



Federal Bar Association

— Massachusetts Chapter —



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President's Column

Greetings! I am honored to serve as President of the Massachusetts Chapter of the Federal Bar Association this year. Our Chapter is fortunate to have a broad based and growing membership led by an outstanding Executive Committee. *More on page 2*

General Principles for Prosecuting Corporations Scott P. Lopez

The Department of Justice's aggressive efforts to investigate and prosecute financial crimes make it more likely that businesses will be the target of federal criminal investigations. It is therefore essential that every federal civil practitioner be familiar with some principles of corporate criminal liability. In this article, Boston attorney Scott P. Lopez provides a general overview of corporate criminal *More on page 2*

Recent Changes to the Federal Rules of Civil Procedure Catherine N. Karuga, Foley Hoag LLP

Gone are the days when calculating time periods in the Federal Rules of Civil Procedure ("Civil Rules") was a time consuming, worrisome and uncertain task. Recent amendments to the Civil Rules, which became effective on December 1, 2009, transformed the method of computing time with the aim of making it simpler, clearer and consistent. In addition to the time-computation amendments, *More on page 5*

D. Mass./1st Circuit Case Update Amrish V. Wadhera, Foley Hoag LLP

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A Massachusetts federal judge affirmed a Bankruptcy Court ruling that the omission of the name of the borrower on the certificate of acknowledgement of a mortgage renders the mortgage avoidable in bankruptcy. The ruling allows the trustee to treat the mortgage as an unsecured claim, stripping the mortgage holder of foreclosure rights. The Court also found that Massachusetts law is sufficiently clear on the issue, even in the absence of direct precedent from the Commonwealth's highest court. *More on page 6*

Astro-Med, Inc. v. Nihon Kohden America, Inc., No. 08-2335, ___ F.3d ___, 2009 WL 3384786 (1st Cir. Oct. 22, 2009)

The First Circuit recently affirmed a jury verdict from the District of Rhode Island, awarding plaintiff company over \$1,000,000 in damages from defendant former employee and his new employer, resulting from violations of non-competition and non-disclosure clauses in the former employee's employment contract. The Court found that personal jurisdiction in Rhode Island *More on page 7*



THE MASSACHUSETTS CHAPTER OF THE
FEDERAL BAR ASSOCIATION

SAVE THE DATE: Wednesday April 14, 2010
Registration 5:30 p.m.
Reception 6:00 – 9:00 p.m.

The FBA Judicial Reception

Honoring Judge Richard G. Stearns

The Seaport Hotel
Boston, Massachusetts

SPONSORSHIP OPPORTUNITIES AVAILABLE
PLEASE CONTACT: Charlene Cox at Kenney & Sams, P.C.
E-Mail: cmcox@KandSlegal.com
Phone: 617-722-6045

President's Column

Please take a moment to review the articles in this newsletter, and be sure to note the exciting FBA events we have planned for our members this year.

The FBA's Annual Judicial Reception is scheduled for April 14, 2010, at the Seaport Hotel in Boston, Massachusetts. We are delighted to be honoring Judge Richard G. Stearns this year. Judge Stearns has made immeasurable contributions to the bench, first as a state superior court judge, and then as a Federal District Court Judge since 1993. His wide range of talents have led to his service for the Federal Government in several extrajudicial capacities as well. Please join us on April 14th to honor the outstanding work Judge Stearns has performed for the state and federal courts in the Commonwealth of Massachusetts.

Our chapter's Young Lawyers Division ("YLD") recently elected its new officers, who are led by Attorney Nicole Murati-Ferrer. Nicole introduces her leadership team in a separate article in this newsletter. Please encourage the young lawyers in your office to get involved in the FBA's YLD.

President-Elect Chris Sullivan is helping the Federal Court to run a Job Interviewing Skills Program for the participants of the "CARE" and "RESTART" programs. These programs assist ex-offenders in their re-entry to society and employment. The FBA Job Skills Program is a one-time event where members of these two federal re-entry programs will receive some job training from an employment specialist, and then participate in three mock job interviews. The FBA is looking for volunteers to serve as mentors to the program participants as they do their mock interviews. Volunteer mock interviewers are needed as well. The event is being held in the Jury Assembly room at the John J. Moakley Courthouse from 12 Noon until 1:45 p.m., on January 20, 2010. Please contact Chris Sullivan at cpsullivan@rkmc.com for more information.

