Mfg. Co.*, 376 U.S. 240, 245, 84 S.Ct. 769, 772, 11 L.Ed.2d 674 (1964), the fact that all defendants reside in San Antonio weighs in favor of the transfer of venue, absent other countervailing considerations.

### 2. Location of Witnesses

#### a. Defendants' Witnesses

Defendant Ron Kimball claims that the 20 witnesses he intends to call, most of them fact witnesses, all reside in San Antonio. Defendant Marlin Richardson maintains that the 9 fact witnesses he intends to call all reside in San Antonio and that "the majority of the remainder" of his 30 witnesses reside in the proximity of San Antonio. Finally, Defendant Tracy Ford insists that he plans to call 25 witnesses, all of whom reside in San Antonio. Defendants collectively claim that "[t]hese witnesses are willing and able to appear to testify in the Western District of Texas, but, for a variety of reasons, including a lack of financial resources, are unable to travel to the Southern District of New York to appear as witnesses if the trial is commenced there." (Defa.' Venue Mem. at 2).

[5] The expenses for any pertinent witnesses testifying on behalf of defendants Richardson and Ford will be paid from CJA funds. Defendant Kimball has not shown himself financially incapable of paying the expenses of his witnesses. More importantly, however, as the Government points out in its response, "[t]he defendants do not identify any of these witnesses or explain their relevance to the pending charges." (Govt Mem. at 41). Courts in other circuits have held that "[g]enerally, a naked allegation that witnesses will be inconvenienced by trial in a distant forum will not suffice for transfer.... Defendants must offer specific examples of witnesses' testimony and their inability to testify because of the location of the trial.... the court must rely on 'concrete demonstrations' of the proposed testimony." *United States v. Haley*, 504 F.Supp. 1124, 1126 (E.D.Pa.1981) (citing *United States v. Kelly*, 467 F.2d 262, 265 (7th Cir.1972), *cert. denied*, 411 U.S. 933, 93 S.Ct. 1906, 36 L.Ed.2d 393 (1973); *Jones v. Gasch*, 404 F.2d 1231, 1243 (D.C.Cir.1967), *cert. denied*, 390 U.S. 1029, 88 S.Ct. 1414, 20 L.Ed.2d 286 (1968); *United*

*States v. Barrientos*, 485 F.Supp. 789, 790 n. 2 (E.D.Pa.1980)). Thus, the defendants here have not met their burden of proving that the location of necessary and relevant witnesses compels a transfer to the Western District of Texas.

#### b. Government's Witnesses

The Government's witnesses are various Customs Service agents, FCC investigators and "seizing and custodial agents from each of the Spy Factory locations located in Atlanta, Chicago, Costa Mesa, Dallas, Denver, Houston, Las Vegas, San Antonio, St. Louis, Salt Lake City, San Diego, San Francisco, Seattle, Tucson, and West Hollywood." (Govt. Mem. at 40) "In addition, the Government may call as witnesses purchasers of the illegal devices in the Southern District of New York and elsewhere." (*Id.* at 41). Because with the exception of the purchasers in the Southern District, most of the Government's witnesses appear to be scattered around the country, and, given the defendants' failure to meet their burden, the location of witnesses does not weigh in favor of either party.

### 3. Location of the Events in Issue

Defendants contend that "[t]he majority of the acts and conduct in furtherance of the alleged conspiracy occurred at corporate headquarters in San Antonio, Texas." (Defa.' Venue Motion at 2). They explain:

All correspondence and purchasing from Japan occurred from the San Antonio office. Catalog sales took place in San Antonio. Revenue from all sales throughout the country were transferred to San Antonio. Payroll and payment of all other business expenses were paid or authorized from San Antonio. All business decisions were made in San Antonio.

(*Id.* at 3). Defendants also underscore that Spy Factory has no stores in New York and only minimal business contacts here. Of "thousands" of illegal transactions [alleged to have been committed] by Spy Factory, the defendants argue that "only a few isolated telephone sales to four customers in New York are alleged in the Indictment and presumably are relied on by the Government to

support venue in New York." (*Id.*) They further insist that "Spy Factory did no advertising in New York, ... did no direct mailing [to] New York, ... did no soliciting in New York, ... had no plans to sell in New York, ... [and] had no sales personnel in New York...." (Defa.' Venue Reply at 6 (quoting *Richardson Aff.*)).

In response, the Government explains (1) that "[u]ndercover agents of the Customs Service conducted surveillance" at Spy Factory's locations throughout the country, (2) that "the Customs Service" operated an undercover company in New York City from which telephone calls were made and illegal devices were received, and (3) that "of the 70 counts of the Superseding Indictment, 45 counts are substantive counts that are based on numerous sales of illegal devices to purchasers here in the Southern District of New York." (Govt. Mem. at 40). Because the criminal activity that was alleged to have occurred in this case was concededly national in scope, the location of the events at issue favors neither side. *Cf. United States v. Alter*, 81 F.R.D. 524, 526 (S.D.N.Y.1979) (finding that location of events at issue favored transfer to alternate forum where "[i]t is beyond dispute that most, if not all, of the acts and conduct in furtherance of the alleged scheme to defraud occurred in [the alternate venue] and that it was the 'nerve center' of the alleged illicit operations in carrying out the scheme...."); *United States v. Bein*, 539 F.Supp. 72, 74 (N.D.Ill. 1982) (despite fact that "the entire [criminal] operation was centered in [the alternate forum]," the countervailing consideration that "victims were solicited [in the trial venue]" and that "victims wired funds from [the trial venue]," made the location of the events at issue factor weigh in favor of a transfer only by "a small margin."); *United States v. Haley*, 504 F.Supp. 1124, 1128 (E.D.Pa.1981) (where "many of the overt acts described in the indictment purportedly occurred in [the transfer venue] or surrounding states," this was showing of a "nerve center" which weighed in favor of transferring venue to the alternate forum).

### 4. Location of Documents and Records

Although the documentary evidence in this case is undoubtedly voluminous—including

more than 100 boxes of documents, consensual tape recording and other physical evidence" (Govt Mem. at 41)—and although the documentary evidence is currently stored in New York, this consolidation of the records in New York was voluntarily accomplished by the Government. (Defs.' Reply at 7). The Court notes, however, that defendants did not object to the consolidation of these documents in New York. Nonetheless, given the reality of modern transportation and shipping capabilities, as well as the Government's own role in causing the documents to be stored here in New York, it would seem that this factor as well lies in favor of neither party. In a similar case, a district court found that where the government had seized documents from one location and transferred them to, and consolidated them at, the place of trial, the fact that the documents were to be found there could not properly lie in favor of the Government's opposition to the change of venue. The court explained:

Most of the . . . documents and records are now in Chicago, but this is a result of the government having seized them in New York and bringing them here. Two things are clear:

- (a) It would be grossly unfair to permit the government to "create" venue, or to alter the balance of relevant considerations, simply by shipping documents.
- (b) Documents moved here can just as easily be moved back to New York, or photocopies may be shipped there.

*United States v. Bein*, 539 F.Supp. 72, 74 (N.D.Ill.1982) (finding that "[t]his factor must therefore be viewed as essentially neutral. It thus drops out of the equation."); see also *United States v. Posner*, 549 F.Supp. 475 (S.D.N.Y.1982) (Even where the Government has "five file drawers of documents," "[t]he location of documents and records is not a major concern in these days of easy and rapid transportation. . . . This factor is in equilibrium insofar as transfer is concerned.").

#### 5. Disruption of Defendants' Business(es)

Defendant Ron Kimball, as President of Spy Factory and as the person in charge of

its operations, contends that "[i]t will be extremely difficult if not impossible for him to run his business while in a two month trial in New York." (Defs.' Venue Mem. at 3-4). He claims that "[t]he recent resignation of Defendant Marlin Richardson who was extensively involved in the day-to-day operations of the business, has created a greater need for Defendant Kimball to participate in the running of the business." (*Id.* at 4). Kimball insists that if the trial were in San Antonio he could "periodically meet with his employees after hours and . . . maintain contact with his business." (*Id.*)

Defendant Marlin Richardson has just begun to manage a family-owned art gallery. He argues that "[i]t is critical to the survival of this new business" that he be able to stay in San Antonio and oversee the new enterprise. (*Id.*)

Finally, Defendant Tracy Ford contends that he will be terminated from his employment as a manager at a swimming pool company if he is forced to stand trial in New York City. (*Id.*)

Each defendant contends, therefore, that his presence in San Antonio during the trial is necessary for him to meet his business obligations.

The Government correctly argues, however, that "inconvenience and interference with normal occupational and personal activities occur whenever a defendant is involved in a trial facing serious charges." (Govt Mem. at 43) (citing *United States v. United States Steel Corp.*, 233 F.Supp. 154, 157 (S.D.N.Y. 1964); *Oil & Gas Ventures—First 1958 Fund, Ltd. v. Kung*, 250 F.Supp. 744, 755 (S.D.N.Y. 1966)). It insists that "the defendant's contention that they plan to carry on their normal occupational activities during the lunch hour and after-hours is highly dubious, and is insufficient in light of the delay and other factors in this case to warrant a change of venue." (Govt Mem. at 44). I agree with the Government's position on this issue, particularly where no defendant has shown why telephone and fax machine communication is insufficient to maintain the minimal contact that would be available to any of them over a lunch hour or after-hours if the trial were moved to San Antonio.

Nevertheless, I recognize that as one court has stated, "[t]o a failing business that depends so much on personal involvement, even a few hours each weekday plus weekends could make a substantial difference." *United States v. Aronoff*, 463 F.Supp. 454, 458 (S.D.N.Y.1978) (citing *United States v. Olen*, 183 F.Supp. 212, 219 (S.D.N.Y.) (transfer allowed defendants to use evenings and weekends to maintain their accounting practice), *mandamus denied sub nom.*, *United States v. Cashin*, 281 F.2d 669 (2d Cir.1960)); see also *United States v. Russell*, 582 F.Supp. 660, 663 (S.D.N.Y.1984) ("Although a substantial amount of the [defendants'] time will be occupied by the trial wherever it is held, it will still be possible for them to carry on their business at least to a limited extent if they are tried in [the alternate venue]. Such a potential reduction in business interruption is an additional factor in favor of transfer."); *United States v. Haley*, 504 F.Supp. 1124, 1128 (E.D.Pa.1981) ("Courts recognize that 'personal involvement, even a few hours each weekday plus weekends could make a substantial difference' to the success of a struggling business. Defending criminal charges should not include the penalty of financial ruin where the trial might be conducted properly and legally in a forum near defendants' homes and businesses.") (citations omitted).

In summary, this factor weighs slightly in favor of the defendants, but not dispositively because modern methods of communication minimize the impact of the defendants' absence from San Antonio.

#### 6. Expense to the Parties

##### a. Expense to Defendants

Because of the recent imposition of Judge Pollack's Ex Parte Order and its effect on defendants' ability to use Spy Factory assets to support themselves, their families, and their legal defense, defendants argue that "[t]he cost to transport and provide accommodations for themselves, their lawyers and

4. Although defendants make the bald assertion that "[n]one of the defendants has sufficient resources to finance a two month trial in New York," (Defs.' Venue Mem. At 13), there has been no evidence adduced from which the Court could conclude that Defendant Ronald Kimball has in-

their witnesses in New York City, one of the most expensive cities in the world, for perhaps two months is beyond the capabilities of these defendants." (Defs. Venue Mem. at 4).

However, defendants Kimball and Spy Factory, Inc. have not demonstrated that they are financially incapable of funding their defense.<sup>4</sup> Moreover, in light of the Government's recent offer to fund the travel and lodging expenses of defendants Tracy Ford and Marlin Richardson and their counsel, and in light of the fact that CJA funds will cover the expenditures necessary to bring relevant defense witnesses to New York, the factor of expenses no longer weighs in favor of the defendants.

##### b. Expense to the Government

The Government contends that it "would be put to great expense to relocate its entire prosecution team to San Antonio, as well as bringing at least one Assistant United States Attorney in San Antonio up to speed on the case." (Govt Mem. at 42). The Government also insists that it would not be inexpensive to relocate back to Texas all of the documentary evidence in this case. For these reasons, the Government contends that "the expenses to the parties weighs in favor of neither side." (*Id.*)

Because the defendants' argument regarding their expense in trying the case in New York has been virtually eviscerated by the Government's offer to fund the travel and lodging costs of defendants Tracy Ford and Marlin Richardson and their counsel if the case is tried in New York, and because the Government would have to undergo significant expenditures if the case were moved from New York, the expense to the parties factor weighs in favor of keeping the trial in the Southern District.

#### 7. Location of Counsel

At the time of the filing of defendants' venue motion, all three lawyers representing

sufficient funds to provide for his defense or his sustenance at a trial in New York. To the contrary, Kimball's attorney conceded at oral argument that his client was much better off financially than his co-defendants. (12/13/96 Tr. at 86).

the individual defendants were from San Antonio. However, in the interim, Tracy Ford's San Antonio lawyer has been replaced by a CJA attorney from New York because of a potential conflict of interest with Ford's prior counsel. Ronald Kimball's San Antonio lawyer has advised the Court that if the trial is not transferred to San Antonio, local counsel in New York will assume the role of lead counsel in the case. In a letter to the Court dated December 20, 1996, Mr. Kimball's attorney underscored that in the event the transfer is denied, this substitution of counsel would not occasion delay nor prejudice Mr. Kimball. (Letter from Goldstein to Court of 12/20/96 at 1-2 (assuring the Court that local counsel for Mr. Kimball "is a very able, New York practicing attorney, who has served as local counsel in this cause from the outset, performed many of the local discovery and jury selection duties on behalf of all Defendants in this cause and is sufficiently familiar with the facts and issues in this case that his substitution as lead counsel would occasion no delay in this cause.")). The Spy Factory corporation's attorney has at all times been a New York lawyer, and, obviously, the two assistant United States attorneys are both from this district. Therefore, given that there is only one counsel who currently resides in San Antonio, the location of counsel factor no longer weighs in favor of a transfer of venue.

#### 8. Relative Accessibility of Place of Trial

Although the Government asserts that "[t]he relative accessibility of the place of trial weighs heavily in favor of denying the motion to transfer this case" (Govt Mem. at 42) because "New York has superior access to three airports, numerous train lines and an abundance of hotel accommodations," (Govt Mem. at 43), the Government has not pointed to any problems of accessibility in the alternate forum. Accordingly, this factor does not weigh toward either conclusion. See, e.g., *United States v. United States Steel Corp.*, 233 F.Supp. 154, 158 (S.D.N.Y. 1964) ("The efficiency of modern air transportation renders rather sterile any argument" that one forum is more accessible than the other.).

#### 9. Docket Condition of Each District

Exhibit 10 to Defendants' Reply Memorandum is a letter from Chief Judge Harry Lee Hudspeth of the Western District of Texas which provides Judge Hudspeth's personal "assurance" that a judge in that district "would be available to try this case if it were transferred to [their] district." (Defa.' Reply Ex. 10). This Court, however, is prepared to try this case immediately. Moreover, a transfer to San Antonio will inevitably necessitate a delay in the impending trial date, if for no other reason than that the local assistant United States attorneys as well as the local judge would have to prepare themselves for the trial of this case. In light of this almost certain delay, I find that this factor does not weigh in favor of either party.

The Court notes that the existence of a potential conflict of interest and the resulting appointment of new counsel for defendant Tracy Ford has necessitated a postponement of the original January 14, 1997 trial date to February 18, 1997. The interest of justice is not served, however, by requiring an assistant United States attorney and a judge in the Western District of Texas to immerse themselves in the case in the manner in which Ford's new lawyer has agreed to do in order to meet the imminent trial date. In fact, given that this Court had to canvass a wide array of CJA counsel in order to locate one attorney whose schedule would allow him to devote himself exclusively to this matter—and without significant interruption over the holidays and weekends—the Court finds it unlikely that any assistant United States attorney or judge in the Western District of Texas would be in a position to devote such exclusive attention to this matter.

Furthermore, although a delay of the trial has already been occasioned by the substitution of Ford's attorney, the Court does not consider this factor to weigh in favor of a change of venue given that it was the failure of all the defendants to inform the Court earlier of the potential conflict that has caused this delay. If defense counsel had raised the potential conflict of interest at the beginning of the case, when they were initially retained with Spy Factory funds—instead

of waiting for the Government to advise the Court of the conflict after the motion papers were filed—this adjournment would not have been necessary and the original trial date of January 14, 1997 would have been kept.

#### 10. Other Special Elements

##### a). Delay

It is true that in change of venue cases, as the Government explains, "[o]ne of the factors to which the Second Circuit has paid special attention is a defendant's delay in moving to transfer the case." (Govt Mem. at 35 (citing *United States v. Keuylian*, 602 F.2d 1033, 1038 (2d Cir.1979); *United States v. Maldonado-Rivera*, 922 F.2d at 966)). In the instant case, there is no question that the defendants were woefully late not only in filing their motion to change venue, but also in apprising the Court of their intention to file such a motion. By the lead defense counsel's own admission, such neglect was inexcusable. (See, e.g., 12/13/96 Tr. at 72 ("MR. GOLDSTEIN: Your Honor, you are correct. I was the major spokesman at each of those hearings with respect to the defense, and I take full responsibility, and the Court is right, and I tried to say that each time, one, that we did not say anything to the Court about it and did not apprise the Court either in writing or at the numerous hearings we had, and we did have full opportunity to do so.")).

5. In the Government's Sur-Reply regarding defendants' delay in bringing the venue motion, the Government stated that "had venue been transferred at an earlier date, the Government would have sought to add numerous additional counts to the superseding indictment, including the possibility of mail fraud and export violations, as well as additional money laundering, smuggling and Section 2512 counts for which venue lies in the Western District of Texas and not the Southern District of New York." (Govt Sur-Reply on Venue at 8). Understandably, these comments sent forth a wave of concern among defense counsel regarding the possibility of a virtually identical prosecution in the two districts. At oral argument, defense counsel cogently argued that if such charges were truly being contemplated by the Government, then the efficient administration of justice would recommend that the trial be transferred to Texas where all the potential charges could be consolidated. (See 12/13/96 Tr. at 67-71). In response to the concerns of the defendants and the Court (as expressed at oral

As the Government argues, "at each of the conferences before this Court, the defendants gave every indication that they intended to proceed with the trial in the Southern District of New York." (Govt Mem. at 36). The original indictment in this case was returned in August of 1995. The Court held an initial status conference on September 28, 1995. At that conference, both sides spoke of the enormous amount of discovery that was to take place; however, the defendants did not mention the possibility that they might file a motion to change venue, even though "the Government offered and the Court directed the Government to get all of the discovery centralized in New York" (Govt Mem. at 37)—a laborious and expensive process that might have been avoided if the Court had been informed earlier of the defendants' intent to file a motion to change venue. In addition, at that same conference, the defendants "involved this Court in the discovery process by having this Court review all of the allegedly attorney-client privileged documents." (Govt Mem. at 37 (citing transcripts)). Finally, before the parties left the conference, the Court instructed defense counsel to "tell me or [ ] be prepared to discuss with me the nature of the motion [sic] that you are thinking of making" at the next conference. (Govt Sur-Reply on Venue at 5 (quoting 9/28/95 Tr. at 16)).

The parties returned to the Court on January 17, 1996, for another conference where

argument), the United States Attorney for the Western District of Texas wrote to the Court, with copies to defense counsel, and explained that due to the Department of Justice's petite policy prohibiting successive prosecutions in separate districts, "[i]t is ... unlikely that [the Western District of Texas] would pursue prosecution of the same defendants based upon substantially the same acts or transactions which form the basis of the Southern District of New York indictment." (Letter from James William Blass to the Court of 12/19/96 at 1-2). Given this assurance, and despite the unwillingness of defense counsel to accept it. (See Letter from Gerald H. Goldstein to the Court of 12/27/96), I find, as the Government argues, that "the defendants in this case have received ample assurance that no second prosecution is anticipated or likely. Indeed, the defendants have received far more clear assurances on that score than do most defendants who commit multiple crimes in more than one jurisdiction." (Letter from Daniel J. Fetterman to the Court of 1/2/97 at 1-2).

discovery and privilege issues were discussed, but, again, the defendants did not mention a potential change of venue motion, even though the Court did inquire of the timing of motions in general. (See Govt Sur-Reply on Venue at 5). Two months later, on March 15, 1996, the parties again appeared before the Court to resolve privilege issues and to discuss possible motions, but defense counsel again did not mention the venue motion. Then at the May 6, 1996 conference, a motion<sup>4</sup> and trial schedule was set. Despite the fact that a January 1997 trial date was set, and that several possible pretrial motions were named, the defendants still failed to mention the fact that a change of venue might be among the defense motions. Mr. Goldstein, lead counsel for the defense, only mentioned the following:

There are at least two motions that I would like to ask for leave—I will do that in writing and submit [sic] the Court with reasons. But obviously the question of the [constitutionality of] the statute, it is a question, at least with respect to this statute, that is going to be one of first impression.... The other one deals with motions to suppress, particularly if we consolidate them into one moving [sic]. (Govt Sur-Reply on Venue at 6 (quoting 5/6/96 Tr. at 5)).

Even though Spy Factory had stopped paying their legal fees months earlier and defendant Ford had left Spy Factory's employment and defendant Richardson was imminently to leave to start a family business, at the August 26, 1996 conference, held more than two months after the defendants had been arraigned on the Superseding Indictment—and well after the financial impact of the *ex parte* order was patently clear—"the defendants raised several issues with this

5. When the motion schedule was originally set at the May 6, 1996 conference, the Court instructed defendants to serve all pretrial motions on the Government by August 9, 1996. The defendants later claimed, however, that there was an infusion of confusion and complexity injected into the case by the June Superseding Indictment and the June 14, 1996 *ex parte* order signed by Judge Pollack. Defendants asked, and the Court granted the defendants' written request to extend their time to serve their papers until September 9, 1996. However, it must be underscored that when defendants made their request, they failed

Court, all of which indicated that they planned to go to trial in the Southern District of New York." (Govt Mem. at 38). "For instance, attorneys for Ronald Kimball, on behalf of all defendants, agreed to meet with the Government and the Southern District of New York's jury clerk to discuss a process for jury selection.... Counsel also inquired about this Court's requirements for the presence of local counsel during a trial in the Southern District of New York." (*Id.*) Despite the fact that the Court emphasized to defense counsel that the January trial date would not be moved "[b]arring an act of God," (Govt Mem. at 38 (citing 8/26/96 Tr. at 27)) defense counsel still failed to raise the issue of the venue motion, even though they had to have known that such a motion would have a significant impact on the timing of the trial.

In the face of this inexcusable delay, it is of little significance that defendants point out that both of the cases relied upon by the Government involved situations in which the defendant(s) filed their motions "virtually on the eve of trial" and, more importantly, after the filing of pre trial motions. (Defs.' Venue Reply at 6-7). In fact, defendants' contention is misleading upon a close reading of the cases relied upon by the Government. While it is true that in both *United States v. Maldonado-Rivera*, 922 F.2d 934, 966 (2d Cir. 1990), *cert. denied*, 501 U.S. 1211, 111 S.Ct. 2811, 115 L.Ed.2d 984 (1991) and *United States v. Keuylian*, 602 F.2d 1033, 1038 (2d Cir.1979), the change of venue motions were submitted after the filing of pretrial motions, in neither case was the delay between the indictment and the filing of the venue motion as great as it is in the instant case.

to inform the Court that a venue motion was contemplated. Had they done so, the Court would have been much less likely to grant an extension in light of the patently time-sensitive nature of such a motion. At the August 26, 1996 conference, again without the knowledge that a venue motion would be submitted, the Court granted a final one week postponement, allowing defendants' papers to be served September 16, 1996. This extension also would not have been granted if the Court had been apprised of the potential for a change of venue motion.

For example, in *United States v. Maldonado-Rivera*, 922 F.2d 934, 966 (2d Cir.1990), *cert. denied*, 501 U.S. 1211, 111 S.Ct. 2811, 115 L.Ed.2d 984 (1991), the defendants filed their motion "some nine months after commencement of the prosecution, after discovery was nearly complete, after substantive motions had been filed, and on the eve of the court's setting a date for trial." Here, of course, defendants filed their motion over one year after the "commencement of the prosecution;" after the "discovery was nearly complete," and not just "on the eve of the court's setting a date for trial," but actually on the eve of the trial itself. Similarly, in *United States v. Keuylian*, 602 F.2d 1033, 1038 (2d Cir.1979), the Second Circuit upheld a denial of change of venue where the motion was filed only four months after the indictment. Therefore, even though the defendants in the instant case filed their venue motion together with the rest of the pretrial motions, and even though the complexity of the case and the extent of discovery might explain to some extent why the defendants waited so long to file their venue motion, there is no explanation nor excuse for why defense counsel failed earlier to bring to the Court's attention the possibility that such a motion was being contemplated.

In short, defense counsel should have brought to the Court's attention the fact that they would seek a change of venue so the Court could require defendants to file such a motion much earlier in the court proceedings, before the Court ruled on numerous discovery questions, privilege issues, and other pretrial matters that have consumed over one year of this Court's calendar. (12/13/96 Tr. at 61, 63, 72-74). Because of defendants' delay, a transfer of the action to the Western District of Texas at this late stage would necessitate not only that the new judge be bound by important decisions already made by this Court, but also that the Western District of Texas judge duplicate the efforts made by this Court to become familiar with the case. Such a prospect does not comport with the efficient or fair administration of

7. The Court agrees with the general proposition of defense counsel Goldstein that the acts of counsel should not be held against the defendants. (12/13/96 Tr. at 85). A defense attorney,

justice and this Court will not condone the delay occasioned by the defendants' conduct. Therefore, the defendants' delay not only in filing the motion to change venue, but also their delay in informing the Court of their intent to file the motion, weighs qualitatively and heavily in favor of retaining the trial in the Southern District.<sup>7</sup>

[6] In sum, then, having considered with great care each of the above factors, the Court concludes that the defendants have not shown that the interests of justice require a transfer of this case. I find that most of the factors, such as the location of witnesses, events, counsel, documents and records, as well as the relative accessibility of the respective venues, weigh in favor of neither party. The factors weighing most strongly in the favor of the Government are the docket conditions of each district—to the extent that a transfer would inevitably necessitate some delay in the trial date—and the defendants' delay in bringing the motion to change venue. Also, because all counsel except one now resides in New York, this factor now weighs more in the Government's favor than in the defendants'.

On the other hand, the factors weighing in favor of transferring venue are the location of the defendants, the potential for disruption of the defendants' businesses and employment, and the defendants' expenses in trying the case in New York. Because the strongest of these factors—namely the tremendous expense the defendants would be forced to undertake in trying the case in New York—has been largely eviscerated by appointment of CJA counsel and the Government's offer to pay for other expenses, I find that a change of venue is unnecessary and not in the interests of justice. Although there is still a potential for disruption of the defendants' businesses and personal life, I find that this factor, standing alone, does not outweigh the countervailing considerations for keeping the case here: defendants' delay in bringing this matter to my attention and the further delay such a transfer would occa-

however, is a defendant's representative to the Court. Nevertheless, the Court has also taken action to alleviate a great deal of the burden on the defendants of the trial in New York.

sion. See e.g., *United States v. United States Steel Corp.*, 233 F.Supp. 154, 156 (S.D.N.Y. 1964) (providing that "mere inconvenience, interference with one's routine occupational and personal activities, and other incidental burdens which normally follow when one is called upon to resist a serious charge do not ipso facto make the necessary showing that a transfer is required in the interest of justice. As a general rule a criminal prosecution should remain in the original district."); cf. *United States v. Stephenson*, 895 F.2d 867, 875 (2d Cir.1990) (reviewing district court's decision for abuse of discretion and holding that "[a]lthough [the defendant] points to several considerations favoring the [alternate forum] as a more convenient forum, the residences of a number of Government witnesses and the location of the prosecutor and the documents and tape recordings relevant to the case against [the defendant] favored holding the trial in the Southern District.").

[7, 8] Furthermore, to the extent that there is a "policy" favoring the trial of defendants where they reside, this "policy" is in tension with the more general presumption that "a criminal prosecution should be retained in the original district." *United States v. Posner*, 549 F.Supp. 475, 477 (S.D.N.Y.1982) (citing cases). Hence, because "the burden is on the moving defendant to justify a transfer under Rule 21(b)," *United States v. Aronoff*, 463 F.Supp. 464, 460 (S.D.N.Y.1978), and defendants here have not persuasively proven why the interests of justice require a transfer, I decline to change venue in this case. Instead I will follow the practice of Judge Lasker in *United States v. Wheaton*, 463 F.Supp. 1073, 1078 (S.D.N.Y.), *aff'd sub nom.*, *United States v. Williams*, 64 F.2d 1293 (2d Cir.1979), and condition the denial of the transfer motion on the Government's "representation to make available to the defendant, upon a good faith showing of need, reasonable funds for transportation to New York City and for subsistence for the defendant and witnesses residing in the [alternate venue] whom he may reasonably call in his defense." See also *United States v. Haley*, 504 F.Supp. 1124, 1129 (E.D.Pa.1981) (providing that "[t]o lessen this impact and the concomitant prejudice which inures to indigent defendants, the Gov-

ernment may offer to pay travel and subsistence expenses for defendants and their witnesses. Indeed the Government has done so in other instances where it opposed a motion to transfer.") (citing *Wheaton*).

## II. DEFENDANTS' MOTION TO DISMISS FOR VAGUENESS

### A. STANDARD FOR VAGUENESS

It has been called the "first essential of due process of law," *Connolly v. General Construction Co.*, 269 U.S. 385, 391, 46 S.Ct. 126, 127, 70 L.Ed. 322 (1926), that statutes, particularly statutes whose violation carries criminal consequences, provide notice to citizens that their conduct is potentially unlawful. The rationale for this long-tested principle of due process has been articulated by the Supreme Court and is frequently reiterated:

It is a basic principle of due process that an enactment is void for vagueness if its prohibitions are not clearly defined. Vague laws offend several important values. First, because we assume that man is free to steer between lawful and unlawful conduct, we insist that laws give the person of ordinary intelligence a reasonable opportunity to know what is prohibited, so that he may act accordingly. Vague laws may trap the innocent by not providing fair warning. Second, if arbitrary and discriminatory enforcement is to be prevented, laws must provide explicit standards for those who apply them. A vague law impermissibly delegates basic policy matters to policemen, judges, and juries for resolution on an ad hoc and subjective basis, with the attendant dangers of arbitrary and discriminatory application.

*Grayned v. Rockford*, 408 U.S. 104, 108-09, 92 S.Ct. 2294, 2298-99, 33 L.Ed.2d 222 (1972).

Under due process, a statute may be challenged for vagueness on its face or vagueness as applied to the defendants' specific conduct.

#### 1. Vague On Its Face

[9, 10] In *Village of Hoffman Estates v. Flipside, Hoffman Estates, Inc.*, 455 U.S.

489, 494-95, 102 S.Ct. 1186, 1191, 71 L.Ed.2d 362 (1982), the Supreme Court stated that "[i]n a facial challenge to the overbreadth and vagueness of a law, a court's first task is to determine whether the enactment reaches a substantial amount of constitutionally protected conduct." The Supreme Court explained that if a statute does not reach constitutionally protected conduct, "then the overbreadth challenge must fail," and the court must apply the statute to the particular conduct charged to determine whether it is impermissibly vague. *Id.*; see also *Levas & Levas v. Village of Antioch*, 684 F.2d 446, 451 (7th Cir.1982) ("a finding of unconstitutional vagueness cannot be based on uncertainty at the margins, or on a parade of bizarre hypothetical cases: problems of that order can be resolved in challenges to the ordinance as applied."). A statute that does not involve constitutionally protected conduct can only be struck down for facial vagueness if it is vague in all of its applications. As the Second Circuit has stated, "[a] defendant claiming a statute is fatally vague on its face must show that the statute is vague 'in the sense that no standard of conduct is specified at all.... The defendant bears the burden of showing the statute to be 'impermissibly vague in all of its applications.'" *United States v. Nadi*, 996 F.2d 548, 560 (2d Cir.) (citations omitted), *cert. denied*, 510 U.S. 933, 114 S.Ct. 347, 126 L.Ed.2d 311 (1993).

[11] The statute at issue here does not implicate any constitutionally protected conduct. During oral argument, defendants, af-

8. See, e.g., *Red Lion Broadcasting Co. v. FCC*, 395 U.S. 367, 389, 89 S.Ct. 1794, 1806, 23 L.Ed.2d 371 (1969) (stating in broadcast licensing case that "[i]t is the right of the viewers and listeners, not the right of the broadcasters, which is paramount."); *Kleindienst v. Mandel*, 408 U.S. 753, 762-63, 92 S.Ct. 2576, 2581-82, 33 L.Ed.2d 683 (1972) (recognizing in First Amendment jurisprudence the right to "receive information and ideas."); See generally, Ian M. Rose, Note, *Barring Foreigners From Our Airwaves: An Anachronistic Pothole on the Global Information Highway*, 95 Colum.L.Rev. 1188, 1205 (1995) (providing discussion of the Supreme Court's "right to hear" cases and explaining that "[a]lthough the First Amendment is often thought of as granting an affirmative right to speak, the Court has in a number of circumstances recognized a concomitant right to hear and to receive information.").

ter having neglected to raise the issue in their written submissions to the Court, briefly raised the possibility that the statute might implicate First Amendment concerns because "2512 in many respects goes to speech. It talks about people talking. It talks about expressions of speech, interceptions of speech." (12/13/96 Tr. at 89). I find this argument unpersuasive. Although there may be a constitutional right to hear<sup>8</sup> there has never been articulated nor implied any constitutional right to hear the private speech of others or to be provided with a specific means to record one's own speech.<sup>9</sup> Therefore, because "vagueness challenges that do not involve the First Amendment must be examined in light of the specific facts of the case at hand and not with regard to the statute's facial validity," *Nadi*, 996 F.2d at 560, I undertake a vagueness-as-applied analysis in this case.

#### 2. Vague As Applied

[12] The heart of the case, therefore, is the question whether Section 2512 is vague as applied to the particular facts in question. See *United States v. Santos*, 64 F.3d 41, 47 (2d Cir.1995) ("Vagueness challenges that do not involve the First Amendment must be examined in light of the specific facts of the case at hand and not with regard to the statute's facial validity."), *vacated on other grounds*, — U.S. —, 116 S.Ct. 1038, 134 L.Ed.2d 186 (1996). The Court must examine the facial vagueness challenge and, "as-

9. Defendants also raised the possibility at oral argument that the statute's prohibition of advertising of such devices might implicate the First Amendment. (12/13/96 Tr. at 90) However, the defendants have not been directly charged with, nor raised a challenge against, that section of the statute and therefore any ruling based on that section would be inappropriate. To the extent that portion of the statute is implicated as an object of the conspiracy charge, the Government has stated it is "not going to go forward on the object." (12/13/96 Tr. at 157). Furthermore, even if the defendants had been so charged and even if the advertising provision did implicate the First Amendment, the Supreme Court has said that such commercial speech is not entitled to the heightened vagueness review. Cf. *Village of Hoffman Estates v. Flipside, Hoffman Estates, Inc.*, 455 U.S. 489, 496-97, 102 S.Ct. 1186, 1192-93, 71 L.Ed.2d 362 (1982).

suming the enactment implicates no constitutionally protected conduct, should uphold the challenge only if the enactment is impermissibly vague in all of its applications." *Village of Hoffman Estates v. Flipside, Hoffman Estates, Inc.*, 465 U.S. 489, 494-95, 102 S.Ct. 1186, 1191, 71 L.Ed.2d 362 (1982); see also *United States v. Nadi*, 996 F.2d 548, 550 (2d Cir.) ("The defendant bears the burden of showing the statute to be 'impermissibly vague in all of its applications.'") (citations omitted), *cert. denied*, 510 U.S. 933, 114 S.Ct. 347, 126 L.Ed.2d 311 (1993). "A plaintiff who engages in some conduct that is clearly proscribed cannot complain of the vagueness of the law as applied to the conduct of others. A Court should therefore examine the complainant's conduct before analyzing other hypothetical applications of the law." *Hoffman Estates* 455 U.S. at 495, 102 S.Ct. at 1191.

[13] A two-part test is used to assess whether a particular statute is unconstitutionally vague as applied:

When the challenge is vagueness 'as applied,' there is a two-part test: a court must first determine whether the statute 'give[s] the person of ordinary intelligence a reasonable opportunity to know what is prohibited' and then consider whether the law provides explicit standards for those who apply [it].... Because the statute is judged on an as applied basis, one whose conduct is clearly proscribed by the statute cannot successfully challenge it for vagueness.

*Nadi*, 996 F.2d at 550; *Kolender v. Lawson*, 461 U.S. 352, 357, 103 S.Ct. 1855, 1858, 75 L.Ed.2d 903 (1983) ("As generally stated, the void-for-vagueness doctrine requires that a penal statute define the criminal offense with sufficient definiteness that ordinary people can understand what conduct is prohibited and in a manner that does not encourage arbitrary and discriminatory enforcement.").

In conducting a vagueness as applied analysis, the Seventh Circuit has noted that "criminal laws are more searchingly examined for vagueness, because the consequences of imprecision are severe, than are either pure economic regulation ... or civil legislation." *Levas & Levas v. Village of*

*Antioch*, 684 F.2d 446, 452 (7th Cir.1982). That same Court explained that "in the vagueness context, the canons of construction that would narrow a statute to avoid constitutional problems have no place. The statute must be construed to give full effect to any possible ambiguities." *Id.* at 452.

#### a) Fair Notice to Persons of Ordinary Intelligence

[14, 15] The crux of this prong of the vagueness analysis is the requirement that the statute be sufficiently clear to provide notice to potential wrongdoers that the conduct in which they are engaged has the potential for civil or criminal liability. As the Second Circuit has explained, "[o]bjections to vagueness ... rest on the lack of notice, and hence may be overcome in any specific case where reasonable persons would know that their conduct is at risk." *United States v. Strauss*, 999 F.2d 692, 698 (2d Cir.1993) (citing *Maynard v. Cartwright*, 486 U.S. 356, 361, 108 S.Ct. 1853, 1857-58, 100 L.Ed.2d 372 (1988)). When assessing a statute for vagueness under this prong, only the actual conduct of the defendants involved can be considered; the Court must disregard other, more innocent or questionable hypothetical conduct under the statute. It has been emphatically reiterated that "[b]ecause the statute is judged on an as applied basis, one whose conduct is clearly proscribed by the statute cannot successfully challenge it for vagueness." *Nadi*, 996 F.2d at 550.

In elucidating what level of notice is required to survive a vagueness challenge, the Supreme Court has noted that statutes containing terms of degree are problematic in providing notice to potential wrongdoers. See *Gentile v. State Bar of Nevada*, 501 U.S. 1030, 1047, 111 S.Ct. 2720, 2730, 115 L.Ed.2d 888 (1991) (providing that statute allowing criminal defense attorney to describe to the public the "general nature of the defense without elaboration" was problematic because "general" and "elaboration" "are both classic terms of degree" that do not provide sufficient guidance to the public in determining where their conduct is unlawful.) In *Gentile*, the Supreme Court further insisted that it was an unfortunate indication of a statute's vagueness when an individual had

studied the law and still could not discern how to abide by its dictates. As the Court explained, "[t]he fact that Gentile was found in violation of the Rules after studying them and making a conscious effort at compliance demonstrates that Rule 177 creates a trap for the wary as well as the unwary." *Gentile*, 501 U.S. at 1051, 111 S.Ct. at 2732 (1991).

On the other hand, it has been said that vagueness:

standards should not, of course, be mechanically applied. The degree of vagueness that the Constitution tolerates—as well as the relative importance of fair notice and fair enforcement—depends in part on the nature of the enactment. Thus, economic regulation is subject to a less strict vagueness test because its subject matter is often more narrow, and because businesses, which face economic demands to plan behavior carefully, can be expected to consult relevant legislation in advance of action. Indeed, the regulated enterprise may have the ability to clarify the meaning of the regulation by its own inquiry, or by resort to an administrative process.

*Hoffman Estates*, 455 U.S. at 498, 102 S.Ct. at 1193.

Finally, "the Court has recognized that a scienter requirement may mitigate a law's vagueness, especially with respect to the adequacy of notice to the complainant that his conduct is proscribed." *Id.* at 499, 102 S.Ct. at 1193. The Second Circuit has explained that "[i]n fact, the inclusion of an intent provision will often save an otherwise vague statute." *United States v. Schneiderman*, 968 F.2d 1554 (2d Cir.1992) ("The Supreme Court has repeatedly held that the constitutionality of a vague statutory standard is closely related to whether that standard incorporates a requirement of mens rea."), *cert. denied*, 507 U.S. 921, 113 S.Ct. 1283, 122 L.Ed.2d 676 (1993); *Strauss*, 999 F.2d at 698 (same).

#### b) Sufficient Guidance for Enforcers of the Law

[16] The second prong of the vagueness analysis looks to whether the given statute is sufficiently clear for prosecutors and police officers to enforce in a non-arbitrary and

non-discriminatory fashion. The underlying fear is that "[w]here the legislature fails to provide such minimal guidelines, a criminal statute may permit 'a standardless sweep' [that] allows policemen, prosecutors, and juries to pursue their personal predilections." *Kolender v. Lawson*, 461 U.S. 352, 358, 103 S.Ct. 1855, 1858, 75 L.Ed.2d 903 (1983). While the courts recognize that "[c]learly, '[e]ffective law enforcement' often requires the exercise of some degree ... of [prosecutorial] judgment [and] this alone does not render a statute unconstitutional," *Nadi*, 996 F.2d at 550 (citations omitted), the courts do scrutinize the statute to discern whether its language "is so imprecise that discriminatory enforcement is a real possibility." *Gentile*, 501 U.S. at 1051, 111 S.Ct. at 2732.

### B. ASSESSING THE VAGUENESS OF SECTION 2512 AS APPLIED TO DEFENDANTS

Even though the Court must assess the vagueness of Section 2512 as it applies to the specific conduct of defendants and not according to the facial vagueness of the terms of the statute itself, the Court nevertheless must first look to the plain meaning of the terms of the statute in order to discern whether those terms impart sufficient clarity to a person of ordinary intelligence. The following is an excerpt from the relevant portion of the statute:

§ 2512. Manufacture, distribution, possession, and advertising of wire, oral, or electronic communication intercepting devices prohibited

(1) Except as otherwise specifically provided in this chapter, any person who intentionally—...

(b) manufactures, assembles, possesses, or sells any electronic, mechanical, or other device, knowing or having reason to know that the design of such device renders it primarily useful for the purpose of the surreptitious interception of wire, oral, or electronic communications, and that such device or any component thereof has been or will be sent

through the mail or transported in interstate or foreign commerce; . . . .  
18 U.S.C. § 2512(1)(b) (emphasis added).

Defendants are correct that there has been no extensive examination of whether Section 2512 is unconstitutionally vague. The few cases that have considered the proposition have concluded in conclusory terms that the statute is not vague, however. See e.g., *United States v. Martin*, 1 F.3d 1250, 1993 WL 298884, \*1-\*2 (10th Cir.1993) (unpublished disposition) (concluding in a satellite scam case that "the language of § 2512(1)(b) was sufficiently clear to put [the defendant] on notice that his conduct was prohibited."); *id.* at \*2 (providing that "[w]here, as here, the language of the statute plainly covers the defendant's actions, the statute need not have been previously held applicable on the same facts to survive a vagueness attack."); *United States v. Novel*, 444 F.2d 114 (9th Cir.1971) (concluding in a one paragraph opinion "that the statute is not unconstitutionally vague and ambiguous"); cf. *United States v. Boat*, 495 F.2d 138, 144 (D.C.Cir.1974) (rejecting the argument that § 2512 and § 2511 are in conflict rendering either one inscrutable but providing that "[a]ny claim that fair notice is lacking is . . . appropriately reached on a more complete record, after the Government has had an opportunity to establish scienter, for the scienter requirement needed for willful conduct may rescue a statute from the infirmity of vagueness."). But see *United States v. Hochman*, 809 F.Supp. 202, 204 (E.D.N.Y. 1992) (noting that the language in the statute providing that the devices are "primarily useful for the purposes of surreptitious interception" is "troublesome."). Because the proposition has not been conclusively established by any court and certainly has not received any significant analysis, I consider the question of § 2512's vagueness, if any, to be of first impression in this Circuit.

Defendants point to two crucial concepts within the statute that render its meaning inscrutable to the person of ordinary intelligence: "primarily useful" and "surreptitious." Defendants contend that the pivotal term of the section, "surreptitious" is nowhere defined in the statute and that its

plain meaning or dictionary definition "engender intractable ambiguity." (Def's Vagueness Mem. at 1). Defendants also argue that the modifier "primarily" renders the statute vague. Although they concede that the modifier "primarily" has been permitted in other contexts, they contend that it has only been permitted when accompanied by explanatory language, guidelines, and examples that further elucidate the use at issue.

[17] While I recognize that each of these concepts hinge on one another and that in order to establish the full meaning of the statute, the relevant provisions must be read as a whole, and their ambiguities, if any, must be taken together, I analyze each of the defendants' criticisms of the statute in turn.

#### 1. The "Primarily Useful" Language

##### a) Plain Meaning/Dictionary Definition

[18] As defined by Webster's Third New International Dictionary—Unabridged, "primarily" is an adverb meaning "first of all; fundamentally, principally . . . in the first place; originally." Webster's Third New International Dictionary 1800 (3d. ed. 1986). It is not a word that is unfamiliar to the common speaker; rather we invoke it in common parlance and seldom stop to consider its ambiguity. However, because the term "primarily" imports gradations of degree and can only be defined by reference to its position on a continuum, upon first inspection, the phrase "primarily useful" in Section 2512 appears to be precisely the sort of "classic term of degree" that the Supreme Court rebuked in *Gentile*. See *Gentile*, 501 U.S. at 1048, 111 S.Ct. at 2731 (providing that statute allowing criminal defense attorney to describe to the public the "general nature of the defense without elaboration" was problematic because "general" and "elaboration" "are both classic terms of degree" that do not provide sufficient guidance to the public in determining where their conduct is unlawful.)

Yet despite the term's inherent relativity, in none of the cases in which "primarily intended or designed for use" has been considered has any court found such language unconstitutionally vague. See, e.g., *Posters 'N' Things, Ltd. v. United States*, 511 U.S.

513, 517, 114 S.Ct. 1747, 1750, 128 L.Ed.2d 539 (1994); *Hoffman Estates*, 455 U.S. at 500-01, 102 S.Ct. at 1194-95. But see *Hochman*, 809 F.Supp. at 204 (E.D.N.Y.1992) (noting that the language in the statute providing that the devices are "primarily useful for the purposes of surreptitious interception" is "troublesome."). Supreme Court precedent in the cases construing various drug paraphernalia statutes is particularly instructive. In these cases, the Supreme Court has assessed the vagueness of linguistically similar statutes which, for example, restrict retailers from selling "any equipment, product, or material of any kind which is primarily intended or designed for use" with illegal drugs. *Posters 'N' Things*, 511 U.S. at 517, 114 S.Ct. at 1750 (emphasis added).

In *Hoffman Estates*, 455 U.S. at 500-01, 102 S.Ct. at 1194-95, the Supreme Court construed the "designed for use" language of a local drug paraphernalia ordinance. The Court found it "plain that the standard encompasses at least an item that is principally used with illegal drugs by virtue of its objective features, i.e., features designed by the manufacturer." *Id.* at 501, 102 S.Ct. at 1195. The Court emphasized that "[a] business person of ordinary intelligence would understand that this term refers to the design of the manufacturer, not the intent of the retailer or customer. It is also sufficiently clear that items which are principally used for nondrug purposes, such as ordinary pipes, are not 'designed for use' with illegal drugs." *Id.*

Similarly, in *Posters 'N' Things*, 511 U.S. at 519, 114 S.Ct. at 1751, the Supreme Court held that the federal drug paraphernalia

statute's "primarily intended for use" language should be construed with reference to "a product's likely use rather than to the defendant's state of mind." When construed in this light, the Supreme Court found the language unproblematic. By construing "primarily" in an objective fashion—with reference to a standard of how customers in general use the product rather than how any particular customer might use it—the Supreme Court avoided the sort of troubling subjectivity inherent in the *Gentile* and *Kolender* concepts of degree implicated by the phrases "general" and "credible and reliable." Cf. *Gentile*, 501 U.S. at 1048-49, 111 S.Ct. at 2731 ("The right to explain the 'general' nature of the defense without 'elaboration' provides insufficient guidance because 'general' and 'elaboration' are both classic terms of degree."); *Kolender*, 461 U.S. 352, 103 S.Ct. 1855 (holding that loitering statute that had been construed by the courts to require individuals to provide "credible and reliable identification" to police officers was unconstitutionally vague because of the undefined nature of those subjective terms). Instead, in evaluating an object's "primary use," the Supreme Court has emphasized the objective determination of a device's most probable use. This objective standard is substituted for the more individualistic and thereby problematic determination of what the device's "primary" use to any one consumer might be.

It is true, however, as defendants remind the Court, that the statute at issue in *Posters 'N' Things* is distinguishable from the instant statute in that the *Posters 'N' Things* statute contained a nonexhaustive list of examples of *per se* drug paraphernalia<sup>10</sup> as well as a list

10. 21 U.S.C. § 857(d) provides the following list of items that are deemed *per se* drug paraphernalia:

The term "drug paraphernalia" means any equipment, product, or material of any kind which is primarily intended or designed for use in manufacturing, compounding, converting, concealing, producing, processing, preparing, injecting, ingesting, inhaling, or otherwise introducing into the human body a controlled substance, possession of which is unlawful under the Controlled Substances Act . . . . It includes items primarily intended or designed for use in ingesting, inhaling, or otherwise introducing marijuana, cocaine, hashish, hash-

ish oil, PCP, or amphetamines into the human body, such as—(1) metal, wooden, acrylic, glass, stone, plastic or ceramic pipes with or without screens, permanent screens, hashish heads, or punctured metal bowls; (2) water pipes; (3) carburetion tubes and devices; (4) smoking and carburetion masks; (5) roach clips; meaning objects used to hold burning material, such as a marijuana cigarette, that has become too small or too short to be held in the hand; (6) miniature spoons with level capacities of one-tenth cubic centimeter or less; (7) chamber pipes; (8) carburetor pipes; (9) electric pipes; (10) air-driven pipes; (11) chills; (12) bongs; (13) ice pipes or chillers;

of "objective criteria for assessing whether items constitute drug paraphernalia." *Posters 'N' Things*, 511 U.S. at 526, 114 S.Ct. at 1754.<sup>11</sup> These additional elements, the Court pointed out, "minimize the possibility of arbitrary enforcement and assist in defining the sphere of prohibited conduct under the statute." *Id.* This additional level of notice to potential lawbreakers, as well as to the law enforcement community, is missing from the instant statute. It is troubling that Section 2512 does not provide a list of prohibited devices, nor does it provide "objective criteria" from which citizens and law enforcement officers could discern what devices are prohibited.

However, in the Senate Report accompanying Section 2512 there is a nonexhaustive list of items intended to be prohibited under the statute. The Report provides the following examples of devices whose design renders them primarily useful for surreptitious interceptions. It states:

The prohibition will thus be applicable to, among others, such objectionable devices as the martini olive transmitter, the spike mike, the infinity transmitter, and the mi-

(14) wired cigarette papers; or (15) cocaine freebase kits.

11. Section 857(e) provides the following list of objective criteria to be used in determining whether a device constitutes drug paraphernalia:

In determining whether an item constitutes drug paraphernalia, in addition to all other logically relevant factors, the following may be considered: (1) instructions, oral or written, provided with the item concerning its use; (2) descriptive materials accompanying the item which explain or depict its use; (3) national and local advertising concerning its use; (4) the manner in which the item is displayed for sale; (5) whether the owner, or anyone in control of the item, is a legitimate supplier of like or related items in the community, such as a licensed distributor or dealer of tobacco products; (6) direct or circumstantial evidence of the ratio of sales of the item(s) to the total sales of the business enterprise; (7) the existence and scope of legitimate uses of the item in the community; and (8) expert testimony concerning its use.

21 U.S.C. § 857(e).

12. See e.g., *Green v. Bock Laundry Machine Co.*, 490 U.S. 504, 528, 109 S.Ct. 1981, 1994, 104 L.Ed.2d 557 (1989) (Scalia, J., concurring in the judgment) ("The meaning of the terms on the

crophone disguised as a wristwatch, picture frame, cuff link, tie clip, fountain pen, stapler, or cigarette pack.

S.Rep. No. 90-1097, 90th Cong., 2d Sess., 95 U.S.C.A.N. 2112, 2183 (1968). While the Court recognizes that the inclusion of examples in a Senate Report is a far cry from an inclusion of a list in the statute itself, and the Court harbors some doubt whether knowledge of a Senate Report that is not endorsed by the full Congress can be imputed to the average citizen,<sup>12</sup> the Court finds that the instant defendants can be charged with knowledge of the Senate Report because references to the Report itself were found within their possession.

When documents from the Spy Factory headquarters were seized by the Government, among the documents collected was an article on Section 2512 that made reference to the Senate Report at issue. Appended to that article was a post-it note from Marlin Richardson requesting that an employee return the article to his box when he was done reading it. (*Arman Aff. Exh. J.*) On this basis, at least Defendants Spy Factory, Inc.

statute books ought to be determined, not on the basis of which meaning can be shown to have been understood by a larger handful of the Members of Congress; but rather on the basis of which meaning is (1) most in accord with context and ordinary usage and thus most likely to have been understood by the whole Congress which voted on the words of the statute (not to mention the citizens subject to it), and (2) most compatible with the surrounding body of law into which the provision must be integrated.... See generally, Bradley C. Karkkainen, "Plain Meaning": Justice Scalia's Jurisprudence of Strict Statutory Construction, 17 *Harv. J.L. & Pub. Pol'y* 401, 401 (1994). But see *United States v. Nadi*, 996 F.2d 548, 550 (2d Cir.1993) (plain meaning of statutory language can be confirmed by legislative history); *Information Providers' Coalition for Defense of the First Amendment v. Federal Communications Commission*, 928 F.2d 866, 874 (9th Cir.1991). (legislative history made clear that statutory term had judicially recognized meaning that was not unconstitutionally vague); *United States v. Gavin*, 959 F.2d 788, 791 (9th Cir.1992) (court considered legislative history in determining that statute was not unconstitutionally vague as applied), cert. denied, 506 U.S. 1067, 113 S.Ct. 1017, 122 L.Ed.2d 164 (1993); *United States v. Desurra*, 865 F.2d 651, 653 (5th Cir.1989) (legislative history made clear that drug was a "controlled substance" within meaning of statute).

and Marlin Richardson can be charged with constructive knowledge of the Report. Cf. *Hoffman Estates*, 455 U.S. at 495, 102 S.Ct. at 1191 ("A plaintiff who engages in some conduct that is clearly proscribed cannot complain of the vagueness of the law as applied to the conduct of others. A court should therefore examine the complainant's conduct before analyzing other hypothetical applications of the law.").

Hence, because the concept of "primarily" has not been recognized as unconstitutionally vague in analogous situations and because the defendants cannot deny that they knowingly walked precariously on the line between lawful and unlawful conduct, I conclude that the phrase "primarily useful" is not unconstitutionally vague as applied to their conduct.

## 2. The "Surreptitious" Language

### a) Plain Meaning/Dictionary Definition

[19] According to Webster's Third New International Dictionary, "surreptitious" means:

1. marked or accomplished by fraud or suppression of truth. 2a. executed, obtained, used, done, or attended with often clever or deft circumvention of proper standards, sanction or authority: enjoyed by stealth: clandestine. b.: of fraudulently, spurious, or unauthorized issue: made or introduced fraudulently. c. acting in secret or by stealth: doing something clandestinely: sly, stealthy.

Webster's Third New International Dictionary 2302 (3d. ed. 1986); see also *United States v. Herring*, 993 F.2d 784, 786 (11th Cir.) (providing that "[a]lthough the term 'surreptitious' is not defined in the statute itself, its dictionary definition is well established: secret and unauthorized; clandestine; action by stealth or secretly.") (citing *Shorter Oxford English Dictionary* 2092 (3d ed. 1959), cert. denied, 510 U.S. 933, 114 S.Ct. 347, 126 L.Ed.2d 312 (1993)). This term, while perhaps not as commonly invoked as "primarily," has a clear meaning to the average person. It is not a term of degree; it does not even require one to distinguish between different levels of secrecy. In fact, it is not even possible to be partially "surreptitious."

Reduced to a single synonym, surreptitious merely means secret or clandestine.

For the present purposes, the only real difficulty with the term surreptitious arises from its connection to the concept of authority. As the dictionary definition underscores, when an actor acts in a surreptitious manner, he or she "execute[s] ... with often clever or deft circumvention of proper standards, sanction or authority." Webster's Third New International Dictionary 2302 (3d. ed. 1986) (emphasis added). As noted, in construing Section 2512 in a satellite device case, the Eleventh Circuit also emphasized this notion of a lack of authority as crucial to the concept of surreptitiousness: "Although the term 'surreptitious' is not defined in the statute itself, its dictionary definition is well established: secret and unauthorized; clandestine; action by stealth or secretly." *Herring*, 993 F.2d at 786 (emphasis added). The difficulty in importing the concept of "authority" into "surreptitious" is that it begs the question of who or what is capable of granting "authority" in this context. Does authority mean authority under the law or does it mean the authority of the person or persons involved in the communication that is the subject of the interception implicating Section 2512? Do one or all of the participants in the "communication" have to grant "authority" in order for there to have been no "surreptitious" interception of the communication?

Clearly, it would be illogical if the authority concept in surreptitious referred to authority under the law. First, it does not make sense for a word in common parlance to require a familiarity with the law to invoke. Second, such a construction of authority does not comport with the common understanding of the term. Certainly there are situations in which particular conduct is authorized by the law but is nonetheless surreptitious: as, for example, with an undercover police officer. Surely his or her work is authorized by the law, but it is nonetheless patently surreptitious.

Then, if the authority in surreptitious does not refer to authority under the law, to what authority does it refer? The answer must

be that it refers to the authority of all persons involved in the communication. To take an apposite example, consider the following scenario: Jane and John are having a conversation and Jane is secretly recording everything John is saying. Meanwhile, Bill, without Jane or John's consent, is recording the same conversation. Who is "surreptitiously" recording? The obvious answer is that both Jane and Bill are surreptitiously recording. Bill is recording surreptitiously because he clearly has no person's authority to record the conversation. Jane, too, however, is recording surreptitiously because she does not have John's authority to record the conversation—even though she may have self-authority or even legal authority to do so. One could never say that just because Jane was a party to the conversation, her recording of John was not surreptitious. If, however, we changed the scenario, and both John and Jane agreed to record one another or they agreed for Bill to record them, then, clearly no one would be acting surreptitiously because there would be full authority to record—perhaps even if such a recording were forbidden under the law.

What does this tell us, then, about the plain meaning of "surreptitious" under the act? From this, we can discern that surreptitious as used in Section 2512 can only reasonably mean an interception that is accomplished without the consent, i.e., authority, of all persons to the communication. As unsettling as this result might be on a pragmatic level—because devices primarily intended to record surreptitiously have become commonplace in the market—this is unequivocally the "plain meaning" of Section 2512.

In fact, the legislative history of the statute comports with this construction of the term surreptitious. Among the prohibited

devices that are included in the Senate Report to the bill, are "the microphone disguised as a wristwatch, . . . cuff link, (and) tie clip. . . ." S.Rep. No. 90-1097, 90th Cong., 2d Sess., 95 U.S.C.C.A.N. 2112, 2183 (1968). These devices, which are deemed *per se* surreptitious by the Report, are patently devices that, in order to be used, most logically require the consent or authority of at least one party to the conversation. Unlike a picture frame, fountain pen, stapler, or cigarette pack, which are also mentioned in the list of prohibited devices, a wristwatch, cuff link and tie clip cannot merely be left behind to record the conversation of others. Rather, these devices, to be used, must more likely than not be worn by at least one party to the conversation. The fact that these devices are included within the intended purview of the act supports the conclusion that the act was intended to cover any device whose design renders it primarily useful for the interception of communications *without the consent or "authority" of all parties to that communication*.

*b) Section 2512's Purported Conflict with Section 2511*

Defendants approach the alleged vagueness of Section 2512 from a different vantage point, however. They contend that any natural clarity to the term surreptitious is obfuscated by the conflict between Section 2512's prohibition of surreptitious devices and Section 2511's permission of some forms of surreptitious interceptions. They claim that the term "surreptitious" in Section 2512 is vague because it conflicts<sup>13</sup> with Section 2511(2)(d) which explicitly permits the interception of communications so long as at least one party to the conversation consents to such intercept-

*Cardiff*, 344 U.S. 174, 176, 73 S.Ct. 189, 190, 97 L.Ed. 200 (1952); *id.* at 1029 (striking down statute requiring both that records be preserved for three years after purchase and that records be submitted to the county sheriff within 24 hours of the purchase). See generally, Eric W. Treene, Note, Prayer-Treatment Exemptions to Child Abuse and Neglect Statutes, Manslaughter Prosecutions, and Due Process of Law, 30 *Harv.J.Legis.* 135, 171 (1993) (discussing vagueness and contradictory statutory commands).

13. Cf. *Chalmers v. Los Angeles*, 762 F.2d 753 (9th Cir.1985) (striking down ordinance regulating vending activity on vagueness grounds where ordinance was in clear conflict with other city ordinance); *Mid-Fla Coin Exchange, Inc. v. Griffin*, 529 F.Supp. 1006, 1027 (M.D.Fla.1981) (providing that "[r]elated to the 'fair notice' requirement is the rule that inexpressibly contradictory commands in statutes providing for criminal penalties will not be given legal effect.") (citing *Raley v. Ohio*, 360 U.S. 423, 438, 79 S.Ct. 1257, 1266, 3 L.Ed.2d 1344 (1959); *United States v.*

tion.<sup>14</sup> The relevant portion of Section 2511 provides:

It shall not be unlawful under this chapter for a person not acting under color of law to intercept a wire, oral, or electronic communication where such person is a party to the communication or where one of the parties to the communication has given prior consent to such interception unless such communication is intercepted for the purpose of committing any criminal or tortious act in violation of the Constitution or laws of the United States or of any State. 18 U.S.C. § 2511(2)(d). "Intercept" is defined under the statute to mean "the aural or other acquisition of the contents of any wire, electronic, or oral communication through the use of any electronic, mechanical, or other device." 21 U.S.C. § 2510(4). Defendants argue that this provision renders Section 2512's term "surreptitious" inscrutable because a person of ordinary intelligence could not discern what devices are legal and

what devices are illegal under the statute. They contend that:

there is not any distinction in 'surreptitiousness' as that word is defined, between legal (one-party consensual) interceptions and illegal interceptions. As a result, there is not any way for a person (and defendants herein) to distinguish between the primary design of a device intended for legal "surreptitious" recording or monitoring, i.e., a concealable or disguised tape recorder and transmitter, and such a device designed for illegal 'surreptitious' purposes.

(Def's Vagueness Mem. at 14).<sup>15</sup> Defendants insist that the disparate results in interpretation that arise from the apparent inconsistency between Section 2512 and Section 2511 "appear to depend more on context—the merchant from whom the item is purchased, and its ultimate use by the purchaser—rather than on any 'primary' design characteris-

this exception in chapter 119 should be read into the act and therefore that "the indictment against Gass cannot be criminal unless the government proves that the radio communications which Gass sought to intercept were not readily accessible to the general public." *Id.* at 813. In reaching its conclusion, the Court explained:

If this Court were to give effect to the government's argument, then the governmental radio interception exception contained in Chapter 119 makes no sense; a person would be permitted under Chapter 119 to intercept police radio transmissions only to be subject to criminal prosecution under § 605. Why would Congress impose a ban on the interception and divulgence of radio communications in one statute, while allowing for a specific exception in another, if it did not intend for the statutes to be read together? The only way to avoid absurdity in such a case is to interpret the conflicting statutes to complement one another, thereby giving effect to the specific exception.

*Id.* at 812. Clearly, the purported conflict between Sections 2511 and 2512 does not rise to the level of conflict at issue in *Gass*, where there was no other possible way to resolve the tension between the two provisions. Rather, in the instant case, as will be discussed, there is no conflict between the two provisions. In fact, the Court in *Gass* specifically noted in a footnote that "this is not a case in which the particular federal law 'criminalizes the manufacture of items while leaving legal the use of such items'—which is precisely the case here. See *id.* at 815, n. 3 (emphasis added).

14. The most common example of this form of interception would be if a person were to record a conversation in which he or she were a party. In addition, the statute also expressly permits the interception of conversations where one party to the conversation has previously consented to such interception.

15. Defendants' reliance upon *United States v. Gass*, 936 F.Supp. 810 (N.D.Ok.1996) for the proposition that a conflict in a similar statute suggests that Section 2512 unconstitutionally vague is misplaced. *Gass* involved 47 U.S.C. § 605(a), the predecessor to the communications act at issue here. Section 605(a) provided that "[e]xcept as authorized by chapter 119, Title 18, . . . [n]o person not being authorized by the sender shall intercept any radio communication and divulge or publish the existence, contents, substance, purport, effect, or meaning of such intercepted communication to any person." 47 U.S.C. § 605(a). The defendant in *Gass* was indicted and convicted of "modifying radio equipment and selling the devices to news organizations in Tulsa, for the purpose of eavesdropping on Tulsa's trunked radio system, including all of Tulsa's police frequencies and fire department communications." *Gass*, 936 F.Supp. at 810-11. After *Gass* was convicted under the Act, he moved for a judgment of acquittal on the ground that chapter 119 specifically provided that "it shall not be unlawful to intercept any radio communication which is transmitted by any governmental, law enforcement, civil defense, private land mobile, or public safety communications system, including police and fire, readily accessible to the general public." *Id.* at 811. The Court concluded that

tics." (Def's. Mem. at 15-16). These facts, they insist, "illustrate the unpredictability and inconsistency a citizen faces in determining in advance just what 'surreptitious' recording devices are proscribed by § 2512." (*Id.*).

The Government, in response, maintains that the so-called "consent exception" of Section 2511 should not be read into Section 2512 because the two provisions deal with entirely different matters: Section 2512 prohibits certain *devices* while Section 2511 authorizes certain *conduct*. Thus, the Government argues, there is no conflict between the two provisions because they deal with separate matters.<sup>16</sup>

The obvious difficulty with the Government's position is that it necessarily implies that Congress intended to make a device illegal while simultaneously protecting the use to which the device could or most likely would be put. Such an outcome appeared unpalatable to the Government at oral argument when it refused to say that certain devices sold by Radio Shack—which were largely indistinguishable from the devices sold by defendants—were prohibited by Section 2512. A construction of Section 2512 that does not incorporate Section 2511 significantly broadens the reach of Section 2512. However, even if the outcome might seem somewhat troublesome, (perhaps even imprudent for citizens accustomed to the availability of such devices for lawful consensual interceptions), it cannot be deemed illogical or irrational under the law. In fact, the legislative history overwhelmingly supports this construction.

As previously explained, the Senate Report lists as prohibited certain devices such as the cuff link, tie clip or wristwatch, which primarily function when used in a one-party consent situation. The only possible use for any of these devices is a perfectly *legal* inter-

16. At oral argument, the Government also maintained that even considering the defendants' argument regarding the conflict between Sections 2511 and 2512, under a vagueness-as-applied analysis, the defendants challenge would still fail because the devices at issue here all have a design which renders them primarily useful for *illegal* surreptitious interceptions, i.e., interceptions without the consent of any party to the

ception under Section 2511. Nevertheless, even though they are by design not likely to be used to intercept *unlawfully* under Section 2511, the devices are nonetheless prohibited by Section 2512. The Senate Report provides some measure of explanation for this result. It explains that "[b]y banning these devices, a significant source of equipment highly useful for illegal electronic surveillance will be eliminated." S.Rep. No. 90-1097, 90th Cong., 2d. Sess., 95 U.S.C.A.N. 2112, 2183 (1968). While these words are not a model of clarity themselves, it is reasonable to conclude from them that it was Congress's intent in enacting Section 2512 to remove from the market a wide range of devices, some of which might be "primarily" useful for *legal* "surreptitious" interceptions under Section 2511 so that the greater good of preventing *illegal* interceptions might be more easily accomplished. Such an empirical and policy determination is certainly within the province of Congress to make and may not, without more evidence of a clear contradiction, be questioned here.

The D.C. Circuit Court of Appeals has reached a similar conclusion in a somewhat analogous case in 1974. There, the Court was concerned with the interplay between Sections 2512 and 2511 in the context of a prosecution for advertising devices that were prohibited under Section 2512. An argument much like the one offered here was offered by the defendants in that case. The district court held that "the advertising prohibition of § 2512 should not be read to prohibit the promotion of uses apparently lawful in light of the 'consent exception' of § 2511(2)(d)." *United States v. Bast*, 495 F.2d 138, 141 (D.C.Cir.1974). The Circuit Court reversed this ruling, noting that:

The mere fact that a device may be used for interceptions that do not violate § 2511 does not mean that its manufacture and advertising are compatible with § 2512.

communication. Even if the Court had accepted defendant's contention that Section 2511 limits Section 2512, the Government is correct that the defendants' vagueness challenge would fail if the Government were to prove at trial, as they maintain they would be prepared to do, that the devices seized from the defendants had no other primary purpose than illegal interceptions.

Section 2512(1)(b) prohibits the manufacture, sale and possession of devices primarily useful for the purpose of secret interception, even though the devices may be used for other and lawful interceptions. The intent of Congress is discernable and sensible, and there is no reason to consider the doctrines that indicate that when plain meaning leads to an absurd result it does not signify applicable legislative intent. Similarly, there is no anomaly in Congress's apparent attempt, in the advertising prohibition of § 2512(1)(c)(ii), to reach promotion of device for secret interception, even though the manufacture or possession of the device is not banned by § 2512(1)(b) as one "primarily" useful for secret interception. It may be unusual but it is not unprecedented for Congress to prohibit the advertising of a product even though it has not prohibited the product or its use *per se*. An example that looms large currently is the prohibition of advertising of cigarettes on radio or television.... The legislative history supports the interpretation of § 2512 without limitation by the exceptions contained in § 2511.... Thus, the manufacture, sale and possession prohibition was intended to ban particular devices, among them eavesdropping equipment which could be worn on the person by a party to a conversation, and hence used in a manner which would not violate § 2511 because of its "consent exception."

*Id.* at 143-44.

[20] In sum, despite the unattractive result of such a broad construction of Section 2512 to many stores and consumers in the marketplace, the Court finds no ambiguity in the term "surreptitious" because there is no conflict between Sections 2511 and 2512. Defendants nevertheless maintain that because Section 2512 begins with the words "[e]xcept as otherwise specifically provided in this chapter," Section 2511 must be read into Section 2512. These words, however, are only important if a separate section of the chapter provides a different instruction. Such is not the case with Section 2511. The

two provisions do not conflict because they speak to different methods and different purposes. Section 2512 casts a wide net over a variety of devices so that end of Section 2511—the prohibition of nonconsensual wiretapping—can be effectuated.<sup>17</sup> In the end, the plain meaning of "surreptitious" is clear—even if it might produce a bitter result for those searching to effect the authority granted to them under Section 2511. Such persons are left with recording their conversations with perhaps cumbersome devices, like dictaphones and tape recorders, and prohibited from using more efficient and less cumbersome devices like bugs. Section 2512, however, authorizes only electronic communications providers and government officials to manufacture, sell or possess the more efficient bug devices, *see* 18 U.S.C. 2512(2), while Section 2511 permits electronic communications providers, government officials and private parties with consent, to intercept communications.

### 3. The Potential for Arbitrary and Discriminatory Enforcement

[21] Invoking the second element of the vagueness-as-applied test, the defendants assert that the inherent vagueness of Section 2512 is evidenced by the arbitrary and discriminatory enforcement of the statute that has occurred to date. Defendants note that other merchants sell and advertise the same or virtually similar products, yet the Government has not prosecuted them. At oral argument, defense counsel showed the Court products from well-known stores, like Radio Shack and Hammacher Schlemmer, which defense counsel argued were virtually indistinguishable from the devices at issue here (12/13/96 Tr. at 93-101). In their submission, defendants ask the rhetorical question, "Does a product become primarily useful for surreptitious interception under 2512 by virtue of the store in which it is sold?" (Def's' Vagueness Mem. at 21). The defendants also point to the fact that some of the very

17. Further support for the contention that Sections 2512 and 2511 were not to be read in conjunction with one another lies in the fact that the two sections provide duplicative exceptions

which would have been unnecessary if Congress had intended to have the sections read in light of one another. Compare 18 U.S.C. § 2512(2) with 18 U.S.C. § 2511(2).

items<sup>18</sup> that were charged in the Indictment, and which were seized in the April 5, 1996 searches and seizures of the Spy Factory Stores in Seattle, were returned by Customs officials to Spy Factory several months later. At oral argument, defense counsel claimed that this was compelling evidence of the ambiguity of Section 2512, arguing that "the government's reading of 2512 virtually renders [the devices] contraband, because the mere possession of it, knowing its surreptitious use, is a felony. So, if it's contraband, why is the regional counsel ordering it returned?" (12/13/96 Tr. at 118). Defendants claim that the return of these devices amounts to "classic vagueness in the form of arbitrary and discriminatory enforcement: two law enforcement officers, applying the same statute to the same item, reach different conclusions as to its legality." (Defs.' Vagueness Mem. at 2).<sup>19</sup>

[22, 23] The Government explains that "the reason devices were returned to the Spy Factory in Seattle was not based on a determination that the devices in question were not [covered by the statute]. Rather, the Customs Service's district counsel in Seattle, Washington, erroneously determined that, *inter alia*, absent a conviction, there was no basis for forfeiture of the [devices], and the

18. Defendants state that "[f]our of [the products returned] were identified specifically in Agent De Arman's Affidavit as ESIDs: (1) VT-75 transmitter ...; (2) Micro CAL-201 calculator/transmitter ...; (3) Micro TX-6 telephone transmitter ...; and (4) pen microphone.... In addition, other items returned also closely resemble the type of devices Agent De Arman's Affidavit considers ESIDs: transmitters; ... an 'artificial plant transmitter' ...; a 'phone clip' ...; and 'telephone interception' devices ...." (Defs.' Vagueness Mem. at 18).

19. As further evidence of the ambiguity of the statute, defendants point to the fact that the Senate Report accompanying the statute commends the use of expert testimony to determine what devices are covered under the statute. See S.Rep. No. 90-1097, 90th Cong., 2d Sess., 95 U.S.C.A.N. 2112, 2183 (1968) ("Obviously, the sort of judgment called for here in close cases would warrant the use of expert testimony."). Defendants claim that "[o]bviously, if expert opinion is required, arbitrary and discriminatory enforcement in the field is effectively guaranteed." (Defs. Mem. at 18-19). However, the use of expert testimony to provide concreteness to the gray areas at the margin of statutes is well

Western District of Washington had declined prosecution of the local store employees." (Govt Mem. at 34). This response, of course, does not answer the defendants' argument that if the statute were sufficiently clear, such devices would self evidently be contraband, and no ambiguity regarding potential forfeiture should have existed, as it would not have existed in the case of illegal drugs, for example.<sup>20</sup> However, as the Government points out in its Memorandum of Law, "[t]he fact that differing minds may reach different results when applying the statutory factors 'does not render a statute void for vagueness.'" (Govt Mem. at 33 (citing *United States v. 3520 Brighton Boulevard*, 785 F.Supp. 141, 144 (D.Colo.1992))). "The 'Constitution' prohibits arbitrary and discriminatory application of the law; it does not insist upon mathematical certainty." *Id.*

In summary, although I am somewhat troubled by aspects of the enforcement of this law—particularly given the broad construction of the statute I find myself impelled to accept—I cannot find that the actions by either the law enforcement community or the prosecutors is "arbitrary or discriminatory," as that concept is understood in the vagueness context. There is a perfectly understandable reason why officers and prosecu-

recognized in the law. See e.g., *United States v. Santos*, 64 F.3d 41 (2d Cir.1995) (relying in part on expert testimony at trial to determine that weapon used was a "silencer" within meaning of statute found not unconstitutionally vague), vacated on other grounds, — U.S. —, 116 S.Ct. 1038, 134 L.Ed.2d 186 (1996); *United States v. Jackson*, 968 F.2d 158, 162 (2d Cir.) (in context of vagueness challenge, placing emphasis on fact that "according to expert testimony, 'cocaine base' has a precise definition in the scientific community."), cert. denied, 506 U.S. 1024, 113 S.Ct. 664, 121 L.Ed.2d 589 (1992).

20. I note, as did defendants, that at oral argument, the lead assistant United States attorney hesitated at length and could not provide a quick or confident answer as to whether a certain device bought from Radio Shack fell under the statute or whether the term "surreptitious" included both legal and illegal interceptions under Section 2511. (12/13/96 Tr. at 128-132). I am troubled by the assistant United States attorney's hesitancy, but in the end I attribute it to misplaced caution in committing himself without the contextual facts rather than to any lack of certainty regarding the correct interpretation of Section 2512.

tors seek convictions of defendants like the Spy Factory and not institutions like Radio Shack and Hammacher Schlemmer: because the Spy Factory, by its very name, and in countless other ways evidenced in the Government's papers, sets itself out as a place where one might be more likely to locate devices that can be used for illegal, rather than legal, purposes.

