

Confidential Human Source (CHS) Reporting Document

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Contact Date: 11/02/2007

Type of Contact: In person

Location: Oxford, Mississippi

Written by: SA William P. Delaney *wpd*

Other(s) Present: ASSA Gilbert L. Surles Jr. *GLS*

Source Reporting:

A Confidential Human Source (CHS), who is in a position to testify, was interviewed at the United States Attorneys Office in Oxford, Mississippi and provided the following information.

The CHS has been an attorney since 1991 and is currently employed as a member/owner and Vice President of Patterson Balducci Law Firm, PLLC, 207 East Main Street, New Albany, Mississippi 38652. Patterson Balducci has been in existence for less than one year.

Prior to forming Patterson and Balducci, the CHS was employed with the Langston Law Firm (LLF) in Booneville, Mississippi for approximately six years. The CHS left LLF due to personality and professional differences with Joey Langston.

Regarding the bribing of Mississippi State Circuit Court Judge Henry Lackey, the CHS identified the following individuals as persons who either had knowledge or participated in the scheme to bribe Judge Lackey. Richard Scruggs, Zach Scruggs and Sidney Backstrom from the Scruggs Law Firm (SLF). The CHS and Steve Patterson from Patterson Balducci Law Firm.

In March 2007, a meeting was held at SLF attended by Richard Scruggs (RS), Zach Scruggs (ZS), Sidney Backstrom (SB), Steve Patterson (SP) and the CHS. During the meeting, a discussion came up regarding the recent developments in the civil case involving the SLF et al as the defendants and Jones, Funderburg, Sessums, Peterson and Lee as the plaintiffs. Either Patterson or the CHS asked what was the situation and either ZS or SB stated they asked for the matter to be settled through arbitration and the plaintiffs refused and filed a civil suit. A

Exhibit

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short time later, ZS informed the CHS that Judge Henry Lackey was the Judge assigned to hear the case. ZS and SB knew the CHS had known Judge Lackey for approximately 15 years and the CHS and Judge Lackey had a close relationship. The CHS acknowledged the CHS knew Judge Lackey and DS asked if Judge Lackey would send the case to arbitration. The CHS replied the CHS did not know. DS said he was not asking the CHS for anything illegal, but could the CHS see if the Judge would move the matter to arbitration. DS then asked the CHS to go see Judge Lackey and see if Judge Lackey would be amenable to move the case to arbitration. DS stated the Judge Lackey ought to move the case to arbitration, since it was the correct thing to do. DS further stated that SLF was willing to pay the plaintiffs approximately \$900,000 but the plaintiffs wanted approximately \$5,000,000.

The CHS told DS the CHS would see Judge Lackey and ask him as a favor to rule for arbitration in the case. The CHS explained the CHS felt pressure to go along with DS's request because Patterson Balducci had just started up and the firm was not generating any income at that time.

The CHS further explained, prior to this March 2007 meeting, the SLF was trying to settle some Katarina Insurance cases with the State Farm Insurance Company (SFIC). SLF and SFIC were near a settlement, however, DS learned that the Mississippi State Attorney Generals office had threatened to indict SFIC due to some impasses between the Attorney Generals office and SFIC. SFIC was not going to settle the civil cases with SLF, if the company was going to be indicted by the Attorney Generals office. DS asked SP to speak with Attorney General Jim Hood since SP and Hood had a long standing relationship. DS offered to pay Patterson Balducci \$500,000 if they could get Hood to relent on indicting SFIC. The CHS accompanied SP to a meeting with Hood and Hood later agreed not to indict SFIC. SLF eventually settled with SFIC and that settlement yielded approximately \$26 million in attorney fees. DS reneged on his pledge to pay Patterson Balducci \$500,000, but later agreed to pay Patterson Balducci \$100,000 per month over five months. The SLF first paid Patterson Balducci \$100,000 in March 2007 and eventually paid the entire \$500,000.