One of the hallmarks of the FBA is the practical, insightful CLE we offer in conjunction with Federal Court Judges and court personnel. Mary Jo Harris is chairing the annual Breakfast Lecture Series. These programs provide FBA members with the opportunity to meet with members of the Federal Court who present informal lectures on topics of interest to federal practitioners. The first Breakfast Lecture is scheduled for 8:00 a.m. on March 23, 2010 at the Federal Courthouse. Judge William Young will discuss class action litigation. Please plan to attend.

The Chapter is also co-sponsoring a program at the Massachusetts Bar Association on March 25, 2010 from 5:00 to 7:00 p.m. on "How to 'Try' Your Case in Mediation." This seminar / round table discussion will focus on how trial techniques and courtroom skills can enhance advocacy at mediation. FBA members receive discounted registration for this event at the MBA.

As you can see, we have an ambitious agenda planned for the FBA this year. Our key to success is your participation. Please take full advantage of your FBA membership and get involved in our numerous CLE and networking activities. We also want to hear from you with regard to other activities you would like to see us sponsor this year.

Please feel free to call me (617-722-6045) or email me at cakenney@KandSlegal.com. I welcome your input and value your contributions to our Chapter.

Best regards,
Chris Kenney

IN MEMORIAM

The Massachusetts Chapter of the Federal Bar Association mourns the recent passing of Frank M. Coffin, former Chief Judge of the United States Court of Appeals for the First Circuit and Morris E. Lasker, former U.S. District Judge for the Districts of New York and Massachusetts.

We honor them for their service as judges, lawyers and leaders.

General Principles for Prosecuting Corporations Scott P. Lopez

liability and the issues that federal prosecutors consider when deciding whether to charge a corporation with a federal crime and/or give credit to the corporation for cooperating with an investigation. Given the Department of Justice's ("DOJ") aggressive efforts to investigate and prosecute financial crimes involving mortgage, securities, health care and corporate fraud, and the likelihood that the government's rescue and stimulus programs create an environment for more financial fraud in the form of false statements, theft of government property, misuse of funds, accounting misstatements, procurement and grant fraud, it is likely that the number of businesses that will be the target of a federal criminal investigation will continue to increase. The purpose of this article is to give federal civil practitioners a general overview of corporate criminal liability and the issues that federal prosecutors consider when deciding whether to charge a corporation with a federal crime and to give credit to the corporation for cooperating with the government's investigation. Potential defendants in such investigations include the entity itself (whether it is organized as a corporation or in some other form), as well as the individuals who actually commit the illegal acts in question, to wit, the entity's managers (i.e., officers and directors) and employees.

Corporations are "legal persons" capable of suing and being sued, and capable of committing crimes. Under the doctrine of *respondet superior* (also known as the imputation rule), a corporation can be held liable for the illegal acts of its directors, officers, employees and agents (hereinafter collectively "agent"). To hold a corporation liable

General Principles for Prosecuting Corporations cont'd.

for the acts of its agent, the government must only establish that the corporate agent's illegal acts (1) were within the scope of her duties and (2) were intended, at least in part, to benefit the corporation.¹

The imputation rule is premised on the concept that the corporation's identity is coextensive with that of its agent because a corporation can only act through its agent. Thus, for corporate liability to attach, courts and prosecutors generally look for a specific corporate agent whose conduct can be examined for conformance with the law.²

An agent's "scope of employment" is one factor that is examined when determining whether an agent's act is an act of the corporation. However, this requirement has not been strictly construed to distinguish between "private" and "corporate" action. Indeed, an agent does not have to have "actual authority" to engage in unlawful behavior. Instead, it is enough for the agent to commit an illegal act while "clothed with authority" in the performance of the agent's "general line of work."³

Similarly, whether an agent is "acting for the benefit" of the corporation is a second factor this is examined to determine when the agent's action is an act of the corporation. Oftentimes, a purpose to benefit the corporation is decisive in equating the agent's action with that of the corporation. Indeed, without such a requirement, the embezzlement of money by a bank teller could be imputed to her employer, making the bank criminally liable for embezzling its own funds.⁴