The Supreme Court has noted that the "primary" use of an item may be discernable in part from where it is sold and how it is marketed. The Court said in a footnote in *Posters 'N' Things*, "[t]hus, while scales or razor blades as a general class may not be designed specifically for use with drugs, a subset of those items in a particular store may be 'primarily intended' for use with drugs by virtue of the circumstances of their display and sale." *Posters 'N' Things, Ltd. v. United States*, 511 U.S. 513, 521 n. 11, 114 S.Ct. 1747, 1752 n. 11, 128 L.Ed.2d 539 (1994) (emphasis added) (also providing that "it is the likely use of customers generally, not any particular customer, that can render a multiple-use item drug paraphernalia."). See also *United States v. Schneiderman*, 968 F.2d 1564, 1566 (2d Cir.1992) ("To show a defendant 'primarily intended' to sell drug paraphernalia, the government need not show that the items would necessarily be used in connection with illegal drugs, but it must prove that the defendant knew there was a strong probability the items would be so used."), cert. denied, 507 U.S. 921, 113 S.Ct. 1283, 122 L.Ed.2d 676 (1993). This insight speaks strongly to the defendants' contention that Radio Shack, Hammacher Schlemmer and other stores have not been prosecuted for selling equipment similar to the instant devices. (12/13/96 Tr. at 93-100). Therefore, even though Section 2512 might permit the prosecution of Radio Shack and Hammacher Schlemmer and other institutions selling similar devices,<sup>21</sup> it is perfectly rational, and perhaps even prudent, for law enforcement officials to concentrate their efforts on the defendants who are not only most likely to be convicted, but also are most likely to serve a clientele bent on illegal practices. Cf. *Richmond Boro Gun Club*,

21. And this should have been the Assistant United States Attorney's immediate response to my

*Inc. v. City of New York*, 97 F.3d 681, 686 (2d Cir.1996) ("New York City may choose to limit enforcement of the local law to weapons clearly proscribed by the law...."); *United States v. Wynn*, 633 F.Supp. 595, 604 (C.D.Ill.1986) (in prosecution under Section 2512, addressing argument that defendant's devices were "equivalent to the commercially available Radio Shack FM Wireless Microphone," the court provides that "[e]ven assuming that the items are similar—which this court can easily see they are not—this in no way rebuts the fact that they [fall under § 2512]. . . . The fact that one person is not prosecuted for his possible criminal conduct does not immunize another for engaging in the same or similar conduct.""). For these reasons, I do not find that the defendants have shown the potential for arbitrary and discriminatory enforcement that is of the sort necessary to strike the statute for vagueness.

#### 4. *Scienter*

[24, 25] As previously noted, it is well established that "the constitutionality" of a vague statutory standard is closely related to whether that standard incorporates a requirement of mens rea. . . . In fact, the inclusion of an intent provision will often save an otherwise vague statute." *United States v. Schneiderman*, 968 F.2d 1564, 1566 (2d Cir.1992). Section 2512 provides such a scienter requirement. Although it is true, as defendants argue, that the "knowing or having reason to know" language means little if the term "surreptitious" is unclear, given that the Court has found that the terms "surreptitious" and "primarily useful" are clear upon their plain meanings, the scienter requirement of Section 2512 is yet another factor supporting a rejection of defendants' vagueness challenge. Further, as applied, there is a great deal of evidence proffered by the Government suggesting that the defendants were aware that they were treading perilously close to the line of lawful conduct. (Govt Mem. at 22-27). See *United States v. Strauss*, 999 F.2d 692, 698 (2d Cir.1993) (vagueness challenge "may be overcome in any specific case where reasonable persons

inquiry at oral argument, given the Government's position in its written submissions.

would know that their conduct is at risk.") (quoting *Maynard v. Cartwright*, 486 U.S. 356, 361, 108 S.Ct. 1853, 1857, 100 L.Ed.2d 372 (1988)); *Boyce Motor Lines v. United States*, 342 U.S. 337, 340, 72 S.Ct. 329, 330-31, 96 L.Ed. 367 (1952). While this evidence and any counter-evidence will be more appropriately presented at trial, for the moment I find that the statute as applied to these defendants is not unconstitutionally vague.

### CONCLUSION

For the reasons provided, the defendants' motion for a change of venue is **DENIED**, and defendants' motion to dismiss portions of the Indictment premised on Section 2512 on the ground of vagueness is **DENIED**.

SO ORDERED.



Elgin McEACHIN, Petitioner,

v.

Bert ROSS, Respondent.

No. 95 Civ. 5299 (DC).

United States District Court,  
S.D. New York.

Jan. 16, 1997.

After his convictions for robbery and assault were affirmed, 188 A.D.2d 433, 591 N.Y.S.2d 1023, petitioner sought federal habeas corpus relief. The District Court, Chin, J., held that: (1) decision not to testify after New York trial court made ruling under *Sandoval* was fatal to claim ruling violated petitioner's constitutional right to testify in his own behalf; (2) prosecutor's statements during summation were not prosecutorial misconduct; and (3) instructions were proper.

Application denied.

### 1. Criminal Law §1036.2

Defendant's failure to testify at trial is fatal to any claims of constitutional deprivation arising out of ruling on admissibility of impeachment evidence; reason is that absent such testimony, court has no adequate non-speculative basis upon which to assess merits of claim.

### 2. Habeas Corpus §339

Rule that defendant's failure to testify at trial is fatal to any claims of constitutional deprivation arising out of ruling on admissibility of impeachment evidence applies to federal habeas corpus review of state court convictions.

### 3. Habeas Corpus §339

Petitioner's decision not to testify at trial after New York trial court made ruling under *Sandoval* that, if petitioner testified, prosecution could impeach his credibility with evidence that he had been convicted on one occasion of two felonies was fatal to claim that *Sandoval* ruling violated petitioner's constitutional right to testify in his own behalf.

### 4. Constitutional Law §268(8)

Prosecutor's conduct violates due process only if it deprives defendant of fair trial. U.S.C.A. Const.Amends. 5, 14.

### 5. Criminal Law §1171.1(2.1)

Prosecutorial misconduct during summation is grounds for reversal only when remarks caused substantial prejudice to defendant; in making review to determine existence of such prejudice, relevant factors include severity of misconduct, measures adopted to cure misconduct, and certainty of conviction absent misconduct.

### 6. Habeas Corpus §497

Prosecutor's statements during summation in prosecution of defendant who did not testify in his own behalf that "[n]o person can look into the mind of the defendant" and that defendant put forth no defense did not constitute prosecutorial misconduct warranting habeas corpus relief; statements were response to defense theory and argument that defendant had no intent to participate in crimes committed by his accomplice, court's

### McEACHIN v. ROSS

Cite as 951 F.Supp. 478 (S.D.N.Y. 1997)

charge stating that no adverse inference could be drawn from decision not to testify mitigated any adverse impact, and evidence of guilt was overwhelming.

### 7. Criminal Law §726

For purposes of claim of prosecutorial misconduct, prosecutor's comments must be assessed in light of defense summation; and where prosecution comment is rejoinder to defense counsel's comments, that factor ameliorates effect of objectionable prosecution comment upon fairness of trial.

### 8. Habeas Corpus §453

Mere questions of state law are not grounds for federal habeas relief.

### 9. Habeas Corpus §452

In conducting habeas review, federal court is limited to deciding whether state court conviction violated constitution, laws, or treaties of the United States. 28 U.S.C.A. § 2241.

### 10. Habeas Corpus §498

Errors in state jury charges are questions of state law and are therefore not reviewable on federal habeas corpus absent showing that jury charge deprived defendant of federal constitutional right.

### 11. Habeas Corpus §498

Standard of review of state jury instructions in federal habeas corpus petition is not whether instruction is undesirable, erroneous, or even universally condemned, but whether ailing instruction by itself so infected entire trial that resulting conviction violates due process. U.S.C.A. Const.Amends. 5, 14.

### 12. Criminal Law §815(5)

Instruction that jury could not use duress theory in its deliberations because defense was not relying on it was proper in robbery prosecution brought under New York law; defense counsel had prior to trial represented that defendant would not rely on affirmative defense of duress and would not request charge on that defense, and despite court's admonition had in his summation compared defendant's reaction to actions of his accomplice to that of security guard who

happened upon robbery, which alluded to duress defense.

### 13. Criminal Law §822(1)

Viewed as a whole, instructions by trial court in robbery prosecution were fair and did not constitute improper marshalling of evidence or negative comment on defense summation; while court referred to some of the evidence in explaining to jury its task, court made clear that it was province of jury to weigh evidence and that jury was required to afford defendant presumption of innocence, and acceded to request by defense counsel that it make clear to jury that court did not have any opinions or views about evidence.

Elgin McEachin, Staten Island, NY, pro se.

Dennis C. Vacco, Attorney General of the State of New York by Dian Kerr McCullough, Assistant Attorney General, New York City, for respondent.

### MEMORANDUM DECISION AND ORDER

CHIN, District Judge.

Petitioner McEachin brings this *pro se* petition for a writ of habeas corpus pursuant to 28 U.S.C. § 2254, challenging his state court convictions for robbery and assault. For the following reasons, the petition is dismissed.

### BACKGROUND

McEachin was convicted on February 25, 1987, after a jury trial, of Robbery in the First Degree (N.Y. Penal Law § 160.15(2)) (McKinney 1988), four counts of Robbery in the Second Degree (N.Y. Penal Law § 160.10(1)) (McKinney 1988), and two counts of Assault in the Second Degree (N.Y. Penal Law § 120.05(6)) (McKinney 1987). McEachin was sentenced as a predicate violent felon to concurrent prison terms of twelve to twenty-four years for the first degree robbery count, seven to fourteen years for the second degree robbery counts, and two to four years for the assault counts. The Appellate Division affirmed McEachin's con-

cuit's reluctance to admit polygraph evidence is not based upon its view that polygraph exams are not generally accepted in the scientific community. Instead, the Second Circuit's concern about polygraph test centers upon the methodology employed by the polygraph examiner, an important factor under *Daubert*. In *Williams*, for example, the Second Circuit noted:

Spectrography is qualitatively different from polygraph evidence. In spectrography, the examiner merely compares spectrograms reflecting the purely physical characteristics of a voice. In polygraph analysis, the examiner must go on, to extrapolate a judgment of something not directly measured by the machine, i.e., the credibility of the person examined. *Commonwealth v. Lykus*, 367 Mass. 191, 327 N.E.2d 671 (1975). The skill of the polygraph examiner, the kinds of questions asked, natural variations in blood pressure among individuals, and in how accustomed they are to lying, are unpredictable variables that make the polygraph technique far more speculative than is spectrographic analysis.

*Williams*, 583 F.2d at 1199 n. 9.<sup>4</sup>

[6] Finally, Lech argues that the admission of his polygraph results is "mandated" by the Fifth Amendment guarantee of a fair trial and the Sixth Amendment right for an accused to produce favorable witnesses. See Memorandum at 18. The only support Lech cites in favor of this claim is Justice Stewart's eloquent concurring opinion in *Hawkins v. United States*, 358 U.S. 74, 81, 79 S.Ct. 136, 140, 3 L.Ed.2d 125 (1958), where, speaking in the context of evidentiary privileges, he noted that "a rule that impedes the discovery of truth in a court of law impedes as

4. Other courts, as well as the Congressional Office of Technology Assessment, have raised concerns about the manner in which polygraph technology is employed, rather than with the technology itself. See, e.g., *United States v. Piccinonna*, 885 F.2d 1529, 1538 n. 3 (11th Cir.1989) (Johnson, J. concurring in part and dissenting in part) (citing studies suggesting that the accuracy of polygraph results may decline when the examinee induces muscle tension, such as by pressing his or her toes to the ground during questioning); Congress of the United States, Office of Technology Assessment, Technical Memorandum, Scien-

well the doing of justice." Lech has no constitutional right to introduce evidence whose probative value is substantially outweighed by its tendency to confuse and mislead a jury. Instead of assisting a jury to determine the facts, introducing Lech's polygraph evidence would be so misleading and confusing that it would impede the proper and fair administration of justice.

#### Conclusion

For the reasons discussed above, Lech's motion *in limine* to admit certain questions and answers from two polygraph tests is denied, as is his motion for a hearing on this issue. The Clerk of the Court is directed to enter this Opinion and Order accordingly.

SO ORDERED.



UNITED STATES of America

v.

Wlodek Jan LECH.

No. S2 94 Cr. 285 (SS).

United States District Court,  
S.D. New York.

Aug. 4, 1995.

In prosecution for conspiracy and bribery in connection with asbestos removal project, defendant moved for sanctions based on government's failure to disclose, until eve of

*ific Validity of Polygraph Testing A Research Review and Evaluation* (1983), attached as Ex. A, to The Government's Memorandum of Law in Response to Defendant Lech's Motion In Limine to Admit Polygraph Evidence, at 5 (polygraphs are theoretically susceptible to countermeasures such as bio-feedback and physical movement). But see Norman Ansley, *The Validity and Reliability of Polygraph Decisions in Real Cases*, 19 Polygraph 169 (1990), attached as Ex. G to Schapiro Decl. (suggesting that a review of cases from the 1980's indicates a 97-98% accuracy rate).

trial, that cooperating witness whom government intended to use at trial was formerly represented by another member of defense counsel's office. The District Court, Sotomayor, J., held that: (1) defense counsel's conflict of interest was only potential, not actual, and (2) precluding witness from testifying was unwarranted sanction.

Motion denied.

#### 1. Criminal Law §641.1, 641.5(5)

Although Sixth Amendment does encompass right to be represented by attorney of one's choice, essential aim of right to counsel is to ensure effective advocate for all criminal defendants and, thus, Sixth Amendment encompasses right to representation free from conflicts of interest. U.S.C.A. Const.Amend. 6.

#### 2. Criminal Law §641.5(5, 7)

Where criminal defendant wishes to be represented by attorney who has conflict of interest, court must first determine whether conflict is actual or potential; where conflict is actual, court is obliged to disqualify attorney, whereas, if conflict is potential, court should conduct hearing to obtain knowing and intelligent waiver of conflict directly from defendant. U.S.C.A. Const.Amend. 6.

#### 3. Criminal Law §641.5(7)

Federal courts have independent interests in ensuring that legal proceedings are fair and appear that way to all who observe them and may, therefore, reject proffered waiver of potential conflict of interest on part of counsel. U.S.C.A. Const.Amend. 6.

#### 4. Criminal Law §641.5(5)

Although line between "actual" and "potential" conflicts of interest on part of counsel is not always clear, actual conflicts generally exist where court finds that conflict is so serious that it impedes attorney's ability to present vigorous defense. U.S.C.A. Const. Amend. 6.

See publication Words and Phrases for other judicial constructions and definitions.

#### 5. Criminal Law §641.5(6)

No actual conflict of interest existed where defendant's counsel was member of same defense office which had represented cooperating witness government intended to use at trial and, thus, court was not obliged to disqualify defendant's counsel; counsel had no knowledge of any confidences shared between cooperating witness and other attorney in defense counsel's office, there was no reason to disbelieve representations that effective "Chinese Wall" could and would be maintained between counsel and attorney who represented witness, and rational defendant could knowingly and intelligently desire counsel's representation under circumstances. U.S.C.A. Const.Amend. 6; N.Y.Code of Prof.Resp., DR 5-105, McKinney's Judiciary Law App.

#### 6. Criminal Law §629.5(1, 2)

Government's inadvertent failure to disclose to defendant, until eve of trial, that cooperating witness which government intended to call had been represented by attorney in defense counsel's office did not warrant sanction precluding government from calling witness, so as to eliminate potential conflict of interest; cooperating witness was major witness in government's case and, thus, there was substantial risk that precluding his testimony would confuse jury and impede conduct of fair trial based upon all competent evidence, and while choosing attorney free of potential conflict of interest would delay trial and thus cause some prejudice to defendant, delay would not be substantial. U.S.C.A. Const.Amend. 6.

Mary Jo White, United States Attorney, Southern District of New York (Jonathan N. Halpern, Assistant United States Attorney, of counsel), New York City, for plaintiff.

Leonard F. Joy, The Legal Aid Society, Federal Defender Div. (Andrew H. Schapiro, Associate Attorney, of counsel), Gerald J. McMahon, New York City, for defendant.

Albert A. Gaudelli, Forest Hills, NY, for Joseph Tantillo.

## OPINION AND ORDER

SOTOMAYOR, District Judge.

The motion before me is the result of a disturbing oversight by the United States Attorney's Office for the Southern District of New York. On the eve of trial, defendant's counsel, a member of the Southern District of New York Federal Defender Division, received materials produced pursuant to 18 U.S.C. § 3500. These materials revealed that a cooperating witness whom the government intends to use at trial was formerly represented by another member of the Southern District Federal Defender Division. Defendant Wlodek Jan Lech ("Lech") now moves for sanctions, barring the government from using the cooperating witness's testimony at trial. For the reasons discussed below, the motion is denied.

## Background

Lech, Carmine Russo ("Russo"), and Henry Fulton ("Fulton") were named in a multi-count indictment charging them with conspiracy and bribery in connection with an asbestos removal project at Julia Richman High School in Manhattan (the "Julia Richman Asbestos Removal Scheme"). Because the indictment charged Fulton and Russo with other crimes including conspiracy, bribery and mail fraud in connection with a New York City Board of Education ("BOE") project located at 402 Eastern Parkway in Brooklyn (the "402 Eastern Parkway Project"), I severed Lech's trial pursuant to Federal Rule of Criminal Procedure 8(b). See Opinion and Order of the Court, published at 161 F.R.D. 255 (S.D.N.Y.1995). Following a six week trial, a jury convicted Fulton of the counts related to the 402 Eastern Parkway Project, and acquitted him on all counts related to the Julia Richman Asbestos Removal Scheme.<sup>1</sup> Lech's trial was scheduled to begin on July 31, 1995, less than one week after the jury's verdict in the Fulton trial.

At Fulton's trial, the government elicited testimony from a cooperating witness, Joseph Tantillo ("Tantillo"), who was a BOE official. Tantillo became a cooperating wit-

1. Fulton was tried alone because Russo passed

ness as a result of an agreement he entered into with the United States Attorney's Office on December 10, 1992 (the "Cooperation Agreement"). See Cooperation Agreement, attached as Ex. A to First Letter to the Court of Andrew H. Schapiro, dated July 28, 1995 (the "July 28 Letter"). The terms of the Cooperation Agreement were negotiated by a prosecutor who is no longer with the United States Attorney's Office, and Tantillo's then lawyer, John P. Curley ("Curley") of the Southern District of New York Federal Defender Division of the Legal Aid Society (the "Federal Defender Division"). Both Curley and Tantillo signed the Cooperation Agreement. *Id.* Sometime after entering into the Cooperation Agreement, Tantillo relieved Curley in favor of a privately retained attorney, Albert Gaudelli ("Gaudelli"). Gaudelli represented Tantillo at his plea allocution before Judge Peter K. Leisure on April 13, 1993. Gaudelli continues to represent Tantillo.

Since the date of his arrest, May 19, 1994, Lech has been represented by Andrew H. Schapiro ("Schapiro"), an attorney with the Federal Defender Division. This is the same office that represented Tantillo when the Cooperation Agreement was signed. Curley, in fact, is now a senior trial attorney in that office. Schapiro discovered this possible conflict of interest on July 27, 1995, over one year after he began representing Lech and just four days before Lech's trial was to begin, when the government produced the Cooperation Agreement pursuant to 18 U.S.C. § 3500. Although the first page of the Cooperation Agreement lists Curley's name, address, and affiliation with the Federal Defender Division, it did not occur to the government that a possible conflict of interest existed. This failure to recognize the conflict is even more astonishing considering that the government introduced the Cooperation Agreement as an exhibit at Fulton's trial and produced 3500 materials noting Curley's presence as Tantillo's attorney at various meetings.

Immediately upon reviewing the Cooperation Agreement on July 27, Schapiro advised the Court of the conflict and a preliminary

away shortly before trial.

conference was held later that afternoon. The government, Schapiro, Curley, Lech, Tantillo, and Gaudelli were present at a full hearing held on July 28.<sup>2</sup> At the beginning of the hearing, Schapiro advised the Court that he did not believe Lech wanted to substitute counsel at this late date. Schapiro also represented to the Court that he did not learn of the connection between his office and Tantillo until the government's production of 3500 material the day before, and that he had not been a member of the Federal Defender Division at any time during which Curley represented Tantillo. Schapiro and Curley declared that they had conversed generally about Tantillo just prior to the July 27 conference, merely to confirm the period of Curley's representation of Tantillo. No further conversations were held between Curley and Schapiro regarding either Tantillo or Lech. Both affirmed that no client confidences were ever revealed to Schapiro.

Schapiro and Curley represented that a strict "Chinese Wall" would be maintained between them for as long as necessary. To ensure that none of Tantillo's confidences are revealed, Schapiro and Curley agreed to separate their work areas and files. Schapiro and Curley further agreed to have another staff member remove any computer files regarding Tantillo from office hard drives, and to ensure that Tantillo's file is kept away from any person connected to the Lech case. Schapiro and Curley also agreed to take the necessary precautions to ensure that no secrets are revealed by any support personnel who worked on Tantillo's case.

After conferring with his attorney, Tantillo waived any potential conflict in having one of Curley's colleagues represent Lech. For the reasons to be discussed, I concluded that under the unique circumstances of this case, only a potential conflict of interest existed with Schapiro's continued representation of Lech. I then began the first phase of a *Curcio* hearing, during which I explained the possible dangers of a conflict to Lech. I appointed a Criminal Justice Act Panel

2. Gaudelli, Tantillo's attorney, participated at the hearing via speaker phone because he was away on vacation. I explained the situation in open court, and had Curley and Schapiro describe their communications about the case on the rec-

("CJA") attorney to advise Lech independently about his situation. Later that afternoon, Lech and his CJA attorney returned. Lech indicated a desire to waive Schapiro's potential conflict, but based upon his answers at the earlier *Curcio* hearing and his request to have the CJA attorney attend the trial as a monitor, I concluded that Lech did not fully understand the consequences of a waiver. I, therefore, postponed Lech's trial for a week, and set another *Curcio* hearing for Thursday August 3, 1995.

## Discussion

## 1. The Conflict of Interest

[1] The Sixth Amendment to the Constitution provides

[i]n all criminal prosecutions, the accused shall enjoy the right to a speedy and public trial, by an impartial jury . . . and to have the assistance of counsel for his [or her] defence.

U.S. Const. Amend. VI. While the Sixth Amendment does encompass the right to be represented by the attorney of one's choice, the essential aim of the right to counsel is to ensure an effective advocate for all criminal defendants. *Wheat v. United States*, 486 U.S. 153, 159, 108 S.Ct. 1692, 1697, 100 L.Ed.2d 140 (1988). Thus, the Sixth Amendment encompasses the right to representation free from conflicts of interest. *Wood v. Georgia*, 450 U.S. 261, 271, 101 S.Ct. 1097 1103, 67 L.Ed.2d 220 (1981) (citing *Cuyler v. Sullivan*, 446 U.S. 335, 100 S.Ct. 1708, 64 L.Ed.2d 333 (1980)).

[2] Where a criminal defendant wishes to be represented by an attorney who has a conflict of interest, a court must first determine whether the conflict is actual or potential. An actual conflict is one that is "severe" that "no rational defendant would knowingly and intelligently desire the conflicted lawyer's representation. . . ." *United States v. Levy*, 25 F.3d 146, 153 (2d Cir.1994) (citing *United States v. Fulton*, 5 F.3d 1001, 1004 (2d Cir.1993)). I then allowed Tantillo to speak with Gaudelli in the privacy of my Robing Room before Tantillo was asked whether he objected to Schapiro's continued representation of Lech.

612-614 (2d Cir.1993)). Where a conflict of interest is actual, a court is "obliged" to disqualify the attorney.<sup>3</sup> *Id.*

[3] A potential conflict of interest, by contrast, is a "lesser" conflict. *Id.* That is, a potential conflict exists where a court finds that "a rational defendant could knowingly and intelligently desire the conflicted lawyer's representation..." *Id.* If such a finding is made, the district court should conduct a hearing, as set forth in *United States v. Curcio*, 680 F.2d 881, 888-90 (2d Cir.1982), to obtain a knowing and intelligent waiver of the conflict directly from the defendant.<sup>4</sup> Federal courts have an independent interest in ensuring that legal proceedings are fair and appear that way to all who observe them, and may, therefore, reject a proffered waiver. *Fulton*, 5 F.3d at 612 (citing *Wheat*, 486 U.S. at 159, 108 S.Ct. at 1697).

[4] Although the line between actual and potential conflicts of interest is not always clear, generally actual conflicts exist where a court finds that the conflict is so serious that it impedes the attorney's ability to present a vigorous defense. Thus, the Second Circuit has described a conflict as actual when "during the course of the representation, the attorney's and defendant's interests diverge with respect to a material factual or legal issue or to a course of action." *Winkler v. Keane*, 7 F.3d 304, 307 (2d Cir.1993) (quoting *Cuyler v. Sullivan*, 446 U.S. 335, 356 n. 3, 100 S.Ct. 1708, 1722 n. 3, 64 L.Ed.2d 333 (1980)), *cert. denied*, — U.S. —, 114 S.Ct. 1407, 128 L.Ed.2d 79 (1994). Actual conflicts of interest have been found where a particular attorney has represented a witness or co-defendant, and has gained personal knowledge that could impede his or her representation of the defendant. *See United States*

3. In requiring that an attorney with an actual conflict of interest be disqualified, the *Levy* Court apparently adopted a more stringent standard than that required by the Supreme Court. *See Wheat*, 486 U.S. at 162, 108 S.Ct. at 1698 ("where a court justifiably finds an actual conflict of interest, there can be no doubt that it may decline a proffer of waiver....").

4. In conducting a *Curcio* hearing, a district court should:

*ex rel. Stewart on behalf of Tineo v. Kelly*, 870 F.2d 854, 856 (2d Cir.1989) (trial court did not abuse discretion in dismissing attorney who represented defendant and prosecution witness); *see also United States v. Rahman*, 861 F.Supp. 266, 274 (S.D.N.Y.1994) (Mukasey, J.) (finding actual conflict in multiple representation when lawyer unable to protect interests of each client). In *Iorizzo*, defense counsel had previously represented a key prosecution witness before a state tax board. Although the witness's prior testimony was relevant to the defense case, defense co not use that testimony to attack the witness's credibility without placing their former relationship at issue. *Iorizzo*, 786 F.2d at 57. *See also Lopez v. Scully*, 58 F.3d 38, 41-42 (2d Cir.1995) (actual conflict of interest when a defendant alleged that his lawyer coerced him to plead guilty); *United States v. Locascio*, 6 F.3d 924, 931 (2d Cir.1993) (counsel implicated in a criminal scheme related to the trial), *cert. denied*, — U.S. —, 114 S.Ct. 1646, 128 L.Ed.2d 365 (1994).

[5] I agree with the Federal Defender Division and the United States Attorney's Office, which both argue that no actual conflict of interest exists here. Lech's situation is different from that presented in *Stewart*, *Iorizzo*, and *Rahman*, because the individual who represented Tantillo, Curley, does not represent Lech. Lech's attorney, Schapiro, has no knowledge whatsoever of any confidences shared between Tantillo and Curley. Thus, Schapiro does not possess any information that could inhibit him from presenting a vigorous defense at trial. The instant conflict of interest arises solely from the fact that attorneys from the same office, the Federal Defender Division, represented Tantillo and Lech at different times.

- (1) advise the defendant of the dangers arising from the particular conflict;
  - (2) determine through questions that are likely to be answered in narrative form whether the defendant understands those risks and freely chooses to run them, and;
  - (3) give the defendant time to digest and contemplate the risks after encouraging him or her to seek advice from independent counsel.
- See United States v. Iorizzo*, 786 F.2d 52, 59 (2d Cir.1986) (summarizing *Curcio*).

The ABA Model Rules of Professional Conduct, the ABA Model Code of Professional Responsibility, and the New York Code of Professional Responsibility all prohibit members of the same firm from representing clients in matters which are materially adverse to the interests of a former client unless the appropriate waivers have been obtained.<sup>5</sup> *See* ABA Model Rules of Professional Conduct 1.9 and 1.10; ABA Model Rules of Professional Responsibility DR 5-105; New York Code of Professional Responsibility DR 5-105.

One of the main presumptions underlying this prohibition is that lawyers in the same firm either share or have access to the confidences of all of the firm's clients. Some courts and commentators believe, however, that this presumption must be viewed flexibly in cases involving government departments and legal aid societies, because frequent turnover and heavy caseloads considerably reduce access to client confidences. *See, e.g., United States v. Judge*, 625 F.Supp. 901, 902-03 (D.Hawaii 1986) (finding "Chinese Wall" sufficient to rebut presumption that client confidences shared where federal defenders represented prosecution witness on prior unrelated case) (citing ABA Comm. on Ethics & Professional Responsibility, Formal Op. 342 (1975), *reprinted in*, 62 A.B.A.J. 517 (1976)); ABA Model Rule 1.10, cmt. 3 (court considering whether to treat legal service attorneys as members of the same firm should consider particular rule involved as well as specific facts of situation).

While the importance of protecting client confidences and of not having one organization represent potentially adverse interests

cannot be diminished, in light of the facts revealed at the hearing and the unique circumstances of this case, automatically disqualifying the Federal Defender Division from representing Lech is fundamentally unfair. A rational defendant in this situation could knowingly and intelligently desire Schapiro's representation. Schapiro has a close relationship with Lech, developed over the past year. Schapiro is intimately familiar with all aspects of Lech's case, including the facts, the motion practice, and the numerous discovery disputes that have occurred. Schapiro also knows the substance of the government's case, and how a jury reacted to it, because he attended the critical portions of the Fulton trial. If Schapiro is relieved as counsel, Lech's trial date will have to be postponed to allow his new attorney sufficient time to learn and prepare his case. Lech maintains that in addition to increasing his anxiety, a delay of his trial will worsen his already difficult financial situation because few people have been willing to hire him while the charges against him have been pending.

I have no reason to disbelieve Curley's and Schapiro's representations that none of Tantillo's confidences were revealed to Schapiro, and that an effective "Chinese Wall" can and will be maintained between them. I do not see anything in this particular situation which impedes Schapiro's ability to continue his vigorous defense of Lech, and neither do I see a digression of interests between Lech and Schapiro with respect to known issues in this case.<sup>6</sup> Finally, a reasonable observer knowing the unique facts of this case would perceive Schapiro's representation of Lech as

5. The Southern District of New York generally disciplines attorneys when their conduct violates either the ABA Model Code of Professional Responsibility or the New York Code of Professional Responsibility. *See* Rule 4(f) of the General Local Rules for the United States District Courts for the Southern and Eastern District of New York; *see also Polycaast Technology Corp. v. Uniroyal, Inc.*, 87 Civ. 3297 (CSH), 1990 WL 180571 at \*1 (S.D.N.Y. November 15, 1990) (Haight, J.) (where Model Code and Model Rules conflict, preference given to Model Code) (citing *United States v. Hamad*, 858 F.2d 834, 837 (2d Cir. 1988); *United States v. Peng*, 766 F.2d 82, 86 n. 1 (2d Cir.1985), *cert. denied*, 498 U.S. 871, 111 S.Ct. 192, 112 L.Ed.2d 154 (1990)).

6. As with all *Curcio* situations, it is possible that a conflict may arise at trial. For example, Tantillo might testify that Curley told him either to act or not to act in a certain way. Such a statement might then raise a conflict of interest for Schapiro. There is nothing known to the Court, either in the 3500 materials produced by the government or in Tantillo's testimony during the Fulton trial, that suggests that the possibility of such a statement or any other imaginable scenario is anything more than speculative. Hence, I am not aware of anything that raises an actual, as opposed to a potential, conflict of interest.

fair. Accordingly, Lech could rationally choose to continue with Schapiro's representation. If this is Lech's desire, however, he must make a knowing and intelligent waiver of the potential conflict of interest. The Court will explain this issue further at the August 3, 1995 hearing.

## II. Lech's Motion for Sanctions

[6] Lech argues, with some force, that he should not have to waive either his right to conflict-free representation or his right to a speedy trial because of the government's careless failure to disclose information about the conflict of interest until the eve of trial. Instead, Lech argues that the better solution is to preclude the government from calling Tantillo as a witness, thereby eliminating the potential conflict of interest. Although I am sympathetic to Lech's current situation, precluding Tantillo from testifying is an extreme sanction and would only harm the interests of justice. Because Tantillo is a major witness in the government's case, there is a substantial risk that precluding Tantillo's testimony would confuse the jury, and impede the conduct of a fair trial based upon all competent evidence.

It is important to note that at no time has any party alleged that the government's failure to disclose the potential conflict was the product of intentional misconduct. The parties agree that the government's error was the result of an oversight, although they disagree as to whether the error should be described as the product of mere or gross negligence.

The failure of the United States Attorney's Office to disclose possible conflicts of interest to defense counsel has not been limited to the instant prosecution. Although, I cannot say that such failures are so frequent as to warrant the extraordinary sanction of preclusion here, I am placing the United States

Attorney's Office on notice that a recurrence of this sort of problem might well lead to a different result in another case.

In *United States v. Vegas*, 92 Cr. 92 (RPP), 1993 WL 30937 (S.D.N.Y. February 4, 1993) (Patterson, J.), a defendant was represented by the Federal Defender Division, as was a confidential informant whom the government intended to call at trial. Counsel for the defendant learned of the conflict only when the United States Attorney's Office disclosed the identity of the confidential informant. Just as in the instant case, the disclosure in *Vegas* occurred almost a year after counsel for the defendant had been assigned to the case. Two days after learning of the conflict, counsel for the defendant moved to dismiss the indictment, or in the alternative for an order precluding the government from calling the informant at trial, to withdraw as counsel, and for sanctions against the government. Judge Patterson observed that the United States Attorney's Office had failed to disclose conflicts of interest to the Federal Defender Division in other cases.<sup>7</sup> In denying the sanctions motion, Judge Patterson believed that the then past Chief of the Criminal Division had made sincere efforts to remind Assistants to check for conflicts in the wake of these incidents.

In describing the efforts of the United States Attorney's Office, Judge Patterson referred to a letter issued by the United States Attorney's Office in response to complaints filed by the Federal Defender Division. In that letter, the former Chief of the Criminal Division remarked:

[y]ou are certainly correct that it is beneficial to everyone if conflicts involving the Legal Aid Society can be detected early in the process. Unfortunately, the only procedure that will assure such detection is for Assistants to be conscious of the problem, and to make efforts to check the

(Duffy, J.). On August 3, 1995, Schapiro reported that additional failures to discover conflicts arose in *United States v. Bruce*, 94 Cr. 750 (AGS) (Schwartz, J.) and *United States v. Pablo Polanco*, 94 Cr. 481 (PKL) (Leisure, J.) (both government and assigned federal defender failed to recognize that same federal defender had also represented informant).

representation of co-defendants and other relevant individuals prior to arrest. This principle is already in place; regrettably, slip-ups do occur on occasion.

I apologize for the inconvenience to your Office that occurred in this matter, and I will make a point of reminding Assistants at the next Criminal Division meeting of the need for care in this regard.

Letter of Gerard E. Lynch, attached to Second Letter to the Court of Andrew H. Schapiro, dated July 28, 1995.

While efforts to remind Assistant United States Attorneys to check for conflicts may have been earnest and well intentioned, they certainly were not successful. I realize that oversights do occur, but the failure of the United States Attorney's Office to have a procedure in place to check who has represented cooperating witnesses, confidential informants, and co-defendants in other proceedings costs a great deal to defendants, their counsel, and the Court. Given the high turnover rate in the United States Attorney's Office, I do not believe that reminders to check for conflicts of interest are sufficient to create a permanent solution to this conduct. Instead of assessing blame, it is my hope that the United States Attorney's Office will expend its energies developing a substantive procedure to check continuously for possible conflicts in order to ensure immediate identification. The need for a procedure that requires supervisors and Assistant United States Attorneys to monitor for conflicts is especially great in complex prosecutions, where changes in the prosecution team and superseding indictments can create previously non-existent conflicts. By following a well-established procedure, conflicts will be discovered well in advance of trial.

Schapiro has brought to the Court's attention a number of cases involving similar oversights by the United States Attorney's Office, *supra*, at note 8. In light of the large number of prosecutions conducted each year, I cannot say, on the record before me, that the conduct of the United States Attorney's Office in this case is so egregious that the drastic remedy of precluding a central witness's testimony is warranted. Although choosing a conflict-free attorney would delay

the trial and thus cause some prejudice to Lech, the delay would not be substantial. Lech's trial will not be as long or as complex as Fulton's. The bulk of the government's evidence at the Fulton trial concerned the 402 Eastern parkway project, a scheme in which Lech is not charged. Balancing the equities of the situation, I determine that the sanction requested here is inappropriate. Nevertheless, I hope that my colleagues will consider following Judge Patterson's lead by writing about these occurrences so that their frequency can be measured more accurately and the possible need for extreme sanctions can be more fully assessed.

## Conclusion

Lech's motion to preclude the government from offering the testimony of the cooperating witness at his upcoming trial is denied. Either Lech will be permitted to waive Schapiro's potential conflict of interest, or a new attorney will be appointed and given every opportunity and resource to familiarize him or herself with this case.

SO ORDERED.



Anna VALMONTE, individually and on behalf of all others similarly situated, Plaintiffs,

v.

Mary Jo BANE, as Commissioner of the New York State Department of Social Services, and J. Daniel Bloomer, as Commissioner of the Orange County Department of Social Services, Defendants

No. 91 Civ. 2156 (AGS).

United States District Court,  
S.D. New York.

Aug. 3, 1995.

Civil rights plaintiff, who prevailed on appeal to Court of Appeals, 18 F.3d 982

[3,4] In determining a defendant's motion to dismiss the complaint for failure to state a claim upon which relief can be granted, all factual allegations in the complaint must be construed in favor of the plaintiff. See *Scheuer v. Rhodes*, 416 U.S. 232, 236, 94 S.Ct. 1683, 1686, 40 L.Ed.2d 90 (1974). A complaint may be dismissed pursuant to Rule 12(b)(6) only if the plaintiff can prove no set of facts that would entitle him to relief. *Friser v. General Elec. Co.*, 930 F.2d 1004, 1007 (2d Cir.1991), (citing *Conley v. Gibson*, 355 U.S. 41, 45-46, 78 S.Ct. 99, 101-02, 2 L.Ed.2d 80 (1957)). Consequently, for purposes of this motion to dismiss, all allegations in Plaintiff's complaint must be presumed true. *IUE AFL-CIO Pension Fund v. Herrmann*, 9 F.3d 1049, 1052 (2d Cir.1993), *cert. denied*, — U.S. —, 115 S.Ct. 86, 130 L.Ed.2d 38 (1994).

[5,6] I conclude that the plaintiff has failed to state a claim under 42 U.S.C. § 1983—his only federal claim. Plaintiff's § 1983 action is based upon alleged continuing retaliation on the part of the defendant Maglione and others for the plaintiff's exercise of free speech in writing the letter to the President of Metro-North. In order for a public employee's claim of free speech to withstand a motion to dismiss on the pleadings, he must establish that his speech concerned a matter of public concern and that the speech was a motivating factor in the retaliation. See *Sheppard v. Beerman*, 18 F.3d 147, 151 (2d Cir.), *cert. denied*, — U.S. —, 115 S.Ct. 73, 130 L.Ed.2d 28 (1994), citing *Frank v. Relin*, 1 F.3d 1317, 1330 (2d Cir.), *cert. denied*, — U.S. —, 114 S.Ct. 604, 126 L.Ed.2d 569 (1993). The determination of whether speech is a matter of public concern is a question of law, which should be considered on the basis of "the content, form, and context of a given statement, as revealed by the whole record." *Connick v. Myers*, 461 U.S. 138, 147-48, 103 S.Ct. 1684, 1690, 75 L.Ed.2d 708 (1983).

[7,8] A public employee's speech is fairly characterized as a matter of public concern where the speech, "relat[es] to any matter of political, social, or other concern to the community." *Id.* at 146, 103 S.Ct. at 1690. Where the speech does not relate to such

matters, "government officials should enjoy wide latitude in managing their offices, without intrusive oversight by the judiciary in the name of the First Amendment." *Id.* The Supreme Court has held that

"when a public employee speaks not as a citizen on matters of public concern, but instead as an employee on matters only of personal interest, absent the most unusual circumstances, a federal court is not the appropriate forum in which to review the wisdom of a personnel decision taken by a public agency allegedly in reaction to the employee's behavior."

*Id.*, 461 U.S. at 147, 103 S.Ct. at 1690.

[9] The alleged exercise of free speech in this case did not involve matters of public concern. Rather, it involved a matter of purely private interest namely, "the failure of [Shannon's] immediate supervisors to respect his seniority right or to take appropriate action in furtherance of it." (Compl. ¶ 2). The fact that the plaintiff is not satisfied with the manner in which Metro-North handled his grievance does not mean that he can recast his grievances under the rubric of a First Amendment violation.

The incident which is the basis of the plaintiff's constitutional claims is not a matter of public concern, and therefore, his constitutional claim fails as a matter of law. Defendants' motion to dismiss the § 1983 claim is granted.

I decline to exercise pendent jurisdiction over the remaining state law claims for intentional infliction of emotional distress and defamation. See 28 U.S.C. § 1367(c)(3). Plaintiff's motion to amend the complaint in this court to add an additional state law claim for "tortious interference with beneficial economic relations" is denied. The clerk is therefore ordered to enter judgment dismissing the complaint herein.

SO ORDERED.



KRUEGER INTERNATIONAL,  
INC., Plaintiff,  
v.  
NIGHTINGALE INC., Defendant.

No. 95 Civ. 10703 (SS).

United States District Court,  
S.D. New York.

Jan. 31, 1996.

Furniture manufacturer brought action against competitor, alleging that trade dress of its stacking chairs had been infringed. On manufacturer's motion for preliminary injunction, the District Court, Sotomayor, J., held that: (1) trade dress of manufacturer's chairs was protectable, but (2) manufacturer's nine-month delay in filing suit precluded grant of preliminary injunctive relief.

Motion denied.

#### 1. Trade Regulation ¶10, 43, 478

To be entitled to trade dress protection, plaintiff must show that its trade dress is distinctive, either because it is inherently so or because it is acquired secondary meaning, and that there is likelihood of confusion between its product and defendant's product. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

#### 2. Trade Regulation ¶525

Defendant may avoid liability for trade dress infringement by showing that trade dress is functional. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

#### 3. Trade Regulation ¶24, 25, 43

Suggestive, arbitrary and fanciful marks and dresses are always considered inherently distinctive, in that their intrinsic nature serves to identify particular source of product or they are capable of identifying particular source of product, whether or not trade dress has acquired secondary meaning or wide public association with source. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

#### 4. Trade Regulation ¶12.1, 23, 478

Descriptive marks are protected only if they have acquired secondary meaning; generic marks receive no protection. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

#### 5. Trade Regulation ¶10

"Inherent quality," for purposes of determining whether trade dress is protectable as inherently distinctive, is one which inheres in product, regardless of what producer intends, particularly if product is too new to have acquired secondary meaning. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

#### 6. Patents ¶28

##### Trade Regulation ¶43

Design patent is analytically distinct from protectable trade dress, and industrial products may qualify for both kinds of protection without violating policy goals of either patent or trade dress law. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

#### 7. Patents ¶28

Design patent, unlike utility patent, is granted for product's nonfunctional, ornamental features; it is appropriate only for industrial design, and one of its purposes is to promote progress in the decorative arts.

#### 8. Patents ¶28

To qualify for design patent, product's features must be new, non-obvious and ornamental; they need not be inherently distinctive.

#### 9. Patents ¶131

When design patent expires, design becomes copyable; it may not, however, be copied in such a way that customers are deceived about what they are buying.

#### 10. Trade Regulation ¶68

Trademark rights last for indefinite period, depending on strength and duration of public's recognition that mark identifies producer's goods. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 11. Trade Regulation § 10, 43

Novelty is irrelevant for trademark or trade dress protection; design must meet rigorous test of inherent distinctiveness or secondary meaning and likelihood of confusion. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 12. Trade Regulation § 43

Design patent can neither guarantee nor preclude finding of protectable trade dress. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 13. Trade Regulation § 578

Existence of design patent is relevant to functionality defense in trade dress infringement case; because design patent is granted only for nonfunctional designs, it can serve as evidence that plaintiff's trade dress is not functional. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 14. Trade Regulation § 589

At best, design patent can only help rebut functionality defense in trade dress infringement case; it cannot do whole job of proving inherent distinctiveness. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 15. Trade Regulation § 43

Plaintiff in trade dress infringement case needs to show that, in its market at time of alleged infringement, design formerly subject to design patent is both ornamental and deserving of trade dress protection. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 16. Trade Regulation § 43

Furniture manufacture had protectable trade dress in the overall look of its stacking chair; seat, back and Z-shaped connecting rods between seat and back gave chair distinctive overall look that was unique among high density stacking chairs, and manufacturers of such chairs generally saw unique designs as important source identifier. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 17. Trade Regulation § 525

Design of furniture manufacturer's stacking chairs was not functional, so as to preclude trade dress protection, on grounds only copy of chair would "interstack" perfectly with it; evidence indicated that market did not demand perfect "interstackability", and that there were other designs that could serve same function. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 18. Trade Regulation § 43

Furniture manufacturer that was entitled to trade dress protection for design of its stacking chairs could not claim trade dress in each of its design features individually. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 19. Trade Regulation § 574

Burden of proving likelihood of confusion in trade dress infringement case falls on plaintiff. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 20. Trade Regulation § 334.1

Factors used to evaluate likelihood of confusion in trade dress infringement case are: strength of mark; degree of similarity between two marks; proximity of product; likelihood that senior user will bridge the gap and enter junior user's market; actual confusion; defendant's good faith; quality of defendant's product; and sophistication of buyers. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 21. Trade Regulation § 578, 580

Evidence required to prove secondary meaning in trade dress infringement case includes advertising expenditures; consumer survey showing that customer associated trade dress with source; sales success; unsolicited media coverage of product; attempts to plagiarize mark; and length and exclusivity of mark's use. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 22. Trade Regulation § 587

Evidence in furniture manufacturer's trade dress infringement action was insufficient to establish that design of manufacturer's stackable chairs had acquired secondary

meaning, making mark only moderately strong in determining whether to grant preliminary injunctive relief; although chair had been on market for 20 years, manufacturer had spent relatively little on advertising, did not encourage buyers to associate chair's design with manufacturer, and did not offer evidence that buyers associated chair's design with manufacturer. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 23. Trade Regulation § 372

Prominent labeling of highly similar products can dispel likelihood of confusion in trade dress infringement case. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 24. Trade Regulation § 345.1

Similarity of design of manufacturer's stacking chairs with design of competitor's stacking chairs weighed strongly in favor of manufacturer in its trade dress infringement action; although competitor's chairs were labeled, labeling was embossed underneath seat of chair and 7,300 of competitor's chairs never be permanently labeled. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 25. Trade Regulation § 335

Evidence of actual confusion is not required in trade dress infringement case, because actual confusion is difficult to prove and law requires only likelihood of confusion. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 26. Trade Regulation § 574

Intentional copying gives rise to presumption of likelihood of confusion in trade dress infringement case. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 27. Trade Regulation § 596

Competitor's intentional copying of design of manufacturer's stacking chairs for sale to government agency weighed moderately against competitor in determining likelihood for confusion in manufacturer's trade dress infringement case, where agency purchased chairs through competitive bidding

process and was never in danger of being confused or deceived. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 28. Trade Regulation § 336

In general, the more sophisticated the customers, the less likely they are to be confused about source of products for purposes of trade dress infringement case; however, even sophisticated buyers are not always careful buyers, and their very awareness of status brand names and designs may make them more vulnerable to confusion. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 29. Trade Regulation § 596

Furniture manufacturer's nine-month delay in bringing trade dress infringement action after discovering that competitor had deliberately copied design of its stacking chairs weighed against finding of likelihood of confusion; manufacturer passed up any opportunities to assert its rights, such as sending cease and desist letter to competitor or launching prompt investigation after it saw competitor's prototype, and did not think about infringement claim until it lost government contract and competitor's chair began appearing at trade shows. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 30. Injunction § 138.1

In order to obtain preliminary injunction, moving party must show likelihood of irreparable injury and either likelihood of success on the merits or sufficiently serious questions going to the merits and balance of hardships tipping decidedly in movant's favor.

## 31. Trade Regulation § 620

Ordinarily, likelihood of confusion establishes presumption of irreparable harm necessary for preliminary injunctive relief in trade dress infringement action; this presumption does not apply, however, when plaintiff has delayed without good cause in seeking emergency relief. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

## 32. Trade Regulation — 623

Furniture manufacturer's nine-month delay in bringing trade dress infringement action after discovering that competitor had exactly copied design of its stacking chairs precluded grant of preliminary injunctive relief. Lanham Trade-Mark Act, § 43(a), as amended, 15 U.S.C.A. § 1125(a).

Kenyon & Kenyon, New York City, (Allen J. Baden, of counsel), for Plaintiff.

Darby & Darby P.C., New York City, (Andrew Baum, of counsel), for Defendant.

## OPINION AND ORDER

SOTOMAYOR, District Judge.

Plaintiff, a manufacturer of metal-frame stacking chairs, alleges that defendant, a competitor, has "slavishly copied" its chair design and thereby infringed its trade dress under § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a).<sup>1</sup> The plaintiff, Krueger International, Inc. ("KI"), moves for a preliminary injunction against the defendant, Nightingale Inc. ("NI"), on the grounds that the KI design is distinctive and that NI's design is confusingly similar. KI seeks to enjoin NI from advertising, manufacturing or selling copies of the KI chair. For the reasons discussed below, KI's motion is DENIED.

## BACKGROUND

The parties to this action are established manufacturers of office and industrial furniture. KI, founded in 1941, is headquartered in Green Bay, Wisconsin. NI is a Canadian corporation established in 1928. Both companies produce numerous lines of chairs for commercial use. At issue here is KI's Matrix<sup>2</sup> chair, which competes in the "high density" stacking chair market. High density chairs are strong, lightweight chairs, capable

of being stacked up to 40 units high. The stacking feature of the chairs makes them easy to transport and efficient to store. The chairs are sold in large volume, often through a competitive bidding process, to convention centers, school systems and other institutions that must accommodate crowds. There is no direct retail market for the chairs, although some of these chairs are sold to furniture dealers.

The Matrix chair was introduced in 1976, received a design patent in 1978, and quickly became KI's single most successful product.<sup>3</sup> At least 10 other designs currently compete in this market.<sup>4</sup> Although the Matrix design patent expired in 1991, no competitor has attempted to produce an exact copy of the Matrix chair until the NI chair.

This Court held oral argument on January 17, 1996, at which the parties produced specimens of their own chairs as well as those of two competitors. The defendant's chair, called the Beetle 300, is a virtual carbon copy of the Matrix chair. The other competing designs are visually distinguishable. Although they all have a thin metal frame made of chrome-covered steel, and a seat and back made of molded plastic, the Matrix and Beetle chairs share three other features which KI claims as trade dress. One feature is a pair of Z-shaped metal rods that zig-zag in and out, connecting the seat and the back. (Competitors use straight connecting rods between the seat and back.) The second feature is the shape of the seat, which has an unusually deep "dip," and the third is the shape of the back, which suggests a trapezoid.

Defendant NI frankly acknowledges that it copied the Matrix chair down to the last detail, and states that it did so because KI's design patent had expired and because NI

1. Plaintiff does not cite the Lanham Act or any particular section of that Act in its Notice of Motion. Plaintiff does mention the Act in a passing reference in its supporting papers. (Mem. in Support of Motion at 22). I assume for the purposes of this motion that plaintiff means to invoke 15 U.S.C. § 1125(a), which has been interpreted as providing protection to unregistered trade dress designs. See *LeSportsac, Inc. v. K Mart Corp.*, 754 F.2d 71, 75 (2d Cir.1985).

2. Matrix is a registered trademark of KI.

3. KI asserts that Matrix sales (at wholesale price) have totaled more than \$150 million, including almost \$50 million since 1991. (Pl.'s Notice of Motion at 5.)

4. In their motion papers, the parties have introduced photographs of other competing products.

needed to clone the Matrix chair in order to meet government specifications in a competitive bidding process. The bids had been solicited by a government-owned corporation, Unicor, which buys chair components from private manufacturers and sends them to federal prisons, where inmates assemble them. Unicor then sells the completed chairs to federal government agencies. Until July 1994, KI was the fortunate holder of the Unicor contract. When the contract expired, Unicor began advertising for new bids. Included in the bid specifications was a technical drawing of the Matrix chair. Because much of the subsequent story turns on what KI knew about defendant's response to those specifications, and when, it is appropriate to set out the facts of the bid process in some detail.

At a pre-bid conference organized by Unicor in December, 1994, Gregory Wallis, a Unicor executive, opened the meeting by addressing Unicor's general concerns, including the following:

One issue that we typically are concerned about is if there is any kind of patent or proprietary rights for the products that we are buying. We have had some history with that and we want to be made aware of that up front if there is anything that *we would not be allowed to either produce ourselves or purchase elsewhere and combine with maybe your component parts, something of that nature.* If there is any kind of restrictive rights under the products that we will be buying, we need to know that up front.

(Tr. of Unicor Pre-Bid Conf. at 13-14 (emphasis added).) Later in the same meeting, another Unicor spokesman, Michael Campanale, answered five written questions from prospective bidders. Two of the five questions concerned the Matrix chair and its prominent place in Unicor's specifications.

Q: The RFP (Request for Proposal) indicates that all offerors will be evaluated per the minimum specification requirements. Yet many of the (technical requirements) are either proprietary or highly restrictive. Are we to propose what we have that we believe is best for Unicor or are we to force our products to meet Krueger Manu-

facturing methods and specifications? To do so will cause higher costs for us and a significant competitive advantage to Krueger.

A: All of the indicated specifications and requirements are not intended to be restrictive. This is exactly why we developed it as an RFP, Request for Proposal, and not simply as a bid package. All samples will be considered that fall within a competitive range of pricing and technical factors....

Q: Section C [of the Request] is obviously a set of specifications for the Krueger Matrix ... chair. Are these considered hard specifications or can a product which does not meet these exact specifications, but is an equal or even superior product, be proposed and awarded?

A: [Y]es. All proposals which indicate equal or even superior specifications will be considered.

(*Id.* at 20-21, 23.) Campanale explained that the specifications were meant to ensure quality and to maintain "a general consistency with the hundreds of thousands of high density stacking chairs" (i.e., Matrix chairs) that Unicor had already sold to federal agencies. "There is also a need to consider the customer's concern and possible preference to be able to have chairs which meet, reasonably match in the areas of color, stackability, style, quality and performance." (*Id.* at 24-25.) Two employees of KI attended this conference.

In March 1995, Unicor awarded the contract to NI, having ranked KI's bid third, below competitor CPSI. The contract is worth at least \$7.7 million over five years.

Unicor immediately asked NI to provide a prototype of the Beetle chair to allow Unicor to verify that the Beetle and Matrix chairs would "stack" interchangeably. (Campanale Decl. at 2.) Within a few days, a prototype arrived at the Unicor office. The chair was a patched-together affair: NI had made the metal frame, but had cannibalized the seat and back sections from a Matrix chair. As NI states in its motion papers, "[t]he prototype included Nightingale's own frame, but

because we had not yet tooled the back and seat, we inserted a Matrix back and seat into the prototype, for purposes of the prototype only." (Breen Decl. at 5.) Significantly, the NI frame featured two Z-shaped rods connecting the seat and back. The Matrix components fit on this frame perfectly.

A few days later, KI Vice President Daniel Schiltz visited Unicor and saw the Beetle prototype. (Schiltz Aff. at 1.) Schiltz was sufficiently alarmed to protest to Campanale, a Unicor executive, that "it appeared to be a KI chair." (Campanale Decl. at 2.) Campanale said that the chair was only a prototype and that NI would soon be making its own parts for the seat and back. (*Id.*)

On March 30, 1995, KI filed a formal protest with the Government Accounting Office (the "GAO"), challenging the contract award to NI. The essence of KI's protest was that Unicor had improperly favored NI in the bidding process by waiving certain requirements for NI but not for other bidders, and had given more weight to price considerations than the specifications had indicated. KI also protested the fact that Nightingale had submitted a prototype using KI parts.

KI's protest effected an immediate stay of the contract and Unicor directed NI to stop production until further notice. In the meantime, NI began preparing photographs of the Beetle chair for promotional purposes. In May 1995, as part of the bid protest process, NI sent an updated copy of its entire chair product line to the GAO and to KI's attorney. (Kunzi Decl. at 1.) Included was a photograph of the Beetle chair. Although a KI lawyer knew what the Beetle chair looked like as of May 1995, the lawyer maintains that this photograph was subject to a GAO protective order, which barred attorneys from disclosing competitive information to their clients during the bid protest process. NI's lawyer disagrees, contending that a publicity brochure does not constitute competitive information subject to the protective order.

Wholly apart from the bid protest, however, NI soon began sending new product catalogues to its representatives and dealers. (Breen Decl. at 6.) These catalogues also contained photographs of the Beetle chair.

In June, a shipment of catalogues arrived at Unicor, where Campanale placed them on a table. Sometime thereafter, Schiltz, the same KI executive who had seen the Beetle prototype and had expressed concern, visited Campanale. This time Schiltz looked through the catalogue, "noticed the photographs of the Beetle chair," and took a copy with him. (Campanale Decl. at 2.)

In July 1995, although the bid protest was still pending, Unicor instructed NI to begin immediate performance on the contract "in the best interests of the Government." In September, Unicor notified both the GAO and KI's attorney that NI had begun production. In October, the GAO dismissed KI's bid protest because Unicor had agreed to reopen bidding on technical considerations. Between September and December, 1995, Nightingale shipped enough chair parts to Unicor to produce 10,000 Beetle chairs. Its contract, however, is still subject to termination if its product samples fail Unicor testing. (Ralston Decl. at 3.)

In November 1995, Nightingale displayed the Beetle chair at trade shows in New York City and Toronto. It was at these trade shows, the first on November 2 and the second on November 17, KI asserts, that it first saw the Beetle chair. Not until December 7, 1995, however, did an investigator for KI attempt to find a Beetle chair and not until about December 11, 1995, was KI's Canadian counsel successful in securing a chair. (Jaraczewski Aff. at 6; Jameson Aff. at 1-2.) KI filed a Complaint in this action on December 19, 1995, and requested a preliminary injunction two days later.

## DISCUSSION

### I. Merits of the Lanham Act Claim

#### A. Inherent Distinctiveness.

This case presents one of the most difficult analytical issues in all of trade dress law: how to determine whether a product design is "inherently distinctive." The issue is particularly pressing and unresolved in this circuit, whose rule for trade dress protection was upended three and a half years ago by the Supreme Court in *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 112 S.Ct.

2753, 120 L.Ed.2d 615 (1992). Prior to *Two Pesos*, a plaintiff seeking trade dress protection in this circuit had to prove that the dress had acquired secondary meaning. *Two Pesos*, which unified the standard for trademark and trade dress law, held that protection for trade dress requires either inherent distinctiveness or secondary meaning, but not both. *Two Pesos*, 505 U.S. at 774, 112 S.Ct. at 2760.

[1, 2] The general rules of trade dress protection had been long established. Section 43(a) of the Lanham Act protected the "trade dress" of a product, which is defined as the product's "total image," including "features such as size, shape, color or color combinations, texture, [or] graphics." *LeSportsac, Inc. v. K Mart Corp.*, 754 F.2d 71, 75 (2d Cir.1985) (citations omitted). It was equally well settled that trade dress includes both product packaging and product design, and that trade dress is protected only when the infringer's product threatens to confuse customers about the source of the goods. *Id.* *Two Pesos* clarified the standard for trade dress protection as follows: a plaintiff must show (1) that its trade dress is distinctive, either because it is inherently so or because it has acquired secondary meaning, and (2) that there is a likelihood of confusion between its product and the defendant's product. *Tough Traveler, Ltd. v. Outbound Products*, 60 F.3d 964, 967 (2d Cir.1995) (citing *Two Pesos*, 505 U.S. at 770, 112 S.Ct. at 2768). A defendant may avoid liability, however, by showing that the trade dress is functional. *Two Pesos* at 770, 112 S.Ct. at 2758.

[3, 4] The classic test for determining the distinctiveness of a trademark was outlined in *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir.1976), and the test has since been extended to trade dress as well. See *Jeffrey Miltstein, Inc. v. Greger, Lawlor, Roth, Inc.*, 58 F.3d 27, 31 (2d Cir.1995); *Paddington Corp. v. Attiki Importers & Distributors, Inc.*, 996 F.2d 577, 583-84 (2d Cir.1993); accord, *Two Pesos*, 505 U.S. at 773-74, 112 S.Ct. at 2760. Under the *Abercrombie* test, marks are classified as either (1) generic, (2) descriptive, (3) suggestive, or (4) arbitrary or fanciful. *Abercrom-*

*bie*, 537 F.2d at 9. Suggestive, arbitrary and fanciful marks and dresses are always considered inherently distinctive, in that their "intrinsic nature serves to identify a particular source of a product" or they are "capable of identifying a particular source of the product," whether or not the trade dress has acquired secondary meaning or a wide public association with the source. *Two Pesos* at 767, 771-73, 112 S.Ct. at 2757, 2759 (emphasis added). Descriptive marks are protected only if they have acquired secondary meaning. Generic marks receive no protection. *Id.* at 767-69, 112 S.Ct. at 2757-58.

But as many courts have observed in varying degrees of frustration, the *Abercrombie* classifications do not translate easily to the trade dress context. The problem is not severe when the trade dress involves product packages and labels, which, like trademarks, at least have the advantage of using words and symbols independent of the product to convey information to consumers. See, e.g., *Paddington*, 996 F.2d at 583-84 (holding No. 12 Ouzo label and bottle to be inherently distinctive). The problem is often daunting, however, when it comes to product designs. Does the shape of a chair seat "suggest" a chair seat? Does it "describe" a chair seat? Or is it just a chair seat? No matter how beautifully designed, an industrial product is what it is. This conundrum recently led the Second Circuit in *Knitwaves, Inc. v. Lollytogs Ltd.*, 71 F.3d 996 (2d Cir.1995), to abandon the *Abercrombie* test for product design and announce a new test. I believe, however, that this new test is not particularly helpful because it does not clearly address the standards in this area as set by the Supreme Court.

In *Knitwaves*, this circuit announced a departure from its earlier approach to trade dress law. *Knitwaves* involved the design of children's sweaters, particularly the use of "leaf" and "squirrel" designs placed on the sweaters. The court stated (1) that the *Abercrombie* classifications "make little sense when applied to product features" and were therefore "inapplicable" to product designs, and (2) that henceforth the new test for inherent distinctiveness is whether the manufacturer "used" or "intended to use" the de-

sign "to identify the source and distinguish his or her goods." *Knitwaves* at 1006-09 (citations omitted). In adopting this approach, the court cited approvingly to the Third Circuit decision in *Duraco Prods., Inc. v. Joy Plastic Enterprises, Ltd.*, 40 F.3d 1431, 1440-41 (3d Cir.1994). The *Duraco* approach, however, leaves much to be desired. Cf. *Tough Traveler*, 60 F.3d at 970 n. 1 (Jacobs, J., concurring) ("Under no circumstances do I believe this appeal compels us to decide whether ... we should adopt the method of analysis" in *Duraco*). The Eighth Circuit instead has recently made a forceful and persuasive argument that the Supreme Court has not authorized us to abandon *Abercrombie*, no matter how much difficulty it causes. *Stuart Hall Co. v. Ampad Corp.*, 51 F.3d 780, 788 (8th Cir.1995). As the Eighth Circuit reasoned, *Two Pesos* was clearly a case of product design and it expressly approved the application of the *Abercrombie* classifications to the design of a Mexican restaurant chain. *Two Pesos*, 505 U.S. at 773-74, 112 S.Ct. at 2760. Moreover, the entire thrust of *Two Pesos* was to unify the standards for trademark and trade dress, not to balkanize this complex field into yet more subcategories. I agree with the Eighth Circuit's conclusion that the Supreme Court envisions trade dress as a "single concept" with trademark law requiring a single test for inherent distinctiveness. *Stuart Hall*, 51 F.3d at 788.

[5] Further, I believe that *Knitwaves*'s new test for inherent distinctiveness confuses the analytical requirements for inherent distinctiveness with those of secondary meaning. Inherent distinctiveness cannot hinge on how a producer intends to promote a design. If such were the case, the evidentiary requirements for inherent distinctiveness would be almost identical to those for secondary meaning, and there would be no point in having two categories. A producer could only prove "intent" by producing evidence of how he or she has advertised (or positioned) the product, and by producing consumer surveys showing how well the advertising worked. This is precisely the kind of evidence required for a showing of secondary meaning. See *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 851 n.

11, 102 S.Ct. 2182, 2187 n. 11, 72 L.Ed.2d 606 (1982) ("To establish secondary meaning, a manufacturer must show that, in the minds of the public, the primary significance of a product feature ... is to identify the source of the product rather than the product itself.") (emphasis added). An inherent quality, by contrast, is one which "inheres" in a product, regardless of what the producer intends, particularly if the product is too new to have acquired secondary meaning. *Two Pesos* created no such "intent" requirement, stating only that an inherently distinctive design is one that is "capable of identifying a particular source of the product." *Two Pesos*, 505 U.S. at 771, 112 S.Ct. at 2759 (emphasis added). Furthermore, the Court explicitly cautioned that "[e]ngrafting onto § 43(a) a requirement of secondary meaning for inherently distinctive trade dress ... would undermine the purposes of the Lanham Act." *Id.* at 774, 112 S.Ct. at 2760.

In fashioning its "intent" requirement, the *Knitwaves* court relied on dicta from the Supreme Court's opinion in *Qualitex Co. v. Jacobson Products Co.*, — U.S. —, 115 S.Ct. 1300, 1303, 131 L.Ed.2d 248 (1995), but *Qualitex* was a trademark case that hinged entirely on secondary meaning. In *Qualitex*, the issue was whether a color could serve as a registered trademark. Justice Breyer did quote directly from the Lanham Act, 15 U.S.C. § 1127, which does indeed define a trademark as any "word, name, symbol, or device" that a person "use[s]" or "intend[s] to use ... to identify and distinguish his or her goods." *Id.* But his inquiry did not stop there. The Court then asked whether a color could be inherently distinctive. Upon determining that it could not, the Court proceeded to observe that "over time, customers may come to treat a particular color ... as signifying a brand." *Qualitex*, — U.S. at —, 115 S.Ct. at 1303. This is secondary meaning. The Court concluded that the green-gold color at issue in *Qualitex*, although not inherently distinctive, had acquired secondary meaning and therefore could be registered as a trademark. *Id.* Hence, a close reading of *Qualitex* does not support the notion that the "use or intended

use" language of the Lanham Act provides a definition of inherent distinctiveness.

*Knitwaves*, however, does provide some guidance for a workable approach to inherent distinctiveness, particularly when read in conjunction with efforts by other courts. The Fifth and Eighth Circuits offer particularly useful instruction. The Fifth Circuit's *Chevron* test, first developed for product packaging, states that "[i]f the features of the trade dress sought to be protected are arbitrary and serve no function either to describe the product or assist in its effective packaging," the dress is inherently distinctive. *Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 702 (5th Cir.1981) (packaging of lawn and garden products), *cert. denied*, 457 U.S. 1126, 102 S.Ct. 2947, 73 L.Ed.2d 1342 (1982). This is essentially a test of functionality. The Supreme Court explicitly approved the application of the *Chevron* test to product designs in its decision in *Two Pesos*. 505 U.S. at 773-74, 112 S.Ct. at 2760.

The Eighth Circuit also emphasizes the issue of functionality, asking:

whether, and how much, the trade dress is dictated by the nature of the product ... If the specific design of the trade dress is only tenuously connected with the nature of the product, then it is inherently distinctive ... If the design of the trade dress is dictated by the nature of the product, then secondary meaning must be proven.

*Stuart Hall*, 51 F.3d at 786.

A third test based on the *Abercrombie* classifications was developed 19 years ago by the Court of Customs and Patent Appeals:

In determining whether a design is arbitrary or distinctive this court has looked to whether it was a 'common' basic shape or design, whether it was unique or unusual in a particular field, [or] whether it was a mere refinement of a commonly-adopted and well-known form of ornamentation for a particular class of goods view by the public as a dress or ornamentation for the goods.

*Seabrook Foods, Inc. v. Bar-Well Foods Ltd.*, 568 F.2d 1342, 1344 (C.C.P.A.1977). The *Seabrook* test is the most useful of the

three tests, in my view, because it clarifies the importance of market context. The *Seabrook* test asks "whether the design, shape or combination of elements is so unique, unusual or unexpected in this market that one can assume without proof that it will automatically be perceived by customers as an indicium of origin." 1 McCarthy, Trade-marks and Unfair Competition § 8.02[4] (emphasis added); see also *AmBrit, Inc. v. Kraft, Inc.*, 812 F.2d 1631 (11th Cir.1986) (applying *Seabrook* test to product design), *cert. denied*, 481 U.S. 1041, 107 S.Ct. 1983, 95 L.Ed.2d 822 (1987). In other words, *Seabrook* highlights the notion that a design cannot be considered in a vacuum, which courts have known all along. See, e.g., *Thompson Medical Co. v. Pfizer Inc.*, 763 F.2d 208, 213 (2d Cir.1985) ("the determination whether a mark is descriptive or suggestive cannot be made in a vacuum"). Any test of inherent distinctiveness must ask, "Inherently distinctive as compared to what?" The various tests of functionality, discussed in greater detail *infra*, serve much the same purpose; they ask whether a given design is functionally necessary in a given market (and therefore common) or whether it is more akin to a hood ornament. See, e.g., *W.T. Rogers Co. v. Keena*, 778 F.2d 334, 339 (7th Cir.1985) (Posner, J.). The Fifth Circuit implicitly asked similar questions in *Two Pesos* when it considered whether, within the universe of Mexican restaurant chains, the plaintiff's particular restaurant decor was common or uncommon. *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1118-19 (5th Cir.1991), *aff'd*, 505 U.S. 763, 112 S.Ct. 2763, 120 L.Ed.2d 616 (1992).

The *Seabrook* approach is fully consistent with the case law in the Second Circuit. Before *Two Pesos*, the question of market context generally arose in light of the so-called functionality defense. E.g., *Wallace Int'l Silvermiths, Inc. v. Godinger Silver Art Co.*, 916 F.2d 76, 79-81 (2d Cir.1990) (no protection for widely-used elements of baroque design in silverware), *cert. denied*, 499 U.S. 976, 111 S.Ct. 1622, 113 L.Ed.2d 720 (1991); *Stormy Climate Ltd. v. ProGroup, Inc.*, 809 F.2d 971, 977 (2d Cir.1987) (no protection for functional elements of rain jackets). In the wake of *Two Pesos*, this

circuit has continued to apply a *Seabrook*-type analysis to the puzzle of inherent distinctiveness. See, e.g., *Mana Products, Inc. v. Columbia Cosmetics Mfg., Inc.*, 65 F.3d 1063, 1069-70 (2d Cir.1995) (examining "the custom in a particular industry" for packaging cosmetics in black containers); *Paddington*, 996 F.2d at 583 (citing examples of industry customs: "packaging lime-flavored soda in green twelve-ounce cans is so common in the soft drink industry that such packaging probably is not inherently distinctive"). In *Knitwaves*, the court examined the clothing market and concluded that when people buy clothing, they do not tend to use overall design as an indicator of source. *Knitwaves* at 1008-09. This approach followed naturally from *Stormy Climate*, the case involving rain jackets, in which the court declared that labels, more than design, provide a "traditional means of identifying the manufacturer of clothing." *Stormy Climate*, 809 F.2d at 977. *Knitwaves* also quoted approvingly from the Restatement (Third) of Unfair Competition, which asks whether "because of the nature of the [design] and the context in which it is used, prospective purchasers are likely to perceive it" as a source-identifier. *Knitwaves* at 1008-09 (citing Restatement (Third) of Unfair Competition § 13(a) (1995) (emphasis added)). When considered in this light, *Knitwaves*'s emphasis on the producer's "intent" may be analogous to asking, "What is the custom in this industry?" Or: "How does this industry, including this claimant, use designs?" See also *Mulberry Thai Silks, Inc. v. K & K Neckwear, Inc.*, 897 F.Supp. 789, 796-97 (S.D.N.Y.1995) (in men's necktie industry "[t]he use of geometric design elements, bright colors and the like is common"); *Casa Editrice Bonechi, S.R.L. v. Irving Weisdorf & Co., Ltd.*, 1995 WL 528001 at \*6 (S.D.N.Y. 1995) (applying *Seabrook* test to souvenir guidebooks); *Jaret Int'l, Inc. v. Promotion In Motion, Inc.*, 826 F.Supp. 69, 75 (E.D.N.Y.1993) (applying *Seabrook* test to sour candies); *EFS Marketing, Inc. v. Russ Berrie & Co.*, 836 F.Supp. 128 (S.D.N.Y.1993) (no trade dress protection for "troll" doll with pointed ears, pug nose, pot belly, wild hair and outstretched arms, because such elements are common in doll industry).

[6] Before applying these principles to the instant case, it is appropriate to address some common misconceptions about the interplay of patent law and trade dress law. The plaintiff in this case contends that because the Matrix chair has received a design patent, this patent constitutes proof of inherent distinctiveness. The defendant argues just the opposite: that KI is unlawfully seeking to extend its expired patent monopoly, and that patented designs can never claim the protection of trade dress law. Both arguments are incorrect. A design patent is analytically distinct from a protectable trade dress, and industrial products may qualify for both kinds of protection without violating the policy goals of either patent or trade dress law. See, e.g., *Hubbell Inc. v. Pass & Seymour, Inc.*, 883 F.Supp. 956, 959-60 (S.D.N.Y.1995) (Sweet, J.); *Rogers*, 778 F.2d at 337; 1 McCarthy, Trademarks and Unfair Competition § 6.01[5] (3d ed. 1995). The purpose of patent law is to encourage innovation by excluding competition (i.e., copying) for a limited period of time. 1 McCarthy § 6.01[5]. The purpose of trademark law is to prevent confusion as to the source of goods. 1 *Id.* § 6.03[5] (citations omitted). As the Court of Customs and Patent Appeals has observed:

[T]rademark rights ... do not "extend" the patent monopoly. They exist independently of it, under different law and for different reasons. The termination of either has no legal effect on the continuance of the other. When the patent monopoly ends, it ends. The trademark rights do not extend it.

*In re Mogen David Wine Corp.*, 328 F.2d 925, 930 (C.C.P.A.1964) [Mogen David I].

[7, 8] It is also important to note that the requirements for a design patent are distinct from those for a trade dress. A design patent (unlike a utility patent) is granted for a product's non-functional, ornamental features. It is appropriate only for industrial design, and one of its purposes is to promote progress in the "decorative arts." 1 McCarthy § 6.03[5]. To qualify for a design patent, the features must be new, non-obvious and ornamental. 1 *Id.* They need not be inher-

Cite as 915 F.Supp. 595 (S.D.N.Y. 1994)

ently distinctive. As the Supreme Court has stated, "To qualify for protection, a design must present an aesthetically pleasing appearance that is not dictated by function alone, and must satisfy the other criteria of patentability." *Bonito Boots, Inc. v. Thunder Craft Boots, Inc.*, 489 U.S. 141, 148, 109 S.Ct. 971, 976, 103 L.Ed.2d 118 (1989).

[9-12] When a design patent expires, the design becomes copyable. It may not, however, be copied in such a way that customers are deceived about what they are buying. "Federal trademark laws, independent in origin from design patent law, have the dual purpose of protecting both the trademark owner and the public from confusion, mistake and deception." *In re Mogen David Wine Corp.*, 372 F.2d 539, 543 (C.C.P.A.1967) (Smith, J., concurring) [Mogen David II]. Trademark rights last for an indefinite period, depending on the strength and duration of the public's recognition that the mark identifies the producer's goods. *Id.* Novelty is irrelevant for trademark or trade dress protection; the design must meet the more rigorous test of (1) inherent distinctiveness or secondary meaning, and (2) likelihood of confusion. Many patented (or formerly patented) designs cannot meet this standard. If the producer has done nothing to market the product, the producer will be unable to show either secondary meaning or likelihood of confusion. If, by contrast, the design has so dominated the market that it virtually defines it, the design may be generic or functional and thus ineligible for protection. See, e.g., *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 59 S.Ct. 109, 83 L.Ed. 73 (1938) (pillow shape of shredded wheat biscuit, being primarily functional, fell into public domain). If the market has evolved into one in which knock-offs or close copies are common and consumers are sophisticated, as in the clothing and handbag industries, the likelihood of confusion will likely be low. E.g., *Coach Leatherware Co. v. AnnTaylor, Inc.*, 933 F.2d 162, 168-70 (2d Cir.1991) (buyers of Coach handbags know to look for Coach registration number and Coach name). "Trademark law is replete with instances where the public has both 'created' and 'destroyed' the trademark rights which are subject to registration." *Mogen David II*, 372 F.2d at 543.

A design patent, therefore, can neither guarantee nor preclude a finding of protectable trade dress.

