
**IN THE UNITED STATES COURT OF APPEALS
FOR THE SEVENTH CIRCUIT**

AMERICAN NATIONAL BANK AND)	
TRUST COMPANY OF CHICAGO, as)	
Trustee f/b/o EMERALD INVESTMENTS)	
LP, an Illinois limited partnership; and)	
EMERALD INVESTMENTS LP,)	
)	Appeal from the United States
Plaintiffs-Appellees,)	District Court for the Northern
)	District of Illinois
vs.)	
)	No. 00 C 6786
AXA CLIENT SOLUTIONS, LLC; THE)	
EQUITABLE LIFE ASSURANCE)	Judge Charles P. Kocoras
SOCIETY OF THE UNITED STATES;)	
and AXA FINANCIAL, INC.,)	Magistrate Judge Martin C. Ashman
)	
Defendants-Appellants.)	

**REPLY BRIEF OF APPELLANT AND CROSS-APPELLEE
THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES**

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Dated: November 29, 2004

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INTRODUCTION

Emerald argues that this Court lacks jurisdiction over Equitable's appeal because related litigation remains pending in the district court. As demonstrated below, however, the dismissal of Emerald's complaint for lack of subject matter jurisdiction constitutes a final judgment that enabled Equitable to appeal the sanctions order that was entered by Magistrate Judge Ashman and affirmed by the district court.

On the merits, Emerald does not cite a single case where a court has imposed a waiver of all privileges as a sanction for producing a privilege log that the court deemed "unreliable." Nor does it cite any case where a court reached the conclusion that a privilege log was "unreliable" based on an *in camera* review of the kind of small and unrepresentative sample of documents that Judge Ashman reviewed here. As demonstrated below, the procedure Judge Ashman used to judge the adequacy of Equitable's privilege log was so fundamentally flawed that the sanctions order should be reversed without any further inquiry into the merits of that decision.

A second and independent reason for reversing the sanctions order is that it rests on a clearly erroneous finding that Equitable acted in bad faith. Emerald argues that a finding of bad faith was not required to support the sanctions order. But accepting that argument would inevitably chill the assertion of privileges by forcing litigants to risk the loss of *all* privileges if any were asserted improperly. Such a result would be contrary to the long-standing protection afforded to privileged communications, as well as the oft-repeated rule that significant sanctions should not be imposed on litigants under Rule 37 absent findings of bad faith or other misconduct.

Finally, even if Equitable had acted in bad faith in compiling its privilege log (which it did not), sanctioning Equitable for its purportedly incorrect invocation of the attorney-client

privilege on *fifteen* documents by requiring the production of *every* document from the log was a wholly disproportionate sanction. Once Judge Ashman concluded that Equitable's log was unreliable, he should have acted to fully protect *both* sides' legitimate interests by requiring Equitable to pay for a special master to conduct a full-scale *in camera* review.

ARGUMENT

I. **The Court Has Jurisdiction Over Equitable's Appeal.**

Emerald contends (at 2) that Equitable's appeal was both "untimely" and "premature"—untimely as an interlocutory appeal and premature because, according to Emerald, there is as yet no final judgment from which an appeal may be taken. Emerald's first argument is a strawman: Equitable does not claim that it has a right to appeal the sanctions order at issue here on an interlocutory basis. Contrary to Emerald's second argument, the district court's dismissal of Emerald's complaint for lack of subject matter jurisdiction does constitute a final, appealable judgment. As a result, Equitable had no choice but to file its appeal from the district court's July 7 order.

A. **Appellate Jurisdiction Exists Even Though The District Court Dismissed Emerald's Action Without Prejudice.**

Emerald argues (at 2-3) that the order dismissing its action for lack of subject matter jurisdiction was not a final judgment because it was "without prejudice" to the filing of a new action. As demonstrated in Equitable's opening brief (at 3), however, a dismissal without prejudice is considered a final order where "it is clear that the plaintiff cannot amend her complaint" to remedy the problem that prompted the dismissal. *Doctor's Assocs., Inc. v. Duree*, 375 F.3d 618, 622 (7th Cir. 2004); *accord, Moore v. Mote*, 383 F.3d 754, 755 (7th Cir. 2004). In this case, Emerald could not have amended its complaint to cure the lack of subject matter jurisdiction. Accordingly, the dismissal of its action for lack of subject matter jurisdiction

constituted a final order. *See Banks v. Secretary of Ind. Family & Soc. Servs. Admin.*, 997 F.2d 231, 237 (7th Cir. 1993) (“dismissal of an action for lack of subject matter jurisdiction is a final judgment”); *accord, S. Austin Coalition Cmty. Council v. SBC Communications Inc.*, 191 F.3d 842, 844 (7th Cir. 1999).

Emerald claims, however, that a dismissal without prejudice is not final where a plaintiff can cure a jurisdictional defect either by amending the complaint *or* by re-filing a new action. *See* Emerald Br. at 3 (citing *Duree* and *Moore*). Because it filed a new action before the old action was even dismissed, Emerald argues that the dismissal of the old action is not a final judgment. In effect, Emerald argues that the Court should treat the new action as merely a continuation of the old action.

