

# NYLitigator



A Journal of the Commercial & Federal Litigation Section  
of the New York State Bar Association



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- Presentation of the Hon. George Bundy Smith Award
- RICO Damages
- Ethical Lawyering in the "Wireless Handheld" Age
- The Mediation Process

# Commercial and Federal Litigation Section

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# A Message from the Outgoing Chair

By Carrie H. Cohen

It is a pleasure to introduce this volume of the *NYLitigator*, which exemplifies the important and thought-provoking work of our Section. Our Annual Meeting held earlier this year was another wonderful event for our Section. One highlight of that meeting was the Honorable Judith S. Kaye's presentation of our Section's Stanley H. Fuld Award to the Honorable Albert N. Rosenblatt. Excerpts from such presentation are reproduced herein, and I am sure you will find the remarks insightful and entertaining.



In the Spring at our Second Annual Smooth Moves event, our Section presented the 2008 Honorable George Bundy Smith Pioneer Award to Cesar A. Perales, the President and General Counsel of the Puerto Rican Legal Defense and Education Fund, at a reception held at Lincoln Center. I am pleased to reproduce herein a transcript of the speeches from that joyous celebration, including remarks by the Honorable George Bundy Smith.

Members of our Section have written three fascinating articles for this edition. Michael C. Rakower analyzes RICO damages after a set-off; Jeremy R. Feinberg explores the ethical implications of lawyers' use of handheld wireless devices; and Stacey M. Gray presents us with an essential piece on the mediation process and pre-mediation preparation.

The work of our committees is the heart of our Section and this issue features reports by our committees on Electronic Discovery, Class Action Litigation, Internet and Intellectual Property, Federal Judiciary, the CPLR, Bankruptcy Litigation, Ethics and Professionalism, and Antitrust Litigation. These reports are on a wide array of timely topics, including the Individual Practices of Judges and Magistrates in the Southern District of New York, contact with putative class members, antitrust cases from the past United States Supreme Court term, e-discovery, including proposed changes to the CPLR, and the legal implications of linking and framing in Internet usage.

I would like to thank David Fioccola, our Editor, for putting together this issue of the *NYLitigator*. If you are interested in submitting articles for future issues, please contact David Fioccola at [dfioccola@mofo.com](mailto:dfioccola@mofo.com).

I hope you enjoy this edition of the *NYLitigator*, the product of a most productive and engaged Section.

# A Message from the Incoming Chair

By Peter Brown

I am pleased and honored to write to you for the first time as Chair of the Commercial and Federal Litigation Section. The responsibilities of Chair are a personal challenge, as I strive to meet the high standards of the distinguished series of Bar leaders who have preceded me. I am honored to serve this year under New York State Bar Association President Bernice Leber. Bernice began her extraordinary record of Bar leadership as Chair of this Section. She is a dynamic leader, who will lead the Association to exceed the expectations of the lawyers of New York.



At our recent Spring Meeting I had the opportunity to thank our outgoing Chair, Carrie H. Cohen, for her year of record accomplishments. The Section increased its membership, to over 2,600 members. Our committee Chairs organized a record number of CLE programs, which served Section members and lawyers across the state. Through constant attention and thoughtful comments, Carrie encouraged our committee leaders to issue useful and timely reports on many important areas of concern to commercial litigators. The Section owes her a debt of gratitude for an outstanding year of leadership. I am certain that Carrie will continue her service to the NYSBA in the future, but her service to the Section will not be forgotten.

I feel confident about the year ahead because I am supported by an experienced team of Section leaders. Our Chair-Elect, Vince Syracuse, has served the Section in a number of capacities, including several years as the Section's Treasurer, while leading one of our most successful CLE programs on ethics and civility in the profession. Our Treasurer, Susan Davies, has served the Section as Secretary in the past and is now keeping us on budget. Jonathan Lupkin has served as Editor of the *NYLitigator*, the Section's journal for five years and also Co-Chaired the Committee on Commercial Division Law Report. The newest member of our team, Victoria Zaydman, is our enthusiastic new Secretary. She was selected because of her potential for further contributions in the years ahead.

Finally, I must add a personal note of gratitude to Kyana McCain, a junior associate at my former law firm, who agreed to take on the job of Section Secretary this past year, supporting Carrie Cohen despite a demanding workload. Unfortunately, her recent marriage and reloca-

(Continued on page 85)



# Remarks on the Presentation of the Stanley H. Fuld Award to the Honorable Albert M. Rosenblatt at the Commercial and Federal Litigation Section Annual Reception and Luncheon, January 30, 2008

By the Honorable Judith S. Kaye

For me this is a triple bonanza, at least. First, I am delighted to be here with you at this invariably wonderful Commercial and Federal Litigation Section Luncheon. Always it is a pleasure to be with you, to thank you for your assistance in so many ways, and always—maybe even more especially this year—I want to thank you for the help and support you gave a brand new Chief Judge nearly 15 years ago in establishing the Commercial Division of the Supreme Court of the State of New York, surely one of our very proudest achievements. And special thanks, while I'm at it, to all of the judges of the Commercial Division.

Second, it is my great, great privilege today to join in paying homage to a distinguished predecessor Chief Judge, first recipient of the eponymous Stanley H. Fuld Award for contributions to commercial litigation. The word “eponymous,” by the way, means “one who gives his name to a thing, said especially of the mythical personages from whom the names of places or peoples are reputed to be derived.”

Stanley Fuld, who gave his name to this award, is, of course no mythical personage, though in this room filled with distinguished former law clerks and friends and admirers, he does take on something of that quality, doesn't he? I just love the chats that I've had with many of you about Stanley, starting with today's Program Chair, Vince Syracuse, who clerked for Stanley Fuld's next-door neighbor at Court of Appeals Hall, John Scileppi.

Now, Vince remembers Stanley's warmth and friendliness to all of his clerks. Sol, I'm sure you remember his warmth and friendliness. Especially relevant to today and to the Commercial Division is his repeated challenge that it was important for State courts to take over the development of state law and not leave it to the federal court.

Now, Stanley Fuld is absolutely unsurpassed in so very many ways, starting with his unsurpassed tenure on the Court of Appeals, 27 years and eight months ago. Now, that's a record I can tell you that will be unbeaten for the foreseeable future.

That is definitely fact and not myth. It brings to mind the third reason why this event for me today is a triple bonanza. I gleaned that fact about Stanley and the word “eponymous” and so much else from a moment's reference to a magnificent book called *The Judges of the New*

*York Court of Appeals: A Biographical History*. That book was conceived, and even more importantly, it was actually completed by today's recipient of the Stanley H. Fuld Award, the very Most Honorable Albert M. Rosenblatt.

Now, I have to tell you there are two things wrong with this book that I have discovered thus far. First is that hard as I try, I cannot find a purse that is large enough to contain it, and second, whenever I pick up the book to find a quick fact, like the precise length of Stanley Fuld's unsurpassed tenure, there I am hours later still immersed in one of the biographies, and it's usually my own biography.

I started with Stanley Fuld, but hey, did you all know that Alton Brooks Parker was the only Court of Appeals Judge to have run for president of the United States, and guess what, he lost in a landslide. And by the way, I also learned from scanning your bio that we owe you a slightly belated happy birthday.

But the fact is there is absolutely no fact you cannot glean about the Court of Appeals from this great book. We are all forever indebted to Judge Rosenblatt for this monumental work, but for so much else as well in the field of commercial law and beyond commercial law.

For eight glorious years Judge Rosenblatt served as a judge of the Court of Appeals, and I can't imagine a better match than Al Rosenblatt and the endless thorny questions of law, policy and real-life impact that fill the dockets of the Court of Appeals.

Whether criminal or administrative, family or commercial cases, you know that Judge Rosenblatt always was fully immersed, totally committed to reaching just the right resolution, and then expressing it in clear, articulate and well-formulated and well-punctuated prose.

Like his book, his opinions are a joy to read. Never the passive voice. Plead, not pled. Our difference over the serial comma he resolved most collegially, none in his Court of Appeals writings, but otherwise, forget it. His poetry—notable too. Even his song lyrics he reserved for other, more appropriate occasions.

Consuming as the work of the Court was for Judge Rosenblatt, remarkably he always found additional hours in the day and in the night for other significant activities that benefit our courts and our law, like establishing

the Historical Society of the Courts of the State of New York and nurturing Fair Trial/Free Press and presiding over the State-Federal Judicial Council, all with the same wholehearted commitment, genuineness, and buoyant spirit and unique mastery of his subjects. And talk about mastery. I haven't even mentioned those other courts, the squash courts of the Baker Street Irregulars.

Those very same qualities our fabulous honoree brought to his three decades as a judge of the New York State court system, whether as Dutchess County Judge or Justice of the Supreme Court or Justice of the Appellate Division, Second Department, or Chief Administrative Judge of the Unified Court System. And those same qualities he now brings to teaching at New York Univer-

sity Law School—lucky students—and to a law practice—lucky law firm.

I happen to know how greatly Judge Fuld loved and appreciated this award because I had the pleasure of presenting it to him back on January 25, 1995, a mere 13 years ago, and I know how pleased Judge Fuld would be that the award today is presented to Judge Rosenblatt for so many reasons, but especially for all that Judge Rosenblatt and this Section have done to assure that in New York State it is state law, including most notably commercial law that we celebrate today, is developed not by the feds, but by strong and vibrant and independent and well-paid state courts.



You're a New York State Bar Association member.  
You recognize the value and relevance  
of NYSBA membership.  
For that, we say thank you.

The NYSBA leadership and staff extend thanks to you and our more than 74,000 members — from every state in our nation and 109 countries — for your membership support in 2008.

Your commitment as members has made NYSBA the largest voluntary state bar association in the country. You keep us vibrant and help make us a strong, effective voice for the profession.

Bernice K. Leber  
*President*



Patricia K. Bucklin  
*Executive Director*

# Recipient of the Stanley H. Fuld Award at the Commercial and Federal Litigation Section Annual Reception and Luncheon, January 30, 2008

## Acceptance remarks by the Honorable Albert M. Rosenblatt

That was so lovely, Judith.

This is very gratifying to me, all the more because the award is named after Judge Stanley Fuld. He was a man of the 20th century. He lived for a century, from 1903 to 2003, and for a century, he embodied the growth and the development of the law in its finest sense.

This is a youthful audience, but I'm sure there are people here who appeared before Stanley Fuld. Can I see a show of hands? Median age, about 61? Well, Judge Fuld was brilliant and scholarly and high-minded, but he also very droll. In the first case that I argued before the New York Court of Appeals, he was the Chief Judge, and I was there as an Assistant DA to defend Section 1124 of the Vehicle and Traffic Law, which has something to do with passing another car on the highway.

The lower court declared that statute unconstitutional for reasons that escaped me then and still escape me now. So at age 30, I saw myself as champion of Section 1124 of the Vehicle and Traffic Law and of all that is good and right and virtuous in the American way of life.

Looking back on it now—although I was not convinced of it then—I acknowledge that this case is less important than *Marbury v. Madison* and *Baker* against *Carr*. It was last cited many years ago in an *Albany Law Review* article on physician-assisted suicide. Are there any Albany law graduates here? You should be ashamed of yourselves.

For the scholars among you who want to know the cite of my first Court of Appeals case, it's *People* against *Klose*, 18 N.Y.2d 141, so you can write that down in your BlackBerrys or Palm Pilots.

At that appeal I was nervous, of course, and the case just before mine also featured a novice lawyer who began by saying, "Now, this is my first case here, and I hope . . ." At that point, Judge Fuld interrupted him and said, "You're doing okay so far." I took this in very carefully.

Thus disarmed, I thought I would begin my appeal with a more inspiring, opening, such as "May it please the court." I managed to get out four of those five words when one of the judges interrupted me and asked: "Pardon me, counselor, but how did you get here?" The judge was Kenneth Keating. Some of you may remember him. He was a United States Senator, and I wondered whether during his political career he had traveled the length and breadth of New York State and was asking me for directions to Albany. In fact, I had taken the Taconic

State Parkway, but I wasn't sure that that was the answer he was looking for. It raced through my mind that maybe Route 9 was better.

I looked at my opponent, Bob Ostertag. We had driven up together from Poughkeepsie. Several years later, Bob became President of the New York State Bar Association, but it was not on the strength of this case. "I'm sorry, Judge," I said, "but I don't quite get the thrust of your question."

Judge Keating then explained: "Can you appeal from a reversal on the law and the facts?" Did I know? How many people here know? You are experts. On the way out the door, maybe we can take a vote, yes or no.

I had come to the Court as an appellant prepared to discuss constitutional law and the American way of life going back to its roots, Magna Carta, and not some arcane point of appellate practice in the code of criminal procedure! The CPL hadn't even been invented yet. Thus stuck, I punted and answered, "Well, leave to appeal was granted by Judge Fuld, and no one moved to dismiss, so I thought you wanted me here to discuss the statute's constitutionality." I said nothing about the Magna Carta. Such was my respect for Judge Fuld that if Judge Keating had a problem with appealability, let him take it up with Judge Fuld. They both smiled benevolently. Judge Fuld put me at ease. Yes, it was appealable.

It warms my heart to think that I can be mentioned even in the same paragraph as Judge Fuld, let alone receive an award named after him. I learned a lot from that experience and other appeals that I argued in the Court of Appeals and I was taken not only with the court's wisdom and scholarship, but with its civility. And in arguing appeals on my own, I never heard a harsh word from the court, which generates the very opposite of harshness. I was struck by a recent observation of Henry Cobb, a great architect. Speaking at the Stephen Kaye Lecture, he pointed out that when the architect Henry Hobson Richardson built the courtroom of the Court of Appeals—and I know many of you have been there and argued there—he designed it so that the bench was raised only slightly so that the lawyers can look eye to eye at the judges. Isn't that marvelous? It's obvious, but isn't it wonderful? Because as judges, we benefit from what Henry Hobson Richardson wanted.

He didn't want an inquisition or an interrogation or an ordeal. He wanted a conversation. We do better in conversation with one another. Judges do not profit when

lawyers are intimidated or nervous. That air of civility and scholarship has been with the Court for a very long time with models like Judge Stanley Fuld and those who came before him and chief judges who came after him . . . and it does them no disservice to say that Chief Judge Judith Kaye is among the greatest of them all.

How good it is to see my judicial colleagues here. I admire and love them all, and some of you may wonder what makes it the great court that it is. Well, of course the basic givens: scholarship, wisdom, and character, but also that they enjoy one another and dine together each night when they're in Albany. That creates an air of civility that I think is incomparable.

I left the Court a year ago. As you know, there is a mandatory requirement in the New York State Constitution, a mandatory age requirement, when at 39 years old you are out! That's it. So now in my new role as arbitrator and mediator, I'm here with my new law people, the firm of McCabe and Mack, who were gracious enough to take a table, and I'm learning more and more about lawyering, because I'm closer to the lawyers than I've been for the last 30 or 35 years on the bench.

I've noticed when lawyers are more civil to one another; they have everything to gain and really nothing to lose. In mediating cases, I have found that civility and good nature create an environment of productivity. I'm not suggesting that anyone is going to win a case by mere cordiality, but it is equally true that a lawyer can serve a client full well and lose nothing by maintaining a legal position without rudeness and even with a pleasant countenance.

I remember one incident in the New York Court of Appeals that illustrates this. One of the judges asked one of the appellate lawyers, "Where in the record do you find the point that the Court was interested in?" It was a little provision in a contract, and the lawyer started rummaging through the record, and four or five seconds passed. It must have seemed to the lawyer like an eternity, when the opposing lawyer got up and walked over and gave it to the lawyer who was fumbling through the record.

When we were in the robing room afterward, we all commented on it. We said, "What a gracious thing to do." We felt good about it, because it uplifted the profession.

It's a little bit like the way athletes behave on the sporting field. After a pileup in the NFL, you usually see a lot of blue jerseys go over to the pile, and they'll help up other blue jerseys. But once in a while or more than once in a while you will see a blue jersey give a helping hand to a white jersey. You know, it costs nothing. All that means in terms of energy is that the guy that's being picked up gains maybe 1/1,000th of an ounce of unexpended energy. Nothing turns on it except a little bit of

goodwill, a reminder that we're all doing our job, and we can be vigorous without rancor.

Having said that about the blue jerseys and the white jerseys, we all know that the Super Bowl is going to be held on Sunday, and with apologies to the Patriot fans among us (I will not ask you to stand) nothing would please me more than to watch Michael Strahan or Osi Umenyiora help Tom Brady by giving him a hand to help him off his back after sacking him 15 or 20 times over the course of the game. No late hits, just a helping hand to let him get back on his feet.

Some people say that the profession has grown less cozy than it used to be, but we no longer live in an age where life was agrarian and where the lawyer would draw up a will or sell a cow and then go fishing. Commercial life has become so complex with so many opportunities for millions of people to disagree with one another that the points of contact are infinite and the points of people bumping into one another are interminable.

The number would stagger even Carl Sagan. Consider automobiles, banks, contracts, leases, construction, union, regulations, securities, health facilities and so on. My guess is that for every encounter that goes awry and ends in some kind of litigation, there are billions or trillions of encounters that end amicably. For this I credit the lawyers, without whom there would be chaos and violence. When it comes to litigation, surely you know that the great majority of cases settle because the lawyers work hard at it and succeed almost all the time.

My final thought comes from my daughter Betsy who is an intellectual property litigator in California, and she said "Dad, why not tell this group about lunch?" "Lunch?" I asked. She said, "Yes. Things are often better when lawyers interrupt a discovery or settlement session and have lunch together or even share a cab to the airport. It takes a bit of the edge off."

In recent mediation I tried that. We all sat around and had lunch, not in separate break-out rooms, but together. Now, I grant you that the quality of the pasta may have had something to do with it. I cannot rule that out, but I thought I sensed a tiny bit of mellowing by both sides. Maybe it was my imagination.

But it was not my imagination when we settled the case and the lawyers all shook hands warmly and said that they hoped that they could do business with one another again.

For me, that uplifted the profession. There was civility, respect, and mutual understanding, and that was even better than the pasta salad.

You are the titans of the Bar, and by taking me in as your friend, you make feel very, very good. I thank you for this award, and I will treasure it always.

(Applause)



# Presentation of 2008 Hon. George Bundy Smith Pioneer Award to Cesar A. Perales and 2008 Minority Law Student Summer Fellowship to Ji Zhang on April 7, 2008

Appearances by: the Honorable Barry A. Cozier, Program Co-Chair, Smooth II—Career Mobility for Attorneys of Color; Carla M. Miller, Program Co-Chair, Smooth II—Career Mobility for Attorneys of Color; Carrie H. Cohen, Section Chair; Kathryn Grant Madigan, NYSBA President; the Honorable George Bundy Smith, Chadbourne & Parke LLP, Award Presenter; Cesar A. Perales, President and General Counsel, Puerto Rican Legal Defense and Education Fund, Honoree; Lesley Rosenthal, Vice President, General Counsel and Secretary, Lincoln Center for the Performing Arts, Inc.; John R. Horan, President, The New York Bar Foundation, Fellowship Presenter; and Ji Zhang, Fordham Law School, Fellowship Recipient.

## Proceedings

**MS. MILLER:** Thank you all for coming tonight. For those of you just arriving for our cocktails and networking reception, I'm Carla Miller, the program co-chair for the evening and also co-chair of the Committee for Corporate Litigation Counsel of the Commercial and Federal Litigation Section of the State Bar Association. I want to thank, once again, our amazing panelists. For those of you who were at the CLE presentation, I'm sure you will agree it was a very engaging and inspiring series of comments that we got from each of the judges, federal and state. For those of them who are still here, we'll give a round of applause. And also, of course, for our fantastic moderator, Zach Carter.

A road map for where we'll go the rest of the evening: As mentioned, the hallmark of the event this evening is the presentation of the Second Annual Pioneer Award named for the Honorable George Bundy Smith who is in attendance with us tonight and will actually confer the award on this year's recipient. The Pioneer Award is presented each year to a litigator of color whose career and accomplishments exemplify those of Judge Smith's: legal excellence, community commitment, and mentorship.

Also, following the presentation of the award, we will be presenting the Commercial and Federal Litigation Section's Minority Law Student Fellowship to Ji Zhang, and you will hear much more about our two award recipients and honorees this evening from my co-chair, Barry Cozier.

**JUDGE COZIER:** Thank you. I'm Barry Cozier, member of Epstein, Becker & Green, and also a member of the Section's Executive Committee. We are very honored this evening to make the second annual award of the George Bundy Smith Pioneer Award. Last year was the inaugural award, presented to Judge Smith himself, and this evening he will be the presenter of the award.

And I just wanted to point out that the hallmarks, I think, of this special recognition are significant. Scholarship, extensive litigation experience, legal excellence, sustained public service, service to the profession and to

the community, leadership in civil rights, and mentoring and educating.

It is the combination, I think, of those qualities that the Section has looked to in making its selection of a worthy recipient. Certainly this evening we have a very worthy recipient in Cesar Perales.

At this time I would like to thank the other members of our organizing committee, Lesley Rosenthal, who is the Secretary and General Counsel of Lincoln Center for the Performing Arts and so generously arranges for the use of these facilities year after year. Very important. And her assistant, Cecelia Gilchrist, who really does all the legwork for us. Susan Davies, also a member of the Executive Committee, and the Treasurer of the Section, and who really just does everything that is necessary for follow-up. Tracy Davis, who is a member of the organizing committee and last year and this year has contributed significantly to this program.

And without further ado, I want to introduce the Chair of the Section, Carrie Cohen, Assistant United States Attorney for the Southern District of New York.

**MS. COHEN:** Thank you. I want to welcome all of you again. This is a wonderful evening for the Section and I'm so glad to see so many of you out there.

As many of you know, this is the second year our Section has sponsored this wonderful program, and we couldn't do it without the help of all our corporate and law firm sponsors.

Gold sponsors this year: Chadbourne & Parke; Fleming Zulack Williamson Zauderer; FTI Consulting, Inc.; and Morrison & Foerster.

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Offices of Douglas T. Tabachnik; Tannenbaum Helpert  
Syracuse & Hirschtritt.

We also want to thank Ellen Grauer Court Reporting for providing a free transcription of the program tonight.

The Section would also like to thank our program co-sponsors, which are other sections and committees of the State Bar. We especially want to thank the Judicial (Courts of Record) Section, Committee on Diversity and Leadership Development, Committee on Women in the Law, Committee on Minorities in the Profession, the Entertainment, Arts and Sports Law Section, and the Young Lawyers Section.

Again, I made a membership pitch at our CLE. I'll make another one now. Please join our Section. We would love all of you to join us to continue this great work.

I am thrilled this night that I have the honor of introducing to you our State Bar President, Kate Madigan. I'm sure she needs very little introduction. She's been spending the year traveling across the State. She has been a tremendous leader of the State Bar and is also just a tremendous person.

**MS. MADIGAN:** Thank you, Carrie. Thank you for that lovely introduction.

It's such an honor to be here tonight. I want to express our State Bar's appreciation to both Carla Miller and Judge Cozier, who are also the Chairs of the Section's Corporate Litigation Counsel and Diversity Committee. I also want to note this Section's ongoing commitment and dedication to diversity.

A few years ago the State Bar rededicated our commitment to both a diverse membership and leadership development. And what we did was, we decided that we would do a biennial diversity report card and that would anchor us, from which we could determine how successful we were with our various diversity initiatives.

As a measure of how important this is to the mission of the Bar Association, our committee is chaired by two past presidents, Lorraine Tharp and Ken Standard, and the vice-chair is another past president, Tom Levine.

What can I tell you about our 2007 diversity report card? If I was asked to describe it in one word, I would say, "Good." If asked to describe it in two words, I would say, "Not good." In three words I could say, "Not good enough."

We will be planning to publish our diversity report card, which will highlight our successes. And the good news is that, although it was not good enough, the Commercial and Federal Litigation Section is one of our success stories, and I hope this section will inspire our other 22 sections to follow your lead.

Today we can say that the Commercial and Federal Litigation Section truly is one of our stars. One of the barometers we use, we take a look at the overall diversity of Section membership and compare that to the leadership.

I'm very proud to say that approximately five percent of the current membership of the Section are from various ethnic minorities, but seven percent of the Section leadership are minority members.

So while we certainly need to grow the membership in terms of diversity, you can be guaranteed that if you do join the Section and are interested in a leadership position, that door will be open to you.

I'm also pleased to note that 22 percent of the Section membership is women, but 27 percent of the Section leadership are women. So that's a statistic that sets this Section apart from every other Section within our Association.

Let me just say that we know—I know I'm preaching to the converted here—but we are a much richer Association and more effective because of diversity, because it really does increase our strengths, our capabilities, and our adaptability.

This program here today, which is the sequel to one that the Section sponsored last year, was to really attract both members and nonmembers alike; to encourage your participation, leadership, not only within the Section, but within our Association. I know there are a couple of you out there that are not actually members of the State Bar Association. I will talk with you later.

But I do have something to offer to you today. If you do decide to join the New York State Bar Association within the next month, you can do so at half price. And by attending this function, if you are not yet a Section member, you can do so for free. And the annual Section dues are \$40. They're waived for anybody who is at the program here today.

Let me tell you something: With the opportunities to lead, to be published, to shape policy and legislation, to learn more about your area of expertise, to network with experts on the cutting edge of your field, to form lasting relationships with your colleagues, in the advertising vernacular, "It's priceless."

And where else could you meet the kinds of luminaries that you did today on this very distinguished panel of judges, and the Honorable George Bundy Smith, and Cesar Perales?

In sum, if you're not a member of the Section, you are not getting the full value of your Association membership. So do look us over, take the time after we make these formal remarks to talk with the leaders among the Section. We want to talk with you about the benefits that we can offer you as practicing attorneys, and we hope

to see you in our leadership ranks in the not too distant future.

Finally, let me note how delighted I am to be here with the Honorable George Bundy Smith and participate in the presentation of the Pioneer Award that bears his name and honors his extraordinary legacy.

To this year's honoree, Cesar Perales, let me add my voice to the many tonight for your inspired leadership.

To Ji Zhang, the recipient of the law student summer fellowship made possible through the generosity of the Section, the New York Bar Foundation and its president, John Horan, we applaud you.

Finally, for this Section's commitment to diversity, for your foresight and generosity in funding that fellowship, we honor you and thank you for your leadership through service. You really do us proud. Thank you.

**JUDGE COZIER:** We are moving on to the presentation of the award.

Before introducing Judge Smith, who really needs no introduction, I just wanted to recognize a special guest this evening, Dean Treanor of Fordham University School of Law. Dean William Treanor. Where are you, Dean Treanor?

He just stepped out. He has—the Dean has a number of connections this evening to the program. The honoree this evening is a graduate of Fordham Law School, and Judge Smith has been teaching at Fordham Law School for over 20 years. I taught at Fordham Law School as an adjunct for some 10 years.

So the Fordham connections—and of course our fellowship recipient this evening is a first-year student at Fordham Law School. So the Dean has much to be proud of.

Now, as I mentioned to you, last year was the inaugural award of the Honorable George Bundy Smith Pioneer Award. I wanted to say a few words about Judge Smith, someone who I have known as a friend, colleague, a mentor for my entire career, legal career and judicial career.

When I began in the mid-70s, Judge Smith was a Judge of the Civil Court of the City of New York. And in that time period Civil Court judges sat in Criminal Court, Civil Court, and Family Court. And he sat in all three courts.

Judge Smith has had a career that exemplifies lifelong service to the public, to the Bar, and to the community.

It's difficult to give a thumbnail sketch of his background and experience. He is a graduate of Yale University, 1959. Graduate of the Yale Law School in 1962. He is also a graduate of New York University, where he received his master's in 1967 and his Ph.D. in 1974.

He is also a graduate of the University of Virginia School of Law, where he received an LL.M. in judicial process in 2001.

He holds honorary doctorate of law degrees from Fordham University School of Law and Albany Law School.

As I mentioned, he's been an adjunct professor at Fordham University School of Law since 1981.

He was admitted to the New York State Bar in 1963. And he began his legal career as an attorney for the NAACP Legal Defense and Education Fund, followed by his service as a law clerk in the New York State Courts in various capacities, including as a law clerk to the late Honorable Harold Stevens, the Presiding Justice of the Appellate Division, First Department and the first African-American to serve as a presiding justice of any of the Appellate Divisions.

From 1974 until 1975 he served as the administrator of New York City's Model Cities program until his appointment—until his election, rather—to the Civil Court in 1975.

He has served as a judge of the Civil Court, as a Justice of the Supreme Court, as an Associate Justice of the Appellate Division First Department, and also, of course, finally, as an Associate Judge of the Court of Appeals from 1992 until his retirement in 2006, having served a full 14-year term on the Court of Appeals.

He has distinguished himself at each phase of his legal and judicial career, which has spanned well in excess of 40 years.

Now, I do want to point out that he was born in Washington, D.C., but he is truly a son of Harlem where he continues to reside with his wife, Dr. Alene Smith, who is with us this evening.

In addition to being a prolific writer and author, he has been and remains involved in a variety of community and professional activities. Among them, he chairs the Board of Trustees of Grace Congregational Church in Harlem. He's on the board of directors of Harlem Dowling West Side Center For Children and Family Services. He's a former president of the Harlem Lawyers Association.

He is a former vice-president of the Association of the Bar of the City of New York. A member of the Metropolitan Black Bar Association. The first chair of its board. A member of the Judicial Friends, the National Bar Association, the American Arbitration Association. He has received numerous awards and honors during his legal and judicial career.

But I think, for me, the qualities that stand out are his humility. The fact that he is soft-spoken but always authoritative. That he is keenly analytic and incisive. That he has a sense of justice which is always tempered by sen-



sitivity and compassion for the litigants. That he has been throughout his career a teacher and a mentor, not just to his law clerks and his interns, but to any lawyer who has come to him for advice or counsel. And of course, as I indicated, a prolific writer and author.

So I'd like to, at this time, call up the Honorable George Bundy Smith.

**JUDGE SMITH:** Thank you, Barry Cozier, for those very kind remarks. After hearing all of those remarks, I really hesitate to stand up here.

I'd like to thank all of you for being present this evening, and I'm grateful to my wife, Alene Smith, my wife of 44 years, who is also with us.

I am very pleased and honored to be presenting the second George Bundy Smith Pioneer Award to a good friend and to a person whom I have admired over many, many years.

Cesar Perales's life of service and legal career truly exemplify the high ideals to which every member of the legal profession should aspire. Cesar Perales was one of the founders of the Puerto Rican Legal Defense and Education Fund in 1972, and he became the organization's first president.

Under his leadership the Fund initiated a number of landmark lawsuits that would establish the right to bilingual education, strike down civil service requirements that kept Latinos from public employment, and eliminate barriers to government benefits for non-English-speaking applicants.

The Fund also sued the government of Puerto Rico when it contracted with foreign entities on the mainland to supply migrant farmworkers but failed in its responsibility to ensure decent working conditions.

The Fund's national impact was felt in 1975 when the United States Congress amended the Voting Rights Act to include the right to bilingual ballots, a right established by the Fund in Federal Courts in 1973.

Mr. Perales's record of Government and private sector service has also been extraordinary. He served as Assistant Secretary in the Department of Health and Human Services under President Jimmy Carter. As Commissioner of the Department of Social Services under Governor Mario Cuomo, he managed New York State's largest agency budget.

He went on to serve as Deputy Mayor of New York City during the administration of Mayor David Dinkins.

Following a request by the Fund's board that Cesar return to the organization in 1981, within six months the Fund was at the forefront of the election of the New York City Council until district lines were redrawn in a nondiscriminatory manner.

As a result of that litigation strategy, the elections were halted the day before they were to be held in perhaps the most dramatic application of the Voting Rights Act in the North.

After leaving public service Mr. Perales became Senior Vice President of Columbia Presbyterian Medical Center.

Mr. Perales returned to lead the Puerto Rican Legal Defense and Education Fund once again in 2003. Since then the Fund has become a national leader in the fight to protect the rights of immigrants in a very emotionally and politically charged landscape.

The Fund's current lawsuits seeking to protect the constitutional rights of day laborers and other immigrants have had an extraordinary impact and focused attention on this new civil rights struggle.

Now, before we call up Mr. Perales, we will have a video. Could we start that, please?

(Video is shown.)

**JUDGE SMITH:** Will you come up, please?

I am delighted to present the second George Bundy Smith Pioneer Award to your friend and my friend, Cesar Perales.

**MR. PERALES:** Judge Smith, thank you very much. With that prelude, I almost feel as if I deserve the award.

Because I'm under the weather and I have a cold coming on, I will spare you a long-winded thank you. But I did want very much to be here and to receive this award which I don't know that I deserve, but I very much felt that if someone was going to present the George Bundy Smith Award to me, that I had to be here, no matter how I felt, particularly if it was going to be presented by the Honorable George Bundy Smith.

Thank you very much, Judge. One thing I do want to say is that I hope all of you get the message from that last clip. That's something I do have in common with Judge Smith, that while in some ways we take a lot of pride, maximum amount of pride, in what happens in the courtroom and in the practice of law, we know that perhaps the most lasting effect some of us can have is to be role models and to inspire others to the highest ideals of our profession.

I know that George Bundy Smith throughout his career has done that. He has certainly inspired me.

We were speaking just a few moments ago about how we sort of followed each other's careers. I was one of those people who cheered when my boss, Governor Cuomo, selected George Bundy Smith to serve in the Court of Appeals. It was a very proud moment for many of us in Albany.



I wanted you to understand that, while I have a lot of fun bringing exciting litigation and challenging the bad guys, I probably feel, when I go home, that if I've inspired one or two young people to want to become lawyers because of my work, that's probably the most important thing.

So thank you all very much. I am most grateful for this honor. And I'm shocked that the committee selected me, but I am very much pleased and very honored.

Thank you all very much.

**MS. ROSENTHAL:** I'm Lesley Rosenthal, the General Counsel of Lincoln Center and immediate past chair of the Commercial and Federal Litigation Section. I think that makes me a formerly important person.

It's really a joy to see this event really take flight after its inaugural year last year. It's a triple-treat event, CLE credits and a tremendously inspiring program, recognition of a person who has had a significant and long-term impact on society through the legal profession.

And now to honor somebody who is at the other end of the legal profession, just starting out, I am pleased to introduce my colleague, the Chairman of the Board of the New York Bar Foundation, John Horan, who will be presenting the fellowship grant, which was made possible through the Commercial and Federal Litigation Section.

Before I ask John Horan to come up, however, there are some others to acknowledge, not in the legal profession, but in music. Jonathan Batiste, Ryland Kelly, and Craig Weinrib are three talented members of the Juilliard Jazz Program, and I wanted us to have the opportunity to give them a round of applause.

I introduce to you John Horan of Fox, Horan & Camerini, President of the New York Bar Foundation.

**MR. HORAN:** Thank you, Lesley. This is really one of the jazziest presentations I've ever been to. It's a great pleasure.

Before I move on to the young member, the-about-to-be member, of the Bar, I'd like to acknowledge that I was pleased to be present when George Smith was addressing us. I was in George's class in Yale in 1962. It's always great to be there when he is doing a presentation as well.

The Bar Foundation, as you may or may not know, is the arm of the State Bar that dispenses money from the generosity of the members of the Bar, and we donate to legal services and we donate to various causes that enhance access to justice.

In this case, thanks to the Commercial and Federal Litigation Section, we are able to sponsor a summer fellowship for a very unusual and talented young man.

Ji Zhang is at the Fordham Law School at the moment, and has completed his first year, and has been selected as the recipient of this fellowship.

He will be assisting Justice Herman Cahn this summer at the New York Supreme Court. As all of you know, Justice Cahn has been, for a long time, a member of the Commercial Division of the Supreme Court, so I've assured Ji Zhang that he's going to have a very rich experience with Justice Cahn.

Just a word about this student, who was a magna cum laude graduate of Ohio Wesleyan University and, according to what I have here, very proficient with numbers. A mathematician, accountant, and now a wordsmith.

I asked him before, as we were standing here, whether he was interested in chess. Well, that was kind of a cultural question. He said, "Well, Chinese chess, yes." Strategic matters. So I think we will hear from Mr. Zhang. And it's my great pleasure—please come up.

I've assured Ji Zhang that he doesn't have to say anything, but he would like to say a word of thanks.

**MR. ZHANG:** First of all, I would like to thank the State Bar Foundation and the Section who selected me as this year's recipient.

And also I must say thank you to my parents. Their support has allowed me to pursue a lot of opportunities that many of my peers do not have. I'm very, very grateful to them for that.

Thank you.

**JUDGE COZIER:** That concludes the formal program for the evening, but we invite you to please stay for the networking reception and enjoy some cocktails.

# RICO Damages After Set-Off: Treble Versus Double Recoveries

By Michael C. Rakower

The Racketeering Influenced Corrupt Organizations Act (RICO) is an enormously powerful tool designed to combat racketeering activity. On the civil side, RICO empowers victims to act as private attorneys general, rewarding the successful plaintiff with treble damages and attorney's fees.

The mere filing of a RICO action can have a devastating effect on a defendant. Rumors of corruption spread quickly, and a business embroiled in allegations of a RICO conspiracy risks losing its hard-earned reputation overnight.

The specter of treble damages can snap to attention even the most defiant corporate executives, fearful of a mortal blow to their company. For these reasons, civil RICO has been described as "the litigation equivalent of a thermonuclear device."<sup>1</sup>

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*"The mere filing of a RICO action can have a devastating effect on a defendant."*

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Facing grave risks, many corporate defendants choose to settle a RICO case early, buying peace and certainty and leaving their codefendants to fight this wrenching battle alone. Given that the law abhors double recoveries, what damages remain at stake after a settlement with some, but not all, defendants?<sup>2</sup> Put another way, in the context of civil RICO, what is the appropriate method to calculate a set-off of settlement payments? The U.S. Court of Appeals for the Second Circuit has not yet resolved this pivotal question.

## Measuring the "Thermonuclear" Threat

Suppose your client has been harmed to the tune of \$30 million; you bring a civil RICO claim seeking \$90 million in treble damages against several defendants; and you settle with two defendants for a total of \$40 million early in the proceedings.

Do you subtract the settlement amount from the total damages before or after trebling the compensatory (i.e., actual) damages? The answer will determine the continued viability of your case. If you calculate the set-off before trebling, you will extinguish your claim, because the set-off (\$40 million) will exceed the actual damages (\$30 million). If you calculate the set-off after trebling, you are left with a claim for \$50 million and your case is very much in play.

## Recent Eastern District Court Ruling

*State Farm Mutual Automobile Insurance Company v. Kalika*, 04 CV 4631, 2007 WL 4373600 (E.D.N.Y. Dec. 11, 2007), examines the effect of a settlement set-off on a nonsettling defendant's liability and highlights RICO's muscle. In that case, State Farm sued several doctors for their alleged participation in a fraudulent scheme to bill State Farm for medically unnecessary tests performed on State Farm-insured individuals. After a default judgment was entered against one of the defendants, Dr. Yaldizian, the district court held an inquest to determine the damages against him. Because certain other defendants had already settled with State Farm for an amount totaling \$1.025 million, the court was confronted with the task of determining the amount to set off against Dr. Yaldizian's liability.<sup>3</sup> The court found that the defendants' collectively caused State Farm to pay \$1,142,091 for medically unnecessary procedures, and that Dr. Yaldizian individually caused State Farm to incur only \$39,392 in fraudulent charges.<sup>4</sup> Acknowledging that the Second Circuit has not yet determined whether a settlement set-off in a RICO case should occur before or after trebling actual damages, the court held that Dr. Yaldizian was jointly and severally liable for \$2,401,273, which equaled the trebled sum of damages caused by the defendants' scheme less the amounts received in settlement.<sup>5</sup> Thus, by causing less than \$40,000 in damages to State Farm, Dr. Yaldizian was held responsible for nearly \$2.5 million in damages as a result of his participation in a RICO conspiracy.

## Precedent in Other Circuits

The *State Farm* court relied mainly on decisions in the Fourth and Seventh Circuit Courts of Appeal to support its view that civil RICO set-offs should occur after trebling actual damages.<sup>6</sup> *Morley v. Cohen*, 888 F.2d 1006 (4th Cir. 1989), involved a RICO claim arising from a tax shelter investment that the plaintiffs contended was, in fact, a scheme to defraud investors.<sup>7</sup> The plaintiffs brought RICO and common-law claims against several defendants; they settled with one defendant and won a jury verdict against two others.<sup>8</sup> Drawing upon set-off principles established in antitrust (another treble damages regime), the Fourth Circuit ruled that a set-off should be made after trebling actual damages.<sup>9</sup>

*Morley* accords with a preceding Seventh Circuit decision, *Liquid Air Corporation v. Rogers*, 834 F.2d 1297 (7th Cir. 1987) (*en banc*), which concerned a RICO conspiracy perpetrated by a competitor and a disloyal employee in the liquid gas business. Some time after a jury awarded

\$750,000 in compensatory damages for the replacement value of more than 3,000 gas cylinders and the lost rent associated with each, the defendants returned 530 cylinders and sought to obtain a set-off for their value.<sup>10</sup> The Seventh Circuit affirmed the district court's decision to set off the value of the returned cylinders after trebling the compensatory damages, reasoning that a post-trebling set-off "is more likely to effectuate the purposes behind RICO."<sup>11</sup>

### Potential Divergence by the Second Circuit

Notwithstanding the reasoning articulated in *State Farm*, *Morley*, and *Liquid Air*, it is questionable whether the Second Circuit would affirm a decision setting off RICO damages after trebling actual damages. For one thing, the RICO winds have changed due to *Anza v. Ideal Steel Supply Corporation*, 126 S. Ct. 1991 (2006), a June 2006 decision by the Supreme Court which substantially limited the scope of civil RICO claims by narrowly defining "proximate cause." Additionally, there is case law in the Second Circuit to support the view that a set-off in a RICO case should be calculated prior to trebling damages. See *Commercial Union Assurance Company v. Milken*, 17 F.3d 608 (2d Cir. 1994) (*Milken*).

