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P R O C E E D I N G S

[10:02 a.m.]

CHIEF JUSTICE ROBERTS: We'll hear argument this morning in case 06-484, Tellabs, Inc. versus Makor Issues & Rights.

Mr. Phillips.

ORAL ARGUMENT OF CARTER G. PHILLIPS

ON BEHALF OF PETITIONERS

MR. PHILLIPS: Thank you, Mr. Chief Justice, and may it please the Court:

In 1995 Congress acted decisively to curb abusive private securities litigation. It took the extraordinary step of rejecting categorically the traditional rule of notice pleading in complaints that are filed under the securities laws. Instead it declared that, and this is at page 2 of our petition, "The complaint shall state with particularity facts giving rise to a strong inference that the defendant acted with the required state of mind."

The fundamental error in the court of appeals analysis in this case was in writing out of the statute the strong inference language that Congress clearly intended to be not only in those statutes, but obviously applied rigorously.

JUSTICE KENNEDY: At some point during your

1 argument -- and I know you only have 20 minutes -- will  
2 you tell me whether or not in your view the pleading  
3 standard that the judge must follow is equivalent, is  
4 the same as the instruction that's given to the jury?  
5 Because if it isn't, then the Seventh Amendment argument  
6 may have some more force.

7 MR. PHILLIPS: I think the answer to the  
8 question is that it does not have to be the same. I  
9 think Congress actually has greater authority in dealing  
10 with pleadings that is distinct from the Seventh  
11 Amendment right, but the Court doesn't need to go that  
12 far in this particular case because I think the  
13 inferences that we are asking the Court to draw from the  
14 record in this case would avoid any --

15 JUSTICE KENNEDY: Well, in writing -- I take  
16 it, so far as the jury, it's just whether it's more  
17 likely than not, preponderance of the evidence.

18 MR. PHILLIPS: That's what the Court held --  
19 held in Huddleston, yes, Your Honor.

20 JUSTICE KENNEDY: So your submission is,  
21 maybe not in this case, but insofar as your theory of  
22 the case, that the trial judge can, and in fact must  
23 basically apply a standard of fact -- standard of proof  
24 that's higher than that what the jury would.

25 MR. PHILLIPS: Well, it's important as a

1 standard of allegation, because what we're talking about  
2 here is an analysis of the allegations of the lawyers,  
3 and not any kind of an evidentiary showing by any of the  
4 plaintiffs. So I do think it's removed. I mean, this  
5 Court has really never addressed the issue of the extent  
6 to which the Seventh Amendment extends to pleadings.  
7 And I don't think this is the case in which to take up  
8 that issue because I think it is quite clear that what  
9 at least we're asking for as the appropriate  
10 interpretation of the Reform Act is that you need to  
11 apply -- that you simply follow *Matushita* and *Monsanto*,  
12 and that is to force the plaintiffs to demonstrate that  
13 innocent explanations can be set aside. And if you take  
14 that particular approach, which clearly is consistent  
15 with the Seventh Amendment, then it seems to me you --  
16 the Seventh that you followed under the Constitution, is  
17 eliminated.

18 JUSTICE GINSBURG: Mr. Phillips, the Seventh  
19 Amendment or not, the question in 12(b)(6) is has the  
20 plaintiff stated a claim, and at the end of the line  
21 it's has the plaintiff proved a claim. But you're  
22 stating two different claims. The claim that must be  
23 stated is a stronger claim than the claim that must be  
24 proved, and I don't know of any other instance where  
25 that is so.

1 MR. PHILLIPS: I don't know that there are  
2 any other instances in which that's true,  
3 Justice Ginsburg, but I don't think it's a  
4 constitutional problem. I think at the end of the day  
5 the question is, does Congress have the power to enforce  
6 its view of the appropriate way to proceed as a matter  
7 of policy at the pleadings stage, and I think the answer  
8 to that question is yes. But again, you don't have to  
9 --

10 JUSTICE GINSBURG: I wasn't asking it as a  
11 matter of constitutional law but I'm thinking, how do  
12 you construe these words, what is it, "strong  
13 inference?" And the words come out of, as I understand  
14 it, a Second Circuit decision. So I would think the  
15 most logical thing is that you'd look at the Second  
16 Circuit decision and say ah, Congress picked up those  
17 words from the Second Circuit decision, then we should  
18 pick up the standards that the Second Circuit applied.

19 But your definition of strong inference is  
20 quite different from what the Second Circuit's was.

21 MR. PHILLIPS: Well, I'm not sure that's 100  
22 percent true. I think the real problem with the Second  
23 Circuit is there's no monolithic Second Circuit rule  
24 that's out there. The Second Circuit applied a number  
25 of cases under its particularity standards under 9(b)

1 prior to the time Congress adopted the strong inference  
2 standard. Some of them -- I think we would be very  
3 comfortable with the analysis in Shields versus  
4 Citytrust Bank, for instance. The way Judge Jacobs  
5 analyzed the complaint in that case is precisely the way  
6 we're trying to analyze the complaint in this case. So  
7 if you --

8 JUSTICE STEVENS: Mr. Phillips, can I ask  
9 this question?

10 MR. PHILLIPS: I'm sorry.

11 JUSTICE STEVENS: One of the amicus briefs  
12 talks in terms of the percentages, how likely the  
13 inference, the word strong inference means 50 percent,  
14 30 percent, 60 percent. Do you think the inference has  
15 to be stronger or less strong than the inference of  
16 probable cause in an affidavit for a search warrant to  
17 get access to the privacy of a home and so forth?

18 MR. PHILLIPS: I think it would have to be  
19 stronger than that, although I don't know how to  
20 translate that into percentages, Justice Stevens.

21 JUSTICE STEVENS: A civil case would impose  
22 a higher standard for getting discovery in a civil case  
23 than they would for getting access to a citizen's  
24 private papers and the like?

25 MR. PHILLIPS: I think the use of the

1 language "strong inference" carries with it a very  
2 significant burden that has to be demonstrated by the  
3 buyer.

4 JUSTICE KENNEDY: A burden of over 50  
5 percent?

6 MR. PHILLIPS: Oh, to be sure.

7 JUSTICE SCALIA: In a criminal case, the  
8 person seeking that action is a government officer who  
9 presumptively is not acting out of selfish motives,  
10 whereas we're talking about private suits and some  
11 private litigants are selfish.

12 MR. PHILLIPS: Absolutely, Justice Scalia.  
13 And if you read the Securities Industries amicus brief,  
14 it ticks off all of the instances of harm that are  
15 caused by allowing -- too much of the private litigation  
16 is precisely that, which Congress was responding to.

17 JUSTICE KENNEDY: I just have to make it  
18 clear. Is the high likelihood, or strong inference, is  
19 greater than more likely than not?

20 MR. PHILLIPS: Yes. I believe Congress  
21 would have intended it to be more --

22 JUSTICE ALITO: Doesn't the -- doesn't the  
23 standard at the pleading stage have to be the same as  
24 the standard at the summary judgment stage? If --  
25 suppose that a certain set of facts is sufficient to



1 defeat summary judgment. If the plaintiff alleges all  
2 of those facts in the complaint, are you saying that  
3 that complaint could be dismissed even though supporting  
4 those facts at the summary judgment stage would be  
5 enough to defeat a summary judgment motion?

6 MR. PHILLIPS: I think at the end of the day  
7 I would make that argument. I don't have to make that  
8 argument here because it's clear to me that the same  
9 standards of Matsushita and Monsanto that say you have to  
10 exclude innocent explanations would apply at the summary  
11 judgment stage as we're trying to apply at the pleading  
12 stage, so there is no disconnect.

