

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES – GENERAL

Case No. 8:22-cv-00979-DOC-KESx

Date: August 24, 2023

Title: MGI DIGITAL TECHNOLOGY S.A. V. DUPLO U.S.A. CORPORATION

PRESENT: THE HONORABLE DAVID O. CARTER, JUDGE

Karlen Dubon
Courtroom Clerk

Not Present
Court Reporter

ATTORNEYS PRESENT FOR
PLAINTIFF:
None Present

ATTORNEYS PRESENT FOR
DEFENDANT:
None Present

**PROCEEDINGS (IN CHAMBERS): ORDER DENYING MOTION TO
APPEAL SM-5 ORDER [96]**

Before the Court is Plaintiff MGI Digital Technology, S.A.’s (“Plaintiff” or “MGI”) Motion to Appeal Special Master Order No. SM-5 (Dkt. 88) (“SM-5 Order”) Denying Plaintiff’s Motion to Compel (Dkt. 65). (“Motion” or “Mot.”) (Dkt. 96). The Court finds this matter appropriate for resolution without oral argument. *See* Fed. R. Civ. P. 78; C.D. Cal. R. 7-15. Having reviewed the moving papers submitted by the parties, the Court **DENIES** Plaintiff’s Motion.

I. Background

This case arises out of the alleged infringement of four patents belonging to Plaintiff MGI Digital Technology S.A. (“MGI” or “Plaintiff”) relating to ink jet printers and the ink used in connection with these printers. *Id.* ¶¶ 9-13. Plaintiff MGI is a manufacturer of digital printing and finishing presses that is organized under the laws of France with its principal place of business in Fresnes, France. *Id.* ¶ 2. Defendant Duplo USA is a California-based distributor of various graphical arts printing and finishing products for its Japanese parent company. *Id.* ¶¶ 4-5.

MGI sued Duplo USA for patent infringement on May 12, 2023. *See generally id.* On October 28, 2023, the Court appointed David Keyzer to serve as a Special Master in this case (Dkt. 45). On October 28, 2022, the parties filed a Joint Report in which Duplo

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USA agreed to produce the “[s]ource code, specifications, schematics, flowcharts, artwork, formulas, or other documentation sufficient to show the operation of any aspects or elements of any Accused Instrumentality identified by MGI in its infringement chart.” (“Joint Report”) (Dkt. 46) at 9, 19. On November 8, 2022, Defendant filed an Answer denying infringement and asserting, among other defenses, invalidity of the asserted patents. *See generally* Answer (Dkt. 49).

On March 26, 2023, Plaintiff filed a Motion to Compel the Production of Documents Showing Functionality and Formulation of the Accused Infringing Products (“Motion to Compel”) (Dkt. 65) and “request[ed] that this motion be referred to Special Master Keyzer for disposition because it relates to patent claim construction proceedings” Motion to Compel at 5. Pursuant to the Court’s March 28, 2023 Amended Order Appointing Special Master (Dkt. 67), Plaintiff’s motion was referred to the Special Master for disposition. On May 4, 2023, the Special Master issued Order No. 5 (“SM-5 Order”) (Dkt. 88) denying the Motion to Compel.

On May 25, 2023, Plaintiff filed the instant motion appealing the SM-5 Order (“Motion” or “Mot.”) (Dkt. 96). Defendant opposed on June 5, 2023 (“Opp’n”) (Dkt. 103). Plaintiff filed a reply on June 25, 2023 (“Reply”) (Dkt. 109).

II. Legal Standards

This Court reviews de novo findings of fact and conclusions of law made or recommended by the Special Master. *Tatung Co., Ltd. v. Hsu*, No. SA CV 13-1743-DOC (ANx), 2016 WL 3475327 (C.D. Cal. April 6, 2016); Fed. R. Civ. P. 53(f).

