

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TENNESSEE
WESTERN DIVISION

MEDTRONIC SOFAMOR DANEK, INC.,)
)
 Plaintiff/)
 Counter-Defendant,)
)
 vs.) No. 01-2373-M1V
)
 GARY KARLIN MICHELSON, M.D.)
 and KARLIN TECHNOLOGY, INC.,)
)
 Defendants/)
 Counter-Plaintiffs,)
)
 and)
)
 GARY K. MICHELSON, M.D.,)
)
 Third Party Plaintiff,))
)
 vs.)
)
 SOFAMOR DANEK HOLDINGS, INC.,)
)
 Third Party Defendant.)

ORDER ON MOTION FOR CLARIFICATION
AS TO DEFENDANTS' PRODUCTION OF TAX RECORDS OR RETURNS

Before the court is the motion of the plaintiff, Medtronic Sofamor Danek, Inc., filed June 11, 2003, seeking a clarification of prior discovery orders concerning the obligations of the defendants, Gary Karlin Michelson and Karlin Technology, Inc. ("KTI") to produce tax returns and/or accompanying receipts, statements, invoices, and other tax-related information. The

motion was referred to the United States Magistrate Judge for determination.

The underlying case is a contract dispute over intellectual property in the field of spinal fusion technology.¹ On or about October 11, 2001, Medtronic propounded upon defendants Michelson and KTI a document request seeking, as Request No. 144, "[a]ll federal and state income tax records for Michelson and/or KTI for any calendar or fiscal year ending in 1990 to date." The defendants resisted production, and October 24, 2002, this court entered an order compelling, *inter alia*, a response to Request No. 144. Order Granting in Part and Denying in Part Pl.'s Renewed Mot. to Compel, *Medtronic Sofamor Danek, Inc. v. Michelson*, Civil Case No. 01-2373 (W.D. Tenn. Oct. 25, 2002) [hereinafter the "October Order"]. As a basis for its decision, this court specifically considered whether tax returns and financial statements were privileged; the defendants' contentions that tax returns did not provide valuations of the technologies at issue; the defendants'

¹ The factual and procedural background of this lawsuit has been well-documented in previous discovery orders, see, e.g., *Medtronic Sofamor Danek, Inc. v. Michelson*, No. 01-CV-2373-GV (W.D. Tenn. Jan. 30, 2002) (order on cross-motions for protective order and on motions to compel); *Medtronic v. Michelson* (July 18, 2002) (order on defendants' motion to compel and sanctions); *Medtronic v. Michelson* (Aug. 6, 2002) (order on defendants' motion to approve Bruce Ross under the protective order), and reference is made to them for a detailed factual analysis.

contentions that tax returns did not reflect the defendants' net worth; the defendants' assertions that they maintain no financial statements other than tax returns; and the plaintiff's contention that financial information was relevant to the defendants' claims of lost profits. October Order at 4-17. The court determined that the only basis "for compelling production of *tax returns*," (*id.* at 15), was its potential relevance to claims for lost profits and found that "the *income tax returns* of Michelson and KTI are relevant to their claim for lost profits," (*id.* at 17). The court then granted "Medtronic's motion as to Request No. 144, seeking KTI and Michelson's income tax returns." (*Id.* at 24.) (emphasis added)

The defendants sought reconsideration of the October order on grounds that they intended to drop their claims for lost profits. After a careful review, District Court Judge Jon P. McCalla concluded that it was not clear that the defendants had dropped their lost profit claims. Accordingly, he directed them "to produce their tax records, including Defendants' tax returns, in response to . . . request No. 144." Order Denying Defs.' Mot. for Recon. of Ord. on Medtronic Sofamor Danek's Renewed Mot. to Compel and Granting Defs.' Request to Appoint a Special Master to Review Defs.' Tax Returns In Camera, *Medtronic Sofamor Danek, Inc. v. Michelson*, Civil Case No. 01-2373 (W.D. Tenn. Apr. 30, 2003). In the same order, Judge McCalla also agreed to appoint a special

master to review *in camera* the documents produced.

Medtronic now moves to clarify whether these two orders, read in combination, require production of tax *returns*, or of tax *records*, which Medtronic defines in its supporting memorandum as "those documents that are used in the preparation of tax returns such as various forms, schedules, receipts, invoices, canceled checks, account statements, etc. and all backup and supporting material to tax returns which are not filed with the returns." (Pl. Medtronic Sofamor Danek, Inc.'s Mem. in Supp. of Its Mot. for Clarification that the Court's Prior Orders Require Defs. to Produce Their Tax Records at 2.)

It is true that Medtronic's Request No. 144 sought "tax records" by its exact wording. The term "records," however, was not defined in that request, and the court, when ruling on Medtronic's motion to compel, did not interpret Request No. 144 to include the receipts, invoices, canceled checks, account statements, or backup material to which Medtronic now claims entitlement. Medtronic originally made separate and discrete requests for different types of tax-related information. The motion to compel that was the subject of the October order separately sought "financial statements" in Request No. 143, "documents referring or relating to any tax reasons why Defendants did not want . . . to license or assign [technologies]" in Request

No. 174, and "documents referring or relating to tax considerations [related to the agreements at issue]" in Request No. 175. The court denied the motion to compel as to each of these requests. If the term "tax records" in Request No. 144 is construed as broadly as Medtronic now insists it should be, Request No. 144 would then include the information sought by the three other disputed document requests, which the court specifically declined to compel the defendants to produce.

As the court has previously noted, unnecessary disclosure of financial information should be avoided. The court also notes that Judge McCalla has appointed a special master to conduct an *in camera* review at the defendants' expense. Judicial economy would be ill-served by requiring review of every canceled check, receipt, invoice, and account statement that underlies the defendants' tax returns unless the special master determines that Medtronic has a specific need for such information.

For the foregoing reasons, the defendants may, at this time, satisfy their obligation as to Request No. 144 by disclosing only tax returns actually filed, along with any forms, schedules, and attachments thereto that also were actually filed, unless, after review of the tax returns, the special master determines that additional documentation is needed to clarify all or part of the tax returns. This order is limited to a clarification of the scope

of Request No. 144 and accordingly does not reach the defendants' renewed contention that they have withdrawn their claims for lost profits.

The Clerk is directed to serve a copy of this order on the special master appointed to review tax returns.

IT IS SO ORDERED this 23rd day of July, 2003.

DIANE K. VESCOVO
UNITED STATES MAGISTRATE JUDGE