13 But if I were actually forced into that  
14 position, I think I would take that view, although I  
15 probably would argue first that the standard of  
16 Huddleston ought to be reconsidered, rather than  
17 rejecting clearly what Congress had in mind in 1995 when  
18 it acted to curb the abuses of private securities  
19 litigation.

20 JUSTICE SOUTER: But isn't the difference  
21 between Matsushita and this particular case at least as  
22 you are presenting this case, the -- the -- focused on  
23 the strength of this exclusion of innocent conduct?

24 As, as I recall Matsushita, there -- there  
25 had to be at that stage, there had to be evidence from

1 which one could infer that the -- that the conduct was  
2 not innocent; but you're arguing for something stronger  
3 than that. You're arguing for, in effect, an -- an  
4 ultimate conclusion that excludes innocent conduct. And  
5 aren't you asking for more than just what Matsushita did  
6 at -- at that later stage?

7 MR. PHILLIPS: I think there may be a slight  
8 semantic difference there, but the truth is at end of  
9 the day all we're asking for the Court to do is to  
10 evaluate the complaint, taking both the positive and the  
11 negative inferences from it, excluding ambiguities,  
12 interpreting them not in favor of the plaintiff, as you  
13 traditionally do, take into account whether there is an  
14 allegation of motive, and say at the end of the day  
15 whether or not that reaches a -- rises to the level of a  
16 strong inference.

17 JUSTICE SOUTER: But -- but Matsushita as I  
18 recall did not require it to rise beyond the level of a  
19 plausible inference. And I think you're arguing for  
20 something stronger than that. And I think the language  
21 of Congress forces you to do it but I -- I'm just  
22 finding it difficult to conclude -- to equate the  
23 plausibility standard in, in Matsushita with the strong  
24 inference standard here. If you --

25 MR. PHILLIPS: Well, if I'm going to err on

1 either side, I obviously prefer that the Court carries  
2 out Congress's intent. We think you needn't go any  
3 further than Matsushita did in order to reverse the  
4 court of appeals in this particular case.

5           Obviously there is probably some potential  
6 distance between the two, where you could certainly  
7 interpret the strong inference standard more in the line  
8 the way the United States interprets it, as creating a  
9 high likelihood of scienter. And we don't -- we're  
10 certainly not objecting to that. We're just saying to  
11 the Court that you needn't go that far in order to  
12 decide this case, although obviously we would welcome a  
13 ruling along those lines if the Court's inclined to go  
14 that far.

15           JUSTICE GINSBURG: Is it fair to say at the  
16 pleading stage it's the equivalent of a clear and  
17 convincing standard, whereas at the end of the road it  
18 would only be more probable than not?

19           MR. PHILLIPS: Well, again, I think it -- I  
20 think it puts an issue -- and we raised this in our  
21 reply brief, whether or not Huddleston should be  
22 reconsidered in light of this sort of basic change in  
23 the way Congress is approaching private securities  
24 litigation. But, so my --

25           JUSTICE GINSBURG: So you do --

1 MR. PHILLIPS: There are a number of ways to  
2 go at it. But if it turned out to be a disconnect, that  
3 would not offend at least my sense of what Congress was  
4 trying to achieve here.

5 JUSTICE SCALIA: Yeah. Well, I don't think  
6 Congress was trying to achieve an alteration in the  
7 ultimate standard, either, in the jury standard. What  
8 it was concerned with is the enormous expense of -- of  
9 discovery. And, and tried to set a high wall to get to  
10 the discovery stage. I don't know why that should have  
11 to affect or should logically affect the standard that  
12 the jury is told to use.

13 MR. PHILLIPS: All I'm suggesting is that if  
14 the Court were concerned that somehow there is a  
15 disconnect between the pleading standard and the  
16 ultimate standard of proof, the way to resolve that  
17 incongruity -- if it is one -- would to be reconsider  
18 the ultimate standard of proof, not to throw out the  
19 clearly congressionally approved baby as part of that  
20 bath water.

21 JUSTICE KENNEDY: Can you tell me a little  
22 bit of how -- how this should work in your view? Assume  
23 the CEO makes misstatements as to the earnings report  
24 and the acceptance of one of its new products. Just  
25 assume that.

1 MR. PHILLIPS: Right.

2 JUSTICE KENNEDY: Can we make a strong  
3 inference that a CEO knows what his own earnings reports  
4 are?

5 MR. PHILLIPS: You mean with a specific  
6 earnings report rather than just simply sort of sales  
7 projections and demand?

8 JUSTICE KENNEDY: Can we make a strong  
9 inference that a CEO knows the status of current  
10 earnings --

11 MR. PHILLIPS: Well, my guess is they --

12 JUSTICE KENNEDY: -- when he makes, when he  
13 makes a statement.

14 MR. PHILLIPS: Well, I think they would have  
15 to make an allegation that the -- that the CEO routinely  
16 is provided with that information rather than simply  
17 assume it. I think it's the same problem you have with  
18 their -- with their allegation that it's common sense  
19 that CEOs will act to protect their own personal self  
20 interest and the overall welfare of the company by  
21 misrepresenting the status of events.

22 JUSTICE SCALIA: How about just saying that  
23 he knew it?

24 MR. PHILLIPS: I'm not --

25 JUSTICE SCALIA: Just saying that he knew

1 it. Without saying why they knew that he knew it?  
2 You're saying they have to give a reason why they knew  
3 that he knew it, namely he routinely read these reports?  
4 Suppose they didn't say that. They just said knowing  
5 that the -- that the figures were otherwise, he -- he  
6 set them forth.

7 MR. PHILLIPS: I don't think that's  
8 sufficient, because it requires for the facts that  
9 particularly show --

10 JUSTICE BREYER: But suppose it says, which  
11 I think it did say, that Mr. Notebaert typically stayed  
12 on top of the company's financial health by having  
13 weekly conversations with other executives. He had his  
14 hands on the pulse of the company. He saw weekly sales  
15 reports and product -- projection -- production  
16 projections. Now it seems like an allegation that's  
17 very specific.

18 MR. PHILLIPS: But the -- but the problem  
19 with that allegation, and we're talking about the 6500,  
20 the Titan 6500 product specifically, in that context,  
21 the report is, there's nothing in there that says what  
22 those reports say about the 6500. And remember, this is  
23 a case where the plaintiffs have 27 whistleblowers  
24 inside the company who could provide you with all of the  
25 detail in the world; and yet when it comes time to tell

1 you what was in the 6500 report that would -- that would  
2 suggest that it's not available, there's not word one in  
3 the allegation.

4 JUSTICE BREYER: Well, I thought they  
5 alleged at least that for about a year previously in  
6 respect to the 506500 that it was wrong known throughout  
7 the company that the 6500 had been delayed. Don't they  
8 make an allegation like that?

9 MR. PHILLIPS: Right but that's -- that  
10 being delayed for a year is not the basis for the claim.  
11 The question was is the, is the 6500 being sold; and  
12 that was the allegation. And the answer to that is he  
13 -- I -- he had every reason to believe that, based on  
14 what they've claimed because they've not produced a  
15 report or said that there's anything inside the report  
16 that says to the contrary about that.

17 Again, it seems to me --

18 JUSTICE BREYER: The 6500 has long been  
19 delayed. Everyone knows that in the company. So he  
20 knows it's long been delayed.

21 MR. PHILLIPS: I think --

22 JUSTICE BREYER: Then what he says is it is  
23 being shipped and delivered. Something like that.

24 MR. PHILLIPS: But Justice Breyer, that --  
25 that long been delayed period runs all the way back to

1 1998. And we're talking about events in 2000 and 2001.  
2 So the notion that it's been long delayed says nothing  
3 about what Mr. Notebaert was -- was revealing in March  
4 and April and June of 2001.