[13-15] The existence of a design patent, however, is relevant to the functionality defense. Because a design patent is granted only for non-functional designs, it can serve as evidence that a plaintiff's trade dress is not functional. See, e.g., *In re Morton-Norwich Prods., Inc.*, 671 F.2d 1332, 1342 n. 3 (C.C.P.A.1982) (design patent presumptively indicates that design is not *de jure* functional); *In re R.M. Smith, Inc.*, 734 F.2d 1482, 1485 (Fed.Cir.1984) (existence of design patent "may be some evidence of non-functionality"). This is not tantamount to saying, however, that a design patent always serves as a trademark. See, e.g., *R.M. Smith*, 734 F.2d at 1485 (existence of design patent "does not, without more, bestow upon said device the aura of distinctiveness or recognition as a trademark") (citation omitted); *In re Vico Prods. Mfg. Co.*, 229 U.S.P.Q. 364, 370 (T.T.A.B.1985) (quoting *R.M. Smith*). At best, a design patent can only help rebut the functionality defense; it cannot do the whole job of proving inherent distinctiveness. The plaintiff still needs to show that, in its market at the time of the alleged infringement, the design is both ornamental and deserving of trade dress protection.

The functionality doctrine was articulated by the Supreme Court in *Inwood Laboratories v. Ives Laboratories*, 456 U.S. 844, 850 n. 10, 102 S.Ct. 2182, 2187 n. 10, 72 L.Ed.2d 606 (1982), which instructed that "[i]n general terms, a product feature is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article." The Second Circuit elaborated on this definition by stating that a design feature is essential "only if the feature is dictated by the functions to be performed; a feature that merely accommodates a useful function is not enough." *Warner Bros., Inc. v. Gay Toys, Inc.*, 724 F.2d 327, 331 (2d Cir.1983). The doctrine serves to promote competition by "protect[ing] advances in functional design from being monopolized and 'encourag[ing] ... the broadest dissemination of useful design features.'" *Id.* Put in

layman's terms, one might ask: "Is the article in this particular shape for utilitarian reasons," i.e., because it works better that way? 1 McCarthy § 7.26[3](b). In *Stormy Clime*, this circuit suggested three factors to be considered:

the degree of functionality of the similar features, the degree of similarity between the non-functional (ornamental) features of the competing products, and the feasibility of alternative arrangements of functional features that would not impair the utility of the product. These factors should be considered along a continuum. On one end, unique arrangements of purely functional features constitute a functional design. On the other end, distinctive and arbitrary arrangements of predominantly ornamental features that do not hinder potential competitors from entering the same market with differently dressed versions of the product are non-functional and hence eligible for trade dress protection. In between, the case for protection weakens the more clearly the arrangement of allegedly distinctive features serves the purpose of the product . . . especially where the competitor copying such features has taken some significant steps to differentiate its product.

*Stormy Clime*, 809 F.2d at 977.

The problem, of course, is that a design feature may be both functional and pleasing. (Indeed, many industrial designs combine these two elements.) This has led the courts into a hopeless tangle about the difference between aesthetics and functionality. Some courts developed a doctrine of "aesthetic functionality" that was both unnecessary and illogical. If a pleasing design helped to sell a product, so the theory went, its aesthetic appeal became an "essential" competitive quality that could not in fairness be denied to others. Thus the doctrine of "aesthetic functionality" denied trade dress protection to design features whose only sin was to delight the senses. In 1990, however, the Second Circuit substantially redefined this doctrine and injected a welcome dose of sanity to the discussion. *Wallace*, 916 F.2d at 80-81 (Winter, J.). In *Wallace*, Judge Winter built on the principles of *Stormy Clime* and its focus

on preserving healthy competition. As Judge Newman had stated in *Stormy Clime*, the availability of alternative designs should guide the inquiry. *Stormy Clime*, 809 F.2d at 978. Applying this reasoning to the silverware market, Judge Winter found that baroque designs were so common in that industry that they could not be given trade dress protection without "excluding competitors from a substantial market." *Wallace*, 916 F.2d at 81. In other words, a pleasing design per se is no bar to protection. The plaintiff in *Wallace* had merely tried to monopolize too broad an aesthetic category, seeking protection "not for a precise expression of a decorative style, but for basic elements of a style that is part of the public domain." *Id.*

The approach in *Knitwaves*, however, seems to be a step backward from *Wallace* because it revives a false dichotomy between aesthetics and source identification. *Knitwaves* seems to instruct that a design can serve only one primary purpose: either aesthetic or source-identifying, but not both. *Knitwaves* at 1008-09 (no protection because plaintiff's "objective in the two sweater designs was primarily aesthetic," and therefore "the designs were not primarily intended as source identification"). This approach is neither helpful nor logical. In the instant case, it would force me to determine whether the plaintiff chose its chair design because it was attractive or because it was meant to serve as a trademark (i.e., a source identifier). The likely answer is, both. Moreover, this plaintiff never had to choose between the two objectives because the design was patented and could not be copied. In more general terms, every producer hopes to create a design that is more pleasing than not and that that design will be associated with it. Every producer hopes that it and its trade dress will be remembered because its design is pleasing, not because it is ugly. See *Rogers*, 778 F.2d at 340 ("Rare is the manufacturer who will not try to choose a pleasing name, symbol, or design feature as his trademark.") Thus I see no need to force the courts to choose between ideas that are not mutually exclusive. The more useful approach, I believe, is the market foreclosure test articulated in *Wallace*. See also 1 McCarthy

§ 7.26[3](e) ("the availability of alternative designs is a very important, if not the most important, evidentiary key to unlocking the mystery of the functionality puzzle").

[16] Applying these principles to the facts before me, I conclude that plaintiff KI has a protectable trade dress in the overall look of its Matrix chair. Although each of the individual design elements serves both functional and aesthetic purposes, it is the overall look that I must consider. *Milstein*, 88 F.3d at 32 ("Although each element of a trade dress individually might not be inherently distinctive, it is the combination of elements that should be the focus of the distinctiveness inquiry."). I base my following conclusions on the photographs of competing chairs submitted by the parties and the accompanying affidavits describing the high density stacking chair market. On this evidence, I find that the seat, the back and the Z-shaped connecting rods of the KI chair give the Matrix chair a distinctive overall look.<sup>5</sup> Applying *Seabrook*, I find that this particular look is unique among high density stacking chairs and that manufacturers of these chairs generally seek unique designs as an important source identifier. Unlike the clothing industry, in which labels are prominent because designs change frequently, the chair industry does not rely heavily on labels to communicate with customers and its designs remain stable over time. Although the chair manufacturers' names appear prominently on shipping containers and hang tags, customers generally throw these away. The sole permanent label is molded into the plastic underneath the seat, where a sophisticated buyer would find it but a less sophisticated one might not. No consumer would see the label without looking for it.

5. Plaintiff has submitted the Declaration of Gregory B. Wallis, a Contracting Officer at Unicolor, to support its argument that the Unicolor specifications were minimum requirements and did not necessitate copying KI's chair. Nevertheless, 18 of the Wallis Declaration appears to raise a question about the distinctiveness of the Matrix chair: "Krueger's products were determined to be generally representative of the market and was (sic) used as a baseline reference. To the maximum extent possible, unique or proprietary elements of Krueger's chairs were removed to maximize competi-

[17] Turning to the issue of functionality, defendant argues that the Matrix chair design is functional because only a clone of the Matrix chair will "interstack" perfectly with it. I disagree. As defendant should be well aware, the argument of perfect compatibility has not been embraced in this circuit for many years, and it was explicitly rejected in *Wallace*, 916 F.2d at 80 (rejecting *Pagliaro v. Wallace China Co.*, 198 F.2d 339 (9th Cir. 1952)). As a factual matter, neither Unicolor nor the rest of the market has ever demanded perfect "interstackability." Unicolor clearly explained during the bid process that interstackability was only one of many considerations. Although defendant's success in winning the contract may have had something to do with the fact that it had produced an exact replica of the Matrix chair, Unicolor gave its second-highest ranking to competitor CPSI, whose chair looks nothing like the Matrix chair and does not stack perfectly with it. (The CPSI stacks adequately with the Matrix chair, but not nearly as well as the Matrix chair itself, which was ranked third in the bidding process.) Defendant's argument is further undercut by the fact that the Unicolor contract is just one small segment of the market. There is no evidence that convention halls, school systems and other potential customers are obsessed with perfect interstackability among competing models. Indeed, as defendant admitted at oral argument, no chair currently on the market interstacks ideally with any other. (Tr. of Hearing at 44.)

To determine whether the design features at issue are functional, I must ask whether their shape is "dictated by the functions to be performed." *Warner Bros.*, 724 F.2d at 331. The answer is clearly no. The function of a chair is to provide a place to sit. A stacking

tion." I do not, however, find Wallis' statement contrary to my conclusion about the inherent distinctiveness of the KI chair because although Unicolor's specifications do include a drawing of the KI chair as an example, the specifications themselves do not call for any of the distinctive trade dress aspects of the KI chairs. For example, the specifications specify a general size for the backs and seats but do not require a particular shape. Similarly, nowhere do the specifications require a zig-zag, in-out shape for the connection between the back and seat.

chair, in addition, must stack. On the evidence before me, many other designs serve these functions equally well. Therefore I find that the design features at issue are ornamental, not functional. Next I must address whether there are sufficient alternative arrangements to permit competition. *Stormy Climate*, 809 F.2d at 977. I find that defendant has not met its burden of showing that the supply of alternative designs would be unduly limited if defendant could not replicate the Matrix chair. See *LeSportsac*, 754 F.2d at 76 (burden falls on defendant to prove functionality). At least a dozen designs compete in this market, and one can readily imagine other hypothetical designs. Although the number of alternative designs is not limitless, given the need for stackability, the alternatives are not unduly limited so long as KI's trade dress is confined to the "precise expression of a decorative style." *Wallace*, 916 F.2d at 81.

[18] I conclude, however, that KI may not claim a trade dress in each of its design features individually. The shape of its seat, in particular, is not highly distinctive in this market and its "dip" may have been designed largely for comfort, a functional consideration.<sup>6</sup> KI has made a case, however, that the combination of the seat, the back and the Z-shaped connecting rods give the Matrix chair an aesthetically unique appearance. Because other competitors seem to have no trouble producing visually distinguishable chairs, defendant should be expected to do the same. Defendant need only change the shape of its chair back or seat sections, or avoid using Z-shaped connecting rods. Although changing the shape of the Beetle chair shape might make it imperfectly stackable with the Matrix chair, as discussed *supra*, neither Unicorn nor the market generally requires such perfection.

#### B. Likelihood of Confusion

[19,20] Having found that the overall look of the Matrix chair is inherently distinctive, I next turn to whether buyers are likely to be confused by the similarity between the

6. At oral argument, defendant "unveiled (practically with a drum-roll and a flourish) a specimen of the competing Staxx chair, whose seat is

two designs. As with the first prong of the test for trade dress infringement, the burden of proving likelihood of confusion falls on the plaintiff. In this circuit, the likelihood of confusion is weighed according to the eight factors set out by Judge Friendly in *Polaroid Corp. v. Polaroid Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir.), cert. denied, 368 U.S. 820, 82 S.Ct. 36, 7 L.Ed.2d 25 (1961). The factors are: (1) the strength of the mark; (2) the degree of similarity between the two marks; (3) the proximity of the products; (4) the likelihood that the senior user will "bridge the gap" and enter the junior user's market; (5) actual confusion; (6) the defendant's good faith; (7) the quality of the defendant's product; and (8) the sophistication of the buyers. In addition, the Second Circuit has suggested other factors to be considered, if relevant, including the senior user's delay in asserting its claim. *Centaur Communications, Ltd. v. A/S/M Communications, Inc.*, 830 F.2d 1217, 1228 n. 2 (2d Cir.1987). The weighing of these factors is not a "mechanical process." Rather, "a court should focus on the ultimate question of whether consumers are likely to be confused." *Paddington*, 996 F.2d at 584 (citations omitted).

On the evidence before me, I conclude that plaintiff has shown a likelihood of confusion, but not such an overwhelming likelihood that a preliminary injunction is justified in light of its delay in bringing this action. Because the products compete in the same market, I need not conduct an extended analysis of proximity and bridging the gap, both of which strongly favor the plaintiff. I will address in some detail, however, the evidence relevant to the other factors.

#### 1. Strength of the Trade Dress

A mark's strength is its "distinctiveness . . . or more precisely, its tendency to identify the goods sold under the mark as emanating from a particular, although possibly anonymous, source." *Paddington*, 996 F.2d at 585 (citation omitted). Such strength may result from the mark's inherent distinctiveness, its secondary meaning, or both. *Id.*

extremely similar in shape to the Matrix seat, although not identical.

Cite as 915 F.Supp. 595 (S.D.N.Y. 1996)

[21,22] For the purposes of this motion I have found the Matrix design to be inherently distinctive, but KI has not persuaded me that the design has acquired secondary meaning. The evidence required to prove secondary meaning includes advertising expenditures; consumer surveys showing that customers associate the trade dress with the source; sales success; unsolicited media coverage of the product; attempts to plagiarize the mark; and length and exclusivity of the mark's use. See, e.g., *Thompson Medical*, 753 F.2d at 217. The Matrix chair clearly meets the length and exclusivity test, having been on the market for 20 years, and defendant has recently tried to copy the mark, but the other evidence is far from dispositive.

Plaintiff's advertising expenditures have been surprisingly low. Over the last 20 years, KI has spent only about \$600,000 to promote the Matrix chair, primarily through catalogs. In the last four years, KI has spent less than \$40,000 per year on advertising. (*Jaraczewski Aff.* at 2, 4.) The nature of this advertising, moreover, does not encourage buyers to associate the Matrix design with KI. There are no slogans of the "look for" type, such as, "Look for the Z," or "It's not a KI without a zig-zag." Cf. *Coach Leatherware*, 933 F.2d at 168 (citing handbag advertising slogan: "It's Not a Coach Bag Without the Coach Tag"). The catalogues simply present photographs of the chair. On the other hand, design can serve as a source identifier in this industry, and many chairs are covered by design patents. Knock-offs are not an industry tradition, as they are with handbags or clothing. And KI hardly needed to advertise the uniqueness of a design that was protected by a design patent. There is plenty of room here for more evidence at trial, but the facts provided here for secondary meaning are inconclusive.

In place of a consumer survey, plaintiff provides four affidavits of modest value. Two affiants are employees of KI, who state that the Matrix design is immediately recognizable as a KI product. These are conclusory statements made by interested parties and thus carry little weight. The other affidavits are equally unhelpful. One affiant, an executive with the Las Vegas Convention and

Visitors Authority, asserts that the Matrix is "unmistakable in its design" and that the convention center bought 12,000 Matrix chairs because of their "distinctive styling, user comfort and ease of handling." (*Smith Aff.* at 2.) This merely establishes that anyone who buys 12,000 chairs will make it his business to learn where they come from. The fourth affiant, a manager of a competing office furniture manufacturing company, states that he "immediately" recognizes the design as originating with KI. (*Hieftje Aff.* at 2.) This merely proves that competitors in this industry know each other's chairs. These affidavits do not establish secondary meaning.

KI's evidence of sales success is too sketchy to be persuasive. KI asserts that it has sold 8.7 million Matrix chairs in the last 20 years, including \$150 million in U.S. sales. (*Jaraczewski Aff.* at 4.) At oral argument, KI's counsel added that of all the stacking chairs now in the hands of consumers, 25% are Matrix chairs. (*Tr. of Hearing* at 26-7.) KI has not, however, provided a sworn affidavit to this effect. Even if the Matrix chair dominates the industry, this merely proves that the design is popular, not that buyers associate the design with KI.

KI has offered no evidence of unsolicited media coverage.

Finally, although KI secured a registered trademark for Matrix, it has not sought to register its trade dress.

In sum, although I have found that the Matrix chair has a distinctive look, KI has not provided sufficient evidence of acquired secondary meaning. Therefore, I conclude that the mark is only moderately strong.

#### 2. Similarity between the Marks

[23] The chair designs are almost identical, but similarity alone does not create customer confusion. "Similarity in overall appearance alone cannot establish source confusion as a matter of law." *Coach Leatherware*, 933 F.2d at 169. Prominent labeling of highly similar products can dispel a likelihood of confusion. E.g., *L.A. Gear, Inc. v. Thom McAn Shoe Co.*, 988 F.2d 1117, 1134 (Fed.Cir.1993) (no confusion

between similar athletic shoes when products prominently marked); *Bristol-Myers Squibb Co. v. McNeil-P.P.C., Inc.*, 973 F.2d 1033, 1046 (2d Cir.1992) (no confusion between "Excedrin PM" and "Tylenol PM" when labels serve as most prominent feature); *Stormy Cline*, 809 F.2d at 977 (no confusion between similar rain jackets when copier displays its name prominently on label, zipper pull, hang tag, and package); *Bose Corp. v. Linear Design Labs, Inc.*, 467 F.2d 304, 309 (2d Cir.1972) (no confusion between audio speakers when copier's name displayed on front of product).

When the labeling is subtle or obscure, however, the likelihood of confusion is higher. *E.g., Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 873-75 (2d Cir.1986) (identical back-pocket stitching pattern likely to confuse buyers in post-sale context, when labels not visible); *LeSportsac*, 754 F.2d at 79 (strikingly similar designs, combined with inconspicuous and similar logos, likely to confuse buyers).

[24] In this case, the KI's name is embossed into the plastic underneath the Matrix seat, an obscure place for a label. All Beetle chairs produced after mid-January will be similarly marked with NI's name. In addition, NI asserts that it will ship the Beetle chairs in prominently marked boxes. Such labeling may indeed prevent pre-sale confusion among architects and designers, who are the most sophisticated buyers in this market, but it will not help less sophisticated customers, who are unlikely to peer underneath the seat. As KI points out, such customers could well be confused post-sale. If they see a Beetle chair of inferior or different quality and assume it to be a Matrix chair, KI's reputation will suffer. Moreover, about 7,300 Beetle chairs will never be permanently labeled because they were manufactured before NI's embossing mechanism had been completed. (Def.'s Mem. in Opp. at 19.) Although NI promises that these unmarked chairs will be equipped with hang tags, this cannot be a complete solution. As this circuit has observed, hang tags are removable. "Once the hang tag comes off, the [products] are again virtually identical and likelihood of confusion remains." *LeSportsac*, 754 F.2d at

80. In NI's favor, most of the unmarked Beetle chairs are destined for Unicorn, which is unlikely to be confused about the source. On balance, the similarity of the marks weighs strongly in plaintiff's favor.

### 3. Actual confusion

[25] Evidence of actual confusion is not required, because actual confusion is difficult to prove and the law requires only likelihood of confusion. *E.g., Lois Sportswear*, 799 F.2d at 875. Although KI cites one incident of actual confusion, its probative value is minimal. The incident arose when one of its own sales representatives picked up three sample "Matrix" chairs from someone who had earlier solicited bids on the chairs and was ready to return the chair samples. A few days later, the customer informed the KI rep that he had picked up one Beetle chair by mistake. NI had won the bid, and Beetle samples had been mixed in with the Matrix samples. In an affidavit, the KI sales rep states that the Beetle chair "stacked perfectly on the authentic Matrix chairs and was impossible to distinguish from the authentic Matrix chairs even after a long examination." (Walsh Aff. at 2.) This evidence does not establish the kind of customer confusion that trade dress law was designed to prevent. There is no evidence that the customer was so confused, pre- or post-sale, that it mistakenly awarded the contract to NI. Any post-sale confusion was quickly remedied by the customer, who called to explain the mix-up. This anecdote proves little one way or the other, and must be evaluated in light of the sophistication of the customers, *infra*.

### 4. Defendant's good faith

[26, 27] Defendant admits that it copied the Matrix chair. Intentional copying gives rise to a presumption of likelihood of confusion. *E.g., Perfect Fit Indus., Inc. v. Acme Quilting Co.*, 618 F.2d 950, 954 (2d Cir.1980). Defendant has little excuse for such intentional copying, even if what Unicorn really wanted was a low-priced copy of the Matrix chair. (This Court makes no determination of what Unicorn really wanted.) Other bidders, including the second-ranked CPSL, managed to avoid copying the Matrix chair.

Similarly, it was incumbent upon defendant to distinguish its product either by creating a unique design or by displaying its name more prominently. However, there is no evidence that defendant was trying to deceive customers into thinking they were buying a Matrix chair. Unicorn, which bought the Beetle chairs through a competitive bidding process, was never in danger of being confused or deceived. Defendant is walking a fine line here between trading on KI's goodwill and openly advertising that it is selling a knock-off. Under the circumstances, this factor weighs against defendant, but only moderately.

### 5. Quality of Defendant's Product

The evidence on this score is inconclusive, raising only a possibility that defendant's product may be inferior. KI presents a three-page affidavit from one of its own engineers, who recently examined a Beetle chair and found numerous flaws. (Nordgren Aff. at 2-3.) Defendant counters with an affidavit from its president, William Breen, who asserts that KI must have tested a "pre-production prototype" and that the actual production run is of the highest quality. (Breen Decl. at 8.) A test on one chair, possibly from an early production run, is not persuasive evidence of inferior quality.

### 6. Sophistication of the Buyers

High density stacking chairs are sold to two tiers of customers, one highly sophisticated and the other moderately so. The highly sophisticated tier includes architects, designers and contract furniture representatives, who decorate and furnish convention centers and school systems through a competitive bidding process. (Tr. of Hearing at 11-12, 38). Chairs are often just a part of their total bid package. As plaintiff testified at oral argument, such architects and designers often supply large quantities of chairs: "It may be a hundred, it may be a thousand, it may be ten thousand if we are talking about a convention center." (Tr. at 12.) The second group of customers includes executives at the convention centers and the school systems themselves, who sometimes choose the chairs directly from among choices sup-

plied by the architects or approve the chairs proposed by bidders.

[28] The relative sophistication of this market may weigh in defendant's favor, but how much is difficult to tell. In general, the more sophisticated the customers, the less likely they are to be confused about the source of the product. *See, e.g., Paddington*, 996 F.2d at 587. However, even sophisticated buyers are not always careful buyers, and their very awareness of status brand names and designs may make them more vulnerable to confusion. *E.g., Grottrian, Helfferich, Schulz, Th. Steinweg Nachf. v. Steinway & Sons*, 523 F.2d 1331, 1340 (2d Cir.1975) (sophisticated buyers of quality pianos more likely to mistakenly associate "Grottrian-Steinweg" pianos with "Steinway" pianos). As the district court noted in *Steinway*, the "subliminal confusion" between similar marks or designs "can transcend the competence of even the most sophisticated customer." *Id.* at 1341. *See also Lois Sportswear*, 799 F.2d at 875 ("Presumably it is these sophisticated jeans buyers who pay the most attention to back pocket stitching patterns and their 'meanings.'") In the instant case, there has been no testimony on how the products are priced, an important factor in this calculus. Sophisticated architects and designers are likely to know when new products enter the market, even if the new products are similar to established products. Such buyers are not likely to be confused when a copy is significantly less expensive, which may be the case here. The same logic applies if the copy is of grossly inferior quality, a problem KI contends is present here. But as noted above, it is possible that the managers of convention centers (and similar customers) might mistake one chair for the other when choosing from catalogues or approving chairs, with resulting harm to KI.

### 7. Senior User's Delay in Asserting Its Claim

[29] This factor weighs strongly against the plaintiff, despite defendant's brazen act of deliberate copying. One of plaintiff's own executives saw the Beetle prototype in March 1995, nine months before this action was filed. Plaintiff's only response to seeing

the prototype was to protest that defendant was using KI parts. Plaintiff expressed no alarm that defendant had already duplicated the distinctive Matrix frame, and plaintiff did not assert or warn about any trade dress rights at that time. Plaintiff argues that a mere prototype does not necessarily indicate the final design, that defendant falsely represented that the prototype was only a general illustration of the product, and that plaintiff should not be required to file premature lawsuits. These purported justifications are not persuasive. KI has consistently maintained throughout this action that the single most distinctive element of its trade dress is the Z-shaped connecting rods. The Beetle prototype frame, made by defendant, featured precisely those Z-shaped rods. The Matrix seat and back fit defendant's frame with perfection. KI's lack of suspicion and further active investigation at this point is baffling. Moreover, sometime in or after June 1995, the same KI executive who had seen the Beetle prototype discovered defendant's new catalogue in the Unicorn offices and "noticed the photographs of the Beetle chair." (Campanale Decl. at 2.) And still KI voiced no concern.

It is unclear what KI's attorney should or should not have done in May 1995, when he received a photograph of the Beetle chair among other materials. If the photograph was covered by the GAO protective order, KI's counsel still could have asked the GAO for a waiver of the protective order or alerted defendant's counsel to the possibility of a trade dress claim. This is a moot point, however, because defendant's public catalogue was in or should have been in KI's hands in or around June 1995, just a month later when NI began shipping the catalogues to Unicorn and its dealers and representatives.

Another six months elapsed before KI took action. Such nonchalance is inexplicable. KI passed up many opportunities to assert its rights, such as sending a cease and desist letter to defendant, alerting Unicorn that KI had proprietary rights in the Matrix chair design, and launching a prompt investigation either after it saw the prototype in March 1995, or even after seeing the chair at the

first trade show on November 2, 1995. The evidence suggests that plaintiff did not begin to think about a trade dress infringement claim until it both lost the Unicorn contract and the Beetle chair began appearing at trade shows—i.e., until KI decided to take the competitive threat seriously. The trade dress laws, however, were not designed to protect producers from competitive injury.

### 8. Balancing the Factors

Having considered the nine factors relevant to the likelihood of confusion, I find that three factors weigh heavily in plaintiff's favor: similarity, proximity, and bridging the gap. Two additional factors, the strength of the mark and defendant's good faith, weigh moderately in plaintiff's favor. Three factors favor neither side: evidence of actual confusion, the quality of defendant's product, and the sophistication of the buyers. The ninth factor, delay, undercuts much of plaintiff's argument. Had KI asserted a forceful trade dress claim earlier—say, in the summer of 1995 when it first saw or should have seen a photograph of the Beetle chair, and when defendant's production line was idled by the bid protest—defendant might have been persuaded to change its design. Plaintiff's silence allowed defendant and Unicorn to believe that no trade dress claim would be forthcoming. This tips the equities more in defendant's favor than the other factors would otherwise indicate. Thus, although plaintiff has not met its burden for preliminary relief, plaintiff has established a likelihood of confusion sufficient to go to trial.

### II. Motion for Preliminary Injunction

[30, 31] In order to obtain a preliminary injunction, the moving party must show (1) the likelihood of irreparable injury, and (2) either (a) likelihood of success on the merits, or (b) sufficiently serious questions going to the merits and a balance of hardships tipping decidedly in the movant's favor. *Tough Traveler*, 60 F.3d at 967. Ordinarily, a likelihood of confusion establishes a presumption of irreparable harm. *Id.* This presumption does not apply, however, when a plaintiff has delayed without good cause in seeking emergency relief. As this circuit has observed:

Preliminary injunctions are generally granted under the theory that there is an urgent need for speedy action to protect the plaintiffs' rights. Delay in seeking enforcement of those rights, however, tends to indicate at least a reduced need for such drastic, speedy action.... Significant delay in applying for injunctive relief in a trademark case tends to neutralize any presumption that infringement alone will cause irreparable harm pending trial, and such delay alone may justify denial of a preliminary injunction for trademark infringement.

*Citibank, N.A. v. Citytrust*, 756 F.2d 273, 276 (2d Cir.1985) (no presumption of irreparable harm when plaintiff delayed suit for nine months after receiving notice of alleged infringement in the press, and 10 weeks after receiving actual notice).

[32] In the instant case, for the reasons discussed, I decline to manufacture a sense of urgency that is not supported by plaintiff's own conduct. Although the law urges leniency toward a plaintiff who has good cause for delay, either because the plaintiff did not know how severe the infringement was or because the plaintiff was making good faith efforts to investigate, neither of these justifications applies here. See *Tom Doherty Associates, Inc. v. Saban Entertainment, Inc.*, 60 F.3d 27, 39 (2d Cir.1995) (citations omitted). The courts have often denied preliminary injunctions to plaintiffs whose delay suggested that irreparable harm was unlikely. *E.g.*, *Tough Traveler*, 60 F.3d at 968 (nine month wait before filing complaint is too long, particularly when plaintiff delayed another four months before moving for preliminary injunction); *Century Time Ltd. v. Interchron Ltd.*, 729 F.Supp. 366 (S.D.N.Y.1990) (six month wait is too long); *Comic Strip, Inc. v. Fox Television Stations, Inc.*, 710 F.Supp. 976 (S.D.N.Y.1989) (seven months is too long); *Nina Ricci, S.A.R.L. v. Gemcraft Ltd.*, 612 F.Supp. 1520 (S.D.N.Y.1985) (four months, including six weeks from breakdown of settlement talks, is too long). In *Doherty*, the Second Circuit observed that delay rebuts the presumption of irreparable harm when one can draw a "fair inference" that the owner of the mark or right had concluded that there was no infringement but later

brought an action because of the strength of the commercial competition." *Doherty*, 60 F.3d at 39. KI's course of conduct before Unicorn and its lack of careful monitoring of NI's activities rebut its claim of irreparable injury.

On balance, although I have found that some likelihood of confusion exists, I have also found that this likelihood is not overwhelming because of the general sophistication of the buyers in this market, particularly of Unicorn, the biggest current buyer of NI's chair. Plaintiff's delay in bringing this action tips the equities in favor of defendant, which will suffer considerable economic harm if forced to cancel its contract with Unicorn or to immediately re-tool to alter its design for the Unicorn contract. Unicorn, whose prison facilities depend on the supply on product, will also be unfairly prejudiced in the delay in receiving products occasioned solely by the late assertion by KI of its trade dress rights.

I remind defendant, however, that KI has raised serious questions of trade dress infringement, that this case is destined for trial, and that the requirements for a finding of success on the merits are significantly lower than the preliminary injunction standard at issue here.

### CONCLUSION

In summary, the plaintiff has shown sufficiently serious questions going to the but has not shown a likelihood of irreparable harm or a balance of hardship tipping decidedly in its favor given its delay in asserting its rights. Plaintiff's motion for emergency relief came six to nine months after plaintiff learned of defendant's plans to copy its Matrix chair. This is too late. For the foregoing reasons, plaintiff's motion for a preliminary injunction is denied.

SO ORDERED.



Daniel SILVERMAN, Regional Director for Region 2 of the National Labor Relations Board, for and on behalf of the National Labor Relations Board, Petitioner,

v.

MAJOR LEAGUE BASEBALL PLAYER RELATIONS COMMITTEE, INC. and the Constituent Member Clubs of Major League Baseball, Respondents.

No. 95 Civ. 2054(SS).

United States District Court,  
S.D. New York.

April 3, 1995.

National Labor Relations Board (NLRB) sought temporary injunction under National Labor Relations Act pending final disposition of unfair labor practice charges against baseball owners before Board. The District Court, Sotomayor, J., held that: (1) Board had reasonable cause to believe that baseball owners committed unfair labor practices both by eliminating free agency system and salary arbitration provisions of expired collective bargaining agreement, and (2) harm to the public, players, and Board compelled issuance of temporary injunction.

So ordered.

#### 1. Labor Relations ⇐518

Provision of NLRA authorizing district courts to grant temporary injunctions pending outcome of unfair labor practice proceedings before National Labor Relations Board (NLRB) reflects Congress' recognition that, absent injunctive relief, NLRB's often lengthy administrative proceedings could allow unfair labor practice to go unchecked and thereby render final NLRB order ineffectual. National Labor Relations Act, § 10(j), as amended, 29 U.S.C.A. § 160(j).

#### 2. Labor Relations ⇐178

Under NLRA, mandatory subjects of collective bargaining are those encompassed in the phrase "wages, hours, and other terms and conditions of employment," while permis-

sive subjects are all other matters. National Labor Relations Act, § 8(d), as amended, 29 U.S.C.A. § 158(d).

#### 3. Labor Relations ⇐177, 179

Mandatory subjects of collective bargaining under NLRA require parties to bargain in good faith, whereas no such requirement adheres to permissive subjects of collective bargaining. National Labor Relations Act, § 8(d), as amended, 29 U.S.C.A. § 158(d).

#### 4. Labor Relations ⇐393

Under NLRA, unilateral change in provision of expired collective bargaining agreement involving mandatory subject of collective bargaining, such as one involving wages, is unfair labor practice because it violates the duty to bargain collectively in good faith. National Labor Relations Act, § 1 et seq., as amended, 29 U.S.C.A. § 151 et seq.

#### 5. Labor Relations ⇐395.9

Striking is not violation of the collective bargaining process because parties may legitimately exert pressure through use of such economic weapons.

#### 6. Labor Relations ⇐261

Provision of expired collective bargaining agreement involving mandatory subject of collective bargaining survives only until the parties reach new agreement or until parties bargain in good faith to impasse; policy behind this rule of retaining mandatory terms of expired agreement is that it will be more effective in promoting peaceful negotiations than rule allowing change in the status quo during critical bargaining period.

#### 7. Labor Relations ⇐518

Federal district court's responsibility in resolution of petition for temporary injunction pending outcome of unfair labor practice proceedings before National Labor Relations Board (NLRB) is to consider whether there is reasonable cause to believe that respondent has violated NLRA and whether temporary injunctive relief is just and proper. National Labor Relations Act, § 10(j), as amended, 29 U.S.C.A. § 160(j).

Cite as 880 F.Supp. 246 (S.D.N.Y. 1995)

#### 8. Labor Relations ⇐518

In reviewing National Labor Relations Board's (NLRB) determination that there is reasonable cause to believe that respondent has violated NLRA, federal district court must give appropriate deference to specialized knowledge of the Board and thus, court should give regional director's version of the facts the benefit of the doubt; indeed, Board's view of the facts should be sustained unless court is convinced that it is wrong. National Labor Relations Act, § 10(j), as amended, 29 U.S.C.A. § 160(j).

#### 9. Labor Relations ⇐506

Determining what are mandatory topics of collective bargaining is at heart of National Labor Relations Board's (NLRB) functions.

#### 10. Labor Relations ⇐679.1

National Labor Relations Board's (NLRB) legal determination that violation of the duty to collectively bargain has occurred should be upheld unless Board: reached its position by either failing to apply the correct legal standard or by misconstruing plain language of the correct standard; made determination so fundamentally inconsistent with structure of NLRA that its decision can be viewed as attempt to usurp major policy decisions by Congress; or is attempting to move into area of regulation which Congress has not committed to it. National Labor Relations Act, § 8(d), as amended, 29 U.S.C.A. § 158(d).

#### 11. Labor Relations ⇐518

Decision to issue temporary injunction pending outcome of unfair labor practice proceedings before National Labor Relations Board (NLRB) lies within sound discretion of federal district court and the decision to exercise this discretion is guided by general rules of equity. National Labor Relations Act, § 10(j), as amended, 29 U.S.C.A. § 160(j).

#### 12. Injunction ⇐4, 5

"Mandatory injunction" requires party to take certain affirmative steps while "prohibitory injunction" requires party to desist

from doing certain acts in order preserve the status quo.

See publication Words and Phrases for other judicial constructions and definitions.

#### 13. Injunction ⇐138.1

General standard for injunction requires that movant prove irreparable harm and either likelihood of success on the merits or substantial question going to the merits as to make them fair ground for litigation, together with balance of hardships tipping decidedly toward movant.

#### 14. Labor Relations ⇐176

Statutory right under NLRA to join collective bargaining units belongs to employees and not to employers and thus, term "employer union" for collective bargaining purposes is not meaningful; the only reciprocal statutory right NLRA imposes on employers and employees is that they bargain with the other in good faith. National Labor Relations Act, § 1 et seq., as amended, 29 U.S.C.A. § 151 et seq.

#### 15. Labor Relations ⇐176

Extent of statutory protection for employer under NLRA is that it may select representative for purpose of bargaining free of coercion from labor union, but this right is not statutory right for group of employers to bargain collectively through one representative; although multiemployer bargaining units may be formed, National Labor Relations Board (NLRB) and union must consent to such formation. National Labor Relations Act, § 8(b)(1)(B), as amended, 29 U.S.C.A. § 158(b)(1)(B).

#### 16. Labor Relations ⇐176

Under NLRA, the valid interest in selection of baseball owners' own bargaining representatives did not trump baseball players' Section 7 right to have the status quo ante maintained on mandatory bargaining subjects during negotiations; interest was not a statutory right and it could be waived as owners had done in collective bargaining agreement and cases addressing prohibitions upon union's waiver of its statutory rights to bargain collectively had no application to owners' rights or obligations to continue joint-

or individual employer bargaining system that had, through arms-length, good faith bargaining been put into place. National Labor Relations Act, § 1 et seq., as amended, 29 U.S.C.A. § 161 et seq.

#### 17. Labor Relations ⇐176, 261

Maintaining reserve/free agency systems in the interim between collective bargaining agreements did not alter rights of baseball owners to have player relations committee, the collective bargaining representative for baseball owners, represent them for purposes of negotiating successor agreement or to continue to oppose inclusion of the systems in any successor agreement; if they successfully bargained, baseball owners could end free agency and salary arbitration systems, but what they could not do is alter particular individual's wages until system was changed by agreement or until parties negotiated to impasse.

#### 18. Labor Relations ⇐435

Salary arbitration for reserve baseball players was mandatory part of collective bargaining process between baseball players and owners.

#### 19. Labor Relations ⇐415, 451

National Labor Relations Board's (NLRB) deferral to grievance arbitration under *Collier* is appropriate only where parties have had long and productive relationship and no claim is made of enmity by employer to employees' exercise of protected rights.

#### 20. Labor Relations ⇐415, 451

National Labor Relations Board's (NLRB) deferral to grievance arbitration under *Collier* is inappropriate where there exists long list of actions which constitute attempts to coerce and restrain employees in exercise of their Section 7 rights and which constitute attempts to undermine position of union. National Labor Relations Act, § 1 et seq., as amended, 29 U.S.C.A. § 161 et seq.

#### 21. Labor Relations ⇐455

"Interest arbitration" concerns disputes over terms of new or renewal contracts

whereas "rights arbitration" is for disputes over interpretation or application of contract.

See publication Words and Phrases for other judicial constructions and definitions.

#### 22. Labor Relations ⇐178

Interest arbitration clauses are nonmandatory topic of collective bargaining because they involve mechanism for resolving disputes which may arise as to terms of future contracts, as opposed to existing terms and conditions of employment.

#### 23. Labor Relations ⇐433

Salary arbitration clause in expired collective bargaining agreement between baseball players and owners was not a traditional interest arbitration clause, which concerns disputes over terms of new or renewal contracts and which are nonmandatory topic of bargaining; new future contractual obligations were not being created by the salary arbitrator because, by time player and owner went to salary arbitration, uniform player's contract had already been entered into by the parties and only item missing from executed contract was dollar amount and arbitrator's task was to fill in the blank where salary figure went.

#### 24. Labor Relations ⇐261

Interest arbitration clauses can survive expiration of collective bargaining agreements where the clauses are so intertwined with and inseparable from mandatory terms and conditions for contract currently being negotiated as to take on characteristics of the mandatory subjects themselves.

#### 25. Labor Relations ⇐178

Even if salary arbitration clause contained in expired collective bargaining agreement between baseball owners and players was an interest arbitration clause and, as such, a nonmandatory topic of bargaining, it survived expiration of agreement because clause was so intertwined with and inseparable from mandatory terms and conditions for the contract currently being negotiated as to take on the characteristics of the mandatory subjects; result of collective bargaining was not to stop talking in the future about dispute, but recognition that the best continuing

process for parties to establish wages was in arbitration and in this situation, salary arbitration was a current term of employment.

#### 26. Labor Relations ⇐518

National Labor Relations Board (NLRB) had reasonable cause to believe that baseball owners engaged in unfair labor practices by eliminating free agency system and salary arbitration provisions of expired collective bargaining agreement between owners and players so as to warrant issuance of temporary injunction pending outcome of unfair labor practice proceedings before Board. National Labor Relations Act, § 10(j), as amended, 29 U.S.C.A. § 160(j).

#### 27. Labor Relations ⇐518

Public interest alone justified issuance of temporary injunction pending outcome of unfair labor practice proceedings against baseball owners before National Labor Relations Board (NLRB); strike was about whether baseball players and owners would resolve their differences, but also about how principles embodied by federal labor law operated, strike had placed the entire concept of collective bargaining on trial in a very real and immediate way, it was critical that Board ensure that spirit and letter of federal labor law were scrupulously followed, and if Board was unable to enforce NLRA, public confidence in collective bargaining process would be permanently and severely undermined. National Labor Relations Act, § 10(j), as amended, 29 U.S.C.A. § 160(j).

#### 28. Labor Relations ⇐518

Harm to the public, players, and National Labor Relations Board (NLRB) compelled issuance of temporary injunction pending outcome of unfair labor practice proceedings against baseball owners before Board; issuing injunction before opening day was important to ensure that symbolic value of that day was not tainted by unfair labor practices and Board's inability to take effective steps against its perpetration, returning parties to the status quo would permit them to salvage some of the important bargaining equality that existed before unfair labor practices were committed, and the resulting injury to the players was not merely lost wages which could be compensated through damages.

National Labor Relations Act, § 10(j), as amended, 29 U.S.C.A. § 160(j).

#### 29. Labor Relations ⇐178

Protections of NLRA extend to nonmonetary bargaining topics that are terms and conditions of employment. National Labor Relations Act, § 8(d), as amended, 29 U.S.C.A. § 158(d).

#### 30. Labor Relations ⇐518

Pursuant to NLRA section authorizing federal district court to grant temporary injunction pending outcome of unfair labor practice proceedings before National Labor Relations Board (NLRB), injunction would be issued directing baseball owners to restore terms and conditions of employment provided under expired collective bargaining agreement with players, including free agency/reserve systems with salary arbitration for eligible reserve players, and to bargain in good faith without unilateral changes to the agreement. Injunction would remain in effect until either players and owners entered into new collective bargaining agreement or final disposition of matters pending before NLRB or finding of district court that impasse in good faith bargaining had occurred. National Labor Relations Act, § 10(j), as amended, 29 U.S.C.A. § 160(j).

The National Labor Relations Bd. Region Two, New York City, Fred L. Feinstein, General Counsel, Daniel Silverman, Regional Director, Donald B. Zavelo, Ian M. Penny, of counsel, for petitioner.

Morgan, Lewis & Bockius, Washington, DC, Francis L. Casey, III, Lisa Klein Wager, New York City, of counsel, for respondent.

Charles O'Connor, General Counsel, Major League Baseball Player Relations Committee, New York City, Bredhoff & Kaiser, Washington, DC, George H. Cohen, Virginia A. Seitz, of counsel, McGuire, Kehl & Neaton, LLP, New York City, Harold F. McGuire, Jr., of counsel, for Major League Baseball Players Ass'n.

# AMENDED OPINION AND ORDER<sup>1</sup> SOTOMAYOR, District Judge.

This is an action brought by Petitioner, Daniel Silverman, the Regional Director for Region 2 of the National Labor Relations Board (the "Board" or "NLRB"), seeking a preliminary injunction under Section 10(j) of the National Labor Relations Act (the "Act" or "NLRA"), as amended 29 U.S.C. §§ 161-169 (1988), pending the final disposition of charges presently before the Board. Respondents in this action are the Major League Baseball Player Relations Committee, Inc. (the "PRC"), the collective bargaining representative for the twenty-eight (28) Major League Clubs (collectively the "Owners").

The Major League Baseball Players Association (the "Players") is the collective bargaining unit for the forty-person rosters of each of the Major League Clubs. On March 15, 1995, on the basis of charges filed by the Players, the Board issued a Complaint and Notice of Hearing alleging, *inter alia*, that the Owners had violated Sections 8(a)(1) and (5) of the Act by unilaterally eliminating, before an impasse had been reached, salary arbitration for certain reserve players, competitive bargaining for certain free agents, and the anti-collusion provision of their collective bargaining agreement, Article XX(F). After the Board concluded that there was reasonable cause to believe that a violation of the Act had occurred and that injunctive relief was just and proper, it filed this Petition on March 27, 1995. The Board, the Owners, and the Players, who were permitted to participate in this action, thereafter filed papers in support of their respective arguments.

During a telephone conference with me on March 30, 1995, all parties agreed that the only issues before the Court were questions of law and that no witnesses would be necessary at the hearing to be held on March 31, 1995. Having reviewed all of the submissions of the parties and having given them a full opportunity to be heard, I have concluded

1. At the hearing held on this matter on March 31, 1995, I rendered an Opinion issuing an injunction in this case based on the skeletal outline of my reasoning contained in the transcript of

ed that the Board has reasonable cause to believe that the Owners have committed an unfair labor practice, and that an injunction is just and proper to avoid irreparable injury and to ensure that the Owners and Players continue bargaining, in good faith, until the resolution of their disputes, or a genuine impasse untainted by the unfair labor practices, or the determination by the NLRB of the charges before it, whichever occurs earliest.

## FACTS

I recognize that baseball purists will wince at my simplified explanation of the very complex relationship between the Owners and Players which has evolved since 1966 in their collectively bargained Basic Agreements. Similarly, others will be disappointed by my cursory description of the prolonged negotiations between the parties. The purpose of my recitation here, however, is only to highlight the facts giving rise to the central issues before me.

The most recent Basic Agreement between the parties extended from January 1990 through December 1993. The Agreement covered a multitude of employment terms and conditions. The pertinent provisions of the Agreement to the issues before me involve the Agreement's reserve and free agency systems. Essentially, the free agency system permits players who have completed six major-league playing seasons to set their wages with individual owner clubs. See Basic Agreement, Article XX(B), attached as Ex. D to Pet'r Mem.P. & A.Supp.Pet.Prelim.Inj. The anti-collusion provision of the Basic Agreement, Subsection F of Article XX, provides, in relevant part, that the wage process between the free agent individual player and club owner

is an individual matter to be determined solely by each Player and each Club for his or its own benefit. Players shall not act in concert with other Players and the Clubs shall not act in concert with other Clubs.

the hearing. This Amended Opinion represents a more detailed version of my original Opinion which I had indicated to the parties would be forthcoming.

The Basic Agreement also limits the number of free agents in two top performance categories that each club may sign. *Id.* at Article XX(B)(5). Once a player with six years or more seasons of play (hereinafter a "six-plus player") has exercised his right to become a free agent, he must play an additional five years in the Major League before he is again eligible for free agency. *Id.* at Article XX(D)(1).

With respect to reserve players, i.e., those with less than six years of experience, there is a standard agreement called the Uniform Player's Contract ("UPC"). The UPC, which is incorporated into the Basic Agreement, is a boilerplate contract whose execution essentially requires the parties only to fill in the blanks with information such as the player's name, the club's name, and the dollar amount of salary agreed upon. The Basic Agreement sets the minimum salary for a player's first-year contract. At the end of that first year, an owner may tender a player an additional year's contract in an offer under terms whose parameters are dictated by the Basic Agreement. If the player refuses the offer, the owner is entitled to "reserve" the player's services and the player is not permitted to play for other teams. An owner may only reserve a player once under this system.

All players with more than three but less than six years of play are eligible for salary arbitration.<sup>2</sup> If an owner and player cannot agree to a salary figure, either may insist, without the consent of the other, that the figure be set in salary arbitration. Under this process, the owner and the player sign a UPC and each submits a salary figure to an arbitrator. See Basic Agreement, Article VI(F). The arbitrator then picks one of the two submitted figures using evaluation criteria set forth in the Basic Agreement including comparison with figures for performance comparable free agents. The arbitrator has no authority to pick a number that she or he believes is more equitable than the numbers submitted by the parties. *Id.* Any salary dispute, regardless of the seniority of the player, may also be submitted to arbitration

but only if both parties consent. *Id.* at VI(F)(1).

Those players with less than six playing seasons and others who have not become free agents remain "reserved" to their individual clubs under the Basic Agreement. Essentially, a reserve player may become a free agent if the club breaches his UPC by, for example, failing to paying him; or if the club does not tender him a contract; or if the club terminates the player for poor performance or failure to remain in good physical condition. See Basic Agreement, Article XX(A)(2). The Basic Agreement sets forth minimum wages and other benefits for the reserved players but permits them and their clubs to mutually agree to compensation above the minimums.

The most recent Basic Agreement expired on December 31, 1993. The Players and Owners collectively began negotiations for a new agreement in March 1994. The 1994 baseball season commenced in April 1994, under the full terms of the expired Agreement, including the entry by individual clubs into free agent contracts and salary arbitrations for eligible reserve players. Thus, collective bargaining over the future relationship of owners and players continued simultaneously with individual clubs and players engaged in their contractual mechanisms of free agency and salary arbitration to set wages.

Despite ongoing negotiations over the terms of a new agreement with an exchange of proposals, on August 12, 1994, the Players commenced a strike. Thereafter, the parties, sometimes at their own initiation and other times with the prodding of mediators, continued to discuss proposals for a successor collective bargaining agreement.

I need not describe the minute details of the various proposals discussed. Sufficient for my purpose here is that the Owners desired a "salary cap" with elimination of the salary arbitration system and a more restricted free agency system. The Players objected to a salary cap but, in order to accommodate the Owners' concern about es-

2. Players with between two and three years of play are eligible for salary arbitration if, in comparison to other two to three year players, they

rank in the top 17% in terms of total number of days played. See Basic Agreement, Article VI(F)(1).

calating club payrolls; counterproposed a tax system on high-paying clubs to deter extravagant wage offers. Subsequent proposals between the parties centered on discussions concerning the appropriate tax rates and the payroll thresholds above which clubs would be taxed.

On December 22, 1994 the Players submitted a new tax proposal. That same day, the Owners announced that the figures set forth in the new tax proposal were unacceptable, and declared an impasse without making a counterproposal as requested by the then mediator. The Owners also announced that they would immediately and unilaterally impose a salary cap and eliminate salary arbitration. The Owners made no mention of ending free agency rights or the anti-collusion provision of the Basic Agreement. At no time prior to the Owners' unilateral changes had the Players declared an impasse.

Thereafter, cross-charges of unfair labor practices were filed with the Board by the Players and Owners. Even though the Owners had announced the existence of an impasse, negotiations between the parties continued in January 1995. On February 3, 1995, the Owners advised the Board that they had rescinded their previous unilateral changes to the Basic Agreement and that they would continue to negotiate with the Players. Because of the Owners' advice, the Board, also on February 3, stayed its then proceedings.

On February 6, 1995, however, the Owners, by way of letter, informed the Players that:

[u]ntil such time as the [Owners' and Players' bargaining units] ratify a new collective bargaining agreement or until further notice, individual Major League Clubs shall have no authority to negotiate terms and conditions of employment (or any element thereof) with the [Players' Union] or individual players or certified agents. The [Players' Union] is now on notice that individual Clubs are not authorized to negotiate or execute individual player contracts with bargaining unit players during the pendency of collective bargaining between

[the Owners' and Players' bargaining units].

Affidavit of Charles P. O'Connor, sworn to March 29, 1995 ("O'Connor Aff."), at Ex. 2.

Also on February 3, an attorney for the owners advised the Owner Clubs that "individual club/player bargaining" and salary arbitration were permissive topics of collective bargaining and that the anti-collusion provision of the Basic Agreement did not impede the Owners' bargaining representatives from negotiating terms for individual free agent contracts or reserve player salaries.

Discussions between representatives of the Owners and Players continued again despite renewed activity before the Board, its issuance of the Complaint and Notice of Hearing, and the filing of this Petition. In fact this week, the Baseball Commissioner on behalf of the Owners set forth another bargaining proposal. On March 29, 1995, the Players offered to return to work under the full terms of the expired Basic Agreement and have indicated to the Court that they will return to play baseball if an injunction issues restoring the status quo terms of the expired Basic Agreement. Absent an injunction, opening season, with replacement players, was scheduled to start on April 2, 1995.

#### DISCUSSION

Recognizing that the flow of commerce is "substantially burden[ed]" by the "inequality of bargaining power between employees who do not possess full freedom of association or actual liberty of contract, and employers who are organized in the corporate or other forms of ownership association," Congress in 1935 passed the National Labor Relations Act. NLRA § 1, 29 U.S.C. § 151. In the first section of the Act, Congress expressed its hope that commerce would thrive if the right of employees to "organize and bargain collectively" was legally protected, thereby removing sources of "industrial strife and unrest." *Id.* The National Labor Relations Board, the governmental body that implements the Act, is empowered "to prevent any person from engaging in any unfair labor practice...." NLRA § 10(a), 29 U.S.C. § 160(a). Assisted by Regional Offices, the Board investigates charges of unfair labor

Cite as 880 F.Supp. 246 (S.D.N.Y. 1995)

practices, and upon a finding of a meritorious charge, may issue a complaint. Complaints are heard by an Administrative Law Judge ("ALJ"), after which the Board reviews the ALJ's findings of fact and recommendations of disposition and conducts its own hearing if it chooses.

[1] Provision 10(j) of the Act authorizes district courts to grant temporary injunctions pending the outcome of unfair labor practice proceedings before the Board. 29 U.S.C. § 160(j). Provision 10(j) reflects Congress's recognition that, absent injunctive relief, the Board's often lengthy administrative proceedings could allow an unfair labor practice to go unchecked and thereby render a final Board order ineffectual. *Kaynard v. Palby Lingerie, Inc.*, 625 F.2d 1047, 1065 (2d Cir. 1980); see also *Eisenberg v. Lenape Products, Inc.*, 781 F.2d 999, 1006 (3d Cir.1986) (Becker, J., dissenting) (average unfair labor practice grievance takes NLRB 16 months to adjudicate) (citing *Kobell v. Suburban Lines*, 731 F.2d 1076, 1094 n. 32 (3d Cir.1984)).

In the matter before me, the NLRB has charged the Owners with violating §§ 8(a)(1) & (5) of the Act,<sup>3</sup> that is, of violating the duty to bargain collectively in good faith with the Players. The duty to bargain collectively is defined in § 8(d) as the "mutual obligation of the employer and the representative of the employees to ... confer in good faith with respect to wages, hours, and other terms and conditions of employment...." 29 U.S.C. § 158(d).

[2, 3] The potential subject matter of parties engaged in collective bargaining has been divided by the Supreme Court into two categories: mandatory and permissive subjects of bargaining. See *N.L.R.B. v. Wooster Div. of Borg Warner Corp.*, 356 U.S. 342, 349, 78 S.Ct. 718, 722, 2 L.Ed.2d 823 (1958). Mandatory subjects are those encompassed in Section 8(d) in the phrase "wages, hours,

and other terms and conditions of employment," while permissive subjects are all other matters. *Id.* The distinction between mandatory and permissive subjects of bargaining is crucial in labor disputes, because it determines to what extent one party may compel the other to bargain over a given proposal: mandatory subjects require the parties to bargain in good faith, whereas no such requirement adheres to permissive subjects. It is not always obvious whether or not a provision relates to "wages, hours, and other terms and conditions of employment," and the mandatory/permissive distinction is the subject of much caselaw.

[4-6] The distinction between mandatory and permissive subjects of bargaining is also important upon expiration of a collective bargaining agreement, in the period before the parties have instituted a successor agreement. During the interim between agreements, the Supreme Court has held, the parties must honor the terms and conditions of the expired contract that involve mandatory subjects of bargaining, at least until the parties reach a good faith impasse. *N.L.R.B. v. Katz*, 369 U.S. 736, 746, 82 S.Ct. 1107, 1113, 8 L.Ed.2d 230 (1962). A unilateral change of an expired provision on a mandatory topic, such as one involving wages, is an unfair labor practice, as it violates the duty to bargain collectively in good faith.<sup>4</sup> The provision of the expired agreement survives only until the parties reach a new agreement or until the parties bargain in good faith to impasse. The policy behind the rule retaining the mandatory terms of the expired agreement is that it will be more effective in promoting peaceful negotiations than a rule allowing a change in the status quo during the critical bargaining period. See, e.g., *Oakbörns Health & Welfare Trust v. Advanced Lightweight Concrete Co.*, 484 U.S. 539, 544 n. 6, 108 S.Ct. 830, 833 n. 6, 98 L.Ed.2d 936

3. Section 8(a) provides:

It shall be an unfair labor practice for an employer—

(1) to interfere with, restrain, or coerce employees in the exercise of the rights guaranteed in section 7; [section 7 enumerates "Rights of Employees"]; ...

(5) to refuse to bargain collectively with the representatives of his employees....

4. I note that striking is not a violation of the collective bargaining process; parties may legitimately exert pressure through the use of such economic weapons. See, e.g., *Brown v. Pro Football, Inc.*, 50 F.3d 1041, 1051 (D.C.Cir.1995).

(1988) ("Freezing the status quo ante after a collective agreement has expired promotes industrial peace by fostering a non-coercive atmosphere that is conducive to serious negotiations on a new contract").

In the matter before me, the Owners do not deny that they changed provisions in the expired contract; specifically, that they revoked the salary arbitration clause and eliminated section XX(F), the free agency anti-collusive provision. The Owners assert, however, that their changes were allowed because the provisions concerned a statutorily permissive topic, i.e., who would collectively bargain for them over free agent and reserve player salaries. The NLRB maintains that the Owners' changes involved mandatory subjects, and the Owners thereby committed an unfair labor practice by undermining the collective bargaining process. The NLRB petitions this court for injunctive relief.

[7] My responsibility in the resolution of the 10(j) petition is to consider: (1) whether there is "reasonable cause to believe" that the respondent has violated the Act and (2) whether temporary injunctive relief is "just and proper." See, e.g., *Kaynard v. MMIC, Inc.*, 734 F.2d 950, 953 (2d Cir.1984). In other words, I must decide whether the NLRB had "reasonable cause to believe" that the unilateral changes made by the Owners were to mandatory provisions,<sup>5</sup> and, if I uphold the Board's determination, I must then consider whether injunctive relief is just and proper. The standards for reasonable cause to believe and just and proper are as follows.

#### *The Standard for Reasonable Cause*

[8] In reviewing a reasonable cause determination by the Board, a district court must give "appropriate deference" to the specialized knowledge of the Board. *Silverman v. 40-41 Realty Assocs., Inc.*, 668 F.2d 678, 681 (2d Cir.1982) (citations omitted). Thus, the district court should give the Regional Director's version of the facts "the benefit of the doubt." *Seeler v. The Trading Post, Inc.*, 517 F.2d 33, 37 (2d Cir.1975)

5. In their papers, the Owners seemed to argue that they had bargained to impasse and that therefore, they were allowed to unilaterally change even mandatory terms. The Owners

(citation omitted). Indeed, the Board's view of the facts should be sustained "unless the court is convinced that it is wrong." *Palby*, 625 F.2d at 1051. (citing *Danielson v. Int'l Organization of Masters, Mates & Pilots*, 521 F.2d 747, 751 (2d Cir.1975)); see also *Kaynard v. Mego Corp.*, 633 F.2d 1026, 1031 (2d Cir.1980) (reasonable inferences drawn in favor of charging party).

[9] The Second Circuit has further recognized the expertise of the Board by holding that even on issues of law, district courts should be "hospitable" to the views of the Board. *Mego Corp.*, 633 F.2d at 1031 (citations omitted). Moreover, determining what are mandatory topics of bargaining is "at the heart of the Board's functions." *Toledo Typographical Union v. N.L.R.B.*, 907 F.2d 1220, 1222 (D.C.Cir.1990); see also *Olivetti Office U.S.A., Inc. v. N.L.R.B.*, 926 F.2d 181, 185-86 (2d Cir.), cert. denied, 502 U.S. 856, 112 S.Ct. 168, 116 L.Ed.2d 132 (1991) (NLRB determination that bargaining issue is a mandatory term and condition under § 8(d) entitled to deference because of Board's expertise).

[10] An NLRB legal determination that a violation of § 8(d) has occurred should be upheld unless the Board (1) reached its position by either failing to apply the correct legal standard or by misconstruing the plain language of the correct standard; (2) made a determination so fundamentally inconsistent with the structure of the NLRA that its decision can be viewed as an attempt to usurp major policy decisions by Congress; or (3) is attempting to move into an area of regulation which Congress has not committed to it. *Ford Motor Co. v. NLRB*, 441 U.S. 488, 497-98, 99 S.Ct. 1842, 1849, 60 L.Ed.2d 420 (1979) (citations and quotations omitted).

#### *The Standard for Just and Proper Relief*

[11] Upon a finding of reasonable cause, a court determines whether the relief requested by the Board is "just and proper." *Mego Corp.*, 633 F.2d at 1030 (citations omitted).

abandoned that position at Oral Argument, and admitted that an impasse had not been reached. I therefore need not address the NLRB's finding that the parties had not reached impasse.

ted). The decision to issue an injunction under § 10(j) lies within the sound discretion of the district court. *Silverman v. Imperia Foods, Inc.*, 646 F.Supp. 393, 398 (S.D.N.Y. 1986) (Sweet, J.) (citations omitted). The decision to exercise this discretion is guided by "general rules of equity." 40-41 *Realty Assoc.*, 668 F.2d at 680. Because an injunction is an extraordinary remedy, the Second Circuit adheres to a stringent "irreparable injury" requirement when considering § 10(j) petitions. Compare *Mego Corp.*, 633 F.2d at 1034 n. 10 (rejecting suggestion that in 10(j) cases, a lower standard for injunctive relief applies) with *Pascarell v. Gilano Group, Inc.*, 730 F.Supp. 616, 620 (D.N.J.1990) (no showing of irreparable injury or likelihood of success on merits required under 10(j)).

[12, 13] The Second Circuit has specifically found injunctive relief "just and proper" to (1) prevent irreparable injury to the party injured by the unfair labor practice, *Palby*, 625 F.2d at 1053; (2) restore or preserve the status quo that existed prior to the violation, *Mego Corp.*, 633 F.2d at 1033; (3) protect the Board's ability to issue a final remedy, *Morio v. North American Soccer League*, 632 F.2d 217, 218 (2d Cir.1980) (per curiam) (citations omitted); *Palby*, 625 F.2d at 1055 (same); or (4) protect the public interest in the collective bargaining process, *Seeler*, 517 F.2d at 40 (citations omitted).

Applying these standards to the factual and legal arguments before me, I find as follows:

6. The Second Circuit has classified injunctions as mandatory or prohibitory. A mandatory injunction requires a party to take certain affirmative steps, while a prohibitory injunction requires a party to desist from doing certain acts in order to preserve the status quo. See *Abdul Wali v. Coughlin*, 754 F.2d 1015, 1025-26 (2d Cir.1985). The general standard for an injunction, requires that the moving party prove irreparable harm and either 1) a likelihood of success on the merits or 2) substantial question going to the merits as to make them a fair ground for litigation, together with a balance of hardships tipping decidedly toward the movant. For a mandatory injunction, the Second Circuit has articulated a higher standard that requires a moving party to make a clear showing of entitlement to relief and "extreme or very serious damage" from a denial of an injunction. *Id.*

The Supreme Court, however, has recently cast doubt upon the distinction between man-

*The Board has Reasonable Cause to Believe the Owners have Engaged in an Unfair Labor Practice*

As noted, there is no dispute that on February 6, 1995, the Owners unilaterally changed certain provisions of the expired Basic Agreement; namely, they announced that the PRC, rather than the individual clubs, would negotiate individual players' free agency contracts, and that the salary arbitration rights of eligible reserve players were eliminated. My inquiry of whether the Board had reasonable cause to believe that the Owners committed an unfair labor practice hinges on whether I find reasonable cause for the Board's legal finding that the provisions at issue involved mandatory subjects of bargaining. If so, and if such relief is "just and proper," I must grant the injunction.

Collective bargaining in the context of professional sports presents issues different from most other contexts. On the one hand, the talent of an individual athlete can provide him with extraordinary bargaining power, but on the other hand, a player may sell his talent only to a circumscribed group of owners, who have something akin to monopoly power in the sport at issue. These circumstances in professional sports have given rise to the development of the reserve/free agency system, which, perhaps not surprisingly, is quite different from other models of collec-

tory and prohibitive injunctions in labor situations:

[I]n borderline cases injunctive provisions containing essentially the same command can be phrased either in mandatory or prohibitory terms. Under a literal application of petitioners' theory, an injunction ordering the union: "Do not strike," would appear to be prohibitory and criminal, while an injunction ordering the union: "Continue working," would be mandatory and civil. *Int'l Union, United Mine Workers of America v. Bagwell*, — U.S. —, —, 114 S.Ct. 2552, 2561, 129 L.Ed.2d 642 (1994) (citations omitted). For purposes of the instant petition, it does not matter whether the distinction between mandatory and prohibitive injunctions remains valid in labor disputes because I find that the Board's request meets the standards for both types of injunctions.

tive bargaining in less specialized and unique industries.

To look for guidance, then, in deciding whether the Board had reasonable cause for making its determination that the provisions changed by the Owners were mandatory, I find most helpful precedent that involves professional sports. *Accord, Wood v. Nat'l Basketball Ass'n*, 809 F.2d 954, 961 (2d Cir.1987) (collective bargaining between athletes and their leagues "raise[s] numerous problems with little or no precedent in standard industrial relations"). And in the sports context, courts have overwhelmingly held that the constituent parts of reserve/free agency systems are mandatory, not permissive, subjects of bargaining.

For example, this Circuit held in *Wood* that the agreement between professional basketball players and team owners "is a unique bundle of compromises," and matters such as salary caps, minimum individual salaries, fringe benefits, minimum aggregate team salaries, guaranteed revenue sharing, and first refusal provisions are all mandatory subjects of bargaining, as "[e]ach of them is intimately related to 'wages, hours, and other terms and conditions of employment.'" *Id.* at 961-62. Likewise, in *Mackey v. Nat'l Football League*, 543 F.2d 606, 615 (8th Cir.1976), *cert. dismissed*, 434 U.S. 801, 98 S.Ct. 28, 54 L.Ed.2d 59 (1977), the Eighth Circuit held that the Rozelle Rule,<sup>7</sup> even though it does not on its face deal with wages, hours, and other terms and conditions of employment, is a mandatory subject of bargaining because it "operates to restrict a player's ability to move from one team to another and depresses player salaries." *See also, Powell v. Nat'l Football League*, 930 F.2d 1293, 1298-99 (8th Cir.1989) (agreements establishing first refusal and compensation system are mandatory subjects).

I recognize that these precedents, which address the question of whether wage topics trump the antitrust laws, do not deal with the issue before me, i.e., the continuation of reserve and free agency systems in which individual owners competitively bid for players

7. The Rozelle Rule requires inter-team compensation when a player's contractual obligation to

after the expiration of a collective bargaining agreement and pending the completion by Player and Owner representatives of negotiations over a successor agreement. The owners argue that the right to bid competitively or collectively must be a permissive topic of bargaining, because if it were a mandatory topic, the Owners would be forced to give up their statutory right to bargain collectively.

[14] Courts in addressing the antitrust area of law have easily recognized, however, that the essence of collective bargaining in professional sports is the establishment and maintenance of reserve and free agency systems in which owners agree to bid competitively for some players and collectively for others. The Owners' argument has a superficial appeal in its attempt to harken back to the unionizing cry of employees when they banded together to create this nation's labor laws. What the Owners have missed here, and the NLRB has not, is that the statutory right to join collective bargaining units belongs to employees, not to employers. *The NLRA gives only employees the section 7 right to bargain collectively through an elected representative.* The only reciprocal statutory right the Act imposes on employers and employees is that they bargain with the other in good faith. In other words, the term "employer union" for collective bargaining purposes is not meaningful.

[15] The extent of statutory protection for an employer is that it may select a representative for the purpose of bargaining free of coercion from a labor union. *See NLRA* § 8(b)(1)(B); 29 U.S.C. § 158. This right is not a statutory right for a group of employers to bargain collectively through one representative. In fact, while many multi-employer bargaining units, like the PRC, have been formed, the NLRB and the union must consent to the such formation. *See, e.g., NLRB v. Johnson Sheet Metal, Inc.*, 442 F.2d 1056, 1059 (10th Cir.1971) ("[t]he basic test of the appropriateness of a multi-employer bargaining unit is whether it was created with the approval, express or implied, of the parties").

one team expires and he is signed by another.

Cite as 880 F.Supp. 246 (S.D.N.Y. 1993)

[16] The Owners' attempt to create reciprocal statutory rights to collective bargaining between Unions and Employer groups is simply a wrong presumption from which to start. Hence, any reliance on cases that address prohibitions upon a Union's waiver of its statutory rights to bargain collectively is misguided, as they have no application to an employer's rights or obligations to continue a joint or individual employer bargaining system that has, through arms-length, good faith bargaining, been put into place. As expressed in the Reply Brief of the NLRB, the "valid interest in the selection of [the Owners'] own bargaining representatives . . . does not trump employees' Section 7 right to have the status quo ante maintained on mandatory bargaining subjects during negotiations." Reply Mem. at 14. An interest is not a statutory right. It can be waived as the Owners have done here in the Basic Agreement.

[17] Maintaining the reserve/free agency systems in the interim between collective bargaining agreements does not alter the rights of Owners to have the PRC represent them for purposes of negotiating a successor agreement or to continue to oppose the inclusion of the systems in any successor agreement. The Owners can, if they successfully bargain, end the free agency and salary arbitration systems, exclude the anti-collusion provision, and create an entirely new system. What they cannot do is alter particular individual's wages until the system is changed by agreement or until the parties negotiate to impasse. That is the nub of all wage negotiations which are inherently mandatory subjects of bargaining. It must be remembered that many employers are forced to continue sometimes onerous and debilitating wage ob-

ligations until the collective bargaining process runs its course, just as many employees may earn less than they would in a system that more closely duplicates the free market. Having freely entered into the free agency and reserve systems in their Basic Agreement, the Owners are bound to that system until they bargain in good faith to an impasse.

In view of the abundant caselaw in the professional sports context that has found that constituent parts of the reserve/free agency system are mandatory subjects of collective bargaining, I find that the Board had substantial reasonable cause to conclude and a substantial likelihood of success ultimately in establishing, that the unilateral changes made by the Owners to the free agency system before impasse violated the rule against changes to mandatory subjects of bargaining. In summary, the Board has clearly met its injunctive remedy standard in demonstrating that the Owners committed an unfair labor practice by their unilateral abrogation of Article XX(F) and the free agency system.

[18-20] For substantially similar reasons. I find that salary arbitration for reserve players is also a mandatory part of the collective bargaining process between the Players and the Owners. The Owners argue that their salary arbitration system is indistinguishable from interest arbitration clauses which are generally classified as permissive subjects of bargaining. Thus, the Owners contend, they have no statutory obligation to preserve salary arbitration until the formation of a new collective bargaining agreement.<sup>8</sup>

8. In their papers, the Owners argue I should defer to the resolution of a grievance arbitration filed by the Players, which seeks a binding contract interpretation that would make all salary arbitration eligible players into free agents. *See Owners' Mem.* at 32. At oral argument, counsel for the Owners did not discuss this argument. The Court can see why. The Owners rely upon a line of cases based on the reasoning set forth in *Collyer Insulated Wire*, 192 NLRB 837 (1971). However, almost without exception, cases following *Collyer* have involved the NLRB deferring to grievance arbitration, rather than a district court deferring to arbitration when a Section 10(j) injunction is being sought. Moreover, deferral

under *Collyer* is appropriate only where the parties have had "a long and productive" relationship and no claim was made of enmity by the employer to the employees' exercise of protected rights." *Baron Bros. Auto Group, Inc.*, 316 NLRB No. 103, 1995 WL 89300 at \*18 (February 28, 1995) (quotation omitted). Deferral is inappropriate where there exists "a long list of actions which constitute attempts to coerce and restrain employees in the exercise of their Section 7 rights and which constitute attempts to undermine the position of [the] Local. . . ." *Id.* Virtually the only issue the parties here do agree upon is that the relationship between the Players

[21, 22] The Second Circuit has recognized two basic types of arbitration in the labor context: interest arbitration and rights arbitration. *New York Typographical Union No. 6 v. Printers League Section of the Assoc. of the Graphic Arts*, 919 F.2d 3, 3 n. 2 (2d Cir.1990). Interest arbitration "concerns disputes over terms of new or renewal contracts." *Id.*; see also *Local 58, Int'l Brotherhood of Electrical Workers v. Southeastern Michigan Chapter, Nat'l Electrical Contractors Ass'n, Inc.*, 43 F.3d 1026, 1030 (6th Cir.1995) (interest arbitrator acts as legislator in fashioning new contractual obligations, rather than as judicial officer who concentrates on construing terms of existing agreement). Rights arbitration, in contrast, is for disputes "over the interpretation or application of a contract." *Printers League*, 919 F.2d at 3 n. 2. Because interest arbitration clauses involve "a mechanism for resolving disputes which may arise as to the terms of future contracts," as opposed to existing terms and conditions of employment, they are a non-mandatory topic of bargaining. *Sheet Metal Workers Local Union No. 20 and George Koch Sons, Inc.*, 306 NLRB 834, 1992 WL 64220 at \*9 (March 25, 1992).

[23] I agree with the Board's conclusion that the salary arbitration clause at issue here is not a traditional interest arbitration clause. The distinction blurred by the Owners' argument is that new future contractual obligations are not being created by the salary arbitrator. By the time a player and owner go to salary arbitration, a UPC, created by the terms of the Basic Agreement, has already been entered into by the parties. The only item missing from the executed contract is a dollar amount. The owners cannot escape the plain and unambiguous language of Article VI(F)(6), which provides:

Form of submission: The Player and the Club shall each submit to the arbitrator and exchange with each other in advance of the hearing single salary figures for the coming season (which need not be figures offered during the prior negotiations). At the hearing, the Player and the Club shall

and the Owners has long been filled with animosity. The Owners, moreover, have failed to make any showing that deferral would likely

deliver to the arbitrator a Uniform Player's Contract executed in duplicate, complete except for the salary figure to be inserted in paragraph 2. Upon submission of the salary issue to arbitration by either Player or Club, the Player shall be regarded as a signed Player....

Basic Agreement, Article VI(F)(g) (emphasis added); see also *id.* at Article VI(F)(5) (within 24 hours of hearing arbitrator shall insert salary figure awarded in the duplicate UPC's delivered to him or her). Before the arbitrator rules, there is no question that the player will provide his services to the club for a specified period of time and that the club will pay for those services. The arbitrator's only task is, literally, to fill in the blank where the salary figure goes.

[24, 25] Even if the salary arbitration clause contained in the Basic Agreement is an interest arbitration clause, however, I also agree with the Board's reasoning in *Sea Bay Manor Home for Adults*, 253 NLRB 739, 1980 WL 12643 (December 15, 1980) and *Columbia Univ. in the City of New York*, 298 NLRB 941, 1990 WL 122487 at \*1 (June 28, 1990) that interest arbitration clauses can survive the expiration of collective bargaining agreements where the clauses:

[are] so intertwined with and inseparable from the mandatory terms and conditions for the contract currently being negotiated as to take on the characteristics of the mandatory subjects themselves.

*Sea Bay* at \*3; see also *Columbia Univ. at \*1* (interest arbitration clause mandatory where it has immediate effect on wages and terms of employment).

[26] The essence of the reasoning in *Sea Bay* and *Columbia Univ.* is that in some industries the result of collective bargaining is not to stop talking in the future about a dispute but a recognition that the best continuing process for the parties to establish wages is in arbitration. In these situations, a salary arbitration is a current term of employment. That is the situation in baseball. Salary arbitration is the collectively bar-

resolve the unfair labor practices underlying the NLRB's petition.

gained wage in the parties' Agreement, and the Board's view of it as such is not clearly or otherwise erroneous. For the foregoing reasons, the Board has sustained its burden of proving that the Owners committed unfair labor practices both by eliminating Article XX(F) of the free agency system and the salary arbitration provisions of the Basic Agreement.

#### *There is Just and Proper Cause to Issue an Injunction.*

[27, 28] I find injunctive relief here warranted for several reasons. An important public interest in the process of collective bargaining will be irreparably harmed if an injunction does not issue. This strike has captivated the public's attention, given the popularity of the sport as well as the protracted nature and well-documented bitterness of the strike. Thus, this strike is about more than just whether the Players and Owners will resolve their differences. It is also about how the principles embodied by federal labor law operate. In a very real and immediate way, this strike has placed the entire concept of collective bargaining on trial. It is critical, therefore, that the Board ensure that the spirit and letter of federal labor law be scrupulously followed. If the Board is unable to enforce the NLRA, public confidence in the collective bargaining process will be permanently and severely undermined. See *Seeler*, 517 F.2d at 40 ("the standards of the public interest, not the requirements of private litigation, measure the propriety and need for injunctive relief in these cases.") (quotation omitted); *De Prospero v. House of Good Samaritan*, 474 F.Supp. 562, 567 (N.D.N.Y.1978) ("courts are required to formulate equitable decrees which will further the public interest in maintaining respect for the law, encouraging the resolution of industrial disputes through collective bargaining") (citation omitted). Issuing the injunction before Opening Day is important to ensure that the symbolic value

The Owners also suggest that even if the free agency bargaining process has been tainted by the commission of unfair labor practices, an injunction is inappropriate because most players are not free agents. This argument is specious. First, as of February 10, 1995, twenty percent of all players had enough seniority to opt for free

of that day is not tainted by an unfair labor practice and the NLRB's inability to take effective steps against its perpetuation.

Although this public interest alone justifies the issuance of an injunction, I also find that returning the parties to the status quo will permit them to salvage some of the important bargaining equality that existed before the February 6 unfair labor practices were committed. Before February 6, the Players had the right to attempt to salvage the upcoming season and avoid the continuing damage to their short professional careers by offering to return to work under the terms of the Basic Agreement before replacement players were used in the regular season. Even though Opening Day may need to be delayed, the parties still have time to avoid unduly abbreviating the season and to salvage it. Without an injunction, that bargaining possibility and its benefit in fostering good-faith continuing negotiations for the Players, which existed on February 6, would be greatly diminished if not lost.

