

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF DELAWARE

UNIVERSITY OF MASSACHUSETTS and	)	
CARMEL LABORATORIES LLC,	)	
	)	
Plaintiffs,	)	
	)	C.A. No. 17-868-CFC-SRF
v.	)	
	)	<b>PUBLIC REDACTED VERSION</b>
L'ORÉAL USA, INC.,	)	
	)	
Defendant.	)	

**DEFENDANT'S AUGUST 12, 2020 LETTER TO THE HONORABLE SHERRY R. FALLON IN RESPONSE TO PLAINTIFFS' AUGUST 11, 2020 DISCOVERY DISPUTE LETTER**

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Dated: August 12, 2020

Dear Judge Fallon,

## 1. Plaintiffs' Request Is Untimely

This Court said it best at the prior discovery conference: “Discovery is done.” (Ex. A at 39:5.) Plaintiffs’ request to reopen fact discovery should be denied on this basis alone. Plaintiffs’ excuse that they allegedly learned about foreign sales only in June 2020 is belied by the record, and does not support their attempt to expand their claimed \$1.9 billion royalty base.

In September 2019, L’Oréal USA objected to Plaintiffs’ instruction in their Interrogatories that L’Oréal USA identify foreign sales, explaining that “[w]ith respect to method patents, actionable patent infringement cannot occur outside the United States.” (Ex. B at 3.) This was done out of an abundance of caution, as Plaintiffs’ specific interrogatories were limited to products sold in the United States. Interrogatory No. 3, which formed the basis of Plaintiffs’ accused products list, asked L’Oréal USA to “[i]dentify every product You have ever sold *in the United States* that contains adenosine as an ingredient.” Interrogatory No. 6 similarly asked L’Oréal USA to “[d]escribe in detail when and the reason(s) why You determined to use adenosine as an ingredient in any product You have sold *in the United States*.” (Ex. B.) And Interrogatory No. 8, the only Interrogatory seeking financial data, asked for sales relating to the products “identified in response to **Interrogatory No. 3**.” (*Id.*) While Plaintiffs have challenged many of L’Oréal USA’s objections throughout this case, they never challenged the objection to producing foreign sales, which L’Oréal USA reasserted on November 27, 2019, April 20, 2020, and May 8, 2020. (Exs. C-E.)

In October 2019, relying on L’Oréal USA’s response to Interrogatory No. 3, Plaintiffs served their infringement contentions identifying the accused products. On December 3, 2019, in response to Interrogatory No. 6, L’Oréal USA explained that it included adenosine in its products to [REDACTED] (Ex. F at 72-73.) Given L’Oréal USA’s response, Plaintiffs’ contention that they only learned about foreign sales in June 2020 is not credible.<sup>1</sup> Against this backdrop, in December 2019, L’Oréal USA began producing sales data for the accused products. These documents, on their face, identified the data as U.S. sales data. (*See, e.g.,* Ex. G (“SkinCeuticals Domestic *USA*”; “Luxury Products *USA*”).) But even assuming Plaintiffs overlooked all of this, their own statements during discussions of L’Oréal USA’s sales data confirm that this case was limited to U.S. sales:

- January 15, 2020, Plaintiffs: “You suggested that [sales] data for some products may be missing . . . . Please identify these products, and identify which L’Oréal entity, if any, does sell those products *in the United States*.” (Ex. H.)
- January 27, 2020, L’Oréal USA: “L’Oréal USA has provided the financial data for products sold by L’Oréal USA *in the United States* that it has been able to identify from Plaintiffs’ lists . . . .” (Ex. I.)

<sup>1</sup> A comment made in 2017 that L’Oréal USA is “active” in the U.S. could not have thrown off Plaintiffs’ “scent” of foreign sales, as U.S. activity does not preclude foreign activity. (D.I. 242 at 2, n.1.) In 2019, L’Oréal USA objected to producing foreign sales, and Plaintiffs’ document requests were consistent with this objection (*i.e.*, they did not seek foreign sales). (*Id.*, Ex. D at Nos. 38, 39, 48.) Plaintiffs’ infringement contentions also do not state that they were accusing foreign products. It was Plaintiffs’ burden to be “as specific as possible” when identifying the accused products. (D.I. 46 ¶ 3(b).) *See Magnadyne Corp. v. Best Buy Co.*, 2010 WL 11520525, at \*2 (C.D. Cal. Feb. 22, 2010) (it is plaintiff’s responsibility to identify the accused products).