5 It, it could potentially, but it equally, it  
6 couldn't. It's the same problem you get with the 5500,  
7 where the court of appeals specifically said it is quite  
8 plausible that Mr. Notebaert never saw those reports.

9 Now how you can make that concession and  
10 nevertheless say there is a strong inference that he  
11 acted to deceive, strikes me as absolutely implausible.

12 JUSTICE BREYER: April '01, he says  
13 everything we can build we are building, and shipping.  
14 The demand is very strong. And then what they say is of  
15 course nobody wanted any of it, it was long delayed, and  
16 they've known that since 1998 and he has his finger on  
17 the pulse of the company.

18 MR. PHILLIPS: But you -- you --  
19 Justice Breyer, you make a leap there.

20 JUSTICE BREYER: Oh. Yeah.

21 MR. PHILLIPS: Is that they all knew that.  
22 The point is they knew that it was delayed back in 1999.  
23 What they don't do is tie that in to what he knew in  
24 2001; and that, to me, that's the central point in this  
25 case, is do you require that kind of specificity? And



1 it seems to me there's no other way to read what  
2 Congress says in this statute than to that. I'd like to  
3 reserve the balance of my time.

4 CHIEF JUSTICE ROBERTS: Thank you  
5 Mr. Phillips.

6 Mr. Shanmugam.

7 ORAL ARGUMENT OF KANNON K. SHANMUGAN,  
8 ON BEHALF OF UNITED STATES, AS AMICUS CURIAE,  
9 SUPPORTING PETITIONERS

10 MR. SHANMUGAM: Thank you Mr. Chief Justice,  
11 and may it please the Court:

12 While meritorious private actions are an  
13 essential supplement to Government enforcement of the  
14 securities laws, abusive action impose substantial costs  
15 on companies and their shareholders. As a cornerstone  
16 of its effort in the Reform Act to address the problem  
17 of abusive actions, Congress adopted uniform and more  
18 stringent pleading requirements including the strong  
19 inference requirement at issue in this case.

20 The court of appeals erred by holding that a  
21 plaintiff can satisfy that requirement simply by  
22 alleging facts which an inference of state of mind could  
23 be drawn. The court of appeals thereby misinterpreted  
24 the Reform Act. And --

25 CHIEF JUSTICE ROBERTS: Do you have a

1 position on Justice Alito's earlier question about  
2 whether the standard at the summary judgment stage is  
3 the same as the standard at the pleading stage?

4 MR. SHANMUGAM: First of all to be clear,  
5 Mr. Chief Justice, we don't believe that the Court needs  
6 to address that question in this case, because we don't  
7 believe that that sort of disparity would present any  
8 Seventh Amendment concerns. However, if the Court does  
9 believe that any disparity in the degree of probability  
10 required does present Seventh Amendment concerns, we  
11 believe that it is more consistent with Congress's  
12 intent to apply the strong inference requirement at the  
13 proof stage as well as the pleading stage rather than to  
14 water down the strong inference requirement that  
15 Congress adopted at the pleading stage.

16 And we believe that that requirement does  
17 impose a very high burden. In our view, it requires a  
18 plaintiff to allege facts that give rise to a high  
19 likelihood that the conclusion that the defendant acted  
20 with the necessary date of mind follows from those  
21 allegations.

22 JUSTICE KENNEDY: And by the proof stage you  
23 mean both summary judgment and submission to jury?

24 MR. SHANMUGAM: I think that that is right,  
25 Justice Kennedy. I suppose that if the perceived

1 constitutional concern is solely regarding the degree of  
2 likelihood that is required, it could be applied simply  
3 at the summary judgment stage; but to the extent that  
4 the Court believes that it is a matter for the jury to  
5 determine whether a given set of facts gives rise to an  
6 inference of the requisite strength then yes, the jury  
7 would need to be instructed in a manner consistent with  
8 the strong --

9 JUSTICE KENNEDY: What would you think about  
10 the following --

11 JUSTICE STEVENS: May I just -- may I just,  
12 very briefly. . Putting aside the constitutional  
13 problem, do you think the standards are the same or  
14 different between the pleading stage and the  
15 constitutional stage -- and the summary judgment stage?

16 MR. SHANMUGAM: Well, again, we don't  
17 believe that the Court needs to address that question.

18 JUSTICE STEVENS: I understand that. That's  
19 not my question.

20 MR. SHANMUGAM: And the statute by its terms  
21 only --

22 JUSTICE STEVENS: It is either a yes or no  
23 question.

24 MR. SHANMUGAM: Well, I think that the  
25 answer is yes if the Court feels it needs to address

1 that question. And to be sure, the strong inference  
2 standard that Congress adopted was framed only in terms  
3 of the pleading stage. And our view --

4 JUSTICE GINSBURG: -- there was a pleading  
5 stage, I would like your clear view on how much that  
6 changes. It has been the understanding that when there  
7 is a 12(b)(6) motion, you look only to the face of the  
8 complaint and you construe the allegations in that  
9 complaint in the light most favorable to the plaintiff.

10 Is that rule not applied under the  
11 interpretation you are giving us of strong inference?

12 MR. SHANMUGAM: I think that it is,  
13 Justice Ginsburg, to this limited extent. In an  
14 ordinary civil case, the case is governed of course by  
15 Rule 8. And in some sense the rule that the allegations  
16 in the complaint must be construed in the light most  
17 favorable to the plaintiff is really derived from Rule 8  
18 and its requirement that a plaintiff need only provide a  
19 shortened claim statement of the relevant underlying  
20 facts in order to survive a motion to dismiss.

21 What Congress did in the Reform Act was to  
22 require first of all some degree of particularity in  
23 allegation; but Congress went further than that; and to  
24 the extent that Congress spoke in terms of the  
25 inferences that can be drawn from those allegations, we

1 do believe that Congress abrogated the background rule  
2 that the allegations must be read in the light most  
3 favorable to the plaintiff, or as some courts have put  
4 it, that all reasonable inferences that can be drawn  
5 from the complaint should be drawn in the plaintiff's  
6 favor.

7 That clearly is a change on the preexisting  
8 law; and it is a change with regard to the law that  
9 circuits were applying before the enactment of the  
10 Reform Act.

11 JUSTICE SOUTER: Why don't we simply assume  
12 that the read most favorable to the plaintiff rule is  
13 still in place, but that reading it most favorably to  
14 the plaintiff, it must rise to the level of supporting  
15 the strong inference?

16 MR. SHANMUGAM: I guess, Justice Souter,  
17 that I would wonder what it would mean to say that you  
18 read the allegations in the light most favorable to the  
19 plaintiff. If what it means is that a plaintiff can  
20 simply accumulate reasonable subsidiary inferences in  
21 order to create the strong inference of state of mind  
22 that is ultimately required, then I think I would  
23 disagree that that rule remains in effect. Precisely  
24 because our view is that in applying the strong  
25 inference standard, a court should consider other

1 possible explanations for the defendant's conduct that  
2 are not foreclosed by the allegations --

3 JUSTICE SOUTER: Well, but I was using the  
4 word inference to -- to refer to some reasoning process  
5 based upon what is stated. Not on assumptions favorable  
6 to the plaintiff.

7 And if inference is to tie -- is, is a term  
8 that is tied to what is alleged, then I don't see any --  
9 any contradiction between reading those allegations most  
10 favorably, but saying the statute in each statute  
11 requires that the -- that the total force of the  
12 inference rise to the level of strength that you speak  
13 of.

