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Lunkenheimer Co. v. Tyco Flow Control Pac. Party Ltd.

United States District Court for the Southern District of Ohio, Western Division

February 12, 2015, Decided; February 12, 2015, Filed

Case No. 1:11-cv-824

Reporter

2015 U.S. Dist. LEXIS 17962

THE **LUNKENHEIMER** COMPANY, et al., Plaintiffs, vs. **TYCO FLOW CONTROL PACIFIC PARTY LTD.**, et al., Defendants.

Prior History: [Lunkenheimer Co. v. Tyco Flow Control Pac. Pty Ltd., 2013 U.S. Dist. LEXIS 88960 \(S.D. Ohio, June 25, 2013\)](#)

Core Terms

Licensed, documents, interrogatory, discovery, Products, valve, invoices, parties, argues, sales, entities, employees, files, Affiliate, preserved, responses, e-mails, set forth, records, competing product, manufacture, searched, royalty, calculations, electronic, format, exploited, producing evidence, duty to preserve, sublicenses

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For Nilmini Klur, a Pennsylvania resident, Nilmini Klur, Trustee, and any predecessor or successors thereto, agent of Ceylon Irrevocable Trust dated 9/12/1194 and any amendments thereto, an Ohio Trust, Nilmini Klur, Counter Defendant, ThirdParty Plaintiff, Cross Claimant, Counter Defendant: Robert A McMahon, LEAD ATTORNEY, Eberly McMahon LLC, Cincinnati, OH; Jeffrey Eilender, PRO HAC VICE, New York, NY; John M. Lundin, Vitali S. Rosenfeld, PRO HAC VICE, Schlam Stone & Dolan LLP, New York, NY.

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For **Lunkenheimer**-Energovalves, Inc., **Lunkenheimer** Company Inc., **Lunkenheimer** Company Ltd., Consolidated Valves, Ltd., Conflow Manufacturing, Inc., Dr Bernard

DeSilva, Executor of the Estate of, **Lunkenheimer** Company, The ESTATE OF SHEILA DESILVA, The Estate Of Sheila DeSilva, c/o Bernard DeSilva, Uswatta Partners, Uswatta Partners, LLC, Counter Defendants, ThirdParty Defendants, Cross Defendants: Firooz Taghi Namei, McKinney & Namei Co LPA - 1, Cincinnati, OH.

Judges: Timothy S. Black, United States District Judge.

Opinion by: Timothy S. Black

Opinion

ORDER ON ISSUES RAISED IN ANTICIPATION OF THE JANUARY 27, 2015 DISCOVERY DISPUTE CONFERENCE

Pursuant to [Southern District of Ohio Civil Rule 37.1](#), and at the request of Intervenor/Counter Defendant Nilmini Klur, this civil action came before the Court for an informal discovery dispute conference on January 27, 2015.¹

I. BACKGROUND

Klur alleges that PFCP refuses to fully comply with the Court's October 20, 2014 Order ("Discovery Order") (Doc. 137). Klur also alleges that PFCP has failed to preserve, or satisfactorily search for and produce, evidence relating to this action. Klur asks the Court to impose the following sanctions:

- Strike PFCP's counterclaims;
- Hold that PFCP materially breached the License by (1) underpaying royalties; (2) selling competing products; (3) sublicensing without permission; (4) improperly disclosing **Lunkenheimer** confidential information to its Indian and Chinese affiliates; (5) failing to annually disclose the Tyco Developments; and (6) exploiting Tyco Developments for PFCP's benefit, including the patenting of at least one such development, excusing Plaintiffs' performance of the sales option of the License;
- Hold that PFCP [*5] damaged Plaintiffs in connection with its breaches in the amount of \$24,727,709.83; and

- Award Klur the costs and expenses associated with her applications.

II. ANALYSIS

A. PFCP's Compliance with the Discovery Order

1. Klur's Interrogatory Nos. 4, 5, 9, and 10

The Discovery Order states, in relevant part, as follows:

"The Court recognizes that Klur's Interrogatories are broad. However, [Federal Rule of Civil Procedure 33\(d\)](#) states:

If the answer to an interrogatory may be determined by examining, auditing, compiling, abstracting, or summarizing a party's business records (including electronically stored information), and *if the burden of deriving or ascertaining the answer will be substantially the same for either party*, the responding party may answer by: (1) specifying the records that must be reviewed, in sufficient detail to enable the interrogating party to locate and identify them as readily as the responding party could; and (2) giving the interrogating party a reasonable opportunity to examine and audit the records and to make copies, compilations, abstracts, or summaries.

(emphasis added). "Relevant factors in the burden analysis are: (1) the cost of the necessary research, (2) the nature of the relevant records, and [*6] (3) the interrogated party's familiarity with its own records." [Handi-Craft Co. v. Action Trading S.A., 2004 U.S. Dist. LEXIS 31595, 2004 WL 6043510, *5 \(E.D.Mo. 2004\)](#).

In light of the foregoing, the Court orders PFCP to appropriately respond to Klur's Interrogatory Nos. 4, 5, 9, and 10 within fourteen days of the date of this Order. The Court notes that the provision of responsive *compilations* of information (in lists, databases or otherwise), to the extent these exist, would be appropriate."

(Doc. 137 at 12) (emphasis in original).

