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FEDERAL E-DISCOVERY

Third-Party Subpoena Extended to Overseas Affiliates


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Even companies that are not litigants sometimes find themselves faced with e-discovery obligations owing to receipt of third-party subpoenas issued under Rule 45 of the Federal Rules of Civil Procedure. In such circumstances, companies often assumed that courts would treat them favorably with respect to discharging their e-discovery obligations. A recent federal court decision should serve as a wake-up call to companies that find themselves on the receiving end of a subpoena, as courts may very well hold them to the same standard as parties and require prompt and complete compliance with such subpoenas.


BIGSTOCK

'St. Jude'

In *St. Jude Medical S.C. v. Janssen-Counotte*,[1] the U.S. District Court for the District of Oregon was asked to rule on a motion to compel compliance with a third-party subpoena. In the principal case pending before another court,[2] St. Jude, a medical technology company, sued Louise Marie Janssen-Counotte (Janssen), a former employee in its Belgium and Netherlands offices, for "theft and threatened misappropriation of trade secrets and other confidential information."[3]

Acting on suspicions regarding Janssen's behavior before leaving the company, St. Jude conducted an internal investigation, which revealed that Janssen negotiated her new employment and made preparations to misappropriate confidential information while still employed by St. Jude. Evidence of Janssen's alleged misappropriations included: (1) her attendance at a three-day conference in Dallas, where she learned about St. Jude's five-year global strategic plan to compete against other medical technology companies, without having disclosed her ongoing employment negotiations with one of St. Jude's competitors,[4] (2) "email[ing] her St. Jude contracts

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and benefits information to her personal email address,"[5] and (3) her "insert[ion of] 41 separate removable media devices (e.g., thumb drives) into her St. Jude computer."[6]

Shortly after leaving St. Jude, Janssen was hired by Biotronik (Biotronik)—one of St. Jude's principal competitors—to serve as its president of U.S. operations. Biotronik is a Delaware corporation with headquarters in Oregon; its parent and sister companies are German.

After 'St. Jude', courts may very well hold third parties to the same standard as parties and require prompt and complete compliance with such subpoenas.

Following Janssen's departure, pursuant to Rule 45 of the Federal Rules of Civil Procedure, St. Jude served a subpoena duces tecum against Janssen's new employer Biotronik, requesting documents and electronically stored information (ESI) related to communications between Biotronik and Janssen, as well as materials related to Biotronik's decision to hire Janssen. The subpoena defined "Biotronik" as referring to "Biotronik, Inc., as well as any current or former … agents, … corporate parent, subsidiaries or affiliates and other persons or entities acting or purporting to act on your behalf or for your benefit …including with respect to employment discussions and negotiations with Ms. Janssen … ."[7]

Biotronik objected to the subpoena, arguing, in part, that it could not be compelled to produce documents from affiliates that were "distinct legal entities"[8] over which it had no control. In particular, Biotronik argued that it had produced all of the relevant documents under its control, but it did not have legal possession, custody, or control over documents related to negotiations Janssen undertook with Biotronik's European affiliates. In taking this position, Biotronik distinguished between its "'practical ability to obtain the requested documents' from its sister or parent corporation" and the legal authority to compel production of such documents from its affiliates,[9] particularly since they were distinct entities from Biotronik.

The court dismissed Biotronik's argument that it had no obligation to produce documents and ESI in the possession of affiliates that were distinct legal entities. Rather, the court sought to answer whether documents and ESI held by Biotronik's related entities were within Biotronik's effective control. The court examined the fact-specific circumstances surrounding the location of the documents and ESI that related to Janssen's employment negotiations. The court also focused on the relationship between the location of those documents and the control requirement.

Biotronik claimed that its search for all emails, text messages, and other documents relating to Janssen's new employment negotiations only yielded the production of "a redacted copy of [her] final contract and several pages from her passport and visa application."[10] Biotronik also stated that none of its employees, directors, or officers had been involved in employment negotiations with Janssen. Additionally, St. Jude "presented evidence" that high-level executives with Biotronik's European affiliates participated in negotiations with Janssen.[11] This led the court to conclude that Janssen's negotiations to join Biotronik had been held with Biotronik's affiliates, acting on behalf of Biotronik through a principal-agent relationship and for the sole purpose of hiring Janssen. Thus, the court concluded that this agency relationship established "sufficient indicia of effective control" to require the search and production of responsive ESI and documents located at Biotronik's European affiliates.[12]

Control of Documents

When considering "possession, custody, or control" for purposes of Federal Rules of Civil Procedure 34 and 45, courts apply a range of standards. The court in *St. Jude* highlighted a Sixth Circuit decision, noting that the disjunctive nature of Rule 45(a) does not require actual possession and legal ownership of the subpoenaed data.[13] With respect to Rule 34, the court cited a case from the District of Delaware, which held that control "does not require the party to have actual managerial power over the foreign corporation, but rather that there be close coordination between them."[14] Citing a case from the Eastern District of California, the court noted that control may also be established by "the existence of a principal-agent relationship."[15]

The court in *St. Jude* held that "control" is an inherently fact-specific issue. It determined that neither actual possession of a document nor legal ownership needed to be shown for a corporate party to be in "possession, custody, or

control" of a document. Control—defined as the legal right to obtain documents upon demand—is sufficient on its own.[16]

In examining parent/subsidiary relationships, the court noted that a parent may be compelled to produce documents held by a subsidiary. Additionally, a parent may be in "control" of a subsidiary when there is a sufficiently "close nature" in the corporate relationship.[17]

The court in *St. Jude* ruled that the agency relationship between Biotronik and its affiliates for the sole purpose of the employment negotiations was sufficient to hold Biotronik responsible for producing relevant documents held by the affiliates. The fact that Biotronik's affiliates are based abroad did not alter the court's analysis. As such, the court ordered that Biotronik comply with the third-party subpoena served by St. Jude, including producing relevant documents held by its affiliates overseas.

