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28UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

MYCONE DENTAL SUPPLY CO INC,

No. C-12-00747-RS (DMR)

Plaintiff(s),

**ORDER RE: JOINT DISCOVERY
LETTER [DOCKET NO. 179]**

v.

CREATIVE NAIL DESIGN INC,

Defendant(s).

Before the court is a joint discovery letter filed by Defendant Creative Nail Design (“CND”) and joined parties Young Nails, Inc., Cacee, Inc., and Nail Systems International (collectively, “Joined Parties”). [Docket No. 179.] CND seeks additional financial information from the Joined Parties. The court conducted a hearing on January 23, 2014. For the reasons stated below and at the hearing, CND’s request is **granted in part and denied in part**.

I. BACKGROUND

CND is a business involved in the marketing and sales of nail coating products. Complaint [Docket No. 1] at ¶ 6. CND holds a license to some of the claims of U.S. Patent No. 6,803,394. On December 15, 2012, Plaintiff Mycone Dental Supply Co., Inc. d/b/a Keystone Research & Pharmaceutical (“Keystone”) filed this lawsuit against CND for declaratory judgment that the radiation-curable nail products that Keystone sells to its customers do not infringe certain claims of the ’394 patent, and that those claims of the ’394 patent are invalid. *Id.* at ¶¶ 31-39. The Joined

1 Parties allegedly sold the Keystone products that CND claims infringed the '394 patent. *See id.* at
2 18-21 (identifying the Joined Parties as “Keystone’s customers”); CND Answer [Docket No. 8] at ¶
3 14. CND has filed counterclaims against Keystone and the Joined Parties for infringement of the
4 '394 patent, and seeks damages and injunctive relief. *See* CND Answer at ¶¶ 32-55.

5 In discovery requests served in August 2012 and May 2013, CND requested financial
6 information from the Joined Parties relating to annual and monthly sales of certain products,
7 including the dollar amounts, unit volumes, customers, products sold, profits, and revenues, as well
8 as documents relating to pricing decisions. *See* Letter Ex. A (Joined Parties’ responses to CND’s
9 Requests for Production of Documents); Letter at 4.

10 On March 18, 2013, all parties entered into a stipulated order governing e-discovery.
11 [Docket No. 117.] That stipulation states that “[t]he parties also agree to the initial production of
12 summary financial materials in lieu of all invoices, receipts, purchase orders, etc.” Docket No. 117
13 at ¶ G. In May 2013, the parties met and conferred and agreed that the financial summaries should
14 include, on a quarterly basis, (1) quantities of the accused products sold; (2) revenues from such
15 sales; and (3) the costs associated with such sales. In June 2013, the Joined Parties produced the
16 summary financial information.

17 On August 15, 2013, CND asked the Joined Parties to produce purchase orders and invoices
18 for sales of their accused products covering a period of approximately three years (November 2010
19 through August 2013). The parties met and conferred regarding CND’s request several times, from
20 August 27 until September 20, 2013. The Joined Parties did not agree to produce the requested
21 purchase orders and invoices. CND did not press the issue again until November 25, 2013, after the
22 close of fact discovery and after the parties had already exchanged opening expert reports,¹ when it
23 again requested purchase orders and invoices from the Joined Parties. In lieu of the production of
24 individual purchase orders and invoices, CND offered to accept additional financial information

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26 ¹ The close of fact discovery was extended thrice pursuant to the stipulation of the parties, from
27 June 28, 2013 until November 22, 2013. [Docket Nos. 75, 120, 131, 170.] The parties also stipulated
28 to the extend the deadline for serving opening expert reports to November 22, 2013, and on that date
served opening expert reports. Among these reports was CND’s damages expert report. Letter at 6.
Rebuttal expert reports were due on January 15, 2014, and reply expert reports on January 31, 2014.
[Docket No. 171.]

1 from the Joined Parties that included, for each sale by each of the Joined Parties over a three year
2 period, (1) the name of the customer, (2) the product, (3) the quantity of the product purchased, (4)
3 the price, (5) the cost-of-goods sold allocated to that product, (6) the gross profit on the product, and
4 (7) the gross margin on the product. The Joined Parties refused to produce this information.
5 Finally, CND suggested that the Joined Parties give CND access to the underlying data and/or
6 database(s) so that CND could generate the financial summaries by itself—a proposal that the Joined
7 Parties have also rejected. Letter at 2.

