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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT COURT OF CALIFORNIA

SAN JOSE DIVISION

NETSCAPE COMMUNICATIONS CORPORATION, a Delaware corporation; and AMERICAN ONLINE, INC., a Delaware corporation, Plaintiffs, vs. FEDERAL INSURANCE COMPANY, an Indiana corporation; et al., Defendants.¶	CASE NO. 5:06-CV-00198 JW (PVT) **DEFENDANT ST. PAUL'S NOTICE OF MOTION AND MOTION FOR LEAVE TO AMEND ADMISSION [FRCP 36(B)]** Complaint Filed: 12/12/05 Amended Complaint: 2/24/06 **Accompanying Documents:** Declaration of D. Christopher Kerby; Proposed Order Date: April 24, 2007 Time: 10:00 a.m. Dept.: 5

TO THE PARTIES AND TO THEIR ATTORNEYS OF RECORD:

PLEASE TAKE NOTICE that on April 24, 2007 at 10:00 a.m., in the above-captioned Court, Defendant St. Paul Mercury Insurance Company ("St. Paul") will and hereby does move this Court, before the Hon. Patricia V. Trumbull, pursuant to Rule 36(b) of the Federal Rules of Civil Procedure ("FRCP"), for an Order granting St. Paul leave to amend its prior admission made in response to Request For Admission ("RFA") No. 4 propounded by plaintiff America Online, Inc.

Specifically, RFA No. 4 requests that St. Paul "[a]dmit that the [underlying] SMARTDOWNLOAD CLAIM does not involve '3rd party advertising'" (one portion of the

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Online Activities Exclusion in the St. Paul policy). St. Paul previously responded "Admit," as this portion of the exclusion was not the basis for St. Paul's denial of this claim at the time the claim was tendered. However, based upon arguments plaintiffs now advance in support of their cross-motion for partial summary judgment and in opposition to St. Paul's motion for partial summary judgment, currently pending before this Court, "3rd party advertising" may be an issue and the response to RFA No. 4 should, therefore, be "Deny."

St. Paul seeks leave to amend its prior admission. St. Paul has served a Supplemental Response to America Online Inc.'s First Set of Requests for Admission ("Supplemental Response"), pursuant to FRCP 26(e). This motion is brought because AOL objected to the Supplemental Response as not being in compliance with FRCP 36(b).

This motion is based on the Points and Authorities set forth below, the Declaration of D. Christopher Kerby ("Kerby Decl.") filed herewith, and the pleadings and file in this matter.

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

Presently at issue in this insurance coverage lawsuit is whether St. Paul had a duty to defend plaintiffs AOL/Netscape against four class actions. The parties have filed cross-motions for partial summary judgment on that issue. The motions are set for hearing on April 30, 2007.

In connection with that motion a side issue has arisen relating to a defense St. Paul wants to raise to arguments made in AOL/Netscape's cross-motion. This motion is brought in order to permit St. Paul to make that argument without running afoul of discovery procedural rules.

References here to facts and arguments are taken from the briefs and supporting papers filed by the two sides to this dispute, which are contained in the Court's files.[1] Those points are summarized here to provide the context for this discovery dispute. Specific references are given in case the Court wants to further review the background and context in which this dispute arises.

[1] St. Paul filed its motion on December 1, 2006 ("SP Motion"); AOL/Netscape filed their Cross-Motion/Opposition on January 12, 2007 ("AOL Cross-Motion"); St. Paul filed its Reply on February 9, 2007 ("SP Reply"); and AOL/Netscape filed their Reply on March 2, 2007 ("AOL Reply").

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II. BACKGROUND INFORMATION

A. Duty to Defend Issue and Motions

The pending cross-motions relate to whether St. Paul had a duty to defend AOL/Netscape against four class actions which were filed in New York and Washington DC. The four class actions alleged that AOL/Netscape's product known as "SmartDownload" was doing more than assisting people as they downloaded information from the Internet.[2] SmartDownload was designed to solve the problem users experienced when their Internet connection was interrupted during the downloading of documents from the Internet.[3] The class action lawsuits alleged that SmartDownload was also "spying" on the users of the product and collecting private information about the users and their habits, all in violation of two federal criminal statutes: the Electronic Communications Privacy Act and Computer Fraud and Abuse Act.[4]

There is a dispute as to whether Virginia or California law applies to determining the duty to defend. If Virginia law applies, the Court will look to whether the claim fell within the allegations of the class action complaints.[5] If California law applies, the Court will look beyond the class action complaints at extrinsic facts that were provided to the insurer during the tender of the claim and which the insurer could have obtained through a reasonable investigation.[6]

