Exhibit E

HONEYWELL, INC., Plaintiff, v. MINOLTA CAMERA CO., LTD., et al., Defendant

Civil Action No. 87-4847

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY

1990 U.S. Dist. LEXIS 5954

May 15, 1990, Decided and Filed

NOTICE: [*1] NOT FOR PUBLICATION

SUBSEQUENT HISTORY: Later proceeding at Honeywell, Inc. v. Minolta Camera Co., 1991 U.S. Dist. LEXIS 4222 (D.N.J., Apr. 5, 1991)

PRIOR HISTORY: Honeywell, Inc. v. Minolta Camera Co., 1988 U.S. Dist. LEXIS 6379 (D.N.J., June 27, 1988)

DISPOSITION: Magistrate's orders reversed in part. Defendant's motion to dismiss claims granted.

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OPINION BY: WOLIN

OPINION

Alfred M. Wolin, United States District Judge.

OPINION

Before the Court plaintiff Honeywell, Inc. ("Honeywell") appeals from an order of the Magistrate and defendant Minolta Camera Co., Ltd. ("Minolta") moves to dismiss counts three through six of Honeywell's Second Amended Complaint. Honeywell appeals the Order of Magistrate Haneke filed December 6, 1989 which denied plaintiff's application for reconsideration of the Order of the Magistrate filed August 22, 1989 ("the August Order"). The August Order denied Honeywell's telephone motion of August 8, 1989 to compel the deposition testimony of Kazuo Kessoku ("Kessoku"), an employee of defendant Minolta, over defendants' objections on the basis of the attorney-client privilege and work [*2] product doctrine. Minolta moves to dismiss counts three through six of Honeywell's Second Amended Complaint for failure to state a claim for which relief can be granted. In the alternative, Minolta moves to dismiss count five for failure to plead fraud with particularity pursuant to Fed. R. Civ. P. 9(b). First, the Court will consider Honeywell's appeal from the Magistrate's order, and then, the Court will consider Minolta's motion to dismiss.

I. THE APPEAL OF THE MAGISTRATE'S ORDER

A. BACKGROUND

Honeywell's appeal concerns on-going depositions which are being conducted in Japan. During the taking of the deposition of Kessoku, he was directed not to answer certain questions pursuant to the attorney-client privilege and the work product doctrine. It is undisputed that

Kessoku is not admitted to the bar of Japan or any other country and is not a registered patent agent of Japan or any other country.

Honeywell moved by telephone application from Japan for an order compelling Kessoku to answer the line of questioning and to compel Minolta to produce certain documents requested in connection with the questioning of Kessoku. After the telephone conference, the Magistrate [*3] permitted the filing of additional and supplemental briefs. The Magistrate's Order of August 22, 1989 denied the application of Honeywell on the ground that Kessoku was the "functional equivalent" of an attorney under the rationale of Renfield Corp. v. E. Remy Martin & Co., S.A., 98 F.R.D. 442 (D. Del. 1982), and was entitled to assert the attorney-client privilege and work product doctrine. Honeywell appealed that decision to this Court. This Court remanded the issue back to the Magistrate for reconsideration in light of the submission by Honeywell of the affidavit of Berthold Goldman which had been filed in the Renfield case. The Magistrate denied the motion on reconsideration. The instant appeal followed.

B. DISCUSSION

A magistrate's adjudication of a non-dispositive motion will be set aside only if the order is found to be clearly erroneous or contrary to law. Cipollone v. Liggett Group, Inc., 785 F.2d 1108, 1113 (3d Cir. 1986), cert. denied, 484 U.S. 976, 108 S. Ct. 487, (1987) (citing 28 U.S.C. § 636 (b)(1)(A)); see Fed. R. Civ. P. 72 (a); General Rule 40 D(4) of the U.S. Dist. Ct. for the Dist. of N.J. This Court will determine that a finding is [*4] clearly erroneous "when although there is evidence to support it, the reviewing court on the entire evidence is left with the definite and firm conviction that a mistake has been committed." United States v. Gypsum Co., 333 U.S. 364, 395, 68 S. Ct. 525, 542 (1948). The Magistrate's order may also be reversed if it is found that his determination was contrary to law. The Magistrate has delegated authority pursuant to 28 U.S.C. § 636 (b)(1) to exercise wide discretion in fashioning appropriate discovery orders. Several courts have also held that a magistrate's determination in a discovery dispute is entitled to great deference and reversible only for an abuse of discretion. See Environmental Tectonics v. W.S. Kirkpatrick & Co., 659 F. Supp. 1381, 1399 (D.N.J. 1987) (citing cases), aff'd in part. rev'd in part, 847 F.2d 1052 (3d Cir. 1988), aff'd 110 S. Ct. 701 (1990); see also, Schroeder v. Boeing Commercial Airplane Co., 123 F.R.D. 166 (D.N.J. 1988).

