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# Recent Decisions Regarding Discovery Scope and Proportionality Requirements Under New Federal Rules

Over the past eighteen months, federal courts have issued numerous important decisions clarifying the impact of the most recent amendments to Federal Rule of Civil Procedure 26(b), which went into effect December 1, 2015. These decisions have addressed the scope of discovery under the new rules and the requirement that discovery be proportional to the needs of the case. Understanding the contours of the new rules will continue to be important for parties seeking and responding to discovery in federal courts.

### *The New Rules and Their Purpose*

As amended, Rule 26(b)(1) provides:

> Scope in General. Unless otherwise limited by court order, the scope of discovery is as follows: Parties may obtain discovery regarding any nonprivileged matter that is relevant to any party's claim or defense and *proportional to the needs of the case*, considering the importance of the issues at stake in the action, the amount in controversy, the parties' relative access to relevant information, the parties' resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit. Information within this scope of discovery need not be admissible in evidence to be discoverable.

Fed. R. Civ. P. 26(b)(1) (emphasis added).

Rule 26 was changed "to rein in popular notions that anything relevant should be produced and to emphasize the judge's role in controlling discovery." *Noble Roman's, Inc. v. Hattenhauer Distrib. Co.*, 314 F.R.D. 304, 307 (S.D. Ind. 2016). The 2015 amendments sent a clear signal to litigants and courts

*(continued on page 2)*

## INSIDE



## *The National Law Journal* Names Quinn Emanuel to 2016 "Appellate Hot List"

*The National Law Journal* has once again named Quinn Emanuel to its "Appellate Hot List." The firm was selected based on its several major appellate victories, including the Supreme Court's reversal of a $399 million jury award against client Samsung Electronics Co. in the first design patent case before the Supreme Court in a century. The *National Law Journal* also cited the firm's appellate victories for Marvell Technologies Group Ltd. and Google Inc. in the Federal Circuit and for client Vimeo in the Second Circuit. Q

## Commercial Litigation Expert Mark Hastings Joins Quinn Emanuel

Mark Hastings has joined the firm as a partner based in the London office. Mark was previously a partner at Addleshaw Goddard, where he was head of the firm's civil fraud group. He has represented clients in a number of the largest and most complex cases in English courts. His practice includes high value fraud and trust litigations, asset tracing, contractual and warranty disputes, shareholder disputes, and contentious insolvency. He is experienced in executing and advising on pre-action third-party disclosure orders, freezing injunctions, and search orders. Many of Mark's cases involve cross-border issues and proceedings in other jurisdictions. He has particular expertise in disputes originating in Russia and the Middle East. Q

## Quinn Emanuel Partner Awarded International Arbitration Prize *see page 5*

that proportionality is to be given greater emphasis, which in turn should reduce extraneous discovery. *See Eramo v. Rolling Stone LLC*, 314 F.R.D. 205, 209, n.2 (W.D. Va. 2016) ("[G]iven the 2015 amendment, the court will put a greater emphasis on the need to achieve proportionality, in determining whether to grant the motion to compel.").

Of course, courts will not always strike down requests from parties seeking to compel discovery, even if compliance would be costly or burdensome. Parties seeking discovery who appropriately limit it to matters related to the claims or defenses, and are able to explain the relevance of their requests and how the proportionality factors weigh in their favor, are more likely to prevail in discovery disputes.

### *Discovery Must Be Relevant to Claims or Defenses, Not Just to the Subject Matter of the Action*

One notable change to Rule 26(b)(1) is that it no longer provides that a court may order discovery "of any matter relevant to the subject matter involved in the action." *Compare* Fed. R. Civ. P. 26(b)(1) (2015) *with* Fed. R. Civ. P. 26(b)(1) (2000). The current Rule 26(b)(1) contains no reference at all to the "subject matter of the action." Noting this change, the Advisory Committee Notes state:

> The amendment deletes the former provision authorizing the court, for good cause, to order discovery of any matter relevant to the subject matter involved in the action. . . . Proportional discovery relevant to any party's claim or defense suffices, given a proper understanding of what is relevant to a claim or defense.

Fed. R. Civ. P. 26, 2015 adv. comm. note.

Even after the 2015 amendments, however, there are still misunderstandings regarding the permissible scope of discovery under Rule 26. In one case, a district court took pains to correct a special discovery master, who erroneously "considered relevancy to be as broad as the subject matter, which is broader than the scope of discovery contemplated by Rule 26." *Cole's Wexford Hotel, Inc. v. Highmark Inc.,* No. CV 10-1609, 2016 WL 5025751, at *1 (W.D. Pa. Sept. 20, 2016), *on reconsideration*, 2017 WL 432947 (W.D. Pa. Feb. 1, 2017). Although the court "agree[d] with the special master that [the plaintiff] did not satisfy its burden to show that the information it request[ed] [wa]s relevant," the court "reject[ed] the portion of the amended report and recommendation . . . which discussed the construction of the term 'relevant' under the 2015 amendments to Federal Rule of Civil Procedure 26." *Id.* Specifically, the court rejected the special master's statement that "[d]iscovery requests may be deemed relevant if there is any possibility that the information may be relevant to the general subject matter of the action." *Id.* at *10 (internal quotation marks omitted and citation omitted). As the court noted, "discovery requests are not relevant simply because there is a possibility that the information may be relevant to the general subject matter of the action." *Id.* at *1. Parties seeking discovery under the current rules should limit their requests to those that are demonstrably "relevant to any party's claim or defense," *see* Fed. R. Civ. P. 26(b)(1), and parties responding to discovery can emphasize the narrowed scope of discovery under current Rule 26.

