IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

KROY IP HOLDINGS, LLC,	§	
	§	
Plaintiff,	§	
	§	
v.	§	CASE NO. 2:12-cv-800-WCB
	§	(LEAD CASE)
SAFEWAY, INC., et al.,	§	
	§	**FILED UNDER SEAL**
Defendants.	§	

MEMORANDUM OPINION AND ORDER

Before the Court is Plaintiff Kroy's Motion to Compel Defendant Kroger to Provide Fact Discovery Regarding Its Joint Venture, Dunnhumby USA, LLC (Dkt. Nos. 109 and 114). Because Kroy has not shown that Defendant The Kroger Co. has the right to direct dunnhumby USA, LLC ("the joint venture") to produce the material that Kroy seeks to discover, the Court DENIES Kroy's motion to compel.

I. Background

Kroy has accused Kroger's Best Customer Communication ("BCC") program of patent infringement. The BCC program allegedly uses data collected by Kroger to target personalized coupons and other offers to Kroger customers. A significant portion of the data processing and analytics for Kroger's BCC system is performed by dunnhumby USA, LLC. Dunnhumby USA, LLC, is an Ohio limited liability company that was formed as part of a joint venture between Kroger and dunnhumby USA, Inc. ("dunnhumby Inc."). Dunnhumby Inc. is a wholly owned subsidiary of dunnhumby limited ("dunnhumby UK"), a company registered in England and

Wales. See Dkt. No. 114-2, at 1 (Joint Venture Agreement). Kroger owns 50 percent of the joint venture, and dunnhumby Inc. owns the other 50 percent. That is, Kroger and dunnhumby Inc. are each 50 percent "members" of dunnhumby USA, LLC.

Kroy has sought discovery from the joint venture on two fronts. First, Kroy subpoenaed the joint venture in the Southern District of Ohio, where the joint venture limited liability company is located, and filed a motion to compel the joint venture in the district court there. Second, Kroy filed a motion to compel in this Court seeking an order compelling Kroger to direct the joint venture to produce documents responsive to Kroy's discovery requests. According to Kroy, Kroger must produce the joint venture's documents because Kroger "controls" those documents, within the meaning of Federal Rule of Civil Procedure 34, as it is a 50 percent owner of the joint venture. Kroger responds that even as a member of the joint venture with a 50 percent ownership interest, it has no right to access, produce, or direct the joint venture to produce the documents that Kroy has requested and not yet obtained from the joint venture.

II. Discussion

1. Four agreements govern the relationships among Kroger and the various dunnhumby entities: the Joint Venture Agreement (Dkt. No. 114-2), the Limited Liability Company Operating Agreement of dunnhumby USA, LLC (the "Operating Agreement") (Dkt. No. 114-3), the Data License and Services Agreement (Dkt. Nos. 114-4 and 114-5); and the License Agreement (Dkt. No. 114-6). An analysis of those agreements reveals that the joint venture was formed to provide Kroger with analysis of Kroger's customer data, and other services based on that data, using intellectual property developed and owned by dunnhumby UK. The agreements

refer to the data-analysis service as providing "Customer Insight," which is defined as "understanding customer behavior derived from the analysis of customers' shopping activity using Customer Data." Dkt. No. 114-2, at 4.

By forming a joint venture, Kroger sought to obtain dunnhumby's services "at cost," as primarily determined by an IP licensing fee paid by the joint venture to dunnhumby UK. Dkt. No. 114-3, at 33; Dkt. No. 114-6 ¶ 3.1. Under the arrangement, Kroger would seek to persuade its suppliers and partners to pay for Customer Insights generated by the joint venture, thereby reducing the fees Kroger owed to the joint venture. See Dkt. No. 114-3, at 33; Dkt. No. 114-4 ¶ 5.4. In return, dunnhumby UK would obtain a stronger foothold in the United States and access to Kroger's data, from which Customer Insight could be generated for other potential clients. Dkt. No. 114-3, at 33.

Under the Data License and Service Agreement, Kroger and the joint venture agreed that Kroger would license its data to the joint venture in exchange for obtaining Customer Insight from the joint venture. See Dkt. No. 114-4, art. 2. That agreement also set the terms of Kroger's fee payments to the joint venture. Id. art. 5.

The data-analysis technology that the joint venture uses in generating Customer Insight is licensed to the joint venture by dunnhumby UK pursuant to the License Agreement. See Dkt. No. 114-6, at 1-3. The License Agreement explicitly excludes rights to dunnhumby UK's source code, although it grants the joint venture rights to use dunnhumby UK's executable code. Id. at 1-2. Kroger is not a party to the License Agreement.

The Joint Venture Agreement was entered into by Kroger, dunnhumby UK, dunnhumby Inc., and the joint venture. Among other terms, that agreement includes several confidentiality

provisions. Those provisions state that confidential information (as defined in the agreement) disclosed by one party to another will be kept in confidence by the party receiving the information and that such information will remain the property of the party that disclosed it. Dkt. No. 114-2 ¶ 5.1. The agreement provides, however, that if a party that receives confidential information is "legally compelled to disclose" the information, e.g., "pursuant to a court order," then the receiving party will be released from its confidentiality obligations in that regard. Id. ¶ 5.2.