14 MR. SHANMUGAM: I think our only concern,  
15 Justice Souter, would be that where a plaintiff includes  
16 ambiguous allegations in the complaint, a court should  
17 consider the possibility that those ambiguities work to  
18 the defendant's favor as well as working to the  
19 plaintiff's favor. And one concrete example of that in  
20 this case are the allegations that concern the Titan  
21 5500. There are allegations in this case that there was  
22 a study and there were various internal reports that  
23 indicated that demand for that product was declining.

24 But the complaint does not specifically  
25 allege that that study and those internal reports were

1 even available at the time the CEO made the alleged --

2 JUSTICE SCALIA: Mr. Shanmugam, could --

3 could I get you back to -- to your, your assertion of we

4 don't have to reach in this case the question of whether

5 the same standard applies at trial as, as at the

6 pleading stage?

7 It seems to me a Seventh Amendment claim has

8 been raised. It's our usual policy to avoid unnecessary

9 constitutional adjudication. If indeed the two

10 standards are the same, there's certainly no Seventh

11 Amendment problem. So why don't we have to first of all

12 decide, in resolving the Seventh Amendment claim,

13 whether the two standards are the same?

14 MR. SHANMUGAM: Well, that is certainly

15 correct, Justice Scalia, but in our view, there is no

16 constitutional problem here. And the reason that there

17 is no constitutional problem here is in making the

18 probabilistic determination that is required by the

19 Reform Act, a court is taking the allegations in the

20 complaint as true. It is not engaging in any weighing

21 of the evidence.

22 JUSTICE SCALIA: But you're getting to the

23 merits of the constitutional problem. And we usually

24 run away from constitutional problems. We don't even

25 want to consider the merits of it. And we don't have

1 to, if indeed the two standards are the same.

2 MR. SHANMUGAM: Well, to the extent that the  
3 Court views the constitutional issue in this case as  
4 sufficiently substantial to trigger the canon of  
5 constitutional avoidance, then we do believe that the  
6 better view, the view that is more consistent with  
7 Congress's intent, is that if the Court is choosing  
8 between raising the standard at the pre stage and  
9 watering down the standard at the pleadings stage, we  
10 believe that the former is more consistent with  
11 Congress's --

12 JUSTICE ALITO: Even if there is no Seventh  
13 Amendment problem, what sense would it make to have a  
14 regime that says plaintiff has to plead more than the  
15 plaintiff has to show at summary judgment or prove at  
16 trial.

17 MR. SHANMUGAM: Well, Congress was  
18 concerned, Justice Alito, with the problem of abusive  
19 pleading. That much is crystal clear. And as part of  
20 that concern, Congress was concerned that plaintiffs  
21 could readily allege fraud by hindsight, and Congress  
22 may have been concerned that the plaintiff could do so  
23 not only by making a conclusory allegation of state of  
24 mind, but also making a slightly less conclusory  
25 allegation of state of mind by alleging facts that



1 merely give rise to a reasonable inference of state of  
2 mind.

3           If Congress hadn't had that concern, it  
4 obviously could have codified the reasonable inference  
5 standard that was then in use by a number of other  
6 courts.

7           JUSTICE BREYER: What do you think in  
8 writing this opinion? There are a couple of ways. One,  
9 you can find strong inference in terms of some other  
10 words. Two, you could look to history. Or three, you  
11 could just try an example. Say strong inference means  
12 strong inference. Here's an example. This is a  
13 complaint. It meets it, or it doesn't meet it. Which  
14 way, in your opinion, will work best in this case?

15           MR. SHANMUGAM: Justice Breyer, our primary  
16 concern in this case is with the way that the Court of  
17 Appeals articulated the applicable standard, which we  
18 believe may have pernicious effects in future cases.  
19 And so we certainly believe that it would be appropriate  
20 for the Court to vacate and remand for the Court of  
21 Appeals to apply the correct standard. But just to be  
22 clear --

23           JUSTICE GINSBURG: You said the Court of  
24 Appeals to apply it. Could the Court of Appeals  
25 applying the standard that you say is correct come to

1 the same decision that it came to using a different  
2 verbal formula.

3 MR. SHANMUGAM: In our view,  
4 Justice Ginsburg, applying the correct standard, the  
5 decision of the Court of Appeals in this case should be  
6 reversed. And if the case were remanded to the Court of  
7 Appeals for application of the standard, we certainly  
8 think that the Court of Appeals should come out the  
9 other way.

10 JUSTICE BREYER: You had something else to  
11 say in answer to my question, which I would like to  
12 hear.

13 MR. SHANMUGAM: I think it was just that  
14 point, Justice Breyer, namely, that if the Court  
15 believes that it would be useful to provide guidance to  
16 the lower courts by applying the standard itself in this  
17 case, we do believe that the decision of the Court of  
18 Appeals should be reversed rather than vacated.

19 JUSTICE KENNEDY: Is the requisite standard,  
20 knowledge of falsity.

21 MR. SHANMUGAM: The requisite scienter is  
22 either intent or recklessness, with regard to the  
23 underlying conduct at issue, in effect --

24 JUSTICE KENNEDY: Intent to make a false  
25 statement?

1 MR. SHANMUGAM: Yes, that's right. And in  
2 fact, in misstatement cases, that is knowledge of  
3 falsity.

4 CHIEF JUSTICE ROBERTS: Thank you  
5 Mr. Shanmugam.

6 Mr. Miller.

7 ORAL ARGUMENT OF ARTHUR R. MILLER

8 ON BEHALF OF RESPONDENTS

9 MR. MILLER: Mr. Chief Justice, and may it  
10 please the Court?

11 We believe the Seventh Circuit had it right.  
12 We believe that what the Seventh Circuit, and this is in  
13 partial response to you, Justice Breyer, is take more or  
14 less a holistic view of the entirety of the complaint.  
15 The business about the 5500, the business about the 6500  
16 not being available when on December 11, 2000, Notebaert  
17 says it's available, the fact that they weren't shipping  
18 it, they weren't selling it, it didn't work, and the  
19 extensive information from confidential sources that  
20 there were, as one judge once referred to it, accounting  
21 shenanigans going on, designed to shift income into the  
22 fourth quarter of 2000.

23 We think that when the court looked at that,  
24 it said, looks to us as if there's --

25 JUSTICE KENNEDY: Do we take judicial notice

1 that a CEO knows these things and that's the strong  
2 inference.

3 MR. MILLER: Again, you have confidential  
4 sources in this case, and in the case, Notebaert is  
5 hands on, he's talking to people, he's on the phone all  
6 the time. We're talking about the 5500 --

7 JUSTICE KENNEDY: But you agree you have to  
8 have that? You have to have some specific allegation to  
9 show of his knowledge? We can't just infer that?

10 MR. MILLER: I would think you should be  
11 able to infer it with the CEO. I think the confidential  
12 sources demonstrate in this case, he must have had it,  
13 given his nature, the status of these products, his  
14 day-to-day --

15 JUSTICE BREYER: The most suspicious thing  
16 in the complaint that I could find was where you say  
17 there's an internal market report, and it revealed  
18 demand for the 5500 was drying up, and revenue would  
19 decline by 400,000,000. Then you date that with in or  
20 about early '01. Now, I think if you knew or had reason  
21 to believe that it was prior to March or April of '01,  
22 you would have said so.

23 MR. MILLER: If we knew.

24 JUSTICE BREYER: Yeah, and therefore,  
25 there's quite a good chance here that this report was

1 written after he made the statements.

2           What am I supposed to do with that? I mean,  
3 I know what you said. And you said your best. And  
4 that's your best.

5           MR. MILLER: Yes. This notion of strategic  
6 ambiguity is in a sense humorous, given the obstacles  
7 that a plaintiff has to get the goods, so to speak.  
8 Just think about the investigation efforts that went  
9 into this case. What you do, Justice Breyer, is -- and  
10 I think this is what the Seventh Circuit did -- look at  
11 everything, look at the fact that you have got  
12 confidential sources saying 5500 demand is drying up,  
13 perhaps as early as middle 2000. Parts are not being  
14 ordered. People are going home early. Verizon dropped  
15 25 percent, fourth quarter. Verizon dropped 50 percent  
16 in January.