The facts presented in connection with the parties' cross-motions include that the class actions complaints were tendered to St. Paul by the Wilmer Cutler law firm in August and September 2000.[7] During 2000 through 2002, that law firm and the claims attorneys for St. Paul communicated regarding whether there was coverage for the class action complaints.[8]

St. Paul concluded there was no coverage for the class actions and denied the request for defense on the basis that the allegations in the class actions did not fall within any of the coverages of the St. Paul policy, including that the class actions did not allege a personal injury

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[2] See SP Motion, pp. 4-6, Exs. 129, 130.
[3] See SP Reply, p. 22.
[4] See SP Motion, pp. 4-5.
[5] See SP Motion, pp. 11-12.
[6] See SP Motion, pp. 14; SP Reply, pp. 14-19.
[7] See SP Motion, pp. 4-5; SP Reply, pp. 16; Exs. 129, 130, 131, 132, 136.
[8] Exs. 129, 130, 131, 132, 136.

offense in that there was no "making known to any person or organization written or spoken material that violates a person's right of privacy."[9] In addition, St. Paul denied the claim on the basis of the St. Paul policy's "Online Activity Exclusion," an exclusion prepared by the parties because, in AOL's risk manager's words, "the intent all along was to exclude [personal injury/advertising injury] arising out of our online business."[10]

"Online Activity" is defined in the endorsement as "providing e-mail services, instant messaging services, 3rd party advertising, supplying 3rd party content and providing internet access to 3rd parties . . ."[11]

After denying the claim, communications between AOL/Netscape and St. Paul did not end. Periodically, the Wilmer Cutler law firm and partner, lead counsel Patrick Carome sent St. Paul information about "developments" in the class actions.[12] In October 2002, Carome's office advised St. Paul that AOL's motion to compel arbitration had been denied.[13] In June 2004, Carome advised St. Paul that settlement discussions were underway.[14] In the draft settlement agreement Carome sent to St. Paul in July 2004, the parties indicated that despite discovery into the "purpose" and "use" of the information collected by SmartDownload, there was *no evidence* that AOL had ever used the private information for "any purpose whatsoever" or "shared such with any third party."[15] In 2005, the class actions settled.[16]

B. Discovery in This Coverage Action

This coverage action was filed in December 2005. After settling with the other insurers originally named, AOL/Netscape pursued its claims against St. Paul.

During discovery, St. Paul received numerous boxes of documents, including from the underlying lawsuit.[17] Among those produced were documents consistent with the conclusion

[9] See SP Motion, pp. 15-19; SP Reply, pp. 6-19; Exs. 1, 131, 136.
[10] See, SP Motion, pp. 20-23; Exs. 1, 36, 37,
[11] See SP Motion, pp. 10-11.
[12] See SP Reply, pp. 16-19; Exs. 137, 228, 190, 191, 192; Declaration of Dan Weiss filed in support of St. Paul's Motion.
[13] See St. Paul Reply, p. 16; Ex. 137.
[14] See St. Paul Reply, p. 16; Ex. 228.
[15] See St. Paul Motion, p. 5; Ex. 143.
[16] Ex. 230.
[17] See St. Paul Reply, p. 17; Supplemental Declaration of Sara Thorpe filed in support of St.

(Footnote continued)

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reached by St. Paul, i.e., that the class action lawsuits did not allege any disclosure of private information to a third party. These included that in January 2003, AOL/Netscape argued in a motion to dismiss that the class plaintiffs were *not* contending there had been any disclosure of private information.[18] And, that the class plaintiffs in March 2003 *agreed* with this proposition, stating they did not need to plead whether or how AOL/Netscape used any stolen private information in order to prevail on their claims.[19]

On July 24, 2006, AOL sent Requests for Admissions to St. Paul ("RFA"). Kerby Decl., ¶ 2, Ex. 1. AOL requested, among other things, that St. Paul admit the "SMARTDOWNLOAD CLAIM" did not involve certain aspects of the Online Activity Exclusion in the St. Paul policy. *Id.* In the RFAs, "SMARTDOWNLOAD" was defined as:

> "SMARTDOWNLOAD CLAIM" means any demand made by NETSCAPE and/or AOL for insurance coverage in connection with the following actions and/or investigations brought against NETSCAPE and/or AOL: [list of four class actions and the New York Attorney General's investigation].

Kerby Decl., Ex. 1, at p. 1:12-20.

AOL requested that St. Paul admit that the "SMARTDOWNLOAD CLAIM" did not involve "providing internet access to 3rd parties." Kerby Decl., Ex. 1, at p. 2:16-17. This was the portion of the exclusion upon which the denials were based.[20] In response, St. Paul indicated the basis for its denial was the part of the definition relating to "providing internet access to 3rd parties" and denied that request for admission. Kerby Decl., Ex. 2, at p. 5. St. Paul admitted it was not relying on other parts of the Online Activity Exclusion, consistent with St. Paul's review and denial of the claim. *Id.*, Ex. 2, at pp. 3-4.