Finally, the Owners argue that even if there is reasonable cause to believe that they committed unfair labor practices, the resulting injury to the Players is merely lost wages which can be compensated through damages.<sup>9</sup> The Owners' argument is flawed because there is more than money involved in the systems at issue here and because there is no adequate way to reconstruct the systems to fully recompense the losses of free agents or reserve players.

Salary is just one factor a free agent considers when seeking and accepting offers. A free agent may wish to join a team because of personal reasons such as family considerations, or because of promises of more playing time. Likewise, a free agent may select a team that pays less money but whose coaching staff and team roster make it a World Series contender. See Transcript of

agency status. See Transcript of Oral Argument, dated March 31, 1995, at 23. This is a sizable portion of the Players' union, and it defies common sense as well as general principles of equity to deny them relief simply because they do not constitute a majority of all players.

Oral Argument, dated March 31, 1995 ("Tr."), at 22-23.

The importance of non-monetary considerations is recognized in the Basic Agreement which provides that during the notice period of free agency election, individual players will not enter into new contracts but may discuss the following subjects with other teams:

- the Player's interest in playing for the Club, and the Club's interest in having the Player play for it;
- the Club's plans about how it intends to utilize the Player's services (as a starting pitcher or reliever, as a designated hitter or not, platooning, etc.);
- the advantages and disadvantages of playing for the Club including the nature of the organization, the climate of the city, availability of suitable housing, etc.;
- length of contract
- guarantee provisions
- no trade or limited no-trade provisions.

Basic Agreement, Art. XX(B)(2)(b).

[29] The protections of the NLRA extend to non-monetary bargaining topics that are "terms and conditions of employment." See 29 U.S.C. § 158(d); see also *Ford Motor Co.*, 441 U.S. at 497-98, 99 S.Ct. at 1849 (deference given to NLRB judgment that an unfair labor practice had been committed by employer's unilateral change in cafeteria services and vending machine access because "the availability of food during working hours and the conditions under which it is to be consumed are matters of deep concern to workers, and one need not strain to consider them to be among those 'conditions' of employment that should be subject to the mutual duty to bargain."); *Connecticut Light & Power Co. v. N.L.R.B.*, 476 F.2d 1079, 1081 (2d Cir.1973) (non-wage benefits such as selection of health insurance carrier are mandatory subjects of bargaining under 8(d)). In professional baseball, whether to leave a team, where to go and why are of "deep concern" to the affected players and the loss of those choices in the terms and conditions of employment cannot be adequately recompensed by money. The only adequate remedy to protect these important personal rights, rights which the NLRB is empowered

to protect, is to issue an injunction and thereby restore the status quo. Otherwise, the harm to the Players is the very one the Owners' unfair labor practices sought to achieve, i.e., an alteration of free agency rights and a skewing of their worth.

Similarly, to the extent the salary arbitration system is intimately intertwined with the choice for both owners and players between free agency or arbitration, it is nearly impossible to reconstruct retrospectively the factors that would have influenced each side's decision at the time of election. Hence, even though it is easier later to reconstruct the actual process of salary arbitration and more precisely determine a lost wage from that process, monetary damages are insufficient to recompense for the harm caused in eliminating the salary arbitration process as a choice in the integrated reserve/free agency systems.

Free agency, salary arbitration, and the reserve systems are three aspects of the professional baseball wage structure which are inexorably linked. See, e.g., Basic Agreement, Article XXIII, at 61-62 (Owners and Players had right to reopen Basic Agreement solely with respect to Article VI(B) (minimum salary), Article VI(F) (salary arbitration), and Article XX) (reserve system)). There is clear evidence on the record demonstrating that any economic injury suffered by free agents, for example, directly impacts upon all players. From 1985-87, the Owners engaged in allegedly collusive activities. Under the grievance procedures set forth in the Basic Agreement, an arbitration was had. See, e.g., *In the Matter of the Arbitration between Major League Baseball Players Ass'n. and The 26 Major League Clubs*, Grievance 88-1, attached as an unmarked exhibit to Pet.Reply Mem. Although the grievance was ultimately settled, the arbitrators found that "depressing free agent salaries led directly to lower salaries for the salary arbitration players." Affidavit of Donald Fehr, sworn to March 30, 1995 ("Fehr Aff."), at ¶ 16; see also *id.* at ¶ 23 (under baseball wage structure, there is a correlation between players' salaries and seniority); *tr.* at 28-29.

Thus, a poisoning of the free agency bargaining process will also affect the wage negotiations of reserve and salary arbitration players. Conversely, the loss of salary arbitration in the reserve system skews the choice of free agency rights. The unusual wage structure in this monopoly industry makes it extraordinarily difficult if not nearly impossible to reconstruct past market conditions for purposes of retroactive damage calculations. Where "monetary damages are difficult to ascertain or are inadequate," an injunction is appropriate. *Danielson v. Local 275, Laborers Int'l Union of North America*, 479 F.2d 1033, 1037 (2d Cir.1973) (citations omitted); see also *Gerard v. Almouli*, 746 F.2d 938, 939 (2d Cir.1984) (upholding grant of preliminary injunction where damages impossible to ascertain). In short, in balancing the equities, I find that the harm to the public, the players, and the NLRB compels the issuance of a Section 10(j) injunction in this case.

### CONCLUSION

[30] For the reasons discussed, the Court has issued an injunction directing and ordering Respondents, the Major League Baseball Player Relations Committee, Inc. and its twenty-eight constituent member clubs of Major League Baseball, 1) to restore the terms and conditions of employment provided under the expired Basic Agreement which was effective January 1, 1990, including its free agency/reserve systems with salary arbitration for eligible reserve players, Article XX(F) and all other of their constituent parts; 2) immediately to rescind by written notice to all club members any actions taken, including the February 6 letter from Charles P. O'Connor to Donald M. Fehr, Re: Exclusive Representative Status of PRC and the February 6, 1995 Memorandum with its attached Questions and Answers sent by Charles P. O'Connor to All Major League Clubs Subject: Individual Club/Player Contract Negotiations, that are inconsistent with or conflict with the terms and conditions of employment, including all provisions of the free agency/reserve systems provided under the expired Basic Agreement; and 3) to bargain in good faith without unilateral changes to the Basic Agreement with the Major

League Baseball Players Association in compliance with § 8(a)(1) and (5) of the National Labor Relations Act.

This injunction is to remain in effect until either (1) the Players and Owners enter into a new collective bargaining agreement that replaces the expired Basic Agreement, or (2) the final disposition of the matters pending before the National Labor Relations Board on the Complaint and Notice of Hearing, the General Counsel of the Board in Case No. 2-CA-28177, or (3) a finding of the court, upon petition of the Players or Respondents for a dissolution of the injunction demonstrating that an impasse in good faith bargaining has occurred despite a reasonable passage of time negotiating in good faith the full mandatory bargaining terms of the expired Basic Agreement.

SO ORDERED.



Anthony CARDINAL

v.

John GORCZYK and Jeffrey Amestoy.

Civ. A. No. 5:94-CV-200.

United States District Court,  
D. Vermont.

March 16, 1995.

State prisoner, who had been convicted of sexually assaulting his minor daughter, filed petition for writ of habeas corpus. Following issuance of report and recommendation in favor of denial of petition by United States Magistrate Judge Niedermeier, the District Court, Billings, Senior District Judge, held that: (1) petitioner had not waived his right to be present during individual voir dire; (2) defense counsel had not effectively waived petitioner's right to be present at individual voir dire; (3) error of

JOURNAL

that clause 4, part 111 of the charter party providing that the ship's "holds are to be properly swept, cleaned and dried . . . to the Charterers' satisfaction", placed on the plaintiff responsibility to inspect and approve the ship's holds before the cargo was loaded. Accordingly, defendants argue that by accepting the ship as satisfactory, plaintiff cannot now complain about the presence of rust scale since this was a preexisting condition. However, the duty to provide a seaworthy ship is a duty the shipowner cannot delegate, and if cargo damage is caused by "some defect in the vessel which the Captain had failed to discover and correct, primary liability" falls on the ship owner. *Nichimen*, 462 F.2d at 332.

[8] Damage to the cargo from the rust scale is defendants' responsibility, as is damage to the pipes' coating from protruding nails on the wooden saddles and to the bevel ends of the pipes in being banged against the bulkhead and other parts of the vessel during the offloading operation. Damage to the pipes' coating from embedded nails and glass debris appears to have been an aftermath of the loading for which defendants are not liable.

[9] Plaintiff incurred \$201,196.36 in repair costs, plus \$11,630.76 in survey fees. Plaintiff is entitled to be reimbursed for the reasonable and necessary costs for repairing the damaged cargo, *Scott & Williams, Inc. v. Pittston Stevedoring Corp.*, 422 F.Supp. 40, 43 (S.D.N.Y.1976) (Weinfeld, J.); *Interstate Steel Corp. v. S.S. Crystal Gem*, 317 F.Supp. 112, 121 (S.D.N.Y.1970) (Tenney, J.), and necessary expenses incidental to the loss, such as survey fees. *Santiago v. Sea-Land Service, Inc.*, 366 F.Supp. 1809, 1817 (D.P.R. 1973).

[10] Carney testified that the repair costs were reasonable. Esslinger, who acted for defendants, stated in deposition testimony that Transco was sending for repair some pipes with minor coating damage, but it is not clear that he made any complaint at the time. At any rate, the vulnerability of the pipes to corrosion and their intended use in an underground gas pipeline makes putative corrosion a public hazard which cannot be

risked. Accordingly, the court cannot second guess Transco as to the need for repair.

Defendants challenge Carney's allocation of the cause of damage to the pipes because he made no such allocation in his field report. Carney did not quantify the kinds of repair costs until after litigation was instituted. But there was no need to do that until he was required to do so in pressing plaintiff's claims in this litigation. The defendants have proposed no alternative allocation of repair costs. The damage estimate of a surveyor is a valid basis for determining recoverable damages. *Nissho-Iwai Co. v. M/T Stolt Lion*, 1986 A.M.C. 269, 271, 1984 WL 365 (S.D.N.Y.1984) (Goettel, J.) (citing *Empresa Central Mercantil De Representaciones, Ltda. v. Republic of the United States of Brazil*, 147 F.Supp. 778, 780 (S.D.N.Y. 1957), *aff'd*, 257 F.2d 747 (2d Cir.1958)).

Accepting plaintiff's allocation of the repair costs, plaintiff is entitled to recover from defendants \$130,000.00 for repair of coating damage due to rust scale, \$26,000.00 for repair of damage from the protruding nails on the wooden saddles and \$28,896.00 for damage to end bevels caused by rough handling of the discharging stavedores for a total of \$184,896.00 for repairs.

From this amount \$8,000.00 is deducted for repair of the 17 damaged pipes during the loading process. Carney estimated that reasonable cost of repair of these 17 pipes was \$5,000.00. In addition there were ten pipes with no external protective coating, described by the surveyor at Dunkirk as "unprotected and rusty". No mention was made of these pipes during the hearing or post trial procedures. They could have been included in the repair operation in Philadelphia. Accordingly, the court is allocating \$3,000.00 for those pipes. \$8,000.00 is to be deducted for these items, leaving \$176,896.00 in repair costs to be recovered from defendants. Plaintiff is also entitled to recover \$11,630.76 in survey fees, for a total recovery against defendants of \$188,526.76.

[11] Although awarding of prejudgment interest is within the court's discretion, it is generally awarded, unless special circumstances warrant a contrary result. See *Int'l*

*Maritime Steel Corp.*, 317 F.Supp. at 123-24. No countervailing circumstances are present here. Accordingly, plaintiff is awarded prejudgment interest at 9 percent.

IT IS SO ORDERED.



REFAC INTERNATIONAL, LTD. and  
Forward Reference Systems, Ltd.,  
Plaintiffs,

v.  
LOTUS DEVELOPMENT  
CORPORATION,  
Defendant.

No. 89 Civ. 5094 (SS).

United States District Court,  
S.D. New York.

April 18, 1995.

Patentee brought action against competitor, alleging competitor's spreadsheet computer programs infringed its patented process for converting source programs into object programs. The District Court, Sotomayor, J., held that patentee's submission of affidavits to Patent and Trademark Office (PTO) during application process, in which affiants attested to their belief that disclosures in patent application could teach them to make subject invention, while omitting information regarding affiants' prior employment by patentee, as well as their contact with and knowledge of invention process, was inequitable conduct that rendered patent invalid.

Judgment for defendant.

1. Patents — 97

Failure to disclose material information during patent application process, with intent to mislead or deceive Patent and Trademark Office (PTO) examiner into allowing patent,

may result in conclusion that applicant has engaged in inequitable conduct that renders patent unenforceable.

2. Patents — 97

Finding of "inequitable conduct" requires clear and convincing evidence that patent applicant failed to disclose material information to Patent and Trademark Office (PTO) with intent to deceive or mislead patent examiner into allowing or granting patent.

See publication Words and Phrases for other judicial constructions and definitions.

3. Patents — 97

Upon finding that both elements of materiality and intent are satisfied, court must then balance elements to determine whether patent applicant's conduct was inequitable, weighing both elements and their consequences under all circumstances; the more material the omission, the less culpable intent required, and vice versa.

4. Patents — 97

Omission by applicant in information submitted to patent examiner is material, in determining whether patent is invalid because of inequitable conduct, if there is substantial likelihood that reasonable examiner would have considered it important in deciding whether to allow application to issue as patent.

5. Patents — 97

Materiality of information omitted from patent examination is presumed when false affidavits are submitted to the Patent and Trademark Office (PTO) in order to overcome rejection of patent application.

6. Patents — 97

Patentee's submission of affidavits to Patent and Trademark Office (PTO) during application process, which affiants attested to their belief that disclosures in patent application could teach them to make subject invention, while omitting information regarding affiants' prior employment by patentee, as well as their contact with and knowledge of invention process, was inequitable conduct that rendered patent for converting source

programs into object programs invalid. 35 U.S.C.A. § 112.

Epstein Becker & Green, P.C. (Kenneth J. Kelly, Claudia M. Cohen, of counsel), Elias, Goodman & Shanks (Paul Goodman, of counsel), New York City, for plaintiffs.

Baker & Botts (Henry B. Gutman, Kerry L. Konrad, Jeffrey E. Ostrow, of counsel), New York City, for defendant.

#### FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER

SOTOMAYOR, District Judge.

The quid pro quo for obtaining a patent, and thereby securing its seventeen-year exclusive right to make, sell, and use an invention that the constitutionally-authorized, government-granted monopoly provides, is that adequate disclosure of the invention be made in the application for the patent. See 35 U.S.C. § 112. The patent application must teach the world, or at least those in the world who are "skilled in the relevant art," how to make the invention. *Id.*

The action before me involves a claim by plaintiffs REFAC International, Ltd. and Forward Reference Systems, Ltd. (collectively "REFAC")<sup>1</sup> that defendant Lotus Development Corporation ("Lotus"), the manufacturer of some well-known "spreadsheet" computer programs, infringed REFAC's Patent, number 4,398,249 (the "Patent"). Lotus has denied the infringement and has raised an affirmative defense that REFAC's Patent was procured through inequitable conduct before the U.S. Patent and Trademark Office (the "PTO"). Because a meritorious defense of inequitable conduct would render the Patent unenforceable and thereby defeat any claim of infringement, a separate bench trial, which is the subject of the instant Order, was

1. The Patent was issued to Remy Landau and Rene K. Pardo on August 9, 1983. Thereafter, they assigned all rights and title to the Patent to Forward Systems. On July 10, 1989, Forward Systems granted a 5% interest in the Patent to REFAC in exchange for its promise to sue two of the original defendants in this action within one month of the licensing agreement. REFAC commenced the suit and thereafter joined Forward Systems as a party as a result of an Order dated May 29, 1990 by the Honorable Michael B. Mukasey who had granted defendants' motions to

held on the affirmative defense under Fed. R.Civ.P. 42(b).

Lotus's allegation of inequitable conduct concerns the disclosure requirement of 35 U.S.C. § 112. Lotus maintains that REFAC convinced the PTO that its disclosure was adequate by fraudulently omitting material information about purportedly "disinterested" individuals who had submitted affidavits attesting to their belief that, standing alone, the disclosure in the patent application could teach them to make the subject invention. The material omissions involved prior employment by the applicants, as well as contact with and knowledge of the invention process by the affiants. REFAC denies that the omissions at issue were material or that its predecessors-in-interest intended to commit a fraud upon the PTO. For the reasons discussed below, I find that inequitable conduct occurred before the PTO and that the Patent should be rendered unenforceable.

#### STIPULATED FACTS

I adopt as findings the following undisputed facts agreed to by the parties in their Joint Pre-Trial Order dated July 20, 1993:

1. Defendant Lotus is a Delaware corporation with its principal place of business in Cambridge, Massachusetts.
2. Plaintiff REFAC International, Ltd. is a Nevada corporation with its principal place of business in New York, New York.
3. Plaintiff Forward Reference Systems, Ltd. ["Forward Systems"]<sup>2</sup> is a corporation organized pursuant to the laws of the Province of Ontario, Canada, with its principal place of business in Downsview, Ontario, Canada. Forward Systems is controlled by Rene K. Pardo ("Pardo") and Remy Landau ("Landau"), who are citizens of Canada.

dismiss the Complaint unless Forward Systems was joined as a necessary party. REFAC voluntarily dismissed its Complaint against the defendants other than Lotus before serving its Amended Complaint adding Forward Systems as a party.

2. The text of the stipulated facts is taken directly from the parties' Joint Pre-Trial Order. Any text I have added appears in brackets.

#### REFAC INTERN. v. LOTUS DEVELOPMENT CORP.

Cite as 887 F.Supp. 539 (S.D.N.Y. 1993)

4. On August 12, 1970, Pardo and Landau filed an application for U.S. Letters Patent entitled "A Process and Apparatus for Converting a Source Program Into An Object Program" (the "Patent Application").

5. By office action mailed July 22, 1971, the U.S. Patent and Trademark Office (the "PTO") rejected the claims of the Patent Application on the grounds of, among other things, inadequate disclosure of the invention under 35 U.S.C. § 112(1), (2) and (3).

6. In response, Pardo and Landau filed an Amendment to the Patent Application on October 15, 1971 (the "October 1971 Amendment").

7. In connection with the October 1971 Amendment, Pardo and Landau also submitted an affidavit executed by Pardo (the "Pardo Affidavit") stating, among other things:

"[T]hat in view of the facts given above, I believe that the presence of the flow chart of Figure 2 and the accompanying description in the specification of Application Serial No. 63,185 represent a sufficient disclosure to carry out the desired functions of the digital computer, and as such, would therefore be a full disclosure of the programming necessary to enable one with ordinary skill in the art of computer programming to make and use this invention."

8. By office action mailed February 1, 1972, the PTO issued a "Final Rejection" of the claims of the Patent Application (as amended by the October 1971 Amendment) on the grounds of, among other things, inadequate disclosure under 35 U.S.C. § 112(1), stating:

"the disclosure is not deemed of the level which would enable one with ordinary skill in the art to make and use the invention. The flow diagram which applicants represent in figure 2 is not of the detailed level which a programmer would need in order to write a program from. The general outline shown in figure 2 will still have to be broken down into fundamentals of what is necessary to write a program."

9. The PTO did not deem the Pardo Affidavit (along with the amended claims) "suffi-

cient to warrant a withdrawal of the objection and rejection", stating:

"It should be pointed out that an affidavit by applicant is self serving and therefore has very little probative value in a response to an objection that the specification is inadequately disclosed. By filing an application, applicants have indicated that it fulfills the statutory requirements set out in 35 U.S.C. 112, and an objection by the Examiner that the disclosure does not meet the conditions set out there, cannot be overcome by an affidavit by an applicant that it does. [Emphasis added.]

"A challenge by the Examiner should put an applicant to his proofs. A declaration by coapplicant is no more probative of the sufficiency of the disclosure than the specification as originally filed, which has been objected to."

10. In further response to the Final Rejection, Pardo and Landau filed an Amendment Under Rule 116 (the "Rule 116 Amendment") with the PTO on June 29, 1972. Pardo and Landau also filed a "Joint Statement of Rene K. Pardo and Remy Landau" (the "Joint Statement") to show that detailed coding was in existence prior to the filing date of the application, and a second affidavit executed by Pardo (the "Second Pardo Affidavit") in support of the Rule 116 Amendment to show that "the claimed invention was actually successfully practiced as early as August 12, 1970."

11. In the Rule 116 Amendment, Pardo and Landau stated, among other things, that "the present invention is directed to the computer scientist or compiler writer, not a mere programmer, and it is such compiler writer who is the man of 'ordinary skill in the art' who would practice the invention as defined by the claims." Pardo and Landau sought to "overcome" the rejection on the ground of inadequate disclosure by showing that "the man of ordinary skill in the art, the compiler writer, and even a mere programmer of ordinary skill in the art, could produce a program (as was actually done) from Applicants' disclosure."

12. To make this showing, Pardo and Landau submitted with the Rule 116 Amendment the affidavit of Peter H. Jones

("Jones"). They also submitted the affidavits of Robert F. Bullen ("Bullen") and David H. Cikra ("Cikra") (collectively, the "Affidavits").

13. At the time that the Rule 116 Amendment was filed, Pardo and Landau controlled an entity called Lanpar Ltd. ("Lanpar"), which marketed computer software programs including LANPAR (the "LANPAR Program") and OUTCOM.

14. The LANPAR Program was offered commercially by Lanpar as of the date of the Patent Application, and had been licensed for use by third parties as of that date.

15. The LANPAR Program and OUTCOM contained Pardo and Landau's best implementation of the invention claimed in the Patent Application. The Program (a portion of which is described in the Joint Statement) is described by Pardo as the "actual implementation of the invention as it existed as of August 12, 1970 in relation to Fig. 2 of the patent application drawing", which "claimed invention" Pardo averred in the Second Pardo Affidavit "was actually successfully practiced on a General Electric 400 Series Time Sharing Computer at least as early as August 12, 1970."

16. At the time that the Rule 116 Amendment was filed, Pardo and Landau were represented in the proceedings before the PTO by R. Gale Rhodes, Jr., Esq. ("Rhodes"), of the firm of Popper, Bain, Bobis, Gilfillan & Rhodes, located in Newark, New Jersey.

17. It was Rhodes who conceived of the idea to submit "third-party" affidavits to the PTO to overcome the Section 112(1) rejection, after receipt of the Office Action dated February 1, 1972, and prior to the interview with the PTO on April 12, 1972.

18. Prior to submission of the Rule 116 Amendment, Rhodes states that he advised Pardo and Landau to seek what Rhodes refers to as "third-party affidavits" to submit in its support.

19. Pardo and Landau identified and selected the persons who submitted the Affidavits. Landau also personally collected information as to the background of Cikra and furnished that information to Rhodes.

20. Jones worked for not more than eight weeks at Lanpar learning internal details of the LANPAR Program. His job included his becoming capable of correcting "bugs" and making improvements to the LANPAR program. Jones quit Lanpar at the end of February 1972.

21. After Jones left Lanpar, he was asked by Pardo or Landau to submit an affidavit to the PTO stating his opinion that, using only the disclosures in the Application and knowledge of programming techniques known to him on August 12, 1970, he could have written on that date a detailed computer program that would have carried out the process described in the Application.

22. The Jones Affidavit contained statements regarding his education and portions of his employment background for the period prior to the execution of his affidavit in June 1972.

23. By letter dated March 16, 1972, which was copied to Pardo, Rhodes forwarded to Jones a draft of his affidavit and, in that letter, Rhodes asked him to "review the Affidavit for truth and accuracy, and also please advise if I have made any omissions concerning your education and professional background."

24. The Jones Affidavit concluded as follows:

"[F]rom the written disclosures and flow chart shown in the drawing of such patent application, he could have produced as of August 12, 1970, and prior thereto, and using only programming techniques known on and prior to August 12, 1970, the necessary coding and could have written a detailed computer program therefrom."

25. Jones was not asked to, and did not perform any experiment to confirm the opinion expressed in his affidavit.

26. Neither the Rule 116 Amendment nor the Jones Affidavit disclosed the following facts:

(a) Jones worked for Lanpar for not more than eight weeks in January and February 1972, less than six months prior to executing his affidavit.

(b) While at Lanpar and prior to executing his affidavit, Jones learned internal details about the LANPAR Program and acquired an understanding of its concepts.

(c) While at Lanpar and prior to executing his affidavit, Jones received personal instruction from Landau in the internal logic of the LANPAR Program, observed the LANPAR Program in operation, and examined source code listings, flow charts and other written explanatory materials relating to it.

(d) While at Lanpar and prior to executing his affidavit, Jones drafted the text for what became the introduction to what was later produced as the LANPAR Program Logic Manual.

27. At the time that the Jones Affidavit was submitted to the PTO, Landau knew these facts, but these facts were not disclosed to the PTO.

28. At the time he executed his affidavit, Bullen was employed by Bell Canada and assigned by Bell Canada to an entity called CANSAC-BIS, which was a consortium of various Canadian telephone operating companies.

29. On or about May 26, 1972, Rhodes forwarded a draft affidavit to Bullen "as discussed with [Bullen] by Remy Landau" and requested Bullen's comments. By letter dated May 31, 1972, copied to Pardo and Landau, Rhodes stated to Bullen as follows:

"If you believe yourself to be able to swear to the facts set forth in your affidavit, please execute the affidavit and return it directly to me at the above address.

"If there is any problem whatsoever with the affidavit, please call me collect at my above office on next Monday, June 5, 1972, to discuss any possible changes."

30. By letter dated June 2, 1972, Rhodes forwarded to Bullen a revised affidavit reflecting the "changes" Bullen requested. By letter dated June 7, 1972, Pardo wrote to Rhodes stating that Pardo would send the executed Bullen Affidavit to Rhodes at a later date.

31. Bullen either drafted or supplied the description of his education, experience,

knowledge of data processing machines and programming languages, and accomplishments contained in pages 1 through 6 of his affidavit.

32. Rhodes, not Bullen, drafted the language contained in the final paragraph of the Bullen Affidavit.

33. The final paragraph of the Bullen Affidavit stated as follows:

"[H]e has read the specification and studied FIG. 2 of the above-referenced patent application, and from his experience as outlined above, it is his opinion that there is sufficient information included therein for such material (specification and FIG. 2) to have been given to a software programmer of average programming ability, at a time prior to August 12, 1970, with the confident expectation that such average programmer could have written a program, using programming techniques known prior to August 12, 1970, to carry out the process disclosed in the specification and FIG. 2."

34. In adopting the opinion expressed in the final paragraph of his Affidavit, Bullen performed no analysis beyond an attempt to understand the Patent Application sufficiently to explain the process it described to a systems programmer of average competence. For purposes of his opinion, Bullen assumed that if he could explain the process, such a programmer could implement it by writing the necessary program code. Bullen himself made no attempt to write such code or to create a flow chart for such a program.

35. Neither the Rule 116 Amendment nor the Bullen Affidavit disclosed the following facts:

(a) Some five or six years prior to executing his affidavit, Bullen had worked with Landau when the latter was employed as a computer programmer at Bell Canada and Bullen was a consultant employed by UNIVAC Canada.

(b) Prior to executing his affidavit, Bullen was informed by Pardo and Landau that a program implementing the claimed invention in the Patent Appli-

cation was already in use at Bell Canada.

- (c) At the time Bullen executed his affidavit, the LANPAR Program was licensed to Bell Canada and used by it to perform useful work.

36. At the time that the Bullen Affidavit was submitted to the PTO, Landau knew these facts, but they were not disclosed to the PTO.

37. At the time he executed his affidavit, Cikra was employed by an entity called Datalogics, Inc. ("Datalogics"), and had primary responsibility at Datalogics for systems software.

38. In connection with the preparation of their respective affidavits, Rhodes spoke to Cikra on more than one occasion and with Jones on at least one occasion.

39. Cikra provided biographical information to Landau in connection with the preparation of his 1972 affidavit, including that he had written four "sorting" programs and a "compiler" program as part of his college course work. This information was included with other information in a document prepared by Landau which was thereafter forwarded by Landau to Rhodes.

40. On or about May 26, 1972, Rhodes forwarded a draft affidavit to Cikra "as discussed with [Cikra] by Remy Landau" and requested Cikra's comments. By letter dated May 31, 1972, copied to Pardo and Landau, Rhodes wrote to Cikra as follows:

"If you believe yourself to be able to swear to the facts set forth in your affidavit, please execute the affidavit and return it directly to me at the above address.

"If there is any problem whatsoever with the affidavit, please call me at my above office on next Monday, June 5, 1972, to discuss any possible changes."

41. By letter dated June 1, 1972, Rhodes forwarded to Cikra a revised affidavit, which letter stated that "changes" had been "requested" by Cikra. By letter of the same date, Rhodes sent Pardo and Landau a copy of the draft sent to Cikra.

42. Neither the Rule 116 Amendment nor the Cikra Affidavit disclosed the following facts about Cikra:

- (a) While employed at Datalogics and less than three months prior to the time he executed his affidavit, Cikra had assisted Landau and Pardo in performing the programming necessary to convert a version of the LANPAR Program to operate with the Datalogics software systems, for the eventual use of the Ohio Bell Telephone Co.

(b) While converting the LANPAR Program to the Datalogics system over the course of several days, Cikra reviewed portions of the LANPAR Program source code as particular and specific needs arose.

- (c) Prior to the time he executed his affidavit, Cikra had observed the LANPAR Program being used as well as other documentation relating to it.

43. At the time that the Cikra Affidavit was submitted to the PTO, Landau knew these facts, but these facts were not disclosed to the PTO.

44. In the Rule 116 Amendment, Pardo and Landau identified Cikra as "a programmer of ordinary skill", in contrast to Jones, whom they identified as "a computer scientist or compiler writer".

45. The Cikra Affidavit disclosed that Cikra took two courses in systems programming while at Case Western Reserve University from September 1966 to June 1967, but neither it nor the Rule 116 Amendment disclosed that those courses required the writing of sort programs and compilers, or that in connection with those courses Cikra wrote four sort programs and one compiler.

46. Cikra does not now have and never had any interest in the outcome of this action nor did he have any interest in any business or venture of Pardo and Landau or in the '249 Patent or Application. He has never been an officer, director, employee or shareholder of Lanpar, Ltd.

47. At the time that the Rule 116 Amendment was filed, Rhodes states that he was unaware of the facts described in Paragraphs

48, 35 and 42 above concerning Cikra, Bullen and Jones.

48. Prior to submission of the Affidavits to the PTO, Pardo and Landau were sent copies of unsigned drafts and signed final versions of such affidavits by Rhodes. Rhodes does not recall receiving any comments concerning the Affidavits' contents from Pardo or Landau.

49. On July 28, 1972, the PTO issued a notice of allowability [hereinafter the "Notice of Allowability"], stating that:

"All of the claims being allowable . . . a Notice of Allowance or other appropriate communication will be sent in due course, in view of applicant's communication filed June 29, 1972, personal interview held with Pardo, Landau and Rhodes on 4-12-72 and 6-14-72, and an Examiner's Amendment will follow."

50. Had the PTO not been persuaded to withdraw the rejection on grounds of, *inter alia*, inadequate disclosure and to issue the Notice of Allowability on July 28, 1972, the Final Rejection would have stood and the application would have become automatically abandoned, unless appealed as of August 1, 1972. The PTO rules also permit an applicant to file a continuation application claiming the benefit of the filing date of the original application.

51. There is no indication in the patent prosecution record that the PTO ever issued an Examiner's Amendment, as referenced in the July 28, 1972 notice of allowability.

52. There is no indication in the patent prosecution record that, prior to March 5, 1973, the PTO ever issued a Notice of Allowance relating to the Application.

53. By office action dated March 5, 1973, the PTO specifically withdrew the July 28, 1972 notice of allowability, reopened the prosecution, and rejected all of the claims based on the U.S. Supreme Court decision in *Gottschalk v. Benson*, 409 U.S. 63, 93 S.Ct. 253, 34 L.Ed.2d 273 (1972), on the ground that the claims related to unpatentable subject matter.

54. The Board of Appeals of the PTO affirmed the rejection of the claims.

55. The United States Court of Customs and Patent Appeals reversed the action of the Board of Appeals. *In re Pardo*, 684 F.2d 912 (CCPA [C.C.P.A.] 1982).

56. On August 9, 1983, the Patent was issued to Pardo and Landau, without any indication in the patent prosecution record that the issue of the adequacy of disclosure in the underlying Patent Application was reconsidered at any time after issuance of the notice of allowability on July 28, 1972.

#### ADDITIONAL FINDINGS OF FACT

Based on the testimony presented and the exhibits admitted during the bench trial, my additional factual findings pursuant to Rule 52 of the Federal Rules of Civil Procedure are as follows:

57. Both Rhodes, the attorney who prosecuted the Patent Application, and Martin J. Adelman, an expert who testified at trial on behalf of Lotus, have opined that the three Affidavits submitted to the PTO in 1972 were decisive in convincing the PTO that adequate disclosure had been made in the Patent Application and in reversing the PTO's prior rejection of the Patent Application for inadequate disclosure. Both men concur that that reversal cleared the way for the ultimate issuance of the Patent. Trial Transcript ("Trial Trans.") p. 110, ln. 21 to p. 111, ln. 14; Trial Trans. p. 190, ln. 6 to p. 196, ln. 21. I agree.

58. Adelman at trial painstakingly went through the procedural history of the Patent Application to show how it "overwhelmingly" demonstrated that the three Affidavits were not only considered by the PTO but resulted in the PTO's reversal of its earlier rejections of the Patent Application under § 112. Trial Trans. p. 190, ln. 6 to p. 196, ln. 21. I need not repeat that history here but merely underscore that the PTO had twice rejected the Patent Application for inadequate disclosure when it had before it affidavits from Pardo which attempted to convince it that persons of ordinary skill in the relevant art could reduce the specifications in the Patent Application to a working program because the

process was already in practice.<sup>3</sup> *Id.* In its second rejection of the Patent Application, the PTO explicitly noted that Pardo's affidavits were "self serving" and hence unpersuasive. See paragraph 9, *supra*. Although Pardo and Landau submitted a further Joint Statement to the PTO when they presented the three Affidavits, there is nothing in that Joint Statement, without the three Affidavits, which could have appreciably affected the PTO's earlier view that their affidavits were self-serving and unpersuasive.

59. Instead, the Joint Statement emphasized the importance of the three Affidavits by underscoring the very points confirmed by the Affidavits, i.e., that an average compiler writer and computer scientist, Jones, and two average computer programmers, Cikra and Bullen, using ordinary skill, could have written a program from the process described in the Patent Application. Cikra, the only one of the three affiants who created a program from the Patent Application disclosure, provided the first independent evidence that an average programmer could in fact reduce the disclosure in the Patent Application into a program without undue experimentation.

60. The Examiner's Notice of Allowability, see paragraph 49, *supra*, reversed the PTO's earlier rejections of the Patent Application and explicitly referenced the Examiner's reliance upon the June 29, 1972 "communication" from the applicants. That June 29, 1972 communication included the three Affidavits which were stamped and marked into the PTO's Index of records. Although the Notice also referenced reliance upon the PTO's interviews with Rhodes, Pardo and Landau, I, like Adelman, find that the prior

3. In its first rejection, the Examiner noted that Pardo had failed to allege that he had reduced the process to practice without "undue experimentation." Because a patent disclosure, without undue experimentation, in essence "standing alone", must be sufficient to reduce a process to practice, the Examiner noted that Pardo's failure was significant. See Adelman testimony at Trial Trans. p. 190, ln. 13 to p. 191, ln. 18.

4. Section 716 of the 1972 MPEP, provided, in relevant part:

The following criteria are applicable to all affidavits and declarations submitted under rule 132:

procedural history leaves no reasonable doubt that the three Affidavits by disinterested individuals who claimed to have been able to use their ordinary skills as programmers and compilers to convert the specifications into practice where the only new materials before the PTO that could have persuaded it to reverse its earlier rejection of the Patent Application. Cf. Trial Trans. at p. 192, ln. 19 to ln. 20 ("you don't have to be a rocket scientist to know what's going on").

61. I reject REFAC's argument that the Examiner could not have considered the three Affidavits because they were submitted after a final rejection of the Application without any showing justifying a late filing contrary to the dictates of 37 C.F.R. §§ 1.116(B) and 1.195 and Section 716 of the Manual of Patent Examining Procedure ("MPEP"). See Plaintiffs' Exhibit 11 (providing a copy of the relevant sections of the MPEP). As noted, the Joint Statement essentially repeated the arguments raised in Pardo's two earlier affidavits which affidavits the PTO had found unpersuasive and self-serving. The only new, disinterested information before the PTO was the three Affidavits that confirmed the points made by Pardo and Landau in their Joint Statement. The Examiner's agreement to permit Rhodes to submit the Affidavits, their entry in the PTO's Index, the Examiner's granting of an interview to discuss the Affidavits, and his reference to their submission in the Notice of Allowability, lead me to conclude that the Affidavits were an important, significant and motivating part of the reversal of the Patent Application rejection.

62. I also reject REFAC's claim that Section 716 of the 1972 "MPEP" would have

(2) Affidavits or declarations must set forth facts, not merely conclusions. [Citation Omitted]. The facts presented in the affidavits or declarations must be pertinent to the rejection. [Citation Omitted] Otherwise, the affidavits or declarations have no probative value. Rule 132 affidavits or declarations may be classified in five groups, and such affidavits or declarations must conform, in addition, to the established criteria and standards for the group into which they fall. These groups and the applicable standards are: . . .

5. SUFFICIENCY OF DISCLOSURE Affidavits or declarations presented to show that the disclosure of an application is suffi-

cient to one skilled in the art are not acceptable to establish facts which the specification itself should recite. [Citation Omitted]

impelled the Examiner not to rely upon the Jones or Bullen Affidavits because, unlike Cikra who converted the process into a program, the other two only rendered conclusory opinions without facts. I credit the opinion of Adelman that the two Affidavits did not contravene the MPEP. Trial Trans. at p. 181, ln. 6 to p. 182, ln. 2. They did not add facts to the specifications nor interpreted the specifications as prohibited by the MPEP, but instead offered an expert opinion on the very disputed issue before the Examiner, i.e., whether an individual with ordinary skill in the art could reduce the specifications, as written, to practice. The opinions set forth in great detail the qualifications of each Affiant and the materials they relied upon in rendering their opinions. Hence, I do not accept REFAC's argument that the two Affidavits were therefore inconsequential or immaterial to the Notice of Allowability.

63. I also reject REFAC's argument that somehow because the PTO withdrew the Notice of Allowability based on the Supreme Court's decision in *Gottschalk*, and because the PTO never mentioned the inadequate disclosure issue after the Notice of Allowance, the three Affidavits had no significance in the issuance of the Patent. The Notice of Allowability, secured by the submission of the three Affidavits, put to rest and rescinded a contested ground for rejecting the Patent Application. Absent an appeal or the filing of a continuing application, the prior rejection of the Patent Application for inadequate disclosure would have remained. See 150, *supra*. I find by clear and convincing evidence that the three Affidavits had a critical effect in the ultimate issuance of the Patent by removing one ground for rejection of the Patent Application. See Adelman Trial Testimony, Trans. at 196, ln. 13 to p. 197, ln. 6.

64. A PTO Examiner was required in 1972 to comment upon admitted affidavits. See MPEP § 716 at Plaintiffs' Trial Exhibit 11 ("All admitted affidavits and declarations [should be] acknowledged and commented upon by the Examiner in his next succeeding

action.") Here, the Notice of Allowability mentioned the Examiner's reliance upon the submitted Affidavits but did not comment upon them because the Examiner's Amendment promised in the Notice was never issued. Thus, it is impossible to determine which of the three Affidavits, jointly or separately, persuaded the Examiner to grant the Patent Application. I do conclude, however, that cumulatively, the three Affidavits, which supported essentially the same proposition, caused the issuance of the Notice of Allowability.

65. Rhodes, when advising Pardo and Landau to seek disinterested affiants who were "strangers" in order to convince the PTO that the disclosures in the Patent Application were adequate, told them that he meant, and that the PTO would understand he meant, persons who had no financial dealings with Pardo, Landau, Lanpar or the Patent, and who had no familiarity with the process to be patented. Trial Trans. p. 111, ln. 17 to p. 112, ln. 13; p. 119, ln. 19 to p. 122, ln. 12.

66. Rhodes testified at trial that had he known the facts about Jones's and Cikra's prior employment with or exposure to the LANPAR Program, he would have considered them material enough to require that they be disclosed to the PTO, or insisted that another affiant be selected. Rhodes further admitted that any prior familiarity with the claimed invention was contrary to the "essence" of the purpose for providing the Affidavits to the PTO. Trial Trans. at p. 109, ln. 10 to p. 110, ln. 10; p. 111, ln. 17 to ln. 23.

67. Although none of the three Affidavits contained any affirmative misrepresentations by the affiants about their prior relationships with or knowledge of Lanpar, its Program or the patent invention, I also credit the opinion of Rhodes and Adelman that the PTO would have understood the three Affidavits to have been from disinterested affiants never employed by or with the applicants, and unfamiliar with the invention and that knowledge

Affidavits or declarations purporting to explain the disclosure or to interpret the disclosure of a pending application are usually not considered. [Citation Omitted]

of the omitted information from the Jones and Cikra Affidavits would have been material to the Patent Examiner in assessing the credibility of the opinions rendered by the affiants. *Id.*; *Adelman Trial Aff.* at ¶ 26-32. I nevertheless find that although the information concerning Bell Canada and the LANPAR Program in the Bullen Affidavit might have been of interest to the PTO, Bullen's lack of contact with Lanpar's license with Bell Canada or prior knowledge of the LANPAR Program would have rendered these disclosures less material to the PTO.

68. Landau and Pardo claim that Rhodes did not explain what he meant by disinterested parties. *Trial Trans.* at p. 62, ln. 23 to p. 63, ln. 1; p. 98, ln. 22 to p. 99, ln. 8. Landau admits, however, that he understood the purpose of the Affidavits was to demonstrate to the PTO that "disinterested parties" of relevant ordinary skill could review the disclosures in the Patent Application and reduce the invention into practice. *Landau Trial Aff.* at ¶ 5.

69. I do not credit Pardo's and Landau's claim, however, that Rhodes failed to explain to them what he meant by a "disinterested" affidavit or that they understood it to mean only individuals with no financial interest in the Patent. Neither do I credit their claim that they did not understand that prior knowledge of the Program was a matter to be disclosed in the Affidavits. Even a person unschooled in the PTO process would have and should have understood that a "disinterested" person meant an individual without knowledge of the Program. It is self defeating to have a person with knowledge of the invention process render an opinion that a person with ordinary skill in the art could review the application and reduce the specifications to practice.

70. I do not find, however, that Landau or Pardo intended to defraud the PTO by failing to disclose Lanpar's relationship with

Bell Canada in Bullen's 1972 affidavit. The emphasis in Rhodes's testimony concerning his descriptions to Landau and Pardo of what he termed "stranger" affidavits underscored that the affiant could not have either a financial interest in the Patent or any preexisting knowledge of the process contained in the Patent Application. *Trial Trans.* p. 111, ln. 17 to p. 112, ln. 18; p. 119, ln. 19 to p. 122, ln. 12. Although Bullen worked at Bell Canada, he had no financial or business stake in Bell Canada's license with Lanpar and no knowledge of the licensed product.

71. Prior to the time he was asked to provide his 1972 Affidavit, Bullen did not know that Lanpar was licensing a product to Bell Canada. Even after he was told of the license, he was not given any detailed knowledge of the licensed product. Bullen had never seen any programs, books or any other documents relating to the licensed product, nor had he ever used it. Neither he nor any of the persons who worked for him directly or indirectly had anything to do with the Lanpar product or with its licensing. The individuals who had any connection with and paperwork relating to the product worked in a different building at Bell Canada. *Bullen Trial Aff.* at ¶ 6. Before preparing or submitting his Affidavit, Bullen never attempted to obtain access to any documents relating to Lanpar's business dealings with Bell Canada. *Id.* at ¶ 7.

72. Moreover, Bullen never had any interest in the outcome of this action or in any business or venture of Pardo or Landau, or in the Patent at issue. He was not compensated for his Affidavit. *Id.* at ¶ 11.

73. I do not find that Landau or Pardo clearly understood from Rhodes that the desire of a "stranger" affidavit precluded every employee, even those completely uninvolved in his business venture with their employer like Bullen, from submitting an affidavit or that Bullen's contact with Bell Canada and

|              |                        |
|--------------|------------------------|
| Bullen Aff.  | Plaintiffs' Exhibit 15 |
| Landau Aff.  | Plaintiffs' Exhibit 13 |
| Pardo Aff.   | Plaintiffs' Exhibit 14 |
| Cikra Aff.   | Plaintiffs' Exhibit 16 |
| Jones Aff.   | Plaintiffs' Exhibit 17 |
| Adelman Aff. | Defendant's Exhibit KK |

5. The direct testimony of witnesses at trial was submitted by way of affidavits. Paragraphs in the affidavit of a witness's direct testimony are referred to by the last name of the witness followed by "[NAME] Aff. ¶ \_\_\_\_". The following are a list of the pertinent affidavits submitted at trial with the trial exhibit numbers. The exhibit numbers are not repeated in the text of this Order.

Cite as 887 F.Supp. 539 (S.D.N.Y. 1995)

his relationship with Lanpar was material to the disclosures to be made to the PTO. Thus, I do not find that there is clear and convincing evidence that Pardo and Landau intended to defraud the PTO by their omissions in the Bullen Affidavit.

74. The failure to make full disclosure in the Cikra Affidavit, however, presents a closer question about Landau's and Pardo's intent.

75. In order to market their LANPAR Program to Ohio Bell in early 1972, Landau and Pardo had to convert the Program, which had been written in FORTRAN and was being used elsewhere on a GE 425 computer, into computer language compatible with Datalogics's Xerox Sigma 7 computer. This conversion process did not require re-writing the Program; rather, it involved making certain technical adjustments so that Lanpar's product could be transferred to and used on the Sigma 7 computer. *Cikra Trial Aff.* at ¶ 4 and 5.

76. Cikra did the conversion work over a period of several days at the end of March 1972 in Cleveland in conjunction with Landau and to some extent, Pardo. *Id.* at ¶ 6. During this work, Cikra did not review the source codes of any of Landau's and Pardo's programs, except in part and where particular and specific need for the conversion process arose. *Id.* at ¶ 8.

77. Cikra never saw a complete source code and Cikra never made a printout of the source code after the conversion process was completed and the LANPAR Program was transferred to the Sigma 7. *Id.* at ¶ 8 and 10.

78. Cikra's 1972 Affidavit to the PTO stated that, based solely on the specification and figures in the Patent Application, and using knowledge of programming techniques known to him in 1970, he was able to create a program he called "COMPIL" which carried out the process described in the specification.

79. Cikra claims not to have used any knowledge or information he obtained during the conversion process when he wrote the "COMPIL" program described in his 1972 affidavit. *Id.* at ¶ 10.

80. Similarly, Cikra did not use any knowledge or information obtained from the sorting programs he wrote or compiler courses he took in college in creating the "COMPIL" program. *Id.* at 12 and 13.

81. Landau, when he worked with Cikra to provide his Affidavit to the PTO, did not "consider the question of whether Mr. Cikra's involvement was something that should be disclosed in the affidavit." *Trial Trans.* at p. 61, ln. 15 to ln. 18. Landau also did not recall telling Rhodes about Cikra's work on the Lanpar conversion. *Trial Trans.* at p. 68, ln. 14 to ln. 17.

82. Knowing that "disinterested" affidavits required affiants unfamiliar with the process sought to be patented, prudence should have dictated to Landau and Pardo the need to disclose to the PTO Cikra's involvement in the computer conversion of the LANPAR Program. Moreover, in light of Pardo's and Landau's argument that the PTO had erroneously understood that a person skilled in the art was a programmer, like Cikra, instead of a compiler, like Jones, prudence should also have suggested to them that they should include Cikra's prior sorting and compiler courses in his Affidavit.

83. On the other hand, I credit Landau's, Pardo's and Cikra's testimony that Cikra's exposure to the source code of the Program was limited and insufficient to give him any knowledge to convert the patent process into practice. Whether lack of familiarity with the invention process as described by Rhodes meant anyone who had come into any contact with the Program in any way, even peripherally to the opinion being rendered, was ambiguous enough so that I find no clear and convincing evidence of an intent by Landau or Pardo to defraud the PTO Examiner by their failure to include Cikra's limited contact with the Program in his Affidavit.

84. Similarly, I find no clear and convincing evidence of an intent to defraud the Examiner by the failure to mention Cikra's Affidavit his one college compiler course or sorting program experience. There is no reason to believe that Landau, Pardo or Rhodes would have understood that the limited, unspecialized knowledge Cikra might have gained from those summer courses was

relevant to the opinion he was rendering to the PTO.

85. On the other hand, I can only conclude that the failure to disclose to the PTO Jones's prior employment with Lanpar and the Program was intentional.

86. In the preparatory discussions with Rhodes about his 1972 affidavit, Jones did not mention his prior employment with Lanpar because, he claims, of its informal nature and because he did not know it was relevant. Jones Trial Aff. at ¶ 10; Trial Trans. at p. 15, ln. 7 to ln. 23. Nevertheless, he did tell Rhodes and included in his Affidavit, detailed portions of his employment history, including mention of college summer work. Trial Trans. at p. 15, ln. 24 to p. 16, ln. 5.

87. Jones was exposed to and worked extensively with the LANPAR Program source code, flow charts and other documentation while employed with Lanpar. Trial Trans. at p. 6, ln. 6 to p. 10, ln. 17. He admits that when he left Lanpar's employment, he "had an understanding of the concepts used in the LANPAR program and could have written a similar program." Jones Trial Aff., at ¶ 6. Landau also admits that in addition to Pardo and himself, "Mr. Jones was the person who had the next best knowledge of [the P]rogram and how it worked." Trial Trans. at p. 55, ln. 11 to ln. 15.

88. Nevertheless, Jones claims that the opinion he gave in his 1972 Affidavit was not influenced by the knowledge he gained while working with Lanpar. Trial Trans. at p. 21, ln. 2 to p. 22, ln. 14.

89. Yet, in rendering his opinion in his Affidavit, Jones described what he did as follows:

Q. Mr. Jones, to follow up and complete the questions Mr. Gutman just asked you, could you explain to the Court what was, in fact, the process that you went through when you examined the specifications, to come to your opinion that's set forth in your affidavit in 1972. What did you do?  
A. Well, my first step was to read the document and see what was in it. And my first reaction was that the opening pages were kind of—they seemed like—like a

kind of sales pitch about how—how good the product was going to be. And then I recognized the flow chart as being essentially the same one that Mr. Landau had shown me during—during one of our—one of our training sessions where he explains—where—where basically the—heart of this is to—is explained. And I felt that the rest of the text, despite the stilted language, was an adequate disclosure of the way the program works.

Q. How long did it take you to do this analysis of the disclosure that led to your opinion?

A. It seems like—like a week or two. Trial Trans. at p. 22, ln. 22 to p. 23, ln. 16.

90. Moreover, Landau admits that because of Jones's "additional knowledge" with the LANPAR Program, he was not asked to write a program from the specifications in the Patent Application but only to opine whether an ordinary computer scientist and compiler in 1972 could have written a program from the disclosures. Trial Trans. at p. 58, ln. 10 to p. 59, ln. 24.

91. Landau and Pardo claim they told Rhodes of Jones's employment history with them. Trial Trans. at 68, ln. 21 to p. 69, ln. 19; p. 93, ln. 19 to p. 95, ln. 7.

92. I do not credit this claim. There is no reason for Rhodes to have learned about Jones's prior experience and then accepted the Jones Affidavit. If given this information, the obvious alternative, as Rhodes testified, would have been for him to ask Landau and Pardo to find someone without Jones's experience to submit an Affidavit. Trial Trans. at p. 109, ln. 10 to p. 110, ln. 6; p. 111, ln. 17 to ln. 23. Thus, I conclude that Pardo and Landau purposely kept Jones's employment history from Rhodes.

93. Even though neither Landau nor Pardo remembers reviewing the affidavit of Jones before it was submitted to the PTO, Trial Trans. at p. 56, ln. 23 to p. 57, ln. 6; p. 89, ln. 23 to p. 90, ln. 6, Landau and Pardo were sent copies of the draft affidavit and final affidavit after it was executed. See ¶ 48, *supra*; see also Defendant's Exhibits P and Q. Pardo himself was actively involved in securing and providing Rhodes with the

background information of the three Affiants, particularly Jones. See Defendant's Exhibit Q. Because Jones's extensive experience with and knowledge of the LANPAR Program contradicted the very essence of the disinterested affidavit and because Landau and Pardo both knew about Jones's knowledge and its significance to the PTO's evaluation of the Affidavits to be submitted, I find by clear and convincing evidence that Landau and Pardo intentionally omitted this information from disclosure to the PTO with the intent to deceive the Examiner into allowing the Patent based in part on Jones's Affidavit.

### CONCLUSIONS OF LAW

94. This court has jurisdiction over this action pursuant to 28 U.S.C. § 1338, and venue is proper in this district under 28 U.S.C. § 1400.

95. I adopt herein any Finding of Fact previously set forth which might more properly be deemed a Conclusion of Law.

[1] 96. A failure to disclose material information during the patent application process, with the intent to mislead or deceive the PTO Examiner into allowing the patent, may result in a conclusion that the applicant has engaged in "inequitable conduct" that renders a patent unenforceable. *Glaverbel Societe Anonyme v. Northlake Mktg. & Supply, Inc.*, 45 F.3d 1550, 1556 (Fed.Cir.1995); *La-Bounty Mfg., Inc. v. United States Int'l Trade Comm'n.*, 958 F.2d 1066, 1070 (Fed.Cir.1992); *FMC Corp. v. Manitowoc Co., Inc.*, 835 F.2d 1411, 1415 (Fed.Cir.1987); *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559 (Fed.Cir.1984), *cert. denied*, 474 U.S. 822, 106 S.Ct. 73, 88 L.Ed.2d 60 (1985).

[2] 97. A finding of "inequitable conduct" requires clear and convincing evidence that the applicant (i) failed to disclose material information to the PTO (ii) with the intent to deceive or mislead the Examiner into allowing or granting the patent. *Glaverbel*, 45 F.3d at 1557; *Merck & Co. v. Danbury Pharmacal, Inc.*, 873 F.2d 1418, 1420 (Fed.Cir. 1989); *Kingsdown Medical Consultants, Ltd v. Hollister, Inc.*, 863 F.2d 867, 872 (Fed.Cir.

1988) (*en banc*), *cert. denied*, 490 U.S. 1067, 109 S.Ct. 2068, 104 L.Ed.2d 633 (1989).

[3] 98. Upon a finding that both elements of materiality and intent are satisfied, the Court must then balance the elements to determine whether the applicant's conduct was inequitable, weighing both elements and their consequences under all of the circumstances; "[t]he more material the omission, the less culpable the intent required, and vice versa." *Halliburton Co. v. Schlumberger Tech. Corp.*, 925 F.2d 1435, 1439 (Fed.Cir. 1991); see also *Glaverbel*, 45 F.3d at 1557 (same); *American Hoist & Derrick Co. v. Sowa & Sons*, 725 F.2d 1350, 1368 (Fed.Cir.), *cert. denied*, 469 U.S. 821, 105 S.Ct. 95, 83 L.Ed.2d 41 (1984) (same).

99. The doctrine of inequitable conduct, including the governing standard of materiality, is derived from principles of common law known in 1972 when the Affidavits at issue here were submitted to the PTO. See *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806, 814-5, 65 S.Ct. 993, 997-8, 89 L.Ed. 1381 (1945); *Norton v. Curtiss*, 433 F.2d 779, 792-97 (C.C.P.A.1970); *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 551-52 (Fed.Cir.1990); *Fox Indus., Inc. v. Structural Preservation Sys., Inc.*, 922 F.2d 801, 804 (Fed.Cir.1990) ("In 1977, the PTO clarified that the then Rule 56 merely 'codified' the existing office policy on fraud and inequitable conduct, which is believed consistent with the prevailing case law in the federal courts'") (quotation omitted).

[4, 5] 100. An omission by an applicant in information submitted to the Patent Examiner is material if there is a "substantial likelihood that a reasonable examiner would [have] considered it important in deciding whether to allow the application to issue as a patent." *Halliburton*, 925 F.2d at 1440; *Manville*, 917 F.2d at 551. "It is not necessary that the patent would not have issued but for the misrepresentation." *Merck & Co.*, 873 F.2d at 1421; see also *Fox Indus.*, 922 F.2d at 804. Moreover, materiality is presumed when false affidavits are submitted to the PTO in order to overcome the rejection of a patent application. *Procter & Gamble Co. v. Kimberly-Clark Corp.*, 740 F.Supp.

1177, 1197 (D.S.C.1989), *aff'd without opinion*, 907 F.2d 159 (Fed.Cir.1990) ("[T]here is no room to argue that submission of false affidavits is not material.") (quoting *Rohm & Haas Co. v. Crystal Chem. Co.*, 722 F.2d 1556, 1571 (Fed.Cir.1983), *cert. denied*, 469 U.S. 851, 105 S.Ct. 172, 83 L.Ed.2d 107 (1984)).<sup>6</sup>

[6] 101. For the reasons in paragraphs 65-67, *supra*, I have found that the evidence clearly and convincingly demonstrates that a reasonable patent examiner would have considered the facts omitted from the Jones and Cikra Affidavits to be important in determining whether the previous rejection on grounds of inadequate disclosure had been overcome.

102. The "intent to deceive" element of inequitable conduct is satisfied where the "involved conduct, viewed in light of all the evidence, including evidence indicative of good faith, indicate[s] sufficient culpability to require a finding of intent to deceive" or to mislead the examiner into allowing the patent application. *Paragon*, 984 F.2d at 1189; *Therma-Tru Corp. v. Peachtree Doors, Inc.*, 44 F.3d 988, 995-996 (Fed.Cir.1995); *Kingsdown*, 863 F.2d at 876.

103. For the reasons discussed in paragraphs 70-93, *supra*, I find that the evidence does not clearly and convincingly demonstrate that Pardo and Landau intended to mislead the PTO with the omissions from the Bullen and Cikra Affidavits but it does clearly and convincingly demonstrate that Pardo and Landau intentionally and deliberately caused material information to be omitted from the Jones Affidavit with the intent to

mislead the Examiner into allowing the Patent Application.

104. In light of the previous rejection of the Pardo Affidavit as "self-serving," Pardo and Landau knew that a reasonable Examiner reviewing the Affidavits would conclude that the affiants were disinterested witnesses with no knowledge of the patent process, particularly where the affiants in great detail presented their education and employment history without any mention of the affiant's connections to the patent applicants or familiarity with the patent invention. Conversely, Landau and Pardo also knew that the PTO Examiner here would, when evaluating the Affidavits, consider it important to know whether the disinterested affiants had prior exposure to the patent process or its commercial Program.

105. Under the circumstances of the prior rejections by the PTO, Landau and Pardo knew that the omitted information concerning Jones's prior employment with Landau and Pardo and his extensive exposure to the patent process would have been highly material to the Examiner's weighing of the Jones Affidavit and in his determination as to whether the three Affidavits, jointly or separately, were sufficient to overcome the rejection on grounds of inadequate disclosure.

106. I recognize that the omission of material information in the Bullen and Cikra Affidavits through negligence or gross negligence would be insufficient to apply the doctrine of inequitable conduct. *See Kingsdown*, 863 F.2d at 876 (gross negligence does not equate with intent to deceive). However, in equitably weighing the consequence of the intentional and deceptive omission in the Jones Affidavit, I do consider that the effect

6. I find REFAC's position somewhat specious that *Paragon Podiatry Lab., Inc. v. KLM Lab., Inc.*, 984 F.2d 1182 (Fed.Cir.1993) requires that an actual misleading statement exist in an affidavit submitted to the PTO before a Court makes a finding of inequitable conduct. The *Paragon* court itself made it clear that although the intent to mislead the PTO could not be inferred from a mere nondisclosure, the inference could be drawn from the circumstances under which "the affirmative acts of submitting [the affidavits] [and] their misleading character" were made in convincing "an examiner to believe that the affiants were 'disinterested' parties." *Id.*, at 1191. As far back as 1972 the Court in *Monsanto Co. v.*

*Rohm & Haas Co.*, 456 F.2d 592, 599 (3d Cir.), *cert. denied*, 407 U.S. 934, 92 S.Ct. 2463, 32 L.Ed.2d 817 (1972), held "[c]oncoction and nondisclosure may be evidence of and equivalent to a false representation, because the concealment or suppression is, in effect, a representation that what is disclosed is the whole truth." (citing *Stewart v. Wyoming Cattle Ranch Co.*, 128 U.S. 383, 9 S.Ct. 101, 32 L.Ed. 439 (1888)). Here, I have found that the detailed education and employment history set forth in the Affidavits would have led any reasonable Examiner to conclude that the affiants were being proffered as disinterested affiants with no prior knowledge of the patent invention.

of the fraudulent omission in the Jones Affidavit was heightened by the omissions in the other Affidavits.

107. Weighing both the high materiality of the omitted information in the Jones Affidavit to the PTO's review of it and Pardo's and Landau's intent in misleading the Examiner, I conclude that the applicants here engaged in inequitable conduct sufficient to render the Patent unenforceable.

### CONCLUSION

I recognize the financial hardship the applicants here faced in prosecuting their Patent Application and in maintaining their invention confidential during the patent process. I also recognize that rendering the Patent invalid is a harsh penalty. The rich reward of a seventeen-year monopoly, however, comes at a price. I simply do not accept that Landau and Pardo did not know or did not realize that Jones's prior employment exposure to their Program was a necessary disclosure in his Affidavit.

For the reasons discussed above, I find that defendant Lotus has met its burden of proving inequitable conduct before the PTO and I find, after weighing all circumstances, that plaintiffs' Patent should be rendered unenforceable because of that conduct. The Clerk of the Court is directed to enter judgment in accordance with this Order in favor of defendant Lotus on its affirmative defense of inequitable conduct and dismiss the plaintiffs' complaint against the defendant.

SO ORDERED.



Eugenio CRUZ, Plaintiff,

v.

Donna E. SHALALA, Secretary of Health and Human Services, Defendant.

No. 93 Civ. 3455 (KTD).

United States District Court,  
S.D. New York.

April 19, 1995.

Claimant brought actions challenging decision of Secretary of Health and Human Services (HHS) denying him Social Security Disability Insurance (SSDI) benefits, claiming inability to work due to asthma. The District Court, Kevin Thomas Duffy, J., held that substantial evidence supported decision that claimant was not disabled.

Judgment for defendant.

### 1. Social Security and Public Welfare ⇨143.45

Once Social Security disability claimant establishes prima facie case by proving that his impairment prevents him from performing his past work, Secretary of Health and Human Services (HHS) then has burden of proving that claimant retains residual functional capacity to perform alternative substantial gainful employment that exists in national economy. Social Security Act, § 223(d)(1)(A), (d)(5), as amended, 42 U.S.C.A. § 423(d)(1)(A), (d)(5); Social Security Administration Regulations, §§ 404.1520, 404.1572, 42 U.S.C.A.App.

### 2. Administrative Law and Procedure ⇨744.1, 791

### Social Security and Public Welfare ⇨148.15

It is not function of reviewing court to determine de novo whether Social Security disability claimant is disabled but, rather, scope of review is limited to evaluating whether there is substantial evidence in record to support decision of Secretary of Health and Human Services (HHS); if court finds that substantial evidence in record taken as whole supports Secretary's determina-

Section 107(a)(3) of CERCLA imposes liability on:

any person who by contract, agreement, or otherwise arranged for disposal or treatment, or arranged with a transporter for transport for disposal or treatment, of hazardous substances owned or possessed by such person, by any other party or entity, at any facility or incineration vessel owned or operated by another party or entity and containing such hazardous substances ...

42 U.S.C. § 9607(a)(3).

Recently, the Second Circuit in *General Elec. Co. v. AAMCO Transmissions, Inc.*, 962 F.2d 281 (2d Cir.1992), outlined the parameters of arranger liability under Section 107(a)(3). In *General Electric*, the Second Circuit held that parties who merely had the opportunity to control a third-party's disposal of hazardous wastes but had no obligation to do so could not be held liable as arrangers under Section 107(a)(3). The court concluded that CERCLA liability arises out of the "obligation to exercise control over hazardous waste disposal," *id.* at 286, (emphasis in original), and that a party is liable as an arranger if it had some obligation to arrange for or direct the disposal of the hazardous waste. The statute is consistent with this interpretation. "[A]ny person who ... arranged for disposal or treatment, or arranged with a transporter for transport for disposal or treatment, of hazardous substances owned or possessed by such person, by any other party ... at any facility ... owned or operated by another party," (emphasis added) is to be held responsible under Section 107(a)(3).

[4] In this case, Nicholas, because it possessed the hazardous substances, can be held liable as an arranger even though it transported the drums of waste generated by another party to Gaess. Under the uncontested facts Nicholas assumed an obligation to exercise control over the disposal of the hazardous substances it received from its customer, and then arranged with Gaess to dispose of the waste. Nicholas' 3(g) statement at ¶ 5, 7. In his deposition, Raymond Nicholas, the President of Nicholas, testified that he contacted Gaess to arrange for the disposal of the drums in his possession when

Nicholas could no longer dispose of drums at the Municipal Landfill. Nicholas Dep., at pp. 23-24, 34. Accordingly, Nicholas can be held liable in this case as an "arranger" under Section 107(a)(3). It is to be noted that the hazardous substances can be disposed of by "any other party" "at any facility" "owned or operated by another party." Thus an arranger is not required to be aware of the disposal site. *General Electric*, at 286.

Nicholas relies primarily on *United States v. Western Processing*, 756 F.Supp. 141 (W.D.Wash.1991) for the view that transporters cannot be held liable under Section 107(a)(3). In *Western Processing*, the Court held that various transporter defendants who had transported waste generated by others to a disposal site which was selected by parties other than the transporters, could not be held liable either as arrangers under Section 107(a)(3) or as transporters under Section 107(a)(4) of CERCLA. The third-party plaintiffs in *Western Processing* were seeking to hold the transporters liable as arrangers under Section 107(a)(3) because the transporters, in the course of transporting the waste, had made certain arrangements with the site selecting customers and the disposal facility in order to facilitate the disposal of the waste at the site selected by others. The court in *Western Processing* decided that although the activities of the transporters might fit into the language of Section 107(a)(3), the transporters could not be held liable as arrangers because Section 107(a)(3) directly addressed the issue of transporter liability. 756 F.Supp. at 1421. This case differs from *Western Processing* because Nicholas did not act as a transporter who transported hazardous waste from a customer's site to a disposal facility selected by the customer, rather Nicholas picked up waste from JDC for disposal at the closest available landfill. When the sites it was using became unavailable to accept drummed waste Nicholas delivered the drums under an arrangement which it made with Gaess to dispose of the drummed waste. Gaess then transported the drummed waste to the Cortese landfill. Under the facts presented in this case Nicholas

Nicholas is liable as an arranger but not as a transporter.<sup>1</sup>

The view that Nicholas, a waste transporter, can be held liable as an arranger under the facts presented in this case is supported by Congress' goals in enacting CERCLA. As stated in *General Electric*:

CERCLA is a broad, remedial statute enacted by Congress ... to ensure "that those responsible for any damage, environmental harm, or injury from chemical poisons bear the costs of their actions."

... It was Congress' intent that CERCLA be construed liberally in order to accomplish these goals.

962 F.2d at 285 (quoting S.Rep. No. 848, 96th Cong.2d. Sess. 13 (1980)); see *B.F. Goodrich Co. v. Murtha*, 958 F.2d 1192, 1198 (2d Cir. 1992). Thus Nicholas can be held liable under Section 107(a)(3) of CERCLA because under the circumstances its actions can be deemed that of an arranger. As stated above a careful parsing of the statutory language combined with the intent of Congress in enacting CERCLA encompasses Nicholas' role as that of an arranger, accordingly the motion for summary judgment is denied.

### CONCLUSION

For the reasons set forth above, Nicholas' motion for summary judgment on the third-party claims asserted against it by SCA is denied.

IT IS SO ORDERED.



Although Nicholas may have been acting as agent for JDC, Nicholas has not joined that com-

AZURITE CORP. LTD., individually and on behalf of all others similarly situated, Plaintiff,

v.

AMSTER & CO., formerly known as Lafer, Amster & Co., Arnold Marvin Amster, Barry Stuart Lafer, and Joel Richard Packer, Defendants.

No. 89 Civ. 0746 (SS).

United States District Court,  
S.D. New York.

Feb. 2, 1994.

Institutional investor brought action for damages against risk arbitrage investment firm for alleged violations of Securities Exchange Act. On risk arbitrage investment firm's motions for summary judgment and for sanctions, the District Court, Sotomayor, J., held that: (1) institutional investor failed to show that risk arbitrage investment firm did not timely disclose its intention to wage proxy contest for control of corporation; (2) institutional investor failed to show that risk arbitrage investment firm engaged in insider trading; and (3) sanctions under Rule 11 would not be imposed against counsel for institutional investor.

Motion for summary judgment granted; motion for sanctions denied.

### 1. Securities Regulation §52.18

Securities Exchange Act provision, requiring group that has acquired more than 5% of class of registered equity security to file statement with Securities and Exchange Commission (SEC) disclosing identity of its members and purpose of its acquisition, does not require party filing statement to disclose preliminary considerations, exploratory work or tentative plans to wage proxy battle; provision only requires disclosure of definite plans. Securities Exchange Act of 1934, § 13(d), 15 U.S.C.A. § 78m(d).

pany as a defendant.

2. Securities Regulation  $\S$ 52.17

Institutional investor failed to show that risk arbitrage investment firm did not timely disclose its intention to wage proxy contest for control of corporation, as required by provision of Securities Exchange Act; firm's discussion with other institutional investors, financial advisors and attorneys was merely preliminary study of alternatives open to firm in light of corporation's sudden change in liquidation strategy. Securities Exchange Act of 1934,  $\S$  13(d), 15 U.S.C.A.  $\S$  78m(d).

3. Federal Civil Procedure  $\S$ 2511

When plaintiff fails to raise genuine issue of material fact for trial regarding time at which defendant's intention to wage proxy battle was formed, for purposes of suit based on defendant's alleged failure to timely disclose its intention to wage proxy contest, as required by provision of Securities Exchange Act, summary judgment can be granted. Securities Exchange Act of 1934,  $\S$  13(d), 15 U.S.C.A.  $\S$  78m(d).

4. Securities Regulation  $\S$ 60.28(1)

To make claim of insider trading, investor was required to demonstrate that defendants traded stock on basis of nonpublic information obtained from insider and with knowledge that insider breached its fiduciary duty to company. Securities Exchange Act of 1934,  $\S$  10(b), 15 U.S.C.A.  $\S$  78j(b).

5. Securities Regulation  $\S$ 60.63(2)

Institutional investor failed to show that risk arbitrage investment firm engaged in insider trading by using information provided to it by investment banking firm to take over corporation; former employee of investment banking firm testified that investment banking firm did not see corporation's earning projections, there was no evidence that group passed such information to risk arbitrage investment firm after investment banking firm allegedly passed it to group, and allegations that meetings between investment banking firm and risk arbitrage investment firm were evidence of plot were speculative. Securities Exchange Act of 1934,  $\S$  10(b), 13(d), 15 U.S.C.A.  $\S$  78j(b), 78m(d).

6. Securities Regulation  $\S$ 60.63(1)

For purposes of determining whether insider trading took place, mere opportunity to do act, standing alone, is not enough to establish, by preponderance of evidence, that act was done: Securities Exchange Act of 1934,  $\S$  10(b), 13(d), 15 U.S.C.A.  $\S$  78j(b), 78m(d).

7. Federal Civil Procedure  $\S$ 851

Although rule governing amended and supplemental pleadings makes clear that leave to amend must be freely granted, it may be denied when amendment would be futile. Fed.Rules Civ.Proc.Rule 15, 28 U.S.C.A.

8. Federal Civil Procedure  $\S$ 2771(12)

Sanctions would not be imposed, under Rule 11, against counsel for institutional investor which brought action against risk arbitrage investment firm for alleged failure to timely disclose its intention to wage proxy contest for control of corporation; counsel made good-faith attempt to convince court that it should reject legal analysis of judge in related case brought by Securities and Exchange Commission (SEC). Fed.Rules Civ.Proc.Rule 11, 28 U.S.C.A.; Securities Exchange Act of 1934,  $\S$  13(d), 15 U.S.C.A.  $\S$  78m(d).

9. Federal Civil Procedure  $\S$ 2768

To constitute frivolous legal position, for purpose of Rule 11 sanction, it must be clear under existing precedents that there is no chance of success and no reasonable argument to extend, modify or reverse the law as it stands; thus, not all unsuccessful legal arguments are frivolous or warrant sanction. Fed.Rules Civ.Proc.Rule 11, 28 U.S.C.A.

10. Federal Civil Procedure  $\S$ 2771(12)

Sanctions would not be imposed, under Rule 11, against counsel for institutional investor which brought action against risk arbitrage investment firm for its alleged failure to timely disclose its intention to wage proxy contest for control of corporation, after separate case against risk arbitrage investor arising from same events and brought by Securities and Exchange Commission (SEC) was dismissed; institutional investor's behavior was restrained and reasonable, and, although

additional discovery it requested proved unhelpful, it did not unreasonably extend life of litigation or engage in fishing expedition. Fed.Rules Civ.Proc.Rule 11, 28 U.S.C.A.; 28 U.S.C.A.  $\S$  1927.

Tomas Szoboszlai, Jaffe and Asher, New York City, for plaintiff Azurite Corp. Ltd.

Peter C. Neger, Shea & Gould, New York City, for defendant Amster & Co.

Herbert Stern, Stern & Greenberg, Roseland, NJ, for defendant Barry Stuart Lafer.

Donald D. Buchwald, Buchwald & Kaufman, New York City.

## OPINION AND ORDER

SOTOMAYOR, District Judge.

Plaintiff Azurite Corp. Ltd. ("Azurite") brings this action to recover damages from corporate defendant Lafer, Amster & Co., now Amster & Co. (hereinafter "LACO"), and its officers Arnold Marvin Amster ("Amster"), Barry Stuart Lafer ("Lafer") and Joel Richard Packer ("Packer") (together "defendants") for violation of  $\S$  10(b) of the Securities Exchange Act (the "Act") of 1934, 15 U.S.C.  $\S$  78j(b) and the rules and regulations promulgated thereunder. Defendants move for summary judgment under Fed.R.Civ.P. 56 and for sanctions under Fed.R.Civ.P. 11 and 28 U.S.C.  $\S$  1927 against Azurite and its counsel. Plaintiff opposes defendants' motion and seeks leave to amend its complaint to include a claim of insider trading in violation of  $\S$  13(d) of the Act, 15 U.S.C.  $\S$  78m(d). For the reasons stated below, defendants' motion for summary judgment is GRANTED but defendants' motion for sanctions under Rule 11 or, alternatively, under 28 U.S.C.  $\S$  1927 is DENIED. Plaintiff's motion for leave to amend its complaint is also DENIED.

## BACKGROUND

In 1988, the Securities and Exchange Commission ("SEC") commenced an action against LACO arising from the same transactions at issue in this case. On May 14, 1991, Judge Charles H. Haight in *Sec. & Exch. Comm'n v. Amster & Co.*, 762 F.Supp.

604, 615 (S.D.N.Y.1991), granted defendant's motion for summary judgment. For a detailed history and thorough description of the facts of this case, the avid reader is referred to Judge Haight's decision. I describe only an abbreviated summary of the facts pertinent to the motion before me.

In the course of its operations, LACO, a registered broker-dealer in the business of risk arbitrage, became interested in Graphic Scanning Corporation ("Graphic") as a potential investment target. Graphic was in the process of liquidating assets that LACO believed to be undervalued. As a risk arbitrageur, LACO began buying Graphic stock at the then prevalent low market value with the expectation of either selling the stock before liquidation or obtaining the higher value per share it anticipated stockholders would receive once Graphic liquidated its assets.

LACO's purchases eventually surpassed 5% of all outstanding Graphic stock, triggering the disclosure requirements of the Securities Exchange Act of 1934. Accordingly, on August 19, 1985, LACO filed a Schedule 13D disclosure statement setting forth the investment purpose of its holdings in Graphic. The Schedule further represented that:

Each of LACO and the other filing persons supports the Company's [Graphic] public announcements . . . regarding its intention to develop a plan of asset distribution to its stockholders. . . . If the Company [Graphic] abandons its intention referred to above . . . LACO intends to review its position and take any such action as it deems appropriate at the time.

On January 28, 1989, Graphic filed a Form S-1 statement stating that it would sell only those assets for which it obtained appropriate offers. Graphic also disclosed the existence of ongoing negotiations to sell its profitable cellular radio properties to Barry Yampol ("Yampol"), the founder and chairperson of Graphic and sole shareholder of plaintiff Azurite, a major institutional investor in Graphic stock.