*Milken* arose in the context of Ivan Boesky's 1980s insider trading scandal. Shortly after Mr. Boesky reached a plea and cooperation agreement with the government and a liquidation trustee was appointed for Ivan Boesky & Co. LP, investors in Mr. Boesky's limited partnership sued for damages pursuant to RICO and other claims.<sup>12</sup> Within the first 10 months of litigation, the liquidation trustee's sale of assets from Mr. Boesky's limited partnership yielded the plaintiff investors a 10.2 percent return on their investment while enabling the plaintiffs to retain their interests in the partnership.<sup>13</sup> Further, the plaintiffs received additional money from several third-party settlements.<sup>14</sup>

Although the Second Circuit was sympathetic to plaintiffs' cries of wrongdoing, it affirmed the district court's grant of summary judgment to defendants Michael and Lowell Milken because it would not countenance a RICO claim where it perceived that the plaintiffs had been made whole.<sup>15</sup> The court confronted *Liquid Air*, and distinguished that case by noting that *Liquid Air* affirmed a set-off after trebling where the defendants returned lost goods following the entry of a RICO judgment, whereas the plaintiffs in *Milken* were repaid within 10 months of the commencement of their suit.<sup>16</sup> (The Milken brothers, incidentally, did not escape liability. *Milken* arose after certain of the plaintiffs opted out of a settlement agreement that yielded a \$500 million contribution by Michael Milken.)<sup>17</sup>

Strident RICO advocates cringe at *Milken* and any attempt to extend its effect, arguing that a RICO claim

should not be extinguished unless and until the plaintiff is recompensed 300 percent (i.e., treble damages). These staunch supporters argue that *Milken* thwarts RICO's deterrent value. Given the Second Circuit is traditionally an inviting court for plaintiffs, many might expect the Court to strike a balance between *Milken*'s preclusive effects and RICO's remedial purposes. It could do this by holding that any settlement payments satisfying less than 100 percent of incurred damages in a RICO action are to be used as a set-off after trebling compensatory damages; such a decision would respect *Milken* and limit its thrust.<sup>18</sup> Yet, the Supreme Court reversed the Second Circuit in *Anza*, concluding that the circuit's perception of proximate cause was too broad. Whether *Anza*, coupled with a recent spate of conservative rulings by the High Court, will acutely affect the Second Circuit is a ripe question.

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*"Future plaintiffs can only hope, when the need arises, the court will distinguish Milken and rebuff a defendant's transparent attempt to eviscerate RICO by gaming the system."*

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### Gaming the System

Even if the Second Circuit were to rule that a set-off in a RICO case should occur after trebling actual damages, an equally relevant and intriguing question is whether, to the extent a contribution is made prior to the entry of judgment, the timing of such contribution matters. Would our home circuit permit a doomed defendant to extinguish a RICO claim on the eve of verdict by tendering 100 percent (instead of 300 percent) of compensatory damages without offering a penny in attorney's fees? *Milken* and its progeny suggest that it would. See *Milken* at 612 ("We recently ruled that after a RICO claim has been successfully collected it is 'abated pro tanto, prior to any application of trebling.'").<sup>19</sup>

### "Central Concern"

Indeed, five years after *Milken*, the court described its "central concern" in that case as one focused on the fact "that the plaintiffs had suffered no direct pecuniary losses because they had recouped their entire initial investment as well as a return on their investment."<sup>20</sup> Payment of all damages on the eve of a verdict would alleviate this "central concern."

Future plaintiffs can only hope, when the need arises, the court will distinguish *Milken* and rebuff a defendant's transparent attempt to eviscerate RICO by gaming the system.

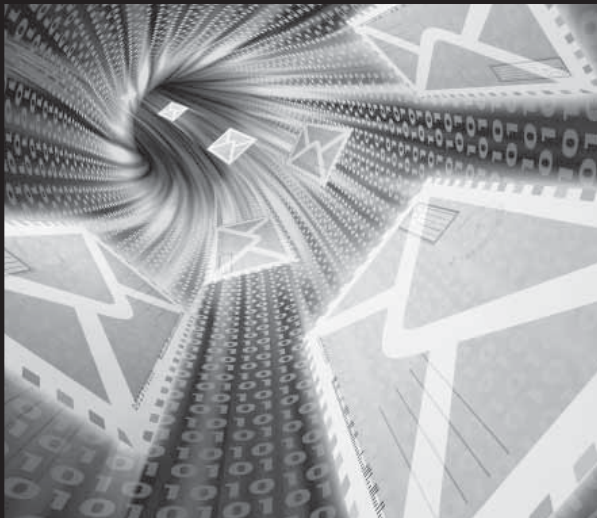
## Endnotes

1. *Miranda v. Ponce Fed. Bank*, 948 F.2d 41, 44 (1st Cir. 1991).
2. Although the Second Circuit has not squarely addressed the question of joint and several liability in the context of civil RICO, “[e]very circuit in the country that has addressed the issue has concluded that the nature of . . . civil . . . RICO offenses requires imposition of joint and several liability because all defendants participate in the enterprise responsible for the RICO violations.” *United States v. Phillip Morris USA Inc.*, 316 F. Supp. 2d 19, 27 (D.D.C. 2004) (collecting circuit cases). Accordingly, this article assumes that joint and several liability applies to civil RICO claims.
3. *State Farm*, 2007 WL 4373600, at \*9.
4. *Id.* at \*8.
5. *Id.* at \*9.
6. *Id.*
7. *Morley*, 888 F.2d at 1008.
8. *Id.* at 1009.
9. *Id.* at 1013.
10. *Liquid Air*, 834 F.2d at 1301.
11. *Id.* at 1310.
12. Boesky’s fund was renamed CX Partners LP after his ignominious fall from grace. *Milken*, 17 F.3d at 610.
13. *Id.* at 611-12.
14. *Id.*
15. *Id.* at 609.
16. *Id.* at 613 (citing *Liquid Air*, 834 F.2d at 1310).
17. *Id.* at 611.
18. See *id.* at 612 (“If a portion or all of their investment in the partnership was unrecoverable, a treble damage award might be appropriate. . .”).
19. Internal quotation marks and citation omitted.
20. *Carlisle Ventures Inc. v. Banco Espanol de Credito, S.A.*, 176 F.3d 601, 606 (2d Cir. 1999).

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# Ethical Lawyering in the “Wireless Handheld” Age

By Jeremy R. Feinberg

Admit it. You have one, and you love using it.

Wireless handheld devices, from the Blackberry to the Treo, have become an everyday part of an urban professional's life. For many lawyers, these gadgets are indispensable tools in their legal practice. They also present additional dangers for the unwary. A lawyer who loses or misplaces her wireless handheld risks waiving attorney-client privilege or work-product protection. She could even face professional discipline for failure to safeguard client property and the related breach of the duty of confidentiality. This article will analyze the resulting ethical issues presented by the increased use of this technology and recommend a set of simple precautions to prevent reliance on wireless handhelds from becoming a professional crisis, even if accidents do happen.

## Advantages and Disadvantages of Wireless Handhelds

Wireless handhelds enable more productive and efficient client service through increased responsiveness and the ability to stay abreast of e-mails and their attachments while away from the office. The instant gratification of receiving and reviewing e-mails and their attachments from anywhere at any time has a surprisingly intoxicating effect on even the most powerful of minds, earning the devices the nickname “Crackberry.” One man described his excessive wireless handheld use: “I would actually answer my e-mails at two o'clock in the morning,” he said. “I'd be doing e-mails and brushing my teeth.” Dan Harris, “‘Crackberry Addiction,’ Gadget Users Compared to Drug Users for Excessive Behavior,” ABCNews.com, August 23, 2006, available at <http://abcnews.go.com/WNT/Technology/story?id=2348779>.

Experts say that the potential to develop an actual addiction to these communication devices exists “because they can make people feel disconnected,” comparing excessive wireless handheld use with alcohol, drug, and gambling addictions. *Id.*

The dangers of overuse aside, failure to practice caution when handling the information contained in these devices risks disastrous consequences, and the dangers of accidentally disclosing confidential and sensitive information are all too real. An on-line news source speaks of a 2003 incident in which an officer at a major financial institution left his job and, without clearing his wireless handheld's memory, sold it in an online auction. The buyer quickly learned that along with the new handheld, he had also purchased a trove of confidential corporate data: 200 internal company e-mails and a “database of more than 1,000 names, job titles . . . , e-mail addresses

and phone numbers.” Kim Zetter, *Blackberry Reveals Bank's Secrets*, WIRED, August 25, 2003, available at <http://www.wired.com/news/business/0,1367,60052,00.html>.

It is not hard to envision mishaps, even if not as reckless as this reported one, in the context of legal practice. Consider the following all-too familiar stories: an attorney receives confidential documents from a client as e-mail attachments. After the attorney reviews the e-mail and attachments while on the road, the wireless handheld slips out of the attorney's pocket and is lost where a stranger retrieves it. Or suppose in crafting a confidential e-mail to a client, the attorney over-relies on the auto-complete feature on a wireless handheld and, not checking, allows it to misaddress an e-mail, intended for the client, to a third party.

Certainly, any client whose confidential information fell into the wrong hands through an attorney's carelessness would not be happy. But the consequences of losing or misusing a wireless handheld, for both the attorney and the client, could go far beyond mere embarrassment. First, the attorney might waive the attorney-client privilege or work product protection. In some instances, such a waiver could have far greater reach and implications than the documents actually viewed. Second, the attorney may violate her duty of confidentiality and may even be subject to professional discipline.

New technological innovations significantly raise the stakes. Wireless handheld software now makes it possible to access and input time-entries and read and edit documents on a document management system remotely, creating a virtual window into the lawyer's (and her office's) entire business. See, e.g., <http://www.handango.com/blackberry/PlatformProductDetail.jsp?siteId=1181&osId=950&jid=3A77B546X9B8DEBAXDB4D5D6A79AE1D3&sectionId=0&catalog=0&productType=2&platformId=5&productId=193283>.

No client would want leaked to the public the number of hours and the description of the work her attorneys were conducting on a confidential matter. Nor would the client want to face the prospect of exposing hundreds of thousands of files—an entire firm's work product, extending back for years—to an adversary or a member of the public.

## Consequences of Losing (or Misusing) A Wireless Handheld

Would a court hold that sloppy use and care of a wireless handheld could waive attorney-client privilege or work product protection? It just might. In order to

determine whether privilege has been waived by inadvertent disclosure, such as the kind that might happen through errors in the use of wireless handhelds, New York federal and state courts apply multi-factor tests that focus heavily on whether and how the attorney took steps to: (a) prevent inadvertent disclosure; and (b) rectify disclosure after the matter has been discovered. Thus, inadvertent disclosure waives privilege in the Second Circuit when the party's conduct was so careless as to suggest that it was not concerned with the protection of the privilege.

In determining whether the production was inadvertent, courts consider: (1) the reasonableness of the precautions taken to prevent inadvertent disclosure; (2) the time taken to rectify the error; (3) the scope of the discovery and extent of the disclosure; and (4) overarching issues of fairness. *In re Natural Gas Commodity Litigation*, 229 F.R.D. 82 (S.D.N.Y. 2005), citing *Lois Sportswear, USA, Incorporated v. Levi Strauss & Company*, 104 F.R.D. 103, 105 (S.D.N.Y. 1985) (first establishing the standard test for analyzing issues of waiver). The rule is similar under New York state law. *See Campbell v. Aerospace Products International*, 37 A.D.3d 1156 (4th Dep't 2007); *Baliva v. State Farm Mutual Automobile Insurance Company*, 275 A.D.2d 1030 (4th Dep't 2000). Thus, a careful attorney may avoid waiver even in the event of inadvertent disclosure, but a sloppy one may not. The following cases illustrate the courts' application of this test.

In *United States v. Rigas*, 281 F. Supp. 2d 733 (S.D.N.Y. 2003), the court upheld assertions of work product as to documents revealed to the adversary through a failure to safeguard a computer. The Government turned over a hard drive which inadvertently made a paralegal's entire electronic database available to the defendant for copying. The database contained memoranda of law, "grand jury material, confidential law enforcement information and [the paralegal's] own work product relating not only to the [instant] matter but to a number of other cases. . . ." *Id.* at 736.

The court upheld the work product claim as to these documents because the Government had taken reasonable precautions to prevent disclosure, including the storage of the files on a password-protected account and a secure server, and asserting work product protection on the same day it discovered that the documents had fallen into the wrong hands. *See also Campbell v. Aerospace*, 37 A.D.3d, *supra*, at 1157 (finding because plaintiffs' attorneys took reasonable precautions to prevent the disclosure and asserted privilege within one day of the discovery of inadvertent disclosure, plaintiff did not waive the attorney-client privilege).

By contrast, in *S.E.C. v. Cassano*, 189 F.R.D. 83, 85 (S.D.N.Y. 1999), the court held that the S.E.C. waived its work product protection as to inadvertently disclosed documents. *Id.* at 86. In that case, although an attorney

had ostensibly screened the 50 boxes of materials made available to defendants in order to remove any privileged documents, defense counsel discovered a memorandum exhaustively describing the S.E.C.'s assessment of the case. *Id.* at 83-84. When defense counsel requested a copy of this single document, the S.E.C.'s counsel complied without first examining the document, and did not examine the document or discover the disclosure until 12 days later. *Id.* at 84-85. The court held that in view of counsel's failure to take the reasonable precaution to examine the document before copying it, and in view of the long delay between disclosure and discovery of the error, any protection as to the document was waived. *Id.* at 85-86.

A court could, if presented with the issue, apply the test illustrated above and hold that a waiver occurred if a lawyer does not appropriately protect the data on her wireless handheld. But that's not the only risk. Lawyers who use wireless handhelds without reasonable precautions risk violating their duty of confidentiality to clients, and thereby exposing themselves to "pain of professional discipline including loss of their license to practice law." *Madden v. Creative Services, Incorporated*, 84 N.Y.2d 731 (1995) (citing DR 4-101 and EC 4-4).

In DR 4-101(B), the New York Code of Professional Responsibility prohibits lawyers from "knowingly" revealing their clients' confidences and secrets. The importance of the duty of confidentiality between a lawyer and her client is a bedrock principle to the proper functioning of the legal system. *See* EC 4-1. Because of the precedence placed on this ethical obligation, courts and ethics opinions have, despite the word "knowingly," interpreted DR 4-101(B) broadly and in concert with other rules to include even inadvertent disclosures.

In one such instance, the First Department affirmed public censure of an attorney who negligently delivered confidential documents to the media. Although the attorney did not know that the documents were under seal, he had failed to inquire as to their status. The Court found that the attorney violated his duty to his client by failing to take "ordinary precautions," reasoning that "whether [respondent] acted recklessly or negligently does not matter since, either way, respondent's failure to take adequate precautions to safeguard confidential materials of a client, even if considered unintentional, was careless conduct that reflects adversely on his fitness to practice law." *In re Holley*, 285 A.D.2d 216 (1st Dep't 2001). As the *Holley* case noted, the purpose of the sanction was "not to punish but to protect the public through notice to the profession" that certain precautions and safeguards are expected in regards to an attorney's duty to his or her client. *Id.* at 218.

Similarly, the Committee on Professional Ethics of the New York State Bar Association has recognized that "an attorney must use reasonable care to protect client confidences and secrets." New York State Bar Association Ethics Opinion 709 (1998) (citing DR 4-101(B), DR 4-101(D)

(requiring reasonable care to prevent employees and others from disclosing client confidences and secrets) and EC 4-4 (attorneys “should . . . act in a manner which preserves the evidentiary privilege”). That Committee has even specifically expressed that “a lawyer who uses technology to communicate with clients must use reasonable care with respect to such communication.” This “may, in some circumstances, call for the lawyer to stay abreast of technological advances.” New York State Bar Association Ethics Opinion 782 (2004). Indeed, another ethics opinion has recognized the dangers to confidentiality that current technology can cause and has outlined steps that lawyers can take to avoid inadvertent disclosure. See ABA Formal Opinion 06-442 (August 5, 2006).

If a lawyer like the one in *In re Holley* could be censured for negligently handling paper documents by failing to observe “ordinary precautions,” it is not a stretch to see how a disciplinary committee could target a lawyer who did not use, or who did not know how to use, a wireless handheld properly.

### What’s a Handheld-Toting Lawyer to Do?

There is thus a dual incentive for lawyers to be careful with their wireless handhelds: for their clients’ sake and their own. The good news is that lawyers who take reasonable precautions can guard against both sets of potential consequences simultaneously. The following best-practice recommendations, all of which should be intuitive and simple to implement with the help of a law office’s IT department and/or the handheld’s instruction manual, may go a long way toward managing the risks:

1. Activate the wireless handheld’s password feature, so that only intended users can access the device.
2. Consistent with document retention policies and any “litigation holds,” regularly delete or transfer old e-mails stored on the device, so that fewer e-mails and attachments are vulnerable to disclosure in the event of loss or theft.
3. Do not compose or read e-mails if others nearby can look over your shoulder. Attorneys would never allow complete strangers to watch them type an e-mail from their office’s desktop computer, and they should similarly guard against this possibility when using their wireless handheld in public.
4. Similarly, remember a wireless handheld is not a “toy.” Do not let children or others without the right to see privileged material use the device to play games or access the Internet.

5. Affix a physical notice to the wireless handheld, stating that the information therein is confidential, and providing contact information for return in the event of loss. Add a similar electronic notice to the device’s “home” screen. Nothing would be worse than for a well-intentioned Good Samaritan to accidentally deliver the wireless handheld to the lawyer’s adversary, thinking that he was the rightful owner.
6. Ensure that the same confidentiality notice appended to e-mails sent from the attorney’s desktop computer is used for e-mails sent from the attorney’s wireless handheld.
7. Turn off the auto-complete feature on the wireless handheld, which can be particularly dangerous with smaller keyboards. At a minimum, be extra careful and double-check any e-mail composed using this feature to ensure it is directed to the right recipients.
8. Know what you need to do to quickly stop the stream of data to lost devices, as you would cancel a lost credit card. Such a procedure should also promptly terminate access to the wireless device’s ability to access time-entry and document management software.
9. Make sure that your office has a protocol to erase sensitive data on departing attorneys’ wireless handhelds, particularly if the attorneys are permitted to keep the devices when they switch jobs or leave.

### Conclusion

Mistakes are going to happen. (Readers may or may not be surprised to learn that the author of this article has already had more than one near-miss on losing his wireless handheld.) But by taking the simple precautions outlined above, attorneys can prevent innocent mistakes from mushrooming into waivers of privilege, breaches of confidentiality, and exposure to professional discipline.

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# The Mediation Process: Pre-Mediation Preparation Through Private Caucus Negotiations

By Stacey M. Gray

The author presented the following article to the Commercial and Federal Litigation Section on October 11, 2007

## I. Introduction to Mediation

### A. Mediation

Mediation is a formal process with many stages intended to help the parties resolve their disputes out of court. The parties meet with a neutral third person, identified as a mediator, to resolve their disagreement. During mediation the parties should not litigate, but rather, they should engage in good faith negotiations.

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*"[A]ttorneys should be mindful not to take charge during the first pre-mediation conference call to ensure that the mediator feels respected and trusted."*

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### B. Stages of Mediation

#### 1. Pre-Mediation Conference Call

The mediator schedules the first pre-mediation conference call to learn about the parties and the best ways to help a successful mediation session.

#### 2. Joint Session

- a. Introductions led by mediator
- b. Parties sign confidentiality statements
- c. Mediator summarizes the format for the mediation session
- d. Opening statements by parties
- e. Joint discussion
- f. Private caucuses
- g. Joint negotiation
- h. Closure

#### 3. File Status with Court at the Close of Mediation

## II. Pre-Mediation Preparation

### A. Preparation for Attorneys Taking Part in the Pre-Mediation Conference Call

Attorneys participating in the pre-mediation conference call should anticipate the intentions of the mediator and prepare accordingly. Attorneys should be able to provide guidance to a mediator on the following topics:

1. The outstanding disputes between the parties;
2. What would make a successful mediation experience for the parties;
3. Insurance coverage and the level of participation of the insurance carrier;
4. Whether anyone allowed to approve the settlement will attend mediation or be available by phone;
5. Any impediments to settlement;
6. Status of discovery;
7. Motion status;
8. Next status conference with the court;
9. Trial date;
10. Other events;
11. Format and substance of mediation brief;
12. Proposed confidentiality agreement;
13. Mediator fees, if any; and
14. Time, location, and other logistics.

### B. Research the Mediator's Background

Attorneys should research the mediator's background to learn about her professional, educational, and political affiliations. While mediators expect to be neutral third-party facilitators, they are human beings with emotions and opinions like everyone else. Therefore, attorneys should learn as much as they can about their mediator to persuade effectively for their client.

### C. How to Influence Mediation

Attorneys can influence mediation because the mediator is unfamiliar with the details of the dispute and the parties. Attorneys can provide the mediator with the information in Section D, and suggest the most productive and efficient way to proceed with mediation. However, attorneys should be mindful not to take charge during the first pre-mediation conference call to ensure that the mediator feels respected and trusted. Attorneys should defer to the mediator, while making helpful suggestions.

### D. The Mediation Brief

A mediation brief is the attorney's opportunity to advocate for her client. Mediation briefs are confidential



and should be identified accordingly to ensure that only the mediator and the parties review the documents. The parties also should mark any items that they do not want the mediator to share with the opposing party. Attorneys ought to include the following information in their clients' mediation briefs:

1. Brief introduction about the case;
2. The procedural history;
3. Summary of facts;
4. Claims and defenses to be litigated;
5. Strengths and weaknesses of each party's claims and defenses;
6. History of any prior settlement negotiations; and
7. Attachment of any exhibits.

#### **E. Preparing Your Client for Mediation**

Preparing a client for mediation is a crucial step that an attorney should not skip. Attorneys often forget that a successful resolution to any disagreement routinely depends on the client's ability to understand the dispute objectively. Clients consistently become fixed in their positions, and mediation is a great opportunity to help your client approach the dispute objectively.

##### **1. Educate Your Client**

Attorneys must educate their clients about mediation, applicable laws, as well as their particular claims and defenses. This instruction will help reduce the stress that many clients endure, and likely will increase their clients' chances of resolving the matter during mediation.

The mediation route should not be stressful for the client, but rather, an educational experience where he can explain his position to a neutral third-party and the opposition. Attorneys should educate their clients by providing them with a copy of the following documents for their review:

- a. Plaintiff's Complaint;
- b. Defendant's Answer;
- c. Motion practice;
- d. Judicial orders and decisions;
- e. Mediation rules and procedures;
- f. Mediation brief;
- g. Cost of continued litigation; and
- h. An estimate of how much a particular matter settles for in that jurisdiction.

The attorney should explain in plain language the implications of these documents. When the parties are

scheduled to gather for mediation, the client should have a command of the various documents and should be able to speak about them knowledgeably and objectively.

##### **2. Find Out Your Client's Bottom Line**

Once a client objectively understands her matter, the next step is for the attorney to learn his client's settlement position. An attorney must observe and become familiar with his client's personality and tendencies. For example, some clients like to backpedal, meaning they often set a high demand, and then immediately retreat under pressure. Others make hollow threats that cause them to lose credibility if they fail to follow through. Some clients are indecisive; and there are those who refuse to alter their settlement demand despite persuasive information. An attorney must understand his client's personality to prepare him for mediation properly. Therefore, an attorney must know the following:

- a. Client's reason or reasons for engaging in mediation if not court ordered;
- b. Client's desired economic and noneconomic settlement;
- c. Reasons for the client's desired economic and noneconomic settlement;
- d. Whether the client is willing to negotiate;
- e. Why the client is willing or not willing to negotiate;
- f. What would motivate the client to negotiate;
- g. What would the client do if the matter is not resolved during mediation;
- h. How badly does the client want or need to settle the matter during mediation;
- i. Client's current feelings about litigation and the dispute itself;
- j. Client's plans and whether they depend on the resolution of the suit; and
- k. Any questions the client may have about mediation.

##### **3. Learn Your Client's Comfort Level with Public Speaking**

Although the mediator leads the session or sessions and the attorneys are representing their respective parties, the clients should participate in mediation. Mediation is an opportunity for counsel and the parties to assess personalities, presentation, style, credibility, and persuasiveness.

Attorneys must prepare their clients to speak publicly, and teach them how to answer questions succinctly. The client and attorney should schedule two dress rehearsals

before the mediation session. The dress rehearsal would include the attorney presenting her opening statement to the client. The attorney ought to encourage her client to present a complementary opening statement. Counsel also should play the role of the mediator by asking her client various questions and being a devil's advocate. Then the attorney should pretend to be opposing counsel to train the client on how best to respond during mediation.

The attorney also must explain the importance of dressing suitably and ask what the client intends to wear. Counsel should educate her client on positive body language and the problems that arise when a client slouches, sighs, or has an outburst. The client must be told that when she speaks, those listening will evaluate how well she communicates verbally, physically, and emotionally. The purpose of this evaluation is to find out whether the client could successfully persuade a jury and judge.

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#### 4. How to Manage the Client's Emotions During Mediation

Counsel should prepare the client for mediation by providing her with enough information about the process. One should reassure his client that she will be allowed to take breaks, to speak privately with her attorney, and to request a private caucus with the mediator. Before the start of mediation, attorneys and their clients should create codes that signal when a break is needed.

An attorney also should suggest that the mediator allow for a short break if his client is having difficulty managing her emotions. Lastly, counsel should interrupt his client respectfully if she is rambling, about to have an outburst or breakdown, or say or do something that will frustrate mediation.

#### 5. Managing Your Client's Expectations

Clients are often their best victims and believe that they are entitled to great sums of money and other non-economic benefits. Attorneys must manage their clients' expectations by speaking with them honestly about the strengths and weaknesses of their claims, as well as the opposition's strengths. Counsel should explain the stages that are most ripe for settlement and the average settlement amounts based on various fact patterns. If counsel fails to manage a client's expectations properly before the start of mediation, the client may have unrealistic ex-

pectations that are obvious to the opposition. Ridiculous expectations often limit the chances for a productive mediation experience. Attorneys should prepare their clients to avoid the mediator offering the much needed "reality check" in front of the opposition. Managing expectations will allow your client to be a productive participant in mediation.

### III. Opening Statements—the Joint Session

#### A. Purpose of Opening Statements

The parties present opening statements to provide a context for the discussions and negotiations during mediation. Also, a successful opening statement will set the tone for negotiations, and influence the mediator and the opposition to take the party's position seriously. While attorneys often present the opening statements, a well-spoken client also can give an opening statement. The decision to welcome the client to participate in the opening statement is a difficult one because of the stress associated with public speaking, and whether the client can speak clearly and persuasively. An attorney may want to begin the opening statement and allow the client to finish it. This way the client enjoys the opportunity to collect herself emotionally and observe her attorney speaking publicly. Once the attorney lays the foundation for her client's claims and defenses in plain language, the client can continue explaining the remaining facts in chronological order.

#### B. Requirements for Opening Statements

The parties should learn the mediator's expectations for opening statements, which often include:

1. Time allowed;
2. Who speaks first;
3. Whether the opposition can interrupt;
4. Whether the use of documents, demonstrative evidence, audiovisual aids and other evidence is allowed; and
5. Other expectations that may be unknown before the mediation.

#### C. Substance of Opening Statements

The opening statement should begin with the attorney or client briefly introducing himself. The opening statement should begin immediately with telling the listeners the reason or reasons for the dispute. One should present the facts as objectively as possible to demonstrate knowledge, honesty, trustworthiness and credibility. While mediators discourage the narrator from offering a legal analysis, the speaker should place the facts in a legal context without citing case law.

## D. Opening Statements—Plaintiff v. Defendant

Too often people believe that the plaintiff or the defendant has an undue advantage in mediation. Both the plaintiff and defendant have the opportunity to create their advantages with preparation and objectivity. A party's advantage and disadvantage are dependent on the legal merits of the dispute, economic reasons, related and unrelated goals, and personalities, including the personality of the mediator.

For example, attorneys may decide against presenting the plaintiff as a victim if greater success would result if the party is regarded as a strong and principled person or entity. Similarly, a defendant may not need to demonstrate her wealth or power if the party knows the plaintiff has the necessary resources to pursue the matter through litigation and an appeal. A defendant also may decide to protect her credibility by not being a bully if the plaintiff is not easily intimidated. Counsel should not limit themselves to relying on myths about plaintiffs and defendants to ensure the effective representation of their clients.

## E. Individual v. Corporate Parties

The attorney must understand that a person can be just as powerful as a corporate entity regardless of whether she is the plaintiff or the defendant. Similarly, a corporate entity can be as persuasive as a plaintiff even if the plaintiff has been injured. Attorneys need to be creative and think critically about their particular matter and proceed appropriately.

## F. Presentation Style

The person or persons giving the opening statement should be respectful, personable, and concise. The use of plain language, rather than legalese, is valued because speaking in plain language suggests a comfort and knowledge about the matter.

Attorneys and clients should not underestimate the importance of being consummate professionals. Professional means shaking hands, exchanging pleasantries and courtesies, and participating in good faith. One should not be arrogant, offensive, and needlessly argumentative. Instead, those present should be respectful, confident, and concise always.

### 1. Counsel

Attorneys must pay particular attention to how they present themselves to the opposing counsel and party. At the outset, counsel should decide the personality that she would like to present to the opposing party and the mediator. The two most important personality traits are intelligence and confidence. The attorney's intelligence is proven by a comprehensive understanding of the dispute, as well as her ability to discuss the matter with ease and respect.

Attorneys also must understand there are many ways to communicate, and they should master the art of body language. The way one dresses, sits, stands, and moves can and will convey a particular message to the opposition. Therefore, one should be deliberate about how she presents herself.

### 2. Minority Attorneys

Minorities must defy all negative stereotypes with great confidence. The mediator will have conscious and subconscious stereotypes about minorities that will affect the mediation. Some of the prevailing stereotypes are that minority attorneys are less intelligent, unqualified, unprepared, and unable to succeed. These stereotypes may influence the mediator and the opposition to assume that the client does not have a "good case" because a minority is litigating the matter. Coupled with the latter, the mediator may defer inappropriately to opposing counsel if he prefers the traditional idea of an attorney—white male over the age of forty—when compared with a minority attorney.

Minorities should not be intimidated if the mediator caters to opposing counsel because of bias and prejudice. Instead, the minority attorney should thwart the mediator's actions to ensure the fair treatment of her client. For example, if the mediator consistently defers to opposing counsel, then the minority attorney should revisit the initial pre-mediation conference call where the mediation process was discussed and agreed on.

The minority attorney should not silence herself, but rather, she should speak with confidence and conviction. The minority attorney should slow the mediation if the mediator refuses to adhere to the rules of fairness. If necessary, the minority attorney should stop the mediation session and make clear that the mediation session has not been conducted in good faith by the mediator. The minority attorney will have to decide whether to make this statement in front of the opposing party or just the mediator. Always the minority attorney must demand fairness throughout the mediation.

### 3. Diverse Women Attorneys

Diverse women often are presented with greater obstacles because of their gender and race. Diverse women must be aware of how others perceive them and challenge the stereotypes and myths. They should not stifle themselves as attorneys to avoid living up or down to the stereotypes placed on them. For example, an African-American woman should not deny herself the right to get angry out of fear of being labeled an "angry black woman." Latin American and Hispanic women should challenge anyone who mistakes passion for their work as overzealous behavior.<sup>1</sup> Similarly, Asian women should continue shattering the "China-doll Syndrome" by speaking up and demanding credit for their work.<sup>2</sup> Diverse women at-

torneys should not limit their success as lawyers because of the racism and sexism found in the legal profession.

#### **4. Women Attorneys in General**

There is a host of myths and assumptions about women lawyers. Most research finds there are few differences between women and men when faced with the same issues and obstacles.<sup>3</sup> Women should resist believing the stereotypes that women are better communicators and nurturers, and are more cooperative and collaborative than men.<sup>4</sup> While these stereotypes often are believed to be positive, they also are considered disadvantageous characteristics depending on the circumstance. The stereotype that women do not “take charge” but “take care” is a negative trait in the legal profession.<sup>5</sup> Women must demonstrate that they do “take charge” by being leaders with a range of talents during the mediation.<sup>6</sup> Women attorneys simply should take charge by being good communicators, listeners, collaborators, and negotiators.

### **IV. The Private Caucus**

#### **A. Purpose of a Private Caucus and the Mediator’s Role**

The purpose of a “private caucus” is for the mediator to build a personal rapport with the individual parties and to learn additional information in an effort to resolve the matter. The parties will go into different rooms and the mediator will meet separately with them to further discuss the dispute. The mediator and the individual party may engage in discussions that may not be possible during the joint caucus where both parties are present. The mediator’s objective is to resolve the dispute and attorneys must be mindful of this purpose. Mediators travel back and forth between the parties during the private caucus, and the parties’ “confidential” discussions undoubtedly shape how the mediator interacts with the parties during this time. Private caucuses are “confidential” but attorneys should watch the mediator’s responses to the private discussions. Attorneys should be strategic with the mediator during a private caucus to ensure that the client is well protected throughout mediation.

While mediation requires good faith participation, such participation does not require the parties to disclose all material facts during the joint session. There are tactical advantages associated with not disclosing all the facts to the opposition during mediation. In particular circumstances, parties need not disclose facts that are harmful to their position. A party should not reveal culpable conduct before discovery has occurred to avoid helping the opposition in defending its position. Also, a party should not reveal blameworthy conduct or mitigating circumstances if the opposition has failed to inquire about them during discovery.

#### **B. Timing of Private Caucuses**

Private caucuses are meetings that should be used strategically by the mediator and the parties for the common goal of resolving the dispute. Private caucuses are useful because the parties often disclose confidential or sensitive information without the fear of the opposition becoming familiar with the details. The mediator has the opportunity to receive and process information for the benefit of both parties without breaching the confidentiality requirement associated with private caucuses.

The timing of when to have a private caucus often is determined by the mediator or suggested by the parties. Private caucuses should take place to calm parties, to connect with them, to learn material, yet confidential, information, and to allow the mediator to learn how to best manage the mediation going forward. Private caucuses that occur later in the session are helpful when the time comes for settlement negotiations, or to have the parties regroup and become focused again.

#### **C. How to Manage the Client When the Mediator Is with the Opposition in a Private Caucus**

Again, attorneys must use the private caucus as an opportunity to clarify the issues and to manage his client. Counsel should suggest that he and his client walk around, use the rest room, get a snack, and then regroup. The change of pace and scenery often helps the client detach and get perspective on mediation.

When the client and counsel return to the mediation room, the attorney should help the client relax with a few jokes and by answering any questions. Clients often ask their attorneys questions that only a fortune-teller or telepathic person could answer. Nonetheless, counsel should make all best efforts to answer even the most impossible questions.

Then the attorney should use this time to receive feedback from her client about his impression of the discussions, negotiations, and the talents of the mediator and the opposition. Counsel also should inquire if she has properly explained the facts as well as the client’s feelings and whether there is anything that she has failed to mention but should now include. This communication allows for counsel and her client to connect as a team with a common goal. Also, counsel and the client can brainstorm the next steps and how to continue as a team for a successful resolution to the dispute.

### **V. Negotiation Within a Mediation**

#### **A. When to Begin Negotiations?**

Attorneys should allow the mediator to suggest the parties begin to negotiate, and that suggestion often occurs during the private caucuses. Counsel should find out the mediator’s opinion about the worth of the dispute from the perspective of each party before making or



responding to an offer. Counsel should make this inquiry to assess the credibility and knowledge of the mediator when it comes to negotiations and settlement. If counsel finds the mediator to be both reliable and experienced in settlement negotiations, then the attorney must decide whether to make the first offer. The decision to make the first offer usually depends on which party made the most recent offer and the response received, if any. Attorneys should not bargain against themselves unless the amount has increased.

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*"Failure to memorialize the parties' settlement agreement has the potential that the agreement may not be honored later by either party."*

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#### **B. Bluffing and Puffery**

Attorneys should be careful of puffery and bluffing because of the consequences. Puffery is not an ethical violation, and most attorneys engage in some bluffing. However counsel should not sacrifice his credibility with excessive puffery because the mediator and the opposition understand the strengths and weaknesses of each party's position.

#### **C. The Mediator**

The mediator will resume a joint session if the parties are close to a settlement agreement.

#### **D. Memorialize the Settlement Agreement in Writing**

If the parties agree on settlement terms, then the next step is to memorialize the terms in writing. Too often parties verbally agree to settle the matter and then one fails to honor the agreement once mediation ends. This behavior is frustrating to the opposing party as well as

the mediator. There rarely is a successful remedy for this mishap because all discussions had during mediation are confidential; and the mediator must remain a neutral third-party even after mediation has ended. Therefore, the parties should agree during the pre-mediation conference call that someone will bring a laptop to draft any preliminary agreement at the mediation session. If the parties do not have access to a printer during mediation, then the parties should confirm electronically that they have reached a settlement agreement and outline the important terms and conditions. Failure to memorialize the parties' settlement agreement has the potential that the agreement may not be honored later by either party.

#### **VI. Conclusion**

Mediation can be both a cost-effective and an efficient way to resolve a dispute. When attorneys prepare themselves and their clients for mediation, a successful outcome is possible. While mediation is not always successful, the parties still benefit from learning information that may influence a different course of action or solidify their current position. In the end, mediation often remains a productive experience that counsel should take advantage of with her client.

#### **Endnotes**

1. Barbara Kellerman & Deborah L. Rhode, Women & Leadership 390 (2007).
2. *Id.* at 390.
3. *Id.* at 17.
4. *Id.* at 108.
5. *Id.* at 391.
6. *Id.* at 395.

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# Metadata: Basic Guidance for New York Attorneys

Prepared by the Electronic Discovery Committee

## What Is Metadata?

Metadata is “information describing the history, tracking or management of an electronic document.”<sup>1</sup> It contains information about a document that is not visible on the printed page or, in most instances, on the computer screen, but which may nevertheless be relevant or useful. Depending upon the particular type of electronic document, metadata can contain information about who created the document, when it was last saved, changes between versions, user comments, and more. Certain metadata can be created actively by a user, but often metadata is generated automatically by the computer program or system involved in creating the electronic documents.

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*“Metadata raises many legal and ethical issues for lawyers. While there are no clear answers as to how these issues should be resolved in individual cases, lawyers should be aware of the issues that may arise.”*

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Analogies from the paper world may be useful in understanding metadata. Metadata may be compared to the information contained on an old-fashioned library index card, which shows information about cataloging, copyright, publisher, and edition. A library’s stamps inside the book might also be compared to metadata, as well as notes scribbled in the margins and information about who borrowed the book and when. In the electronic world, metadata is linked electronically with the original file.

Files created by different programs have different associated metadata. For example, documents created in Microsoft Office include without limitation the following metadata: the name of the author; the name of the author’s company or organization; the name of the author’s computer; the name of the network server or hard disk where the document is saved; non-visible portions of objects embedded within the document; the names of people who edited the document; document revisions and versions (including those created by using the Track Changes feature); hidden text, comments, and the last time the document was printed and saved.

Some metadata can be inaccurate and based solely on the original configuration of the software and not on current information. One example of inaccurate or out-of-date metadata is a document author’s “manager” as indicated in Microsoft Word metadata. This field is typically

populated at the time the software is configured and is not kept up to date regularly.

E-mail typically contains metadata indicating whether there were any attachments to a message as well as information about the addressee(s) and when the message was sent, including “bcc” recipients. Any documents attached to an e-mail will have their own associated metadata.

## What Are the Legal and Ethical Issues for Lawyers?

Metadata raises many legal and ethical issues for lawyers. While there are no clear answers as to how these issues should be resolved in individual cases, lawyers should be aware of the issues that may arise. Some of the primary issues include:

- What are your obligations, if any, to preserve metadata?
- How is metadata preserved?
- What are your obligations to produce metadata?
- What obligation does a recipient of inadvertently produced metadata have regarding its review?
- What are your obligations to prevent the disclosure of metadata containing confidential or privileged information?

## What Are Your Obligations to Preserve Metadata?

The obligations to preserve metadata are not well defined under current statutory and case law. Lawyers must exercise their judgment in evaluating the extent of their obligation to preserve metadata under different circumstances. Is the metadata relevant to the claims or defenses in the action? If there is a reasonable anticipation of litigation, can the lawyer reasonably foresee that the metadata in question is likely to be relevant to the anticipated action? If the answer to these questions is yes, then the lawyer needs to consider what steps should be taken to preserve metadata and whether the burden of doing so is warranted under the circumstances.

## How Is Metadata Preserved?

The mechanics of preserving metadata vary depending on the types of files involved and the media on which the files are stored. What lawyers need to know is that often even opening, moving, or copying electronic documents can alter or destroy metadata and therefore potentially constitute spoliation. Sophisticated techniques and tools have been developed to preserve metadata safely

and reliably, but these processes generally require the use of experts and the expense of retaining experts may not be warranted in all cases. When lawyers have questions about how to preserve metadata, they should seek out resources that can provide the necessary expertise. In this area of the law, courts are increasingly unlikely to accept ignorance as an excuse.

### What Are Your Obligations to Produce Metadata?

In many jurisdictions and venues, there is no rule requiring the production of metadata in all circumstances. Where metadata is relevant and not unduly burdensome to produce, some courts are likely to order its production. The new Uniform Rules of the Commercial Division of the Supreme Court of New York, amended in 2006, require *inter alia*, production of metadata.<sup>2</sup> Attorneys should be mindful of other local rules that may address metadata production.

### What Are Your Ethical Obligations as a New York Lawyer with Respect to Metadata?

The New York State Bar Association has taken the position that it is unethical to use metadata to gain an advantage in legal proceedings where the production of metadata is inadvertent. In Ethics Opinion #749 (Dec. 14, 2001), the NYSBA Committee on Professional Ethics concluded that “a lawyer may not make use of computer software applications to surreptitiously ‘get behind’ visible documents or to trace e-mail.” The Committee reasoned that producing counsel generally intends receiving counsel to receive the visible document only, and that “absent explicit direction to the contrary,” producing counsel does not intend for receiving counsel to receive the “‘hidden’ material or information about the authors of revisions to the document.”<sup>3</sup>

The Committee revisited the issue in Ethics Opinion #782 (Dec. 8, 2004), concluding that attorneys must

use reasonable care to avoid the disclosure of metadata containing client confidences or secrets and stating that surreptitious exploitation of metadata is an “impermissible intrusion on the attorney-client relationship,” which is dishonest, fraudulent and deceitful.<sup>4</sup>

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*“[I]t is important for lawyers handling metadata to understand the ethical rules in their particular applicable jurisdiction.”*

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Other bar associations have issued opinions on the review and disclosure of metadata. These opinions are not consistent.<sup>5</sup> Accordingly, it is important for lawyers handling metadata to understand the ethical rules in their particular applicable jurisdiction.

