

LEXSEE 50 F.R.D. 179

John R. CORBETT v. FREE PRESS ASSOCIATION, Inc.

Civil Action File No. 5736

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF VERMONT

50 F.R.D. 179; 1970 U.S. Dist. LEXIS 11310; 14 Fed. R. Serv. 2d (Callaghan) 607

June 17, 1970, Decided

CASE SUMMARY:

PROCEDURAL POSTURE: Plaintiff employee filed a motion to compel the president of defendant employer to answer certain deposition questions in a breach of employment contract action.

OVERVIEW: The employee brought a breach of employment contract action against the employer. At his deposition, the employer's president declined to answer questions regarding the net profit of the employer and the total lineage of paid advertising from 1964 through 1968. The employee filed a motion to compel the president to respond to the deposition questions. The employer argued that the information was extremely confidential and potentially damaging in the wrong hands. The court granted the motion as to the advertising lineage because the information was commonly available in publication trade magazines. The court denied the motion as to the net profit because the employee failed to make a strong showing of need for the discovery.

OUTCOME: The court partially granted the employee's motion and required the employer's president to answer questions about the total lineage of paid advertising. The court denied the motion as to the net profit of the employer.

LexisNexis(R) Headnotes

Civil Procedure > Disclosure & Discovery > Relevance
[HN1] Fed. R. Civ. P. 26(b) allows discovery in a deposition of any matter not privileged which is relevant to the subject matter involved in the pending action. It is not ground for objection that the testimony will be inadmissible at trial if the testimony sought seems reasonably calculated to lead to the discovery of admissible evidence.

Civil Procedure > Discovery Methods > Oral Depositions
Governments > Courts > Rule Application & Interpretation

[HN2] The scope of discovery permitted on oral deposition is broad and the rules governing it are to be liberally construed. But these rules should not be interpreted so broadly that unnecessary and prejudicial disclosure is required.

Civil Procedure > Disclosure & Discovery > Relevance
[HN3] Discovery has limits and these limits grow more formidable as the showing of need decreases.

JUDGES: [*1]

James L. Oakes, United States District Judge.

OPINIONBY:

OAKES

OPINION:

[*180] MEMORANDUM OPINION

JAMES L. OAKES, UNITED STATES DISTRICT JUDGE

This is an action for breach of a contract of employment with defendant as general manager of its newspaper.

At a deposition taken December 19, 1969, the president of defendant corporation declined to answer questions propounded to him regarding the net profit of defendant and total lineage of paid advertising during the years 1964-1968. Although defendant's memorandum does not distinguish between them in its contention that all the information sought is extremely confidential and potentially damaging in the wrong hands, the questions which defendant's president declined to answer can be considered separately. We take judicial notice that advertising lineage is commonly published in publication trade

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magazines (see Editor & Publisher, May 23, 1969, page 14A) and should not be removed from the scope of permissible discovery merely owing to business sensitivity.

On the other hand, the profits (or losses) of a business are generally of a confidential nature. See McClure v. Boeger, 105 F. Supp. 612, 613 (D.C.Pa. 1952); Uinta Oil Refining Co. [*2] v. Continental Oil Co., 36 F.R.D. 176 (D.C.Utah 1964). Information of this sort might well be useful to an actual or potential competitor or others. For this reason, the question pertaining to net profits of defendant will be considered differently herein.

Plaintiff relies on [HN1] Rule 26(b) of Federal Rules of Civil Procedure as allowing discovery in a deposition of

"any matter not privileged which is relevant to the subject matter involved in the pending action * * * *. It is not ground for objection that the testimony will be inadmissible at trial if the testimony sought seems reasonably calculated to lead to the discovery of admissible evidence."

[HN2] The scope of discovery permitted on oral deposition is broad and the rules governing it are, of course, to be liberally construed. Hickman v. Taylor, 67 S. Ct. 385, 329 U.S. 495, 91 L. Ed. 451 (1947). But these rules should not be interpreted so broadly that unnecessary and prejudicial disclosure is required. The problem becomes acute where disclosure of confidential business information is sought. Shawmut, Inc. v. American Viscose Corp., 11 F.R.D. 562, 566 (S.D.N.Y. 1951).

Plaintiff contends that an agreement modifying his original [*3] contract and dated September 16, 1966, was signed under duress, specifically, as Plaintiff's Memorandum states (p. 2), under threat of dismissal. Given this circumstance, plaintiff contends that this September 16 agreement is of no effect and does not supersede an earlier agreement of January 29, 1964, in which plaintiff's compensation was partially dependent upon the net profit of defendant.

Such facts as were elicited in the deposition of plaintiff, also taken on December 19, 1969, lend little weight to the allegation that plaintiff executed the September agreement under duress. Plaintiff continued to work for defendant until May 31, 1968, twenty-one months after the September agreement was signed. On pages 16-19 of his deposition, plaintiff testified that at the time of the signing of the September 1966 agreement he was of full age, sound mind, not under the influence of drugs or alcohol and understood the terms of the documents he signed. He [*181] did not testify specifically as to

whether he was or was not under duress at the time of signing the agreement.

Plaintiff argues in his memorandum in support of the motion (p. 3) and orally that because the September 16, 1966, [*4] agreement provided for a substantially smaller salary than plaintiff had been receiving previously, he signed the agreement under duress. It is arguable that given the extremely broad and vague terms of the agreement of September 16, 1966, neither plaintiff nor defendant then knew the size of a resultant decrease in plaintiff's salary, if one did in fact result. But we fail to see how the amount of any such decrease would bear upon the question of duress in the execution.\$=\$

"It is well established that [HN3] discovery has limits and that these limits grow more formidable as the showing of need decreases. Hickman v. Taylor, supra; United States v. Procter & Gamble Co., 1958, 356 U.S. 677, 2 L. Ed. 2d 1077, 78 S. Ct. 983 * * * * United Air Lines, Inc., v. United States, 26 F.R.D. 213, 219, n. 9 (D. Del. 1960).

Plaintiff further argues (p. 3) that even if the questions propounded were relevant only to damages, this evidence would still be discoverable since the answers sought do not involve patents, trademarks or the like. However, the information sought to be protected in this case is certainly of the same nature as a trade secret. As such the language of the United States Supreme [*5] Court in Sinclair Refining Co. v. Jenkins Petroleum Process Co., 289 U.S. 689, at page 696, 53 S. Ct. 736, 77 L. Ed. 1449 (1933), is to be considered:

[ILLEGIBLE SLIP OPINION PG. 5]

29 F.R.D. 514 (D.Conn. 1961); Rose Silk Mills v. Insurance Company of North America, 29 F. Supp. 504 (1939).

The rule permits the deposition to be taken with no one present except the parties to the action and their officers or counsel. While such an arrangement certainly lessens the danger of sensitive information falling into the hands of an unauthorized person, it does not eliminate such a danger. In the absence of a stronger showing than has been made here by the plaintiff of necessity, however, we see no need at this time to order discovery, even invoking the safeguards of Rule 30(b).

[*182] This case is to be tried by the Court. If in the course of trial, need for the sought-after data is shown, any inconvenience to the Court or counsel in producing it will be minor. Should liability be determined at trial, discovery of evidence relative to damages may easily be had, Fischer & Porter Co. v. Sheffield Corp., 31 F.R.D. 534 (D.Del. 1962), or should a stronger showing of necessity for [*6] discovery be made at the

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hearing on the merits, a continuance may readily be had for discovery purposes.

For the reasons stated herein, plaintiff's motion to compel answers to oral interrogatories on deposition is

granted as to the question of advertising lineage and denied as to profits during the years in question here.

Dated at Brattleboro in the District of Vermont, this 17th day of June, 1970.

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LEXSEE 46 F.R.D. 605

Norman F. HECHT, et al. v. PRO-FOOTBALL, INC., et al.

Civil Action 2815-66

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

46 F.R.D. 605; 1969 U.S. Dist. LEXIS 12484; 13 Fed. R. Serv. 2d (Callaghan)
1123; 1969 Trade Cas. (CCH) P72,834

March 21, 1969

CASE SUMMARY:

PROCEDURAL POSTURE: Prospective witnesses, who were not parties to the action and whose depositions were about to be taken by plaintiffs, filed a motion to limit subpoenas duces tecum that have been issued against them in the underlying action which was brought to recover triple damages under the antitrust acts.

OVERVIEW: Prospective witnesses, who were not parties to the action and who depositions were about to be taken by plaintiffs, filed a motion to limit subpoenas duces tecum that have been issued against them. The underlying action was to recover triple damages for violations of antitrust acts. The witnesses stated the subpoenas sought records that showed prices paid for each partnership interest in a professional football franchise by persons who had acquired such interests in the franchise. The district court ruled that the request was both unreasonable and oppressive. The court found the information to be private in nature and something that did not need to come at that stage of the proceedings. The court granted the witnesses' motion but granted the right to renew such requests if the matter became relevant at the time.

OUTCOME: The district court granted the witnesses' motion to limit subpoena duces tecum in the manner indicated without prejudice with the right to renew such requests if the matter became relevant at that time when the found that the request was both unreasonable and oppressive.

LexisNexis(R) Headnotes

Civil Procedure > Trials > Subpoenas
[HN1] See Fed. R. Civ. P. 45.

Civil Procedure > Trials > Subpoenas

[HN2] It is possible for a subpoena duces tecum to be unreasonable or oppressive, even though the evidence sought to be procured may prove to be thereafter relevant at the trial.

Civil Procedure > Disclosure & Discovery > Privileged Matters

[HN3] Modern civil procedure in the federal courts contemplates liberal disclosure. Discovery is in the interest of justice. Nevertheless, discovery is not unbridled and not unlimited. There must be restrictions to protect individuals in their natural privacy.

JUDGES: [**1]

Holtzoff, D.J.

OPINIONBY:

HOLTZOFF

OPINION:

[*606] Opinion

HOLTZOFF, D.J. :

This is a motion by prospective witnesses, who are not parties to the action and whose depositions are about to be taken by the plaintiffs to limit subpoenas *duces tecum* that have been issued against them. The action is brought to recover triple damages under the antitrust Acts. This matter is governed by [HN1] Rule 45 of the Federal Rules of Civil Procedure. Subsection (b) of that rule authorizes the issuance of subpoenas *duces tecum* and then goes on to provide that "but the Court, upon motion made promptly and in any event at or before the time specified in the subpoena for compliance therewith, may . . . quash or modify the subpoena if it is unreasonable and oppressive . . ." The question, therefore, is whether the subpoenas involved in this motion are unreasonable or oppressive. It may be added that the Court has

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inherent power to protect anyone from oppressive use of process, even if no oppression is actually intended.

The principal defendant is a league composed of professional football clubs. The plaintiffs are individuals, who had planned to organize a professional football club in Washington, [**2] D.C., and to procure a franchise from a rival league, namely, a league known as the American Football League. The gravamen of their action is that they were prevented from achieving their purpose by the fact that the authorities that operated the stadium in the District of Columbia had made an exclusive agreement for the use of that stadium for football games by the defendant National Football League. This exclusive agreement is claimed to be violative of the Sherman law.

