SideBAR

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Message from the Chair

John G. McCarthy

I feel fortunate to be a member of our section, and especially honored to be chair, at this exciting time. It gives me great pleasure to inform you that FBA headquarters recognizes the excellent work of this section. At the Annual Meeting and Convention in Atlanta, our section will be the proud recipient of both a Section and Division Recognition Award and Outstanding Newsletter Award. I congratulate our editor, Jeff Cox, and thank every member who has contributed to the activities of the section and submitted materials to *SideBar*; YOU help make the awards possible!

We cannot, however, rest on our laurels. As we approach Oct. 1 and the beginning of a new fiscal year, it is time to begin working toward making next year even better. In order to do that, we need more of our almost 4,000 members to increase their involvement in the activities of our section. I have some concrete ways that you can get involved.

The board accepted the recommendation of the annual conference committee to move the event from the fall to the spring. We believe that a move to May will make a terrific event in our nation's capital even better. The social aspects of the conference will begin in the afternoon of Tuesday, May 29, 2018, and the main event will be on Wednesday, May 30, 2018. We are very excited to have the conference coincide with the Supreme Court admissions ceremony sponsored by the Younger Lawyers Division. Tara Zurawski, Rob Kohn, and Chip Molster have done an excellent job making our first two conferences such a success. I would like to expand the planning committee this year in order to lighten its load and make the conference an even bigger success in 2018. Please contact me if you are interested in assisting with this event.

In conjunction with the new May timing of the annual conference, we are forming a new committee with respect to the section's Rule of Law Award. Twice in the recent past, the board has voted to honor individuals who have taken action to uphold the rule of law throughout the world. Howard McPherson from Hawaii has done a remarkable job identifying such individuals and bringing their stories to the attention of section leadership. At his urging, the board recently approved American attorney Benjamin Ferencz, the last living prosecutor from the WWII Nuremberg Military Tribunals, as the award's next recipient

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About the Chair • *John McCarthy is a trial attorney and partner in the New York City office of Smith, Gambrell & Russell, LLP, where he leads the litigation practice and is a member of the firm's Intellectual Property Law Group and its Commercial and Bankruptcy Law Practice. John is a former FBA Circuit Vice President and past Chapter President of the S.D.N.Y. Chapter; John most recently served as Vice Chair of the FBA Federal Litigation Section. He can be reached at jmccarthy@sgrlaw.com or (212) 907-9703.*

Inside this Issue

Note from the Editor

Jeffrey T. Cox

These are dynamic times for our federal courts and all of us practicing before them. Our Federal Litigation Section is pleased to count among our members many circuit and district judges and magistrates doing the yeoman work of our federal courts—not only in the trial and appellate context but also leading by example. Across the United States, federal judges are establishing veteran's courts, civics education programs and furthering professional diversity efforts. This work continues in the face of growing dockets, a largely static federal budget allowance and a continually lengthening list of judicial vacancies around the country.

The Federal Judiciary website reports that, as of August 10, current judicial vacancies numbered 138; 55 of which were considered "judicial emergencies." Seventy-nine of the empty seats are at the district court level, straining our nation's federal trial courts. At the same time, the ever-forward march of technology and information continues to present new and novel considerations for the federal courts as well as often unique considerations for litigants and counsel seeking to resolve disputes.

Be it through professional engagement at the state and local FBA chapter level or through participation in the FBA's national efforts, section members are deeply engaged. This engagement is not only in the meaningful representation of clients before the courts, but also in helping to advance the role of the courts in the fair administration of justice and the inherence to the rule of law. This newsletter highlights some of these efforts by section members and invites members to provide news and photographs to share with others of the developments and activities from around the country.

Thank you to all of the many federal lawyers who responded to our call for articles for this fall 2017 edition of SideBar. The Federal Litigation Section is pleased to provide this newsletter forum for the exchange of legal scholarship and analysis, both practical and theoretical. This edition features a diverse set of articles from federal civil, and criminal practitioners across the United States, including Florida, Michigan, Ohio and Vermont.

Please enjoy this fall 2017 edition of SideBar, and we hope to see you at the Annual Convention in Atlanta! **SB**

About the Editor • *Jeff Cox is a business and complex litigation attorney, and Partner at Faruki Ireland Cox Rhinehart & Dusing P.L.L., a business and complex litigation and white collar criminal defense practice with offices in Dayton and Cincinnati, Ohio. Jeff's practice includes intellectual property and technology disputes, competition-based litigation and professional malpractice and data security matters. A past president of the FBA's Dayton Chapter, Jeff serves on the Federal Litigation Section Board of Directors, as well as the FBA's Government Relations Committee and Professional Ethics Committee. Jeff can be reached at jcox@ficlaw.com or (937) 227-3704.*

Federal Litigation Section Leaders

FEDERAL LITIGATION SECTION NEWS

Federal Litigation Section Partners with The Wagstaffe Group for Series of Federal Civil Procedure Programs

The Federal Litigation Section of the FBA and The Wagstaffe Group kicked off the first two events of its national speaker's series at American University – Washington College of Law (April 4, 2017) and the Daniel Patrick Moynihan U.S. Courthouse – SDNY (April 6, 2017). The events were comprised of two panels, both featuring James M. Wagstaffe, author of the recently released LexisNexis online platform The Wagstaffe Group Practice Guide: Federal Civil Procedure Before Trial and national authority on federal civil procedure matters, and FLS Board Member Honorable Loretta A. Preska, Senior U.S. District Judge (SDNY). Titled "How to Win a Case from a Judge's Perspective," the programs in D.C. and NY featured a collection of federal judges and practitioners in additional to Judge Preska. The panel at American University – WCL included the Hon. Richard J. Leon, Senior U.S. District Judge – District of Columbia and Charles B. Molster III, a highly-regarded Washington Metro-based trial attorney and past Chapter President of the Northern District of Virginia Chapter. Attendees of the NY event were also treated to an interactive panel of judges. Judge Preska was accompanied by the Hon. Vernon S. Broderick, U.S. District Judge – SDNY, the Hon. John Gleeson, former U.S. District Judge – EDNY and now a partner at Debevoise & Plimpton, and practitioner John P. McEntee, Partner at Farrell Fritz, P.C. and Board Member of the EDNY Chapter. The Fed Lit Section is grateful to the local FBA Chapters that helped in plan and produce these events -- DC, Pentagon, Capitol Hill and ND of Virginia Chapters for the April 4 event and SDNY and EDNY Chapters for the April 6 event. Both events were well attended and participants were able to network and ask questions to the panelists at the extended post-event cocktail receptions.

The program series continues this fall with a presentation on September 21 at the federal courthouse in Phoenix, where the program will be co-sponsored by the Phoenix FBA chapter. On October 3, the Wagstaffe series will be a featured portion of the Sixth Circuit Practice Institute in Cincinnati, hosted by the Dayton and Cincinnati/Northern Kentucky FBA chapters. Further programs are in the planning states for Detroit, Minneapolis and Los Angeles.

Mr. Wagstaffe (L) and the New York Panelists.

Federal Litigation Section Updates

- Approximately 4,000 members in the Federal Litigation Section as of August.
- Fund balances for FLS as of June 30: $100,765.
- FLS revenues support federal litigation CLE programs, and help to sponsor and underwrite FBA and chapter programming. Sponsorship requests may be directed to Section leadership, and requests are then considered by the FLS Board. In addition to FLS sponsorships of the Wagstaffe program series referenced in this edition of SideBAR, the FLS recently contributed to defray the cost of the Sacramento Chapter's "Operation Protect and Defend" Annual Law Day Dinner, and has agreed to underwrite the cost of the closing reception of the upcoming Sixth Circuit Practice Institute. In addition, as reported in this newsletter, the FLS provided financial support for three attendees at the first annual Veterans and Military Law Conference in San Juan, Puerto Rico.

The Federal Litigation Section urges FLS members to get involved in Section activities, and committees. For more information, go to www.fedbar.org and follow the Link to Sections and Divisions!

Federal Civil Procedure Program, April 14, 2017, Washington, D.C.

Federal Litigation Section - Atlanta Convention Activities

Friday, September 15 will be a busy one for FLS members. The Section will hold its Board meeting from 2:15-3:15 p.m. at the Convention Hotel, the Westin Peachtree Plaza. All interested FLS members are welcome to attend. Later that same afternoon, the Federal Litigation Section will host its annual complementary networking reception from 5:00-6:00 p.m. at the Westin. This FLS-hosted networking reception is open to all FBA members and is always a convention highlight. FBA convention attendees will adjourn from the FLS networking reception to attend the Convention Reception at the National Center for Civil and Human Rights, hosted by the Atlanta Chapter of the FBA from 6:00-9:00 p.m.

A Law Student's Perspective on the VMLS Conference

Ramon Mercado

In April, the Federal Bar Association's Veterans and Military Law Section and the Federal Bar Association's Puerto Rico Chapter hosted the first Veterans and Military Law Conference. Both the Veterans and Military Law Section and the Federal Litigation Section offered scholarships to attend this event. I was selected as one of the few law students to attend, and am very grateful to Past National FBA President Robert DeSousa and the Federal Bar Association's Federal Litigation Section for this opportunity.

