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As of: May 13, 2009

F.C. CYCLES INTERNATIONAL, INC. v. FILA SPORT, S.p.A.

CIVIL NO. AMD-96-107

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF MARYLAND

184 F.R.D. 64; 1998 U.S. Dist. LEXIS 21878

November 10, 1998, Decided
November 12, 1998, Filed

DISPOSITION: [**1] Plaintiff's Motion to Compel Production of Allegedly Privileged Documents and Deposition Testimony From Defendant Fila Sport, S.p.A. GRANTED.

CASE SUMMARY:

PROCEDURAL POSTURE: Plaintiff licensee filed a motion to compel production of allegedly privileged documents and to strike defendant licensor's expert witnesses. The licensor filed a motion to compel deposition testimony.

OVERVIEW: Plaintiff licensee sued defendant licensor for damages resulting from the licensor's termination of the license. The court granted the licensee's motion for production of documents in part, finding that the attorney-client privilege did not attach to certain paragraphs of documents because the paragraphs contained business advice, not legal advice. The attorney-client privilege did not apply to another document, or its subject matter, because the licensor had impliedly waived the privilege and the document was relevant. The court denied the licensee's motion to strike the licensor's untimely expert witness list because the licensor could have concluded, from the court's previous order, that it could present rebuttal testimony, and the licensor would be overwhelmingly prejudiced if the motion were granted. The court granted the licensor's motion to compel depositions in part, denying those for which licensor had not shown "good cause" for failure to timely pursue the depositions and granting those for which the licensor had shown "good cause." A subject could be re-deposed where it appeared that the

licensee's interrogatories misled the licensor as to the subject's knowledge.

OUTCOME: The court granted the licensee's motion for production of documents in part, denied the licensee's motion to strike expert witnesses, and granted in part the licensor's motion to compel deposition testimony.

CORE TERMS: deposition, discovery, disclosure, deadline, inadvertent, subject matter, privileged, promotion, waived, license, privileged documents, confidentiality, pretrial, rebuttal, attorney-client, bicycle, waive, legal advice, inadvertently, conversation, expert witnesses, attorney client privilege, undersigned, deposition testimony, rebuttal testimony, designation, compel production, negotiations, notice, advice

LexisNexis(R) Headnotes

Evidence > Privileges > Attorney-Client Privilege > Scope

Evidence > Privileges > Attorney-Client Privilege > Waiver

[HN1]The determination of whether specific communications are afforded protection from scrutiny must be made by balancing the importance of encouraging frank communication between a lawyer and her client and the truth seeking mission of the legal process. The attorney client privilege must be strictly construed to accommodate the competing interests. It is the burden of the party asserting the privilege to demonstrate that (1) the asserted holder of the privilege is or sought to become a

client; (2) the person to whom the communication was made is a member of the bar and in connection with this communication is acting as a lawyer; (3) the communication relates to a fact of which the attorney was informed by his client without the presence of strangers, for the purpose of securing primarily either an opinion on law or legal services or assistance in some legal proceeding, and not for the purpose of committing a crime or tort; and (4) the privilege has been claimed and not waived by the client.

Evidence > Privileges > Attorney-Client Privilege > Elements

[HN2]Communications between corporate counsel and company personnel are privileged so long as the information is relayed for the purpose of obtaining legal advice. The communications retain their privileged status if the information is relayed from a non-lawyer employee or officer to other employees or officers of the corporation on a need to know basis. Only when the communications are relayed to those who do not need the information to carry out their work or make effective decisions on the part of the company is the privilege lost. It is the content of the communication that determines whether the privilege applies. What would otherwise be routine, non-privileged communications between corporate officers or employees transacting the general business of the company do not attain privileged status solely because in-house or outside counsel is "copied in" on correspondence or memoranda.

Evidence > Privileges > Attorney-Client Privilege > General Overview

[HN3]While legal advice provided in the context of business negotiations is protected under the attorney-client privilege, business information provided in the context of business negotiations does not acquire protection under the privilege merely because it has been provided by an attorney.

Evidence > Privileges > Attorney-Client Privilege > Waiver

Legal Ethics > Client Relations > Confidentiality of Information

[HN4]Any disclosure inconsistent with maintaining the confidential nature of the attorney-client relationship waives the attorney-client privilege. Intentional disclosure waives the privilege not only to the disclosed communication, but also to all other communications relating to the same subject matter.

Evidence > Privileges > Attorney-Client Privilege > General Overview

[HN5]A privileged person would seldom be found to waive, if his intention not to abandon could alone control the situation. There is always also the objective consideration that when his conduct touches a certain point of disclosure, fairness requires that his privilege shall cease whether he intended that result or not.

Evidence > Privileges > Attorney-Client Privilege > Waiver

Legal Ethics > Client Relations > Confidentiality of Information

[HN6]An implied waiver occurs when the party claiming privilege makes any disclosure of a confidential communication to any individual who is not embraced by the privilege. Such a disclosure vitiates the confidentiality that constitutes the essence of the attorney-client privilege. Furthermore, such a disclosure not only waives the privilege as to the specific information revealed, but also waives the privilege as to the subject matter of the disclosure.

Evidence > Privileges > Attorney-Client Privilege > Waiver

Legal Ethics > Client Relations > Confidentiality of Information

[HN7]Inadvertent disclosure in a document production can be deemed to evidence an abandonment of the requisite intent to maintain confidentiality, and thereby waive the attorney-client privilege under certain circumstances. The following factors should be considered in determining whether the circumstances underlying an inadvertent disclosure of attorney-client materials vitiate the required intent to maintain confidentiality: (1) the reasonableness of the precautions taken to prevent inadvertent disclosure; (2) the number of inadvertent disclosures; (3) the extent of the disclosure; (4) any delay in measures taken to rectify the disclosure; and (5) overriding interests in justice.

Evidence > Privileges > Attorney-Client Privilege > General Overview

[HN8]The court must determine if the precautions were objectively reasonable to avoid inadvertent disclosure. Some of the circumstances that courts often look to in making this inquiry are the number of documents involved and the time constraints the producing party was under.

Civil Procedure > Discovery > Privileged Matters > General Overview

Evidence > Privileges > Attorney-Client Privilege > General Overview

Legal Ethics > Client Relations > Confidentiality of Information

[HN9]The measures employed by the disclosing party, upon notice of an inadvertent disclosure, to either retrieve the document or ensure that additional privileged documents were not inadvertently disclosed, are analyzed by the courts in a very simplistic fashion, that is, the speed with which the measures are undertaken.

Civil Procedure > Discovery > Privileged Matters > General Overview

Evidence > Privileges > Attorney-Client Privilege > General Overview

Legal Ethics > Client Relations > Confidentiality of Information

[HN10]Whether fundamental fairness weighs for or against waiver largely depends on the extent of the reliance the party has made on the document in its case.

Evidence > Privileges > Attorney-Client Privilege > Waiver

Legal Ethics > Client Relations > Confidentiality of Information

[HN11]Courts must strictly construe the attorney client privilege in light of its constraint on "the investigation of the truth." A waiver of the privilege as to all communications ordinarily follows from the voluntary waiver even if made with limitations of one or more similar communications. Thus, if a client, through his attorney, voluntarily waives certain communications, but guarded with a specific written or oral assertion at the time of the waiver that it is not its intention to waive the privilege as to the remainder of all similar communications, the privilege, as to the remaining undisclosed communications, is nevertheless waived. A defendant's act of giving documents to his adverse party amounts to voluntary disclosure and waives any privilege that attached to the subject matter of the document. The attorney client privilege must be strictly construed and waiver by implication waives privilege to the complete subject matter of the disclosed communication.

Evidence > Privileges > Attorney-Client Privilege > General Overview

Legal Ethics > Client Relations > Confidentiality of Information

[HN12]A party may compel production of allegedly privileged communications upon a prima facie showing

that the lawyer's advice was designed to serve his client in the commission of a fraud, crime or tort.

Contracts Law > Breach > General Overview

Contracts Law > Third Parties > General Overview

Torts > Business Torts > Commercial Interference > Contracts > Elements

[HN13]The elements of tortious interference with a contract are: (1) the existence of a contract between the plaintiff and a third party; (2) defendant's knowledge of that contract; (3) defendant's intentional interference with a contract; (4) breach of that contract by a third party; (5) resulting in damages to the plaintiff.

Torts > Business Torts > Commercial Interference > Contracts > General Overview

[HN14]There is no cause of action for interference with a contract when suit is brought against a party to the contract. It is widely recognized that one cannot be liable for tortious interference with his own contract.

Torts > Business Torts > Commercial Interference > Contracts > General Overview

[HN15]A parent corporation is not legally capable of conspiring with its wholly owned subsidiary. Entities that have a complete unity of interest are essentially the same entity and thus, are incapable of conspiring. The same unity of interest test is used to determine, on a case-by-case basis, whether closely related companies are capable of interfering with each other's contracts.

Civil Procedure > Pretrial Matters > Conferences > General Overview

[HN16]Where a scheduling order fails to cover an issue, the parties are "defaulted" to the Federal Rules of Procedure.

Civil Procedure > Discovery > Disclosures > Mandatory Disclosures

Civil Procedure > Discovery > Methods > Expert Witness Discovery

[HN17]Fed. R. Civ. P. 26(a)(2)(c) allows rebuttal testimony, but a party is required to serve rebuttal reports on the opposing party.

Civil Procedure > Discovery > General Overview

Civil Procedure > Pretrial Matters > Conferences > Scheduling Conferences

[HN18]The standard for modification of a scheduling order is a showing of good cause. Fed. R. Civ. P. 16(b). Moreover, district courts enjoy nearly unfettered discretion to control the timing and scope of discovery. A district court acts wholly within its discretion in denying additional discovery where the delay in discovery is due to the fault of the complaining party.

Civil Procedure > Discovery > Methods > Oral Depositions

[HN19]In any litigation, the state of the factual record is constantly evolving, deposition by deposition. Each deposition cannot be held open to allow a party to visit or revisit a subject area after new or more evidence is developed.

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JUDGES: Susan K. Gauvey, United States Magistrate Judge.

OPINION BY: Susan K. Gauvey

OPINION

[*66] **MEMORANDUM** [**3] **AND ORDER**

Pending before the undersigned are four discovery motions:

(1) Plaintiff's Motion for Rule 37(b)(2) Sanctions;

(2) Plaintiff's Motion to Compel Production of Allegedly Privileged Documents and Deposition Testimony;

(3) Plaintiff's Motion to Strike Fila's Untimely Designation of Expert Witnesses;

(4) Defendant's Motion to Compel Production of Deposition Testimony, Related Documents and for Other Relief.

A hearing was held on these motions on Tuesday, October 27, 1998, and the Court invited additional submissions due on Wednesday, October 29, 1998, and Tuesday, November 3, 1998.

A review of the pretrial history of this case provides an important backdrop to the current discovery disputes and the Court's rulings thereon.

Pretrial Scheduling

On May 15, 1996, pursuant to Fed. R. Civ. P. 16(b) and Local Rule 103.9, the Court entered a Scheduling Order, jointly proposed by the parties, to govern the pretrial management of this case. (Paper No. 20). That Order provided in part for the close of non-expert discovery on November 15, 1997, the designation of expert witnesses by both parties on December 15, 1997, the exchange of witness reports on March 15, 1998, [**4] a discovery deadline of May 15, 1998, the requests for admission on June 15, 1998, and filing of dispositive pretrial motions on April 15, 1998. The Order further provided that the schedule would not be changed except for "good cause."

By Order dated September 29, 1997, based on stipulation of the parties, all of the above dates were extended by 90 days. (Paper No. 74).¹

¹ The close of non-expert discovery was extended to February 15, 1998, the designation of expert witnesses to March 15, 1998, the exchange of witness reports to June 15, 1998, the discovery deadline to August 15, 1998, the requests for admission deadline to September 15, 1998, and the dispositive pretrial motion deadline to November 15, 1998.

As a result of a January 14, 1998 status conference, further changes were made in the Scheduling Order, most pertinently providing for the close of non-expert discovery on May 13, 1998; designation of expert witnesses on May 15, 1998; exchange of expert reports on July 24, 1998; a discovery deadline [**5] of September 8, 1998; request for admissions deadline of October 8, 1998; and dispositive pretrial motion deadline of December 7, 1998. The trial date of April 5, 1999 was set.² (Paper No. 100). At that status conference and consistently thereafter, the Court has stated that the dispositive pretrial motion deadline and trial date were fixed.