Plaintiffs are now engaged in taking depositions. One of the purposes of their taking depositions is to obtain evidence on the issue of damages. The evidence that it is desired to obtain by the depositions is profits made by active clubs that are members of professional football leagues and the price paid on the sale of franchises. At this juncture the Court will not and should not rule on the admissibility of this evidence. It is always dangerous to make advance rulings on the admissibility of evidence, because very frequently the admissibility of an item of evidence depends upon the exact posture of the case at the time that the evidence is offered. The fact, however, that the evidence may be relevant and [**3] admissible at the trial is not sufficient to dispose of a motion such as the Court has before it at this time. [HN2] It is possible for a subpoena *duces tecum* to be unreasonable or oppressive, even though the evidence sought to be procured may prove to be thereafter relevant at the trial.

There are two moving parties on this motion. One is a club known as the Miami Dolphins, Ltd., whose deposition is to be taken and the other is an individual named David A. Werblin. Objection is made to Items 4 and 5 in the subpoenas *duces tecum* against the Miami Dolphins. Item 4 seeks the production of profit and loss statements of the Dolphins for the years 1966, 1967 and 1968. Item 5 seeks records showing prices paid for each partnership

interest by persons [*607] who have acquired such interests in the Dolphins. The subpoena *duces tecum* issued to Werblin seeks the production of documents showing the total sales price of the interest he sold in the Gotham Football Club in 1968.

It will be noted that these requests seek private financial records of persons who are not parties to this action. The fact that they may be allied to the parties as argued by learned counsel for the plaintiffs [**4] does not necessarily change the situation even though it may be of some interest. The right of privacy and the right to keep confidential one's financial affairs is well recognized. It seems to be part of human nature not to desire to disclose them. It is not privileged matter in the legal sense of the term, but even if the information is not privileged, and it is not, it still may be oppressive or unreasonable to require disclosure at the taking of a deposition. This information can be obtained at the trial if the trial progresses to a point where it becomes relevant. It seems oppressive and unreasonable to require these persons to disclose this information in advance when many things may happen between now and the trial that might make the disclosure unnecessary.

[HN3] Modern civil procedure in the Federal courts contemplates liberal disclosure. Discovery is in the interest of justice. Nevertheless, discovery is not unbridled and not unlimited. There must be restrictions to protect individuals in their natural privacy.

The Court is of the opinion that the request is both unreasonable and oppressive. It may become reasonable at the trial, but it is unreasonable at this early [**5] stage of the controversy. If it becomes relevant at the trial, a short continuance can be had if necessary in order to obtain the information.

The motion to limit subpoenas *duces tecum* in the manner indicated is granted without prejudice to the right to renew such requests if the matter becomes relevant at that time.

Counsel may submit an appropriate order.

LEXSEE 262 F. SUPP.2D 923

**OCEAN ATLANTIC WOODLAND CORPORATION, a Virginia corporation,
Plaintiff, vs. DRH CAMBRIDGE HOMES, INC., a California corporation,
COWHEY GUNDMUNDSON, LEDER, LTD. an Illinois corporation, and
PUGSLEY & LAHAIE, LTD., an Illinois corporation corporation, Defendants.**

No. 02 C 2523

**UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF
ILLINOIS, EASTERN DIVISION**

262 F. Supp. 2d 923; 2003 U.S. Dist. LEXIS 13055

**May 16, 2003, Decided
May 22, 2003, Docketed**

PRIOR HISTORY: Ocean Atl. Woodland Corp. v. DRH Cambridge Homes, Inc., 2003 U.S. Dist. LEXIS 4964 (N.D. Ill., Mar. 28, 2003)

DISPOSITION: [**1] Defendants' motion for protective order and Plaintiff's motions to compel granted in part and denied in part.

CASE SUMMARY:

PROCEDURAL POSTURE: Plaintiff copyright owner sued defendants, a developer, an engineering firm, and a landscaping firm, alleging copyright infringement regarding two development plans made specifically for a parcel of land. Defendants moved for a protective order. The copyright owner moved to compel answers to interrogatories and production of documents.

OVERVIEW: The two development plans owned by the copyright owner were part of an annexation agreement governing a village's incorporation of a parcel of land. The developer acquired the rights to develop the parcel and was developing the land in accordance with the copyrighted plans. Ostensibly to identify damages, the copyright owner sought massive document production involving all aspects of the developer's financial activities, including costs, sales, and profits on all its developments and all of its home sales. Pursuant to Fed. R. Civ. P. 26, the court denied these production requests and interrogatories because the copyright owner made no attempt to limit the scope of discovery to the activities relating to the alleged infringement and the discovery requests were designed to harass defendants. In addition, the discovery requests pertaining to the project at issue were outside the scope of legitimate discovery on the

issue of damages and lost profits because, pursuant to 17 U.S.C.S. § 504, the proper damages calculation was either the amount the copyright owner paid for the acquisition of the plan or the value of use or the saved acquisition cost to the developer.

OUTCOME: The court denied the copyright owner's discovery request for defendants' business activities outside and apart from the development site at issue. Regarding the remaining discovery issues, the court granted in part and denied in part defendants' motion for a protective order and the copyright owner's motions to compel.

LexisNexis(R) Headnotes

Civil Procedure > Disclosure & Discovery > Relevance
[HN1] Discovery under Fed. R. Civ. P. 26(b) is not without limits; the manner and scope of discovery must be tailored to some extent to avoid harassment or being oppressive. When the purpose of the discovery is to obtain information for reasons other than the prosecution or defense of the lawsuit, unless vital information is at stake, discovery will be denied in its entirety.

Copyright Law > Civil Infringement Actions > Remedies > Damages > Infringer Profits
[HN2] A copyright owner's entitlement to recover an accused infringer's profit, if warranted, is limited to profits flowing from the infringing activities.

Copyright Law > Civil Infringement Actions > Remedies > Damages > Infringer Profits
Copyright Law > Civil Infringement Actions > Remedies > Damages > Actual Damages

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Copyright Law > Civil Infringement Actions > Remedies > Damages > Damage Computation

[HN3] Copyright law allows a copyright owner to recover his actual damages and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. 17 U.S.C.S. § 504(b). Since a copyright infringement suit is a form of tort, causation still needs to be shown. As a result, where the relationship between the profit and infringement is so attenuated or speculative, the plaintiff is not entitled to recover defendant's profits. Moreover, if the profits from infringement have been taken into account in computing the actual damages of the same economic transaction, the owner of the copyright is not entitled to recover both. A copyright owner's entitlement to recover an accused infringer's profit, if warranted, is limited to profits flowing from the infringing activities.

Copyright Law > Civil Infringement Actions > Remedies > Damages > Infringer Profits***Copyright Law > Civil Infringement Actions > Remedies > Costs & Attorney Fees******Copyright Law > Civil Infringement Actions > Remedies > Damages > Actual Damages***

[HN4] Actual damages are usually calculated on three bases: first, it could be that but for the infringement, the copyright owner would have made the profit out of its own sale/use of the work; second, it could be that the copyright owner suffered a loss because the defendant might have purchased the material from the copyright owner; and third, when the defendant reproduced copyright owner's copyrighted material, it may have damaged the copyright owner to the extent of value of use of the assets in terms of acquisition costs saved by the defendant.

Copyright Law > Civil Infringement Actions > Remedies > Damages > Infringer Profits***Copyright Law > Civil Infringement Actions > Remedies > Damages > Actual Damages******Copyright Law > Civil Infringement Actions > Remedies > Damages > Damage Computation***

[HN5] When a developer pays for the use of the plan and uses it for its intended purpose, the copyright owner's claims are exhausted, because a developer's profit from developing the land is independent from the cost of acquiring the copyrighted plan. A contractor who hopes to profit from the construction of a building incurs the cost of the architectural plans, whether or not he does actually profit. As a corollary, once the developer pays for the acquisition of the architectural plan, whether he makes profits or loses money in constructing the building is of no concern to the copyright owner. There is no material difference between the development plan and architectural works in terms of their respective value to a devel-

oper or contractor. In both cases, the profits made by the alleged copyright infringer are the saved acquisition costs. Any further award of profits from developing the land would constitute double-counting of damages, as prohibited by the statute. 17 U.S.C.S. § 504(b).

Copyright Law > Civil Infringement Actions > Remedies > Costs & Attorney Fees***Copyright Law > Civil Infringement Actions > Remedies > Damages > General Overview***

[HN6] Value of use of infringing work in terms of saved acquisition costs amounts to no more than a determination of what a willing buyer would have been reasonably required to pay a willing seller for the copyright owner's work.

COUNSEL: For Ocean Atlantic Woodland Corporation, A VIRGINIA CORPORATION, PLAINTIFF: William Patrick Farrell, Jr, Andrew Michael Hansell, Philip J Havers, Jake P Deboever, Gardner, Carton & Douglas LLC, Chicago, IL USA.

For Ocean Atlantic Woodland Corporation, A VIRGINIA CORPORATION, PLAINTIFF: Patrick Joseph Hughes, Law Office of Patrick J Hughes, Chicago, IL USA.

For DRH Cambridge Homes, Inc, A CALIFORNIA CORPORATION, Pugsley & Lahaie, Ltd, AN ILLINOIS CORPORATION, DEFENDANTS: Theodore Thomas Poulos, Terence H Campbell, Cotsirilos, Stephenson, Tighe & Streicker, Chicago, IL USA.

For DRH Cambridge Homes, Inc, A CALIFORNIA CORPORATION, DEFENDANT: Keith William Medansky, Alan S Dalinka, Piper Rudnick, Chicago, IL USA.

For Cowhey, Gundmundson, Leder, Ltd, AN ILLINOIS CORPORATION, DEFENDANT: Nathan E Ferguson, Wildman, Harrold, Allen & Dixon, Chicago, IL USA.

For Cowhey, Gundmundson, Leder, Ltd, AN ILLINOIS CORPORATION, DEFENDANT: Devlin Joseph Schoop, Laner, Muchin, Dombrow, Becker, Levin & Tominberg, Ltd, Chicago, IL USA.

For Cowhey, Gundmundson, [**2] Leder, Ltd, AN ILLINOIS CORPORATION, DEFENDANT: Eric Louis Singer, Jene'e Marie Szczap, Wildman, Harrold, Allen & Dixon, Lisle, IL USA.

JUDGES: EDWARD A. BOBRICK, U.S. MAGISTRATE JUDGE. Judge Ronald A. Guzman.

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OPINIONBY: EDWARD A. BOBRICK**OPINION:**[*924] **MEMORANDUM ORDER**

Before the court is DEFENDANTS' JOINT MOTION FOR A PROTECTIVE ORDER, BIFURCATION OF DISCOVERY, AND FOR OTHER RELIEF. n1 Also before the court are two motions filed by plaintiff namely: OCEAN ATLANTIC WOODLAND CORPORATION'S MOTION TO COMPEL ANSWERS TO INTERROGATORIES AND PRODUCTION OF DOCUMENTS FROM DRH CAMBRIDGE HOMES, INC. AND PUGSLEY & LAHAIE, LTD. and OCEAN ATLANTIC WOODLAND CORPORATION'S MOTION TO COMPEL ANSWERS TO INTERROGATORIES AND PRODUCTION FROM COWHEY, GUNDMUNDSON, LEDER, LTD. On December 20, [*925] 2002, the motions were granted in part and denied in part and the parties were requested to file a detailed order setting forth the rulings on specific parts of the contested discovery. The parties, after protracted negotiations, were not able to agree on the content of the order. We now issue our detailed order.

n1 On December 20, 2002, that part of the motion relating to bifurcation of discovery was denied. At that time plaintiff's motion to extend discovery was also denied.