During my second year of law school, I took a Veterans Law course taught by professor Hillary Wandler, an FBA member; therefore, I had a basic understanding of the nuances of military law. My goals during the April conference were to get a better understanding of military law from different experts in the field, understand their day-to-day challenges, and provide UM Law with some feedback on how to improve their veterans law course.

The course began with an introduction by DeSousa and Mariano Mier-Romeu, president of the FBA Puerto Rico Chapter followed by Robert Chisholm's (Chisholm, Chisholm & Kilpatrick) very thorough presentation titled "Veterans Administration 101." Chisholm's presentation covered everything regarding the process of appealing disability claims through the Veterans Benefits Administration, the importance of deadlines in the process, the procedure of appealing in the judicial system, and future changes in the VA. After comparing all the information from this presentation with my notes from my previous veterans law course, I can attest that any practicing attorney who listened to Chisholm's presentation will be more than prepared to deal with any issues regarding VA disability claims. Chisholm's expertise and eagerness to answer questions from the audience provided for a phenomenal learning experience.

The second presentation was an ethics panel comprised of Chisholm, Past National FBA President Jim Richardson, David Myers (The Veterans Consortium Pro Bono Program), and VMLS Board Member Deborah Mitchell (Grossman Law Firm, LLC). During this section, all panelists shared their personal experiences regarding ethics violations, primarily concerning communication issues with veterans. All panelists listed competence, communication, counseling, and compassion as the key elements for success when working on veterans law cases. Mitchell expanded on the challenges in communication with sexual trauma victims and cultural competence: knowing your clients' history.

The third and last section of the conference was presented by Richardson on discharge upgrades. In addition to explaining in detail the discharge upgrade procedure, he stressed the importance of these types of cases in the veteran community. UM Law's Veterans Advocacy Clinic is involved in a number of these cases and understands the importance and impact of such cases to the client. When compared with information I have learned previously, Richardson's presentation is equally if not more thorough than anything I have seen before.

Last but not least, I would like to thank Puerto Rico State Sen. Luz Arce Ferrer for her presence at this event. She expressed to me her concerns regarding veterans' issues in Puerto Rico and the lack of access to justice for local veterans. I truly appreciated hearing that veterans law was one of the top issues on her agenda for this term.

The first VMLS Conference was a great success, and the second is planned for next year. Everyone in the legal community who handles or is considering handling veterans' benefits cases should attend this event. I look forward to attending next year! **SB**

Ramon Mercado is a third-year law student and president of the Veterans Law Group at the Alexander Blewett III School of Law at the University of Montana.

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and decided it is time to present the award on a more regular basis. We are forming a committee to transform this great idea into a reality, and now plan to present the award each year in Washington on the eve of the annual conference. That date next year will be Tuesday May 29, 2018. If you would like to be considered for a position on this committee, please let me know of your interest by Sept. 30.

Our series of programs in conjunction with The Wagstaffe Group is progressing well. We are working toward events this fall to take place at the Sixth Circuit Practice Institute in Cincinnati and with our local chapters in Phoenix, Detroit, Minneapolis, and Los Angeles. We are beginning to formulate a schedule for this winter. Thus, you can get involved in helping us co-sponsor a program in your chapter or region. On a side note, Jim Wagstaffe's new book and the online platform has now been published/launched by Lexis. I strongly encourage each of you to check it out. It is called "The Wagstaffe Group: Federal Civil Procedure Before Trial."

With the beginning of a new year, our current committee chairs will also be looking to appoint new members. If you are interested in serving on any of our five permanent committees, please send your resumé and an expression of interest to the chair of that committee. Contact information is listed on our section's leadership page on the FBA website. Also, if you have any ideas for projects that our committees could undertake please share them with us.

These are exciting times for our section. I hope you will heed my call to get more involved. I promise you will not regret that decision. **SB**

U.S. Supreme Court Rules that Attorney's Fees Sanctions for Litigation Misconduct Must Be Causally Related to the Misconduct

Katherine Burghardt Kramer

Introduction

In *Goodyear Tire & Rubber Co. v. Haeger,*[1] the U.S. Supreme Court unanimously ruled that, where a sanction is in the form of attorney's fees, the sanction is "limited to the fees the innocent party incurred solely because of the misconduct."[2] In this decision, written by Justice Elena Kagan, *Goodyear* therefore resolved a circuit split on the issue of whether attorney's fees sanctions must be causally linked to the misconduct or if, in particularly egregious cases, such a limitation was not required. While the Ninth Circuit had concluded that attorney's fees sanctions were not limited in such a way,[3] several other circuits had ruled that attorney's fees sought as sanctions must be causally related to the bad faith action.[4]

Case History

The factual underpinnings of *Goodyear* involved a faulty tire on a motorhome, specifically the Goodyear G159 tire. After the Haeger family's motorhome flipped over, they sued Goodyear (and other defendants), arguing that the G159 tire was poorly designed and could not withstand the requisite level of heat. In litigation discovery, the Haegers specifically requested Goodyear's internal test results regarding the G159 tire, but Goodyear's responses were "both slow in coming and unrevealing in content."[5] The parties settled on the eve of trial. Subsequently, the Haegers' lawyer read in the newspaper that Goodyear had disclosed inculpatory test results in a separate lawsuit regarding the G159. But those test results had not been produced in the Haegers' case. Goodyear thereafter admitted to withholding these test results from the Haegers.

Thus, the Haegers sought sanctions against Goodyear for discovery fraud, claiming that Goodyear intentionally withheld crucial test results related to defective design. The district court granted the Haegers' request pursuant to its inherent authority and concluded that the sanction clock started to run since the first moment that Goodyear produced a dishonest discovery response. The court calculated that the Haegers had spent $2.7 million in attorney's fees and costs since that moment, and awarded the entire sum as sanctions.[6] The district court reasoned that, while sanctions should generally be limited to the legal fees caused by the misconduct, in particularly egregious cases, that showing of causation was unnecessary.[7]

The Ninth Circuit, in a divided ruling, affirmed the full award of $2.7 million. The Ninth Circuit concluded that fees could be awarded for all expenses incurred "during the time when [Goodyear was] acting in bad faith."[8] In dissent, one judge contended that this decision failed to find the requisite causal link.[9]

The Supreme Court's Analysis

On review, the Supreme Court reiterated that federal courts have inherent powers to manage their own affairs, and this includes sanctions for misconduct. However, the Court emphasized that attorney's fees sanctions are intended to be compensatory, not punitive. The Court concluded that, due to this compensatory purpose, the amount of sanctions must be causally linked to the misconduct.[10] Accordingly, "the fee award may go no further than to redress the wronged party 'for losses sustained.'"[11] The essential error of the Ninth Circuit's analysis was that it imposed a *temporal* limitation, not a *causal* limitation.

The tone and substance of *Goodyear* is similar to one of the very first opinions written by Justice Kagan after she was appointed to the Supreme Court—*Fox v. Vice*.[12] Both are notable for Justice Kagan's accessible and contemporary style. In *Fox*, a prevailing defendant sought attorney's fees under a fee-shifting statute, after defending successfully against several frivolous claims in a suit that also included non-frivolous claims. The Court concluded that fees could only be awarded for the incremental additional cost incurred due to the frivolous claims.[13] Indeed, in *Goodyear*, Justice Kagan cited *Fox* several times as supporting authority for applying the "but-for" test, and she reiterated her memorable phrase from *Fox* regarding fees: the goal in shifting fees is "to do rough justice, not to achieve auditing perfection."[14]

Subsequent Analysis and Practical Application

Goodyear is a relevant and valuable decision for sanctions motions pursuant to inherent authority, and it therefore has broad applicability. Indeed, it already has been cited more than two dozen times in the few months since its issuance, and that figure will surely go up.

So far, lower courts have rejected arguments that all sanctions motions should be subject to a causal link requirement. In *Coyne v. Los Alamos Nat'l Sec. LLC*,[15] the district court rejected the argument that a party moving for dismissal as a sanction must always show a causal link between the misconduct and the sanction, and concluded that *Goodyear* did not mandate such a showing in those circumstances. Similarly, in *GEICO v. Nealy*,[16] the district court dismissed a lawsuit as a sanction for plaintiffs' misconduct.[17] Although the plaintiff argued that *Goodyear*'s causation limitation should apply to sanctions generally, the court rejected that argument, concluding that *Goodyear*'s causation requirement only applies to attorney fee sanctions.[18]

Despite the causation requirement, those seeking extensive sanctions need not be too discouraged by *Goodyear*. The Court explicitly noted that, even with the causation requirement, a federal court may still shift *all* attorney's fees, either from the start of a matter or from a mid-point, if the facts support it.[19]

Those defending against sanctions are likely to emphasize the heavy burden of establishing a causal link between the conduct and the expenses incurred. Those seeking sanctions are likely to trumpet the "rough justice" phrase to obtain broad sanctions. Given the subsequent lower court decisions discussed here, it is doubtful that the causal-link showing will be required for sanctions other than attorney's fees, and parties defending against sanctions motions shouldn't depend too heavily on such an argument.