Emerald’s argument is not supported by the cases it cites. In *Duree*, the district court dismissed the defendants’ counterclaims without prejudice because a related state court action “might have preclusive, or at least persuasive, effect on the resolution of the counterclaims.” 375 F.3d at 621. This Court held that the dismissal order was not a final judgment because, depending on the outcome of the state court action, “the possibility of amendment cannot be eliminated.” *Id.* at 622. Similarly, in *Moore*, the district court dismissed the petitioner’s habeas filing without prejudice because the petitioner had not exhausted his state court remedies. 368 F.3d at 755. This Court held that the dismissal was not final because it remained possible “for the plaintiff to amend the filing” after the conclusion of the state proceedings. *Id.* In both *Duree* and *Moore*, appellate jurisdiction turned on the plaintiff’s ability to amend the complaint, not (as Emerald would have it) on the plaintiff’s ability to file a new action.

Dixon v. Page, 291 F.3d 485 (7th Cir. 2002), illustrates this distinction. In *Dixon*, the district court dismissed parts of the plaintiff’s § 1983 action without prejudice for failure to

exhaust his administrative remedies. *Id.* at 487. This Court concluded that the decision was final, stating that “[a]lthough the counts in question were dismissed without prejudice, and on that basis, narrowly viewed, the dismissals would not be appealable, it is clear that there is nothing that [the plaintiff] can do to amend his complaint ‘that would permit it to go forward.’” *Id.* at 488. In so holding, the court noted: “This, of course, is not to say that” the plaintiff “might not file a new complaint under § 1983, with respect to which administrative exhaustion presumably would not be required since [the plaintiff] is no longer a prisoner.” *Id.* at 488 n.1; *see also In re Ohio River Co.*, 754 F.2d 236, 238 (7th Cir. 1985) (“though the dismissal order contemplates that [plaintiff] may eventually refile its admiralty complaint, the court, by dismissing the action, has terminated its jurisdiction over the original complaint. This is enough to render the order appealable.”); *De Tie v. Orange County*, 152 F.3d 1109, 1111 (9th Cir. 1998) (dismissal without prejudice was final even though plaintiff filed a new action because the original action “is over as far as the district court is concerned,” and the new complaint “began a new action under a new docket number”).

The district court’s July 7 order is also final because it dismissed both “the complaint *and* *suit.*” A34 (emphasis added). As the D.C. Circuit recently noted, “courts often regard the dismissal without prejudice of a *complaint* as ‘not final, and thus not appealable under 28 U.S.C. § 1291, because the plaintiff is free to amend his pleading and continue the litigation.’” *Ciralsky v. CIA*, 355 F.3d 661, 666 (D.C. Cir. 2004) (quoting *Hoskins v. Poelstra*, 320 F.3d 761, 763 (7th Cir. 2003)). “The dismissal without prejudice of an *action* (or ‘case’), by contrast, is a different matter. As the Supreme Court said in *United States v. Wallace & Tiernan Co.*[, 336 U.S. 793, 794-95 n.1 (1949)]: ‘That the dismissal was without prejudice to filing another suit does not make the cause unappealable, for denial of relief and dismissal of the case ended this suit as far

as the District Court was concerned.” *Id.* “Most courts that have considered the question have followed the Supreme Court’s lead, holding that the dismissal of an action—whether with or without prejudice—is final and appealable.” *Id.* (citing *Trippe Mfg. Co. v. Am. Power Conversion Corp.*, 46 F.3d 624, 626 (7th Cir. 1995); *Car Carriers, Inc. v. Ford Motor Co.*, 789 F.2d 589, 591 n.4 (7th Cir. 1986)).

B. Appellate Jurisdiction Exists Even Though Related Actions Remain Pending In District Court.

Relying on *Sandwiches, Inc. v. Wendy’s International, Inc.*, 822 F.2d 707 (7th Cir. 1987), Emerald also contends (at 4-6) that the Court lacks appellate jurisdiction because two related actions remain pending in district court. In fact, *Sandwiches* supports the conclusion that appellate jurisdiction exists here.

In *Sandwiches*, the district court consolidated two related cases, but did not explain “to what extent the cases are consolidated.” 822 F.2d at 709. After one case was dismissed, the losing party appealed, even though the other case remained pending. *See id.* at 708-09. This Court dismissed the appeal because the two cases were “sufficiently closely related that they should be treated as consolidated for all purposes, even if that was imperfectly accomplished.” *Id.* at 709. In reaching that conclusion, however, the Court observed that if the losing party “had not moved to consolidate the cases, it could appeal notwithstanding the link between them.” *Id.* at 710.