In many cases, however, an agent can act for mixed reasons – both for self-aggrandizement (both direct and indirect) and for the benefit of the corporation and a corporation can be held liable so long as one motivation of its agent is to benefit the corporation.⁵ Moreover, the "acting for the benefit" requirement is not absolute. Courts have neither required that the corporation actually receive a benefit nor that the agent act exclusively for the benefit of the corporation. Indeed, liability has been found where the unlawful conduct violates the corporation's own internal policies and when the agent who actually committed the criminal act was not acting for the benefit of the corporation, but other corporate employees were aware of the violation and failed to take remedial action.⁶ Finally, a corporate compliance program, even one specifically prohibiting the conduct in question, will not absolve a corporation from criminal liability.⁷

Of course, a corporate agent is responsible for the crimes she personally commits and it is no defense that the crime was committed on behalf of the corporation. Both the corporation and the agent can be convicted for the same crime and inconsistent verdicts are possible (i.e., convict the agent and acquit the corporation and vice versa).⁸

In determining whether to charge a corporation with a crime, federal prosecutors generally apply the same factors they apply when charging individuals. A prosecutor will weigh all of the factors involved in the exercise of prosecutorial judgment including the sufficiency of the evidence; the likelihood of success at trial; the

probable deterrent, rehabilitative, and other consequences of conviction; and the adequacy of noncriminal approaches. When a corporate "person" is involved, however, federal prosecutors will also consider a number of additional factors when deciding whether to charge a corporate target including: (1) the nature and seriousness of the offense, including the risk of harm to the public, and applicable policies and priorities, if any, governing the prosecution of corporations for particular categories of crimes; (2) the pervasiveness of wrongdoing within the corporation, including the complicity in, or the condoning of, the wrongdoing by corporate management; (3) the corporation's history of similar misconduct, including prior criminal, civil and regulatory enforcement actions against it; (4) the corporation's timely and voluntary disclosure of wrongdoing and its willingness to cooperate in the investigation of its agents; (5) the existence and effectiveness of the corporation's pre-existing compliance program; (6) the corporation's remedial actions, including any efforts to implement an effective corporate compliance program or to improve an existing one, to replace responsible management, to discipline or terminate wrongdoers, to pay restitution, and to cooperate with the relevant government agencies; (7) collateral consequences, including whether there is disproportionate harm to shareholders, pension holders, employees, and others not proven personally culpable, as well as the impact on the public arising from the prosecution; (8) the adequacy of the prosecution of individuals responsible for the corporation's malfeasance; and (9) the adequacy of remedies such as civil or regulatory enforcement actions.⁹

When deciding whether to charge a corporation, federal prosecutors have substantial latitude in determining when, whom, how, and even whether to prosecute for violations of federal criminal law. In exercising this discretion, prosecutors will consider the above factors and, in most cases, no single factor will be dispositive. In addition, national enforcement policies in various enforcement areas may require that more or less weight be given to some of these factors than others. For example, the Department of Justice's Antitrust Division only grants amnesty to the first corporation to make full disclosure to the government while the Tax Division has a strong preference for prosecuting responsible individuals, rather than entities, for corporate tax offenses.¹⁰

Corporations who become aware of criminal conduct often conduct an internal investigation to determine the relevant facts, and experienced external counsel are retained so the corporation can demonstrate to the government that the investigation will be independent and credible. Depending on the circumstances, outside counsel may report to the legal department, to senior management or to the board of directors. This structure allows the investigation and its findings to be protected from disclosure by the corporation's attorney-client privilege and attorney work product doctrine.

An internal investigation generally consists of collecting relevant documents and other data, analyzing that data (perhaps with the assistance of other experts like a forensic accountant), and interviewing knowledgeable employees and third parties. Outside

General Principles for Prosecuting Corporations cont'd.

counsel will conduct these interviews after giving the corporation's employees *Upjohn* (or corporate *Miranda*) warnings advising the employees that outside counsel represents the corporation and not the individual employees, that anything said by the employee to outside counsel will be protected by the corporation's attorney-client privilege subject to waiver of the privilege in the sole discretion of the corporation, and that the employee may wish to consult with her own attorney if she has any concerns about potential legal exposure.¹¹

Once a corporation decides to waive the attorney-client privilege and/or attorney work product by sharing the results of an internal investigation, neither First Circuit case law nor Federal Rule of Evidence 502 recognizes any form of "selective waiver." Accordingly, once privileged information is disclosed to a government agency in this Circuit, it will be waived for all purposes and to all parties (including shareholders and others injured by the corporation's conduct and perhaps even criminal defendants seeking exculpatory evidence in any future criminal prosecution).¹²

No issue has been more controversial over the past ten years than the manner in which federal prosecutors have been instructed to evaluate a corporation's "timely and voluntary disclosure of wrongdoing and its willingness to cooperate in the investigation of its agents." Cooperation is a mitigating factor by which a corporation – just like any other subject of a criminal investigation – can gain credit in a case that otherwise is appropriate for indictment and prosecution.