[**3]

I. BACKGROUND

This court has described in detail the facts of this case in our September 25, 2002 Report and Recommendation submitted to Judge Guzman. We will thus limit our description to those facts necessary to understand the basis for our rulings which resolves the discovery disputes.

Ocean Atlantic Woodland Corporation ("Ocean Atlantic"), through recent purchase on April 9, 2002, acquired copyright ownership in two development plans made specifically for a parcel of land (known as the "Liberty Grove" development) in the Village of Plainfield. n2 The Plans are part of an annexation agreement governing the village's incorporation of that parcel of land and are based on the contours of the land to be developed. It is worth noting that although the Development Plans were adopted by the Village, Ocean Atlantic does not have any rights to develop the land under the plans due to its failure to close on the sale of the land on time. *See Elda Arnhold and Byzantio v. Ocean Atlantic*

Woodland Corp., 284 F.3d 693 (7th Cir. 2002). Ocean Atlantic now pursues a claim of copyright infringement against DRH Cambridge Homes, Inc. ("Cambridge"), the developer who finally [**4] acquired the rights to develop the parcel, and is developing the land, in accordance with the subject copyrighted Plan adopted in the annexation plan and incorporated by the Village. Also joined in this suit as defendants are the firms that provided engineering services and landscaping architecture services at the development site. n3

n2 The development plans have been referred to in this discovery dispute as Exhibit B - "Preliminary Plat" and Exhibit B-1 "Preliminary Landscape plan"; to keep matters simple we will call them the "Development Plans" or "Plans."

n3 Defendant, Pugsley & LaHaie, Ltd. ("Pugsley") is the firm involved in landscape architecture activities at the Liberty Grove site. Defendant Cowhey Gundmundson, Leder, Ltd. ("Cowhey") is the firm providing engineering services at the Liberty Grove site.

Ocean Atlantic seeks massive document production involving all aspects of Cambridge's financial activities, including costs, sales, and profits on all its developments and all of its home [**5] sales throughout the country since 1997. Significantly, Ocean Atlantic's requests are not limited to business activities at the development site at issue, nor to the time period at issue. This same discovery approach -- albeit to a lesser degree -- was made upon the other two defendants. The document production Ocean Atlantic seeks -- ostensibly to identify damages-- is extraordinarily broad in scope. To fully get the flavor of this, one need only peruse the directions Ocean Atlantic gave to the defendants as to what documents are to be produced. n4 Because [*926] Ocean Atlantic's discovery requests range far beyond the development site involved in this case, and encompass a time period five years prior to its copyright acquisition, we find grave difficulty with them.

n4 While each defendant received identical instructions, we look to those served upon Cambridge as an example:

DEFINITIONS

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I. As used herein "Cambridge" refers to DRH Cambridge Homes, Inc., a homebuilder and developer, located at 800 South Milwaukee Avenue, Suite 250, Libertyville, Illinois 60048. Reference to Cambridge herein should be understood as including such party's parents, subsidiaries of parents, subsidiaries, and all divisions, affiliates, predecessors and successors and assigns of each of the foregoing, and all of its agents, officers, directors employees, representatives, consultants, and attorneys.

II. The term "documents" shall have the same meaning as set forth in Rule 34 of the Federal Rules of Civil Procedure, and includes, without limitation, the original (and every copy of the original that differs in any way from it) of any written, recorded or graphic matter or any medium of any type or description upon which intelligence or information is recorded or from which intelligence or information can be recorded, which is or has been in your possession, control, or custody, or of which you have knowledge, including but not limited to, the original and any non-identical copy (whether different from the original because of notes made on said copy or otherwise) of any advertising literature; agreement; bank record or statement; blueprint; book; book of account; booklet; brochure; calendar; catalog; chart; check; circular; coding form; communication (intra- or inter-company); computer printout; computer-readable form; contract; copy; correspondence; database; diary; display; draft of any document; drawing; e-mail; film; film transparency; flyer; forecast; graph; index; instruction; instruction manual or sheet; invoices; job requisition; letter; license; magnetic media of all kinds (including, but not limited to, disks, tapes, or other me-

dia) containing computer software with supporting indices, data, documentation, flow charts, comments, object code, source code, and computer programs relating thereto; landscape drawing; manual; map; memoranda; minute; newspaper or other clipping; note; notebook; opinion; pamphlet; paper; periodical or other publication; photograph; price list; print; printed circuit board; promotional literature; receipt; record; recorded Read Only Memory (ROM); recording; report; solicitation; statement; statistical compilation; stenographic notes, records, or summary of any (a) telephone or intercom conversation or message, (b) personal conversation or interview, or (c) meeting or conference; telegram; telephone calling card; telephone log; technical drawing; tickets; ticket sales records; travel or expense records; video recording; video tape; voice recording; voucher; worksheet or working paper; writing or other handwritten, printed, reproduced, recorded, typewritten, or otherwise produced graphic material from which the information required may be obtained, or any other documentary material of any nature, in the possession, custody or control of defendant.

[**6]

II. DISCUSSION

A. Discovery of Defendants' Business Activities Outside and Apart From the Liberty Grove Site Under the Village's Annexation Plan

Rather than limit its discovery requests to the development site at issue, the site being developed under the copyrighted plan, Ocean Atlantic's interrogatories and production requests seek all of the defendants' financial records relating to their entire business and professional activities, on all construction projects throughout the country, beginning from 1997 through present date. Included within these interrogatories and production requests are demands for the production of customer identification and communications, advertising plans, and costs, sales data, cost of development, payments and

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profits among the defendants, and filings with government agencies. It can be said, essentially, that Ocean Atlantic is seeking every single business and management record of defendants for all their construction and development activities, no matter where and when done, beginning from 1997 to present date. Obviously, the physical production of these documents would number in the hundreds of thousands of pages and would involve [**7] an extraordinary costly undertaking for the defendants. This court first asks then --can anything remotely relevant to the claims and defenses --or more pointedly to damages-- arising from use of the Development Plans at the Liberty Grove development site justify this massive body of discovery? We hardly think so.

[HN1] Discovery under Fed.R.Civ.P. 26(b) is not without limits; the manner and scope of discovery must be tailored to some extent to avoid harassment or being [**927] oppressive. When the purpose of the discovery is to obtain information for reasons other than the prosecution or defense of the lawsuit, unless vital information is at stake, discovery will be denied in its entirety. *Echostar Communications Co. v. News Co.*, 180 F.R.D. 391, 395-96 (D.Colo.1998). Ocean Atlantic's request for broad discovery into all of the defendants' business activities not involved with the subject development is not only off the mark as legitimate discovery but, even more so, inconsistent with copyright law. [HN2] A copyright owner's entitlement to recover an accused infringer's profit, if warranted, is limited to profits flowing from the infringing activities. *Leigh v. Engle*, 727 F.2d 113, 138 (7th Cir. 1984) [**8] Ocean Atlantic has made no attempt to limit the scope of discovery to the activities relating to the alleged infringement at the Liberty Grove site.

This court perceives an improper motive and purpose to this broad discovery. We cannot conceive of any relevance to the claims or defenses asserted in this copyright infringement case, or of any legitimate purpose of this massive discovery demand. The production of virtually the entirety of defendants' business books and records relating to all of its projects could not lead to any admissible evidence. We easily conclude that Ocean Atlantic's demands for this line of discovery dating from 1997 -- five years prior to Ocean Atlantic's purchase of the Plans -- were deliberately employed, in this grudge fight over the lost opportunity to profitably develop the Liberty Grove project, to increase the cost of the litigation that defendants must bear in this lawsuit. We conclude that this oppressive and burdensome discovery was so vexatious and unreasonable that it multiplied the proceedings and was aimed at creating excessive costs for defendants (See 28 U.S.C. § 1927). Pure and simple, it was designed to harass the defendants. [**9] It will, of course, be denied.

B. Ocean Atlantic's Discovery of Defendants' Business and Financial Records at the Liberty Grove Development Site

[HN3] Copyright law allows a copyright owner to recover his actual damages and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. 17 U.S.C. § 504(b). Since a copyright infringement suit is a form of tort, *Taylor v. Meirick*, 712 F.2d 1112, 1117 (7th Cir. 1983) (copyright infringement is a statutory tort), causation still needs to be shown. See *PAR Microsystems, Inc. v. Pinnacle Dev. Corp.*, 995 F. Supp. 658, 661 (N. D. Tex. 1998) (causation absent for lost profit). As a result, where the relationship between the profit and infringement is so attenuated or speculative, the plaintiff is not entitled to recover defendant's profits. *Frank Music Corp. v. MGM*, 886 F.2d 1545, 1553 (9th Cir. 1989) (downstream corporate profits are too attenuated to the infringing activities to be recoverable). Moreover, if the profits from infringement have been taken into account in computing the actual [**10] damages of the same economic transaction, the owner of the copyright is not entitled to recover both. *Taylor*, 712 F.2d at 1120. A copyright owner's entitlement to recover an accused infringer's profit, if warranted, is limited to profits flowing from the infringing activities. *Leigh v. Engle*, 727 F.2d 113, 138 (7th Cir. 1984).

Ocean Atlantic's discovery requests, even those aimed at defendant's financial and business records pertaining to the Liberty Grove project, are outside the scope of legitimate discovery on the issue of Ocean Atlantic's damages and lost profits resulting from the alleged infringement. [HN4] Actual damages are usually calculated on three bases: first, it could be that but for the infringement, Ocean Atlantic [**928] would have made the profit out of its own sale/use of the work; second, it could be that Ocean Atlantic suffered a loss because the defendant might have purchased the material from Ocean Atlantic; and third, when the defendant reproduced Ocean Atlantic's copyrighted material, it may have damaged Ocean Atlantic to the extent of value of use of the assets in terms of acquisition costs saved by the defendant. *Deltak v. Advanced Systems*, 767 F.2d 357, 360 (7th Cir. 1985). [**11] Here, because Ocean Atlantic lost its entitlement to develop the land for which the development plan was specifically designed, the market value of the plan is in no way affected by the alleged infringement. The basis for calculating damages is, therefore, either the reasonable cost of acquiring such a plan or the value of Cambridge's use of the plan. The reasonable cost of acquisition is easily ascertainable here through identifying the amount Ocean paid to the original owners of the plans, that being the engineers and architects who created the plans. The value of Cam-

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bridge's use (and to a lesser extent use by the other defendants) can be assessed at the saved cost of acquisition. Under either theory, however, any award of profits from the development would constitute double-counting under copyright law.