### *Parties Seeking and Responding to Discovery Must Address Proportionality*

The Advisory Committee Notes to the 2015 amendments state that: "[r]estoring the proportionality calculation to Rule 26(b)(1) does not change the existing responsibilities of the court and the parties to consider proportionality, and the change does not place on the party seeking discovery the burden of addressing all proportionality considerations." Fed. R. Civ. P. 26, 2015 adv. comm. note. Despite this guidance, courts have arrived at different (and sometimes conflicting) conclusions regarding the burdens borne by litigants in discovery disputes.

In *Carr v. State Farm Mutual Automobile Insurance Co.*, for example, a district court placed the burden of "showing that the discovery fails the proportionality calculation mandated by Rule 26(b)" on the shoulders of the party resisting discovery. 312 F.R.D. 459, 468 (N.D. Tex. 2015). The court noted that:

> the amendments to Rule 26(b) and Rule 26(c)(1) do not alter the basic allocation of the burden on the party resisting discovery to – in order to prevail on a motion for protective order or successfully resist a motion to compel – specifically object and show that the requested discovery does not fall within Rule 26(b)(1)'s scope of proper discovery (as now amended) or that a discovery request would impose an undue burden or expense or is otherwise objectionable.

*Id.* at 469. Addressing the proportionality factors, the court stated:

> [A] party seeking to resist discovery on these grounds still bears the burden of making a specific objection and showing that the discovery fails the proportionality calculation mandated by Rule 26(b) by coming forward with specific information to address – insofar as that information is available to it – the importance of the issues at stake in the action, the amount in controversy, the parties'

relative access to relevant information, the parties' resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit.

*Id.* at 468.

Similarly, in *First Niagara Risk Management, Inc. v. Folino*, the court placed the burden on the party resisting discovery to "show that the factors in Rule 26 weigh in favor of . . . denying [the] request [of the party seeking discovery] for otherwise relevant information." 317 F.R.D. 23, 28 (E.D. Pa. 2016). There, however, the court stated that "[a] party moving to compel discovery pursuant to Fed. R. Civ. P. 37 bears the *initial burden* of proving the relevance of the material requested." *Id.* at 25 (emphasis added). After finding that "the material requested by [the party seeking discovery] [wa]s relevant to their breach of contract, breach of fiduciary duty, tortious interference, and other claims in this matter," *id.* at 28, the court analyzed the proportionality factors set out in Rule 26(b)(1):

- The first factor weighed in favor of discovery, because "[t]he issues at stake [we]re of grave importance to [the party seeking discovery], who ha[d] allegedly uncovered a plan by one of its top executives to start a competing business and employ[] former . . . employees [of the party seeking discovery]." *Id.*
- The second factor weighed against discovery, because "[t]he amount in controversy [wa]s unknown at th[e] time." *Id.*
- The third factor weighed in favor of discovery, because the party resisting discovery "ha[d] access to the information on his emails and text messages while [the party seeking discovery] d[id] not." *Id.*
- The fourth factor, the parties' resources, "weigh[ed] in favor of neither party because, while [the party seeking discovery] [wa]s a corporation and [the party resisting discovery] [wa]s an individual, [the] complaints [by the party resisting discovery] about costs r[u]ng hollow from someone who just sold two companies for over $5 million." *Id.*
- The fifth factor, "[t]he importance of discovery in resolving the issues in th[e] case[,] weigh[ed] heavily in favor of [the party seeking discovery], who need[ed] to conduct broad discovery to uncover the scope of [the] alleged misdeeds [by the party resisting discovery]." *Id.*
- The sixth factor weighed in favor of discovery, because the burden or expense of discovery for the party resisting discovery was "substantial" but "d[id] not outweigh the benefit of discovery for [the party seeking discovery], who, again, ha[d] uncovered evidence that one of its top executives may have started a competing company while under its employ." *Id.*

Finding that the discovery sought was proportional to the needs of the case, *id.* at 27-28, the court granted the motion, compelling the party resisting discovery to "allow for a broad search of his electronic devices—including emails and text messages." *Id.* at 25-26. The court's conclusion that the discovery sought was proportional was predicated on a showing of relevance by the party seeking discovery.

Going even further, in *Gilead Sciences, Inc. v. Merck & Co.*, the district court placed the burden on the "party seeking discovery of relevant, non-privileged information" to "show, before anything else, that the discovery sought is proportional to the needs of the case." No. 5:13-cv-04057-BLF, 2016 U.S. Dist. LEXIS 5616, at *4 (N.D. Cal. Jan. 13, 2016). There, the party seeking discovery sought production of information about certain "tubes and their contents, including the tubes themselves," even though the party resisting discovery had confirmed that the compounds in the tubes were unrelated to the compound at issue in the patent infringement action. *See id.* at *5-6. The court concluded:

> In the absence of any reason to doubt the proof [that the party resisting discovery] ha[d] tendered about the identity of the disputed compounds, and given the cost and potential delay introduced by the requested production, [the] request [by the party seeking discovery] [wa]s precisely the kind of *disproportionate* discovery that Rule 26—old or new—was intended to preclude.

*Id.* at *7 (emphasis added).

