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E-cigs & E-discovery: When Marriage Cannot Save Sloppy Document Productions

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What began as a trademark infringement dispute concerning electronic cigarettes has evolved into a never-ending series of discovery issues, and lessons about the limits of Federal Rule of Evidence 502 and privilege waivers. DR Distributors, LLC filed its initial complaint against 21 Century Smoking, Inc and its owner, Brent Duke, in September 2012 alleging trademark violations. The defendants filed their counterclaim also alleging trademark violations about a month later. Though fact discovery was supposed to have ended in 2015, the parties continued to assert problems with discovery seven years later. The latest issue presented before the U.S. District Court in the Northern District of Illinois in this case was whether the defendants waived the marital communications privilege by disclosing certain communications during discovery. In its decision finding that the privilege had been waived, the Court described the limited application of Rule 502 and warned against the dangers of arguing that a disclosure was “inadvertent” without providing any explanation of how the privilege review was performed.

Prior to the end of fact discovery in 2015, the defendants had never asserted the marital communications privilege, which protects communications privately disclosed between spouses during a valid marriage. It was only in 2018, when the defendants' former counsel discovered a failure to produce responsive documents, that the privilege was first raised. In 2018 and 2019, the defendants made long overdue productions of thousands of responsive documents and asserted the marital communications privilege with respect to certain documents and redactions. The plaintiff moved for sanctions based on defendants' conduct with respect to discovery, and in its January 2021 order granting the motion, the Court required the defendants to make further productions by the end of the following month. The Court subsequently granted defendants' motion to extend the deadline, and, recognizing the need to speed up the production process after countless delays, the Court *sua sponte* applied Rule 502(d) "to the fullest extent available, so that privileges and protections are not waived by disclosure," and applied Federal Rule of Civil Procedure 26(b)(5)(B) "liberally to ensure that privileges and protections are not breached." At last, on March 19, 2021, the defendants completed production.

Yet, the drama continued. Shortly after production was completed, the defendants sought to claw back 262 documents that they had "inadvertently" disclosed on the basis of the marital communications privilege. These documents contained communications between Mr. Duke and his wife, Laurie Duke, who works for 21 Century Smoking, Inc. Given the nature of the communications, where Mrs. Duke criticized her husband's operation of the business, the plaintiff wanted to use them in defending against the counterclaims by showing that any harm to defendants were of their own making. Thus, the plaintiff filed a motion under seal for an order finding that the defendants have waived the marital communications privilege, and, as a result, subject matter as to communications regarding the operation of the defendants' business.

The Court found that the defendants did not waive subject matter, but that they did waive the marital communications privilege, and, as such, were not allowed to claw back the documents. In its memorandum opinion and order, the Court rejected the defendants' attempt to apply Rule 502 as the proper standard to determine whether the marital communications privilege was waived. Under this rule, an inadvertent disclosure of privileged information does not constitute a waiver of privilege so long as reasonable steps were taken to prevent the disclosure and to cure the error. The Court called the defendants' strategy a "detrimental reliance" argument that essentially blamed the Court's *sua sponte* application of Rule 502(d) and Federal Rule of Civil Procedure 26(b)(5)(B) for the defendants' "inadvertent" disclosure of privileged communications between Mr. and Mrs. Duke. The Court made it clear that it "refuses to accept *any* blame for Defendants' failures," and provided three grounds for its rejection of the defendants' "bold" strategy. First, the plain language of Rule 502 and the accompanying Advisory Committee Notes make it clear that the rule only applies to the attorney-client privilege and the work-product doctrine, and not to other evidentiary privilege or common law privileges such as the marital communications privilege. Second, the defendants could not have made inadvertent disclosures of privileged documents in 2018 and 2019 in reliance of the Court's *sua sponte* order because those productions were made before the order was even issued. Third, Rule 502(d), albeit a "powerful tool," is not a blanket protection against waiver when there is inadvertent disclosure. As such, "[c]ounsel who produce documents without a reasonable privilege review do so at their own risk—even when a Rule 502(d) order exists."

Declining to apply the Rule 502 standard, the Court instead applied the balancing test the Seventh Circuit used before Rule 502 was implemented to determine whether the defendants waived the marital communications privilege. Under this test, the defendants had the burden to show: (1) the documents are privileged; (2) disclosure was inadvertent; and (3) privilege was not waived. In finding against the defendants with respect to the last two factors, the Court mainly took issue with their failure to provide any evidence as to how the privilege review process was conducted and how disclosure was prevented. Additionally, the Court considered "the numerous examples of repeated inconsistent and often conflicting redactions" as "strong evidence that a standardized and audited protocol by knowledgeable and careful counsel was not used." The Court took into account that different counsel had made the productions, but even then, the Court noted that "there must be consistency, otherwise the process is not defensible."

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