The court reiterated the importance of the agency relationship in denying Biotronik's subsequent Motion for Reconsideration and Transfer.[18] Biotronik had sought to analogize the case to *In re Citric Acid Litigation*,[19] a Ninth Circuit case involving documents subpoenaed from a U.S. party, but held by the party's Swiss affiliate. The court in *Citric Acid* noted that the subpoenaed party had asked its affiliate to produce the documents, but the affiliate refused to do so.[20] Because there was no legal mechanism to compel the affiliate to produce those documents, the party served with the subpoena did "not have the legal right to obtain" the documents held by the affiliate and there was no mechanism available to compel production.[21]

The court in *St. Jude* rejected Biotronik's analogy to *Citric Acid*. Indeed, it held that the analysis in *St. Jude* was entirely consistent with *Citric Acid*'s "legal control" test to determine when a corporate entity has control over documents owned by a distinct entity.[22] The court noted that *Citric Acid* "involved a contractual relationship among affiliated entities and the parties' contract did not provide that one party had the right to control documents owned by the other."[23] In contrast to *St. Jude*, where the plaintiff had shown that a principal-agent relationship existed between Biotronik and its affiliates, "[t]here was no agency relationship alleged in *Citric Acid*."[24] Because of this principal-agent relationship, the subpoena for documents related to Janssen's employment negotiations satisfied the legal control test set forth in *Citric Acid*.

Conclusion

Although *St. Jude* is an ongoing litigation, this ruling is nonetheless a cautionary tale to companies that, while not a party to a litigation, were involved in the underlying dispute, even tangentially. Third parties may find themselves in a position where they are unable to obtain relief from the costs and efforts necessary to comply with e-discovery obligations from either the Federal Rules of Civil Procedure or case law, as courts that strictly interpret these authorities may find no difference in the discovery-related responsibilities of named parties and subpoenaed third parties.

Two years ago in this column, we wrote about the federal courts' interpretation of the term "control" for purposes of third-party litigation holds.[25] We cautioned that "control" is an expansive concept and that parties to a litigation may be required to take reasonable efforts to ensure that third parties are preserving potentially relevant documents in their possession.[26] As evidenced by *St. Jude*, this may also be true in the context of the e-discovery obligations of third parties. Not only can subpoenas compel production of documents by third parties themselves, they also can compel production by agents of the third parties, even when those agents are located overseas.

1. 2015 WL 1299753 (D. Or. March 23, 2015).
2. Although the principal case is pending in the Western District of Texas, the third-party subpoena was decided in the District of Oregon because Biotronik's headquarters is located there.
3. *St. Jude*, 2015 WL 1299753, at *3.
4. Id. at *2.
5. Id.
6. Id.
7. Id. at *5.
8. Id. at *8.
9. Non-Party Biotronik's Opposition to Plaintiff's Motion to Compel Biotronik, Inc. to Comply with Third Party Subpoena, *St. Jude Medical, S.C. v. Janssen-Counotte*, No. 3:15-mc-00999-SI, Doc. No. 6 (D. Or. March 9, 2015), at *9, citing *In re Citric Acid Litigation*, 191 F.3d 1090, 1107-08 (9th Cir. 1999).
10. *St. Jude*, 2015 WL 1299753, at *8. Janssen had admitted to intentionally deleting all copies of her emails and text messages relating to her new employment negotiations, so they could not be retrieved directly from her. Id.
11. Id.
12. Id. at *9. Following the decision, Biotronik filed a Motion for Reconsideration and Transfer, which was denied on May 18, 2015. *St. Jude Medical S.C. v. Janssen-Counotte*, 2015 WL 2359568 (D. Or. May 18, 2015). Much of the motion relied upon the argument that there are German and Swiss laws preventing a U.S. court from requiring production of documents located overseas. The motion alleged that the court failed to consider requirements of the Hague Convention, which governs discovery outside the United States. In denying the motion, the court conducted a full comity analysis under *Societe Nationale Industrielle Aerospatiale v. U.S. Dist. Court for S. Dist. of Iowa*, 482 U.S. 522 (1987) and Ninth Circuit precedent.
13. *St. Jude*, 2015 WL 1299753, at *7, citing *In re Bankers Trust Co.*, 61 F.3d 465, 469 (6th Cir. 1995).
14. Id. at *8, citing *Afros S.P.A. v. Krauss-Maffei*, 113 F.R.D. 127, 129 (D. Del. 1986).
15. Id., citing *Allen v. Woodford*, 2007 WL 309945 (E.D. Cal. Jan. 30, 2007), at *2.
16. Id. at *7-8, citing *In re Citric Acid Litigation*, at 1107.
17. Id. at *8, citing *Japan Halon Co. v. Great Lakes Chem.*, 155 F.R.D. 626, 627 (N.D. Ind. 1993).
18. *St. Jude*, 2015 WL 2359568, at *2-4.
19. 191 F.3d 1090 (9th Cir. 1999).
20. Id. at 1108.
21. Id.
22. *St. Jude*, 2015 WL 2359568, at *2.
23. Id.
24. Id.
25. H. Christopher Boehning & Daniel J. Toal, "Third-Party Litigation Holds: 'Control' Can Be Complicated," N.Y.L.J., Feb. 5, 2013.
26. Id.