² Plaintiff filed a request to convene a status call to discuss defendants' unilateral suspension of discovery, and to modify the schedule to set a trial date. (Paper No. 84). Defendants then filed a response agreeing to participate in the status conference, but asking the Court to take notice of

plaintiff's improper behavior during the discovery process. (Paper No. 86).

At the conference, Fila requested an extension of 60 days for non-expert discovery in light of the location of many documents requested in foreign countries and many, of course, maintained only in a foreign language.

On May 26, 1998, Fila requested that the designation and exchange of expert witness reports [**6] be collapsed into a single, extended deadline of July 24, 1998, which was done. (Paper No. 115).

On July 21, 1998, both parties requested a further extension of the deadlines: the designation of expert witnesses and exchange of reports to August 24, 1998, discovery deadline [*67] to October 8, 1998, and requests for admissions deadline to October 15, 1998, with response to requests for admissions due November 9, 1998.

On September 22, 1998, Fila moved to substitute Paul Mark Sandler, Freishtat & Sandler, Jeffrey J. Greenbaum, Mark E. Duckstein and Philip R. White as its counsel in place of Lawrence H. Wechsler, S. Robert Sutton and Janis, Schuelke & Wechsler and Harley I. Lewin, Mitchell C. Stein, G. Roxanne Elings, Richard B. Verner and Lewin & Layton, P.C.

On October 5, 1998, three days before the expert discovery deadline, new counsel for Fila requested that the deadline for completion of expert discovery and the service of requests for admission be extended for 45 days, which F.C. Cycles vigorously opposed. By Order dated October 7, 1998, the undersigned extended the discovery deadline to October 22, 1998, the service of requests for admission to October 29, 1998, and the response [**7] to requests for admission to November 16, 1998, to afford a limited courtesy to new counsel, without affecting the dispositive pretrial motion deadline or trial date.

While both parties have requested modifications to the pretrial schedule, Fila has been responsible for more of the pretrial extensions and certainly, its October 5 request for an extension of the pretrial deadlines (which the Court granted in part) has resulted in an extraordinarily tight pretrial schedule, even before consideration of the multiple, additional discovery requests Fila has now made.

Discovery Disputes

There have been a significant number of discovery motions filed. To date, the Court has granted in part all three motions filed by F.C. Cycles.³ On the other hand, to date the Court has denied three of Fila's motions and granted in part only one of Fila's motions.⁴

3 Plaintiff's motion to compel production of documents filed May 30, 1997, was granted in part and denied in part by Judge Davis' Order dated July 11, 1997. Plaintiff's motion to compel defendant to schedule depositions filed June 26, 1997, was granted in part and denied in part by Judge Davis' Order dated July 21, 1997. Plaintiff's motion to compel the production of license-related documents and witnesses from defendant filed October 31, 1997, was granted in part and denied in part by Orders dated February 12, 1998, and August 28, 1998.

[**8]

4 Defendant's motion for Protective Order, to compel plaintiff to schedule depositions, and for sanctions filed July 14, 1997, defendant's motion for Protective Order filed July 15, 1997, was denied by Order dated September 3, 1997. Defendant's motion to compel and for Protective Order filed October 31, 1997, was granted in part and denied in part by Order dated February 12, 1998. Defendant's motion to compel filed December 3, 1997, was denied by Order dated February 12, 1998.

The Court will now address the pending motions in turn.

1. Plaintiff's Motion for Rule 37(b)(2) Sanctions.

As indicated in the October 27, 1998 hearing, the undersigned will consider this motion in conjunction with the affidavit of Harley I. Lewin on his efforts in the document gathering and production at issue (which was submitted on November 3), F.C. Cycles' submission on its fees and costs associated with its discovery efforts (which was submitted on November 3) and Fila's response to the anticipated F.C. Cycles' requests for admission on the issues of marketing plans, advertising proposals, and promotional [**9] activity all of which were the subject of the document request to Fila's trademark licensees. Accordingly, the Court will defer ruling on the motion until Fila has responded to F.C. Cycles' requests for admission.

2. Plaintiff's Motion to Compel Production of Allegedly Privileged Documents and Deposition Testimony

The plaintiff requests that the Court compel the production of allegedly privileged documents listed on the defendant's privilege log as document Nos. 8, 26, 27, 28, 29 and any other withheld documents discussing or mentioning the value of F.C. Cycles' license, the possible use of the license as a leverage tool against Mr. Mordo or GMS in any way, or any link between F.C. Cycles' license and GMS, Fila USA or Fila Canada; that the Court

compel the deposition testimony of Kenneth Tabler, Luigi Gregotti, and Stan Martindell concerning the contents of those communications and related subjects; and that the Court compel the production of any other documents and testimony the existence of which is revealed in either the written communications or the further deposition testimony of Tabler, Gregotti, or Martindell.

Factual Background

Pursuant to its claim of improper [**10] termination of its license, F.C. Cycles issued document requests to Fila seeking all documents mentioning F.C. Cycles, its principal owner, Alex Mordo, or Gabriel A. Mordo & Sons Ltd. (GMS), a former distributor of Fila products in Canada of which Mr. Mordo is also a principal. Discovery was undertaken pursuant to a Confidentiality Stipulation and Protective Order signed on December 30, 1996 by Judge Andre M. Davis. The Order stated, in pertinent part, as follows:

12. It is expressly recognized that inadvertent production of privileged or arguably privileged matters shall not be [*68] deemed to be either: (a) a general waiver of the Attorney-client privilege; or (b) a specific waiver of any such privilege with respect to documents being produced or the testimony given. Notice of any claim of privilege as to any document claimed to have been produced inadvertently shall be given within a reasonable period of time after discovery of the inadvertent production, and, on request by the producing party, all inadvertently produced materials as to which a claim of privilege is asserted and any copies thereof shall be returned promptly.

(Paper No. 140; plaintiff's reply memorandum, [**11] Ex. 1 at 5-6).

Fila responded to F.C. Cycles' requests and produced in excess of 64,000 pages of documents. Among these documents was a two page memorandum, dated July 27, 1995, authored by Ian MacNeil, the controller of Fila Canada, and addressed to Michael Giese, Senior Vice President and General Manager of Fila Canada.

The memorandum was a summary of recommendations made by Geoffrey Belsher, in-house General Counsel for Fila Canada, regarding a dispute that had arisen between Fila Canada and GMS. The memorandum stated as follows:

TO: M. GIESE

FROM: I. MacNEIL
RE: MORDO ACQUISITION
DATE: July 27, 1995
C.C.: G. SPAGLIARDI
K. TABLER
S. MARTINDELL

As you are aware, Ken Tabler and I met with Geoff Belsher to review the potential adjustments and/or offsets identified to-date from a legal standpoint, as well as a strategic standpoint.

Geoff's opinion was as follows:

(I) Adjustments that represent a revaluation of the amount paid at the closing date are not legally possible unless we can prove collusion or fraud. The fact that Ernst & Young attended re due diligence is not in our favour.

(ii) Adjustments to the commissions due Mordo for Spring 95 bookings [**12] for items "B" to "E" as set out in Exhibit One are solid legally

(iii) After that point and subject to his comments re collusion or fraud the balance of the adjustments we have identified are a poker game i.e. can we negotiate a further reduction in the commissions not of legal fees that results in a payment to Mordo that is less than the remaining balance of the commissions (about \$ 470,000)

(iv) Prior to our meeting with Mordo, Geoff recommends that we file claims against the Edmonton and Toronto boutiques. Notwithstanding that we may extricate some settlement, Geoff feels that we must put pressure on these

individuals to see if they will crumble and admit collusion with Mordo. He feels that the individuals will contact Mordo and make their own threats to disclose any such arrangements to us rather than spend money to defend themselves.

(v) In a personal meeting Mordo should be advised that:

(a) No commissions will be paid until we have investigated the loss in value of the assets we acquired and that such investigation will include the personal examination of third parties including their books and records.

(b) All [INDECI-PHERABLE] as noted to-date should [**13] be utilized in our salvo at Mordo. While some are legally questionable they are not morally questionable.

(c) If Mordo wishes to sue in the meantime he is free to do so.

(vi) The Fila bike license should be used as a negotiating tool. This might mean the threat to cancel or a fixed term might be provided to ease the adjustment/offset negotiations. Ken will follow up with Italy to determine the value of this license to Mordo.

(vii) Despite our feelings re the quality of Ernst & Young work a fight with our accountants might only confuse the courts as who we felt was at fault.

(viii) Geoff is very concerned about our verbal approach with Mordo re a libel [*69] suit. Accordingly, he would like to run over what is and is not okay to say prior to the meeting.

Ken will discuss the outcome of our meetings and discussions with Georgio and Stan.

(Paper No. 140; memorandum in support of plaintiff's motion, Ex. A):

On July 29, 1997, counsel for F.C. Cycles deposed Robert Liewald, a Fila executive, had the document marked as a deposition exhibit. (Paper No. 140; plaintiff's reply memorandum, Ex. 2 at 118-119). Liewald read the memorandum and was asked several questions [**14] concerning the parties mentioned in the document and the subject matter of the document. Mr. Liewald stated that he had no knowledge of the document or of the parties there mentioned. Defense counsel did not object to the document's marking as an exhibit or make any claim of privilege regarding the document.

Eleven months later, on June 18, 1998, counsel for the plaintiff deposed Ken Tabler, another Fila executive, and showed him the July 27, 1995 memorandum, asked him numerous questions about it and the underlying meeting, and elicited testimony concerning all those subjects. (Paper No. 140; memorandum in support of plaintiff's motion, Ex. B at 114-162). At the beginning of this inquiry the following exchange took place:

Q [by plaintiff's counsel]: Reflecting back to this meeting, were the discussion [sic] of potential offsets that were deemed improper unless Fila could prove collusion or fraud?

A [by Tabler]: I'm not sure what I can discuss at that meeting since it was with counsel.

[Defendant's counsel]: You can answer that question. This memorandum's been furnished. Answer the question.

(Paper No. 140; memorandum in support of plaintiff's motion, [**15] Ex. B at pg. 124).

The deposition continued with the plaintiff's counsel examining Mr. Tabler on the memorandum and the meeting it memorialized. Defendant's counsel raised several objections; however, none of the objections implicated the attorney-client privilege as to the underlying meeting or the document. The defendant's counsel did object on the ground of privilege, however, when plaintiff's counsel questioned Mr. Tabler concerning communications between himself and Mr. Martindell, Fila USA's in-house General Counsel. Specifically, plaintiff's counsel sought testimony concerning communications relating to item (vi) of the memorandum, the use of the Fila bike license as a negotiating tool.

Shortly thereafter, the following exchange took place:

[Plaintiff's counsel to Defendant's counsel]: Counsel, I think we have subject matter waiver on this point. [Tabler's] discussed -- not only do we have this memorandum, we now have Mr. Tabler's recount of his discussions with Mr. Belsher whose been identified as Fila's counsel --

[Defendant's counsel]: I think you have waiver as to that meeting. I don't think you have waiver through this case.

[Plaintiff's counsel]: [**16] I only mean on the subject of the bicycle license.

[Defendant's counsel]: I understand what you mean. . . . I think you have -- you have waiver as to the contents of what took place at that meeting.

[Plaintiff's counsel]: For the record, at the very least, I think we have subject matter waiver on the majority, if not all of what's discussed in this memo, but in particular at this moment about the bicycle license and the discussion of F.C. Cycles' bicycle license. Such a waiver would make discoverable any discussions this witness had with Mr. Martindell or any other counsel.

(Paper No. 140; memorandum in support of plaintiff's motion, Ex. B at 154-155).

On August 5, 1998, the plaintiff's counsel deposed Luigi Gregotti, Fila's Manager of Licensing, and again produced the aforementioned memorandum. (Paper No. 140; memorandum in support of plaintiff's motion, Ex. C at 1214). Mr. Gregotti denied knowledge of the memorandum and plaintiff's counsel began inquiring into communications Mr. Gregotti had with Mr. Martindell concerning the issues raised in the memorandum that took place in July and August 1995. Plaintiff's [**70] counsel specifically attempted to elicit information [**17] related to documents identified on the defendant's privilege log pertaining to the bicycle license issue raised in the July 27, 1995 memorandum. Upon advice of counsel, Mr. Gregotti invoked the attorney client privilege and refused to answer. Counsel discussed the possibility that the privilege was waived, however, Mr. Gregotti continued to follow the advice of counsel and refused to answer. (Paper No. 140; memorandum in support of plaintiff's motion, Ex. C at 1215-1233).