In cases like this, [HN5] when a developer pays for the use of the plan and uses it for its intended purpose, the copyright owner's claims are exhausted, because a developer's profit from developing the land is independent from the cost of acquiring the copyrighted plan. As pointed out in *Dealtak*, a contractor who hopes to profit from the construction of a building incurs the cost [**12] of the architectural plans, whether or not he does actually profit. 767 F.2d at 361. As a corollary, once the developer pays for the acquisition of the architectural plan, whether he makes profits or loses money in constructing the building is of no concern to the copyright owner. n5 We see no material difference between the development plan and architectural works in terms of their respective value to a developer or contractor. In both cases, the profits made by the alleged copyright infringer are the saved acquisition costs. See *Atlantic Monthly Co. v. Post Pub. Co.*, 27 F.2d 556, 560 (D. Mass. 1928) (awarding saved acquisition cost as profit made by copyright infringer). Any further award of profits from developing the land would constitute double-counting of damages, as prohibited by the statute. 17 U.S.C. § 504(b).

n5 The separability of acquisition and development profit can also be explained on a contract basis: when acquiring a development plan, like hiring a truck driver or a construction worker, the developer does not expect to share profits from developing the land with the engineer(s). On the other hand, an engineer who enters into a development contract does not expect to claim profits from developing the land. Accordingly, if Ocean Atlantic's theory is sustained, all of its past engineers can sue Ocean Atlantic for profits made out of its other development projects because Ocean Atlantic's purchase of their Development Plans does not exhaust their rights in the plans --a rather bizarre result.

[**13]

The proper damages calculation in this case, therefore, is either the amount Ocean Atlantic paid for the acquisition of the plan in the first place, which is readily ascertainable with other discovery not needed, or the value of use or the saved acquisition cost to Cambridge and perhaps the other defendants if used by them. [HN6] Value of use of infringing work in terms of saved acqui-

sition costs amounts to no more than a determination of what a willing buyer would have been reasonably required to pay a willing seller for Ocean Atlantic's work, the Plans. *Sid & Marty Krofft Television Productions*, 562 F.2d at 1157, 1174 (9th Cir. 1977). Such a calculation can come through testimony of experts in the field of large scale home development. It [*929] is only through this evidence that the value of these preliminary drawings could be readily ascertained. Of course, under the facts of this case, we see little likelihood of Ocean Atlantic recovering anything more than what it paid to the engineers for the creation of the development plan in the first place --but that issue is for the fact finder at a later date.

The history of this case further persuades this court that relying on [**14] expert testimony is the best solution to the current discovery dispute, if Ocean Atlantic is not content with being compensated for the amount it paid the engineers when it purchased the Plans. Ocean Atlantic first lost the rights to develop the land and the profits therefrom due to its own failure to close on the sale of the land on time. *Arnhold*, 284 F.3d 693. By way of the current copyright infringement suit, Ocean Atlantic again attempts to recover those profits emanating from developing the land, and in this attempt it initiated discovery into every conceivable financial or business record created by defendant's in conjunction with the development of the project. We conclude that Ocean Atlantic's discovery demands will not lead to relevant information, nor will they lead to the discovery of admissible evidence on the issue of damages in this copyright suit. Whatever profits are realized on this development, after engineering, excavation, design, construction, and sale activities, among other things, are completed, they will be so attenuated or distant from the alleged use of the copyrighted development plan, as to render Ocean Atlantic's extensive discovery at [**15] Liberty Grove meaningless. Accordingly, these discovery efforts by Ocean Atlantic will likewise be denied.

III. SPECIFIC RULING ON OCEAN ATLANTIC'S DISCOVERY

DEFENDANTS' JOINT MOTION FOR PROTECTIVE ORDER is granted and both OCEAN ATLANTIC WOODLAND CORPORATION'S MOTIONS TO COMPEL are denied with the following rulings on the parties' respective motions relating to the specific discovery requests.

A. Defendant Cowhey's Objections

This Court finds that Defendant Cowhey's objections to Ocean Atlantic's second set of interrogatories and requests for production are not waived, as Ocean Atlantic argues, because Cowhey joined in Defendants' Joint Motion for Protective Order before Ocean Atlantic filed its

motion to compel. This Court finds that Cowhey was attempting to resolve its discovery disputes with Ocean Atlantic. At the point when it appeared the dispute was not going to be resolved, defendants timely filed a motion for protective order. We find that the Joint Motion for Protective Order constituted Cowhey's response to Ocean Atlantic's second set of interrogatories and requests for production.

B. Relevant Discovery Period

In considering DEFENDANTS' [**16] JOINT MOTION FOR PROTECTIVE ORDER, the Court finds the relevant period of time for purposes of discovery propounded upon defendants to be from January 25, 2001, one day after Ocean Atlantic failed to close on the Property, to the present. That is the period in which any conduct by the defendants in the alleged unlawful use of the plans could have been actionable. The Court finds that Ocean Atlantic is not entitled to any discovery of any kind outside this time period.

To the extent not specified to the contrary below, for each discovery request for which this Court grants Defendant's Joint Motion for Protective Order, no further discovery on such subject matter, including inquiry at depositions, shall be had. For each discovery request for which this Court has granted Ocean Atlantic's motion to compel, to the extent not previously [*930] provided or stated in open court or in this order, supplemental discovery responses shall be served within fifteen (15) days of this order (unless defendants appeal the specific ruling).

C. Ocean Atlantic's Second Set of Interrogatories to Cambridge

1. Defendants' Joint Motion for Protective Order is granted with respect to Interrogatory Nos. 1, 2, and [**17] 3. These Interrogatories seek information regarding Cambridge's customers and potential customers for the Liberty Grove development. Specifically, they seek individuals' identities, as well as the representations Cambridge made to them relating to the design of the development. We find these interrogatories to be burdensome, unproductive, and of no useful purpose. The identification of customers and potential customers is too attenuated from the copyright infringement damage issues in this case and is without a shred of relevancy to these proceedings. (See our discussion in Section II B hereof.) Likewise, communications with such customers and potential customers have absolutely no relevance to the subject matter of this lawsuit. This includes any correspondence sent to customers or potential customers, as well as memorializations of conversations with customers or potential customers. There is no privity between Ocean Atlantic and such persons, and there is absolutely no relevance to the cause of action or claim of damages

found in these Interrogatories. The same is true for Interrogatory No. 3. To the extent Cambridge has provided documents to its customers and potential customers [**18] which Ocean Atlantic has obtained, these documents speak for themselves. Concerning the two documents attached to the Annexation Agreement, executed by the Owners of the Property, the Village of Plainfield and Ocean Atlantic, if these documents have been altered and later given to customers, a copy of these document shall be produced or, if already produced, specifically identified.

2. For those reasons above stated in Section II hereof, defendants' Joint Motion for Protective Order is granted with respect to Interrogatory No. 5. Interrogatory No. 5 seeks discovery of Cambridge's profits and revenues, both realized and projected. As earlier discussed, use of the Development Plan is too attenuated from the realization of profits. The Village adopted these plans as a matter of its ordinance structure. Cambridge, in its development activities, followed the annexation plan. Beginning with that point and ending when profits may or may not be realized, with development of full architectural drawings, excavation, installation of sewer, water, and other services, homebuilding, advertising, marketing and selling in between, we conclude that no possible causal connection exists between damages [**19] arising from an alleged infringing use of the plans and Cambridge profits. We simply see no relevance between the the copyright and evidence concerning profits Cambridge may realize at the Liberty Grove development. So there will be no discovery into the business activities or profits of Cambridge or any defendant. This Court has reviewed the cases cited in Ocean Atlantic's response to the joint motion for a protective order, and is not persuaded that these citations have any application to the issue of damages in this case. A better review of the law on damages Ocean Atlantic may recover is described in Section II hereof. This Court finds Ocean Atlantic's discovery to be burdensome, immaterial, unnecessary and without any rational basis.

3. Defendants' Joint Motion for Protective Order and Ocean Atlantic's motion to compel are granted in part and denied in part with respect to Interrogatory No. 6. Cambridge will supplement its answer to [*931] state clearly what its position is on damages claimed by Ocean Atlantic.

4. Defendants' Joint Motion for Protective Order is granted with respect to Interrogatory No. 7 in which Cambridge is to provide information relating to use and designing of [**20] development plats and plans by Cambridge since 1997. (See our discussion in Section II A hereof.) The exact cost of designing this particular design plan and plat is easily obtained by the engineering firm that produced them. The fact that Cambridge may

have obtained other design plans and development drawings is irrelevant to any damages resulting from the alleged infringement.

5. Defendants' Joint Motion for Protective Order and Ocean Atlantic's motion to compel are granted in part and denied in part with respect to Interrogatory No. 8. Cambridge need only supplement its answer to state what it believes Ocean Atlantic is entitled to as damages. The remainder of Cambridge's answer to the Interrogatory is sufficient.

D. Ocean Atlantic's Second Set of Requests for Production of Documents Served on Cambridge

1. Defendants' Joint Motion for Protective Order is granted as to Request Nos. 1 and 2, except with respect to the two documents specified in answer to Interrogatories (which Ocean Atlantic already possesses). The rulings concerning Request Nos. 1 and 2 will follow that given for the Interrogatories seeking the identity of these documents.

2. Defendants' Joint Motion [**21] for Protective Order is granted with respect to Request No. 3. For those reasons discussed in Section II B of this order, we find that documents showing profits and other financial documents relating to the development of the Property and projected sale of finished homes to be outside the scope of relevancy under Fed. R. Civ. P. 26(b).

3. Defendants' Joint Motion for Protective Order is granted with respect to Request No. 4. The production of communications with a customer or potential customer of Cambridge concerning the Liberty Grove development is not relevant to the issue of damages in this case. *See* Section II B, at 7-11, *supra*. Additionally, this court feels it would be a disservice to embroil those people who are either interested or who become potential home buyers in Liberty Grove development in this litigation. In any event, the two documents attached to the Annexation Agreement, and those documents given to customers/potential customers, are in Ocean Atlantic's possession. That is all that is required.

4. Defendants' Joint Motion for Protective Order is granted with respect to Request Nos. 5 and 6. for the reasons set forth in Section II B, namely, that requests [**22] for financial information for the Liberty Grove development are overly broad, extraordinarily burdensome and, above all, have no relevance to damages in this case.

5. Defendants' Joint Motion for Protective Order is granted with respect to Request No. 7. For the same reasons found in Section II A of this decision, this request is found to be overly broad and unduly burdensome. Profits and losses of Cambridge from 1997 to the present have little application to Ocean Atlantic's now claimed dam-

ages. This would be true even if the Court had not rejected Ocean Atlantic's argument that it can recover damages based on Cambridge's profits from the Liberty Grove development.

6. Defendants' Joint Motion for Protective Order is granted with respect to Request No. 8. Discovery of Cambridge's financial documents is too attenuated and entirely too speculative for finding relevancy in computing damages. The rationale [*932] for this ruling is the same as stated in Section II of this Order.

7. Defendants' Joint Motion for Protective Order is granted with respect to Request No. 9. The method by which Cambridge computes its profits and the information it uses in computing its profits is too attenuated from [**23] the alleged infringing use of the Development Plans, as discussed in Section II of this Order, to have any relevancy to the issues of this case. This is particularly true as to Request No. 9 because the computation of anticipated profits is an exceedingly speculative proposition, having little bearing on the nature of damages claimed by Ocean Atlantic.