- January 30, 2020, Plaintiffs: “You have still not explained why financial data for several divisions is not available before 2013. Please do so. You also said that you would identify products *that had no US sales* before 2019.” (Ex. J.)
- January 31, 2020, L’Oréal USA: “However, we are looking again to confirm whether this product was ever sold *in the U.S.* . . . . For the products listed in your email . . . *assuming these products were sold in the United States*, L’Oréal USA is looking to see if it can obtain the data from other sources.” (Ex. K.)

Plaintiffs knew by January 2020 that this case focused only on products sold in the U.S. Plaintiffs also knew by February 2020, when L’Oréal USA produced its testing documents, that some products were tested in the U.S., while others were tested abroad. (*See, e.g.*, D.I. 105, Ex. F, Ex. G at 2.)<sup>2</sup> But even accepting their excuse, Plaintiffs still delayed. On June 15, 2020, L’Oréal USA noted that the parties had not met and conferred on the foreign sales issue (D.I. 207 at 1, n.1), but Plaintiffs waited until June 24, 2020 to request a call. (D.I. 242, Ex. F.) On that call, Plaintiffs agreed to provide support for their new demand, but then reneged. During a follow-up call on July 8, 2020, the parties agreed they had reached an impasse. Plaintiffs then waited *three weeks*, until July 28, to request a discovery conference. With expert reports already served and less than one month to file dispositive motions, there is no time to re-open fact discovery. As with Plaintiffs’ previous belated requests for documents, if Plaintiffs wanted foreign sales data, “the time to do th[is] was months ago, not now[.]” (Ex. A at 37:5-11.)

## 2. Plaintiffs’ Requested Discovery is Improper, Irrelevant, and Burdensome

Even if Plaintiffs’ request was timely, foreign sales are neither relevant nor proportional to the needs of the case. Plaintiffs assert method claims and seek only a reasonable royalty. To infringe method claims, all steps must be performed in the U.S. *Meyer Intellectual Prop. Ltd. v. Bodum, Inc.*, 690 F.3d 1354, 1371 (Fed. Cir. 2012) (“direct infringement of a method claim requires that each of the claimed steps are performed within the United States”). Thus, the sale of products for use outside the U.S. cannot constitute infringement. *See Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, 711 F.3d 1348, 1371 (Fed. Cir. 2013) (“*Power Integrations I*”) (A claimant is not entitled to compensation for “defendant’s foreign exploitation of a patented invention, which is not infringement at all.”). Plaintiffs do not dispute this, but instead assert a new theory: that under § 271(a), they can capture foreign sales of products “used” (*i.e.*, tested) in the U.S. prior to their export.<sup>3</sup>

Plaintiffs seek such extremely broad foreign sales discovery, yet their expert identified U.S. human efficacy tests—none of which are tied to foreign sales—for only a fraction of the accused products. (*See* Ex. M.)<sup>4</sup> Even if Plaintiffs could identify U.S. tests for every product,

<sup>2</sup> Plaintiffs’ citation to Dr. Galdi’s testimony (D.I. 242 at 2 (289:18-290:1)) is also misleading, as Dr. Galdi did not testify that products sold abroad are based on human efficacy tests performed in the U.S. Dr. Galdi explained that L’Oréal USA performs many tests on its products prior to human tests, including stability, microbiology, and safety testing. (Ex. L at 91:11-93:13.)

<sup>3</sup> Plaintiffs suggest that they can also recover foreign sales based on U.S. manufacturing. Contrary to Plaintiffs’ assertion, L’Oréal USA confirmed that the manufacturing process does not involve topical application (*i.e.*, use) (D.I. 242, Ex. R); thus, there can be no infringement based on manufacturing activities.