Under Rule 26(b)(1), parties may obtain discovery regarding “any nonprivileged matter that is relevant to any party’s claim or defense and proportional to the needs of the case, considering the importance of the issues at stake in the action, the amount in controversy, the parties’ relative access to relevant information, the parties’ resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit.” Fed. R. Civ. P. 26(b)(1). Information within this scope of discovery need not be admissible in evidence to be discoverable.” Fed. R. Civ. P. 26(b)(1). “Generally, the purpose of discovery is to remove surprise from trial preparation so the parties can obtain evidence necessary to evaluate

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and resolve their dispute.” *Duran v. Cisco Sys., Inc.*, 258 F.R.D. 375, 378 (C.D. Cal. 2009) (citations omitted).

Under Rule 34(a)(1), a party may serve on any other party requests, within the to produce or permit inspection of, among other things, “any designated documents or electronically stored information” that is “in the responding party's possession, custody, or control.” Fed. R. Civ. P. 34(a)(1). The responding party must respond in writing within 30 days and is obligated to produce all specified relevant and non-privileged documents, tangible things, or electronically stored information in its possession, custody, or control. Fed. R. Civ. P. 34(a)-(b). Alternatively, a party may state an objection to a request, including the reasons. Fed. R. Civ. P. 34(b)(2)(B).

Upon a motion to compel discovery, the movant has the initial burden of demonstrating relevance. In turn, the party opposing discovery has the burden of showing that discovery should not be allowed and the burden of clarifying, explaining and supporting its objections with competent evidence. *United States v. McGraw-Hill Cos., Inc.*, No. CV 13-779-DOC (JCGx), 2014 WL 1647385, at *8 (C.D. Cal. Apr. 15, 2014) (citations and internal quotation marks omitted).

III. Discussion

Plaintiff breaks down the documents it seeks to obtain into four categories:

1. Materials describing the schematics and structure of the printheads used in the Accused Instrumentalities;
2. Source code or other documents sufficient to show the computer operation and waveform the Accused Printers produce in the printhead;
3. Signal diagrams regarding the signals provided to the piezoelectric actuators;
4. Materials disclosing the components and formulation of its varnish (ink) products.

Mot. at 8.

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Plaintiff seeks to compel these documents through Duplo Japan which, according to Defendant, is “a Japanese company that is separate and distinct from Defendant” and “holds a minority interest (28%) in Duplo USA.” Opp’n at 1. Plaintiff argues that Defendant’s close ties, business relationship, and distributor agreement with Duplo Japan gives it “control” over the documents it seeks.

“Control” in the context of the Federal Rules of Civil Procedure is defined as “the legal right to obtain documents upon demand.” *In re Citric Acid Litig.*, 191 F.3d 1090, 1107 (9th Cir. 1999). The determination of whether there is a legal right to obtain documents on demand is evaluated in the context of the facts of each case. *Cryptography Research, Inc. v. Visa Int’l. Service Ass’n*, No. C04-04142 JW (HRL), 2005 WL 1787421 at *3 (N.D. Cal. July 27, 2005). This Court may consider a variety of factors in making this determination, including “commonality of ownership,” “exchange of documents in the ordinary course of business,” “any benefit or involvement by the non-party coporation in the transaction,” “involvement of the non-party corporation in the litigation, *K-Fee System GmbH v. Nespresso USA, Inc.*, No. CV 21-03402-GW, 2022 WL 2156036 at *3 (C.D. Cal. May 2, 2022, and the “degree the non-party will benefit from the outcome of the case,” *Flowrider Surf, Ltd. v. Pacific Surf Designs, Inc.*, No. 15-cv-1879-BEN, 2016 WL 6522808, *8-10 (S.D. Cal. Nov. 3, 2016). The party seeking documents bears the burden of proving that the other party has control over the documents in question; “[n]evertheless, the party responding to discovery has an independent duty to conduct a reasonable inquiry into the factual basis of its discovery in responses.” *Better Care Plastic Technology*, 2022 WL 2046206 at *10.