Here, neither Equitable nor Emerald ever moved to consolidate the cases below, nor was any order ever entered that purported to “consolidate” the cases for any purpose. Instead, the district court merely designated this case, an action brought by Equitable (Case No. 01 C 9974), and Emerald’s newly-filed action (Case No. 04 C 4285) as “related” cases under Local Rule 40.4. R. 112, 471. Thus, unlike *Sandwiches*, there is no dispute here about the extent of the

consolidation. The cases were not consolidated at all, and therefore, as the Court observed in *Sandwiches*, “notwithstanding the link between” this case and the two actions that remain in the district court, Equitable had a right to appeal when a final judgment was entered dismissing this case. 822 F.2d at 710.

C. Appellate Jurisdiction Exists Even Though The District Court’s July 7 Order Did Not Aggrieve Equitable.

Finally, Emerald argues (at 8) that Equitable may not appeal the sanctions order because the July 7 order did not “aggrieve” Equitable. That Equitable was not aggrieved by the dismissal of the complaint, however, does not deprive it of the right to appeal interlocutory orders that plainly did aggrieve it. This Court has repeatedly held that the appeal of a final decision “brings up all previous rulings of the district judge adverse to the appellants.” *Bastian v. Petren Res. Corp.*, 892 F.2d 680, 682 (7th Cir. 1990); *accord, Chicago Bd. Of Educ. v. Substance, Inc.*, 354 F.3d 624, 626 (7th Cir. 2003) (holding that “an appeal from a final judgment brings up for review any interlocutory order that has not become moot”). This Court has never suggested that a litigant’s ability to obtain appellate review of a sanctions order depends on the outcome of the underlying litigation. Indeed, the rule is to the contrary: regardless of who wins or loses, “[t]he propriety of [a] sanction may * * * be challenged on appeal once there is a final decision.” *Corley v. Rosewood Care Ctr., Inc.*, 142 F.3d 1041, 1057 (7th Cir. 1998).

Emerald also argues (at 8 n.4) that it is unclear whether Equitable has been or will be aggrieved by the sanctions order because the “documents that the district court ordered Equitable to produce may or may not affect the outcome of the Re-Filed or Second Actions.” But whether or not its own privileged documents are ever used against it, Equitable is sufficiently aggrieved by the compelled disclosure of those documents to give it standing to challenge the district court’s ruling on appeal.

II. The Sanctions Order Should Be Reversed.

A. Judge Ashman Abused His Discretion By Striking Equitable's Privilege Log Based On His Review Of A Small Sampling Of Documents.

Judge Ashman struck Equitable's privilege log as a Rule 37 sanction for producing a log that he deemed "not reliable." A7. He based that conclusion on his review of only a small percentage of the documents described on the log, most of which Emerald was allowed to select for *in camera* review.

Before Emerald filed its sanctions motion in July 2002, Judge Ashman had reviewed only 24 of the documents on Equitable's final privilege log. He concluded that 14 of those documents were privileged in full, that four were privileged in part, and that six were not privileged at all. SA18; SA65. In response to Emerald's sanctions motion, Judge Ashman adopted a testing procedure, over Equitable's objections, under which Emerald would select twenty additional documents for *in camera* review. Judge Ashman stated that if four or more of those documents were not privileged, he would strike the entire log, thus forfeiting Equitable's privileges on all 433 documents listed in the log. SA80-81. After reviewing the documents, Judge Ashman concluded that four were not privileged. Based on an erroneous recollection of his own procedure, he initially stated that Emerald's motion for sanctions would therefore be denied.¹ A3. When Emerald's counsel reminded him that he had said that a finding that four or more documents were not privileged would result in the imposition of a wholesale waiver, Judge Ashman identified a fifth document that he concluded had been erroneously listed as privileged.

¹ Emerald accuses Equitable (at 35) of "failing to disclose" that Judge Ashman had been misled by Equitable's brief, which erroneously quoted him as stating that the privilege log would be stricken if he concluded that more than four documents were not privileged. The important point, however, is not that Judge Ashman was confused about the standard he was applying. Rather, it is that the standard was so arbitrary that his evaluation of a single document triggered a wholesale waiver of privileges with respect to over 400 documents.

Based on his conclusion that fifteen out of the 44 documents he reviewed were not privileged, Judge Ashman “inferred” that Equitable had acted in bad faith in compiling its privilege log and ordered it to turn over all of the documents identified on that log. A4-8.

Neither Equitable nor (apparently) Emerald has found a single case from any jurisdiction that has struck an entire privilege log based on a determination that a sample of documents listed on the log revealed some documents that were not privileged. Nevertheless, Emerald argues that the procedure was justified by Equitable’s conduct and contends that Equitable waived any right to complain about it.

Emerald’s arguments should be rejected. First, Equitable never agreed to the procedure Judge Ashman adopted. On the contrary, Equitable specifically objected to it before he made his final ruling. R. 200. Emerald argues (at 22) that Equitable waived its objection by not taking an immediate appeal from the decision to adopt the procedure in question. But a mere statement at a hearing about a procedure the magistrate intended to employ in ruling on a sanctions motion is not the kind of order that can be appealed under Rule 72. Equitable preserved all of its objections to Judge Ashman’s ruling—including its challenge to the procedure he employed—by filing a timely appeal from the order imposing the sanction.