In reaching this conclusion, the court noted that the demands of the party seeking discovery left the party resisting discovery in the "untenable" "position of having to produce discovery on all sorts of compounds that bear no indication of any nexus to the disputes in this case[]" and quipped that compelling discovery "would be like requiring GM to produce discovery on Buicks and Chevys in a patent case about Cadillacs simply because all three happen to be cars." *Id.* Thus, to be safe, parties seeking discovery should endeavor to make an initial showing of both relevance and proportionality when moving to compel.

Similarly, in *Eramo v. Rolling Stone LLC*, the district court required the party seeking discovery to make not only an initial showing of relevance but also an initial showing of proportionality. *See* 314 F.R.D. 205, 211 (W.D. Va. 2016). In that case, the plaintiff sought to

*(continued on page 9)*

## California Court Issues Decision Regarding Protection of Statements to Press Regarding Litigation

In *Argentieri v. Zuckerberg*, 8 Cal. App. 5th 768 (1st Dist. 2017), the California Court of Appeal recently held that an attorney's statements to the press summarizing the allegations of a complaint are protected by the "fair and true reporting privilege," but not the litigation privilege. *Argentieri* and other similar cases suggest that attorneys should exercise caution in communications with outside parties regarding ongoing litigation. In general, attorneys should adhere closely in their statements to the allegations made in any filings, and avoid extemporizing. When attorneys are communicating with the press, the safest course is often to say nothing or simply to provide interested parties with copies of public filings.

### *The Ceglia/Facebook Case*

Paul Argentieri served as counsel to Paul Ceglia in his lawsuit against Facebook and its founder, Mark Zuckerberg (*Ceglia v. Zuckerberg*, No. 10–CV–00569A(F) (W.D.N.Y. 2013)). Ceglia's complaint alleged that he and Zuckerberg had entered into a written contract in 2003 providing that Zuckerberg would perform programming and coding services for a now-defunct website Ceglia was developing, and more importantly, that Ceglia would acquire a substantial interest in what would eventually become the social networking site Facebook. In response, Zuckerberg conceded that he had signed a work for hire contract in connection with work on Ceglia's site, but he claimed that the subject of another website (what has now become Facebook) had never been raised. In fact, Zuckerberg contended that he had not even thought of the idea for the social networking site at the time of the contract.

In support of his claim, Ceglia attached to his complaint what he alleged was the contract signed by the parties. The document stated that Zuckerberg agreed to work on Ceglia's site and to transfer part ownership of Facebook to Ceglia. During the proceeding, an e-discovery consultant that Argentieri's co-counsel had retained to analyze the documents located a different version of the same contract, which had no mention of Facebook. This led Argentieri's co-counsel to conclude that the version produced by Ceglia was fraudulent. The co-counsel immediately notified Argentieri of its findings, and withdrew as counsel for Ceglia.

Nevertheless, Argentieri signed and filed an amended complaint for Ceglia, which once again attached the apparently fraudulent contract as an exhibit. The amended complaint also included quotes from emails that allegedly had been exchanged between the parties regarding the agreement. Both parties filed motions for expedited discovery regarding the authenticity of the contract, and Zuckerberg also produced a copy of the alternative version of the contract that had been located by Ceglia's e-discovery vendor.

Following the expedited discovery, the court dismissed the complaint "because the [contract] was a fabrication and, alternatively, because of Ceglia's spoliation of evidence." The dismissal was subsequently affirmed by the U.S. Court of Appeals for the Second Circuit.

### *The New York Malicious Prosecution Case Against Ceglia and Facebook's Statement to the Press*

Zuckerberg and Facebook subsequently filed a complaint in New York state court against Argentieri and other attorneys who had represented Ceglia in his suit, asserting claims for malicious prosecution and deceit. The complaint alleged that "[t]he lawyers representing Ceglia knew or should have known that the lawsuit was a fraud—it was brought by a convicted felon with a history of fraudulent scams, and it was based on an implausible story and obviously forged documents. In fact, Defendants' own co-counsel discovered the fraud, informed the other lawyers, and withdrew. Despite all this, Defendants vigorously pursued the case in state and federal courts and in the media."

The same day the action was filed, Facebook's general counsel Colin Stretch sent an email to various media outlets asserting that "[w]e said from the beginning that Paul Ceglia's claim was a fraud and that we would seek to hold those responsible accountable. [Argentieri's co-counsel] DLA Piper and the other named law firms knew the case was based on forged documents yet they pursued it anyway, they should be held to account."

### *The Defamation Action in California*

Based on Stretch's email to the press, Argentieri filed a defamation action against Stretch and Zuckerberg in California. In response, Stretch filed a motion to strike the complaint under California's anti-Strategic Lawsuit Against Public Participation (SLAPP) statute (Cal. Civ. Proc. Code § 425.16), which generally prevents a plaintiff from bringing a cause of action based on the defendant's valid exercise of free speech. The trial court concluded that the litigation privilege applied to Stretch's statements, and it struck the complaint. The Court of Appeal affirmed the dismissal, albeit on different grounds. It made several rulings that are important for any lawyer speaking with the press regarding ongoing litigation to bear in mind:

First, a communication is protected by the litigation privilege only if the recipient has some connection to the proceeding or has a "substantial interest in the subject matter." The court held that the press had no such interest here and that Stretch's statement was a "communication . . . to major news outlets [and] a publication to the general public through the press and therefore not protected by the litigation privilege." The court stated that the "litigation privilege should not be extended to litigating in the press." *Argentieri v. Zuckerberg*, 8 Cal. App. 5th at 782-84 (internal quotations omitted).

