



E-Discovery Task Force Update

The legal framework in litigation for addressing the explosion in electronic communications has been in flux for a number of years. Sidley Austin LLP has established an "E-Discovery Task Force" to stay abreast of and advise clients on this shifting legal landscape. An inter-disciplinary group of more than 25 lawyers across all our domestic offices, the Task Force monitors and examines issues and developments in the law regarding electronic discovery. The Task Force works seamlessly with our firm's Litigators who regularly defend and prosecute all types of litigation matters in trial and appellate courts, federal and state agencies, arbitrations, and mediations throughout the country. The co-chairs of the E-Discovery Task Force are:

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Notable E-Discovery Cases and Events

This update addresses the following recent court decisions involving e-discovery issues:

1. A Report to the Chief Judge and Chief Administrative Judge on Electronic Discovery in the New York State Courts recommending establishment of an E-Discovery Working Group, changes to the Preliminary Conference process to address e-discovery issues, additional e-discovery training for judges and court personnel, and other efforts to improve the quality of e-discovery practice;
2. An important Texas federal court decision by Judge Lee Rosenthal, Chair of the Judicial Conference Committee on Rules and Practice and Procedure, emphasizing proportionality and reasonableness in reviewing discovery conduct and stating that severe sanctions such as an adverse inference may not be imposed unless there is evidence of bad faith;
3. A New Jersey Supreme Court decision holding that an employee had a reasonable expectation of privacy in email communications sent to her lawyer from a password-protected, web-based personal email account on a company-issued laptop and had not waived privilege with respect to such email communications;
4. A New York federal court decision denying a defendant's motion to compel the SEC to produce notes and memoranda prepared by the SEC staff and FBI agents or to give the defendant access to a third-party database to which the SEC had access; and
5. A New York federal Magistrate Judge's decision requiring a foreign bank to produce documents despite evidence that doing so would cause it to violate Malaysian law.

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1. In February 2010, the New York State Unified Court System issued a report entitled “Electronic Discovery in the New York State Courts” to the Chief Judge and the Chief Administrative Judge recommending rule changes with respect to electronic discovery in the New York state courts. The Report references the Commercial Division rules addressing e-discovery that are already in place but notes that while the court system has “taken some steps to improve the management and resolution of e-discovery issues . . . these goals are not being met.” *Id.* at 1.

The Report makes a number of recommendations to address problem that arise with e-discovery:

“by generally increasing awareness of what is at stake, and giving judges and court staff the enhanced training, tools and procedures they need to take an early, active role in e-discovery. Such a role is key to fostering communication and cooperation among the parties, preventing avoidable disputes that escalate costs and delay, narrowing the scope of discovery; and, ultimately, ensuring that e-discovery costs remain proportionate to the matters in dispute.” *Id.*

In order to reach those goals in the short term, the Report seeks to improve the Preliminary Conference (PC) by requiring counsel appearing at the PC to “possess sufficient knowledge about client technology systems to competently discuss them with the court and opposing counsel,” and to require that an “insert sheet specifically targeting e-discovery issues should accompany every PC form.” *Id.* at 2. That form is attached to the Report as Exhibit A.

The Report also discusses two long-term pilot projects to begin in April 2010 and run for eight months:

- 1) Initial Disclosure: counsel will sign and certify an initial disclosure form prior to the Preliminary Conference of e-discovery related issues such as identifying the party’s key IT personnel; setting forth efforts undertaken to preserve

ESI and prevent spoliation; and listing the types of computer systems and technologies in use by a party; and

- 2) Affirmation of E-Discovery compliance: counsel will sign an affirmation of e-discovery compliance setting forth the matters on which the parties have agreed, those issues still in dispute, and those issues not yet addressed, as well as a report on the parties’ efforts to satisfy their meet-and-confer obligations.