17           You're the CEO. You don't know that your  
18 flagship product is drying up? That there's inventory,  
19 that people are going home? That your best customer  
20 doesn't know you anymore?

21           CHIEF JUSTICE ROBERTS: You're arguing the  
22 facts and the inferences. You said the Seventh Circuit  
23 got it right. As I read their articulation of the  
24 standard on page 20A of the petition appendix, it's the  
25 normal standard that would have been applied prior to

1 the passage of the PSLRA. Could a reasonable person  
2 infer -- Congress passes a law saying they've got to  
3 give rise to a strong inference. Shouldn't that have  
4 changed the standard?

5 MR. MILLER: We believe two propositions.  
6 Number one, you can't exceed the Seventh Amendment, and  
7 the Seventh Circuit --

8 CHIEF JUSTICE ROBERTS: I don't understand  
9 the Seventh Amendment argument here. Congress can  
10 surely articulate the standard that's going to be  
11 applied as a matter of substantive law. If Congress  
12 says, you have to prove by clear and convincing  
13 evidence, that doesn't interfere with the Seventh  
14 Amendment because a jury would be instructed pursuant to  
15 that standard.

16 MR. MILLER: That is correct, Chief Justice.  
17 But that is not what Congress did. Congress did not  
18 elevate the burden of proof. That is why Mr. Phillips  
19 has asked you to, in effect, to overrule Huddleston.

20 JUSTICE SCALIA: Well, but Congress just  
21 established an entry qualification for getting into  
22 court.

23 And there are a lot of entry qualifications.  
24 In diversity cases, you -- if you allege diversity, and  
25 it existed at the outset, that's fine. That doesn't

1 have to be proved at the end of the case. Indeed even  
2 if you prove the contrary, the case is still validly  
3 there. Congress can establish entry requirements even  
4 when they differ from, or have indeed nothing to do with  
5 the merits that the jury is supposed to decide.

6 MR. MILLER: I think that is absolutely  
7 correct, and indeed rule 9(b) has been an entry  
8 qualification since 1938. But there are entry  
9 qualifications, and there are entry qualifications.

10 In this case, in effect, the motion to  
11 dismiss operates as a dispositive motion. It cuts off  
12 the ability to proceed at all, and it does it, if you  
13 listen to the standards being proposed by Petitioner,  
14 and by the United States --

15 JUSTICE BREYER: What's the difference  
16 between what Justice Scalia was just saying? You can't  
17 come into Federal court unless you have at least  
18 \$200,000 damages. Now, you might have been just as much  
19 hurt if you had less, but that would be constitutional.  
20 So here you can't get into Federal court unless you have  
21 a really strong claim, an overwhelming claim that you  
22 have to demonstrate at the beginning.

23 Now, you might have a good claim, but we're  
24 not going to let you come into Federal court. We only  
25 want those people who are really strong, just as we only

1 want those people who are really suffering.

2 MR. MILLER: And did Congress raise the  
3 burden --

4 JUSTICE BREYER: No. No, not the burden  
5 of -- it's the entry.

6 MR. MILLER: The entry points you referred  
7 to, the so-called pleas in abatement, to put on my  
8 common law hat, a jurisdiction venue, et cetera, they  
9 may raise issues of fact and Congress, in control of the  
10 Federal courts, can calibrate it any way they want.

11 But when you are dealing with the core  
12 function of the jury -- and matters of abatement were  
13 never considered to be core functions of the jury -- I  
14 think a whole range of cases starting with *Slocum versus*  
15 *New York Life* --

16 CHIEF JUSTICE ROBERTS: I thought you told  
17 me that Congress could set a high level of burden on  
18 factual issues, and that that wouldn't intrude upon the  
19 Seventh Amendment.

20 MR. MILLER: I'm distinguishing, Mr. Chief  
21 Justice, between the merits and the entry point.

22 CHIEF JUSTICE ROBERTS: Are you saying that  
23 Congress can not set a fact burden on the merits that is  
24 different than preponderance of the evidence.

25 MR. MILLER: No. No. No. No. If Congress



1 wants to change preponderance to clear and convincing,  
2 it can.

3 JUSTICE KENNEDY: So you would say that you  
4 could have a beyond reasonable doubt standard that must  
5 be met at the pleading level, but more likely than not  
6 at the jury level?

7 MR. MILLER: No. That is something I  
8 disagree with. If the substance of the law --

9 JUSTICE KENNEDY: We want to know what the  
10 rule is.

11 MR. MILLER: I'm not sure it's the rule.  
12 It's what I would advocate. If the substance says  
13 predominance, then to raise the pleading bar on what in  
14 effect is a dispositive motion -- and I don't think it  
15 makes any difference whether it's a JNOV, a directed  
16 verdict, a summary judgment, motion for judgment on the  
17 opening statement -- and you decided all of those cases.  
18 And you protected what Justice Souter referred to in  
19 Markman as the core function of the jury. You have  
20 always said these procedures are okay, as long as it  
21 does not call for the resolution of fact issues, because  
22 that's the core function of the jury.

23 Now this Court is faced with, in effect,  
24 coming back down that time line to the motion to  
25 dismiss.

1 CHIEF JUSTICE ROBERTS: If I'm with you so  
2 far, why would you suppose that Congress would create a  
3 different standard on the motion to dismiss than they  
4 meant to apply at the merits standard?

5 MR. MILLER: I don't think Congress would.  
6 I do not believe Congress ever intended -- it's not in  
7 the statute, it is not in the legislative history, it is  
8 not in any case, Matsushita, Monsanto are unique  
9 antitrust cases, and in both cases, the Court, if you  
10 read the opinions fully, protected the jury function.  
11 They said there was simply nothing beyond the assertions  
12 standing alone when you have competitive and  
13 anticompetitive conduct to protect substantive antitrust  
14 law. That doesn't do it.

15 CHIEF JUSTICE ROBERTS: Well, then what was  
16 Congress trying to do when they said strong inference?  
17 It seems to me that if you think the standards have to  
18 be the same at pleading and at proof, and Congress says  
19 strong inference at pleading, it means you have to show  
20 a strong inference at proof, and that's why there's no  
21 Seventh Amendment problem.

22 MR. MILLER: What you have to show at proof  
23 is preponderance.

24 JUSTICE STEVENS: Then it seems to me that  
25 you have the meaning of strong inference and reasonable

1 inference.

2 MR. MILLER: Our standard, as proposed, and  
3 we think --

4 JUSTICE STEVENS: You don't want to answer  
5 yes or no there?

6 MR. MILLER: -- is reasonable jurors, who  
7 are finders of fact, could find by a preponderance of  
8 the evidence that the defendants acted with scienter.

9 JUSTICE STEVENS: So you're saying those  
10 words, strong inference, mean essentially the same thing  
11 as reasonable inference.

12 MR. MILLER: No. You can have lots of  
13 reasonable inferences that don't meet a preponderance  
14 notion.

15 JUSTICE BREYER: That's true, but imagine a  
16 case where the plaintiff with tremendous candor sets  
17 forth every bit of testimony that's going to be heard on  
18 both sides.

19 And then you read that document and you  
20 conclude this is the weakest case I've ever heard, but I  
21 do think a reasonable juror could find for the  
22 plaintiff.