A. Motion to Compel and SM-5 Order

In its Motion to Compel, Plaintiff argued that it is entitled to these documents from Duplo Japan and that Defendant has legal control over the documents. In support of its argument, Plaintiff asserts that Defendant is “the exclusive U.S. distributor of the accused Duplo printers manufactured by Duplo Japan” and is “contractually entitled to demand technical, service and maintenance information from Duplo Japan in connection with Duplo’s sale, service and repair of the accused printers.” *Id.* In response, Defendant contended that it “does not have possession, custody, or control of those specific technical documents, such as third-party printhead source code, the internal workings of the printhead in the accused printers, and formulation of the accused varnish.” *Id.* at 6 (citation and internal quotation marks omitted). Discovery could instead be obtained,

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according to Defendant, “from the manufacturer of the printhead in the accused products (i.e., third-party Kyocera Corporation), or the manufacturer of the accused varnish (i.e., Asia Stencil Paper Co. Ltd. (“Asia Stencil”).” *Id.* (citation and internal quotation marks omitted).

In the SM-5 Order, the Special Master acknowledged the relevance of the categories of and found “that such documents likely exist.” SM-5 Order at 6. The Special Master concluded, however, that Defendant does not have control over its parent company’s documents, reasoning that “Defendant does not design or manufacturer the printers or the inks,” and that Duplo Corporation “incorporates printheads from another company, Kyocera” and “obtains inks from another company, Asia Stencil Paper Co., Ltd.” *Id.* at 10.

As to the Distributorship Agreement between the entities, the Special Master found that the terms do not necessarily give Duplo USA legal control over the requested documents. *Id.* at 12. For example, although the Distributorship Agreement obligates Duplo Japan to provide Defendant with user manuals, repair manuals, and technical documents necessary for Defendant to repair and service the Accused Products, “Plaintiff does not persuasively show that the requested categories of documents are within the scope of this contractual obligation” where such documents “have not been shown to be necessary for repair and service.” *Id.* The argument that Duplo Japan holds a 28% ownership stake in Duplo USA was equally unavailing: [E]ven being a wholly-owned subsidiary is not necessarily sufficient to demonstrate that the *subsidiary* company has control over the *parent* company’s documents. *See* SM-5 at 13 (citing *Cryptography Research, Inc. v. Visa Int’l Service Ass’n*, No. C04-04142 JW (HRL), 2005 WL 8162416, at *1 (N.D. Cal. August 4, 2005)).

B. Motion Appealing SM-5 Order

Plaintiff appeals the SM-5 Order, arguing that it has satisfied its burden in establishing that Defendant has control over the requested documents and that the Special Master erred in his conclusion. *See generally* Mot. First, Plaintiff argues that Duplo Japan is significantly involved in the importation and sale of the Accused Printers and Accused Varnishes and has common ownership with Defendant Duplo. Second, Plaintiff argues that Duplo has a contractual right to obtain the documents from Duplo Japan and hence can obtain the documents in the ordinary course of business. Third, Plaintiff argues that

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Duplo Japan has a keen interest in the outcome of this case and is heavily involved in this litigation. Finally, Plaintiff argues that Defendant has failed to establish that it lacks control.

In opposition, Defendant argues that it has “diligently searched for and timely produced to MGI . . . substantial technical documents” thereby satisfying their obligations under the Joint Report. Opp’n at 7-8. Specifically, Defendant notes it produced the following documents to Plaintiff in January 2023:

- Software, including PC Controller set up and drivers
- Installation manuals, service manuals, parts manuals
- PC controller installation manuals, product guides
- Machine operation manuals
- Wiring diagrams
- Product technical bulletins, training files, qualified substrate lists

Id. at 7. Defendant contends that Plaintiff seeks “very specific inner workings of the specific printhead component of the accused [] printers, such as the printhead’s source code and waveform diagrams” and “the chemical formulations for Asia Stencil’s inks” which Defendant asserts, “as a distributor,” it “does not have possession, custody, or control of . . . , and that such information is with the non-party manufacturers of the printhead (Kyocera Corporation) and the ink (Asia Stencil).” *Id.* at 8.