Although the confidentiality provisions in the Joint Venture Agreement govern how Kroger must treat confidential information it receives from dunnhumby UK, dunnhumby Inc., or the joint venture, there is no provision in any of the agreements that provides Kroger a right to access any third party's information, confidential or otherwise. Specifically, the Data License and Service Agreement, which governs what the joint venture will provide to Kroger, does not contain any provision entitling Kroger to obtain information about dunnhumby's methods, algorithms, or the like. The Joint Venture Agreement in fact makes clear that Kroger is to gain access to dunnhumby UK's source code only if dunnhumby UK "ceas[es] to carry on business on a regular basis or provide support and maintenance" for the intellectual property it licensed to the joint venture and dunnhumby UK fails to arrange for an acceptable successor to carry out its duties. Dkt. No. 114-2 at 13.

The Operating Agreement sets forth a variety of provisions governing the management of the joint venture. It provides that management of the joint venture is vested in a Board of Managers consisting of six managers. Dkt. No. 114-3 at 14. Three of those managers are elected by Kroger and three are elected by dunnhumby Inc. Id. The Board of managers can act

through a majority vote. Id. at 15. Because Kroger does not control a majority of the managers, it cannot simply direct the joint venture LLC to produce materials requested by Kroy.

Kroy points to the Ohio laws governing limited liability companies and argues that members of Ohio LLCs have rights to obtain information from their LLCs of the sort that Kroy has sought to obtain in its discovery requests to Kroger. Specifically, Kroy points to an Ohio statute providing that, subject to the LLC operating agreement or an agreement of the LLC members, each member of an LLC has rights to a variety of information from the LLC "for any purpose reasonably related to its membership interest in the company." Ohio Rev. Code Ann. § 1705.22(A). That statute, however, does not help Kroy, as it contains three pertinent provisions that significantly limit the rights of LLC members to information in the possession of the LLC.

First, subsection B of the statute provides: "Unless otherwise provided in the operating agreement, a limited liability company has the right to keep confidential from its members for a reasonable period of time any information that the company reasonably considers to be in the nature of trade secrets . . . ." Id. § 1705.22(B). To the extent that Kroy seeks confidential technical information belonging to the joint venture itself, instead of dunnhumby UK or dunnhumby Inc., the joint venture is entitled to withhold that information from Kroger under section 1705.22(B) because that information would be reasonably considered "to be in the nature of trade secrets," id. § 1705.22(B).

Second, even if the information were not deemed to be in the nature of trade secrets, it would still be protected from disclosure if it fell within the first subpart of subsection B, section 1705.22(B)(1). That provision states that a limited liability company has the right to keep

confidential from its members "[i]nformation the disclosure of which the company in good faith reasonably believes is not in the best interest of the company or could damage the company or its business." That provision is sufficiently broad that the decision of the joint venture to withhold sensitive business information from Kroger would be virtually unreviewable.

Finally, the second subpart of subsection B, section 1705.22(B)(2), allows an LLC to withhold from members "[i]nformation that the company is required by law or by agreement with a third person to keep confidential." As noted above, the Joint Venture Agreement contractually prohibits the joint venture from disclosing the confidential information of any other party to the agreement. Therefore, section 1705.22(B)(2) allows the joint venture to withhold dunnhumby UK's and dunnhumby Inc.'s confidential information from Kroger.

Kroy insists that the joint venture must have some information in its possession that is not "confidential information," as defined in the Joint Venture Agreement and is not otherwise "in the nature of trade secrets" under section 1705.22(B). That information, according to Kroy, should be considered to be under the control of Kroger, as a member of the joint venture, and therefore producible in response to a discovery request to Kroger. "Confidential Information," however, is defined very broadly in the Joint Venture Agreement as "all IP and proprietary, trade secret, know-how, business, technological, financial, copyright, patent, or other information of any party." Dkt. No. 114-2, at 3-4. Any such information in the joint venture's possession would not be within Kroger's control because the joint venture would be legally entitled to withhold that information from Kroger under section 1705.22(B)(2) of the Ohio statute. Although Kroy asserts that there must be some nonconfidential information that Kroger has the right to obtain from the joint venture, Kroy has not demonstrated that there is any such

information in the possession of the joint venture and under the control of Kroger that is responsive to Kroy's discovery requests. To the contrary, the evidence before the Court indicates that the joint venture has already produced approximately 800 pages of documents to Kroy pursuant to Kroy's subpoena to the joint venture. See Dkt. No. 121-2, at 1. Moreover, in its reply to Kroger's request that the joint venture produce documents responsive to Kroy's requests, the joint venture stated that it had already produced substantial information in response to the Kroy subpoena and that it would not produce any further information in response to Kroger's request, because the additional information sought by Kroy is "highly proprietary information." Dkt. No. 121-2, at 1. In a declaration executed by its chief financial officer, the joint venture stated that the technical services provided by the joint venture to Kroger under the BCC program "are based on highly confidential and proprietary trade secret information" that is licensed by the joint venture from dunnhumby UK. Dkt. No. 121-1, at 2.