Honeywell contends that the Magistrate's decision to deny the motion to compel must be reversed as contrary to law. At oral argument both Honeywell and Minolta agreed that the taking of this deposition in Japan is governed [*5] by United States law. See Defendants' Memorandum in Opposition to Motion to Reverse, p. 13. Honeywell asserts that it was error for the Magistrate to be "persuaded" by the rationale of the Renfield case. Specifically, Honeywell contends that Renfield is contrary to the law of the Third Circuit and to prior district court opinions in this district. Honeywell contends that Renfield is contrary to the policy underlying the attorney-client privilege and the work product doctrine. Honeywell also submits that the Magistrate's failure to rule on the issue of the work product doctrine was clearly erroneous in that it will lead to duplicitous litigation. Minolta argues that the Magistrate's decision conforms to applicable law and that the Magistrate's determination that Kessoku is, in fact, a de facto attorney is supported by sufficient evidence. The Court finds that the issue to be decided is whether the Magistrate's determination that Kessoku could assert the attorney-client privilege and work product doctrines as a de facto attorney is clearly erroneous or contrary to law.

Privileges asserted in federal court are "governed by the principles of common law as they may be interpreted [*6] by the courts of the United States in light of reason and experience. However, in civil actions and proceedings, with respect to an element of a claim or defense as to which State law supplies the rule of decision, the privilege . . . shall be determined in accordance with State law." Fed. R. Evid. 501. The validity of a privilege is to be determined on a case-by-case basis. Unjohn Co. v. U.S., 449 U.S. 383, 396-97, 101 S. Ct. 677, 686 (1981). The Third Circuit has held that "the applicability of a privilege is a factual question" and the determination of "the scope of a privilege is a question of law." Matter of Bevill, Bresler & Schulman Asset Management Corp., 805 F.2d 120, 124 (3d Cir. 1986), citing to United States v. Liebman, 742 F.2d 807, 809 (3d Cir. 1984). The determination as to whether Kessoku may assert either the attorney-client privilege or the work product doctrine in refusing to answer questions at his deposition depends on the determination of his status as a de facto attorney.

The Magistrate found that Kessoku was the functional equivalent of an attorney under the rationale of Renfield Corp. v. E. Remy Martin & Co., S.A., 98 F.R.D. 442 (D. Del. 1982), [*7] and was, therefore, entitled to assert the attorney-client privilege and work product doctrine. The Renfield court expanded the attorney-client privilege to encompass employees of a french corporation who acted in the capacity of "in-house" counsel, although the employees were not members of the organized french bar. The court discussed only the factual circumstances of the case before it and cited no authority for this expansion of the privilege. The specific holding of Renfield has not been adopted by the Third Circuit, nor has the functional equivalence rationale been applied as a general proposition.

Minolta cites Vernitron Medical Products, Inc. v. Baxter Laboratories. Inc, et al., 186 U.S.P.Q. 324 (D.N.J. 1975), for the proposition that a functional equivalence test, similar to the one employed by the court in Renfield, has been applied in this district. Vernitron Medical Products was an earlier case which dealt with the application of the attorney-client privilege to communications between a client and a patent agent registered to practice in front of the U.S. Patent Office. In the area of patent law, registered patent agents have been made a specific exception [*8] to the general rule that an attorney must be involved for the assertion of an attorney-client privilege. See e.g. Sperry v. State of Florida, 373 U.S. 379, 83 S. Ct. 1322 (1963). There is no indication that this specialized exception was intended to be applied in a general fashion.

The Third Circuit was guided by the requirements of United States v. United Shoe Machinery Corp., 89 F. Supp. 357, 358-59 (D. Mass 1950) [1] in its application of the attorney-client privilege in In Re Grand Jury Investigations, 599 F.2d 1224, 1233 (3d Cir. 1979). This Court has failed to find any case which indicates that the Third Circuit has since altered its approach to the application of the attorney-client privilege. Therefore, the Court finds that the Magistrate's application of the rationale of Renfield was contrary to the law of this Circuit and must be reversed.

1 The "oft-quoted" passage of that case provides that:

> The privilege applies only if (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. Id.