More broadly, *Goodyear* is also useful if one is making an argument about correlation versus causation, or about the fallacy of *post hoc ergo propter hoc* (literally, "after this, therefore because of this"). *Goodyear* rejected the Ninth Circuit's temporal limita-

tion—anything occurring after the misconduct—and instead emphasized the need for a causal link. Especially given Justice Kagan's accessible prose, *Goodyear* makes for a good *cf.* citation to keep in mind for other arguments distinguishing between correlation and causation. **SB**

Katherine Burghardt Kramer is a solo practitioner in Middlebury, Vt., and also serves as of counsel to a firm in Plattsburgh, N.Y. She concentrates her practice on appellate matters and general civil litigation in both states. Previously, Kramer worked in private practice in New York City and in Vermont and clerked for Hon. Andrew Guilford of the U.S. District Court for the Central District of California and Chief Judge Christina Reiss of the U.S. District Court for the District of Vermont. She may be reached by phone at (802) 349-1627 and at kbk@kbkramerlaw.com.

Endnotes

[1]37 S.Ct. 1178 (2017).
[2]*Id*. at 1184.
[3]*Haeger v. Goodyear Tire & Rubber Co.*, 813 F.3d 1233, 1249 (9th Cir. 2016).
[4]*See, e.g., Baycol Steering Comm. v. Bayer Corp.*, 419 F.3d 794, 808 (8th Cir. 2005) (vacating and remanding sanctions order against attorney, where amount of sanctions was greater than simply compensatory); *Bradley v. Am. Household Inc.*, 378 F.3d 373, 378-79 (4th Cir. 2004) (reversing sanctions award where sanctions were "not determined by reference to any losses incurred by the Bradleys as a result of Sunbeam's failure to complete discovery," among other reasons); *United States v. Dowell*, 257 F.3d 694, 699-700 (7th Cir. 2001) (affirming sanctions order where fine was remedial and tailored to actual costs incurred by misconduct).
[5]*Goodyear*, 137 S.Ct. at 1184.
[6]*Id*. at 1185.
[7]*Id*.
[8]*Haeger*, 813 F.3d at 1250.
[9]*Id*. at 1255 ("In my view, the $2.7 million sanctions award cannot be deemed compensatory. The award could be compensatory only if the record reveals a causal connection between the misconduct the court found and the amount it awarded.") (dissent).
[10]*Goodyear*, 137 S.Ct. at 1186 ("That means, pretty much by definition, that the court can only shift those attorney's fees incurred because of the misconduct at issue.").
[11]*Id*. (quoting *Mine Workers v. Bagwell*, 512 U.S. 821, 829 (1994)).
[12]563 U.S. 826, 836 (2011).
[13]*Id*.
[14]*Goodyear*, 137 S.Ct. at 1187 (quoting *Fox*, 563 U.S. at 838).
[15]2017 U.S. Dist. LEXIS 65758 (D. N.M. May 1, 2017).
[16]2017 U.S. Dist. LEXIS 91219 (E.D. Penn. June 13, 2017).
[17]*Id*. at *3.
[18]*GEICO*, 2017 U.S. Dist. LEXIS 91219 at *46 ("*Goodyear* had nothing to do with 'sanctions' generally and everything to do with the specific sanction of attorney's fees.").
[19]*Goodyear*, 137 S.Ct. at 1188 ("[i]f a plaintiff initiates a case in complete bad faith, so that every cost of defense is attributable only to the sanctioned behavior, the court may … make a blanket award.").

Supreme Court Ruling to be Game Changer for Patent Trolls

Zachary S. Heck

Earlier this year, the United States Supreme Court drastically limited the field of locations where patent infringement suits can be filed. In *TC Heartland LLC v. Kraft Foods Group Brands LLC*, the Supreme Court held that the law authorizing patent suits to be filed in the judicial district where "the defendant resides" was not superseded by 1990 amendments to the general federal law on venue.[1] Instead, the definition of "residence" in the federal statute about patent venue (first adopted in 1997),[2] refers only to the state of incorporation for a U.S. company. The *TC Heartland* decision overturned a series of decisions by the U.S. Court of Appeals for the Federal Circuit. Previously, the Federal Circuit had permitted a broader definition of residence that allowed patent suits to be brought virtually anywhere in the country. The decision will create challenges for plaintiffs known as patent assertion entities or non-practicing entities (commonly referred to as "patent trolls"). Patent trolls typically acquire patents not to create products but to generate revenue by asserting them against alleged infringers.

In this case, Kraft Food Groups sued TC Heartland for patent infringement in the U.S. District Court for the District of Delaware. Unrepresentative of the debate about patent trolls, Kraft Foods filed a traditional suit alleging that "liquid water enhancement" products by TC Heartland infringe three of Kraft's patents.[3] TC Heartland, which is both incorporated and headquartered in Indiana, argued that the case should be transferred to federal court in the Southern District of Indiana. The District Court denied TC Heartland's motion to dismiss and its motion to transfer venue to Indiana.[4] The Federal Circuit, on appeal, held that the case could be brought in Delaware, because TC Heartland was subject to personal jurisdiction in Delaware. The Federal Circuit reasoned that the general federal law on venue gives the term "reside" a relatively broad meaning, which allows federal suits to be filed wherever a corporation may be subject to personal jurisdiction. In other words, because TC Heartland conducts a "substantial amount of business" in Delaware, it can face suit in federal court in Delaware. Patent trolls seized upon this venue requirement because, practically speaking, successful businesses conduct a substantial amount of business in practically any jurisdiction. For years, this has allowed patent trolls to select whichever forum appears most favorable from a strategic standpoint.

The Supreme Court reversed the Federal Circuit and held that "reside" is subject to a much narrower interpretation. Justice Clarence Thomas, writing for the Court in an 8-0 decision (Judge Gorsuch did not participate), explained that the "reside requirement" demands that patent suits filed under that prong

of the venue statute be filed in the state where the company is incorporated. In an opinion just shy of 10 pages, Justice Thomas explained that the corporate "residence," for purposes of a separate patent venue statute, should be applied narrowly, as first held in the Supreme Court's *Fourco Glass v. Transmirra Products* decision.[5]

In Fourco, the Court looked to the text of the statute to find that the only reference to venue was defined as a state of incorporation. Although the Federal Circuit held that amendments from 1990, for purposes of general venue, superseded the Court's holding in *Fourco*, Justice Thomas disagreed by, once again, looking to the text of the statute. The Court unanimously overruled the Federal Circuit and explained that "[w]hen Congress intends to affect a change of that kind, it ordinarily provides a relatively clear indication of its intent in the text of the amended provision."[6]

As a result, plaintiffs (including patent trolls) wishing to shop for a favorable venue, such as the widely viewed "plaintiff-friendly" jurisdiction of the Eastern District of Texas, will now be limited to whichever venue is available in the state of incorporation. For the last three years, one-quarter of all patent suits in the United States have fallen onto the docket of a single judge in Marshall, Texas (a town with a population of roughly 25,000 people).[7] That statistic will soon be a faded memory. Indeed, this decision could result in a dramatic increase in patent infringement suits being filed in Delaware, where a disproportionate number of companies choose to incorporate.

Plaintiffs can still sue for patent infringement in Marshall if the defendant is incorporated in Texas or if the defendant is allegedly committing infringement and has a regular and established place of business in that jurisdiction. Further, the venue law on foreign defendants has not changed … yet. Plaintiffs may still sue a foreign defendant anywhere as per the Supreme Court's 1972 decision in *Brunette Machine Works Ltd. v. Kockum Industries Inc.*[8] In *Brunette*, the Supreme Court held that a foreign corporation can be sued for patent infringement in any judicial district, following a long-standing rule that venue restrictions do not apply to foreign companies. In a footnote to the *TC Heartland* ruling, Justice Thomas wrote that the court did not "express any opinion on this court's holding" in *Brunette* or on the implications of the decision on foreign corporations.[9]

Patent litigators should expect foreign companies to be at the center of another round of legal battles over patent venue following *TC Heartland*. Only time will tell how the Supreme Court will address this issue, and whether *Brunette* will remain good law. **SB**

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Endnotes

[1]No. 16-341 (May 22, 2017).
[2]26 U.S.C. § 1400(b).
[3]581 U.S. ____ (2017) at 2.
[4]*Id.* at 3.
[5]353 U.S. 222 (1957)
[6]*TC Heartland*, 581 U.S. at 3.
[7]east-texas-supreme-court-ruling-setback-towns-final-verdict-locals-say
[8]406 U.S. 706 (1972)
[9]*TC Heartland*, 581 U.S. at 7, fn. 2.

Seize the Day: The Ex Parte Seizure Provision in the Defend Trade Secrets Act of 2016

Paul M. Mersino

In spring 2016 the U.S. Congress nearly shocked the world by doing something it rarely does these days: It acted in a bipartisan fashion to pass—nearly unanimously—an important bill. That bill was the Defend Trade Secrets Act of 2016 (the DTSA). And within that important bill was a very important new tool for plaintiffs to use in trade secret litigation: the *ex parte* seizure provision.

On top of giving litigants a federal cause of action in order to bring trade secrets matters in federal court, the DTSA also provided a significant new weapon for a party to obtain an *ex parte* seizure order, if stringent elements are met. 18 U.S.C. § 1836(b)(2). This means that if someone steals a company's trade secrets, the aggrieved company can seek a court order to seize the trade secrets and the electronic devices or computers that they are found in without providing notice to the defendant. If such an order is granted, a person or a company accused of misappropriating trade secrets could have federal marshals arriving at their door to confiscate computers or servers without even having a chance to be heard.