From June 1999 until August 2008, DOJ maintained a written policy of requesting a waiver of a corporation's attorney-client privilege and attorney work product as part of its criminal investigation into alleged corporate wrongdoing. Moreover, a corporation's refusal to waive its privileged materials could be deemed to be uncooperative behavior by the same prosecutor who was deciding whether to indict the corporation. This policy, which was criticized for creating a "culture of waiver" at DOJ, was revised in August 2008 when then Deputy Attorney General Mark Filip issued, on behalf of DOJ, a revised memorandum entitled Principles of Federal Prosecution of Business Organizations and, for the first time, incorporated these guidelines into the United States Attorney Manual (hereinafter "Filip Memo").¹³ The Filip Memo modifies the manner of requesting and evaluating privilege waivers by placing the focus on the disclosure of "relevant facts" and stating that a corporation's cooperation credit shall not be based on the fact of the waiver itself, but rather on the timely disclosure of "relevant facts" concerning the alleged misconduct, whether privileged or not. Nevertheless, if a corporation wants credit for and the benefit of cooperation (i.e., immunity from prosecution and/or a deferred prosecution agreement with conditions) it still must disclose to the government all of the relevant facts it learned through its privileged internal investigation in a timely manner.¹⁴

As a result, notwithstanding the government's modified approach to requesting privileged information, it is clear that DOJ's new guidelines can still be used to pressure corporations to disclose factual information protected by the corporation's attorney-client privilege and attorney

work product to receive credit for its cooperation. Thus, going forward it appears that this Hobson's choice – waiver in exchange for cooperation credit – will continue to challenge any corporation that finds itself in the crosshairs of a federal criminal investigation.

Scott P. Lopez is a trial attorney in Boston, Massachusetts whose practice focuses on white-collar criminal defense and complex business litigation in federal and state courts.

Endnotes:

- 1 New York Central & Hudson River Railroad Co. v. United States, 212 U.S. 481, 493 (1909).
- 2 1 White Collar Crime: Business and Regulatory Offense, § 5.03[1] (O. Obermaier and R. Morvillo, 20th ed. 2009).
- 3 *Id.*
- 4 *Id.*
- 5 United States v. Potter, 463 F.3d 9, 25 (1st Cir. 2006)(stating that the test to determine whether a agent is acting within the scope of employment is "whether the agent is performing acts of the kind which he is authorized to perform and those acts are motivated, at least in part, by an intent to benefit the corporation.").
- 6 *Id.* at § 5.03[1].
- 7 United States v. Basic Construction Co., 711 F.2d 570, 573 (4th Cir. 1983).
- 8 1 White Collar Crime: Business and Regulatory Offense, § 5.04[1].
- 9 See United States Attorney Manual, Title 9, Chapter 9-28.00, Principles of Federal Prosecution of Business Organizations (August 28, 2008), pp. 3-4; available at <http://www.usdoj.gov/opa/documents/corp-charging-guidelines.pdf>.
- 10 *Id.* at 4-5.
- 11 *Upjohn* warnings are named after Upjohn v. United States, 449 U.S. 383 (1981), the case in which the Supreme Court made clear that the corporate attorney-client privilege applied to a much wider group of constituents than the corporation's "control group."
- 12 United States v. Massachusetts Institute of Technology, 129 F.3d 681, 686 (1st Cir. 1997)(rejecting the "selective waiver doctrine"); Fed. R. Evid. 502, Drafting Choices Made by the Advisory Committee, paragraph 4 (noting that the Advisory Committee did not propose adoption of a selective waiver provision); see also United States v. Thompson, 562 F.3d 387, 398 (D.C. Cir. 2009) (where the D.C. Circuit Court of Appeals remanded the case to the district court to determine which company records, including documents from an internal investigation disclosed to the government, were material to the defendant's defense, and to protect against public disclosure of material documents in a manner consistent with defendant's right to a fair trial).
- 13 See United States Attorney Manual, Title 9, Chapter 9-28.00, Principles of Federal Prosecution of Business Organizations (August 28, 2008), available at <http://www.usdoj.gov/opa/documents/corp-charging-guidelines.pdf>. (hereinafter "Filip Memo").
- 14 *Id.* at 10, and note 3.