In addition to improving the Preliminary Conference, the Report recommends the following steps:

- Establishing an e-Discovery Working Group of judges, practitioners, court staff, academics, bar association personnel, and individuals with technology expertise to oversee the development of education and training opportunities, review the progress of the pilot programs identified in the Report, and monitor changes in e-discovery law and technology, *id.* at 11-13;
- Train and Provide Resources for Judges and Court Referees to help raise the awareness of judges and court personnel regarding e-discovery issues, the production and search technologies and protocols related thereto, search techniques and sampling methodologies, *etc.*, *id.* at 19-21;
- Establish a presence at the Sedona Conference to take advantage of the work being done at the Conference and participate in sharing e-discovery issues that arise in the New York courts, *id.* at 22; and
- Improve the Quality of E-Discovery Practice by increasing the knowledge, awareness, and competence of all participants in the New York court system through publication of an e-discovery journal, improving awareness of e-discovery issues at law school, and improvements to the Alternative Dispute Resolution programs to assist with improving case management, *id.* at 22-24.

2. In *Rimkus Consulting Group v. Cammarata*, 2010 WL 245253 (S.D. Tex.) (Feb. 19, 2010), U.S. District Judge Lee H. Rosenthal ruled that plaintiff was entitled to an adverse inference instruction against defendants who intentionally destroyed ESI in an employment/trade secrets lawsuit. In the course of her lengthy opinion, Judge Rosenthal, Chair of the Judicial Conference Committee on Rules and Practice and Procedure, emphasized proportionality and reasonableness in reviewing e-discovery conduct and indicated that most Circuits require evidence of bad faith before imposing severe sanctions such as an adverse inference instruction. This focus on proportionality, reasonableness, and a showing of bad faith contrasts with the view of e-discovery obligations and sanctions taken by Judge Shira Scheindlin in the recent *Pension Committee* case.

Rimkus involves two lawsuits arising from the decision by several consulting firm employees to set up a rival firm. These employees sued in Louisiana to have the noncompete and restrictive covenants in their employment agreements declared unlawful under Louisiana law and gained some relief pursuant to that lawsuit. The *Rimkus* lawsuit was filed in Texas by the former employer claiming breach of the noncompete and nonsolicitation covenants and the improper use of employer's trade secrets and proprietary customer information in setting up the rival company. The plaintiff alleged that defendants had intentionally destroyed ESI that would have demonstrated their violation of the noncompete clauses of their agreement as well as their use of the plaintiff's trade secrets. Judge Rosenthal's opinion examined the claims, considered the interplay of the Louisiana and Texas lawsuits, and ordered an adverse inference instruction be given to the jury in the Texas proceeding.

In analyzing the issues, Judge Rosenthal acknowledged that Judge Scheindlin's January 15, 2010 decision in *Pension Comm. of U. of Montreal Pension Plan v. Banc of America Securities, LLC*, 2010 WL 184312 (S.D.N.Y. Jan. 15, 2010), did a "great service by laying out a careful analysis of spoliation and sanction issues in electronic discovery." *Id.* at * 4. Judge Rosenthal noted that

the *Pension Committee* case involved negligent failure to preserve whereas *Rimkus* involved the "intentional destruction of ESI." Notwithstanding the different types of spoliation involved, the Court recognized that there were "some common analytical issues between this case and *Pension Committee* that deserve brief mention." *Id.*

Judge Rosenthal set forth the two sources of authority that serve as a basis to impose sanctions relating to discovery. First, the Court has the inherent authority to regulate its proceedings. According to Judge Rosenthal, this inherent authority should be used only where there is no specific statute or rule that addresses the conduct at issue. In addition, in accordance with the Supreme Court's decision in *Chambers v. NASCO, Inc.*, 501 U.S. 32 (1991), use of a court's inherent authority may be limited to those situations where there is a showing of culpability greater than negligence. *Id.* at *4-*5.