C. Arguments In Cross-Motions

In the cross-motions filed, AOL has taken the position that, despite not providing this information to St. Paul during the claims process, the class actions involved not only spying and gathering of private information, but also claims that AOL/Netscape was providing the private

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Paul's Motion, ¶2.

[18] See St. Paul Motion, p. 5, fn. 12; St. Paul Reply, p. 17; Ex. 217.

[19] See St. Paul Reply, p. 17; Ex. 226.

[20] See St. Paul Motion, pp. 20-23; Exs. 1, 131, 136.

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information to an advertiser, AdForce.[21] Specifically AOL alleges, based upon a declaration submitted by Carome, that the class action plaintiffs' private information collected by AOL/Netscape "was being sent to a third-party advertising company, AdForce, and used for marketing purposes."[22] Carome based this statement on a deposition taken on October 2003 of a David Park.[23] In his deposition, Park was questioned about whether information collected by AOL/Netscape was sent to AdForce.[24] (Park was also questioned by Carome and testified that Netscape never made any use of or shared any information transmitted from SmartDownload.")[25]

Carome also based his declaration on a presentation made at a settlement meeting on March 11, 2004.[26] Exhibit H to the Carome Declaration is a PowerPoint presentation (filed under seal) which included pages entitled "Netscape Configured its Servers to Transmit SmartDownload Information to AdForce."[27]

Neither the Park deposition taken in October 2003 nor the presentation materials used at the March 2004 settlement meeting were provided to St. Paul during the claims process even though Carome communicated with St. Paul regarding the class actions both prior to and after those dates.[28]

In its Cross-Motion, AOL noted that St. Paul had admitted the class actions did not involve the "3rd party advertising" portion of the Online Activity Exclusion.[29]

AOL's argument in its Cross-Motion that there was disclosure of private information to third parties because of alleged communications between AOL/Netscape and AdForce should be irrelevant to the determination of the duty to defend under either Virginia or California law since this information is inconsistent with the allegations in the class action complaints[30] and was

[21] See AOL Motion, p. 6.
[22] See AOL Cross-Motion, p. 22; Declaration of Patrick Carome filed in support of AOL's Cross-Motion, at ¶ 5-6.
[23] Carome Decl., at ¶ 5.
[24] Carome Decl., at ¶ 5.
[25] See St. Paul Motion, at pp. 17-18; Ex. 229.
[26] Carome Decl., at ¶ 6; Ex. H.
[27] Carome Decl., at ¶ 6.
[28] See St. Paul Reply, pp. 17-19; Exs. 219, 143.
[29] See AOL Cross-Motion, p. 27, fn. 96.
[30] See, e.g., Ex. 226 (class plaintiffs' argument that class actions do not plead use or disclosure of private information because they do not need to do so to prevail).

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information that could have been but was not provided to St. Paul during the claim process.[31] However, even if the Court were to consider this new argument and information, that claim would not be covered. St. Paul in its Reply raised that sending private information gathered through use of the Internet to an advertising company would not be covered because the St. Paul policy excluded coverage for personal injury caused by Online Activities, which includes "3rd party advertising."[32]

Consistent with this argument, St. Paul amended its response to RFA No. 4. Kerby Decl., ¶ 4, Ex. 3.[33] RFA No. 4 requested that St. Paul: "Admit that the SMARTDOWNLOAD CLAIM does not involve "3rd party advertising." *Id.*, at Ex. 1, p. 2. St. Paul originally admitted this Request because the issue had not come up during the claim process. Given the new argument, the response was, more appropriately, "Denied."

In response to this, AOL/Netscape had two arguments. First, AOL/Netscape argued that St. Paul could not unilaterally change its position and therefore St. Paul's argument "was improper and should be ignored."[34] Second, AOL/Netscape argued that the alleged sharing of information with AdForce has "nothing to do with '3rd party advertising.'"[35]

D. Relief Sought

Thus, even though the "3rd party advertising" issue may be a side issue of AOL's making (either because the information is irrelevant to the duty to defend, or allegations of sharing of private information with an advertiser is not about "3rd party advertising"), St. Paul still seeks leave to amend its admission in order to be able to raise the defense if necessary in this lawsuit.

Thus, St. Paul requests leave from this Court to amend its discovery response to RFA No. 4 so it indicates St. Paul DENIES the request for admission.

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[31] See St. Paul Reply, p. 19.
[32] See St. Paul Reply, pp. 24-25.
[33] See also, St. Paul Reply, p. 25; Ex. 232.
[34] See AOL Reply, p. 20.
[35] See AOL Reply, pp. 19-20.