8. Defendants' Joint Motion for Protective Order is granted with respect to Request Nos. 10 and 11. These requests seek financial documents relating to all of Cambridge's annual revenue, expenses, gross profits and net profits since 1997. Again for the reasons set forth in Section II A of this Order, we find these requests to be unnecessary, burdensome and vexatious, since they request documents that have absolutely no relevance to the issues of damages. We also find this discovery to have been imposed for an improper purpose.

9. Defendants' Joint Motion for Protective Order is granted with respect to Request No. 12. The means by which Cambridge calculates and reports the value of its goodwill or reputation as an assets in annual reports, SEC filings or other financial documents has no relevance whatsoever to the use of the Plans or [**24] to the issue of damages. This request is unreasonable and imposed for an improper purpose.

10. Defendants' Joint Motion for Protective Order is granted with respect to Request Nos. 13, 14 and 15. These requests seek documents relating to the existence of other possible design plans considered by Cambridge for the development site. The Development Plans for which Ocean Atlantic claims a copyright interest are part of the approved plan under the ordinances of the Village. The Village has mandated that any development is to be in accordance with the Plans. Whether Cambridge might have looked at or considered other plans, estimates, or projections, has no relevance to liability issues, damages, or the value of the copyright. The information sought can neither provide the intrinsic value of the Plans at issue, nor aid in assessing Ocean Atlantic's damages.

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11. Defendants' Joint Motion for Protective Order is granted for Request No. 18. As discussed in Section II A of this order, Cambridge's sales and marketing practices throughout the country for properties other than Liberty Grove are not relevant, and their production would be unduly burdensome. Liberty Grove is a unique development, [**25] and the differences between it and other developments are so profound and obvious that we find this request to have been imposed for a vexatious and improper purpose. While we find sales brochures irrelevant to the issue in this case, Cambridge shall, nonetheless, produce one copy of each unique sales brochure being distributed for the Liberty Grove development.

12. Ocean Atlantic's motion to compel with respect to Request No. 20 is granted to the extent that Cambridge shall produce documents that describe the use of the two documents attached to the Annexation Agreement (Development Plans), along with any documents that might identify the documents' cash value.

13. Defendants' Joint Motion for Protective Order is granted with respect to Request No. 21. We find the request for documents that contain information on profits and revenues, both realized and projected, relating to all developments created or in the process of being built, from 1997 to the present to be vexatious, mean [*933] spirited, and burdensome. As ordinary common sense tell us, each individual planned community development is unique and subject to its own economic environment based upon time and place. As discussed earlier [**26] in Section II A, we find that Ocean Atlantic's request was obviously intended as a means of harassment, and was imposed for an improper purpose.

14. Defendants' Joint Motion for Protective Order is granted as to Request No. 22. This request is duplicative of Interrogatory No. 8. This Court finds that Cambridge has adequately responded by producing relevant documents.

E. Ocean Atlantic's Second Set of Interrogatories to Cowhey

1. Defendants' Joint Motion for Protective Order is granted as to Interrogatory No. 1. As presently stated, Interrogatory No. 1. is too broad and generalized to convey the particular area of information sought. Ocean Atlantic is given leave to reword Interrogatory No. 1 so as to seek from Cowhey any statement it made to the effect that the two documents attached to the Annexation Agreement were created by Pugsley or Cambridge or Cowhey.

2. Defendants' Joint Motion for Protective Order is granted as to Interrogatory No. 2. Ocean Atlantic, however, is given leave to reword Interrogatory. No. 2 so as to request the identification of the person most knowl-

edgeable concerning Cowhey's (1) earnings; (2) revenues; (3) profits; (4) costs; and (5) accounting [**27] methods at the Liberty Grove development.

3. Defendants' Joint Motion for Protective Order is granted as to Interrogatory No. 3. This interrogatory seeks disclosure of Cowhey's profits and revenues, both projected and realized, for work at the Liberty Grove site. As discussed in Section II B of this Order, this interrogatory does not seek relevant information as to Ocean Atlantic's damages. Cowhey has performed, and continues to perform, engineering services distinct from the drawings (Plans) attached to the Annexation Agreement. There is no need for Cowhey to provide its drawings or information on its profits and revenues, relating to engineering services it performs at the development site. We find this interrogatory to be vexatious. In any event, Cowhey reports that it has already produced its engineering plans to Ocean Atlantic. It need not provide any additional documents.

4. Defendants' Joint Motion for Protective Order is granted with respect to Interrogatory No. 4. This interrogatory seeks information on all payments to Cowhey for work related to Liberty Grove. This overly broad interrogatory is vexatious and unduly burdensome as it seeks a significant amount of material [**28] that has no relevance to the issues of liability and Ocean Atlantic's damages, as more fully discussed in Section II B of this Order. This request seeks a break down of all payments related to every facet of Cowhey's engineering services, regardless of whether it may relate to the Development Plans. This Court will not burden Cowhey with sifting through hundreds of documents only to find what clearly would be irrelevant information in the first place. The burdensome nature of the request is due to Ocean Atlantic's inability to articulate an interrogatory that seeks relevant information. Therefore, Cowhey need not respond in any manner to Interrogatory No. 4.

5. Ocean Atlantic's motion to compel is granted for Interrogatory No. 5. Cowhey will set forth its contentions as to the value of the Development Plans attached to the Annexation Agreement.

6. Defendants' Joint Motion for Protective Order is granted with respect to Interrogatory No. 6. This request is burdensome and fails to seek relevant information, as discussed in Section II A of this [*934] Order. Liberty Grove, once again, is a unique development; there is no nexus between its costs, profits, and revenues and those of other developments [**29] in which Cowhey has worked. We find this line of inquiry to be vexatious and imposed for an improper purpose. Therefore, Cowhey need not respond to Interrogatory No. 6.

7. Ocean Atlantic's motion to compel is granted for Interrogatory No. 7. Cowhey will articulate why it believes Ocean Atlantic is not entitled to any damages.

8. Ocean Atlantic's motion to compel is denied for Interrogatory No. 8. Cowhey will, however, provide a list of its experts at that time when it is required to do so under Fed.R.Civ.P. 26 or by court order.

F. Ocean Atlantic's Second Set of Requests for Production to Cowhey

1. Defendants' Joint Motion for Protective Order is granted with respect to Request Nos. 1 and 2. These requests seek documents reviewed and relied on in answering companion interrogatories. The two documents attached to the Annexation Agreement (Development Plan) have already been produced.

2. Defendants' Joint Motion for Protective Order is granted with respect to Request No. 3. The reasons for this ruling are identical to the ruling on Request No. 3 to Cambridge. As discussed in Section II B hereof, Cowhey's financial information relating to the development of the property [**30] is too attenuated from any damage issues in this case to be within the scope of relevancy under Fed. R. Civ. P. 26(b). Therefore, Cowhey need not respond to Request No. 3.

3. Defendants' Joint Motion for Protective Order is granted with respect to Request No. 4. The reasons for this ruling are identical to the ruling on Request No. 7 to Cambridge. Cowhey's financial documents is determined to have no relevancy to any damage or liability issues in this case, as discussed in Section II hereof. Therefore, Cowhey need not respond to Request No. 4.

4. Defendants' Joint Motion for Protective Order is granted with respect to Request No. 5. The reasons for this ruling are identical to the reasons given for the ruling on Request No. 11 to Cambridge. Cowhey's annual revenue, expenses, and gross profits are not relevant to any issues in this case. Request No. 5, the court believes, was designed to be vexatious and was imposed for an improper purpose. Cowhey need not respond to Request No. 5.

5. Defendants' Joint Motion for Protective Order is granted with respect to Request No. 6. This request seeks documents relating to any payments made to Cowhey for work at Liberty Grove. For those reasons [**31] stated in Section II B of this Order, this request is found to be overly broad and seeks documents that are clearly not relevant to the issues in this case. The work that Cowhey has done at the Liberty Grove development goes well beyond the two drawings that are attached to the Annexation Agreement (Development Plans). Cowhey need not respond to Request No. 6. In any event, Cowhey has reported that it has already produced its engineering

plans for the project to Ocean Atlantic and this is all that is required of Cowhey under Ocean Atlantic's discovery.

6. Defendants' Joint Motion for Protective Order is granted with respect to Request No. 7. This request is found to be burdensome, vexatious, and not aimed at discovery of relevant information. Discovery into the goodwill component of Cowhey's business, and into its reputation, can add nothing to the computation of Ocean Atlantic's damages. The same is true of Cowhey's annual reports, SEC filings, and other financial documents. Therefore, Cowhey need not respond to Request No. [**935] 7. The court finds that this request, like others before it, to have been imposed by Ocean Atlantic solely for harassment purposes.

7. Defendants' Joint Motion [**32] for Protective Order is granted with respect to Request No. 8. For the reasons discussed in Section II of this Order, it is found that estimated projections of other plan designs are speculative and have no relationship to the issue of Ocean Atlantic's claimed damages. Cowhey represents that it has already produced all responsive documents. Therefore, Cowhey need not produce anything other than what it has already produced.

8. Ocean Atlantic's motion to compel and Defendants' Joint Motion for Protective Order are granted in part and denied in part with respect to Request No. 9. This request seeks production of all documents relating to any benefits or detriments from use of the Development plans. Although the request is overly broad and vague, Cowhey shall produce any documents that discuss the use of the Development Plans or identifies any saved costs in use of the Plans. Cowhey has represented that responsive documents have been produced.

9. For those reasons set forth in Section II A of this Order, Defendants' Joint Motion for Protective Order is granted with respect to Request No. 10. This is yet another overly broad, vexatious, burdensome request imposed for an improper purpose. [**33] The request for Cowhey's sales, marketing practices, procedures, and policies is without any time limitation and seeks production of documents for projects and activities unrelated to the Liberty Grove development. Therefore, Cowhey need not respond to Request No. 10. Ocean Atlantic's request to revise or reword this request is denied.

10. Ocean Atlantic's motion to compel is moot with respect to Request No. 11. Cowhey, represents that it has already produced all responsive documents for Request No. 11.

11. Ocean Atlantic's Motion to Compel and Defendants' Joint Motion for Protective Order are granted in part and denied in part for Requests No. 12. The reasons for this ruling are identical to that for ruling on Request

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No. 20 to Cambridge. Cowhey need produce only documents that identify its use (including saved costs) or value of the two documents attached to the Annexation Agreement (Development Plans). The protective order is granted to the extent that this request seeks any other types of documents.

12. Defendants' Joint Motion for Protective Order is granted as to Request No. 13. This request seeks documents that relate to costs, profits, revenues, realized or projected, relating [**34] to any and all developments created by Cowhey from 1997 to the present. As discussed in Section II A of this Order, this request is improper. Each development has its own unique characteristic in cost, in time, and in place. As such, Request No. 13 is burdensome, vexatious, and specifically imposed upon Cowhey by Ocean Atlantic to create added expense in this litigation. We find that Ocean Atlantic imposed this discovery upon Cowhey for an improper purpose. Cowhey need not respond to Request No. 13.