The second source of authority for the imposition of sanctions is the Federal Rules of Civil Procedure, which allow a court to impose sanctions where a party "fails to obey an order to provide or permit discovery." Fed.R.Civ.P. 37(b)(2)(A). In this case, the Court found that the conduct alleged in this case implicated both the court's inherent authority relating to spoliation occurring before the case was filed and before discovery orders were entered as well as Fed.R.Civ.P. 37 for failure to comply with discovery orders.

On the issue of spoliation, the Court stated that the duty to preserve arises when a party has notice that evidence is relevant to litigation or should have known that evidence may be relevant to future litigation. In applying this general rule, however, the Court found that it was important to focus on whether the conduct was reasonable and whether what was done was proportional to that case:

"It can be difficult to draw bright-line distinctions between acceptable and unacceptable conduct in preserving information and in conducting discovery,

either prospectively or with the benefit (and distortion) of hindsight. Whether preservation or discovery conduct is acceptable in a case depends on what is *reasonable*, and that in turn depends on whether what was done – or not done – was *proportional* to that case and consistent with clearly established applicable standards. As Judge Scheindlin pointed out in *Pension Committee*, that analysis depends heavily on the facts and circumstances of each case and cannot be reduced to a generalized checklist of what is acceptable or unacceptable.” *Id.* at *6 (emphasis in original).

In considering sanctions, the Court indicated that it was important to consider both culpability and prejudice. Cases could involve destruction of ESI by a party that intended to make such evidence unavailable in litigation, but there may be no prejudice if the ESI is available from other sources. There could also be situations of inadvertent loss of ESI but severe prejudice if that ESI was a key matter in a case. As a result, in Judge Rosenthal’s view, it was important to consider both the nature of the conduct and the prejudice suffered in determining the appropriateness of sanctions and their severity.

On the issue of culpability, under Fifth Circuit law, the Court stated that the “severe sanctions of granting default judgment, striking pleadings, or giving adverse inference instructions may not be imposed unless there is evidence of ‘bad faith.’” *Id.* at * 6 (citations omitted). Judge Rosenthal then surveyed the other Circuits and found generally that bad faith was required by most Circuits for imposition of an adverse inference or other severe sanctions:

- Fifth, Seventh, Eighth, Tenth, Eleventh, D.C. – require showing of bad faith
- First, Fourth, and Ninth – bad faith not essential if there is severe prejudice, although cases emphasize presence of bad faith
- Third – balances the degree of fault and prejudice
- Second, Sixth – negligence is sufficient

In contrast to those Circuits that required a showing of bad faith, the Second Circuit decision in *Residential Funding Corp. v. DeGeorge Financial Corp.*, 306 F.3d 99 (2nd Cir. 2002), “has been read to allow severe sanctions for negligent destruction of evidence.” *Rimkus* at *7. Judge Rosenthal found that negligent destruction of ESI was not sufficient under the law of the Fifth and most other Circuits to grant an adverse inference instruction. For this reason, Judge Rosenthal concluded that the *Pension Committee* standard was not applicable in most jurisdictions:

“The circuit differences in the level of culpability necessary for an adverse inference instruction limit the applicability of the *Pension Committee* approach. And to the extent sanctions are based on inherent power, the Supreme Court’s decision in *Chambers* may also require a degree of culpability greater than negligence.” *Id.*

The Court then reviewed the showing required to make out a case for spoliation, focusing on the relevance of the spoliated material to a party’s claim or defense and the prejudice resulting from the destruction of that evidence. On this issue, Judge Rosenthal discussed the importance of proof on both the relevance and prejudice issues:

“Courts recognize that a showing that the lost information is relevant and prejudicial is an important check on spoliation allegations and sanctions motions. Courts have held that speculative or generalized assertions that the missing evidence would have been favorable to the party seeking sanctions are insufficient. By contrast, when the evidence in the case as a whole would allow a reasonable fact finder to conclude that the missing evidence would have helped the requesting party support its claims or defenses, that may be a sufficient showing of both relevance and prejudice to make an adverse inference instruction appropriate.” *Id.* at *8.