This type of seizure was intended only in "extraordinary circumstances" for which an injunction would not suffice, and when it can be shown that the person who misappropriated the trade secrets would destroy, move, hide, or otherwise make the matters inaccessible to the court if that person received notice of the claims against it. *Id.* As Senator Grassley described it during deliberation of the DTSA, "extraordinary circumstances" are those "instances in which a defendant is seeking to flee the country or planning to disclose the trade secret to a third party immediately or is otherwise not amenable to the enforcement of the court's orders." 162 Cong. Rec. S1631-02, S1634 (Apr. 4, 2016). As will be seen below, so far applications for *ex parte* seizure orders have, indeed, been rarely and sparingly granted.

In order to have an application for an *ex parte* seizure granted, the moving party must meet *all* of the following criteria and requirements:

(1) an order or injunction under Rule 65 would be inadequate because the party to which the order would be issued would evade, avoid, or otherwise not comply with such an order;
(2) immediate and irreparable injury will occur if the seizure is not ordered;
(3) the harm to the applicant from a denial outweighs the harm to the legitimate interests of the person against

whom seizure would be ordered, and substantially outweighs the harm to any third parties;
(4) the applicant is likely to succeed in showing that the information is a trade secret and that the person against whom the seizure would be ordered has misappropriated the trade secret by improper means or conspired to use the trade secrets through improper means;
(5) the person against whom seizure would be ordered has actual possession of the trade secret and any property to be seized;
(6) the application describes with reasonable particularity the matter to be seized and, to the extent reasonable under the circumstances, identifies the location where the matter is to be seized;
(7) the person against whom seizure would be ordered, or persons acting in concert with such person, would destroy, move, hide, or otherwise make such matter inaccessible to the court, if the applicant were to proceed on notice to such person; and
(8) the applicant has not publicized the requested seizure.

18 U.S.C. § 1836(b)(2)(A)(ii)(I)-(VIII).

Many commentators—both before the act was passed and since—feared the overuse and potential abuse of this *ex parte* seizure. Civil libertarians on the left and right were concerned with the federal government being given the power to enter a citizen's or business's property without even giving notice to the accused defendant in order to seize their property. The fear was that—like is so often the case with new acts, new legislation, and new tools given to litigants—this tool would be used too often and would be used as a weapon against competitors and unwitting parties, whether warranted or not.

So far, it appears, these deepest fears have not come to be. One thorough study indicated that after nearly one full year after the enactment of the DTSA, 280 cases had been filed in federal court alleging a DTSA claim.[1] Of those, only 10 reported or known cases (or about 3.5 percent) of those DTSA cases saw a plaintiff filing an application for *ex parte* seizure. Of that small minority, an *ex parte* order has been granted in only a minority of cases. At least thus far, there has not been a groundswell of plaintiff's attorneys storming the federal courts with applications for *ex parte* seizures in hand. Nor do the courts seem overly zealous in granting such applications. In fact, it appears that so far such relief has only been granted in "extraordinary circumstances." As, of course, was intended.

The purpose of this article is to survey—now that the DTSA has been in existence for just over a year—those few instances in which an application for *ex parte* seizure has been granted. As noted, there have been more cases in which such applications have been denied, and usually because the courts hold that a Rule 65 injunction would suffice and that there has not been a sufficient showing that a party will fail or refuse to follow a federal court's order, injunction, or demand to produce materials in discovery.[2] But what commentators, attorneys, and parties are most interested in are those cases in which the application or *ex parte* seizure was granted, and more importantly, how or why it was. That will be the focus of the remainder of this article.

The first case in the country in which an *ex parte* seizure application was granted under the DTSA was issued in *Mission Capital Advisors LLC v. Romaka*, No. 1:16-cv-05878-LLS (S.D.N.Y. July 29, 2016). Initially, the court simply granted a TRO; ordered the defendant to appear and show cause why an injunction should not be entered; ordered that the trade secrets not be accessed, disclosed, or copied; and ordered the plaintiff to serve a copy of the order on the defendant by personal service and email. *Id.* The plaintiff served the order by email, but the defendant evaded personal service on five separate occasions. The defendant then failed to appear for the show-cause hearing, despite having received notice of it by email. *Id.*

It was only after the defendant failed to follow the court's order to appear and purposefully evaded personal service that the court granted *ex parte* seizure. *Id.* The court held that "an order issued pursuant to Rule 65 … would be inadequate because Defendant would evade, avoid, or otherwise not comply with such an order." *Id.* The court offered three reasons:

> Although Plaintiff sent Defendant a copy of the July 22 Order at a previously used email address, Defendant did not acknowledge receipt of the July 22 Order, did not appear for the July 25 conference as ordered, and appeared to evade personal service of the order after the email was sent.

Id. Thus, the showing that a court order would not be followed was exhibited by the defendant himself.

The court then found all of the eight requirements set forth above to have been met and ordered the U.S. Marshals to seize the misappropriated trade secrets. *Id.* The plaintiff was ordered to pay a nonrefundable fee of $2,000 to the marshals, to recommend a neutral technical expert to assist in the seizure, to file a proposed nondisclosure agreement to bind the technical expert, and to post a bond of $1,000 as security for any damages resulting from a wrongful or excessive seizure. *Id.* The order also set the hours for the seizure and noted that "no forced entry shall be used to effectuate the seizure." *Id.* The court then appointed the third-party technical expert to assist, and it further ordered that the seized materials be turned over to the court to be held in its custody. *Id.*

It is also evident that an application for *ex parte* seizure was granted by a federal court in Florida in or around October 2016. To date, however, such information has been held under seal and is not yet public. Once it is made public, we will have a better idea why the court was willing to grant the application for an *ex parte* seizure. And because many of these applications and orders are being filed under seal, it is possible that there are other cases that also have evaded public attention at this time.

A third federal court also granted an application for *ex parte* seizure in March 2017. The U.S. District Court for South Carolina, in *AVX Corp. v. Kim*, Case No. 6:17-cv-00624 (D.S.C. March 8, 2017), granted such an application to a plaintiff seeking such relief against a former employee. There, the former employee had downloaded and copied a series of computer files without permission or authorization and repeatedly lied, obfuscated, and attempted to conceal his actions when directly asked about it. He also retained downloaded data after his termination from AVX.[3] In deciding to grant an *ex parte* seizure, the court noted its concern regarding the veracity of the defendant and his repeated lies. While such mendacity is, of course, not uncommon in misappropriation cases (and while lying to one's employer or former employer is far

different from disobeying a court order), the court determined that this dishonesty warranted—at least in this case—the granting of the application for *ex parte* seizure.

Lastly, in the first known instance of an *ex parte* seizure order being granted by a state court, the Circuit Court for Genesee County in Flint, Mich., granted such an application on April 17. *USSPeedo 5 Inc. v. Pierce*, Case No. 17-108876-CB (Genesee County, Michigan), reminds us that, while the DTSA grants federal question jurisdiction, DTSA claims can also be brought in state court. Moreover, such state courts have the authority to also grant *ex parte* relief as well. In that case, a former employee was alleged to have misled his former employer and stolen trade secrets in order to start his own new company to compete against his former company. Again, this does not necessarily appear to be that uncommon or extraordinary of a case, but it does appear from the court's order that the defendant's deceit was a factor in granting the *ex parte* seizure.

Based on this review, we can confirm that applications for *ex parte* seizure have appeared in the vast minority of cases filed under the DTSA, and such an application was actually granted in only a minority of that minority. The good news is that contrary to what many feared, the *ex parte* seizure tool has not (at least of yet) been abused in an excessive fashion. Even taking into account the *AVX* and *USSPeedo* cases, where the respective defendants' actions do not seem to be that out of the ordinary, it still appears that—just as Congress intended—*ex parte* seizures will only be granted in extraordinary cases. We will have to wait to see, however, how courts apply (or don't apply) the *ex parte* seizure provision in the DTSA's second year and beyond.[4] **SB**

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Endnotes

[1]*See*, Where We Stand With Trade Secret Enforcement in Federal Courts, Prof. David Opderbeck, https://patentlyo.com/patent/2017/05/secret-enforcement-federal.html (chronicling Professor Opderbeck's findings as well as his methodology for tracking DTSA claims through April 21, 2017). Other studies have given varying numbers of cases. For a helpful analysis and compilation of various studies and posts, see John Marsh's post in his blog "The Trade Secret Litigator," Monthly Wrap Up (June 16, 2017): Noteworthy Trade Secret, Non-Compete and Cybersecurity Posts from the Web, at http://www.tradesecretlitigator.com/2017/06/monthly-wrap-up-june-16-2017-noteworthy-trade-secret-non-compete-and-cybersecurity-posts-from-the-web/#more-3297.