Recent Changes to the Federal Rules of Civil Procedure

Catherine N. Karuga

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other amendments were made that affect the following issues: amended pleadings; polling jurors; requesting indicative rulings from a district court that lacks jurisdiction because an appeal has been filed; and the definition of “state.”

Time-Computation Amendments

The time-computation amendments addressed several aspects of computing time in the Civil Rules: whether to include intermediate weekends and holidays in computing time periods; reasonableness of existing time periods; how to compute hourly time periods; how to deal with deadlines that fall on weekends and legal holidays; and when a day “ends” for purposes of electronic filings, as opposed to paper filings.

- **“Days are days” approach.** The amendments to Rule 6, which governs the computation of time, adopted the approach that “days are days,” when computing time periods. Consequently, intermediate weekends and legal holidays are now counted when computing all time periods regardless of their length. Prior to the amendments, intermediate weekends and holidays were not counted when computing most short periods but were counted when computing longer periods, which sometimes made for anomalous results. The amendments did not however affect the exclusion of the first day and inclusion of the last day in computing time periods. This new “days are days” approach was also adopted in computing time periods under the Appellate, Bankruptcy and Criminal Rules.

In order to ensure that this new time-computation method did not effectively shorten preexisting time periods, virtually all short deadlines were extended to offset the effect of including intermediate weekends and legal holidays in the calculations. In addition, the amendments changed most time periods of less than 30 days to multiples of 7 days (7, 14, 21 and 28-day periods), so that deadlines will usually fall on weekdays. The amendments to Rule 6, hence resulted in new time periods in 21 of the Civil Rules: Rules 6, 12, 14, 15, 23, 27, 32, 38, 50, 52, 53, 54, 55, 56, 59, 62, 65, 68, 71.1, 72, and 81. For example, rules that contained deadlines of 1, 3 or 5 days, now have deadlines of 7 or 14 days. Deadlines that were previously 10 or 11 days are now 14 or 28 days. The 20-day deadlines became 21-day deadlines.

In addition, the deadlines in some rules were adjusted based on a reconsideration of their reasonableness. For example, the time allowed to prepare and file post-judgment motions was found to be inadequate and thus extended from 10 days to 28 days. Summary judgment motions are now governed by a completely new filing schedule. Any party can now file a summary judgment motion any

time until 30 days after the close of all discovery. Oppositions are due 21 days after service of the motions and replies 14 days after oppositions are served. These new summary judgment filing rules are however default provisions and thus different times may be set by local rule or court order.

To complement these time-computing amendments to the Civil Rules, a conforming law, Statutory Time-Periods Technical Amendments Act of 2009, Pub. L. No. 111-16, was passed, that also became effective on December 1, 2009. This law essentially extends from 5 to 7 days, and from 10 to 14 days, counting legal holidays and weekends, specified deadlines affecting court proceedings to harmonize them with the amendments to the federal time-computation rules. In addition, district courts revised their Local Rules effective December 1, 2009, to make them consistent with the amended Civil Rules. Legal practitioners should therefore revisit specific laws and rules to determine the new deadlines and be mindful that all days are counted in computing the time periods.