On September 21, 1998 the plaintiff filed the instant motion to compel production of five documents listed on the defendant's privilege log: Document Nos. 8, 26, 27, 28, 29. (Paper No. 140; memorandum in support of plaintiff's motion, Ex. G at 2-4). The subject matter of all the sought after documents are described in the privilege log as advice or information concerning the "Mordo license agreement for bicycles." (*Ibid.*). At the Court's request, these documents have been submitted for *in camera* review.⁵ The plaintiff also seeks to compel deposition testimony related to the above identified documents.

5 Document Nos. 8 and 29 are the same.

[**18] Analysis

Plaintiff makes three arguments for its entitlement to these documents. F.C. Cycles asserts that the July 27, 1995 memorandum is not privileged because it provides business rather than legal advice. Alternatively, the plaintiff argues that even if the document is considered a privileged communication, the defendant has voluntarily waived the privilege. Finally, the plaintiff asserts that the communication was in furtherance of a tort and thus can not be protected by the attorney-client privilege. If that memorandum is not privileged under any of these theories, F.C. Cycles argues, neither are the follow-up communications.

[HN1]The determination of whether specific communications are afforded protection from scrutiny must be made by balancing the importance of encouraging frank communication between a lawyer and her client and the "truth seeking mission of the legal process." *United States v. Aramony*, 88 F.3d 1369, 1389 (4th Cir. 1996). Thus, the attorney client privilege must be strictly construed to accommodate these two competing interests. See *United States v. Tedder*, 801 F.2d 1437, 1441 (4th Cir. 1986) and cases there cited.

It is the burden of the party asserting [**19] the privilege to demonstrate that

(1) the asserted holder of the privilege is or sought to become a client; (2) the person to whom the communication was made (a) is a member of the bar of a court, or his subordinate and (b) in connection with this communication is acting as a lawyer; (3) the communication relates to a fact of which the attorney was informed (a) by his client (b) without the presence of strangers (c) for the purpose of securing primarily either (i) an opinion on law or (ii) legal services or (iii) assistance in some legal proceeding, and not

(d) for the purpose of committing a crime or tort; and (4) the privilege has been (a) claimed and (b) not waived by the client. *United States v. Tedder*, 801 F.2d 1437, 1442 (4th Cir.1986) (quoting *United States v. United Shoe Machinery Corp.*, 89 F. Supp. 357, 358-59 (D.Mass. 1950)), cert. denied, 480 U.S. 938, 107 S. Ct. 1585, 94 L. Ed. 2d 775 (1987).

In re Allen, 106 F.3d 582, 600 (4th 1997).

With these general principles in mind, the Court will address each theory of discoverability.

A. The Purpose of the Document: Legal Versus Business Advice

The plaintiff asserts that the document in question [**20] does not qualify for protection under the cloak of attorney client privilege because the subject matter of the July 27 memorandum relates to business and not legal activities and because a non-lawyer was identified as the party that would procure certain information. [HN2]Communications between corporate counsel and company personnel [**71] are privileged so long as the information is relayed for the purpose of obtaining legal advice. *Upjohn v. United States*, 449 U.S. 383, 394-395, 66 L. Ed. 2d 584, 101 S. Ct. 677 (1981). The communications retain their privileged status if the information is relayed from a non-lawyer employee or officer to other employees or officers of the corporation on a need to know basis. *Andritz Sprout-Bauer, Inc. v. Beazer East, Inc.*, 174 F.R.D. 609, 633 (M.D.Pa. 1997); *SCM Corp. v. Xerox Corp.*, 70 F.R.D. 508, 518 (D.Conn.), appeal dismissed, 534 F.2d 1031, 1032 (2d Cir. 1976). Only when the communications are relayed to those who do not need the information to carry out their work or make effective decisions on the part of the company is the privilege lost. *In re Grand Jury*, 758 F. Supp. 1411, 1412 (D.Colo. 1991); *Andritz Sprout-Bauer, Inc.*, 174 [**21] F.R.D. at 633.

It is the content of the communication that determines whether the privilege applies. *N.L.R.B. v. Harvey*, 349 F.2d 900, 905-906 (4th Cir. 1965). What would otherwise be routine, non-privileged communications between corporate officers or employees transacting the general business of the company do not attain privileged status solely because in-house or outside counsel is "copied in" on correspondence or memoranda. *United States Postal Service v. Phelps Dodge Refining Corp.*, 852 F. Supp. 156, 163-164 (E.D.N.Y. 1994). Accordingly, if privilege protects the memorandum at issue it is not because it is copied to Mr. Martindell, general counsel for

Fila, U.S.A., but because it represents the legal advice of Mr. Geoffrey Belsher, in house counsel for Fila Canada.

The July 27, 1995 memorandum relayed a summary of advice given by in-house counsel to two corporate officials to other corporate officials. The memorandum plainly states that the purpose of the meeting was to garner legal advice (as well as "strategic" advice). Moreover, the memorandum is replete with references to legal possibilities (item (I)), adjustments being "solid legally" (item (ii)), the legal concepts [**22] of "collusion and fraud" (item (iii)), whether a strategy is "legally questionable" (item (v)), legal strategy relating to suing Fila's accounting firm (item (vii)), and libel (item (viii)).

At the motions hearing plaintiff's counsel advanced a theory that, if the Court were to find the memorandum at issue privileged, it should examine each subparagraph to determine if the specific information contained therein was business rather than legal advice. Specifically, the plaintiff urges the Court to find that paragraph (vi) is not legal advice and, thus, not privileged. [HN3]While legal advice provided in the context of business negotiations is protected under the attorney client privilege, business information provided in the context of business negotiations does not acquire protection under the privilege merely because it has been provided by an attorney. *SCM Corp. v. Xerox Corp.*, 70 F.R.D. at 517. See also, *In re Grand Jury Subpoena Duces Tecum*, 731 F.2d 1032, 1036-38 (2d Cir. 1984); *Hardy v. New York News, Inc.*, 114 F.R.D. 633, 643-44 (S.D.N.Y. 1987).

Generally, the plain language of the memorandum indicates that Mr. Belsher, General Counsel for Fila Canada, was giving an [**23] opinion as to options for dealing with a legal dispute, between GMS and Fila Canada. Paragraph (vi), however, does not appear to be legal advice; it simply requests information relating to the value of a bicycle license, apparently as part of formulating Fila's negotiating strategy. There is no indication from the face of the memorandum, from deposition testimony, or from subsequent pleadings that this information was requested or needed by the attorney to render further legal advice. Rather, the information would be useful in the business negotiations with Mr. Mordo regarding a separate business dealing. Accordingly, the attorney client privilege does not attach to the July 27, 1995 memorandum with respect to paragraph (vi).⁶

6 Because of this ruling it is not necessary to reach the plaintiff's assertion that because the task of information gathering was assigned to a non-lawyer the privilege did not attach. The Court notes, however, that, as previously discussed, it is the subject matter of the communication that determines a documents character and not the individual assigned to a specific task. See *United*

States Postal Service v. Phelps Dodge Refining Corp., 852 F. Supp. 156, 163-164 (E.D.N.Y. 1994); *Stratagem Development Corp. v. Heron International*, 153 F.R.D. 535, 543 (S.D.N.Y. 1994).

[**24] [*72] Because of the above finding, it is necessary to review the requested documents to determine if they too implicate business, not legal advice and/or relate to item (vi) and thus are not privileged.

Document Nos. 8 and 29

Documents 8 and 29 are the same document. This communication was faxed on July 27, 1995 by Mr. Martindell, general in-house counsel for Fila U.S.A. to Franco Maula, Esquire, counsel for Fila Sport, S.p.A. Following *in camera* review, it is evident that the first paragraph of this document is privileged and therefore will not be discussed herein. Paragraphs two and three, however, relate directly to the "status of the bicycle license" and "negotiations with Mordo" and do not impart or request legal advice. Thus, paragraphs two and three are discoverable.⁷

7 See *United States v. Under Seal*, 33 F.3d 342, 344 (4th Cir. 1994) (cases remanded with instructions that certain allegedly privileged documents be disclosed but that the portions of the documents that represent work product be redacted). See also *United States v. Guay*, 108 F.3d 545, 553 (4th Cir. 1997) (case remanded with instructions that district court redact customs document and disclose redacted document to defendants).

[**25] *Document No. 28*

Document No. 28 is a fax communication, dated August 2, 1995, between Messrs. Gregotti and Martindell and appears to be a response to the July 27, 1995 fax discussed above. The first paragraph of this document plainly references the bicycle license. Paragraphs two and three appear to answer Martindell's request for information concerning the "status of the bicycle license." This is further substantiated by Martindell's faxed response discussed below.

Document No. 26

This August 2, 1995 fax from Mr. Martindell to Mr. Gregotti thanks Gregotti for the above discussed fax "concerning Mordo's license agreement" explaining that the received information "may be helpful in our negotiations with Mordo." As explained above, this, too, relates to item (vi) and involves business negotiations and not legal advice.

Document No. 27

This document is a follow-up fax from Martindell to Gregotti on August 2, 1995 requesting additional information concerning Mordo's bicycle licensing agreement that Martindell neglected to request in the above discussed August 2, 1995 fax.

Therefore, pursuant to the previous discussion the Court finds that Document Nos. 26, [**26] 27, and 28 are discoverable in their entirety. Paragraph one of Documents 8 and 29 (which are the same document) is privileged and must be redacted prior to disclosure.

B. Disclosure of the July 27 Memorandum Waived the Privilege

F.C. Cycles also asserts that even if the memorandum was privileged any protection arising therefrom was waived by the "voluntary" disclosure of the document and, the waiver extends to all other communications relating to the same subject matter. The defendant does not dispute that the memorandum was disclosed. Rather, Fila argues that any waiver that occurred was "inadvertent" and, does not extend to any other document. Thus, it is the scope of the waiver that must be determined by the Court. Since the Court has determined that paragraph (vi) was not privileged (but the rest is), the Court must determine the effect of the production of the memorandum on other documents (or testimony) relating to the same subject matter.

It is well understood that "[HN4]any disclosure inconsistent with maintaining the confidential nature of the attorney-client relationship waives the attorney-client privilege." United States v. Jones, 696 F.2d 1069, 1072 (4th Cir. 1982). [**27] See also Sheet Metal Workers Assoc. v. Sweeney, 29 F.3d 120, 125 (4th Cir. 1994); United States v. Oloyede, 982 F.2d 133, 140 (4th Cir. 1992). Intentional disclosure waives the privilege not only to the disclosed communication, but also to all "other communications relating to the same subject matter." Jones, 696 F.2d [*73] at 1072. See also Hawkins v. Stables, 148 F.3d 379, 384 n.4 (4th Cir. 1998); Sheet Metal Workers, 29 F.3d at 125. There is considerable evidence in the record before this Court that the July 27, 1995 memorandum was not inadvertently disclosed, as claimed by the defendant.

1. Waiver by Implication

The defendant asserts that "central to a court's determination of whether a waiver occurred and the scope of the waiver is the party's *intent* to maintain the confidentiality of the privileged material." (Paper No. 140; defendant's motion in opposition at 9). As compelling as this argument sounds, it is not an accurate statement of the law. Rather, as explained in Duplan Corp. v. Deering

Milliken Research Corp., 397 F. Supp. 1146, 1162 (D.S.C. 1974),

[HN5][a] privileged person would seldom be found to waive, if his intention not to abandon [**28] could alone control the situation. There is always also the objective consideration that when his conduct touches a certain point of disclosure, fairness requires that his privilege shall cease whether he intended that result or not.

Thus, it is the defendant's conduct that is examined to determine if it waived the privilege that attached to the July 27, 1995 memorandum and not its assertions concerning intent. See Hawkins, 148 F.3d at 384 n.4 (stating that privilege can be waived either expressly or through conduct); In re Grand Jury Proceedings, 727 F.2d 1352, 1358 (4th Cir. 1984) (holding that confidentiality was not intended in instances where those asserting the privilege provided the information to their attorney for the purpose of preparing a prospectus which was to be published to others, regardless of their assertions).