[2]*See*, *Dazzle Software II LLC v. Kinney*, No. 2:16-cv-12191-MFL-MLM (E.D. Mich.) (complaint filed on June 14, 2016) (denying first application for *ex parte* seizure in the nation, finding that there was no showing that the defendant would not comply with a Rule 65 injunction); *Balearia Caribbean Ltd. Corp. v. Calvo*, No. 1:16-cv-23300-KMV (S.D. Fla. Aug. 5, 2016) (denying an application, holding that "a plaintiff may not rely on bare assertions that the defendant, if given notice, would destroy relevant evidence. Rather, the plaintiff must show that the defendant, or persons involved in similar activities, had concealed evidence or disregarded court orders in the past."); *Jones Printing LLC v. Adams Lithographing Co.*, 1:16-cv-442 (E.D. Tenn. Nov. 3, 2016) (denying the application where "Plaintiff does not specify why relief under Rule 65 is inadequate in this case"); *OOO Brunswick Rail Mgt. v. Sultanov*, 2017 WL 67119 (N.D. Cal. Jan. 6, 2017); *Digital Assurance Certification LLC v. Pendolino*, 2017 WL 320830 (M.D. Fla. Jan. 23, 2017) (denying a request for an *ex parte* seizure order because there was no showing that "an order under Fed. R. Civ. P. 65 or another form of equitable relief would be inadequate."). *See also Shoregroup Inc. v. Kempadoo*, Case No. 1:16-cv-052250VSB (S.D.N.Y. July 1, 2016) in which the plaintiff filed an *ex parte* Motion for Temporary Restraining Order and Preliminary Injunction and only focused on the injunctive relief in its motion and brief, but in its Proposed Order included a provision for *ex parte* seizure; the court granted the injunctive relief, but crossed out any reference to *ex parte* seizure.

[3]Of interest here is the fact that the misappropriation happened in Ireland, not in the United States, bringing into the fray the extra-jurisdictional provisions of the DTSA as well.

[4]It is worth noting that on June 28, 2017, the Federal Judicial Center published its "Trade Secret Seizure Best Practices Under the Defend Trade Secrets Act of 2016," which were "written for the federal courts and are designed to help them meet their obligations in seizures of misappropriated trade secrets set forth in the DTSA." These Best Practices can be found at www.fjc.gov/content/323518/dtsa-best-practices0june-2017. While the Best Practices pertain to the *execution* of a seizure and not *whether* or *when* a court should ~~grant an application for such a seizure, no discussion of the *ex parte*~~ seizure at this juncture would be complete without reference to those Best Practices.

Save the Date: 2018 Federal Litigation Conference

It is not too soon to red flag **Wednesday, May 30, 2018**, for the next FBA Federal Litigation Conference in Washington, D.C. The Planning Committee is hard at work organizing a great event and lining up outstanding speakers. The 2018 conference will be held at the offices of our Jones Day, 51 Louisiana Ave. N.W., just north of the U.S. Capitol Building. The Federal Litigation Section thanks Jones Day colleagues for hosting the upcoming conference. Please mark your calendars and plan to join us for the 2018 conference! **SB**

Beware the Dissolved Corporation: Issues Affecting Diversity Jurisdiction

Rebecca M. Plasencia

All litigators know the general rule that a corporation is deemed a citizen of both its state of incorporation and the state in which the corporation has its principal place of business.[1] Where a plaintiff and a defendant are citizens of different states and the amount in controversy exceeds $75,000, a federal district court can exercise subject-matter jurisdiction over the case because there is complete diversity of citizenship between the parties.[2] But what happens when either the plaintiff or defendant corporation is defunct, inactive, or dissolved? The U.S. Supreme Court has yet to resolve a decades-long split of authority among the Circuit Courts of Appeals on this issue.

All states have enacted laws that allow for a dissolved corporation, limited liability company, etc., to exist for a certain amount of time (varying from state to state) following dissolution for purposes of engaging in all activities necessary to wind up the business and to sue or be sued. Thus, without question, an inactive or dissolved corporation remains a citizen of its state of incorporation for the statutory period prescribed in that state's law. But what happens to its principal-place-of-business citizenship is an issue that has not been resolved by the courts.

Both the Third and Eleventh Circuits have adopted a bright-line rule that an inactive or dissolved corporation has no principal-place-of-business citizenship and remains a citizen of its state of incorporation only.[3] In *Midlantic National Bank v. Hansen*, the Third Circuit defined inactive corporation as "a corporation conducting no business activities."[4] In holding that an inactive corporation has no principal place of business, *Midlantic* relied on the now-rejected "corporate activities" test, noting that because an inactive corporation does not engage in corporate activities, it cannot have a principal place of business.[5] Thus, an inactive corporation could only be a citizen of its state of incorporation.

After *Midlantic* was decided, however, the Supreme Court resolved a split among the Circuit Courts of Appeals regarding the test to be applied in determining a corporation's principal place of business. In *Hertz Corp. v. Friend*, the Court held that a corporation's principal place of business is where its "nerve center" is located—that is, "where the corporation's high-level officers direct, control, and coordinate the corporation's activities."[6] Notwithstanding that *Midlantic* was based on the "corporate activities" test that *Hertz* expressly rejected for determining principal place of business, the Eleventh Circuit adopted *Midlantic*'s holding, extending it to a dissolved corporation. In *Holston Investments Inc. B.V.I. v. LanLogistics Corp.*, the Eleventh Circuit held that a dissolved corporation is a citizen of its state of incorporation only.[7] Although the Delaware corporation had at all times maintained its corporate headquarters in Florida, it had dissolved in Delaware in December 2007, and the Florida Secretary of State had processed and filed documents withdrawing the corporation's authority to transact business in Florida in January 2008; the plaintiff sued the dissolved corporation four months later.[8] Although at the time the lawsuit was filed, the dissolved corporation was still winding down its affairs, the Eleventh Circuit held that the defendant had no principal place of business and was a citizen of its state of incorporation only, opting for the bright-line rule set forth in *Midlantic*:

> Considering the jurisdictional tests in the various circuits and the guidance of the Supreme Court in *Hertz*, we join the Third Circuit in holding a dissolved corporation has no principal place of business. This bright-line rule may open federal courts to an occasional corporation with a lingering local presence, but undeserved access to a fair forum is a small price to pay for the clarity and predictability that a bright-line rule provides. Moreover, in our opinion, the Third Circuit rule aligns most closely with the Supreme Court's analysis in *Hertz*.[9]

The Second Circuit Court of Appeals, on the other hand, has rejected this reasoning and held that an inactive or dissolved corporation must also have a principal place of business for determining citizenship. In *Wm. Passalacqua Builders Inc. v. Resnick Developers S. Inc.*, the Second Circuit held that an inactive corporation must have a principal place of business for purposes of diversity jurisdiction, which it determined is the place in which the corporation last transacted business.[10] This holding was reiterated by the Second Circuit in *Pinnacle Consultants Ltd. v. Leucadia National Corp.*, in which the court noted that the diversity statute was designed to preclude any argument that an inactive corporation has no principal place of business.[11] Rather, an inactive corporation must be a citizen of both its state of incorporation and its principal place of business, which will be the state where it last transacted business.[12]

The Fifth and Fourth Circuit Courts of Appeals have adopted a somewhat middle-ground approach, adopting a "facts and circumstances" test to determine whether an inactive or dissolved corporation has a principal place of business. In *Harris v. Black Clawson Co.*, the Fifth Circuit noted that "while the place of an inactive corporation's last business activity is relevant to determine its principal place of business, it is not dispositive."[13] Rather, "as a matter of law, where a corporation has been inactive in a state for a substantial period of time, … that state is not the corporation's principal place of business."[14] Because the defendant had been completely inactive in Louisiana for a substantial period of time—over five years—before suit was filed, the court determined that Louisiana was not the corporation's principal place of business and thus complete diversity existed.[15] The Fifth Circuit avoided ruling on whether an inactive corporation *must* have a principal place of business.[16]

The Fourth Circuit held in *Athena Auto. Inc. v. DiGregorio* that a dissolved corporation *can* have a principal place of business, expressly rejecting the Third Circuit's approach because it overlooked the reality that "[a] corporation's business does not usually end with the abruptness of closing its doors" and that even an inactive corporation can have a "continuing impact" in an area sufficient to preserve its local identity.[17] Adopting a test similar to that in *Harris*, the Fourth Circuit held that the inactive corporation did not have a principal place of business in Maryland as it had been inactive in that state for three years before suit was filed.[18] The Fourth Circuit did not need to decide whether the inactive corporation actually had a principal place of business but noted that, if it had to make such a finding, it would apply the nerve-center test.[19]

Without expressly ruling whether an inactive or dissolved corporation must have a principal place of business, the Tenth Circuit in *Coffey v. Freeport McMoran Copper & Gold* affirmed a district court's finding that a defendant's business activities were substantial enough to constitute "transacting business" and thus established principal-place-of-business citizenship.[20] In that case,

the defendant corporation had been acquired by another company but had engaged in environmental remediation activities in response to legal claims from its prior operations.[21] The Tenth Circuit—also applying the now-rejected "total activities" test for determining principal place of business—affirmed the district court's ruling that the remediation activity sufficed to establish Oklahoma as the defendant's principal place of business.[22]

Similarly, the D.C. Circuit Court of Appeals, while not expressly addressing the issue, has acknowledged the possibility that an inactive or dissolved corporation can have a principal place of business. The D.C. Circuit in *Ripalda v. American Operations Corp.* held that a corporation continues in existence after dissolution if the state of incorporation allows its continued existence to sue or be sued.[23] The circuit court left open the question of whether a dissolved corporation must have a principal place of business, noting only that the dissolved corporation had formally withdrawn from Virginia more than a year before suit was filed and thus—absent any contrary evidence in the record—the court could "presume" that "if it still had any principal place of business it was not in Virginia."[24]

The conflicting circuit court opinions have generated much confusion among the district courts about whether an inactive or dissolved corporation must have a principal place of business and, if so, how to determine that place. This issue is particularly problematic where a corporation has withdrawn its certificate of authority to transact business in a state but is still conducting necessary activities to wind down its business and still exists under the applicable state statute for purposes of suing or being sued.