Emerald also suggests (at 34) that Equitable acquiesced in the use of a sampling procedure because it did not object six months earlier when Judge Ashman conducted a review of a sample of documents from its third amended privilege log. The purpose of that review, however, was not to determine whether the log was “reliable” or to decide whether Equitable should be required to produce documents that had *not* been selected for review. Rather, the purpose was simply to provide the parties with some guidance as to the kinds of documents Judge Ashman considered privileged. That Equitable agreed that it would be appropriate for

Judge Ashman to review a sample of ten documents for that limited purpose cannot possibly be deemed a waiver of its right to object to the very different procedure the court later employed to decide whether sanctions should be imposed.

Second, contrary to Emerald's arguments, Equitable's conduct did not justify the procedure Judge Ashman selected. Emerald complains that it took a number of revisions before Equitable's privilege log was as detailed as Judge Ashman thought it should be. But Judge Ashman did not purport to be sanctioning Equitable for failing to provide sufficient information in its privilege log. Indeed, in April 2002, Judge Ashman rejected Emerald's argument that Equitable should be required to revise its privilege log again, noting that "[t]here's nothing ambiguous anywhere that you've pointed out in the Fourth Amended Privilege Log that would require a Fifth Amended." SA55-56.

In any event, that Equitable revised its privilege log several times does not provide a basis for "testing" the log as Judge Ashman did and sanctioning Equitable for failing to meet the arbitrary level of accuracy the magistrate selected. Citing commentary to Rule 26(b), Emerald argues (at 29) that "[w]hen a party fails to properly disclose a privilege, waiver of the privilege is specifically contemplated as an appropriate sanction under the Rules." The commentary Emerald cites, however, states only that a party who withholds materials from discovery on privilege grounds must provide notice that it is doing so and warns that "[t]o withhold materials without such notice is contrary to the rule, subjects the party to sanctions under Rule 37(b)(2), and may be viewed as a waiver of the privilege or protection." Advisory Committee Notes to the 1993 amendments to Rule 26(b). Nothing in the commentary suggests that waiver is an appropriate sanction whenever a court decides that a privilege log is inaccurate or "unreliable" in some respects.

Contrary to Emerald's argument, the cases where courts have imposed wholesale waivers for privilege log abuses bear no resemblance to this case. For example, in *In re General Instrument Corp. Securities Litigation*, 190 F.R.D. 527, 532 (N.D. Ill. 2000), the court struck the defendants' privilege log because (among other things) "[w]hen the plaintiff pointed out obvious flaws in the log * * * the defendant stridently refused to provide required information." In this case, by contrast, Equitable acted in good faith by repeatedly and promptly amending its privilege log to conform to Judge Ashman's orders.

Emerald also argues that Judge Ashman acted within his discretion because Equitable's counsel "vouched" for the reliability of the privilege log when Judge Ashman asked whether he was confident that the log had been properly prepared. Emerald Br. at 33. But Emerald does not explain how counsel's statement distinguishes this from any other case. When lawyers provide a privilege log, they necessarily "vouch" for their good faith compliance with the rules governing the assertion of privileges. That a court later disagrees with respect to a handful of documents does not mean that the log is "unreliable"—let alone that the lawyers were acting in bad faith.

In any event, the sampling procedure Judge Ashman adopted was not designed to properly test the log's reliability. The 20 documents Judge Ashman reviewed were not selected as a representative sample of various categories of documents on the log. Instead, Emerald was allowed to select whatever documents it wanted the court to review. Emerald does not deny that it chose those documents precisely because they seemed the most problematical. As a result, it is not possible to extrapolate from the 20-document sample Judge Ashman reviewed to conclude (as Judge Ashman apparently did) that 20-25% of the documents on the entire log were not privileged.

Emerald tries to deflect the claim that it engaged in “cherry-picking” by arguing (at 35) that there is no record evidence to suggest that Emerald’s counsel obtained any information about the documents on the privilege log as a result of discussions with Equitable’s counsel prior to Emerald’s filing of a motion to compel. Whether or not Emerald had any information beyond the privilege log, however, is beside the point: the fact is that by giving Emerald the right to choose the 20 documents to be reviewed, Judge Ashman virtually ensured that the most problematical documents would be selected.

Emerald also argues—without citing any record evidence—that Equitable should have realized which documents Emerald was likely to choose and therefore could have thwarted Emerald’s ability to “cherry pick” non-privileged documents by “purg[ing] its log of indefensible documents.” *Id.* at 36. This is nothing more than an argument that, in close cases, litigants should be forced to produce documents they believe are privileged, to avoid any suggestion that they acted in bad faith. That is not—nor should it be—the law in this Circuit.