For example, in Sheet Metal Workers, 29 F.3d 120, an individual sought to quash subpoenas and disqualify his opponent's attorney by asserting a claim of joint defense attorney client privilege. In support of this theory, it was claimed that a certain document provided to an attorney and an Assistant United States Attorney, and conversations [**29] relating thereto, were protected by the attorney client privilege. Thus, the individual asserting the privilege claimed to have had an attorney client privilege with the attorney to whom he gave the subpoenaed documents and therefore had an expectation of privacy in the documents, even after turning them over to the Assistant United States Attorney, and in his conversations related thereto.

The Fourth Circuit rejected this assertion, however, after examining the proponent's conduct and noted that

certain uncontradicted facts support the refusal of the district court to credit Sweeney's asserted belief that a privilege was intended. Sweeney is bound to have known that the memoranda would be useful to the Fund in civil suits that Sweeney knew . . . were contemplated. Sweeney also knew of the on going grand jury investigation. He is bound to have known of the usefulness of the memoranda to the AUSA in the conduct of that investiga-

tion. The assertion of the claim of privilege for information turned over to the other side . . . knowing its damning effect, is simply straining too far.

Id. at 125

Likewise, it is straining too far to credit the defendant's assertion of [**30] unintentional disclosure under the facts here presented. The July 27, 1995 memorandum was marked as an exhibit at Mr. Liewald's deposition on July 29, 1997. At that time the parties had entered into a confidentiality agreement that provided a remedy for inadvertent disclosure. [*74] Counsel did not object to the use of the document at the July 29, 1997 deposition, did not give counsel notice, pursuant to its confidentiality agreement, that the memorandum was "produced inadvertently . . . within a reasonable period of time after discovery of the inadvertent production," or seek return of the document. (Paper 140; plaintiff's reply memorandum, Ex. 1 at 5).

Moreover, eleven months later the defendant was again put on notice of the memorandum's disclosure. At Mr. Tabler's deposition, almost immediately after the memorandum was presented, Mr. Tabler, the deponent, questioned whether or not the document and the meeting it memorialized were privileged. His counsel expressly stated that the document had been produced and, therefore, the witness was free to discuss the meeting and the contents of the memorandum. (Paper No. 140; memorandum in support of plaintiff's motion, Ex. B at 124). Throughout [**31] this discussion, counsel did not assert the privilege as it related to this document or the underlying meeting. It was not until opposing counsel questioned Mr. Tabler about subsequent communications that related to the July 27, 1995 memorandum that an objection was raised and even then it was raised only to the subsequent communications and not to the document itself.

In sum, there were never any efforts to retrieve the document and privilege was not asserted as to the document until the defendant filed a memorandum in opposition to the instant motion in September 1998. The defendant failed to take advantage of the available confidentiality stipulation which would have allowed it to completely pull back the document. The defendant's "Johnny come lately" assertion of inadvertence is simply not enough to convince this Court that it intended to maintain the memorandum's privilege.

The effect of such a disclosure was recently addressed in *Hawkins*, 148 F.3d at 384 n.4 where privilege was asserted over alleged conversations between attorney and client concerning a wire tap. The plaintiff in the

case brought an action against his ex-wife asserting that she had disclosed information [**32] obtained through an illegal wiretap. At a deposition the ex-wife was questioned concerning conversations she had with her attorney concerning the alleged wire tap. No objections were raised to this line of questioning on any grounds and the ex-wife, "in answering the question as she did . . . waived her privilege . . ." 148 F.3d at 384. Further, the court noted that the ex-wife did not raise the issue of privilege until her attorney was called to impeach her trial testimony.

While the *Hawkins* court held that there were numerous errors at the trial level that required reversal and remand, Judge Williams, writing for the Fourth Circuit, explained that

even if [the ex-wife] could produce sufficient evidence to convince the district court on remand that she and [her attorney] had a confidential conversation regarding the phone tap, the attorney-client privilege would not apply *because her testimony during deposition and trial waived it*. . . . [HN6][This] implied waiver occurred when the party claiming privilege . . . made *any* disclosure of a confidential communication to *any* individual who is not embraced by the privilege. . . . Such a disclosure vitiates the [**33] confidentiality that constitutes the essence of the attorney-client privilege. Furthermore, such a disclosure not only waives the privilege as to the specific information revealed, *but also waives the privilege as to the subject matter of the disclosure*.

148 F.3d at 384 n.4 (emphasis added) (citations omitted)

The situation at bar is strikingly similar. Extensive testimony was given by Tabler at his deposition concerning the subject matter of the memorandum and the underlying meeting. No objection was raised and no attempt was made to preserve the confidentiality of the document. Thus, as previously explained the defendant waived, by implication, the privilege as to the document in question and such a disclosure waived the privilege to the July 27, 1995 memorandum and to its entire subject matter.

2. *Inadvertent Waiver*

The defendant urges this Court to analyze the disclosure of the memorandum [*75] under a five factor test used by numerous courts to determine whether the production of a particular document was inadvertent. Ordi-

narily, the cases on inadvertence focus on the fate of a particular document released in a document production. Typically, a privileged document [**34] is produced during discovery and the producer of the document seeks its return and to limit its use throughout the litigation. See e.g. *In Re Grand Jury Investigation*, 142 F.R.D. 276 (M.D.N.C. 1992); *F.D.I.C. v. Marine Midland Realty Credit Corp.*, 138 F.R.D. 479 (E.D.Va. 1991); *Parkway Gallery Furniture, Inc. v. Kittinger/Pennsylvania House Group, Inc.*, 116 F.R.D. 46 (M.D.N.C. 1987); *Liggett Group, Inc. v. Brown & Williamson Tobacco Corp.*, 116 F.R.D. 205 (M.D.N.C. 1986).

In the instant case, however, the defendant seeks neither the return of the document nor to limit its use during the litigation. Fila admits that the document was disclosed, that it had an opportunity to pull it back under the confidentiality agreement but that it failed to do so, and that the plaintiff has unfettered use the document during the balance of the litigation. Fila resorts to the inadvertent waiver argument in an attempt to preclude the plaintiff from discovering additional documents that relate to the subject matter of the memorandum in question.

As discussed in the previous section, the undersigned finds that the defendant impliedly waived the privilege that attached to the document [**35] and, therefore, following Fourth Circuit precedent, privilege was also waived as to the subject matter of the document. While it is unnecessary, therefore, for this Court to reach this assertion it does so because the result is unchanged and to identify the fatal flaw in the defendant's assertion fatally flawed.

Assuming *arguendo*, that the production was not waived by implication but produced by inadvertence, a close analysis of the facts here and in light of the governing case law, compels the conclusion that the privileged nature of the produced document here is lost and waiver is not limited to the particular document (or the meeting it memorialized) but to all communications relating to the subject matter.

A considerable body of case law has developed on the effect of disclosure of allegedly privileged documents in the course of document production. While some courts have found that the disclosure of allegedly privileged documents in the course of a document production is essentially "voluntary" and once confidentiality is lost, it cannot be restored,⁸ others take a flexible, middle ground approach and apply "a 'balancing test' that requires the court to make a case-by-case [**36] determination of waiver based upon several factors, including the diligence the party claiming the privilege exercised in seeking to maintain the confidentiality of the documents" (*In re Grand Jury Investigation*, 142 F.R.D. at 278); and

still other courts follow a forgiving approach that holds that inadvertent disclosure never waives the privilege because waiver requires an intentional and knowing relinquishment.⁹

8 See 8 Wigmore, Evidence §§ 2325-2326, at 633-634 (McNaughton rev. 1961). See also, e.g., *O'Leary v. Purcell Co., Inc.*, 108 F.R.D. 641, 646 (M.D.N.C. 1985) (voluntary production of a document during a Rule 34 procedure waives the attorney-client privilege); *Underwater Storage Inc. v. United States Rubber Co.*, 314 F. Supp. 546, 549 (D.D.C. 1970) ("Once the document was produced for inspection, it entered the public domain"); *Duplan Corp. v. Deering Milliken, Inc.*, 397 F. Supp. 1146, 1162 (D.S.C. 1975) (same), *aff'd*, 540 F.2d 1215 (4th Cir. 1976); *Rockland Industries, Inc. v. Frank Kasmir Assoc.*, 470 F. Supp. 1176, 1181 (N.D.Tex. 1979) (same); *W.R. Grace & Co. v. Pullman, Inc.*, 446 F. Supp. 771, 775 (W.D.Ok. 1976) ("Notwithstanding the apparently voluminous amount of discovery involved, [the disclosing party] could have taken necessary steps to remove purportedly privileged documents prior to permitting discovery of same.").

[**37]

9 See, e.g., *Transamerica Computer v. I.B.M.*, 573 F.2d 646, 653 (9th Cir. 1978) (Kennedy, J., concurring); *Mendenhall v. Barber-Greene Co.*, 531 F. Supp. 951, 954-55 (N.D.Ill. 1982) (If we are serious about the attorney-client privilege and its relation to the client's welfare, we should require more than such negligence by counsel before the client can be deemed to have given up the privilege"); *Kansas-Nebraska Natural Gas Co. v. Marathon Oil Co.*, 109 F.R.D. 12, 21 (D.Neb. 1985); *IBM Corp. v. Sperry Rand Corp.*, 44 F.R.D. 10, 13 (D.Del. 1968); *Connecticut Mutual Life Ins. Co. v. Shields*, 18 F.R.D. 448, 451 (S.D.N.Y. 1955) ("Only the client can waive this privilege and, to support a finding of waiver, there must be evidence that he intended to waive it").

[*76] The defendant asserts that the United States Court of Appeals for the Fourth Circuit has adopted the middle-ground approach. The United States Court of Appeals for the Fourth Circuit has not expressly addressed this issue. Of late, however, numerous district courts in this circuit have embraced the balancing test, both in document [**38] production situations and otherwise. *McCafferty's, Inc. v. Bank of Glen Burnie*, 179 F.R.D. 163 (D.Md. 1998); *In Re Grand Jury Investigation*, 142 F.R.D. 276 (M.D.N.C. 1992); *F.D.I.C. v. Marine Midland Realty Credit Corp.*, 138 F.R.D. 479

(E.D.Va. 1991); Parkway Gallery Furniture, Inc. v. Kittinger/Pennsylvania House Group, Inc., 116 F.R.D. 46 (1987); Liggett Group, Inc. v. Brown & Williamson Tobacco Corp., 116 F.R.D. 205 (1986). As support for this position the district courts often cite In re Grand Jury Proceedings, 727 F.2d 1352 (4th Cir. 1984).

In In re Grand Jury Proceedings, 727 F.2d 1352 (4th Cir. 1984), the Court was asked to issue a writ of mandamus requiring the reversal of the district court's order directing an attorney to testify concerning conversations between the attorney, his client, and his client's business associates. In making this determination the Court stressed that it does not favor the protections afforded by the privilege and that the privilege is to be "strictly confined within the narrowest possible limits." Id. at 1358. Confidentiality could be lost "even if the disclosure is inadvertent" such as in some circumstances 'eavesdroppers,' [**39] and again, where if the privileged communication consisted of 'privileged documents,' the party did not 'take reasonable steps to insure and maintain [their] confidentiality.'" Id. at 1356, quoting Suburban Sew ' N Sweep, 91 F.R.D. 254, 258-259 (N.D.Ill. 1981). Moreover, the Court observed that "it is not asking too much to insist that if a client wishes to preserve the privilege under such circumstances, he must take some affirmative action to preserve confidentiality, . . . taking or failing to take precautions may be considered as bearing on intent" to preserve confidentiality. Id.

Based in good measure on this language the district courts have determined that the Fourth Circuit favors the balancing approach. This Court notes, however, that in N.L.R.B. v. Harvey, 349 F.2d 900, 907 (4th Cir. 1965), the court stated that the attorney client privilege "ought to be strictly confined within the narrowest possible limits consistent with the logic of its principle." Subsequently, in Duplan Corp. v. Deering Milliken, Inc., 397 F. Supp. 1146, 1163 (D.S.C. 1974), the court interpreted Harvey as follows: "To the extent that [the cases cited by the plaintiff] require [**40] evidence of specific intent to waive the privilege, they are inconsistent with the Fourth Circuit's mandate in Harvey, supra, which is binding on this district court." Additionally, the recent cases discussed in the previous section, Hawkins and Sheet Metal Workers also favor the "Wigmore" approach.