LACO believed these negotiations signaled a change in Graphic's liquidation strategy and Lafer telephoned Graphic's general counsel Jonathan Dodge and requested fur-

ther clarification of the S-1 filing. When Dodge confirmed that Graphic was reevaluating its liquidation strategy, Lafer advised Dodge that LACO was "an unhappy shareholder."

During the four weeks that followed this conversation, LACO officers met with various attorneys, financial planners and other institutional investors in Graphic stock to study the alternatives available to LACO as a disgruntled investor. For example, on February 3, 1986, Amster, Lafer and Stephen Greenberg, LACO's lawyer and general partner, met with Elaine Ruege ("Ruege"), a representative of the Olayan Group, a major institutional investor in Graphic stock, to discuss the available options. In a memorandum to the file dated February 6, 1986, Ruege stated that in the meeting LACO had proposed that Graphic shareholders group together and force the company's liquidation. See *Amster & Co.*, 762 F.Supp. 604, 615 (S.D.N.Y.1991). On February 4, 1986, Amster and Lafer also met with the General Electric Pension Fund, another institutional investor, to discuss a proxy contest as one of the alternatives available to prevent Graphic's selective sale of assets, including that of the cellular division to Yampol.

During the same period, LACO continued its investment in Graphic shares. On February 3, 1986, LACO purchased 1.7 million dollars in Graphic convertible debentures with no voting rights. Additionally, on February 4, 1986, LACO purchased 17,500 shares of Graphic common stock. Its purchases continued with 87,500 shares on February 6 and 100,000 shares on February 7. On February 14, defendants Lafer and Amster individually each purchased 25,000 shares. See *Amster & Co.*, 762 F.Supp. 604, 607.

A rapidly unfolding series of events saw LACO's investment strategy change from passive investment on February 3, 1986, to an aggressive proxy-battle for control of Graphic on February 28, 1986. On February 7, Graphic filed an 8K Form with the SEC noting that it was transferring its interest in its radio telephone services to Mr. Yampol. On February 10, however, LACO filed Amendment 5 to its Schedule 13D statement,

indicating that there had been no change in its investment strategy. Nevertheless, according to uncontested deposition testimony, that same day, LACO received notice of the contents of Graphic's 8K statement.

Thereafter, LACO met with various outside counsel and consulted financial advisors Morgan Lewis Githens & Ahn about its alternatives. Finally, because other outside counsel could not advise them for reasons not relevant here, LACO's officers met with attorneys from the law firm of Willkie Farr & Gallagher on February 13 or 14, to further discuss alternatives to Graphic's decision.

On or about February 18, 1986, LACO filed Amendment 6 where it advised that LACO was beginning to consider, on a preliminary basis, a proxy battle for control of Graphic. LACO represented that its consideration was prompted by Graphic's change in liquidation strategy and its decision to sell the cellular division to Yampol. On March 2, 1986, LACO filed Amendment 7 where it revealed its decision to wage a proxy battle for Graphic effective as of February 22. Subsequently, LACO acquired control over Graphic; Graphic then elected a new board of directors and retained Drexel Burnham Lambert ("Drexel") to conduct its asset liquidation.

Following an exhaustive two-year investigation, the SEC brought charges under §§ 10(b) and 13(d) against LACO, Amster and Lafer and under § 13(d) against Packard for their failure to make timely disclosure of their decision to wage the proxy battle. On February 1, 1989—two months after the SEC brought its enforcement proceeding—Azurite commenced this action but the parties shortly thereafter agreed to place Amster's action on the suspense docket pending resolution of the SEC enforcement proceedings before Judge Haight.

In essence, Azurite's claims mirror the SEC's charges. Azurite maintains that defendants failed to timely disclose their intention to wage a proxy contest for control of Graphic by omitting information and making false statements of fact in their fifth, sixth and seventh amendments to the Schedule 13D statement. Azurite also maintains that

defendants obtained from Drexel non-public information on Graphic and used this information to wage the proxy fight for Graphic's control.

During the SEC enforcement proceeding, defendants moved to dismiss the complaint under Fed.R.Civ.P. 12(b)(6) on the ground that the complaint failed to state a claim. The SEC opposed the motion arguing under Rule 56(f) that additional discovery was necessary before the Court considered defendants' motion. The parties conducted additional discovery and defendants again moved to dismiss. In light of the parties' submissions, Judge Haight treated defendants' motion as one for summary judgment, granted defendants' motion and ordered the complaint dismissed with prejudice. The SEC moved for reconsideration which motion Judge Haight denied. The SEC then filed a notice of appeal which it later withdrew for reasons that are not clear on the record but are nonetheless irrelevant to the issues before me.

Following Judge Haight's decision, defendants asked Azurite to withdraw its claims. Azurite declined. On October 2, 1992, the case was reassigned to my docket. I held a management conference where defendants indicated their intention to file a motion to dismiss and for summary judgment. I inquired whether plaintiff required any discovery which did not duplicate that already undertaken and disclosed during the SEC action in order to respond to defendants' proposed motions. Azurite requested leave to take six additional depositions of Drexel employees. These depositions, Azurite explained, were necessary because it had reason to believe that defendants had conspired with Michael Milken ("Milken") and other Drexel employees to take over Graphic. According to Azurite, Drexel had acquired inside information about Graphic in 1984 when Graphic retained Drexel as an underwriter for a bond financing. Azurite maintained that when Yampol called off the financing, Milken decided to "get back" at Graphic by providing defendants with information that eventually enabled them to take over Graph-

In addition to taking the six Drexel depositions, Azurite issued document subpoenas on the Drexel Liquidating Trust, Cahill Gordon & Reindel, the SEC, Willkie, Farr & Gallagher, and requested and received from defendants further document production and answers to interrogatories. After completing this discovery, Azurite moved to amend its complaint to include more detailed allegations of insider trading and of a conspiracy between Drexel, Milken and defendants to take over Graphic. Defendants moved for summary judgment and opposed Azurite's motion to amend its pleadings.

Azurite advances three reasons why defendants' motion should be denied and its motion to amend the complaint granted. First, Azurite maintains that Judge Haight misinterpreted the law applicable to § 13(d) actions when he held that "defendants were under no duty to report preliminary consideration of a proxy contest for Graphic, any more than they were required to report other options under consideration." *Amster & Co.*, 762 F.Supp. at 614. Second, Azurite contends that even if Judge Haight properly interpreted the law, he erred in holding that no reasonable jury could find that defendants were involved in more than preliminary negotiations to acquire Graphic prior February 28, 1986. Third, Azurite argues that it has introduced circumstantial evidence of defendants' insider trading and of defendants' intention to stage a proxy contest sufficient to preclude summary judgment.

### SUMMARY JUDGMENT

Summary judgment is appropriate where: the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law.

Fed.R.Civ. 56.

A party moving for summary judgment bears the initial burden of establishing that there are no genuine issues of material fact; once the movant meets this burden, the party opposing the motion for summary judgment must set forth those specific facts which the party genuinely controverts and that the tri-

er of fact must decide at trial. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 256, 106 S.Ct. 2505, 2514, 91 L.Ed.2d 202 (1986). A judge must draw all reasonable inferences in favor of the party opposing the motion. See *Francis v. Coughlin*, 891 F.2d 43, 46 (2d Cir.1989). However, the party opposing the motion must do more than "show that there is some metaphysical doubt as to the material facts," *Matsushita Elec. Indus. Corp. v. Zenith Radio Corp.*, 475 U.S. 574, 586, 106 S.Ct. 1348, 1356, 89 L.Ed.2d 538 (1986), and may not rest upon mere "conclusory allegations" or denials but must set forth the facts in controversy that must be determined at trial. See *National Union Fire Ins. Co. v. Deloach*, 708 F.Supp. 1371, 1379 (1989) (quoting, *R.G. Group, Inc. v. Horn and Hardart Co.*, 751 F.2d 69, 77 (2d Cir.1984)). A court must then determine "whether, a reasonable juror could find by a preponderance of the evidence that the plaintiff is entitled to a verdict." *Anderson*, 477 U.S. at 252, 106 S.Ct. at 2512.

#### 1. The Schedule 13D Claim

Azurite's first argument invites me (1) to revisit Judge Haight's decision and to find that his interpretation of the disclosure requirements of Schedule 13D is incorrect, or (2) to find that even if Judge Haight was legally correct, summary judgment is inappropriate in light of the circumstantial evidence Azurite has submitted in opposition to defendants' motion. A careful review of Judge Haight's decision and case law relevant to this question, however, leads me to conclude that Judge Haight's interpretation of Schedule 13D is correct as a matter of law. In addition, I find that the evidence presented by Azurite is insufficient, as a matter of law, for any trier of fact to reasonably conclude that Azurite has demonstrated by a preponderance of the evidence that defendants decided to wage a proxy battle for control of Graphic before February 28, 1986.

In *Amster & Co.*, Judge Haight examined the evolution of LACO's investment strategy

1. Azurite also contends that the May 10, 1978 amendment to Item IV, Purpose and Transaction section of Schedule 13D calls for a different conclusion. I disagree for the same reasons stated at p. 2 of Judge Haight's Memorandum Opinion.

in Graphic stock. Following an analysis of applicable law, Judge Haight held that parties filing Schedule 13D statements must disclose "an intention to acquire control," *Amster & Co.*, 762 F.Supp. at 609 (quoting, *GA Corp. v. Milstein*, 463 F.2d 709, 717 (2d Cir.1971), cert. denied, 406 U.S. 910, 92 S.Ct. 1610, 31 L.Ed.2d 821 (1972), but parties are not required to "report preliminary considerations of a proxy contest . . . any more than they were required to report other options under consideration." *Amster & Co.*, 762 F.Supp. at 614. Judge Haight reviewed the voluminous discovery created by the SEC two-year investigation and concluded that "[defendants] did not decide to embark upon a proxy contest until . . . February 28, 1986 at the earliest." *Id.*, at 617.

[1] I agree with Judge Haight's interpretation of the law and that of Judge Milner Pollack in *Todd Shipyards Corp. v. Madison Fund, Inc.*, 547 F.Supp. 1383, 1387 (S.D.N.Y. 1982), that § 13(d) does not require a party filing a Schedule 13D statement to disclose preliminary considerations, exploratory work, or tentative plans to wage a proxy battle. It is that it only requires disclosure of definite plans. *Amster & Co.*, 762 F.Supp. at 610 (quoting, *Todd Shipyards Corp.*, 547 F.Supp. at 1387). I therefore adopt as my own Judge Haight's interpretation of the applicable law.

[2] Like Judge Haight before me, I have parsed through the parties' voluminous submissions, which include, among other items, excerpts from the depositions taken in the SEC enforcement proceedings, the six additional depositions of Drexel employees taken in this action, and the eighty-eight exhibits submitted in support of Yampol's declaration. Not one of these documents, however, set forth evidence sufficient to contradict Judge Haight's or my determination that defendants' discussion with other institutional investors, financial advisors and attorneys was anything other than a preliminary study of the alternatives open to LACO in light of

its motion and Order dated December 13, 1991 denying the SEC's motion for reconsideration. See Exhibit B to Peter C. Neger's Affidavit In Support of Motion for Summary Judgment and for Sanctions.

Graphic's sudden change in liquidation strategy.

To the contrary, each and every deposition only underscores that LACO was simply exploring all available alternatives, including litigation, selling Graphic's stock, waging a proxy fight, a combination of the above, or doing nothing. For example, in describing LACO's contacts with the law firm of Willkie, Farr & Gallagher after February 13 or 14, Stephen M. Greenberg, LACO's attorney and general partner, testified that "there was an ongoing exploration process of the various alternatives that the people at Willkie Farr were engaged in, which culminated on March 2nd." Greenberg explained that the purpose of the meetings with Willkie, Farr were "to pull together all of the exploratory work that had been ongoing and make [sic] a decision as to what action we should take," and to explore the "[p]ossibility of doing nothing, possibility of doing a proxy fight, possibility of doing consents, possibility of just litigating, possibility of doing a proxy fight and litigating, possibility of doing a proxy fight and litigating in Delaware." Similarly, Corey M. Horowitz, a former LACO employee, testified that LACO's initial discussions never rose to the level of we are interested in doing one [proxy contest]. . . . The discussion never rose to the level of "a resolve to wage a proxy fight."

In a similar vein, Arnold Jacobs of the law firm of Shea & Gould who originally represented LACO testified that following Graphic's disclosure that it intended to sell the cellular radio division to Yampol, LACO participants thought that "it was time to give some kind of preliminary consideration to what remedies [defendants] might try to invoke." Jacobs recalled that LACO explored "the possibility of going into court . . . the remedy possibly engaging in a proxy contest, and there were other things discussed, other than of course, just selling out the position or doing still." He described the investigatory work that took place during February 1986 as "just exploratory conversations," and that

the decision to go ahead was "made sometime in the 28th, probably late in the day in the 1st or the 2nd . . ." Finally, John J. McCarthy, Jr. of Davis, Polk and Wardwell

who represented Morgan Lewis in their discussions with LACO, echoed Jacobs' testimony by stating that a meeting held to discuss Graphic's sudden change in liquidation strategy was mostly "a background presentation" where the attendees discussed "[w]hether [LACO] wanted to sell [Graphic's] stock, finance the stock. There are 100 routine things you can do. Any action you might take as a stockholder: buy, sell, try to get financing, try to change the course of the affairs of the company." Other deponents like John A. Morgan of Morgan, Lewis, Githens & Ahn, characterized the ongoing meetings in February as meetings where the attendees merely "threw out ideas."

[3] Azurite contends, however, that Judge Haight overstepped his bounds and I would err in determining when a defendant forms the intent to wage a proxy battle. Azurite maintains that it is up to the trier of fact to determine whether defendants intended to wage a proxy fight for Graphic prior to February 28. I agree, as did Judge Haight, however, that each case turns "on its own facts," *Amster & Co.*, 762 F.Supp. at 610 (quoting, *Todd Shipyards Corp.*, 547 F.Supp. at 1387), and when a plaintiff fails to raise a genuine issue of material fact for trial regarding the time at which a defendant's intention to wage a proxy battle was formed, summary judgment can be granted.

Azurite relies heavily on two pieces of circumstantial evidence to contravene defendants' evidence and substantiate its position that defendants intended to wage a proxy fight for control of Graphic as early as February 3, 1986. First, Azurite argues that defendants' purchase of Graphic stock after LACO informed Graphic that it was an "unhappy shareholder" is evidence of defendants' decision to take over Graphic because the purchases are inconsistent with being an "unhappy shareholder." If LACO was worried about the solidity of its investment in Graphic, Azurite's argument goes, it is illogical that LACO would go ahead and purchase additional Graphic shares. I disagree.

Before its decision to wage the proxy battle, LACO's purchases of Graphic stock continued only from February 3 to February 7, well before February 10 when Graphic an-

nounced its decision to sell its radio telephone services to Yampol. In fact, LACO expended \$1,466,260 to purchase Graphic convertible debentures with no voting rights and \$1,410,000 for common stock from February 3 to February 7. It is counter-intuitive to argue that LACO, during this period, would spend more than half of its expenditures in Graphic stock in non-voting debentures if it had already decided to wage a proxy contest for Graphic, particularly when in September of 1985, LACO's bond offering (handled by Drexel) had placed limits on the amount of money LACO could invest in securities of any given company. If LACO intended to wage a proxy fight for Graphic then surely it would not have expended restricted financial resources in non-voting debentures. LACO's investment strategy was thus consistent with the only evidence of LACO's intent on the record before me: LACO was keeping all alternatives open, and had not decided to wage a proxy contest for Graphic.

Second, Azurite also places heavy emphasis, as did the SEC, on a meeting defendants held at LACO's offices on February 3 with Elaine Ruege of the Olayan Group to discuss the Graphic situation, a meeting LACO, Laffer and Greenberg have denied ever took place. On February 6, Ruege prepared a memorandum to her file describing how LACO at the February 3 meeting had proposed that Graphic shareholders join together in a proxy fight to force Yampol to liquidate Graphic. Like Judge Haight, I do not understand why the LACO people deny that the meeting with the Olayan Group ever took place. Neither in her memorandum nor at her deposition did Ruege say that defendants had made a decision to mount a proxy battle for Graphic but rather that defendants were considering the possibility of a proxy battle, among other alternatives. Because defendants were not under a duty to reveal preliminary negotiations, defendants' proposal to the Olayan Group is nothing but that, a proposal, which defendants had no obligation to disclose in their Schedule 13D filing. In any event, I concur with Judge Haight's conclusion that the Ruege memorandum at best calls into question whether the defendants' testimony that a meeting did not take place

should be believed but it does not provide affirmative evidence that what was discussed at the meeting was contrary to what the memorandum and Ruege claim it was. *Amster & Co.*, 762 F.Supp. at 616.

In light of Azurite's failure to introduce competent evidence to establish a triable issue of fact with respect to defendants' decision to wage a proxy fight, I am forced to agree with Judge Haight that "LACO had not reached a decision to wage a proxy contest prior to the time they announced that intention in Amendment 7. As for the earlier amendments, they gave timely advice on those matters not fully determined." *Amster & Co.*, 762 F.Supp. at 617.

## II. The Drexel Conspiracy and Section 10(b)

[4] In order to make a claim of insider trading, Azurite must demonstrate that defendants traded stock on the basis of non-public information obtained from an insider and with knowledge that the insider breached its fiduciary duty to the company. *Dirks v. Sec. & Exch. Comm'n*, 463 U.S. 646, 650, 103 S.Ct. 3255, 3263, 77 L.Ed.2d 911 (1983).

[5] Placing heavy reliance on Mr. Yampol's declaration and its supporting exhibits, Azurite has spun a theory that LACO and Drexel conspired to take over Graphic as early as October 1985 with information Drexel obtained from its work in the ill-fated Graphic bond financing in 1984. Although I am required to draw all reasonable inferences in Azurite's favor, I am not required to credit unsupported factual allegations and innuendos as those contained in Yampol's declaration in support of plaintiff's opposition to the motion for summary judgment. See, e.g., *Quinn v. Syracuse Model Neighborhood Corp.*, 613 F.2d 438, 445 (2d Cir.1980) (conclusory allegations or denials unsupported by some affirmative indication of the veracity of its assertions will not defeat summary judgment motion); *Sandman v. Fed. Sav. Loan & Ins. Corp.*, 942 F.2d 793 (9th Cir.1991) (district court may decline to make unreasonable inferences from circumstantial evidence proffered by nonmovant).

Yampol's declaration and supporting exhibits do not raise a triable issue of fact. Azurite asks this Court to accept—without any supporting evidence other than Yampol's conclusory statements—that LACO obtained from Michael Milken and Gary Winnick of Drexel's convertible bond department, non-public information that allowed LACO ultimately to take control of Graphic. Azurite alleges that Milken and Winnick acquired this information in 1984 during their negotiations with Graphic for the bridge financing. After the deal fell through, Azurite maintains, Milken plotted to "get back" at Graphic by making available to LACO the insider information obtained during the 1984 negotiations. In exchange, LACO was to retain Drexel to liquidate Graphics' assets once LACO took over Graphic. Thus, the gravamen of Azurite's claim is that Milken and Winnick were seeking revenge for Graphic's cancellation of the \$40 million bridge financing and that LACO willingly served as the vehicle for their revenge by using insider information to take over Graphic, and thus violated the disclosure requirements of § 13(d) and the strictures of § 10(b).

Evidence of this plot is supported, Azurite maintains, by four pieces of circumstantial evidence:<sup>2</sup> (1) Drexel's leak of non-public Graphic information to the Olayan Group and from the Olayan Group to LACO, (2) an internal memorandum prepared by LACO that made its way to Steven Anreder of Drexel, (3) a series of meetings between Drexel and LACO on December 1985 and February 1986, and (4) Graphic's retention of Drexel to liquidate Graphic in June 1986. None of these incidents standing alone or in concert create a reasonable inference that LACO conspired with Drexel to acquire control of Graphic with Drexel's information and, in so doing, violated §§ 13(d) and 10(b).

Azurite claims that Herbert Bachelor, a former Drexel vice-chairperson, obtained confidential information in the form of future earnings projections from Graphic during Graphic's 1984 bond offering which information Drexel later leaked to the Olayan Group.

<sup>2</sup> Azurite also argues that defendant's purchase of Graphic stock after February 3, 1986 and the Ruege memorandum are evidence of LACO's conspiracy with Drexel to take over Graphic.

There are at least two fundamental problems with this assertion. First, Bachelor never testified, as Yampol states in his declaration, that anyone at Drexel had access to Graphic's future earnings projections. Bachelor's testimony was that in the typical situation, Drexel would have access to confidential information through its normal due diligence review. He testified that Drexel "may have been provided with projected financial statements," but was unable to remember whether Drexel had access to or Graphic ever provided Drexel with non-public information. By contrast, Richard Hochman, another former Drexel employee, testified that he did not believe Drexel saw Graphic's earnings projections because Drexel never performed a detailed due diligence investigation. Even assuming that Graphic provided Drexel with financial projections, Hofman further testified that the Olayan Group, as an institutional investor in Graphic stock, was the type of investor that would normally have access to this information. Therefore, it would not have needed the information from Drexel.

[6] Second, even assuming that Drexel acquired confidential information from Graphic and that Drexel passed this information to the Olayan Group, there is no evidence that the Olayan Group or Drexel passed this information to defendants. Azurite deposed six Drexel employees and not one testified that they passed Graphic confidential information to defendants. As noted by defendants, Azurite's theory in this regard seems to be that because the Olayan Group had access to allegedly confidential information, and because defendants met with the Olayan Group, defendants must have acquired this information. This is the type of circular argument that has no validity. Mere opportunity to do an act, standing alone, is not enough to establish, by a preponderance of the evidence, that an act was done. See, e.g., *Stemrod v. Yardley Sav. & Loan Assoc.* (1989-90 Transfer Binder), Fed. Sec.L.Rep. (CCH) ¶94, 915 at 95,052-53 (E.D.Pa., June 19, 1989) (granting summary

For the reasons previously discussed, I reject these allegations as not probative of defendants' decision to wage a proxy battle for Graphic.

judgment for the defendant after finding that "the fact that [defendant's] business contracts made it possible for him to learn about the merger negotiations does not establish that he actually learned about them," even though defendant invested more heavily in company's shares during merger negotiations). *Id.*, at 95.052-53. Cf. also, *Froid v. Berner*, 649 F.Supp. 1418 (D.N.J.1986) (plaintiff's allegation that defendant had access to confidential information insufficient to state a claim under 10(b)).

Azurite further maintains that an internal LACO valuation of Graphic assets dated August 12, 1985, which has the name and telephone number of Drexel analyst Steven Anreder noted on it, is evidence that Drexel shared confidential information with LACO and entered into a plot with defendants to take control of Graphic. Azurite fails, however, to establish (1) that Drexel had access to non-public information, (2) that this information was made available to Anreder, and (3) that Anreder passed this information to defendants.

Azurite has failed to set forth by affidavit or sworn declaration what specific information Yampol made available to Drexel. Azurite's inability to provide specific information about the non-public information it alleges it gave to Drexel is crucial because without it, there is no competent evidence from which an inference could be drawn that LACO's valuation was produced by reliance on non-public information. See *Shamrock Assocs. v. Horizon Corp.*, 632 F.Supp. 566, 571-72 (S.D.N.Y.1986) (dismissal warranted where plaintiff fails to identify the insider information a defendant has obtained). Not only does Azurite, through Yampol, however, fail to identify the specific non-public information it turned over to Drexel, Azurite also fails to prove that LACO's valuation must have relied on non-public information.

In fact, a cursory analysis of LACO's valuation which was presumably discussed or shown to Anreder of Drexel only reveals that LACO may have arrived at its valuation by just using a simple mathematical calculation with public information: the sum of the estimated value of Graphic's radio paging components (\$300 million), the estimated value of

the company's non-cellular assets (\$47 million) and the estimated value of its cellular operations (\$90 million) for a total of \$537 million, divided by the number of outstanding shares (\$47 million), which results in the estimated value of \$12.06, a share.

I am being asked to deny defendants' motion for summary judgment on the basis of the fortuitous appearance of a Drexel name and number in LACO's internal valuation of Graphic. This occurrence is a slim reed on which to hang a theory of conspiracy or secret plot between Drexel and defendants to take over Graphic particularly where plaintiff has shown no connection between LACO's valuation and whatever non-public information Graphic alleges it gave to Drexel. Azurite's evidence is simply insufficient to allow a reasonable trier of fact to conclude by a preponderance of the evidence that defendants either conspired to or shared non-public information.

Azurite further maintains that the meetings between Drexel and defendants in December 13, 1985 and February 5, 1986 are evidence of a plot to take over Graphic. However, Azurite does not seriously contest defendants' assertion that the primary purpose of these meetings was to discuss the possibility of raising additional capital for LACO, following Drexel's underwriting of LACO's 1985 \$90 million bond offering. Azurite merely concludes, in spite of the uncontroverted deposition testimony to the contrary, that because LACO and Drexel met to discuss other business dealings, Milken must have used the occasion to pass on LACO non-public confidential information about Graphic. This characterization of events calls upon the trier of fact to accept speculative allegations without any foundation in the evidence.

Finally, Azurite urges this Court to treat the fact that Graphic's board retained Drexel as evidence of defendants' pay-off to Drexel for supplying the insider information necessary to take over Graphic. Azurite has not proffered any evidence that Drexel was incompetent to handle this transaction on behalf of Graphic or that it was a minor player in the market so that its selection for this transaction could be called suspect. There is

nothing in Drexel's prior dealings with LACO or Drexel's dealings with Graphic's new board of directors (of which Board LACO was not a member) which would provide a reason to call into question Graphic's business purpose in retaining Drexel. Once again, Azurite, without any evidence to support its contention, asks that a speculative inference be drawn from a transaction that is neither illegal nor whose circumstances objectively give rise to a reasonable suspicion. Thus, there is simply no evidence to support that the conspiracy Azurite claims existed, existed because Graphic's new board retained Drexel to liquidate its assets.

[7] On the record before me and drawing all reasonable inferences in Azurite's favor, I must grant defendants' motion for summary judgment and dismiss Azurite's §§ 13(d) and 10(b) claims. I also deny Azurite's motion to amend its original complaint to include more specific allegations of § 10(b) violations. Although Rule 15 makes clear that leave to amend must be freely granted, it may be denied when the amendment would be futile. See *Foman v. Davis*, 371 U.S. 178, 83 S.Ct. 221, 9 L.Ed.2d 222 (1962). As my discussion reveals, Azurite's proposed amendment would be futile because the factual foundations of Azurite's new allegations are insufficient, as a matter of law, to withstand defendants' motion for summary judgment. I therefore deny Azurite's leave to amend the complaint.<sup>3</sup>

I have provided Azurite with ample opportunity to explore and develop a factual foundation for its §§ 13(d) and 10(b) claims. This

As an independent ground for opposing Azurite's motion to amend the complaint, defendants maintain that leave to amend is precluded by an agreement signed by the parties on January 22, 1990. In the agreement, Azurite releases defendants from "all manner of claims, actions, or proceedings of any nature which have been, could have been or could be brought" except "any claims asserted before December 15, 1989 (the 'Azurite Claims') in the action entitled *Azurite Corp., Ltd. v. Amster & Co.*..." Because I have determined that defendants' proposed amendment is futile, I do not address this argument.

Defendants also maintain that Azurite's 10(b) claim must be dismissed on the alternative ground that Azurite failed to assert the claim within the statute of limitations set forth in

case has come before me after lengthy and exhaustive litigation between the SEC and LACO on the legality of Amendments 5, 6, and 7 to LACO's 13D filing. The SEC enforcement proceedings produced voluminous and exhaustive discovery on the issue of LACO's 13D amendments which defendants made available to Azurite. I also permitted Azurite to conduct further discovery on its claim that Milken and other Drexel employees had provided LACO with insider information to take over Graphic in order to get back at Yampol. Thus, Azurite has had every reasonable opportunity to explore the only avenue that, arguably, the SEC failed to exhaust in its two-year investigation and subsequent enforcement action.<sup>4</sup>

The result of Azurite's discovery is a fascinating but wholly unsupported story of insider trading and machinations between LACO and Milken. Every single deposition as well as every last page of documentary evidence points to the same ineluctable conclusion: after exploring all of the available alternatives, defendants reluctantly decided to wage a proxy battle for Graphic on or after February 28, 1986.

Simply put, Azurite has failed to introduce competent or admissible evidence that could lead a trier of fact to reasonably conclude that defendants filed false, misleading or materially deficient Amendments to their Schedule 13D filing. Similarly, Azurite has failed to proffer any competent evidence that could lead a reasonable trier of fact to find that Drexel or any of its employees provided

*Lampf, Pleva, Lipkind, Prupis & Petigrow v. Gilbertson*, — U.S. —, 111 S.Ct. 2773, 115 L.Ed.2d 321 (1991) (claims under § 10(b) must be asserted within one year of plaintiff's discovery of the violation and within three years of when the violation occurred). Because Azurite claims that the alleged insider trading took place between 1985 and March 1986, defendants maintain that Azurite's claim must be dismissed under *Lampf* because more than three years have passed since the alleged violation occurred and because Azurite's claim does not relate back to the original complaint. I disagree. In its original complaint, Azurite made general but sufficient allegations concerning defendants' § 10(b) violations to relate its proposed amendment back to its original complaint.

defendants with non-public information about Graphic.

### 111. Sanctions

[8, 9] One last issue concerns me here. Defendants move for the imposition of sanctions against Azurite and its counsel under Rule 11 and 28 U.S.C. § 1927. I agree with Azurite that sanctions are inappropriate in this case for the reasons expressed by the Second Circuit in *Mareno v. Rowe*, 910 F.2d 1043, 1047 (2d Cir.1990), cert. denied, 498 U.S. 1028, 111 S.Ct. 681, 112 L.Ed.2d 673 (1991):

[T]o constitute a frivolous legal position for purposes of Rule 11 sanction, it must be clear under existing precedents that there is no chance of success and no reasonable argument to extend, modify or reverse the law as it stands. Thus, not all unsuccessful legal arguments are frivolous or warrant sanction. The positions advanced by Mareno and his attorney, however faulty, were not so untenable as a matter of law as to necessitate sanction. Nor did they constitute the type of abuse of the adversary system that Rule 11 was designed to guard against.

In this case, Azurite argued unsuccessfully that I should revisit Judge Haight's holding that Schedule 13D disclosures must be made only where a party has made a decision to wage a proxy fight. I have rejected this argument on the basis of Judge Haight's opinion in *Amster & Co.* and Judge Pollack's decision in *Todd Shipyards Corp.* However, Azurite's good faith attempt to convince me that I should reject Judge Haight's legal analysis and interpretation of the deposition and documentary evidence, does not render Azurite's argument frivolous or patently unreasonable; rather, it simply means that I was unconvinced by the argument.

[10] Similarly, sanctions under 28 U.S.C. § 1927 are inappropriate. Section 1927 serves to deter unwarranted delays in litigation. See *United States v. Int'l Bhd. of Teamsters*, 948 F.2d 1338, 1345 (2d Cir.1991). Azurite's behavior during discovery has been both restrained and reasonable. Azurite accepted the discovery by the parties in the SEC enforcement action, required only six

short depositions on its insider trading claims and issued some document production requests. Although the added discovery proved ultimately unhelpful, Azurite in no way unreasonably extended the life of this litigation or engaged in an unwarranted fishing expedition. I, therefore, deny defendants' motion for the imposition of sanctions.

### CONCLUSION

For the reasons stated above, defendants' motion for summary judgment under Rule 56 on Azurite's §§ 13(d) and 10(b) claims is GRANTED and the complaint is DISMISSED. Azurite's motion to amend its complaint pursuant to Rule 15 is DENIED with PREJUDICE. Defendants' motion to impose sanctions on Azurite and its counsel under Rule 11 or, alternatively, under 28 U.S.C. § 1927 is DENIED. I hereby order the Clerk of the Court to DISMISS the Complaint with PREJUDICE.

SO ORDERED.



WARNACO INC. and Warnaco  
International Inc.,  
Plaintiffs,

v.

VF CORPORATION and Vives Vidal  
S.A., a/k/a Vivesa, Defendants.

No. 93 Civ. 4605 (RWS).

United States District Court,  
S.D. New York.

Feb. 7, 1994.

U.S. trademark licensor brought action against Spanish licensee and U.S. parent/purchaser of licensee under Lanham Act and state law based on conduct allegedly violating license termination agreement. On motion to dismiss, the District Court, Sweet,

held that: (1) allegations were sufficient to support claim that parent was bound by agreement; (2) claims "arose under" termination agreement for purposes of its forum selection clause; (3) allegations were sufficient to warrant extraterritorial application of Lanham Act; (4) New York law rather than Spanish or Portuguese law applied to unfair competition claims; (5) licensor stated claim under New York statute based on allegations of likelihood of injury to business reputation; and (6) licensor did not state claim under New York law for prima facie tort.

Motion to dismiss granted in part, denied in part.

### Federal Civil Procedure §1829

On motion to dismiss, all of factual allegations in complaint are accepted as true, and all allegations must be considered in light most favorable to party against whom motion is made. Fed.Rules Civ.Proc.Rule 12(b)(6), 28 U.S.C.A.

### Federal Civil Procedure §1829

On motion to dismiss for failure to state claim, factual allegations of complaint are presumed to be true, and all factual inferences must be drawn in plaintiffs' favor and against defendants. Fed.Rules Civ.Proc.Rule 12(b)(6), 28 U.S.C.A.

### Corporations §215

Parent corporation may become party to subsidiary's contract if parent's conduct manifests intent to be bound by contract; such intent can be inferred from parent's participation in negotiation of contract.

### Corporations §1.6(2)

Parent corporation that negotiates contract but has subsidiary sign it can be held liable as party to contract, if subsidiary is dummy for parent corporation.

### Corporations §1.6(2)

Parent corporation may be liable on contract signed by subsidiary if subsidiary is shown to be mere shell dominated and controlled by parent for parent's own purposes.

### 6. Corporations §1.7(1)

Trademark licensor's allegations regarding negotiations leading to signing of license termination agreement indicated intent by corporate parent of subsidiary buyer of licensee to be bound by agreement, and also sufficiently alleged that subsidiary was mere shell dominated and controlled by parent to accomplish parent's own purpose of acquiring licensee; complaint alleged that termination agreement was negotiated when sale of licensee to parent became imminent, and agreement itself expressly stated that licensor acknowledged existence of negotiations with parent for sale; additionally complaint alleged that subsidiary existed solely as acquisition vehicle for parent to acquire licensee.

### 7. Contracts §206

Trademark licensor's claims against licensee and purchaser of licensee under Lanham Act, common-law unfair competition, state statute, and prima facie tort "arose under" license termination agreement for purposes of its forum selection clause; although it was contended that claims could have been brought regardless of whether termination agreement existed, clause encompassed any dispute, claims involved rights and duties arising out of agreement and related to business relationship stemming from agreement, and alleged conduct was made possible only or principally because of agreement. Lanham Trade-Mark Act, § 1 et seq., 15 U.S.C.A. § 1051 et seq.; N.Y.McKinney's General Business Law § 368-d.

See publication Words and Phrases for other judicial constructions and definitions.

### 8. Contracts §206

#### Federal Courts §31

Parties cannot create subject matter jurisdiction through contractual forum selection clause.

### 9. Trade Regulation §545

Factors to be considered in determining Lanham Act jurisdiction over corporations engaging in conduct outside United States are: (1) whether defendant's conduct has substantial effect on United States Com-

been asked) did not say whether the scope of the search for Earl Bradway exceeded that permitted by the arrest warrant, and the district court made no finding to that effect. As such, the district court "shall be deemed to have made a finding in accord with the judgment." Fed.R.Civ.P. 49(a). The district court's decision granting the Troopers' motion for judgment as a matter of law on the issue of qualified immunity therefore implies a finding that the search for Earl Bradway was lawful in scope.

[5] Another necessary precondition to a lawful plain view seizure is that the incriminating character of the goods be immediately apparent. *Horton*, 496 U.S. at 136, 110 S.Ct. at 2308. Plaintiff argues that this precondition was never satisfied because the Troopers pulled out the ashpan of the stove to observe the distinctive crescent shape before seizing the stove itself. If it was indeed necessary to view the ashpan to identify the stove, then the plain view doctrine would be inapplicable under the Supreme Court's decision in *Arizona v. Hicks*, 480 U.S. at 328, 107 S.Ct. at 1154 (officers not authorized to move stereo equipment so as to view serial numbers without probable cause to believe that the equipment was stolen). That, however, is not the case. In their meeting with the Troopers, Spencer and Gardener described a black, Shenendowa-brand stove with a dent on the back of the top lid roughly four inches long. These immediately apparent features, in and of themselves, sufficed to establish the incriminating character of the stove. See *United States v. Bonfiglio*, 713 F.2d 932, 936 (2d Cir.1983) ("[I]t is not a prerequisite for a legal seizure under the plain view doctrine that at the time of the search the officers know with certainty that the seized item is evidence of a crime."). Once the Troopers identified the stove by some distinctive markings, the plain view doctrine did not inhibit their opening the ashpan to conduct a further examination. *Hicks*, 480 U.S. at 326, 107 S.Ct. at 1153 ("It would be absurd to say that an object could lawfully be seized and taken from the premises, but could not be moved for closer examination.").

Therefore, the district court did not clearly err in finding that a reasonable police officer

would have believed that the seizure of the stove was justified under the plain view doctrine.

## 2. The False Arrest Claim

[6] The next question is whether the Troopers are entitled to qualified immunity for the February 20, 1988 arrest of plaintiff. The jury found that the Troopers lacked probable cause to believe that plaintiff committed the offense of criminal possession of stolen property. Nevertheless, the district court recognized that "the question of immunity is distinct from the question of probable cause," and that "[a] finding by the court that a defendant is entitled to qualified immunity is legally consistent with a finding that probable cause did not exist for the arrest." The district court then found that it was objectively reasonable for an officer to believe that probable cause existed for the arrest.

In its qualified immunity analysis, the district court relied on (i) the presence of the wood stove and the milk cans in the basement of 38 Tarborton Road, and (ii) plaintiff's improbable statements concerning how long those items had been in her possession. In this context, plaintiff again urges that, under the law as it existed in 1988, the seizure of the stove and the milk cans did not comport with the plain view doctrine. Without this contraband, plaintiff continues, the officers did not have sufficient evidence to provide probable cause for her arrest.

As discussed above, the unlawful search claim is nonviable because, considered in light of the law today concerning the plain view doctrine, the search did not violate plaintiff's constitutional rights. On the false arrest claim, however, plaintiff is not asserting a violation of her right to be free from plain view seizures resulting from pretextual searches. Instead, she asserts her right to be free from arrest without probable cause, a right she clearly enjoys under presently existing law. See *Golino*, 950 F.2d at 870 ("The right not to be arrested or prosecuted without probable cause has, of course, long been a clearly established constitutional right."). And as to her undoubted right to be free from arrest, she argues that a search and

seizure that was improper when it was conducted cannot furnish probable cause.

In this way, plaintiff's false arrest claim introduces her unlawful search claim through the back door. Since the alleged conduct (arrest without probable cause) does violate a constitutional right, plaintiff urges us to scrutinize all of the acts giving rise to probable cause (including the seizure of the stove and the milk cans) under pre-existing law. See *Anderson*, 483 U.S. at 639, 107 S.Ct. at 3038 (conduct must be "assessed in light of the legal rules that were 'clearly established' at the time it was taken.").

Under plaintiff's analysis, an officer could be entitled to qualified immunity for a seizure yet nevertheless be liable for an arrest resulting from that seizure. That approach, however, advances none of the competing goals served by the qualified immunity doctrine. Holding the Troopers liable for an arrest deemed objectively unreasonable because it is based on a seizure that in retrospect was arguably constitutional would not adequately insulate public officials from "undue interference with their duties and from potentially disabling threats of liability." *Harlow*, 457 U.S. at 808, 102 S.Ct. at 2733. Nor would such liability deter unlawful actions, since the action complained of—here, a plain view seizure effected through a pretextual search—will have become lawful. Finally, a recovery by plaintiff would not compensate a "victim" of an "unlawful action", since we now understand that the action was not in fact unlawful. See *Elder*, — U.S. at —, —, 114 S.Ct. at 1022-23. Accordingly, we hold that because the Troopers are entitled to qualified immunity for the seizure, that seizure cannot form the basis of a false arrest claim under § 1983, irrespective of pre-existing law.

Even if we were to view the seizure under the law as it existed in 1988, the Troopers would nevertheless be entitled to qualified immunity on the false arrest claim. As noted above, the Supreme Court had not clearly established inadvertence as a necessary element of a lawful plain view seizure. Therefore, a reasonable officer could have believed that the plain view doctrine provided a lawful basis for seizing the wood stove and the milk

cans. A reasonable officer who found the stove and cans, and who heard plaintiff's implausible explanation for possessing them, would have believed that probable cause existed for plaintiff's arrest.

## CONCLUSION

For the foregoing reasons, the decision of the district court granting appellees judgment as a matter of law on the ground of qualified immunity is affirmed.



UNITED STATES of America,  
Plaintiff-Appellee,

v.

Dale M. HENDRICKSON,  
Defendant-Appellant.

No. 605, Docket 92-1386.

United States Court of Appeals,  
Second Circuit.

Argued Dec. 4, 1992.

Decided June 13, 1994.

Defendant was convicted in the United States District Court for the Eastern District of New York, Sterling Johnson, Jr., J., of conspiracy to distribute and possess with intent to distribute in excess of one kilogram of heroin, two counts of distribution of heroin and possession with intent to distribute heroin, two counts of distribution of heroin within 1,000 feet of public school, and one count of receiving interstate commerce firearm with obliterated serial number, and he appealed. The Court of Appeals, Sotomayor, District Judge, sitting by designation, held that: (1) government which asserted that defendant negotiated to produce contested amount of heroin had burden of proving defendant's intent to produce such amount; (2) defendant's ability to produce the heroin was

relevant factor in determining intent; and (3) defendant's discussions with undercover agent about importing 50-60 kilograms of heroin from Nigeria, without more, did not establish conspiratorial agreement between defendant and culpable coconspirator to import such amounts.

Conviction affirmed, sentence vacated, and matter remanded.

Winter, Circuit Judge, filed opinion concurring in part and dissenting in part.

#### 1. Conspiracy $\Rightarrow$ 51

##### Drugs and Narcotics $\Rightarrow$ 133

Purpose of 1989 amendment to application note 1 to sentencing guideline pertaining to attempts and conspiracies was to insure that courts did not calculate base offense level using drug amounts as to which defendant was merely "puffing". U.S.S.G.  $\S$  2D1.4 (1992).

#### 2. Drugs and Narcotics $\Rightarrow$ 133

Where government asserts that defendant personally "negotiated" to produce contested quantities of drugs, and not that defendant is merely secondarily liable for agreed upon amount as participant in alleged conspiracy, government bears burden of proving that defendant intended to produce such amount. U.S.S.G.  $\S$  2D1.4 (1992).

#### 3. Drugs and Narcotics $\Rightarrow$ 133

At sentencing for drug-related offenses, government bears burden of proving amount of narcotics involved.

#### 4. Conspiracy $\Rightarrow$ 28(3)

In drug conspiracies, conspirators' agreement to produce narcotics, not actual possession, sale or delivery of drugs, is essence of the crime. Comprehensive Drug Abuse Prevention and Control Act of 1970,  $\S\S$  401(b)(1)(A)(i), 406, 21 U.S.C.A.  $\S\S$  841(b)(1)(A)(i), 846.

#### 5. Conspiracy $\Rightarrow$ 24(7)

No conspiratorial agreement exists unless at least two culpable coconspirators agree, and consequently, defendant's agreement must be with someone other than government agent or informant. Comprehensive

sive Drug Abuse Prevention and Control Act of 1970,  $\S\S$  401(b)(1)(A)(i), 406, 21 U.S.C.A.  $\S\S$  841(b)(1)(A)(i), 846.

#### 6. Conspiracy $\Rightarrow$ 24.5

To establish conspiratorial agreement, government must demonstrate that conspirators possessed at least degree of criminal intent necessary for substantive offense itself. Comprehensive Drug Abuse Prevention and Control Act of 1970,  $\S\S$  401(b)(1)(A)(i), 406, 21 U.S.C.A.  $\S\S$  841(b)(1)(A)(i), 846.

#### 7. Conspiracy $\Rightarrow$ 47(2)

Proof of conspiratorial agreement requires evidence, which may be circumstantial, that conspirators intended to agree to commit an unlawful act. Comprehensive Drug Abuse Prevention and Control Act of 1970,  $\S\S$  401(b)(1)(A)(i), 406, 21 U.S.C.A.  $\S\S$  841(b)(1)(A)(i), 846.

#### 8. Conspiracy $\Rightarrow$ 51

At sentencing, where government asserts that defendant directly participated in conspiratorial agreement to produce specified amount and type of narcotics, government must prove that defendant intended to produce that amount. Comprehensive Drug Abuse Prevention and Control Act of 1970,  $\S\S$  401(b)(1)(A)(i), 406, 21 U.S.C.A.  $\S\S$  841(b)(1)(A)(i), 846; U.S.S.G.  $\S$  2D1.4 (1992).

#### 9. Criminal Law $\Rightarrow$ 1311

When defendant asserts that he is not responsible for entire range of misconduct attributable to conspiracy of which he was a member, Sentencing Guidelines place on him burden of establishing lack of knowledge and lack of foreseeability. Comprehensive Drug Abuse Prevention and Control Act of 1970,  $\S\S$  401(b)(1)(A)(i), 406, 21 U.S.C.A.  $\S\S$  841(b)(1)(A)(i), 846; U.S.S.G.  $\S$  2D1.4 (1992).

#### 10. Statutes $\Rightarrow$ 188

When word is not defined by statute, court will normally construe it in accord with its ordinary or natural meaning.

#### 11. Statutes $\Rightarrow$ 188, 190

Where result of a literal interpretation of statutory language is absurd, or where obvious purpose of statute is thwarted by slavish adherence to its terms, court may look beyond plain language.

#### 12. Conspiracy $\Rightarrow$ 44.2

Inability of conspirators to produce specific amounts of narcotics due to frustrated efforts, factual impossibilities or unforeseen circumstances does not defeat inference of agreement to produce contested amounts of narcotics; failure to produce is relevant only to extent it suggests absence of intent or agreement. Comprehensive Drug Abuse Prevention and Control Act of 1970,  $\S\S$  401(b)(1)(A)(i), 406, 21 U.S.C.A.  $\S\S$  841(b)(1)(A)(i), 846; U.S.S.G.  $\S$  2D1.4 (1992).

#### 13. Conspiracy $\Rightarrow$ 51

Sentencing courts, in discerning object of narcotics conspiracy, must consider all discussions concerning narcotics transaction, and determine whether such conversations were sufficiently specific as to price, delivery, financing and other logistics to suggest firm agreement to produce specific amounts, as opposed to mere exploratory discussions about such quantities; court must not simply end analysis at discussion stage, but must further examine whether defendant and his coconspirators took any action toward producing contested amounts, such as seeking financing, making arrangements for delivering drugs, or contacting suppliers to procure such narcotics. Comprehensive Drug Abuse Prevention and Control Act of 1970,  $\S\S$  401(b)(1)(A)(i), 406, 21 U.S.C.A.  $\S\S$  841(b)(1)(A)(i), 846; U.S.S.G.  $\S$  2D1.4 (1992).

#### 14. Criminal Law $\Rightarrow$ 1158(1)

District court's factual finding regarding quantity of drugs is reviewed for clear error. U.S.S.G.  $\S$  2D1.4 (1992).

#### 15. Conspiracy $\Rightarrow$ 51

Sentencing courts are required to make clear and specific findings regarding amount

\* Honorable Sonia Sotomayor, United States Judge for the Southern District of New York, sitting by

of narcotics involved in drug conspiracy, adequately stating reasons for their conclusions. Comprehensive Drug Abuse Prevention and Control Act of 1970,  $\S\S$  401(b)(1)(A)(i), 406, 21 U.S.C.A.  $\S\S$  841(b)(1)(A)(i), 846; U.S.S.G.  $\S$  2D1.4 (1992).

#### 16. Conspiracy $\Rightarrow$ 51

Defendant's discussions with undercover agent about importing 50-60 kilograms of heroin from Nigeria, without more, did not establish conspiratorial agreement between defendant and culpable coconspirator to import such amounts; defendant had been able to produce only 77 grams of heroin over course of almost two years. Comprehensive Drug Abuse Prevention and Control Act of 1970,  $\S\S$  401(b)(1)(A)(i), 406, 21 U.S.C.A.  $\S\S$  841(b)(1)(A)(i), 846; U.S.S.G.  $\S$  2D1.4 (1992).

#### 17. Criminal Law $\Rightarrow$ 1158(1)

Appellate court should not lightly disturb trial judge's evaluations of credibility of witnesses and evidence presented.

#### 18. Criminal Law $\Rightarrow$ 577.10(8)

Delays resulting from defendant's motion to reconsider ruling of another judge permitting use at trial of two tapes defendant claimed had been tampered with by undercover agent, and from motion for severance, was properly excluded from speedy trial calculation; defendant could not file pretrial motions that interrupted speedy trial calculations and then complain that district court did not decide motions expeditiously.

Michael H. Sporn, New York City, for defendant-appellant.

Peter A. Norling, Stanley J. Okula, Jr., Asst. U.S. Attys., E.D.N.Y. (Andrew J. Maloney, U.S. Atty., E.D.N.Y., of counsel), for appellee.

Before OAKES, WINTER, Circuit Judges, and SOTOMAYOR, Judge.\*

designation.

## SOTOMAYOR, District Judge:

Defendant Dale M. Hendrickson ("Hendrickson") appeals a final judgment from the United States District Court for the Eastern District of New York, following a jury trial before Sterling Johnson, Judge, convicting him of one count of conspiracy to distribute and possess with intent to distribute in excess of one kilogram of heroin, in violation of 21 U.S.C. §§ 841(b)(1)(A)(i) and 846 (1990); two substantive counts of distribution of heroin and possession with intent to distribute heroin, in violation of 21 U.S.C. §§ 841(a)(1) and 841(b)(1)(C) (1990); two counts of distribution of heroin within one thousand feet of a public school, in violation of 21 U.S.C. §§ 845(a) and 845(a)(1) (1990); and one count of receiving in interstate commerce a firearm with an obliterated serial number, in violation of 18 U.S.C. §§ 922(a)(1)(B) and (2), and 922(k) (1990). The district court found that Hendrickson intended to import 50-60 kilograms of heroin from Nigeria, and set Hendrickson's base offense level at 38. The court then added four (4) points for Hendrickson's role as a leader of five (5) or more people, two (2) points for possession of a nine millimeter handgun, and two (2) points for perjury, bringing the offense level to 46. Judge Johnson sentenced Hendrickson to life imprisonment on the conspiracy count, 240 months on each of the two substantive distribution counts, 480 months on each of the two counts of distribution within one thousand feet of a public school, and 120 months on the firearms count. On appeal, Hendrickson contends principally that the district court erred in its application of the federal Sentencing Guidelines ("Sentencing Guidelines") and that the district court violated his right to a speedy trial.

For the reasons discussed below, we affirm the conviction, but vacate the sentence and remand for resentencing.

## I. BACKGROUND

Hendrickson's conviction was a result of a nearly two-year joint investigation by the United States Customs Service ("Customs") and the Drug Enforcement Administration ("DEA"). In January 1989, Customs and DEA commenced their investigation after re-

ceiving a tip from informants Dave Spence ("Spence") and Davis Lee ("Lee") that Hendrickson was searching for a means of transporting large quantities of heroin from Nigeria to New York. Lee introduced Hendrickson to Ken York ("York"), a Customs informant, who posed as a corrupt pilot willing to fly heroin from Nigeria to New York. During their first two meetings, Hendrickson explored a proposed Nigerian importation scheme with York. However, after these early discussions, Hendrickson backed away from the plan, and eventually admitted to York that his Nigerian contacts had no interest in pursuing a deal of that magnitude with him. Indeed, most of Hendrickson's discussions with York during the approximately two-year period centered around Hendrickson's idea to export much smaller quantities of heroin to Bermuda and his efforts to supply York with ounces of heroin. Despite his initial claims of access to substantial quantities of heroin, Hendrickson ultimately was only able to make two sales of heroin, totaling 77 grams, to York.

## A. The Nigeria Importation Discussions

## 1. The First Meeting

On February 6, 1989, Customs informants Spence, Lee, and York met with Hendrickson and his brother, Mark Hendrickson, at York's undercover offices. At this videotaped meeting, the parties discussed the feasibility of Hendrickson's proposed plan to import 50-60 kilograms of heroin from Nigeria to the United States by private aircraft. Hendrickson claimed that his Nigerian contact had "like a thousand keys," and used "mules"—couriers flying commercial airlines who carried heroin in or on their bodies or in their luggage—to smuggle heroin into the country. Hendrickson told York that his contact was interested in alternate means of exporting heroin to the United States, since the authorities frequently intercepted "mules" at the airports.

The bulk of the meeting was devoted to discussions about the types of aircrafts that potentially could be used, the time York required to arrange a trip to Nigeria, various flight logistics and expenses, and a proposed

## U.S. v. HENDRICKSON

Cite as 26 F.3d 321 (2nd Cir. 1994)

time-table for the plan. York demanded a one-third cut in the profits for his piloting services, telling Hendrickson that his interest in the operation was based solely on its promise of large amounts of heroin. Later during the discussion, Hendrickson explained that he planned to distribute the heroin obtained from the Nigerian project in the United States and in Bermuda, where he and his brother already had a distribution network in place.

At the conclusion of this meeting, Hendrickson told York that he would try to have his Nigerian contact attend their next meeting to discuss the plan. However, throughout his conversation with York, Hendrickson was clear that his Nigerian contact had not yet agreed to the plan. Hendrickson advised York that his Nigerian contact had little experience with "this kind of international thing," and that he and York would have to carefully research their proposal before they could convince the Nigerian to agree to it. Hendrickson further noted that his contact was not the ultimate decision maker, and that, even if the contact liked their proposal, the contact would have to "verify" it with his "clique of people."

## 2. The Second Meeting

Four days later, Hendrickson and York met a second time. Hendrickson told York that he had met with his Nigerian contact for over three hours, and that the contact was "receptive" to the plan. According to Hendrickson, the Nigerian dealers were importing one kilogram of heroin a week at the time, and that during the course of their meeting, he and the "main guy" had discussed "different options" which "boggled" Hendrickson's "mind." He also claimed that the "main guy" told him that supplying 60 kilograms of heroin was "no problem". However, according to Hendrickson, the contact considered York's demand of a one-third of the profits excessive.

After York agreed to lower his price, Hendrickson quickly changed the conversation to a potential sale of approximately six ounces

1. Neither the record before us nor the parties' briefs, indicated the quantity or purity of this

of heroin to York. York, concerned that Hendrickson was backing off the Nigeria plan, protested that a six ounce deal was too small, stating that "[a]ny time I operate, I operate big." York tried to get the conversation back to the Nigeria plan, telling Hendrickson, "I thought [you] wanted like fifty keys or somethin' like that." Hendrickson explained, however, that York's piloting services were unnecessary at that time because mule carriers were providing his suppliers with sufficient quantities of heroin. Undeterred, York pressed Hendrickson to introduce him to his Nigerian contacts so that he could convince them that importing heroin via private aircraft was not only superior to their present mule-carrying method, but also "one hundred percent guaranteed." During the remainder of the conversation, York and Hendrickson discussed various financing ideas that Hendrickson could propose to the Nigerians.

## 3. The Third Meeting

Two months later, on April 18, 1989, York and Hendrickson met again, this time at an airport. Hendrickson provided York with a sample of heroin.<sup>1</sup> When York inquired about the Nigerian plan, Hendrickson explained that heroin continued to be smuggled into New York by mule carriers and therefore, York's piloting services would not be needed. The following exchange then took place:

York: "So what are you sayin[g]? Are you telling me that you are cancelling Africa?"

Hendrickson: "why fly there and go through . . . expenses when the . . . thing has been transferred for me right here." . . . "[W]hy fly half way around the world when we don't have the funds to go." (Emphasis added).

Hendrickson further explained that the Nigeria plan was on "hold," and that they should "deal where O.K. the money is . . . coming from." By this, Hendrickson was referring to his heroin operations in Bermuda and his plan to use the funds raised in his

heroin sample.

Bermuda operation to, at some later date, finance the Nigerian project. Hendrickson invited York to invest in this plan and fly about ten kilograms of heroin from New York to Bermuda. During this meeting, Hendrickson mentioned that his Nigerian contact was named "Balogun."

On May 7, 1989, Hendrickson introduced York to Balogun who, Hendrickson explained, was importing heroin from Africa through John F. Kennedy Airport ("Kennedy Airport") in New York City, and could produce any amount of heroin York desired. The record before us does not indicate what negotiations, if any, occurred during this meeting.

After this meeting, York and Hendrickson's drug dealings turned to sales of small quantities. Although York continued to pressure Hendrickson to proceed with the Nigerian plan, Hendrickson retreated from the idea, and ultimately admitted that his Nigerian contact was not interested in his Nigerian importation plan.

#### B. The First Sale of Heroin

On June 29, 1989, Hendrickson and an individual named Tony (whom Hendrickson described as his "lieutenant") met with York and Al Armstrong ("Armstrong"), an undercover DEA agent, whom York introduced to Hendrickson as a potential purchaser of small quantities of heroin. During this meeting, Hendrickson offered to sell York and Armstrong six to seven ounces of heroin. York showed Hendrickson \$40,000 of buy money and Hendrickson promised to supply the heroin the following day.

Hendrickson, however, failed to supply the drugs. He later explained to York that his supplier's mule carrier had been arrested at Kennedy Airport. Indeed, one month prior to Hendrickson's June meeting with York, authorities had arrested a man named Sunday Adenekan Phillips ("Phillips") after finding heroin strapped to his body upon his arrival from Nigeria. At Phillips' arrest, DEA agents seized an address book from him containing the names and telephone numbers of Hendrickson, Balogun and Ste-

phen Uchannaya ("Uchannaya"). York testified that Hendrickson had identified Uchannaya, a Nigerian national, as an alternate supplier of heroin.

At a subsequent meeting in July 1989, York expressed his frustration with Hendrickson's delay of the Nigerian plan. York complained that "the man come to me in February. We supposed to take, take the uh both to Nigeria to get the [heroin] and bring it back right. . . . Then nothing happen with that." Hendrickson replied that his contact's "mule trading" was producing heroin weekly from Nigeria.

On August 10, 1989, York made yet another failed attempt to purchase heroin from Hendrickson's source. This time, Hendrickson and York travelled to a video store owned by Uchannaya. Hendrickson introduced York as a pilot willing to fly large quantities of heroin into New York. Uchannaya informed York that he had access to 500 kilograms in Thailand, and desired an alternate importation method since some of his couriers had been arrested. The parties agreed to meet the next day so that York could purchase 600 grams of heroin and further discuss Hendrickson and York's smuggling proposal.

However, the next day, when Hendrickson called York to tell him that Uchannaya was on his way with the heroin, York was unable to obtain the buy money, and the deal dissolved. When York and Hendrickson spoke later that day, Hendrickson complained that York's failure to purchase the heroin had severely weakened his credibility with Uchannaya. Hendrickson explained that "these are not my people I work with all the time the (sic) don't give me that kind of quantity to hold; you understand what I'm trying to show you? . . . The people (U/I)<sup>2</sup> are new to me" (Emphasis added). Later, Hendrickson told York that he could not "deliver the product because there's none around," and that it was "better [that he] . . . just work on [his] . . . little thing". York reminded Hendrickson that the Nigerian project was still an option, and that Uchannaya "would go for the deal". Hendrickson

recorded statements.

#### U.S. v. HENDRICKSON

Cite as 26 F.3d 321 (2nd Cir. 1994)

327

replied that Uchannaya was only an "emergency" source, and York's inability to go through with the planned purchase had strained their credibility with Uchannaya. York insisted that they pursue the Nigerian plan, asserting that he was ready, willing and able to proceed. Finally, Hendrickson admitted that he did not have an agreement with the Nigerians, replying:

"[W]hat I am trying to say, these people are people like this you remember you say bring them over he say look he don't want to go nowhere, don't want to know nothing all he wants as 'things go on' gradually things would get better, you understand? I can't make base one, how the hell I going to run to base three?" (Emphasis added).

York did not press the issue, shifting the conversation back to the failed purchase. He inquired whether an alternate transaction arranged for the following week was still on. Emphasizing yet again that he had no experience dealing with large transactions, Hendrickson replied that he "was lucky enough to get that quantity here one time," and that he did not know if the proposed sale would take place.

Finally, on August 22, 1989—a full ten months after the investigation started and five months after Hendrickson first provided York with a sample amount of heroin—Hendrickson and York consummated their first deal for one ounce of heroin.<sup>3</sup> DEA laboratory analysis later revealed that this heroin had 84% purity.

#### C. The Bermuda Heroin Operations

During one of their initial conversations, Hendrickson told York that he wanted to purchase a high-speed powerboat to aid his Bermuda heroin operations. Hendrickson explained that with a powerboat, his brother Mark could pick up heroin dropped from cruise ships traveling between New York and Bermuda.

In September, 1989, after his first drug purchase, York drove Hendrickson and his

wife, Marie Catalano Hendrickson ("Catalano"), to a Long Island marina, where Hendrickson deposited \$1000 in cash on a \$42,000 speed boat, telling York that he needed to raise additional capital to complete the purchase of the boat.<sup>4</sup>

During their trip to the marina, York asked Hendrickson "[w]hat happened to the African guys?" When Hendrickson replied that they had returned, York suggested that he and Hendrickson meet with them. Hendrickson responded, "[l]et's just deal with my thing first . . . About 200, 200 grams is what, ahm, three, six, seven ounces."

Later that month, Hendrickson advised York that he was leaving for Bermuda to oversee his drug operations there and to obtain funds to finance his heroin deals with York. From Bermuda, Hendrickson sent Catalano two checks totaling \$6,000, which she turned over to York.

Following his return from Bermuda, Hendrickson and his wife met with York to discuss future drug transactions. During these meetings, York insisted that Hendrickson speak to his Nigerian connection about the long-delayed heroin importation plan. Hendrickson told York that if he desired to go forward with the plan, York would have to deal directly with the Nigerian. Hendrickson further stated that his Nigerian contact would soon be in the area, and that the contact probably was not interested in importing more "than about fifty keys." Hendrickson turned the conversation to his heroin operations in Bermuda, which he claimed were very successful. Hendrickson boasted that he had "people waiting on the street in" Bermuda, and that he "[ran] the whole . . . island". He further claimed that "for every little half gram . . . five hundred U.S. dollars . . . goes into my hand . . . so one ounce is twenty-eight thousand dollars I make and nobody else have no market like that nowhere around."

bile for \$15,000 in early October 1989, and made a \$7,000 down payment on a home in Jacksonville, Florida that following November.

3. One ounce is equivalent to twenty-eight (28) grams.

4. Hendrickson never did purchase the speed boat. However, he purchased a Jaguar automo-

2. "U/I" refers to unintelligible portions of the

Despite Hendrickson's boasts, his proposed heroin distribution network from New York to Bermuda never materialized. No heroin was sent to Bermuda, nor was any currency returned to the United States through York's piloting services.

#### D. The Second Heroin Sale

Through a series of conversations from October 31, 1989 through November 15, 1989, York arranged to have Hendrickson supply him with additional heroin. During these discussions, Hendrickson told York that he supplied heroin to several individuals who then resold the heroin locally. Hendrickson advised York that he recently had met with "the Africans," who claimed to have 60 kilograms of heroin for sale. However, Hendrickson told York that "the Africans" were not interested in securing York's piloting services because York was American and did not have collateral. Hendrickson instead offered to sell York two ounces of heroin for \$7,500 per ounce; York agreed, but expressed disgust over the seemingly failed Nigerian plan.

York: This man, this guy he was telling me we gonna be making all this money U/I . . .

Hendrickson: (If I can't do one little something, how the hell am I going to jump into a big project like that and you have me making the people who supposed to give me the break on this thing. You're making them go like a yo-yo. Explain that to me now. (Emphasis added).

The following day, on November 15, 1989, Hendrickson sold York approximately 1.7 ounces of heroin, which lab tests later showed had 79% purity.

Unable to obtain more than small amounts of heroin from Hendrickson, York, in January 1990, bypassed Hendrickson and attempted to deal directly with Balogun. This attempt, however, backfired, and Hendrickson later scolded York for his overture, claiming that York had made Balogun nervous, and that his actions might have frustrated Hendrickson's efforts to arrange "something big".

Notwithstanding his numerous failed attempts to get the "big deal" moving, York again tried to revive the Nigerian project three months later on March 12, 1990. York urged Hendrickson to proceed with the Nigeria plan: "I'm ready to go to Africa. You keep telling me we're going to Africa. I'm ready to go to Africa . . . Are we going to Africa or not?" Later in the conversation York pressed further: "why you holding back . . . why you procrastinating? Are you afraid of success?" Hendrickson attempted to change the subject several times; York, however, persisted. Finally, Hendrickson told York that he anticipated that they would be able to "hook up the bigger deal" at some point, but remarked that the Nigerian project was not as "easy" as York made it sound.

On November 14, 1990, York negotiated another heroin purchase from Hendrickson, this time for four ounces of heroin. York and DEA agent Armstrong arranged to pick up the heroin from Hendrickson at his home the following day. However, when they arrived, Hendrickson told them that he had not yet received the heroin from his African supplier. Deciding not to wait any longer, surveillance agents placed Hendrickson under arrest, and searched his home. The search yielded a nine millimeter handgun with its serial number obliterated, a loaded ammunition clip and a triple beam balance; however, no narcotics were found.

#### II. THE SPEEDY TRIAL MOTION

The original indictment in this action was filed on November 26, 1990. Hendrickson was arraigned before Judge Reena Raggi on December 10, 1990. Superseding indictments were filed on February 1 and April 2, 1991. Thereafter, Hendrickson filed pre-trial motions on May 31, 1991. Following oral argument on August 16, Judge Raggi denied all of the motions and determined that 62 days remained under the Speedy Trial Act. Hendrickson does not challenge the speedy trial calculation up to this date.

On September 13, 1991, Judge Johnson, to whom the case was reassigned, held a pre-trial conference during which Hendrickson requested reconsideration of Judge Raggi's earlier decision denying his motion to sup-

press two tapes whose authenticity Hendrickson challenged. Judge Johnson asked Hendrickson's counsel whether Hendrickson's request should be treated as a motion. Defense counsel stated that it should, and advised that the motion for reconsideration might require a hearing. Judge Johnson stated that he would treat the request as a motion and excluded the time for consideration of this motion from the speedy trial clock. Judge Johnson also set a briefing schedule for defense counsel to submit papers in support of Hendrickson's motion,<sup>5</sup> and rescheduled the trial date previously set by Judge Raggi from September 16 to October 7, 1991.

Because Judge Johnson was unavailable on that date, the trial date was changed from October 7 to November 5. Thereafter, defense counsel was unavailable, and the court adjourned the trial to January 13, 1992. When the Bureau of Prisons failed to produce co-defendant Catalano on January 13, 1992 because of a transfer necessitated by overcrowding, the court moved the trial date to February 19, 1992.

On January 14, 1992, Hendrickson filed a "Motion for Severance Due to Multiple Conspiracies." A month later, on February 14, 1992, Hendrickson filed a motion to dismiss the indictment for violation of the Speedy Trial Act ("STA").

Judge Johnson heard argument on Hendrickson's outstanding motions on February 19, 1992. At the hearing, Hendrickson's attorney argued that the period from Judge Raggi's August 16 denials of Hendrickson's motions until November 5, when defense counsel became unavailable, were not periods of delay to be excluded under the STA. Defense counsel claimed that the court should have ignored papers filed by a defendant represented by counsel, and that such papers were not motions that stopped the speedy trial clock. Defense counsel also challenged the district court's exclusion of the period

5. The Government in its brief states that after the September 13 conference, Hendrickson filed additional papers in support of his motion for reconsideration. However, Hendrickson's attorney did not. On the record before us, it is unclear when Hendrickson filed his papers, although Judge Johnson at the hearing on Hendrickson's

from January 13 to February 19, 1992, when the co-defendant was lost in the Bureau of Prisons system.

Judge Johnson denied Hendrickson's motions and observed:

Mr. Hendrickson cannot have it both ways. He files motions and under the statute the time is tolled. He cannot file motions and then cry that he is not having a speedy trial.

Thereafter, the trial proceeded and resulted in Hendrickson's conviction.

#### III. SENTENCING

At the sentencing hearing on June 26, 1992, defense counsel objected to the presentence report's proposed finding that Hendrickson conspired to distribute between 50 and 60 kilograms of heroin and the report's corresponding recommendation that Hendrickson be sentenced to life imprisonment. Defense counsel emphasized that Hendrickson had contended consistently throughout the trial that he had lied to York about his ability to carry out the scheme to import 50-60 kilograms of heroin from Nigeria. Defense counsel further noted that during the course of the twenty-two month investigation, Hendrickson had only supplied York with a total of 77 grams of heroin, and after the initial conversations about the Nigerian plan, it was York, not Hendrickson, who continued to express interest in the plan. Counsel further argued that the evidence clearly showed that Hendrickson repeatedly tried to avoid the subject, and ultimately admitted to York that his professed "connections" were not willing to engage in a transaction of the magnitude of the proposed Nigerian deal. Based on these facts, Hendrickson's counsel argued that the Government had failed to establish, as required by former Sentencing Guideline § 2D1.4 (1991), that Hendrickson had the intent and capability to produce 50-60 kilograms of heroin.

speedy trial motion, mentioned that he had received papers from Hendrickson concerning his motion for reconsideration. Judge Johnson also alluded to having received various other motions from Hendrickson. None of those motions or papers, except for the severance and speedy trial motions, were placed in the record before us

The Government countered that, under former Sentencing Guideline § 2D1.4, the defendant bore the burden of proving that he lacked intent to produce and was not reasonably capable of producing 50–60 kilograms of heroin. The Government maintained that Hendrickson's detailed discussions about the Nigerian plan, the high-level purity of the heroin he sold to York and his access to well-connected drug dealers, clearly demonstrated both his intent and capability to import 50–60 kilograms of heroin from Nigeria.

In determining the quantity of narcotics that established the defendant's base offense level, Judge Johnson focused on the initial conversations between Hendrickson and York, which, in Judge Johnson's view, evinced Hendrickson's "willing[ness] to purchase, lease or rent an airplane to travel from the United States to Nigeria to pick up heroin". Sentencing Hearing Transcript ("Tr.") at 22. Concluding that these conversations demonstrated Hendrickson's intent to produce 50–60 kilograms of heroin, Judge Johnson found that "the government has substantiated its claim that at least 50, 60 kilograms of heroin was the subject of the conspiracy". *Id.* Judge Johnson summarily dismissed Hendrickson's argument that he lacked the capability to produce these amounts, stating "I think he was capable of doing it." Tr. at 24. The district court set the base offense level at 38, and adjusted the offense level upwards eight points for a final offense level of 46. None of these adjustments are at issue in this appeal.

6. While this appeal was pending, the Sentencing Commission deleted Sentencing Guideline § 2D1.4 (1991), and transferred much of the Commentary, including the relevant portion of Application Note 1, to Application Note 12 of Sentencing Guideline § 2D1.1, which sets forth the base offense level for various substantive narcotics crimes. Amendment 447 to the United States Sentencing Guidelines, Guidelines Manual, Appendix C, 269–271 (effective November 1, 1992). The amendment also added the phrase "Attempt and Conspiracy" to the heading of Sentencing Guideline § 2D1.1. The accompanying commentary states that Amendment 447 was designed to consolidate substantive and inchoate drug offenses under one sentencing guideline. *Id.* at 271.

At oral argument we requested, and thereafter obtained, additional briefing from the parties as to whether Amendment 447 affected Hendrick-

#### IV. DISCUSSION

On appeal, Hendrickson contends: (1) that his sentence should be vacated because the district court erred in finding that he intended to import 50–60 kilograms of heroin from Nigeria, without ever considering his ability to produce such amounts; and (2) that his conviction should be reversed and the indictment dismissed because his Speedy Trial Act rights were violated. Though Hendrickson's Speedy Trial Act claims are groundless, we find some merit in his sentencing challenge, and for the reasons set forth below, vacate his sentence and remand for resentencing.

##### A. Calculating the Base Offense Level

The Sentencing Guidelines establish a sentencing regime which ties punishment for narcotics crimes to the quantity of drugs involved. Former Sentencing Guideline § 2D1.4, in effect at the time of Hendrickson's sentencing,<sup>6</sup> directed district courts to set the base offense level for a drug conspiracy conviction as if the conspiracy's goal had been realized. Specifically, former Sentencing Guideline § 2D1.4 provided:

**Base Offense Level:** If a defendant is convicted of a conspiracy or an attempt to commit any offense involving a controlled substance, the offense level shall be the same as if the object of the conspiracy or attempt had been completed.

Where the drug conspiracy involved "uncompleted distributions" of narcotics, Application

son's sentence. Both parties agree, albeit for different reasons, that this amendment should not change our decision in the present case. We agree. The amendment before us merely underscores our holding that the intent and capability inquiry set forth in Application Note 1 to former Sentencing Guideline § 2D1.4 is part and parcel of the base offense determination.

However, we reject the Government's argument that we could not consider Amendment 447 if it assisted our inquiry. This amendment merely "clarifies and simplifies the guideline provisions dealing with attempts and conspiracies," and our prior case law makes clear that we can consider, on appeal, amendments that do not substantially change the Guidelines used at sentencing. *United States v. Colon*, 961 F.2d 41, 45 (2d Cir.1992); *United States v. Perdomo*, 927 F.2d 111, 116–17 (2d Cir.1991).

Note 1 to former Sentencing Guideline § 2D1.4 explained that the "weight under negotiation" set the base offense level.

If the defendant is convicted of an offense involving negotiation to traffic in a controlled substance, the weight under negotiation in an uncompleted distribution shall be used to calculate the applicable amount.

However, in such cases, Application Note 1 also directed courts to exclude from the base offense calculation those drug amounts which the defendant neither intended to produce nor was reasonably capable of producing.

[W]here the court finds that the defendant did not intend to produce and was not reasonably capable of producing the negotiated amount, the court shall exclude from the calculation the amount that it finds the defendant did not intend and was not reasonably capable of producing.

[1] The Sentencing Commission amended Application Note 1 to include this third sentence in 1989. Amendment 136, United States Sentencing Guidelines Manual, Appendix C, 64 (effective Nov. 1, 1989) (hereinafter "Amendment 136"). This sentence replaced language in the original Application Note 1 which permitted downward departures from the offense level "[w]here the defendant was not reasonably capable of producing the negotiated amount." See Amendment 136. As the accompanying commentary to Amendment 136 explained, the purpose of the 1989 change was to insure that courts did not calculate the base offense level using amounts as to which the defendant was merely "puffing," i.e., amounts the defendant did not intend to produce. Amendment 136 ("[t]he purpose of this amendment is to provide a more direct procedure for calculating the offense level," than that provided by the downward departure mechanism, "where the court finds that the defendant did not intend to produce and was not reasonably capable of producing the negotiated amount").

The parties dispute whether the Government or the defendant bears the burden of proof in the intent and capability inquiry of Application Note 1. The Government contends that once it establishes the "negotiated amount" of narcotics, the defendant bears the burden of proving that he or she neither

intended to produce nor was capable of producing that amount. Noting the first Application Note's language of exclusion, the Government asserts that the intent and capability inquiry is tantamount to a downward departure mechanism for which the defendant bears the burden of proof. Hendrickson instead argues, without explanation, that the Government must prove his intent and capability to produce a disputed amount of narcotics.

We have never expressly addressed whether the Government or the defendant bears the burden in the first Application Note's intent and capability query. Other Circuits that have addressed the question are split. The Sixth and Ninth Circuit analogize the intent and capability inquiry to evaluating a mitigating factor since a finding of lack of intent and reasonable capability ultimately benefits the defendant. Thus, viewing the intent and capability inquiry as distinct from the "negotiated amount" determination, these Circuits have shifted the burden to the defendant to prove lack of intent and capability once the Government proves the negotiated amount. *United States v. Barnes*, 993 F.2d 680, 683 (9th Cir.1993); *United States v. Christian*, 942 F.2d 363, 368 (6th Cir.1991), *cert. denied*, — U.S. —, 112 S.Ct. 905, 116 L.Ed.2d 806 (1992); *United States v. Rodriguez*, 896 F.2d 1031, 1033 (6th Cir.1990).

In contrast, the First and Seventh Circuits, apparently viewing the inquiry as the means by which the negotiated amount is established, have required that the Government prove the defendant's intent and ability to produce specified amounts of narcotics. See *United States v. Legarda*, 17 F.3d 496, 500 (1st Cir.1994) (Government must show "both intent and ability to deliver in order to allow the inclusion of negotiated amounts to be delivered at a future time"); *United States v. Ruiz*, 932 F.2d 1174, 1183–84 (7th Cir.1991) ("Government bears burden of proving amount under negotiation, and contested amount could not be under negotiation if defendant lacked the intent to produce such amount"), *cert. denied*, — U.S. —, 112 S.Ct. 151, 116 L.Ed.2d 116 (1991).

We believe that the Seventh Circuit's view on this issue, as expressed in *Ruiz*, is more consistent with the purpose and language of former Sentencing Guideline § 2D1.4.