¹ Prior to this conference, Intervenor Klur (on behalf of herself and Plaintiffs/Counter Defendants) submitted two letters to the Court. Defendant/Counterclaimant **Tyco Flow Control** Pacific Pty Ltd. (now known as Pentair Flow Control Pacific Pty Ltd.) [*4] ("PFCP") submitted two letters in response. Those letters, and the exhibits attached thereto, have been docketed under seal. (See Docs. 140 to 144). In light of the length of the submissions and the number of issues raised therein, the Court declined to settle the disputes in the context of a telephonic conference. Instead, the Court issues this Order.

Klur claims that PFCP violates the Discovery Order by refusing to correct its responses to these interrogatories, which identify thousands of pages of documents.² Klur argues that PFCP could easily extract the information sought by Interrogatory Nos. 4, 5, and 9 from its records, and, by identifying thousands of pages of documents where the burden of ascertaining the answer is *not* the same for either party, PFCP violates [Rule 33\(d\)](#).

PFCP argues that the Court did not make a ruling [*7] on the propriety of its responses and maintains that it *has* appropriately responded. PFCP claims that all information requested is set forth clearly in the financial documents provided, in OCR searchable form. PFCP argues that it cannot fully, adequately, and truthfully respond without designating all documents which include all of the requested information, given the broad scope of the interrogatories posed.

The Court was not impressed with the number of documents PFCP identified in response to these interrogatories, but the Court did not make a specific ruling on the propriety of these responses in the Discovery Order. The Court does so now.

a. Interrogatory No. 4

Klur's Interrogatory No. 4 states as follows: "Identify all payments made to **Lunkenheimer** pursuant to the License including, but not limited to, the payor, payee, date and amount of each payment." (Doc. 140-1, Ex. 2).

PFCP represents that its production contains product sales summaries, computations of royalty calculations, wire transfers, and underlying source documents evidencing the basis for such calculations and payments, which set forth the: (a) payments, (b) payors, (c) payees, (d) dates, and (e) amounts. According to [*8] PFCP, the volume of documents

identified in response to this interrogatory reflects the length of the parties' relationship and the detail of PFCP's accounting. PFCP claims that the burden of deriving the answer to this interrogatory is the same for Klur and PFCP, because the documents are OCR searchable for both parties.

Klur's dissatisfaction with PFCP's response signals that she has a specific production format in mind (*e.g.*, a report listing all payments made to payee **Lunkenheimer**). However, the interrogatory does not specify a production format, and the Court finds that the response is appropriate, given the interrogatory *as worded*. If Klur seeks a report listing all payments made to payee **Lunkenheimer**, or some other specific production format, she shall request that specifically. PFCP shall provide such a compilation if it already exists or is readily accessible.³

b. Interrogatory No. 5

Klur's Interrogatory No. 5 states as follows: "Identify each Licensed Product along with the identity of the business entity that Exploited it." (Doc. 140-1, Ex. 2). With this interrogatory, Klur seeks to (1) identify the **Lunkenheimer**-branded products PFCP sold; and (2) determine whether PFCP breached the contractual limitations on sublicensing the Licensed Intellectual Property ("IP"). Klur claims that PFCP does not identify which Licensed Products were sold or which PFCP entities manufactured and sold Licensed Products.⁴

PFCP argues that every customer invoice and Excel document summarizing the sales of each Licensed Product from 2002 until 2012 is responsive to this interrogatory. PFCP claims that the entity that exploited the Licensed Products can be ascertained by looking at the entity named on each invoice. (*See, e.g.*, Doc. 141-1, Ex. C). Accordingly, OCR searchable documents identifying (a) each Licensed Product and (b) each business entity have been produced.

² PFCP's initial interrogatory responses identified 7,050 pages of documents in response to Interrogatory No. 4; 6,266 pages of documents in response to Interrogatory No. 5; 7,100 pages of documents in response to Interrogatory No. 9; and 6,120 pages of documents in response to Interrogatory No. 10.

³ Klur concedes that PFCP has produced some spreadsheets containing some sales data but argues that PFCP apparently recognizes that those spreadsheets do not fully and accurately answer her interrogatories. Klur may ask PFCP whether it has any reason to believe that particular compilations do not accurately, or entirely, [*9] capture the information they purport to. PFCP shall answer these inquiries.

⁴ Klur notes that while PFCP reproduced a sizable portion of its production and removed the redactions of the internal part numbers for the products sold or repaired, it has not provided a key matching the part numbers to their descriptions, *as ordered by this Court*. (*See* Doc. 137 at 7). PFCP claims that Klur's counsel acknowledged that the unredacted invoices were even better than a key and made provision of a key entirely unnecessary. Because the Court ordered PFCP to provide a key matching part numbers to part descriptions, and because Klur does not concede that the unredacted [*10] invoices are sufficient in lieu of a key in her letters to the Court, PFCP shall provide a key forthwith.