Thus, it is not at all clear that the Fourth Circuit has adopted the balancing test. See Tedder, 801 F.2d at 1441 ("we continue to treat Harvey as viable"). Under Hawkins, Sheet Metal Workers, Duplan, and Harvey it appears that there is more support for the theory that the Fourth Circuit favors the "strict" or "Wigmore" approach of full waiver upon disclosure -- whether inadvertent, voluntary, or implied. See supra footnote 3.

Even assuming *arguendo*, that the Fourth Circuit does favor the intermediate approach, the outcome here is unchanged. Under the intermediate approach, [HN7]"inadvertent disclosure in a document production can be deemed to evidence an abandonment of the requisite intent to maintain confidentiality, and thereby waive the attorney-client privilege under certain circumstances." In In re Grand Jury Investigation, 142 F.R.D. at 278-79, [**41] the court identified the following factors which should be considered in determining whether the circumstances underlying an inadvertent disclosure of attorney-client materials would vitiate the required intent to maintain confidentiality: (1) the reasonableness of the precautions taken to prevent inadvertent disclosure; (2) the number of inadvertent disclosures; (3) the extent of the disclosure; (4) any delay in measures taken to rectify the disclosure; and (5) overriding interests in justice. Accord Parkway Gallery Furniture, Inc., 116 F.R.D. at 50 [**77] and cases cited therein; F.D.I.C. v. Marine Midland, 138 F.R.D. at 482 and cases cited therein.

While there is no doubt that the document in question was disclosed, application of the above factors to the facts illustrates that even under "inadvertence" analysis, subject matter waiver occurred under the present facts.

A. The Reasonableness of the Precautions Taken to Prevent Inadvertent Disclosure

The defendant asserts that it engaged in a careful and systematic approach to document review for the express purpose of minimizing inadvertent disclosure. (Paper No. 140, defendant's motion in opposition at 7). Files containing [**42] potentially responsive documents were located and amassed for possible disclosure. The documents were reviewed by an attorney or a senior paralegal. Documents originally reviewed by a paralegal and identified as responsive were then subjected to a privilege review conducted by an attorney. If the initial review was conducted by an attorney, the same attorney simultaneously conducted a privilege review. All privileged documents were identified on a privilege log and all nonprivileged documents were disclosed to the plaintiff.

[HN8]The Court must determine if the above precautions were objectively reasonable to avoid inadvertent disclosure. Some of the circumstances that courts often look to in making this inquiry are the number of documents involved and the time constraints the producing party was under. See F.D.I.C. v. Marine Midland, 138 F.R.D. at 482-483.

In Re Grand Jury Investigation, 142 F.R.D. 276 is illustrative of reasonably adequate review procedures. There, over 22,000 documents were produced. Prior to production a review team examined approximate

300,000 documents. Once the review team determined that a document was producible, a review team made a second review of [**43] the documents to determine if any of them were privileged. Finally, a senior attorney made a final privilege review of a representative sample of the documents prior to their disclosure.

At the other end of the spectrum were the procedures employed in *Liggett Group, Inc.*, 116 F.R.D. 205. There, a single box of documents, previously withheld from production, containing privileged documents were turned over to the opposing party. There was no evidence that the documents were reviewed after they were designated for disclosure, but prior to actual release. The court found these procedures lacking in care considering the small number of documents involved and the fact that the documents had previously been intentionally withheld from discovery.

Likewise, the efforts undertaken in *F.D.I.C. v. Marine Midland* were also found lacking. While the actual number of documents were in dispute, between 15,000 and 50,000, the scale of production was considerable. The court noted that "as the number of documents grows, so too must the level of effort increase to avoid an inadvertent disclosure. Failure to meet this level of effort invites an inference of waiver." 138 F.R.D. at 483. The court [**44] found that the use of a two person review team was inadequate under the circumstances of minimal time constraints and the number of documents reviewed and produced.

In *Parkway Gallery Furniture, Inc.*, 116 F.R.D. 46, the review efforts were also found lacking. Twelve thousand documents were produced under little or no time constraints. The producing party, however, deviated from its usual practice of reviewing the designated documents a second time after copying and prior to production. The court found that, in light of the number of documents produced and the lack of time pressure, the efforts employed were inadequate.

In the instant case the Court has not been made aware of any particular time constraints, thus it is assumed there were none. Aside from court imposed deadlines from time to time, documents were produced over an extended period of time and in numerous installments. It is unquestionable that the quantity of documents produced (64,000 pages) was massive. The defendant, however, did not provide for a post designation review for the documents examined by [*78] an attorney. The additional safeguard of reviewing the documents after copying, but before production, was also [**45] not employed. Thus, while the procedures employed were not totally lacking, considering the lack of time constraints and the number of documents produced the pro-

cedures were not adequate to avoid the inference of waiver.

B. The Number of Inadvertent Disclosures

While the number of documents inadvertently produced is a separate factor in the determination of waiver, it is highly probative of the reasonableness of the precautions taken by the producing party (*see supra* factor 1 discussion). In the instant case one three page document out of 64,000 pages of documents is at issue. While the procedures employed above were found to be less than adequate, production of a single three page document cannot be considered to be indicia of "lax, careless, and inadequate procedures." *Parkway Gallery Furniture*, 116 F.R.D. at 51. *See also In Re Grand Jury Investigation*, 142 F.R.D. at 281 (18 documents out of 300,000 was not suggestive of inadequate procedures). Thus, this factor weighs in favor of non-waiver.

C. The Extent of the Disclosure

It is undisputed that the extent of the disclosure of the memorandum in question was complete. Indeed, the defendant concedes that the [**46] document was completely disclosed and is not seeking to preserve the privileged nature of the memorandum. Thus, this factor compels a finding of waiver. Moreover, this document has "worked [its] way into the fabric of the case." *In re Grand Jury Investigation*, 142 F.R.D. 276, 281. As in *Marine Midland*, 138 F.R.D. at 480 and *Golden Valley Microwave Foods, Inc. v. Weaver Popcorn Co., Inc.*, 132 F.R.D. 204 (N.D. Ind. 1990) this memorandum has been used in the depositions of several Fila executives. The consistent theme of F.C. Cycles' case has been that Fila terminated its franchise for improper reasons having little to do with its obligations under the agreement. This memorandum is now part of the warp and woof of F.C. Cycle's story. This factor weighs in favor of waiver.

D. Delay and Measures Taken to Rectify the Disclosure

[HN9]The measures employed by the disclosing party, upon notice of an inadvertent disclosure, to either retrieve the document or ensure that additional privileged documents were not inadvertently disclosed, are analyzed by the courts in a very simplistic fashion, that is, the speed with which the measures are undertaken. *See e.g. In Re Grand Jury [**47] Investigation*, 142 F.R.D. at 281-282 (upon notice of inadvertent disclosure of one document the producing party immediately contacted opposing council and re-reviewed all disclosed documents).

For example, in *F.D.I.C. v. Marine Midland*, 138 F.R.D. 479, an inadvertently produced privileged document was used at a deposition against the producing

party. The disclosing party's attorney immediately objected to the use of the document and took prompt steps to recover its possession. The court, however, did not find these measures adequate in light of the fact that there were no efforts made to ensure that other privileged documents were not inadvertently produced. *Id.* at 483.

As previously discussed, the July 27, 1995 memorandum was marked as an exhibit at Mr. Liewald's deposition on July 29, 1997 and no objection to its use was raised and no attempt was made to recover the document. Eleven months later at Mr. Tabler's deposition the defendant was again put on notice of the memorandum's disclosure, significant testimony was elicited, objections were not raised, and privilege was not asserted.

Additionally, the defendant failed to discuss this factor in its memorandum and thus, [**48] Fila has not explained its inaction. As to this factor, it is clear that the defendant did not meet its burden in persuading this Court that this factor weighs against waiver.

E. Fundamental Fairness

[HN10]Whether fundamental fairness weighs for or against waiver largely depends on the extent of the reliance the party has made on the document in its case. *See e.g. Kansas City Power & Light Co. v. Pittsburg & Midway Coal Mining Co.*, 133 F.R.D. 171, 174 [**79] (D.Kan. 1989) (fairness weighed in favor of finding non-waiver when the defendant failed to demonstrate that it had relied significantly on documents inadvertently disclosed by the plaintiff); *Golden Valley Microwave Foods, Inc.*, 132 F.R.D. at 209 (fairness required use by the plaintiff of an inadvertently produced letter since it had already been used in other discovery procedures including the depositions of defendant's employees); *Bud Antle, Inc. v. Grow-Tech, Inc.*, 131 F.R.D. 179 (N.D.Cal. 1990) (fairness required a finding of waiver because the defendants had analyzed the inadvertently produced privileged document, had possibly disclosed it to experts, and had shown a strong reliance on it for purposes of their defense). [**49]

In the present case the plaintiff has significantly relied upon the disclosed document. It has been used in several depositions and addresses issues that are at the heart of its claim. Thus, the weight of this factor supports waiver.

With the exception of one of the above factors, all elements weigh-in for waiver.

3. Scope of Waiver

The remaining determination for the Court, therefore, is the effect of the waiver. Fila apparently took the view in its conduct in the depositions where the memorandum was displayed, that whatever waiver of privilege

had occurred was limited to this document and the meeting it memorialized. That view is wrong.

The few courts which have reached this question of the effect of inadvertent waiver of a particular document on the discoverability of all documents on the same subjects have done so tentatively and with mixed conclusions. *See* Laila Abou-Rahme, *et al.*, *Procedural Issues*, 35 *Am. Crim. L. Rev.* 1061, 1094-1098 (Spring 1998). While the Fourth Circuit has not squarely addressed the issue of inadvertent waiver in document production, its pronouncements in other waiver situations forecast its view here.

For example, in *Harvey*, 349 [**50] F.2d at 907, [HN11]courts were admonished to strictly construe the attorney client privilege in light of its constraint on "the investigation of the truth." Following this stricture, the court in *Duplan Corporation*, 397 F. Supp. at 1162, stated that

A waiver of the privilege as to all communications ordinarily follows from the voluntary waiver even if made with limitations of one or more similar communications. Thus, if a client, through his attorney, voluntarily waives certain communications, but guarded with a specific written or oral assertion at the time of the waiver that it is not its intention to waive the privilege as to the remainder of all similar communications, the privilege, as to the remaining undisclosed communications, is nevertheless waived.

More recently, the court in *Sheet Metal Workers*, 29 F.3d at 125, found that the defendant's act of giving documents to his adverse party amounted to voluntary disclosure and waived any privilege that attached to the subject matter of the document. Relying heavily on *Sheet Metal Workers*, the court, in *Hawkins*, 148 F.3d at 384 n.4, adhered to the strict construction of the attorney client privilege espoused [**51] earlier in *Harvey*, holding that waiver by implication waives privilege to the complete subject matter of the disclosed communication. *See also Santrade, Ltd. v. General Electric Co.*, 150 F.R.D. 539, 543 (E.D.N.C. 1993) ("To the extent that [the plaintiff] has inadvertently or deliberately disclosed attorney-client communications, it has waived attorney-client privilege as to all communications on all subjects covered by these communications").

Moreover, subject matter waiver follows logically from a finding of waiver due to inadvertence under the customary five factor test. As courts have suggested, the five factor test determines the "constructive" voluntari-

ness or intentionality of the production from all the circumstances of its production. F.D.I.C. v. Midland Marine, 138 F.R.D. at 482 ("Inadvertent disclosures are, by definition, unintentional acts, *but disclosures may occur under circumstances of such extreme or gross negligence as to warrant deeming the act of disclosure intentional*") (emphasis added).

Thus, the conduct of the defendant, whether analyzed as an inadvertent or implied action requires that this Court find waiver as to the entire [*80] subject matter [**52] covered in the document. Jones, 696 F.2d at 1072.