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III. LEGAL ARGUMENT

A. Amendment Of Discovery Responses Are Permitted To Allow Resolution Of Matters On Their Merits

Parties have a right and a duty under FRCP 26(e) to supplement their prior disclosures and discovery responses. Rule 36(b), FRCP, directs, in pertinent part, that "[a]ny matter admitted under [Rule 36(a)] is conclusively established unless the court on motion permits withdrawal or amendment of the admission." The rule further provides that:

> the court may permit withdrawal or amendment when the presentation of the merits of the action will be subserved thereby and the party who obtained the admission fails to satisfy the court that withdrawal or amendment will prejudice the party in maintaining the action or defense on the merits. FRCP 36(b).

The first prong of the two-part test from Rule 36(b) calls for a determination of whether revision of the discovery response will aid in resolving the case on its merits. *Gallegos v. City of Los Angeles,* 308 F.3d 987, 993 (9th Cir. 2002). This part of the test "emphasizes the importance of having the action resolved on the merits" (*Smith v. First Nat. Bank,* 837 F.2d 1575, 1577 (11th Cir. 1988) [quoting Rule 36 advisory committee's note]), and is "satisfied when upholding the admissions would practically eliminate any presentation of the merits of the case" (*Hadley v. United States,* 45 F.3d 1345, 1348 (9th Cir. 1995)). In *Hadley,* for example, the court found two of the admissions "essentially admitted the necessary elements [of the claim]," and therefore, withdrawal was proper. *Id.*

As to the second prong, the Ninth Circuit has indicated that:

> [t]he prejudice contemplated by Rule 36(b) is "not simply that the party who obtained the admission will now have to convince the factfinder of its truth. Rather, it relates to the difficulty a party may face in proving its case, *e.g.*, caused by the unavailability of key witnesses, because of the sudden need to obtain evidence" with respect to the questions previously deemed admitted.

Hadley, at 1348 (quoting *Brook Village N. Assocs. v. General Elec. Co.,* 686 F.2d 66, 70 (1st Cir. 1982)). The party who obtained the admission has the burden of proving that withdrawal or amendment of the admission would prejudice its case. *Id.*

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B. Both Requirements Of Rule 36(b) Are Satisfied

1. Amendment Would Aid Resolution On The Merits

There is no dispute that St. Paul was not provided with the Park deposition or settlement presentation during the handling of the class actions or at any time until those documents were provided after resolution of the class actions and in response to discovery conducted in this coverage lawsuit. There is no dispute that it was not until the filing of AOL/Netscape's Cross-Motion and Carome's Declaration that St. Paul became aware of the arguments AOL/Netscape were making to try to find a duty to defend under the St. Paul policy.

In light of the arguments made in the Cross-Motion about allegations of transfer of information to an advertising company, St. Paul's prior admission to RFA No. 4 is not accurate. In fact, the "3rd party advertising" part of the Online Activities Exclusion in the St. Paul policy may be relevant and may exclude coverage for this claim.

Given these circumstances, amendment of St. Paul's Admission to RFA No. 4 would aid in having the action resolved on its merits. Disallowing the amendment may eliminate St. Paul's ability to present this defense to coverage.

2. AOL/Netscape Will Not Be Prejudiced By The Amendment

Moreover, AOL/Netscape cannot show they would be prejudiced by this amendment to St. Paul's discovery response. AOL/Netscape's counsel has deposed St. Paul witnesses, Michelle Midwinter, Dale Evensen, Dan Weiss, and Michelle Enright regarding their involvement in the creation and application of the Online Activity Exclusion, including the "3rd party advertising" part of the exclusion. See Kerby Decl., Ex. 4 (Midwinter, at p. 330); Ex. 5 (Evensen, at pp. 173-174); Ex. 6 (Weiss, at p. 125); and Ex. 7 (Enright, at pp. 79-84).

Given the information available to the deponents at the time of underwriting the policy (Midwinter), and handling the tender of the class actions (Evensen, Weiss, and Enright), these witnesses' testimony regarding this part of the exclusion would not be any different now as when they were deposed. As previously indicated, AOL/Netscape did not provide St. Paul with the Park deposition or PowerPoint presentation nor any suggestion that private information was being disclosed to third parties, like AdForce, at the time St. Paul was handling this claim. It was

not the basis for St. Paul's denial of the claim.

IV. CONCLUSION

For the foregoing reasons, St. Paul respectfully requests this Court grant St. Paul leave to amend its prior admission to RFA No. 4 so it indicates St. Paul DENIES the request for admission, as has been done in St. Paul's Supplemental Response served on February 9, 2007.

Dated: March 29, 2007

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