### Endnotes

1. The Sedona Principles (Second Edition) Addressing Electronic Document Production § 12 cmt. 12.a. (June 2007).
2. Unif. R. N.Y. State Trial Cts. § 202.70, R. 8(b).
3. New York State Bar Op. 749 (2001).
4. New York State Bar Op. 782 (2004).
5. Contrary to the NYSBA, the American Bar Association and the Maryland State Bar Association, for example, take the position that lawyers who receive electronic information can search for and make use of metadata. ABA Formal Op. 06-442 (Aug. 5, 2006); Md. Ethics Docket No. 2007-09.

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# Contact by Counsel with Putative Members of Class Prior to Class Certification

Prepared by the Class Action Litigation Committee and the Ethics and Professionalism Committee

This report responds to Formal Opinion 07-445 of the ABA Standing Committee on Ethics and Professional Responsibility, “Contact by Counsel with Putative Members of Class Prior to Class Certification” (April 11, 2007) (“ABA Opinion”).

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*“The basic assumption underlying the ABA Opinion is that there is no lawyer-client relationship with putative class members until the class is certified and the opt-out period has expired.”*

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The ABA Opinion concludes that: (a) counsel for any party may communicate to putative class members, provided that they comply with Model Rule 4.3, which governs lawyers’ contacts, on behalf of a client, with unrepresented persons; AND (b) counsel representing named plaintiffs must also comply with Model Rule 7.3, which governs lawyers’ direct contacts with prospective clients.<sup>1</sup> However, according to the opinion, Model Rule 7.3 does not apply to communications with potential class members as witnesses provided they are appropriate and comport with the Model Rules. ABA Opinion at 5-6.

The basic assumption underlying the ABA Opinion is that there is no lawyer-client relationship with putative class members until the class is certified and the opt-out period has expired.

A lawyer-client relationship with a potential member of the class does not begin until the class has been certified and the time for opting out by a potential member of the class has expired. If the client has neither a consensual relationship with the lawyer nor a legal substitute for consent [in the form of class certification], there is no representation. Therefore, putative class members are not represented parties for purposes of the Model Rules prior to certification of the class and the expiration of the opt-out period.

ABA Opinion at 3.

The Association of the Bar of the City of New York took a similar position in Formal Opinion Number 2004-01, “Duties of Lawyers in Class Actions: Decision to Sue; Conflicts of Interest; Duties to Class Members;

No-Contact Rule; Disputes Within Class” (March 2004), concluding, *inter alia*, “When a class has been certified *but not before*, DR-7-104 requires the consent of the class action lawyer or the court before a lawyer opposing the class may communicate directly with class members about the action.” *Id.* at 7.<sup>2</sup>

The position that there is no attorney-client relationship between members of a potential class and the lawyers representing the named plaintiffs is the majority view in federal courts. This view, however, leads to serious practical imbalances between the ability of defense counsel and plaintiff’s counsel to communicate with putative class members. See Debra Lynn Bassett, Pre-Certification Communication Ethics in Class Actions, *GEORGIA LAW REVIEW*, Winter 2002, at 355–56. As that article notes:

The implications of this majority view upon class action communication and discovery are profound. Until the class is certified, opposing counsel may conduct *ex parte* interviews,<sup>3</sup> obtain statements regarding the matter in controversy,<sup>4</sup> and negotiate settlements<sup>5</sup>—all without the consent of, or even without notifying, class counsel.<sup>6</sup> Indeed, at least one court has held that opposing counsel need not even inform putative class members that a class action lawsuit is pending.<sup>7</sup> In addition, this view constrains class counsel’s communications with putative class members due to the ethical proscriptions concerning solicitation,<sup>8</sup> and the limitations on communicating with unrepresented parties generally.<sup>9</sup>

*Id.* at 356.

The majority view fails to acknowledge that the filing of a putative class action creates a representative relationship between counsel and putative class members prior to the class certification determination. From the moment the class action complaint is filed, the lawyer filing the complaint assumes fiduciary duties toward the putative class members.<sup>10</sup> Moreover, because members are assumed to rely on the pendency of the class action to preserve their rights, the statute of limitations is tolled from the date of filing of the complaint to either the conclusion of the case (in the event a class is certified) or to the date class certification is denied.<sup>11</sup> Further, plaintiff’s counsel’s decisions in the litigation directly benefit or harm putative class members, and settlement prior to certification must



provide a benefit to putative class members to merit approval by the court. In addition, it is likely that some class members will seek information regarding the litigation from plaintiff's counsel prior to class certification; counsel have a duty to give accurate information to putative class members in such cases.<sup>12</sup>

Defense counsel, however, do not have the same relationship to class members that they have with the unrepresented world at large. Defendants' interests are adverse to the interests of class members vis-à-vis the issues raised by the complaint even before certification. Thus, defendants and their counsel have great incentive to seek quick, cheap settlements with putative class members who have no legal representation, to dissuade putative class members from joining the class, to obtain statements from unrepresented putative class members that will further defendants' position in the litigation, and to undermine cooperation with or confidence in class counsel. Indeed, the case law is replete with examples of defense counsel communicating with putative class members to achieve these and other improper aims.<sup>13</sup> Thus, the policy interests implicated by Model Rule 4.2<sup>14</sup> and its counterpart in the New York Code of Professional Responsibility ("Code"), DR7-104, prohibiting contact with represented parties without counsel's consent, are also implicated by the issue of defense counsel's contact with class members prior to certification.<sup>15</sup>

Model Rule 4.3 and DR 7-104(a)(2) of the Code recognize that these policies apply to unrepresented persons as well, by providing that while representing a client, the lawyer may not give advice to unrepresented persons if the unrepresented persons' interests are in conflict, or have a reasonable possibility of being in conflict, with the interests of the client. Clearly, this provision prohibits defense counsel from giving advice to putative class members, whose interests in the litigation are adverse to those of the defendant. Such advice would include clearly improper practices such as advising class members that the class claims are unlikely to succeed,<sup>16</sup> falsely advising class members that the class action would cost them money,<sup>17</sup> inducing agreements to arbitrate without informing the class member of the pendency of the class action,<sup>18</sup> as well as the giving of advice generally regarding the class action.<sup>19</sup>

The ABA Opinion appears to recognize these incentives for improper overreaching by implying that communications should be limited to factual inquiries. "Both plaintiffs' counsel and defense counsel have legitimate need to reach out to potential class members regarding the facts that are the subject of the potential class action, including information that may be relevant to whether or not a class should be certified." ABA Opinion at 5. However, the ABA Opinion's conclusion is not limited to factual inquiries; rather, the only limits on defense counsel's communications are those set forth in Model

Rule 4.3, which does not limit counsel to factual inquiries. Moreover, "reaching out" to class members regarding the facts that are the subject of the class action is dangerously vague; it is not clear whether such conduct could extend to efforts to undermine the claims of individual class members with whom they speak, maybe including even obtaining releases on the ground that a release concerns the facts that are the subject of the class action.

The ABA Opinion also argues that "the theoretical potential for abuse by defense counsel does not justify limiting a channel of communication that is vital to efficient and fair class litigation." ABA Opinion at 5, citing Vincent R. Johnson, *The Ethics of Communicating with Putative Class Members*, 17 REV. LITIG. 497 (Univ. of Texas Law School) (1998).<sup>20</sup> Following this line of reasoning, the ABA Opinion concludes that "[b]oth plaintiffs' counsel and defense counsel have legitimate need to reach out to potential class members regarding the facts that are the subject of the potential class action, including information that may be relevant to whether or not a class should be certified." ABA Opinion at 5. However, it is difficult to see why legitimate fact-finding requires permitting unsupervised communications with putative class members by defense counsel any more than it would require such communications after class certification.

Moreover, after the class is certified, defense counsel are generally prohibited from gathering discovery from class members without showing the court that such information is not available from the named plaintiff, the requests are not unduly burdensome, and the information sought is relevant to common questions. See Bassett, 36 GA. L. REV. at 399-400 and fns. 224, 225 (citing cases); Craig M. Freeman, John Randall Whaley & Richard J. Arsenault, *Knowledge Is Power: A Practical Proposal to Protect Putative Class Members from Improper Pre-certification Communication*, 2006 FED. CTS. L. REV. 2, ¶ IV.5 & fn. 40 (2006). Thus, the ABA Opinion's rule would impede efficient class action administration by permitting defense counsel to circumvent the rules regarding discovery of class members—particularly rules designed to minimize the burden of the litigation on absent members. As to facts concerning whether a class should be certified and how it should be defined, there is no discernible reason that counsel's fact-gathering from putative class members cannot take place under the regimen of the Federal Rules of Civil Procedure and their state-court equivalents, with notice to all parties.

Cases have recognized a First Amendment aspect to rules governing communications with putative class members. Communications intended to induce opt-outs and achieve settlements constitute commercial speech. *Kleiner v. First National Bank*, 751 F.2d 1193 (11th Cir. 1985). Factual communications constitute traditionally protected speech. *Kleiner*, 751 F.2d at 1205; *Bernard v. Gulf Oil*, 619 F.2d 459 (5th Cir. 1980) (*en banc*), *aff'd* 452 U.S. 89 (1981).

In addition, the Supreme Court in *Gulf Oil Company v. Bernard*, 452 U.S. 89, 101-02 (1981), held that “an order limiting communications between parties and potential class members should be based on a clear record and specific findings that reflect a weighing of the need for a limitation and the potential interference with the rights of the parties” and should limit “speech as little as possible. . . .” Factual inquiries would be subject to the same rules as discovery undertaken after class certification; other communications, in the absence of notice to plaintiff’s counsel, should be recognized as improper under standard ethical rules, which do not conflict with the First Amendment.

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*“The Committees believe that these requirements would advance the goal of fair and efficient class action administration far more than permitting defense counsel unfettered, unnoticed access to putative class members.”*

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In addition, in order to prevent well-documented abusive pre-certification communications by defense counsel, courts should require defense counsel to notify plaintiff’s counsel of all intended pre-certification communications with putative class members and to state why such communications are needed. Such an approach does not violate defendants’ First Amendment rights and gives plaintiff’s counsel the opportunity to correct potentially misleading communications. See Freeman et al., 2006 FED. CTS. L. REV. 2 at ¶¶ VII.1 *et seq.* (2006).

In summary, the Committees agree that Model Rule 4.3 governs all counsel’s contact with putative class members, and Model Rule 7.3 and its counterpart in the Code, DR 2-103 (the anti-solicitation rules), provide additional constraints on plaintiff’s counsel’s contact with putative class members. The Committees believe that Model Rule 4.3 and Rule DR 7-104(a)(2) of the Code bar defense counsel from giving advice to putative class members because such members’ interests are in conflict with the interests of defense counsel’s clients.<sup>21</sup> Model Rule 4.2 and DR 7-104 should apply to defense counsel’s communications with putative class members. Defense counsel’s inquiries concerning factual matters should be subject to the discovery rules applicable to the case, and particularly to the notice requirements therein.<sup>22</sup> Other communications from defense counsel to putative class members, including offers of settlement and efforts to obtain releases, waivers, and opt-outs, should receive the prior approval of plaintiff’s counsel; defense counsel could apply to the Court for relief under Fed. R. Civ. P. 23(d) if they believe plaintiff’s counsel is unreasonably withholding consent.

The Committees believe that these requirements would advance the goal of fair and efficient class action administration far more than permitting defense counsel unfettered, unnoticed access to putative class members.

## Endnotes

1. State bar opinions generally agree that plaintiff’s lawyers’ contact with potential class members is governed by the rules governing attorney advertising and marketing generally. See New York State Bar Association Committee on Professional Ethics, Opinion 676 (Oct. 31, 1995) (permitting advertisements, as well as letters to current or former employees of a corporation, stating that the attorney represents clients who intend to bring an employment discrimination class action and inviting others similarly situated to participate or furnish information); District of Columbia Bar Legal Ethics Committee Opinion 302 (Nov. 2002)) (permitting lawyers to seek plaintiffs for class actions on the internet); Florida Bar Association Ethics Opinions, Opinion 71-22 (Sept. 17, 1971) (permitting attorneys to make inquiry of possible class members to determine whether they are interested in having monies returned to them by defendant); Iowa State Bar Association, Committee on Ethics and Practice Guidelines, Opinion No. 07-03 (Aug. 8, 2007) (permitting advertising in class actions to the same extent permitted generally); Massachusetts Bar Association Ethics Opinion 82-5 (Mar. 10, 1982) (permitting plaintiff’s attorney to advertise to determine whether there are other similarly situated persons to justify a class action); Supreme Court of Ohio Board of Commissioners on Grievances and Discipline, Opinion 92-2 (1992) (permitting out-of-state attorneys to communicate by direct mail with potential class members in Ohio); Supreme Court of Texas Professional Ethics Committee, Opinion 507 (Oct. 1994) (permitting advertising in print media for clients with specific legal problem). In addition, a Texas bar opinion permitted counsel for the defense to contact other members of a potential defendant class. See Supreme Court of Texas Professional Ethics Committee, Opinion 376 (Dec. 1974).
2. A bar opinion from Michigan agrees on this point as well. See Michigan Ethics Board, RI-219 (1994) (permitting defense counsel to answer questions from putative class members about the class action).
3. *Citing Fulco v. Cont’l Cablevision, Inc.*, 789 F. Supp. 45, 47 (D. Mass. 1992).
4. *Citing Weight Watchers, Inc. v. Weight Watchers Int’l, Inc.*, 455 F.2d 770 (2d Cir. 1972); *Babbitt v. Albertson’s, Inc.*, No. G-092-1883, 1993 WL 128089, at \*4 (N.D. Cal. Jan. 28, 1993); *Resnick v. Am. Dental Ass’n*, 95 F.R.D. 372, 376 (N.D. Ill. 1982).
5. *Citing Christensen v. Kiewit-Murdock Inv. Corp.*, 815 F.2d 206, 213 (2d Cir. 1987); *Weight Watchers*, 455 F.2d at 773; Manual for Complex Litigation (Third) § 30.24 at 257.
6. *Citing Christensen*, 815 F.2d at 213; *Shelton v. Pargo, Inc.*, 582 F.2d 1298, 1303-05 (4th Cir. 1978); *Weight Watchers*, 455 F.2d at 770; *Winfield v. St. Joe Paper Co.*, 20 Fair Empl. Prac. Cas. (BNA) 1093, 1094 (N.D. Fla. 1977).
7. *Citing Jankousky v. Jewel Cos., Inc.*, 538 N.E.2d 689, 692 (Ill. App. Ct. 1989). However, this is not the majority view. Most courts require defendants and their counsel, if they do communicate with putative class members, to inform them of the pendency of the putative class action. See, e.g., *Carnegie v. H&R Block*, 687 N.Y.S.2d 528, 532 (1999) (inducing putative class members to agree to arbitration clause precluding class actions without informing them of the pending class action was “patently deceptive”); *Burford v. Cargill, Inc.*, No. 05-0283, 2007 WL 81667, at \*2 (W.D. La. Jan. 9, 2007) (sending release to putative class members without notification of pending class actions “is misleading as a matter of law”).

8. *Citing Jackson v. Motel 6 Multipurpose, Inc.*, 130 F.3d 999, 1004 (11th Cir. 1997); *Abdallah v. Coca-Cola Co.*, 186 F.R.D. 672, 678 (N.D. Ga. 1999); *Guichard v. State Farm Fire & Cas. Co.*, No. 95-2963, 1995 WL 702510, at \*3 (E.D. La. Nov. 28, 1995).
9. *Citing Model Rules Of Prof'l Conduct R. 4.3* (1999).
10. *See, e.g., In re Currency Conversion Fee Antitrust Litig.*, No. MDL No. 1409, M 21-95, 2004 WL 2453927 (S.D.N.Y. Nov. 3, 2004) (*citing In re Avon Sec. Litig.*, No. 91 Civ. 2287, 1991 WL 834366 (S.D.N.Y. Nov. 30, 1998) ("Even before a class has been certified, counsel for the putative class owes a fiduciary duty to the class."); *Kingsepp v. Wesleyan Univ.*, 142 F.R.D. 597, 599 (S.D.N.Y. 1992) ("The role of class counsel is akin to that of a fiduciary for the class members."); *In re General Motors Pick-Up Truck Fuel Tank Products Liability Litig.*, 55 F.3d 778, 801 (3d Cir. 1995) ("[C]lass attorneys . . . owe the entire class a fiduciary duty once the class complaint is filed."); *Dondore v. NGK Metals*, 152 F. Supp. 2d 662, 665 (E.D. Pa. 2001) (noting "putative class members stand at least in a fiduciary relationship with class counsel"); *Wagner v. Lehman Bros. Kuhn Loeb*, 646 F. Supp. 643, 661 (N.D. Ill. 1986); (class counsel "stands in a fiduciary relationship with the absent class"); *Schick v. Berg*, No. 03 Civ. 6513 (LBS), 2004 WL 856298, at \*6 (S.D.N.Y. April 20, 2004) (class counsel owes a fiduciary duty to putative class members vis-à-vis the issues in the class action).
11. *American Pipe & Constr. Co. v. Utah*, 414 U.S. 538, 554 (1974); *Crown, Cork & Seal Co. v. Parker*, 462 U.S. 345, 354 (1983).
12. In securities fraud class actions, the first issue to be determined by the Court is to designate a "Lead Plaintiff" who must be preliminarily found to be the most adequate plaintiff for purposes of representing the interests of the class. 15 U.S.C. § 78u-4(a)(3) (B). One of the jobs of Lead Plaintiff is to choose Lead Counsel. 15 U.S.C. § 78u-4(a)(3)(B)(v).
13. *See, e.g., Carnegie v. H&R Block*, 687 N.Y.S.2d 528 (1999) (including mandatory arbitration clauses in new contracts without mentioning a pending class action); *In re Currency Conversion Fee Antitrust Litig.*, 361 F. Supp. 2d 237, 250 (S.D.N.Y. 2005) (same); *Kleiner v. First Nat'l Bank of Atlanta*, 751 F.2d 1193 (11th Cir. 1985) (pressuring putative class members to opt out); *Fraleigh v. Williams Ford Tractor & Equip. Co.*, 339 Ark. 322, 342-43, 5 S.W.3d 423, 4356 (1999) (pressuring putative class members into signing releases); *In re School Asbestos Litig.*, 842 F.2d 781 (3d Cir. 1988) (misleading communications intended to influence choices of remedies to presence of asbestos in buildings); *Haffer v. Temple Univ.*, 115 F.R.D. 506, 512 (E.D. Pa. 1987) (discouraging class members from meeting with class counsel); *Ralph Oldsmobile Inc. v. General Motors Corp.*, No. 99 Civ. 4567 (AGS), 2001 WL 1035132 (S.D.N.Y. Sept. 7, 2001) (obtaining releases without informing members of the class action); *Hampton Hardware, Inc. v. Cotter & Co.*, 156 F.R.D. 630 (N.D. Tex. 1994) (denigrating class action and claiming it would cost putative class members substantial sums).
14. As stated in Formal Opinion 95-396 of the ABA Standing Committee on Ethics and Professional Responsibility, "Communications with Unrepresented Persons" (July 28, 1995) at 4, "the anti-contact rules provide protection of the represented person against overreaching by adverse counsel, safeguard the client-lawyer relationship from interference by adverse counsel, and reduce the likelihood that clients will disclose privileged or other information that might harm their interests."
15. For these reasons, some courts agree that putative class members should be protected against unregulated communications from defense counsel. *See EEOC v. Morgan Stanley & Co., Inc.*, 206 F. Supp. 2d 559, 561 (S.D.N.Y. 2002) (EEOC suits are "in the nature of class actions"; employers' communications with employees had to be approved by the court); *Dondore v. NGK Metals*, 152 F. Supp. 2d at 665-666 ("truly representative" nature of a class action affords its putative members the protections contained in Rule 4.2); *Braun v. Wal-Mart Stores, Inc.*, 2003 WL 247695 (Phila. C.P. 2003) (defense could not conduct ex parte interviews with putative class members because their interests were adverse to the defendant's interest).
16. *Am. Fin. Sys., Inc. v. Harlow*, 65 F.R.D. 572, 576 (D. Md. 1974).
17. *Hampton Hardware*, 156 F.R.D. 630.
18. *Long v. Fid. Water Sys., Inc.*, No. C-97-20118 RMW, 2000 WL 98914, at \*3 (N.D. Cal. May 26, 2000).
19. *Impervious Paint Indus. v. Ashland Oil*, 508 F. Supp. 720, 723 (W.D. Ky. 1981).
20. Professor Johnson argues, in the cited article, that the strict rule against contact with represented persons should be reconsidered because the rationales for that rule do not hold up to scrutiny. In addition, he argues that those rationales apply with far less force to members of putative classes. Professor Johnson points out that a rule against contact with putative class members would protect such members more extensively than victims of non-mass torts, with whom defense counsel are permitted unfettered access prior to their representation. Johnson, 17 REV. LITIG. at 516-17. However, this fact more readily supports a rule against contact with unrepresented tort victims generally, rather than support for a rule allowing defense counsel unfettered contact with putative class members. In any event, Professor Johnson points to no specific benefit to be obtained, and no specific reason that allowing defense counsel unfettered contact with putative class members is "vital to efficient and fair class litigation."
21. *See Impervious Paint*, 508 F. Supp. at 723 (applying old Model Code DR 7-104(a)(2) to prohibit the giving of advice by defendants' representatives to class members).
22. The proposed rule would not limit communications concerning matters unrelated to the litigation with putative class members from defendants where there is a prior relationship between them—for example, communications from employers to employees who are members of a putative class in employment litigation, or communications in the normal course of business from credit card issuers to credit card holders.

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# A Primer on Net Neutrality

Prepared by the Internet and Intellectual Property Litigation Committee

As most people are aware, the Internet is a network of computers joined together with backbone structures owned principally by telephone companies and cable operators. With rare exceptions, those telephone companies and cable providers have a monopoly on the “last mile” connection between the Internet and the house or apartment of the individual Internet user. Traditionally, data traffic has traversed these networks on a “first-in-first-out” and “best-efforts” basis.<sup>1</sup> The question raised by the “net neutrality” debate is whether these “rules of the road” will continue to prevail or whether the telephone companies and cable firms which control substantial parts of the network will be permitted to (1) “prioritize” traffic from sources which offer special compensation and/or (2) exclude certain kinds of traffic altogether.

The net neutrality debate pits the telephone companies and cable operators against firms whose business models require robust and unfettered access to the network by Internet users. Currently, these various constituencies are presenting their positions to the public at large, to federal administrative agencies, and to Congress. The stakes on both sides of the debate are enormous because the issue strikes at the future of the Internet itself. For that reason alone, lawyers may wish to become acquainted with the “net neutrality” issue as well as with regulatory and legislative proposals concerning this issue.

Net neutrality soon may become of particular interest to litigators. Thus far, Internet neutrality has been the norm, and no telephone company or cable company currently blocks transmission of particular content or charges different rates to different customers based on the nature of the content or the speed of content transmission. However various telephone companies have made it clear that they are eager to do so. Several recent examples suggest that, absent action by regulators or Congress, constitutional, regulatory or contract litigation may be likely as telephone companies and cable operators seek to implement policies or technology to block or prioritize specific content:<sup>2</sup>

- AT&T is developing technology that can track when customers are downloading its partners’ (such as NBC and Disney) copyrighted video or music, and block transmission of potentially infringing content. *BusinessWeek* has reported that AT&T may seek to make the technology more palatable by marketing it initially as a way of blocking illegal content such as child pornography.<sup>3</sup>
- Invoking an internal policy, Verizon initially rejected a request from an advocacy group to broadcast a pro-abortion text message to selected subscribers.

The company later reversed its decision in the face of substantial public criticism.<sup>4</sup>

- AT&T has been criticized for removing lyrics critical of President Bush from a live webcast of a Pearl Jam concert.<sup>5</sup>
- Verizon recently paid \$1 million to end an investigation by the New York State Attorney General into its termination of certain customer broadband accounts for violating Verizon’s usage terms and conditions by downloading movies and video, or by playing video games online.<sup>6</sup>

Litigation may also soon arise over ISP “acceptable use” policies that may prohibit “high volume” applications such as video downloads, file-sharing, and internet telephone service.<sup>7</sup>

## A. Net Neutrality Defined

In its simplest form, the term “net neutrality” refers to an Internet that: (i) is completely neutral with respect to content and users; (ii) has no gatekeepers; and (iii) enables users to access every site, provider, application, program, etc. whenever desired. The concept also contemplates that there is only one playing field and it is perfectly even; no one company can stop the user from gaining access to the information sought at the point in time when access is desired.

Tim Wu, a professor at Columbia Law School, is widely credited with coining the term “net neutrality” in a paper he published in 2002. According to Wu, the net neutrality debate grew out of concerns in the late 1990s about possible threats to the end-to-end (“e2e”) nature of the Internet:

Network neutrality is best defined as a network design principle. The idea is that a maximally useful public information network aspires to treat all content, sites, and platforms equally. This allows the network to carry every form of information and support every kind of application. The principle suggests that information networks are often more valuable when they are *less* specialized—when they are a platform for multiple uses, present and future. (For people who know more about network design, what is just described is similar to the “end-to-end” design principle). . . . The theory behind the network neutrality principle, which the Internet sometimes gets close to, is that a neutral network should be



expected to deliver the most to a nation and the world economically, by serving as an innovation platform, and socially, by facilitating the widest variety of interactions between people. The Internet isn't perfect but it aspires for neutrality in its original design. Its decentralized and mostly neutral nature may account for its success as an economic engine and a source of folk culture.<sup>8</sup>

Sir Tim Berners-Lee, considered one of the founders of the Internet, describes the net neutrality as the freedom of the Internet from all restrictions:

Network neutrality . . . refers to a principle applied to residential broadband networks, and potentially to all networks. Precise definitions vary, but a broadband network free of restrictions on the kinds of equipment attached and the modes of communication allowed would be considered neutral by most advocates, provided it met additional tests relating to the degradation of various communication streams by others. Arguably, no Internet network can be completely neutral unless all of its constituent networks have identical needs, hence neutrality represents an ideal rather than a real condition.<sup>9</sup>

## **B. Arguments for and Against Net Neutrality<sup>10</sup>**

The notion that an Internet content provider may have its product blocked by an ISP or may have to pay to ensure that the product is distributed over an Internet “fast lane” is rejected by companies whose business models depend upon making information on the Internet more accessible to users. Thus, advocates of net neutrality include Amazon.com, Earthlink, eBay, Google, Intel, Microsoft, Facebook, Skype and Yahoo.<sup>11</sup>

Advocates contend that allowing telephone company ISPs to block Internet traffic or prioritize traffic for a fee, or permitting a regime in which service quality levels are guaranteed only at a price, would raise a number of concerns—particularly given (a) the lack of competition in “last-mile” broadband Internet access markets and (b) the legal and regulatory uncertainty regarding such access.<sup>12</sup> These concerns include: (1) blockage, degradation, and prioritization of content and applications; (2) vertical integration by ISPs and other network operators into content and applications that may reduce competition; (3) reduced innovation at the “edges” of the network (that is, by content and applications providers); (4) the potential diminution of political and other expression on the Internet; and (5) increased costs and reduced access for Internet consumers.<sup>13</sup>

Opponents of network neutrality regulation include, among others, facilities-based telephone company (wireline), cable and wireless network operators.<sup>14</sup> Top executives from the three largest network operators—BellSouth,<sup>15</sup> Verizon<sup>16</sup> and AT&T<sup>17</sup>—have voiced support for the principle that large content providers should pay a premium for priority use of networks controlled by others. They maintain that net neutrality regulation will impede the investment necessary to upgrade Internet access and may hamper technical innovation. Verizon, for example, has made a substantial investment to deploy FiOS, a “fiber to the home” solution,<sup>18</sup> and opposes any regulatory regime which would prohibit it from imposing a fee structure by which it could recoup the cost of this network.

In addition, opponents argue that: (1) neutrality regulations would set in stone the status quo, precluding further technical and business model innovation; (2) effective network management practices require some data prioritization and may require certain content, applications, or attached devices to be blocked altogether; (3) new content and applications are likely to require prioritization and other forms of network intelligence; (4) allowing network operators to innovate freely and differentiate their networks permits competition that is likely to promote enhanced service offerings; (5) prohibiting price differentiation may prevent pricing and service models more advantageous to marginal consumers; (6) vertical integration by network operators into content and applications and certain bundling practices may benefit consumers; and (7) there is insufficient evidence of either the likelihood or severity of the potential harms cited by net neutrality advocates to justify an entirely new regulatory regime, especially given that competition is robust and intensifying and the market generally is characterized by rapid technological change.

## **C. Positions of Federal Agencies on Net Neutrality**

There are currently no legal restrictions against telecommunications providers offering different rates to Internet consumers or content providers based upon content or service type. It was not always this way. When telephone companies first began to provide Internet service (e.g., “DSL” service), it was considered part and parcel of the “common carrier” telephone service such firms provide. Like other common carriers such as railroads, electric utilities, etc., telephone companies were prohibited by federal regulation from limiting access to higher quality service only to select customers who were willing to pay more.

A September 23, 2005 Federal Communications Commission (“FCC”) decision changed the landscape. The decision essentially decoupled traditional telephone service from broadband Internet services by holding that the latter are “information services” which telephone companies are not obliged to offer as a common carrier.<sup>19</sup> Under the FCC’s ruling, differentiated service levels based upon

negotiated pricing arrangements—prohibited for common carriers—became possible. Although no telephone company has yet taken advantage of the FCC’s ruling to charge Internet consumers different rates based upon the nature of the content accessed or the speed of content transmission, advocates of network neutrality believe that the decision created a regulatory void which must be filled by FCC rulemaking or by federal legislation.

The FCC is now considering whether to regulate net neutrality in *In re Broadband Industry Practices*, WC Docket No. 07-52. Thus, at some point in the near future, the FCC is likely to issue a ruling directly on the issue.

The FCC appears to have leaned in favor of net neutrality in prior proceedings. For example, in 2005, the FCC issued a policy statement setting out four principles regarding network regulation that seem to favor neutrality. The FCC principles are: “(1) Consumers are entitled to access content of their choice; (2) Consumers have a right to programs of their choice; (3) Consumers should be able to connect legal devices of their choice to networks; and (4) Consumers have a right to select from competing networks, services, and content providers.”<sup>20</sup>

Also in 2005, the FCC initiated an investigation into a small North Carolina ISP, Madison River Communications, which had been accused of acting in a decidedly non-neutral manner: preventing its customers from using Vonage’s IP (VoIP) telephony service by blocking ports needed for VoIP. Before the FCC had completed its investigation or initiated an enforcement action, Madison River entered into a consent agreement under which it promised to stop blocking VoIP service and to pay a \$15,000 fine.<sup>21</sup>

Finally, in December 2006, the FCC required AT&T to guarantee net neutrality on its broadband service for two years as a condition of approving its merger with BellSouth. The FCC was satisfied by AT&T’s statement that:

AT&T/BellSouth commits that it will maintain a neutral network and a neutral routing in its wireline broadband Internet access service. This commitment shall be satisfied by AT&T/BellSouth’s agreement not to provide or to sell to Internet content, application, or service providers, including those affiliated with AT&T/BellSouth, any service that privileges, degrades or prioritizes any packet transmitted over AT&T/BellSouth’s wireline broadband Internet access service based on its source, ownership or destination.

Advocates of net neutrality suggest that this language should serve as a template for an appropriate net neutrality regime.

Two other federal agencies have commented on net neutrality. On June 27, 2007, the Federal Trade Commission (FTC) published a staff report entitled “Broadband Connectivity Competition Policy.” The report took no position on the net neutrality, but simply outlined the major arguments pro and con, and identified the factors that should be considered by legislators and regulators. As its Executive Summary shows, the FTC took a “wait and see” approach:

The balance between competing incentives on the part of broadband providers to engage in, and the potential benefits and harms from, discrimination and differentiation in the broadband area raise complex empirical questions and may call for substantial additional study of the market generally, of local markets, or of particular transactions. Again, further evidence of particular conduct would be useful for assessing both the likelihood and severity of any potential harm from such conduct.<sup>22</sup>

On September 6, 2007, the Department of Justice (DOJ) submitted a memorandum to the FCC urging it to reject net neutrality regulations. A net neutral regulatory regime, the DOJ stated, “could prohibit broadband providers from offering differentiated quality of service. Such a rule . . . would eliminate choice.”<sup>23</sup> The agency concluded that “free market competition, unfettered by unnecessary governmental regulatory restraints, is the best way to foster innovation and development of the Internet.”<sup>24</sup> The DOJ also pointed out that regulation is especially inappropriate where neutrality advocates have been unable to identify any instances of discriminatory Internet conduct on the part of telephone companies or cable operators.<sup>25</sup> One question raised by the DOJ paper is whether “free market competition” is an accurate description of the market for broadband Internet access as it exists today.

#### D. Congressional Action on Net Neutrality

In 2005 and 2006, corporations and other organizations on opposite sides of the issue spent large amounts lobbying Congress,<sup>26</sup> and various proposals were advanced that would have imposed a form of network neutrality regulation.<sup>27</sup> In each case, the bill would have prohibited ISPs from offering so-called “tiered service”—service plans priced according to the quality level of the service provided. The “Internet Freedom Preservation Act,” sponsored by Olympia Snowe (R-Me.) and Byron Dorgan (D-ND), was summarized by its sponsors as follows:

Amends the Communications Act of 1934 to establish certain Internet neutrality duties for broadband service providers (providers), including not interfering with, or discriminating against, the ability of

any person to use broadband service in a lawful manner. Allows providers to engage in activities in furtherance of certain management and business-related practices, such as protecting network security and offering consumer protection services such as parental controls.

Prohibits a provider from requiring a subscriber, as a condition on the purchase of broadband service, to purchase any cable service, telecommunications service, or IP-enabled voice service.

Requires a report from the Federal Communications Commission (FCC) to specified congressional committees on provider delivery of broadband content, applications, and services.

Each of the net neutrality bills died either during the 109th Congress or as it adjourned.

In the 110th (current) legislative session, Senators Snowe and Dorgan reintroduced the Internet Freedom Preservation Act as Senate Bill 215, and the bill is currently pending before the Commerce Committee.

## Endnotes

1. This protocol for data transmission was established principally because the Internet was created for use by certain U.S. government agencies, primarily the Department of Defense.
2. In a recent decision, "net neutrality" was invoked as the basis of an unsuccessful antitrust claim based on Google's purported manipulation of its "PageRank" results to reduce the availability of competing and potentially competing websites. *Kinderstart.com v. Google, Inc.*, 2007 WL 831806 (N.D. Cal. Mar. 16, 2007).
3. [http://www.businessweek.com/print/technology/content/nov2007/tc2007116\\_145984.htm](http://www.businessweek.com/print/technology/content/nov2007/tc2007116_145984.htm).
4. <http://www.nytimes.com/2007/09/27/business/27cnd-verizon.html>.
5. See, e.g., <http://freepress.net/news/26565>.
6. [http://www.oag.state.ny.us/press/2007/oct/oct23a\\_07.html](http://www.oag.state.ny.us/press/2007/oct/oct23a_07.html).
7. See, e.g., AT&T, AT&T DSL Service Subscriber Agreement, §§ 8.a.-c., 10.a.-b., <http://www.att.net/general-info/terms-dsl-data.html> (last visited July 28, 2007); AT&T/Yahoo!, Terms of Service pts. 3, 14, <http://edit.client.yahoo.com/cspcommon/static?page=tos> (last visited July 28, 2007); Comcast, Comcast High-Speed Internet Acceptable Use Policy § ix, <http://www.comcast.net/terms/use.jsp> (last visited July 28, 2007); Time Warner Cable, Time Warner Cable Residential Services Subscriber Agreement, at pts. 4.b.i.-iii., 6, [http://help.twcable.com/html/twc\\_sub\\_agreement2.html](http://help.twcable.com/html/twc_sub_agreement2.html) (last visited July 28, 2007); and Verizon Online, Verizon Internet Access Service Terms of Service, pt. 3.6.1, 3.7.1, 3.7.5, [http://www.verizon.net/policies/vzcom/tos\\_popup.asp](http://www.verizon.net/policies/vzcom/tos_popup.asp).
8. See [http://timwu.org/network\\_neutrality.html](http://timwu.org/network_neutrality.html).
9. See Sir Tim Berners-Lee's blog entry on Network Neutrality at <http://dig.csail.mit.edu/breadcrumbs/node/144>.
10. A recent FTC report on competition in broadband Internet access attempted to summarize the arguments for and against the imposition of a net neutrality regulatory regime. *Broadband*

*Connectivity Competition Policy: FTC Staff Report* (June 2007), at 2. This portion of the report draws heavily upon that summary.

11. See <http://www.savetheinternet.com/=faq>. Advocates of net neutrality also include prominent telecommunications and Internet experts, such as Internet pioneer Vincent Cerf, FCC Commissioners Michael Copps and Jonathan Adelstein, and major Democratic presidential candidates. Editorial boards at major newspapers across the country, including *The New York Times*, *Los Angeles Times*, *San Francisco Chronicle*, *San Jose Mercury News*, *Seattle Times*, *St. Petersburg Times*, and *Christian Science Monitor*, have published pieces urging Congress to pass certain net neutrality legislation.
12. Not all proponents of net neutrality regulation oppose all forms of prioritization. For example, some believe that prioritization should be permitted if access to the priority service is open to all content and applications providers on equal terms; that is, without regard to the identity of the content or application provider.
13. Thus, the Consumers Union and the Consumer Federation of America have asked Congress to enact net neutrality legislation. See *Net Neutrality Debate May End Up in Congress*, <http://www.foxnews.com/story/0,2933,183353,00.html>.
14. Some advocacy organizations focused on the future of the Internet, such as HandsOffTheInternet.com and NetCompetition.org, have also publicly opposed net neutrality legislation. See <http://www.savetheinternet.com/=faq>.
15. <http://www.networkworld.com/edge/news/2006/020809-bellsouth-cerf.html>.
16. <http://www.washingtonpost.com/wp-dyn/content/article/2006/02/06/AR2006020601624.html>.
17. [http://news.zdnet.com/2100-1035\\_22-6052239.html](http://news.zdnet.com/2100-1035_22-6052239.html).
18. <http://www22.verizon.com/content/ConsumerFiOS>.
19. *Report and Order*, FCC Docket No. 05-150 (Aug. 5, 2005).
20. See FCC Policy Statement No. 05-151, issued September 23, 2005.
21. See <http://www.fcc.gov/eb/Orders/2005/DA-05-543A2.html>.
22. FTC Staff Report "Broadband Connectivity Competition Policy," June 2007, at 7.
23. *Ex Parte* Filing United States Department of Justice, dated September 6, 2007, *In re Broadband Industry Practices*, FCC WC Docket No. 07-52.
24. *Id.*
25. The blogosphere immediately denounced the DOJ memorandum. One blogger called it a "'Cliffsnotes version' of AT&T's own anti-net neutrality filing." <http://www.wetmachine.com/item/884>. Another claimed that it "proves" "[p]owerful corporate and government gatekeepers are working together to dismantle Internet freedoms and impose their will upon the Web." <http://www.savetheinternet.com/blog/2007/09/09/guess-who%e2%80%99s-afraid-of-an-open-internet/>.
26. See *AT&T, Comcast Rout Google, Microsoft in Net Neutrality Battle*, [http://www.bloomberg.com/apps/news?pid=20601103&sid=a2bhy\\_NMhSIQ&refer=us](http://www.bloomberg.com/apps/news?pid=20601103&sid=a2bhy_NMhSIQ&refer=us).
27. See the Appendix, *supra*, for a summary of the bills.

**This report was prepared by the Internet and Intellectual Property Litigation Committee of the Commercial and Federal Litigation Section of the New York State Bar Association. The Internet and Intellectual Property Litigation Committee is co-chaired by Stephen Joseph Elliot of Kaye Scholer LLP and Peter J. Pizzi of Connell Foley LLP. To join this Committee, please contact Mr. Elliot at [selliott@kayescholer.com](mailto:selliott@kayescholer.com) or Mr. Pizzi at [ppizzi@connellfoley.com](mailto:ppizzi@connellfoley.com).**



# APPENDIX

## Additional Source Materials on Net Neutrality

### Academic Writings.

Tim Wu, *Anti-Discrimination Norms in Communications*, 5 J. TELECOM. & HIGH TECH 15 (2006) (on the use of anti-discrimination rules in telecommunications law) [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=903324](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=903324).

Tim Wu, *The Broadband Debate: A User's Guide*, 3 J. TELECOM. & HIGH TECH 69 (2004) (the deeper questions behind the fight over broadband). [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=557330](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=557330).

Tim Wu, *Network Neutrality, Broadband Discrimination*, 2 J. TELECOM. & HIGH TECH 141 (2003) (The idea of network neutrality, and an empirical depiction of broadband discrimination) [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=388863](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=388863).

Tim Wu, *Network Neutrality*, FCC CS Docket 02-52 (with Lawrence Lessig) (PDF) (why a network neutrality regime encourages market competition) [http://www.timwu.org/wu\\_lessig\\_fcc.pdf](http://www.timwu.org/wu_lessig_fcc.pdf).

Christopher Yoo, *Net Neutrality, Clarification: A Case for Non-Neutrality*, [http://www.networkperformancedaily.com/2007/01/clarification\\_a\\_case\\_for\\_nonne\\_1.html](http://www.networkperformancedaily.com/2007/01/clarification_a_case_for_nonne_1.html).

Christopher Yoo, *Would Mandating Broadband Network Neutrality Help or Hurt Competition? A Comment on the End-to-End Debate*, JOURNAL OF TELECOMMUNICATIONS AND HIGH TECHNOLOGY LAW, Vol. 3, 2004 [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=495502](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=495502).