[*9] Next, the Court must examine whether the Magistrate's factual determination that Kessoku was the functional equivalent of an attorney was clearly erroneous. The Court has thoroughly reviewed all of the submissions of the parties, including the affidavits submitted which attest to Kessoku's duties, background and training, the voluminous affidavits submitted which explain Japanese law on the subject, and the factual circumstances of the Renfield decision. The Court notes that Kessoku has never been licensed to practice law in any country and has never been registered as a patent agent in Japan or in the United States. Kessoku has a Bachelor's of Science degree and, over the years, has attended various seminars, lectures and classes concerning legal and patent issues. The Court finds this is insufficient factual support for the finding that Kessoku is a de facto attorney. On the entire evidence, the Court "is left with the definite and firm conviction that a mistake has been committed." Therefore, the Court finds that the Magistrate's determination as to Kessoku status as a de facto attorney for the purposes of the applying the attorney-client privilege and the work product doctrine [*10] is clearly erroneous and must be reversed. [2]

2 In their exhibits and at oral argument, Minolta raised the issue that this Court, under the principles of comity, ought to apply Japanese law to provide Kessoku with a privilege which would prevent the discovery at issue. This Court has considered Minolta's arguments, as well as the exhibits of the parties, and finds that no sovereign interest of Japan is implicated in this action where depositions have been conducted in Japan merely as a courtesy to Minolta. Also, the Court notes that the affidavits of the parties explaining Japanese law on the subject of privileges conflict with each other and do not provide a proper basis

from which this Court could determine any applicable law.

In the August Order, the Magistrate ordered that:

"Honeywell's application for an Order compelling the witness, Kazuo Kessoku, to answer questions over objections on the basis of the attorney-client privilege and the work product doctrine (to the extent it is proper to claim the application [*11] of the work product doctrine based upon a finding that the witness is the functional equivalent of in-house counsel for Minolta Camera Co., Ltd.) is hereby denied[.]"

Therefore, the appeal of the denial of reconsideration of that order places the issue of the applicability of the work product doctrine before the Court. "The work-product doctrine . . . protects from discovery materials prepared or collected by an attorney in the course of preparation for possible litigation.'" In Re Grand Jury Investigation, 599 F.2d at 1228, quoting Hickman v. Taylor, 329 U.S. 495, 505, 67 S. Ct. 385, 391 (1947). The Magistrate applied the work product doctrine based on his finding that Kessoku was a de facto attorney. Therefore, for the reasons expressed above, the determination in the August Order concerning the work product doctrine must also be reversed.

II. THE MOTION TO DISMISS CERTAIN COUNTS

A. BACKGROUND

Pursuant to Fed. R. Civ. P. 12(b)(6), Minolta moves to dismiss counts three through six of the Second Amended Complaint for failure to state a claim upon which relief can be granted. In the alternative, Minolta moves to dismiss count five of the Second Amended Complaint [*12] for failure to plead fraud with the requisite particularity pursuant to Fed. R. Civ. P. 9(b). Honeywell originally sued Minolta for patent infringement, contending that certain of defendants' multifunction cameras infringe Honeywell's patent claims on a camera and certain focus detecting apparatuses. Honeywell's Second Amended Complaint added five counts against Minolta. Count two alleges a cause of action for breach of contract. Counts three through six allege causes of action which sound in tort. [3] Minolta contends that, as a matter of law, a tort claim may only be asserted, in conjunction with a contract claim, if a party breaches a duty which he owes to another independently of the contract. Accordingly, Minolta asserts that Honeywell's tort claims are not based on separate and alternative legal theories, but are claims which overlap with and restate Honeywell's contract and infringement claims. In the alternative, Minolta asks this Court to dismiss count five, which alleges fraud, for failing to sufficiently plead the circumstances of the alleged fraud. Honeywell opposes both of these motions. Honeywell contends that its tort counts are separate and independent causes of action, [*13] irrespective of any contract claims alleged, and also contends that it has plead count five with sufficient particularity to pass Rule 9(b) muster.

3 Count three alleges misappropriation of confidential information, count four alleges breach of fiduciary duty and obligation of good faith and fair dealing, count five alleges fraud, and count six alleges conversion.

B. DISCUSSION

To determine the sufficiency of pleadings under a Rule 12(b)(6) standard, the Court must take the allegations of the complaint as true, view them liberally and give plaintiff the benefit of all inferences fairly drawn. Wilson v. Rackmill, 878 F.2d 772, 775 (3d Cir. 1989). The complaint will not be dismissed unless plaintiff can prove no set of facts entitling him to relief. Id.; Conley v. Gibson, 355 U.S. 41, 45-46, 78 S. Ct. 99, 101-02 (1957).