Judge Rosenthal noted that the *Pension Committee* decision had held that relevance and prejudice could be presumed when the spoliating party had acted in a grossly negligent manner. Judge Rosenthal stated that this presumption of relevance and prejudice upon a showing of gross negligence was not consistent with Fifth Circuit law, which states that “an adverse inference instruction is not proper unless there is a showing that the spoliated evidence would have been relevant.” *Id.* Given the Fifth Circuit standard, Judge Rosenthal concluded that “[t]here is neither a factual nor legal basis, nor need, to rely on a presumption of relevance or prejudice.” *Id.*

On the question of remedies, Judge Rosenthal stated that the “severity of a sanction for failing to preserve . . . must be proportionate to the culpability involved and the prejudice that results. Such a sanction should be no harsher than necessary to respond to the need to punish or deter and to address the impact on discovery.” *Id.* at *9. In her view, the goal was to restore the prejudiced party to the same position it would have enjoyed in the absence of the wrongful destruction of evidence. The extreme sanctions of dismissal or default were appropriate only when the spoliator’s conduct was “so prejudicial that it substantially denied the defendant the ability to defend the claim.” *Id.* (citation omitted). An adverse inference instruction was an appropriate remedy in less severe situations:

“When a party is prejudiced, but not irreparably, from the loss of evidence that was destroyed with a high degree of culpability, a harsh but less extreme sanction than dismissal or default is to permit the fact finder to presume that the destroyed evidence was prejudicial. Such a sanction has been imposed for the intentional destruction of electronic evidence. Although adverse inference instructions can take varying forms that range in harshness, and although all such instructions are less harsh than so-called terminating sanctions, they are properly viewed as among the most severe sanctions a court can administer.” *Id.*

In terms of the actual instruction to the jury, the Court noted that the approach taken in the *Pension Committee* case included a jury instruction that the spoliating party had been grossly negligent in its discovery preservation obligations and that the jury could presume that the lost evidence was relevant and would have been favorable to defendant. The jury was free to adopt or reject the presumption. By contrast, Judge Rosenthal made the preliminary findings necessary to submit the spoliation evidence and adverse inference instruction to the jury, but Judge Rosenthal stated she would not include an instruction that the defendants had engaged in intentional misconduct. Instead, the jury would be asked to decide whether defendants had intentionally deleted ESI to prevent its use in the litigation, and if so, then decide after considering all the evidence whether to infer that the lost information would have been unfavorable to the defendants.

The remainder of the opinion, and the bulk of the decision, consists of a lengthy, fact-intensive review of the circumstances relating to the two lawsuits, the actions of the employees and their ESI preservation obligations, the effect of the Louisiana court decisions on the Texas proceeding, and the Court’s resolution of the spoliation motion. The Court ruled that the employer was entitled to an adverse inference instruction at trial, along with reasonable costs and fees incurred in investigating the spoliation of evidence, moving for sanctions, and taking additional depositions.

This decision presents an alternative approach on e-discovery sanctions to that taken by Judge Scheindlin in the *Pension Committee* case. The focus in *Rimkus* on reasonableness, proportionality and the requirement of a showing of bad faith contrasts with the principles set forth in the *Pension Committee* decision stating, for example, that a party is guilty of gross negligence if it fails to send out a written litigation hold notice to relevant parties when litigation is reasonably contemplated.

3. In *Stengart v. Loving Care Agency, Inc.*, 990 A.2d 650 (N.J. Mar. 30, 2010), the Supreme Court of New Jersey held that an employee had a reasonable expectation of privacy in email communications sent to her lawyer from a personal email account on a company-issued laptop. The Court further held that using her company laptop to send and receive these messages did not constitute waiver of the attorney-client privilege.