The Supreme Court has long recognized the importance of the attorney-client privilege, holding that the privilege “can only be safely and readily availed of when free from the consequences or the apprehension of disclosure.” *Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981). Because of the importance of the attorney-client privilege, documents that come within its scope “are ‘zealously protected.’” *Haines v. Liggett Group, Inc.*, 975 F.2d 81 (3d Cir. 1992).

Here, Judge Ashman invoked the draconian sanction of a wholesale waiver of privileges because he concluded that one or two documents out of a non-randomly selected sample should not have been withheld. Upholding that kind of procedure would inevitably chill the assertion of legitimate privileges. Litigants would be forced into an impossible choice: either give up the

privilege on some documents to ensure that it remains unchallenged as to the rest, or assert the privilege and risk an order striking the entire privilege log should the district court disagree. Neither option adequately protects the privilege, which requires attorneys and clients to “be able to predict with some degree of certainty whether particular discussions will be protected. An uncertain privilege, or one which purports to be certain but results in widely varying applications by the courts, is little better than no privilege at all.” *Upjohn*, 449 U.S. at 393.

In short, the procedure Judge Ashman selected to determine whether Equitable’s final privilege log was “reliable” was itself both unreliable and unprecedented. Even assuming that all of Judge Ashman’s privilege rulings were entirely correct, the mere fact that a privilege log covering 433 documents contained fifteen documents that were erroneously withheld from production is not enough to justify the wholesale revocation of Equitable’s privileges with respect to all of the documents on the log.

B. Judge Ashman Clearly Erred By Finding That Equitable Acted In Bad Faith.

Judge Ashman recognized that he could not impose Rule 37 sanctions absent a finding that Equitable acted in bad faith in compiling its final privilege log. Judge Ashman “inferred” bad faith from the fact that fifteen documents (out of a total of 44 reviewed) were not privileged, in whole or in part. As Equitable’s opening brief shows (at 19-24), it was clear error for Judge Ashman to draw that inference because Equitable’s assertions of privilege were sufficiently reasonable to preclude any finding of bad faith.

Emerald by and large does not take issue with Equitable’s arguments about particular documents. Instead, it argues that a finding of bad faith was not required or that the finding of bad faith is supported by evidence Judge Ashman declined to rely upon. For the reasons outlined below, Emerald’s arguments should be rejected.

1. The Attorney-Client Privilege Cannot Be Waived Absent A Finding Of Willfulness, Bad Faith, Or Fault.

Emerald first contends (at 44-45) that it was unnecessary for Judge Ashman to find bad faith because the sanctions order can be affirmed even if Equitable acted with a “complete lack of culpability.” The only case Emerald cites in support of that conclusion, however, is entirely distinguishable. In *Halas v. Consumer Services, Inc.*, 16 F.3d 161, 165 (7th Cir. 1994), the plaintiff, after months of delay, failed to appear for his own deposition when expressly ordered to do so—apparently to avoid the dismissal of a frivolous lawsuit. The district court dismissed the case for failure to prosecute. This Court affirmed, finding ample support for the conclusion that “Halas’ failure to attend his deposition was willful” but nevertheless concluding that the district court’s order would have been within its discretion “notwithstanding a complete lack of culpability on Halas’ part.” *Id.*

In *Halas*, a sanction could be imposed without a finding of culpability because both the court’s order and the plaintiff’s non-compliance were unequivocal. In this case, by contrast, Equitable did not refuse to comply with an unambiguous order. When Judge Ashman ordered Equitable to produce certain documents, Equitable complied with the order. When he ordered Equitable to revise its privilege log, Equitable revised its privilege log. Judge Ashman subsequently concluded that Equitable’s final privilege log contained some documents that were not in fact privileged. But, absent a finding of bad faith, that the court disagreed with some of Equitable’s judgments is insufficient to provide a basis for imposing sanctions.

This Court has repeatedly held that “Rule 37 sanctions may only be imposed where a party displays ‘wilfulness, bad faith, or fault.’” *Langley v. Union Elec. Co.*, 107 F.3d 510, 514 (7th Cir. 1997); *accord, Philips Med. Sys. Int’l, B.V. v. Bruetman*, 982 F.2d 211, 214 (7th Cir. 1992). Contrary to Emerald’s contention (at 45 n.13), the Court has applied this standard even

when the sanction imposed is less severe than default or dismissal. *See Langley*, 107 F.3d at 514.

Given the importance of the attorney-client privilege, the Court should require a finding of willfulness, bad faith, or some other comparable level of fault before a privilege log can be stricken as a sanction. As the D.C. Circuit recently held, “the federal rules, case law and commentators suggest [that] waiver of a privilege is a serious sanction most suitable for cases of unjustifiable delay, inexcusable conduct, and bad faith.” *United States v. Philip Morris Inc.*, 347 F.3d 951, 954 (D.C. Cir. 2003). Merely being wrong about the assertion of privileges with respect to a handful of documents is not enough to support the imposition of *any* sanction, let alone the draconian sanction of a wholesale waiver of privileges.