8 On November 29, 2013, CND timely² filed an ex parte discovery letter seeking an order from
9 this court compelling the Joined Parties to produce the requested summary sales data.

10 **II. DISCUSSION**

11 Although CND characterizes its request as seeking “summary” financial information, in
12 reality, CND wants detailed sales data. Specifically, CND seeks from each of the Joined Parties an
13 accounting of customers, product sold, sale price, and units sold by month from 2011 until the end of
14 2013. CND avers that it and the Joined Parties all sell nail coating products and “almost certainly”
15 target the same customers. Letter at 3. As such, the requested information is relevant to CND’s lost
16 profits damages analysis, in which its expert must determine how many units are being diverted
17 away from CND and to the Joined Parties as a result of the alleged infringement. According to
18 CND, the additional detail in the requested summary financial data will improve CND’s lost profits
19 analysis because CND will be able to more accurately determine lost profits from customers for
20 whom it actually competes, rather from all customers of the Joined Parties. Letter at 4.

21 The court denies CND’s request for additional detailed financial data because at this
22 advanced stage in the litigation, the burden of obtaining the information sought outweighs its likely
23 benefit. The parties met and conferred in May 2013 and agreed upon the content of the Joined
24 Parties’ initial production of sales data. In July and August 2013, CND deposed four Rule 30(b)(6)

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26 ² Pursuant to Civil Local Rule 37-3, motions to compel discovery must be filed no more than
27 seven days after the discovery cut-off. CND’s ex parte letter, filed on November 29, 2013, was timely
28 filed. [Docket No. 174.] The court denied the ex parte letter and ordered the parties to continue to meet
and confer, and gave leave to the parties to file a joint discovery letter if their efforts to meet and confer
did not resolve the dispute. [Docket No. 175.] The parties subsequently filed the letter that is the
subject of this order on December 9, 2013.

1 witnesses from the Joined Parties, including corporate representatives who testified about their
2 company's finances and, specifically, the summary financial information produced pursuant to the
3 parties' agreement. At the hearing, CND's counsel admitted that, as a result of this deposition
4 testimony, CND knew that the Joined Parties were able to access more financial data than they had
5 previously produced, yet CND waited until late November to file an *ex parte* motion to compel the
6 production of that data. The *ex parte* motion was technically timely under the local rules, but CND
7 has not offered any persuasive explanation for why it waited so long to raise the issue with the
8 Joined Parties or with the court. CND averred at the hearing that if this court ordered the Joined
9 Parties to produce the requested information, CND would then move the district judge to permit
10 CND to supplement its expert's report with the requested data. Such an outcome would disrupt the
11 expert discovery schedule and cause undue burden on the Joined Parties. CND has provided no
12 excuse for waiting until after the disclosure of expert reports to compel information relevant to its
13 expert's damage analysis. It would be unduly burdensome to compel the Joined Parties to produce
14 the additional information and also expend resources responding to a supplemental expert analysis
15 that could and should have been completed in the first instance. Moreover, counsel explained at the
16 hearing that the Joined Parties are small businesses that do not keep electronic records of their sales
17 information, so that producing the requested information would require a burdensome and time-
18 consuming search of "hardcopy" sales documents.

19 CND's counsel argued at the hearing that the requested financial data was relevant not only
20 to its expert's damages calculations but also to discover the names of the companies that purchased
21 the accused products from the Joined Parties. The court notes that CND propounded timely
22 discovery requests seeking the names of the Joined Parties' customers. *See, e.g.*, Letter Ex. A
23 [Docket 179-1 at 13] (Cacee's Responses to CND's RFPs No. 59, which seeks "documents
24 sufficient to show all Cacee's sales . . . broken down by customer"). The Joined Parties did not
25 dispute the relevance of customer names, and conceded that it would not be burdensome to produce
26 a list of customers for each Joined Party. Accordingly, by **February 6, 2014**, each Joined Party
27 shall produce a list of all customers to whom it sold the accused products between 2011 and 2013.

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III. CONCLUSION

For the reasons stated above, CND's request is **granted in part and denied in part.**

IT IS SO ORDERED.

Dated: January 28, 2014