In the sample invoice provided by PFCP, the part number and the part description are provided. According to PFCP, the entity that exploited the Licensed Product is the entity identified on the invoice (in the example, **Tyco Flow Control** Pacific Pty. Ltd.).⁵ Thus, the information requested has been provided. Again, Klur's dissatisfaction with PFCP's response signals that she has a specific production format in mind (e.g., a list of the Licensed Products, as set forth in the schedule attached to the License, with an annotation of the entities that exploited each). However, the interrogatory does not specify a production format, and the Court [*11] finds that the response is appropriate, given the interrogatory *as worded*. If Klur seeks a list of Licensed Products, as set forth in the schedule attached to the License, with an annotation of the entities that exploited each, or some other specific production format, she shall request that specifically. PFCP shall provide such a compilation if it already exists or is readily accessible.

c. Interrogatory No. 9

Klur's Interrogatory No. 9 states as follows:

Identify, by individual valve, part or service and not collectively, each (1) Licensed Product sold by Tyco or a Tyco Affiliate; (2) Klein Product that was sold by Tyco or a Tyco Affiliate to a Customer together with one or more Licensed Products; (3) spare part sold by Tyco or a Tyco Affiliate relating to a Licensed Product; or (4) the refurbishment or maintenance services provided by Tyco or a Tyco Affiliate relating to a Licensed [*12] Product or a Klein Product that was sold to a Customer together with one or more Licensed Products, identifying (a) the payor; (b) the payee; (c) the date of the payment; (d) the amount of the payment; (e) the invoice or contract price for the valve, part or service; (f) and any usual trade and quantity discounts allowed and taken, returns, rebates and allowances

actually taken, freight charges, insurance costs; or taxes imposed upon or relating to the sale or supply of the relevant product or service.

(Doc. 140-1, Ex. 2). With this interrogatory, Klur seeks to test the calculation of Net Sales on which PFCP owed royalties.

PFCP argues that every invoice produced from 2002 until 2012 is responsive to this interrogatory, which requests detailed information. In addition to these invoices, PFCP produced and identified invoice registers containing summaries of this information in native Excel format, in OCR searchable form.⁶

In this interrogatory, Klur specifically notes that she requests identification "by *individual* valve, part or service and *not* collectively" [*13] (emphasis added). Therefore, individual invoices are an appropriate response to Klur's inquiry. The [Rule 33\(d\)](#) requirement that the burden of deriving or ascertaining the answer will be substantially the same for either party is met.

d. Interrogatory No. 10

Klur's Interrogatory No. 10 states as follows: "Identify each Tyco Development."⁷ (Doc. 140-1, Ex. 2). Over half of the documents produced in response to this interrogatory are invoices and most of the remainder are sales and payment related documents.⁸ According to Klur, PFCP does not deny that Tyco Developments exist—it just will not produce them.

PFCP notes that because each Licensed Product valve is custom-made, each one is arguably a "Tyco Development," and, accordingly, PFCP identified all invoices, which contain the product description, for each valve sold from 2002 to 2012, in OCR searchable format. The manufacture of each

⁵ The Court assumes that any entities (including affiliated companies or subsidiaries) who exploited the Licensed Product used their own invoice form, and did not simply use **Tyco Flow Control** Pacific Pty. Ltd.'s form. If PFCP has any reason to believe that this is not the case, it shall notify Klur forthwith.

⁶ To the extent Klur questions the accuracy of the compilations provided, she may utilize the procedure set forth in note 4, *supra*.

⁷ "Tyco Development" is defined in the License Agreement. (Doc. 140-1, Ex. 3). The term refers to "all developments, Improvements, enhancements, adaptations and new discoveries, inventions, applications and Know How, whether patentable or otherwise, in relation to the Licensed Product or the Licensed [IP], which during the Term are made or acquired by Tyco, its employees, agents or contractors." (*Id.*)

⁸ With this interrogatory, Klur seeks to test whether PFCP complied with its contractual obligation to "deliver to **Lunkenheimer** a CD-ROM containing CAD files in respect of all Tyco Developments relating to [*14] the Licensed Product during that Fee Period." (Doc. 140-1, Ex. 3). Counsel has instructed PFCP to produce the Tyco Developments CDs that were preserved. (Doc. 143). If it has not already done so, PFCP shall produce these CDs forthwith.

valve requires hundreds, if not thousands, of technical drawings and documents. PFCP objected to the production of all of these drawings and documents but offered to make them available for inspection by counsel in Australia, where they are maintained.

The Court finds that PFCP's response to this interrogatory is appropriate, given the broad meaning of the term "Tyco Development" and the imprecision of this interrogatory. To the extent that Klur seeks all of the technical drawings and documents, the Court finds that inspection, as opposed to production, is reasonable. To the extent that Klur seeks some discrete subset of information about Tyco Developments, she shall clarify [*15] her interrogatory forthwith.⁹

2. Record Sampling

The Discovery Order states, in relevant part, as follows:

"The Court recognizes that Klur hopes to obtain documentation of all of PFCP's slurry valve sales so that she can determine if any sales that would trigger royalties under the license were omitted. The Court also recognizes that Klur's Request No. 54 is quite broad. The allegations in this case necessitate a calculation of royalties. So that Klur can test the reliability of [*16] the invoices produced by PFCP, PFCP shall allow Klur to sample records of PFCP's slurry valve sales which were not produced to determine whether any relevant

sales were omitted from royalty calculations. The parties shall meet and confer to determine how this process will proceed."

