

**2. An order from the U.S. District Court for the Southern District of New York denying without prejudice a motion to compel the Defendants to produce documents from one of their nonparty affiliates, finding that Plaintiff had not shown facts establishing that the Defendants had possession, custody, or control of the documents, including the “practical ability” to acquire them from the affiliate.**

In *Signify Holding B.V. v. TP-Link Research America Corp.*, 2022 WL 3704001 (S.D.N.Y. Aug. 26, 2022), U.S. Magistrate Judge Katharine H. Parker addressed a motion to compel Defendants to produce documents from a nonparty affiliate on the grounds that the Defendants had possession, custody, or control of the documents, including through shared legal counsel.

In this breach of contract dispute concerning patent royalties under a licensing agreement, Plaintiff moved to compel Defendants TP-Link Research America Corporation and TP-Link USA Corporation (together, “TP-Link”) to produce files concerning sales by nonparty TP-Link Corporation Limited (“TPC”), a Hong Kong-based affiliate of TP-Link. *Id.* at \*1. TPC was not a defendant in the case or a party to the relevant agreement, but TPC supplied Defendant TPUSA with certain relevant products and participated in settlement negotiations along with TP-Link. TP-Link and TPC used joint counsel to represent them in those discussions.

In seeking to compel the documents, Plaintiff argued that TP-Link had possession, custody, or control of the documents at issue because its counsel has the documents by virtue of its representation of TPC and TPC’s voluntary participation in joint negotiation/settlement discussions and provision of data to Plaintiff for purposes of those discussions. *Id.* at \*2. In opposing the motion, TP-Link argued that it does not have “control” over the files because TPC is a “separate corporation” that is “not owned or controlled” by TP-Link. Instead, TP-Link argued that Plaintiff must obtain the documents from TPC in Hong Kong through an appropriate third-party process, such as the Hague Convention.

Magistrate Judge Parker noted that the agreement at issue defines the term “affiliate(s)” and that if TPC is an affiliate within the meaning of the agreement, the files at issue would be relevant for determining damages under the agreement.

She began her analysis with a brief survey of the relevant portions of Rules 26 and 34 of the Federal Rules of Civil Procedure. She explained that Rule 26 permits discovery of information relevant to the claims and defenses and proportionate to the needs of the case, including information about damages, and that Rule 34 permits a party to serve on another party requests for information within such party’s “possession, custody or control,” subject to the restrictions of Rule 26(b). However, Rule 34 and the Advisory Notes to the rule are silent on what is meant by “possession, custody or control.”

She further explained that courts in the Second Circuit follow the “so-called practical ability standard,” under which a party has “possession, custody, or control” over a document if it has “the practical ability to obtain and produce the documents.” This may include “a party’s ability to obtain documents on demand,” or “the practical ability to obtain and produce documents held by a parent, subsidiary, or sister corporation.” She cited to *S.E.C. v. Credit Bancorp, Ltd.*, 194 F.R.D. 469, 471 (S.D.N.Y. 2000), as an example of a case where the court found that having access to a document held by an affiliate in the normal course of business would qualify as “control” over the document.

Citing to the Sedona Conference Commentary on “Possession, Custody or Control” under Rule 34 and Rule 45, Magistrate Judge Parker noted that this approach “has been criticized because it may conflict with international restrictions on data movement and ignore formal corporate structures, by-passing alter-ego or veil-piercing analyses,” and because it increases the burden on a party to obtain documents from a nonparty.

But Magistrate Judge Parker noted that a “foreign law that precludes a party from producing data would be a factor in determining a party’s practical ability to obtain and produce it.” Again citing to *S.E.C. v. Credit Bancorp*, she noted that having access to a document in the normal course of business is a separate consideration relevant to deciding a company’s “practical ability to obtain a non-party affiliate’s document” and that routine access also could suggest that a document likely could be found, and thus possessed, in both entities’ servers and files, meaning that both entities are in possession of the document.

Magistrate Judge Parker rejected Plaintiff’s argument that TP-Link can be required to produce the documents because TPC gave the documents to its counsel, who also are counsel for TP-Link, finding “[t]his clearly is not the law.” 2022 WL 3704001 at \*3. She disagreed that a client has control over its attorneys’ other clients’ documents also possessed by the attorneys, because “[s]uch a rule would turn client confidentiality on its head and ride roughshod over attorney ethical obligations to their clients.” She further explained that it was incorrect to conclude TP-Link has control over documents because its attorney has control over them when the attorney possesses them only by virtue of TPC’s providing them.

Magistrate Judge Parker found that Plaintiff, as the requesting party, has the burden of establishing possession, custody, and control, but Plaintiff had not shown facts sufficient for her to make a definitive ruling on control. Plaintiff relied on the facts that TPC voluntarily stepped into joint negotiations with TP-Link to resolve the royalties dispute, that TPC supplied relevant products to TP-Link, and that TPC and TP-Link are under the same corporate umbrella and share counsel. Magistrate Judge Parker found these facts were not sufficient.

But Magistrate Judge Parker also questioned whether TP-Link had actual possession of the documents. She noted that TP-Link had never affirmatively stated that the records do not exist on its email servers or in the files of its 30(b)(6) witness and that if the documents exist in the witness' email or other files of TP-Link, then TP-Link is in possession of the documents and could produce them. She further noted that TP-Link has not stated that it formally requested the documents from TPC, advised TPC that the documents can be obtained regardless via the Hague process, or that TPC nevertheless denied the request.

Accordingly, Magistrate Judge Parker denied Plaintiff's motion to compel without prejudice and ordered TP-Link to state whether it (as opposed to its counsel) is in possession of the requested documents. She ordered that if TP-Link has possession of them, it must produce them. She also ordered that Plaintiff could renew its motion if it learned facts in discovery establishing that TP-Link has possession, custody, or control over the documents.