Therefore, this Court finds that the document was intentionally or voluntarily produced and consequently, the defendants have waived privilege as to the entire subject matter of the memorandum. This ruling on inadvertence and scope of waiver provides an additional basis, of course, for the discoverability of the four withheld documents and testimony on these subjects.¹⁰

10 While this ruling also provides a basis for argument that waiver has been effected as to all subjects in the July 27 memorandum, F.C. Cycles has wisely not so argued raising as it would relevancy questions.

I find, therefore, that the defendant has failed to meet its burden of demonstrating that the attorney-client privilege that attached to the July 27, 1995 memorandum was not voluntarily waived. See In re Allen, 106 F.3d at 600; United States v. Jones, 696 F.2d at 1072.

C. Plaintiff Failed to Meet Its Burden of Proving the Communications Were Made in Furtherance of a Tort [**53]

In light of the above finding, it is unnecessary for the Court to reach the question of whether the document in question loses its privilege because the sought after advice was made in the furtherance of a fraud or tort, but the Court will briefly do so.

[HN12]A party may compel production of allegedly privileged communications upon a prima facie showing that the lawyer's advice was designed to serve his client in the commission of a fraud, crime or tort. Duplan Corp., 540 F.2d at 1219; Union Camp Corp. v. Lewis, 385 F.2d 143, 144 (4th Cir. 1967). The plaintiff asserts that the July 27, 1995 memorandum is prima facie evidence of the defendant's tortious interference with F.C. Cycles' contract. [HN13]The elements of tortious interference are: (1) the existence of a contract between the plaintiff and a third party; (2) defendant's knowledge of that contract; (3) defendant's intentional interference with a contract; (4) breach of that contract by a third party; (5) resulting in damages to the plaintiff. Fraidin v. Weitz-

man, 93 Md. App. 168, 189, 611 A.2d 1046, 1057 (1992). Specifically, the plaintiff claims that Fila Canada and Fila U.S.A. intentionally sought to cause Fila Sport to [**54] breach its contract with F.C. Cycles. (Paper No. 140; memorandum in support of plaintiff's motion at 20).

[HN14]"There is no cause of action for interference with a contract when suit is brought against a party to the contract. It is widely recognized that one cannot be liable for tortious interference with his own contract." Pope v. Board of School Comm'rs, 106 Md. App. 578, 591, 665 A.2d 713, 719 (1995). To allow such a cause of action between contracting parties would permit a breach of contract action to escalate into the tort arena -- a solution clearly not favored at law.

The plaintiff argues, however, that Fila Canada and Fila U.S.A. are not parties to the instant contract and thus the asserted cause of action survives. The Court is unconvinced.

In Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752, 771-772, 104 S. Ct. 2731, 81 L. Ed. 2d 628 (1984), the Supreme Court held that [HN15]a parent corporation was not legally capable of conspiring with its wholly owned subsidiary. This decision was based on a determination that entities that have a complete unity of interest are essentially the same entity and thus, are incapable of conspiring. The same unity of interest test is used to determine, on a case-by-case [**55] basis, whether closely related companies are capable of interfering with each other's contracts. See Seabury Management, Inc. v. PGA of America, 878 F. Supp. 771, 777-778 (D.Md. 1994), *aff'd in part, rev'd on other grounds*, 52 F.3d 322 (4th Cir.), *cert. denied*, 516 U.S. 867 [**81] (1995). See also Oksanen v. Page Memorial Hosp., 945 F.2d 696, 703 (4th Cir.1991) (Copperweld requires the application of a "functional approach" to the question of intracorporate immunity and holding that a hospital's board of trustees could not conspire with the hospital's medical staff), *cert. denied*, 502 U.S. 1074, 117 L. Ed. 2d 137, 112 S. Ct. 973 (1992)); Dee-K Enterprises, Inc. v. Heveafil Sdn. Bhd., 982 F. Supp. 1138, 1142 n.6 (E.D.Va. 1997) ("wholly owned distributors cannot conspire with their parent-manufacturers, they can legally conspire with other manufacturers and distributors. In other words, while the parent and subsidiary are treated as one entity under Copperweld, that does not preclude each such entity from conspiring to fix prices with other, unrelated entities"); Williams v. 5300 Columbia Pike Corp., 891 F. Supp. 1169, 1174 (E.D.Va. 1995).

The plaintiff [**56] does not contest that Fila Canada or Fila U.S.A. are anything other than wholly owned subsidiaries of Fila Sport or that there is a lack of unity of interest between them. Thus, the plaintiff has failed to

establish prima facie evidence that Fila Canada and Fila U.S.A. are third parties to the contract allegedly interfered with. As pled, this is not a sufficient showing.

I find, therefore, that the "crime, fraud, tort" exception does not apply to the attorney-client privilege that attached to the July 27, 1995 memorandum.

D. Discovery of the Requested Documents is Relevant

The defendant's final defense is that the sought-after documents are not relevant to the instant litigation because the plaintiff is attempting to "inject into this case a claim that Fila Sport's termination of the Agreement was 'pretextual,' and not based on F.C. Cycles various contract breaches." (Paper 140; defendant's memorandum in opposition at 24). For support the defendant cites numerous authorities that are either factually dissimilar or are mischaracterized.

For example, the defendant relies on Hinkleman v. Shell Oil Co., 962 F.2d 372 (4th Cir. 1992) and Murphy Oil USA, Inc. v. Brooks Hauser, [**57] 820 F. Supp. 437 (1993) both of which concerned the undisputed non-payment of a franchise fee and the resultant statutorily prescribed contract breach.¹¹ Thus, in both of aforementioned cases the breach was proven in the pleadings and the franchisee's claims of justifiable nonpayment were held to be irrelevant.

¹¹ See Petroleum Marketing Practices Act, 15 U.S.C. §§ 2801 *et seq.*

Similarly, the defendant relies on Refinemet International Co. v. Eastbourne, N.V., 815 F. Supp. 738 (S.D.N.Y. 1993). There it was undisputed that the plaintiff did not pay the defendant a sum it was contractually obligated to pay. The plaintiff first asserted that its failure to pay was not a material breach of the contract. The court, relying on the plain language of the contract, rejected this assertion and held that the breach was material and, thus, the defendant's duty to perform was terminated. *Id.* at 741-742. Furthermore, the court rejected the plaintiff's pretext argument because the failure to pay gave the [**58] defendant the legal right to terminate its obligations under the plain language of the contract. *Id.* at 742.

In each of these three cases a party was under a contractual obligation to pay. In each of these three cases the party that failed to pay admitted in its pleadings that it did not pay the required sums. Such is not the case in the instant action.

Another case relied upon by the defendant, Two Wheel Corp. v. American Honda Corp., 506 F. Supp. 806 (E.D.N.Y. 1980), actually supports the plaintiff's position. There, the court was asked to issue a preliminary

injunction against the defendant's termination of the plaintiff's automobile franchise. The court acknowledged that if it found "it more likely than not that the defendant discontinued the plaintiff as a Honda dealer for 'cause' or that the propriety of the termination of the plaintiff's franchise does not present questions of a sufficient serious nature as to make them a fair ground for litigation, the defendant's motive becomes [**82] irrelevant." *Id.* at 815. The court did *not* refuse to address the issue on the basis of relevance. Rather, it specifically addressed the issue of pretext and finding the plaintiff's [**59] assertions to be valid, granted the motion for a temporary injunction.

The defendant also asserts that Richland Wholesale Liquors v. Glenmore Distilleries Co., 818 F.2d 312 (4th Cir. 1987) stands the proposition that "the wholesaler's motive for termination did not present as jury question." (Paper 140; defendant's motion in opposition at 26). Judge Hall, writing for the court, actually stated that "the disputed testimony about motivation does not present a jury question *unless there is evidence of supplier behavior which is arguably arbitrary or malicious.* Richland Wholesale Liquors, 818 F.2d at 315 (emphasis added). It is precisely this type of evidence the plaintiff is seeking, that is, evidence of the defendant's arbitrary and malicious conduct.

Finally, Fila ignores that the permissible scope of discovery is broad and that the relevancy threshold for discovery is satisfied so long as the discovery sought is "germane to the subject matter of the pending action." Ralston Purina Co. v. McFarland, 550 F.2d 967, 973 (4th Cir. 1977). In the instant action the sought after documents and their subject matter are germane to this controversy. As noted above, the defendant's [**60] motivation is a central issue in this controversy and is relevant if its behavior "is arguably arbitrary or malicious." Richland Wholesale Liquors, 818 F.2d at 315.

Conclusion

For the foregoing reasons, plaintiff's Motion to Compel Production of Allegedly Privileged Documents and Deposition Testimony From Defendant Fila Sport, S.p.A. is granted.

[*none] [EDITOR'S NOTE: The following court-provided text does not appear at this cite in F.R.D.]

3. Plaintiff's Motion to Strike Fila's Untimely Designation of Expert Witnesses

In this motion, F.C. Cycles asks the Court to strike defendant Fila's untimely designation of expert witnesses. In a September 24, 1998 letter, Fila designated six rebuttal expert witnesses: Stephen Kalos, John Schuber, Basil Imburgia, Andrew Tudor, Alexander

Simonson and Imre Barsy.¹² This September 24 designation, F.C. Cycles claims, violates this Court's Orders of May 26 and July 27, 1998, and Fed. R. Civ. P. 26(a)(2) and is highly prejudicial to F.C. Cycles. F.C. Cycles takes the position that my ruling of May 26, 1998 precluded the presentation of any rebuttal testimony unless submitted as part of the expert reports due August 24, 1998.

12 Messrs. Barsy, Simonson and Schubert are newly designated rebuttal experts; the other three were experts in the defendant's case in chief.

[**61] For the reasons set forth below, I disagree and grant the motion.

By letter dated May 12, 1998, Fila asked the Court, *inter alia*, to modify the Scheduling Order to provide for the filing of rebuttal reports by August 17.¹³ F.C. Cycles objected to what it viewed as a further amendment to the Scheduling Order (but notably did not state its view that rebuttal testimony had to be included in the parties' original reports due August 24). By letter order dated May 26, the undersigned simply stated: "I will deny any additional imposition of the deadline for expert rebuttal reports." (Paper No. 115). While the language of the Court's May letter order was perhaps inartful, by that ruling I had simply intended to reject any additional change to the Scheduling Order and to further reject the imposition of any additional expense, requirement or obligation on F.C. Cycles beyond what the Scheduling Order and Federal Rules already required. I intended to leave matters at status quo. Moreover, in my view, [HN16]where a Scheduling Order fails to cover an issue, the parties are "defaulted" to the Rules. [HN17]The Federal Rules, of course, allow rebuttal testimony under the Federal Rule 26(a)(2)(c). But, [**62] a party is required to serve rebuttal reports on the opposing party. Thus, Fila would have had to file far more than a letter "designating" rebuttal experts, to be in conformance with the rule. Fila argues, however, the Court's ruling forbade the filing of rebuttal reports and F.C. Cycles' letter had suggested to Fila (and to the undersigned) that discovery of rebuttal testimony could be handled more expeditiously and efficiently through deposition.

13 If the parties were subject to the Federal Rules, the rebuttal reports would have been due 30 days after receipt of the reports-in-chief or August 24.

The Court does not agree with F.C. Cycles' interpretation of the Court's rulings, as forbidding any Fila expert rebuttal testimony. That interpretation leads to an illogical and extreme result. The Court was not presented with this interpretation when F.C. Cycles filed its original motion, and does not endorse such an interpretation now.

Regrettably, this issue -- which has now produced inches of briefing -- was [**63] the subject of only a few sentences in the letters of the parties originally. My ruling was one sentence long. Judge Davis in his review of the objections affirmed my ruling stating simply that he found "no abuse of discretion in Judge Gauvey's denial of Fila's request to modify the Scheduling Order to include the exchange of rebuttal expert reports."

Also, regrettably, neither party articulated its view of the effect of the ruling on how rebuttal testimony would be presented and discovered in its submissions to me, or to Judge Davis on appeal. Because I find that Fila could have reasonably concluded that it could present rebuttal testimony (and that it would be discovered by deposition as F.C. Cycles' letter suggests), and because of the overwhelming prejudice that a denial of Fila rebuttal testimony would cause,¹⁴ I ruled in open court that Fila could present expert rebuttal testimony. However, given the short time remaining pretrial, I ordered Fila to submit rebuttal reports¹⁵ and make their experts available for deposition the weeks of November 9 and 16.