2. Equitable Did Not Waive Its Argument That Judge Ashman Clearly Erred By Inferring That Equitable Acted In Bad Faith.

Emerald also contends (at 39-40) that Equitable waived any argument that Judge Ashman erred by inferring bad faith from improper privilege designations because Equitable failed to file Rule 72(a) objections to Judge Ashman’s rulings on the first ten documents he found not privileged. That argument misconstrues Equitable’s position.

Equitable is not claiming that Judge Ashman erred in concluding that those ten documents were not privileged. Rather, Equitable is challenging the inference of bad faith that Judge Ashman drew from his conclusion that those documents were not privileged. Equitable is entitled to show that its assertions of privilege were sufficiently reasonable to preclude any finding that it acted in bad faith—even though it does not challenge Judge Ashman’s conclusion that the documents were not privileged.

It would be fundamentally unfair to conclude that Equitable had waived the right to argue that its privilege assertions were objectively reasonable by failing to appeal those privilege

rulings. Judge Ashman did not make any findings of bad faith at the time he ordered the ten documents produced. It was not until September 23, 2002 that Judge Ashman found that Equitable had acted in bad faith, relying in part on his prior rulings. By that time, the ten-day period for challenging his rulings with respect to the ten documents in question had long since expired.²

3. Equitable's Privilege Designations Were Made In Good Faith.

Emerald does not respond to most of the arguments made in Equitable's opening brief about specific documents. Instead, it focuses on only three of the fifteen documents Judge Ashman found not privileged. First, Emerald contends (at 40-42) that Equitable did not have a good faith basis for claiming that document EQ 7609 was privileged. EQ 7609 is an e-mail from an Equitable executive to members of Equitable's control group and in-house counsel summarizing a meeting with Emerald about Equitable's objections to its market timing activity and discussing a potential letter demanding that Emerald stop market timing. SA110. Judge Ashman found that EQ 7609 is not privileged because "it's more of a report of what's going on." SA68.

The Supreme Court has made clear, however, that "a report of what's going on" can be privileged. Because the attorney-client privilege "depends upon the lawyer's being fully informed by the client," the privilege protects "not only the giving of professional advice to those who can act on it but also the giving of information to the lawyer to enable him to give sound and informed advice." *Upjohn*, 449 U.S. at 389-90. Under *Upjohn*, Equitable had a good faith basis for claiming that EQ 7609 was privileged because the e-mail provided information to

² Orders were entered requiring those documents to be produced on March 20 and June 5, 2002. R. 127; 163.

Equitable's in-house counsel about an ongoing dispute with Emerald and discussed potential ways to resolve that dispute.

Emerald contends that Equitable deliberately used the privilege log to "hide" EQ 7609 because that document supposedly contradicts statements made in an affidavit filed earlier in the case by Brian O'Neil, an Equitable Vice President. Although the same argument was made to Judge Ashman (R. 187, at 8), he did not find that EQ 7609 contradicted the statements made in Mr. O'Neil's affidavit, let alone that Equitable had deliberately used the privilege log to "hide" this or any other document.³ In fact, the only comment Judge Ashman made on the contents of the documents he found to be improperly withheld suggests that the privilege log debate was not worth the candle for either side: "As usual when it comes to these documents, it appears to me that 99 percent of it is so innocuous and so meaningless that the attorney's time spent arguing about it is a total waste." SA72.

Emerald also contends (at 42 n.12) that Equitable acted in bad faith by claiming that EQ 7762-63 was privileged. That document contains two e-mails to (among others) in-house counsel that request "input" about Equitable's "options to curb market timing," and Equitable's ability to enforce "the prospectus guidelines as well as the sales agreements." SA108-09. Emerald claims that these e-mails merely sought business advice, because one of the e-mails was sent to a non-lawyer, among others. However, the fact that the e-mails were also sent to in-house counsel to obtain advice concerning Equitable's ability to prevent market timing and to enforce

³ Emerald claims (at 41) that EQ 7609 shows that Mr. O'Neil was lying when he signed an affidavit stating that he did not know before November 2001 that "Emerald's trading strategy consisted of little, if anything, other than market timing of international mutual funds, and that Emerald's business was limited to market timing." But that affidavit specifically acknowledged that Mr. O'Neil had sent an email very similar to EQ 7609 after meeting with Emerald, stating that they "are market timers only, have no interest in investing any other way." R. 187, Ex. 12 ¶ 5. Thus, there is no basis for the assertion that anything was hidden from Emerald.

various contractual provisions at the very least shows that Equitable acted in good faith in claiming that the document was privileged.