1. Duplo Japan’s Ties with Duplo USA

MGI argues that, because Duplo Corporation owns 28% of Duplo USA, shares a common name, and considers Duplo USA as part of its “sales and technical network,” a finding of “control” is justified. *See* Mot. at 17-18.

Plaintiff cites to *QC Labs*, where this Court compelled a defendant to produce documents of a related entity because the entities had a “common use of a brand name, website, social media accounts, a common business operation, pleading admissions in another action, purported control exercised by Defendant, and purported control over at least some of [the entity’s] financial records.” *QC Labs v. Green Leaf Lab, LLC*, No. 818CV01451JVSJDEX, 2019 WL 6797250, at *8 (C.D. Cal. July 19, 2019). In reaching its conclusion, the Court relied on an out-of-circuit case, *Uniden Am. Corp. v. Ericsson Inc.*, which considered the following factors in determining “control” under Rule 34: (a)

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commonality of ownership, (b) exchange or intermingling of directors, officers or employees of the two corporations, (c) exchange of documents between the corporations in the ordinary course of business, (d) any benefit or involvement by the non-party corporation in the transaction, and (e) involvement of the non-party corporation in the litigation. 181 F.R.D. 302, 306 (M.D.N.C. 1998); *K-fee Sys. GmbH v. Nespresso USA, Inc.*, No. CV2103402GWAGRX, 2022 WL 2156036, at *2 (C.D. Cal. May 2, 2022).

Considering the factors above, the Court agrees with the Special Master that Plaintiff fails to demonstrate that Defendant has “control” over any documents that Duplo Japan might have. As the Special Master found, “Plaintiff makes no showing that Defendant ever modifies source code or examines signal diagrams in order to repair a printer or otherwise satisfy a customer needs.” SM-5 Order at 12. Plaintiff suggests that the Special Master’s focus on “whether Duplo has in the past ever modified source code or examined signal diagrams” was misplaced. Mot. at 19. The Court disagrees. In determining “control” under Rule 34, the Court’s consideration of the “exchange of documents between the corporations in the ordinary course of business” is appropriate. *K-fee*, 2022 WL 2156036, at *2

2. The Distributorship Agreement

Plaintiff also argues that the Distributorship Agreement between Defendant and Duplo Japan gives Defendant “control” over the documents Plaintiff seeks.

As recognized by courts throughout the Ninth Circuit, “[t]he legal right to obtain documents on demand and the practical ability to obtain documents on demand are two distinct things.” *Cryptography Research, Inc. v. Visa Intern. Service Ass’n*, 2005 WL 8162416, at *2 (N.D. Cal. August 4, 2005). “Legal right suggests an ownership interest, a binding contract, a fiduciary duty, or some other legally enforceable arrangement. Practical ability suggests a close relationship, or modicum of control that falls short of a legally recognizable right.” *Id.* The Ninth Circuit has explicitly rejected the “practical ability” standard. *Id.* n.3 (citing *In re Citric Acid Litigation*, 191 F.3d, 1090, 1107 (9th Cir. 1999)). In the Ninth Circuit, if there is no legal contractual right to obtain the specific documents from a third party, there is no legal control over those documents. *See In re Citric Acid Litig.*, 191 F.3d at 1108; *see also United States v. International Union of Petroleum & Industrial Workers*, 870 F.2d 1450, 1452–53 (9th Cir. 1989) (“We must look to that document and its interpretation to resolve the issue of control . . . No section . . . expressly gives . . . the right to obtain . . . the records upon demand . . .”).