13. Defendants' Joint Motion For Protective Order is granted with respect to Request No. 14. Cowhey has adequately responded to this request by producing relevant documents.

G. Ocean Atlantic's Second Set of Interrogatories to Pugsley

1. Ocean Atlantic's motion to compel is granted for Interrogatory No. 5. Pugsley will state its contentions why it believes any damages Ocean Atlantic may have suffered from the alleged infringement amounted to no more than the exact [*936] amount paid to Roake and Lannert for the Development Plans at issue.

2. Defendants' Joint Motion for Protective Order is granted as to Interrogatory No. 6. The reasons for this ruling are identical to that in the [**35] ruling on Interrogatory No. 6 to Cowhey. This request is overly broad and vexatious. It seeks information well outside the limit allowed by Fed. R. Civ. P. 26(b). It is found to have been imposed by Ocean Atlantic for improper purposes.

3. Ocean Atlantic's motion to compel is granted for Interrogatory No. 7. Pugsley will state its contentions why it believes that Ocean Atlantic is not entitled to any damages.

H. Ocean Atlantic's Second Set of Requests for Production to Pugsley

1. Defendants' Joint Motion for Protective Order is granted as to Request No. 1. The reasons for this rulings are identical to the ruling on Request No. 1 to Cowhey.

2. Defendants' Joint Motion for Protective Order is granted as to Request No. 4. The reasons and ruling in granting defendant's motion are identical to its ruling on

Request No. 4 to Cowhey. Pugsley's financial documents are not relevant to the computation of Ocean Atlantic's alleged damages. The request is vexatious and imposed for an improper purpose.

3. Defendants' Joint Motion for Protective Order is granted as to Request No. 5. The reasons for this ruling are identical to the ruling on Request No. 5 to Cowhey. Pugsley's annual [**36] revenue, expenses, and gross profits are not relevant to any issues in this case. This yet is another vexatious request, imposed for an improper purpose.

4. Ocean Atlantic's motion to compel and Defendants' Joint Motion for Protective Order are granted in part and denied in part for Requests No. 12. The reasons for this ruling are identical to the reasons in the ruling on Request No. 9 to Cowhey. Pugsley will produce any documents that relate to its use (or saved costs) of the two documents attached to the Annexation Agreement (Development Plans). The protective order is granted to the extent that Ocean Atlantic seeks anything more.

5. Defendants' Joint Motion for Protective Order is granted as to Request No. 13. The reasons for this ruling are identical to the reasons in the ruling on Request No. 13 to Cowhey. This request seeks an extraordinary amount of documents involving Pugsley's costs, profits, revenues, realized or projected, relating to any and all developments worked on by Pugsley from 1997 to the present. As discussed in Section II A of this Order, each property on which Pugsley works is unique, with costs and profits distinct from Liberty Grove. This request is burdensome [**37] and vexatious, as well as improperly motivated by Ocean Atlantic's desire to create extra expense for Pugsley in this litigation.

6. Defendants' Joint Motion for Protective Order is granted as to Request No. 14. Pugsley has adequately responded to this request by producing relevant documents. Pugsley, in open court, has represented that it has produced all documents responsive to Request No. 14.

IV. CONCLUSION

For the above stated reasons, as well as those stated in open court during the lengthy hearing on December 10, 2002, this Court enters the above detailed rulings as to each contested discovery motion, granting in part and denying in part defendants' motion for a protective order and Ocean Atlantic's motions to compel.

ENTERED:

EDWARD A. BOBRICK

U.S. MAGISTRATE JUDGE

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**THE BOSTON AUCTION COMPANY, LTD., Plaintiff, vs. WESTERN FARM
CREDIT BANK, Defendant.**

CIVIL NO. 95-00740 HG

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF HAWAII

925 F. Supp. 1478; 1996 U.S. Dist. LEXIS 10704

April 15, 1996, Decided

April 15, 1996, FILED

CASE SUMMARY:

LexisNexis(R) Headnotes

PROCEDURAL POSTURE: Plaintiff auction company brought a breach of contract action against defendant bank for a commission on attempted sales of land. Auction company demanded discovery of certain documents from bank. Bank alleged that the documents were subject to the attorney-client privilege and the joint defense privilege.

OVERVIEW: The court held a discovery conference to determine if bank was required to produce documents that bank alleged were subject to the attorney-client privilege and to the joint defense privilege. Auction company alleged that the bank had waived the attorney-client privilege because the requested documents had been shown to the Farm Credit Association (FCA) acting in its capacity as bank examiner. The court reviewed the requested documents in camera. The court held that bank was not required to produce documents subject to the attorney-client privilege, but was not entitled to assert a joint defense privilege for other documents. The court held that bank had not waived the attorney-client privilege because (1) the documents were shared with FCA upon its authority as bank examiner, (2) the FCA had federal authority to access all of banks' records and files pursuant to 12 C.F.R. § 602.215(a), (3) FCA's access could not be refused, and (4) bank's compliance was not voluntary.

OUTCOME: The court ordered bank to produce those documents or those portions of documents for which it claimed a joint defense privilege. The order did not require bank to produce documents or those portions of documents for which attorney-client privilege or another independent privilege or immunity from discovery was properly asserted.

Civil Procedure > Disclosure & Discovery > Relevance
[HN1] Pursuant to Fed. R. Civ. P. 26(b)(1) parties may obtain discovery regarding any matter, not privileged, which is relevant to the subject matter involved in the pending action which appears reasonably calculated to lead to the discovery of admissible evidence. The proponent of a privilege bears the burden of establishing it.

Civil Procedure > Disclosure & Discovery > Privileged Matters
[HN2] See Haw. Rev. Stat. § 626-1.

Legal Ethics > Client Relations > Attorney-Client Privilege
[HN3] The party asserting the lawyer-client privilege must prove that: (1) where legal advice of any kind is sought (2) from a professional legal advisor in his capacity as such, (3) the communications relating to that purpose, (4) made in confidence (5) by the client, (6) are at his instance permanently protected (7) from disclosure by himself or by the legal advisor, (8) except the protection be waived.

Legal Ethics > Client Relations > Attorney-Client Privilege
[HN4] Under Hawaii law, privileges are to be construed narrowly. The privilege must be strictly limited to the purpose for which it exists.

Banking Law > Regulatory Agencies
[HN5] The Farm Credit Association is prohibited from disclosing information of a type not ordinarily contained in published reports. 12 C.F.R. § 602.200. The information is not available under the Freedom of Information Act. 12 C.F.R. § 602.250.

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Banking Law > Regulatory Agencies

[HN6] Because bank supervision is relatively informal and more or less continuous, so too must be the flow of communication between the bank and the regulatory agency. Bank management must be open and forthcoming in response to the inquiries of bank examiners, and the examiners must in turn be frank in expressing their concerns about the bank. These conditions simply could not be met as well if communications between the bank and its regulators were not privileged.

Legal Ethics > Client Relations > Attorney-Client Privilege

[HN7] Haw. R. Evid. 503(b)(3) provides that a client has a privilege to refuse to disclose and to prevent any other person from disclosing confidential communications made for the purpose of facilitating the rendition of professional legal services to the client, by the client or the client's representative or the lawyer or a representative of the lawyer to a lawyer or a representative or a lawyer representing another party in a pending action and concerning a matter of common interest.

Torts > Defamation & Invasion of Privacy > Qualified Privileges

[HN8] The so-called joint defense privilege, codified at Haw. R. Evid. 503(b)(3), is available only in the context of a pending action and concerning a matter of common interest.

COUNSEL: [**1] For BOSTON AUCTION COMPANY, LTD. THE dba Hamakua Real Estate Sales, plaintiff: Michael K. Livingston, Davis & Levin, Honolulu, HI.

For WESTERN FARM CREDIT BANK, defendant: Troy T. Fukuhara, Dwyer Imanaka Schraff Kudo Meyer & Fujimoto, Honolulu, HI.

For WESTERN FARM CREDIT BANK, counter-claimant: Troy T. Fukuhara, Dwyer Imanaka Schraff Kudo Meyer & Fujimoto, Honolulu, HI.

For BOSTON AUCTION COMPANY, LTD. THE dba Hamakua Real Estate Sales, counter-defendant: Michael K. Livingston, Davis & Levin, Honolulu, HI.

JUDGES: Barry M. Kurren, United States Magistrate Judge. Judge Helen Gillmor

OPINIONBY: Barry M. Kurren

OPINION:

[*1480] ORDER FOR PRODUCTION OF DOCUMENTS

In this breach of contract action, plaintiff Boston Auction Company, Ltd., seeks from defendant Western Farm Credit Bank ("WFCB") a commission on one or more unsuccessful attempted sales of land owned by Hamakua Sugar Company ("HSC") to Royal Coast Waipio Corporation ("RC"). The attempted sales of those lands were part of an overall effort to restructure and pay off a loan from WFCB to HSC.

On March 20, 1996, this court held a discovery conference concerning two matters: 1) whether WFCB waived the attorney-client privilege for documents [**2] shown to the Farm Credit Administration ("FCA"), and 2) whether WFCB can claim a joint defense privilege from discovery for communications between WFCB and its attorneys and HSC's attorneys concerning settlement of an attempted sale of land to RC.

The court has reviewed the letter briefs submitted by the parties and has carefully considered the arguments therein as well as the further arguments offered by counsel at the March 20, 1996, discovery conference. Accordingly, the court ORDERS that 1) Defendant is entitled to refuse production of privileged documents for which no waiver was effected by disclosure to the FCA; and 2) that Defendant has not established that the joint defense privilege applies to communications with HSC, through their counsel or otherwise. Defendant is ORDERED to produce those documents or those portions of documents for which it claims a joint defense privilege.

DISCUSSION

[HN1] Pursuant to Rule 26(b)(1) of the Federal Rules of Civil Procedure, "parties may obtain discovery regarding any matter, not privileged, which is relevant to the subject matter involved in the pending action . . . which appears reasonably calculated to lead to the discovery of admissible [**3] evidence." The proponent of a privilege bears the burden of establishing it. E.g., *Weil v. Investment/Indicators, Research & Mgmt., Inc.*, 647 F.2d 18, 25 (9th Cir. 1981).

I. Attorney-Client Privilege/Documents Shown To The FCA

This action is before this court pursuant to diversity jurisdiction and the availability of attorney-client privilege is therefore governed by state law. Fed. R. Evid. 501; e.g., *KL Group v. Case, Kay & Lynch*, 829 F.2d 909, 918 (1987).

The Hawaii common-law of attorney-client privilege has been codified as Rule 503, n1 Hawaii Rules of Evidence, as the "lawyer-client" privilege. n2

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n1 [HN2] The statute provides in relevant part that:

A client has a privilege to refuse to disclose and to prevent any other person from disclosing confidential communications made for the purpose of facilitating the rendition of professional legal services to the client (1) between the client of the client's representative and the lawyer or the lawyer's representative, or (2) between the lawyer and the lawyer's representative, or (3) by the client or the client's representative or the lawyer or a representative of the lawyer to a lawyer or a representative or a lawyer representing another party in a pending action and concerning a matter of common interest, or (4) between representatives of the client or between the client and a representative or the client, or (5) among lawyers and their representatives representing the same client.