The third and final document Emerald focuses on is a draft letter from Equitable demanding that Emerald stop market timing, which contains the handwritten notes of Equitable's in-house counsel. SA105. Emerald argues (at 43 n.12) that this document (EQ 7556) was clearly not privileged because it does "not disclose any confidential communications from the client," and because Equitable failed to identify the recipient of the draft. But courts routinely hold that "[c]omments made by an attorney on a draft document are privileged when the attorney is acting in a professional legal capacity." *Neuder v. Battelle Pac. N.W. Nat'l Lab.*, 194 F.R.D. 289, 296 (D.D.C. 2000); *see also* Opening Br. at 20 n.6. Moreover, although it is likely that Equitable's counsel forwarded his comments to the draft's author, the document would still be privileged even if he had retained the draft in his files. *See, e.g., McCook Metals L.L.C. v. Alcoa Inc.*, 192 F.R.D. 242, 254 (N.D. Ill. 2000); Opening Br. at 21 n.7.

Emerald claims (at 43) that it is "remarkable" that Equitable's opening brief discussed only one of the final five documents that Judge Ashman found to be not privileged. But Judge Ashman made clear that he drew an inference of bad faith from his rulings on all 15 documents he found not privileged. A7. Regardless, to take just one additional example from the final five documents, Equitable had a good faith basis to claim that EQ 9099 was privileged. EQ 9099, like several documents discussed in Equitable's opening brief (at 23), contains handwritten notes of a meeting among members of Equitable's control group and two in-house counsel about Equitable's response to market timing, a matter that raises a host of legal issues. SA117. Courts routinely hold that notes of meetings with in-house counsel are privileged when legal issues are

discussed. *See, e.g., EEOC v. Int'l Profit Assocs., Inc.*, 206 F.R.D. 215, 219 (N.D. Ill. 2002); Opening Br. at 23.

4. Equitable Did Not Act In Bad Faith By Amending Its Privilege Log To Conform To Judge Ashman's Orders.

Emerald also argues (at 38) that Equitable acted in bad faith by producing several amended versions of its privilege log, vouching for the accuracy of the logs, and producing numerous documents in response to Judge Ashman's orders. None of these facts supports a finding of bad faith.

As demonstrated above, the mere fact that Equitable revised its privilege log on a number of occasions does not provide a basis for concluding that Equitable acted in bad faith. Indeed, it is not unusual for corporate defendants with large in-house legal departments to produce multiple privilege logs. *See, e.g., In re Grand Jury Proceedings*, 2001 WL 1167497 (S.D.N.Y. Oct. 3, 2001) (Fourth Amended Privilege Log); *Mold-masters Ltd. v. Husky Injection Moldingsystems Ltd.*, 2001 WL 1558303 (N.D. Ill. Dec. 6, 2001) (Third Amended Privilege Log); *Sorenson v. H&R Block, Inc.*, 197 F.R.D. 206 (D. Mass. 2000) (Third Amended Privilege Log).

Moreover, Equitable produced its amended privilege logs as part of an expedited discovery process in a good faith attempt to comply with Judge Ashman's orders. After Judge Ashman struck Equitable's original privilege log on December 11, 2001, Equitable produced three amended privilege logs in less than three weeks in an attempt to complete discovery before the then-January 24, 2002 cut-off date. R. 77; R. 223, at 3. In response to Judge Ashman's March 27, 2002 order striking the Third Amended Privilege Log, Equitable promptly produced its final privilege log on April 19.

In addition, Equitable disagreed—and continues to disagree—that all of the amended privilege logs were necessary. For example, Judge Ashman struck Equitable's Second Amended

Privilege Log in part because log entries describing documents as “advice” did not sufficiently differentiate between business and legal advice—even though it would make no sense to place a document on a privilege log if the advice were of a business nature. SA14-15.

Nor did Equitable act in bad faith by representing that its privilege logs conformed to the Federal Rules. That Judge Ashman disagreed with Equitable’s conclusion on fifteen documents does not mean that Equitable acted in bad faith.

Finally, Equitable’s voluntary production of documents that were originally listed on its privilege log demonstrates that Equitable acted in good faith. For example, Equitable responded to Judge Ashman’s January 2002 orders to provide additional descriptions of the documents contained on the privilege log by producing numerous documents from the log, even though Judge Ashman had not ordered Equitable to do so. Moreover, in April 2002, Equitable produced a number of documents from its privilege log in response to Judge Ashman’s direction to “knock out” documents like those he had found not privileged, and to produce “the stuff that doesn’t make any difference.” SA34-35. Emerald should not be permitted to take advantage of Equitable’s good faith efforts to comply with Judge Ashman’s orders by arguing that Equitable’s compliance is somehow evidence of bad faith.

5. The District Court’s Unrelated Sanctions Orders Are Irrelevant To Whether Equitable Acted In Good Faith In Compiling Its Privilege Log.

Emerald attempts to bolster Judge Ashman’s finding that Equitable acted in bad faith by claiming (at 45) that Equitable engaged in a “pattern of delay and obstruction for which previous monetary and other discovery sanctions seemed to have had no discernable effect.” But Judge Ashman never found that Equitable engaged in any “pattern of delay and obstruction,” nor did he conclude that the severe sanction of a wholesale waiver was necessary to ensure Equitable’s

future compliance with its discovery obligations. In fact, Judge Ashman apparently rejected Emerald's argument that Equitable was guilty of a pattern of misconduct, stating that "[t]he Court has no direct information that the defendant in this case is dealing in bad faith." A7-8.