While the law is in flux, some guidance with respect to dissolved corporations can be gleaned from the Supreme Court's decision in *Hertz* and from the diversity statute itself. In holding that a corporation's principal place of business is "where the corporation's high level officers direct, control, and coordinate the corporation's activities" (*i.e.*, the "nerve center"), the Supreme Court did not distinguish between active or dissolved corporations or focus on the types of activities being conducted to determine a corporation's principal place of business.[25] Instead, *Hertz* expressly recognized the reality that corporations exist in various forms to conduct many different kinds of activities and adopted the nerve-center test to accommodate this reality:

> Perhaps because corporations come in many different forms, involve many different kinds of business activities, and locate offices and plants for different reasons in different ways in different regions, a general 'business activities' approach has proved unusually difficult to apply.[26]

It is not the type of business that is being conducted that determines a corporation's principal-place-of-business citizenship; rather, it is the "place of actual direction, control, and coordination" that is dispositive.[27] Following this reasoning, it should not matter whether a corporation is engaged in active business practices, such as sales or marketing, as opposed to business activities necessary for winding down a corporation's affairs. Instead, it should only matter where the "place of actual direction, control, and coordination" of those activities is located (whether winding-down business activities or otherwise).

The plain language of the diversity statute further supports the theory that a dissolved corporation should have a principal place of business for diversity purposes. As the statute makes clear, a corporation is deemed to have dual citizenship and is a citizen of both its state of incorporation *and* its principal place of business.[28] The statute makes no distinction between active, inactive, or dissolved corporations. Nor should it. A dissolved corporation does not lose its character as a corporate body after dissolution. Indeed, every state extends the life of a corporation after dissolution for a definite time so that the corporation can prosecute and defend lawsuits and otherwise settle its affairs. Section 1332(c)(1)'s requirement for dual citizenship takes into account the reality that corporations exist after dissolution. Thus, the statute requires a determination, for every corporation, of a principal place of business, which is the place of actual direction and control under *Hertz*. The fact that the corporation has dissolved and is winding up its affairs does not mean it has no place of direction and control and thus no principal place of business. Rather, because the corporation exists and can sue or be sued, it must have a principal place of business—a nerve center—from which, at a minimum, any litigation is directed.

Until the Supreme Court resolves the conflict among the Circuit Courts of Appeals, however, litigators must be conscious of the problems that can arise when seeking (or attempting to avoid) federal court subject-matter jurisdiction under the diversity statute where one of the parties is an inactive or dissolved corporation. **SB**

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Endnotes

[1]28 U.S.C. § 1332(c)(1).
[2]28 U.S.C. § 1332(a)(1).
[3]48 F.3d 693 (3d Cir. 1995).
[4]*Id.* at 696.
[5]*Id.*
[6]559 U.S. 77, 80-81 (2010).
[7]677 F.3d 1068, 1071 (11th Cir. 2012).
[8]*Id.* at 1070 n.1.
[9]*Id.*
[10]933 F.2d 131, 141 (2d Cir. 1991).
[11]101 F.3d 900, 907 (2d Cir. 1996).
[12]*Id.*
[13]961 F.2d 547, 551 (5th Cir. 1992).
[14]*Id.*
[15]*Id.*
[16]*Id.* at 551 n.12.
[17]166 F.3d 288, 291 (4th Cir. 1999).
[18]*Id.* at 291-92.
[19]*Id.* at 292.
[20]581 F.3d 1240, 1245–46 (10th Cir. 2009).
[21]*Id.* at 1246.
[22]*Id.*
[23]977 F.2d 1464, 1468 (D.C. Cir. 1992).
[24]*Id.* at 1469.
[25]559 U.S. at 90-91.
[26]*Id.*
[27]*Id.* at 97.
[28]28 U.S.C. § 1332(c)(1).

The Inverse Hearsay Exception

Augustus B. Flottman

The public records exception is one of the most intriguing hearsay rules. At a glance, Federal Rule of Evidence 803(8) is unremarkable relative to other hearsay exceptions such as those for excited utterances, present sense impressions, or business records. In the criminal context, public record evidence is not often thought of as damning, smoking-gun evidence. Instead, the exemptions for co-conspirator statements and prior inconsistent statements demand the focus of many more pretrial motions and pleasant disagreements at sidebar.

If this usually somnolent hearsay exception has escaped your recollection, the text of Rule 803(8) provides "[a] record or statement of a public office," through hearsay, is admissible if it sets out (ii) "a *matter observed while under a legal duty to report*, but not including, in a criminal case, a matter observed by law-enforcement personnel;" or (iii) in a *civil case* or against the *government* in a criminal case, factual findings from a legally authorized investigation." (emphasis added)[1] Note the unequivocality of the language in excluding the use of the exception in criminal cases for the admission of law-enforcement observations and factual findings of a legally authorized investigation.

The rule's unequivocal language is belied by a matrix of case law confronting issues such as the exact scope of "law enforcement personnel," the difference between observations and "factual findings," and how the confrontation clause shapes the application and prohibitory effect of the exception's limits in criminal cases.[2] In fact, one circuit's interpretation of the public records exception fashioned a unique rule for a hearsay exception. In a seminal public records exception case, the Second Circuit Court of Appeals held that, where proffered hearsay evidence is inadmissible under the public records exception against a criminal defendant, the government cannot attempt to "backdoor" the evidence in through the business records exception or any other hearsay exception.[3] The Second Circuit's rule departs from the general principle that hearsay inadmissible under one exception is nonetheless admissible pursuant to another hearsay exception.[4] In effect, the public records exception contains an additional rule against hearsay.

With its decision in *United States v. Oates* the Second Circuit ushered in a quasi-circuit split that is characterized less by a sharp disagreement among circuits than by a body of case law littered with ungainly technical distinctions. The starting point in examining these issues is an understanding of how our courts determine what hearsay is admissible against a criminal defendant through the public records exception. This journey will take us through what exactly is "a matter observed," the rules for who qualifies as "law enforcement personnel," and how courts demarcate between observations and "factual findings." We will then dive into the minds of Congress and review the congressional intent behind the public records exception. The journey will conclude with an examination of how hearsay inadmissible under the public records exception precludes the government from backdooring the evidence in through other hearsay exceptions and the heightened relevance of this law in the white-collar criminal context.

It does not require particularly careful thinking to realize the natural overlap between the purview of subsections (ii) and (iii). Often a matter observed by law enforcement personnel will include factual findings from a legally authorized investigation and the latter may, and often does, include matters observed by law enforcement personnel. Consider a situation where, in a criminal case, a court is faced with the defendant's hearsay objection to the admission of a report that contains a law enforcement personnel's observations of an event in addition to the officer's conclusions: Is the hearsay excluded by the provisions of 803(8)(ii) or 803(8)(iii)? In *United States v. Smith* The District of Columbia Circuit Court of Appeals opined that, if required to choose, they would settle for subsection (iii) because "[t]hat portion of the rule deals explicitly with reports based on investigations."[5] *United States v. Rosa* presented the Second Circuit with the question of whether the court should exclude a medical examiner's autopsy report, which contained the observations of a medical examiner and the examiner's conclusions ("findings of fact"). The Second Circuit held a medical examiner does not qualify as "law enforcement personnel," and therefore the observations of the report are admissible under subsection (ii), but the factual conclusions drawn from the observations are properly stricken under subsection (iii).[6]

The determination of which provision controls is significant. Recall that the "factual findings" of an investigation contained in a public record are never admissible *against* a criminal defendant.[7] Observations within a public record, however, are admissible unless observed by law enforcement personnel. Practically speaking, subsection (ii) and (iii) render anything but observations of non-law enforcement personnel inadmissible under the public records exception. Thus, the meaning given to the definition of law enforcement personnel by a court is of appreciable consequence with respect to whether the hearsay is admissible as a public record against a criminal defendant.

As the above discussion of *Rosa* and *Smith* illustrate, from the plain text of 803(8) the determination of whether a public record is admissible under subsection (ii) against a criminal defendant is at *least* a two-part analysis. First the court must assess whether the author of the report is within the scope of the meaning given to "law enforcement personnel." Second the court must determine whether the record contains "observations" or "factual findings."[8]

The Importance of the Definition Given to Law Enforcement Personnel

In its leading public records exception case, *United States v. Oates*, the Second Circuit Court of Appeals found the scope of the term "law enforcement personnel" to "at least include any officer or employee of a governmental agency which has law enforcement responsibilities."[9] At first blush this language suggests that, for example, an IRS agent in the civil division would qualify as within the scope of law enforcement personnel because the criminal division of the IRS executes law enforcement functions.[10] Indeed, while quite broad, this remains the definition of law enforcement personnel, and this broad definition is indicative of the sweeping application of Rule 803(8)'s limiting language to reports of government agencies (important constraints on this application discussed *infra*).