Christopher Yoo, *Network Neutrality and the Economics of Congestion*, GEORGETOWN LAW JOURNAL, Vol. 94, June 2006, Vanderbilt Law and Economics Research Paper No. 05-28, Vanderbilt Public Law Research Paper No. 05-33 [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=825669](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=825669).

Christopher Yoo, *Beyond Network Neutrality*, HARVARD JOURNAL OF LAW AND TECHNOLOGY, Vol. 19, Fall 2005, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=742404](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=742404).

Barbara van Schewick, *Toward an Economic Framework for Network Neutrality Regulation*, JOURNAL ON TELECOMMUNICATIONS AND HIGH TECHNOLOGY LAW, Vol. 5, 2007, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=812991](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=812991).

### Other Materials.

Senator Edward Kennedy on Net Neutrality, <http://www.chbn.com/Clip.aspx?key=092693C47371CC3C&OVRAW=net%20neutrality&OVKEY=net%20neutrality&OVMTC=standard&OVADID=3573007022&OVKWID=32203932522>.

Materials of the Internet Caucus Advisory Committee, <http://www.netcaucus.org/events/2006/netneutrality/one-pagers>.

*Net Neutrality: Fact vs. Fiction Report*, [http://www.freepress.net/docs/nn\\_fact\\_v\\_fiction\\_final.pdf](http://www.freepress.net/docs/nn_fact_v_fiction_final.pdf).

*FTC Broadband Competition Policy Report*  
<http://www.ftc.gov/reports/broadband/v070000report.pdf>.



## Legislative Proposals Introduced During The 109th Congress

Bill No.	Lead sponsor(s)	Approach	Website Reference	Status
S.2360	Wyden (D)	No two-tier internet	<a href="http://wyden.senate.gov/media/2006/Print/print_06282006_net_neutrality_holds_release.htm">http://wyden.senate.gov/media/2006/Print/print_06282006_net_neutrality_holds_release.htm</a>	Went to the Commerce Committee, but never was considered by the full Senate; died as 109th Congress adjourned
S.2917	Snowe (R) and Dorgan (D)	No two-tier Internet	<a href="http://www.publicknowledge.org/pdf/snowe-dorgan-20060519.pdf">http://www.publicknowledge.org/pdf/snowe-dorgan-20060519.pdf</a>	Last reported in Commerce Committee and was never considered by full Senate; was reintroduced as S.215 on January 9, 2007 (110th Congress)
H.R.5417	Sensenbrenner (R) and Conyers (D)	Antitrust extended to Net neutrality	<a href="http://thomas.loc.gov/cgi-bin/bdquery/?d109:HR05417:@@L&amp;summ2=m&amp;">http://thomas.loc.gov/cgi-bin/bdquery/?d109:HR05417:@@L&amp;summ2=m&amp;</a>	Approved by the House Judiciary Committee by a 20-13 vote on May 25, 2006, but no further action was taken
H.R.5273	Markey (D)	No two-tier Internet		Failed as an amendment to H.R. 5252 by a 152-269 vote (See Roll Call 239)
H.R.5252	Barton (R) and Rush (D)	FCC can police complaints	<a href="http://thomas.loc.gov/cgi-bin/bdquery/?d109:HR05252:@@L&amp;summ2=m&amp;">http://thomas.loc.gov/cgi-bin/bdquery/?d109:HR05252:@@L&amp;summ2=m&amp;</a>	Passed by the full House of Representatives by a 321-101 vote (without Markey amendment); died as 109th Congress adjourned
S.2686	Stevens (R) and Inouye (D)	FCC will do a study	<a href="http://thomas.loc.gov/cgi-bin/bdquery/?d109:SN02686:@@L&amp;summ2=m&amp;">http://thomas.loc.gov/cgi-bin/bdquery/?d109:SN02686:@@L&amp;summ2=m&amp;</a>	Passed by the Commerce Committee by a 15-7 vote, but never received consideration by the full Senate; died as 109th Congress adjourned

# Individual Practices of Judges and Magistrate Judges in the Southern District of New York

Prepared by the Federal Judiciary Committee

Rule 83(b) of the Federal Rules of Civil Procedure provides that with respect to “Judge’s Directives” or “Individual Practices”:

A judge may regulate practice in any manner consistent with federal law, rules adopted under 28 U.S.C. §§ 2072 and 2075, and local rules of the district. No sanction or other disadvantage may be imposed for noncompliance with any requirement not in federal law, federal rules, or the local district rules unless the alleged violator has been furnished in the particular case with actual notice of the requirement.<sup>1</sup>

There currently are 44 active and senior judges and 14 full-time magistrate judges in the Southern District of New York and each of them has his or her own Individual Practice. For the most part, the Individual Practices in the Southern District of New York can be grouped into three categories: (a) communications with Chambers; (b) pleadings and motions; and (c) pretrial procedures. A chart outlining and annotating the Individual Practices of Judges and Magistrate Judges in the Southern District of New York by these categories as of November 2007 follows this article as Exhibits A and B, respectively.

Consistent with the prerogatives and latitudes of federal judges and magistrate judges, there is some diversity in their Individual Practices. For example, certain judges in the Southern District of New York allow telephone calls to Chambers, while others discourage or prohibit them. Some judges allow faxes to Chambers and others restrict the sending of faxes. In addition, some judges require two courtesy copies of motions, while other judges require one copy to be delivered to Chambers.

With respect to these Chambers’ communication-type requirements, the bar should expect there to be differences. On procedural or substantive issues, however, because civil rules in federal court should promote “the just, speedy and inexpensive determination of every action,”<sup>2</sup> the bar benefits from Individual Practices being consistent with the Federal Rules and the Local Rules of the Southern and Eastern Districts of New York;<sup>3</sup> that is, reasonably uniform. And to a large extent, on matters relating to motion practice and pretrial procedures, there is uniformity among the Individual Practices of the judges and magistrate judges in the Southern District of New York.

With regard to the content of proposed pretrial orders and the length of memoranda of law, almost two-thirds of the judges in the Southern District have identical or nearly identical practices. While the bar must be mindful of the nuances of each judge’s Individual Practices,<sup>4</sup> compliance with them should make adherence to the requirements of the Federal Rules of Civil Procedure easier.

Areas where there already is significant uniformity among Individual Practices include the following:

## Pretrial Orders

- Filed within 30 days of the trial date set by the Court:
- Include case caption, names, communication information (address, telephone, fax, e-mail) of trial counsel as well as the following:
  - A statement regarding subject matter jurisdiction.
  - A statement from each party regarding the claims and defenses for a jury trial or a statement of the elements of each claim or defense together with a summary of the facts relating to each element in non-jury cases.
  - An estimate of trial days.
  - What evidentiary issues will be the subject of *in limine* motions.
  - The stipulations the parties have reached on facts or questions of law.
  - Statements by each party regarding each witness whose testimony is to be offered and whether the witness will testify in person or by deposition.
  - Designations and cross-designations with objections of depositions to be offered by each party.
  - Exhibit list with authenticity objections identified.
  - Proposed Requests to Charge and Voir Dire questions and a Pretrial Memoranda for jury cases.

## Memoranda of Law

- Memoranda in support or opposition to a motion must be up to 25 pages in length.
- Reply memoranda must be up to 10 pages in length.

- Any memoranda 10 pages or longer must contain a table of contents.

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*"[W]hile federal court practitioners may sometimes complain that it is difficult to adhere to each judge's differing Individual Practices, on the whole, the Practices are fairly uniform and the Committee hopes that the following charts provide useful guidance. In addition, the Committee hopes that its suggestion regarding Rule 56.1 Statements is helpful to both the bench and the bar."*

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With respect to summary judgment motions, there is a Southern District Local Rule that addresses the format of the Rule 56.1 statement.<sup>5</sup> Some judges have Individual Practices that also address the format of the Rule 56.1 statement. One of the Individual Practices that could be considered as an addition to the existing Local Rule or as a uniform Individual Practice is as follows:

The Local Rule 56.1(a)(2) Statement by the party opposing summary judgment shall set forth verbatim the text of each paragraph of the Local Rule 56.1(a)(1) Statement immediately preceding its response thereto.

Such a requirement would make it easier for the parties, as well as the Court, to determine whether triable issues of fact are in dispute.

In sum, while federal court practitioners may sometimes complain that it is difficult to adhere to each judge's differing Individual Practices, on the whole, the Practices are fairly uniform and the Committee hopes that the following charts provide useful guidance. In addition, the Committee hopes that its suggestion regarding Rule 56.1 Statements is helpful to both the bench and the bar.

## Endnotes

1. See Fed. R. Civ. P. 83(b).
2. See Fed. R. Civ. P. 1.
3. See *Fruit of the Loom, Inc. v. American Marketing Enterprise, Inc.*, 192 F.3d 73, 75 (2d Cir. 1999) ("District court judges are bound by the Federal Rules of Civil Procedure and may not apply their individual practice rules in a manner that is inconsistent with the Federal Rules."); see also *Camacho v. City of Yonkers*, 236 F.3d 112, 117 (2d Cir. 2000) (dismissing defendant's appeal, the Second Circuit stated, "We do so with the hope, however, that this result

can be avoided in the future if litigants rely on the Federal Rules of Appellate Procedure and the Federal Rules of Civil Procedure when they calculate the time for taking an appeal and the district courts modify local and individual rules, so they do not lead the unwitting to believe that they have preserved a right to appeal when in fact they have not.").

4. See *Camacho*, 236 F.3d at 113 ("[W]e respectfully request that the district courts examine court rules and individual judges' rules and consider revising those that serve as a snare for the unwary litigant."); *Fruit of the Loom*, 192 F.3d at 74 ("We write to remind the bar that individual practice rules of a district judge must be read in conjunction with the Federal Rules of Civil Procedure and the Federal Rules and their jurisdictional filing dates supersede any seemingly contrary district court practice rule."). Commentary associated with an amendment to Federal Rule 83(b) in 1995 noted:

[T]he amendment to this rule disapproves imposing sanctions or other disadvantage on a person for noncompliance with such an internal directive, should be no adverse consequence to a party or attorney for violating special requirements relating to practice before a particular court unless the party or attorney has actual notice of those requirements. Furnishing litigants with a copy outlining the judge's practice—or attaching instructions to a notice setting a case for conference or trial—would suffice to give actual notice, as would an order in a case specifically adopting by reference a judge's standing order and indicating how copies can be obtained.

Fed. R. Civ. P. 83 advisory committee's note. While litigation associated with a party being sanctioned for noncompliance with a judge's Individual Practices has not been extensive, the Second Circuit has made it clear that sanctions cannot be imposed for noncompliance with an Individual Practice unless the alleged violator previously was furnished with actual notice of the requirement. See *Amnesty America v. Town of West Hartford*, 288 F.3d 467, 471 (2d Cir. 2002) ("To the extent that district courts in this Circuit have held otherwise, see *Murungi v. United States Dep't of Veterans Affairs*, 136 F. Supp. 2d 154, 157 n.2 (W.D.N.Y. 2001), we now clarify that under Fed. R. Civ. P. 83(b), actual notice or the existence of a local rule providing notice is a precondition to the imposition of a sanction for failing to comply with a citation requirement."). Moreover, the Second Circuit has made clear that an Individual Practice cannot impose requirements not found in federal law or the Federal Rules. See *id.* ("While district courts have considerable latitude in fashioning rules that will assist them in determining whether summary judgment is appropriate, they may not impose sanctions on litigants for noncompliance with any requirement not in federal law, federal rules, or the local district rules unless the alleged violator has been furnished in the particular case with *actual notice* of the requirement.") (emphasis in original) (citing Fed. R. Civ. P. 83(b)).

5. See S.D.N.Y. Loc. Civ. R. 56.1

**This report was prepared by the Federal Judiciary Committee of the Commercial and Federal Litigation Section of the New York State Bar Association. The Federal Judiciary Committee is co-chaired by Jay G. Safer of Lord, Bissell & Brook LLP and John D. Winter of Patterson Belknap Webb & Tyler. To join this Committee, please contact Mr. Safer at [jsafer@lordbissell.com](mailto:jsafer@lordbissell.com) or Mr. Winter at [jwinter@pbwt.com](mailto:jwinter@pbwt.com).**

# Exhibit A

## Southern District Judges' Individual Practices<sup>1</sup>

### 1. Communications with Chambers

#### A. Letters

- i. Letters to chambers simultaneously delivered to all counsel. (39) (*Baer, Batts, Berman, Brieant, Buchwald, Castel, Cedarbaum, Chin, Connor, Cote, Crotty, Daniels, Duffy, Griesa, Haight, Hellerstein, Holwell, Jones, Karas, Keenan, Koeltl, Kram, Leisure, Lynch, Marrero, McKenna, McMahon, Patterson, Pauley, Preska, Robinson, Sand, Scheindlin, Stanton, Stein, Sullivan, Swain, Sweet, Wood*)
- ii. Letters not to be filed electronically. (5) (*Batts, Berman, Chin, Cote, Crotty*)
- iii. Letters between counsel not to be sent to Court. (28) (*Baer, Batts, Berman, Buchwald, Castel, Duffy, Griesa, Haight, Hellerstein, Holwell, Jones, Kaplan, Karas, Keenan, Koeltl, Lynch, McKenna, McMahon, Patterson, Pauley, Preska, Robinson, Sand, Sprizzo, Sullivan, Swain, Sweet, Wood*)
  - a. . . . unless doing so will advance the resolution of litigation. (1) (*Brieant*)
- iv. Letters to Court strictly forbidden. (1) (*Rakoff*)

#### B. Telephone calls

- i. To chambers, permitted. (13) (*Baer, Connor, Griesa, Hellerstein, Kram, McKenna, Patterson, Preska, Rakoff, Robinson, Sprizzo, Stanton, Sweet*)
- ii. To chambers, permitted only in emergency situation requiring immediate attention. (28) (*Batts, Berman, Buchwald, Castel, Cedarbaum, Chin, Cote, Crotty, Daniels, Duffy, Haight, Holwell, Jones, Kaplan, Karas, Keenan, Koeltl, Leisure, Lynch, Marrero, McMahon, Pauley, Sand, Scheindlin, Stein, Sullivan, Swain, Wood*)
- iii. To chambers, not permitted for any legitimate purpose. (2) (*Brieant, Carter*)

#### C. Faxes

- i. To chambers, not permitted. (11) (*Batts, Berman, Cedarbaum, Cote, Duffy, Griesa, Keenan, McKenna, Sand, Sprizzo, Stanton*)
- ii. To chambers, permitted only if copies sent to all counsel. (18) (*Baer, Brieant, Buchwald, Chin, Connor, Crotty, Holwell, Jones, Koeltl, Marrero, McMahon, Patterson, Preska, Scheindlin, Stein, Swain, Sweet, Wood*)
  - a. . . . and are encouraged. (1) (*McMahon*)
- iii. To chambers, permitted only if authorized by Court. (10) (*Castel, Haight, Kaplan, Karas, Kram, Leisure, Lynch, Pauley, Robinson, Sullivan*)
- iv. To chambers, permitted only for urgent matters. (2) (*Hellerstein, Sullivan*)

#### Fax limit, without prior authorization

- i. Three pages. (2) (*Preska, Scheindlin*)
- ii. Four pages. (1) (*Holwell*)
- iii. Five pages. (5) (*Daniels, Chin, Marrero, Patterson, Stein, Swain*)
- iv. Ten pages. (6) (*Baer, Brieant, Connor, Crotty, Robinson, Sweet*)
- v. Twenty pages. (2) (*Koeltl, Wood*)
- vi. Fifty pages. (1) (*McMahon*)

#### D. Requests for Adjournments or Extensions of Time

- i. Must be made at least 48 hours prior to scheduled appearance. (37) (*Baer, Berman, Castel, Cedarbaum, Chin, Connor, Cote, Crotty, Daniels, Duffy, Griesa, Haight, Hellerstein, Holwell, Jones, Kaplan, Karas, Keenan, Koeltl, Kram,*



*Leisure, Lynch, Marrero, McKenna, McMahon, Patterson, Pauley, Preska, Robinson, Sand, Scheindlin, Stanton, Stein, Sullivan, Swain, Sweet, Wood)*

- a. . . . and are not favored. (3) (*Brieant, Carter, McMahon*)

#### Must state:

- i. The original date. (34) (*Batts, Berman, Buchwald, Castel, Chin, Connor, Cote, Crotty, Daniels, Duffy, Griesa, Haight, Hellerstein, Holwell, Jones, Karas, Keenan, Koeltl, Kram, Leisure, Lynch, McKenna, McMahon, Patterson, Pauley, Preska, Robinson, Sand, Stanton, Stein, Sullivan, Swain, Sweet, Wood*)
- ii. The number of previous requests for adjournment or extension. (37) (*Batts, Berman, Buchwald, Castel, Chin, Connor, Cote, Crotty, Daniels, Duffy, Griesa, Haight, Hellerstein, Holwell, Jones, Kaplan, Karas, Keenan, Koeltl, Kram, Leisure, Lynch, Marrero, McKenna, McMahon, Patterson, Pauley, Preska, Robinson, Sand, Scheindlin, Stanton, Stein, Sullivan, Swain, Sweet, Wood*)
- iii. Whether prior requests were granted or denied. (37) (*Batts, Berman, Buchwald, Castel, Chin, Connor, Cote, Crotty, Daniels, Duffy, Griesa, Haight, Hellerstein, Holwell, Jones, Kaplan, Karas, Keenan, Koeltl, Kram, Leisure, Lynch, Marrero, McKenna, McMahon, Patterson, Pauley, Preska, Robinson, Sand, Scheindlin, Stanton, Stein, Sullivan, Swain, Sweet, Wood*)
- iv. Whether the adversary consents, and if not, reason for refusal. (38) (*Baer, Batts, Berman, Buchwald, Castel, Cedarbaum, Chin, Connor, Cote, Crotty, Daniels, Duffy, Griesa, Haight, Hellerstein, Holwell, Jones, Kaplan, Karas, Keenan, Koeltl, Kram, Leisure, Lynch, Marrero, McKenna, McMahon, Patterson, Pauley, Preska, Robinson, Sand, Scheindlin, Stanton, Stein, Sullivan, Swain, Wood*)
- v. If adversary consents, counsel must jointly offer three alternative conference dates. (1) (*Crotty*)
- vi. Proposed order reflecting requested adjournment/extension. (2) (*Scheindlin, Sullivan*)

## 2. Pleadings and Motions

### A. Courtesy Copies

- i. Courtesy copies of pleadings and motions must be sent to chambers at the same time they are filed. (26) (*Baer, Castel, Cedarbaum, Chin, Connor, Duffy, Haight, Hellerstein, Keenan, Koeltl, Leisure, McKenna, McMahon, Patterson, Pauley, Preska, Robinson, Sand, Scheindlin, Sprizzo, Stanton, Stein, Sullivan, Swain, Sweet, Wood*)
  - a. . . . two courtesy copies. (8) (*Batts, Cote, Crotty, Holwell, Kaplan, Karas, Lynch, Marrero*)
- ii. Two courtesy copies of the joint pretrial order and all documents filed or served with the pretrial order should be submitted to chambers on the date of filing or service. (1) (*Sullivan*)

### B. Pre-motion conferences

#### Required?

- i. For discovery motions, follow Local Civil Rule 37.2. (31) (*Baer, Batts, Brieant, Buchwald, Castel, Cedarbaum, Chin, Connor, Cote, Daniels, Duffy, Griesa, Haight, Holwell, Jones, Karas, Keenan, Koeltl, Leisure, Lynch, McKenna, McMahon, Pauley, Preska, Robinson, Sand, Stanton, Stein, Sullivan, Swain, Wood*)
- ii. Pre-motion conferences not required for non-discovery motions. (16) (*Baer, Brieant, Cote, Daniels, Duffy, Griesa, Haight, Hellerstein, Jones, Kaplan, Lynch, McKenna, McMahon, Sand, Stein, Swain*)
  - a. . . . and are not required for discovery motions either. (2) (*Owen, Sweet*)
- iii. Telephonic conferences are encouraged to resolve matters *in lieu of actual motions*. (1) (*Rakoff*)
- iv. Pre-motion conferences required before any motion. (19) (*Batts, Berman, Buchwald, Castel, Chin, Connor, Crotty, Karas, Keenan, Leisure, Marrero, Pauley, Preska, Robinson, Scheindlin, Sprizzo, Stanton, Sullivan, Wood*)

#### except motions...

- i. required by FRCP or FRAP to be made by a certain time, or any motions described in FRAP 4(a)(4)(A). (14) (*Batts, Berman, Buchwald, Castel, Connor, Holwell, Karas, Keenan, Marrero, Pauley, Preska, Sprizzo, Sullivan, Wood*)
- ii. to dismiss in lieu of an Answer. (17) (*Batts, Keenan, Leisure, Marrero, Preska, Stanton, Wood*)

- iii. for emergency relief. (1) (*Batts*)
- iv. preliminary injunctive relief. (6) (*Batts, Chin, Preska, Scheindlin, Stanton, Wood*)
- v. for remand. (6) (*Batts, Marrero, Pauley, Preska, Scheindlin, Wood*)
- vi. for *pro hac vice* admissions. (13) (*Batts, Berman, Castel, Connor, Crotty, Karas, Marrero, Pauley, Preska, Scheindlin, Stanton, Sullivan, Wood*)
- vii. for default judgment. (4) (*Batts, Castel, Crotty, Marrero*)
- viii. for relief from judgment/new trial. (3) (*Batts, Crotty, Scheindlin*)
- ix. for reargument or reconsideration. (12) (*Buchwald, Castel, Chin, Karas, Keenan, Marrero, Pauley, Preska, Scheindlin, Stanton, Sullivan, Wood*)
- x. by incarcerated *pro se* litigants. (7) (*Buchwald, Castel, Karas, Marrero, Pauley, Preska, Sullivan*)
- xi. . . . by any *pro se* litigant. (1) (*Crotty*)
- xii. for notice of appeal. (1) (*Berman*)
- xiii. for order to show cause. (7) (*Castel, Crotty, Karas, Marrero, Pauley, Preska, Sullivan*)
- xiv. in cases involving a person in custody. (4) (*Chin, Scheindlin, Stanton, Wood*)
- xv. for reduction of sentences. (4) (*Preska, Scheindlin, Stanton, Wood*)
- xvi. for criminal motions. (1) (*Crotty*)
- xvii. for cross-motions. (1) (*Keenan*)
- xviii. to affirm or vacate an arbitration award. (5) (*Batts, Marrero, Preska, Scheindlin, Stanton*)
- xix. to compel arbitration. (2) (*Scheindlin, Wood*)
- xx. objections to Magistrate Judge's ruling (4) (*Marrero, Preska, Stanton, Wood*)
- xxi. for attorney's fees or sanctions. (5) (*Marrero, Pauley, Preska, Scheindlin, Wood*)
- xxii. for temporary retraining orders. (4) (*Preska, Scheindlin, Stanton, Wood*)
- xxiii. pursuant to Section 21(D)(a)(3)(A)(i) of the Securities Exchange Act of 1934 to consolidate and for appointment of lead counsel. (1) (*Preska*)
- xxiv. for *in forma pauperis* motions. (1) (*Scheindlin*)
- xxv. to dismiss. (1) (*Scheindlin*)
- xxvi. for a more definite statement. (1) (*Scheindlin*)
- xxvii. for Rule 11 sanctions. (1) (*Scheindlin*)
- xxviii. for leave to amend a complaint. (1) (*Scheindlin*)

#### Conferences *required for only* . . .

- i. summary judgment. (2) (*Holwell, Koeltl*)
- ii. motion to dismiss. (1) (*Holwell*)

#### Length of letter to arrange conference?

- i. No more than two pages. (1) (*Batts*)
- ii. No more than three pages. (13) (*Berman, Castel, Chin, Connor, Holwell, Karas, Keenan, Leisure, Pauley, Preska, Scheindlin, Sullivan, Wood*)

### C. Memoranda of Law

- i. Support of and in opposition to: 25 pages. **(35)** (*Baer, Batts, Berman, Brieant, Buchwald, Castel, Chin, Connor, Cote, Crotty, Daniels, Duffy, Griesa, Haight, Holwell, Karas, Keenan, Koeltl, Leisure, Lynch, Marrero, McKenna, McMahon, Patterson, Pauley, Rakoff, Robinson, Sand, Scheindlin, Sprizzo, Stein, Sullivan, Swain, Sweet, Wood*)
  - a. . . . 35 pages. **(2)** (*Kaplan, Kram*)
  - b. . . . 20 pages. **(1)** (*Preska*)
- ii. Reply: 10 pages. **(37)** (*Baer, Batts, Berman, Brieant, Buchwald, Castel, Chin, Connor, Cote, Crotty, Daniels, Duffy, Griesa, Haight, Holwell, Kaplan, Karas, Keenan, Koeltl, Leisure, Lynch, Marrero, McKenna, McMahon, Patterson, Pauley, Preska, Rakoff, Robinson, Sand, Scheindlin, Sprizzo, Sullivan, Stein, Swain, Sweet, Wood*)
  - a. . . . 15 pages. **(1)** (*Kram*)
- iii. Memoranda of 10 pages or more must contain a table of contents. **(33)** (*Baer, Batts, Berman, Brieant, Buchwald, Castel, Chin, Connor, Cote, Crotty, Daniels, Duffy, Griesa, Haight, Holwell, Kaplan, Karas, Keenan, Koeltl, Kram, Leisure, Lynch, Marrero, McKenna, Patterson, Pauley, Preska, Sand, Stein, Sullivan, Swain, Sweet, Wood*)
  - a. . . . all memoranda must contain a table of contents. **(1)** (*Robinson*)

### D. Oral Argument on Motions

- i. Is held on all motions **(6)** (*Brieant, Cedarbaum, Karas, Owens, Sand, Sweet*)

except . . .

- a. for motions on reargument. **(4)** (*Brieant, Cedarbaum, Owens, Sand*)
- b. for *pro se* matters. **(3)** (*Cedarbaum, Owens, Sand*)
- c. for appeals from Magistrate Judges' rulings. **(1)** (*Owen*)
- ii. Must be requested by letter, and the Court will determine whether argument will be heard, and if so, advise counsel of the time. **(25)** (*Buchwald, Case, Chin, Connor, Cote, Daniels, Duffy, Griesa, Haight, Holwell, Kaplan, Keenan, Koeltl, Lynch, Marrero, McKenna, Patterson, Pauley, Preska, Robinson, Scheindlin, Stanton, Stein, Swain, Wood*)
- iii. Is held where the parties are represented by counsel and where oral argument would assist the Court. **(1)** (*Sullivan*)
- iv. Is heard only in unusual circumstances, or rarely. **(2)** (*Carter, McMahon*)

### E. Affidavits and Exhibits in Support of or in Opposition to Motion

- i. Parties are limited to five affidavits in support of or in opposition to a motion. Each affidavit may not exceed ten double-spaced pages. **(1)** (*Scheindlin*)
- ii. Parties are limited to a total of 15 exhibits, including exhibits attached to an affidavit, in support of any motion. Each exhibit is limited to 15 pages. **(1)** (*Scheindlin*)

### F. RICO Statement

- i. Claims asserting violations of 18 U.S.C. § 1962 must be accompanied by a "RICO Statement." **(2)** (*Batts, Scheindlin*)

## 3. Pretrial Procedures

### A. Filings Prior to Trial in Civil Cases

Each party shall file . . .

- i. 10 days before trial **(2)** (*Baer, Kram*)
- ii. At least one week before trial **(2)** (*Connor, Robinson*)
- iii. 15 days before trial if date fixed, or 30 days after filing or any pretrial order if no trial date **(15)** (*Berman, Buchwald, Chin, Daniels, Duffy, Griesa, Jones, Koeltl, McKenna, Patterson, Pauley, Preska, Sand, Stein, Sweet*)

- iv. As soon as conveniently possible before the trial readiness date as set in the Case Management Plan (1) (*Brieant*)
- v. At same time the parties file the joint pretrial order (11) (*Castel, Cote, Holwell, Karas, Leisure, Lynch, Marrero, McMahon, Sprizzo, Sullivan, Wood*)

#### Containing . . .

- i. In jury cases, requests to charge and proposed *voir dire* questions. (32) (*Baer, Berman, Brieant, Buchwald, Chin, Connor, Cote, Daniels, Duffy, Griesa, Hellerstein, Holwell, Jones, Karas, Koeltl, Kram, Leisure, Lynch, Marrero, McKenna, Patterson, Pauley, Preska, Rakoff, Robinson, Sand, Scheindlin, Sprizzo, Stein, Sullivan, Sweet, Wood*)
- ii. In jury cases, proposed instructions and verdict sheets. (4) (*Castel, Karas, Scheindlin, Sullivan*)
- iii. In non-jury cases, a statement of the elements of each claim or defense involving such party, together with a summary of facts required to establish each element. (19) (*Baer, Berman, Buchwald, Chin, Daniels, Duffy, Griesa, Jones, Koeltl, Leisure, McKenna, McMahon, Patterson, Pauley, Preska, Sand, Stein, Sweet, Wood*)
- iv. In non-jury cases, proposed findings of fact and conclusions of law. (12) (*Castel, Connor, Cote, Hellerstein, Holwell, Karas, Lynch, Marrero, Robinson, Sand, Sprizzo, Sullivan*)
- v. In non-jury cases, brief summary of salient portions of each deposition to be offered into evidence. (2) (*Connor, Robinson*)
- vi. In all cases, motions addressing issues which should be resolved *in limine*. (26) (*Baer, Berman, Buchwald, Castel, Chin, Cote, Daniels, Duffy, Griesa, Holwell, Jones, Karas, Koeltl, Leisure, Lynch, Marrero, McKenna, Patterson, Pauley, Preska, Rakoff, Sand, Stein, Sullivan, Sweet, Wood*)
- vii. In any case where a party believes it would be useful, a pretrial memorandum. (25) (*Baer, Berman, Brieant, Buchwald, Castel, Chin, Cote, Daniels, Duffy, Griesa, Holwell, Jones, Karas, Koeltl, Leisure, Lynch, McKenna, Patterson, Pauley, Preska, Sand, Stein, Sullivan, Sweet, Wood*)
- viii. . . . pretrial memorandum required. (2) (*Hellerstein, Marrero*)
- ix. Witness list. (2) (*Brieant, Marrero*)
- x. Exhibit list. (2) (*Brieant*)
- xi. A statement of agreed-upon facts. (1) (*Robinson*)

#### Each party shall serve, but not file . . .

- i. In non-jury cases, affidavits constituting the direct testimony of each trial witness, except for testimony of an adverse party, a person whose attendance must be compelled by subpoena, or a person for whom a party has requested and the Court has agreed to hear direct testimony during the trial. (1) (*Sullivan*)
  - a. . . . and three business days after submission of affidavits, a list of all affiants whom counsel intends to cross-examine at trial. (1) (*Sullivan*)
- ii. In non-jury cases, deposition excerpts which will be offered as substantive evidence and one-page synopsis (with page references) of those excerpts for each deposition. (1) (*Sullivan*)
- iii. In non-jury cases, all documentary evidence. (1) (*Sullivan*)

#### B. Pretrial Order

- i. Not required unless directed by Court. (4) (*Brieant, Connor, Owen, Robinson*)

#### Must be filed . . .

- ii. 30 days following completion of discovery in a civil case. (22) (*Berman, Buchwald, Castel, Cote, Daniels, Duffy, Holwell, Jones, Karas, Koeltl, Leisure, Lynch, Marrero, McKenna, Patterson, Pauley, Preska, Sand, Stein, Sullivan, Sweet, Wood*)
- iii. At least two weeks prior to trial. (1) (*Carter*)
- iv. At least one week prior to trial. (1) (*Rakoff*)



## Contents

- i. Only the information required by FRCP 26(a)(3). (1) (*Buchwald*)
- ii. The full caption of action. (26) (*Baer, Batts, Castel, Chin, Cote, Daniels, Duffy, Hellerstein, Jones, Karas, Koeltl, Leisure, Lynch, Marrero, McKenna, Patterson, Pauley, Preska, Sand, Scheindlin, Sprizzo, Stanton, Stein, Sullivan, Sweet, Wood*)
- iii. The names, addresses (including firm names), and telephone and fax numbers of trial counsel. (29) (*Baer, Batts, Berman, Carter, Castel, Chin, Cote, Daniels, Duffy, Hellerstein, Holwell, Jones, Karas, Koeltl, Leisure, Lynch, Marrero, McKenna, Patterson, Pauley, Preska, Sand, Scheindlin, Sprizzo, Stanton, Stein, Sullivan, Sweet, Wood*)
- iv. Brief, non-adversarial statement of basic nature of the case. (5) (*Batts, Carter, Crotty, Kaplan, McMahon*)
- v. A brief statement by plaintiff as to the basis of subject matter jurisdiction, and a brief statement by each other party as to the presence or absence of subject matter jurisdiction. Such statements shall include citations to all statutes relied on and relevant facts as to citizenship and jurisdictional amount. (27) (*Baer, Batts, Berman, Carter, Castel, Chin, Cote, Daniels, Duffy, Hellerstein, Holwell, Jones, Karas, Koeltl, Leisure, Lynch, McKenna, Patterson, Pauley, Preska, Sand, Scheindlin, Sprizzo, Stein, Sullivan, Sweet, Wood*)
- vi. A brief summary by each party of the claims and defenses the party has asserted which remain to be tried, identifying claims and defenses previously asserted which are not to be tried. (27) (*Baer, Berman, Carter, Castel, Chin, Cote, Daniels, Duffy, Hellerstein, Holwell, Jones, Karas, Koeltl, Leisure, Lynch, Marrero, McKenna, Patterson, Pauley, Preska, Rakoff, Sand, Scheindlin, Stein, Sullivan, Sweet, Wood*)
- vii. A statement by each party as to whether the case is to be tried with or without a jury. (29) (*Batts, Berman, Castel, Chin, Cote, Crotty, Daniels, Duffy, Holwell, Jones, Kaplan, Karas, Koeltl, Leisure, Lynch, Marrero, McKenna, McMahon, Patterson, Pauley, Preska, Sand, Scheindlin, Sprizzo, Stanton, Stein, Sullivan, Sweet, Wood*)
- viii. An estimate of the number of trial days needed. (28) (*Batts, Carter, Cedarbaum, Chin, Cote, Daniels, Duffy, Hellerstein, Holwell, Jones, Karas, Koeltl, Leisure, Lynch, Marrero, McKenna, Patterson, Pauley, Preska, Rakoff, Sand, Scheindlin, Sprizzo, Stanton, Stein, Sullivan, Sweet, Wood*)
- ix. A statement as to whether parties have consented to trial by a Magistrate Judge, without identifying which parties have or have not so consented. (25) (*Berman, Castel, Chin, Cote, Daniels, Duffy, Hellerstein, Holwell, Jones, Kaplan, Karas, Koeltl, Leisure, Lynch, Marrero, McKenna, Patterson, Pauley, Preska, Sand, Sprizzo, Stein, Sullivan, Sweet, Wood*)
- x. Any stipulations or agreed statements of fact or law which have been agreed to by all parties. (34) (*Baer, Batts, Berman, Carter, Castel, Cedarbaum, Chin, Cote, Crotty, Daniels, Duffy, Hellerstein, Holwell, Jones, Kaplan, Karas, Koeltl, Leisure, Lynch, Marrero, McKenna, McMahon, Patterson, Pauley, Preska, Rakoff, Sand, Scheindlin, Sprizzo, Stanton, Stein, Sullivan, Sweet, Wood*)
- xi. A statement by each party as to witnesses whose testimony is to be offered in its case-in-chief, indicating whether such witnesses will testify in person or by deposition. (23) (*Berman, Castel, Cote, Daniels, Duffy, Holwell, Jones, Karas, Koeltl, Leisure, Lynch, Marrero, McKenna, McMahon, Patterson, Pauley, Preska, Sand, Scheindlin, Stein, Sullivan, Sweet, Wood*)
- xii. A designation by each party of deposition testimony to be offered with cross-designations and objections by any other party. (24) (*Baer, Carter, Castel, Chin, Cote, Daniels, Duffy, Hellerstein, Holwell, Jones, Karas, Koeltl, Leisure, Lynch, Marrero, McKenna, Patterson, Pauley, Preska, Sand, Stein, Sullivan, Sweet, Wood*)
- xiii. A list of exhibits to be offered (30) (*Baer, Batts, Carter, Castel, Cedarbaum, Chin, Cote, Crotty, Daniels, Duffy, Hellerstein, Jones, Kaplan, Karas, Koeltl, Leisure, Lynch, Marrero, McKenna, McMahon, Patterson, Pauley, Preska, Rakoff, Sand, Scheindlin, Sprizzo, Stanton, Sullivan, Sweet, Wood*)
  - a. with one star (or similar indication) for no authenticity objection, two stars for no objections at all. (19) (*Castel, Chin, Cote, Daniels, Duffy, Hellerstein, Holwell, Karas, Koeltl, Leisure, Lynch, McKenna, Patterson, Preska, Sand, Stein, Sullivan, Sweet, Wood*)
- xiv. Plaintiff's and Defendant's assertions of disputed facts. (6) (*Batts, Cedarbaum, Crotty, Kaplan, Sprizzo, Stanton*)
- xv. Plaintiff's and Defendant's assertions of disputed law, with citations to a case or statute. (5) (*Batts, Carter, Cedarbaum, Scheindlin, Sprizzo*)

- xvi. Brief listing of issues of fact to be decided by the Court. (2) (*Carter, Rakoff*)
- xvii. List of witnesses. (11) (*Baer, Batts, Carter, Cedarbaum, Chin, Cote, Crotty, Kaplan, Rakoff, Scheindlin, Sprizzo*)
- xviii. Experts to be called at trial. (4) (*Batts, Scheindlin, Sprizzo, Stanton*)
- xix. Statement of disagreement as to the application of the FRCP or FRE. (1) (*Carter*)
- xx. List of all motions and other matters that require attention from the Court. (2) (*Carter, Crotty*)
- xxi. Statement of damage claims/relief sought. (7) (*Batts, Crotty, Holwell, Kaplan, McMahon, Rakoff, Sprizzo*)
- xxii. Statement whether the parties consent to a less than unanimous verdict. (3) (*Karas, Sand, Sullivan*)
- xxiii. Whether a separate trial of issues is advisable or feasible. (2) (*Scheindlin, Sprizzo*)
- xxiv. Previous substantive motions. (2) (*Scheindlin, Sprizzo*)
- xxv. Requested evidentiary rulings. (1) (*Scheindlin*)
- xxvi. Jury verdict. (1) (*Scheindlin*)

### C. Discovery Disputes

If unable to reach agreement, submit letter:

- i. No longer than three pages. (1) (*Crotty*)

The letter should . . .

- i. Be jointly composed, and describe the issues in dispute, position of each party, and cite authority. (2) (*Lynch, Sullivan*)
- ii. Contain reasons why relief should be granted, with supporting authority. (1) (*Crotty*)

### D. Orders to Show Cause

- i. Must be accompanied by an affidavit and supporting memorandum of law. (2) (*Cedarbaum, Haight*)
- ii. All proposed orders to show cause must first be brought to the Orders Clerk for approval, and then to Chambers. (2) (*Crotty, Leisure*)
- iii. Unless special cause is shown, the Court will not issue an order to show cause unless the requesting party's adversaries have been notified and afforded an opportunity to appear before the Court to oppose the request. (2) (*Haight, Leisure*)
- iv. A party seeking an order to show cause must arrange with the Court a time to appear that is agreeable to the Court and any adversary counsel wishing to appear. (1) (*Leisure*)

### E. Default Judgments

- i. Follows a set of specific procedures. (9) (*Connor, Cote, Karas, McMahon, Pauley, Scheindlin, Sprizzo, Stein, Sullivan*)

### F. Final Pretrial Conference

- i. The Court will schedule a final pretrial conference approximately two weeks before trial. In civil cases, the Court will use the occasion as an opportunity to explore the prospects of settlement. Counsel must be prepared to engage in meaningful settlement discussions. (1) (*Marrero*)

### G. Disclosure of Experts

- i. All trial witnesses including experts must be disclosed by no later than 15 days before the close of discovery. (1) (*Cedarbaum*)

## Civil Trial Practices

### A. Electronic Cases

- i. All civil and criminal cases (except *pro se*) are Electronic Case Filings. (2) (*Crotty, Hellerstein*)

- ii. For all cases designated ECF, parties are responsible for being current in any and all matters filed electronically by this Court. (1) (*Batts*)
- iii. Courtesy copies of motion papers in ECF cases should be submitted. (2) (*Brieant, Sullivan*)
- iv. Opinions in ECF cases are sent to the parties via e-mail. (1) (*Cote*)

## **B. Jury Trials**

### **Jury Selection:**

- i. “Struck Panel” method. (4) (*Batts, Cote, Marrero, McMahon*)
- ii. “Jury box” method. (1) (*Rakoff*)

### **Jurors:**

- i. . . . are permitted to take notes. (1) (*Castel*)

### **Proposed Requests to Charge and Voir Dire questions:**

- i. Plaintiff to submit in sufficient time that Defendant’s charges will track, in number and subject matter order, those of Plaintiff. (1) (*Batts*)

## **C. Bench Trials**

- i. All direct testimony shall be submitted by affidavits, which are to be filed with the Court one week prior to trial. (3) (*Batts, Marrero, McMahon*)
- ii. All direct testimony, except for testimony of an adverse party, a party whose attendance must be compelled by subpoena, or a person for whom a party has requested and the Court has agreed to hear direct testimony during trial, shall be submitted by affidavits, which are to be served, but not filed, at the time the joint pretrial order is filed. (1) (*Sullivan*)
- iii. Opening statements and closing arguments will be allowed with the Court’s permission. (1) (*Marrero*)
- iv. Counsel for each party shall submit a list of all affiants, if any, intended to be cross examined at trial. (2) (*Marrero, Sullivan*)
  - a. . . . at least five business days prior to trial. (1) (*Marrero*)
  - b. . . . three business days after submission of affidavits. (1) (*Sullivan*)

## **D. Witnesses**

- i. Counsel shall have all necessary witnesses on hand to commence and continue trial without interruption or delay. (1) (*Batts*)
- ii. Counsel shall furnish to opposing party a complete list of the names and addresses of witnesses. Expert witnesses should be designated as such and their areas of expertise indicated. (1) (*Connor*)
- iii. Each side may utilize only one expert witness in any area of expertise. (1) (*Connor*)
- iv. A person expected to testify as a witness should not be present in the Courtroom during the examination of evidence, but this rule is not applicable to professional persons who are engaged to provide testimony based on their specialized knowledge. (1) (*Crotty*)
- v. Counsel shall submit a list of affiants whom he or she intends to cross-examine at trial. Only those witnesses who will be cross-examined need appear at trial. (1) (*Sullivan*)

## **E. Ready Trial Calendar**

- i. Any time after a case has been placed on the 48-hour Ready Trial Calendar, counsel shall notify the Court and their adversaries of any potential scheduling conflicts that would prevent trial at a particular time. (2) (*Batts, Keenan*)

## **F. Post-Trial Procedures**

- i. Counsel is responsible to raise promptly any issue concerning accuracy of transcripts certified by the official Court Reporter to be used for purposes of appeal. (1) (*Brieant*)

**G. Court Reporter**

- i. At the start of trial, give the Court Reporter a list of spellings of unusual names of people, places, or things. (2) (*Castel, Crotty*)
- ii. When referring to an exhibit, mention it by number or letter so the record is clear. (1) (*Castel*)

**H. Cell Phones/PDAs**

- i. Counsel wishing to bring a cellular phone/PDA into the courtroom throughout a trial should make an application in writing at least two days before the trial. (1) (*Crotty*)

**I. Confidentiality**

- i. In the case of settlements, requests that the Court retain jurisdiction will be considered only if all the documents relating to the settlement are filed and publicly accessible. (1) (*Hellerstein*)

**J. Readiness for Trial**

- i. Counsel must be prepared to proceed to trial on 24 hours' telephone notice once the pretrial order has been filed. (1) (*Kaplan*)
- ii. . . . 48 hours' notice (2) (*Scheindlin, Sprizzo*)

**K. Exhibits**

- i. Prior to trial, counsel for each party shall in advance of trial mark each exhibit proposed to be offered in evidence or otherwise tendered by any witness during trial. (8) (*Carter, Castel, Connor, Crotty, Marrero, McMahon, Rakoff, Stanton*)
- ii. Upon marking the exhibits, counsel shall also prepare a list of such exhibits, with a descriptive notation sufficient to identify each separately numbered exhibit, and shall furnish copies of the list to opposing counsel and to the Court. (3) (*Carter, Castel, Connor*)
- iii. Pre-marked exhibits should be assembled sequentially in a notebook and tabbed, or in a manila folder with a number or letter visible on the lip, placed in a suitable container. (1) (*Castel*)
- iv. In advance of each trial session, counsel for the party going forward at that session should show opposing counsel the exhibits he intends to introduce at the session. (1) (*Brieant*)
- v. Affidavits served when the joint pretrial order is filed shall be marked as exhibits. (1) (*Sullivan*)

**Endnote**

- 1. This summary of the Southern District Judges' Individual Practices is current as of November 2007. The compilation set forth in this report is solely for analytical purposes and should not be relied upon as an authoritative source of the content of any Judge's Individual Practices. This summary addresses select Individual Practices and does not reference every Individual Practice of each of the Judges. It also does not compare the differences among the Judges on every subject contained in each Judge's Individual Practices. For example, this summary does not reflect every Individual Practice or differences among the Judge's Individual Practices on jury selection, conduct of bench trials, or how certain types of specific motions are handled.