Second, the Court of Appeal reasoned that there was not a "sufficient nexus between the statement and the litigation." Even though Stretch's statement may have been intended to further the ultimate goal of the lawsuit—to set the public record straight regarding the Ceglia fraud—a "desire to vindicate a client does not constitute the type of furtherance or connection sufficient for the litigation privilege to apply." *Id.* at 785-87.

Third, the court recognized that at least one prior case had held that transmission of pleadings to the press is protected by the litigation privilege. *Id.* at 781-82. However, the court warned that "the vitality" of that rule "is in doubt" because a newspaper is "not related to the litigation." Although Stretch did more than transmit a pleading, the court's discussion of this issue indicates that the litigation privilege may not apply to the simple act of transmitting a pleading to the press or to others that are not directly connected to the litigation. *Id.* at 783-85.

Fourth, the court found that the "fair and true reporting privilege" *did* protect Stretch's statement, even though that issue had not been raised by the parties in the trial court. This privilege protects "a communication to [] a public journal of . . . a judicial [proceeding] . . . or anything said in the course thereof." *Id.* at 787 (citing Cal. Civil Code § 47(d)).

Fifth, Argentieri argued that Stretch's statement was not literally a "fair and true" report of the proceedings because it differed slightly from the allegations in the complaint. The court held, however, that the privilege requires only that the communication "capture the substance, the 'gist,' or 'sting,' of the subject proceedings as measured by considering the natural and probable effect of the report on the mind of the average reader." *Id.* at 787 (internal quotations omitted). A statement about ongoing litigation "need not track verbatim the underlying proceeding because only if the deviation is of such a substantial character that it produces a different effect on the reader will the privilege be suspended." *Id.* at 790 (internal quotations omitted).

Finally, the court held that there was no genuine issue of material fact for trial as to Stretch's statement, and therefore determining whether it qualified as "fair and true" for purposes of the reporting privilege was a question for the court, not a jury. *Id.* at 791.

In sum, although the statements at issue in *Argentieri* were found to be protected, it was a close call, and protection was afforded on a basis not initially raised by the parties. Attorneys should keep in mind that acting as counsel in a case does not automatically confer protection on their public statements concerning the matter, and that they should be careful when making such statements in light of this decision. Q

## Quinn Emanuel Partner Awarded International Arbitration Prize

Dr. Anthony Sinclair was awarded the Smit-Lowenfeld Prize by The International Arbitration Club of New York. Anthony received the prize for the article he co-authored, "Investor Wrongdoing in Investment Arbitration: Standards Governing Issues of Corruption, Fraud, Misrepresentation, and Other Investor Misconduct," which was published in Legitimacy: Myths, Realities, Challenges, ICCA Congress Series No. 18 (2015). The article explores the impact of bribery- and fraud-related allegations on international investment arbitration, and it clarifies the standards governing the presentation and resolution of such allegations. Q

## Trial Practice Update

***California Court Rules Communications with Public Relations Firm Not Privileged.*** In high-stakes litigation, the outcome of a case sometimes depends as much on what happens in the court of public opinion as in the courtroom. The right kind of media attention can increase settlement leverage, influence a court or arbitrator to view your client's claims more favorably, or even stave off the filing of a complaint against your client in the first place. Clients in high-profile litigation thus routinely hire public relations firms and media consultants in addition to their retained counsel, to pursue their litigation goals.

There are potential dangers, however, in relying on non-attorneys for advice concerning litigation. With attorneys, clients can be assured that their communications will most likely be shielded by attorney-client privilege. But courts may not grant the same protection to a client's discussions with a public relations consultant. Even worse, if such a consultant is privy to communications between client and attorney, some courts find that the otherwise reliable protection of attorney-client privilege may be waived by disclosure to the third-party consultant.

That was the conclusion reached by the Second District of the California Court of Appeal last month in *Nicholas Behunin v. Superior Court*, Case No. B272225, 2017 WL 977095 (Mar. 14, 2017). Nicholas Behunin brought a lawsuit against Charles Schwab and his son Michael Schwab over a real estate deal that went awry. The complaint alleged that the Schwabs were connected to the family of former Indonesia dictator Suharto, and that the Schwabs sought funding from the Suharto family for the real estate transaction. To put pressure on the Schwabs to settle the case, Behunin, through his attorneys, hired a media consulting firm, which created a website tying the Schwabs to corruption, human rights violations, and atrocities attributed to Suharto and his family.

The Schwabs struck back, filing a separate lawsuit against Behunin for libel, slander, and invasion of privacy based on the allegations on the website. Behunin sought to dismiss the complaint with an anti-SLAPP motion, but the Superior Court permitted the Schwabs to conduct limited discovery to oppose his motion. The Schwabs demanded to see communications among Behunin, his attorneys, and his public relations consultants. Over Behunin's objection, the court ordered him to produce the documents, so he sought a writ of mandate from the Court of Appeal.

The Court of Appeal agreed with the Superior Court. As an initial matter, the Court of Appeal observed, there is no such thing in California as a "public relations privilege." Communications between a client or his or her attorney and a public relations consultant are not protected from discovery, and the disclosure of otherwise privileged communications to a public relations consultant will result in a waiver of the privilege, unless the disclosure is "reasonably necessary to accomplish the purpose for which" the client needed to hire an attorney. For example, communications with a physician or other expert hired to help the attorney better advise the client on a case would not result in a waiver.