As our past decisions have recognized, the Government bears the burden of proving the amount of drugs involved in narcotics transactions, see *United States v. Colon*, 961 F.2d 41, 43 (2d Cir.1992), and for drug conspiracies, former Sentencing Guideline § 2D1.4 made clear that this translated into proving the amount of drugs that was the conspiracy's "object." The first Application Note to Sentencing Guideline § 2D1.4 explains that where uncompleted transactions are at issue, the conspiracy's "object" is the amount of drugs "negotiated." Yet, since the focus of former Sentencing Guideline § 2D1.4 is the unlawful agreement to produce narcotics, the conspiracy's "object," and thus, the "negotiated amount" in these cases, must be the amount of narcotics the conspirators agreed to produce. This critical agreement can not exist without a "meeting of the minds" of at least some of the co-conspirators to produce a specified amount of narcotics for a given price.

[2] Proving the intent of at least two co-conspirators to produce a certain amount of narcotics is essential to proving a conspiratorial agreement as to that amount. Thus, where the Government asserts that the defendant personally "negotiated" to produce contested quantities—and not that the defendant is merely secondarily liable for an agreed upon amount as a participant in an alleged conspiracy—the Government bears the burden of proving that the defendant intended to produce such an amount. In such cases, the defendant's "ability" and that of his co-conspirators to produce a particular amount play an important, though not dispositive, role in establishing the defendant's intent to produce this amount, and thereby, the conspiratorial agreement as to such amount.

Obscuring the centrality of the conspiratorial agreement in the Sentencing Guideline § 2D1.4 base offense determination, the language and form of the first Application Note's intent and capability inquiry has prompted mistaken analyses of the Govern-

ment's burden of proof at the base offense stage. As the conflicting decisions of other circuits and of different panels of this circuit amply illustrate, see Section A(1)(b) *infra*, courts enmeshed in the wording and structure of the first Application Note's third sentence often have turned the base offense determination on its head, by suggesting (1) that the defendant's intent and capability decrease the base offense rather than define it, despite the Government's claim that a defendant personally agreed with others to produce a particular amount; and (2) that a defendant's ability to produce a certain amount, regardless of his or her intent to do so, is a proper basis for punishment.

Accordingly, for the reasons discussed below, we structure our base-offense analysis in cases governed by former Sentencing Guideline § 2D1.4 in accordance with that Guideline's language and purpose, rather than the literal language of its Application Note 1. The conspiratorial agreement to produce a particular quantity of narcotics should be informed by all of the circumstances of the case, notably the conspirators' intent to produce such amounts. Thus, where the Government asserts that a defendant negotiated to produce a contested amount, we hold that the Government bears the burden of proving the defendant's intent to produce such an amount, a task necessarily informed, although not determined, by the defendant's ability to produce the amount alleged to have been agreed upon.

#### 1. Burden of Proof

[3] We begin our burden of proof analysis with the well-established rule that at sentencing for drug-related offenses, the Government bears the burden of proving the amount of narcotics involved, since it is this amount that establishes the base offense level. *Colon*, 961 F.2d at 43 (Government must prove quantity of drugs involved by a preponderance of the evidence). See also *United States v. Smiley*, 997 F.2d 475, 481 (8th Cir.1993) ("government bears the burden of proof by a preponderance of the evidence the quantity of the drug involved"); *Barnes*, 993 F.2d at 683 ("government bears the burden of proving the amount under negotiation").

#### a. Former Sentencing Guideline § 2D1.4

[4] In drug conspiracies, the conspirators' agreement to produce narcotics, not the actual possession, sale or delivery of the drugs, is the essence of the crime. *United States v. Labat*, 905 F.2d 18, 21 (2d Cir.1990) ("the essence of conspiracy is the agreement and not the commission of the substantive offense that is its objective"); *United States v. Tejada*, 956 F.2d 1256, 1264 (2d Cir.) ("agreement defines the conspiracy"), cert. denied, — U.S. —, 113 S.Ct. 124, 121 L.Ed.2d 80 (1992); see *United States v. Rubin*, 844 F.2d 979, 983 (2d Cir.1988) ("The fundamental element of a conspiracy is unlawful agreement").

Former Sentencing Guideline § 2D1.4, "displaying a clear resolve to punish the [conspiratorial] agreement," commands that the object of the conspiracy set the base offense level. *Tejada*, 956 F.2d at 1264. Since the agreement defines the conspiracy, it follows that the conspiracy's "object" must be the amount of narcotics the conspirators agreed to produce. Clearly, a conspiratorial agreement to produce a specific type and quantity of narcotics can be formed without the assent or participation of every member of the conspiracy. Indeed, the Sentencing Guidelines, in defining "relevant conduct," provide that a defendant will not be liable for drug quantities that co-conspirators agreed to produce which were not reasonably foreseeable in the criminal activity the defendant agreed to undertake and as to which the defendant lacked knowledge. Sentencing Guideline § 1B1.3, Application Note 2 (1993) ("[t]he conduct of others that was not in furtherance of the criminal activity jointly undertaken by the defendant, or was not reasonably foreseeable in connection with that criminal activity, is not relevant conduct"); *United States v. Negron*, 967 F.2d 68, 72 (2d Cir.1992) (defendant not liable for drug quantities which were not reasonably foreseeable in connection with the criminal activity the defendant agreed to undertake); *United States v. Cardenas*, 917 F.2d 683, 686-87 (2d Cir.1990) (same).

(5-7) However, it is axiomatic that no conspiratorial agreement exists unless at least two culpable co-conspirators agree, and consequently, the defendant's agreement

must be with someone other than a government agent or informant. *Montgomery v. United States*, 853 F.2d 83, 85 (2d Cir.1988). Moreover, to establish a conspiratorial agreement, the Government must demonstrate that the conspirators possessed "at least the degree of criminal intent necessary for the substantive offense itself." *Ingram v. United States*, 360 U.S. 672, 678, 79 S.Ct. 1314, 1319, 3 L.Ed.2d 1503 (1959) (citation omitted); *United States v. Fletcher*, 928 F.2d 495, 501-02 (2d Cir.), cert. denied, — U.S. —, 112 S.Ct. 67, 116 L.Ed.2d 41 (1991); *United States v. Gurary*, 860 F.2d 521, 525 (2d Cir. 1988). More specifically, proof of a conspiratorial agreement requires evidence, which may be circumstantial, that the conspirators intended to agree to commit an unlawful act. Cf. *United States v. Tyler*, 768 F.2d 66, 70-71 (2d Cir.1985) (conspiratorial agreement requires more than the "community of unlawful intent" required for aiding and abetting liability) (quoting *United States v. Bright*, 630 F.2d 804, 813 (5th Cir.1980)) (citations omitted). Here, the conspirators were charged with and convicted of conspiracy only to distribute and possess with intent to distribute "an amount in excess of one kilogram" of heroin.

[8] Consequently, to satisfy its burden of proving a conspiratorial agreement as to a greater quantity of narcotics, the Government was required to prove that the conspirators intended to produce, i.e., agreed to produce, such amounts. Where the Government asserts that a defendant directly participated in the conspiratorial agreement to produce a specified amount and type of narcotics, the Government must prove that such defendant intended to produce that amount. The Government bears the burden of proving the defendant's intent to produce such amounts because it is this intent, along with the intent of culpable co-conspirators, that defines the conspiratorial agreement which former Sentencing Guideline § 2D1.4 seeks to punish.

[9] We emphasize, however, that this situation is radically different from that posed when the defendant does not challenge the charged amount of narcotics, but instead as-

serts that such amount should not be attributable to him or her as relevant conduct pursuant to Sentencing Guideline § 1B1.3. There, the Government has already met its burden of proving the conspiratorial agreement to produce a specified quantity of drugs; the only question is whether a particular defendant should be held responsible for this specific agreement, despite his or her lack of involvement in its formation. We have held that in relevant conduct cases, the defendant must prove his or her lack of knowledge and lack of foreseeability of the quantities agreed upon by other co-conspirators. *United States v. Negron*, 967 F.2d 68, 72 (2d Cir.1992) ("when a defendant asserts that he is not responsible for the entire range of misconduct attributable to the conspiracy of which he was a member, the Sentencing Guidelines place on him the burden of establishing the lack of knowledge and lack of foreseeability"). The defendant properly bears the burden of proving these elements, because at the relevant conduct stage, the Government has already satisfied its burden of proving (1) that the defendant participated in the conspiracy and (2) that culpable co-conspirators agreed to produce the contested amount of narcotics.

By contrast, where the conspiratorial agreement to produce particular drug quantities is itself at issue, the conspirators' agreement, hence intent, to produce a particular amount is integral to the Sentencing Guideline § 2D1.4 base offense determination. The task of discerning this agreement is clearly informed by the conspirators' ability to produce such an amount, since former Sentencing Guideline § 2D1.4 seeks to punish unlawful agreements, not merely wishful thinking or exploratory discussions. Thus, where the Government asserts that a defendant was directly involved in the agreement to produce specified quantities of narcotics, the critical inquiry in the base offense determination is whether that defendant *agreed*, i.e., *intended*, to produce the contested amount.

The language of the third sentence of Application Note 1 obfuscates this rather straightforward point. By confusing the role of "intent" and "capability" in defining the

base offense level, the wording and structure of this sentence has fostered misguided analyses of the base offense determination.

#### b. Application Note 1

Application Note 1 was designed to interpret and implement former Sentencing Guideline § 2D1.4. See *Stinson v. United States*, — U.S. —, —, 113 S.Ct. 1913, 1919, 123 L.Ed.2d 598 (1993) (commentary to Sentencing Guidelines "is akin to an agency's interpretation of its own legislative rules"). Though the focus of former Sentencing Guideline 2D1.4 is the conspirators' agreement, Application Note 1 does not employ the term "agreement" or any derivation thereof. Instead, for uncompleted drug transactions, the first Application Note's second sentence directs courts to use "the weight under negotiation" in calculating the base offense level.

[10] "When a word is not defined by statute, we normally construe it in accord with its ordinary or natural meaning." *Smith v. United States*, — U.S. —, —, 113 S.Ct. 2050, 2054, 124 L.Ed.2d 138 (1993). Webster's Dictionary defines "negotiate" as "to meet with another so as to arrive through discussion at some kind of agreement or compromise about something." *Webster's Third New International Dictionary of English Language* 1324 (1986). Black's Law Dictionary states that to "negotiate" is "[t]o transact business; to bargain with another respecting a transaction; to conduct communications or conferences with a view to reaching a settlement or agreement." *Black's Law Dictionary* 1541 (6th ed.1990).

However, the term "negotiation" under both these definitions would encompass discussions tentative in nature as well as those that have achieved a greater degree of finality. "Language, of course, can not be interpreted apart from context." *Smith*, — U.S. at —, 113 S.Ct. at 2054. Thus, as used in Application Note 1, "negotiation" must describe dealings closer to the agreement end of the spectrum, since the conspiracy's "object" can only be the amount of narcotics the conspirators *agreed* to produce, not that which was merely discussed. The conspirators' intent, and the factors which bear upon

this intent, notably the conspirators' ability to produce specified amounts, is thus inherent in the "weight under negotiation" concept. As we noted above, where the Government asserts that a particular defendant "negotiated" a specified quantity of drugs, the amount of drugs that defendant *intended* to produce informs the conspiratorial agreement as to amount, and consequently, the "weight under negotiation".

The language and structure of Application Note 1, however, confuses the integral role of this agreement in determining the "weight under negotiation," and thereby the base offense level. Application Note 1 provides that "where the court finds that the defendant did not intend to produce and was not reasonably capable of producing the negotiated amount, it shall exclude from the Sentencing Guideline calculation the amount that it finds the defendant did not intend to produce and was not reasonably capable of producing." Former Sentencing Guideline § 2D1.4, Application Note 1 (1991). Since exclusion implies diminution, and the term "negotiation" encompasses a wide range of activities, the first Application Note's third sentence suggests that the "negotiated amount" could be an amount greater than that which the defendant intended to produce. Thus, courts could conclude that the amount of drugs the defendant intended to produce is distinct from, rather than the essence of, the "negotiated amount" or base offense.

This apparently is precisely the conclusion reached by the Sixth and Ninth Circuits as evidenced by their analogy of intent and capability to mitigating factors. In *Barnes*, the Ninth Circuit reasoned that the exclusionary language "indicate[d] that the baseline is the inclusion of the *entire negotiated amount*; it is only when the district court affirmatively makes the finding that the offense level is lowered." *Barnes*, 993 F.2d at 684 (emphasis added). Since the intent and capability inquiry could potentially "lower[] the offense level," the *Barnes* court deemed that intent and capability "combined ...

[were] more properly characterized as a mitigating factor for which the defendant bore[] the burden." *Id.* at 683-84. The Sixth Circuit seems to be in accord with this reasoning. See *Rodriguez*, 896 F.2d at 1033 (defendant bears the burden of proving intent and capability, since like mitigating factors, they have the effect of decreasing the defendant's sentence). However, since former Sentencing Guideline § 2D1.4 mandates that the "object of the conspiracy" determines the base offense level, the "baseline" can only be the amount of drugs the conspirators *agreed* to produce. Thus, the analogy to mitigating factors must fail, since the conspirators' intent to produce specified drug quantities, informed by their ability to do so, does not *lower* the base offense: it defines the base offense level.<sup>7</sup>

The conjunctive wording of the first Application Note's "intent and capability" standard has further confused the Sentencing Guideline § 2D1.4 base offense determination. By suggesting that intent and capability are independent co-equal factors, this language has led courts, including courts in this Circuit, to suggest that sentencing on the basis of amounts the defendant *never intended* to produce is required where the defendant had the ability to produce such amounts. For example, in our recent decision in *United States v. Howard*, 998 F.2d 42, 50-51 (2d Cir.1993), we interpreted the first Application Note's intent and capability inquiry as requiring a finding of *both* lack of intent and lack of ability before a contested amount could be excluded from the guideline calculation. *Id.* ("given quantity of narcotics will not be charged to a defendant if the defendant *both* was not reasonably capable of producing *and* did not intend to produce the amount of narcotics at issue") (emphasis added). The logical converse of this proposition is that contested amounts must be included where one of these elements—intent or capability—exists. Since the *Howard* court was faced with a lack of ability challenge, the

7. Indeed, this rationale harkens back to the downward departure system the Sentencing Commission abandoned when it amended Application Note 1 in 1989 to require courts to follow the "more direct procedure" of excluding drug

amounts that the defendant neither intended to produce nor was reasonably capable of producing when calculating the base offense level. Former Sentencing Guideline § 2D1.4 (1989)

court did not address the implications for sentencing when the missing element is the defendant's intent to produce the contested amount. See also *United States v. Brooks*, 957 F.2d 1138 (4th Cir.1992) (Application Note requires a showing of both lack of intent and lack of reasonable capability before a contested amount will be excluded from the guideline calculation), *cert. denied*, — U.S. —, 112 S.Ct. 3051, 120 L.Ed.2d 917 (1992); *Barnes*, 993 F.2d at 682 n. 1 (language of Application Note is conjunctive, not disjunctive, and "[t]hus, the district court would have to find both lack of intent and lack of capability before excluding the amount") (emphasis in original). Thus, the first Application Note's literal language implies that mere opportunity, regardless of intent, is a sufficient and appropriate basis for punishment. This interpretation, however, is at odds with the language and purpose of Sentencing Guideline § 2D1.4, whose focus is the conspiracy's object or agreement, not its mere potential.

Not surprisingly, several courts, including courts in this Circuit on at least two occasions, have read the "intent and capability" standard disjunctively. See, e.g., *United States v. Stevens*, 985 F.2d 1175, 1183 (2d Cir.1993) (though citing conjunctive language, panel remanded with instructions to the district court to exclude amount defendant was not reasonably capable of producing in sentencing); *Tejada*, 956 F.2d at 1264 (amount excluded where "the defendant did not intend or was not reasonably capable of supplying the agreed upon amount") (emphasis added); *United States v. Molina*, 934 F.2d 1440, 1451 (9th Cir.1991) ("negotiated amount" not charged to a defendant who "did not intend to produce, or who was not reasonably capable of producing" such amount) (emphasis added); *Ruiz*, 932 F.2d at 1183-84 (amount included if defendant "intended to produce and was 'reasonably capable of producing'" quantity of drugs).<sup>8</sup>

[11] Though designed to remedy the problems posed by "puffing," the first Application Note's third sentence has thus en-

meshed the base offense determination in quandaries of form to the exclusion of substance. Extrapolating from basic statutory construction principles, this court may, and indeed, must, look beyond the first Application Note's literal terms where "slavish adherence" to such language would subvert the purpose of the very Sentencing Guideline it seeks to explicate. See *Grand Light & Supply Co. v. Honeywell, Inc.*, 771 F.2d 672, 677 (2d Cir.1985) ("[w]here the result of a literal interpretation of statutory language is absurd, or where the obvious purpose of the statute is thwarted by slavish adherence to its terms, we may look beyond the plain language") (citation omitted); *Bob Jones Univ. v. United States*, 461 U.S. 574, 586, 103 S.Ct. 2017, 2025, 76 L.Ed.2d 157 (1983) ("[i]t is a well-established canon of statutory construction that a court should go beyond the literal language of a statute if reliance on that language would defeat the plain purpose of the statute"); *Viacom Int'l, Inc. v. FCC*, 672 F.2d 1034, 1039 (2d Cir.1982) ("the surest way to misinterpret a statute or a rule is to follow its literal language without reference to its purpose"). See also *Kelly v. Wauconda Park Dist.*, 801 F.2d 269, 270 n. 1 (7th Cir.1986), *cert. denied*, 480 U.S. 940, 107 S.Ct. 1592, 94 L.Ed.2d 781 (1987) (courts must not "rely too heavily on characterizations such as 'disjunctive' form versus 'conjunctive' form to resolve difficult issues of statutory construction," but instead must "look at all parts of the statute").

By requiring punishment regardless of the defendant's intent to produce contested amounts, the literal language of Application Note 1 obfuscates the purpose of former Sentencing Guideline § 2D1.4—punishing the object of the conspiracy. To the extent this language suggests that setting the base offense level is a task distinct from determining the intent of the defendant who supposedly negotiated the agreement, it undermines this purpose.

Therefore, despite our suggestion to the contrary in *Howard*, we do not, at least in a conspiracy case, require sentencing courts to

<sup>8</sup> At least one court, though expressly refusing to decide the burden of proof issue, has examined, we believe correctly, whether the evidence dem-

onstrate an agreement to produce the amount at issue. *United States v. Smiley*, 997 F.2d 475, 481 (8th Cir.1993).

exclude from consideration only those drug amounts which the defendant neither intended to produce nor was reasonably capable of producing. Instead, we shift the Sentencing Guideline § 2D1.4 analysis back to its proper focus—the "object of the conspiracy." In other words, courts must consider the amount of drugs the conspirators agreed to produce. Because this amount defines the base offense level, we hold that the Government bears the burden of proving the defendant's intent to produce the contested quantity of narcotics under former Sentencing Guideline § 2D1.4. As noted previously, where the Government relies upon the agreement of other co-conspirators to establish the base offense level, then the inquiry shifts to the relevant conduct inquiry of Sentencing Guideline § 1B1.3.

## 2. Proving the Object of the Conspiracy

As stated above, the defendant's ability, which includes that of his co-conspirators, to produce specific amounts of narcotics, is highly relevant in determining whether the conspirators agreed to produce these amounts. Providing substance to wishes, ability often transforms the desire to produce narcotics into intent sufficient to form an agreement to do so; indeed, ability operates much like the overt act required for conspiracies other than drug conspiracies, in that it provides additional proof that an agreement existed.<sup>9</sup> See *United States v. Brown*, 985 F.2d 766, 768 (5th Cir.1993) (defendants were "reasonably capable" of producing contested amounts since their negotiations to obtain drugs and repeated attempts to arrange financing alternatives demonstrated they clearly "intended to possess the marijuana"); *United States v. Fowler*, 990 F.2d 1005, 1006 (7th Cir.1993) (defendant's past drug deals and financing scheme for purchasing contested amount demonstrated that his "claims

<sup>9</sup> See 21 U.S.C. § 846 (1990); *United States v. Bermudez*, 526 F.2d 89 (2d Cir.1975) (overt act not required for drug conspiracy convictions),

about his ability to buy the marijuana amount[ed] to more than idle boasts"). However, where ability is lacking, talk about selling or supplying narcotics often remains just that—talk. For this reason, where neither the defendant nor the defendant's co-conspirators had a plan for acquiring, the means of obtaining, or access to disputed quantities of drugs, it is hard to imagine that the conspirators actually agreed to produce these amounts.

[12] Thus, an assessment of the reasons why the conspiracy never yielded the contested amounts is highly relevant to a court's analysis of whether the conspirators agreed to produce such amounts. We emphasize, however, that inability due to frustrated efforts, factual impossibilities or unforeseen circumstances does not defeat the inference of an agreement to produce contested amounts of narcotics. As our prior decisions addressing "reasonable capability" sentencing challenges demonstrate, the failure to produce is relevant only to the extent it suggests an absence of intent or agreement. For example, in *Howard*, we rejected the defendant's argument that he was not "reasonably capable" of producing the three kilograms of cocaine he planned to steal, because there was no cocaine in the apartment he broke into. That it was factually impossible to produce the drugs was irrelevant; the "reasonable capability" analysis "looks to whether a defendant would have been able to consummate a narcotics transaction if the facts were as he believed them to be." 998 F.2d at 51. The defendant's plans to steal the drugs left the realm of wishful thinking when he "obtained a key and the tools necessary to carry [them] out." *Id.* Thus, the absence of the drugs, not the lack of intent or an agreement among the co-conspirators, precluded the defendant from realizing his plan. *Id.* See also *United States v. Beaullieu*, 959 F.2d 375, 379 (2d Cir.1992) (inability to produce drugs at the requested time did not vitiate the defendant's intent to produce the narcotics); *United States v. Pimentel*, 932 F.2d 1029, 1031 (2d Cir.1991) (defen-

*cert. denied*, 425 U.S. 970, 96 S.Ct. 2166, 45 L.Ed.2d 793 (1976).

dants' arrest, not their lack of intent, precluded them from producing the contested amounts).

While important, a defendant's ability to produce specified quantities is not dispositive of the issue of his or her agreement to produce such amounts; as we noted earlier, former Sentencing Guideline § 2D1.4 was not designed to punish mere opportunity. Therefore, the defendant's ability to produce contested amounts is irrelevant in the absence of evidence that the defendant agreed with a liable co-conspirator (i.e. not a government agent) to draw upon this ability to further the purported transactions. Cf. *United States v. Foley*, 906 F.2d 1261, 1264 (8th Cir.1990) ("without some evidence of knowing participation" in purported transaction defendant's mere mention of price of two ounces of cocaine insufficient to establish that defendant agreed to supply that amount despite her access to such amounts); *Beaulieu*, 959 F.2d at 379 (defendant's intent demonstrated by his relationship with a supplier and efforts to obtain the contested amounts from this source).

[13] In addition, in discerning the conspiracy's object, the court must examine the defendant's conduct and statements, as well as that of his co-conspirators, throughout the course of the conspiracy, and not limit the analysis to preliminary discussions. See *United States v. Moon*, 926 F.2d 204, 209-10 (2d Cir.1991) (sentence based on two kilograms of cocaine vacated despite the defendant's "early conversations" about the price and availability of such amount where the bulk of defendant's actions and statements revealed an intent to produce one kilogram). Hence, courts must consider all discussions concerning the narcotics transaction, and de-

termine whether such conversations were sufficiently specific as to price, delivery, financing, and other logistics to suggest a firm agreement to produce specific amounts, as opposed to mere exploratory discussions about such quantities. See *Ruiz*, 932 F.2d at 1184 (defendant's single comment, "even ten more I can get," was "hardly the negotiation of a specific drug transaction"). However, sentencing courts must not simply end the analysis at the discussion stage, but must further examine whether the defendant and his co-conspirators took any action toward producing the contested amounts, such as seeking financing, making arrangements for delivering the drugs, or contacting suppliers to procure such narcotics. See *Pimentel*, 932 F.2d at 1031; *Fowler*, 990 F.2d at 1007.<sup>10</sup>

In short, in determining whether the Government has met its burden, the sentencing court must consider all factors which inform the conspiratorial agreement to produce a specific amount, and evaluate whether a preponderance of reliable evidence demonstrates that the defendant and a culpable co-conspirator intended, to produce such an amount. See Sentencing Guideline § 6A1.3 (1993) (finding of fact at sentencing hearing must be based on reliable evidence).

### 3. The District Court's Findings

[14] We review a district court's factual finding regarding the quantity of drugs involved for clear error. *United States v. Howard*, 998 F.2d 42, 51 (2d Cir.1993); *United States v. Olvera*, 954 F.2d 788, 791 (2d Cir.), cert. denied, — U.S. —, 112 S.Ct. 3011, 120 L.Ed.2d 885 (1992); see also 18 U.S.C. § 3742(e) (1993 Supp.) (reviewing court must "accept the findings of fact of the

tenor and substance of the very negotiations at issue suggest a lack of intent and an inability to produce the contested amount of narcotics, the district court may not predicate sentencing on isolated, passing or preliminary discussions; but must examine the negotiations, and the parties' course of conduct, in their entirety. Contrary to the dissent's view, this imposes no additional or heightened burden on district courts; indeed, it is, and has always been, the essence of the court's obligation at the sentencing stage to ensure that amount which determined the base offense level be established by a preponderance of the evidence.

district court unless they are clearly erroneous"; *United States v. Castagnet*, 936 F.2d 57, 59 (2d Cir.1991) (a district court's application of the Sentencing Guidelines to findings of fact is reviewable under clearly erroneous standard). Only when we are left with "the definite and firm conviction that a mistake has been committed," will we disturb a trial judge's findings of fact. *United States v. United States Gypsum Co.*, 333 U.S. 364, 395, 68 S.Ct. 525, 542, 92 L.Ed. 746 (1948).

[15] However, despite our narrow scope of review, we require sentencing courts to make clear and specific findings regarding the amount of narcotics involved in a drug conspiracy, adequately stating the reasons for their conclusions. *United States v. Maturu*, 982 F.2d 57 (2d Cir.1992) (remanding case for additional sentencing proceedings where district court failed to make "specific affirmative factual findings" regarding the amount of narcotics involved), cert. denied, — U.S. —, 113 S.Ct. 2982, 125 L.Ed.2d 679 (1993); see also *United States v. Jacobo*, 934 F.2d 411, 416 (2d Cir.1991) (sentencing court required to make its own factual determinations as to quantity of drugs involved); *United States v. Palta*, 880 F.2d 636, 641 (2d Cir.1989) (sentencing court "shall clearly state its resolution of any disputed factors predicated upon its findings"); 18 U.S.C. § 3553(c)(1) (1988 & Supp.1993) (court shall state the reasons for its imposition of a particular sentence).

[16] Here, the district court based its finding that Hendrickson agreed with co-conspirators to produce 50 or 60 kilograms of heroin on Hendrickson's initial conversations with York regarding his proposed importation scheme. Specifically, Judge Johnson stated:

I also heard the conversations concerning 50, 60 kilograms of heroin.

I also heard conversations between the defendant and the informant where the

11. At sentencing, the parties did not dispute that Hendrickson sold York a total of 77 grams of heroin. The disagreement centered on whether 50-60 kilograms of heroin was the amount the conspirators agreed to produce. Both defense counsel and the Assistant United States Attorney, without explaining the basis for their calculation,

defendant was willing to purchase, lease or rent an airplane to travel from the United States to Nigeria to pick up heroin, and I take that—you are not going to rent an airplane to travel that length to purchase three ounces or one kilo, and that lends some credence to the conversation that it was the intent of the defendant to bring in 50, 60 or maybe even more kilos. So I think as a finding of fact that the government has substantiated its claim that at least 50, 60 kilograms of heroin was the subject of the conspiracy.

Tr., at 22. The district court summarily dismissed Hendrickson's argument that he lacked the ability to import these amounts,<sup>11</sup> simply remarking, "I think that he was capable of doing it." Tr. at 24.

The district court never addressed Hendrickson's repeated statements throughout his conversations with York that his Nigerian contacts had not dealt with him before on a project as large as his proposed Nigerian importation deal. Nor did the district court mention Hendrickson's later admissions during the course of the undercover investigation that his contacts were satisfied with their mules and not interested in his Nigerian importation plan. Thus, the district court never articulated how it reached the conclusion that Hendrickson had agreed with someone other than York, a government informant, to produce the 50-60 kilograms that it deemed to be the object of the conspiracy.

[17] We recognize that the trial judge is in the best position to evaluate the credibility of the witnesses and the evidence presented, and that appellate courts should not lightly disturb such evaluations. *United States v. Beverly*, 5 F.3d 633 (2d Cir.1993); see *United States v. Maldonado-Rivera*, 922 F.2d 934, 973 (2d Cir.1990). Here, however, the totality of the evidence strongly suggests that Hendrickson was a drug dealer who may have dreamed of importing millions of dollars worth of heroin from Nigeria, but certainly

acknowledged at sentencing that at least one to three kilograms of heroin was the minimum amount Hendrickson intended to produce. We take no position on what the parties might argue, or what the district court might conclude, at resentencing concerning what the conspirators agreed to produce.

10. The dissent argues that "evidence of a negotiated quantity is prima facie evidence of intent and capability." However, it is not just any evidence, but rather a preponderance of the evidence—to be demonstrated by the Government—that must support a proffered negotiated amount. Without question, in most cases, "negotiations [will be] reliable admissions as to a [defendant's] intentions with regard to quantities intended to flow from the conspiracy," and evidence of such negotiations will often outweigh any post-conviction claims that the defendant lacked either the intent or the ability to produce the contested amount. However, where as here, the thrust,

neither intended nor agreed with anyone other than York to do so.<sup>12</sup>

To be sure, Hendrickson knew drug dealers, among them Balogun and Uchannaya, who may have had access to large quantities of heroin; however, there is no indication that they or any other Nigerian dealers were more than "receptive" to Hendrickson's proposed scheme. During his initial conversations with York, Hendrickson made clear the tentative nature of his Nigerian project, telling York that he needed to devise a concrete, well-researched plan before he could convince his Nigerian contacts to agree to the plan. Apparently, given Hendrickson's repeated statements that the Nigerian contacts believed him a small-time dealer and deemed his proposed importation idea unworthy of consideration, they were never convinced.<sup>13</sup>

Tellingly, after the two initial conversations about the Nigeria plan, it was York, not the defendant, who inquired about and continually expressed a desire to proceed with the purported Nigerian deal. During the remaining 18 months of the investigation, Hendrickson directed his efforts towards securing small quantities of heroin to sell to York, and developing his heroin operations in Bermuda.

12. Although Hendrickson's brother Mark was present at Hendrickson's first meeting with York, and at one point during the meeting asked York if he was going to be their "pilot," there is no evidence that Mark was involved in any subsequent discussions about the proposed Nigerian importation scheme or took any action in furtherance of the scheme.

Aside from Mark, the evidence reveals only two other co-conspirators, Balogun and Uchannaya, who were even aware of Hendrickson's Nigerian importation scheme. Uchannaya discussed the Nigerian importation idea with Hendrickson and York on August 10, 1989, and expressed his desire for alternate means of importing heroin from Nigeria, but nothing in the record suggests that he ever agreed to Hendrickson's plan. As for Balogun, there is no evidence that he ever expressed interest in Hendrickson's plan. In fact, the evidence reveals that York's attempt apparently to spark Balogun's interest in the plan made Balogun extremely nervous, and according to Hendrickson, frustrated his efforts to arrange "something big."

As for Hendrickson's other potential co-conspirators, the only drug deals or projects as to which there is any evidence of their involvement are Hendrickson's sales of heroin to York, his

Indeed, the fact that Hendrickson was able to produce, with great difficulty, only 77 grams of heroin over the course of almost two years makes his alleged conspiratorial agreement with someone besides York to supply 50 or 60 kilograms of heroin doubtful, at best. Notwithstanding the meager amount of heroin Hendrickson actually produced, the Government, citing our decision in *United States v. Olvera*, 954 F.2d 788, 792 (2d Cir.1992), argues that the high purity of these drugs implies the existence of a conspiratorial agreement to produce large quantities of narcotics. As an initial matter, the origin of the drug samples Hendrickson produced to York is unclear; the record before us does not indicate whether the samples were obtained from Hendrickson's Nigerian sources or his Bermuda operations. More importantly, unlike the defendants in *Olvera*, Hendrickson disclaimed the existence of an agreement to produce 50 or 60 kilograms of heroin during the undercover investigation, not just after his arrest. Where, post arrest, a defendant denies that he or she agreed to produce a particular amount of narcotics, high purity drugs actually produced by the defendant or seized from him or her may provide strong evidence that an agreement to produce larger amounts existed. See *id.*

Bermuda operations and his proposed Bermuda distribution network. The evidence reveals that Catalano, and perhaps, Mark, were involved in Hendrickson's Bermuda activities and projects. Yet, it is not clear from the sentencing court's findings who, other than York, had agreed with Hendrickson to pursue the Nigerian importation idea.

Clearly, a conspiratorial agreement to produce narcotics can be formed between any two participants in a drug operation, be they suppliers, distributors or manufacturers. To base Hendrickson's sentence on 50-60 kilograms of heroin, the sentencing court must find an agreement to produce such amount between Hendrickson and at least one other culpable co-conspirator. The district court's findings, however, are silent as to who, other than York, Hendrickson conspired with to produce 50-60 kilograms of heroin.

13. Nor apparently was Uchannaya, who once expressed interest in Hendrickson's Nigerian plan. After York failed to complete a small drug transaction with Uchannaya, Hendrickson told York that York's inability to go through with the transaction had severely strained Hendrickson's credibility with Uchannaya.

(high purity of narcotics seized supported sentencing court's finding that the defendants agreed to distribute 5 kilograms of cocaine for it "showed that they were not low-level traffickers"). However, standing alone, high purity drugs or access to suppliers do not provide sufficient grounds to infer the existence of a conspiratorial agreement to supply specified quantities of narcotics where, as here, during the course of an undercover investigation, the defendant admits that such an agreement never existed. While there may be other evidence suggesting the existence of a conspiratorial agreement to produce 50 or 60 kilograms of heroin, the evidence in the limited record before us does not support that conclusion.<sup>14</sup>

Consequently, on the record before us, Hendrickson's argument is compelling that his initial discussions with York about importing 50-60 kilograms of heroin from Nigeria, without more, do not establish a conspiratorial agreement between Hendrickson and a culpable co-conspirator to import such amounts. The district court noted Hendrickson's initial conversations with York, but failed to explain how Hendrickson's desire to import huge quantities of heroin from Nigeria as expressed in these discussions translated into an agreement with others beside York to do so. Nevertheless, on the basis of extremely sparse findings, the district court calculated the base offense level using amounts that had the effect of increasing the defendant's sentence to life imprisonment.

We can not countenance a life sentence in this case or any other without more extensive and detailed factual findings by the sentencing court. A sentencing court must be more searching in its inquiry, and more specific in its findings than the district court was here; at the very least, a district court should exercise care in addressing the arguments raised by the defendant at sentencing. Cf. *United States v. Concepcion*, 983 F.2d 369, 390 (2d Cir.1992) (recognizing that other courts have required clear and convincing evidence to support extraordinary sentencing enhancements, although noting that the Sec-

ond Circuit appears to have accepted a preponderance of the evidence standard). To justify its sentence of life imprisonment, the district court must clearly articulate its reasons as to why exploratory discussions about a plan that never materialized, in the face of Hendrickson repeated disavowals of an agreement during the course of the conspiracy, demonstrate a conspiratorial agreement to import 50-60 kilograms of heroin.

We, therefore, remand for re-sentencing on two grounds. First, we believe that the district court may have, on the basis of the Government's argument that the defendant bore the burden of proving lack of intent and capability, improperly assigned to the defendant the burden of disproving the object of the conspiracy, in other words, the conspiratorial agreement to produce 50-60 kilograms of heroin. Second, we find that the district court's failure to "clearly state its resolution of any disputed factors predicated upon its findings," has precluded appropriate appellate review pursuant to 18 U.S.C. § 3742. *Palta*, 880 F.2d at 641.

On remand, the sentencing court should set forth in greater detail the evidence that supports its finding of the amount agreed upon, explaining why contrary evidence is not persuasive. Specifically, the court must examine Hendrickson's statements and actions throughout the course of the undercover investigation, and explain why Hendrickson's repeated pre-arrest disavowals of an agreement to import 50-60 kilograms of heroin from Nigeria and his inability to produce more than 77 grams of heroin do not negate whatever inference of intent that might be drawn from his initial conversations with York. The court must also identify the culpable co-conspirator(s) with whom Hendrickson agreed to produce 50-60 kilograms of heroin, and set forth the basis for its conclusion that such individual(s) participated in this conspiracy as opposed to those relating to Hendrickson's Bermuda operations or his sales of heroin to York.

14. The record on appeal includes only transcripts of the wiretapped or video-recorded conversations between York, Hendrickson and the other conspirators, the sentencing hearing tran-

script, and various transcripts from pre-trial hearings. However, the actual trial transcripts is not included.

B. *The Speedy Trial Act Motion*

[13] We find Hendrickson's Speedy Trial Act arguments utterly without merit. Section 3161(h)(1)(F) of the Speedy Trial Act excludes from Speedy Trial Act calculations "all time between the filing of a motion and the conclusion of a hearing on that motion, whether or not a delay in holding that hearing was 'reasonably necessary'". *Henderson v. United States*, 476 U.S. 321, 330, 106 S.Ct. 1571, 1877, 90 L.Ed.2d 299 (1986). Hendrickson nevertheless contends that the district court improperly excluded two time periods—from September 13, 1991 to November 5, 1991, and from January 13, 1992 to February 19, 1992—because the motions pending during those periods "required virtually no time at all to decide."

We are hard pressed to understand how Hendrickson's argument is outside the scope of the holding in *Henderson*. In any event, the motion pending during the first time period was a motion to reconsider Judge Raggi's earlier ruling permitting the use at trial of two tapes Hendrickson claimed had been tampered with by York. Though he now asserts that this motion required little consideration, defense counsel told Judge Johnson at the September 13 conference that an evidentiary hearing might be necessary to decide the motion. Thus, it is extremely disingenuous for Hendrickson to now claim that this motion required "no time" to decide.

Similarly, Hendrickson's motion for severance was filed during the second period of delay in the trial. There is no good faith basis for Hendrickson to argue that the month's time taken by Judge Johnson to hear and decide this motion, even a purportedly simple motion, was unreasonable.

Thus, we agree with Judge Johnson that Hendrickson can not "have it both ways" by filing pretrial motions that interrupted the speedy trial calculations, and then complaining that the district court did not decide them expeditiously. Therefore, we hold that the district court properly excluded the two contested time periods from the speedy trial period and affirm Hendrickson's conviction.

## V. CONCLUSION

For the foregoing reasons, the judgment of conviction is affirmed, the sentence vacated, and the matter remanded for additional sentencing proceedings in accordance with this opinion.

WINTER, Circuit Judge, concurring in part and dissenting in part:

I concur in the affirmance of the conviction. I dissent from the remand for resentencing. I do not agree that Application Note 1 is inconsistent with former United States Sentencing Commission, *Guidelines Manual*, § 2D1.4 (Nov.1991). Application Note 1 provides sensible evidentiary guidance to determine for sentencing purposes the applicable quantity in cases in which negotiations occur but a buy does not result. There is nothing invalid in such guidance, and I cannot agree with my colleagues that, to prove the applicable quantity for sentencing purposes, the government must show more than the quantity under negotiation and an intent or capability to produce that quantity. In particular, I do not agree that the government must identify particular co-conspirators as having agreed to supply the precise negotiated amount. I believe, however, that under Application Note 1 the government must prove intent or capability to produce the negotiated amount once intent and capability are put in issue. In the instant matter, Hendrickson's intent to import 50 kilograms of heroin was established by overwhelming evidence.

I

Former U.S.S.G. § 2D1.4 provided in pertinent part: "If a defendant is convicted of a conspiracy . . . to commit any offense involving a controlled substance, the offense level shall be the same as if the object of the conspiracy . . . had been completed." The relevant statutes require only that the jury find that the conspirators agreed to possess with intent to distribute a quantity in excess of designated minimum amounts. 21 U.S.C. §§ 841(b)(1)(A)(i), 846 (1988). The jury is not asked to identify precise amounts in excess of those minimum amounts. *United States v. Campuzano*, 905 F.2d 677, 679 (2d

## U.S. v. HENDRICKSON

Cite as 26 F.3d 321 (2d Cir. 1994)

Cir.), cert. denied, 498 U.S. 947, 111 S.Ct. 363, 112 L.Ed.2d 326 (1990). Before sentencing, therefore, "the object of the conspiracy" found by the jury will be a quantity that is undetermined except that it is greater than a designated minimum.

A determination of the precise quantity of narcotics involved is thus relevant only for sentencing purposes, in particular to determine the base offense level. *United States v. Moore*, 968 F.2d 216, 224 (2d Cir.), cert. denied, — U.S. —, 113 S.Ct. 480, 121 L.Ed.2d 385 (1992); *United States v. Madkour*, 930 F.2d 234, 237 (2d Cir.), cert. denied, — U.S. —, 112 S.Ct. 308, 116 L.Ed.2d 251 (1991).

Application Note 1 deals with that determination in cases where negotiations have occurred but a distribution has not taken place. It provides in pertinent part:

If the defendant is convicted of an offense involving negotiation to traffic in a controlled substance, the weight under negotiation in an uncompleted distribution shall be used to calculate the applicable amount. However, where the court finds that the defendant did not intend to produce and was not reasonably capable of producing the negotiated amount, the court shall exclude from the guideline calculation the amount that it finds the defendant did not intend to produce and was not reasonably capable of producing.

Application Note 1 thus indicates that the quantity under negotiation as reflected in the evidence at trial should determine the base offense level for sentencing purposes, subject to the intent and capability qualification. We are instructed by the Supreme Court to treat commentary to the Guidelines as an agency interpretation of its own regulations. Appli-

cation Note 1 is therefore binding upon us unless plainly erroneous or inconsistent with former Section 2D1.4. *Stinson v. United States*, — U.S. —, 113 S.Ct. 1913, 1919, 123 L.Ed.2d 598 (1993).

Application Note 1 is clearly valid under that test. It suggests nothing that is not dictated by common sense. Based entirely or in part on the evidence of the negotiations, the jury has already convicted the defendant of a conspiracy to distribute controlled substances in quantities in excess of the designated minimum. For sentencing purposes, the negotiations may be presumed to reflect the defendant's intentions regarding quantities and thus the degree of his or her culpability. However, to protect defendants who may be engaged in what the Commentary to the pertinent provisions calls "puffing," United States Sentencing Commission, *Guidelines Manual* app. C, amd. 136 (Nov.1991), Application Note 1 states that where the defendant's intent and capability to produce the negotiated quantity is negated (more on the burden of proof *infra*), the quantity negotiated loses its presumptive weight.

My colleagues decline to follow the common sense guidance of Application Note 1, find it inconsistent with former Section 2D1.4, and hold that the government must prove a specific agreement among particular conspirators to provide the precise quantity that determines the base offense level.<sup>1</sup> In their view, negotiations alone do not suffice to prove the relevant quantity, and the government must show at sentencing either "a plan for acquiring, the means of obtaining, or access to disputed quantities of drugs" among the conspirators. However, it is not enough to show even that a defendant who has negotiated a particular quantity is actual-

1. My colleagues' decision is somewhat ambiguous as to whether they believe that there was no proof of anyone conspiring with Hendrickson to distribute 50 kilograms or no proof of a specific conspiratorial agreement between Hendrickson and a supplier with regard to the negotiated amount. Certainly, there is evidence that Mark Hendrickson conspired with appellant with regard to 50 kilograms, or so the district court could have found. Mark was present at the initial conversation with York. This was no chance meeting but occurred by appointment for the specific purpose of arranging transportation

for the drug deal. Mark participated in the conversation on at least three occasions and significantly, referred to York as "our pilot." I do not belabor this point because the logic of my colleagues' position as reflected in the quotations in the text following this note is that the requisite co-conspirator must in the present circumstances be a supplier rather than a distributor. For example, finding that Mark was a co-conspirator would not show "a plan for acquiring, the means of obtaining, or access to" drugs or "action toward producing the contested amounts."

ly able to produce that quantity because "a defendant's ability to produce specified quantities is not dispositive of the issue of his or her agreement to produce such amounts." Rather, "sentencing courts must not simply end the analysis at the discussion stage, but must further examine whether the defendant and his co-conspirators took any action toward producing the contested amounts, such as seeking financing, making arrangements for delivering the drugs, or contacting suppliers to procure such narcotics." Because negotiations over a particular amount together with a capability to produce the amount negotiated are not enough in my colleagues' view to prove that the quantity negotiated was a goal of the already proven conspiracy, the government's burden at sentencing is heavy indeed, and, in many cases perhaps insurmountable. It is in the nature of uncompleted buys that some details will be lacking, particularly where foreign suppliers are involved. To hold, as my colleagues do, that negotiations are of little weight in determining the applicable quantity for sentencing purposes will unnecessarily allow defendants who are by common sense standards highly culpable to escape well-deserved sentences.

What is distressingly wrong with my colleagues' position is that it ignores that a conviction for conspiracy has already been rendered and that negotiations viewed against the background of that conviction are highly reliable evidence of a convicted defendant's intentions with regard to the distribution of particular quantities of narcotics. The conviction ensures that the conspiracy existed and that the negotiations were in furtherance of it. The negotiations are direct admissions by the defendant as to his intentions with regard to the quantities intended to flow from the conspiracy's activities. Such admissions ought to be determinative of such quantities for sentencing purposes absent evidence, as Application Note 1 provides in the conjunctive,<sup>2</sup> *United States v. Toward*, 998 F.2d 42, 50-51 (2d Cir.1993), that the defendant neither intended nor had the capability to produce such quantities. My colleagues reject this common sense ap-

proach by failing to take into account the fact that Hendrickson has been convicted. Indeed, much of the caselaw relied upon for placing this burden on the government at sentencing are not sentencing cases at all but rather decisions relating to the sufficiency of the evidence of the crime of conspiracy, an issue settled before sentencing.

Notably, Hendrickson does not challenge the sufficiency of the evidence underlying his conviction. Hendrickson thus had been adjudicated to be a member of a narcotics conspiracy, and it was not necessary for Judge Johnson to make any further findings regarding the existence of that conspiracy or the identity of the conspirators at sentencing. What the judge had to find was the quantity of narcotics Hendrickson intended to import as reflected in his negotiations with York or in other transactions. If at any time Hendrickson intended to import 50 kilograms, then the base offense level was correctly determined.

## II

With regard to the burden of proof as to intent and capability under Application Note 1, I am at a loss as to why my colleagues even address the question. If Application Note 1 is inconsistent with Guidelines Section 2D1.4, and the government must prove at sentencing that particular co-conspirators agreed to produce the particular quantity in question, no burden of proof arises with regard to Application Note 1's qualification concerning intent and capability.

Because I do not agree that Application Note 1 is invalid, I will briefly address the burden of proof issue. It might well have been sensible for the Sentencing Commission to impose the burden of showing the lack of intent and capability on the defendant. The defendant is surely in a superior position to produce evidence concerning the absence of those factors. However, the Sentencing Guidelines purport to be a comprehensive code, and courts should be reluctant to adopt a rule shifting the burden of proof absent

other intends or is capable of producing the negotiated amount is not "puffing" but is culpable for that amount.

some support in the text. I would, therefore, agree that intent and capability must be shown by the government. However, I also believe that evidence of a negotiated quantity is *prima facie* evidence of intent and capability and that, assuming evidence already in the record does not raise a doubt as to those matters, the defendant must bear the burden of producing evidence that puts the matter in issue, although the ultimate burden of persuasion remains with the government.

## III

With regard to the facts in the instant matter, Hendrickson was an international narcotics dealer with contacts in Nigeria, Bermuda, Thailand, and the United States. Hendrickson sold samples of high-purity heroin to government informants and planned to buy a speedboat to be used in smuggling narcotics. Hendrickson conspired in the narcotics dealing activity of several other individuals, among them Sunday Phillips, Balogun (whom he introduced to York), Uchannaya (whom he also introduced to York), a man named "Tony," and his own brother, Mark Hendrickson. My colleagues stress that Hendrickson did not produce more than 77 grams of heroin in his dealings with York. Tellingly, however, Hendrickson indicated that one planned sale to York failed because a courier had been arrested. This arrest is confirmed in the record.

Hendrickson's negotiations with York, other government informants, and Hendrickson's brother Mark, demonstrated his knowledge of the details of international narcotics smuggling. Hendrickson identified himself as "a veteran in the business" of multi-kilogram heroin smuggling, and explained his expertise by stating, "I've spent the time and the energy and the research and trial and

error so I know what it take[s] and how to cut it too."

The plan to import narcotics by private plane from Nigeria was only one of many operations in which Hendrickson was involved. Hendrickson was already part of an "ongoing operation [that] holds about one a week," i.e., a conspiracy to import heroin in weekly one-kilogram loads. However, Hendrickson expressed frustration with this arrangement because of its gradual nature and affirmed his intention to "Go big and that's it." Hendrickson thus repeatedly emphasized the desirability of importing a large amount of heroin in a single trip and his ability to arrange for such a shipment.

Turning specifically to the plan to import 50 to 60 kilograms from Nigeria, Hendrickson sought out York because he was a pilot who was believed to be willing to fly a large shipment of heroin from a source location to the United States. In their first conversation, Hendrickson discussed the logistics of transporting more than 50 kilograms of heroin by plane, analyzing specifications for an appropriate aircraft, the best route, and the location of refueling stops. He negotiated a price for York's transporting the heroin and discussed the financing at length, referring to his experience with banking arrangements in his ongoing importation conspiracy in Bermuda. It should be emphasized that Hendrickson did not seek out York as a purchaser but as a pilot. If Hendrickson did not intend to carry out the Nigerian deal, there was no reason to contact York.

At no time in the initial conversation did Hendrickson express misgivings or doubts about the 50 kilogram deal. He said he had "a standing invitation" in Nigeria and suggested that his Nigerian contact might well want to transport more than 50 kilograms.<sup>3</sup> He reassured York that "I have people who,

York: Yeah

Hendrickson: He's going to right off, if I want fifty for myself, he gonna' wanna' as I figure he will want to put another fifty or sixty for himself.

Also, the stated need for the Nigerian to "verify" something was an observation that the contact would want to meet with York.

<sup>2</sup> The requirement that both intent and capability be lacking stems from the Commission's purpose to mitigate for "puffing." A defendant who ei-

<sup>3</sup> I do not agree with my colleagues' interpretative gloss that, in his first conversation with York, Hendrickson suggested everything was tentative. It is true that Hendrickson said that his Nigerian contact was "not used to this kind of international thing." However, in that regard the transcript reads as follows:

Hendrickson: You see, when I go to him, he's not used to this kind of international thing, all right? When I go to him and I tell him about what I have you understand?

who will put up the money up front what ever you want" and ended the conversation by agreeing with York that "we have our deal."

At all subsequent times and notwithstanding difficulties, Hendrickson remained committed to the 50 kilogram scheme. Describing a conversation with the Nigerian contact, Hendrickson stated, "I told him what I wanted.... I wanted fifty [kilograms of heroin] and he said that's no problem." Questions later arose about the timing of the Nigerian deal, but Hendrickson's commitment remained firm, although he did not view the Nigerian scheme as excluding smaller narcotics deals. Even after expressing his concern that "[y]ou have to build for" a 50-kilogram operation, Hendrickson insisted that "everything is set" and, referring to a recent trip to Nigeria, stated, "I'm saying it's green light, and that's that. I've been there. All the plans are made. I've seen the operation, know where it's gonna go, everything."

By any common sense standard, Hendrickson's own words overwhelmingly reflect his intention to import 50 to 60 kilograms of heroin. He was already an experienced international narcotics smuggler who was looking for a big kill. His very contacting of York and statements in the first conversation alone demonstrate his intent beyond any reasonable dispute. Difficulties were encountered—perhaps because Balogun developed suspicions concerning York—but the existence of that intent at any point during the conspiracy period is sufficient to establish 50 kilograms as the applicable quantity regardless of later events. See *Howard* at 51. (In my view, Hendrickson intended to carry out the 50 kilogram deal up to his arrest. His concessions of difficulties were generally accompanied by statements of his intent to pursue the deal.) Hendrickson's capability to carry out the deal is a closer issue, because it was contingent upon other factors. However, under Application Note 1, intent alone suffices to establish the applicable quantity. See Note 2, *supra*, and accompanying text.

Therefore, I would not remand. The district judge gave no indication that he believed Hendrickson bore the burden of proof

on any issue, and his findings, specifically based on the face value of Hendrickson's statements, were not clearly erroneous. In fact, they were entirely correct. I would affirm the conviction and the sentence.



Lois M. DiGIANNI, Plaintiff-Appellant,

v.

STERN'S, Defendant-Appellee.

Lois M. DiGIANNI, Plaintiff-Appellant,

v.

BLOOMINGDALES, INC.,  
Defendant-Appellee.

Nos. 1448, 1452, Dockets 93-9218, 93-9222.

United States Court of Appeals,  
Second Circuit.

Argued May 20, 1994.

Decided June 14, 1994.

Consumer brought action against retail department stores under Fair Credit Reporting Act (FCRA). The United States District Court for the Eastern District of New York, Raymond J. Dearie, J., dismissed action, and consumer appealed. The Court of Appeals held that: (1) retail department stores were not consumer reporting agencies within meaning of FCRA, and (2) sanctions for taking frivolous appeal were not warranted against consumer.

Affirmed.

#### 1. Credit Reporting Agencies ⇐1

Retail department store that merely furnishes information to consumer reporting agencies based on experience with consumers is not "consumer reporting agency" within meaning of Fair Credit Reporting Act

(FCRA). Fair Credit Reporting Act, § 603(f), as amended, 15 U.S.C.A. § 1681a(f).

See publication Words and Phrases for other judicial constructions and definitions.

#### 2. Credit Reporting Agencies ⇐1

As used in Fair Credit Reporting Act (FCRA), term "consumer reporting agency" refers to firms that are in business of assembling and evaluating consumer credit information and this implies function which involves more than receipt and transmission of information identifying a particular debt. Fair Credit Reporting Act, § 603(f), as amended, 15 U.S.C.A. § 1681a(f).

#### 3. Credit Reporting Agencies ⇐1

Retail department stores who provided information related to accounts opened under consumer's social security number fell within Fair Credit Reporting Act's (FCRA) section exempting from statutory definition of consumer report those reports containing information solely as to transactions or experiences between the consumer and the person making the report. Fair Credit Reporting Act, § 603(d), as amended, 15 U.S.C.A. § 1681a(d).

#### 4. Federal Civil Procedure ⇐2840

Although primary issue presented by consumer's appeal, whether retail department stores were consumer reporting agencies within meaning of Fair Credit Reporting Act (FCRA), was easily disposed of by reference to the statutory language, sanctions for taking frivolous appeal were not warranted against consumer since issue was one of first impression in Second Circuit, consumer was acting pro se, and consumer did not exhibit bad faith in pursuing appeal. F.R.A.P. Rule 38, 28 U.S.C.A.; Fair Credit Reporting Act, § 603(f), as amended, 15 U.S.C.A. § 1681a(f).

Lois M. DiGianni, Brooklyn, NY, pro se.

Jo Ellen Silberstein, New York City (Suzanne E. Hyer, Hinckley & Silbert, New York City, of counsel), for defendants-appellees.

Before: MESKILL, MINER and  
MAHONEY, Circuit Judges.

PER CURIAM:

I.

Plaintiff-appellant Lois M. DiGianni, pro se, appeals from two judgments entered on October 21, 1993 in the United States District Court for the Eastern District of New York (Dearie, J.) dismissing her complaints in separate actions against defendants-appellees Stern's Department Stores, Inc. and Bloomingdale's, Inc. to recover damages under the Fair Credit Reporting Act, 15 U.S.C. §§ 1681-1681i ("FCRA"). The district court concluded that neither Stern's nor Bloomingdale's was a "consumer reporting agency" within the meaning of the FCRA and that the allegedly inaccurate information disseminated by them did not constitute "consumer reports" within the meaning of the FCRA.

DiGianni filed complaints in these actions against Stern's and Bloomingdale's on February 10, 1993. She also has filed related lawsuits against TRW, Saks Fifth Avenue, Sears, Roebuck & Co., Macy's Northeast, J.C. Penny, United Retail Stores and Abraham and Strauss. The underlying facts of these cases were clarified to some extent at a July 23, 1993 pre-motion hearing before the district court. Apparently, an acquaintance of DiGianni obtained her social security number and opened a number of credit accounts at various department stores. Different names and addresses were used on the accounts, but the social security number on each was DiGianni's. The accounts became delinquent and appeared on credit reports issued by TRW and Transunion, companies engaged in the business of credit reporting.

In the original complaints filed against Stern's and Bloomingdale's, DiGianni alleged that the department stores were consumer reporting agencies within the meaning of the FCRA and that they disseminated inaccurate information bearing on her credit worthiness. She alleged that the department stores were responsible for causing inaccurate information to appear on TRW and Transunion credit reports. As a result, DiGianni had trouble obtaining credit and also suffered emotional harm and a variety of other adverse consequences. Each complaint includes eight

hearing decision on administrative appeal does not cure the wrongful deprivation of a liberty interest resulting from a due process violation at a prisoner's disciplinary proceeding. *Walker v. Bates*, 23 F.3d 652 (2d Cir. 1994); *Mays v. Mahoney*, 23 F.3d 660 (2d Cir.1994).

Finally, defendants contend that even if plaintiff has met his burden of establishing a genuine issue of material fact as to whether his due process rights were violated, they are entitled to qualified immunity based on their official actions in processing the misbehavior report and conducting the disciplinary hearing and appeal. Because I find that plaintiff has not met his summary judgment burden, I do not find it necessary to address defendants' qualified immunity defense.

#### C. Delay in Determination of Appeal.

[16] Plaintiff also claims that Defendant Selsky's failure to decide his appeal until the day his keeplock status expired denied him due process and equal protection, and constituted cruel and unusual punishment. However, as noted in *Russell v. Scully*, *supra*, the federal constitution does not require New York State to "give [inmates] the right to avoid administrative confinement pending appeal." 15 F.3d at 222 (citing *Hewitt v. Helms*, *supra*, 459 U.S. at 467, 103 S.Ct. at 869).

Accordingly, I find that there are no genuine issues of material fact as to whether the evidence was sufficient to sustain the hearing disposition, or whether defendants' conduct violated the due process clause or any other constitutional or statutory provision sufficient to sustain a cause of action under § 1983. Defendants are therefore entitled to entry of judgment dismissing the complaint as a matter of law.

#### CONCLUSION

For the reasons set forth herein, defendants' motion for summary judgment (Item 18) is granted dismissing plaintiff's complaint in its entirety.

SO ORDERED.



Tony CAMPOS and Alex  
Lance, Plaintiffs,

v.

Thomas A. COUGHLIN, III, Commissioner  
New York State Department of Correctional Services ("DOCS"); Glenn Goord, Deputy Commissioner, DOCS; Earl B. Moore, Assistant Commissioner of Ministerial and Family Services, DOCS; John P. Keane, Superintendent, Sing Sing Correctional Facility; E. Reynolds, Superintendent, Oneida Correctional Facility; C. Greiner, Deputy Superintendent of Security Services, Sing Sing Correctional Facility; Thomas Eisen-schmidt, Deputy Superintendent of Security Services, Oneida Correctional Facility; Sergeant Kennedy, Sing Sing Correctional Facility; Sergeant Salerno, Oneida Correctional Facility; Correctional Officer J. Knobloch, Oneida Correctional Facility; all individually and in their official capacities, Defendants.

No. 94 Civ. 1057 (SS).

United States District Court,  
S.D. New York.

May 3, 1994.

Inmates brought action alleging constitutional and statutory violations caused by prison rule prohibiting inmates from wearing Orisha beads in conformity with Santeria religion. On inmates' motion for preliminary injunction requiring Department of Correctional Services (DOCS) to return confiscated beads and allow inmates to wear beads under clothing during pendency of action, the District Court, Sotomayor, J., held that: (1) *Younger* abstention was not mandated; (2) on free exercise claim, inmates established likelihood of success on merits under compelling governmental interest test of Religious Freedom Restoration Act of 1993 and under reasonableness standard; (3) inmates established likelihood of success on procedural due

CAMPOS v. COUGHLIN

Cite as 854 F.Supp. 194 (S.D.N.Y. 1994)

195

process claim; and (4) on equal protection claim, DOC was unable to establish that prohibition of Orisha beads without imposing similar burdens on rosary and Dhikr beads was reasonably related to legitimate penological interest.

Motion granted.

#### 1. Federal Courts ⇨50

*Younger* abstention, generally appropriate when federal jurisdiction is invoked to restrain state criminal proceedings, was not mandated in inmates' action alleging constitutional and statutory violations caused by prison directive prohibiting inmates from wearing Orisha beads in conformity with Santeria religion; at time action was filed, no state court proceedings within meaning of *Younger* were pending, there was no requirement that inmates exhaust state remedies before bringing claim in federal court, and given posture of administrative grievance, it was doubtful that challenge to directive could be brought in state court.

#### 2. Federal Courts ⇨46

Under *Younger* doctrine, in order for district court to deviate from general mandate favoring exercise of jurisdiction, there must be ongoing state proceeding, in which important interest is implicated, and plaintiff has adequate opportunity for judicial review of constitutional claims during or after proceeding.

#### 3. Administrative Law and Procedure ⇨657.1

Under New York law, Article 78 proceeding, challenging administrative decision, is not appropriate forum for facial challenge to regulations. N.Y.McKinney's CPLR 7801 et seq.

#### 4. Civil Rights ⇨268

Ordinarily, violations of First Amendment rights are recognized as constituting irreparable injury for purposes of preliminary injunction. U.S.C.A. Const.Amend. 1.

#### 5. Civil Rights ⇨268

Constitutional Law ⇨84.5(14)

In free exercise of religion challenge to prison rule prohibiting inmates from wearing

Orisha beads in conformity with Santeria religion, inmates established likelihood of success on merits under compelling governmental interest test of Religious Freedom Restoration Act of 1993, and thus were entitled to preliminary injunction permitting inmates to wear beads under clothing and place beads on shrines in manner avoiding public display; less restrictive means were available to further governmental security interest in avoiding use of beads as gang identifiers. U.S.C.A. Const.Amend. 1; Religious Freedom Restoration Act of 1993, § 2 et seq., 42 U.S.C.A. § 2000bb et seq.

#### 6. Constitutional Law ⇨84.5(14)

Prisons ⇨4(14)

Religious Freedom Restoration Act of 1993, which reinstated compelling state interest standard for free exercise of religion claims, applies to inmates' free exercise of religion claims; plain language of statute makes it clear that act applies to all state laws and regulations without exception and legislative history confirms that both Senate and House considered and rejected exception to Act for inmates' claims. U.S.C.A. Const. Amend. 1; Religious Freedom and Restoration Act of 1993, § 2 et seq., 42 U.S.C.A. § 2000bb et seq.

#### 7. Constitutional Law ⇨82(1)

While Congress may not diminish constitutionally protected rights by allowing for less protection than Constitution mandates, it is not restricted to provide only constitutional minimum.

#### 8. Constitutional Law ⇨82(13)

Prisons ⇨4(1, 5)

While due deference must be accorded prison authorities' assessment of their penological objectives and administrative needs, inmates maintain, despite their incarceration, certain constitutional protections, including their First Amendment rights. U.S.C.A. Const.Amend. 1.

#### 9. Constitutional Law ⇨82(13)

Prisons ⇨4(2.1)

Inmates' constitutional protections must be balanced against interest of prison officials, and courts are charged with interven-

tion where prison regulations or practices imperil constitutional rights.

#### 10. Constitutional Law §82(13)

##### Prisons §4(1)

For purposes of determining constitutionality of prison regulation or practice, prison security and penological institutional safety goals are most compelling governmental interest.

#### 11. Constitutional Law §84.5(14)

##### Prisons §4(14)

Inmates' free exercise of religion cannot be contingent on administrative inconveniences, where such inconveniences are not greater than those presented by all prison rules. U.S.C.A. Const.Amend. 1.

#### 12. Constitutional Law §84.2

On free exercise of religion claims, district court may not discern propriety of religious practices, but merely sincerity of plaintiffs' religious beliefs. U.S.C.A. Const. Amend. 1.

#### 13. Constitutional Law §84.2

On free exercise of religion challenge, number of practitioners who share particular belief as to religious practice is not dispositive of genuine nature of practitioner's belief. U.S.C.A. Const.Amend. 1.

#### 14. Civil Rights §268

##### Prisons §4(14)

In free exercise of religion challenge to prison rule prohibiting inmates from wearing Orisha beads in conformity with Santeria religion, inmates established likelihood of success on merits under reasonableness standard, and thus were entitled to preliminary injunction allowing beads to be worn under clothing and placed on shrines in manner avoiding public display; no rational relationship existed between totally prohibiting wearing of beads under clothing and prison's attempt to minimize use of beads as gang identifiers, inmates had no alternative means to exercise religion in which wearing of beads was believed to be required, and impact on prison system of allowing beads to be worn under clothing was constitutionally insignificant. U.S.C.A. Const.Amend. 1.

#### 15. Civil Rights §268

On inmates' procedural due process claim, inmates, who were prohibited from possessing Orisha beads used in practicing Santeria religion during pendency of Department of Correctional Services (DOCS) approval procedure whereby DOCS determined sincerity of inmates' religious beliefs, were entitled to preliminary injunction allowing possession of beads during pendency of approval procedure; DOCS only required Santeria adherents to seek approval for use of religious items and to forfeit religious items pending approval, and DOCS justification for process had more to do with administrative inability to control staff than with institutional need to identify genuine religious practitioners. U.S.C.A. Const.Amend. 1, 14.

#### 16. Constitutional Law §251.5

On procedural due process claim, factors considered are private interest that will be affected by official action, risk of erroneous deprivation of interest through procedures used, probable value, if any, of additional or substitute procedural safeguards, and government's interest, including function involved and fiscal and administrative burdens that additional or substitute procedural requirement would entail. U.S.C.A. Const. Amend. 14.

#### 17. Civil Rights §268

On equal protection challenge to prison rule prohibiting inmates from wearing Orisha beads in conformity with Santeria religion, inmates were entitled to preliminary injunction allowing beads to be worn under clothing and placed on shrines in manner avoiding public display, given that Department of Correctional Services' (DOCS) was unable to establish that prohibition of Orisha beads without imposing similar burdens on rosary and Dhikr beads was reasonably related to legitimate penological interest. U.S.C.A. Const. Amends. 1, 14.

Paul, Weiss, Rifkind, Wharton & Garrison, New York City, Eric R. Dinallo and Brian G. Murphy of Counsel, for plaintiffs.

G. Oliver Koppell, Atty. Gen. of the State of N.Y., New York City, Barbara K. Hatha-

way, Asst. Atty. Gen., of counsel, for defendants.

#### OPINION AND ORDER

SOTOMAYOR, District Judge.

Plaintiffs, two inmates in the New York State prison system, are followers and practitioners of the Santeria religion who are challenging a recently implemented directive of the Department of Correctional Services ("DOCS").<sup>1</sup> Plaintiffs seek injunctive and monetary relief for constitutional and statutory violations caused by the directive which prohibits prisoners from wearing certain religious artifacts, including plaintiffs' religious beads.<sup>2</sup> In the instant motion before me, plaintiffs seek an injunction requiring DOCS to return their confiscated beads and permission to wear them under their clothing during the pendency of this action.

This case raises significant constitutional and statutory issues about the protections accorded fundamental First Amendment

rights of freedom of religious expression in a prison setting. It underscores the complex nature and difficulty of accommodating various religious belief systems and tenets within a prison system, wherein violence is a real and daily threat. Plaintiffs' herein challenge DOCS, and our society, to acknowledge their religious beliefs, no matter how unfamiliar they may be to prison officials, and to refrain from over-broadly burdening the practice of a non-mainstream religion. To that end, plaintiffs seek from this Court protection of their First Amendment rights.

For the reasons discussed below, I find that plaintiffs have shown irreparable harm as a result of DOCS' directive and both a likelihood of success on the merits, as well as significant questions going to the merits with the balance of the hardships in their favor. Plaintiffs' request for injunctive relief is, therefore, granted to the extent that DOCS may not prohibit plaintiffs from wearing their Santeria beads, under their clothing, or

Supplemental Memorandum of Law in Opposition to Motion for a Preliminary Injunction, dated April 5, 1994, p. 4 ("Defendants' Supplemental Memorandum"). Defendants have also agreed that any future seizure of shrines would involve only confiscation of contraband items and not all devotional items placed in or around the shrines. Plaintiffs' counsel at the hearing conceded they were not challenging DOCS' right to prohibit inmates from constructing shrines containing contraband materials, except for beads, or to prohibit the public display of shrines. Tr. 16-17.

Subsequent to the hearing, defendants advised me that they could not locate, and have in all likelihood lost or misplaced, Campos' shrine and beads, and that the contraband items in Lance's shrine, consisting of bricks and a stone, were disposed of with Lance's prior knowledge and permission. Defendants' Supplemental Memorandum, pp. 3-4; Affidavit of Gale McGuane, Exhibit A ("McGuane Affidavit"); Affidavit of Joseph A. Demskie, ¶ 2 ("Demskie Affidavit"); Affidavit of Charles Greiner, ¶ 4. Lance denies he authorized the destruction of his shrine items. Nevertheless, because defendants have agreed to permit plaintiffs to maintain their shrines, the plaintiffs' request for injunctive relief on this issue has been rendered moot. Whether defendants may have improperly lost, misplaced or destroyed plaintiffs' shrines, is a damage issue to be assessed as part of the general prosecution of the instant action and does not impact on the preliminary relief requested herein.

1. Plaintiffs filed this action and requested injunctive relief *pro se*. By Order dated February 18, 1994, I referred the case to this Court's *pro bono* panel for appointment of counsel. The firm of Paul, Weiss, Rifkind, Wharton & Garrison immediately accepted this case and represented plaintiffs in the hearing for injunctive relief.

2. Although the DOCS directive did not address or prohibit religious shrines which inmates maintained in their cells, DOCS personnel interpreted the directive as authorizing them to confiscate such shrines when they contained beads or other items bearing colors. Transcript of March 31, 1994 Hearing, pp. 15-16 ("Tr."). These shrines, a devotional item for Santeria practitioners, traditionally contain religious beads, cigars and food, such as fruit for the Santeria saints. They may also contain crucifixes or other items commonly used by Catholics, for example pictures of saints and the Virgin Mary.

Initially, plaintiffs sought an order mandating the return of their shrines and granting them the right to maintain them in their cells. At the hearing on the instant motion, held before me on March 31, 1994, and in their post-hearing supplemental papers, defendants agreed to return the shrines to plaintiffs and to allow them to maintain their shrines, so long as the shrines are not constructed of contraband items, such as cement, and are not publicly displayed. The shrines, for example, may be kept in the inmate's locker or may be constructed facing a wall not visible to the public. See Tr. 34; Defendants

placing beads on their non-publicly displayed shrines.

### I. Background

#### A. Facts

Plaintiffs Tony Campos ("Campos") and Alex Lance ("Lance") are inmates, respectively, at the Sing Sing Correctional Facility ("Sing Sing") and the Oneida Correctional Facility ("Oneida") in New York State. Plaintiffs are also followers of Santeria, a religion practiced in Puerto Rico, Cuba and other parts of Latin America and the Caribbean, as well as parts of the United States, including New York. During the entire period that the plaintiffs have been incarcerated in the DOCS system—over 14 years in the case of plaintiff Campos—they have practiced their Santeria religion without any interference from DOCS personnel.

In 1993, DOCS revised its previous directives and regulations, restricting plaintiffs' religious practices by requiring that they prove to DOCS's satisfaction that they are genuine adherents of the Santeria religion and that the use of Santeria beads is a necessary tenet of Santeria religious practice. Even if plaintiffs convince DOCS that they are genuine Santeria practitioners and that their religion requires the use of beads, the directive at issue still limits plaintiffs' use to the mere possession of the beads. The wearing of Santeria beads is wholly prohibited under the directive. Plaintiffs charge that this limitation significantly burdens the free exercise of their religion and, therefore, cannot withstand legal scrutiny.

The relevant facts are not disputed. The impact and significance of defendants' actions, however, are the subject of much discord among the parties. Prior to the challenged revision of its regulations in 1993, DOCS permitted prisoners to possess and wear religious beads. Inmates were permitted to receive religious beads from outside the prison after local prison facility personnel determined that an inmate was a genuine adherent of a religion requiring the use of beads. Transcript of March 31, 1994 Hearing, p. 45 ("Tr."). On November 30, 1993, DOCS issued revisions to its Directive

# 4202. This directive addresses religious practices throughout the DOCS system and sets forth the permissible use of religious artifacts, including, but not limited to, beads and medals. The directive became effective on January 1, 1994, but permitted inmates until March 1, 1994, to comply with the new directive's mandate by discarding or sending home the newly-proscribed items. The DOCS directive further provided a mechanism whereby inmates, like plaintiffs, could seek permission prior to and after the effective date of the directive, to possess, although not wear, the proscribed religious items.

DOCS's revisions were based on its conclusions that there was system-wide use by prison gangs of beads as gang membership identification symbols. According to defendants, some prisoners were restringing religious beads, to project identifiable membership in particular gangs by the color of the beads. DOCS concluded that the beads facilitated gang violence, rivalry and confrontation because inmates could identify rival gang members by the colors of the wearer's beads. Defendants claim that gang activity causes "friction, rivalries and even violence among inmates, thereby threatening the safety and security of the facility." Defendants' Memorandum of Law in Opposition to Motion for a Preliminary Injunction, pp. 8-9; *see also* Defendants' Supplemental Memorandum, Dated April 5, 1994, pp. 4-6 ("Defendants' Supplemental Memorandum"). The directive prohibiting the wearing of beads, thus, is defendants' attempt to diminish gang violence and further "DOCS's interest in stemming the activity of gangs and other unauthorized groups." Defendants' Supplemental Memorandum, p. 4.

Directive # 4202 establishes a hierarchy of religious artifacts, with those items recognized by DOCS personnel as "traditional," such as crucifixes and crosses, receiving preferred treatment in that inmates may receive, possess and wear them, under their clothing, without DOCS's prior approval. The second tier of the hierarchy provides that inmates may receive and possess, but not wear, black rosary and Dhikr beads, again without prior approval. At neither tier does DOCS require inmates, except for

Santeria adherents, to provide a religious-based justification for such possession. Plaintiffs' Santeria beads, thus, are left in a black hole of items which must be approved prior to the inmates' receiving or possessing them. Unlike the other items referred to in the directive, which are presumed to be genuine religious articles to be used for religious purposes, Santeria beads are denied such a presumption of authenticity. As it currently reads, Directive # 4202 reflects DOCS's judgment and choice, based on religious practices familiar to defendants, as to which religious items and practices are *prima facie* acceptable and those which are not.

Revised Directive # 4202 provides, in relevant part, that:

Inmates will be permitted to wear only traditionally accepted religious medals, crucifixes, or crosses. The religious medal, crucifix, or cross shall be affixed to a chain only. It is not acceptable to wear religious medals, crucifixes or crosses that are affixed to beads, leather, strings, or rope.

\* \* \* \* \*

All approved religious medals, crucifixes, and crosses shall not be visible and shall be worn underneath clothing at all times. Rosary beads and Dhikr beads are not considered religious medals, and, as such, may be possessed for prayer and worship, but not worn or displayed. Rosary and/or Dhikr beads in the color of black only will be permitted.

Other traditionally accepted prayer beads, documented and supported on a theological basis for use in the practice of an inmate's documented religion, may also be possessed, but not worn or displayed. Only those colors documented and supported on a theological basis in the practice of an inmate's documented religions will be considered for approval, pursuant to review by the Senior Chaplain and Deputy Superintendent for Security Services. After the review by the Senior Chaplain and Deputy Superintendent for Security Services, a decision will be made to either disapprove

the beads or recommend approval to Central Office. If recommended for approval at the facility level, a photograph and a written explanation regarding the theological basis for the recommended approval shall be forwarded to the Assistant Commissioner for Ministerial Services who will review the facility recommendation with the Deputy Commissioner for Correctional Facilities, at which time approval or disapproval shall be determined. If approved by Central Office, the beads will be registered at the facility and a permit will be issued.

Amended Complaint, Exhibit B.<sup>3</sup>

Thus, "traditionally accepted religious medals, crucifixes, or crosses" and rosary beads and Dhikr beads can be received by inmates without certification of the inmate's religious beliefs. In contrast, the administrative mechanism established by Directive # 4202 for the approval of Santeria beads consists of a two-step process, wherein the inmate first must seek certification of his or her religious adherence and approval of the possession of the beads from the facility's personnel, and then from the DOCS Central Office.

At the facility level, the chaplain interviews the inmate and may ask questions "to satisfy himself that the inmate is familiar with the religion." Defendants' Supplemental Memorandum, p. 2. Then, the Deputy Superintendent for Security Services reviews the beads in order to assess whether they "constitute a threat to the security of the facility." *Id.* Thereafter, if the chaplain and the Deputy Superintendent agree, they send a recommendation for approval with a photograph of the beads to the DOCS Central Office. At this second stage, the Deputy Commissioner for Correctional Facilities and the Assistant Commissioner for Ministerial Services consider approval of the beads. Defendants assert that this Central Office review is necessary "in order to ensure uniform treatment of all inmates, and to bring a state-wide perspective to the review." *Id.* Although defendants have estimated that this process generally should take no more than four

months, it is attached as an Appendix to this Order and Opinion.