The Court's inquiry is two-fold. First, the Court must determine the substantive law under which the sufficiency of Honeywell's tort counts must be measured. Second, the Court must [*14] determine whether, in fact, Honeywell's counts may be asserted as a matter of law. The substantive law of the three jurisdictions which have a connection with this action are all in agreement that a plaintiff can only assert tort claims if those claims exist separately and independently from alleged contract claims in the same action. See Spring Motors Distributors, Inc. v. Ford Motor Co., 98 N.J. 555, 581-82 (1985); Wild v. Rarig, 234 N.W.2d 775, 789-90 (Minn. 1975), cert. denied 424 U.S. 902 (1976); Covert v. Allen Group, Inc., 597 F. Supp. 1268, 1269-70 (D. Colo. 1984) (applying Colorado law). [4] Honeywell has attempted to persuade this Court that the rule should be otherwise by citing the law of jurisdictions which have no connection with the matter at bar. Although the Court recognizes that some jurisdictions allow tort damages to be collected for contract actions in general, this is not the majority rule, nor is it the rule of the jurisdictions which have an

interest in this matter. See Noye v. Hoffman-La Roche Inc., 238 N.J. Super. 430, 434-36 (App. Div. 1990) (and cases cited therein). The Court will judge the sufficiency of plaintiff's tort counts by the [*15] similar standard adopted by the three interested jurisdictions. Therefore, Honeywell's tort claims must be separate and independent from its contract claim in order for those claims to withstand the instant motion to dismiss pursuant to Rule 12(b) (6).

> 4 New Jersey is the forum state and is the headquarters of the American corporate defendant. Minnesota is where the plaintiff is headquartered. Colorado is where the Honeywell group apparently developed the confidential information at issue in this litigation.

Honeywell's second count alleges that pursuant to the "TCL Agreement" between Honeywell and Minolta Camera Co. Ltd., Honeywell disclosed confidential, proprietary design information which was to be used in conjunction with a component manufactured by Honeywell to Minolta for the purpose of Minolta developing, manufacturing, and marketing an autofocus, single-lens-reflex camera using the Honeywell component. Honeywell alleges that Minolta breached this agreement and caused an, as yet, unspecified amount of damages. [*16] Honeywell's third count alleges that Minolta willfully and intentionally misappropriated the information which, pursuant to the TCL Agreement, was intended to remain confidential. The TCL Agreement specifies what information received is considered to be confidential and the conditions under which the information must remain confidential. The fourth count alleges that Minolta breached both its fiduciary duty and its obligation of good faith and fair dealing embodied in the TCL Agreement. The fifth count alleges that Minolta "secretly and fraudulently obtained and utilized Honeywell's confidential proprietary design information in the development of [Minolta's] own autofocus component while at the same time directly and impliedly representing to Honeywell that [Minolta] would use the Honeywell confidential proprietary design information for the design, manufacture, use and sale of autofocus photographic equipment in fulfillment of its T.C.L. AGREEMENT with Honeywell." Second Amended Complaint, para. 46. Honeywell's sixth count alleges that Minolta's use of the confidential information for its own purposes constituted a conversion of the information, in that Honeywell did not receive [*17] "fair, reasonable, and sufficient compensation." Second Amended Complaint, para. 53.

After reviewing the entire Second Amended Complaint, the Court finds that Honeywell has failed to allege a separate and independent tort duty which has been breached by Minolta in any of its counts alleging causes of action in tort. Counts three through six all attempt to take elements of Honeywell's cause of action for breach of contract and plead those elements as separate tort actions. All of the duties which Minolta has allegedly breached are derived from the TCL Agreement. That agreement governs the rights and obligations of the parties in this instance. Therefore, the Court will grant Minolta's motion to dismiss counts three through six because Honeywell has failed to allege the breach of a duty independent of the contract involved in this action. The dismissal will be without prejudice. Because of the Court's disposition of the Rule 12(b)(6) motion, Minolta s alternative motion pursuant to Rule 9(b) will be dismissed without prejudice.

III. CONCLUSION

I. For the reasons stated above, the Court finds that the provision of the Magistrate's August Order appealed from is clearly erroneous [*18] and contrary to law. Therefore, the Court will reverse the determination of the Magistrate and order that Kessoku may not assert either the attorney-client privilege or the work product doctrine in refusing to respond to the questions which were put to him at his depositions in Japan.

II. Also, for the reasons previously stated, the Court will grant Minolta's motion pursuant to Rule 12(b)(6) and dismiss counts three through six of the Second Amended Complaint without prejudice. Minolta's alternative motion pursuant to Rule 9(b) will be dismissed without prejudice.

An appropriate order is attached.

ORDER

For the reasons stated in the accompanying Opinion of the Court,

It is on this 15th day of May, 1990;

ORDERED that the Magistrate's Orders filed December 6, 1989 and August 22, 1989 are reversed in part; and it is further

ORDERED that Kazuo Kessoku may not assert either the attorney-client privilege or the work product doctrine in his response to the questions which were put to him at his depositions in Japan; and it is further

ORDERED that Minolta's motion pursuant to Rule 12(b)(6) is granted; and it is further

ORDERED that counts three through six of the Second Amended [*19] Complaint are dismissed without prejudice; and it is further

ORDERED that Minolta's alternative motion pursuant to Rule 9(b) is dismissed without prejudice.