<sup>4</sup> Even as to those products, many were tested both in and outside the U.S. (*See, e.g.*, Ex. N.)

such alleged use would not entitle them to foreign sales. This is because “[m]ethod claims are only infringed when the claimed process is *performed*, not by the *sale* of an apparatus that is capable of infringing use.” *Ormco Corp. v. Align Tech., Inc.*, 463 F.3d 1299, 1311 (Fed. Cir. 2006). Plaintiffs are entitled to a reasonable royalty only as to infringing performances of the claimed methods, which do not include foreign sales. Just last month, the Federal Circuit confirmed that damages for method claims must be tied to the alleged use. In *Packet Intelligence LLC v. NetScout Sys., Inc.*, 2020 WL 3966973 (Fed. Cir. July 14, 2020), the court explained that, even if the plaintiff could prove that the defendant’s “own use of the patented method drove sales for [its] products, that fact would only justify instances of *internal use* being counted as part of the royalty base.” *Id.* at \*11 (emphasis added).<sup>5</sup> Under Plaintiffs’ theory, which conflates use with sale, there would be no distinction between direct and indirect infringement of a method claim, as indirect infringement already allows a patentee to capture sales without the defendant’s use.

Courts have denied timely requests for foreign sales in reasonable royalty cases. *See, e.g., Kajeet, Inc. v. Qustodio, LLC*, 2019 WL 8060078, at \*13 (C.D. Cal. Oct. 22, 2019) (“[I]nformation regarding defendant’s foreign sales is not relevant to the hypothetical negotiation of the reasonable royalty amount because defendant would not be liable for foreign sales that do not violate U.S. patent laws.”); *Univ. of Florida Res. Found., Inc. v. Motorola Mobility LLC*, 2013 WL 12043502, at \*2-3 (S.D. Fla. Dec. 23, 2013) (limiting discovery to domestic sales). *See also France Telecom S.A. v. Marvell Semiconductor Inc.*, 39 F. Supp. 3d 1080, 1098-101 (N.D. Cal. 2014) (noting the lack of authority “for the proposition that a hypothetical negotiation can or should include foreign sales that would not otherwise be actionable.”).<sup>6</sup> Plaintiffs already have the documents they need to calculate damages under § 271(a).

Plaintiffs’ reliance on *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018) and *Power Integrations I* is misplaced and confirms that foreign sales are not relevant. There, the Courts considered whether foreign sales could be captured under a lost profits theory. Here, Plaintiffs seek a reasonable royalty, so there are no foreign damages to claim. This distinction is important. As explained in *Plastronics Socket Partners, Ltd. v. Dong Weon Hwang*, 2019 WL 4392525, at \*4-5 (E.D. Tex. 2019), cited by Plaintiffs, while a plaintiff’s foreign *damages* may be compensable, foreign *sales* are not: “Indeed, setting aside questions of extraterritoriality, under the plain language of the statute, a patent owner cannot recover for purely foreign sales under § 271(a) because purely foreign sales are not acts of ‘infringement’ under § 271(a).” Likewise, in *MLC Intellectual Prop., LLC v. Micron Tech., Inc.*, 2019 WL 2437073 (N.D. Cal. June 11, 2019), the court rejected plaintiff’s argument that Judge Stark’s decision in *Power Integrations I* following *WesternGeco* allowed recovery of worldwide damages under § 271(a). The court stated: “under *Power Integrations I* and the cases cited

<sup>5</sup> *See also Mirror Worlds, LLC v. Apple, Inc.*, 784 F. Supp. 2d 703, 714-25 (E.D. Tex. 2011) (“sales cannot be used to determine damages for [ ] direct infringement of the method claims”); *Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770, 773 (Fed. Cir. 1993) (“[M]ethod claims are not directly infringed by the mere sale of an apparatus capable of performing the claimed process.”).