3. A complete version of the revisions to Directive # 4202 and a related directive, # 4911, are at-

weeks—two at the facility level and two at the Central Office level—well over two weeks have elapsed since DOCS Central Office undertook plaintiffs' certifications and DOCS still has not concluded the process. See *id.* at 3.

Plaintiff Lance alleges that on or about November 10, 1993, approximately six weeks before the January 4, 1994 effective date of Directive # 4202, Sing Sing personnel confiscated his beads. Lance further claims that his beads were again confiscated upon his subsequent transfer to Oneida two weeks later, on November 24, 1993.<sup>4</sup> Lance was also issued an Inmate Misbehavior Report for possession of the contraband religious items. The charges were upheld after a hearing on December 3, 1993. Lance filed a grievance based on the confiscation and sent various letters to DOCS personnel, including Oneida's Superintendent, defendant Reynolds, concerning his beads.

Similarly, on or about January 5, 1994, Sing Sing personnel confiscated plaintiff Campos' beads under Directive # 4202. On January 6, 1994, Campos filed a grievance with the Inmate Grievance Resolution Committee ("Committee"), challenging Directive # 4202 because it infringed on his freedom of religious expression. On January 18, 1994, the Committee rejected Campos' grievance and, shortly thereafter, on January 31, 1994, Sing Sing's Superintendent, defendant Keane, denied Campos' appeal.

It does not appear that either plaintiff completed the DOCS approval procedure set forth in Directive # 4202 prior to initiating the instant action and seeking preliminary relief for permission to wear their beads under their clothing.<sup>5</sup> At the conclusion of a hearing before me on March 31, 1994 ("the Hearing"), however, defendants commenced the approval process for determining whether to permit Campos and Lance to possess, but not wear, their beads. Shortly after the Hearing, defendants informed me that DOCS

facility personnel have recognized both plaintiffs as adherents of Santeria and would recommend that their beads be approved by the Central Office. See Defendants' Supplemental Memorandum, p. 3. The Central Office, as of this date, has yet to render a decision on the plaintiffs' requests.

## B. Plaintiffs' Religious Practices

### 1. The Sincerity of Plaintiffs' Beliefs

Plaintiffs claim that they have practiced Santeria since they were children and that they are bona fide adherents of the Santeria religion. Affidavit of Tony Campos, ¶ 2 ("Campos Affidavit"); Affidavit of Alex Lance, ¶ 2 ("Lance Affidavit"). Plaintiffs also aver that they seek to wear their Santeria beads strictly for devotional purposes, in accordance with their religious beliefs. In their affidavits, Campos and Lance affirm that, like other Santeria adherents, they believe they "must wear sacred [Santeria] beads of certain color combinations at all times except when engaging in sexual intercourse, bathing, or sleeping," because the beads, "when worn, protect [them] from danger and from evil to which [they] might otherwise be vulnerable," and that the beads "when worn, will bring [them] good fortune, peace, purity and good health." Campos Affidavit ¶¶ 3-4; Lance Affidavit ¶¶ 3-4. Both plaintiffs further claim that they will suffer serious negative consequences if they do not wear their beads and each has affirmed that in accordance with Santeria religious tenets they are "subject to danger and evil" without the protection of their beads. Campos Affidavit ¶ 12; Lance Affidavit ¶ 18.

Defendants do not concede the genuine or sincere nature of plaintiffs' religious beliefs and have alleged that they could not "verify that plaintiffs desire these beads for the practice of their religion." Affidavit of Glenn S. Goord, ¶ 4, Exhibit A. To support their position that there is a genuine question

<sup>4</sup> 1994 cut-off date set forth in Directive # 4202. It was this Court's understanding that this agreement maintained the *status quo*. However, defendants subsequently informed the Court that the confiscated beads and shrines had been disposed of or lost notwithstanding this agreement.

<sup>5</sup> Defendants, however, have denied ever having Lance's beads in their possession. Defendants' Supplemental Memorandum, p. 4.

<sup>6</sup> At a hearing before me, on February 25, 1994, defendants agreed to refrain from disposing of the plaintiffs' beads on the scheduled March 1,

about the plaintiffs' religious beliefs, defendants have submitted documents which indicate that upon their entry into the prison system, plaintiffs Campos and Lance identified themselves as, respectively, "Catholic" and "Christian."

Defendants' attempt to cast doubt upon plaintiffs' religious beliefs is not persuasive. There is nothing in the record to suggest that plaintiffs, although devout Santeria practitioners, do not also acknowledge certain aspects of Catholicism and Christianity, as do other practitioners of Santeria. Indeed, only last year, prior to the DOCS directive's effective date, the Supreme Court recognized that "Catholic symbols are often present at Santeria rites, and Santeria devotees attend the Catholic sacraments." *Church of the Lukumi Babalu Aye, Inc. v. City of Hialeah*, — U.S. —, —, 113 S.Ct. 2217, 2222, 124 L.Ed.2d 472 (1993). At the Hearing, plaintiffs' counsel also noted that defendants' own expert, Raul Canizares, has written a book in which he indicates that Santeria adherents usually identify themselves as Catholics when asked their religious affiliation. Tr. 64. I further assume that defendants had access to their own prison personnel and records and that, if there was any evidence of gang affiliation or other factors to suggest that plaintiffs' alleged religious beliefs are insincere, defendants would have presented such evidence to the Court.

Finally, defendants have recently informed me that, at least at the individual facility level, plaintiffs are now accepted as adherents of the Santeria religion. See Defendants' Supplemental Memorandum, p. 3. Based on this information, and solely for purposes of the preliminary injunction motion, I accept that plaintiffs' asserted religious beliefs are sincere and that their challenge to the DOCS's directive is based on their desire to practice their religion free from undue constraints.

### 2. Santeria Practices and the Wearing of Beads

Santeria is a religious belief system with a long and rich history in the Caribbean and Latin America. It is an expression of what experts term a "syncretism," or fusion, of African religion and Roman Catholicism.

Saints are fundamental figures in Santeria. They play the role of guide and patron to Santeria devotees. The saints in the Santeria religion, however, are different in character and status from the saints recognized and venerated in Catholicism. The Saints, or Orishas as they are known in Santeria, have distinct personalities and temperaments and Santeria practitioners have specific patron Orishas with whom they have a spiritually intimate affiliation. The saints and spirits, and the adherent's devotion to the Orishas, are central aspects of Santeria beliefs. See *Church of the Lukumi Babalu Aye*, — U.S. at —, 113 S.Ct. at 2222.

Devotion to the Orishas and commitment to Santeria is expressed, in part, by the follower's wearing of a necklace of colored beads, the practice at issue in this action. The beads are not mere symbols of some greater entity or a tool for veneration. According to plaintiffs' expert, the beads are "a focus of spiritual presence, as protection against misfortune, and as markers of spiritual identity." Affidavit of Joseph M. Murphy, ¶ 9 ("Murphy Affidavit"). Significantly, Santeria adherents believe that if the practitioner wears these beads faithfully the beads ensure the practitioner's closeness to the Orishas, as well as protection from negative forces and events. Even a simple transgression from this practice, such as a temporary removal of the beads for some reason other than those recognized by adherents, or the blemishing of the beads as a result of their handling by someone other than the wearer, may lead to negative consequences for the practitioner.

The colors of the beads, and color combinations of bead strands, also carry great significance in the Santeria religion because different color beads correspond to particular Orishas and particular days of the week. When a practitioner recognizes a patron Orisha, that individual then wears that patron's colors on a bead necklace. In addition, the follower also wears the beads which correspond to the Orisha recognized on that particular day of the week. Consequently, a practitioner of Santeria may wear several strands of beads, in various colors, some worn daily and others worn on different days of the week.

Both Campos and Lance wish to wear, in direct contravention of Directive # 4202, the beads which represent their patron Orisha, along with the bead necklace corresponding to a particular day's Orisha. Campos claims that he must wear black and white beads, the colors of his Orisha, Oya, all the time, and the beads corresponding to the Orisha for that weekday. So that on Monday, for example, he wears black and white beads, as well as the beads for the Orisha Elegguá, whose colors are red and black, and who is recognized on Monday. Plaintiff Lance claims that he must wear the white and red color beads for his Orisha, Changó, every day, in addition to his daily Orisha beads. See Plaintiffs' Memorandum of Law in Support of Preliminary Injunction, p. 9.

### C. Plaintiffs' Claims

Plaintiffs challenge the DOCS directive, on its face and as applied, as a statutory and unconstitutional infringement on their free exercise of religion because the directive prohibits plaintiffs from wearing then Orisha beads. Specifically, plaintiffs allege that the directive violates the recently-enacted Religious Freedom Restoration Act of 1993, 42 U.S.C. § 2000bb (Supp.1994), their right to freedom of expression protected under the First and Fourteenth Amendments and their Fourteenth Amendment equal protection and due process rights.

Plaintiffs also charge that the two-step approval process established by defendants for purposes of granting permission to an inmate to possess beads is unduly burdensome, unnecessarily lengthy and cumbersome. Plaintiffs' more compelling challenge, however, alleges that the process is fundamentally ineffective because it fails to provide plaintiffs with a real remedy: approval to wear beads. Plaintiffs claim that so long as defendants refuse to modify the directive to permit the wearing of beads, the approval mechanism does not address their religious needs.

Defendants claim that the directive is a proper means to address prison gang violence and does not violate plaintiffs' constitutional rights because it does not impose a significant burden on plaintiffs' free exercise of religion. Defendants argue that once plaintiffs establish, through the approval pro-

cess, the sincerity of their religious beliefs and the genuine nature of their request to use beads solely for religious purposes, that plaintiffs will be allowed to possess the beads. Since, according to the defendants, Santería tenets are satisfied by the mere possession, without wearing, of beads, plaintiffs are not significantly burdened by the DOCS's possession restriction. Defendants refused plaintiffs' compromise proposal, maintaining that wearing beads under clothing would still undermine penological security objectives. Defendants argue that the Court should defer to DOCS's judgment of the proper balance between DOCS's institutional needs and plaintiffs' individual rights.

I do not approach this matter with a blank slate. Neither I, nor defendants, are without benefit of some discussion of Santería and the recognition of its protected status within constitutional moorings. Last year, the practices of Santería were considered and accorded First Amendment protection, by the Supreme Court in *Church of the Lukumi Babalu Aye*. In addition, as the parties and their experts recognize, Santería has been the subject of much literature and academic discourse. See e.g., Migene Gonzalez-Wippler, *Power of the Orishas: Santería and the Worship of Saints* 5 (1992); M. Gonzalez-Wippler, *Santería: African Magic in Latin America* (2d ed. 1992); Raul Canizares, *Walking with the Night: The Afro-Cuban World of Santería* (Rochester, Vt.: Destiny Books 1992); 13 *The Encyclopedia of Religion* 66 (M. Eliade ed. 1987); 1 *Encyclopedia of the American Religious Experience* 183 (C. Lippy & P. Williams eds. 1988).

The Supreme Court in *Church of the Lukumi* admonished legislators that in their zeal to regulate conduct they must be ever mindful of the First Amendment's requirements:

The Free Exercise Clause commits government itself to religious tolerance, and upon even slight suspicion that proposals for state intervention stem from animosity to religion or distrust of its practices, all officials must pause to remember their own high duty to the Constitution and to the rights it secures. Those in office must be resolute in resisting importunate demands and must ensure that the sole reasons for imposing the burdens of law and

regulation are secular. Legislators may not devise mechanisms, overt or disguised, designed to persecute or oppress a religion or its practices.

— U.S. at —, 113 S.Ct. at 2234.

[1-3] With these principles and the Supreme Court's warning in mind, I now consider the instant motion.<sup>6</sup>

6. Before considering the substantive issues raised by the instant motion, I address defendants' argument that I abstain from further action in this case, in accordance with *Younger v. Harris*, 401 U.S. 37, 91 S.Ct. 746, 27 L.Ed.2d 669 (1971), because plaintiff Campos has filed an administrative appeal of his grievance and because DOCS's administrative approvals of plaintiffs' possession of beads are pending. I disagree with defendants and conclude that *Younger* abstention is not mandated in this case.

"Abstention from the exercise of federal jurisdiction is the exception, not the rule." *Colorado River Water Conservation Dist. v. United States*, 424 U.S. 800, 813, 96 S.Ct. 1236, 1244, 47 L.Ed.2d 483 (1976). Under the *Younger* doctrine, in order for this Court to deviate from the general mandate favoring the exercise of jurisdiction, there must be an ongoing state proceeding, in which an important interest is implicated, and the plaintiff has adequate opportunity for judicial review of his or her constitutional claims during or after the proceeding. *Cullen v. Fliegner*, 18 F.3d 96, 103-04 (2d Cir.1994) (citing *Christ the King Regional High School v. Culvert*, 815 F.2d 219, 224 (2d Cir.), cert. denied, 484 U.S. 830, 108 S.Ct. 102, 98 L.Ed.2d 63 (1987)). As this Circuit has recognized, *Younger* abstention is appropriate where

ordinarily a state proceeding provides an adequate forum for the vindication of federal constitutional rights, *Kugler v. Helfant*, 421 U.S. 117, 124[, 95 S.Ct. 1524, 1530-31, 44 L.Ed.2d 15] (1975), and so due deference ought to be paid the principles of comity and federalism. *Younger*, 401 U.S. at 44 [91 S.Ct. at 750-51]. *Younger* abstention applies to state judicial and administrative proceedings, so long as the state court has a means of reviewing constitutional claims.

*Id.*, 18 F.3d at 103-04.

I cannot find, on this record, grounds to abstain in this case. First, at the time that the instant action was filed, there were no pending state court proceedings relating to Lance's claims. Supplemental Affidavit of Alex Lance, ¶¶ 7-8. Thus, there was no pending state court proceeding within the meaning of *Younger* which would warrant abstention and no requirement in law or otherwise that plaintiffs exhaust state remedies before seeking vindication of their constitutional or statutory First Amendment rights in federal court.

Second, DOCS admits that Campos cannot secure through the administrative process the very relief he seeks—the wearing of his beads—be-

## II. The Motion for Preliminary Injunction

A preliminary injunction may issue only where the movant has shown "(1) irreparable harm and (2) either (a) likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them fair ground for litigation, and a balance of hard-

cause DOCS will only permit him to possess beads. I also have serious doubts whether he can secure state judicial review of his challenge considering the current posture of Campos' grievance as presented to this Court by the defendants. As the Second Circuit has indicated, an Article 78 proceeding—the available means for Campos to challenge DOCS's administrative decision—is not the appropriate forum for a facial challenge to the regulations. *Cecos Int'l. Inc. v. Jorling*, 895 F.2d 66, 71 (2d Cir.1990) (citing *Board of Educ. v. Gwinick*, 49 N.Y.2d 683, 687, 404 N.E.2d 1318, 427 N.Y.S.2d 777 (1980)); see also N.Y.CIV.PRAC.L. & R. § 7803 (McKinney 1981). While the New York courts may treat the Article 78 as a declaratory judgment action it all the necessary parties are before the court. *Cecos*, 895 F.2d at 71, defendants concede that only plaintiff Campos' state process is pending. Hence, abstention is not required. See *Mount Sinai Union Free School Dist. v. Board of Educ. Port Jefferson Public Schools*, 836 F.Supp. 95, 100 (E.D.N.Y.1993) (*Younger* abstention does not apply where certain plaintiffs and defendants who are parties to the federal action were not joined in the Article 78 proceeding).

Finally, defendants also charge that plaintiffs should be denied a preliminary injunction because they waited an undue amount of time between the announcement of the new directive in November 1993 and the initiation of the present action in February 1994. Defendants' arguments are wholly without merit since neither plaintiff acted in a dilatory manner warranting the application of principles of estoppel to their injunctive relief claims. Both plaintiffs spent extensive periods of time grieving the application of the directive through DOCS' administrative channels. Defendants themselves delayed the administrative process by taking one month to decide the grievances. Moreover, according to the documents submitted to this Court, Sing Sing Superintendent defendant Keane denied Campos' grievance on January 31, 1994, and the Central Office Review Committee denied Lance's grievance on February 16, 1994. Amended Complaint ¶ 56; Supplemental Affidavit of Alex Lance, ¶ 7. Plaintiffs' filing of this action *pro se* on February 17, 1994, very shortly after their grievances were denied by DOCS and several weeks before the directives' revisions were to go into effect, can hardly be considered dilatory. Consequently, defendants claim that plaintiffs "unreasonably delayed in bringing" this action is unsupported by the record.

ships tipping decidedly toward the party requesting the preliminary relief." *Blum v. Schlegel*, 18 F.3d 1005, 1010 (2d Cir.1994) (quoting *Jackson Dairy, Inc. v. H.P. Hood & Sons, Inc.*, 596 F.2d 70, 72 (2d Cir.1979)).

[4] Ordinarily, violations of First Amendment rights are recognized as constituting an irreparable injury. See *Elrod v. Burns*, 427 U.S. 347, 373, 96 S.Ct. 2673, 2690, 49 L.Ed.2d 547 (1976); *Paulsen v. County of Nassau*, 925 F.2d 65, 68 (2d Cir.1991). Plaintiffs have succinctly set forth sufficient allegations of a violation of their First Amendment rights to the free exercise of their religion to satisfy this first requirement for a preliminary injunction.

Moreover, the balance of hardships tilts decidedly in the plaintiffs' favor. Plaintiffs claim that they have no other way of practicing their religious beliefs other than by the very act which defendants forbid: the wearing of their beads. In contrast, and as is more fully discussed below, defendants have an alternative means to further their goal of institutional security and control, which would not significantly burden plaintiffs'

7. Defendants challenge the constitutionality of the Act, alleging that it is beyond the authority of Congress to change the standard of review applicable to a free exercise of religion claim, a task they maintain is solely within the purview of the judicial branch. However, because I conclude that the directive does not satisfy even the less onerous reasonableness standard in existence prior to the passage of the Act and, because for purposes of this motion for preliminary relief, I need only determine the likelihood of success on the merits of the claims, I need not address the constitutional challenge at this juncture. When the constitutional question is squarely before me, 28 U.S.C. § 2403 (1978) requires that the Attorney General of New York have the opportunity to address the statute's constitutionality before I decide the issue.

As an aside, my cursory review of defendants' argument raises significant questions as to the viability of defendants' challenge. Defendants have not cited any authority to support their argument that Congress may not provide greater protection to the rights recognized in the Constitution. While Congress may not diminish constitutionally protected rights by allowing for less protection than the Constitution mandates, it is not restricted to provide only the constitutional minimum. See *Katzenbach v. Morgan*, 384 U.S. 641, 651 n. 10, 86 S.Ct. 1717, 1724 n. 10, 16 L.Ed.2d 828 (1966) (Congress has power to adopt measures to enforce the Fourteenth

right to religious expression. They can simply permit plaintiffs to wear their beads under their clothing.

The central question remaining, then, is whether plaintiffs have shown a likelihood of success on the merits or a sufficiently serious question going to the merits justifying the issuance of injunctive relief. For the reasons discussed below, I conclude that the plaintiffs have carried their burden on this second requirement for preliminary injunctive relief.

### III. The Religious Freedom Restoration Act

[5-7] Plaintiffs challenge the DOCS directive under the Religious Freedom Restoration Act of 1993 ("the Act").<sup>7</sup> The Act is of historical and legal significance because it reinstates the "compelling state interest" standard applicable to free exercise of religion claims previously eviscerated by the Supreme Court's decision in *Employment Division, Dept. of Human Resources of Oregon v. Smith*, 494 U.S. 872, 110 S.Ct. 1595, 108 L.Ed.2d 876 (1990).<sup>8</sup> The Act is also notable

Amendment but it cannot "restrict, abrogate, or dilute" the amendment's guarantees).

8. In *Employment Division, Dept. of Human Resources of Oregon v. Smith*, 494 U.S. 872, 110 S.Ct. 1595, 108 L.Ed.2d 876 (1990), the Supreme Court rejected what had been known as the "compelling state interest" test in the First Amendment context. Under that test, legislation which burdened the free exercise of religion could survive judicial scrutiny and a constitutional challenge only if the legislation furthered a compelling state interest and was narrowly tailored to achieve that goal. See *Sherbert v. Verner*, 374 U.S. 398, 83 S.Ct. 1790, 10 L.Ed.2d 965 (1963). In the *Smith* case, the Court rejected the universal application of the compelling interest test to facially neutral and generally applicable laws and, instead, pronounced a less stringent standard applicable to free exercise cases:

We conclude today that the sounder approach, and the approach in accord with the vast majority of our precedents, is to hold the ["compelling government interest"] test inapplicable to [free exercise] challenges.

*Smith*, 494 U.S. at 885, 110 S.Ct. at 1603.

The Court's test as determined in *Smith* is that, a law that is neutral and of general applicability need not be justified by a compelling governmental interest even if the law has the incidental effect of burdening a particular religious practice. *Employment Div., Dept. of Human*

for its application of the compelling governmental interest test to inmates' cases which, prior to the passage of the Act, were subject to a less onerous standard of review, favoring prison administrators so long as the prison regulation was reasonably related to a legitimate penological interest. See *Turner v. Safley*, 482 U.S. 78, 89, 107 S.Ct. 2254, 2261, 96 L.Ed.2d 64 (1987) (prison regulation must be "reasonably related to legitimate penological interests."); *O'Lone v. Estate of Shabazz*, 482 U.S. 342, 349, 107 S.Ct. 2400, 2404, 96 L.Ed.2d 282 (1987) (prison regulations must satisfy the less restrictive reasonableness test).

Two other federal courts which have addressed the issue of whether the Act applies to inmates' free exercise of religion claims have concluded that the Act controls the standard to be applied to those cases. See *Allah v. Menei*, 844 F.Supp. 1056, 1060-62, & n. 18 (E.D.Pa.1994); *Lawson v. Dugger*, 844 F.Supp. 1538, 1541-42 (S.D.Fla.1994).<sup>9</sup> I agree with these courts. The plain language of the statute makes it clear that it applies to all state laws and regulations without exception. The Act, in relevant part, states:

### SEC. 3 FREE EXERCISE OF RELIGION PROTECTED

(a) IN GENERAL.—Government shall not substantially burden a person's exercise of religion even if the burden results

*Resources of Oregon v. Smith*, supra. . . . A law failing to satisfy these requirements must be justified by a compelling governmental interest and must be narrowly tailored to advance that interest.

*Church of the Lukumi Babalu Aye, Inc. v. City of Hialeah*, — U.S. —, —, 113 S.Ct. 2217, 2225, 124 L.Ed.2d 472 (1993).

The directive at issue here is neither neutral or generally applicable, but rather a direct unequivocal restriction on religious practices. However, even before passage of the Act, the Supreme Court's *Smith* decision would not have dictated the standard applicable to the regulation. Instead, the *O'Lone/Turner* standard, discussed above in greater detail, would have governed.

9. In *Allah v. Menei*, 844 F.Supp. 1056 (E.D.Pa. 1994), the District Court concluded that the Religious Freedom Restoration Act and the compelling interest/least restrictive means test set forth therein applied to an inmate's free exercise of religion claim. The plaintiff inmate in *Allah*,

from a rule of general applicability, except as provided in subsection (b).

(b) EXCEPTION.—Government may substantially burden a person's exercise of religion only if it demonstrates that application of the burden to the person—

(1) is in furtherance of a compelling governmental interest; and

(2) is the least restrictive means of furthering that compelling governmental interest.

(c) JUDICIAL RELIEF.—A person whose religious exercise has been burdened in violation of this section may assert that violation as a claim or defense in a judicial proceeding and obtain appropriate relief against a government. Standing to assert a claim or defense under this section shall be governed by the general rules of standing under article III of the Constitution.

42 U.S.C. § 2000bb-1 (Supp.1994).

The Act defines "government" to include . . . a branch, department, agency, instrumentality, and official (or other person acting under color of law) of the United States, a State, or a subdivision of a State *Id.* § 2000bb-2.

The Act applies "to all Federal and State law, and the implementation of that law, whether statutory or otherwise, and whether adopted before or after" the enactment of the

representing an inmate Muslim group, sought recognition of the group and the same opportunity to practice religion as other prison religious groups, in particular the prison's Nation of Islam chapter. The Court concluded that defendants' unsupported allegations and assertions about the penological interests involved failed to demonstrate how the regulation at issue complied with the Act.

In *Lawson v. Dugger*, 844 F.Supp. 1538 (S.D.Fla.1994), the District Court also concluded that the Act and its standard applied to plaintiff inmates' First Amendment claims. The Court in *Lawson* determined that the challenged state regulation denying plaintiffs, adherents of the Hebrew Israelite religion, access to their religious literature and the opportunity to practice their religion on an equal basis as other religious groups, violated the Act. The Court concluded that the state ban on Hebrew Israelite literature was not the least restrictive means of furthering the government's compelling interest in maintaining internal order and security.

Act. *Id.* § 2000bb-3. In sum, the Act, on its face, plainly applies to inmates' claims challenging prison rules which substantially burden their free exercise of religion, and requires that any such rule be in furtherance of a compelling interest and be the least restrictive means to secure the government's objectives.

The legislative history of the Act also confirms that both the Senate and the House considered and rejected an exception to the Act for inmates' claims. The Senate Committee determined that the Act properly balanced inmates' rights with compelling governmental interests in the prison context:

... the committee concludes the first amendment doctrine is sufficiently sensitive to the demands of prison management that a special exemption for prison free exercise claims under the act is unnecessary.

S.Rep. No. 103-111, 103rd Cong., 1st Sess. (1993) ("Senate Report").<sup>10</sup> Similarly, after considering the government's interests in "ensuring safety and orderliness of penological institutions" and accepting that these interests are of the "highest order," the House Committee, nevertheless, accepted the Act's applicability to inmates' claims. See H.R. Rep. No. 103-88, 103rd Cong., 1st Sess. (1993) ("House Report"). Thus, the Act prohibits government from substantially burdening any individual's exercise of religion, except if the government can establish a compelling interest and that the measure adopted is the least restrictive means to further its objectives.

The Supreme Court's pre-Act decisions in *O'Lone* and *Turner* are of contextual importance to an understanding of the different standard of review which I am compelled to apply in this case. In *O'Lone*, the Supreme

10. The Senate Committee recognized the sufficiency of the courts' existing jurisprudence on claims based on religious freedom which are made in bad faith and for illegitimate purposes:

Existing analytical tools are also adequate to uncover false religious claims that are actually attempts to gain special privileges or to disrupt prison life. [...] The [A]ct has no effect on this settled jurisprudence, thus permitting the courts to make these assessments as they have in the past.

Senate Report at 11

Court concluded that the appropriate gauge of the constitutionality of prison rules as a burden on an inmate's religious freedom is whether the regulation is "reasonably related to legitimate penological interests." *O'Lone v. Estate of Shabazz*, 482 U.S. at 349, 107 S.Ct. at 2404. The Court in *O'Lone* upheld the refusal to provide inmates with religious services on Friday afternoon, concluding that such refusal was reasonable in light of the penological concerns for security and rehabilitation. The Court isolated inmates' claims from other constitutional claims, setting a lesser standard to the former, and describing the reasonableness standard as "less restrictive than ordinarily applied to alleged infringements of fundamental constitutional rights." *Id.* In *Turner*, the Court set forth the factors for courts to generally consider in assessing the reasonableness of a prison regulation. *Turner*, 482 U.S. at 89-90, 107 S.Ct. at 1262. Those factors reflect the presumed great deference due penological needs within the unique prison environment.

Congress, by passing the Act, rejected the less rigorous standard adopted by the Supreme Court in *O'Lone* and *Turner*, and reinstated the compelling interest test previously recognized by the Supreme Court in *Sherbert v. Verner*, 374 U.S. 398, 83 S.Ct. 1790, 10 L.Ed.2d 965 (1963), and again in *Wisconsin v. Yoder*, 406 U.S. 205, 92 S.Ct. 1526, 32 L.Ed.2d 15 (1972).<sup>11</sup> The Act states unequivocally that one of its purposes is,

to restore the compelling interest test as set forth in *Sherbert v. Verner*, 374 U.S. 398[, 83 S.Ct. 1790, 10 L.Ed.2d 965] (1963) and *Wisconsin v. Yoder*, 406 U.S. 205[, 92 S.Ct. 1526, 32 L.Ed.2d 15] (1972) and to guarantee its application in all cases where

11. The Court in *Sherbert v. Verner*, 374 U.S. 398, 83 S.Ct. 1790, 10 L.Ed.2d 965 (1963), held that a statute precluding a Seventh Day Adventist from receiving unemployment benefits because she would not work on her Sabbath violated her free exercise of religion. In *Wisconsin v. Yoder*, 406 U.S. 205, 92 S.Ct. 1526, 32 L.Ed.2d 15 (1972), the Court held that a state's mandatory education requirement as applied to Amish children violated their free exercise of religion. The Court struck down both statutes under the compelling interest test.

free exercise of religion is substantially burdened....

42 U.S.C. § 2000bb.

Despite the defendants' claims to the contrary, based on the record before me, plaintiffs have shown a likelihood of success on their challenge that the burden on plaintiffs' exercise of religion in this case is not "the least restrictive means of furthering" the state's proffered compelling governmental interest.

[8,9] While due deference must be accorded prison authorities' assessment of their penological objectives and administrative needs, *Procunier v. Martinez*, 416 U.S. 396, 414-16, 94 S.Ct. 1800, 1807, 40 L.Ed.2d 224 (1974), inmates maintain, despite their incarceration, certain constitutional protections, including their First Amendment rights. See *Cruz v. Beto*, 405 U.S. 319, 92 S.Ct. 1079, 31 L.Ed.2d 263 (1972). Inmates' constitutional protections must be balanced, however, against the interests of prison officials, *Pell v. Procunier*, 417 U.S. 817, 822, 94 S.Ct. 2800, 2804, 41 L.Ed.2d 495 (1974); *Benjamin v. Coughlin*, 905 F.2d 571, 574 (2d Cir.), cert. denied, 498 U.S. 951, 111 S.Ct. 372, 112 L.Ed.2d 335 (1990), and courts are charged with intervention where prison regulations or practices imperil constitutional rights. *Procunier*, 416 U.S. at 406, 94 S.Ct. at 1807-1808 ("When a prison regulation or practice offends a fundamental constitutional guarantee, federal courts [must] discharge their duty to protect constitutional rights." (citations omitted)).

[10] Prison security and penological institutional safety goals are indeed a most compelling governmental interest, and plaintiffs concede as much. See *Procunier*, 416 U.S. at 413, 94 S.Ct. at 1811 (recognizing the "legitimate governmental interest in the order and security of penal institutions"); *Pell*, 417 U.S. at 823, 94 S.Ct. at 2804 ("institutional consideration of internal security within the corrections facilities" is "central to all other corrections goals"). However, defendants cannot merely brandish the words "security" and

12. Plaintiffs correctly point out that none of the reports proffered by defendants as relating to gang violence relate the violence to the wearing of beads. This absence in the written reports,

"safety" and expect that their actions will automatically be deemed constitutionally permissible conduct. Indeed, "inadequately formulated prison regulations and policies grounded on mere speculation, exaggerated fears, or post-hac rationalizations will not suffice to meet the [A]ct's requirements." Senate Report at p. 10. Otherwise "[s]eemingly reasonable regulations based upon speculation, exaggerated fears of thoughtless policies cannot stand." House Report.

Defendants argue that beads promote and facilitate gang activity and violence because they are gang identifiers easily displayed to fellow gang members or rivals in the controlled prison setting:

THE WITNESS: [T]he ability to show their specific colors or to bring that piece that they wore in the streets promotes [gang activity] in our facility.

THE COURT: You have to articulate why. Why can't they do that by merely being members of the gang?

THE WITNESS: If five members know that they are members of gang [sic], you are correct that it probably would not make a difference. But if you have a facility that you have 2,000 or 3,000 inmates in it, it is kind of hard. The communication system, even though it is good, it is not very easy, in a yard setting where there is [sic] 400 or 500 inmates, for people to pick out who are their particular members.

Testimony of Deputy Commissioner Glenn S. Goord (hereinafter "Goord testimony"), Tr. 25-26.

While I defer to defendants' assessment of the gang situation within the DOCS system, and I accept defendants' assertions that beads are gang identifiers and facilitate gang activities and violence,<sup>12</sup> this portion of defendants' arguments as justification for the entire scope of its directive does not address the essence of plaintiffs' claim. Defendants have not shown how the directive, which prohibits the wearing of beads even under

nevertheless, does not vitiate defendants' conclusion that the wearing of beads facilitates gang communications or poses a threat of promoting violence.

clothing, further the state's compelling interest in the least restrictive manner. Plaintiffs convincingly argue that wearing beads under their clothes would address DOCS' concerns. Wearing of the beads in this manner avoids their public display and, hence, the easy identification of gang members, while simultaneously permitting plaintiffs to exercise their religion. I am troubled by defendants' complete rejection of plaintiffs' proposal based on what defendants speculatively describe as an "enforcement problem."

Defendants have not proffered persuasive evidence that wearing beads under clothing poses a security risk. I do not conclude that the possession of beads is less dangerous than the actual wearing of beads under an inmate's clothes; in fact, it may be more dangerous to prison security. Beads, whether rosary or Dhikr, or even crosses or crucifixes, once in the possession of an inmate, may be displayed surreptitiously to facilitate gang identification, while also physically available for use as a weapon or for some other illegitimate purpose. In fact, upon cross examination, Deputy Commissioner Goord conceded that the carrying and display of any item, even if momentary and fleeting, can result in problems for prison administrators. Tr. 49-50.

It is obvious from the record before me that, rather than presenting this Court with some support for their alleged security concerns, defendants have merely articulated a speculative difficulty associated with the enforcement of the directive if they permitted inmates to wear their beads under their clothes:

[I]t is difficult for us to supervise the officers when we have inconsistent policy. And if I understand your question, I would say what [sic] inmate can wear beads under his shirt, but another inmate can't wear it. It becomes an enforcement problem.

The ones that are allowed to have the beads, he can possess them. If on a frisk of some kind the officer finds them, he has the ability to say, "O.K., are you allowed to have these," and checks to see. And you

are correct, I don't know how large the number is going to be.

Goord Testimony, Tr. 32-33.

[11] Yet, plaintiffs' free exercise of their religion cannot be contingent on administrative inconveniences, where such inconveniences are no greater than those presented by all prison rules. Enforcement problems are inherent in a prison setting whenever a security guard has to enforce any rule, and are no different or greater whether an inmate possesses or wears Santeria beads under clothing as opposed to crucifixes or medals. Perceived preference exists whenever religious practices are recognized and one prisoner gets something another does not. Dietary differences and the penological problems they create are legendary. Apparently the defendants are blind to the existing directive's distinctions amongst various religions and religious practices. These distinctions—distinctions which favor "traditional" over "nontraditional" religions—are more intolerable than any distinction which would permit the wearing of beads by Santeria adherents. The former is based on unfounded assumptions about the genuine character of religious practices while the latter would be based on actual sincere beliefs.

The inmate predisposed to flout prison rules or to challenge the sanctions on the wearing of beads under clothing is likely to do it with crosses and crucifixes. The enforcement problem is the same. In both cases, the discreet wearing of a religious artifact under an inmate's shirt will amount to the same enforcement problem for prison officials. I cannot find any rational distinction between these two situations.

Defendants further fear that they cannot ensure the beads will not be seen or exhibited if worn under clothing is not reasonably based. Defendants' musings that the beads may be viewed when plaintiffs remove their clothes or might be seen through their clothing, are, considered in the most generous light, simply unconvincing. These hypothetical displays would be nothing more than passing occurrences that would not promote the easy gang identification which defendants allege is the reason beads facilitate gang violence.

Remarkably, defendants have not shown that there has been any attempted or actual illicit use by any prison gang of Santeria beads. I am not clear that the beads used by gang members in any way even remotely resemble Santeria beads, either in shape or color. Although defendants claim that beads have been permitted into the system solely for religious purposes, defendants have not shown how the Santeria beads specifically have been used by gangs to facilitate or encourage gang activity. See Tr. 45. There has not been anything presented to this Court that shows that the real problem does not stem from some other source, for example gang use of craft and hobby beads, rather than from religious beads, be they Santeria beads or some other devotional article.

Even if defendants had presented cogent and compelling evidence establishing a correlation between the wearing of Santeria beads and gang violence, defendants have failed to dispute plaintiffs' allegations that they are not gang members or that the beads they request to wear do not reflect any known gang colors. Defendants' response to plaintiffs' denial of personal gang association or activity is to hypothesize that plaintiffs' beads may be restrung to reflect gang colors for improper use, and that DOCS is not aware of all the colors which may now, or some time in the future, be designated as a gang membership identifier. Tr. 60-61.

The weakness of defendants' position is evident. The possibility that beads may be restrung in order to reflect gang colors and gang affiliation in no way prevents DOCS personnel from confiscating such beads. In that case, the beads would no longer represent, or be used for, religious devotional purposes. Defendants' further concern that some currently non-existent inmate group may in the future form and adopt colors, or that existing gangs may change colors, to coincide with the colors of plaintiffs' Santeria beads, and then choose to wear them under their clothing without public display, is nothing less than "pure speculation," which, as I have already stated, cannot and should not be the basis for burdening plaintiffs' constitutional rights.

I accept that this Court is bound to defer to prison administrators on questions of prison security needs. I also accept DOCS' assertions that prison gang violence is on the rise and threatens the security of the state's prisons, and further that gangs use beads as member identifiers and that, to this extent, the beads facilitate gang activity. Accepting all this, I am not required, on a motion for preliminary injunction, to indulge DOCS' whims and anxieties about prospective hypothetical situations. See Senate Report at 11; House Report. While such claims may later prove sufficient to withstand the plaintiffs' challenge to a carefully considered directive, speculative and uncertain anxieties are simply insufficient, at this time, to sustain a blanket prohibition on wearing beads under clothes. Thus, I find that there is a likelihood that the directive does not embody the least restrictive means to achieve the purported compelling goals of prison security and reduction of prison gang violence.

[12,13] The motion before me presents an opportunity to address defendants' approach to their directive and this litigation. Defendants' responses to the plaintiffs' claims and to questions at the Hearing suggest that, in fashioning their directive, defendants did not adequately investigate and fully understand the Santeria religion. It is significant that the one accommodation of plaintiffs' religion adopted by the defendants—permission to possess beads—is antithetical to plaintiffs' beliefs. The defendants have concluded that there is no significant burden in merely permitting Santeria adherents to possess, but not wear, beads. This view of Santeria, however, completely ignores plaintiffs' claims that it is their sincere belief that they must wear the beads, and that it is the sincere belief of a significant number, if not the majority, of Santeria practitioners that they must wear beads. Defendants ignore the statements by plaintiffs' and their own knowledgeable expert's on this issue. In fact, defendants' expert avers that "Santeria has a long-standing tradition of giving followers the option of wearing or carrying the necklaces." Affidavit of Raul Canizares, ¶3. Even a novice, wholly unfamiliar with Santeria, can glean from these documents, and the statements contained therein, that the wear-

ing of beads is a bona fide tenet of a significant number of Santeria practitioners and that the failure to wear the beads is sincerely believed to result in life altering adverse consequences.<sup>13</sup> The beads are not, as defendants would have me recognize, an optional devotional item. Rather, they are a hallmark of plaintiffs' beliefs. Unlike the choice of, or prohibition against, wearing rosary or Dhikr beads, or crucifixes and crosses, only in the case of Santeria beads does the failure to wear them, according to plaintiffs' beliefs, result in negative, and possibly irreversible life consequences for the practitioner.

DOCS personnel, despite their history in the prison system with Santeria adherents, and despite their own expert's evidence and the significant available literature on the subject, appear, at best, ill-informed and indifferent.<sup>14</sup> The following examination of Deputy Commissioner Goord, a coauthor of the directive, is revealing.

Q. How much research did you do before this challenged directive was promulgated in terms of trying to determine exactly what effect these directives would have on the inmates, specifically, on inmate adherents of Santeria?

A. Richard Moore, who I believe has an affidavit—I am not sure of the extent of

research he did, but he did the research and he was involved, certainly, in setting the policy.

Q. But this directive was under your name?

A. I think it is both of our names.

Q. Did you read any books about Santeria?

A. No, I did not.

Q. Did you speak to any experts about Santeria?

A. I spoke to Richard Moore.

Q. Is he an expert in Santeria?

A. I don't believe so. I don't believe he is.

Tr. 44.

This type of care, or lack of care, in weighing penological interests and religious interests is certainly not of the type commanded by the First Amendment and the Supreme Court in *Church of the Lukumi*, see pp. 16-17, *infra*.

#### IV. The O'Loone/Turner Reasonableness Standard

[14] Even under the O'Loone/Turner reasonableness standard it appears, at this pre-

Prohibiting adherents from practicing what they genuinely believe to be an integral part of their religion can only be a burden. To argue that it is not is to subject religious belief to an evaluation process of the relative importance of the religious tenets, itself inimical to the First Amendment. See *Thomas*, 450 U.S. at 716, 101 S.Ct. at 1431 ("It is not within the judicial function and judicial competence to inquire whether the petitioner or his fellow worker more correctly perceived the commands of their common faith. Courts are not arbiters of scriptural interpretation."). Thus, the number of Santeria practitioners who share plaintiffs' beliefs about wearing beads is not dispositive of the genuine nature of plaintiffs' beliefs. See *Martinelli v. Dugger*, 817 F.2d 1499, 1505 (11th Cir.1987), *cert. denied*, 484 U.S. 1012, 108 S.Ct. 714, 98 L.Ed.2d 664 (1988) (in free exercise of religion case there is no requirement that inmate's belief be shared by a majority of the religion's adherents).

14. Defendants' conflicting information is in striking contrast to plaintiffs' counsel's presentation which provided comprehensive references to this Court on Santeria practices, including the wearing versus possession of the Orisha beads.

liminary stage, that the directive is not likely to withstand judicial scrutiny. In *Turner*, the Court set forth the following factors to be considered in determining the constitutionality of a challenged prison regulation:

1) whether there is a rational relationship between the regulation and the legitimate government interests asserted; 2) whether the inmates have alternative means to exercise the right; 3) the impact that accommodation of the right will have on the prison system; and 4) whether ready alternatives exist which accommodate the right and satisfy the governmental interest.

*Turner*, 482 U.S. at 89-90, 107 S.Ct. at 2262.

Courts are charged under the *Turner* test with determining whether a "valid, rational connection" exists between DOCS' proposed objectives and the challenged directives. *Fromer v. Scully*, 874 F.2d 69, 74 (2d Cir. 1989). Upon consideration of the parties' assertions and evidence submitted to this Court, and applying the *Turner* factors to this case, I conclude that there is a likelihood that plaintiffs can establish that the directive is unconstitutional.

First, as discussed above, prohibiting the wearing of Santeria beads underneath clothing will not eradicate or significantly minimize attempts at individual gang affiliation or gang violence. There is no rational relationship between those objectives and the prohibition on wearing beads under clothing.

Second, the plaintiffs do not have alternative means to exercise their religion. Plaintiffs have stated under oath that they sincerely believe they must wear the beads, not merely possess the necklaces. See *Campos Affidavit*, ¶¶ 3-7, 12; *Lance Affidavit*, ¶¶ 3-7, 18. Their expert also states that "[t]he majority of followers of Santeria believe that the beads must be worn around the neck in order to protect the 'head' of the wearer." *Murphy Affidavit*, at ¶ 12 (emphasis added). Defendants contend otherwise, but submit only an unpersuasive expert's affidavit which merely states that not all Santeria adherents

15. Plaintiffs' papers and supplemental submissions suggest that they are Santeros or are undergoing such recognition within Santeria. See *Lance's Supplemental Affidavit*, ¶¶ 11-12; Letter dated April 8, 1994 from Tony Campos to Mr.

wear the beads, or for that matter believe that they must wear them. However, this same expert also notes that practitioners who undergo the initiation to become a "Santero" may be required to wear the beads at all times, thus recognizing that some practitioners do indeed believe they must wear the beads.<sup>15</sup> Affidavit of Raul Canizares, ¶ 3. In short, defendants' expert does not contravene the plaintiffs' claim that many, if not a majority, of Santeria practitioners believe that wearing their beads is an essential and integral part of their religious practices. Moreover, even if plaintiffs' beliefs about wearing the beads is a minority position among Santeria practitioners, their beliefs are, nevertheless, entitled to First Amendment protection. See *Hernandez v. C.I.R.*, 490 U.S. 680, 109 S.Ct. 2136, 104 L.Ed.2d 766 (1989) (it is not the court's role to question the centrality of particular beliefs or practices to a faith, or the validity of particular litigants' interpretations of the tenets); *Thomas v. Review Bd. of Indiana Employment Sec. Div.*, 450 U.S. 707, 715-16, 101 S.Ct. 1425, 1430-31, 67 L.Ed.2d 624 (1981) (the courts should not assess intrafaith differences); *Martinelli v. Dugger*, 817 F.2d 1499, 1505 (11th Cir.1987), *cert. denied*, 484 U.S. 1012, 108 S.Ct. 714, 98 L.Ed.2d 664 (1988) (minority status of inmate's belief is not significant).

Third, with respect to the impact that accommodating plaintiffs' rights will have on the prison system, based on what the parties have presented to me, I am compelled to conclude that the impact is constitutionally insignificant. In the same manner that defendants monitor and evaluate the conduct of inmates who, under the directive at issue here, are permitted to wear other religious artifacts under their clothing, such as crosses and medals, or who may possess rosary or Dhikr beads, they may similarly oversee the conduct of inmates who wear Santeria beads under their clothing.

Finally, "the existence of obvious, easy alternatives may be evidence that the regula-

*Murphy*. Thus, defendants' own expert might concede that plaintiffs fall within the category of Santeria adherents he recognizes believe that they must wear beads.

tion is not reasonable, but is an 'exaggerated response' to prison concerns." *Turner*, 482 U.S. at 90, 107 S.Ct. at 2262. As discussed fully above, the wearing of the Orisha beads under the plaintiffs' clothing, out of sight and without intent to display them publicly, is a simple and convenient alternative to an absolute ban on wearing beads. While the mere existence of an alternative is not *per se* evidence that the directive is unreasonable,

... if an inmate claimant can point to an alternative that fully accommodates the prisoner's rights at *de minimis* cost to valid penological interests, a court may consider that as evidence that the regulation does not satisfy the reasonable relationship standard.

*Id.* at 91, 107 S.Ct. at 2262.

In summary, the directive is not likely to survive review under the *O'Lone/Turner* reasonableness standard. There is a likelihood of success on plaintiffs' claims that the directive simply is not a reasonable response to the concerns the defendants assert herein, as they significantly burden plaintiffs' constitutional rights to the free exercise of their religion and are not reasonably related to legitimate penological interests.

#### V. The Approval Process

[15] Plaintiffs complain that during the pendency of the DOCS' approval procedure, plaintiffs are denied the right to exercise their religion because they are prohibited from wearing, or even possessing, their beads, in violation of their Fourteenth Amendment due process rights. Defendants respond that they acted properly in establishing an approval procedure whereby they may determine the sincerity of plaintiffs' religious beliefs before they are permitted to possess beads.

[16] In assessing plaintiffs' claims, this Court must decide "whether the plaintiff was deprived of a protected interest, and, if so what process [the plaintiff] was due." *Farid v. Smith*, 850 F.2d 917, 924 (2d Cir.1988). As set forth in *Mathews v. Eldridge*, 424 U.S. 319, 96 S.Ct. 893, 47 L.Ed.2d 18 (1976), there are three factors relevant to this determination:

First, the private interest that will be affected by the official action; second, the risk of an erroneous deprivation of such interest through the procedures used, and the probable value, if any, of additional or substitute procedural safeguards; and finally, the Government's interest, including the function involved and the fiscal and administrative burdens that the additional or substitute procedural requirement would entail.

*Id.* at 336, 96 S.Ct. at 903 (citation omitted).

Certainly plaintiffs have a protected interest in practicing the Santeria religion and thus in wearing their religious beads. See *Church of Lukumi*, — U.S. —, 113 S.Ct. 2217, 124 L.Ed.2d 472 (Santeria practitioners entitled to First Amendment protections); *Cruz*, 405 U.S. 319, 92 S.Ct. 1079 (inmates maintain their First Amendment rights). There is more than an opportunity for an erroneous deprivation here in that there has been an actual deprivation of plaintiffs' beads pending the DOCS approval process, even after local prison administrators recognized the sincerity of plaintiffs' religious beliefs. Finally, there are no additional fiscal and administrative burdens associated with permitting plaintiffs to wear their beads under their clothing while the approval process is completed. According to the defendants, the approval process could be accomplished in a relatively short time, thus, any burden is minimal.

I accept that to properly establish the religious nature of plaintiffs' requests, DOCS must be able to assess the genuine nature of their religious beliefs with respect to the use of beads. However, in this case, DOCS has exercised its authority in an unevenhanded fashion to the plaintiffs' disadvantage for, unlike inmate practitioners of other religions who desire to wear or possess religious items, only Santeria adherents must seek approval for the use of their beads and must forfeit their religious items pending such approval.

DOCS' declared justification for requiring approval by the Central Office, in addition to approval at the facility level, reveals that the approval process, as designed, has more to do with DOCS' administrative inability to

control its staff than with the institutional need to identify genuine religious practitioners. Deputy Commissioner Goord himself testified that he had to inject into the approval process review by his office because of the poor administrative history which characterized the facilities' implementation of the prior religious practice policies.

The policies talked about enforcement. I couldn't control it. I could not control what they were allowing on a facility level, absolutely not, which got me into a position to put out this policy. I finally said to the system, this is our policy. I didn't put myself in to make a determination on a religious tenet. I wanted to make sure that the policy at the facility—not to slow down the process—that I knew was being permitted in the facility. The problem is that, for maybe 14 years or whatever time plaintiff had beads, the facility chaplain or the security supervisors were not following the process. In order to control the gang problem and to get control over the beads, I said, I have to say that I want to look at every one myself.

Tr. 37-38.

In summary, plaintiffs have met their burden of showing a likelihood of success or a serious question on the merits, *albeit* on the narrow and discreet issue of the deprivation of their beads pending completion of the DOCS approval process, to justify preliminary relief.

#### VI. Fourteenth Amendment Violation

[17] Prior to the enactment of the Act, the Second Circuit had held that on an equal protection challenge,

... the reasonableness of the prison rules and policies must be examined to determine whether distinctions made between religious groups in prison are reasonably related to legitimate penological interests.

*Benjamin v. Coughlin*, 905 F.2d at 575 (citation omitted). The Second Circuit had, thus, adopted the *O'Lone/Turner* reasonableness test in assessing inmates' Fourteenth Amendment equal protection claims concerning the free exercise of their religion. Whether this standard survives the passage of the Act need not be decided on the instant

motion since I conclude that even under the less rigorous reasonableness test, plaintiffs have satisfied their preliminary injunction burden.

Plaintiffs complain that Directive # 4202 improperly distinguishes between religious medals, crosses and crucifixes and beads. Plaintiffs argue that this distinction is not reasonable because crosses and crucifixes can easily be used as weapons and because the prohibition on beads does not ensure the reduction or elimination of gang activity or violence. Plaintiffs maintain, and invite this Court to conclude, that defendants' actual rationale for these distinctions is tainted by discriminatory motives.

Defendants maintain that DOCS' distinction is based on defendants' conclusions that colored beads are used by gangs to publicly identify themselves and that they facilitate gang activities. I have accepted this justification and accord the appropriate deference due the defendants' assessment of the gang situation in New York's prisons and gang use of beads. There is nothing now before me to suggest that religious medals and crosses, however, are being used or have been used by prison gangs for their notorious activities.

Accepting defendants' distinction between crosses and beads does not conclude the equal protection inquiry. While it is reasonable to treat differently, even preferably, items which, until now, have not been associated with prison gangs and do not impinge on prison security, it strains the outer boundaries of "reasonableness" to prohibit possession of all Santeria beads, including black and white or gold beads, when rosary and Dhikr beads are not so burdened. Defendants have not proffered a valid reason for such a distinction, and on this record I can find none.

Directive # 4202 favors Christian and Catholic symbols and inmates who use or wear such items. I am sympathetic to plaintiffs' claims, and question the apparent bias prominent throughout the directive toward "traditional" Catholic and Christian religious symbols. Nevertheless, I do not agree that DOCS' distinctions between religious medals and beads as contained in Directive # 4202

are wholly unreasonable. To the extent that defendants have justified such preferences based on institutional security concerns, plaintiffs' likelihood of success on the merits is not apparent. However, to the extent that defendants cannot justify a presumption against all Santeria beads, without imposing similar burdens on rosary and Dhikr beads, defendants' distinction is vulnerable to plaintiffs' equal protection claims on the narrow issue of DOCS' disparate treatment of Santeria beads. The Constitution does not countenance such unabashed bias.

#### VI. Conclusion

For the reasons discussed herein, plaintiffs' motion for a preliminary injunction is **GRANTED**. The defendants are enjoined during the pendency of this action from preventing plaintiffs from receiving in the mail or otherwise, or from wearing their Santeria beads, under their clothing, or from placing them on their shrines, in a manner avoiding the public display of such beads.

SO ORDERED.

#### APPENDIX

Inmates will be permitted to wear only traditionally accepted religious medals, crucifixes, or crosses. The religious medal, crucifix, or cross shall be affixed to a chain only. It is not acceptable to wear religious medals, crucifixes or crosses that are affixed to beads, leather, strings, or rope. Religious medals, crucifixes and crosses shall not exceed the monetary limit for jewelry as set forth in Directive # 4911, *Packages and Articles Sent or Brought into Institutions*. The religious medal, crucifix, or cross on a chain, shall not be of such size or design that can be used as a weapon, conceal contraband, or constitute any other threat to the security or safety of the institution.

All approved religious medals, crucifixes, and crosses shall not be visible and shall be worn underneath clothing at all times. Rosary beads and Dhikr beads are not considered religious medals, and, as such, may be possessed for prayer and worship, but not worn or displayed. Rosary and/or

Dhikr beads in the color of black only will be permitted.

Other traditionally accepted prayer beads, documented and supported on a theological basis for use in the practice of an inmate's documented religion, may also be possessed, but not worn or displayed. Only those colors documented and supported on a theological basis in the practice of an inmate's documented religions will be considered for approval, pursuant to review by the Senior Chaplain and Deputy Superintendent for Security Services. After the review by the Senior Chaplain and Deputy Superintendent for Security Services, a decision will be made to either disapprove the beads or recommend approval to Central Office. If recommended for approval at the facility level, a photograph and a written explanation regarding the theological basis for the recommended approval shall be forwarded to the Assistant Commissioner for Ministerial Services who will review the facility recommendation with the Deputy Commissioner for Correctional Facilities, at which time approval or disapproval shall be determined. If approved by Central Office, the beads will be registered at the facility and a permit will be issued.

As with religious medals, crucifixes, or crosses, religious beads shall not exceed the monetary limit for jewelry as set forth in Directive # 4911, *Packages and Articles Sent or Brought into Institutions*, and shall not be of such size or design that it can be used as a weapon, conceal contraband, or constitute any threat to the safety of the institution.

All stipulations regarding religious articles shall be consistent with the inmate's documented religion.

Directive # 4911, *Packages and Articles Sent or Brought into Institutions*, will be revised to include the above. As of December 1, 1993, no beads, loose or stringed, will be permitted as art/hobby supplies or in any form other than for religious purposes as specified above.

Additionally, as of December 1, 1993, bandannas and/or colored handkerchiefs will not be permitted. Only solid white hand-

#### MISEK-FALKOFF v. INTERNATIONAL BUSINESS MACHINES CORP. 215

Cite as 854 F.Supp. 215 (S.D.N.Y. 1994)

#### APPENDIX—Continued

kerchiefs will be permitted. Directive # 4911 is being revised accordingly. Inmates have until March 1, 1994, to send home or dispose of bandannas and/or colored handkerchiefs.

These revisions supersede all prior policy and CORC decisions regarding these issues.



Linda D. MISEK-FALKOFF and  
Adin Falkoff, Plaintiffs,

v.

INTERNATIONAL BUSINESS  
MACHINES CORPORATION,  
Defendant.

No. 89 CIV 6269(VLB).

United States District Court,  
S.D. New York.

May 13, 1994.

Employee sued employer for violation of Rehabilitation Act after she was placed on permanent disability status, allegedly because of her atypical nervous system disorder. The District Court, Vincent L. Broderick, J., held that: (1) conduct associated with handicap, as distinct from handicap itself, was relevant to determination of whether employee was "qualified" within meaning of Rehabilitation Act; (2) decision to place employee on permanent disability was supported by employee's admission to at least one physically aggressive episode, ongoing disagreement with managers and other employees, and absences from workplace for extended periods of time; and (3) employer made reasonable accommodations for employee, even though employer would not allow employee to work at home.

Motion to dismiss granted.

#### 1. Federal Courts ⇨420

State court's judgment has same full faith and credit in federal court as in courts of state.

#### 2. Federal Courts ⇨420

Federal court must apply, where appropriate, state court's standard of *res judicata*.

#### 3. Judgment ⇨588

Under New York law, determination of whether cause of action is barred because it is based on same set of underlying facts is based on whether cause of action is grounded on same gravamen of wrong on which instant action is brought.

#### 4. Judgment ⇨828.16(3)

Employee's claim of handicap discrimination in violation of both state and federal law was barred by *res judicata* in light of employee's earlier state court action against employer and former managers in which she alleged that defendants engaged in campaign of tortious infliction of emotional distress; employee could have raised all claims in state court and had choice of proceeding initially in federal court. Rehabilitation Act of 1973, § 504, 29 U.S.C.A. § 794; 28 U.S.C.A. § 1367(c)(3); N.Y. McKinney's Executive Law § 296, subd. 1(a); N.Y. McKinney's Civil Rights Law § 40-c.

#### 5. Federal Civil Procedure ⇨2470, 2544

Summary judgment on merits of claims is appropriate if there are no genuine issues of material fact, and moving party establishes its right to judgment as matter of law; nonmoving party must establish genuine issue of material fact. Fed. Rules Civ. Proc. Rule 56(c), 28 U.S.C.A.

#### 6. Federal Civil Procedure ⇨2470

Mere existence of some alleged factual dispute between parties will not defeat otherwise properly supported motion for summary judgment. Fed. Rules Civ. Proc. Rule 56(c), 28 U.S.C.A.

#### 7. Civil Rights ⇨173.1

Rehabilitation Act, which has as its purpose deterring discrimination against handicapped individuals, does not prevent employer from making decisions based on job-relat-

Rabbi Reuven FLAMER, Plaintiff,

v. CITY OF WHITE PLAINS, NEW YORK, Defendant.

CITY OF WHITE PLAINS, NEW YORK, Defendant.

No. 92 Civ. 9165 (SS).

United States District Court,

S.D. New York.

Dec. 6, 1993.

Rabbi who had sought permission to display menorah in city park brought action challenging city council resolution barring fixed outdoor displays of religious or political symbols in parks. Following trial, the District Court, Sotomayor, J., held that: (1) rabbi had standing to pursue facial attack on resolution; (2) evidence did not overcome presumption that parks were traditional public fora; (3) resolution was content-based regulation of speech rather than content-neutral time, place, and manner restriction; and (4) equal access policy permitting fixed religious displays in parks would not violate establishment clause such that clause could serve as compelling basis for resolution, notwithstanding city's contention that such displays gave impression of city endorsement of religion.

Ordered accordingly.

#### 1. Constitutional Law §42(2)

Rabbi had standing to assert facial attack on city council resolution prohibiting fixed outdoor displays of religious or political symbols in city parks, despite city's contention that rabbi had never requested or been denied permission to erect menorah in his individual capacity but only on behalf of organization he represented; resolution posed threat of injury to rabbi by expressly prohibiting expressive activity he sought to engage

in, and rabbi had made his desire to erect menorah display concrete by requesting permit to do so, which request rabbi had been told would be denied under resolution. U.S.C.A. Const. Art. 3, § 1 et seq. Amend. 1.

#### 2. Federal Civil Procedure §103.2

While standing will lie only if plaintiff possesses sufficient personal stake in controversy, that stake is established where such plaintiff has suffered some threatened or actual injury resulting from putatively illegal action; therefore, standing requirement is met where regulation or law poses real and imminent threat of injury to plaintiff. U.S.C.A. Const. Art. 3, § 1 et seq.

#### 3. Constitutional Law §90(1)

Religious and political speech enjoy full protection of First Amendment's fundamental guarantee of freedom of speech. U.S.C.A. Const. Amend. 1.

#### 4. Constitutional Law §90.1(4)

First Amendment's fundamental guarantee of freedom of speech does not translate into unlimited access to government property for expressive purposes; rather, whether restrictions on access to public property impermissibly infringe on free speech rights depends on nature of property at issue. U.S.C.A. Const. Amend. 1.

#### 5. Constitutional Law §90.1(4)

Public park is traditional public forum, inasmuch as such setting has historically served both in practice and in public perception as recognized enclave of free expression, and most exacting scrutiny attends restrictions on expressive activity in public park; government may enforce content-based restriction on speech in public park only if regulation is necessary to serve compelling state interest and is narrowly drawn to achieve that end; government may enforce content-neutral regulation on expression in public park only if it serves significant government interests, is narrowly tailored, and leaves open ample alternative channels of communications. U.S.C.A. Const. Amend. 1.

6. Constitutional Law  $\S$  90.1(4)

Nonpublic fora are government-owned properties not open by tradition to public for expressive activities, and less stringent standards govern restrictions on access to such properties; both content-neutral time, place, and manner restrictions and reasonable content-based restrictions are appropriate, although government may not restrict speech simply because it opposes viewpoint expressed. U.S.C.A. Const.Amend. 1.

7. Constitutional Law  $\S$  90.1(4)

Designated public forum consists of property which government has intentionally opened for expressive activity by all or part of public; access restrictions to such forum are governed by same rigorous standards that apply to traditional public forum. U.S.C.A. Const.Amend. 1.

8. Constitutional Law  $\S$  84.5(11)

Evidence did not overcome presumption that city parks as public parks were traditional public fora, notwithstanding city's asserted historical practice of excluding fixed displays of religious and political symbols from parks; restrictions define forum only if property is inherently nonpublic, and evidence showed that city's parks were classic traditional public fora. U.S.C.A. Const. Amend. 1.

9. Constitutional Law  $\S$  84.5(11)

City council resolution barring fixed outdoor display of religious or political symbols in city parks was not content-neutral time, place, and manner restriction, and instead was content-based regulation of speech, notwithstanding city's contention that it burdened all religious displays equally. U.S.C.A. Const.Amend. 1.

10. Constitutional Law  $\S$  84.5(11)

Equal access policy permitting fixed religious displays in city's public parks would not violate establishment clause, and city could not rely on clause to justify resolution barring fixed outdoor display of religious or political symbols in parks, notwithstanding contention that presence of religious symbols would convey impression of city's endorsement of religious messages conveyed or religion in general; equal access policy would

have secular purpose of promoting free speech and religious tolerance, policy would not entangle city with religion since private religious and secular fixed displays would be on equal footing, and parks in question were not closely associated with seat of government and were traditionally open to diverse public expressive activity, including private free-standing nonreligious displays. U.S.C.A. Const.Amend. 1.

11. Constitutional Law  $\S$  84.1

Governmental action contravenes establishment clause if: (1) it lacks secular purpose; (2) has principal or primary effect of advancing or inhibiting religion; or (3) fosters excessive entanglement with religion. U.S.C.A. Const.Amend. 1.

12. Constitutional Law  $\S$  84.5(11)

Even if establishment clause provided compelling justification for city council resolution's content-based restriction on expressive conduct by barring fixed outdoor displays of religious or political symbols in city parks, resolution would still be void as violative of First Amendment since it was not narrowly tailored to achieve its asserted goal of avoiding impression of city endorsement of religion; resolution was overbroad in that it banned private fixed displays of political as well as religious symbols, and no establishment clause concerns were raised by fixed political displays; moreover, less restrictive means, such as signs, existed to dispel any mistaken impression of government endorsement. U.S.C.A. Const.Amend. 1.

Nathan Lewin, Nili Kuckes, James Heaven, Miller, Cassidy, Larocca & Lewin, Washington, DC, for plaintiff Rabbi Reuven Flamer.

Vincent R. Fontana, Robert P. Pagano, Wilson, Elser, Moskowitz, Edelman & Dickler, New York City, for defendant City of White Plains, NY.

## OPINION AND ORDER

SOTOMAYOR, District Judge.

This case involves the interplay between two of our nation's most cherished values:

## FLAMER v. CITY OF WHITE PLAINS, N.Y.

Cite as 841 F.Supp. 1365 (S.D.N.Y. 1993)

1367

freedom of expression and freedom of religion. In 1991 and 1992, plaintiff Rabbi Reuven Flamer ("Rabbi Flamer") sought permission to display a menorah during the holiday of Chanukah in one of two city-owned parks, Tibbits Park ("Tibbits") or Main Street/Mamaroneck Avenue Plaza Park ("Main"), located in the downtown area of White Plains, New York. Defendant, the City of White Plains, New York (the "City"), denied both requests pursuant to a December 2, 1991 Resolution (the "Resolution"), adopted by the White Plains Common Council (the "Common Council"), which prohibits "fixed outdoor display[s] of religious or political symbols" in City parks.

Rabbi Flamer desires to erect a temporary free-standing menorah in a City park during the eight day holiday of Chanukah this year and in the future. He claims that the City's Resolution is unconstitutional under the Free Speech and Free Exercise Clauses of the First Amendment, and the Equal Protection Clause of the Fourteenth Amendment. Rabbi Flamer requests that I (1) declare the Resolution unconstitutional; (2) permanently enjoin the City from applying the Resolution to his requests to display a menorah in a City park; and (3) order the City to permit him to erect a free-standing menorah in a City park during the Chanukah holiday this year and thereafter.

The City concedes that the Resolution restricts expressive conduct protected by the First Amendment, but contends that the Resolution is a constitutionally valid time, place and manner restriction that is necessary to avoid a violation of the Establishment Clause. The City claims that because it has never allowed fixed, free-standing religious displays in City parks, permitting such a display now would violate the Establishment Clause because it would convey the impression that the City endorsed particular religions or religion generally.

This case was tried before me on October 18, 1993, and the record, as agreed by the parties, consists entirely of stipulations of fact, depositions, answers to interrogatories and requests for admissions, and exhibits. Jurisdiction is premised on 28 U.S.C. §§ 1331 & 1343(a) (1993). This Opinion and

Order sets forth my findings of fact and conclusions of law. For the reasons discussed below, I find the Resolution unconstitutional and enjoin the City from applying the Resolution to Rabbi Flamer's requests.

## I. BACKGROUND

Rabbi Flamer is an Orthodox Jewish Rabbi who is a member of the Hasidic Lubavitcher sect of Orthodox Judaism. Rabbi Flamer resides in White Plains, New York. At all relevant times, Rabbi Flamer has served as the Executive Director of Chabad Lubavitch of Westchester County ("Chabad"). Chabad is an Orthodox Jewish organization concerned with Jewish education and other issues. Chabad does not have a membership in the sense of a congregation, and Rabbi Flamer and his wife are the organization's sole officers.

The City is a municipal corporation of the State of New York, located in Westchester County. The City, through the White Plains Department of Recreation and Parks (the "Parks Department"), maintains over 200 acres of park land in Westchester County. Since 1979, Joseph P. Davidson has served as the Commissioner of the Parks Department.

Chapter 6-2 of the White Plains Code, entitled "Parks and Playgrounds," sets forth general rules governing use of City parks. Park use is also governed by municipal, state and federal laws, as well as formal and informal policies and practices devised by the Parks Commissioner. Like private parties, the City must comply with all relevant laws and administrative rules in its use of the parks.

Those, including the City, who wish to use a City park for an event involving more than 25 people, the placement of objects or equipment, or the use of a sound system must obtain a permit from the Parks Department. To request a permit, parties generally send a written request to the Parks Commissioner detailing various aspects of the proposed use, including the time, date, and number of people expected. All requests other than those for ballpark or athletic permits are handled by the Parks Commissioner and his Deputy Commissioner, who examine them for user

conflicts, operational concerns and legality. If a request is granted, permit holders typically must meet certain conditions, such as providing evidence of insurance, ensuring that public access to the park is not impeded, and agreeing to comply with the City's noise ordinances.

#### A. Tibbits and Main

Two of the City's parks, Main and Tibbits, are situated in the downtown area of White Plains. Main, a public park which has been in existence since 1983, is slightly less than half an acre in size, and is bounded by Main Street, Mamaroneck Avenue and Court Street. Main is located approximately one block from City Hall; however, City Hall is only visible from that portion of the park which fronts on Main Street. Various commercial buildings and stores surround Main, but no government buildings adjoin the park. Main contains, among other things, a fountain, park benches and concrete planters.

A few blocks from Main lies Tibbits, a public park, whose use dates back to George Washington's time, when the area served as the town commons or village green. Two acres in size, Tibbits consists of a strip of land extending several blocks, approximately 15 to 20 feet wide at its narrowest end, the northernmost end of the park, and 300 to 400 feet at its widest point, the southernmost end of the park. The park forms a median between North and South Broadway, with three lanes of traffic on each side. Residential and commercial buildings as well as two government buildings, the White Plains Parking Authority and the City Armory which houses certain municipal offices, adjoin the park. Like Main, Tibbits is located approximately one block from City Hall, which is visible only from that area of the park located at the corner of Main Street and North Broadway. Tibbits contains, among other things, park benches, a fountain, and a gazebo, constructed in 1984 by the White

Plains Beautification Foundation, Inc. City Hall can not be seen from the park block where the fountain and gazebo are located.

Tibbits and Main are "dedicated" park lands open for use by members of the public. For property to become "dedicated" park land, the Common Council must pass a resolution designating the property as such and the New York State legislature must approve the designation. Unlike other municipal property, "dedicated park land" may only be used for park and recreational purposes and can only be alienated by act of the state legislature. In addition, the Parks Department has classified Tibbits and Main as "passive" parks. Passive parks are parks set aside for peaceful enjoyment by individuals. In a passive park, individuals may walk, sit, talk, relax and do anything else that is quiet and passive. Active parks, by contrast, are those where active athletic and recreational activities are permitted.

Over the years, a wide array of expressive activity by private groups and individuals has occurred in both Tibbits and Main. A prime arena for political expression, Main has been used by numerous political and social activist organizations for demonstrations, rallies and vigils, around issues as diverse as Middle East peace, the United States' invasion of Panama, abortion rights and nuclear disarmament.<sup>1</sup> Main was also used as the starting or ending point in a march by advocates for the homeless. In addition, a nursing organization held a vigil for cancer victims, which included an ecumenical service, on Main's Plaza. In Tibbits, historically a forum for public assembly and debate, the City and the White Plains Cemetery conducted a wreath-laying ceremony for soldiers killed in World War I. The Sons of Italy have also conducted a wreath-laying ceremony there to commemorate Columbus Day. Tibbits has also been the site of gatherings honoring those who died in the Civil and Spanish American Wars.

In certain areas of the park, the Nuclear Freeze Movement has also used the park to commemorate the anniversary of Hiroshima. In addition, during the 1992 presidential campaign, pro-choice groups held a campaign rally there for President Clinton, Vice-President Gore and local pro-choice candidates.

#### FLAMER v. CITY OF WHITE PLAINS, N.Y.

Cite as 841 F.Supp. 1365 (S.D.N.Y. 1993)

In addition, diverse creative and social events are regularly held in these parks. Since 1972, the Parks Department and the Citizens's Festival Committee, a private, not-for-profit organization, have sponsored the White Plains Outdoor Arts Festival in Tibbits, along the sidewalks of Main Street and Broadway, and in Main's Plaza. The Arts Festival, which showcases more than 160 exhibits, lasts approximately three days over a weekend in June, and involves the erection of various temporary but fixed structures, namely, free-standing tents, temporary barricades and signs. These objects are permitted to remain in the parks overnight during the three-day event.

Tibbits and Main are also home to the Noonday Festival of Live Music, another annual creative event organized by the City. This festival, which began in Tibbits in 1980, and was extended to Main in 1983, involves a series of musical concerts during the months of June and July and is funded by corporate sponsors. In Main, portable shade tents have been erected for the performances.<sup>2</sup>

Winter holiday festivities in Tibbits and Main have regularly included fixed displays which remained standing throughout the holiday season. On several occasions since 1983, a holiday tree, donated by private parties and decorated by volunteers and City employees, has been displayed in Main. This tree, which is approximately four to six feet in height, has remained in place throughout the December holiday season. Similarly, a decorated holiday tree, ranging from fifteen to thirty feet in height, has been placed in or near the fountain in Tibbits each year since 1983. Like the Main holiday trees, the Tibbits' trees are donated by private parties, and have remained standing throughout the holiday season, and occasionally through spring. In addition, the White Plains Beautification Foundation, Inc., a private group, has placed a decorated holiday tree, up to eight feet in height, in the Tibbits gazebo each year from 1990 to 1992. On occasion, Christmas songs, some religious in nature,

have been sung or played at the lighting of the Main and Tibbits' holiday trees. In accordance with Supreme Court precedent, see *County of Allegheny v. American Civil Liberties Union*, 492 U.S. 573, 616, 109 S.Ct. 3086, 3113, 106 L.Ed.2d 472 (1989) (plurality opinion) (a "Christmas tree, unlike a menorah, is not itself a religious symbol"), the parties acknowledge, however, that the holiday trees in Tibbits and Main are not religious symbols.

The Parks Department has also permitted private fixed displays on other City-owned property. For the past four years, a United Way sign has been placed for some months at the corner of Gedney Way and Mamaroneck Avenue on the City's right-of-way near Gilley Park. A similar sign has been displayed on the steps of City Hall.

While Tibbits and Main have served as forums for a host of diverse gatherings, displays and other activities, the Parks Department has on occasion denied requests to use the parks. For example, based on its designation of Main and Tibbits as "passive parks," the Parks Department refused the Westchester Chapel and Grace Church permission to hold musical concerts in Main, and a labor union permission to hold a rally involving approximately 1500 people in Tibbits.

#### B. Rabbi Flamer's 1991 Menorah Display Request

In October 1991, Rabbi Flamer wrote to Commissioner Davidson to request a permit, on behalf of Chabad, to erect an electric menorah in Main during the Jewish holiday of Chanukah, which lasted from December 1 to December 8, 1991.<sup>3</sup> Chanukah is a religious holiday observed by Jews during an eight day period which ordinarily falls between the latter part of November and the first part of January of each year. The menorah, a religious symbol of the Jewish faith associated with the celebration of lights of the Chanukah holiday, is a nine-pronged candelabra representing the eight days of

1. For example, WESPAC, a private organization involved in political and social activism, has held vigils in Main around the United States' invasion of Panama and the Middle East peace process. The permits issued to WESPAC in connection with these vigils allowed the organization to distribute information and place tables and chairs

2. Other activities in Main have included noonday one-mile walks in 1991 and 1992, co-sponsored by the City and Physicians' Health Services.

3. In his letter, Rabbi Flamer, however, requested to leave his menorah display standing until December 10, 1991, two days after the Chanukah holiday ended.

Chanukah, with one space for a candle used to light the other eight. Designed for outdoor use, the menorah Rabbi Flamer proposed to display was constructed of aluminum and measured nine feet tall. In conjunction with his display request, Rabbi Flamer also requested permission to run a sound system in connection with a menorah lighting ceremony.

Finding Rabbi Flamer's request "unusual," Commissioner Davidson brought it to the attention of White Plains mayor, Alfred Del Vecchio. When Rabbi Flamer contacted him a few weeks later to inquire about the request, Commissioner Davidson informed Rabbi Flamer that it had been referred to the Corporation Counsel's office.

As of November 6, 1991, Rabbi Flamer had not received any response to his request. That day he sent a second letter to Commissioner Davidson, stating that he assumed the City's silence meant that a permit was forthcoming and thus, was going "full steam ahead" with the event. A week later, by letter dated November 13, 1991, Commissioner Davidson informed Rabbi Flamer that the City had denied his request to erect a menorah in Main, but invited Rabbi Flamer to meet with him to discuss "other locations that would be more suitable," and "matters such as plan specifications for the Menorah, hold harmless clauses for the City, adequate insurance, and security measures". Although the letter stated that the distribution of food and the amplification of music in connection with Rabbi Flamer's proposed event would be inappropriate, it offered no explanation as to why the City had denied Rabbi Flamer's request. Later, during his deposition, Commissioner Davidson explained that recent vandalism in Main had prompted the City to deny Rabbi Flamer's request.

On or about November 26, 1991, Rabbi Flamer and Commissioner Davidson, joined by Joseph Nicoletti, the Deputy Commissioner of the White Plains Department of Public Works, met at Tibbits. Deputy Commissioner Nicoletti inspected Rabbi Flamer's menorah, and informed him that one of the menorah's electrical prongs was defective. Rabbi Flamer agreed to change the prong and provide proof of insurance. While at Tibbits,

Commissioner Davidson, Rabbi Flamer and Deputy Commissioner Nicoletti discussed potential locations in Tibbits for placement of the menorah. At trial, the City argued that both the gazebo and fountain areas of Tibbits were too small to hold a combined holiday tree and menorah display. The City maintains that the only other site capable of displaying the menorah with adequate lighting is an adjacent grass area, separated from the gazebo and fountain by a pathway. The City does not allege that the grass area can not accommodate both a menorah and a holiday tree.