In this employment dispute, the plaintiff, Marina Stengart, used her company-issued laptop to access a personal, password-protected, web-based email account. *Id.* at 655. Using this account, Stengart communicated with her attorney regarding an employment discrimination claim she eventually filed against her employer, defendant Loving Care Agency, Inc. (Loving Care). *Id.* In preparing to litigate the matter, Loving Care hired a forensic computer consultant to recover data from Stengart's computer. *Id.* The recovered data included email communications between Stengart and her lawyer. *Id.* The emails had been automatically saved using a web browser program that captured images of each webpage Stengart viewed and stored them on the hard drive. *Id.* at 655-656. Stengart was unaware of the web browser program or that her emails had been recorded and stored. *Id.*

The emails between Stengart and her attorney included a legend that the communications were personal and confidential, intended only for the recipient, and may be protected by the attorney-client privilege. *Id.* at 656. Loving Care's attorneys nevertheless reviewed the emails and used them in preparation for litigation. Loving Care did not inform Stengart that it was in possession of the emails. *Id.* When Stengart's attorney discovered that Loving Care had the emails, he asked that they be turned over, asserting that the emails were protected by the attorney-client privilege. *Id.* Loving Care refused, taking the position that Stengart had "either prevented any attorney-client privilege from attaching or waived the privilege by voluntarily subjecting her e-mails to company scrutiny." *Id.* at 658. Stengart's attorney sought the protection of the court. *Id.* at 657.

The trial court found in favor of Loving Care based on a company policy that states in part:

"The company reserves and will exercise the right to review, audit, intercept, access, and disclose all matters on the company's media system and services at any time, with or without notice . . . Email and voice mail messages, internet use and communication and computer files are considered part of the company's business and client records. Such communications are not to be considered private or personal to any individual employee. The principal purpose of electronic mail (e-mail) is for company business communications. Occasional personal use is permitted . . ." *Id.*

According to the trial court, the policy made clear that emails sent on the company computer were company property and therefore not protected by the attorney-client privilege. *Id.* The Appellate Division reversed, finding not only that the emails were protected but that the lawyers violated professional ethics by reading and using the privileged documents. *Id.* at 657-658. It held that the company policy regarding email was unclear, and that a reasonable person could conclude that at least some email would not be considered company property. *Id.* at 657. The Appellate Division remanded the case to the trial court to determine if disqualification of Loving Care's law firm or other sanctions were warranted. *Id.* at 658. Loving Care appealed to the New Jersey Supreme Court. *Id.*

After examining the company's policy and taking into account the public policy goals of the attorney-client privilege, the Supreme Court affirmed the Appellate Division's ruling. The critical question for the Court was whether Stengart had a reasonable expectation of privacy in emails she sent from a personal, password-protected, email account on her company computer. *Id.* at 659. This was an issue of first impression before the New Jersey Supreme Court, and it identified a number of factors other courts had considered under similar sets of circumstances. *Id.* at 661-664. Relevant factors included

whether a company policy bans or restricts personal use of company-issued computers, whether a company monitors the use of company-issued computers, whether employees are notified of company monitoring policies, whether third parties have a right of access to the computer, whether the communications violated the law or other company policy, and the physical location of the company computer. *Id.*

In this case, the Court focused in part on the adequacy of the company policy governing the use of company computers and email. The Court concluded the company's policy was ambiguous and did not provide adequate notice that email communications sent through personal web-based email accounts would be monitored. *Id.* at 659, 663. The policy made clear that company-issued "media systems" could and would be monitored by the company, but it did not directly address the use of personal, web-based email accounts on company-issued laptops. *Id.* The company also failed to warn its employees that personal emails would be captured and saved on the computers and could be reviewed by company management at a later date. *Id.*

While the company policy stated that email was considered company property, the policy also permitted "occasional personal" use of email, creating "doubt" as to whether personal emails were company property or private communications. *Id.* at 663. In short, according to the Court, "[t]he Policy did not give Stengart, or a reasonable person in her position, cause to anticipate that Loving Care would be peering over her shoulder as she opened e-mails from her lawyer on her personal, password-protected Yahoo account." *Id.* at 664.