According to the court, the communications Behunin and his attorney had with the media consultant who created the website attacking the Schwabs did not satisfy this test. There was no evidence that Benhunin's consultants helped his attorneys "in developing, discussing, or assisting in executing a legal strategy." The evidence showed that his attorneys acted as little more than liaisons between Behunin and the consultants; the consultants did not assist Behunin's attorneys in advising him or help to litigate the case.

Even as it ruled against Behunin, the Court of Appeal acknowledged that "[t]here may be situations in which an attorney's use of a public relations consultant to develop a litigation strategy or a plan for maneuvering a lawsuit into an optimal position for settlement would make communications between the attorney, the client, and the consultant" privileged. Indeed, in its opinion, the Court of Appeal discussed and distinguished the facts of other cases—applying federal common law, not California law—where communications involving public relations consultants were found to be protected. The lesson to be learned from *Behunin* is not that media consultants should never be hired to advise on a case, but that they must be used to aid the *attorney* and his or her *litigation strategy*, not just the client's interests in the litigation generally.

## Trademark & Copyright Litigation Update

***Ninth Circuit Weighs in on Copyright Protectability of Downloads and Software Output.*** Copyright practitioners concerned about software, electronic data, and computer protection have long debated two questions (among many, many others):

1. Is the mere downloading of a software program without authorization by the copyright holder an actionable and damage-generating copyright infringement?
2. Is the distribution of the output of a software program, which was itself an unauthorized copy, a separate copyright infringement, where the output was a function of a user engaging in more than "marginal" creative effort or where the program's user did the "lion's share" of the creative work associated with the output?

In *Design Data Corp v. Unigate Enterprise, Inc.*, Civ. No. 14-17317 (Feb. 9, 2017), the Ninth Circuit issued a precedential decision that seems to have answered "no" to both questions (although only obliquely).

Design Data is the copyright owner of a CAD program (called SDS/2) that generates data and drawings used to produce steel structural components, used in the building trades. The output of the SDS/2 program is contained in electronic job files.

Unigate outsources steel-detailing services by selling steel-detailing CAD files created by contractors in China. One of Unigate's Chinese contractors created CAD files using an unauthorized copy of SDS/2 (which Unigate claims it did not know) and sent the output to Unigate, and Unigate in turn sold those files to US clients. Unigate never purchased a license to use SDS/2 and claims it never actually used the program, although it admitted that it downloaded a demo copy of SDS/2 just too see what the program was all about. The evidence, however, showed that two versions of SDS/2 were loaded onto Unigate's computers. Although there was no evidence that Unigate actually installed SDS/2, there was evidence that SDS/2 files had been generated and suggested that the CAD program had been used.

Design Data sued Unigate, claiming Unigate has committed infringement in two ways, by (1) downloading and using the unauthorized version of SDS/2, and (2) by importing and distributing SDS/2-generated files. The district court granted Unigate's motion for summary judgment, finding that its download of SDS/2 was *de minimis* copyright infringement, that any infringement by Unigate's Chinese contractor was beyond the reach of U.S. copyright law, and that Design Data failed to show that SDS/2's copyright protected the SDS/2-generated files.

The Ninth Circuit reversed in part and affirmed in part. The Circuit first reversed the district court's finding of *de minimis* infringement, holding that there was a triable issue of fact as to whether Unigate's download was more than an "insignificant violation" of Design Data's copyright, because there was evidence supporting a claim of use (and commercial use at that) by Unigate. By implication, the opinion suggests that if there were no triable issue of fact regarding such actual use, then the mere downloading of the software without authorization would be only a *de minimis* reproduction and infringement.

The Ninth Circuit affirmed the district court's grant of summary judgment on the claim of copyright infringement based on importation and distribution of the work product of SDS/2. The court observed that other courts and authorities "afforded a computer program's copyright protection to the program's output only if the program 'does the lion's share of the work' in creating the output and the user's role is so 'marginal' that the output reflects the program's contents." The court then ruled that, "[a] ssuming, without deciding, that copyright protection does so extend, we nonetheless conclude that Design Data did not raise a question of material fact that the imported SDS/2- generated images and files reflected the contents of its program. Design Data did not present evidence establishing that SDS/2 'does the lion's share of the work' in creating the steel detailing files or that the user's input is 'marginal.'"

Although it took great pains to avoid committing to hard, blackletter-law propositions, the Ninth Circuit's decision in *Design Data* will be used by copyright infringement defendants to support the view that the mere downloading of a software product, although technically a reproduction in RAM of the program, is a *de minimis*, non-damage-yielding event, and the distribution of a program's output, where the output is materially the result of a user's creative efforts, will not be a basis for a separate claim of infringement.

## Asia-Pacific Litigation Update

***Japan Litigation Update—Libel Case Defines Privacy Rights as to Internet Search Engines.*** The Japanese Supreme Court issued a decision regarding privacy that also has implications for third-party internet sites that contain personal information.

The plaintiff/appellant was a man seeking an order that Google remove from its search engine the details of his arrest on child prostitution charges over five years ago, in 2011. The man had paid a female high school student to commit an indecent act, and had been fined 500,000 yen (approximately $5,000). He sued Google for libel, based on infringement of his privacy rights.

The District Court agreed with him, ordering Google to delete a total of 49 search results that brought up the arrest records containing the man's name. The court cited to his "right to be forgotten" after a certain period of time. That decision, however, was reversed by the appellate court, which instead pointed to the public interest in not expunging the man's criminal record.