# Exhibit B

## Southern District Magistrate Judges' Individual Practices<sup>1</sup>

### 1. Communications with Chambers

#### A. Letters

- i. Letters to chambers simultaneously delivered to all counsel. **(14)** (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman, Smith, Yanthis*)
- ii. Letters not to be submitted electronically. **(2)** (*Gorenstein, Maas*)
- iii. Letters between counsel not to be sent to Court. **(14)** (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman, Smith, Yanthis*)

#### B. Telephone calls

- i. To chambers, permitted. **(10)** (*Dolinger, Eaton, Ellis, Fox, M., Francis, Freeman, Maas, Peck, Smith, Yanthis*)
- ii. To chambers, permitted only in emergency situation requiring immediate attention. **(4)** (*Fox, N., Gorenstein, Katz, Pitman*)

#### C. Faxes

- i. To chambers, not permitted. **(3)** (*Ellis, Fox, M., Smith*)
- ii. To chambers, permitted. **(1)** (*Yanthis*)
  - a. . . . only if copies sent to all counsel. **(9)** (*Dolinger, Eaton, Fox, N., Francis, Freeman, Gorenstein, Maas, Peck, Pitman*)
- iii. To chambers, permitted only for urgent matters. **(1)** (*Katz*)

### Fax limit, without prior authorization

- i. Five pages. **(3)** (*Freeman, Katz, Maas*)
- ii. Ten pages. **(6)** (*Dolinger, Eaton, Fox, N., Francis, Gorenstein, Pitman*)
  - a. . . . except where time is of essence. **(1)** (*Francis*)
- iii. Fifteen pages **(1)** (*Peck*)

#### D. Requests for Adjournments or Extensions of Time

- i. Requests for adjournment
  - a. . . . must be made at least 48 hours prior to scheduled appearance. **(13)** (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Katz, Maas, Peck, Pitman, Smith, Yanthis*)
  - b. . . . must be made no later than five business days prior to the scheduled appearance. **(1)** (*Gorenstein*)
    - i. Prior to making such a request, the party intending to so request should contact the Deputy Clerk to determine an alternative date for which the Court is available for rescheduled Court appearance. The requesting party should then contact all parties to determine their availability for that date. The requesting party must then make a written request to the Court for an adjournment by letter. The letter, which may be sent by fax, must be copied to all parties. **(1)** (*Gorenstein*)
- ii. Request for extension of time
  - a. . . . if for extension of discovery deadline, must be made at least 10 days prior to the deadline. **(1)** (*Katz*)
  - b. . . . usually will not be granted unless they are made reasonably in advance of the date(s) sought to be extended. **(1)** (*Peck*)

### Must state:

- i. The original date. **(14)** (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman, Smith, Yanthis*)
- ii. The number of previous requests for adjournment or extension. **(14)** (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman, Smith, Yanthis*)
- iii. The reason for the extension. **(2)** (*Gorenstein, Katz*)

- iv. Whether prior requests were granted or denied. (13) (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Katz, Maas, Peck, Pitman, Smith, Yanthis*)
- v. Whether the adversary consents, and if not, reason for refusal. (14) (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman, Smith, Yanthis*)
- vi. If the requested adjournment or extension affects any other scheduled dates, a proposed order reflecting requested adjournment/extension. (14) (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman, Smith, Yanthis*)

## 2. Pleadings and Motions

### A. Courtesy Copies

- i. Courtesy copies of pleadings and motions must be sent to chambers at the same time they are filed. (14) (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman, Smith, Yanthis*)
  - a. . . . and may not be submitted through the ECF system. (2) (*Gorenstein, Smith*)

### B. Pre-motion conferences

#### Required?

- i. For discovery motions, follow Local Civil Rule 37.2. (11) (*Dolinger, Ellis, Fox, M., Fox, N., Freeman, Katz, Maas, Peck, Pitman, Smith, Yanthis*)
- ii. For discovery motions, follow Standing Order. (1) (*Eaton*)
- iii. Pre-motion conferences not required for non-discovery motions. (9) (*Dolinger, Eaton, Ellis, Fox, N., Francis, Freeman, Katz, Peck, Pitman*)
  - a. . . . and are not required for discovery motions either. (1) (*Francis*)
- iv. Parties must confer either by telephone or in person in an effort to resolve disputes before bringing a discovery motion. (2) (*Eaton, Gorenstein*)
- v. Pre-motion conferences required before any motion, (4) (*Fox, M., Gorenstein, Maas, Yanthis*)

#### except motions. . .

- i. required the FRAP to be made by a certain time. (1) (*Fox, M.*)
- ii. motions listed in FRAP 4(a)(4)(A). (1) (*Gorenstein*)
- iii. for *pro hac vice* admissions. (1) (*Gorenstein*)
- iv. for reargument or reconsideration. (1) (*Gorenstein*)
- v. for order to show cause. (1) (*Gorenstein*)
- vi. for attorney's fees or sanctions. (1) (*Gorenstein*)

### 3. Pretrial conferences *required for only* . . .

- i. summary judgment. (1) (*Smith*)

#### Length of letter to arrange conference?

- i. No more than two pages. (1) (*Gorenstein*)
- ii. No more than three pages. (3) (*Maas, Smith, Yanthis*)

### C. Memoranda of Law

- i. Support of and in opposition to: 25 pages. (12) (*Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Katz, Maas, Peck, Pitman, Smith, Yanthis*)
- ii. Reply: 10 pages. (12) (*Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Katz, Maas, Peck, Pitman, Smith, Yanthis*)
- iii. Memoranda of 10 pages or more must contain a table of contents. (13) (*Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman, Smith, Yanthis*)

### D. Oral Argument on Motions

- i. Must be requested by letter, and the Court will determine whether argument will be heard, and if so, advise counsel of the time. (14) (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman, Smith, Yanthis*)

- ii. Is heard only in unusual circumstances, or rarely. (1) (*Gorenstein*)

### 3. Pretrial Procedures

#### A. Filings Prior to Trial in Civil Cases

Each party shall file . . .

- i. 15 days before trial (1) (*Maas*)
- ii. 15 days before trial if date fixed, or 30 days after filing of the final pretrial order if no trial date (11) (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Gorenstein, Pitman, Smith, Yanthis*)
- iii. 30 days after filing the proposed Joint Pretrial Order (1) (*Katz*)
- iv. At same time the party files the proposed pretrial order (1) (*Peck*)

Containing . . .

- i. In jury cases, requests to charge and proposed *voir dire* questions. (14) (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman, Smith, Yanthis*)
- ii. In jury cases, proposed instructions. (12) (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Freeman, Katz, Maas, Peck, Pitman, Smith, Yanthis*).
- iii. In jury cases, where applicable, proposed verdict form. (2) (*Gorenstein, Peck*)
- iv. In non-jury cases, a statement of the elements of each claim or defense involving such party, together with a summary of facts required to establish each element. (13) (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Katz, Maas, Peck, Pitman, Smith, Yanthis*)
- v. In non-jury cases, proposed findings of fact and conclusions of law. (1) (*Gorenstein*)
- vi. In non-jury cases, a copy of any deposition testimony to be offered into evidence. (1) (*Gorenstein*)
- vii. In all cases, motions addressing issues which should be resolved *in limine*. (13) (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Francis, Freeman, Katz, Maas, Peck, Pitman, Smith, Yanthis*)
- viii. In all cases, copies of each party's pre-marked trial exhibits. (3) (*Fox, N., Gorenstein, Peck*)
- ix. In any case where a party believes it would be useful, a pretrial memorandum. (11) (*Dolinger, Eaton, Ellis, Fox, M., Fox, N., Freeman, Maas, Peck, Pitman, Smith, Yanthis*)
- x. . . . pretrial memorandum required. (1) (*Gorenstein*)
  - a. . . . in non-jury cases, must identify issues, summarize facts and applicable law, and address evidentiary issues. (1) (*Gorenstein*)

#### B. Pretrial Order

- i. Not required unless directed by Court. (3) (*Fox, M., Maas, Yanthis*)

Must be filed . . .

- ii. 30 days following completion of discovery in a civil case. (10) (*Dolinger, Eaton, Ellis, Fox, N., Francis, Freeman, Gorenstein, Katz, Pitman, Smith*)
  - a. . . . or within 30 days of decision by the Court of a case-dispositive summary judgment motion. (1) (*Peck*)

Contents

- iii. The full caption of action. (11) (*Dolinger, Eaton, Ellis, Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman*)
- iv. The names, addresses (including firm names), and telephone and fax numbers of trial counsel. (11) (*Dolinger, Eaton, Ellis, Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman*)
- v. A brief statement by plaintiff as to the basis of subject matter jurisdiction, and a brief statement by each other party as to the presence or absence of subject matter jurisdiction. Such statements shall include citations to all statutes relied on and relevant facts as to citizenship and jurisdictional amount. (11) (*Dolinger, Eaton, Ellis, Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman*)
- vi. A brief summary by each party of the claims and defenses the party has asserted which remain to be tried, identifying claims and defenses previously asserted which are not to be tried. (11) (*Dolinger, Eaton, Ellis, Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman*)

- vii. A statement by each party as to whether the case is to be tried with or without a jury. (11) (*Dolinger, Eaton, Ellis, Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman*)
- viii. An estimate of the number of trial days needed. (11) (*Dolinger, Eaton, Ellis, Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman*)
- ix. A statement as to whether parties have consented to trial by a Magistrate Judge, without identifying which parties have or have not so consented. (7) (*Dolinger, Eaton, Fox, N., Freeman, Katz, Peck, Pitman*)
- x. Any stipulations or agreed statements of fact or law which have been agreed to by all parties. (11) (*Dolinger, Eaton, Ellis, Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Peck, Pitman*)
- xi. A statement by each party as to witnesses whose testimony is to be offered in its case-in-chief, indicating whether such witnesses will testify in person or by deposition. (10) (*Dolinger, Eaton, Ellis, Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Pitman*)
- xii. A designation by each party of deposition testimony to be offered with cross-designations and objections by any other party. (10) (*Dolinger, Eaton, Ellis, Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Pitman*)
- xiii. A list of exhibits to be offered (10) (*Dolinger, Eaton, Ellis, Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Pitman*)
  - a. . . . with one star (or similar indication) for no authenticity objection, two stars for no objections at all. (10) (*Dolinger, Eaton, Ellis, Fox, N., Francis, Freeman, Gorenstein, Katz, Maas, Pitman*)
- xiv. Statement of damage claims/relief sought. (2) (*Gorenstein, Katz*)

#### C. Discovery Disputes

If unable to reach agreement, submit letter:

- i. No longer than five pages. (1) (*Gorenstein*)
- ii. No longer than twelve pages (1) (*Eaton*)

The letter should . . .

- i. Be jointly composed, and describe the issues in dispute, position of each party. (1) (*Eaton*)
  - a. . . . if counsel sends her adversary a draft of her portion of a joint letter and counsel's adversary does not send a responsive portion within five business days, counsel may send her portion to the Judge. (1) (*Eaton*)
  - b. . . . if interrogatories, document requests, or responses are in dispute, the joint letter must enclose the text of the specific items in dispute (and only those items). (1) (*Eaton*)
- ii. Citation of case law is desirable. (1) (*Eaton*)
- iii. Contain reasons why relief should be granted, with supporting authority. (1) (*Gorenstein*)

Submitting the letter . . .

- i. Letter should be faxed provided that a manually signed original is thereafter mailed. (1) (*Eaton*)
- ii. Mailing should include manually signed letter plus any exhibits. Mailing should enclose courtesy copy of the joint letter (but not the exhibits). (1) (*Eaton*)

#### 4. Civil Trial Practices

##### A. Electronic Cases

- i. All civil and criminal cases (except *pro se*, *habeas corpus* petitions, and Social Security cases) are Electronic Case Filings. (1) (*Smith*)
- ii. For all cases designated ECF, parties are responsible for obtaining copies of Court decisions and orders from the Court's PACER system. (1) (*Peck*)
- iii. **Courtesy Copies.** Counsel shall submit courtesy copies in paper form of all electronically filed documents. (2) (*Peck, Smith*)

Opening and Responding to a Civil Case: Filing . . .

- iv. **Filing.** Upon the filing of papers initiating a civil action, and the payment of any applicable fees, the filing party, who must be a registered ECF Filing User with this Court, is directed to send a copy of those filed documents to the Clerk of the Court by e-mail within 24 hours of filing the papers in the courthouse. The documents must be in .pdf format and must contain the case number and Judge's name. (1) (*Smith*)



- v. **Service.** The filing party shall serve all parties a copy of the Judge's individual practices together with the documents initiating the action. (1) *(Smith)*
- vi. **Registration Requirement.** Upon receipt of papers initiating a civil action, counsel for the answering party is required to register immediately to be an ECF User with the Court. (1) *(Smith)*
- vii. **Answering Electronically.** Counsel for answering party is required to file electronically all documents, including the answer and subsequent pleadings. (1) *(Smith)*
- viii. **Requests for Exceptions to ECF.** Any request by counsel to file documents in hard copy, and not on the ECF system, shall be raised at the initial pre-trial conference or at a time set by the Court. (1) *(Smith)*

#### Proposed Orders and Stipulations . . .

- ix. **Form.** All proposed orders and stipulations shall be in the form prescribed by the Clerk in the Guidelines for Electronic Case Filing. (1) *(Smith)*
- x. **Order to Show Cause.** In all cases assigned to the ECF system, all Orders to Show Cause seeking a stay shall be submitted in the traditional manner, in person before the Court. All Orders to Show Cause that do not seek a stay shall be submitted in the form prescribed by the Clerk in the Guidelines for Electronic Case Filing. (1) *(Smith)*

#### Motions . . .

- xi. **Filing.** The manner in which motions are filed before this Court shall not change under the ECF system. In all cases assigned to the ECF system, all motions shall be electronically filed in accordance with the Judge's Individual Practices, and in the traditional manner for those cases not assigned to the ECF system. (1) *(Smith)*

#### Appeals . . .

- xii. **Filing.** Upon filing of an appeal and payment of any applicable fee, the filing party is directed to send a copy of the filed documents to the Clerk of Court by e-mail within 24 hours of filing the papers at the courthouse. The documents must be in .pdf format, and must contain the District Court case number and Judge's name. (1) *(Smith)*

#### Documents Filed in Error . . .

- xiii. **Wrong Case.** If the document is filed in the wrong case, the Clerk of Court has authority to remove it from the docket without further order of the Court upon written or e-mail notification to the Clerk. (1) *(Smith)*
- xiv. **Wrong Document.** If the wrong document is filed in the correct case, the filer shall immediately notify the Clerk of Court in writing, and the Clerk shall seek further guidance from the Court. (1) *(Smith)*
- xv. **Erroneous Filing of Sensitive Document.** If the document filed in error contains sensitive information, the Clerk of Court, upon written or oral notice, shall seal the docket entry immediately so as to remove it from public view. The clerk shall then seek further guidance from the Court. (1) *(Smith)*

#### Electronic Document Size . . .

- xvi. **Exhibits.** In all cases assigned to the ECF system, any exhibit larger than 2.5 megabytes (approximately 50 pages) shall be submitted to the Court in paper form. (1) *(Smith)*
- xvii. **Large Documents.** In all cases assigned to the ECF system, no single document totaling more than 15 megabytes (even if separated into smaller individual computer files) shall be electronically filed without prior permission of the Court. (1) *(Smith)*

#### B. Witnesses

- i. Counsel shall have all necessary witnesses on hand to commence and continue trial without interruption or delay. (1) *(Gorenstein)*

#### Endnote

1. This summary of the Southern District Magistrate Judges' Individual Practices is current as of November 2007. The compilation set forth in this report is solely for analytical purposes and should not be relied upon as an authoritative source of the content of any Judge's Individual Practices. This summary addresses select individual practices and does not reference every Individual Practice of each of the Magistrate Judges. It also does not compare the differences among the Magistrate Judges on every subject contained in each Magistrate Judge's Individual Practices. For example, this summary does not reflect every Individual Practice or differences among the Magistrate Judge's Individual Practices on jury selection, conduct of bench trials, or how certain types of specific motions are handled.

# Report Recommending Certain Amendments to the CPLR Concerning Electronic Discovery

Prepared by the Civil Practice Law and Rules Committee

The Commercial and Federal Litigation Section (the “Section”) submits this report concerning recommendations for certain amendments to the New York Civil Practice Law and Rules (CPLR) concerning electronic discovery.

## Introduction

Courts and commentators have repeatedly noted the sea change in litigation practice brought about as a result of electronic discovery. The proliferation of electronic mail and other kinds of electronically stored information in business and personal affairs, coupled with ever-increasing ease of dissemination and retention of such information, has vastly multiplied the volume of electronic material that can potentially meet the threshold requirements for discoverability in cases of even modest complexity. In some instances, the time and attention that is required to identify, preserve, collect, analyze, and produce electronic information is staggering; yet, in many such cases, the *most* relevant information can be found only through e-discovery.

The reaction to electronic discovery in the federal courts has been sweeping and profound. The federal courts have recognized that relevant, non-privileged electronic information is presumptively discoverable so long as it is reasonably accessible. Based on this principle, the courts have adopted procedural rules to ensure that e-discovery issues are addressed at the outset by attorneys, the parties they represent, and the courts. Under federal practice, failure to comply with e-discovery obligations has at times led to significant sanctions, both for clients and for the firms who represent them. And attorneys have been confronted with a new kind of responsibility—the obligation to police the client’s compliance with e-discovery obligations—that combines legal, ethical, and technical issues in new and challenging ways.

Thus far, these changes in federal practice and procedure have not been matched by any corresponding amendments to the CPLR. Some New York state courts—including several Justices of the Commercial Division—have tried to provide guidance on the procedures for and permissible scope of e-discovery through individual decisions. *See, e.g., Delta Financial Corporation v. Morrison*, 819 N.Y.S.2d 908, 2006 N.Y. Misc. LEXIS 2232 (Sup. Ct., Nassau Co. 2006) (Warshawsky, J.); *Weiller v. New York Life Insurance Company*, 800 N.Y.S.2d 359, 2005 N.Y. Misc. LEXIS 473 (Sup. Ct., N.Y. Co. 2005) (Cahn, J.); *Lipco Electrical Corporation v. ASG Consulting Corporation*, 798 N.Y.S.2d 345, 2004 N.Y. Misc. LEXIS 1337 (Sup. Ct., Nassau Co.

2004) (Austin, J.). In addition, the Commercial Division has promulgated rules providing for the management of electronic discovery through early conferencing and inclusion of e-discovery issues in case management orders. *See* Rule 8(b) of the Rules of the Commercial Division of the Supreme Court, N.Y.C.R.R. 202.70. By their nature, these efforts could not (and did not) attempt to establish a comprehensive or uniform statewide practice for managing and conducting e-discovery; and while models for state-level rules of electronic discovery have been developed—*see, e.g.,* Nat’l Conference of Commissioners on Uniform State Laws, *Uniform Rules Relating to the Discovery of Electronically Stored Information* (2007)<sup>1</sup>—we are unaware of any proposals either to adopt these Uniform Rules in New York or to incorporate any of their provisions into the CPLR.

## Overview of Proposed Changes

This Section believes that the core purposes of the CPLR<sup>2</sup> would be furthered by incorporating certain—but not all—of the recent changes to the federal rules in Article 31 of the CPLR. As electronic systems have come to replace other means of communication and of assembling and manipulating information, such electronic content increasingly forms the substance of the information that is “material and necessary in the prosecution or defense of an action.” CPLR 3101(a). However, the CPLR’s rules for the disclosure of recorded or reproducible information are, in several instances, phrased in terms of requirements for producing or withholding “documents”—terminology which, at best, only approximates the nature of electronically stored information, and at worst bears little resemblance to such information.

We believe that the CPLR should recognize this reality by (i) explicitly acknowledging that electronically stored information falls within the realm of potentially discoverable information, and (ii) clarifying that the *sui generis* nature of electronically stored information requires rules that differ in several particulars from the rules for production of traditional hard copy “documents.” Specifically, we propose that Article 31 be amended in the following ways:

- CPLR 3120(1)(i) should be modified to explicitly recognize “electronically stored information” as a category of potentially discoverable information, along with “documents” or “things”;
- CPLR 3120(2) should be modified to permit a party seeking discovery of electronically stored informa-

tion to request production of such information in one or more specifically designated forms;

- CPLR 3122(a) should be amended to: (i) permit a party, when objecting to a request for electronically stored information, to specifically include any objection the party has to a requested form of production; (ii) require the objecting/responding party to designate the form or forms in which the party intends to produce electronically stored information, in cases where such party has objected to the requested form or forms of production, or where no particular forms of production were specified in the request; and (iii) clarify that, absent a court order, a party need not provide disclosure of electronically stored information that is not reasonably accessible due to undue burden or cost, and to provide a procedure for handling disputes as to whether such information is reasonably accessible;
- CPLR 3122 should be further amended to specify, as a general practice, that: (i) production of electronically stored information shall be made either in the form in which such information is ordinarily maintained, or in a form that is reasonably useable by the party requesting such discovery; and (ii) a party need not produce electronically stored information in more than one form. (In the specific proposals set out below, this proposal is incorporated as CPLR 3122(e));
- CPLR 3122(b) should be amended to extend its provisions for identification of withheld materials to the production of electronically stored information;
- CPLR 3126 should be amended to include a limitation on sanctions in cases where information is lost through the routine, good-faith operation of an electronic information system; and
- CPLR 3131 should be amended to include electronically stored information among the types of materials that a party may request as a supplement to interrogatories.

It should be noted that the focus of these proposals is to clarify the treatment of electronically stored information in civil disclosure proceedings conducted prior to the filing of a note of issue. These proposals are not intended to expand or restrict the scope of information that might otherwise be accessible in other contexts, such as by issuance of a trial subpoena pursuant to Article 23 or through subpoenas in aid of enforcement issued pursuant to CPLR 5223 or 5224. In light of the volume and complexity of materials that are now retained in electronic format, it is anticipated that counsel would normally attempt to access such information through requests for disclosure under Article 31, and that attempts to do so

through service of a trial subpoena may be more vulnerable to objection on various grounds. However, in particular cases, a party might legitimately require production of electronically stored information for purposes of trial, and the present proposals do not preclude such a result.

## Federal Rules Changes Not Recommended for Inclusion in the CPLR

While we believe the above changes are both desirable and feasible, we do not recommend that the CPLR incorporate the Federal Rules' e-discovery amendments in their entirety. In particular, this proposal does not include provisions comparable to the following federal e-discovery amendments:

*Case Management Procedures:* There is no CPLR analogue to Federal Rule of Civil Procedure 16's procedures for early case conferencing, and the CPLR by itself has little to say about whether or how trial courts should engage in case management conferences. Instead, case management procedures are treated in the uniform rules applicable to various branches or divisions of the state court system, or at times in practice rules promulgated by particular courts or justices. In the absence of an existing CPLR framework for case management conferences, we do not think it is feasible to create a CPLR analogue to the recent amendments to Federal Rules 16 or 26(f).

*Modifications to Initial Disclosure Requirements:* Similarly, there is no CPLR analogue to Federal Rule 26(a)'s procedures for initial disclosures, and thus there is no readily adaptable framework within the CPLR through which to require early identification of electronically stored information that may be relevant to the prosecution or defense of the action.

*Procedures for Disputes Regarding Inadvertent Production of Privileged Documents:* Federal Rule 26(b)(5)(B) requires that in cases where a producing party notifies a receiving party of an inadvertent production of privileged material, the receiving party must "return, sequester, or destroy" pending resolution of the claim of privilege. These mandates are substantially similar to a New York attorney's ethical obligations upon receipt of inadvertently produced privileged materials. See N.Y. City Bar Association, Committee on Professional and Judicial Ethics, Formal Op. 2003-04. In addition, the New York cases presently establish reasonably clear standards and procedures for determining claims of inadvertent production of privileged material. See, e.g., *New York Times v. Lehrer McGovern Bovis, Inc., et al.*, 752 N.Y.S.2d 642 (1st Dep't 2002); *Delta Financial Corporation v. Morrison*, 819 N.Y.S.2d 425, 2006 N.Y. Misc. LEXIS 1083 (Sup. Ct., Nassau Co. 2006). Accordingly, there is not a present need to adopt a CPLR analogue to Federal Rule 26(b)(5)(B).



## Specific Proposals to Amend the CPLR

1. *Proposal:* Amend CPLR 3120(1)(i) to identify electronically stored information as a separate category of potentially discoverable information:

Rule 3120. Discovery and production of documents and things for inspection, testing, copying or photographing

1. After commencement of an action, any party may serve on any other party a notice or on any other person a subpoena duces tecum:

(i) to produce and permit the party seeking discovery, or someone acting on his or her behalf, to inspect, copy, text or photograph any designated documents, **electronically stored information**, or any things which are in the possession, custody or control of the party or person served; or . . .

*Rationale:* While in some instances electronically stored information shares the characteristics of “documents,” very often there is no such correspondence; and even in cases where the two categories are most similar, there are real differences between them that cannot be ignored. The proposed amendment creates a starting point for addressing these differences by identifying electronically stored information as a category unto itself, distinct from “documents” or “things.”

2. *Proposal:* Amend CPLR 3120(2) to permit a requesting party to specify the form or forms of production of electronically stored information, and amend CPLR 3122(a) to permit the responding party to object to the requested form or forms of production:

Rule 3120. Discovery and production of documents and things for inspection, testing, copying or photographing

...

2. The notice or subpoena duces tecum shall specify the time, which shall be not less than twenty days after service of the notice or subpoena, and the place and manner of making the inspection, copy, test or photograph, or of the entry upon the land or other property and, in the case of an inspection, copying, testing or photographing, shall set forth the items to be inspected, copied, tested or photographed by individual item or by category, and shall describe each item and category with reasonable particularity. **The notice or subpoena may specify the form or forms in which electronically stored information is to be produced.**

...

Rule 3122. Objection to disclosure, inspection or examination; compliance

(a) Within twenty days of service of a notice or subpoena duces tecum under rule 3120 or section 3121, the party or person to whom the notice of subpoena duces tecum is directed, if that party or person objects to the disclosure, inspection or examination, shall serve a response which shall state with reasonable particularity the reasons for each objection, **including an objection to the requested form or forms for producing electronically stored information**. If objection is made to part of an item or category, the part shall be specified. **If objection is made to the requested form or forms for producing electronically stored information, or if no form was specified in the request, the responding party must state the form or forms it intends to use.** . . . [see continued discussion of CPLR 3122(a) below]

*Rationale:* The proposed amendments generally follow the corresponding revisions to Federal Rule 34(b). The Federal amendments were intended to encourage early identification and resolution of any disputes as to the form of production of electronically stored information. Because the form of electronic storage can have a material effect on the receiving party’s ability to search, read, review, or access electronic information, or to associate such information with related materials, courts and litigants have a mutual interest in establishing rules that will: (i) permit parties who wish to receive electronic information in particular formats to request such formats at the outset; (ii) permit responding parties to object to such request, if there is a reasonable basis to do so; and (iii) clarify the form(s) of production that are to be used *before* the responding party actually undertakes to produce the electronically stored information.

Following the Federal Rules changes, the proposed amendments do not *require* the requesting party to designate a particular form for production of electronically stored information. In addition, the proposed amendments recognize that a requesting party may wish to receive different categories of information in different formats. The reference to “form or forms of production” is not, however, intended to permit a requesting party to require production of the *same* information in multiple forms; as proposal no. 4 below makes clear, absent unusual circumstances, a party should not be required to produce the same electronically stored information in more than one format.



3. *Proposal*: Amend CPLR 3122(a) to provide: (i) a limitation on disclosure of electronically stored information that is not reasonably accessible; and (ii) a procedure for determining disputes as to the accessibility of electronically stored information:

Rule 3122. Objection to disclosure, inspection or examination; compliance

(a) [See Proposal no. 2 for preceding portions of CPLR 3122(a)] . . . A medical provider served with a subpoena duces tecum requesting the production of a patient's medical records pursuant to this rule need not respond or object to the subpoena if the subpoena is not accompanied by a written authorization by the patient. Any subpoena served upon a medical provider requesting the medical records of a patient shall state in conspicuous bold-faced type that the records shall not be provided unless the subpoena is accompanied by a written authorization by the patient. **A party or person need not provide discovery of electronically stored information from sources that the party identifies as not reasonably accessible because of undue burden or cost. A party seeking disclosure under rule 3120 or section 3121 may move for an order under rule 3124 or section 2308 with respect to any objection to, or other failure to respond to or permit inspection as requested by, the notice of subpoena duces tecum, respectively, or any part thereof. On a motion to compel disclosure under rule 3124 or section 2308 or for a protective order under section 3103 or section 2304 involving electronically stored information identified as not reasonably accessible, the party or person from whom discovery is sought must show that the information is not reasonably accessible because of undue burden or cost. If that showing is made, the court may nonetheless order disclosure from such sources if the requesting party shows good cause therefor. In ordering such disclosure the court may make any order permitted under section 3103, including an order specifying conditions for the disclosure.**

*Rationale*: The proposed amendments are similar to the 2006 amendments to Federal Rule 26(b)(2)(B). As noted in the Advisory Committee comments accompanying those amendments, "some sources of electronically stored information can be accessed only with substantial

burden and cost," and in particular cases this may make the information not reasonably accessible. Such instances may arise, for example, in cases where parties seek disclosure of information stored on backup tapes maintained only for disaster recovery purposes, in circumstances where the restoration of such tapes would require extensive effort and/or expense.

The proposed amendments are intended to: (i) help ensure that such questions are identified and addressed before a producing party is required to incur potentially unwarranted expense; and (ii) clarify the procedure for courts and litigants to determine whether the disclosure should be required, and the respective burdens that each party bears in that process. In cases where a court concludes that the disclosure would impose undue burdens or costs on the producing party or person and that no countervailing showing of good cause has been made, consistent with New York law, the court may decline to require disclosure.

The proposal is also intended to make clear that where a court finds that particular electronically stored information is not reasonably accessible but that, nonetheless, good cause exists to require its disclosure, the court has full authority, pursuant to CPLR 3103, to protect the producing party or person from excessive burdens or costs by imposing conditions on disclosure. Such conditions might include imposing limits on the materials to be produced, requiring testing of limited portions of the information in advance of more extended disclosure, defraying costs that must be incurred in order to access the information (such as costs of engaging forensic experts with the skills necessary to handle such information, or of obtaining access to equipment or software necessary to access the information), and/or other protective measures. See, e.g., *Lipco*, 2004 N.Y. Misc. LEXIS 1337 at \*24-25 (declining to order production of electronic data until requesting party clarifies whether it is willing to bear the cost thereof); *Delta Financial Corporation*, 819 N.Y.S.2d at 918 (requiring requesting party to pay costs of certain electronic discovery).

Under the proposed amendment, where a party or person identifies a particular source of electronically stored information as not reasonably accessible, that party or person would not be required to undertake a comprehensive search or review of the source unless so directed by the court, and would not be required to provide a privilege log identifying each document that was withheld from production. The party seeking disclosure may be entitled to discovery in order to test the claim that the source is not reasonably accessible. In considering whether to require production of information that the court concludes is not reasonably accessible, the court may consider, among other things, any of the factors identified by the federal Advisory Committee in its comments to the 2006 Amendment Federal Rule 26(b)(2).<sup>3</sup>

4. *Proposal*: Amend CPLR 3122 to incorporate a new subsection specifying that: (a) the “fallback” requirement for production of electronically stored information will be to produce such materials *either* in the form in which they are ordinarily maintained *or* in some other reasonably useable form; and (b) absent an agreement or court order to the contrary, a party would be required to produce electronically stored information in only a single format:

Rule 3122. Objection to disclosure, inspection or examination; compliance

***(e) Unless the parties otherwise agree or the court orders otherwise:***

***(i) whenever a person is required pursuant to such notice, subpoena duces tecum, or order to produce electronically stored information for inspection and copying, if such notice, subpoena or order does not specify the form or forms for producing electronically stored information, the person shall produce the information in a form or forms in which it is ordinarily maintained or in a form or forms that are reasonably useable; and***

***(ii) a person need not produce the same electronically stored information in more than one form.***

*Rationale*: One essential difference between “documents” and “electronically stored information” is that the latter category often incorporates “metadata” which, while not readily apparent to the reader, may nonetheless reveal many particulars about the creation and modification of the information. Such hidden information may substantially increase the costs and risks of dealing with electronic discovery, because: (i) on the one hand, if a document is produced in a format with its metadata intact, it may reveal client confidences or the substance of privileged communications; but (ii) on the other hand, a comprehensive review of the metadata associated with potentially relevant electronic materials may substantially increase the costs of discovery for a producing party. As a result, many practitioners decline to produce electronically stored information “in the form in which it is ordinarily maintained,”<sup>4</sup> preferring instead to convert documents into some other reasonably useable format that will not contain all of the metadata associated with the data in its original form. The proposed amendment is intended to facilitate this approach, in order to avoid the evidentiary and ethical problems associated with production of metadata. As with the Federal Rule change, the specification that such materials may be produced in “reasonably useable” format is intended to mean that: (i) the chosen format should not be more difficult or burdensome for the requesting party to use efficiently in the litigation; and (ii) if the information is searchable in its

native format, the information should not be produced in a format that removes or significantly downgrades this feature.

5. *Proposal*: Amend CPLR 3122(b) to specify that its provisions for identification of withheld materials applies to electronically stored information:

Rule 3122. Objection to disclosure, inspection or examination; compliance

...

(b) Whenever a person is required pursuant to such a notice, subpoena duces tecum or order to produce documents ***or electronically stored information*** for inspection, and where such person withholds one or more ***items*** that appear to be within the category of the ***materials*** required by the notice, subpoena duces tecum or order to be produced, such person shall give notice to the party seeking the production and inspection that one or more such documents ***or electronically stored information*** are being withheld. This notice shall indicate the legal ground for withholding each such ***item***, and shall provide the following information as to each such ***item***, unless the party withholding the ***item*** state that divulgence of such information would cause disclosure of the allegedly privileged information: (1) the type of document ***or electronically stored information***; (2) the general subject matter of the ***item***; (3) the date of the ***item***; and (4) such other information as is sufficient to identify the ***item*** for a subpoena duces tecum.

*Rationale*: Rule 3122(b)’s requirement that a producing party identify any materials withheld from production on grounds of privilege or work product immunity is a fundamental check on the integrity of any document production, and if “electronically stored information” is to be treated as a separate category of potentially discoverable information, there is no reason to exempt this category from Rule 3122(b)’s scope. Needless to say, the proposed changes are not intended, and should not be interpreted as, a requirement that a party who objects to production of particular information (whether stored in electronic form or in traditional “hard copy”) on grounds of undue burden, overbreadth, or inaccessibility be required to specifically identify each specific item for which the objection is asserted.

6. *Proposal*: Amend CPLR 3131 to specify that, like documents, production of electronically stored information may be requested in conjunction with interrogatories:

## Rule 3131. Scope of Interrogatories

Interrogatories may relate to any matters embraced in the disclosure requirement of section 3101 and the answers may be used to the same extent as the depositions of a party. Interrogatories may require copies of such papers, documents, photographs, *or (subject to the provisions of section 3122) electronically stored information* as are relevant to the answers required, unless opportunity for this examination and copying be afforded.

*Rationale:* As electronic communication and record-keeping has in many instances replaced the use of “hard copy” materials, rule 3131’s authorization to request production of “papers” or “documents” would lose much of its effect if electronically stored information were excluded from its scope. The proposed language is intended to clarify that while electronically stored information is within the scope of materials that may be requested as an adjunct to interrogatories, this method of discovery should not be used as a means to evade the limitations on e-discovery proposed for inclusion as part of section 3122.

7. *Proposal:* Amend CPLR 3126 to include a new (non-numbered) paragraph at the end of the section, providing a limit on sanctions in cases where information is lost as a result of routine, good-faith operations, as follows:

§ 3126. Penalties for refusal to comply with order or to disclose

...

***Absent exceptional circumstances, a court may not impose sanctions on a person for failing to provide electronically stored information lost as a result of the routine, good-faith operation of an electronic information system.***

*Rationale:* The proposed change follows a similar amendment to Federal Rule 37. As the drafters of the Federal amendments recognized, electronic information systems routinely make alterations to stored data in ways that are essential to the operation of such systems and are largely irrelevant to the litigation process. The fact of such modifications, so long as they are made as part of the routine operation of the system and are done in good faith, should not be an occasion for sanctions or the threat thereof.

As with the amendment to Federal Rule 37, the proposed amendment is intended only to apply to “good faith” operations. Good faith may require parties, when apprised of a claim, to modify or suspend some features of their electronic information system so as to ensure

that, to the extent a preservation obligation applies, relevant materials are not lost.

It should be noted that the corresponding federal provision only limits a court’s ability to impose sanctions “under these rules,” i.e., under the Federal Rules of Civil Procedure. The Advisory Committee comments note that the protection afforded under Federal Rule 37(f) “does not affect other sources of authority to impose sanctions or rules of professional responsibility.” It is submitted that whether under the CPLR or any other source of judicial authority, a person who acts in good faith should not be sanctioned for such conduct except in truly extraordinary circumstances. Accordingly, the proposed amendment does not limit its application to sanctions under the CPLR.

## Conclusion

For the reasons stated, the Commercial & Federal Litigation Section recommends that the proposed amendments to CPLR 3120, 3122, 3126, and 3131 be APPROVED.

## Endnotes

1. The final version is available at [www.law.upenn.edu/bll/archives/ulc/udoera/2007\\_final.htm](http://www.law.upenn.edu/bll/archives/ulc/udoera/2007_final.htm).
2. See CPLR 104 (“The civil practice law and rules shall be liberally construed to secure the just, speedy and inexpensive determination of every civil judicial proceeding.”).
3. The Advisory Committee’s comment provides as follows:  

The decision whether to require a responding party to search for and produce information that is not reasonably accessible depends not only on the burdens and costs of doing so, but also on whether those burdens and costs can be justified in the circumstances of the case. Appropriate considerations may include: (1) the specificity of the discovery request; (2) the quantity of information available from other and more easily accessed sources; (3) the failure to produce relevant information that seems likely to have existed but is no longer available on more easily accessed sources; (4) the likelihood of finding relevant, responsive information that cannot be obtained from other, more easily accessed sources; (5) predictions as to the importance and usefulness of the further information; (6) the importance of the issues at stake in the litigation; and (7) the parties’ resources.
4. See also NYSBA Ethics Op. 782 (Dec. 8, 2004), counseling that the transmission of electronically created documents may violate ethical prohibitions on the disclosure of a client’s confidences or secrets.