Haw. Rev. Stat. § 626-1, Haw. R. Evid. 503(b).
[**4]

n2 The terms "lawyer-client privilege" and "attorney-client privilege" are hereinafter used interchangeably.

The Hawaii Supreme Court has adopted Professor Wigmore's formulation that [HN3] the party asserting the lawyer-client privilege must prove that:

[*1481] (1) where legal advice of any kind is sought (2) from a professional legal advisor in his capacity as such, (3) the communications relating to that purpose, (4) made in confidence (5) by the client, (6) are at his instance permanently protected (7) from disclosure by himself or by the legal advisor, (8) except the protection be waived.

Sapp v. Wong, 62 Haw. 34, 38, 609 P.2d 137, 140 (1980) (citing 8 Wigmore, Evidence § 2292 (McNaughton Rev. 1961)).

[HN4] Under Hawaii law, privileges are to be construed narrowly. In DiCenzo v. Izawa, the Hawaii Supreme Court stated that:

since [a privilege] "works to suppress otherwise relevant evidence" and forestall a search for truth, "the limitations which restrict the scope of its operation . . . must be assiduously heeded." Sapp v. Wong, 62 Haw. 34, 38, 609 P.2d 137, 140 (1980) [**5] (citation omitted). Put another way, the privilege "must be strictly limited to the purpose for which it exists."

68 Haw. 528, 535, 723 P.2d 171, 175 (1986) (citation omitted) In addition, a privilege "ought to be strictly confined within the narrowest limits consistent with the logic of its principle." *Id.* at 539, 723 P.2d at 177 (citation omitted).

A. Attorney-Client Privilege Shown

The court has reviewed the documents shown by WFCB to the FCA in camera. As a threshold matter, the court finds that the documents are confidential communications protected by the attorney-client privilege.

B. Privileged Communication to The FCA

The documents shown to the FCA by WFCB were not disclosed beyond the FCA. [HN5] The FCA is prohibited from disclosing information of a type not ordinarily contained in published reports. 12 C.F.R. § 602.200. The information is not available under the Freedom of Information Act. 12 C.F.R. § 602.250. This court is influenced in its ruling by the policy analysis conducted by Court of Appeals for the District of Columbia Circuit in finding that communications between a bank and its regulators were privileged in their own right.

[HN6]

Because bank [**6] supervision is relatively informal and more or less continuous, so too must be the flow of communication between the bank and the regulatory agency. Bank management must be open and forthcoming in response to the inquiries of bank examiners, and the examiners must in turn be frank in expressing their concerns about the bank. These conditions simply could not be met as

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well if communications between the bank and its regulators were not privileged.

In re Subpoena Served upon the Comptroller of the Currency, 296 U.S. App. D.C. 263, 967 F.2d 630, 634 (D.C. Cir. 1992).

The court finds that the release of documents to the FCA at the FCA's request were privileged communications in their own right which are not the subject for discovery.

C. No Waiver of Applicable Privileges

Even if the communications between WFCB and the FCA were not privileged in and of themselves, WFCB having met its burden of establishing that the documents are indeed privileged attorney-client communication, the court considered whether showing the documents to the FCA effected any waiver of the privilege. Rule 511 of the Hawaii Rules of Evidence provide's that the lawyer-client privilege is waived if the [**7] holder of the privilege "voluntarily discloses or consents to disclosure."

Plaintiff contends that by sharing documents with the FCA, WFCB waived any lawyer-client privilege which might inhere in the documents. For this proposition, Plaintiff has cited precedent where disclosures to the SEC were deemed voluntary, resulting in waiver of the relevant privileges. In re Steinhardt Partners, L.P., 9 F.3d 230 (2d Cir. 1993); Westinghouse Electric Corp. v. Republic of the Philippines, 951 F.2d 1414 (3d Cir. 1991); Permian Corp. v. United States, 214 U.S. App. D.C. 396, 665 F.2d 1214 (D.C. Cir. 1981). In Permian, the disclosure was self-serving--the disclosing party provided documents to the SEC in order to expedite the approval of a registration statement. Permian, 665 F.2d at 1219-20. The disclosure in Steinhardt was made as part of an SEC investigation of the treasury [*1482] notes markets. Noting that the SEC was in an adversarial position to the producing party, the court held that the privilege was waived by the disclosure which was neither coerced or required by the SEC. In re Steinhardt, 9 F.3d at 234. In Westinghouse, the Third Circuit Court of Appeals found [**8] privileges waived by disclosure to the SEC and also by disclosure to the Department of Justice. The DOJ sought documents from Westinghouse via a grand jury subpoena. Westinghouse initially opposed the subpoena and moved for it to be quashed. Subsequently, Westinghouse withdrew its motion to quash and produced the documents subject to a confidentiality agreement with the DOJ. The Westinghouse court noted that, had Westinghouse persisted in its objection to the subpoena and produced the documents only upon an order to do so, it would not have considered such disclosure voluntary. Westinghouse, 951 F.2d at 1427 n.14.

Upon review of the circumstances surrounding WFCB's disclosure to the FCA, the court is convinced that the disclosures were not voluntary. The documents were shared with the FCA upon its authority as the bank examiner of WFCB. The FCA has federal authority to access all of WFCB's records and files. 12 C.F.R. 602.215(a). Whereas the FCA's access cannot be refused, under pain of the agency's power to compel access and sanction misconduct, compliance is not voluntary. WFCB's compliance with the FCA's requests for documents is more akin to the situation had Westinghouse [**9] continued in its objection to the grand jury subpoena. The court is not persuaded that the line of cases concerning disclosures to the SEC are authoritative on the facts presented in this case.

The court finds that Defendant has established that documents withheld from production to Plaintiff are in fact attorney-client communications which remain privileged where the disclosure to the FCA was not voluntary or consensual. Defendants are entitled to refuse discovery of those documents.

II. Joint Defense Privilege/WFCB and HSC

Defendant contends that documents concerning communications between WFCB and HSC under the threat of a lawsuit against them both by RC are privileged from discovery pursuant to the joint defense privilege arising from [HN7] Rule 503(b)(3) of the Hawaii Rules of Evidence.

Rule 503(b) provides that:

[a] client has a privilege to refuse to disclose and to prevent any other person from disclosing confidential communications made for the purpose of facilitating the rendition of professional legal services to the client . . . (3) by the client or the client's representative or the lawyer or a representative of the lawyer to a lawyer or a representative [**10] or a lawyer representing another party in a pending action and concerning a matter of common interest

Haw. Rev. Stat. § 626-1, Haw. R. Evid. 503(b).

A. RC Threatened Suit and Lis Pendens

Defendant described for the court the underlying dispute between RC, WFCB and HSC as follows. Subsequent to a failed land sale by HSC to RC, RC threatened to sue HSC and WFCB for damages and to place a lis pendens on the property. Defendant argues that the dis-

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pute between RC, WFCB and HSC presented a significant threat to the prompt disposition of the subject property, which property was of substantial value to the financially distressed HSC and its lender, WFCB. Under this significant threat to their common interest, WFCB and HSC cooperated to settle the dispute with RC without RC having ever filing a lawsuit.

The documents at issue in this discovery dispute include notes from meetings between WFCB, HSC, and their attorneys as well as letters and memoranda by HSC attorneys to HSC and WFCB and its attorneys and from WFCB's attorneys to HSC's attorneys. These documents were not disclosed to RC.

B. No "Pending Action"

[HN8] The so-called joint defense privilege, codified [**11] at Rule 503(b)(3), is available only in the context of a "pending action and concerning a matter of common interest." Plaintiff does not argue that the dispute between RC and WFCB and HSC was not a "matter of [*1483] common interest" as between WFCB and HSC. However, Plaintiff argues vigorously and properly that the dispute does not satisfy the statutory requirement of a "pending action" to establish the joint defense privilege. As discussed at section I., above, this court must construe the relevant privilege narrowly, to the purpose for which it exists. E.g., *DiCenzo v. Izawa*, 68 Haw. 528 at 535, 723 P.2d 171 at 175. There is an absence of Hawaii case law on the meaning of "pending action" as used in Rule 503(b)(3). However, this court is persuaded that the plain and obvious meaning of "pending action" does not encompass the pre-litigation settlement "communications" between WFCB and HSC.

Defendant bears the burden of establishing that it is entitled to the joint defense privilege. Defendant urges the court to consider the several federal and state cases cited by Defendant, in the absence of Hawaii state court decisions on point. The court has reviewed the cases cited by Defendant and [**12] find that none influence the court's understanding of "pending action"; "pending action" requires the institution of legal proceedings and does not include pre-litigation settlement efforts. E.g., *Continental Oil Co. v. United States*, 330 F.2d 347, 350 (9th Cir. 1964) (quashing grand jury subpoenas of attorneys' memoranda concerning witness-client testimony before grand jury); *Hunydee v. United States*, 355, F.2d 183, 185 (9th Cir. 1965) (following rule in *Continental Oil* that pre-indictment admissions to co-defendant's counsel privileged).

Whereas the attorney-client privilege may apply to communications between an attorney and his client, regardless of whether litigation has begun or is even contemplated, the Hawaii statute clearly places additional requirements upon the joint defense privilege: there must

be a "pending action." Cf., 8 John Henry Wigmore, *Wigmore on Evidence* § 2294 (McNaughton rev. 1961).

The case most relevant to the issue before this court is *Ryals v. Canales*, 767 S.W.2d 226, 229 (Tex. Ct. App. 1989) In *Ryals* the Texas Court of Appeals conditionally granted a writ of mandamus to vacate an order directing production of documents for [**13] which the joint defense privilege was claimed. The *Ryals* holding only permitted parties to assert the privilege on remand. n3 The Texas rule interpreted in *Ryals* is essentially the same as Hawaii's Rule 503(b)(3).

n3 "We do not purport to rule on the merits of *Ryals* or Mazda's claim of joint defense. We hold only that under the facts of this case, *Ryals* was not precluded from asserting the claim that his communications with Mazda were protected from discovery because of the joint defense privilege." *Id.* at 229.

The facts of *Ryals* differ in a significant manner from the background in this case. In *Ryals*, there were essentially three parties: McRoberts, *Ryals*, and Mazda. McRoberts had sued *Ryals* and Mazda for damages arising from an automobile accident. McRoberts reached a settlement with *Ryals*, which settlement was reduced to a judgment. The judgment was subsequently set aside and *Ryals* rejoined the lawsuit. McRoberts sought to reinstate the original judgment by bill of review and Mazda filed [**14] a plea of intervention as to the bill of review; two months later Mazda's plea of intervention was stricken. *Ryals* then filed a third party complaint against Mazda. After the third party complaint was filed, but before it too was stricken, *Ryals* filed a motion for protective order from subpoenas duces tecum served upon *Ryals* and *Ryals'* attorney. The Texas Supreme Court issued the writ of mandamus so that *Ryals* could assert the joint defense privilege because, despite the third party complaint, Mazda and *Ryals* had similar interests aligned against McRoberts and that Mazda, though ultimately denied its opportunity to intervene, was attempting to do so during the time some of the contested communications took place.