The Supreme Court agreed with the appellate court. The Supreme Court held that "the deletion (of references to the conviction) can be allowed only when the value of privacy protection significantly outweighs that of the information disclosure."

To determine whether the privacy interest significantly outweighs the public interest in having access to the information, the court outlined a number of factors: the degree of infringement on privacy, the type of search that yields the information and whether only narrowly tailored searches can protect the information from being found too easily, the industry in which the plaintiff is employed, the purpose and significance of the news and articles themselves, the importance of providing real names, whether the information consists of addresses or other personal information apart from the news itself, and the accuracy of the information. Here, the Supreme Court concluded that the information in question could not be deleted because the arrest on child prostitution charges is "subject to society's strong disapproval and is a matter of the public's interest."

The case is part of a trend seeking to protect personal information from public search engines. According to the Japanese Supreme Court, district courts across Japan received 52 petitions for court injunctions to remove personal data from search results in the first nine months of 2016 alone. This was also the first of five "right to be forgotten" cases pending in the Japanese Supreme Court.

The "right to be forgotten" itself appears to trace back to a 2014 opinion issued by the European Union's top court, which upheld an individual's petition to seek removal of links to media reports. Despite the term's international use, and despite the District Court's use of the term in this case, the Japanese Supreme Court did not mention the right to be forgotten in delineating its balancing test.

***Recent Developments Regarding Litigation Funding in Asia-Pacific Region.***

*No Opt-In Required for Australian Litigation Funding.* Twenty-five years since the advent of Australia's federal class action regime and over a decade since the High Court decision in *Campbells Cash & Carry Pty. Ltd. v. Fostif Pty. Ltd.* (2006) 229 CLR 386, where third-party funding of class action proceedings was first judicially endorsed, there has been another game-changing decision in relation to litigation funding in Australia.

In October 2016, the Federal Court's judgment in *Money Max Int. Pty. Ltd. (Trustee) v. QBE Insurance Group* [2016] FCAFC 148 ("*Money Max*"), approved the use of "common fund orders." Under such an arrangement, if the claim settles or the plaintiffs obtain a favorable judgment, all class members are required to pay the litigation funder a contingency out of their recovery monies, whether or not they signed a litigation-funding arrangement.

Prior to the *Money Max* decision, one of the concerns with Australia's "opt-out" regime was the inability of funders to limit so-called "free riders"—those group members who benefit from the class action without making any contribution towards its cost. As a result, many funded class actions in Australia proceed as "closed-class" where only plaintiffs who agree to the funding arrangement are represented in the suit and able to recover. Many have viewed "closed-class" actions as impeding, rather than promoting, the underlying policies of the class action regime—as they limit remedies to a finite number of people and potentially leading to overlapping or competing class actions.

In *Money Max*, the applicant filed a shareholder class action on behalf of itself and an open class against QBE Insurance Group Ltd. ("QBE"). The applicant alleged that QBE had engaged in misleading or deceptive conduct in breach of Australian Corporation Law. Early on in the proceedings, the applicant filed an interlocutory application for a common fund order. At the time of the hearing, the applicant had approximately 1,290 class members who had signed a litigation-funding agreement with International Litigation Funding Partners Pty[?]. Ltd. (the "Funder"). Despite the number of funded class members, the majority of the open class had not entered into a funding agreement with the Funder, leaving the funded class members to bear the cost of the action against QBE on behalf of all unfunded class members. Because of this inequity, the applicant asked the court to apply the terms of the litigation agreement (*i.e.*, the Funder's contingency) to all class members, not just those who had entered into a funding agreement. Over QBE's objection, the court ordered that all class members would be bound by litigation funding terms *to be later set by the court,* likely after settlement or judgment.

Although the *Money Max* decision could be viewed as assigning judicial limitations over third-party funding—as funders will now be subject to the courts' power to vary, set, or reduce their commission rates in a "common fund" settlement —the decision nonetheless should make "open class" actions more economically attractive to funders and will likely result in further significant growth in both domestic and foreign funders launching class action claims in Australia.

*Litigation (and Arbitration) Funding in Hong Kong.* Hong Kong courts traditionally have prohibited third-party litigation funding as maintenance and champerty, subject to some minor exceptions. This appears unlikely to change in respect of domestic commercial litigation. Given that Hong Kong also lacks a class action regime, its attraction as a key litigation market for funders is limited.

There is, however, an ongoing push toward permitting the funding of arbitrations, which would further secure Hong Kong's position as a prime arbitration venue. In a first-instance decision, *Cannonway Consultants Ltd. v. Kenworth Engineering Ltd.* [1995] 1 HKC 179, the court held that it was not appropriate to extend the prohibition on dispute funding to arbitrations taking place in Hong Kong. Subsequently, in *Unruh v. Seeberger* (2007) 10 HKCFAR 31, the Hong Kong Court of Final Appeal expressly left open the question whether the prohibition applies to arbitrations. On October 12, 2016, the Law Reform Commission of Hong Kong released a report recommending that the law be amended to make clear that third-party funding of arbitration and associated proceedings in Hong Kong is permissible. A Bill to implement the Commission's recommendations was read in the Legislative Council on January 11, 2017 and is currently being considered by a Bills Committee.