In *Oates* the hearsay at issue consisted of a U.S. Customs Service chemist's report in which the chemist concluded that a

tested substance contained heroin (the court analyzed this hearsay under both subsection (ii) and (iii)). The court concluded that the Customs Service qualified as a government agency with a law enforcement responsibility by finding the officers who seized the substance were Customs Service officers performing a law enforcement function.[11] The court couched its finding that the chemist fell within the ambit of the definition by noting that the chemist played a role in the "prosecutorial effort" and that the kind of report at issue is not "made by persons and for purposes unconnected with a criminal case."[12]

The test for admissibility under the public records exception *appears* relatively painless; but it would only *be* painless if courts limited analysis of admissibility under 803(8)(ii) to the two aforementioned considerations. Other circuits swiftly and pointedly criticized the significant implications of the broad language in *Oates* and clarified another requirement for hearsay to fall victim to 803(8)(ii)'s limiting language—that the law enforcement personnel prepare the report in an adversarial setting.[13] The *Oates* court did speak, however softly, to this requisite degree of adversariality in pointing to the chemist's role in the prosecutorial effort.[14]

The basis for the relevance of whether the author of the proffered public record hearsay prepared the record in an adversarial setting is the constitutional underpinning of both subsection (ii) and (iii)—a criminal defendant's rights under the confrontation clause. The limitations of using the public records exception against criminal defendants arose out of congressional concern that "observations by police officers … are not as reliable as observations by public officials in other cases because of the adversarial nature of the confrontation between the police and defendant in [a] criminal case."[15] Furthermore, Congress rightfully found unsettling the proposition that, without the limiting language, the prosecution could employ the exception to substitute an officer's testimony with their police report.[16] To allow otherwise would constitute a textbook clash with the defendant's right to confrontation.[17] This underlying constitutional rationale, although muted in the opinion, elucidates why the *Oates* court emphasized the chemist's role in the "prosecutorial effort."

Based on the *Oates* precedent, a finding of adversariality or lack thereof is thus the only determination restraining the sweeping exclusionary effect of the broad meaning given to "law enforcement personnel." Whether a public record is prepared in an adversarial setting is a fact-intensive analysis without a bright line set of rules. This intensely subjective inquiry affords great discretion to the bench and is thus a point that deserves a good deal of focus in motion practice. Courts describe non-adversarial hearsay as records of "routine, ministerial, objective, non-evaluative matters."[18] Whether the record maker is part of the prosecutorial effort is one factor considered as discussed, above, by *Oates*. In a similar vein, courts will also look into whether the record is prepared in anticipation of litigation, an important consideration for reasons discussed *infra*.[19] Examples of non-adversarial records include: Treasury Enforcement Communications System reports logging the vehicle license plate, date, time, and location of border crossings; false statements in a naturalization application; a Verification of Removal form in an illegal reentry prosecution; and a police department property receipt for received evidence.[20] A common thread in all of the above examples is the often routine recording of objective, non-evaluative information by an administrative employee or official acting in an administrative capacity.

The Difference between a "Factual Finding" and an "Observation"

Whether the public record is evaluative or non-evaluative is a question the court's inquiry into which is prompted by Rule 803(8) subsection (iii) limiting "factual findings," in criminal cases, as only admissible against the government.[21] The House Judiciary Committee intended that courts apply a strict interpretation of "factual findings" such that "evaluations and opinions in the report shall not be admissible."[22]

A classic hearsay hypothetical illustrates what an evaluative report or "factual finding" is: An accident occurs at an intersection, and the officer records whether the light was red or green for one driver or the other at the time of the accident. This is a factual finding because it is an opinion resulting from the evaluation of evidence (*e.g.* witness statements).[23] In other words, a public record contains a factual finding if agency opinions or conclusions on matters of fact "flow from investigative findings."[24] The Second Circuit observed that an easy way to understand the difference between an "observation" as referenced in Rule 803(8)(A)(ii) and the "factual finding" of Rule Rule 803(8)(A)(iii) is to consider the procedural difference: "whereas, under Rule 803(8)(A)(ii), an agent directly observes a particular fact, Rule 803(8)(A)(iii) suggests that *findings* of fact may arise out of a broader "investigation," one that can involve hearings, evaluation of a set of compiled documents."[25] This distinction remains important where the author of a report is not considered to fall within the scope of law enforcement personnel. Then, the question of whether the record contains observations or evaluative factual findings is then determinative of admissibility under rule 803(8).

The Exclusionary Effect of the Public Records Exception

The most critical aspect of the *Oates* opinion is the finding that, in criminal cases, records inadmissible under the public record exception are also barred from admission through another hearsay exception.[26] This is a unique rule of evidence as the Second Circuit tailored Rule 803(8) to function as an inverse exception to the rule against hearsay. In *Oates* the government sought to introduce the public record at issue through Rule 803(6), the business records exception.[27] However, the Second Circuit did not restrain the reach of its holding to only the business records exception. Instead, the court held the government cannot moor such inadmissible public record hearsay into the safe harbor of any other hearsay exception.[28]

Other circuits have constrained the broad prohibition on using another hearsay exception due to Rule 803(8). Thus far, courts find only two hearsay exceptions are safe from the blanket foreclosure against receiving evidence inadmissible under Rule 803(8) through any other hearsay exception. First, Rule 803(10), exempting hearsay establishing the absence of a public record, falls outside of the prohibitory reach of Rule 803(8). The Second Circuit found this is so because such hearsay is non-evaluative, is not in and of itself an assertive statement of fact but instead forms the basis for an inference of fact, and is not of the kind giving rise to confrontation concerns.[29]

Second, the hearsay exception for recorded recollections under Rule 803(5) does not fall prey to the rule of *Oates* as the

elements of admissibility under Rule 803(5) vitiate against the confrontation clause concerns underpinning *Oates*. Rule 803(5) requires first that a witness lack the ability to fully and accurately recall a matter inquired about.[30] This means either the author of the report or an adoptee thereof is necessarily testifying when Rule 803(5) is at play. Therefore, admission under Rule 803(5) cannot deprive a defendant of his right to confrontation. The Third, Seventh, and Tenth Circuits employ this same Rule 803(5) rationale to find proffered hearsay outside the prohibitory effect of Rule 803(8) admissible under Rule 803(6) (the business records exception) where the declarant-author testifies.[31] It is upon this point where circuits remain split but this split is exposed as purely academic when one engages the implications of the confrontation clause underpinning the Rule 803(8) exclusions.

The aforementioned circuits criticize *Oates* for being overly broad in this respect as the former read *Oates* to preclude admission under a hearsay exception even where the author-declarant testifies—testimony sufficient to assuage confrontation concerns. However, in *Oates* the chemist who authored the report at issue was unavailable. The government instead called another chemist who did not correspond with, observe the testing performed by, or review the notes of the authoring chemist.[32] The nuance courts must observe is that, under a proper reading of *Oates*, where the author of the report or a sufficiently informed adoptee thereof does not testify, admission of the record necessarily fails to yield to the Sixth Amendment's confrontation clause. With proper review of the facts, *Oates*, in actuality, is a quite precise opinion and consistent with the positions articulated by the Third, Seventh and Tenth Circuits (recall that courts also took issue with the Second Circuit's apparent failure to consider the factor of adversariality in *Oates*—but a closer reading shows the Second Circuit assessed this factor).

Admission of a record disqualified by Rule 803(8) through Rule 803(5) is not in conflict with *Oates* or the confrontation clause because the latter hearsay exception inherently requires the author of the record to testify. However Rule 803(6) contains a lesser requirement: the testimony of a records custodian or other qualified witness is sufficient to satisfy the elements of the rule.[33] In *Oates* the court found that the cross examination of a chemist about a report he did not author, but was instead authored by a chemist the testifying agent did not know of or speak to which described tests he did not perform, is not a confrontation in any manner related to that contemplated by the Sixth Amendment.[34] Similarly, cross-examining a Rule 803(6) records custodian who has no personal knowledge of the substantive content of the public record at issue is but a ceremonial exercise of purported obeisance to the confrontation clause. In *Oates* the government attempted to substitute the chemist's testimony with the chemist's report—the very situation Congress intended to prevent.