- **Computation of hourly time periods.** The amended Rule 6 now explains how to count hourly time periods, whereas before there was no such guidance. The hours start to run immediately on the occurrence of the event that triggers the period and includes hours during intermediate weekends and legal holidays. If the last hour ends on a weekend or legal holiday, the period continues to run until the same time on the next day that is not a weekend or legal holiday. This addition addresses legislation that affects court proceedings in which deadlines are expressed in hours.
- **When deadlines fall on weekends, legal holidays or when the clerk’s office is inaccessible.** When counting forward or backward when a time period is measured either after or before an event, and the deadline falls on a weekend or legal holiday, the amended Rule 6 states that the period continues to run until the end of the next day that is not a weekend or legal holiday. It is important to note that the definition of “legal holiday” in Rule 6 includes state holidays only for forward-counted periods, but not for backward-counted periods. The amendments to Rule 6 also clarify that when the deadline falls on a day or time when the clerk’s office is inaccessible, the time for filing is extended to the same time on the first accessible day that is not a weekend or legal holiday. The “inaccessibility” of the clerk’s office, although not defined by the amendments, would likely have a different meaning depending on whether a filing is electronic or paper.
- **When does the day end for purposes of electronic filing.** The advent of electronic filing has necessitated amendments to the Civil Rules that recognize the difference between electronic and paper filings. The amendments to Rule 6 now provide that the last day of a filing period for electronic filings ends at midnight in the court’s time zone, while the last day for a paper filing ends when the clerk’s office is scheduled to close. Prior to this rule, there was uncertainty as to whether electronic filings still had to be completed before the clerk’s office was scheduled to close, to be considered timely. This is thus

Recent Changes to the Federal Rules of Civil Procedure cont'd.

a change that legal practitioners will appreciate, as it effectively extends filing deadlines by several hours for electronic filings.

Amendments Relating to the Filing of Amended Pleadings

The amendments to the Civil Rules made changes to two rules that set standards for when amended pleadings may be filed. The amendment to Rule 13 deleted subdivision (f), which allowed the court to permit a party to amend a pleading to add an omitted counterclaim. This subdivision was deleted because it was redundant of Rule 15, which generally sets out standards for amended pleadings.

In turn, Rule 15(a) was amended to limit the time when a party may amend a pleading to which a responsive pleading is required, once as a matter of course. Under the amended rule, a party may file an amended pleading without leave of court within 21 days after service of a responsive pleading or 21 days after service of a Rule 12 motion, whichever is earlier. Prior to this amendment, the filing of a responsive pleading immediately cut off the right to amend without leave of court, while the filing of a Rule 12 motion prolonged the time to amend the pleading until the motion was resolved. This had the potential for significant problems when for instance, a party amended a pleading as a matter of course right before a court ruled on a Rule 12 motion.

Amendment Allowing Polling of Jurors

Rule 48 was amended to add a provision requiring the court, upon a party's request, or allowing it on its own, to poll jurors individually. It further allows the court to direct the jury to deliberate further or order a new trial if the poll reveals a lack of unanimity or lack of assent by the number of jurors to which the parties stipulated. This new provision is akin to Criminal Rule 21 which similarly provides for polling of jurors. Whereas the polling of jurors used to be a matter left to the judge's discretion in civil cases, this new provision now guarantees that a party who requests a jury poll will receive it.

Amendment Codifying Requests for Indicative Rulings

The amendments added new Rule 62.1 to the Civil Rules to codify the procedure for requesting indicative rulings. Requests for indicative rulings typically occur when a party files a timely motion, usually a Rule 60(b) motion, in a district court that lacks the authority to grant it because an appeal has been filed. The new rule states that when such a motion is filed, the district court may defer consideration of the motion, deny the motion, state that it would grant the motion if the court of appeals remands for that purpose (an indicative ruling), or state that the motion raises a substantial issue. The Appellate Rules were also amended, adding a parallel Appellate Rule 12.1 on this issue. The procedure set out in the new Rule 62.1 and Appellate Rule 12.1 facilitate cooperation between the district court and the court

of appeals, enabling them to determine whether it is better to decide the appeal before deciding the motion. A party must notify the court of appeals if the district court states that it would grant the motion or that the motion raises a substantial issue. This new rule clarifies a procedure of which many litigants and judges were unaware.

Amendment to the Definition of "State"

Rule 81 was amended to clarify that the definition of "state" includes not only the District of Columbia, but also "any United States commonwealth or territory."

Application

The amendments to the Civil Rules apply to all proceedings commenced after December 1, 2009, and insofar as just and practicable, all pending proceedings.

On the whole, the time-computation amendments are a positive change for legal practitioners who have long wrestled with time computation issues. The new method of computing time is simple to apply and more consistent. Other significant changes to the Civil Rules eliminate some uncertainty and irregularity in federal civil practice. For instance, the codification of the practice of requesting indicative rulings and the guaranteeing of jury polls for parties who request them, has removed the uncertainty and sometimes confusion that accompanied such requests. Also, although the changes to the rules that govern the filing of amended pleadings as a matter of right have limited the deadline to do so, they have also eliminated the irregularity of having the deadline determined by the filing of an Answer or the resolution of a Rule 12 motion. The public comments during the notice-and-comment period for the amendments to the Civil Rules indicated that the vast majority of legal practitioners supported the changes.