23 And that would be the weak evidence  
24 standard.

25 And lo and behold, that could be -- you

1 know, what do we do about that? Because using your do  
2 you send it to a jury test, we could easily imagine  
3 cases where that meets the weak evidence standard, the  
4 weak inference and not the strong inference. And what  
5 I'm driving at is, I don't see a way of avoiding this  
6 Seventh Amendment problem.

7 MR. MILLER: If --

8 JUSTICE BREYER: Because they certainly  
9 didn't intend the weak inference standard.

10 MR. MILLER: If you follow petitioners in  
11 their attempt to deconstruct not simply Rule 8's  
12 construction, but hundreds of years of what this Court  
13 in Jones versus Bock referred to as usual procedural  
14 practices which are not to be lightly departed from, the  
15 historic notion is you look at the complaint and in a  
16 curious way, you have blinders on. You look at the  
17 complaint. You read it in the light favorable to the  
18 pleader. You do not weigh. That is a jury function.  
19 You do not look for exculpatory explanations.

20 JUSTICE ALITO: How can you assess the  
21 strength of the inference that can be drawn from the  
22 facts alleged in the complaint without considering all  
23 the inferences that could be drawn from those facts? I  
24 just don't understand that argument.

25 You see somebody -- let's say you saw

1 somebody today walking east on Pennsylvania Avenue in  
2 the direction of Capitol Hill. Now you -- there's --  
3 you could draw an inference that the person is coming to  
4 the Supreme Court. And if there were no other building  
5 in Washington, that would be a very strong inference.  
6 But don't you also have to consider the inference that  
7 the person is going to the Capitol, the person is going  
8 to the Library of Congress, the person is going to some  
9 other location up here? You have to consider all the  
10 inferences that you can draw from the facts.

11 MR. MILLER: As the Seventh Circuit did, we  
12 agree, you look at the totality of the complaint.  
13 That's a given.

14 But there are contrary inferences that  
15 undermine the strength of the plaintiff's inferences.  
16 They weaken it. And they're -- they emanate from the  
17 complaint.

18 There are other kinds of inferences, let's  
19 call it nonculpability, that don't denigrate the strong  
20 inference which let's assume hypothetically has been  
21 established. They're just side-bar possibilities.

22 JUSTICE GINSBURG: Well, let's take one  
23 specific example that the petitioners did, and that is  
24 this matter of the channel stuffing. They say here's a  
25 notion, channel stuffing. It could mean goods were

1 shipped that nobody ever ordered, or it could mean  
2 something different. It could mean discounting and  
3 other incentives to get people to buy. So there's good  
4 channel stuffing and bad channel stuffing, and it sounds  
5 like good cholesterol, bad cholesterol; you can't tell  
6 from the allegations that it's the bad stuffing that's  
7 at issue.

8 MR. MILLER: The Seventh Circuit reached  
9 that conclusion, I think, by looking at some of the  
10 confidential sources which sort of indicated that there  
11 was channel stuffing in the sense of pushing product out  
12 which was coming back. The head of Verizon complained  
13 about the channel stuffing, so there's reason to believe  
14 that at least some of it is bad. Just enough.

15 Now, is that in and of itself determinative?  
16 No. Again, I come back to the notion that what the  
17 Seventh Circuit did is look at the 5500, look at the  
18 6500, look at the earnings projections which proved  
19 false, looked at back-dating, channel stuffing. Looked  
20 at all of that and said okay, even if I treat channel  
21 stuffing as weak, I have these other things. And as  
22 Judge Lynch of the First Circuit said, each fact of  
23 science is like a brush stroke.

24 JUSTICE SOUTER: Are you entitled to  
25 consider the brush strokes that are not there as well as

1 the subsidiary brush strokes that are? In  
2 Justice Alito's example, if the pleadings don't point  
3 out that the Library of Congress and the Capitol are  
4 also up on this hill, is the judge at the motions stage  
5 entitled to consider that?

6 MR. MILLER: Obviously, if it's something  
7 you can take judicial notice of, then yes.

8 JUSTICE SOUTER: Okay. Then that is  
9 engaging in something more than construing the pleadings  
10 most favorably to the plaintiff.

11 MR. MILLER: But it's within the realm of  
12 what courts have done for the longest of the time. They  
13 look at documents attached. They look at judicial  
14 notice.

15 JUSTICE SOUTER: What do you think about  
16 that? There are at least some circumstances, then, in  
17 which there this is kind of critical assessment function  
18 that you concede must go on, rather than simply a piling  
19 favorable inference onto favorable inference to see if  
20 it gets to the strong points.

21 MR. MILLER: I repeat what I said a couple  
22 of minutes ago, Justice Souter. If the negative  
23 depletes the affirmative, if there's a correlation  
24 between them, I can understand that. Maybe it  
25 eliminates that fact. Maybe it reduces that fact.

1           But when we hear about motive, what does  
2 motive and guidance reduction months after the false  
3 statements have to do with whether the statements were  
4 false, whether the 5500 was --

5           JUSTICE SOUTER: That is -- that is an  
6 argument for the weight of considering motive rather  
7 than the relevance of the motive consideration per se.

8           MR. MILLER: I think it is a tough line. I  
9 think this is the kind of line district judges have to  
10 draw. I think if you look at your own precedents like  
11 Anderson versus Liberty Lobby and all of those jury  
12 trial cases, you see the repetition of the notion that  
13 judges do not balance inference chains on a matter going  
14 to the core function of a jury.

15           CHIEF JUSTICE ROBERTS: But all of those  
16 cases were before the PSLRA where Congress, it seems to  
17 me, established a very different standard. They said  
18 they have to support a strong inference.

19           MR. MILLER: A strong inference. Not a  
20 conclusive inference.

21           CHIEF JUSTICE ROBERTS: Strong inference was  
22 not the test that was being applied in Anderson, Liberty  
23 Lobby, in any of those cases.

24           MR. MILLER: But can't -- but strong  
25 inference, as Justice Ginsburg said much earlier, was



1 the standard not only in the Second Circuit but in the  
2 First Circuit and in the Third Circuit.

3 JUSTICE BREYER: What do you think about the  
4 approach -- because I have had some of these cases. And  
5 I see -- I think words, words, words.

6 And what Congress said was strong inference,  
7 and we're not going to get any further by looking for  
8 some other words. So therefore, take strong inference.  
9 The most helpful thing is take it, look at the  
10 complaint, read it, and then say okay, this is a strong  
11 inference. Or maybe we'd say it isn't. We read it, and  
12 avoid all the other issues. What do you think about  
13 that?

14 MR. MILLER: Live to fight another day?

15 JUSTICE SCALIA: Right. And then on appeal,  
16 we would say, no, it's not a strong inference, or yes,  
17 it is a strong inference.

18 I mean, I hope we're going to establish some  
19 standards for how you go about determining whether  
20 there's a strong inference or not.

21 JUSTICE KENNEDY: And I hope we're going to  
22 recognize that Congress thought it was doing something.  
23 Your argument so far, Professor, doesn't indicate  
24 that Congress --

25 MR. MILLER: Excuse me.

1 JUSTICE KENNEDY: You indicated that the --  
2 you know, the plaintiff had to do all this  
3 investigation. The whole point of this was that the  
4 defendants were being disadvantaged.

5 MR. MILLER: Look at the statute in its  
6 entirety. This isn't a statute that just deals with  
7 pleading scienter. Look at the provisions dealing with  
8 the selection of lead representative, which has produced  
9 this incredible shift from '95 to public institutions,  
10 pensions and labor unions. They don't bring frivolous  
11 cases. Look at the control that statute gives over  
12 selection of them with notice provisions to make sure  
13 you've got the --

14 CHIEF JUSTICE ROBERTS: How does that change  
15 how we should read strong inference in the statute? Are  
16 you saying don't worry whether it's a strong inference  
17 or not because labor unions are bringing the cases and  
18 they're not going to bring a frivolous case? No.  
19 Congress said there has to be a strong inference. And  
20 what concerns me is that the very standard that the  
21 Seventh Circuit articulated said simply could a  
22 reasonable person infer. The notion of strong inference  
23 isn't in that standard at all.