After the meeting at Tibbits, Rabbi Flamer believed that, assuming his insurance was in order and the menorah plug was replaced, the City would issue a permit for the proposed menorah in Tibbits the following Friday, on November 29, 1991. Hence, prior to that date, Rabbi Flamer replaced the electrical plug and confirmed that Deputy Commissioner Nicoletti had received a copy of his insurance policy.

The day after Rabbi Flamer met Commissioner Davidson in the park, a newspaper article appeared in the Gannett Newspapers, *Reporter Dispatch*, entitled "City Will Let Menorah Stand in the Park." The article reported that the City planned to allow a Hasidic group to erect a menorah in Tibbits, next to a holiday tree. This article sparked great controversy within the Jewish community, and prompted vocal opposition by a number of rabbis in the Westchester community who believed that the Chanukah holiday should be celebrated in private settings, such as homes and synagogues, and not in public spaces like parks.

On November 29, 1991, Mayor Del Vecchio, called a special meeting of the Common Council to discuss Rabbi Flamer's request. The special meeting was held two days later, on December 1, but because of the lack of a quorum, was adjourned to the following day.

Shortly around sundown on December 1, 1991, the first day of Chanukah, Rabbi Flamer and approximately thirty other individuals gathered in Tibbits to celebrate the beginning of Chanukah. Rabbi Flamer brought a two and one-half foot menorah, which was

## FLAMER v. CITY OF WHITE PLAINS, N.Y.

Cite as 841 F.Supp. 1365 (S.D.N.Y. 1993)

1371

not lit. The gathering lasted approximately twenty minutes, during which time the assembled group performed several traditional dances. The City did not prevent Rabbi Flamer from using Tibbits for this gathering and indicated at trial that religious ceremonies of this type were not prohibited in City parks.

On December 2, 1991, all seven members of the Common Council met in a public meeting attended by Rabbi Flamer, Corporation Counsel Anthony J. Grant, and numerous community residents. During the Common Council meeting, Rabbi Flamer's proposed menorah display came under strong attack from members of the White Plains Jewish community.<sup>4</sup> Rabbi Mark Weiner of the White Plains Jewish Community Center asserted that the "overwhelming majority of the Jewish community" felt that the proposed menorah display should not be allowed. In addition, a letter submitted by the American Jewish Committee opposing the display was read into the record.

Corporation Counsel Grant advised the Common Council members that they had two options: (1) deny Rabbi Flamer's request based on the City's historical practice of "not permit[ing] religious [or political] displays in any of [its] . . . parks;" or (2) permit the City's parks to be used as "public forum[s]" by religious as well as nonreligious groups and persons.

After extensive debate, the Common Council passed the Resolution which reads as follows:

WHEREAS, the City has received requests for the outdoor display of religious symbols in city parks; and

WHEREAS, historically the City of White Plains has not permitted the outdoor display of religious or political symbols in city parks; now, therefore, be it

RESOLVED, that the City affirms its historical position that there be no fixed out-

<sup>4</sup> It appears that prior to the December 2, 1991 meeting, Rabbi Mark Weiner and members of the American Jewish Committee contacted the Common Council to voice their opposition to Rabbi Flamer's proposed menorah display.

door display of religious or political symbols in the City's parks.

Based on the Resolution, Rabbi Flamer's request to erect a menorah display was denied.

### C. Rabbi Flamer's 1992 Menorah Display Request

The following year, on December 7, 1992, Rabbi Flamer made another request to erect a menorah display in a City park during the Chanukah holiday, which began that year on December 18. By letter dated December 9, 1992, Corporation Counsel Grant advised Rabbi Flamer that his permit request was denied on the basis of the Resolution's prohibition of outdoor fixed displays of religious or political symbols. On or about December 14, 1992, Rabbi Flamer sent a letter to Corporation Counsel Grant requesting that the City reconsider its decision. Citing the Supreme Court's decision in *Allegheny*, Rabbi Flamer expressed his willingness to erect his menorah "immediately adjacent to the Christmas tree in Tibbits Park, near the corner of Main Street and Broadway." The City refused to reconsider its denial, and the present lawsuit ensued.

At trial, Rabbi Flamer indicated that he had filed a request to erect a menorah in a City park this year.<sup>5</sup> Though claiming that he was unaware of this request, counsel for the City made clear that any such request would be denied pursuant to the Resolution.

## DISCUSSION

### 1. Standing

[1] Initially, the City argues that Rabbi Flamer lacks standing to launch a facial attack on the Resolution because he has never requested or been denied permission to erect a menorah in his individual capacity. The City claims that Rabbi Flamer's 1991 and 1992 permit requests were made on behalf of his organization, Chabad, and thus, Rabbi Flamer has not demonstrated the requisite "injury in fact" to confer standing.<sup>6</sup>

<sup>5</sup> This request, however, is not included in the record before me.

<sup>6</sup> Rabbi Flamer was substituted for Chabad as the plaintiff in this action precisely because of the City's initial objection that Chabad had no independent corporate existence, and was merely

Rabbi Flamer asserts that the requests were made on his own behalf as well as that of Chabad-Lubavitch, and further contends that even if they were not, he would still have standing to challenge the Resolution because he wishes to erect a menorah in a City park this year and in the future.

[2] I agree that Rabbi Flamer has standing to bring a facial challenge to the Resolution. While standing will lie only if a plaintiff possesses a sufficient personal stake in the controversy, that stake is established where such plaintiff has suffered "some threatened or actual injury resulting from the putatively illegal action". *Warth v. Seldin*, 422 U.S. 490, 499, 95 S.Ct. 2197, 2205, 45 L.Ed.2d 343 (1975) (citation omitted). The standing requirement is, therefore, met where a regulation or law poses a real and imminent threat of injury to a plaintiff. *Valley Forge Christian College v. Americans United for the Separation of Church & State, Inc.*, 454 U.S. 464, 472, 102 S.Ct. 752, 758, 70 L.Ed.2d 700 (1982); see *Carey v. Kutznick*, 637 F.2d 834, 838 (2d Cir.1980) (citizens had standing to challenge census undercount because they alleged concrete harm in form of dilution of votes and risk of decreased federal funds).

The Resolution clearly poses a threat of injury to Rabbi Flamer. By barring fixed displays of religious symbols in City parks, the Resolution expressly prohibits the expressive activity Rabbi Flamer seeks to engage in: erecting a temporary free-standing menorah in a City park that will remain standing throughout the eight-day Chanukah holiday. Rabbi Flamer has made his desire to erect a menorah display this year concrete by requesting a permit to do so. At trial, counsel for the City stated that any such request would be denied under the Resolution. Thus, whether Rabbi Flamer requested permission to erect a menorah on his own behalf in 1991 and 1992 is irrelevant, since

the alter ego of its two officers—Rabbi Flamer and his wife.

7. Even if Rabbi Flamer had not applied for a permit this year, he still would have standing to challenge the Resolution. The Supreme Court has recognized an exception to ordinary standing requirements for broadly written laws, such as the Resolution, whose every application creates "an impermissible risk of suppression of ideas."

the Resolution poses present and immediate harm to Rabbi Flamer's free speech rights.<sup>7</sup> Accordingly, Rabbi Flamer has standing to bring a facial challenge to the Resolution.

## II. The Resolution

[3] The First Amendment, applicable to the City via the Fourteenth Amendment, *Everson v. Board of Educ.*, 330 U.S. 1, 8, 67 S.Ct. 504, 508, 91 L.Ed. 711 (1947); *Cantwell v. Connecticut*, 310 U.S. 296, 303, 60 S.Ct. 900, 903, 84 L.Ed. 1213 (1940), provides that "Congress shall make no law abridging the freedom of speech." U.S. Const. amend. I. Religious and political speech enjoy the full protection of this fundamental guarantee. *Boos v. Barry*, 485 U.S. 312, 318, 108 S.Ct. 1157, 1162, 99 L.Ed.2d 333 (1988) (political speech "operates at the core of the First Amendment"); *Widmar v. Vincent*, 454 U.S. 263, 268-69, 102 S.Ct. 269, 274, 70 L.Ed.2d 440 (1981) (religious worship and discussion are "forms of speech and association protected by the First Amendment"); see *Heffron v. International Soc'y for Krishna Consciousness, Inc.*, 452 U.S. 640, 647, 101 S.Ct. 2559, 2563, 69 L.Ed.2d 298 (1981) (oral and written dissemination of religious views protected by First Amendment).

[4] While displays of religious and political symbols are unquestionably forms of protected speech under the First Amendment, *Tinker v. Des Moines Indep. Community Sch. Dist.*, 393 U.S. 503, 505, 89 S.Ct. 733, 735, 21 L.Ed.2d 731 (1969) (wearing black armband to protest Vietnam War is protected speech); *Chabad-Lubavitch of Ga. v. Miller*, 5 F.3d 1383, 1386 (11th Cir.1993) (en banc) (menorah display in core government building deemed protected speech); *Kreimer v. City of San Diego*, 988 F.2d 883, 891-92 (9th Cir.1993) (private display in public park consisting of scenes from New Testament

*Members of City Council v. Taxpayers for Vincent*, 466 U.S. 789, 799 n. 15, 104 S.Ct. 2118, 2125 n. 15, 80 L.Ed.2d 772 (1984). Since the "very existence" of such laws "may have a deterrent effect on free expression," they are subject to a facial challenge "even by a party whose own conduct may be unprotected". 466 U.S. at 799, 104 S.Ct. at 2125.

was protected speech under First Amendment); *Americans United for Separation of Church & State v. City of Grand Rapids*, 980 F.2d 1538, 1542 (6th Cir.1992) (en banc) (menorah display in public plaza was protected speech); *Doe v. Small*, 964 F.2d 611, 618-19 (7th Cir.1992) (en banc) (display of religious paintings in public park was protected speech); *McCreary v. Stone*, 739 F.2d 716, 723 (2d Cir.1984) (creche display in public park held "protected speech" for First Amendment purposes), *aff'd by an equally divided Court*, 471 U.S. 83, 105 S.Ct. 1859, 85 L.Ed.2d 63 (1985), it is well-settled that this fundamental guarantee does not translate into unlimited access to government property for expressive purposes. *International Soc'y for Krishna Consciousness v. Lee*, — U.S. —, —, 112 S.Ct. 2701, 2705, 120 L.Ed.2d 541 (1992) (Port Authority regulation forbidding solicitation of money in airport terminals did not violate the First Amendment). Whether restrictions on access to public property impermissibly infringe on free speech rights depends on the nature of the property at issue. Under this "forum-based" approach, public property is classified into three categories. *Krishna*, — U.S. at —, 112 S.Ct. at 2705-06; *Cornelius v. NAACP Legal Defense & Educ. Fund, Inc.*, 473 U.S. 788, 800, 105 S.Ct. 3439, 3448, 87 L.Ed.2d 567 (1985).

[5] The first category, the traditional public forum, consists of those places that "have immemorially been held in trust for the use of the public, and time out of mind, have been used for purposes of assembly, communicating thoughts between citizens, and discussing public questions". *Perry Educ. Ass'n v. Perry Local Educators' Ass'n*, 460 U.S. 37, 45, 103 S.Ct. 948, 955, 74 L.Ed.2d 794 (1983) (quoting *Hague v. CIO*, 307 U.S. 496, 515, 59 S.Ct. 954, 963, 83 L.Ed. 1423 (1939)). Public parks are "quintessential public forums," since these settings historically have served both in practice and in public perception as recognized enclaves of free expression. *Id.* The most exacting scrutiny attends restrictions on expressive activities in these classic public forums. Government may enforce a content-based restriction on speech in this type of forum only if the regulation is "necessary to serve a

compelling state interest," and is "narrowly drawn to achieve that end". *Id.* While content-neutral regulations on expression in traditional public forums need only serve a significant government interest, they, too, must be narrowly-tailored and must "leave open ample alternative channels" of communications." *Id.*

[6] Less stringent standards govern restrictions on access to properties falling within the second category, the nonpublic forum. Nonpublic forums are government-owned properties not open by tradition to the public for expressive activities. As to these properties, both content-neutral time, place and manner restrictions and "reasonable" content-based regulations on speech are appropriate. See *Krishna*, — U.S. at —, 112 S.Ct. at 2705 ("challenged regulation need only be reasonable"); *Travis v. Owego-Apalachin Sch. Dist.*, 927 F.2d 688, 692 (2d Cir. 1991) (same). However, government, even in this forum, may not restrict speech because it opposes the viewpoint expressed. *Krishna*, — U.S. at —, 112 S.Ct. at 2705-06.

[7] The last category, the designated public forum, consists of properties which the government has intentionally opened for expressive activity by all or part of the public. *Krishna*, — U.S. at —, 112 S.Ct. at 2705. Access restrictions to these forums are governed by the same rigorous standards that apply to those governing traditional public forums. *Id.* The Second Circuit has identified a sub-category of the designated public forum, which it has termed the "limited public forum". A limited public forum is "created when government opens a nonpublic forum but limits the expressive activity to certain kinds of speakers or to the discussion of certain subjects." *Travis*, 927 F.2d at 692 (citing *Deeper Life Christian Fellowship v. Board of Educ.*, 852 F.2d 676, 679 (2d Cir. 1988); *Calash v. City of Bridgeport*, 788 F.2d 80, 82 (2d Cir.1986)). In limited public forums, once government "allows expressive activities of a certain genre, it may not selectively deny access for other activities of that genre." *Id.*

[8] As public parks, the City's park land is presumptively traditional public forum property. *United States v. Grace*, 461 U.S. 171, 176, 103 S.Ct. 1702, 1707, 75 L.Ed.2d 736 (1983) (public parks, "are considered, without more, public forums"). In arguing that its asserted historical practice of excluding fixed displays of religious and political symbols from its parks defeats this presumption, the City misperceives the relevance of past restrictions on expressive activity in defining a forum. Such restrictions define a forum only if the property at issue is inherently nonpublic and would not have been open to the public for expressive purposes absent affirmative governmental action. See *Travis*, 927 F.2d at 692 (limited public forum created when government opens nonpublic forum but limits expressive activity to certain kinds of activity). Past use restrictions are irrelevant in the case of a public park, which by tradition, not governmental initiative, is open to all manner of speech. See *Kreimer*, 988 F.2d at 893 (no affirmative governmental action required to open public park to specific type of expressive activity).

The Second Circuit's decision in *Kaplan v. City of Burlington*, 891 F.2d 1024 (2d Cir. 1989), does not, as the City contends, stand for the proposition that past governmental practice of excluding particular types of speech alters a public park's status as a traditional public forum, for the *Kaplan* court explicitly recognized that the park at issue, City Hall Park, was "indisputably a traditional public forum". *Id.* at 1029. Admittedly, however, the *Kaplan* decision is somewhat confusing because it does contain language suggesting that limited public forum considerations are relevant in evaluating access restrictions to traditional public forums. In attempting to distinguish *Widmar*, where the Supreme Court held that a University, having created a forum generally open to wide array of student groups, could not enforce a content-based exclusion of religious speech, the *Kaplan* court stated that the City of Burlington "had not created a

forum in City Hall Park open to the unrestricted, solitary display of religious symbols." *Id.* This language conflates limited public forums with traditional public forums, which, as noted above, derive their status from history and tradition, not governmental action. See *Kaplan*, 891 F.2d at 1032 (Meskill, dissenting) ("park's status as a public forum does not depend upon whether the City in the past permitted a particular type of speech or form of expressive conduct").

Moreover, *Kaplan*'s distinction of *Widmar* is flawed by its suggestion that a content-based restriction on access defines the scope of a public forum. The Supreme Court decision in *Widmar* is exceedingly clear. In a public forum, limited or unlimited in the First Amendment proscribes discrimination between non-religious and religious speech as well as discrimination among religious speakers. *Widmar*, 454 U.S. at 710, 102 S.Ct. at 278 (University's exclusion of student groups espousing religious message from using its premises "violate[d] the fundamental principle that a state regulation of speech should be content-neutral").

Here, the record is devoid of evidence suggesting that the City's parks, unlike most parks, are not traditional public forums. Quite the contrary, the record amply demonstrates that the two City-owned parks, which Rabbi Flamer sought to display a menorah, Tibbits and Main, are classic traditional public forums. Both of these parks have been dedicated by the City for public use as city parks, and under New York law will be used for such purposes unless the legislature alter their status.<sup>8</sup> Consistent with this designation, both of these parks throughout the years have served as a situs for a wide array of privately-sponsored public expressive activity, including rallies and demonstrations. Indeed, Tibbits's use as a forum for public expression and assembly dates back to colonial times when the park served as the town commons and village green.

"non-expressive" must fail, given that the City has authorized a wide range of public expressive activities in its parks, including abortion rallies, political vigils and demonstrations sponsored by private groups.

Moreover, nothing in the record suggests that any of the City's parks, unlike the park at issue in *Kaplan*, are closely associated with the seat of City government. Certainly, the City's permit requirement for specified activities in City parks does not establish this nexus. Furthermore, although Tibbits and Main are within its vicinity, City Hall is only a block from one corner of each park, and wide avenues separate both these corners from City Hall. In addition, the downtown area in which these parks are located, despite the presence of City Hall and a few other governmental buildings, is not devoted either exclusively or predominantly to government activities. Numerous commercial and residential properties are interspersed throughout the downtown White Plains. As the City has proffered no evidence tying any of its other parks, either in proximity or public perception, to the seat of City government, I conclude that the City's parks are true traditional public forums.

[9] Because the Resolution prohibits expressive conduct in traditional public forums, I must now determine whether it is a content-neutral time, place and manner restriction, or a content-based regulation of speech. This is an easy task because the Resolution, barring the "fixed outdoor display of religious or political symbols in the City's parks," is, on its very face, content-based. Defying both language and logic, the City sanctions the Resolution a content-neutral time, place and manner restriction because it burdens all religious displays equally. However, it is axiomatic that a regulation is not content-neutral if based on the content of speech. See *Consolidated Edison Co. v. Public Serv. Comm'n*, 447 U.S. 530, 536, 100 S.Ct. 2326, 2333, 65 L.Ed.2d 319 (1980) ("content-based restriction[s] may not be based upon either the content or subject matter of speech"). Contrary to the City's assertion, the Resolution is no less content-based because...

Admittedly, language in *Lubavitch*'s first paragraph might suggest that the court in that case sanctioned regulations that distinguished between secular and religious expressive conduct. 917 F.2d at 342. ("City of Chicago decorates O'Hare facilities with Christmas trees ... but ... intentionally excludes religious symbols from unleased public areas"). However, the Seventh

cause it bans only one form of religious expression, i.e., the fixed display of religious symbols, but not others, such as ecumenical services or menorah lighting ceremonies in which no fixed displays are used; the content inquiry looks to the prohibition's targets, not its scope.

The Seventh Circuit's decision in *Lubavitch Chabad House, Inc. v. City of Chicago*, 917 F.2d 341 (7th Cir.1990), upon which the City relies in advancing its argument, involved a limited public forum, and in any event, did not, as the City contends, articulate a contrary rule which I should follow. In fact, *Lubavitch* underscores the nondiscrimination principle embodied in the notion of content-neutrality. The regulations at issue in *Lubavitch* were deemed content-neutral because they prohibited all groups, not simply all religious groups, from erecting free-standing structures in public areas. *Id.* at 347. Indeed, the *Lubavitch* court expressly recognized that, under the First Amendment, the City could not prohibit religious free-standing structures if non-religious structures were permitted, stating that

First Amendment jurisprudence certainly does mandate that if the government opens a public forum to allow some groups to erect communicative structures, it cannot deny equal access to others because of religious considerations, but the record is clear that the City has prohibited all groups from erecting structures in the airport public areas.

*Id.* (emphasis added).<sup>9</sup>

Thus, by mandating content-based exclusions of expressive conduct from traditional public forums, the Resolution is constitutionally permissible only if it is necessary to achieve a compelling state interest, and narrowly-tailored to achieve that end. *Krishna*, — U.S. at —, 112 S.Ct. at 2705; *Perry*, 460 U.S. at 45, 103 S.Ct. at 955. Moreover,

Circuit in a later opinion, clarified that *Lubavitch* simply "distinguished leased spaces from public areas," and was "careful to point out that Lubavitch's free-standing Menorahs could not be excluded if other free-standing structures were permitted". *Doe v. Small*, 964 F.2d 611, 620 (7th Cir.1992) (en banc).

8. Despite their longstanding status as enclaves of public expression, the City claims that Main and Tibbits are not traditional public forums because they are "passive parks". However, the City's ostensible attempt to equate "passive" with

even if as the City contends its parks were limited public forums, the Resolution would still be subject to strict scrutiny. The City admits, and the record amply demonstrates, that it has allowed secular fixed displays, notably the holiday trees in Tibbits and Main, to remain in its parks for weeks, if not months, at a time. A United Way sign has remained standing on public property near a City park for several months. Assuming its parks were limited public forums, the City, having permitted private fixed displays, could not selectively exclude those of a religious or political nature without a compelling justification. *Widmar*, 454 U.S. at 267-70, 102 S.Ct. at 273-74 (having opened premises for use by student groups, University had to provide a compelling justification for its exclusion of student groups that desired to engage in religious worship and discussion); see also *Travis*, 927 F.2d at 692 ("government is free to impose blanket exclusion on certain types of speech, but once it allows expressive activities of certain genre, it may not selectively deny access for other activities of that genre").

[10] The City asserts, however, that the Resolution is necessary to serve the compelling state interest of avoiding violations of the Establishment Clause of the First Amendment.<sup>10</sup> See *Widmar*, 454 U.S. at 271, 102 S.Ct. at 275 ("the interest of the University in complying with its constitutional obligations [under the Establishment Clause] may be characterized as compelling"). Free-standing religious displays in public parks, the City fears, will leave viewers with the impression that it endorses the religious message conveyed in the displays, or religion generally. Isolated religious displays on some public properties may indeed send a message of government endorsement of religion, and I am, therefore, sympathetic to the

City's concerns. See *County of Allegheny v. American Civil Liberties Union*, 492 U.S. 573, 599, 109 S.Ct. 8086, 3104, 106 L.Ed.2d 472 (1989) (plurality opinion) (creche display on "main" and "most beautiful" part of county courthouse steps sent an "unmistakable message" that county-supported creche's religious message); cf. *Allegheny*, 492 U.S. at 650, 109 S.Ct. at 3131 (Stevens, J., concurring in part, dissenting in part) ("the Establishment Clause should be construed to create a strong presumption against the display of religious symbols on public property").

However, it is critical to remember, as the Supreme Court's public forum analysis instructs, that all public properties are not alike, particularly as they relate to public expressive activity. Except in rare instances, traditional public forums, unlike nonpublic forums, are intimately linked in the public psyche with public expression. Consequently, expressive activity in these quintessential public forums is viewed, and should be viewed, by reasonable observers as that of private speakers, not the government. Thus, I conclude, under the three-part test established in *Lemon v. Kurtzman*, 403 U.S. 602, 612-13, 91 S.Ct. 2106, 2111, 29 L.Ed.2d 745 (1971),<sup>11</sup> that while Establishment Clause concerns may warrant bans on religious displays on some public properties, such considerations do not provide a compelling justification for the City's Resolution because it applies to public parks not closely associated with the seat of government, and traditionally open to diverse public expressive activity, including private free-standing non-religious displays.

[11] Under *Lemon*, governmental action contravenes the Establishment Clause if (1) it lacks a secular purpose; (2) has the principal or primary effect of advancing or inhibiting

*Sch. Dist.*, — U.S. —, —, 113 S.Ct. 2141, 2150, 124 L.Ed.2d 352 (1993) (Scalia, J., concurring in the judgment) (*Lemon* comparable to "ghoul in a late-night horror movie" that refuses to die; it still controls the Establishment Clause inquiry. *Id.* at — n. 7; 113 S.Ct. at 2148 m 7 (*Lemon* has not been overruled); *Lee v. Weisman*, — U.S. —, 112 S.Ct. 2649, 2655, 124 L.Ed.2d 467 (1992) (refusing to reconsider *Lemon*)).

ing religion; or (3) fosters an excessive entanglement with religion. *Id.*

Contrary to the City's suggestion, an equal access policy permitting fixed religious displays in its public parks would not be unconstitutional under the first and third prongs of the *Lemon* test. A neutral open-forum policy, providing equal access for religious as well as non-religious speech, has the secular purpose of promoting free speech and religious tolerance. See *Widmar*, 454 U.S. at 271, 102 S.Ct. at 275 ("an open-forum policy, including nondiscrimination against religious speech, would have a secular purpose"); see also *Chabad-Lubavitch of Ga.*, 5 F.3d at 1389 (allowing menorah display would "advance the secular purpose of providing an arena for . . . [the] citizenry's exercise of the constitutional right . . . to free speech"); *McCreary*, 739 F.2d at 725 (permitting creche display had secular purpose of providing equal access to public forum for religious speech). That the private speaker seeks to proselytize is irrelevant, for the secular purpose inquiry examines the government's purpose in allowing the speech, not the speaker's goal. See *Lynch v. Donnelly*, 465 U.S. 668, 681, 104 S.Ct. 1355, 1363, 79 L.Ed.2d 604 (1984) (examining whether City had secular purpose in sponsoring creche display in private park); cf. *Board of Educ. of Westside Community Sch. v. Mergens*, 496 U.S. 226, 249, 110 S.Ct. 2356, 2371, 110 L.Ed.2d 191 (1990) (legislative purpose of statute, "not possibly religious motives of the legislators who enacted the law," is relevant inquiry under secular purpose prong).

Nor would an equal access policy entangle the City with religion, since private religious and secular fixed displays would be on equal footing. The City's evaluation process for requests to erect fixed religious displays would be exactly the same as that used for

those involving secular fixed displays. See *McCreary*, 739 F.2d at 725 (application to display creche would involve the same evaluative process required for any other type of display). By contrast, the Resolution's exclusion of fixed religious displays inextricably entangles the City with religion as it requires the City to determine whether a proposed display contains a "religious" symbol. See *Widmar*, 454 U.S. at 271-72 n. 11, 102 S.Ct. at 275 n. 11 (state university would risk greater "entanglement" in attempting to enforce its policy of excluding religious speech).<sup>12</sup> Thus, I do not find that permitting Rabbi Flamer's display in City parks would violate the first or third prong of the *Lemon* test.

The City's more compelling Establishment Clause argument is rooted in *Lemon*'s second prong.<sup>13</sup> The City contends that allowing private free-standing fixed displays of religious symbols in its parks on the same terms as it permits those of a nonreligious nature would create the impression that it endorsed religion. The City bases this argument, in large part, on the divergent outcomes reached by the Supreme Court in *Allegheny* regarding the constitutionality of two holiday displays on public property.

However, *Allegheny*, a highly fact-based decision marked by shifting majorities and conflicting approaches, does not support the City's conclusion. In *Allegheny*, a sharply divided Court held that a creche display on the Allegheny County courthouse steps contravened the Establishment Clause, but a holiday display consisting of 18-foot menorah, a 45-foot Christmas tree and a sign which read "Salute to Liberty" outside a government office building did not. Justices Brennan, Marshall and Stevens believed that both displays violated the Establishment Clause, and reasoned that there should be a

tial political divisiveness is even called for" in cases not involving direct subsidies to religious institutions. *Id.*

13. Writing for the plurality in *Allegheny*, Justice Blackmun fleshed out *Lemon*'s second prong, stating that governmental action which impermissibly advances religion is that which has the purpose or effect of endorsing religion. 492 U.S. at 592, 109 S.Ct. at 3100.

10. The Establishment Clause provides that "Congress shall make no law respecting an establishment of religion . . ." U.S. Const. amend. I. This proscription is applicable to the States via the Fourteenth Amendment. See *Everson v. Board of Educ.*, 330 U.S. 1, 8, 67 S.Ct. 504, 507, 91 L.Ed. 711 (1947).

11. Although the *Lemon* test has come under fire by some members of the Court in recent years, e.g., *Lamb's Chapel v. Center Moriches Union Free*

12. Highlighting the divisiveness sparked by Rabbi Flamer's proposed menorah display among members of the Jewish community in White Plains, the City seems to argue that permitting free-standing religious displays would embroil it in religious conflicts. Potential political divisiveness along religious lines, however, does not render otherwise permissible governmental conduct unconstitutional. *Lynch*, 465 U.S. at 684, 104 S.Ct. at 1365. Indeed, the Supreme Court in *Lynch* expressly held that "no inquiry into poten-

strong presumption against publicly supported display of an overtly religious nature. 492 U.S. at 650, 109 S.Ct. at 3131 (Stevens, J., concurring in part, dissenting in part). Justices Blackmun and O'Connor, focusing on the "particular physical settings" of the two displays, deemed the free standing creche display on the county courthouse steps improper, but found no Establishment Clause violation attended the menorah display. 492 U.S. at 598-600, 616-21, 109 S.Ct. at 3103-04, 3113-15 (plurality opinion); 492 U.S. at 626-27, 635, 109 S.Ct. at 3118-19, 3123-24 (O'Connor, J., concurring in part, and concurring in the judgment). Four members of the Court, Chief Justice Rehnquist, and Justices White, Scalia and Kennedy, concluded that both displays should have been permitted, since neither represented an "effort to proselytize" by the local government of Allegheny. 492 U.S. at 664, 109 S.Ct. at 3139 (Kennedy, J., concurring in the judgment in part, dissenting in part).

Given this morass of competing and conflicting rationales, *Allegheny* does not, as the City contends, lead to the inexorable conclusion that fixed religious displays on all public property, unadorned by secular symbols, violate the Establishment Clause. In fact, the plurality opinion expressly stated that the unattended creche display on county courthouse steps did not raise a public forum issue. 492 U.S. at 600 n. 50, 109 S.Ct. at 3104 n. 50 ("the creche here does not raise the kind of 'public forum' issue, cf. *Widmar v. Vincent*, . . . presented by the creche in *McCreary v. Stone*"); see also *Chabad-Lubavitch of Ga.*, 5 F.3d at 1390 (*Allegheny* is not a public forum case and its analysis is not applicable to Establishment Clause questions in public forum cases); cf. *Allegheny*, 492 U.S. at 626, 109 S.Ct. at 3119 (O'Connor, J., concurring in the judgment, concurring in part) ("display of religious symbol in core government buildings runs a special risk of 'mak[ing] religion relevant, in reality or public perception, to status in the political community'") (citation omitted). At best, *Allegheny* suggests that context is highly important in determining whether a religious display on public property contravenes the Establishment Clause.

Guidance in identifying the contextual factors relevant to this inquiry can be found in Supreme Court and Second Circuit decisions analyzing Establishment Clause issues raised by religious speech or expressive activity in public forums. In *Widmar*, the Court held that the Establishment Clause did not provide a compelling justification for the University's exclusion of registered religious groups from university facilities made generally available to other registered student groups. In reaching this conclusion, the Court found two factors "particularly relevant".

First, recognizing that access was not tantamount to endorsement, the *Widmar* Court reasoned that an open forum policy that extended to religious speakers did not confer "any imprimatur of state approval on religious sects or practices". 454 U.S. at 274, 102 S.Ct. at 276; 454 U.S. at 272 n. 10, 102 S.Ct. at 275 n. 10 ("by creating a forum the University does not thereby endorse or promote any of the particular ideas aired there"). Second, the Court noted that the forum's availability to a diverse and broad class of speakers ensured that advancing religion would not be the "primary effect" of a nondiscriminatory open-forum policy. 454 U.S. at 275, 102 S.Ct. at 277. At most, such a policy would provide mere "incidental" benefits to religion. 454 U.S. at 274, 102 S.Ct. at 276; see *Committee for Pub. Educ. v. Nyquist*, 413 U.S. 756, 771, 93 S.Ct. 2955, 2963, 37 L.Ed.2d 948 (1973) (religious organization's enjoyment of mere incidental benefits does not result in a primary advancement of religion).

The Supreme Court has reaffirmed *Widmar*'s reasoning in its recent decision in *Lamb's Chapel v. Center Moriches Union Free Sch. Dist.*, 113 S.Ct. 2141, 124 L.Ed.2d 352 (1993). In *Lamb's Chapel*, the Court held that school district denial of a church group's request to use public school premises to show a religiously oriented film violated the First Amendment. The Court readily rejected the school district's Establishment Clause defense, stating that it had

no more trouble than did the *Widmar* Court in disposing of the claimed defense on the ground that the posited fears of an

Establishment Clause violation [were] unfounded. The showing of this film would not have been during school hours, would not have been sponsored by the school, and would have been open to the public, not just to church members. The District property had repeatedly been used by a wide variety of private organizations. Under these circumstances, as in *Widmar*, there would have been no realistic danger that the community would think that the District was endorsing religion or any particular creed, and any benefit to religion or to the Church would have been no more than incidental. As in *Widmar*, . . . permitting District property to be used to exhibit the film involved in this case would not have been an establishment of religion under the three-part test articulated in *Lemon v. Kurtzman*.

— U.S. at —, 113 S.Ct. at 2148.

Though *Widmar* and *Lamb's Chapel* involved live speakers, their reasoning applies equally to fixed religious displays in public forums, since their Establishment Clause analyses hinged on the attributes of the forum—i.e., the diversity of speakers granted access thereto and the perceptual parity accorded speech therein by reasonable observers—not the speaker. See *Chabad-Lubavitch of Ga.*, 5 F.3d at 1390-91 (applying public forum analysis outlined in *Widmar* to assess whether Establishment Clause provided compelling justification for state's refusal to allow religious group to erect a menorah in a limited public forum in core government building); *Kreisner*, 988 F.2d at 891-92, 894 (applying *Widmar* principles to determine whether San Diego violated Establishment Clause by permitting overtly religious holiday display in public park); *Americans United*, 980 F.2d at 1547-48, 1549 (applying *Widmar* equal access principle in determining that city did not violate Establishment Clause by permitting private group to erect fixed menorah display in traditional public forum); *McCreary*, 789 F.2d at 726 (applying *Widmar* public forum principles in determining that creche display in traditional public forum did not have primary effect of advancing religion). But cf. *Chabad-Lubavitch of Va. v. City of Burlington*, 936 F.2d 109, 111 (2d Cir.1991) (situation in *Widmar* distin-

guishable from that posed by fixed display in traditional public forum because *Widmar* "involved an open forum, with live speakers, in a public university").

*Widmar* and *Lamb's Chapel* implicitly recognize that, in the mind of the reasonable observer, expressive activities in true public forums are symbolically linked to the public, not the government, and that religious speech in no way alters this deeply-rooted association. Quite the contrary, these decisions make clear that by permitting religious speech on a nondiscriminatory basis, government sends a message of neutrality, not endorsement. See *Mergens*, 496 U.S. at 248, 110 S.Ct. at 2371 (equal access policy sends a message "of neutrality rather than endorsement; if a State refused to let religious groups use facilities open to others, then it would demonstrate not neutrality but hostility toward religion").

For the reasonable observer, the private religious fixed display should be no different from other fixed displays erected by private speakers. This observer should understand that the public forum is the public's expressive playground, and that private speakers with a religious message, like any other member of the public, will resort to this forum to convey their particular messages. Cf. *Americans United*, 980 F.2d at 1548 ("public fora exist solely to provide a platform for speakers of all kinds"); *Kreisner*, 988 F.2d at 891 ("[r]eligious speakers have the same right of access to public forums as others"). The reasonable observer also knows that, unless otherwise stated, speech within these arena "belongs and can be attributed to the private speaker only; neither approbation nor condemnation of the private speaker's message may be imputed to the state". *Chabad-Lubavitch of Ga.*, 5 F.3d at 1392; cf. *Mergens*, 496 U.S. at 250, 110 S.Ct. at 2372 (failure to censor is not endorsement). Therefore, "[i]nstead of concluding that religious zealots have stormed the gates with the city's endorsement, the reasonable observer recognizes th[e] [religious] display as yet another example of free speech". *Americans United*, 980 F.2d at 1549.

In traditional public fora such as public parks, the absence of governmental sponsorship of private religious displays is strikingly clear. Intimately linked to the free interchange of ideas and traditionally the situs of a wide range of public expressive activity, public parks are viewed and must be viewed as the public's expressive domain. Expressive conduct in these classic public fora thus should be viewed by reasonable observers as that of members of the body politic, not the government. See *Kreiser*, 988 F.2d at 895 ("[i]t seems axiomatic to the public forum principle that we view messages expressed there as those of the actual speakers").

Hence, the existence or non-existence of accompanying secular symbols should be of little import to the reasonable observer viewing religious displays in these quintessential public forums. In rejecting the argument that a free-standing menorah display in a traditional public forum violates the Establishment Clause, the Sixth Circuit in *Americans United* reasoned:

[T]he assumption that the menorah constitutes only a religious symbol that remains after Chabad House has finished its speech ... is wrong; Chabad House's menorah display is no mere remnant of religious speech, it is religious speech and must receive the same respect as a round-the-clock Bible reading. It would be strange for a reasonable observer to find more endorsement in a menorah standing alone than in a menorah accompanied by a Torah reading or by crowds of people celebrating Chanukah with games or feasts. The menorah display constitutes religious speech just as much as a meeting of a school Bible Club ... Therefore, this case must be governed by ... *Widmar* ...

980 F.2d at 1549 (emphasis in original).

Thus, for the reasonable observer, the very nature of the forum itself, assuming no affirmative governmental sponsorship of the display, negates any impression of government endorsement of the display's religious message.

The Second Circuit's decision in *McCreary* v. *Stone* is illustrative. *McCreary* involved a First Amendment challenge to the city's denial of a religious group's application to dis-

play a free-standing creche in a Scarsdale public park during the holiday season. Not unlike the City in this case, the Village of Scarsdale asserted that the Establishment Clause provided a compelling justification for its denial of the application. The Second Circuit rejected the Village's Establishment Clause defense, holding that "the Village's neutral accommodation ... to permit the display of a creche in a traditional public forum at virtually no expense to it cannot be viewed as a violation of the primary effect prong of the *Lemon* test." 739 F.2d at 726-27. Relying on *Widmar*, the *McCreary* court further held that the Village's pursuit of an equal access policy in this forum, that did not discriminate against religious speech, would not suggest government endorsement of religion. *Id.* at 727.

*McCreary* does not stand alone; in recent years, numerous courts have held that private free-standing religious displays in true public forums, open to the public for a wide array of expressive activities, do not contravene the Establishment Clause. *Chabad-Lubavitch of Ga.*, 5 F.3d at 1392 (no Establishment Clause issues implicated by state allowing religious group to erect menorah display in Rotunda of State Capitol since this arena was a true public forum); *Kreiser*, 988 F.2d at 898 (city does not violate Establishment Clause by permitting an overtly religious private display in a public park because park was a traditional public forum); *Americans United*, 980 F.2d at 1549 (privately funded menorah display erected during Chanukah in traditional public forum does not violate Establishment Clause); see *Small*, 964 F.2d at 619 ("mere presence of religious symbols in a public forum does not violate the Establishment Clause, since the government is not presumed to endorse every speaker it fails to censor in a quintessential public forum far removed from the seat of government").

Under the Supreme Court's public forum Establishment Clause jurisprudence and the Second Circuit's decision in *McCreary*, it is clear that the Establishment Clause does not proscribe private fixed religious displays in all public parks. The City's argument that the Second Circuit's decision in *Kaplan* es-

pouses a contrary rule is plainly wrong. In *Kaplan*, the Second Circuit held that a display of a privately-sponsored menorah conveyed a message of government endorsement because the forum at issue—City Hall Park—was closely associated with the seat of city government. 891 F.2d at 1029-30. This close perceptual nexus between the park and city government distinguished the case from *McCreary*. The *Kaplan* court expressly noted that "unlike *McCreary*, the park involved [was] not just any city park, but rather City Hall park." *Id.* at 1029.<sup>14</sup> Moreover, the menorah display in *Kaplan* "was located only some 60 feet away from the westerly steps of City Hall," such that from a certain vantage point, "the menorah appeared superimposed upon City Hall." *Id.* at 1029-30. *Kaplan*, therefore, does not hold that the Establishment Clause bars fixed religious displays in all public parks. Rather, *Kaplan* recognizes that, in rare instances, a public park may, in the mind of the public, be so intimately associated with the seat of government that it is viewed as a mere extension of the government. Thus, it is conceivable that private fixed religious displays in such parks could convey a mistaken impression of government sponsorship.

*Kaplan*'s narrow exception to the public forum rule does not save the Resolution, since the City has proffered no evidence suggesting that any, much less all, of its parks are closely associated with the seat of government. City Hall's mere visibility from certain areas of Tibbits and Main should not, in the mind of reasonable observers, associate these parks with City Hall. To the contrary, a reasonable observer understands, and should understand, that public spaces located near government buildings are prime free speech arenas. As the Ninth Circuit in *Kreiser* noted:

[T]he proximity of buildings of unmistakably governmental character is a patently imperfect proxy for attributing speech that goes on there to the government. The White House, perhaps the most visible structural symbol of our government, bor-

ders Lafayette Square in Washington, D.C., yet the square has consistently been upheld as a public forum. Places that are near government buildings—where many people pass and have occasion to hear the speaker—are prime territory for the exercise of First Amendment rights.

988 F.2d at 894 (citations omitted).

Precisely because traditional public forums are at issue, the City's endorsement fears based on its claimed historic practice of not permitting fixed religious displays are unfounded. The reasonable observer attributes expressive conduct in these forums to private speakers not because of any governmental action or inaction, but because these settings are axiomatically the public's domain for expression. Moreover, here, the history of private fixed displays in City parks will buttress the private nature of any fixed religious displays in these forums. Indeed, in the context of contemporaneous private holiday tree displays in City parks, the private sponsorship of Rabbi Flamer's 1991 and 1992 proposed free-standing menorah displays in Tibbits during the eight days of Chanukah probably would have been obvious even to unreasonable observers. See *Americans United*, 980 F.2d at 1549 ("[i]n the mind's eye, the reasonable observer sees the menorah display as but one of a long series that has taken place since the [public forum] was opened"). Rabbi Flamer's proposed lighting ceremony, to be conducted by live speakers, would have merely underscored the private nature of the display.

Furthermore, the City's past unconstitutional infringements of free expression in denying permits for fixed religious displays certainly cannot constitute a compelling justification for a violation of the fundamental right of free speech. See *Travis*, 927 F.2d at 693 n. 3 (past denial of access to limited public forums to a religious group "would have been another act of discrimination rather than a justification for the denial" of access to other religious speakers). Nor can the absence of fixed religious displays in City

14. In a later decision involving the same park, the Second Circuit reiterated that *Kaplan*'s holding was based on the park's "close association with the seat of city government". *Chabad-Lu-*

*bavitch of Vr.*, 936 F.2d at 111-12. Significantly, this decision revealed that plaintiffs had been allowed to erect a menorah in another city park without objection. *Id.* at 111.

parks in the past; surely, Rabbi Flamer's ability to exercise his free speech rights does not depend upon whether others have chosen to exercise theirs.

[12] The Establishment Clause does not provide a compelling justification for the Resolution's content-based restrictions on expressive conduct. Yet, even if the Establishment Clause did provide such a compelling justification, the Resolution would still be void since it is not narrowly-tailored to achieve its asserted goal. The Resolution is overbroad in that it bans private fixed displays of political as well as religious symbols; clearly, no Establishment Clause concerns are raised by fixed political displays.

Moreover, the Resolution's prohibition of fixed religious displays is itself overbroad as other less restrictive means exist to dispel any mistaken impression of government endorsement.<sup>15</sup> For example, the City could post content neutral signs disclaiming endorsement of private fixed displays in City parks. See *McCreary*, 739 F.2d at 728 (a disclaimer sign accompanying crèche display would "ensure that no reasonable person [could] draw an inference that the Village support[ed] any church, faith or religion associated with the display"); cf. *Allegheny*, 192 U.S. at 619, 109 S.Ct. at 3114-15 (presence of sign "further diminishes the possibility that the tree and the menorah will be interpreted as a dual endorsement of Christianity and Judaism.... [and] an 'explanatory plaque' may confirm that in particular contexts the government's association with a religious symbol does not represent the government's sponsorship of religious beliefs"). But see *Allegheny*, 492 U.S. at 619, 109 S.Ct. at 3114 (plurality opinion) ("no sign can disclaim an overwhelming message of endorsement"). I express no opinion as to the particular disclaimers, if any, the City may or should employ, but simply note that means

short of a blanket exclusion of private fixed religious displays exist to resolve any public misperceptions.

Because the City would not contravene the Establishment Clause by neutrally permitting fixed religious displays in its parks, the Resolution is neither necessary nor narrowly tailored to achieve a compelling state interest. Since the Resolution, on its face, "violates the fundamental principle that a state regulation of speech should be content-neutral," *Widmar*, 454 U.S. at 277, 102 S.Ct. at 278, and the City has proffered no compelling state interest which the Resolution serves, I conclude that the Resolution is unconstitutional.<sup>16</sup>

The City, of course, retains the right to apply content-neutral regulations to private fixed displays in its parks, including restrictions on their size and location. In addition, the City may devise content-neutral policies applicable to certain parks. For example, if, as the City argued at trial, vandalism is a problem at Main, the City may employ any appropriate content-neutral restrictions on fixed displays at that park to address such problems. What the City may not do, however, is preclude a private speaker from erecting a fixed display of a religious symbol, free-standing or otherwise, in a City park on the basis of such display's religious message. Accordingly, the City may not deny Rabbi Flamer a permit to erect a fixed free-standing menorah in a City park during the Chanukah holiday because of the menorah's religious message.

CONCLUSION

For the reasons discussed above, I declare the Resolution unconstitutional, and permanently enjoin the City from applying the Resolution to Rabbi Flamer's request to display free-standing menorah in a City park this Chanukah holiday, and in the future.

day tree. Therefore, even under its own argument, the City has not offered a compelling justification for its blanket exclusion of fixed religious displays from all City parks.

16. Having concluded that the Resolution violates the Free Speech Clause, I need not consider Rabbi Flamer's other constitutional objections.

This Opinion and Order constitutes the final judgment of the Court.

SO ORDERED.



PENTLAND USA, INC., and Pentland Group PLC, Plaintiffs,

v.

MILLFELD TRADING CO., INC. and Barry Feldstein, Defendants.

No. 92 Civ. 4480 (LBS).

United States District Court, S.D. New York.

Dec. 15, 1993.

Shareholders brought securities action against corporation and its former president, alleging securities fraud claim in connection with corporation's alleged failure to disclose its Customs underpayments. On defendants' motion to dismiss, the District Court, Sand, J., held that shareholders' alleged scienter as to § 10(b) claim with particularity required of fraud claims.

Motions denied.

See also 841 F.Supp. 1386.

1. Securities Regulation § 60.45(1)

For § 10(b) purposes, "scienter" includes recklessness. Securities Exchange Act of 1934, § 10(b), 15 U.S.C.A. § 78j(b).

See publication Words and Phrases for other judicial constructions and definitions.

2. Federal Civil Procedure § 636

Shareholders pled scienter with requisite particularity to satisfy fraud pleading standard in § 10(b) suit against corporation alleged to have fraudulently failed to disclose Customs underpayments; strong inference of fraudulent intent arose from alleged facts

that Customs duties were quantifiable, less obligations on importers, that importing was corporation's primary business, and that corporation engaged in continuous pattern misrepresentations. Securities Exchange Act of 1934, § 10(b), 15 U.S.C.A. § 78j(b) Fed.Rules Civ.Proc.Rule 9(b), 28 U.S.C.

Lowenthal, Landau, Fischer & Bring, P.A. New York City, for plaintiffs (Lawrence Ginsburg and Andrew J. Lorin, of course

Schneck Weltman Hashmall & Misch New York City, for defendant Candies, Inc. f/k/a Millfeld Trading Co., Inc. (Edward Weltman and Chase A. Caro, of course

Greenberger & Forman, New York City for defendant Barry Feldstein (Robert V. Forman, of counsel).

OPINION

SAND, District Judge.

This securities action arises from the June 1991 purchase by plaintiffs Pentland USA, Inc. and Pentland Group PLC (collectively, "Pentland") of shares in defendant Millfeld Trading Co., Inc. ("Millfeld"), a publicly traded Delaware corporation in the primary business of importing and marketing shoes. In early 1992, the price of Millfeld stock collapsed after Millfeld disclosed that it was being investigated by federal prosecutors for systematic underpayment of its Customs duties over the preceding five years. Plaintiffs brought suit shortly thereafter, in June 1992, alleging securities fraud in violation of Section 10(b) of the Securities Exchange Act of 1934 ("Section 10(b)"), and state common law. Defendants Millfeld and Barry Feldstein, the former President, CEO and chairman of Millfeld, move to dismiss plaintiffs' Amended Complaint on the grounds that it fails to allege fraud with the particularity required by Federal Rule of Civil Procedure 9(b). For the reasons set forth below, we deny defendants' motions.

BACKGROUND

The relevant facts alleged in plaintiffs' Amended Complaint are as follows.

940, 406 N.E.2d 440, 441, 428 N.Y.S.2d 623, 624 (1980). A constructive trust is imposed in the context of the breach of a fiduciary relationship. Generally, in New York, one is imposed only where there is: "1) a confidential or fiduciary relation, 2) a promise, express or implied, 3) a transfer made in reliance on that promise, and 4) unjust enrichment." *Id.* (citations omitted).

[17] Plaintiff has failed to allege facts on which to find a breached fiduciary relationship warranting the imposition of a constructive trust. That doctrine is simply not applicable here. NCHE's copyright and exclusive distribution agreement for the Growing Healthy materials do not constitute fraud or the breach of some duty owed to plaintiff, who entered the market as a supplier of peripherals for the Growing Healthy program two years after NCHE copyrighted the program and while NCHE already had an exclusive distribution agreement in place with another company. Therefore, plaintiff's claim seeking imposition of a constructive trust, liberally construed, must be dismissed.

[18] The elements of promissory estoppel under New York law are: "a clear and unambiguous promise; a reasonable and foreseeable reliance by the party to whom the promise is made; and an injury sustained by the party asserting the estoppel by reason of his reliance." *Ripple's of Clearview, Inc. v. Le Havre Associates*, 88 A.D.2d 120, 452 N.Y.S.2d 447, 449 (2d Dep't.1982). It is not clear on the face of the Amended Complaint what promise defendant made to plaintiff. Plaintiff complains that NCHE "impliedly covenanted [*inter alia*] to maintain the Growing Healthy program in the best interests of the program and its beneficiaries." (Amd Compl't ¶ 112) Plaintiff apparently means by this that NCHE owed some duty to plaintiff to allow plaintiff to compete in the market. Re-Alco claims that "[p]laintiff realized a second distributor would further disseminate Growing Healthy and benefit the program's operation, by adding, *inter alia*, quality, ingenuity and price competition." (Amd Compl't ¶ 114) This language does not state a claim. Plaintiff has al-

leged no facts supporting its contention that it relied reasonably and foreseeably on any sort of promise, much less a clear and unambiguous promise by defendant. Therefore, plaintiff's claim of promissory estoppel also is dismissed.

For the reasons discussed above, and in view of the fact that plaintiff has already had one opportunity to replead, plaintiff's Amended Complaint is dismissed in its entirety with prejudice.

SO ORDERED.



In the Matter of ARBITRATION BETWEEN COASTAL SHIPPING LIMITED, Petitioner,

and

SOUTHERN PETROLEUM TANKERS LTD., Respondent.

No. 92 CIV 3787 (SS).

United States District Court,  
S.D. New York.

Feb. 1, 1993.

Owner of ships brought action against charterer, seeking order compelling consolidated arbitration of claims arising from two distinct bareboat charter agreements containing identical arbitration clauses. The District Court, Sotomayor, J., held that it lacked authority under Federal Arbitration Act or Federal Rules of Civil Procedure to compel consolidated arbitration, absent evidence that parties agreed to or envisioned consolidation.

Motion denied.

#### 1. Arbitration — 31.1

Although Federal Arbitration Act is interpreted liberally, and doubts are re-

## MATTER OF COASTAL SHIPPING AND SOUTHERN PETROLEUM 397

Cite as 812 F.Supp. 396 (S.D.N.Y. 1993)

solved in favor of arbitration, arbitration is strictly matter of contract and, therefore, party can be compelled to arbitrate only when it has agreed to do so. 9 U.S.C.A. § 1 et seq.

#### 2. Arbitration — 1.1

Absent explicit statement, or conduct implying agreement to arbitrate, arbitration will not be compelled and, thus, court must first satisfy itself that agreement to arbitrate is not at issue before compelling arbitration. 9 U.S.C.A. § 1 et seq.

#### 3. Shipping — 39(7)

District court lacked authority under Federal Arbitration Act or Federal Rules of Civil Procedure, addressing consolidation and application of Rules to arbitration to compel consolidated arbitration of two separate, vertical bareboat charter agreements containing identical arbitration clauses, absent evidence that parties agreed to or envisioned consolidation arbitration. Fed. Rules Civ.Proc.Rules 42(a), 81(a)(3), 28 U.S.C.A.; 9 U.S.C.A. § 4.

#### 4. Arbitration — 1.1, 31.5

Under Federal Arbitration Act, arbitration can only be ordered if parties have agreed to arbitrate, and then only in accordance with terms of agreement, particularly regarding consolidation of arbitrations; federal court faced with motion to consolidate must determine whether any agreement to compel arbitration exists and, if so, must enforce it according to its terms. 9 U.S.C.A. § 4.

#### 5. Arbitration — 31.5

Federal Rules of Civil Procedure addressing consolidation and application of the Rules to arbitration do not authorize federal courts to order consolidation. Fed. Rules Civ.Proc.Rules 42(a), 81(a)(3), 28 U.S.C.A.

#### 6. Arbitration — 31.5

Absent agreement to consolidate independently arbitrable disputes, federal courts are powerless to compel consolidation. Fed. Rules Civ.Proc.Rules 42(a), 81(a)(3), 28 U.S.C.A.; 9 U.S.C.A. § 4.

#### 7. Arbitration — 31.5

In determining whether to consolidate arbitrations, court engages in two-step process: court must find that parties have agreed to arbitrate, which is accomplished by recourse to general principles of contract and agency law, and court must determine whether agreement encompasses agreement to consolidate arbitration claims directly or by implication. Fed. Rules Civ. Proc. Rules 42(a), 81(a)(3), 28 U.S.C.A.; 9 U.S.C.A. § 4.

#### 8. Arbitration — 31.5

Agreement to consolidate arbitrations may be implied by: language of arbitration clause; amendments or addenda to agreement; course of dealing between parties; or incorporation of rules that permit consolidation. Fed. Rules Civ. Proc. Rules 42(a), 81(a)(3), 28 U.S.C.A.; 9 U.S.C.A. § 4.

#### 9. Shipping — 39(7)

Even if district court did have discretion to order consolidated arbitration of two separate, vertical bareboat charter agreements containing identical arbitration clause, it would decline to do so; there was no evidence that parties agreed to or envisioned consolidation, or that subcharter parties adopted, made reference to or engaged in any activity binding them to arbitration agreements between charter parties. Fed. Rules Civ. Proc. Rules 42(a), 81(a)(3), 28 U.S.C.A.; 9 U.S.C.A. § 4.

Hill, Rivkins, Loesberg, O'Brien, Murray & Hayden by Anthony J. Mavronicolas, New York City, for petitioner.

Dougherty, Ryan, Giuffra, Zambito & Barra by Peter J. Zambito, New York City, for respondent Southern Petroleum Tankers and for intervenors Lineas Agromar.

Cichanowicz, Callan & Keane by David J. Van Oss, New York City, for respondent Antilles Transport Line, Inc.

### MEMORANDUM OPINION AND ORDER

SOTOMAYOR, District Judge.

Petitioner Coastal Shipping Limited ("Coastal") seeks an order compelling a

consolidated arbitration of separate claims arising from two distinct bareboat charter agreements with respondent Southern Petroleum Tankers Limited ("Southern Petroleum"). Jurisdiction is premised on this Court's general admiralty jurisdiction, 28 U.S.C.A. § 1333 (West 1992), and § 3 of the Federal Arbitration Act (the "Arbitration Act"), 9 U.S.C.A. §§ 1-14 (West 1991 & Supp.1992).

Southern Petroleum questions whether this Court has the authority under § 4 of the Arbitration Act or Fed.R.Civ.P. 42(a) and 81(a)(3) to compel a consolidated arbitration of two separate agreements containing identical arbitration clauses that are silent about and do not incorporate any rules or laws addressing the issue of consolidation. This question has generated considerable disagreement among district and circuit courts. Despite a Second Circuit case suggesting a contrary conclusion, this Court joins in the reasoning of Judge David N. Edelstein in *Ore & Chemical Corp. v. Stinnes Interoil, Inc. et al.*, 606 F.Supp. 1510 (S.D.N.Y.1985), and concludes that it lacks authority to order consolidation under the circumstances of this case.

### I. Background

The general facts of this case are not disputed. Coastal owns two motor tankers, named the "SIBYL W" and the "ERIN T". Southern Petroleum "bareboat chartered" the SIBYL W and the ERIN T on March 27, 1989 and January 26, 1990, respectively. Except for the named tanker, the time-duration of the agreement, and the geographical area for the tanker's use,

the charter agreements are boiler-plate copies containing identical arbitration clauses. The arbitration clauses state that:

Should any dispute arise between the Owners and the Charterer's [sic], the matter in dispute shall be referred to three persons at New York, one to be appointed by each of the parties hereto and the third by the two so chosen; their decision or that of any two of them, shall be final and for the purpose of enforcing any award this agreement may be made a rule of the Court. The arbitrators shall be commercial men conversant with shipping matters.

Southern Petroleum subsequently sub-chartered the SIBYL W to Lineas Agromar Limitada, S.A., which in turn sub-chartered the tanker to a company owned by the Mexican government. The ERIN T was sub-chartered to Antilles Petroleum. Coastal has requested that any order compelling consolidated arbitration also include a compulsion that the sub-charter parties participate in the consolidated arbitration. Because of the sub-charters, the disputes between Coastal and Southern Petroleum may involve multiple parties potentially asserting defenses and counterclaims that run up and down two distinct and independent "vertical charter agreements." The sub-charter parties were not named in the Petition and have not been joined in this proceeding, and the Court, therefore, will not address that portion of Coastal's request as it affects those parties.

Coastal claims against Southern Petroleum center around Southern Petroleum's breach of both charter agreements by its

#### 1. The two vertical charter agreements run in the following manner:

| SIBYL W<br>(7 March 1989)                                                                                                      | ERIN T<br>(20 January 1990)                                                       |
|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Coastal Shipping Limited<br>Southern Petroleum Tankers<br>Lineas Agromar Limitada<br>Mexican Corporation<br>(government owned) | Coastal Shipping Limited<br>Southern Petroleum Tankers<br>Antilles Transport Line |

failure to pay outstanding hire and crew wages. Despite efforts to cure the breach and to reach a negotiated settlement, Coastal was unable to bring Southern Petroleum into compliance with the charters. On January 27, 1992, the ERIN T was withdrawn from Southern Petroleum's service and on February 18, 1992, the SIBYL was withdrawn. Coastal demanded consolidated arbitration, nominated one arbitrator for both disputes, and demanded that Southern Petroleum do the same. Southern Petroleum rejected consolidation and, presumably because of Coastal's consolidation demand, selected but did not formally nominate an arbitrator for the ERIN T charter dispute. Southern Petroleum has not selected or nominated an arbitrator for the SIBYL dispute.

Coastal contends that the commonality of law and facts between its two claims against Southern Petroleum requires this Court to exercise its discretion to compel the consolidated arbitration of the claims. Southern Petroleum concedes that it chartered the SIBYL W and the ERIN T, that it signed similar boiler-plate agreements containing identical arbitration clauses, and that it is compelled to arbitrate the separate claims raised by Coastal. It argues, however, that an order to consolidate the arbitration of separate claims would constitute an impermissible reformation of the parties' arbitration contracts and that a commonality of law and facts do not exist in this case warranting the Court's exercise of any discretionary power it may have.

In short, both parties agree that arbitration is proper; they clash, however, over the form the arbitration must take.

### II. Discussion

A summary of general arbitration principles places Coastal's motion to compel arbitration in the proper context.

[1,2] Pursuant to the Federal Arbitration Act and following the lead of the Supreme Court in *Moses H. Cone Memorial Hospital v. Mercury Construction Corp.*, 460 U.S. 1, 24, 103 S.Ct. 927, 941, 74 L.Ed.2d 765 (1983), federal courts have

adopted a policy of actively enforcing private arbitration agreements. Although the Arbitration Act is interpreted liberally, see *Compania Espanola de Petroleos, S.A. v. Nereus Shipping, S.A.* 527 F.2d 966, 975 (2d Cir.1974), and doubts are resolved in favor of arbitration, see, e.g., *United States Steelworkers of America v. Warrior & Gulf Navigation Co.*, 363 U.S. 574, 583, 80 S.Ct. 1347, 1353, 4 L.Ed.2d 1409 (1960); *David L. Threlkeld & Co., Inc. v. Metallgesellschaft Limited (London)*, 923 F.2d 245, 248 (2d Cir.), cert. dismissed — U.S. —, 112 S.Ct. 17, 115 L.Ed.2d 1094 (1991), arbitration is strictly a matter of contract; therefore, a party can be compelled to arbitration only when it has agreed to do so. *AT & T Technologies, Inc. v. Communications Workers of America*, 475 U.S. 643, 648, 106 S.Ct. 1415, 1418, 89 L.Ed.2d 648 (1986). Absent an explicit statement, see *Old Dutch Farms, Inc. v. Milk Drivers & Dairy Employees Union*, 359 F.2d 598, 603 (2d Cir.1966), or conduct implying an agreement to arbitrate, see *Guozdenovic v. United Air Lines, Inc.*, 933 F.2d 1100, 1105 (2d Cir.1991), arbitration will not be compelled. Thus, a Court must first satisfy itself that the agreement to arbitrate is not at issue before compelling arbitration. *Tehran-Berkeley Civil and Environmental Engineers v. Tippetts-Abbett-McCarthy-Stratton*, 816 F.2d 864, 867 (2d Cir.1987).

(3) Neither Coastal nor Southern Petroleum dispute that valid agreements to arbitrate exist in this case. Southern Petroleum, however, questions this Court's power to order consolidated arbitration absent a specific agreement to that effect. It argues that consolidation of the disputes at issue would amount to a reformation of the contracts—an action not authorized by the Arbitration Act or the Rules of Civil Procedure, and contrary to the intent of the parties. The Court agrees with Southern Petroleum's arguments.

#### A. Authority to Compel Consolidated Arbitration

Whether § 4 of the Arbitration Act or Fed.R.Civ.P. 42(a) and 81(a)(3) give federal

courts the power to order consolidated arbitration absent specific language to that effect in the arbitration agreements is the subject of a divisive debate not yet settled by the Supreme Court. A number of courts, following the lead of Judge Medina's seminal opinion in *Compania Espanola de Petroleos, S.A. v. Nereus Shipping, S.A.* 527 F.2d 966 (2d Cir.1974), *cert. denied*, 426 U.S. 936, 96 S.Ct. 2650, 49 L.Ed.2d 387 (1976), have held that federal courts have the power to order consolidation absent any consent by the parties to do so in the arbitration agreements. See, e.g., *New England Energy, Inc. v. Keystone Shipping Co.*, 855 F.2d 1 (1st Cir.1988) (holds that district courts have discretion to compel consolidated arbitration of vertical charter agreements even though arbitration provisions silent on the issue of consolidation); *Mazum Foundations, Inc. v. Salus Corporation*, 817 F.2d 1086 (4th Cir. 1987) (recognizes that the authority of federal courts to order consolidation when parties have not explicitly agreed to do so is uncertain but holds that contracts between project owner and general contractor and between general contractor and sub-contractor sufficiently revealed intention to arbitrate, so as to justify consolidation); *Huber v. Hunt & Nichols, Inc. v. Architectural Stone Co., Inc.*, 625 F.2d 22 (5th Cir. 1980) (affirms order mandating consolidation of two contract disputes between general contractor and subcontractor); *O & Y Landmark Associates of Virginia v. Nordheimer*, 725 F.Supp. 578, 582 (D.C.C.1989) (finds *Compania Espanola* persuasive and holds that a guarantor is bound by an arbitration agreement entered into between obligor and a general partnership).

*Compania Espanola* has also had its opponents in those courts that have held that consolidation is not authorized by the Arbitration Act or the Federal Rules of Procedure. See, e.g., *American Centennial Insurance Company v. National Casualty Company*, 951 F.2d 107 (6th Cir.1991) (district court lacks power to order consolidated arbitration when agreements are silent on the question of consolidation); *Baessler v. Continental Grain Company*, 900 F.2d 1193 (8th Cir.1990) (district court

lacks power to consolidate arbitration proceedings); *Weyerhaeuser Co. v. Western Seas Shipping Co.*, 743 F.2d 635 (9th Cir. 1984) (jurisdiction of federal courts is predicated on private agreement of the parties; therefore, federal courts cannot order consolidation absent agreement to consolidate arbitration).

A close reading of *Compania Espanola* suggests that its facts do not support the expansive application of its holding as some courts have interpreted it. In *Compania Espanola*, Nereus, as agent for the owners of various vessels, chartered the vessels to Hideca, a Venezuelan oil company. The parties agreed that "[a]ny and all differences and disputes of whatsoever nature arising out of [the] Charter shall be put to arbitration in the City of New York or in the City of London whichever place is specified in Par. 1 of this charter pursuant to the laws relating to arbitration there in force...." 527 F.2d at 969. A few months after signing the charter agreement, Cepsa, a Spanish oil company, agreed to serve as guarantor of Hideca's performance. An addendum to this effect was signed by all parties and was appended to the charter agreement. *Id.*

Following the 1973 Arab oil embargo, Nereus notified Cepsa that Hideca was in default and requested that Cepsa perform the obligations remaining under the charter agreement. 527 F.2d at 969. Cepsa failed to comply and Nereus demanded arbitration. Cepsa rejected the demand, asserted that it was not bound to arbitration, and moved for declaratory judgment and a permanent injunction. *Id.* The district court denied Cepsa's request, held that Cepsa had agreed to arbitration, and ordered consolidation of the Nereus-Hideca and Nereus-Cepsa arbitrations. 527 F.2d at 974.

Affirming the district court's order of consolidation, Judge Medina stated:

[T]here is more than ample support in the case law for the propriety of a court's consolidation of arbitrations under the federal statute [citations omitted].... We agree that Fed.R.Civ.P., Rules 42(a) and 81(a)(3) are applicable. Moreover, we think the liberal purposes

# MATTER OF COASTAL SHIPPING AND SOUTHERN PETROLEUM 401

Cite as 812 F.Supp. 396 (S.D.N.Y. 1993)

of the Federal Arbitration Act clearly require that this act be interpreted so as to permit and even to encourage the consolidation of arbitration proceedings in proper cases, such as the one before us.

527 F.2d at 975 (emphasis added). Judge Medina first determined that Cepsa had agreed to arbitration and consolidation by signing an addendum requiring it to "perform the balance of the contract" and to "assume the rights and obligations of Hideca." 527 F.2d at 973.<sup>2</sup> He then affirmed the district court's finding that consolidation was proper because of the common questions of law and fact raised by the dispute, and the substantial danger of conflicting findings if arbitration was allowed to proceed. *Id.* at 974.

A majority of the cases in the Southern District have interpreted *Compania Espanola* to hold that consolidation of arbitrations is within a court's discretionary power even when an arbitration agreement is completely silent on the issue. For a summary of the factors used by court to invoke this power see *Elmarina, Inc. v. Comexas, N.V.*, 679 F.Supp. 388, 390 (S.D.N.Y.1988); see also *Cable Belt Conveyors, Inc. v. Alumina Partners of Jamaica*, 669 F.Supp. 577, 578 (S.D.N.Y.1987); *Sociedad Anonima de Navegacion Petrolera v. Cia de Petroleos de Chile, S.A.*, 634 F.Supp. 805, 807 (S.D.N.Y.1986); *In re Czarnikow-Rionda Co.*, 512 F.Supp. 1308, 1312 (S.D.N.Y.1981); *Anteo Shipping Co. v. Sidermar*, 417 F.Supp. 207, 219 (S.D.N.Y. 1975).

Judge Edelstein, however, in a well reasoned opinion in *Ore & Chemical Corp. v. Stinnes Interoil, Inc.*, 606 F.Supp. 1510 (S.D.N.Y.1985), criticized the expansive holding of *Compania Espanola*, concluding that the Second Circuit would disavow

*Compania Espanola* in light of the Supreme Court's decision in *Dean Witter Reynolds Inc. v. Byrd*, 470 U.S. 213, 105 S.Ct. 1238, 84 L.Ed.2d 158 (1985), and the rationale of the Ninth Circuit in *Weyerhaeuser Co. v. Western Seas Shipping Co.*, 743 F.2d 635, 637 (9th Cir.1984). Judge Edelstein's reading of *Dean Witter* and *Weyerhaeuser* led him to conclude that: "[t]he court can only compel arbitration if the arbitration agreements provided for consolidation." *Ore*, 606 F.Supp. at 1514 (S.D.N.Y.1985)<sup>3</sup>. He then referred the matter to arbitration stating that: ("it is more efficient to let the arbitrators, [those] who will be deciding the merits of the matter, decide how the issues are to be adjudicated"). *Ore*, 606 F.Supp. at 1515.

In *Dean Witter*, the Supreme Court held that federal courts could not refuse to order arbitration of pendent law claims to a federal securities action even if the order resulted in a less efficient prosecution of the claims for the parties. The holding was based on the Supreme Court's analysis of the Arbitration Act's legislative intent:

We therefore are not persuaded by the argument that the conflict between the two goals of the Arbitration Act—enforcement of private agreements and encouragement of efficient and speedy dispute resolution—must be resolved in favor of the latter in order to realize the intent of the drafters. The preeminent concern of Congress in passing the act was to enforce private agreements to arbitrate, even if the result is "piecemeal" litigation, at least absent a countervailing policy manifested in another federal statute.

470 U.S. at 221, 105 S.Ct. at 1242-43 (emphasis added).

In *Weyerhaeuser Company v. Western Shipping Co.*, 743 F.2d 635 (9th Cir.), *reh.*, and *reh. en banc denied* (1984), *cert. de-*

2. Cf. *Weyerhaeuser Company v. Western Seas Shipping Co.*, 743 F.2d 635 (9th Cir.), *reh.*, and *reh. en banc denied* (1984), *cert. denied*, 469 U.S. 1061, 105 S.Ct. 544, 83 L.Ed.2d 431 (1984) (noting that the holding of *Compania Espanola*, i.e., that the court had the power to order consolidation, may be interpreted as resting on the consent of the parties).

3. In *In re Reefer Express Lines Pty. Ltd.*, No. 86 civ. 4490, 1987 WL 11685, \* 3 (S.D.N.Y. May 28, 1987) (Available on WESTLAW, 1987 WL 11685), Judge Lowe expressed support for Judge Edelstein's analysis in *Ore* but refused to decide whether federal courts have the power to order consolidation. She opined, instead, in deny consolidation as an exercise of the court's discretionary power.

nied, 469 U.S. 1061, 105 S.Ct. 544, 83 L.Ed.2d 431 (1984), the charterer of a vessel moved for an order to compel consolidation of two separate arbitrations—one with the sub-charterer and the other with the shipowner. The charterer argued that in light of *Compania Espanola* the district court had erred in holding that it lacked the authority to order consolidation.

The Ninth Circuit affirmed the lower court and declined to follow *Compania Espanola*. The Court observed that, in relevant part, § 4 of the Arbitration Act limits a district court's authority to order consolidation: "[t]he court shall hear the parties, and upon being satisfied that the making of the agreement for arbitration or the failure to comply therewith is not in issue, the court shall make an order directing the parties to proceed to arbitration in accordance with the terms of the agreement," *Weyerhaeuser*, 743 F.2d at 637. The Court underscored the well-settled principle that an agreement to arbitrate is a creature of contract and that parties may not be forced to arbitrate absent their agreement to do so. It then explained that the proper inquiry for a district court faced with a petition to consolidate is to determine whether an agreement exists and, if so, enforce it "in accordance with its terms." *Id.* On the facts of the case, the court held that the district court lacked the power to order consolidation because the contract was silent on this point.

[4] This Court is bound by *Dean Witter*'s interpretation of Congress' legislative intent and is persuaded by the rationale expressed in *Weyerhaeuser* and *Ore*. The legislative history and wording of the Arbitration Act lead to the ineluctable conclusion that arbitration—being a creature of contract law—can only be ordered if the parties have agreed to arbitration, and then only in accordance with the terms of the agreement. A federal court faced with a motion to consolidate must determine whether an agreement to compel arbitra-

tion exists and, if so, must enforce it according to its terms.

[5, 6] Like Judge Edelstein, this Court believes that Rules 42(a) and 81(a)(3) do not authorize federal courts to order consolidation. As explained in *Ore*, Rules 42 and 81 apply to arbitration proceedings only to the extent that matters of procedure are not covered by the Arbitration Act. See 81(a)(3), Fed.R.Civ.P. Although Rule 42(a) provides for consolidation of actions involving common questions of law and fact, § 4 of the Arbitration Act forbids the enforcement of an arbitration agreement other than in accordance with its terms. Thus, absent an agreement to consolidate disputes, federal courts are powerless to compel consolidation. See generally *Ore*, 606 F.Supp. at 1513-14.

[7, 8] In determining whether to consolidate arbitrations, a court engages in a two-step process. First, the court must find that the parties have agreed to arbitrate. This is accomplished by recourse to general principles of contract and agency law. *McAllister Bros., Inc. v. A & S Transp. Co.*, 621 F.2d 519, 524 (2d Cir.1980). Second, a court must determine whether that agreement encompasses an agreement to consolidate arbitration claims either directly or by implication. An agreement to consolidate may be implied by: (1) the language of the arbitration clause, see *McDonnell Douglas Finance Corp. v. Pennsylvania Power & Light Co.*, 858 F.2d 825, 830 (2d Cir.1988); (2) the amendments or addenda to the agreement, see *Compania Espanola*, 527 F.2d at 975; (3) the course of dealing between the parties, see *Pervel Industries, Inc. v. T M Wallcovering, Inc.*, 871 F.2d 7, 8 (2d Cir.1989); or (4) incorporation of rules that permit consolidation, see *McDonnell Douglas*, 858 F.2d at 830.

This Court's conclusions are not contrary to the holding of *Compania Espanola*. In *Compania Espanola*, the Second Circuit properly concluded that the guarantor had agreed to consolidated arbitration because

of contract law control the interpretation of agreements to arbitrate and, accordingly, under appropriate circumstances the Court can infer an agreement to consolidate.

4. This Court recognizes that in stating that consolidation may be implied it takes a position different from that expressed in *Ore*. Both Second Circuit precedent and ordinary principles

the guarantor signed an addendum to the original contract, agreeing not only to perform the underlying contract but to accept the rights and obligations of the guaranteed party in the original contract. Because common questions of law and fact permeated the dispute between the agent and charterer and agent and guarantor, the court not only had the power to consolidate but consolidation was, indeed, proper where there was an explicit incorporation of the rights and obligations, including the arbitration agreement, of the original contract.

[9] By contrast, unlike *Compania Espanola*, the case at issue involves not one but two separate vertical charter agreements. There is no evidence that Coastal and Southern Petroleum agreed to or envisioned consolidated arbitration. Furthermore, there is no evidence that the sub-charter parties adopted, made reference to or engaged in any activity that could lead this Court to find that they are bound to the arbitration agreements between Coastal and Southern Petroleum. In fact, the evidence is to the contrary. Although the factual and legal issues between Coastal and Southern Petroleum may seem similar at first glance, Southern Petroleum correctly points out that the perceived commonalities are non-existent: different issues will be raised by each of the sub-charter parties to the charter agreements. This will result in the filing of substantially different claims and counterclaims running up and down two independent charter agreements and involving dissimilar parties.

The absence of explicit language or other indicia that Coastal and Southern Petroleum intended to consolidate their disputes leads this Court to conclude that the parties did not consent to joint arbitration. This Court, therefore, does not have discretion to order consolidation but even if it did have such discretion, would decline to do so under the circumstances of the separate vertical charters. Coastal and Southern Petroleum are ordered to proceed with the independent arbitration of each claim.

### III. Conclusion

Petitioner's motion to compel consolidated arbitration is DENIED. Coastal and Southern Petroleum are hereby ordered forthwith to appoint separate arbitrators to each dispute within ten (10) days of receipt of this order. The parties will keep the Court apprised of the progress of the arbitration proceedings by filing a status report every six (6) months. The first report is due on July 23, 1992.

SO ORDERED.



LICATA & CO. INC., Plaintiff.

v.

Seymour GOLDBERG and Total  
Dollar Management Effort  
Ltd., Defendants.

No. 92 Civ. 9209 (VLB).

United States District Court,  
S.D. New York.

Feb. 1, 1993.

Former employer sought preliminary injunction against former employee and new employer to restrain alleged false representations and descriptions in commerce and unfair competition. The District Court, Vincent L. Broderick, J., held that: (1) plaintiff failed to show irreparable injury; (2) plaintiff failed to show probability of success on the merits or balance of equities in its favor; (3) Lanham Act's anti-deception provision would be trivialized if applied to statements in oral conversations by individual sales representatives to individual customers on matters of opinion; and (4) injunction sought could not properly be granted because content was sufficiently vague to make its application highly uncertain.

Injunction denied.