D. Mass./1st Circuit Case Update

Amrish V. Wadhera

Mortgage Electronic Registration Systems, Inc. (MERS) v. Warren E. Agin, trustee, No. 09-cv-10988-PBS, ___ F. Supp.2d ___, 2009 WL 4755688 (D. Mass. Nov. 17, 2009)

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In a November 17, 2009 order, Massachusetts federal judge Patti Saris affirmed a Bankruptcy Court ruling that the omission of the name of the borrower on the certificate of acknowledgement of a mortgage renders the mortgage avoidable in bankruptcy. The ruling allows the trustee to treat the mortgage as an unsecured claim, stripping the mortgage holder of foreclosure rights.

Debtor, Matthew Giroux, executed a mortgage in favor of MERS in 2005 with respect to property in North Dalton, MA. The Notary Public

D. Mass./1st Circuit Case Update cont'd.

who completed the mortgage's certificate of acknowledgement did not fill in Giroux's name in the appropriate space. The mortgage was recorded with the Registry of Deeds.

Giroux filed for bankruptcy in 2008. MERS's assignee asserted a first mortgage interest in the property. The bankruptcy trustee filed a complaint seeking avoidance of the mortgage, arguing that because the acknowledgement lacks the identity of the party appearing before the Notary Public, it is materially defective and therefore avoidable. The Bankruptcy Court agreed and allowed the trustee to avoid the mortgage.

On appeal, MERS argued that the Bankruptcy Court made an error of law when it determined that the acknowledgement had a material defect. Alternatively, MERS argued that the District Court should certify the question to the Massachusetts Supreme Judicial Court because Massachusetts law is silent on the issue.

Judge Saris affirmed the Bankruptcy Court's ruling, concluding that Massachusetts requires "strict formalities" in the execution of acknowledgments. Judge Saris also agreed with the Bankruptcy Court's prediction that Massachusetts courts would likely follow *In re Biggs*, 377 F.3d 515 (6th Cir. 2004), which held that the inclusion of the debtor's name in the acknowledgment was not a "purposeless formality" and omission of the name results in avoidance of the mortgage. Even in the absence of controlling precedent from the SJC, Judge Saris found that Massachusetts law is sufficiently clear on the issue, rendering certification to the SJC inappropriate.

***Astro-Med, Inc. v. Nihon Kohden America, Inc.,* No. 08-2335, ___ F.3d ___, 2009 WL 3384786 (1st Cir. Oct. 22, 2009)**

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was appropriate over the defendant company even though all the alleged acts took place out of state, because the company was aware that the employment agreement called for any disputes to be resolved in Rhode Island. Proceeding to the merits, the Court affirmed the jury verdict in full.

On October 22, 2009, the First Circuit Court of Appeals affirmed a jury verdict from the District of Rhode Island awarding Astro-Med over \$1,000,000 in damages from Nihon Kohden and employee Kevin Plant for violating a non-competition agreement Plant signed while employed by Astro-Med and for misappropriating trade secrets.

Astro-Med and Nihon Kohden are competitors in the life sciences equipment market. In 2002, Astro-Med hired Plant to be a Product Specialist. Upon his hire, Plant signed an employment agreement that contained non-competition and non-disclosure of trade secrets clauses. The agreement stated that it was to be governed by Rhode Island law and that Plant consented to Rhode Island jurisdiction for

any dispute arising out of the agreement.

When hired, Plant had no experience in the life sciences equipment industry, and Astro-Med provided Plant with significant training. Over the course of his employment, Plant requested a transfer to Florida, which was granted, and, in 2004, he was promoted to District Sales Manager. As District Sales Manager, Plant had access to Astro-Med's trade secrets.

In 2006, Nihon Kohden, a California corporation, offered Plant a job as Sales Representative, also in Florida, which Plant accepted. Plant's position at Nihon Kohden called for him to sell products that competed with Astro-Med's products in the sales territory he had covered for Astro-Med. Nihon Kohden was aware of Plant's employment agreement with Astro-Med, and Nihon Kohden's counsel had advised it that hiring Plant may expose the company to legal risk.