The Court found it significant that Stengart took steps to maintain the privacy of her personal email account and that the emails themselves contained the standard attorney-client privilege disclaimer which should have put third parties on notice that the emails were intended to be confidential. *Id.* at 663-64. Finding that Stengart had a reasonable expectation of privacy in her personal emails, and that she took appropriate steps to prevent these emails from being disclosed, the Court

concluded that she had not waived the attorney-client privilege. *Id.*

Finally, the Court held that the attorneys for Loving Care had violated local ethics rules by reading and using the privileged emails. The attorneys should have set aside the documents once they realized they reflected attorney-client communications and either notified opposing counsel or sought permission from the Court to use them. *Id.* The Court remanded the matter to the trial court to determine an appropriate sanction against the attorneys.

Before remanding this case to the trial court, the Court commented on both company computer use policies and the importance of the attorney-client privilege. *Id.* at 665. It stated that companies may adopt and enforce lawful policies relating to computer use to protect their business and ensure compliance with legitimate corporate policies. *Id.* Thus, a company could discipline an employee "who spends long stretches of the workday getting personal, confidential legal advice from a private lawyer . . . for violating a policy permitting only occasional personal use of the Internet." *Id.* The Court noted, however, the special importance of attorney-client privilege and the public policies promoting communications between counsel and client:

"[E]mployers have no need or basis to read specific contents of personal, privileged, attorney-client communications in order to enforce corporate policy. Because of the important public policy concerns underlying the attorney-client privilege, even a more clearly written company manual — that is, a policy that banned all personal computer use and provided unambiguous notice that an employee could retrieve and read an employee's attorney-client communications, if accessed on a personal, password-protected e-mail account using the company's computer system — would not be enforceable." *Id.*

The U.S. Supreme Court is currently considering another employee monitoring case, *City of Ontario v. Quon*, 529 F.3d 892 (9th Cir. 2008) cert. granted, 130 S. Ct. 1011 (U.S. December 14, 2009) (No. 08-1332). At issue in *Quon* is whether a police officer had a reasonable expectation of privacy in text messages sent through a department-issued phone after having been provided with a written policy that such messages could be monitored, then being told the policy would not be enforced. The Court may also address whether the employer's search of the text messages was reasonable under the circumstances. The Solicitor General of the United States recently submitted an *amicus curiae* brief on behalf of the government employer stating in part, "an employee has no reasonable ground to expect privacy in his employer-provided equipment when the employer has warned him not to have that expectation." *Brief for the United States as Amicus Curiae Supporting Reversal* at 9, *City of Ontario v. Quon*, cert. granted, 130 S. Ct. 1011 (U.S. December 14, 2009) (No. 08-1332). Oral argument on this matter was held on April 19, 2010, with the United States arguing in favor of respecting written employer policies and the Supreme Court justices focusing in part on the issue of whether any expectation of privacy would be reasonable for a SWAT member who was constantly on emergency call.

4. In *SEC v. Strauss*, 2009 WL 3459204 (S.D.N.Y. Oct. 28, 2009), United States Magistrate Judge Pitman denied Defendant Stephen Hozie's motion to compel the SEC to produce notes and memoranda prepared by the SEC staff and FBI agents and also denied Hozie's request to be given access to a remote database of work papers maintained by Deloitte & Touche (D&T) to which the SEC had obtained access by subpoena. Although the Magistrate Judge held that the SEC had the practical ability and legal right to the documents, he concluded that Hozie had equal access to the working papers through D&T, and that obtaining the documents from D&T would avoid issues associated with any effort by the SEC to grant shared access to the database.