(Doc. 137 at 7-8) (emphasis in original).¹⁰ The parties proposed different samples but could not reach agreement.¹¹

The Court's intent in ordering random sampling was to allow Klur to test whether all of the Licensed Products sales that should have been counted were indeed counted—in other words, a record keeping audit. PFCP's proposed sample would not accomplish this end. While it would be difficult to require that a sample be precisely evenly distributed, PFCP can offer a sample that, instead, *would not be limited* by any of the metrics Klur identifies. Accordingly, the Court finds that sampling of a small percentage of PFCP's slurry valve sales records across the years at issue, is sufficient for a basic record keeping audit and shall be allowed. Forthwith, the parties shall meet and confer regarding how to implement this procedure.¹²

3. Competing Products

The Discovery Order states, in relevant part, as follows:

"Upon review of the amended complaint, the Court notes that Plaintiffs *have* alleged breach of contract. (Doc. 89 at 8). Further, as an affirmative defense to the counterclaims, Klur asserts that PFCP's *own material breach* causes its counterclaims to fail. (Doc. 133 at

⁹ Klur cites two cases from this district in support of the proposition that, by identifying thousands of documents, PFCP violated [Rule 33\(d\)](#). See [Kline v. Mortgage Electronic Security Systems, No. 3:08-cv-408, 2014 U.S. Dist. LEXIS 141027, 2014 WL 4928984 \(S.D. Ohio Oct. 1, 2014\)](#); [Castillo v. Morales, Inc., No. 2:12-cv-650, 2013 U.S. Dist. LEXIS 72563, 2013 WL 2253207 \(S.D. Ohio May 22, 2013\)](#). These cases are distinguishable because PFCP provided specific categories of documents: Invoices, Wire Transfers, Annual Royalty Calculations, Invoice Registers, etc., directly responsive to each interrogatory. Further, the scope of Klur's interrogatories is much broader than those posed in the cited cases. For these reasons, and those set forth above, the Court finds that PFCP's responses are sufficient, absent clarification of the scope of the interrogatories by Klur.

¹⁰ Request No. 54: "The separate and complete records and books of account maintained by Tyco relating to Net Sales."

¹¹ PFCP offered to provide a sample of data for three products for three months for three years between 2002 and 2014. Klur finds this proposed sample to be inadequate and lacking in factual basis. Klur proposed a randomly selected sample of at least 8% of the records relating to the sales, repair, and maintenance of all other slurry valves produced or sold by Tyco or any affiliate in the past twelve years, ensuring that the sample is equally distributed over time, product, customer, seller, type of transaction (sale, repair, or maintenance), country of sale and any other dimension along which the sample would not otherwise be homogeneous. PFCP argues that Klur's proposal is impossible to [*17] implement because it simultaneously expects PFCP to provide a randomly selected sample, but also requires PFCP to equally distribute the sample over time, product, customer, seller, type of transaction, and country of sale. PFCP argues that this procedure would generate an abnormal and significant burden and expense.

¹² Klur claims that marketing materials show that PFCP sold non-Lunkenheimer slurry valves for the same uses as Lunkenheimer valves. (See Doc. 140-1, Ex. 8). [*18] The Court addresses "competing products" as a separate issue in Part II.A.3, *infra*. If Klur seeks records related to competing products only, and does not wish to pursue the record-keeping audit outlined above, she may forego the audit.

32). For these reasons, the sale of competing products is relevant to the litigation, and PFCP is ORDERED to provide documents responsive to Klur's Request No. 51. If Klur identifies valves which she believes competed in violation of the License Agreement, the parties shall meet and confer to discuss how they will proceed."

(Doc. 137 at 7) (emphasis in original).¹³ Klur has identified over a dozen products that she believes competed with the Licensed Products and suspects there are more. PFCP refuses to produce any documents regarding these products.

PFCP argues that Klur's identifications appear to be based solely on the fact that the products are "slurry valves," like the Licensed Products. PFCP submits an affidavit from Andrew Leyshon, PFCP's financial controller of manufacturing operations, in which he explains that the valves Klur identifies have different specifications, features, and uses than the Licensed Products and, therefore, cannot be substituted for the Licensed Products. (Doc. 141-1, Ex. D).¹⁴ PFCP argues that Klur must be required to make some reasonable showing that the products are actually competing products before PFCP is required to search for and produce documents related to these products.¹⁵

The Court finds that the Leyshon Affidavit helpfully distinguishes the claimed competing products (various Butterfly Valves, Knifegate Valves, and Klein valves) from the Licensed Products. Further, Leyshon notes that most of the claimed competing products were sold prior to the

execution of the License and the Klein valve products are specifically excluded under License except where they are sold with a Licensed Product.¹⁶

Parties may obtain discovery regarding any nonprivileged matter that is relevant to any party's claim or defense For good cause, the court may order discovery of any matter relevant to the [*21] subject matter involved in the action. Relevant information need not be admissible at the trial if the discovery appears reasonably calculated to lead to the discovery of admissible evidence.

Fed. R. Civ. P. 26(b)(1). The Court declines to find, at this time, that discovery Klur seeks regarding the on the products she identifies as "competing" is reasonably calculated to lead to the discovery of admissible evidence. To the extent Klur needs documentation to test Leyshon's contentions, PFCP shall provide it. If, after seeing the supporting documentation, Klur still believes the identified products to be competing, she shall set forth the basis for her belief in writing and petition the Court for a conference.

B. PFCP's Preservation of and Search for Evidence

Pursuant to the Discovery Order, Klur conducted a Rule 30(b)(6) deposition of Andrew Leyshon on topics related to PFCP's preservation of and [*22] search for evidence. (See Doc. 137 at 2). Klur claims that Leyshon's testimony shows PFCP's massive failure to preserve, search for, and produce evidence.