However, in March 2007, the CHS was concerned that DS would refuse to pay the balance of the \$500,000 if the CHS did not speak with Judge Lackey on DS's behalf. Also, during the March 2007 meeting, members of the SLF said SFIC would be the first of many Katarina related insurance settlements, that there would be more cases to settle and that the Jones Law Firm would need to be replaced in the Scruggs Katarina Group (SKG). The CHS believed the SLF would bring on Patterson Balducci in the SKG if

the CHS could get Judge Lackey to rule for arbitration. The CHS described the unpaid balance on the \$500,000 and veiled offer to hire Patterson Balducci as a carrot and stick method to get the CHS to speak with Judge Lackey. The CHS left the March 2007 meeting agreeing to speak with Judge Lackey on behalf of the SLF.

Within a couple of days of the meeting at the SLF office, the CHS telephonically contacted Judge Lackey and asked to speak with the Judge in person. The CHS met with Judge Lackey a few days later at Judge Lackey's office in Calhoun City, Mississippi. During his meeting with Judge Lackey, the CHS made the same pitch to the Judge as DS had made to the CHS. The CHS told Judge Lackey that the CHS was not personally involved in the civil suit, but the CHS would benefit if Judge Lackey ruled in favor of the SLF and ruled for arbitration. The CHS further stated it would be considered a personal favor if Judge Lackey ruled for arbitration and that arbitration was the correct legal way to settle this matter. The CHS also offered Judge Lackey a position of "Of Counsel" in Patterson Balducci when the Judge was ready to retire. The offer of "Of Counsel" was not related to or offered as an incentive to rule as the CHS asked. The CHS believed having Judge Lackey in Patterson Balducci would benefit the law firm greatly. Judge Lackey told the CHS he would consider both the request asking for arbitration, and the offer of "Of Counsel" and would speak with the CHS at a later time.

The CHS acknowledged approaching Judge Lackey in this manner was unethical and probably illegal.

After leaving the meeting with Judge Lackey, the CHS went to the SLF and met with SB. The CHS told SB how the meeting went, SB said okay, and asked the CHS to let him know what happens next.

The CHS could not recall if the CHS was supposed to contact Judge Lackey next or vice versa.

The CHS recalled having at least one more contact with Judge Lackey prior to September 2007, but could not recall the details.

The CHS did recall meeting Judge Lackey at the Patterson Balducci office on one occasion and having lunch with Judge Lackey in New Albany on another occasion. The CHS recalled SP and Bo Buse (Patteron Balducci's investigator) accompanied the CHS and Judge Lackey at lunch. The CHS did not discuss SLF's law suit on these occasions, but discussed other legal issues. The CHS also saw Judge Lackey in court on a couple of occasions.

The CHS recalled the next instance of substance was a telephone call the CHS received from Judge Lackey approximately one to two weeks prior to the CHS paying the first bribe payment of \$20,000. Judge Lackey told the CHS that the SLF case involved a lot of money and asked if he (Judge Lackey) helped DS, would DS help him. The CHS said DS probably would and asked what kind of help Judge Lackey was looking for. Judge Lackey replied, nothing unreasonable, the CHS then requested to meet Judge Lackey in person. The CHS believed Judge Lackey was asking for money, but was not sure how much.

The CHS next spoke with SP regarding the telephone call with Judge Lackey. SP asked the CHS what Judge Lackey wanted and the CHS replied money. SP asked how much and the CHS replied the CHS did not know, and added the CHS was supposed to see Judge Lackey. SP told the CHS to meet with Judge Lackey to find out what he wanted.

A couple of days later, the CHS traveled to Calhoun City and met with Judge Lackey at his office. The two met in a conference room, Judge Lackey appeared very nervous. Judge Lackey told the CHS that he had gotten involved financially with some people who were pressuring him for money. The CHS believed Judge Lackey had gotten himself into a bad financial situation and was using the case as a means to solve his financial problems. The CHS asked what he needed and Judge Lackey told him \$40,000 within the next thirty days, \$20,000 by first of the month. The meeting occurred the last week of the month in late summer 2007.