This case involved an enforcement action brought by the SEC against defendants, officers of American Home Mortgage

Corporation, for accounting fraud. *Id.* at *1. During the course of their investigation, the SEC and FBI prepared various sets of notes of interviews of witnesses, summaries of FBI memoranda, and notes of proffers made to the U.S. Attorney's Office. All the notes were taken in furtherance of a formal investigation for the purpose of determining whether to take formal action against any person or company. *Id.* at *2. "Thus, these notes were made in anticipation of litigation," and the SEC has withheld them on the basis of the work product doctrine. *Id.* The Magistrate Judge agreed with this analysis and denied the motion with respect to notes prepared by non-attorneys because those individuals were clearly acting under the direction of attorneys. *Id.* at *6.

Defendant Hozie also sought access to a secure database of work papers maintained by D&T. The SEC contended that although it had been granted remote access to the database, the database was not within its possession, custody, or control, and that Hozie should seek access to this database directly through D&T and/or its hosting vendor. *Id.* Analyzing this issue under Federal Rule of Civil Procedure 34(a), the Magistrate Judge evaluated whether the SEC had the practical ability to obtain the documents and whether it had the legal right to obtain the documents by virtue of its agreement with D&T. The Magistrate Judge held that "an agreement with a third-party possessor granting a party access to documents, along with an actual mechanism for getting the documents, gives that party 'the practical ability to obtain' the documents." *Id.* at *8 (citation omitted). Accordingly, through the "web portal, key fobs, user names, and passwords, [D&T] has plainly given the SEC the practical means to obtain [the work papers]." Moreover, Magistrate Judge Pitman held that the SEC had the legal right to obtain the documents because of its agreement with D&T. *Id.*

The Magistrate Judge found that the work product doctrine also did not obviate the SEC's discovery obligations with respect to the database because there was no "selection or compilation" of documents in the database that would be protected under the established case law. In particular, the SEC

argued that allowing Hozie access to its database “would result in the exposure of attorney work product because of the potential for one party to see what audit file its adversary has open, . . . and that this information would reveal counsel’s thoughts and mental impressions.” *Id.* at *9. Therefore, the SEC argued, if anything Hozie should have D&T create a separate database for him to access. The Magistrate Judge rejected this argument stating that “[m]erely opening a document contained in a database is not the same as ‘selecting’ it for any litigation-related purposes.” *Id.* at *10.

In the end, however, Magistrate Judge Pitman rejected defendant Hozie’s motion to compel because he determined that “the discovering party could easily obtain the documents elsewhere without any of the difficulties that might result from compelled production.” *Id.* The D&T database was equally available from D&T and its service provider. Therefore, the Magistrate Judge found that “Hozie can obtain the same access to the material . . . by arranging with D&T’s third-party service provider to have an identical database created and paying for monthly access and its own key fobs.” *Id.* at *11. Magistrate Judge Pitman further supported this decision by noting that shared access with the SEC would have created significant burdens, including depriving the SEC of one of the key fobs it had paid for, impeding the SEC’s ability to prepare for litigation, and hampering the SEC’s ability to view files as only one file may be viewed at a time. *Id.* at *12. The Magistrate Judge also pointed out that discovering parties are generally responsible for their own costs, and granting Hozie’s motion would cause the SEC to bear the costs of Hozie’s access to the database. *Id.*

5. In *Gucci America, Inc. v. Curveal Fashion*, 2010 WL 808639 (S.D.N.Y., Mar. 8, 2010), Magistrate Judge Theodore Katz ordered a non-party, United Overseas Bank Limited New York (“UOB NY”), to produce documents despite evidence that doing so would cause it to violate Malaysian law.

In this trademark litigation, the plaintiff accused the defendant of transferring nearly \$900,000 from the sale of counterfeit

goods to an account at UOB in Malaysia. The plaintiff served a subpoena on UOB NY, seeking documents relating to defendant’s Malaysian bank account. *Id.* at *1. UOB NY refused to comply, asserting that to do so would put it in violation of the Malaysian Banking and Financial Institutions Act 1989 (BAFIA), prohibiting Malaysian banks from disclosing information about their customers to third parties. *Id.* at *4.