¹³ Request No. 51: "All Documents concerning Tyco's efforts to promote [*19] the sale of Licensed Products." Request No. 52: "All Documents concerning Tyco's manufacture or sale of any product competing with a Licensed Product." The Court addresses Klur's claim that PFCP's search for and production of such marketing materials was insufficient in Part II.B.5.e, *infra*.

¹⁴ PFCP claims that Klur's counsel was provided with this information and was asked to explain why Klur still believed that the products she identified competed with the Licensed Products. PFCP represents that it received no response; and [*20] Klur does not respond in her submissions to this Court either.

¹⁵ PFCP claims that no Plaintiff ever pled or claimed in discovery that PFCP breached the License by selling competing products, so (1) no party has been subject to Rule 11 regarding this claim; (2) PFCP has been denied the opportunity to take discovery on this claim; and (3) PFCP has been denied the opportunity to move to dismiss this claim. (Doc. 143-1, Ex. H). In resolving the parties' discovery disputes, the Court does not make a specific ruling on whether this claim was adequately pled by Plaintiffs or Intervenor Klur.

¹⁶ The Licensing Agreement contains the following provision:

4.4 Non-competition

(a) Tyco may at any time during the Term Exploit an Excluded Product.

(b) Subject to clause 4.4(a), Tyco must not, during the Term, manufacture or sell any product which competes with a Licensed Product.

(Doc. 140-1, Ex. 3). "Competes" is not defined. (*Id.*)

1. Duty to Preserve

The parties dispute when PFCP's obligation to preserve evidence began. A duty to preserve "may arise when a party should have known that the evidence may be relevant to future litigation." *Byrd v. Alpha Alliance Ins. Corp.*, 518 F. App'x 380, 383 (6th Cir. 2013) (quoting *Beaven v. U.S. Dep't of Justice*, 622 F.3d 540, 553 (6th Cir. 2010)).

Klur argues that PFCP's duty to preserve began no later than October 1, 2002, about a month after the License had been signed. On that date, Greg Lewis, a PFCP executive, e-mailed Dr. DeSilva and explained as follows: "We have put this matter with Tyco legal pending the resolution of who owns the assets and IP. There is conflicting evidence of ownership, with Roy, Leon and others disputing the proposed agreement. There will be no further payments until this is resolved." (Doc 142-1, Ex. 20).¹⁷ Klur claims that, from at least that date, the parties were in constant dispute over the existence of, and PFCP's compliance with, the License.

PFCP argues that any duty to preserve under U.S. law could not have arisen before August 3, 2012, the date when PFCP answered the complaint and consented to U.S. jurisdiction, and, even if it had, it was not before PFCP was served on December 8, 2011.¹⁸ PFCP notes that, throughout the nine years prior to Plaintiffs' filing of this lawsuit on November 22, 2011, Plaintiffs: (a) continued to accept regular, substantial royalty payments (over \$1.6 million) for five years while PFCP continued openly to use the IP prior to the exercise of the Option in 2007, (b) took no action for another four years while PFCP continued to use the IP and (c) never sent a dispute notice, termination notice, or had the senior executives meeting as required by the License. (See Doc. 140-1, Ex. 3, ¶¶ 13.3, 15-16).

PFCP is an Australian company with offices and facilities only in Australia. (Doc. 143-1, Ex. B). Australian Law governs the License and was the anticipated jurisdiction for

License-related disputes. (See Doc. 140-1, Ex. 3, ¶ 18.1). No significant sales of Licensed Products were made into the U.S., and PFCP had (and has) no U.S. presence. (Doc. 143-1, Ex. B).

PFCP is not excused from an obligation to preserve evidence simply because it is a foreign company. See *Reino de Espana v. Am. Bureau of Shipping*, No. 03 CIV. 3573, 2006 U.S. Dist. LEXIS 81415, 2006 WL 3208579, at *8 (S.D.N.Y. Nov. 3, 2006). However, the only place litigation might at some point have been anticipated was in New South Wales, Australia—not Ohio or anywhere else in U.S. Accordingly, notwithstanding the fact that it may not have had jurisdiction over the PFCP until 2012, and in the absence of evidence that PFCP should have reasonably anticipated litigation *in the United States* any earlier, the Court finds that the duty to preserve [*25] began on December 8, 2011.¹⁹

2. Alleged Deficiencies—Generally

Klur argues that Leyshon admitted in the *Rule 30(b)(6)* deposition that PFCP employees were never told to preserve evidence relevant to this action. She also notes that Leyshon testified that PFCP employees were never shown Klur's document demands or interrogatories and that Leyshon was unaware of any PFCP employees asking any steps to answer the questions posed therein.

PFCP claims that, as of September 21, 2007, its employees had already retained all documents relevant to the License because: (1) from 2001 to present, Greg Lewis, Paul Kunkler, and Andrew Leyshon were responsible for maintaining all documents relevant to the original acquisition, License, and the relationship with the Licensor, and did so from 2001 to present both in twelve Lever Arch files and via certain electronic data; (2) in 2007, prior to exercising the Option, PFCP searched for and organized all relevant documents in order to make a [*26] well-informed decision on the Option; and (3) in spring 2011, PFCP,

¹⁷ Klur explains that, early on, a dispute arose regarding *who* should sign the License. From late 2002 until the action commenced in 2011, the parties attempted to finalize the License. Dr. [*23] DeSilva complained on many occasions about late royalty payments, PFCP's failure to provide information, and PFCP's possible sale of competing products. (Doc 142-1 Exs. 21-22). Indeed, Dr. DeSilva told PFCP several times that he considered them in breach and directed them to stop using the licensed IP. (*Id.* Exs. 23-24).