14 F.C. Cycles complains that it is prejudiced since its reports served on August 24 contain its anticipated rebuttal. That prejudice pales compared to the prejudice suffered if Fila's denied any rebuttal testimony.

[**64]

15 While F.C. Cycles previously had eschewed the necessity of rebuttal reports, the Court ordered Fila's submission of them to expedite F.C. Cycles' discovery of their opinions and to minimize further strategic advantage that Fila would gain by further delay in presenting its rebuttal opinions. F.C. Cycles claimed to have incorporated its rebuttal opinions in its August 24 reports. Under the rules, Fila would have had to submit rebuttal reports on September 24. Fila submitted only the names, "buying" as it turns out 1 1/2 months of time to review F.C. Cycles' reports and prepare rebuttal opinions.

4. Defendant's Motion to Compel Production of Deposition Testimony, Related Documents and Other Relief

In this motion, Fila asks to take the depositions of Nigel Hogarth, Russell Sneed, Maria Noce and a representative of Cyrk on the continuing relationship between Cyrk and F.C. Cycles.¹⁶ Moreover, Fila asks the Court to declare that Fila can offer the testimony of its president, Enrico Frachey, at the trial and announces Dr. Frachey's availability for a "limited" F.C. Cycles' deposition.

16 In its original motion, Fila had also asked for the production of certain financial documents and depositions of Chan and Fok, individuals involved in the bookkeeping for F.C. Cycles. Fila has withdrawn that request.

[**65] As set forth earlier, the Scheduling Order provides May 13, 1998 as the deadline for fact discovery. What Fila seeks by this additional discovery is a significant modification of the Scheduling Order, to which the opposing party strenuously objects. [HN18]The standard for modification of a Scheduling Order is "a showing of good cause." Fed. R. Civ. P. 16(b). Moreover, "district courts enjoy nearly unfettered discretion to control the timing and scope of discovery." Hinkle v. City of Clarksburg, W.Va., 81 F.3d 416, 426 (4th Cir. 1996) "[A] district court acts wholly within its discretion in denying additional discovery where the delay in discovery is due to the fault of the complaining party." Strag v. Board of Trustees, 55 F.3d 943, 953 (4th Cir. 1995).¹⁷

17 In supporting its motion for additional depositions, Fila quotes the opinion Burton v. Youth Services, Int'l, Inc., 176 F.R.D. 517, 521 (D.Md. 1997), that if "further discovery is necessary because of facts justifiably learned for the first time near the end of discovery, a judge should exercise her discretion to reopen discovery and otherwise amend the existing schedule." The undersigned does not disagree with this proposition in principle, but as is discussed *infra*, disagrees that Fila "justifiably learned of these facts after close of fact discovery and within days of the close of expert discovery.

[**66] Fila does not dispute that it waited 30 days, until only two weeks remained in the expert discovery period, to contact F.C. Cycles about expert depositions, and then only to inquire about a possible extension of time, finally serving its notices for expert depositions for the last four days of the discovery period. (Paper No. 148, Ex. J). Fila does not dispute that the depositions of Messrs. Mordo and Sneed were set for April, 1998, but Fila canceled due to competing commitments of counsel. *Ibid.*

While Fila asserts, without supporting documentation, that F.C. Cycles' insisted that the depositions of Fila witnesses precede those of F. C. Cycles', (Paper No. 148, 2), it appears that Fila expressed its disagreement with that order of deposition. (Paper No. 148, Ex. I).¹⁸ Nonetheless, Fila apparently made no contemporaneous demand for the depositions of F.C. Cycles' witnesses before its witnesses.

18 In a July 6, 1998 letter of F.C. Cycles to Fila, F.C. Cycles acknowledged Fila's position that Mr.

Gregotti did not have to be produced for deposition prior to the depositions of Messrs. Mordo and Sneed. (Paper No. 148, Ex. I); (Paper No. 149, Ex. H).

[**67] The parties had agreed that some depositions would be taken after the May 13, 1998 deadline. In a letter dated April 17, 1998, Fila counsel informed the Court that the parties had agreed that some fact depositions would be taken "between the close of nonexpert discovery of May 15 [sic] and the [expert] discovery deadline of September 8, 1998. (Paper No. 149, Ex. T). Indeed, Fila counsel assured the Court that "no extensions of discovery, motion or trial dates will be necessary." (Paper No. 149, Ex. T). Yet, by its motion filed on October 8, 1998, Fila asks, by new counsel, for new discovery. F.C. Cycles vigorously opposes any additional depositions.

While each one of Fila's requests for additional discovery considered singly has some merit, the cumulative effect, if all were granted, now out-of-time, would render meaningless pretrial management of this case, penalize F.C. Cycles for its diligence and burden F.C. Cycles with discovery as it must necessarily work on its Requests for Admissions, its Responses to Fila's Requests for Admission, and its summary judgment motion. Not only would this extensive out-of-time discovery rob F.C. Cycles of its necessary focus on motions and [**68] trial preparation, but, more critically, almost certainly up-end the factual record developed in discovery over time which F.C. Cycles undoubtedly is relying upon (and is entitled to rely at this point in the litigation) as it prepares its requests for admission, responses and its summary judgment motion. The Court agrees with F.C. Cycles that parties have a "right . . . to have an ascertainable and definite end to discovery and a closing of the record so that the parties can start their preparation for dispositive motions and trial." (Paper No. 149, p. 24).

The undersigned can come to no other conclusion that Fila's response to F.C. Cycles discovery and Fila's own affirmative discovery (or lack of discovery) has been a study in delay,¹⁹ a peculiar diffidence and an obliviousness to deadlines. F.C. Cycles is entitled, as is every litigant, to a "just, speedy and inexpensive determination of [its] action." Fed. R. Civ. P. 1. It is against this backdrop, that the Court examines each request for additional discovery.

19 Fila has stated that it has used only 62 hours of deposition time (not including its depositions of F.C. Cycles' experts), while F.C. Cycles has used 285. (Paper No. 165).

The Court does not interpret Fila's use of only 62 hours of its 400 hours of deposition time

as a justification for its out-of-time discovery requested here. Quite the contrary, this statistic suggests to this Court that Fila indeed did procrastinate in its deposition demands.

[**69] **A. Nigel Hogarth**

Nigel Hogarth was an employee of F.C. Cycles. He is a citizen of Canada. He played a key role in F.C. Cycles' franchise agreement with Fila. He was a participant at the November 2 "termination meeting." Fila obviously knew this. F.C. Cycles did not and could not hide that fact. Indeed, F.C. Cycles explicitly identified Mr. Hogarth in answers to interrogatories served on Fila on March 10, 1997. Fila early expressed interest in his deposition. But, as early as January 26, 1998, F.C. Cycles informed Fila that Mr. Hogarth could not be compelled to appear for deposition and "if Fila wants to take discovery of Mr. Hogarth, it will have to do so through the applicable Canadian discovery process." (Paper No. 149, Ex. O). Nonetheless, F.C. Cycles and Fila clearly discussed F.C. Cycles' production of Mr. Hogarth for his deposition without process, in exchange of Fila's production of certain Fila witnesses, also Canadians, without process. However, these "negotiations" broke down and in late April or early May, 1998, F.C. Cycles informed Fila in writing that Nigel Hogarth refused to voluntarily appear for deposition.²⁰ (Paper No. 149, Ex. Q). On May 6, Fila sought F.C. [**70] Cycles' agreement that Mr. Hogarth's deposition could be taken after May 13. (Paper No. 149, Ex. Q).

Because F.C. Cycles had originally raised the possibility that Mr. Hogarth might appear voluntarily only to learn that he would not do so, and because F.C. Cycles believed that Fila was promptly initiating Canadian discovery, F.C. Cycles advised Fila that it did not object if Fila completed that discovery through Canadian process after the May 13 deadline. (Paper No. 149, p. 10).

20 The letter also refers to earlier conversations where F.C. Cycles told Fila that process must be used to secure Hogarth's deposition.

However, it is undisputed that Fila made *no* attempts to utilize available process to obtain his deposition. Indeed, Fila has not produced any communication between F.C. Cycles and Fila on Hogarth's deposition after Fila's July 2 letter stating its intent to take the deposition. Not until this motion was filed in early October, did Fila

press for Hogarth's deposition -- 9 months after [**71] F.C. Cycles advised Fila to use Canadian process to obtain Hogarth's deposition, almost five months after formal close of fact discovery and a month after the parties' informal extension of the fact discovery deadline of September 8, 1998. As a *post hoc* rationalization for this failure of effort, new counsel for Fila presents an affidavit of a Canadian barrister/solicitor that such a deposition would be granted only in "exceptional circumstances" and thus would not be likely granted here. (Paper No. 153, Ex. 3). Fila's disregard for deadlines cannot be ignored. Accordingly, the undersigned does not find that Fila has demonstrated "good cause" for its deposition of Hogarth on his role in the F.C. Cycles' franchise.

Notwithstanding its lack of diligence, Fila asserts that if F.C. Cycles has the ability to secure Mr. Hogarth's appearance at trial, F.C. Cycles should be required to produce him for pretrial deposition, even if that witness is not technically within that party's control.²¹ While there is a superficial appeal to such an equation, it cannot stand as it rewards an attorney for his dilatoriness. Moreover, Fila's support for its position is sparse and unconvincing. [**72] Heath v. Massey-Ferguson Parts Co., 869 F. Supp. 1379 (D. Wisc. 1994) required voluntary production of a witness for deposition if that witness had not been identified in a timely basis, and if that witness was going to testify. And, in Moran Coal Corp. v. Societe Generale de Surveillance, 1996 WL 11230 (S.D.N.Y. 1996) and In re Gulf Oil v. Chevron, U.S.A., 776 F. Supp. 838, 839 (S.D.N.Y. 1991), the issue was whether the defendant was required to produce one of its witnesses (who was beyond the subpoena power of the Court) for live testimony in plaintiff's case, rather than requiring plaintiff to introduce his testimony by deposition, while defendant retained the advantageous option to present the testimony of the witness live.

21 F.C. Cycles has disavowed any "control" over Mr. Hogarth, stating that he is not an employee; however, the record is clear that Hogarth provided information to F.C. Cycles' experts in the summer of 1998.

While Fila appeals to "fundamental fairness" in its attempt to procure [**73] the deposition of Mr. Hogarth, it ignores the fact that it knew of the critical nature of Hogarth's knowledge and either through wile or gross inattention, did not take steps to ensure his deposition. This Court will not order the production of Mr. Hogarth for deposition.

Fila makes another distinct argument for his deposition: that F.C. Cycles' experts' reliance on conversations with Mr. Hogarth and documents provided by Mr. Hogarth compels his deposition. The undersigned disagrees. Rule 26(a)(2)(B) entitles a party, *inter alia*, to

"the data or other information considered by the witness in forming the opinions." Fila has not complained about not receiving the documents, reports, etc. on which the expert witnesses relied, nor does Fila complain that it was hampered from inquiring on deposition of Mr. Townley and Ms. Davis as to what Mr. Hogarth told them in their conversations. Indeed, Mr. Townley was questioned on his conversation with Mr. Sneed and his notes of that conversation provided. (*See* Exs. D and E to Paper No. 167). Fila complains about not being able to depose Mr. Hogarth on the documents he provided and his account of what he said to the experts. Rule 26 does [**74] not grant independent discovery of the "data and other information" provided to an expert. There is no indication that the drafters of Rule 26 envisioned nor that any court has held that a party has the right to depose the authors of the underlying data and information. Such a proposition would add another round of discovery, after close of fact discovery and after close of expert discovery. Fila has not provided any convincing authority for its radical view of its rights under Rule 26.²²

22 *Permanent Financial Corp. v. Taro*, 1987 WL 33410 at *1 (D.D.C. Dec. 23, 1987), vacated in part, 1987 WL 33414 (D.D.C. 1987) is scant authority for Fila's radical request. That case involved the appropriate sanction for a plaintiff's failure to disclose a new damage claim in a timely fashion. In precluding plaintiff from offering expert testimony on this new damage theory, the Court simply observed that to "effectively cross exam [sic] the Plaintiff's expert witnesses ... the Defendant, of necessity, will have to depose about ten witnesses newly disclosed by the Plaintiffs ... at least three of [which] witnesses ... Plaintiff's two zoning experts admit that they have relied ..." There was obviously no analysis under Fed. R. Civ. P. 26 or otherwise. The Court did not order the fact depositions.