**This report was prepared by the Civil Practice Law and Rules Committee of the Commercial and Federal Litigation Section of the New York State Bar Association. The Civil Practice Law and Rules Committee is co-chaired by James Michael Bergin of Morrison & Foerster LLP and Thomas C. Bivona of Milbank, Tweed, Hadley & McCloy LLP. To join this Committee, please contact Mr. Bergin at [jbergin@mofo.com](mailto:jbergin@mofo.com) or Mr. Bivona at [tbivona@milbank.com](mailto:tbivona@milbank.com).**



# Appendix: A Compilation of the Proposed Amendments to the Civil Practice Law and Rules Related to Electronic Discovery

(In the following compilation, new material is indicated by ***bold italicized text***; deleted material is ~~[bracketed and stricken through]~~.)

## Rule 3120. Discovery and production of documents and things for inspection, testing, copying or photographing

1. After a commencement of an action, any party may serve on any other party a notice or on any other person a subpoena duces tecum:
  - (i) to produce and permit the party seeking discovery, or someone acting on his or her behalf, to inspect, copy, test or photograph any designated documents, ***electronically stored information***, or any things which are in the possession, custody or control of the party or person served; or
  - (ii) to permit entry upon designated land or other property in the possession, custody or control of the party or person served for the purpose of inspecting, measuring, surveying, sampling, testing, photographing or recording by motion pictures or otherwise the property or any specifically designated object or operation thereon.
2. The notice or subpoena duces tecum shall specify the time, which shall be not less than twenty days after service of the notice or subpoena, and the place and manner of making the inspection, copy, test or photograph, or of the entry upon the land or other property and, in the case of an inspection, copying, testing or photographing, shall set forth the items to be inspected, copied, tested or photographed by individual item or by category, and shall describe each item and category with reasonable particularity. ***The notice or subpoena may specify the form or forms in which electronically stored information is to be produced.***
3. The party issuing a subpoena duces tecum as provided hereinabove shall at the same time serve a copy of the subpoena upon all other parties and, within five days of compliance therewith, in whole or in part, give to each party notice that the items produced in response thereto are available for inspection and copying, specifying the time and place thereof.
4. Nothing contained in this section shall be construed to change the requirement of section 2307 that a subpoena duces tecum to be served upon a library or a department or bureau of a municipal corporation, or of the state, or an officer thereof, requires a motion made on notice to the library, department, bureau or officer, and the adverse party, to a justice of the supreme court or a judge of the court in which the action is triable.

## Rule 3122. Objection to disclosure, inspection or examination; compliance

- (a) Within twenty days of service of a notice or subpoena duces tecum under rule 3120 or section 3121, the party or person to whom the notice or subpoena duces tecum is directed, if that party or person objects to the disclosure, inspection or examination, shall serve a response which shall state with reasonable particularity the reasons for each objection, ***including an objection to the requested form or forms for producing electronically stored information.*** If objection is made to part of an item or category, the part shall be specified. ***If objection is made to the requested form or forms for producing electronically stored information, or if no form was specified in the request, the responding party must state the form or forms it intends to use.*** A medical provider served with a subpoena duces tecum requesting the production of a patient's medical records pursuant to this rule need not respond or object to the subpoena if the subpoena is not accompanied by a written authorization by the patient. Any subpoena served upon a medical provider requesting the medical records of a patient shall state in conspicuous bold-faced type that the records shall not be provided unless the subpoena is accompanied by a written authorization by the patient. ***A party or person need not provide discovery of electronically stored information from sources that the party identifies as not reasonably accessible because of undue burden or cost.*** [The] A party seeking disclosure under rule 3120 or section 3121 may move for an order under rule 3124 or section 2308 with respect to any objection to, or other failure to respond to or permit inspection as requested by, the notice or subpoena duces tecum, respectively, or any part thereof. ***On a motion to compel disclosure under rule 3124 or section 2308 or for a protective order under section 3103 or section 2304 involving electronically stored information identified as not reasonably accessible, the party or person from whom discovery is sought must show that the information is not reasonably accessible because of undue burden or cost. If that showing is made, the court may nonetheless order disclosure from such***



***sources if the requesting party shows good cause therefor. In ordering such disclosure the court may make any order permitted under section 3103, including an order specifying conditions for the disclosure.***

- (b) Whenever a person is required pursuant to such a notice, subpoena duces tecum or order to produce documents **or electronically stored information** for inspection, and where such person withholds one or more [documents] **items** that appear to be within the category of the [documents] **materials** required by the notice, subpoena duces tecum or order to be produced, such person shall give notice to the party seeking the production and inspection [of the documents] that one or more such documents or electronically stored information are being withheld. This notice shall indicate the legal ground for withholding each such [document] **item**, and shall provide the following information as to each such [document] **item**, unless the party withholding the [document] **item** states that divulgence of such information would cause disclosure of the allegedly privileged information: (1) the type of document **or electronically stored information**; (2) the general subject matter of the [document] **item**; (3) the date of the [document] **item**; and (4) such other information as is sufficient to identify the [document] **item** for a subpoena duces tecum.
- (c) Whenever a person is required pursuant to such notice or order to produce documents for inspection, that person shall produce them as they are kept in the regular course of business or shall organize and label them to correspond to the categories in the request.
- (d) Unless the subpoena duces tecum directs the production of original documents for inspection and copying at the place where such items are usually maintained, it shall be sufficient for the custodian or other qualified person to deliver complete and accurate copies of the items to be produced. The reasonable production expenses of a non-party witness shall be defrayed by the party seeking discovery.
- (e) ***Unless the parties otherwise agree or the court orders otherwise:***
  - (i) ***whenever a person is required pursuant to such notice, subpoena duces tecum, or order to produce electronically stored information for inspection and copying, if such notice, subpoena or order does not specify the form or forms for producing electronically stored information, the person shall produce the information in a form or forms in which it is ordinarily maintained or in a form or forms that are reasonably useable; and***
  - (ii) ***a person need not produce the same electronically stored information in more than one form.***

#### **Rule 3126. Penalties for refusal to comply with order or to disclose**

If any party, or a person who at the time a deposition is taken or an examination or inspection is made is an officer, director, member, employee or agent of a party or otherwise under a party's control, refuses to obey an order for disclosure or wilfully fails to disclose information which the court finds ought to have been disclosed pursuant to this article, the court may make such orders with regard to the failure or refusal as are just, among them:

1. an order that the issues to which the information is relevant shall be deemed resolved for purposes of the action in accordance with the claims of the party obtaining the order; or
2. an order prohibiting the disobedient party from supporting or opposing designated claims or defenses, from producing in evidence designated things or items of testimony, or from introducing any evidence of the physical, mental or blood condition sought to be determined, or from using certain witnesses; or
3. an order striking out pleadings or parts thereof, or staying further proceedings until the order is obeyed, or dismissing the action or any part thereof, or rendering a judgment by default against the disobedient party.

***Absent exceptional circumstances, a court may not impose sanctions on a person for failing to provide electronically stored information lost as a result of the routine, good-faith operation of an electronic information system.***

#### **Rule 3131. Scope of interrogatories**

Interrogatories may relate to any matters embraced in the disclosure requirement of section 3101 and the answers may be used to the same extent as the depositions of a party. Interrogatories may require copies of such papers, documents, [or] photographs, ***or (subject to the provisions of section 3122) electronically stored information*** as are relevant to the answers required, unless opportunity for this examination and copying be afforded.

# Proposed New York Adoption of UFTA with Amendments

Prepared by the Bankruptcy Litigation Committee

This report concerns New York State Senate Bill S5269 (the “Proposed Act”), which was introduced on the initiative of the Association of the Bar of the City of New York (the NYCBA). The bill, sponsored by New York State Senator and Judiciary Committee Chairman John DeFrancisco of Syracuse (50th Senate District), was referred to the Judiciary Committee where it is pending review.

The Proposed Act would repeal New York Debtor and Creditor Law Article 10 §§ 270-281 (DCL Article 10), which are based on the Uniform Fraudulent Conveyance Act (UFCA), and replace those sections with §§ 270-283 based on the Uniform Fraudulent Transfer Act (UFTA). Although the section numbers would be almost identical, the title and substance of most of the sections of current DCL Article 10 are substantially different from the sections of proposed DCL Article 10.

## I. Introduction

Prior to introduction of the Proposed Act, certain issues were raised in regard to the modified version of the UFTA initially proposed by two committees of the NYCBA: the Committee on Uniform Laws and the Committee on Bankruptcy and Corporate Reorganizations (collectively, the “NYCBA Committees”). The NYCBA Committees’ version implemented their earlier recommendation that the New York State Legislature repeal the existing fraudulent transfer statute based on the UFCA and replace it with a statute based on the UFTA (the “NYCBA Recommendation”).

The modified version of the UFTA proposed by the NYCBA contained several non-uniform amendments that caused concern to professionals representing special interest groups in the real estate industry (RESIG). As a result of further modifications proposed on behalf of the RESIG, the NYCBA further modified the version of the UFTA proposed for legislative action. A review of the NYCBA’s resulting further modified version of the UFTA shows no substantive difference between it and the revised version of DCL Article 10 set forth in the Proposed Act that is the current Senate Bill S5269.

The NYCBA Recommendation supports enactment of the revised version of the modified UFTA in place of the existing version of the modified UFCA because the UFTA was drafted against the backdrop of the Uniform Commercial Code (UCC), which draws from the Bankruptcy Code’s “modern” fraudulent transfer provisions, and has been adopted by 39 states and the District of Columbia. (State fraudulent transfer laws are applicable in bankruptcy cases because Bankruptcy Code § 544(b)(1)

authorizes a trustee to avoid transfers that are avoidable under non-bankruptcy law.)

In particular, the NYCBA Recommendation argues that a fraudulent transfer statute based on the UFTA would promote uniformity among the states and, in so doing, create a more predictable, and therefore more favorable, business environment, because choice of law issues regarding fraudulent transfers are unusually uncertain and ambiguous. It would also reduce the likelihood that a transaction would be treated differently in other states or before and after the commencement of a bankruptcy case.

However, some of the proposed revisions, which were intended to ameliorate some of the RESIG’s concerns, may be adverse to other special interest groups, such as the financial services industry, even though such other special interest groups may also generally seek uniformity and curtailment of litigation by having state and federal law match as closely as possible.

Also, on the other side of the litigation spectrum, plaintiff’s counsel in general, and counsel for bankruptcy trustees in particular, may not favor changing the basis of DCL Article 10 from the UFCA to the UFTA. The argument against this change is that the U.S. Bankruptcy Code’s fraudulent transfer provisions are already based on the UFTA, and elimination of other or different statutes of limitations and grounds for recovery, as currently exist under DCL Article 10 based on the UFCA, diminishes prospects for recovery from recipients or other beneficiaries of fraudulent transfers. The plaintiff’s bar may argue that the change from the UFCA to the UFTA is part of a larger effort to limit litigation, which consequently reduces the opportunity for redress for those who are injured by fraudulent conduct (actual and/or constructive).

## II. The Difference Between Current DCL Article 10 (modified UFCA) and Proposed DCL Article 10 in Senate Bill S5269 (modified UFTA)

Only four states and the Virgin Islands still have statutes based on the UFCA or a modified version thereof. These states, in addition to New York, are Maryland, Tennessee and Wyoming.<sup>1</sup> When comparing current (UFCA) and proposed (UFTA) versions of DCL Article 10, the most significant differences concern changes in:

- (a) The shortened expiration dates for commencement of action;
- (b) The tighter scope of liability, including the addition of safe harbors for real estate collateral en-

forcement, UCC Article 9 enforcement and money judgment enforcement;

- (c) The lessened burden of proof against insiders for actual fraudulent intent; and
- (d) The restriction on the use of antecedent debt as valid consideration for transfers to insiders having reasonable cause to believe the debtor to be insolvent at the time of the transfer.

#### **A. Shortened Statute of Limitations with Some New Liability for Insiders**

One of the most significant differences between current and proposed DCL Article 10 is the shortened statute of limitations applicable to proposed DCL Article 10 (UFTA). Actions commenced under current DCL Article 10 (UFCA) are governed by the six-year statute of limitations under Civil Practice Law and Rules 213 subd. 1 (CPLR). Under proposed DCL Article 10 § 279, entitled “Extinguishment of cause of action,” the statute of limitations is generally four years from the date of the transfer, although it may be later than four years in the case of intentional fraud when it extends to one year after the transfer was or could reasonably have been discovered. (Fraud under current DCL Article 10 is subject to the six-year statute of limitations governing statutory causes of action under CPLR 213 subd. 1, which has no added discovery period, while the six-year statute of limitations for common law fraud under CPLR 213 subd. 8 provides for an added one-year discovery period similar to the proposed (UFTA) version of DCL Article 10.) Under proposed DCL § 279 subd. 4, the four-year time limit may also be extended, in the case of transfers by defendants during litigation, up to two years after the judgment against defendants becomes final. A noteworthy additional cause of action under proposed DCL Article 10, available to existing or present (but not future) creditors, is found in proposed DCL § 274 subd. 2, which is subject to a one-year statute of limitations under proposed DCL § 279 subd. 3. For the first time under DCL Article 10, a preferential transfer used to pay an antecedent debt may be treated as a fraudulent conveyance under DCL § 274 subd. 2, but only if the transferee is an insider. In other words, for insiders only, antecedent debt is deemed to be the equivalent of inadequate consideration if the transferor was in fact insolvent and, in addition, the insider had reason to believe the transferor was insolvent.

#### **B. Narrower or More Focused Scope of Liability**

A second significant difference is that the less detailed provisions of the UFCA suggest a broader scope of liability than the more focused provisions of the UFTA, which are further restricted by modifications to the UFTA in proposed DCL Article 10 (UFTA). The parameters for liability under the UFTA are more clearly laid out than the less precise provisions of the UFCA, and proposed DCL Article 10 (UFTA) arguably shrinks the area within which liability may be found.

### **1. More Definitions**

The starting point for the analysis of the scope of liability are the respective sections 270 of current DCL Article 10 (UFCA) and proposed DCL Article 10 (UFTA). Some words are specifically defined and others are ambiguous and open to interpretation. Current DCL Article 10 (UFCA) defines four words: Assets, Conveyance, Creditor and Debt. Proposed DCL Article 10 (UFTA) defines 13 words or phrases: Affiliate, Asset, Claim, Creditor, Debt, Debtor, Insider, Lien, Person, Property, Relative, Transfer, and Valid Lien. The definitions for the two words in common, “Creditor” and “Debt,” as well as the two sets of apparently interchangeable words, “Conveyance”/“Transfer” and “Assets”/“Asset,” are each different.

The NYCBA Recommendation notes that the UFTA eliminates the distinction in the UFCA between absolute transfers and the granting of a security interest, a distinction that it asserts is no longer meaningful today. It also notes that the UFTA eliminates the UFCA provision stating, in effect, that a transfer of property by a person in a state of financial stringency is constructively fraudulent, even though the transferor received reasonably equivalent value in exchange, unless it is also shown that the transferee acted in “good faith.” This subjective “good faith” requirement has been the source of considerable uncertainty and arguably increased the likelihood of liability.

### **2. More Precise Accrual of Causes of Action and Badges of Actual Intent**

Section 276 of proposed DCL Article 10 (UFTA), entitled “When transfer is made or obligation is incurred,” adds more definitions, none of which is contained in the current DCL Article 10 (UFCA). Specifically, § 276 of proposed DCL Article 10 (UFTA) defines and describes when an obligation is incurred and when there is a transfer of real property and when there is a transfer of assets that are not real property. The NYCBA Recommendation notes that, unlike the UFCA, the UFTA defines when a transfer is made or obligation incurred for purposes of the statute, and thus clarifies when the transferor’s financial condition and the value of consideration provided by the transferee are to be measured and when the statute of limitations begins to run. Under the UFTA, a transfer is made: (1) when a transfer of non-fixture real property is perfected as against a good-faith purchaser; and (2) when a transfer of another asset is perfected as against a judicial lien creditor. An oral obligation is incurred when it becomes effective between the parties, while a written obligation is incurred upon execution and delivery.

Like the UFCA, the UFTA renders avoidable transfers and obligations made “with actual intent to hinder, delay, or defraud” creditors. The UFTA assists courts and parties to transactions in understanding the meaning of “actual intent” by providing a nonexclusive list of eleven factors



for courts to consider. The list is included in proposed DCL Article 10 (UFTA) at § 273, subd. 2. Current DCL Article 10 (UFCA) provides no such guidance. Although the list is not exclusive, courts may be more reluctant to search beyond the eleven factors listed in the UFTA than when considering the issue under the UFCA.

### 3. Clearer Grounds and Standards for Assessing Consideration or Value

Sections 273 and 274 of the proposed DCL Article 10 (UFTA) consolidate and rearrange both the grounds and the standard for assessing consideration or value in determining actual and constructive fraudulent intent now set forth in §§ 273 (“Conveyances by insolvent”), 274 (“Conveyances by persons in business”), 275 (“Conveyances by a person about to incur debts”), and 276 (“Conveyance made with intent to defraud”) of current DCL Article 10 (UFCA). The major difference in the current and proposed DCL Article 10 is the change from a standard of “without fair consideration” in the current DCL Article 10 (UFCA) to the standard of “without reasonably equivalent value” in the proposed DCL Article 10 (UFTA). “Fair consideration” seems to be a more subjective standard which can be interpreted either loosely or more restrictively, and it may even include ingredients that cannot be valued monetarily. On the other hand, the term “reasonably equivalent value” seems to be a more objective, balance scale-type test, and it is more likely to boil down to a monetarily measurable standard for valuation and comparison to determine if the values exchanged between the transferor and transferee were reasonably equivalent in monetary value.

The proposed DCL Article 10 (UFTA) would rearrange the grounds of constructive fraudulent intent so that § 274 would highlight the grounds available only to current (“present”) creditors at the time of the transfer, as distinguished from future or post-transfer creditors of the debtor who are included with present creditors in § 273, which involves both constructive and actual intent. Section 274 of proposed DCL Article 10 (UFTA), entitled “Transfers fraudulent as to present creditors,” expands present creditors’ constructive intent grounds to include transfers without “reasonably equivalent value” when the debtor was insolvent or was rendered insolvent by the transfer, which is an easier balance sheet test than the more subject tests available to both present and future creditors under § 273 of proposed DCL Article 10 (UFTA).

Also, in a concept not existing under current DCL Article 10 (UFCA), if a present creditor is able to allege an insider is involved, § 274 additionally eliminates the requirement that the transfer be without “reasonably equivalent value” in situations where the consideration is an antecedent debt. When creditors exist at the time of the transfer, proposed DCL Article 10 (UFTA) eliminates *antecedent* debt as valid consideration for *insiders* who have reasonable cause to believe that the debtor was insolvent

at the time of the transfer (except for partners who receive transfers from their insolvent partnerships as discussed in the “safe harbor” section below). This rearrangement clarifies what additional grounds of constructive intent are available to present creditors but not future creditors.

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*“The UFTA assists courts and parties to transactions in understanding the meaning of ‘actual intent’ by providing a nonexclusive list of eleven factors for courts to consider.”*

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The constructive intent grounds in proposed § 274 are in addition to grounds of both constructive and actual intent available to both present and future creditors under § 273 of proposed DCL Article 10 (UFTA), entitled “Transfers fraudulent as to present and future creditors.” Section 273 of proposed DCL Article 10 (UFTA) limits constructive intent grounds of present and future creditors to transfers without “reasonably equivalent value” when the debtor: (a) is engaged or about to engage in business or a transaction and remaining assets are unreasonably small; or (b) intends to incur debts beyond ability to pay as they come due. Section 273 of proposed DCL Article 10 (UFTA) also enumerates 11 factors to be considered in determining the existence of actual fraudulent intent under that section.

### 4. Insolvency More Objectively Determinable

Section 271 of both the current and proposed Article 10 is entitled “Insolvency,” but the definition and concept of insolvency are expressed differently. The most significant difference appears to involve asset valuation. The current DCL Article 10 (UFCA) refers to “fair salable value” as a standard of measurement for a debtor’s assets while proposed DCL Article 10 (UFTA) refers to “fair valuation” as the measurement standard. Neither term is specifically defined, and therefore both are open to judicial interpretation, which may not be the same. Arguably, “fair salable value” under the UFTA is a more objective standard, and “fair valuation” under the UFCA is more subjective. The potential disparity between the phrases “fair salable value” and “fair valuation” becomes sharper under § 272 of both versions, which is entitled “Fair consideration” under current DCL Article 10 (UFCA) and “Value” under proposed DCL Article 10 (UFTA).

The NYCBA Recommendation notes that the definition of the term “insolvent” in the UFCA is confusing because it includes both language of balance-sheet insolvency (“present fair salable value of [the transferor’s] assets”) and language suggestive of equity insolvency (“his probable liability on his existing debts as they become absolute and matured”). The UFTA revises the definition to be clearly and unequivocally a balance sheet concept



and similar to the definition in the Bankruptcy Code (§ 101(32)).

The NYCBA Recommendation also notes that it is difficult to ascertain whether an entity is “insolvent” in the balance-sheet sense, based on fair valuations, at a given moment. The UFCA does not address this difficulty, but the UFTA adds a rebuttable presumption that a transferor who is “not generally paying his debts as they become due” is insolvent in the balance sheet sense.

Finally, the NYCBA Recommendation notes that the constructive fraud provisions of both the UFCA and the UFTA also apply if the transferor is insolvent in the equity sense at the time the transferor makes a transfer without receiving fair value in exchange. The UFCA definition of equity-sense insolvency is, however, purely subjective: it applies only if the transferor “intends or believes” that he will incur debts beyond his ability to repay. The UFTA, like the Bankruptcy Code, rationalizes this provision by providing that a transferor is insolvent in the equity sense if he is unable to pay his debts as they become due, either in his subjective belief or as judged by the standard of objective reasonableness.

#### **5. Safe Harbor Extended to Insiders for Partnership Transfers Involving Equivalent Value and for Real Estate Enforcement, but Not for UCC Article 9 or Money Judgment Enforcement**

Section 278 of the proposed DCL Article 10 (UFTA) provides protection to insider transferees receiving consideration for antecedent debt from an insolvent debtor who has creditors at the time of the transfer. That protection arises: (a) to the extent the insider gives unsecured new value; (b) if made in the ordinary course of affairs of both the debtor and the insider; or (c) if made in a good-faith effort to rehabilitate the debtor and the debtor’s transfer secured both present value given by the insider transferee and the antecedent debt.

Notably, the UFTA creates a safe harbor for partners (who are insiders by definition) receiving a transfer from an insolvent partnership in exchange for equivalent value given to the partnership, even if that value is antecedent debt. This safe harbor does not currently exist under DCL Article 10 (UFCA), and would result because the UFTA simply omits the UFCA’s provision stating that every transfer from an insolvent partnership to a partner is fraudulent. The NYCBA Recommendation refers to that provision as being “unreasonably harsh insofar as it declares fraudulent a transfer in which the partner gave equivalent value to the partnership in exchange for the transferred property.”

Proposed DCL Article 10 (UFTA) also modifies the UFTA by moving part of § 272 to § 278, which is entitled “Defenses, liability, and protection of transferee” in proposed DCL Article 10 (UFTA). (In current DCL Article 10 (UFCA), § 278 is entitled “Rights of creditors

whose claims have matured,” which concerns a different topic more suitable for § 277 of proposed DCL Article 10 (UFTA), entitled “Remedies of creditors.”) Under the UFTA, the part moved from § 272 to § 278 permits a constructive intent safe harbor to transferees involved in “regularly conducted, non-collusive foreclosure sale or execution of a power of sale” related to real estate mortgages, deeds of trust and security agreements. The initial version of proposed DCL Article 10 (UFTA) circulated by the NYCBA had no safe harbor for insiders in regard to real estate, and the safe harbor addition for real estate insiders in proposed DCL Article 10 (UFTA) was the major change successfully sought by the RESIG.

Section 278 of proposed DCL Article 10 (UFTA) includes a constructive intent safe harbor for UCC Article 9 enforcement transferees, but the NYCBA added a non-uniform modification to exclude insiders from the safe harbor under specific circumstances as a revision not found in the UFTA. Section 278 of proposed DCL Article 10 (UFTA) also adds a constructive intent safe harbor not found in the UFTA at all. It protects transferees involved in “regularly conducted, non-collusive enforcement of a money judgment,” and like the UCC Article 9 enforcement safe harbor, it excludes insiders from the money judgment enforcement safe harbor.

#### **6. Additional Remedies and Protections Under UFTA**

Compared to the current DCL Article 10 (UFCA), the proposed DCL Article 10 (UFTA) makes more remedies available against those who are found liable. Section 277 of proposed DCL Article 10 (UFTA), entitled “Remedies of creditors,” consolidates and rearranges parts of § 278 of the current DCL Article 10 (UFCA), entitled “Rights of creditors whose claims have matured,” and § 279 of the current DCL Article 10 (UFCA), entitled “Rights of creditors whose claims have not matured.” Other parts of §§ 278 and 279 of the current DCL Article 10 (UFCA) are consolidated and rearranged as part of § 278 of proposed DCL Article 10 (UFTA) entitled “Defenses, liability, and protection of transferee.” Sections 277 and 278 of proposed DCL Article 10 (UFTA) are lengthier and more complicated than the current counterparts under DCL Article 10 (UFCA).

Section 278 of the current DCL Article 10 (UFCA) protects transferees for “fair consideration without knowledge of the fraud at the time of purchase,” but for other transferees the creditor with a matured claim may: (a) have the conveyance of the property set aside to the extent necessary; or (b) attach or levy on the property. However, a transferee who did not have actual fraudulent intent may retain the property as security for repayment of any consideration actually given. Creditors whose rights have not matured are currently limited to seeking relief in court.

Section 278 of the proposed DCL Article 10 (UFTA) is similar to its current § 278 counterpart but uses different terminology subject to different interpretation in that it protects transferees “who took in good faith and for a reasonably equivalent value.” Although under current law creditors with unmatured claims may seek “any order which the circumstances of the case may require,” § 277 of proposed DCL Article 10 (UFTA) expands the “Remedies of creditors” to specifically allow any creditor to levy on the proceeds of property as well as seek injunctions against disposition, appointment of a receiver, or “any other relief the circumstances may require.” Section 278 of the proposed DCL Article 10 (UFTA) is more detailed in describing how a creditor may recover judgment against either a first transferee, a beneficiary of the transfer or a subsequent non-good-faith transferee for either the value of the property at the time of its transfer (adjusted as “equities may require”) or the amount necessary to satisfy the creditor’s claim. Proposed § 278 of DCL Article 10 (UFTA) goes further than § 278 of the current DCL Article 10 (UFCA) in protecting good-faith transferees because it allows a lien on the property (as opposed to retention for security purposes under current law), enforcement of obligations incurred, or reduction of liability if a judgment is entered.

### C. Easier Burden of Proof Against Insiders for Actual Fraudulent Intent

The third significant difference between the current and proposed DCL Article 10 concerns the weakened and therefore easier burden of proof against insiders for actual fraudulent intent under § 273 of proposed DCL Article 10 (UFTA), entitled “Transfers fraudulent as to present and future creditors,” which is also discussed above under the topic “Clearer grounds and standards for assessing consideration or value.” According to a report of the RESIG’s comments, the modification adding a constructive intent safe harbor for insiders in real estate transfers under proposed DCL Article 10 (UFTA) came at the cost of a change in New York’s common law burden of proof for fraud with actual intent insofar as concerns insiders. The NYCBA Committees wanted to mitigate the effect of the insider safe harbor for real estate transfers by changing the long-accepted New York common law “clear and convincing” burden of proof for actual fraudulent intent to a “preponderance of the evidence” standard, which is § 280 under proposed DCL Article 10 (UFTA), entitled “Burden of proof.” Although § 280 specifically prescribes that “[i]n all other cases under this article, the burden of proof shall be governed by the principles of the common law of this state,” the “preponderance of the evidence” standard nevertheless would apply to insiders’ actual fraudulent intent in more areas than just real estate, such as UCC Article 9 enforcement and money judgment enforcement where there would be no safe harbors for insiders. While the safe harbor for real estate insiders may be problematical to non-real estate industry Special Inter-

est Groups, this extension of a weaker burden of proof beyond real estate insiders may be problematic for the RESIG as well as non-real estate industry Special Interest Groups seeking to limit litigation.

Notwithstanding the widespread differences between the current and proposed versions of DCL Article 10, it is worth noting that two provisions, § 275 and § 281, are basically the same in both the current and proposed versions even though neither is included in the UFCA or the UFTA on which the current and proposed DCL Article 10 are respectively based. Therefore, both are peculiar to, and would continue as, New York state law. However, one of the two involves actual fraudulent intent and may become more significant due to the weakened burden of proof standard in regard to actual fraudulent intent of insiders.

The one that does not involve actual fraudulent intent is § 275 of proposed DCL Article 10 (UFTA), entitled “Transfers by defendants.” It adds a provision carried over from current § 273-a of DCL Article 10 (UFCA), which is entitled “Conveyances by defendants.” That provision makes constructively fraudulent any transfer during litigation by a defendant or after judgment by a judgment debtor receiving less than reasonably equivalent value if the defendant or judgment debtor fails to satisfy the judgment.

Section 281 of proposed DCL Article 10 (UFTA), entitled “Attorneys’ fees in action or proceeding to avoid transfer made with intent to defraud,” adds a provision carried over from the current § 276-a of DCL Article 10 (UFCA), which is entitled “Attorneys’ fees in action or special proceeding to set aside a conveyance made with intent to defraud.” As stated in its title, this statutory right of a plaintiff to recover attorneys’ fees applies only in the event of a successful action or special proceeding involving actual fraudulent intent. This provision for attorneys’ fees may encourage litigation in regard to insiders as a result of the weakened burden of proof standard under § 280 of proposed DCL Article 10 (UFTA).

### III. Amendments to UFTA in Proposed Senate Bill S5269 to Repeal and Amend New York Debtor and Creditor Law Article 10

As mentioned immediately above, both § 275 of proposed DCL Article 10 (UFTA), entitled “Transfers by defendants,” and § 281 of proposed DCL Article 10 (UFTA), entitled “Attorneys’ fees in action or proceeding to avoid transfer made with intent to defraud,” are carryovers from the current DCL Article 10 (UFCA). Neither is found in the UFTA. Proposed DCL Article 10 (UFTA) §§ 275 and 281 provide:

§ 275. Transfers by defendants. Every transfer made by a debtor while the debtor is a defendant in an action for money damages or after the debtor has

had a judgment in such an action docketed against the debtor is fraudulent as to the plaintiff in that action, without regard to the actual intent of the debtor, if the debtor made the transfer without receiving a reasonably equivalent value in exchange for the transfer and, after final judgment for the plaintiff, fails to satisfy the judgment.

§ 281. Attorneys' fees in action or proceeding to avoid transfer made with intent to defraud. In an action or special proceeding brought by a creditor, receiver, trustee in bankruptcy, or assignee for the benefit of creditors to avoid a transfer made or obligation incurred by a debtor which is found to have been made or incurred by the debtor and received by the transferee or obligee with actual intent to hinder, delay or defraud a creditor (whether the creditor's claim arose before or after the transfer was made or the obligation was incurred), in which action or special proceeding the creditor, receiver, trustee, or assignee shall recover judgment, the court shall fix the reasonable attorney's fees of the creditor, receiver, trustee, or assignee in such action or special proceeding, and the creditor, receiver, trustee, or assignee shall have judgment therefor against the defendants therein in addition to the relief granted by the judgment. The fee so fixed shall be without to any agreement, express or implied, between the creditor, receiver, trustee, or assignee and his or her attorney with respect to the compensation of such attorney.

Section 278 of proposed DCL Article 10 (UFTA), entitled "Defenses, liability, and protection of transferee," contains a number of additions to the provisions found in the UFTA; all are in subdivision 5 of § 278. As discussed further above, a part transferred from § 272 to § 278 permits a constructive intent safe harbor to transferees involved in "regularly conducted, non-collusive foreclosure sale or execution of a power of sale" related to real estate mortgages, deeds of trust and security agreements. As in the UFTA, it does not exclude insiders from its safe harbor. Paragraph (d), concerning money judgment enforcement, is not found anywhere in the UFTA and excludes insiders from its safe harbor. Paragraph (c) of subdivision 5 concerning the safe harbor for UCC Article 9 enforcement is also modified to exclude insiders from its protection in specified situations. Subdivision 5 of § 278 provides:

5. A transfer is not voidable under paragraph (b) of subdivision one of section two hundred seventy-three, section two hundred seventy-four, or section two hundred seventy-five of this article, if the transfer of or results from:

(a) a regularly conducted, non-collusive foreclosure sale or execution of a power of sale for the acquisition or disposition of an interest of the debtor in an asset upon default under a mortgage or deed of trust;

(b) termination of a lease upon default by the debtor when the termination is pursuant to the lease and applicable law;

(c) enforcement of a security interest in compliance with article nine of the uniform commercial code (excluding a purchase of collateral by an insider under section 9-610 of such code or a transfer of collateral to an insider in full or partial satisfaction of an obligation under section 9-620 of such code); or

(d) the regularly conducted, noncollusive enforcement of a money judgment in compliance with applicable law (excluding a transfer in which the transferee is an insider).

Section 279 of proposed DCL Article 10 (UFTA), entitled "Extinguishment of cause of action," includes an additional subdivision 4 not found in the UFTA concerning § 275 entitled "Transfers by defendants" (§ 275 is not found in the UFTA either). Proposed DCL § 279 subd. 4 provides:

4. Under section two hundred seventy-five of this article,

(a) in the case of a transfer made before the final judgment for the plaintiff mentioned therein became final, within the greater of four years after the transfer was made or two years after the judgment became final; and

(b) in the case of a transfer made after the final judgment for the plaintiff mentioned therein



became final, within four years after the transfer was made.

Likewise, § 280 of proposed DCL Article 10 (UFTA), entitled "Burden of proof," is not found in the UFTA and may be unique to New York state law. Its provision for "a preponderance of the evidence" standard concerns only the burden of proof in regard to fraudulent intent by insiders under proposed DCL § 273 sub. 1 (a) and does not apply to other issues such as insolvency where the New York common law burden of proof remains the "clear and convincing" standard. Section 280 provides:

§ 280. Burden of proof. A transfer made or obligation incurred by a debtor to or for the benefit of an insider shall be found to be fraudulent under paragraph (a) of subdivision one of section two hundred seventy-three of this article if actual intent to hinder, delay, or defraud any creditor of the debtor is proven by a preponderance of the evidence. In all other cases under this article, the burden of proof shall be governed by the principles of the common law of this state.

#### IV. Conclusion

There are a significant number of changes that would be made in DCL Article 10 under New York State Senate Bill S5269. There have been earlier, unsuccessful attempts to replace the current version based on the UFCA with one based on the UFTA. The current proposed DCL Article 10 may be somewhat different from versions proposed in earlier bills, but it requires fuller notice to the bar and time for wider discussion in order to determine if two versions of the UFTA, one in New York State Debtor and Creditor Law and another in the U.S. Bankruptcy Code, are better than retaining the availability of the UFCA in New York state law. The New York State Senate Judiciary Committee is currently expected to take up review of Senate Bill S5269 later this year.

#### Endnote

1. Cornell University Law School, Legal Information Institute, 3-3-08, <http://www.law.cornell.edu/uniform/vol7.html#frcon>.

This report was prepared by the Bankruptcy Litigation Committee of the Commercial and Federal Litigation Section of the New York State Bar Association. The Bankruptcy Litigation Committee is chaired by Douglas T. Tabachnik of the Law Offices of Douglas T. Tabachnik. Much gratitude is due to Bankruptcy Litigation Committee member James D. Greenhalgh for his extensive assistance as Task Force chair in the preparation of this report. To join this Committee, please contact Mr. Tabachnik at [dtabachnik@dtlaw.com](mailto:dtabachnik@dtlaw.com).

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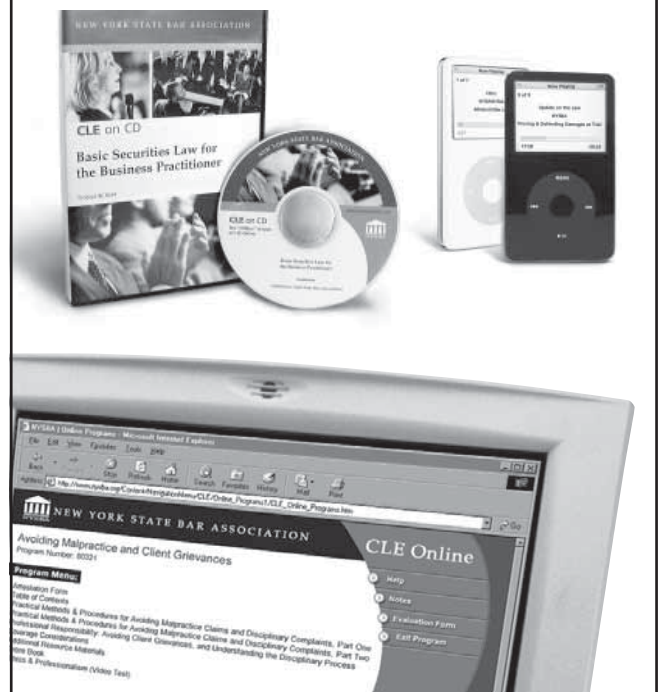
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# The Legality of Linking and Framing: *Perfect 10 v. Amazon.com*

Prepared by the Internet and Intellectual Property Litigation Committee

More than 10 years after the Internet was opened to commercial exploitation, the courts continue to grapple with fundamental issues concerning the application of copyright law to distribution of online content. Every second, millions of computer users browse the Web and click on millions of links to access hundreds of thousands of Web sites containing copyrighted material. Still, however, very little case law exists regarding the legal ramifications of operating in such an interconnected world.

One area of active litigation is the potential liability of search engines for facilitating access to copyrighted content.

Last summer, the Ninth Circuit, in *Perfect 10 v. Amazon.com*,<sup>1</sup> addressed the liability of search engine Google<sup>2</sup> in a case brought by adult image purveyor Perfect 10, which sought to hold the search engine liable for providing access to unauthorized copies of its copyrighted images hosted on third-party Web sites. In particular, the court considered: (1) whether the search engine could be held directly liable for creating thumbnail-size copies of Perfect 10's copyrighted images, or for saving them on its own servers or for providing those thumbnail-size copies to its users in its image search results; and (2) whether the search engine could be held secondarily liable for providing in-line links in its search results to full-size, unauthorized copies of those images on third-party servers.<sup>3</sup> In resolving these issues, the court confronted important questions concerning the public value of search engines, the scope of the defense of fair use, and the technical questions concerning the assignment of copyright infringement liability in a networked environment.

## Search Engine Technology

Understanding the issues in *Perfect 10 v. Amazon.com* requires an understanding of the operation of the Google search engine, and its image search function, as well as the technical and operative distinction between ordinary HTML hyperlinks and in-line links to image files.

Google offers several types of searches, including a standard

search for text-based Web sites, and a search for images posted on the Web, known as a Google Image Search.<sup>4</sup> It is the Google Image Search that is at issue in *Perfect 10 v. Amazon.com*.

To the casual user, it may appear that when a search request is submitted to the Google search engine, the technology performs a search on the Internet in real time for relevant material, then returns links to that material in the search results presented to the user, all in fractions of a second. In fact, the Google technology does not search the Internet in real time in order to satisfy a user search request. Rather, the Google technology includes sophisticated "Web crawlers" that constantly and repetitively search the Internet, make copies of relevant material, and then index that material and store it in a "cache"<sup>5</sup> on Google's servers for rapid retrieval.

For purposes of a typical and very familiar non-image Google Web search, because it is based entirely on the textual parts of Web pages, Google copies and stores only text pages in its cache.<sup>6</sup> When the user submits a search, the search engine finds those text pages in its cache that most closely fit the user's search request, and returns to the user a search results page showing a list of links to relevant Web pages, along with a fragment of the relevant text surrounding the user's search terms. See Fig. 1.

Fig. 1. Google text search, list of links.

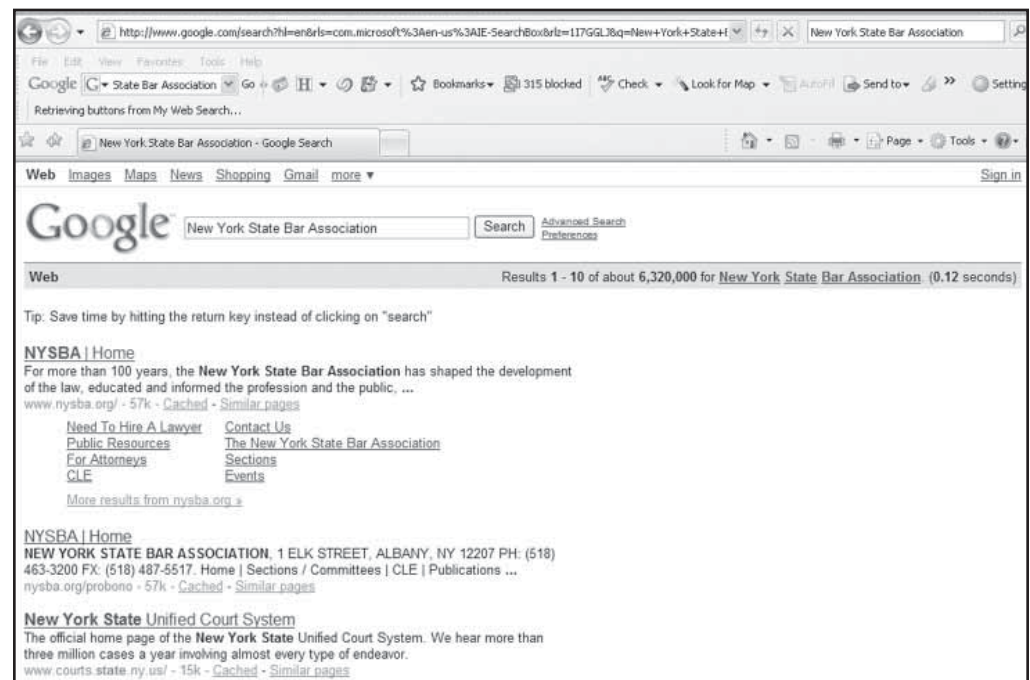


Fig. 2. Google text search, result of clicking on link in text search results page to indexed Web site.