¹⁸ Even if PFCP's duty began earlier, it preserved detailed, physical files ("Lever Arch" [*24] files) containing documents dating back to 2001, which was its ordinary custom regarding acquisitions. PFCP points out that much of the history of this transaction predates *Zubulake IV* (Oct. 7, 2003), the Fed. R. Civ. P. ESI Rules amendment (Dec. 1, 2006), and common usage of electronic communication in business transactions.

¹⁹ The power of a U.S. Court to require compliance with U.S. discovery obligations does not arise until and unless the Court has jurisdiction. See, e.g., *In re Uranium Antitrust Litigation*, 480 F. Supp. 1138 (N.D. Ill. 1979); see also Rashbaum, *et al.*, "U.S. Legal Holds Across Borders; A Legal Conundrum," 13 N.C.J.L. & Tech 69 (Fall 2011).

working with Tyco in-house counsel and outside counsel from Australia and the U.S., again searched for and organized all relevant documents in order to decide, on a worldwide basis, what to do about its former Licensor. Defense counsel represents that PFCP's key employees/custodians retained, gathered, organized all relevant documents, were aware and reminded repeatedly by counsel to retain them, and did so.

The Court finds that PFCP's claims are supported by Leyshon's testimony and that Klur overstates the import of selections from that testimony. Leyshon testified that he was not aware of any directive given to PFCP employees to retain documents. (Doc. 144 at 35:1-37:1). However, there's evidence that documents were retained by Leyshon and others.²⁰ Klur points to no authority requiring that PFCP employees be shown the document demands and interrogatories, and the Court declines to find an impropriety with PFCP's discovery responses on this ground.

3. E-mails

PFCP switched e-mail software in 2009. Klur notes that Leyshon did not search or review any e-mails from 2009 or earlier. Of the e-mails that were searched, PFCP limited the search to those of a few custodians: Andrew Leyshon, Trevor Shanks, Bruce Campbell and Chris Stevens. Accordingly, Klur argues, PFCP failed to preserve and/or search for evidence from a number of relevant individuals.

PFCP responds that the twelve "Lever Arch" files that were produced contain all correspondence, from 2001 to present, that was preserved as of August 3, 2012. Leyshon testified that these files were meticulously kept, updated, and retained by him and his predecessors and that no correspondence related to this transaction was excluded. (Doc. [*28] 144 at 50:11-51:2). Leyshon, Shanks, and Paul Kunkler preserved their Lotus Notes e-mail files that predate 2009 but Leyshon

cannot view or search them because PFCP does not maintain a license for this software. (*Id.* 16:5-17:3). PFCP argues that these e-mails are not reasonably accessible because it would need to obtain a license for Lotus Notes to search these e-mails. Further, PFCP argues that such e-mails were likely retained in hard copy and produced.

As explained above, the Court finds that PFCP's duty to preserve did not attach until December 8, 2011, so PFCP was not required to preserve its e-mails in 2009. Rule 26(b)(2)(B) guides the Court's analysis regarding Leyshon, Kunkler, and Shanks's archived e-mails.²¹ PFCP shall, within fourteen days of this Order, submit to the Court an affidavit setting forth more specifically the burden and/or cost associated with accessing these archived e-mails.

4. Specific Persons

Klur's claims that PFCP failed to preserve and/or search for evidence for the following persons: Noel Ross Kelly (PFCP's former managing director); Greg Lewis (PFCP's former finance director); Paul Kunkler (PFCP's former financial controller); Tracey Roper (PFCP's former counsel); Mike Taylor (who "manag[ed]" all of the operational matters related to **Lunkenheimer** manufacturing and sales); David Pettigrew (Taylor's replacement); John Fehon (PFCP's former finance director); Ron Hockey (PFCP's former GM of Pacific manufacturing operations); Geoff Armstrong (worked in Global marketing—mining).

PFCP admits that it did not reach out to its former employees for responses and argues that it has no obligation to do so because those employees were not under PFCP's "possession, custody or control" when the duty to preserve arose. PFCP notes that it produced thousands [*30] of documents, dating back over thirteen years ago, which reference, and are "to" and "from," many of these and other

²⁰ Q. . . . When were Tyco employees asked to collect and produce evidence relating to this lawsuit? A. Relating to this lawsuit? The timing of this lawsuit commenced when? November [*27] 2000, when? 2011?

MR. TILLERY: December 8th of 2011, if that helps.

A. So from that point onwards, that's when the request would have come in, to collect the data and to provide whatever assistance we could [...] And provide the assistance to our counsel. And, again, I believe that documentation was part of the discoverable process that you undertake in the U.S. So, prior to that point, the documents are the documents that we have.

(Doc. 144 at 37:6-38-2).