As currently drafted, the Bill would apply to arbitrations seated in Hong Kong, and to services provided in Hong Kong related to arbitrations pending elsewhere. However, lawyers will not be permitted to provide funding, and funders will be required to follow a code of practice to be issued by a body authorized by the Secretary for Justice. When a funding agreement has been reached, the party must notify the other parties to the arbitration and the Tribunal of this fact (although not the terms of the agreement), and of the name of the third-party funder. No date has been set for the commencement of the Bill.

*Funding in Singapore.* Historically, save for some limited exceptions (*e.g.*, in the context of insolvency), third-party funding of disputes has been restricted under Singaporean law. On January 10, 2017, the *Civil Law (Amendment) Act* was passed by the Parliament of Singapore, permitting third-party funding of international arbitration. The changes will also apply to court proceedings to the extent that they relate to international arbitration, but will not, at this stage, extend to domestic litigation. This development is evidence of the government's intention of marketing Singapore as a leading regional hub for international arbitration.

*The Civil Law (Amendment) Act* sets out the requirements that must be met by an entity for it to be considered a "qualifying Third Party Funder," and thus be permitted to engage in third-party funding in Singapore. These include the funder having access to sufficient funds immediately within its control and having its principal business be the providing of funds for dispute resolution processes. In other words, only "professional" funders will be welcome to operate in Singapore. In addition, changes are also proposed to the *Legal Profession Act* to allow lawyers to recommend third-party funders and to provide related funding advice to clients, so long as the lawyer does not receive any direct financial benefit in doing so. Q

*(lead article continued from page 3)*

compel a non-party to produce certain documents. *Id.* at 207. The court stated:

> Where a *prima facie showing of discoverability* has been made by the party seeking discovery, "the burden shifts … to the resisting party to show lack of relevance by demonstrating that the requested discovery (1) does not come within the broad scope of relevance as defined under Fed.R.Civ.P. 26(b)(1), or (2) is of such marginal relevance that the potential harm occasioned by discovery would outweigh the ordinary presumption of broad discovery."

*Id.* at 209 (internal quotation marks omitted, citation omitted, and emphasis added). The court found that the information sought was "discoverable as [the party seeking discovery] ha[d] made a prima facie showing of relevance and proportionality, which ha[d] not been sufficiently refuted by [the non-party resisting discovery.]" *Id.* at 211. The court made clear that its earlier reference to the "prima facie showing of discoverability" referred not just to relevance but also to proportionality. This case demonstrates the possibility that courts may conflate relevance and proportionality and impose upon parties seeking discovery the initial burden of making a prima facie showing of both.

Some courts, on the other hand, have expressly rejected the view that parties seeking discovery bear an initial burden of showing relevance and proportionality. In *Samsung Electronics America Inc. v. Chung*, the district court stated:

> [T]he Court does not believe that, under Rules 26(b) and 26(g) and Fifth Circuit law, the burden to demonstrate why requested discovery should not be permitted shifts to a responding party only if and when the discovery's proponent first meets a threshold burden to prove that it is asking for documents within the scope permitted by Rule 26(b)(1). That is, the Court disagrees with statements in other district court decisions that, as part of a burden-shifting test, an initial burden lies with the party moving to compel to show clearly that (as Rule 26(b)(1) now provides) the information sought is relevant to any party's claim or defense and proportional to the needs of the case.

No. 3:15-CV-4108-D, 2017 WL 896897, at *14 (N.D. Tex. Mar. 7, 2017). Given the disagreement among federal courts on what initial burdens parties seeking to compel discovery must bear, parties seeking discovery should heed the admonition that:

> [t]he party seeking discovery, to prevail on a motion to compel, may well need to make its own showing of many or all of the proportionality factors, including the importance of the issues at stake in the action, the amount in controversy, the parties' relative access to relevant information, the parties' resources, and the importance of the discovery in resolving the issues, in opposition to the resisting party's showing.

*Id.* at *11. Out of an abundance of caution, parties moving to compel discovery should consider making persuasive showings of both relevance and proportionality in their opening briefs.

*(continued on page 11)*

# VICTORIES

## Victory in Billion-Dollar Port Concession Arbitration

The firm achieved a complete victory in the London Court of International Arbitration on behalf of its client, DP World, against the Republic of Djibouti. Djibouti, a tiny country on the Horn of Africa across the Red Sea from Yemen, is situated in one of the most strategic shipping lanes on the planet. In the mid-2000s, DP World and Djibouti signed a suite of contracts under which DP World designed, built, and now manages a state-of-the art container terminal in exchange for 33% ownership of the terminal and a management fee. The terminal is worth in the vicinity of $2 billion and earns tens of millions in profit each year. In the arbitration, Djibouti sought either to rescind the main concession agreement and take full ownership of the terminal, or to terminate the agreement and receive hundreds of millions of dollars in damages.

The matter was tried over three weeks in September and October 2016 before a distinguished panel of arbitrators, consisting of Sir Richard Aiken, Lord Hoffmann, and Peter Leaver QC. Djibouti's primary contention was that DP World had bribed Djiboutian businessman Abdourahman Boreh—whom the Djiboutian government had appointed as its chief negotiator—by entering into various consulting arrangements and other business dealings with Boreh around the time that the contracts were signed. Djibouti claimed that these transactions between DP World and Boreh entitled it to rescind or terminate the concession agreement because English law governed the agreement, and under English law, when two parties negotiate a contract, a payment by one party to the agent of its counterparty—even a completely legitimate payment—automatically creates a conflict of interest that entitles the counterparty to rescind or terminate the contract.