When a user clicks on one of the links to a relevant Web page shown in the search results, the user's browser is directed to that location, and displays the Web page in the user's browser. See Fig. 2.

Google's image search works differently from the text search. For purposes of an image search, Google's Web crawlers search Internet Web sites for images and for the text surrounding or associated with the images. Google does not save full-size copies of images on its servers; however, by a process not clearly and fully described in either the lower court or appellate opinions in *Perfect 10 v. Amazon.com*, Google creates smaller, thumbnail-size versions of the full-size images that its Web crawlers locate, and saves those thumbnail copies on its servers, along with the associated text that it uses to identify and index the images.<sup>7</sup>

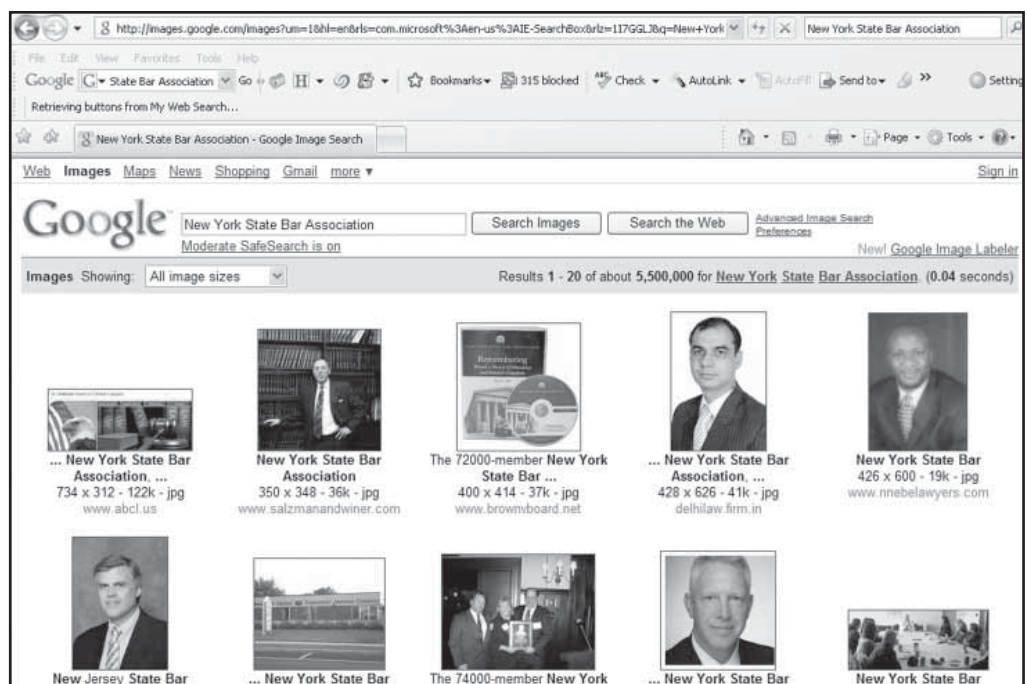
In generating an image search result, Google's Image Search makes use of both the text surrounding the images located by its Web crawlers, as well as the thumbnail-size images that it creates and saves on its servers. When a user inserts keywords into the Google Image Search box, the search engine accesses

the indexed text on its servers that is associated with the images and returns to the user's Web browser a search result based on that text. The thumbnail images, along with their associated text, are then displayed in the search results on a grid, each with a link to the full-size image from which the thumbnail version was generated.<sup>8</sup> A user of the image search is then able to easily scan the grid of retrieved thumbnails to determine which images are relevant.<sup>9</sup> See Fig. 3.

When a user determines that a particular image is relevant, the user can click on the thumbnail shown in the search results to obtain more information about the image.<sup>10</sup> Unlike the text search, clicking on a thumbnail in the Google Image Search results causes the user's browser to open a window that then opens

the underlying Web page containing the linked image in a process called "framing."<sup>11</sup> In other words, framing occurs when a user clicks on a thumbnail in the Google Image Search results grid and his computer displays a page comprised of two distinct frames separated by a solid line: an upper portion presenting the thumbnail and associated text provided by Google's servers; and a lower

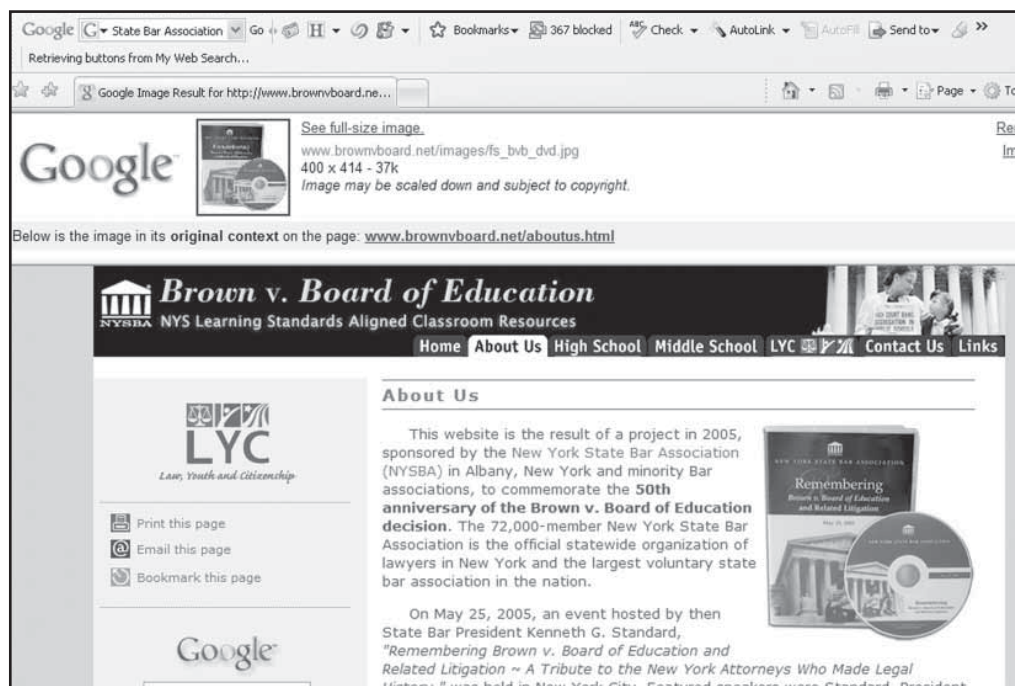
Fig. 3. Google Image Search, thumbnail grid.





portion provided by servers hosting the underlying Web site, which presents the image in its original context.<sup>12</sup> See Fig. 4.

Fig. 4. Google Image Search, framed result.



It is useful to underline a few points about search engine technology before moving on to the subject of linking. Google's Web crawlers, and indeed those of other search engines, operate by making copies of content that is protected under copyright law. So, one issue that comes to mind immediately is whether search engine crawling and caching, and the presentation of search results to a user, results in the making of a "copy" or the distribution of a copy, within the meaning of copyright law. Close on the heels of those issues are several more: whether the generation of the thumbnail-size images constitutes a derivative work within the meaning of copyright law; and whether the presentation of either thumbnail-size or full-size images in search results pages constitutes a "display" within the meaning of copyright law.

A second point to underline at this point is that search engine crawlers are agnostic in the sense that they crawl and index Web sites without regard to whether those Web sites are hosting authorized copies of copyright content, or unauthorized copies. The controversy in *Perfect 10 v. Amazon.com* arose out of Google's links to unauthorized copies of Perfect 10's copyrighted images on third-party servers.

Also, it should be noted that there is a well-recognized means by which a Web site owner or operator can direct search engine crawlers away from its Web site, either completely or partially, through the use of a

"robots.txt" file that provides directions to search engine Web crawlers.<sup>13</sup> While many, perhaps the vast majority, of Web site owners want their content to be indexed and made available by search engines, some do not.<sup>14</sup>

Plaintiff Perfect 10 can control the crawling of its own Web sites by search engines through the use of the "robots.txt" protocol, but it cannot control the crawling of third-party Web sites that contain unauthorized copies of its images.

## Hyperlinks and In-Line Links

Thus far, we have been using the term "link" in a general way. There is more than one kind of "link," however. Although the term "link" is generally used in an abbreviated sense to mean "hyperlink," the present case dealt with a distinct and different type of link known as an "in-line" link. Understanding this distinction and precise terminology from a legal perspective is critical because the use of in-line linking was, in large part, at the heart of this litigation.

So what is the difference between a hyperlink and an in-line link? Hyperlinks are pointers embedded in the HTML code of a Web page, through which a user's browser is directed to another location, either within the same HTML document or to another document or file on the same Web site, or on a different Web site. A Web page may contain any number of hyperlinks, each of which may point to files or documents on different machines in different locations. The power of hyperlinking lies in the fact that the links themselves can be embedded in content, thus allowing users of the Web to easily locate information and seamlessly follow through on relationships between documents and other resources on the World Wide Web.

Technically, Hypertext Reference ("HREF") links are the most fundamental hyperlinks. An HREF link is a piece of HTML code that is embedded in the text of a Web site that is differentiated from regular text onscreen by a special color or formatting, usually by underlining. In Fig. 1 above, the underlined text "Public Resources," "For Attorneys" and "New York State Bar Association" all indicate hyperlinks embedded in the Google results page.

When a typical hypertext link is activated, usually when the user clicks on the hyperlink with a mouse, the user's browser establishes a new connection with the location or other document or file indicated in the hyperlink, replacing the page containing the clicked hyperlink

in the user's browser with the new Web page, or location or file to which the hyperlink is a pointer.<sup>15</sup>

The HTML code for an in-line link is also embedded in a Web page, but instead of appearing as underlined text, an in-line link presents within the context of the originating Web page the actual graphic or image to which the HTML code refers. This creates the appearance that the in-lined graphic or image is a seamless part of the Web page containing the in-line link.<sup>16</sup> The HTML code for an in-line link simply instructs the user's browser to retrieve the linked-to image from the source location and display it on the user's screen without leaving the linking document.<sup>17</sup> It is important to note that an in-lined image may originate locally, in a file saved on the same server as the Web page containing the in-line link, but an in-line link may also refer to, and thus incorporate, a file located elsewhere on the Internet, including Web sites owned or maintained by parties unrelated to the site that is "in-lining" the image.<sup>18</sup>

A Google image results page utilizes both hyperlinks and inline links. Fig. 4. above shows, in the upper frame, an inline link to Google's thumbnail version of an image, as well as a hyperlink to the full-size version of the image on the original Web page. The lower frame shows an in-line link on the full-size image in the context of the original Web page.

At the risk of belaboring the point, it is important to stress that in the above illustration, the thumbnail-size version of the image is in-line linked via the HTML code in the Google results page to a file on the Google servers. The larger, full-size version of the image is in-line linked to the same server as the Web page on which the full-size image appears, via the HTML code in that Web page.<sup>19</sup> Therefore, Google does not store the images that fill this lower part and does not communicate the images to the user; Google simply provides the HTML instructions directing a user's browser to access a third-party Web page. It is the HTML code in the third-party Web site that instructs the user's browser to present a copy of the full-size images within the context of the Web page to which the Google search results refers.<sup>20</sup> Thus, as a result of the framing and in-line linking, a user's window appears to be filled with a single integrated presentation of the thumbnail-size image and the full-size image.<sup>21</sup>

The above scenario is complicated from the perspective of copyright law analysis. There are several actors to consider: the operator of the server upon which the full-size version of the copyrighted image is stored (who may or may not have the authority of the copyright owner to store the image); the creator of the Web page that contains an in-line link to the full-size version of the copyrighted image (who may or may not have the authority of the copyright owner to store the image); the search engine that creates and stores the thumbnail-size version of the image, and then in-line links to the full-size version of the image in its search results; and lastly, the user who sub-

mits a search request and views the results page presented by the search engine, as well as the framed, full-size version of the image. The user may or may not undertake further actions, such as downloading and saving the thumbnail version of the image, or downloading and saving the full-size version of the image, that implicate copyright law. In analyzing potential copyright liability, the actions of each actor must be considered separately in determining whether they directly infringe upon one of the exclusive rights of the copyright owner, or whether their actions subject them to secondary liability for any direct infringement by one of the other actors.

## Infringement and Fair Use Generally

The Copyright Act expressly grants copyright owners, subject to limitations,<sup>22</sup> six exclusive rights to each particular work for which a copyright is held, namely, the rights of reproduction, preparation of derivative works, distribution, public performance,<sup>23</sup> and public display.<sup>24</sup> If one of these rights is violated, then, in the absence of a recognized defense, the copyright is deemed to be infringed. The Copyright Act permits the copyright owner the right to prevent or seek redress for certain unauthorized uses of a copyrighted work that violate the copyright holder's exclusive rights.

Infringement is broken down into two categories: direct and secondary. Simply put, a direct infringer is one who copies a work without the authorization of the copyright owner. A party may be held liable for direct infringement if that party reproduces, i.e., "copies," makes derivative works from, distributes or publicly displays a copyright work without the copyright holder's permission.<sup>25</sup>

There are two types of secondary liability: contributory and vicarious. Both contributory and vicarious liability are predicated on the existence of direct infringement. A contributory infringer is a party who, with knowledge of the direct infringement, "induces, causes or materially contributes" to the activity of the direct infringer.<sup>26</sup> The necessary knowledge may be actual or constructive.<sup>27</sup> A party may be liable as a vicarious infringer if the party: (1) has the right and ability to control the acts of the direct infringer; and (2) receives a direct financial benefit from the infringement.<sup>28</sup> Unlike contributory infringement, knowledge of the infringing activity is not a necessary element in proving vicarious infringement.<sup>29</sup>

Perhaps the most often-raised defense in copyright litigation is fair use. Fair use is an equitable rule, to be applied on a case-by-case basis,<sup>30</sup> and was codified for the first time in the Copyright Act.<sup>31</sup> It provides that certain uses of a copyright protected work, which might otherwise be considered infringing, will be considered "fair" and shall not result in liability. For example, the use of a copyrighted work for purposes such as criticism, comment, news reporting, or educational research



are expressly recognized categories of fair use under the Copyright Act.

Section 107 also delineates four non-exclusive factors for courts to consider when determining whether a particular use is a fair use: (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work;<sup>32</sup> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work. Although often discussed within the context of the first factor, the public interest is also a factor that continually informs the fair use analysis. Although these determinations are fact-driven, this does not protect copyright holders and infringers from summary disposition of claims where there are no material factual disputes.<sup>33</sup> The statutory factors are not exclusive, but are intended to guide the court in its analysis.<sup>34</sup>

Under the Supreme Court's decision in *Campbell v. Acuff-Rose Music, Inc.*,<sup>35</sup> the fair use analysis does not necessarily hinge on whether the defendant's use of the copyrighted material was commercial in nature.<sup>36</sup> Instead, the central purpose of the investigation is to determine whether the new work merely supersedes the object of the original creation, or adds something new, with a further purpose or different character, altering the first work with a new expression, meaning or message.<sup>37</sup> In short, the question is whether and to what extent the new work is "transformative."<sup>38</sup>

## The Case Below

Perfect 10, a provider of adult content and material, sued Google and other defendants, including Amazon.com and its search subsidiary A9.com,<sup>39</sup> in the federal courts, claiming, among other things, that Google committed copyright infringement by making unauthorized use of and providing in-line links to unauthorized copies of Perfect 10's copyrighted images.<sup>40</sup> More specifically, the complaint alleged that Google's search technology and results were storing (in its servers) and displaying unauthorized images, in both "thumbnail" and full-size form, from third-party Web sites that had republished Perfect 10's copyrighted images.<sup>41</sup> Perfect 10 sought a preliminary injunction to prohibit Google from displaying the copyrighted images from the third-party Web sites in Google's search results. Perfect 10 claimed that Google was both directly and secondarily liable for copyright infringement, arguing that the defendant's conduct violated a copyright holder's rights of display and distribution.<sup>42</sup>

Google argued that creating and storing thumbnail copies of Perfect 10's full-size images (found on third-party Web sites), as well as displaying those thumbnails as image search results, is protected by the fair use doctrine, making it not liable for direct copyright infringement

of Perfect 10's copyrighted works.<sup>43</sup> The trial court, however, rejected Google's fair use defense concerning its use of the thumbnails.<sup>44</sup> The trial court was swayed by what it considered the commercial nature of Google's activities, since Google derives significant commercial benefit from image searching in the form of increased user traffic and advertising revenue.<sup>45</sup>

The trial court also addressed Perfect 10's claim of direct copyright infringement with regard to Google's in-line linking to full-size unauthorized images posted on third-party Web sites. In ruling in favor of Google on this important issue, the trial court, adopted the "server test" in determining that the search engine does not "display" or "distribute" the infringing images within the meaning of the Copyright Act.<sup>46</sup> Rather, the court concluded that the server upon which an image file is hosted makes a copy of, or distributes a copy, and thus the party responsible for making the image available on the server is directly liable for copyright infringement when an unauthorized copy of an image is accessed.

Finally, the trial court addressed Perfect 10's claims that Google's search practices resulted in secondary copyright liability. As for contributory infringement, the trial court was unconvinced by Perfect 10's allegation that Google had knowledge of the infringement with respect to unauthorized copies of third-party Web sites, and also held that Google did not materially contribute to the infringement of Perfect 10's images by third-party Web sites.<sup>47</sup> With respect to vicarious liability, the trial court ruled in favor of Google, concluding that the search engine has neither the right nor the ability to stop the infringement.<sup>48</sup> The trial court granted a preliminary injunction with respect to Google's use of Perfect 10's thumbnail images in image search results, but denied Perfect 10's motion for a preliminary injunction against Google with respect to the use of in-line linking and framing of the full-size images.<sup>49</sup>

## The Appellate Opinion

On appeal, the Ninth Circuit reversed the lower court's rejection of the search engine's fair use defense with respect to the creation and storage of "thumbnail" versions of the copyrighted images on its own servers in conjunction with its image search function.<sup>50</sup> Further, in upholding the lower court ruling on direct infringement, the appeals court adopted the district court's "server test" for determining when a Web site "displays" or "distributes" a copyrighted work.<sup>51</sup> The appeals court rejected the argument that the search engine "displays" copyrighted images when it frames a third-party Web page within a single Google search result Web page.<sup>52</sup> On the issues of secondary liability, the appeals court upheld the district court's conclusion that Google is not likely to be found vicariously liable for copyright infringement with respect to unauthorized copies made by third-party Web sites.<sup>53</sup> However, it reversed the district court on the issue of contributory liability for the reproduction, display, and

distribution of unauthorized copies of copyright images that are stored on third-party Web sites.<sup>54</sup>

## Preliminary Issues: Jurisdiction and Burden of Proof

Beyond the substantive issues of the case, the court also took the opportunity to resolve a procedural question: On a motion for preliminary injunction in a copyright case, what party has the burden of demonstrating a likelihood of success with respect to a fair use defense? Noting that it had not previously ruled on this issue, the Ninth Circuit held that the plaintiff bears the burden of showing its likely success in overcoming a fair use defense, once the defendant has introduced evidence of fair use.<sup>55</sup> The court reasoned that the burden should be placed on the party seeking “an extraordinary remedy . . . before the defendant has had opportunity to undertake extensive discovery or begin to develop its defenses.”<sup>56</sup>

The Ninth Circuit also rejected Google’s argument that the district court lacked jurisdiction over the preliminary injunction to the extent it was sought to enforce unregistered copyrights. It held that that once jurisdiction had been obtained based on a registered copyright, the court may grant injunctive relief to restrain infringement of any copyright, whether registered or unregistered.<sup>57</sup> The Second Circuit recently declined to follow *Perfect 10*, and held that a court may enjoin unregistered copyrights only to the extent that “the defendant has demonstrated a pattern of infringement of a plaintiff’s registered copyrights and can be expected to infringe new copyrighted material emanating in the future from the plaintiff.”<sup>58</sup>

## Fair Use: Thumbnails

After determining that Google directly infringed Perfect 10’s copyrighted thumbnail images, relying on the four statutory fair use factors and their precedent in *Kelly v. Arriba Soft Corporation*, the Ninth Circuit reversed the trial court’s holding that Google is not protected by the defense of fair use when it comes to the creation, storage, and display of thumbnail versions of Perfect 10’s copyrighted pictures.

In *Arriba Soft*, Internet search engine Arriba Soft provided thumbnail versions of copyrighted pictures taken by the plaintiff, which were published on the plaintiff’s Web site as well as third-party licensee Web sites.<sup>59</sup> When the plaintiff discovered that his photographs were part of Arriba Soft’s search engine database, he brought a claim against Arriba Soft for direct copyright infringement. Arriba Soft raised the defense of fair use, and the Ninth Circuit upheld the lower court’s holding in favor of the search engine.<sup>60</sup>

Considering its analysis of the fair use test in *Arriba Soft*, the appellate court applied the applicable four factors to the instant case. As for the first fair use factor, the purpose and character of the use, the court made clear

that the critical inquiry is whether and to what extent the new work is “transformative.”<sup>61</sup> The court used *Arriba Soft* as a starting point for its analysis, noting that Arriba Soft’s use of thumbnail images was transformative because it served a function different from the plaintiff’s use.<sup>62</sup> Drawing an analogy to the application of fair use in parody, the court stated that just as a parody resembles an earlier work while also creating a new one, a search engine’s utility is also transformative because it puts images in a different context so that they result in a new creation.<sup>63</sup> The court concluded that the “significantly transformative nature of Google’s search engine, particularly in light of public benefit, outweighs Google’s superseding and commercial uses of the thumbnails in this case.”<sup>64</sup>

Pointing to the Supreme Court’s mandate that courts be mindful of the extent to which a use promotes the purposes of copyright law and the extent to which a use serves the interests of the public,<sup>65</sup> the Ninth Circuit noted that even though Google incorporated the entire Perfect 10 image into its image search results, this does not “diminish the transformative nature” because in *Arriba Soft* it was determined that even making an identical copy may be transformative so long as the copy serves a function different from the original work.<sup>66</sup> As such, the court determined that the transformative nature of Google’s use is more significant than any incidental superseding use or the minor commercial aspects of Google’s search engine and Web site.<sup>67</sup>

With respect to the second fair use factor, the nature of the copyrighted work, the court stated that its decision in *Arriba Soft* was directly on point.<sup>68</sup> In *Arriba Soft*, the Ninth Circuit held that because the plaintiff’s photographs were creative in nature, they were thus “closer to the core of intended copyright protection than more fact-based works.”<sup>69</sup> The photographs, however, had already been published on the Internet before Arriba Soft presented the thumbnail images in search results. As a result, the Ninth Circuit reasoned that the second fair use factor only slightly favored Kelly.<sup>70</sup> Accordingly, in the instant case, the court concluded that by publishing images on the Internet, Perfect 10 had already exploited its commercially valuable right of first publication,<sup>71</sup> and therefore is not entitled to enhanced copyright protection.<sup>72</sup>

The Ninth Circuit devoted the least amount of discussion to the third fair use factor, the amount and substantiality of the portion used.<sup>73</sup> Using *Arriba Soft* as its guide, the court was once again concerned with the transformative nature of Google’s use.<sup>74</sup> In *Arriba Soft*, the Ninth Circuit held that the defendant’s use of the entire image was reasonable in light of the purpose of a search engine<sup>75</sup> because it was necessary for Arriba Soft to copy the whole image in order for users to recognize the photograph and decide whether to seek more information about the image. In short, showing only part of an image would reduce the “usefulness of the visual search engine.”<sup>76</sup> As such, the Ninth Circuit concluded that this same analysis

applies to Google's image search, and it upheld the trial court's conclusion that this factor favored *neither* party.<sup>77</sup>

Finally, the court turned to the fourth fair use factor: the effect of the use upon the potential market for or value of the copyrighted work.<sup>78</sup> This factor asks whether the challenged use competes with, by providing a substitute for, either the original copyrighted work or derivative works that a copyright owner would traditionally expect to create or commission.<sup>79</sup> If the allegedly infringing use "is not in competition with the copyrighted use," the fair use defense is ordinarily sustained.<sup>80</sup> In *Arriba Soft*, the Ninth Circuit concluded that because thumbnails were not a substitute for Kelly's full-sized images, they did not harm Kelly's ability to sell or license its full-size images.<sup>81</sup> Following this analysis, the Ninth Circuit rejected Perfect 10's argument that the likelihood of market harm may be presumed if the intended use of an image is for commercial gain.<sup>82</sup> The appeals court noted that this presumption of market harm does not arise, as in this case, when a work is transformative.<sup>83</sup>

One aspect of this case, which differed substantially from *Arriba Soft*, was whether Perfect 10 had a separate market for reduced-size images of its pictures.<sup>84</sup> Perhaps to bolster its contentions that Google's image search was not fair use, Perfect 10 had licensed some of its adult images for use, in reduced size and resolution, on cell phones, thereby purportedly creating a market for such images. Perfect 10 alleged that Google had an impact on its revenue from this market because some users may download Google thumbnail images and transfer them to cell phones.<sup>85</sup>

In ruling on this issue, the court rejected the trial court's conclusion that Google's use of thumbnail images likely harms the potential market for the downloading of Perfect 10's reduced-size images onto cell phones.<sup>86</sup> The Ninth Circuit disagreed with the trial court's reasoning, concluding that because there was no finding that Google users actually downloaded thumbnail images onto cell phones, and as such, the potential market harm to Perfect 10 was unproven and "remains hypothetical."<sup>87</sup>

Ultimately, after conducting its fact-specific fair use analysis, the Ninth Circuit held that Perfect 10 was unable to overcome Google's defense of fair use with respect to the search engine's use of thumbnail images, and thus the trial court's issuance of a preliminary injunction was vacated.

Subsequently, in *Ticketmaster L.L.C. v. RMG Technologies, Inc.*, Ticketmaster sued RMG, which develops and markets applications that can access and navigate Ticketmaster's Web site.<sup>88</sup> Ticketmaster alleged that RMG was liable, *inter alia*, for direct infringement because each time an RMG product accesses a Ticketmaster's Web site page, "a copy of that page is necessarily downloaded or 'cached' onto" an RMG server.<sup>89</sup> RMG argued that any claim predicated on automatically made cache copies of

Ticketmaster's Web pages constituted fair use as a matter of law under *Perfect 10*. The court flatly rejected the notion that *Perfect 10* set out such an absolute principle of law, instead finding that such cache copies must be considered in context.<sup>90</sup> The court distinguished the cache copies in *Perfect 10* that were made by "innocent third-party visitor[s]."<sup>91</sup> In contrast, RMG was not "innocent" because its purpose and activities in viewing and copying Ticketmaster.com violated the Terms of Use agreement on that Web site, furthered RMG's own commercial objectives, and significantly affected Ticketmaster's rights in that RMG's technology empowered customers to violate Ticketmaster's Terms of Use agreement.<sup>92</sup>

### Direct Infringement: Full-Size Images

In addition to grappling with the issue of direct infringement with respect to the use of thumbnail images, the Ninth Circuit also addressed the issue of in-line linking of the thumbnail images to full-size Perfect 10 images. In doing so, the court upheld the trial court's conclusion that Perfect 10's rights of display and distribution were not infringed.

As for the right of display, one challenge the court faced was how to define what constitutes a "display" in this context, considering the Copyright Act was codified long before the Internet became an important channel for content distribution. Turning to traditional applications of copyright law, the court addressed this issue of first impression: When does a computer "display" a copyrighted work for the purposes of § 106(5) of the Copyright Act?<sup>93</sup> The court concluded that based on the plain language of the statute, "a person displays a photographic image by using a computer to fill a computer screen with a copy of the photographic image fixed in the computer's memory."<sup>94</sup>

To determine whether an in-line link "displays" a photographic image as a matter of law, the Ninth Circuit relied on the trial court's "server test," which it summarily adopted. Under the server test, a computer owner that stores an image as electronic information and serves that electronic image directly to the user is "displaying" the image in violation of a copyright holder's exclusive display right.<sup>95</sup> On the other hand, the owner of a computer that does not store and serve the electronic information to a user is not displaying that information, even if such owner provides an in-line link that frames the electronic information.<sup>96</sup> Applying this test, the court upheld the lower court's conclusion that Perfect 10 was unlikely to succeed in its claim that Google's in-line linking to full-size images constituted direct infringement.<sup>97</sup> According to the Ninth Circuit, Google's computers do not store the photographic images, and Google does not possess a copy of the images for the purposes of the Copyright Act.<sup>98</sup> Instead, Google provides HTML instructions to direct a user's browser to the third-party publisher that stores the full-size images, and this is not equivalent, according to the court, to showing a copy.<sup>99</sup>



Although the appellate court did not discuss why it favored the server test, the trial court noted five reasons for adopting this test. Essentially, the server test: (1) takes into consideration the nature and important features of the Internet; (2) is based on what occurs at the technological level as users browse the Web, and thus reflects the reality of how content actually travels via the Internet before it is shown on users' computers;<sup>100</sup> (3) neither invites infringing activity nor does it flatly preclude liability for such activity;<sup>101</sup> (4) is readily understandable by Web site operators and courts can apply it relatively easily;<sup>102</sup> and (5) maintains the rationale that underlies copyright law, that is, to maintain an appropriate balance between encouraging the creation of creative works and encouraging the dissemination of information.<sup>103</sup>

In adopting the server test, the trial court rejected an alternative known as the "incorporation test," which was advocated by Perfect 10. Under the incorporation test, a "display" includes the mere act of *incorporating* content into a Web page that is then pulled up by the browser.<sup>104</sup> The court conceded that the incorporation test is relatively simple to apply as well, but distinguished it from the server test, concluding that the incorporation test fails to acknowledge the interconnected nature of the Web and its ability to aggregate and present content from multiple sources simultaneously.<sup>105</sup> Although the incorporation test is not followed in the Ninth Circuit, operators of Internet search engines or similar applications should be mindful of the fact that other circuits could choose to adopt it instead of the server test, despite the trial court's admonitions that the incorporation test could cause a tremendous chilling effect on the core functionality of the Web, i.e., its capacity to link, which is a vital feature.<sup>106</sup>

With respect to the "distribution" of full-size images, the appellate court upheld the trial court's ruling that Perfect 10 would not likely prevail on its claim that Google directly infringed Perfect 10's right, concluding that it is the third-party Web site publisher's computer that distributes copies of the images by transmitting the photographic image electronically to the user's computer.<sup>107</sup> Specifically, Google's search engine merely communicates HTML instructions that tell a user's browser where to find full-size images on a third-party publisher's Web site.<sup>108</sup>

### Secondary Infringement: Applying the *Grokster* Rule

The Ninth Circuit turned to the Supreme Court's landmark ruling in *M.G.M. Studios, Inc. v. Grokster, Inc.*,<sup>109</sup> the most recent discussion of secondary infringement in the online environment, to assist it in determining whether Google was secondarily liable for copyright infringement.

*Grokster* involved consolidated cases brought by a coalition of music publishers, songwriters and motion picture studios against distributors of "peer-to-peer" ("P2P")

file sharing that enabled computer users to easily exchange digitized music, video, software and motion picture files over the Internet without a centralized server.<sup>110</sup> The industry plaintiffs did not claim that the distributors themselves infringed the plaintiffs' copyrights (direct liability) but rather that the distributors were liable for the unlawful copying and distribution of their copyrighted works by users of the software (secondary infringement). In fashioning an "active inducement" rule for secondary liability, and remanding the case back to the trial court for a factual determination of its ruling,<sup>111</sup> the Supreme Court referenced cases recognizing common-law liability for inducement of infringement of both copyright and patent and the active inducement rule codified in patent law.<sup>112</sup> Generally speaking, in the file-sharing arena, "active inducement" involves the distribution of software "with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement."<sup>113</sup>

Applying this doctrine to the practice of in-line linking, the Ninth Circuit stated that for Perfect 10 to succeed in its claim of contributory liability under the "active inducement" rule, it must establish that Google's in-line linking to infringing full-size images met the definition of contributory liability established in *Grokster* (i.e., that an actor may be contributorily liable for intentionally encouraging direct infringement if the actor knowingly takes steps that are substantially certain to result in such direct infringement).<sup>114</sup>

Drawing from its prior precedent<sup>115</sup> and *Grokster*, the Ninth Circuit further refined the active inducement test ruling that Google (or any computer system operator for that matter) may be held contributorily liable if it "had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps."<sup>116</sup>

Despite its reliance on the active inducement rule, the Ninth Circuit was unable to determine conclusively whether Google was contributorily liable, owing to the unresolved factual disputes. Accordingly, the Ninth Circuit remanded the matter to the district court to determine, consistent with its ruling, the adequacy of Perfect 10's notices to Google and Google's responses to those notices,<sup>117</sup> as well as whether it is reasonable and feasible of Google to refrain from providing access via its image search results to infringing images.<sup>118</sup>

With respect to vicarious infringement, the Ninth Circuit again looked to *Grokster*.<sup>119</sup> Under the rule formulated by the Supreme Court, to succeed in imposing this type of liability, a plaintiff must establish that the defendant derives a direct financial benefit from the direct infringement and that the defendant exercises the requisite control over the direct infringer.<sup>120</sup> To establish that the defendant exercises the requisite amount of control, it must be shown that the defendant "has both the legal



right to stop or limit the directly infringing conduct, as well as the practical ability to do so.”<sup>121</sup>

As for the right to stop or limit the direct infringement of third-party Web sites, the Ninth Circuit distinguished Google’s ability to control Web site content from its prior decision in *Napster*. *Napster*<sup>122</sup> involved the legality of software that allowed its users to make MP3 music files stored on their individual computer hard drives available for copying by other Napster users via a “closed” network model, under which the company provided a centralized server and search index to tie its users together. Citing classic formulations of secondary liability for copyright infringement, the Ninth Circuit found that the operator of the system had both knowledge of its users’ infringing activity and the ability to control that activity because its system operated via centralized servers that contained indexes of files being traded on the network.<sup>123</sup> Napster had the right and ability to stop or limit the infringement because it could terminate user accounts and block access.

In *Perfect 10*, the Ninth Circuit held that Google was not in a position to stop third-party Web sites from reproducing, displaying, and distributing Perfect 10 images because that infringing activity occurs on the third-party Web sites. The court reasoned that Google could not terminate those third-party Web sites or block their ability to host and serve infringing full-size images on the Internet.<sup>124</sup>

Additionally, the Ninth Circuit upheld the lower court’s finding that Google lacked the “practical” ability to police the third-party Web sites’ infringing conduct.<sup>125</sup> The Ninth Circuit reasoned that image recognition technology—i.e., the ability to analyze every image on the Internet to determine whether a certain image infringes someone’s copyright—is not practical, and this factor distinguishes the instant case from the defendants who were held liable in related Ninth Circuit cases such as *Napster*.<sup>126</sup> The court held that Perfect 10 failed to demonstrate a likelihood of establishing Google’s right and ability to stop or limit the directly infringing conduct of third-party Web sites, thereby resulting in a finding of no vicarious liability.<sup>127</sup>

Subsequently, Perfect 10 brought suit against financial institutions that process credit card payments to Web sites that directly infringed Perfect 10’s copyrights, alleging that the financial institutions were liable for contributory infringement.<sup>128</sup> In upholding a district court’s dismissal of the claims, the Ninth Circuit drew a distinction between search engines and credit card processors based on the “materiality” of their contribution to the alleged direct infringement.<sup>129</sup> The court reasoned that search engines contribute to infringement by making it fast and easy for third parties to locate and distribute infringing material. In contrast, the credit card processors contribute more indirectly, by “mak[ing] it easier for infringement to be profitable, which tends to increase financial incen-

tives to infringe, which in turn tends to increase infringement.”<sup>130</sup> Thus, the Ninth Circuit held, “location services are more important and more essential—indeed, more ‘material’—to infringement than payment services are.”<sup>131</sup>

## Conclusion

*Perfect 10* is a milestone decision in the application of traditional legal principles of copyright law and the relatively new Internet medium. While *Perfect 10* will undoubtedly help to shape the law, it remains unclear how the doctrine will be applied to future cases. Examples include cases involving video content where liability may hinge not necessarily on fair use, but rather on the safe harbors contained in the Digital Millennium Copyright Act, which provide certain immunities from copyright infringement for qualifying providers. One thing is certain: As more linking- and framing-related cases are filed, traditional legal principles will evolve even further so that courts can better address the ever expanding and changing world of linking and framing as it relates to copyright law.

## Endnotes

1. 478 F.3d 701 (9th Cir. 2007) (*Perfect 10*). The case was captioned *Perfect 10 v. Google, Inc.* in the lower court.
2. Amazon.com and its search subsidiary A9.com are also defendants via a separate lawsuit consolidated with the lawsuit against Google, but for convenience, this article will refer only to the Google search engine except where otherwise specified.
3. In addition to this action, Perfect 10 has commenced at least two other actions seeking to hold various parties liable for infringement with respect to unauthorized copies of its images on third-party Web sites. In *Perfect 10, Inc. v. CCBill LLC*, 481 F.3d 751 (9th Cir. 2007), the defendants were providers of hosting services for the third-party Web sites and a credit card processor. In *Perfect 10 v. Visa Int’l Serv. Assoc.*, 494 F.3d 788 (9th Cir. 2007), Perfect 10 sought to impose secondary liability on credit card companies and affiliated banks and data processing services for providing payment processing services to third-party Web sites that host unauthorized copies of its copyrighted images.
4. *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828, 832 (C.D. Cal. 2006) (“Google”), *rev’d in part* *sub nom. Perfect 10 v. Amazon.com*, 478 F.3d 701 (9th Cir. 2007).
5. Generally, a “cache” is “a computer memory with very short access time used for storage of frequently or recently used instructions or data.” *United States v. Zeigler*, 474 F.3d 1184, 1186 n.3 (9th Cir. 2007). In the case of Google, the term refers to the servers where Google stores the indexed content that it accesses when a search request is submitted. The indexed content may remain on Google’s servers for a long time. *Perfect 10*, 487 F.3d at 712 n.3.
6. *Google*, 416 F. Supp. 2d at 833.
7. The process by which thumbnail versions of images are created for purposes of an image search is explained more clearly in the Ninth Circuit’s opinion in *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003), in which similar image search technology was at issue. Internet search engine Arriba Soft had a computer program that crawled the Web looking for images to index. This crawler downloaded full-sized copies of the images onto Arriba’s server. *Id.* at 815. Arriba then used these full-size copies to generate smaller, lower-resolution thumbnails of the images. Once the thumbnails were created, the program deleted the full-sized originals from the server. *Id.*
8. *Google*, 416 F. Supp. 2d at 833-34.

9. *Id.*
10. *Id.* at 833-34.
11. *Id.*
12. *Id.*
13. Google provides information on its own Web site concerning the use of “robots.txt” files to direct its crawlers available at <http://www.google.com/support/webmasters/bin/answer.py?hl=en&answer=40360> (visited July 23, 2007).
14. In *Field v. Google, Inc.*, 412 F. Supp. 2d 1106, 1117 (D. Nev. 2006), the district court ruled that consent to copying and caching could be inferred from a Web site owner’s failure to utilize the “robots.txt” method to exclude copying and caching of his content.
15. A hyperlink can also be coded in such a manner as to direct the user’s browser to open a new window containing the hyperlinked page or file.
16. *Perfect 10*, 487 F.3d at 712.
17. *See, e.g., Arriba Soft.*, 336 F.3d at 816.
18. Unless the original party placing an image online takes affirmative steps to limit access to it, other Web authors can inline the image into their Web sites by locating its URL and using the appropriate HTML coding in their Web sites.
19. *Perfect 10*, 487 F.3d at 712.
20. *Id.*
21. *Id.*
22. Exceptions and limitations to these rights are set forth in 17 U.S.C. §§ 107-120.
23. The public performance right is limited to “literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works.” A separately enumerated right applies to the public performance of sound recordings . . . by means of a digital audio transmission.” 17 U.S.C. § 106.
24. *Id.*
25. *See Playboy Enter. v. Webbworld, Inc.*, 991 F. Supp. 543, 550-51 (N.D. Tex. 1997).
26. *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971). *See also Matthew Bender & Co. v. West Publ’g Co.*, 158 F.3d 643, 706 (2d Cir. 1998) (liability for contributory infringement exists if the defendant engages in “personal conduct that encourages or assists the infringement”).
27. *UMB Recordings, Inc. v. Sinnott*, 300 F. Supp. 2d 993 (E.D. Cal. 2004) (based on the particular facts of the case, flea-market owner found liable because he provided the site and facilities for known infringers who sold counterfeit CDs and cassettes at the market was sufficient to establish contributory liability); *see also Cable/Home Comm. Corp. v. Network Prod., Inc.*, 902 F.2d 829, 845 and 846 n.29 (11th Cir. 1990).
28. *M.G.M. Studios Inc. v. Grokster, Inc.*, 545 U.S. 913, 930 n.9 (2005).
29. *See, e.g., Religious Tech. Ctr. v. Netcom On-Line Comm. Serv. Inc.*, 907 F. Supp. 1361, 1375 (N.D. Cal. 1995).
30. *See, e.g., Harper & Row Publ., Inc. v. Nation Enter.*, 471 U.S. 539, 549 (1985); *Hustler Magazine, Inc. v. Moral Majority, Inc.*, 796 F.2d 1148, 1151 (9th Cir. 1986).
31. 17 U.S.C. § 107.
32. Under the second factor, some works are recognized as closer to the core of intended copyrights protection than others. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 586 (1994). For example, fictional, creative works come closer to this core of protection than do primarily factual works. *Harper & Row*, 471 U.S. at 563.
33. *See, e.g., Triad Sys. Corp. v. Southeastern Express Co.*, 1994 U.S. Dist. LEXIS 5390, at \*23-24 (N.D. Cal. Mar. 21, 1994); *Sega Enter. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1522 (9th Cir. 1992).
34. *Campbell*, 510 U.S. at 585 (commercial character of use is not presumptive of future market harm to copyright holders and creates no presumption against fair use; it is but one element of the inquiry); *Sony Corp. of Amer. v. Univ. City Studios, Inc.*, 464 U.S. 417 (1984) (time-shifting use of home VCRs is fair use).
35. *Campbell*, 510 U.S. at 579.
36. The Supreme Court has also stated: “The crux of the profit/nonprofit distinction is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price.” *Harper & Row*, 471 U.S. at 562.
37. *Campbell*, 510 U.S. at 579.
38. *Id.*
39. Plaintiff Perfect 10, Inc., filed separate suits against Google, Inc., and against Amazon.com, Inc., and its subsidiary A9.com, alleging copyright and trademark infringement and various related claims. *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828, 831 (C.D. Cal. 2006). Because Amazon licenses from Google much of the same technology challenged by Perfect 10, the suits were consolidated. *Id.*
40. *Id.*
41. *Id.*
42. *Id.* at 838.
43. *Id.* at 845.
44. *Id.* at 851.
45. *Id.* at 846.
46. *Id.* at 843-44.
47. *Id.* at 855.
48. *Id.* at 857-58.
49. *Id.* at 859.
50. *Perfect 10*, 478 F.3d at 719.
51. *Id.* at 717-718.
52. *Id.* at 717.
53. *Id.* at 729.
54. *Id.* at 726.
55. *Id.* at 714.
56. *Id.* In contrast, in the Second Circuit the defendant always “bear[s] the burden of proving that [its] use was fair,” even on a motion for preliminary injunction. *See NXIVM Corp. v. Ross Institute*, 364 F.3d 471, 476-77 (2d Cir. 2004).
57. *Id.* at 710 n.1. Registration is generally a jurisdictional prerequisite to a suit for copyright infringement. *See* 17 U.S.C. § 411.
58. *In re Literary Works in Elec. Databases Copyright Litig.*, 509 F.3d 116, 123 (2d Cir. 2007) (emphasis added).
59. 336 F.3d at 815.
60. *Id.*
61. *Perfect 10*, 478 F.3d at 720.
62. *Id.* at 720.
63. *Id.* at 721.
64. *Id.* at 723.
65. *Id.* at 722.
66. *Id.* at 721. Unlike the appellate court, the district court had determined that Google’s use of thumbnail images was less transformative than Arriba Soft’s use of thumbnails because Google’s use superseded Perfect 10’s right to sell reduced-size images for cell phone use. *Google*, 416 F. Supp. 2d at 849. Additionally, the trial court was swayed by the commercial nature of Google’s AdSense program, which led users to sites that directly benefit Google’s bottom line. The court also distinguished this

case from *Arriba Soft* on the ground that some AdSense partners had infringing Perfect 10 images on their Web sites. *Id.* at 857. The Ninth Circuit was not persuaded to rely on the AdSense program as proof of intent to induce infringement because “Google has not promoted the use of its search engine specifically to infringe copyrights.” *Perfect 10*, 487 F.3d at 727 n.11.