Shortly after Plant left Astro-Med for Nihon Kohden, Astro-Med sued Plant and Nihon Kohden in Rhode Island state court for breach of contract and trade secret misappropriation, among other claims; Defendants removed the case to federal court. Astro-Med was successful before the jury.

Defendants appealed the jury verdict to the First Circuit on several grounds. First, Nihon Kohden argued that, as a California corporation, it should not be subjected to personal jurisdiction in Rhode Island to defend its hiring of a Florida resident to sell products in Florida. Nihon Kohden submitted evidence demonstrating a lack of contacts between it and Rhode Island. However, the Court noted Plant consented to jurisdiction in Rhode Island (per his employment agreement) and Nihon Kohden hired Plant with full knowledge of this agreement. As such, even though Nihon Kohden's actions all took place outside of Rhode Island, the "actual injury" occurred in Rhode Island. Such facts satisfied both the "relatedness" and "purposeful availment" prongs of the specific jurisdiction analysis. (These facts also supported venue in the District of Rhode Island, another ground on which Defendants appealed.) Furthermore, as Astro-Med had the legal right to initiate litigation against Plant in Rhode Island, Nihon Kohden's complaint about undue burden rang hollow, given that the alternative would be two separate trials and that all out-of-state witnesses were heading for trial in Rhode Island anyway. This satisfied the "reasonableness" prong of the specific jurisdiction analysis.

Defendants also moved for judgment as a matter of law and a new trial, objecting to a number of legal rulings and the verdict. The district court denied both motions, and the First Circuit affirmed, finding that, with regards to Plant's employment agreement: (a) the non-competition clause was enforceable from the time the agreement was signed, notwithstanding that the district court modified the clause's geographic scope; (b) the changes in Plant's employment at Astro-Med were not so material as to show that the parties had "mutually abandoned and rescinded" the employment agreement; (c) Astro-Med did not materially breach the employment agreement when it reduced Plant's sales area upon his relocation to Florida, because Plant had requested the transfer and Astro-Med had told him

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pre-transfer that his sales area might be reduced upon transfer; and (d) Astro-Med's agreement sought to protect its legitimate business interests, namely the strengths and weakness of its products, its pricing strategies, and new product development.

With regards to Astro-Med's trade secret misappropriation claims, Defendants claimed that there was no evidence Plant or Nihon Kohden ever used any of Astro-Med's confidential information and, therefore, there could be no violation of the employment agreement. The First Circuit disagreed, noting that, under Rhode Island law, misappropriation also includes disclosure of a trade secret by one who acquired it while under a duty to maintain its secrecy and the acquisition of a trade secret by one who knows that it was acquired by breach of a duty to maintain secrecy. Here, there was ample evidence to suggest that the very reason Nihon Kohden hired Plant was to obtain access to his intimate knowledge of Astro-Med's product development.

Defendants' other objections -- speculative damages, inconsistent monetary awards, improper jury instructions -- were summarily denied.

Two concurring opinions touched on the personal jurisdiction issue, the first arguing that the "effects test" -- whether the in-forum effects of extra-forum activities suffice to satisfy a "relatedness" inquiry -- is proper to employ in an economic tort case (as the Court appears to have done here), and the second arguing that the "effects test" should be employed in any type of case for evaluating relatedness. Current First Circuit precedent suggests that the "effects test" is only proper for evaluating "purposeful availment."

Federal Bar Association Young Lawyers Division

The 2009-2010 Executive Board of the Young Lawyers' Division of the Massachusetts Federal Bar Association is excited to use this year to recruit and encourage young lawyers (those under 36 years of age or admitted to the practice of law for less than three years) to increase their participation in the federal bar and network with fellow practicing attorneys, judges and courtroom personnel.

Currently, the Board is working on finalizing an actualized membership list to call upon its members to assist in the further recruitment of young lawyers as well as to assist in upcoming YLD events. For example, we are planning on putting forth a seminar which will teach

us the common mistakes made when first starting federal practice (state court v. federal court practice). We are also planning an event that will give us access to the First Circuit Appeals Court and their staff. This summer, we plan to launch the Welcome Reception for new Associates which will provide them and us an opportunity to network and get to know other practitioners. These events and others will be part of our year, and we hope you all join us.

If anyone is interested in joining the YLD, please contact any board member (see below). Law school students are welcomed.

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