24 MR. MILLER: The notion of strong inference  
25 starting with the Second Circuit doctrine, as used in

1 many other circuits, was actually a much lower standard  
2 than what we are recommending.

3           If I believe -- if I think back at  
4 Greenstone, it was reason to believe, or tends to  
5 believe, or circumstantial evidence in Greenstone and in  
6 Burlington Coat.

7           Under our standard of preponderance, the  
8 ability to find preponderance, you are elevated. You  
9 are also elevated by the preceding subdivision which  
10 requires a level of particularization, never known in  
11 Federal Rule --

12           JUSTICE STEVENS: Mr. Miller, going back  
13 just to the word strong, forgetting the  
14 particularization from it, do you think you can  
15 categorize the strength in percentage terms? They have  
16 to be more than 50 percent? More than probable cause?

17           We're talking all abstractly here and I find  
18 it easier to think when I think about numbers.

19           MR. MILLER: I have -- forgive me. I  
20 haven't seen a judicial opinion that says at the 33 and  
21 one-third percentage of probability, I've got to give it  
22 to the jury, because that jury might file for my --

23           JUSTICE SCALIA: I think it's 66 and  
24 two-thirds. I think that is --

25           (Laughter.)

1 MR. MILLER: Is that because you never met a  
2 plaintiff you really liked?

3 (Laughter.)

4 JUSTICE STEVENS: At least we know that in  
5 the probable world --

6 MR. MILLER: I took a liberty there with the  
7 Justice. I don't think you can ascribe a percentage to  
8 it. I think --

9 JUSTICE KENNEDY: Well, I think more likely  
10 than not, most people think of 49, 50 percent. Can you  
11 tell us whether strong inference is stronger than more  
12 likely than not?

13 MR. MILLER: I do not believe it is. I  
14 think --

15 I think strong inference -- if we're doing  
16 the numbers game -- may actually be 40 percent. If a  
17 district judge is looking, again, I say at the entirety  
18 of discounts --

19 JUSTICE STEVENS: Let me just reclaim the  
20 question. Is it stronger or weaker than probable cause  
21 in a criminal context?

22 MR. MILLER: Oh, I would hope it's stronger.  
23 I would hope it's higher than probable cause.

24 JUSTICE SCALIA: What about clear and  
25 convincing? Is it below clear -- I mean, they are the

1 only two standards I actually understand. Without  
2 picking a number out of air, is preponderance, I think I  
3 can figure that out. And I guess I can figure out  
4 beyond a reasonable doubt. But other than those, when  
5 you talking about strong, when you talk about clear and  
6 convincing, I have no idea what those things mean.

7 Do you?

8 MR. MILLER: And --

9 JUSTICE SCALIA: You don't think they mean  
10 anything?

11 MR. MILLER: No, I think they mean what a  
12 district judge honoring his Article III commission  
13 concludes after an intensive evaluation of the entirety  
14 of the complaint, looking for that strong inference,  
15 putting on his sort of motion to dismiss 12(b)(6) hat,  
16 says okay --

17 CHIEF JUSTICE ROBERTS: Just okay?

18 MR. MILLER: No, I did not mean that. Don't  
19 take me literally on that. For heavens sakes, I'm from  
20 Brooklyn. I'm very colloquial. I'm very sorry about  
21 that.

22 JUSTICE SCALIA: Let me write that down. We  
23 should not take you literally. All right.

24 (Laughter.)

25 CHIEF JUSTICE ROBERTS: Okay, you two are

1 even now.

2 (Laughter.)

3 MR. MILLER: Understand, you keep asking,  
4 quite properly obviously, how does strong inference  
5 change anything?

6 The test we have proposed and the test I  
7 believe the Seventh Circuit applied is not the classic  
8 12(b)(6) have you stated a claim, because we all know at  
9 least traditionally, under notice pleading, you can  
10 march through that.

11 This test, if you follow that time line  
12 backward, is in effect asking that district judge to  
13 make a decision on looking at the totality of this  
14 complaint, is this case trial worthy? It's a curious  
15 thing. I don't envy district judges who have to do  
16 this.

17 Is it trial worthy? Why would Congress say,  
18 if a district judge is willing to say under the classic  
19 test, I think it's trial worthy, there's no reason to  
20 believe that Congress wanted to cut that case off.

21 CHIEF JUSTICE ROBERTS: Trial worthy under  
22 preponderance standard or trial worthy under the strong  
23 inference standard?

24 MR. MILLER: Oh, I think he is becoming  
25 slightly schizoid, he is saying, I'm looking at strong

1 inference. I'm looking at the motion to dismiss  
2 structure as it's been, the usual procedure, 200 years,  
3 and I have to make a judgment because Congress was  
4 pushing here. There's no doubt about it.

5 I have to make a decision on the basis of  
6 what I've got, which is virtually nothing -- let's face  
7 that -- I think -- I think if these allegations are  
8 proven, it is certainly trial worthy.

9 JUSTICE KENNEDY: It sounds to me like --

10 JUSTICE STEVENS: It's not trial worthy, but  
11 rather discovery worthy.

12 CHIEF JUSTICE ROBERTS: I'm sorry.

13 Justice Stevens, say it again.

14 JUSTICE STEVENS: I think the question is  
15 not whether it's trial worthy, it's whether it's worthy  
16 for discovery. That's really what's at issue in this.

17 MR. MILLER: Well, the realities out there  
18 are they built a wall. They put in all of these  
19 procedural protections and they said no discovery until  
20 you climb the wall. Now what kind of a wall was it?  
21 Was it a Dutch dike or the Berlin Wall? If you look at  
22 that statute, contrary to what Mr. Phillips urges, there  
23 are multiple policies expressed in that statute, one of  
24 which is, private cases are good. Let's just get the  
25 right people to run those private cases. Let's control

1 them. Let's, let's have a greater threshold, but let's  
2 not throw the baby out with the bath water. Because  
3 everybody seems to agree private cases help.

4 JUSTICE KENNEDY: I want, I want to be fair.  
5 I interpreted your argument -- and please tell me if  
6 this is incorrect -- as indicating that if I think  
7 strong inference is greater, more onerous than more  
8 likely than not, at the pleading stage, I then also have  
9 to say this is the instruction that must be given to the  
10 jury? In order to avoid the, the discontinuity between  
11 the pleading stage and what --

12 MR. MILLER: The way you state it, Justice,  
13 is something very hard for me to respond to. Congress  
14 did not change the persuasiveness, the proof burden. If  
15 you go through the statute, you will see spots where  
16 they did. Congress knew how to change proof standards.  
17 Congress knew how to change Federal rules.

18 Congress did not change the proof in private  
19 actions. Congress did not change all of the background  
20 procedure like the background procedure in Jones and --  
21 it is just not there yet. Congress did change a couple  
22 of Federal rules explicitly.

23 So I, I cannot comprehend how, if the case  
24 reached the jury, you would have to charge above  
25 predominance. And I, I think we've got a stone rolling



1 downhill to the dismissal point, which is why we have  
2 urged in the brief and why the Seventh Circuit was  
3 concerned as was the Sixth about this jury trial  
4 implication --

5 JUSTICE BREYER: Yeah, and so I think we  
6 have to reach it, because it can't possibly be you would  
7 instruct the jury you need a strong inference, and it  
8 couldn't possibly be that a predominance standard if  
9 imported into the pleading would always mean a strong  
10 inference. You see, that's -- that's the dilemma. And  
11 I don't see how to remain true to the words of the  
12 statute which are strong inference, without actually  
13 producing a dichotomy. And so either Congress can do it  
14 or it can't, and -- and -- and that's -- and we could  
15 fudge it by just, you know, avoiding it at this moment.  
16 But I don't --

17 JUSTICE SCALIA: Mr. Miller, suppose  
18 Congress set up a entirely separate cause of action.  
19 It's caused -- it's called a discovery cause of action,  
20 okay? And it sets forth as the condition for pursuing  
21 that cause of action a standard that your, your  
22 allegation has to be indeed clear and convincing.