[**75] **B. Russell Sneed**

Mr. Sneed is a shareholder of and former consultant to F.C. Cycles. His deposition was taken for some four days, ending July 24.²³ Fila now seeks another deposition session for two reasons: (1) that in Mr. Mordo's deposition taken in August, he provided, for the first time, critical testimony on Fila's knowledge of the Pepsi promotion, different from that previously developed:²⁴ that he had submitted a graphic with the design of the Fila bicycle for the Pepsi Stuff promotion in the interim report in June 1995 to Fila; and (2) that he provided information and assumptions to F.C. Cycles experts and Fila should be able to cross-examine Mr. Sneed on that information and assumptions. Fila seeks to question Mr. Sneed on a subject basic to the dispute -- whether Fila

knew and/or approved the Pepsi Stuff promotion. In the four days of deposition, Fila had the opportunity to inquire into this. But, Fila argues, Mr. Mordo in his deposition in August, 1998, gave testimony at odds with the documents and other testimony and now wants an opportunity to question Mr. Sneed as the person most knowledgeable in the area of the "new" testimony. This plainly is not "good cause." [HN19] [**76] In any litigation, the state of the factual record is constantly evolving, deposition by deposition. Each deposition cannot be held open to allow a party to visit or revisit a subject area after new or more evidence is developed. Moreover, Fila did not promptly move for an additional Sneed deposition session. While the "triggering" Mordo deposition testimony was given in August, Fila did not ask for the additional discovery from Mr. Sneed until its October 8 filing of the motion. Accordingly, an additional Sneed deposition session will be denied on this basis.

23 At the end of the day on Friday, July 24, 1998, Fila counsel did attempt to hold open the Sneed deposition. He did not identify any areas yet to be explored. F.C. Cycles objected and offered to continue the deposition on the weekend, but Fila counsel declined to continue it. Fila argues now that the Sneed deposition had not been concluded, but merely adjourned. Fila cannot by refusing to declare the deposition concluded, keep the deposition opened indefinitely and effectively extend the discovery deadline. This Court views this request as for a second deposition of Mr. Sneed for which leave of court is required under Fed.R.Civ.P. 30(a)(2)(B). The Advisory Committee Notes to the Rule exempt from the leave requirement situations "when a deposition is temporarily recessed for convenience of counsel or the deponent or to enable additional materials to be gathered before resuming the deposition." None of these circumstances describe the adjournment of Russell Sneed's deposition on July 24. Fila's request is thus properly viewed as a request for a second deposition. Rule 30 provides that leave of court shall be granted "to the extent consistent with the principles stated in Rule 26(b)(2)."

Under Fed.R.Civ.P. 26(b)(2), this Court finds that "the party seeking discovery has had ample opportunity by discovery in the action to obtain the information sought."

[**77]

24 Moreover, this Mordo testimony does not appear, as Fila asserts, to be at odds with previously produced documents and testimony. (Paper No. 149, Exs. V and W).

The Court does not view the second justification for another deposition session any more favorably, for the reasons discussed in the preceding section.

There is no right to cross-examine Mr. Sneed, or any other person that provides material to an expert. As in the case of Mr. Hogarth, no complaint was made that the materials were withheld. Obviously, Fila had an opportunity to depose these experts on any verbal communication between them and Mr. Sneed. Accordingly, an additional deposition session of Mr. Sneed will be denied on this basis.

Finally, for the reasons set forth in Section D. Cyrk Representative, *infra*, the Court will allow an additional deposition session of Mr. Sneed of no more than two hours on a single subject -- promotions for or involving Bicycle Products other than the Pepsi promotion that F.C. Cycles either engaged in or had discussions about with Cyrk.

C. Maura Noce

Maura Noce is an employee of Cyrk. [**78] The Court has granted the motion as to Maura Noce. Unlike the depositions of Hogarth and the continuation of the deposition of Sneed, the correspondence between the parties suggests that Fila reasonably expected to be allowed to take Ms. Noce's deposition after May 13, the discovery deadline, perhaps as late as late September or early October, due to the schedule of Cyrk's counsel and the witness' pregnancy. *See* Verner Declaration and attached correspondence (Paper No. 148, Ex. X). The Court announced its ruling in open court on October 27, 1998, and instructed counsel to take the deposition during the week of November 2, 1998.

D. Cyrk Representative

Cyrk is a company that specializes in the creation and implementation of promotions on behalf of corporate clients. Cyrk had created the Pepsi Stuff promotion for F.C. Cycles which Fila asserts that it did not approve, as required under its agreement. According to Fila, the linchpin of Townley's expert analysis (which concluded that F.C. Cycles would have sold 12.5 million bikes and generated \$ 2.7 billion in revenues) was his assumption of a long term relationship between F.C. Cycles and Cyrk. As in its requests for depositions [**79] of Messrs. Sneed and Hogarth, Fila asks to test the validity of Townley's assumptions by deposing Cyrk on what relationship, if any, was contemplated between F.C. Cycles and Cyrk beyond 1996. While Fila has taken the deposition of various Cyrk representatives, Fila states that the questioning was focused on the Pepsi Stuff promotion and when and to what extent F.C. Cycles informed Fila of the use of its bikes in that promotion.

Fila presents an additional ground for this request different and more compelling than the grounds heretofore offered for the depositions of Messrs. Sneed and Hogarth. Mr. Townley, F.C. Cycles' expert, relies on the future business relationship between F.C. Cycles and Cyrk for a considerable portion of his sales and revenue projections for F.C. Cycles.

My conversations with Russell Sneed confirmed that F.C. Cycles had fully developed a complete international marketing program with Cyrk that would have included in the first year the U.S., Europe, Asia and South America. Plans were already being discussed to expand quickly into Canada, and additional country markets in Europe, Asia and South America. In addition to programs in Europe, Asia and South America [**80] with Pepsi that would have been similar to the U.S. program, discussions were underway that included other Pepsi products for a wide variety of international markets as well as other companies with internationally recognized brand products.

These programs and plans apparently formed the basis of Townley's assumptions, which of course resulted in expected sales and revenues, which, of course, was the basis for Davis' damages. (Paper No. 148, Ex. G, p. 7).

Fila states that "there was never any contention by F.C. Cycles -- nor any indication by any of the witnesses -- that either F.C. Cycles or Cyrk had agreed upon, negotiated, discussed, or even contemplated a continuing relationship beyond F.C. Cycles' participation in the Pepsi Stuff Promotion." (Paper No. 148).

While a lawyer's mere failure to explore an important area of litigation certainly cannot be cause for reopening discovery, here it appears that Fila *may* have been misled by F.C. Cycles' answers to interrogatories, into not exploring the potential for a continuing F.C. Cycles - Cyrk relationship.

Interrogatory No. 9

Identify all promotions for or involving Bicycle Products other than the Pepsi Promotion [**81] that F.C. Cycles either engaged in or had discussions about, and for each such promotion, identify (and identify all communications and documents concerning):

a. the time period for the promotion and/or discussions or negotiations regarding said promotion; and

b. if the promotion occurred, the number of Bicycle Products sold, the per-unit price for said products, and F.C. Cycles' gross and net profits on the sale of such products.

Response

F.C. Cycles objects to this interrogatory to the extent that the request for information regarding "discussions" about any possible promotions is overbroad, seeks the discovery of irrelevant information, and is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objections, to the best of F.C. Cycles' knowledge, there were no such promotions.

(Ex. A to No. 5).

Lulled by this response, Fila *may* not have questioned Sneed or the Cyrk representatives about their future business relationship, relying on its answer. Of course, Fila could have moved to compel a complete answer, as F.C. Cycles' answer declined to address "'discussions' about any possible promotions" [**82] because the request is overbroad, seeks irrelevant information and is not calculated to lead to discovery of admissible evidence. In light of the information on the future promotional and marketing programs with Cyrk and Mr. Townley's reliance on it in arriving at sales and revenue projects for purposes of calculating F.C. Cycles' damages, F.C. Cycles protests of "overbroad" and "irrelevant" ring hollow.²⁵

25 Fila's delay in requesting this additional discovery is unexplained. F.C. Cycles served the Townley report on Fila on August 24, 1998. Fila took some six weeks thereafter to press its request in its October 8 motion based on the Townley report. While six weeks in other circumstances might appear timely, six weeks in this case's tight pretrial schedule is too slow and only exaggerates the disruption to the orderly pretrial management of a large and complex case such as this, particularly to the prejudice of the non-moving party. Nonetheless, the Court will allow this limited additional discovery.

Accordingly, [**83] the Court will allow the reopening of the deposition of Russell Sneed and a Cyrk

representative on a single subject -- promotions for or involving Bicycle Products other than the Pepsi Promotion that F.C. Cycles either engaged in or had discussions about with Cyrk.

E. Enrico Frachey

Enrico Frachey is the President of Fila Sport, S.p.A. In its October 8, 1998 motion, Fila offered Dr. Frachey for a limited deposition, reserving therefore its option to offer his testimony at trial. To allow Dr. Frachey's testimony now would condone nothing less than the whipsawing of plaintiff by defendant. There appears to be no material dispute regarding this matter. F.C. Cycles noted the deposition of Dr. Frachey for July 7, 1997; (Paper No. 149, Ex. B). Fila sought, and received, a protective order based on Dr. Frachey's affidavit statement that he had "no information relevant to this case unique to me or superior to those who report to me" and that his knowledge of the material facts of the case was "limited" and "secondhand." (Paper No. 149, Ex. D). In February, 1998, Franco Maula, Director of Marketing for Fila Sport, S.p.A., testified that Dr. Frachey made the decision to terminate F.C. [**84] Cycles.²⁶

26 In August, 1998, Luigi Gregotti, another Fila top executive, testified similarly.

In March, 1998, F.C. Cycles again requested (prior to the then discovery cutoff) the deposition of Dr. Frachey, which was again refused. In July, 1998, after the discovery cutoff, Fila informed F.C. Cycles of its position that Fila could call as witness at trial "any witness who was noticed but did not testify at deposition." Because that statement would encompass Dr. Frachey, among others, F.C. Cycles informed Fila that it would oppose Dr. Frachey's testimony as a surprise witness, both because Fila had obtained a protective order and because it later refused (after Maula's testimony) to permit Dr. Frachey's deposition. Fila took no action to clarify the issue of Dr. Frachey's testimony until the October 8 filing of its motion.²⁷

27 In a September 25, 1998 letter to the Court, Fila did suggest the need for a deposition date for Dr. Frachey. (Paper No. 149, Ex. K).

[**85] While the undersigned recognizes that prejudice may inure to Fila if Dr. Frachey is prevented from testifying at trial, it is prejudice that Fila has brought on itself.

Fila steadfastly refused to produce Dr. Frachey for a deposition. Assuming *arguendo* that Fila counsel had failed to properly investigate its own case and did not know that Dr. Frachey made the termination decision regarding F.C. Cycles until Mr. Maula's deposition in

February, 1998, what possible basis did Fila have for its continuing refusal to produce Dr. Frachey thereafter? Fila's protestations strain credulity.

The timing of Fila's decision to offer Dr. Frachey for a limited deposition to assure its use of Dr. Frachey as a witness smacks of stratagem and device on Fila's part. Only after the deposition of all of Fila's key executives involved in the F.C. Cycles -- Fila franchise agreement matter, did Dr. Frachey become available and possess relevant testimony.

A separate Order embodying these rulings will issue.

Date: 11/10/98

Susan K. Gauvey

United States Magistrate Judge

ORDER

In accordance with the foregoing Memorandum and Order, it is this 10th day of November, 1998, ORDERED that:

[**86] 1. Plaintiff's Motion for Rule 37(b)(2) Sanctions will be ruled on after Fila has responded to F.C. Cycles' requests for admissions.

2. Plaintiff's Motion to Compel Production of Allegedly Privileged Documents and Deposition Testimony From Defendant Fila Sport, S.p.A., is GRANTED as follows:

A. Fila Sport, S.p.A. is ordered to produce the documents listed on its privilege log as document Nos. 8, 26, 27, 28, 29, and any other withheld documents discussing or mentioning the value of F.C. Cycles' license, and the possible use of the license as a leverage tool against Mr. Mordo or GMS in any way, no later than November 13, 1998;