In this matter, HSC and WFCB were never a party to an ongoing lawsuit by RC. HSC and WFCB had not sought to initiate an action or intervene in one against RC. The court finds that insofar as RC had merely threatened litigation and the filing of a *lis pendens* and had made the threat to both WFCB and HSC, these factors are not sufficient to establish a "pending action . . . concerning [*1484] a matter of common interest" for the purposes of Rule 503(b)(3).

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The court ORDERS WFCB [**15] to produce those documents or those portions of documents for which it claims a joint defense privilege pursuant to Rule 503(b)(3). This Order does not require WFCB to produce documents or those portions of documents for which another independent privilege or immunity from discovery has been properly asserted.

IT IS SO ORDERED.

Dated: Honolulu, Hawaii, April 15, 1996

Barry M. Kurren

United States Magistrate Judge

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LEXSEE 982 P.2D 474

BANK OF AMERICA NEVADA, Appellant, vs. JOSEPH BOURDEAU, Respondent.

No. 31288

SUPREME COURT OF NEVADA

115 Nev. 263; 982 P.2d 474; 1999 Nev. LEXIS 44; 15 I.E.R. Cas. (BNA) 905

August 30, 1999, Filed

SUBSEQUENT HISTORY: [***1] Rehearing Denied December 15, 1999.

PRIOR HISTORY: Appeal From a judgment pursuant to a jury verdict in the amount of \$ 1.2 million for intentional interference with prospective business relationship. Second Judicial District Court, Washoe County; Connie J. Steinheimer, Judge.

DISPOSITION:

Affirmed in part, reversed in part and remanded.

CASE SUMMARY:

PROCEDURAL POSTURE: Appellant sought review of a judgment of Second Judicial District Court, Washoe County (Nevada), which awarded respondent damages pursuant to a jury verdict in the amount of \$ 1.2 million for intentional interference with prospective business relationship.

OVERVIEW: Respondent, former employee, allegedly violated policies of appellant, bank. Respondent resigned and was promised that the reasons for his resignation would be kept confidential. When respondent attempted to start a new bank, appellant reported damaging information about respondent to the Federal Deposit Insurance Corporation investigators. Respondent filed suit against appellant alleging, among other claims, intentional interference with a prospective business relationship. The jury returned a verdict for respondent in the amount of \$ 1.2 million in damages. The court reversed the judgment, because the trial court erred by not instructing the jury that the statements made to the bank examiners were conditionally privileged as a matter of law and could not be used to prove an interference with a prospective business relation claim unless the privilege

was abused by some wrongful motivation, and without belief in the statement's probable truth.

OUTCOME: Judgment affirmed in part; judgment reversed regarding intentional interference with prospective business relationship claim, because trial court erred by not instructing jury that statements made to bank examiners were conditionally privileged as matter of law.

LexisNexis(R) Headnotes

*Banking Law > Federal Deposit Insurance Corporation > Enforcement Powers
Torts > Business & Employment Torts > Interference With Prospective Advantage*

[HN1] Any statements made to Federal Deposit Insurance Corporation investigators are subject to a conditional privilege, unless the privilege is abused. The plaintiff must overcome the privilege by proving the comments were made with actual malice, knowledge they were false, or reckless disregard for whether the statements were false.

Torts > Defamation & Invasion of Privacy > Common Law Privileges

[HN2] Defamatory matter published in a judicial proceeding is absolutely privileged when the answers of the witness are relevant to the subject of inquiry, whether or not they are false or malicious. That rule of absolute privilege is extended to quasi-judicial matters.

Torts > Defamation & Invasion of Privacy > Common Law Privileges

[HN3] A qualified or conditional privilege exists where a defamatory statement is made in good faith on any subject matter in which the person communicating has an interest, or in reference to which he has a right or a duty, if it is made to a person with a corresponding interest or duty.

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Torts > Defamation & Invasion of Privacy > Common Law Privileges

[HN4] A background investigation of an employee is subject to conditional privilege, and any defamatory statements therein are not actionable unless the privilege is abused by publishing the statements with malice.

Torts > Defamation & Invasion of Privacy > Common Law Privileges

[HN5] Whether a particular communication is conditionally privileged by being published on a "privileged occasion" is a question of law for the court; the burden then shifts to the plaintiff to prove to the jury's satisfaction that the defendant abused the privilege by publishing the communication with malice in fact. The question goes to the jury only if there is sufficient evidence for the jury reasonably to infer that the publication was made with malice in fact.

COUNSEL: Hicks & Walt, and Neil M. Alexander, Reno, for Appellant.

Kevin Mirch, Reno, for Respondent.

Kathryn R. Norcross, Washington, D.C., for Amicus Curiae Federal Deposit Insurance Corporation.

JUDGES: BEFORE Young, Shearing and Leavitt, JJ.

OPINION:

[*265] [**474] OPINION

PER CURIAM:

Joseph Bourdeau was an at-will employee of Bank of America, Nevada, who served as manager of the North Tahoe branch. He was asked to resign after an internal review [**475] of the branch revealed forty-seven violations of bank policies, including six that were repeat violations, and three which exposed the bank to possible civil and criminal prosecution. Bourdeau denied the violations and stated that the persons conducting the review did not like him and were out to "get him." He was threatened with termination and loss of his earned bonus. However, he was allowed to resign with payment of the bonus, if he did so immediately without talking [***2] to an attorney. Further, he was promised that the reasons for his resignation would be kept confidential.

Subsequently, Bourdeau assembled a group of investors and raised \$ 3.5 million to start a new bank named Bank of Lake Tahoe. He was to be the chief executive officer and president of the new bank. It was necessary to apply to the Nevada Division of Financial Institutions for a state charter and to the Federal Deposit

Insurance Corporation (FDIC) for approval of federally insured accounts to be deposited in the bank. The two agencies usually conduct a joint investigation of all the people who would be involved in any policy-making capacity with a new bank. The investigator for the FDIC talked to several employees of Bank of America, Nevada and filed a report which recommended that Bourdeau not be approved as the chief executive officer and president of the new bank. The report contained damaging information about Bourdeau concerning his lending ability and the reasons why he left his job with Bank of America, Nevada.

Bourdeau and his investors sold their potential bank to an existing bank before any ruling was made on the application. He became a branch manager for the existing [***3] bank and was paid a salary of \$ 50,000.00 to \$ 60,000.00 a year. He filed suit against Bank of America, Nevada and several employees alleging, among other claims, slander, fraudulent misrepresentation and intentional interference with prospective business relationship. The jury found for all of the defendants on the slander and fraudulent misrepresentation claims, but found against Bank of America, Nevada on the claim of intentional interference with prospective business relationship and awarded \$ 1.2 million to Bourdeau as compensatory damages. The jury also considered punitive damages, but declined to assess any such damages against the bank. A judgment was entered in accordance with the jury verdict. Bank of America, [*266] Nevada appeals from that part of the judgment pertaining to the award of damages for the intentional interference with prospective business relationship.

Bank of America, Nevada requested a jury instruction concerning an absolute or conditional privilege as to any communications made to the FDIC, claiming the agency was acting in a quasi-judicial capacity. The trial judge refused the instruction and gave only a conditional privilege instruction regarding intra-bank [***4] communications.

We must decide if statements made to an examiner during a statutorily required fact-finding investigation by the FDIC into Bourdeau's fitness to serve as an officer of a new bank are entitled to an absolute privilege as a quasi-judicial proceeding or to a conditional privilege only. [HN1] We hold that any statements made to FDIC investigators are subject to a conditional privilege, unless the privilege is abused. Bourdeau must overcome the privilege by proving the comments were made with actual malice, knowledge they were false, or reckless disregard for whether the statements were false. Since the trial judge failed to instruct the jury on the law of conditional privilege regarding statements made by the bank's employees to any investigator, the jury verdict must be set aside and the case remanded for a new trial.

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[HN2] We have previously held that defamatory matter published in a judicial proceeding is absolutely privileged when the answers of the witness are "relevant . . . to the subject of inquiry, whether or not they are false or malicious." *Nickovich v. Mollart, Et Al.*, 51 Nev. 306, 313, 274 P. 809, 810 (1929); see also *Circus Circus Hotels v. Witherspoon*, 99 Nev. 56, 60, 657 P.2d 101, 104 (1983). [***5] We extended the rule of absolute privilege to quasi-judicial matters. *Lewis v. Benson*, 101 Nev. 300, 301, 701 P.2d 751, 752 (1985); *Knox v. Dick*, 99 Nev. 514, 518, 665 P.2d 267, 270 (1983).

[**476] Here, the statements were made to an investigator concerning a background check of respondent. There was no action of a judicial character taken by either the FDIC or the Nevada Division of Financial Institutions. Respondent withdrew his application because of the unfavorable report and therefore no hearing on the application was ever held, nor testimony taken under oath, nor subpoenas issued. Consequently, there was no discretionary decision made by either of the agencies, and the statements are not protected by the absolute privilege granted to quasi-judicial bodies.

[HN3] However, "[a] qualified or conditional privilege exists where a [*267] defamatory statement is made in good faith on any subject matter in which the person communicating has an interest, or in reference to which he has a right or a duty, if it is made to a person with a corresponding interest or duty." *Circus Circus* 99 Nev. at 62, 657 P.2d at 105 (citations omitted). [HN4] A background investigation [***6] of an employee is subject to conditional privilege, and any defamatory statements therein are not actionable unless the privilege is abused by publishing the statements with malice. *Pierson v. Robert Griffin Investigations*, 92 Nev. 605, 606, 555 P.2d 843, 843 (1976); cf. [HN5] *Gallues v. Harrah's Club*, 87 Nev. 624, 626-27, 491 P.2d 1276, 1277 (1971).

Whether a particular communication is conditionally privileged by being pub-

lished on a "privileged occasion" is a question of law for the court; the burden then shifts to the plaintiff to prove to the jury's satisfaction that the defendant abused the privilege by publishing the communication with malice in fact. The question goes to the jury only if there is sufficient evidence for the jury reasonably to infer that the publication was made with malice in fact.

Circus Circus 99 Nev. at 62, 657 P.2d at 105 (citations and footnote omitted).

Here, the bank had an interest and duty to cooperate with the examiner to ensure that officers of a new bank are qualified and experienced. The same interest applies to the agencies that by law are required to investigate proposed officers of a [***7] new bank.

The trial judge erred by not instructing the jury that the statements made to the bank examiner were conditionally privileged as a matter of law and cannot be used to prove an interference with a prospective business relation claim unless the privilege is abused by bad faith, malice with spite, ill will, or some other wrongful motivation, and without belief in the statement's probable truth. See *Pierson*, 92 Nev. at 606, 555 P.2d at 843; cf. *Gallues*, 87 Nev. at 626-27, 491 P.2d at 1277.

Accordingly, by reason of the foregoing, we reverse that portion of the judgment pertaining to Bourdeau's claim for intentional interference with prospective business relationship and remand the case for a new trial on the issue of conditional privilege as it relates to the intentional interference with prospective business relationship claim. We affirm the judgment in all other respects.

Young, J.

Shearing, J.

Leavitt, J.

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