23 Okay?

24 And then if you win that, you can take  
25 whatever you get out of the discovery and bring a

1 lawsuit. Would that be unconstitutional?

2 MR. MILLER: Why do I feel wind whipping  
3 past my ears as I go through a trap door?

4 (Laughter.)

5 MR. MILLER: Ironically, ironically, I think  
6 I have to say if Congress, leaving to one side  
7 justiciability problems with the discovery cause of  
8 action, if Congress created a discovery cause of action  
9 it could ascribe to it whatever incidents it wanted  
10 to --

11 JUSTICE STEVENS: Surely it could prohibit  
12 discovery altogether which it did before they adopt in  
13 1938.

14 MR. MILLER: That is correct. And I don't  
15 think anybody seriously argues that discovery is a  
16 constitutional right.

17 The jury trial implications of this new  
18 cause of action are interesting. This Court has  
19 protected post-1791 statutory claims and their right to  
20 jury trial, but you're positing one that wasn't known in  
21 1791, and maybe it could be done without a jury. That's  
22 really a hypothetical.

23 THE COURT: Thank you, Mr. Miller.

24 Mr. Phillips, you have four minutes  
25 remaining.

1 REBUTTAL ARGUMENT OF CARTER G. PHILLIPS,  
2 ON BEHALF OF PETITIONERS

3 MR. PHILLIPS: Thank you, Mr. Chief Justice.

4 I have to confess I'm -- I'm slightly  
5 perplexed by exactly what the Respondent's position is  
6 in this case so I'm inclined to kind of go back to the  
7 core points that have been raised by the questions from  
8 -- from the Court. And in the first instance, it seems  
9 to me quite clear that the Seventh Circuit did not apply  
10 the strong inference standard. If -- you can compare  
11 the language from the First Circuit circuit that  
12 specifically says it has to be reasonable and strong,  
13 strong has completely fallen out here. I don't see any  
14 way to read it the other way.

15 I think in response to Justice Breyer's  
16 question, which is how do, how should you write the  
17 opinion, I think the meaningful way to write the opinion  
18 is to be respectful of Justice Scalia's desire to  
19 provide guidance. So I do think you should say, you  
20 have to, as Justice Alito said, review the entirety of  
21 the document and -- and infer both positively and  
22 negatively as you go forward. We know that has to be  
23 true. Almost every court that's dealt with these issues  
24 --

25 JUSTICE GINSBURG: But then you're doing

1 away with reading the allegations in the light most  
2 favorable to the plaintiff.

3 MR. PHILLIPS: Absolutely. Absolutely,  
4 Justice Ginsburg. There's no question that that's --  
5 that that's what Congress had to have meant under these  
6 circumstances. And the best example of that is the CEO  
7 who sells securities during the time period of the class  
8 action. There are dozens of cases in which that  
9 happens. Does it create an inference of scienter? It  
10 might, because it's quite possible that he sold and --  
11 he lied about the stock in order to keep the price up to  
12 sell. It is also possible that he sells only about 1  
13 percent of the stock --

14 JUSTICE GINSBURG: But Mr. Phillips, you  
15 don't look at these things one at a time. You look at  
16 them altogether.

17 MR. PHILLIPS: Well, that is --

18 JUSTICE GINSBURG: Is the statute all you  
19 had?

20 MR. PHILLIPS: Justice Ginsburg, I couldn't  
21 disagree with you more about that. That is precisely  
22 what Congress says when -- when it says with  
23 particularity. And when Congress says you have to look  
24 at each defendant. You cannot do --

25 JUSTICE GINSBURG: It says you must plead

1 the facts with particularity.

2 MR. PHILLIPS: Yes.

3 JUSTICE GINSBURG: But when one judges the  
4 adequacy of the complaint, one looks at all the facts  
5 pleaded with particularity, not just one.

6 MR. PHILLIPS: But the strong inference of  
7 scienter is not pled on a group basis. It has to be  
8 pled with respect to each individual defendant. So it's  
9 quite convenient --

10 JUSTICE GINSBURG: Well, I think that this  
11 case was a good example. There were two defendants and  
12 the court of appeals --

13 MR. PHILLIPS: Well, there were a lot more  
14 than that.

15 JUSTICE GINSBURG: Well, to take the two  
16 that were at issue in this opinion. The court of  
17 appeals said the CEO, yeah, there's enough there to get  
18 over that threshold. The other guy, no, there wasn't.

19 So it's not that she's saying what you find  
20 for one, you find for all. She is going at it defendant  
21 by defendant.

22 MR. PHILLIPS: Well, I -- I -- I mean, I was  
23 commenting primarily on Professor Miller's decision to  
24 just sort of sweep everything in and say look, back in  
25 1999 and 2000 when the Seventh Circuit itself

1 specifically said that the knowledge, for instance, of  
2 the 5500 decline didn't happen until March of 2001. So  
3 I was just saying you can't start sweeping everything  
4 in.

5 But -- and it is true, the court  
6 distinguished between those two individuals; but the  
7 bottom line remains the same. You have to analyze them,  
8 each. And you have to take into account contending  
9 inferences. You have to construe ambiguity contrary  
10 to the plaintiff sometimes --

11 JUSTICE GINSBURG: What do you do with a  
12 report that you know exists because you had one of these  
13 26 confidential people tell you? But you haven't seen  
14 the report, so you don't have the date on it? And you  
15 won't know that date unless you have access to  
16 discovery. Do you have to assume the date is later  
17 rather than sooner?

18 MR. PHILLIPS: I think you better make an  
19 allegation with particularity that that date was at a  
20 time when the individual would know that the -- that the  
21 information that he was conveying was -- was wrong. I  
22 don't see how you can infer strongly --

23 JUSTICE GINSBURG: But you -- if the  
24 plaintiff --

25 MR. PHILLIPS: -- scienter otherwise.

1 JUSTICE GINSBURG: The plaintiff can't know  
2 for sure without seeing the document with a date on it.

3 MR. PHILLIPS: Well, the plaintiff can ask  
4 the confidential informant as much as, as he wants about  
5 the information; and if he can't come up with it, that's  
6 the price you pay. That was exactly what Congress said,  
7 is if you cannot make those particular allegations, then  
8 you're out of luck. And it's not as though they give  
9 you one shot for this.

10 JUSTICE GINSBURG: Congress -- Congress used  
11 words, "strong inference." Those words are not  
12 self-defining. One can think of several ways, in fact  
13 the courts of appeals did think of several ways. Why  
14 should we pick your way as opposed to the other ways one  
15 might define them?

16 MR. PHILLIPS: I could be flip to say it's  
17 the right way. But I think the -- I mean the answer to  
18 the, the answer to why to choose our approach is because  
19 it is consistent with Matsushita and Monsanto and it  
20 will allow, Justice Breyer, to apply it in an  
21 individualized way, in a fashion that will give guidance  
22 to the lower courts. Thank you.

23 CHIEF JUSTICE ROBERTS: Thank you,  
24 Mr. Phillips. The case is submitted.

25 [Whereupon, at 11:03 a.m., the case in the

1 above-entitled matter was submitted.]

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