In response, our firm pointed out that although the *contract* may be governed by English law, the *agency relationship* between Djibouti and Boreh was still governed by Djiboutian law. The relationship between Djibouti and Boreh took place entirely in Djibouti and dated back many years before the concession agreement. Moreover, nothing in the concession agreement purported to override the law governing their agency relationship. Under Djiboutian law, Boreh owed Djibouti only a duty of probity and not a duty to avoid conflicts of interest, and Boreh had fully satisfied his duty of probity by negotiating good deals for Djibouti.

In February 2017, the arbitration panel issued its decision, which rejected all of Djibouti's claims. The panel ruled that Djiboutian law governed the relationship between Djibouti and Boreh, that Boreh had satisfied his duty of probity by obtaining the best possible terms for Djibouti in the suite of contracts, and that he did not owe a duty to avoid conflicts of interest. Because any payments by DP World to Boreh did not breach a duty Boreh owed to Djibouti, there was no ground for Djibouti to rescind or terminate the contracts.

For good measure, the arbitration panel added that even if English law did govern the agency relationship between Djibouti and Boreh, all of the business dealings between DP World and Boreh were completely legitimate and did not create a conflict of interest, and, in any event, Djibouti had affirmed the concession agreement because it knew all the material facts years before it initiated the arbitration, yet it chose not to seek rescission or termination at that time.

The arbitration panel also awarded our client full costs (including attorney's fees) on an indemnity basis because Djibouti had made allegations of widespread and repeated fraud by DP World and those allegations were entirely rejected. The total amount of costs will be decided by the panel following further submissions by the parties.

This was a complete victory for our client, which retains its partial ownership of a $2 billion port, maintains its position as manager of the port, and avoids the severe damage to its reputation that would have flowed from an adverse judgment. Quinn Emanuel continues to represent DP World in this and other matters.

## S.D.N.Y Victory for E*TRADE Against Putative Class Action Challenging Best Execution

In an action captioned *Raynor v. E*TRADE Financial Corporation*, the firm obtained an important victory in the Southern District of New York on behalf of E*TRADE Financial Corporation and E*TRADE Securities LLC. Ty Raynor, on behalf of a putative plaintiff class challenging E*TRADE's order routing practices, alleged that E*TRADE was able to earn tens of millions of dollars in "Payment for Order Flow" by selecting trading venues that paid rebates over venues that did not, regardless of the quality of service the venues offered to clients or how efficiently they executed trades. According to Mr. Raynor, E*TRADE violated its duty of best execution. The action is one of a series brought by plaintiffs around the country challenging the order-routing practices of the online discount brokerage industry with respect to non-directed, standing limit orders.

Arguing that the duty of best execution is "rooted in common law agency principles of undivided loyalty and reasonable care" that "predate the securities laws," the purported class styled their causes of action as state law claims. The class asserted breach of fiduciary duty, unjust enrichment, and a request for a declaratory judgment declaring that E*TRADE was not entitled to keep the Payment for Order Flow that it received from the venues. United States District Judge John G. Koeltl, of the Southern District of New York, rejected all three claims and granted E*TRADE's motion to dismiss. Specifically, Judge Koeltl held the action was predicated on allegations of "material misrepresentations and omissions that were designed to induce clients to execute . . . orders with E*TRADE even though E*TRADE allegedly had no intention of fulfilling its purported fiduciary obligations." As the Court noted, such claims are not permitted under the Securities Litigation Uniform Standards Act ("SLUSA").

Mr. Raynor attempted to avoid SLUSA by arguing that the suit did not involve trading, but rather E*TRADE's practices regarding the selection of venues to route orders. Specifically, the complaint purported to challenge E*TRADE's due diligence in selecting venues. Holding that the claims "necessarily challenge what E*TRADE told the plaintiff about its execution practices, and the nature of E*TRADE's obligations to plaintiffs," the Court ruled that SLUSA prohibited the plaintiff from asserting state law claims.

The Court also rejected Mr. Raynor's argument that the Supreme Court's opinion in *Chadbourne & Parke v. Troice*, 134 S. Ct. 1058 (2014) modified prior Supreme Court precedent with respect to SLUSA's requirement that before a claim could be precluded under SLUSA, it had to "coincide with a securities transaction" in a covered security. Judge Koeltl ruled that *Troice*, which, dealt with uncovered securities, had "no connection to this case."

The decision is the first case in the Southern District of New York to address SLUSA in the context of a broker-dealer's best execution duties. Q

*(lead article continued from page 9)*

***Conclusion***

By limiting the scope of discovery to matters that are "relevant to any party's claim or defense and proportional to the needs of the case," Fed. R. Civ. P. 26(b)(1), the 2015 amendments to the Federal Rules provide support for litigants who want discovery to be more narrowly tailored. However, although the 2015 amendments may appear to favor parties resisting discovery, some courts have placed burdens on parties seeking to compel discovery. Courts in the post-amendment landscape have been encouraged by the Advisory Committee Notes to be more actively involved in the management of discovery, *see* Fed. R. Civ. P. 26, 2015 adv. comm. note ("The present amendment again reflects the need for continuing and close judicial involvement in the cases that do not yield readily to the ideal of effective party management."), and parties on both sides must be prepared to make and support arguments regarding relevance and proportionality if they wish to prevail in discovery disputes. Q

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## business litigation report

# quinn emanuel urquhart & sullivan, llp

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