In its argument in support of the motion to compel, Kroy ignores subsections B, B(1), and B(2) of the Ohio statute and instead relies on subsection A, which provides LLC members a right to access certain information about company finances and membership. See id. § 1705.22(A)(1)(a)-(h). Although section 1705.22(A) includes a catch-all provision that grants members the right to access "[o]ther information regarding the affairs of the company that is just and reasonable," id. § 1705.22(A)(1)(h), that catch-all provision must be read in light of the enumerated provisions that precede it, all of which relate to information about the members, officers, and financial affairs of the company. In particular, the catch-all provision cannot be read to render subsections B, B(1), and B(2) a nullity. For these reasons, the Court concludes that under Ohio law Kroger does not have a general right to access the joint venture's

confidential technical information just because it has a 50 percent ownership interest in the joint venture.

Kroy argues that "[n]one of the relevant agreements limit Kroger's access" to the materials Kroy seeks from the joint venture. According to Kroy, "Kroger is entitled to know specifically what services it is receiving and paying for, and nothing in any contract specifies to the contrary." Kroy is wrong. To the extent that Kroger has any non-contract-based rights to materials in the possession of the joint venture, Ohio law provides that Kroger's rights to obtain information do not extend to the type of technical information Kroy seeks. See Ohio Rev. Code Ann. § 1705.22(B).

Kroy further argues that the confidentiality provisions in section 6.2 of the License Agreement impose confidentiality restrictions only on the joint venture, not on Kroger. That fact, however, is irrelevant because Kroger is not even a party to the License Agreement. Likewise, Kroy points to various provisions in the agreements relating to how the intellectual property of dunnhumby UK and the joint venture will be owned and/or licensed upon termination of the agreements. Those provisions, however, are also irrelevant because none of the agreements have been terminated at this time.

Finally, Kroy relies on Kamatani v. BenQ Corp., 2005 U.S. Dist. LEXIS 42762 (E.D. Tex. 2005). In that case, the court found that the defendant, which owned 49% of a joint venture, had a right of control over the joint venture's documents and access to those documents, and the court ordered the defendant to produce those documents over which it had been found to have control. The facts of that case are quite different from the facts of this one. While the evidence in BenQ showed that the defendant in that case "regularly access[ed] documents of the

joint venture," id. at *19, there has been no such showing in this case. Instead, the evidence before the Court in this case does not show that Kroger has any rights to the type of technical documents sought by Kroy from the joint venture.

2. Kroy's supplemental brief devotes considerable space to the argument that the joint venture's document production to date is inadequate under the subpoena served by Kroy. However, this Court does not have jurisdiction over the joint venture, which is not a party to this action. The Court therefore cannot directly compel the joint venture to make discovery in response to Kroy's subpoena. Moreover, it is clear that the joint venture does not intend to make any further discovery to Kroy based on any request made by Kroger, so any order from this Court compelling Kroger to direct the joint venture to produce additional discovery would not have the effect of inducing the joint venture to change its position with respect to Kroger's control over the joint venture's documents. Accordingly, Kroy's remedy with respect to production from dunnhumby lies with the enforcement of it subpoena in Ohio. The Court expresses no view as to the adequacy of the joint venture's document production in response to Kroy's subpoena or any other aspect of the proceedings before the district court in the Southern District of Ohio.

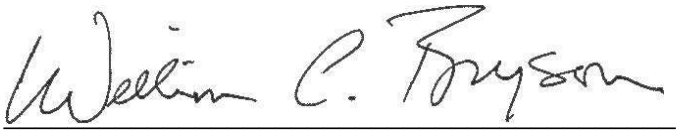
The Court therefore denies Kroy's motion to compel Kroger to direct third party dunnhumby USA, LLC, to produce the documents sought by Kroy.

3. This order is being filed under seal as a precaution against the inadvertent disclosure of sensitive business information. However, it is unclear to the Court that any information disclosed in this order is entitled to such protection. Accordingly, if either party wishes this order to remain sealed, it should so advise the Court within 10 days of this date and explain why

the order should remain sealed. If any such request is filed, the Court will determine at that time whether to keep the order sealed or direct that it be unsealed. In making any such request, the parties should be mindful that there is a "general right to inspect and copy public records and documents, including judicial records and documents," Nixon v. Warner Commc'ns, Inc., 435 U.S. 589, 597 (1978), and that there is a "strong presumption in favor of a common law right of public access to court proceedings," In re Violation of Rule 28(D), 635 F.3d 1352, 1356 (Fed. Cir. 2011). If the Court receives no request within 10 days that this order remain under seal, the Court will direct that the order be unsealed at that time.

It is so ORDERED.

SIGNED this 21st day of July, 2014.



WILLIAM C. BRYSON
UNITED STATES CIRCUIT JUDGE