²¹ "Specific Limitations on Electronically Stored Information. A party need not provide discovery of electronically stored information from sources that the party identifies as not reasonably accessible because of undue burden or cost. On motion to compel discovery or for a protective order, the party from whom [*29] discovery is sought must show that the information is not reasonably accessible because of undue burden or cost. If that showing is made, the court may nonetheless order discovery from such sources if the requesting party shows good cause, considering the limitations of Rule 26(b)(2)(C). The court may specify conditions for the discovery." Fed. R. Civ. P. 26(b)(2)(B).

former employees.²² As Leyshon testified, data from three key individuals (Lewis, Ross Kelly, and Kunkler) was retained in either physical or electronic format and produced.

PFCP shall reach out to any of the above-named individuals who are currently employed by PFCP or were so employed as of 2011 to locate any relevant evidence that has not yet been produced. To the extent Klur believes any of the other above-named individuals have information that was not retained or produced by PFCP, she shall subpoena those individuals directly.

5. Specific Categories of Documents

Klur also claims that PFCP never searched for certain documents. The Court addresses these claims below.

a. Documents Concerning the Ownership of the IP

Klur claims that PFCP took no steps to search for documents concerning the ownership of the IP at issue.²³ PFCP claims it never had documents related to any trusts. It was not until PFCP subpoenaed Robert Buechner, Dr. DeSilva trusts and estates attorney, that it uncovered such documents. However, other searches [*31] relating to ownership of the IP were conducted, and documents were preserved and produced.

Again, the Court finds that Klur overstates the import of Leyshon's testimony. He essentially testified that he did not know whether searches for documents concerning the ownership of the IP had been conducted. (Doc. 144 at 65:18-66:18). The Court relies on counsel's representation that documents uncovered in searches relating to ownership of the IP were produced. To the extent Klur seeks to prove that PFCP was on inquiry notice that various DeSilva-controlled entities had an interest in the IP by at least 2002, and this is not already borne out by the documents produced, Klur may subpoena former employees.

b. Annual Statements

Klur claims that PFCP did not produce Annual Statements providing an accounting of Net Sales for "each item" sold as

required by the License. (*See* Doc. 140-1, Ex. 3, ¶ 7.3). PFCP claims that all Annual Statements were provided [*32] both in discovery and each year during the term of the License.

Forthwith, PFCP shall identify the Bates Numbers at which the above-referenced Annual Statements can be found. To the extent Klur seeks financial reports setting forth the Net Sales for "each item," and this is not what the documents identified by PFCP provide, Klur shall request such reports specifically. PFCP shall provide such compilations if they already exist or are readily accessible.²⁴

c. Indian and Chinese Entities and Sublicenses

Klur claims the Indian and Chinese entities that were involved in manufacturing and selling **Lunkenheimer** products are still affiliated with PFCP and, except for some invoices that PFCP obtained from its Indian affiliate, PFCP made no efforts to obtain evidence from the Indian or Chinese affiliates. Klur also claims that PFCP made no effort to search for and produce sublicenses allowing the affiliates to manufacture and sell the **Lunkenheimer** IP. (*See generally* Doc. 144 at 73:3-82:10).

PFCP claims that it produced and preserved all invoices and native, [*33] excel files related to any sales from any subsidiaries related to the royalty calculations due under the License. PFCP argues that Klur does not identify any category of documents that she or Plaintiffs need from the subsidiaries to support any claim or defense.²⁵ Finally, PFCP claims that no sublicenses exist, and one license governing the relationship between PFCP and its Indian sister company exists, was preserved, and was produced.

²² PFCP also notes that Tracey Roper was not a PFCP employee.

²³ Klur explains that this information is relevant to her statute of limitations defense because it shows that PFCP was on inquiry notice that various DeSilva-controlled entities had an interest in the IP by at least 2002. (*See, e.g.,* Doc 142-1, Ex. 12-13).

²⁴ In the context of this discovery dispute, the Court need not determine what information the License required to be set forth in the Annual Statements

²⁵ Klur claims that PFCP breached the License by allowing its Indian affiliate to manufacture and sell products covered by the License without **Lunkenheimer's** permission. Specifically, Klur claims PFCP breached its duty of good faith and fair dealing and its obligation under Section 10.1 of the License not to disclose **Lunkenheimer's** confidential information. In resolving these disputes, the Court does not make a specific ruling on whether claims were adequately pled by Plaintiffs or Intervenor Klur.

If PFCP cannot search for and produce evidence on behalf of these entities, Klur will need to subpoena them directly.²⁶ PFCP represents that there were no sublicenses. Whether sublicenses were required by the License is a question of contract interpretation that is not before [*34] the Court at this time.

d. Roy Pack documents

Klur claims that PFCP never searched for the **Lunkenheimer** legal files that Roy Pack turned over to PFCP, beyond looking in the office file it already had searched, even though PFCP's possession and use of those files was specifically addressed in the Discovery Order.

PFCP claims that Leyshon and PFCP's counsel electronically searched all documents for "Pack" and manually reviewed them to determine if any communications existed, which contained privileged information. It was determined that no such documents existed. As Leyshon explained, PFCP cannot search for files it does not have, and there is simply no other place to look besides the "Lever Arch" files and electronic documents already produced. (Doc. 144 at 92:19-102:23).