The CHS then recalled a significant event which occurred within a few weeks of the first March 2007 meeting. Judge Lackey recused himself from the case. SB called the CHS and inquired why the Judge recused himself. That's when the CHS learned that Judge Lackey had recused himself. SB told the CHS that the SLF was concerned that the CHS had caused them problems and were concerned about potential legal problems in the case. The CHS told SB the CHS would call Judge Lackey and find out the problem.

The CHS called Judge Lackey and inquired why he recused himself. Judge Lackey said he had been at a party and met a lawyer from the Tollison Law Firm, who the CHS best recalled being Bill Duke. Duke spoke to Judge Lackey about the case and presented his side of the case in an improper manner and that is why he recused himself. During that conversation or a subsequent conversation, Judge Lackey told the CHS that he had over reacted and would probably get back into the case. Judge Lackey then

asked the CHS if he thought he was crazy if he got back into the case.

The CHS stated Judge Lackey did get back into the case and the two had subsequent conversations or meetings prior to the above described telephone call in the late summer of 2007.

After every pertinent meeting the CHS had with Judge Lackey regarding the SLF case, the CHS met with SB to report the contents of the meeting. Based on these conversations, the CHS is certain SB relayed to DS and ZS the information SB had been provided by the CHS. The CHS believes DS and ZS were being informed by SB because of the comments SB made to the CHS during some of their conversations following the CHS speaking with Judge Lackey. The CHS recalled being told by SB on one occasion that the situation regarding Judge Lackey had gotten crazy and CHS needed to get it under control.

Referring back to the meeting between the CHS and Judge Lackey in the late summer of 2007, the CHS went to see SP immediately after meeting Judge Lackey to inform him regarding what Judge Lackey told the CHS. The CHS told SP that Judge Lackey wanted \$40,000 to enter an order sending the case to arbitration and asked SP what to do. SP said he would call P.L., who the CHS identified as Presley Blake, and tell P.L. that he and the CHS were working on something for DS that DS was aware of, and that it would cost SP and the CHS \$40,000 to solve the problem. The CHS stated that was SP's way of indirectly informing DS that it would cost \$40,000 to get Judge Lackey to rule in DS's favor. SP and the CHS were concerned about paying Judge Lackey \$40,000 and not being covered by DS for the money.

The CHS provided the following background information on P.L. Blake. Blake is from Birmingham, Alabama and the CHS personally knows Blake. The CHS described Blake as the "bagman" for DS during the national Tobacco case. The CHS met Blake when the CHS was employed at the Langston Law Firm and Joey Langston represented DS on some tobacco settlement cases regarding attorney's fees. Blake is paid approximately \$1 million per year out of attorney's fees which are controlled by DS. Blake receives the money directly from DS, the CHS does not know why Blake receives money from the Tobacco Settlement fund.

The CHS was not present when SP called Blake, but was told after the fact by SP that he called Blake and that the matter had been handled. The CHS does not believe SP told Blake what the \$40,000 was for. The phone call to Blake may have been made after the first \$20,000 bribe payment was made to Judge Lackey.

The CHS also recalled calling SB after the CHS left the meeting with Judge Lackey where the Judge asked for \$40,000. The CHS told SB that Judge Lackey would sign and enter an order sending the SLF case to arbitration and to get the order to the CHS the way he (SB) wanted it. The CHS also told SB that Judge Lackey wanted \$40,000 to enter the order and that the Judge needed \$20,000 by the first of the next month. The CHS told SB the CHS could pay the Judge the \$20,000 but needed to know if that's what the CHS should do and if the SLF would cover the CHS for the \$40,000. SB told the CHS he believes that would be fine but that he needed to get back with the CHS with a definite answer. The CHS placed the call to SB on his cellular telephone, 662/416-4243. SB called the CHS back approximately one to two days later and said, "do it, you're covered", meaning the SLF would cover the \$40,000 and he (SB) would prepare the order.

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