Judge Ashman was in the best position to decide whether there was any relationship between the discovery issues discussed at pages 18-20 of Emerald's brief and the privilege issues that gave rise to the sanctions order at issue here. He concluded that there was no relationship and therefore based his finding of bad faith solely on an inference drawn from the number of non-privileged documents found on the log and the "competence of the attorneys for the defendant [McDermott Will & Emery]." A7-8. Because that factual inference was clearly erroneous for all of the reasons outlined above, the sanctions order should be reversed.

C. Striking The Privilege Log Was Wholly Disproportionate To Equitable's Alleged Misconduct.

Even assuming that some sanction was warranted, compelling Equitable to produce all of the documents on its privilege log was disproportionate to the violation. *See Langley*, 107 F.3d at 515 ("An award of sanctions must be proportionate to the circumstances surrounding the failure to comply with discovery."). Once Judge Ashman concluded that Equitable's privilege log was unreliable, the proper remedy would have been to appoint a special master to review the documents — *not* to strike all of the Equitable's privilege claims with respect to all of the documents on the log.

Emerald argues (at 36) that Equitable waived any right to argue that a lesser sanction should have been imposed because it initially opposed Emerald's suggestion that a special master be appointed. In fact, Emerald tries to create the (false) impression that it was not until Equitable lost the sanctions motion that it first argued that a special master should be appointed.

It is true that when Emerald filed its sanctions motion, Equitable opposed Emerald's suggestion that a special master be appointed. It did so because by July 2002 Equitable thought that the long-running controversy about the privilege log had ended, that Judge Ashman had concluded there was no need for a wholesale revision of the log, and that any further battles would be fought over the propriety of withholding individual documents, rather than the propriety of the log itself. Equitable believed that a special master was unnecessary because the universe of documents still in dispute was small and easily handled by *in camera* inspection by the magistrate.

However, once Judge Ashman decided to employ his novel "sampling" approach to the privilege log—stating that he would make an all-or-nothing decision on the entire privilege log based on only a few documents — Equitable objected both to the procedure and the proposed outcome. At that point, Equitable affirmatively asked the court to appoint a special master to conduct a full review of all the documents. R. 200. Under these circumstances, Equitable did not waive the argument that the court was required to impose a lesser sanction once it concluded that the privilege log was unreliable.

D. Emerald Was Not Prejudiced By The Allegedly Erroneous Invocation Of The Privilege.

Equitable produced all fifteen documents Judge Ashman found not to be privileged long before the close of discovery. Emerald was not prejudiced by Equitable's decision to withhold those documents. Absent any prejudice to Emerald, Judge Ashman abused his discretion by striking the entire privilege log. *See* Opening Br. at 27.

Emerald does not even attempt to argue that Equitable's privilege claims caused it harm. Instead, Emerald argues (at 37 n.10) that prejudice is irrelevant to motions brought pursuant to Rule 37(a). That is not true. In *Rice v. City of Chicago*, 333 F.3d 780, 784 (7th Cir. 2003), this

Court examined “the prejudice to other litigants” when deciding whether the district court abused its discretion by dismissing the sanctioned party’s action as a sanction for alleged discovery abuses.

III. The Court Should Remand For A Decision On Emerald’s Motion For Costs.

Emerald contends (at 46) that the district court denied its motion for fees when it dismissed Emerald’s lawsuit. That is far from clear. In fact, the district court merely stated that it was denying “[a]ll other motions pertaining to [Emerald’s] complaint.” EMA40. To the extent that Emerald’s motion for fees “pertains” to Emerald’s complaint, however, Equitable agrees that the Court should remand with instructions for the district court to resolve Emerald’s motion in the first instance.

CONCLUSION

For the foregoing reasons and the reasons set forth in Equitable’s opening brief, the sanctions order should be reversed.

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CERTIFICATE OF COMPLIANCE

Pursuant to Fed. R. App. P. 32(a)(7)(C), the undersigned counsel certifies that the foregoing brief contains approximately 6,930 words and complies with the type volume limitation of Fed. R. App. P. 32(a)(7)(B)(ii).

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CERTIFICATE OF COMPLIANCE WITH CIRCUIT RULE 31(e)

The undersigned attorney certifies that, pursuant to Circuit Rule 31(e), I have filed electronically on a virus-free disk, versions of the brief and all of the Circuit Rule 30(a) and 30(b) appendix items that are available in non-scanned PDF format.

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CERTIFICATE OF SERVICE

The undersigned certifies that, on November 29, 2004, he caused a copy of the foregoing Reply Brief for Appellant and Cross-Appellee The Equitable Life Assurance Society of the United States to be sent via overnight delivery to each of the following:

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