While the discovery dispute was ongoing, the court issued a default judgment against defendants, who failed to appear, and ordered liquidation of defendants’ assets held by UOB institutions. *Id.* *1 and *3. Plaintiffs continued to seek production from UOB NY claiming the documents and information requested from UOB NY were necessary to enforce the court’s default judgment. *Id.* at *3.

To resolve this discovery dispute involving foreign jurisdictions, Magistrate Judge Katz applied Second Circuit law, which follows the approach set forth in the Restatement (Third) of Foreign Relations Law and weighs the five Restatement factors as well as considering “the hardship of compliance on the party or witness from whom discovery is sought [and] the good faith of the party resisting discovery.” *Id.* at *2 (citation omitted). The Restatement factors include:

“(1) the importance of the documents or information requested to the litigation; (2) the degree of specificity of the request; (3) whether the information originated in the United States; (4) the availability of alternative means of retrieving the information; and (5) the extent to which noncompliance with the request would undermine important interests of the United States, or compliance with the request would undermine the important interests of the state where the information is located.” *Id.* at *2.

Magistrate Judge Katz found the first two factors weighed in favor of the plaintiffs, concluding the documents were “vital” to enforcing the judgment, and the requests were “direct” and “narrowly tailored.” *Id.* at *3. He found the third factor

avored UOB NY, as all parties agreed the documents were located solely in Malaysia. *Id.* at *3.

He determined the fourth factor, availability by other means, weighed in favor of the plaintiff, effectively “counterbalanc[ing]” factor three. *Id.* at *4. In analyzing the fourth factor, the Magistrate Judge examined the possible alternative means of securing the information sought by the plaintiffs and concluded that the information could not be “easily obtained” through other avenues. *Id.* For example, BAFIA permitted disclosure of customer information if the customer gave written consent, but consent was unlikely to be given in a case where the defendants failed to participate in their own defense. *Id.* Additionally, the Central Bank could authorize disclosure, but the plaintiff made such a request, and it was denied. *Id.* The Magistrate Judge noted that the plaintiffs could bring an independent action in Malaysia, attempt to secure a judgment against the defendants, and then seek the requested documents under an exception to BAFIA (which allows disclosure of customer information to fulfill garnishee orders), but to do so presented “logistical concerns,” would be too costly, and offered no guarantee of success. *Id.* at *4-5.

Turning to the fifth factor, the Magistrate Judge held that the interest of the U.S. in “fully and fairly” litigating cases before its courts outweighed Malaysia’s interest in protecting privacy of its bank customers. *Id.* at *5. While recognizing Malaysia’s

interest in protecting privacy rights, he observed that this right was not absolute, a fact the Second Circuit has found to undermine the importance of a foreign state’s interest. *Id.* at *6. For example, under the BAFIA the right to privacy can be waived by the consumer. *Id.* Additionally, the right can be waived to comply with a garnishee order, which the Magistrate Judge noted, is essentially what the plaintiffs were seeking in this instance. Finally, he noted that the Malaysian government had not voiced objection on the matter to the Court, a fact that weighed against finding a strong national interest on the part of Malaysia. *Id.*

Finding four out of the five factors weighed in favor of the plaintiffs, the Magistrate Judge next turned to the potential hardship UOB NY would face if forced to produce the documents. *Id.* at *7. UOB NY, however, provided little information to the Court on the likelihood it would be prosecuted under BAFIA if it complied with the subpoena. *Id.* As such the Magistrate Judge held the likelihood of prosecution was “speculative” and, even though UOB NY had not operated in bad faith, these factors did not outweigh the strength of the plaintiffs’ position. *Id.* He granted plaintiffs’ request and ordered UOB NY to comply with the subpoena. *Id.*