<sup>6</sup> *See also Enpat, Inc. v. Microsoft Corp.*, 6 F. Supp. 2d 537, 539-40 (E.D. Va. 1998) (noting that none of the *Georgia-Pacific* factors “support a conclusion that Microsoft would pay for the right to engage in foreign sales it already has a legal right to make. Accordingly, . . . Microsoft’s foreign sales may not be taken into account in any determination of a reasonable royalty.”).

therein, [Plaintiff] may not seek damages based on . . . wholly foreign sales. The Court also finds it significant that the Supreme Court denied certiorari in *Power Integrations I*. . . Whether Judge Stark is correct that *WesternGeco II* implicitly overruled *Power Integrations I* remains to be seen, but at this time controlling law holds that [Plaintiff] may not seek damages under § 271(a) based on . . . wholly foreign sales.” *Id.* at \*2-3.<sup>7</sup>

Even if relevant, it would be unduly burdensome, if even possible, to produce foreign sales for products containing the same formulas. Contrary to Plaintiffs’ representation, formulas for L’Oréal products vary depending on where they are sold. (Decl. of Cindy Cheung ¶ 4; Ex. L at 391:14-23 (“it’s a case by case” as to whether products share formulas).) To identify a product sold abroad with the same formula as an accused product, L’Oréal USA would need to request and review the packaging for every skincare product sold by every L’Oréal entity around the world. (See Cheung Decl. ¶¶ 3-6.)<sup>8</sup> This alone would take more than 100 hours, assuming every country responds. (*Id.* ¶ 6.) Financial data is also not tracked by formula numbers, so once the products are identified, then the material codes would need to be obtained from the marketing departments in each country. (*Id.* ¶¶ 3, 7.) L’Oréal USA cannot even estimate how long this would take. L’Oréal USA also does not have access to sales made by any other L’Oréal entity—*i.e.*, sales to foreign, non-affiliated buyers.<sup>9</sup>

Plaintiffs’ request to re-open fact depositions should also be denied. Plaintiffs have taken 15 fact depositions covering over 50 topics. On June 12, 2020, after written discovery closed and the parties had reached agreement on the scope of the deposition topics, Plaintiffs served a new deposition notice with nine more topics, setting the deposition for June 19, 2020—less than the ten days required by Local Rule 30.1. L’Oréal USA objected to this deposition notice. (Ex. O.) As noted above, Plaintiffs are not entitled to foreign sales. Some topics are not even limited to the accused products (No. 62), while others focus on manufacturing (No. 54), which cannot form the basis of infringement. (D.I. 242, Ex. Q.) Even if these topics were relevant, L’Oréal USA does not have data on sales made by other L’Oréal entities. As for testing, as Plaintiffs concede, they already deposed L’Oréal USA on product testing. (D.I. 242 at 1.) To the extent Plaintiffs now seek testimony linking a U.S. test to a foreign sale, as noted above, L’Oréal USA does not have this information, which resides with each brand within each country. (See Cheung Decl. ¶ 9.) Plaintiffs’ untimely, irrelevant, and burdensome request should be denied.

<sup>7</sup> Similarly, in *Abbott Cardiovascular Sys., Inc. v. Edwards Lifesciences Corp.*, 2019 WL 2521305 (D. Del. June 6, 2019), Judge Noreika refused to expand *WesternGeco* to claims brought under § 271(a): “This Court does not understand *WesternGeco* to stand for the proposition that a patentee in the United States may obtain damages (or injunctive relief) based on harm in another country independent of the theory of infringement liability at issue – *i.e.*, § 271(a) versus § 271(f).” *Id.* at \*18. The Court further noted that “§ 271(f) would be superfluous if extraterritorial activities could give rise to liability under § 271(a), or more accurately under §§ 271(b) and (c), which are the domestic counterparts to §§ 271(f)(1) and (2).” *Id.* at \*18, n.18.

<sup>8</sup> As to whether a foreign product contains a “similar” formula, L’Oréal USA does not know how it would even go about obtaining this information.

<sup>9</sup> In addition, the Supreme Court has left open the question of whether “other doctrines, such as proximate cause, could limit or preclude damages in particular cases.” *WesternGeco*, 138 S. Ct. at 2139, n.3. Here, evidence of whether or not a U.S. test actually drove any foreign sale is not maintained by L’Oréal USA. (Cheung Decl. ¶ 9.)

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