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Having reviewed the Distributor Agreement, the Court agrees with the Special Master’s determination that the terms of the contract do not give Duplo USA the right to obtain from Duplo Japan the requested documents. The case law that MGI relies upon does not demand a different result. In contrast to the agreement here, MGI’s relied-upon cases involve express contractual provisions in which the compelled party had the right to obtain the documents at issue. *See Cryptography Research, Inc. v. Visa Intern. Service Ass’n*, 2005 WL 1787421, at *3–4 (N.D. Cal. July 27, 2005) (contractual agreements between manufacturers and testing labs expressly required that “all vendors and manufacturers must agree to allow the laboratory to release the information”); *U.S. Auto Parts Network, Inc. v. Parts Geek, LLC*, 2010 WL11597461, at *1–2 (C.D. Cal. May 18, 2010) (license agreement expressly provided that Defendant was entitled to a copy of the software program “which may be retained in perpetuity” and “all system updates in perpetuity”); *Lofton v. Verizon Wireless (Vaw) LLC*, 2014 WL 10965261, at *1 (N.D. Cal. Nov. 25, 2014) (contractual audit provisions were unrestricted in time and scope—“Verizon, through its authorized representatives, shall have the right, at all times, to examine and audit records...” and that “Verizon’s access to all information in [the vendors’]possession or control regarding Verizon accounts ... is to be completely unrestricted” (emphasis added)).

Because no such provisions exist here, the Special Master correctly concluded that the Distributorship Agreement is insufficient to provide Defendant “control” of the documents Plaintiff seeks.

3. Duplo Japan’s Interest in the Litigation

Plaintiff also argues that Duplo Japan has a “keen interest” in the outcome of this litigation, citing *K-fee Sys. GmbHv. Nespresso USA, Inc.*, 2022 WL 2156036 (C.D. Cal. May 2, 2022).

However, *K-fee* is distinguishable. There, the Court found the fourth and fifth factors— benefit or involvement by the non-party corporation in the transaction and involvement of the non-party corporation in the litigation—weighed in favor of compelling production. *K-fee Sys. GmbH.*, No. CV2103402GWAGRX, 2022 WL 2156036, at *3 (C.D. Cal. May 2, 2022). Specifically, the Court found that defendant, Nespresso, had “control” over a related entity’s documents where it designated two

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employees from the related entity as Rule 30(b)(6) witnesses. *Id.* Additionally, defendant there was “likely rely on documents that it voluntarily obtains from one or more foreign affiliates in its defense while []steadfastly refusing to produce any other information from its affiliates that would permit K-fee to fairly test Nespresso's affirmative evidence, claiming lack of ‘control’ over the same affiliates from which it is obtaining its own key evidence.” *Id.* (internal quotation marks omitted).

Plaintiff points to no similar circumstances here and thus fails to establish Defendant’s requisite control over the requested documents.

4. Duplo’s Discovery Obligations

Plaintiff argues that Duplo “provides no proof that it lacks control over the documents in question.” Mot. at 24-26. It is well established that the party seeking production of documents through an opposing party’s “control” of documents “bears the burden of proving that the opposing party has such control.” *United States v. Int’l Union of Petroleum & Industrial Workers*, 870 F.2d 1454 (9th Cir. 1989). In *Better Care Plastic Tech. Co. v. Gredale, LLC*, 2022 WL 2046206, at *9 (C.D. Cal. Mar. 4, 2022), the court emphasized that the party responding to discovery requests has a duty to conduct a “reasonable inquiry” into the factual basis of its responses to requests for production. *Id.*

Plaintiff relies on *Japan Halon Co. v. Great Lakes Chem. Corp.*, 155 F.R.D. 626, 628 (N.D. Ind. 1993), but that case is distinguishable. *See* SM-5 Order at 14 (explaining that *Japan Halon* involved evidence between a subsidiary and its parent corporation); *see also M.G. v. Bodum USA, Inc.*, 2020 WL 1667410 (N.D. Cal. Apr. 3, 2020) (expressly rejecting application on *Japan Halon* to find “control”); *id.* at *3 (“Such a broad reading is inconsistent with the Ninth Circuit’s holding in *In re Citric Acid. Litig.*, as numerous courts in this district have recognized.”).

Plaintiff fails to demonstrate that Defendant has not conducted a “reasonable inquiry” in responding to Plaintiff’s request.

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IV. Disposition

For the foregoing reasons, the Court **DENIES** Plaintiff's Motion to Appeal the Special Master's SM-5 Order (Dkt. 96).

The Clerk shall serve this minute order on the parties.

MINUTES FORM 11

Initials of Deputy Clerk:
kdu

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