67. *Perfect 10*, 478 F. 3d at 723.
68. *Id.*
69. *Arriba Soft*, 336 F.3d at 820.
70. *Id.*
71. “The right of first publication is the author’s right to control the first public appearance of his expression.” *Harper & Row*, 471 U.S. at 564. This right encompasses the choices of when, where, and in what form first to publish a work.” *Id.* An author exercises and exhausts this one-time right by publishing the work in any medium. *See, e.g., Batjac Prods. Inc. v. GoodTimes Home Video Corp.*, 160 F.3d 1223, 1235 (9th Cir. 1998) (noting, in the context of the common law right of first publication, that such a right “does not entail multiple first publication rights in every available medium”).
72. *Perfect 10*, 478 F.3d at 723.
73. The third factor asks whether the amount and substantiality of the portion used in relation to the copyrighted work as a whole are reasonable in relation to the purpose of the copying. *Campbell*, 471 U.S. at 586; *see also* 17 U.S.C. § 107(3).
74. *Perfect 10*, 478 F.3d at 724.
75. *Arriba Soft*, 336 F.3d at 821.
76. *Perfect 10*, 478 F.3d at 724.
77. *Id.* (emphasis added).
78. *Id.*
79. *New Era Publications, Int’l v. Carol Publ’g Grp.*, 904 F.2d 152, 159-60 (2d Cir. 1990).
80. *Italian Book Corp. v. Amer. Broad. Co.*, 458 F. Supp. 65, 70 (S.D.N.Y. 1978).
81. *Arriba Soft*, 336 F.3d at 821-22.
82. *Perfect 10*, 478 F.3d at 724.
83. *Id.*
84. *Id.*
85. *Id.*
86. *Id.*
87. *Id.* *Perfect 10* does not elaborate on when an injury would advance from the hypothetical stage into more substantial harm that might affect the fair use analysis. Copyright holders frequently allege that if a defendant’s use is deemed fair, they will be deprived of a licensing fee. But a copyright plaintiff “is not entitled to a licensing fee for a [use] that otherwise qualifies for the fair use defense.” *Leibovitz v. Paramount Pictures*, 137 F.3d 109, 117 (2d Cir. 1998); *Campbell*, 510 U.S. at 592. As one court has noted, because every alleged copyright infringer invoking the fair use doctrine potentially could have sought a license from the copyright owner this argument, “if taken to its logical conclusion, would render th[e fourth] factor obsolete because it would favor the copyright owner in every case.” *Video-Cinema Films, Inc. v. CNN, Inc.*, 2001 U.S. Dist. LEXIS 25687, at \*31 (S.D.N.Y. Nov. 28, 2001); *see also* Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1124 (1990) (“By definition every fair use involves some loss of royalty revenue because the secondary user has not paid royalties.”). The Ninth Circuit’s ruling was in line with the Second Circuit’s approach to the fourth factor. Specifically, the Second Circuit limits consideration of “potential licensing revenues” to “traditional, reasonable, or likely to be developed markets.” *Amer. Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 929-30 (2d Cir. 1994). As a result, as in the case of the third fair use factor, the court concluded that the fourth fair use factor favored neither party. *Id.*
88. 507 F. Supp. 2d 1096, 1102 (C.D. Cal. 2007).
89. *Id.* at 1105. Ticketmaster also alleged that RMG was liable for contributory infringement, based on the use of its applications by RMG customers who directly infringed. *Id.*
90. *Id.* at 1109.
91. *Id.* at 1104.
92. *Id.* at 1110.
93. Section 106(5) states that a copyright owner has the exclusive right to “display the copyrighted work publicly.” The Copyright Act explains that “display” means “to show a copy of it, either directly or by means of a film, slide, television image, or any other device or process . . .” 17 U.S.C. § 101. Section 101 defines “copies” as “material” objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of machine or device.” *Id.* Finally, the Copyright Act provides that “a work is ‘fixed’ in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration.” *Id.*
94. *Perfect 10*, 487 F.3d at 716.
95. *Id.*
96. *Id.*
97. *Id.*
98. *Id.* at 717.
99. *Id.* *Perfect 10*, however, further argued that Google’s framing of the full-size images constituted a display of a copy of full-size images because this gives the impression to users of image search that the image is shown within a single Google Web page. The appellate court rejected this argument, concluding that while some users may believe they are viewing a single Google Web page, the Copyright Act, unlike the Trademark Act, does not protect a copyright holder against acts that cause consumer confusion. *Id.*
100. *Google*, 416 F. Supp. 2d at 843. This is due to the nature of in-line linking: after clicking on a thumbnail image aggregated by the Google Image Search, users are not viewing images stored by Google; instead their computers are making a direct connection to the third-party Web sites responsible for transferring content. *Id.*
101. The test merely precludes search engines from being held directly liable for in-line linking and/or framing infringing content stored on third-party Web sites. It still opens the door, however, for copyright holders to defend their rights based on secondary liability for such activity. The court also noted that the initial direct infringers are the Web sites that stole from *Perfect 10* and posted the images for unlimited access on the Web. But for the actions of these third-party Web sites, *Perfect 10* would not have filed suit. *Id.* at 843.
102. *Id.* at 844.
103. *Id.*
104. *Id.* at 839.
105. *Id.*
106. *Id.* at 840.
107. *Perfect 10*, 487 F.3d at 718.
108. *Id.* The court noted that the “deemed distribution” rule does not apply to Google because unlike the facts in *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001) and *Hotaling v. Church of Jesus Christ of the Latter-Day Saints*, 118 F.3d 199 (4th Cir. 1997), the search engine does not own a collection of *Perfect 10*’s images nor does it communicate these images to the computers of people using the search engine. *Perfect 10*, 487 F.3d at 719. Further, though Google indexes *Perfect 10*’s images, it does not have a collection



- of stored full-size images it makes available to the public, which seemingly was protected under the “server test.” *Id.*
109. 545 U.S. 913 (2005). Generally speaking, a party is a contributory infringer if that party has knowledge of the direct infringement, and “induces, causes or materially contributes” to the activity of the direct infringer. *Perfect 10*, 487 F.3d at 727. In order to succeed on a claim for secondary liability, however, *Perfect 10* had to first establish that third-parties had directly infringed its copyrighted images. *Id.* at 725 (citing *Napster*, 239 F.3d at 1013 n.2) (“Secondary liability for copyright infringement does not exist in the absence of direct infringement by a third-party.”). *Perfect 10* claimed that third-parties directly infringed in three ways: (1) third-party Web sites reproduced, displayed and distributed unauthorized copies of the images; (2) individual users of Google stored full-size infringing images on their computers; and (3) users who link to infringing Web sites automatically make cache copies of the full-size images which directly infringes on *Perfect 10*’s right of reproduction. *Id.*
  110. *Grokster*, 545 U.S. at 913.
  111. Ultimately, the district court granted summary judgment in favor of the plaintiffs, finding “massive” copyright infringement on the defendant’s P2P network and “overwhelming” evidence of unlawful conduct. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 454 F. Supp. 2d 966, 987-91 (C.D. Cal. 2006).
  112. See 35 U.S.C § 271 (b). With respect to contributory liability, the Supreme Court has defined two categories: (1) liability predicated on actively encouraging or inducing infringement through specific acts or (2) on distributing a product distributees use to infringe copyrights if the product is not capable of substantial noninfringing uses. *Perfect 10*, 487 F.3d at 726 (citing *Grokster*, 545 U.S. at 942) (Ginsburg, J., concurring) (quoting *Sony*, 464 U.S. at 442). In *Perfect 10*, the Ninth Circuit noted that the second category was not applicable because assuming the principle enunciated in *Sony* applies to the operation of Google’s search engine, then Google cannot be held liable for contributory infringement solely because the design of its search engine facilitates such infringement. *Id.* at 727. Nor can Google be held liable solely because it did not develop technology that would enable its search engine to automatically avoid infringing images. *Id.*
  113. *Grokster*, 545 U.S. at 936-37.
  114. *Perfect 10*, 487 F.3d at 727.
  115. Chiefly, the Ninth Circuit referenced *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1021-22 (9th Cir. 2001) (holding that because Napster had knowledge of its users’ infringing activity and the ability to control that activity it was therefore secondarily liable). Additionally, the Ninth Circuit referenced *Religious Technology Center v. Netcom On-Line Communication Services, Inc. (Netcom)*, 907 F. Supp. 1361 (N.D. Cal 1995). In *Netcom*, a disgruntled former Scientology minister posted allegedly infringing copies of Scientology works on an electronic bulletin board service. *Id.* at 1365-66. The messages were stored on the bulletin board operator’s computer, then automatically copied onto Netcom’s computer, and from there copied onto other computers comprising a “worldwide community” of electronic bulletin board systems. *Id.* at 1366-67. The court held that if the plaintiffs could prove that Netcom knew or should have known that the minister infringed plaintiff’s copyrights, “Netcom [would] be liable for contributory infringement since its failure to simply cancel the infringing message and thereby stop an infringing copy from being distributed worldwide constitute[d] substantial participation in [the former minister’s] public distribution of the message.” *Id.* at 1374.
  116. *Perfect 10*, 487 F.3d at 729.
  117. *Id.* The Ninth Circuit also remanded the issue of whether *Perfect 10* would likely succeed in showing that Google was not entitled to the limitations on injunctive relief provided by title II of the Digital Millennium Copyright Act. *Id.* at 732.
  118. *Id.* at 729. With respect to Amazon.com, the Ninth Circuit upheld the lower court’s finding that *Perfect 10* is not likely to succeed on its claim that Amazon.com is liable for direct infringement because it merely in-line linked to the thumbnails on Google’s server and to the full-size images on third-party Web sites. *Id.* at 732. Additionally, the Ninth Circuit concluded that *Perfect 10* is not likely to succeed on its claim of vicarious infringement because Amazon.com does not have the right and ability to supervise infringing activity of Google or third-parties. *Id.* The Ninth Circuit, however, remanded the issue of contributory infringement, concluding that factual disputes remained as to whether notices given to Amazon.com gave the Web site operator “actual knowledge of specific infringing activities available using its system and whether Amazon.com could have taken reasonable and feasible steps to refrain from providing access to such images, but failed to do so.” *Id.*
  119. *Id.*
  120. *Id.*
  121. *Id.*
  122. 239 F.3d 1004.
  123. *Id.* at 1021-22.
  124. *Id.* The court also noted that Google does not have a “legal” right to stop or limit the infringement through its AdSense agreements with advertisers because *Perfect 10* has not shown that Google has contracts with third-party Web sites that empower Google to stop or limit them from reproducing, displaying and distributing infringing *Perfect 10* images on the Internet. *Id.* Additionally, any termination rights in the contracts do not give Google the right to stop the direct infringement by third-party Web sites. *Id.*
  125. *Id.* The district court found that Google’s supervisory power is limited because “Google’s software lacks the ability to analyze every image on the [I]nternet, compare each image to all the other copyrighted images that exist in the world . . . and determine whether a certain image on the Web infringes someone’s copyright.” *Perfect 10*, 416 F. Supp. 2d at 858. The district court also concluded that *Perfect 10*’s suggestions regarding measures Google could implement to prevent its Web crawler from indexing infringing images were not workable. *Id.* at 858 n.25.
  126. *Perfect 10*, 487 F.3d at 731. In *Napster*, the defendant had the ability to identify and police infringing conduct by searching its index for song titles. *Napster*, 239 F.3d at 1023-24. Additionally, in *Fonivisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 262 (9th Cir. 1996), the swap meet operator had the ability to identify and police infringing activity by patrolling its premises.
  127. *Perfect 10*, 487 F.3d at 731.
  128. *Perfect 10, Inc. v. Visa Int’l Serv. Assoc.*, 494 F.3d 788 (9th Cir. 2006).
  129. *Id.* at 797.
  130. *Id.*
  131. *Id.* at 798 and n.8.

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# Antitrust Looms Large in the Supreme Court's Past Term

Prepared by the Antitrust Litigation Committee

The Supreme Court had an uncommonly active year in 2007 in the area of antitrust, deciding four cases:

- In *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*,<sup>1</sup> the Court overruled nearly a century of precedent when it held that vertical agreements between manufacturers and retailers to set minimum resale prices are to be analyzed under a rule of reason standard, rather than under the *per se* rule.
- The Court re-examined the pleading standard on a Rule 12 motion to dismiss in *Bell Atlantic Corp. v. Twombly*,<sup>2</sup> dealing specifically with complaints alleging a conspiracy based on parallel behavior.
- In *Credit Suisse Securities (USA) LLC v. Billing*,<sup>3</sup> the Court held that the antitrust laws were implicitly repealed by the securities laws with respect to conduct involving the promotion and sale of newly issued securities.
- Finally, the Court held in *Weyerhaeuser Co. v. Ross-Simmons Hardwood Lumber Co.*<sup>4</sup> that the legal standard applicable to predatory pricing by a monopolist also applies to allegedly predatory buying activity by a monopolist.

We discuss each decision further below.

## **Leegin: Liability for Vertical Minimum Resale Price Maintenance Re-Evaluated**

In *Leegin Creative Leather Products, Inc. v. PSKS, Inc. d/b/a Kay's Kloset*,<sup>5</sup> the Supreme Court continued its trend favoring rule of reason analysis, instead of *per se* condemnation, for competitive practices challenged under Section 1 of the Sherman Act. This time, the Court set its sights on vertical agreements between manufacturers and retailers to set minimum resale prices, a practice deemed a *per se* violation of Section 1 of the Sherman Act since the Court's 1911 decision in *Dr. Miles Medical Co. v. John D. Park & Sons Co.*<sup>6</sup> A "minimum" resale price maintenance arrangement sets the floor price, below which a retailer may not sell.<sup>7</sup>

In a 5–4 decision, the majority overruled *Dr. Miles* and its progeny. Justice Kennedy authored the majority decision and was joined by the Chief Justice along with Justices Scalia, Thomas, and Alito. Justice Breyer authored the dissent and was joined by Justices Stevens, Souter, and Ginsberg.

Defendant Leegin Creative Leather Products ("Leegin") is a manufacturer and distributor of leather goods and accessories sold under the brand name "Brighton" throughout the United States in more than 5,000

retail stores. Beginning in 1997, Leegin instituted the "Brighton Retail Pricing and Promotion Policy," whereby it refused to sell Brighton products to retailers who discounted them below Leegin's "suggested" retail prices.<sup>8</sup> Plaintiff PSKS operated a retail store known as Kay's Kloset ("Kay's"). Kay's agreed to the Brighton Retail Pricing and Promotion Policy, but subsequently began discounting Brighton products by 20 percent. When Kay's refused Leegin's request to stop discounting from the suggested retail prices, Leegin stopped selling Brighton products to Kay's. Kay's alleged that it was injured because retail sales of Brighton products accounted for approximately 40–50 percent of its profits.

Kay's filed suit in the Eastern District of Texas alleging a *per se* violation of Section 1, premised on a retail price maintenance conspiracy between Leegin and its retailers adhering to the Brighton Retail Pricing and Promotion Policy. The District Court ruled that Leegin could not present expert testimony in support of a rule of reason defense because *Dr. Miles's per se* rule applied.<sup>9</sup> A jury found for Kay's and awarded it \$1.2 million in damages. After trebling and costs, the District Court entered judgment for Kay's in the amount of \$3,975,000. The Fifth Circuit Court of Appeals affirmed the judgment, rejecting Leegin's argument that the rule of reason applied to its pricing agreements with retailers.<sup>10</sup> When Justice Scalia granted a stay of the Fifth Circuit's judgment in August 2006,<sup>11</sup> the Supreme Court's likely willingness to revisit *Dr. Miles* quickly captured the attention of the antitrust bar. The grant of certiorari itself came in December 2006.<sup>12</sup>

Writing for the majority, Justice Kennedy reasoned that minimum retail price maintenance agreements no longer qualified as a restraint having "manifestly anti-competitive" effects necessary for *per se* class treatment.<sup>13</sup> The majority cited what it believed to be equivocal support in the economic literature endorsing the anticompetitive effects of such agreements, with some studies finding that retail price maintenance agreements produced desirable effects.<sup>14</sup> The majority also cited the support of the Department of Justice and Federal Trade Commission for replacing the *per se* rule with a rule of reason standard.<sup>15</sup> The Court seemed particularly concerned with a need to protect manufacturers and retailers from "free riding," which is said to occur when retail stores that rely on higher prices and margins, and whose reputation and practices can have positive effects on the products they sell, are undercut by discounting retailers like Wal-Mart and Sam's Club.<sup>16</sup>

The majority also took aim at *Dr. Miles's* reliance on common law principles, an approach that, in the majority's view, was uninformed by economic justification,

and thus produced an unreliable result. Demonstrating a willingness to consider anew antitrust decisions and rationales formulated in the early years following passage of the Sherman Act, the Court observed that it “should be cautious about putting dispositive weight on doctrines from antiquity but of slight relevance.”<sup>17</sup>

Moreover, while acknowledging that a high incidence of manufacturers and retailers agreeing to set minimum retail prices could result in higher overall consumer prices, the majority believed that the practice of resale price maintenance is relatively uncommon.<sup>18</sup> The majority also believed that such agreements were likely to be beneficial because they can help promote interbrand competition, thereby promoting the policies underlying the antitrust laws generally. As a caveat, the majority did warn, however, that should retail price maintenance agreements become more prevalent, the federal courts should be ready to take account of the potentially anticompetitive effects of such agreements in undertaking the rule of reason analysis necessary to determine their lawfulness. Lastly, buttressed by the trend away from applying a *per se* rule to vertical restraints, the majority explained that overruling *Dr. Miles* was the next logical step based on a seemingly more informed interpretation of the economic and legal principles underpinning the antitrust laws.

Reflecting the closeness of the Court’s ruling, the dissent took issue with the pillars on which the majority built its ruling. For example, Justice Breyer agreed that the economic literature was equivocal and that minimum retail price maintenance agreements probably did have both pro- and anti-competitive effects. But he also maintained that lack of economic consensus weighed strongly in favor of adhering to the long-standing *Dr. Miles per se* standard that pervades the expectations and decision-making of manufacturers, retailers and consumers.<sup>19</sup> Indeed, Justice Breyer noted that *Dr. Miles* has been cited with approval many times in 96 years, including in the very economic literature relied upon by the majority.<sup>20</sup>

The dissent also noted that while federal enforcers now supported jettisoning *Dr. Miles*, 30 years earlier those same agencies strongly endorsed repealing fair trade legislation because, as they then told Congress, the effect of vertical price-fixing was to increase consumer prices. There was, the dissent argued, no particularly strong empirical evidence developed during the intervening years that explained this changed federal position. Indeed, led by New York, 37 states took a position contrary to those of their federal counterparts and urged the Supreme Court to adhere to *Dr. Miles*.<sup>21</sup>

In all events, the Supreme Court reversed the Fifth Circuit and remanded the case for further proceeding consistent with the majority decision to apply a rule of reason analysis. The Fifth Circuit has remanded the case to the District Court.<sup>22</sup> A few federal courts have since cited the *Leegin* decision, but none has yet accepted the

Supreme Court’s invitation to explore adapting a rule of reason analysis to a vertical price-fixing agreement.

## **Twombly: Pleading Standard Re-examined in Conspiracy Action**

In *Bell Atlantic Corp. v. Twombly*,<sup>23</sup> the Supreme Court re-examined the pleading standard in a case alleging a violation of Section 1 of the Sherman Act based on parallel behavior by telecommunications companies. The result was a decision that imposes a more rigorous standard in antitrust conspiracy cases—how much more remains to be developed—and that may well affect federal pleading standards more generally. Plaintiffs were telephone subscribers who alleged that defendants, local telephone carriers, conspired to avoid competition after they were encouraged to compete in one another’s markets under the 1996 Telecommunications Act.

Plaintiffs alleged parallel conduct: none of the defendant companies entered another’s market, and they employed similar restrictive practices to keep out new entrants. The district court granted defendants’ motions to dismiss because plaintiffs failed sufficiently to allege “plus-factors” to support their theory of collusion. The Second Circuit disagreed, holding that the liberal notice pleading standards under Rule 8 did not require plaintiffs to plead more than parallel conduct. Reversing, the Supreme Court revisited the pleading standard on a motion to dismiss, derived from *Conley v. Gibson*.<sup>24</sup> In *Conley*, the Supreme Court held that “a complaint should not be dismissed for failure to state a claim unless it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief.”<sup>25</sup> The *Twombly* Court, however, took aim at the *Conley* test:

[T]here is no need to pile up further citations to show that *Conley*’s “no set of facts” language has been questioned, criticized, and explained away long enough. . . . The phrase is best forgotten as an incomplete, negative gloss on an accepted pleading standard: once a claim has been stated adequately, it may be supported by showing any set of facts consistent with the allegations in the complaint.<sup>26</sup>

The Court also advanced a new interpretation of Rule 8, which provides that a plaintiff must plead only “a short and plain statement of the claim showing that the pleader is entitled to relief.” The Court drew a distinction between a “showing” and a conclusory assertion that the pleader is entitled to relief. The Court explained that “factual allegations must be enough to raise a right to relief above the speculative level.”<sup>27</sup> The Court held that *Twombly*’s complaint was legally insufficient because plaintiffs failed to state a claim for relief that was “plausible on its face.”<sup>28</sup>

*Twombly* is significant in two respects. First, it already has been, and will continue to be, used to argue that a

heightened pleading standard exists not only for antitrust conspiracy claims in particular, but also for all federal claims generally. This effect is inevitable, even though the Court expressly stated that it was *not* announcing a new heightened pleading standard, and indeed recognized that it lacked the authority to revise Rule 8.<sup>29</sup> Second, *Twombly* is notable for failing to shed light on the type of “plus-factors” that are necessary to state a legally sufficient conspiracy claim based on “conscious parallelism” under Section 1 of the Sherman Act.

### **Billing: Implicit Repeal of the Antitrust Laws Re-visited**

In *Credit Suisse Securities (USA) LLC v. Billing*,<sup>30</sup> the Supreme Court clarified the extent to which the antitrust laws may be implicitly repealed when challenged conduct is heavily regulated. The decision thus reflects the disfavor, evident several years ago in *Trinko*,<sup>31</sup> for antitrust court review of business conduct within the authority of regulatory officials.

The plaintiffs were a group of buyers of newly issued securities, who alleged that underwriters of initial public offerings of securities (“IPOs”) had agreed with each other to adopt restrictive practices that artificially inflated the price of new stock offerings. Among other things, the plaintiffs alleged that the underwriters had agreed with each other not to give allocations of newly issued stock in IPOs unless the recipient either pledged to buy additional shares of the same stock at higher prices or agreed to purchase other less desirable securities from the underwriters. The Court of Appeals for the Second Circuit concluded that the securities laws did not implicitly repeal the antitrust laws in this area and permitted the plaintiffs’ lawsuit to proceed.

The Supreme Court, in a 7-1 decision,<sup>32</sup> reversed the Court of Appeals, holding that, in the context of the conduct alleged in this case, the securities laws and the antitrust laws were “clearly incompatible.” First, the Court noted that the general type of activity in question—the efforts by underwriters jointly to promote and sell newly issued securities—is “central to the proper functioning of well-regulated capital markets.”<sup>33</sup> Second, the Court observed that Congress had granted the Securities and Exchange Commission (“SEC”) authority to supervise all of the activities in question, and that the SEC had in fact exercised that authority to regulate the general conduct that the plaintiffs challenged. Most significantly, the Court concluded that the application of the antitrust laws to the conduct alleged was incompatible with the SEC’s administration of the securities laws, even though the current SEC regulations actually disapprove of that conduct. The Court explained that there was a clear incompatibility between the antitrust laws and securities laws because there is a fine line between what the SEC permits and what it forbids, and only the SEC has the expertise to determine whether certain conduct falls on one side of that line or

the other. It found that if these determinations were made by the courts in antitrust cases, then there would be an unacceptable risk of inconsistent results and “unusually serious mistakes” that would cause underwriters to avoid a wide range of conduct that the securities laws permit or even encourage.<sup>34</sup>

Accordingly, the Court held that the securities laws were “clearly incompatible” with the application of the antitrust laws in this context, and that the application of antitrust laws to the conduct challenged by the plaintiffs was implicitly precluded. As a result, the plaintiffs’ antitrust claims could not proceed. This decision will be important not only for companies in the securities industry, but also for those in regulated industries generally who maintain that the antitrust laws are inconsistent with the statutes and regulations governing their industries.

### **Weyerhaeuser: Liability Test Established for Predatory Over-Bidding by a Buyer**

Antitrust actions brought against buyers, rather than sellers, are relatively unusual. Rarer still are antitrust actions brought against an individual buyer for offering to pay too much for a needed item. In *Weyerhaeuser Co. v. Ross-Simmons Hardwood Lumber Co.*,<sup>35</sup> the Supreme Court considered the issue of predatory pricing liability by a monopsonist, i.e., a buyer with monopoly power. The case afforded the Court the opportunity to decide whether the analysis adopted in *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*<sup>36</sup> to evaluate *seller* liability for predatory pricing also applied to purchasing activity by a buyer. *Brooke Group* adopted a two-part test for proving predatory pricing by a seller:

“First, a plaintiff seeking to establish competitive injury resulting from a rival’s low prices must prove that the prices complained of are below an appropriate measure of its rival’s costs. . . .” Second, a plaintiff must demonstrate that “the competitor had . . . a dangerous probabilit[y] of recouping its investment in below-cost prices.”<sup>37</sup>

In *Weyerhaeuser*, the Supreme Court considered not a seller alleged to have charged too little in order to drive out rival sellers, but rather a powerful buyer said to have paid too much as part of a scheme to exclude rivals from the purchase market. The Court unanimously endorsed the *Brooke Group* analysis, holding that it applied as well to predatory “buy-side” activity, the effect of which was to deny purchasing rivals access to a necessary input.

*Weyerhaeuser* involved the market for red alder sawlogs, which mills in the Pacific Northwest process into hardwood lumber. Ross-Simmons, the plaintiff, operated a sawmill in Washington until going out of business in 2001. Weyerhaeuser, a competitor, operated six sawmills in the region, and had a roughly 65 percent share of the



market for the purchase of alder sawlogs—a “monopsony” or near-monopsony position. In the “downstream” or finished lumber market, however, alder lumber competed with other types of hardwood lumber. Thus, Weyerhaeuser’s share of this downstream market was on the order of 3 percent.

In the period leading up to Ross-Simmons’s cessation of operations, sawlog prices increased whereas finished lumber prices decreased—contrary to historical conditions in which sawlog prices fluctuated with finished lumber prices. With its input costs rising while prices for finished lumber declined, Ross-Simmons suffered losses and ended its operations.

Ross-Simmons alleged that Weyerhaeuser was the cause of its demise. Asserting Sherman Act § 2 monopolization and attempted monopolization claims, Ross-Simmons maintained that Weyerhaeuser engaged in “predatory overbidding and overbuying”—i.e., paying a higher price for sawlogs than the market otherwise called for, and purchasing more logs than it needed for business operations. According to Ross-Simmons, the effect of Weyerhaeuser’s activity was artificially to inflate the price needed to acquire alder sawlogs, thereby unlawfully excluding Ross-Simmons and rival purchasers.

At trial, the district court instructed the jury that anticompetitive conduct, for Section 2 purposes, could be proven if Weyerhaeuser “purchased more logs than it needed, or paid a higher price for logs than necessary, in order to prevent [Ross-Simmons] from obtaining the logs they needed at a fair price.”<sup>38</sup> The jury held that Ross-Simmons had proven its monopolization claim, and awarded damages of \$26 million, which the district court trebled, producing a judgment of nearly \$79 million.<sup>39</sup>

On appeal to the Ninth Circuit, Weyerhaeuser argued that the “over-buying” jury instruction was erroneous, and that, to establish liability for predatory buy-side conduct, the *Brooke Group* requirements needed to be met. The Ninth Circuit declined, however, to apply *Brooke Group* to predatory buy-side activity.

An important consideration underlying the *Brooke Group* analysis is that consumers benefit from the lower prices that result from allegedly predatory pricing by sellers. But in the Ninth Circuit’s view, “consumers and stimulation of competition do not necessarily result from predatory bidding the way they do from predatory pricing.”<sup>40</sup> The Ninth Circuit saw no consumer benefit “during this or [the] predation period if the firm raises or maintains the same price level for its finished products.”<sup>41</sup> And, it found that if the predator did lower its prices for finished products, then that “would place even greater pressure on competitors, thereby increasing the threat to competition arising from predatory bidding.”<sup>42</sup> Accordingly, the Court of Appeals upheld the jury verdict against Weyerhaeuser.

The Supreme Court, in an 8–0 decision written by Justice Thomas, vacated the Ninth Circuit’s judgment. The Court found that because there is a “close theoretical connection” between monopoly and monopsony, “[p]redatory-pricing and predatory-bidding claims are analytically similar.”<sup>43</sup> As Justice Thomas explained:

A predatory bidder ultimately aims to exercise the monopsony power gained from bidding up input prices. To that end, once the predatory bidder has caused competing buyers to exit the market for purchasing inputs, it will seek to “restrict its input purchases below the competitive level,” thus “reduc[ing] the unit price for the remaining input[s] it purchases. . . .” The reduction in input prices will lead to “a significant cost saving that more than offsets the profit[s] that would have been earned on the output. . . .” If all goes as planned, the predatory bidder will reap monopsonistic profits that will offset any losses suffered in bidding up input prices.<sup>44</sup>

The Court determined that both monopoly and monopsony claims involve the deliberate use of unilateral pricing activities for anticompetitive purposes. It also determined that both types of claims require firms to incur short-term losses on the chance they might reap supracompetitive profits in the future.

Thus, the Court found that this “kinship” suggested that similar legal standards should apply to both types of claims. More specifically, the Court held that to impose liability for predatory bidding:

[1.] A plaintiff must prove that the alleged predatory bidding led to below-cost pricing of the predator’s outputs. That is, the predator’s bidding on the buy side must have caused the cost of the relevant output to rise above the revenues generated in the sale of those outputs; [and]

\* \* \*

[2.] A predatory-bidding plaintiff also must prove that the defendant has a dangerous probability of recouping the losses incurred in bidding up input prices through the exercise of monopsony power.<sup>45</sup>

Accordingly, the Supreme Court vacated the Ninth Circuit’s judgment and remanded for further proceedings.

Litigation over alleged predatory bidding probably is not the stuff around which to build an antitrust practice.



Indeed, some believe that the subject lends itself more to intellectual concerns, rather than to practical business considerations. Did the Supreme Court, therefore, take *Weyerhaeuser* merely to reverse a large jury award rendered under an erroneous jury instruction? Or was there more on the Supreme Court's agenda? Perhaps the lurking question here is whether *Weyerhaeuser* foreshadows the Court's eventual approach to analyzing actionable exclusionary conduct for purposes of Section 2 more generally. That debate is just now beginning.<sup>46</sup>

## Endnotes

1. 127 S. Ct. 2705 (2007).
2. 127 S. Ct. 1955 (2007).
3. 127 S. Ct. 2383 (2007).
4. 127 S. Ct. 1069 (2007).
5. 127 S. Ct. 2705 (2007).
6. 220 U.S. 373 (1911).
7. In *State Oil Co. v. Kahn*, 522 U.S. 3 (1997), the Supreme Court held that the rule of reason applied to "maximum" resale price maintenance agreements—where the ceiling price, above which a retailer may not sell, is set. The Court noted that such restrictions have the potential to "stimulate interbrand competition." *Id.* at 14.
8. The Supreme Court upheld the practice of a supplier announcing its "suggested" retail prices and unilaterally refusing to deal with retailers who fail to adhere to them in *United States v. Colgate & Co.*, 250 U.S. 300 (1919). However, the supplier must act unilaterally, as Colgate's safe harbor does not extend to an agreement between market participants at different distribution levels.
9. *PSKS, Inc. v. Leegin Creative Leather Prods., Inc.*, No. 2:03-CV-107, 2004 U.S. Dist. LEXIS 30414 (E.D. Tex. Mar. 25, 2004).
10. *PSKS, Inc. d/b/a Kay's Kloset v. Leegin Creative Leather Prods., Inc.*, No. 04-41243, 2006 U.S. App. LEXIS 6879 (5th Cir. Mar. 20, 2006).
11. *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 127 S. Ct. 28 (2006).
12. 127 S. Ct. 763 (2006).
13. *Leegin*, 127 S. Ct. at 2713 (quoting *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 50 (1977)).
14. *Id.* at 2714-17.
15. *Id.* at 2721.
16. *Id.* at 2716 ("Minimum resale price maintenance alleviates the problem because it prevents the discounter from undercutting the service provider. With price competition decreased, the manufacturer's retailers compete among themselves over services.").
17. *Id.* at 2714.
18. *Id.* at 2719, 2725.
19. *Id.* at 2727-37.
20. *Id.* at 2725, 2731.
21. Brief for New York and 36 Other States as Amici Curiae Supporting Respondent, No. 06-480, 127 S. Ct. 28 (2007).
22. *PSKS, Inc. d/b/a Kay's Kloset v. Leegin Creative Leather Prods., Inc.*, No. 04-41243, 2007 U.S. App. LEXIS 20957 (5th Cir. Aug. 30, 2007).
23. 127 S. Ct. 1955 (2007).
24. 355 U.S. 41 (1957).
25. *Id.* at 45-46.
26. 127 S. Ct. at 1969.
27. *Id.* at 1959.
28. *Id.* at 1960.
29. *Id.* at 1968.
30. 127 S. Ct. 2383 (2007).
31. *Verizon Commc'ns, Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398 (2004).
32. Justice Breyer wrote the majority opinion, with Justice Stevens concurring. Justice Thomas dissented. Justice Kennedy took no part in the consideration or decision of the case.
33. 127 S. Ct. at 2392.
34. *Id.* at 2396.
35. *Weyerhaeuser Co. v. Ross-Simmons Hardwood Lumber Co.*, 127 S. Ct. 1069 (2007) (*Weyerhaeuser II*), *rev'd sub nom. Confederated Tribes of Siletz Indians of Oregon v. Weyerhaeuser Co.*, 411 F.3d 1030 (9th Cir. 2005) (*Weyerhaeuser I*).
36. 509 U.S. 209 (1993).
37. *Weyerhaeuser II*, 127 S. Ct. at 1074 (ellipses and bracketed matter in original) (quoting *Brooke Group*, 509 U.S. at 222, 224.).
38. *Weyerhaeuser II*, 127 S. Ct. at 1073 (internal quotations omitted; bracketed matter in original). *See also Weyerhaeuser I*, 411 F.3d at 1036 n.8 (quoting the jury instruction).
39. Strictly speaking, Ross-Simmons tried the case on the theory that *Weyerhaeuser* engaged not only in buy-side price predation, but also in non-price anticompetitive conduct that included exclusive dealing arrangements and misrepresentation to state officials. *Weyerhaeuser I*, 411 F.3d at 1034. *See also* Brief for Appellee-Respondent at 2, *Weyerhaeuser II*, No. 05-381, 2006 WL 2950594 (Oct. 12, 2006) (asserting that "[t]his is *not* a predatory pricing case . . . [but] was pled and tried as a garden-variety monopolization case in which the defendant was accused of multiple acts of anticompetitive conduct") (emphasis in original). However, as the Ninth Circuit and the Supreme Court framed the appellate issues, the non-price conduct effectively dropped out of the case, and the lawsuit took on more cabined a quality than Ross-Simmons argued was warranted by the evidence. *See id.* at 7-18 (setting out the full array of anticompetitive conduct by *Weyerhaeuser* that Ross-Simmons asserted the evidence proved).
40. *Weyerhaeuser I*, 411 F.3d at 1037 (footnote omitted).
41. *Id.* at 1037-38.
42. *Id.* at 1038 (footnote omitted).
43. *Weyerhaeuser II*, 127 S. Ct. at 1076.
44. *Id.* at 1075-76 (bracket matter in original; footnote omitted) (quoting Steven C. Salop, *Anticompetitive Overbuying by Power Buyers*, 72 ANTITRUST L.J. 669, 672 (2005)).
45. *Id.* at 1078.
46. *See* Thomas A. Lambert, *Markets and the Law: Weyerhaeuser and the Search for Antitrust's Holy Grail*, 2007 CATO SUP. CT. REV. 277 (2006-2007) (arguing that the *Weyerhaeuser* court implicitly adopted a requirement of exclusion of an equally efficient rival as a precondition for unlawful exclusionary conduct).

**This report was prepared by the Antitrust Litigation Committee of the Commercial and Federal Litigation Section of the New York State Bar Association. The Antitrust Litigation Committee is co-chaired by Jay L. Himes of the New York State Attorney General's Office and Hollis L. Salzman of Labaton Sucharow LLP. To join this Committee, please contact Mr. Himes at jay.himes@oag.state.ny.us or Ms. Salzman at hsalzman@labaton.com.**

tion out of state made it difficult for her to continue as an officer with the Section. I wish her all success in her personal and professional life.

Our outgoing President Kate Madigan initiated an effort to grow the New York State Bar Association membership during the coming year. We all recognize that in private practice the pressure to produce billable hours has discouraged some lawyers from participating in Bar activities. If you are reading this message, you have already decided that membership can enhance your career. I ask that you encourage the lawyers in your respective firms or your friends to join the Section. In particular, the membership of the Section does not accurately reflect the growing diversity of the Bar across the state. In the coming year I hope to encourage minority lawyers and woman to join the Section in larger numbers and contribute their unique experiences to the Section's activities.

About half of our Section's members have not signed up to join one of our many committees. If you are among those who have not joined or have not participated recently in committee activities, I must urge you to get involved. The most rewarding activities for most of our members come from becoming involved in these committees. There are three important reasons why you should consider becoming active in the Section's committees.

First, you can have a direct impact on the development of the law or the administration of justice in the State of New York. Our Section is in regular contact with state legislators, members of the judiciary and bar leaders who seek our advice or support on issues impacting lawyers and judges in New York. The Commercial Division of the New York State Supreme Court grew out of a need identified by an earlier generation of our Section leaders. The initial success of the Commercial Division in New York County resulted in new Commercial Division courts in counties across the state. New legislative initiatives are regularly brought to the attention of the Section, and each year the Section comments on a wide variety of pending legislation impacting court procedures and substantive law.

Second, the Section provides the opportunity to meet and work directly with state and federal judges in your

region. A number of current and retired judges serve on the Section's committees. They are also frequent contributors to the Section's many successful CLE programs. Developing a relationship with judges in your area will enhance your professional standing in your community. The insights learned in dealing with judges on Section activities will make you a more effective advocate when you appear in court on behalf of your clients.

Third, Section activities allow you to network with a broad cross-section of the Bar in your community. A younger lawyer can build a professional reputation by becoming active in Section activities. You will gain access to Bar and law firm leaders who can enhance your career in many ways. For more experienced lawyers, this Section offers an opportunity to focus on your professional practice specialties to help shape the direction of the law. The Section is always in need of committed and knowledgeable leaders who are prepared to commit time to committee activities. The Section's many activities, from CLE programs to annual meetings, provide an ideal opportunity for professional networking. Developing personal relationships with the senior law firm partners and general counsel of major companies in your community is one of the best ways of enhancing your professional career. In addition, you are likely to make some new friends who will make the practice of law even more rewarding.

I am delighted to serve the Section during the year of its twentieth anniversary celebration. To celebrate this milestone, the Section expects to have a celebratory reception for our members and the judiciary. You will be invited as soon as the plans are finalized.

Many of the Section's activities for the coming year are now in the planning stage. I need and encourage you to contact me or the Section's committee chairs with your ideas and suggestions. If there are activities, professional reports, or specific CLE programs of interest to you, please do not hesitate to call me or send an e-mail.

I look forward to a productive year as the Section Chair, and I hope to meet as many Section members as possible during the months ahead.

**Peter Brown**

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