Thus it follows that those circuits permitting the use of the business records exception to admit otherwise inadmissible public record hearsay must require the government to call the record's author—not simply a records custodian. Where government prosecutors attempt to backdoor public record hearsay through the Rule 803(6) exception, defense practitioners should also cast doubt on the record's trustworthiness by arguing the author prepared the record in anticipation of litigation. Indeed, hearsay business records are inadmissible where the records are prepared in anticipation of litigation.[35] Such a contention attacks the jurisprudence underlying the hearsay exception for business records: the presumption of accuracy accorded to the document because its creation is the product of a regularly conducted business activity. A document prepared in anticipation of litigation is not an action taken in the regular course of business.[36]

While it may appear the prohibitory effect of Rule 803(8) is only triggered under limited and specific facts, the rule is a powerful offensive tool for criminal practitioners—especially in the record intensive white-collar crime space. Practically speaking, government attorneys are not always able to arrange for the testimony of a record's authoring agent. This is especially true where the government agents creating these records are outside of the jurisdiction—often in a centralized agency hub like the District of Columbia. Even when the government is able to produce the authoring agent for testimony, the defense is ensuring the client's right to a meaningful opportunity for cross-examination, regarded as "the greatest legal engine ever invented for the discovery of truth."[37]

A handful of relatively recent cases illustrate the impact of Rule 803(8)'s prohibitory effect in white-collar criminal cases. In *United States v. Orellana-Blanco*, a marriage fraud prosecution, the government could not produce an INS agent to testify regarding the Form I-130 Petition For Alien Relative hearsay record, a record which the court referred to as a "damning exhibit."[38] The government argued the record admissible under the Rule 803(6) business records exception.[39]

The Ninth Circuit treated the authoring INS agent as within the meaning of law enforcement personnel and further found the interview associated with the hearsay record was adversarial.[40] Thus, the court concluded the exhibit came within the exclusionary provisions of the exception for public records. The Ninth Circuit found the prosecution's failure to call the authoring agent fatal to the admissibility and reversed the defendant's conviction.[41] *Orellana-Blanco* demonstrates how producing the authoring agent is not always easy for the government—in this case the agent was on sick leave.[42]

In *United States v. Horned Eagle*, the Tenth Circuit adopted the harder, faster Second Circuit rule completely excluding the use of the business records exception where Fed. R. Evid. 803(8) would bar the admission of the report at issue.[43] The defendant sought to suppress an FBI agent's report regarding the apprehension of the defendant. The report fell cleanly within the purview of Rule 803(8), as it contained the agent's subjective and evaluative observations; therefore, the court sustained the motion to suppress.[44]

Just this year in a prosecution centering on an illegal bitcoin exchange website, a district court of the Second Circuit prohibited the admission of National Credit Union Association (NCUA) records. The record the government sought to admit is known as a "risk-focused examination report" and contains assessments of various types of financial risks with sets of supporting facts for each assessment.[45] That district court thus found that the report contained evaluative conclusions arrived at through a legally authorized investigatory process and held the NCUA records inadmissible.[46]

Furthermore, application of the broad definition of law enforcement personnel has given rise to many opinions finding

the usual suspect government agencies involved in white-collar cases as within the definition. Recall that the determinative inquiry is whether the particular agency—not the particular authoring agent—has law enforcement responsibilities. In this article alone, the cases outlined are precedent that the IRS, INS, U.S. Customs Service, and even the NCUA all constitute agencies with law enforcement responsibilities.

With the briar patch of case law engaging the various complexities of Rule 803(8), it is important practitioners nail down the nuances of the rule. The issues arise more frequently than one would think and a detailed understanding of this body of law lends itself to excluding unfavorable evidence. At the very least, a detailed understanding ensures an opportunity to cross examine the particular, authoring agent that a defendant is constitutionally entitled to confront. **SB**

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Endnotes

[1]Fed. R. Evid. 803(8).

[2]United States v. Sawyer, 607 F.2d 1190, 1193 (7th Cir. 1979) (discussing admission of public records through the Rule 803(5) exception for public records ; United States v. Quezada, 754 F.2d 1190, 1194 (5th Cir. 1985) (dealing with application of rule to records not prepared in anticipation of litigation); Melendez-Diaz v. Massachusetts, 557 U.S. 305, 324, 129 S. Ct. 2527, 2538-40 (2009) (admitting autopsy report under Rule 803(8)).

[3]United States v. Oates, 560 F.2d 45, 78 (2d Cir. 1977).

[4]Id., at 66.

[5]United States v. Smith, 521 F.2d 957, 968 (D.C. Cir. 1975).

[6]United States v. Rosa, 11 F.3d 315, 333 (2d Cir. 1993).

[7]Fed. R. Evid. 803(8).

[8]Fed. R. Evid. 803(8).

[9]Oates, 560 F.2d at 68.

[10]United States v. Ruffin, 575 F.2d 346, 356 (2d Cir. 1978).

[11]Oates, 560 F.2d at 68.

[12]Id. (holding the government is surely in no position to assert that chemical analysis of unidentified substances is a regular conducted activity in the Customs laboratory performed pursuant to a legally authorized investigation, and, therefore, excluded under the provisions of subsection (iii)).

[13]Quezada, 754 F.2d at 1194; United States v. Hernandez-Rojas, 617 F.2d 533, 534-35 (9th Cir.), cert. denied, 449 U.S. 864, 101 S. Ct. 170, 66 L. Ed. 2d 81 (1980); Sawyer, 607 F.2d at 1193.

[14]Oates, 560 F.2d at 68.

[15]S. Rep. No. 1277, 93d Cong., 2d Sess. (1974), reprinted in 1974 U.S.C.C.A.N. 7051, 7064.

[16]See 120 Cong. Rec. 2387-89 (1974) (stating the government should not be able to put in the police report without calling the authoring policemen.)

[17]Oates, 560 F.2d at 68-69.

[18]United States v. Horned Eagle, 2002 DSD 25, 214 F. Supp. 2d 1040, 1042-43(D.S.D. 2002).

[19]See United States v. Orellana-Blanco, 294 F.3d 1143, 1150 (9th Cir. 2002).

[20]United States v. Zarauskas, 814 F.3d 509 (1st Cir. 2016): United States v. Phoeun Lang, 672 F.3d 17 (1st Cir. 2012) United States v. Lopez, 762 F.3d 852 (9th Cir. 2014); United States v. Brown, 9 F.3d 907 (11th Cir. 1993).

[21]Fed. R. Evid. 803(8).

[22]Report of the Committee on the Judiciary, H.R.Rep. No.93-650, 93d Cong., 1st Sess. 14 (1973), U.S.Code Cong. & Admin. News 1974, pp. 7051, 7088.

[23]Baker v. Elcona Homes Corp., 588 F.2d 551, 557 (6th Cir. 1978).

[24]In re September 11 Litig., 621 F. Supp. 2d 131, 153 (S.D.N.Y. 2009).

[25]United States v. Murgio, No. 15-cr-769 (AJN), 2017 U.S. Dist. LEXIS 10359, at *18-32 (S.D.N.Y. Jan. 20, 2017).

[26]Oates, 560 F.2d at 68.

[27]Id.

[28]Id., at 84 (stating "reports of public agencies setting forth factual findings resulting from investigations made pursuant to authority granted by law cannot satisfy the standards of any hearsay exception if those reports are sought to be introduced against the accused.")

[29]United States v. Yakobov, 712 F.2d 20, 26-27 (2d Cir. 1983).

[30]Fed. R. Evid. 803(8).

[31]United States v. Sokolow, 91 F.3d 396, 405 (3d Cir. 1996); United States v. King, 613 F.2d 670, 673 (7th Cir. 1980); United States v. Hayes, 861 F.2d 1225, 1230-31 (10th Cir. 1988).

[32]Oates, 560 F.2d at 64.

[33]Fed. R. Evid. 803(6).

[34]Oates, 560 F.2d at 65.

[35]Horned Eagle, F. Supp. 2d at 1041.

[36]Timberlake Constr. Co. v. United States Fid. & Guar. Co., 71 F.3d 335, 342 (10th Cir. 1995).

[37]Cal v. Green, 399 U.S. 149, 158 (1970).

[38]Orellana-Blanco, 294 F.3d at 1148.

[39]Id.

[40]Id., at 1151.

[41]Id., at 1152.

[42]Id., at 1151.

[43]Horned Eagle, 214 F. Supp. 2d at 1041.

[44]Id., at 1043.

[45]Murgio, 2017 U.S. Dist. LEXIS 10359, at *9.

[46]Id., at *18-19.

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Federal Litigation Section Well Represented at 2017 FBA Capitol Hill Day

April 20, 2017 marked another highly successful "Capitol Hill Day" for the Federal Bar Association. Behind the leadership of FBA President Michael Newman, FBA Government Relations Committee Chair West Allen, and FBA Government Relations Counsel Bruce Moyer, over 70 FBA members from across the country gathered on Capitol Hill to advocate the interests of the federal bench and bar in the halls of Congress. The Federal Litigation Section was well-represented, with 30 members of the Section participating. While the House and Senate were in recess, congressional staff members were hard at work, and many productive meetings were held addressing issues including the growing number of judicial vacancies, funding of the federal judiciary budget needs and other FBA government relations priorities. A constant reaction to the lobbying efforts was one of appreciation by congressional staff members, recognizing the informed and non-partisan role the FBA plays on Capitol Hill. Much credit goes to Bruce Moyer who has so ably represented the FBA's interests on Capitol Hill for many years; the respect Bruce commands in congressional offices is both widespread and apparent. Stacy King and the FBA staff made the lobby day easy and accessible to all attending. Federal Litigation Section members are encouraged to consider attending Capitol Hill Day in the Spring of 2018; it is sure to be a great opportunity to participate in our democratic process on behalf of our profession. **SB**