The Court finds that PFCP *has* undertaken a sufficient search for these documents. Klur may subpoena former employees who she believes [*35] may have received such files.

e. Marketing Materials/Website

Under the License, PFCP was required to "use all reasonable endeavors to promote the sale of Licensed Products." (See Doc. 140-1, Ex. 3, ¶ 4.2). Despite being required by the Discovery Order to produce evidence of its promotion of the Licensed Products, PFCP produced only (1) a color copy of a marketing brochure Klur previously had produced to PFCP and (2) a short handout on alumina processing. PFCP referred Klur to its current website for additional material and claimed that archived copies of its website showing marketing material were accessible via the Wayback Machine. Klur claims that the Wayback Machine does not contain archived copies of PFCP's *slurry valve* web pages prior to 2013.

PFCP claims it has produced and preserved its promotional materials. PFCP agreed to search for and produce any

copies of its old website that are reasonably accessible. To the extent it has not does so, PFCP shall produce any archived copies of its website that are reasonably accessible within fourteen days of this Order.

C. Sanctions

Klur claims that PFCP should be sanctioned (1) under *Fed. R. Civ. P. 37* to the extent that it failed to search for or produce evidence [*36] covered by the Discovery Order; and (2) for spoliation of evidence.

This Court has the inherent authority to sanction bad faith conduct without regard to whether such conduct could be sanctioned under other applicable rules or statutes. *First Bank of Marietta v. Hartford Underwriters Ins. Co.*, 307 F.3d 501, 513 (6th Cir. 2002). Determination of the correct sanction for discovery misconduct is left to the broad discretion of the trial court. *Nat'l Hockey League v. Metro. Hockey Club*, 427 U.S. 639, 642, 96 S. Ct. 2778, 49 L. Ed. 2d 747 (1976). Courts must consider the state of mind of a party who destroys evidence when determining whether the imposition of sanctions is appropriate. Courts evaluate conduct on a "continuum of fault," ranging "from innocence through the degrees of negligence to intentionality." *Adkins v. Wolever*, 554 F.3d 650, 652 (6th Cir. 2009) (quoting *Welsh v. United States*, 844 F.2d 1239, 1246 (6th Cir. 1988)). Absent exceptional circumstances, courts generally do not dismiss an action or give an adverse inference instruction without consideration of whether the party acted in bad faith. (*Id.*)

1. Rule 37

Rule 37 allows for a motion to compel discovery when a party fails to answer interrogatories submitted under *Rule 33* or to provide proper response to requests for production of documents under *Rule 34*. *Rule 37(a)* expressly provides that "an evasive or incomplete disclosure, answer, or response is to be treated as a failure to disclose, answer, or respond." *Fed. R. Civ. P. 37(a)(3)*.

As set forth above, the Court does not find that [*37] PFCP failed to search for or produce evidence in violation of the Discovery Order. The Court finds PFCP's responses to Interrogatory Nos. 4, 5, 9, and 10 were acceptable, given the broad scope of the inquiries posed. While the Court ordered the parties to meet and confer regarding how record sampling might proceed, the parties reached impasse. The

²⁶ PFCP claims that the entities in India and China are sister companies, but PFCP does not have the legal right, authority, or ability to control either. (Doc 143-1, Ex. B); see also *Pitney Bowes, Inc. v. Kern Int'l, Inc.*, 239 F.R.D. 62 (D. Conn. 2006); *Uniden Am. Corp. v. Ericsson, Inc.*, 181 F.R.D. 302 (M.D.N.C. 1998). Within fourteen days, PFCP shall produce evidence supporting its conclusion.

Court has provided further guidance on this procedure herein and anticipates that the parties will be able to move forward without the need for further Court intervention. Finally, the Court did not order PFCP to provide discovery on products Klur identified as competing; it ordered the parties to meet and confer, which they did. For the reasons set forth herein, the Court declines to sanction PFCP pursuant to Rule 37.

2. Spoliation

A district court may sanction a litigant for spoliation of evidence if the following conditions are satisfied: "First, the party with control over the evidence must have had an obligation to preserve it at the time it was destroyed. Second, the accused party must have destroyed the evidence with a culpable state of mind. And third, the destroyed evidence must be relevant to the other side's claim or defense." Byrd v. Alpha Alliance Ins. Corp., 518 F. App'x 380, 383-84 (6th Cir.2013). "The party [*38] seeking the sanction bears the burden of proof in establishing these facts." Id. at 384. The Court must be mindful to "impose a sanction that is proportionate to the seriousness of the infraction" under the particular facts of the case. In re Smartalk Teleservices, Inc., 487 F.Supp.2d 947, 950 (S.D. Ohio 2007). The least severe sanction must be imposed, one that is commensurate with the degree of prejudice to the nonoffending party. Pullins v. Klimley, No. 3:05cv82, 2008

U.S. Dist. LEXIS 3467, at *6, 2008 WL 68945 (S.D. Ohio Jan. 7, 2008).

The Court finds that PFCP did not have an obligation to preserve until December 8, 2011. Thus, PFCP cannot be held to preservation requirements prior that date. All evidence relevant to the claims and defenses, as of at least September 21, 2007, has been and is still being preserved. Therefore, the Court declines to sanction PFCP for spoliation of evidence.

III. CONCLUSION

Accordingly, based on the foregoing:

1. Intervenor Klur's request for sanctions is **DENIED**;
2. Intervenor Klur is entitled to additional discovery as set forth herein.

IT IS SO ORDERED.

Date: 2/12/15

/s/ Timothy S. Black

Timothy S. Black

United States District Judge