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13 Attorneys for Defendant WALTER LEDDA

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15 UNITED STATES DISTRICT COURT
16 CENTRAL DISTRICT OF CALIFORNIA

17 CONSUMER FINANCIAL
PROTECTION BUREAU,

18
19 Plaintiff,

20 vs.

21 MORGAN DREXEN, INC., AND
WALTER LEDDA, etc.,

22
23 Defendants.

) Case No. SACV13-cv-01267-JLS (JEMx)
)
) HON. JOSEPHINE L. STATON
)
) DEFENDANT WALTER LEDDA'S
) RESPONSE TO ORDER TO SHOW CAUSE
) RE CONTEMPT; DECLARATION OF
) WALTER LEDDA [Filed Separately]
)
) Date: September 4, 2015
) Time: 1:30 p.m.
) Dept: 10
)
) Action Filed: August 20, 2013
) Prefrial Conf. Date: September 11, 2015
) Trial Date: September 29, 2015

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26 Defendant Walter Ledda ("Ledda") submits the following response to the court's
27 order to show cause regarding contempt.

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1 **1. INTRODUCTION**

2 The order to show cause at issue in this case took Ledda by surprise. He has been
3 in daily negotiations with plaintiff Consumer Financial Protection Bureau (“CFPB”) and
4 never once has there been a suggestion that he was in contempt of any order by this
5 court. Ledda’s employment with Morgan Drexen, Inc. (“Morgan Drexen”) was
6 terminated in June 2015, and Ledda has had virtually no dealings with Morgan Drexen
7 since that time. Ledda was puzzled when the court suggested he had done something
8 wrong to violate the court’s injunction order. His counsel had to call the CFPB to find
9 out what was being referenced, and the CFPB directed Ledda’s counsel to brief testimony
10 from David Walker (“Walker”). It was clear from reading the Walker testimony that
11 Walker was speculating about things he thought might have happened regarding a
12 company called Legalsoft, Inc. (“Legalsoft”). As discussed in the Ledda Declaration,
13 Ledda was willing to sell Legalsoft in a stock transaction, but not the database, and those
14 discussions terminated without a sale. Legalsoft has not sold anything to anyone. Ledda
15 still owns the company and disclosed that ownership in his recent financial disclosures
16 to the CFPB. Accordingly, Ledda has not violated any court order.

17 **2. BRIEF FACTUAL BACKGROUND**

18 When the court issued terminating sanctions, Morgan Drexen had no alternative
19 but to seek bankruptcy protection and see if it could survive while it either appealed the
20 decision or worked out the resolution with the CFPB. The bankruptcy trustee’s (the
21 “Trustee”) efforts to help the company stay in business failed. The Trustee terminated
22 everyone’s employment at Morgan Drexen, including Ledda’s employment.

23 Ledda owned Legalsoft. Legalsoft provided backup support to Morgan Drexen and
24 The Howard Law Firm (“Howard”). In short, Legalsoft had computer servers in Nevada,
25 which could backup the Morgan Drexen servers in the event of a catastrophe, such as an
26 earthquake. Howard paid Ledda \$25,000 per month for backup support.

27 When it became clear that Morgan Drexen would be out of business, the future of
28 Legalsoft became bleak. Ledda, therefore, reached out to Howard to see if Howard

1 wanted to continue using the backup services Legalsoft provided. Ledda did not see how
2 the sale of the stock in his company would violate any court order, but was not willing
3 to sell anything short of the entire company.

4 Recognizing Legalsoft had no other prospective buyer, Howard offered only
5 \$25,000, which was one month of payment for Legalsoft's services. Ledda recognized
6 he had nowhere else to go, but considered the offer a "hold-up" and was unwilling to sell
7 the company for \$25,000. Accordingly, there was no sale of the company. There was no
8 sale of data. There was no sale of anything.

9 Ledda still owns the company and has fully disclosed his ownership interest to the
10 CFPB. He valued his Legalsoft stock at zero because the company no longer has any
11 paying customers and is unlikely to have any.

12 3. THE LAW APPLICABLE TO CIVIL CONTEMPT

13 In the Ninth Circuit, proving civil contempt requires a showing that the alleged
14 contemnor: (1) violated a court order; (2) was not in substantial compliance of the court
15 order (substantial compliance being a defense to civil contempt that is not vitiated by a
16 'few technical violations' where every reasonable effort has been made to comply, *see*,
17 *In re Dual-Deck Video Cassette Recorder Antitrust Litigation*, 10 F.3d 693, 695 (9th Cir.
18 1993)); and (3) the conduct was "not based on a good faith and reasonable interpretation
19 of the order." *Labor/Community Strategy Center v. Los Angeles County Metropolitan*
20 *Transp. Authority*, 564 F.3d 1115, 1123 (9th Cir. 2009).

21 Before finding Ledda in contempt, the court must apply a standard of clear and
22 convincing evidence. *Labor/Community Strategy Center v. Los Angeles County*
23 *Metropolitan Transp. Authority*, *supra*, 564 F.3d 1115, 1123. Where the conduct
24 constitutes indirect contempt (or contempt outside the presence of the court), simple
25 notice and an opportunity to be heard will suffice only where the conduct involves
26 "discrete, readily ascertainable acts" that do not require extensive, impartial factfinding
27 (e.g., failure to comply with discovery or to make payment on a judgment). "Contempt(s)
28 involving out-of-court disobedience to complex injunctions often require elaborate and

1 reliable fact finding.” *International Union, United Mine Workers of America v. Bagwell*,
2 512 U.S. 821, 833-834 (1994). “Under these circumstances, criminal procedural
3 protections such as the rights to counsel and proof beyond a reasonable doubt are both
4 necessary and appropriate to protect the due process rights of parties and prevent the
5 arbitrary exercise of judicial power.” *Ibid*.

6 **4. LEDDA HAS NOT VIOLATED EITHER THE LETTER OR SPIRIT OF**
7 **ANY COURT ORDER.**

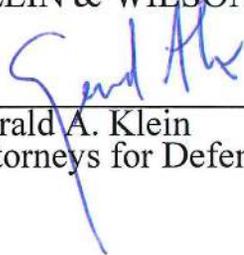
8 There is no evidence Ledda violated any court order and the only evidence even
9 remotely relating to the issue is speculation by Walker that Ledda sold a database to
10 Howard – something that is not true.

11 Legalsoft simply provides backup services for Morgan Drexen and Howard. It has
12 never sold data to anyone. Had Howard been willing to buy the stock of Legalsoft, that
13 purchase would not have violated any court order as it would only have been a transfer
14 of stock from Ledda to Howard. The company itself would not have changed.

15 But no sale occurred, so the issue is moot. Discussions regarding the sale of
16 Legalsoft’s stock did not culminate in a sale. Accordingly, Ledda has not violated any
17 court order. He has fully disclosed his current ownership in Legalsoft to the CFPB, and
18 Ledda continues to own Legalsoft. He has properly valued the company at zero because
19 that is all it is worth. Accordingly, Walker was misinformed when he speculated that
20 Ledda had actually sold the company because there was no sale. The Court should
21 discharge its order to show cause and allow Ledda to continue negotiating with the CFPB
22 for a permanent injunction.

23 GERALD A. KLEIN
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25 Dated: August 25, 2015

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28 Gerald A. Klein
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