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2008 IN REVIEW:

DEVELOPMENTS IN ELECTRONIC DISCOVERY

2008 in Review: Developments in Electronic Discovery

In 2008, courts and Congress sought to facilitate the review and production of electronically-stored information (ESI) and to minimize the risk that a party will waive the attorney-client privilege in cases of an inadvertent production of privileged ESI. These clarification efforts, however, carry with them complexities of their own that potentially complicate the ESI-production process and frustrate the unwary practitioner. Here, we summarize three key developments and offer steps to understand and implement these new standards.

I. Judicial scrutiny of failures to produce documents

Signaling that courts are less willing to let electronic discovery deficiencies go unpunished, the U.S. Court of Appeals for the Federal Circuit in December 2008 affirmed an order requiring Qualcomm, Incorporated to pay attorneys' fees, costs, and post-judgment interest to Broadcom Corporation for what Qualcomm claimed was an "inadvertent" failure to produce 46,000 responsive e-mails.[1]

The High Price of Misconduct: Qualcomm, Inc. v. Broadcom Corp.[2]

In this case, Judge Rudi Brewster of the Southern District of California determined Qualcomm's failure to produce thousands of e-mails – and the acquiescence of both in-house and outside attorneys to this non-production equated to an "organized program of litigation misconduct and concealment throughout discovery, trial, and post-trial."[3] This misconduct resulted in:

- an Exceptional Case Order issued by Judge Brewster calling for payment by Qualcomm of Broadcom's attorney's fees, costs, and post-judgment interest totaling more than $9 million;
- a Sanctions Order issued by Federal Judge Magistrate Barbara Major, to whom Judge Brewster referred the discovery aspects of a motion for sanctions by Broadcom, for the payment by Qualcomm of an $8.5 million penalty for its "monumental and intentional discovery violation;"
- the resignation of Qualcomm's General Counsel; and
- possible sanctions by the State Bar of California against six of Qualcomm's outside attorneys.

This case was predicated upon Qualcomm's allegation that Broadcom infringed on Qualcomm's video-compression technology patents. Broadcom claimed that between 2002 and early 2003, Qualcomm was involved with a committee that created standards for video-compression technology, the Joint Video Team ("JVT"). Broadcom alleged that Qualcomm failed to disclose that it possessed video-compression technology when it became involved with the JVT, as required by JVT guidelines. Accordingly, argued Broadcom, Qualcomm's

patents on the technology thereafter acquired were unenforceable on the basis of Qualcomm's failure to disclose its technology to the JVT.

During discovery, Broadcom sought information related to Qualcomm's participation in the JVT. Qualcomm insisted that it had not participated in the JVT between 2002 and early 2003 and did not produce any documents dated prior to late 2003 relating to the JVT.

On the eve of trial, while preparing a Qualcomm employee to testify, an attorney representing Qualcomm discovered an e-mail dated August 2002 showing that the employee was a member of a distribution list that discussed the work of the JVT. The attorney searched the employee's laptop and located similar e-mail chains, none of which had been produced to Broadcom. Qualcomm's attorneys, however, determined that the e-mails were not responsive and decided to say nothing to Broadcom.

During the trial, the Qualcomm employee admitted that she had e-mails related to the JVT that had not been turned over to Broadcom. Broadcom immediately made an oral motion for sanctions. After the trial, Qualcomm located over 46,000 undisclosed records by searching the e-mails of its employees. Many of those records directly contradicted Qualcomm's claim that it had not participated in the JVT prior to late 2003.

Judge Brewster issued an Exceptional Case Order finding that the sheer volume of responsive documents ruled out the possibility that Qualcomm inadvertently failed to produce the information and belied counsel's assertion of having been "kept in the dark" by Qualcomm.[4] On this basis, Judge Brewster granted Broadcom's motion for attorneys' fees, costs, and post-judgment interest.

Subsequently, Judge Brewster referred the discovery aspects of Broadcom's oral motion for sanctions to Judge Major. Nineteen attorneys for Qualcomm were ordered to appear and explain their actions. Qualcomm's General Counsel acknowledged that Qualcomm had withheld thousands of documents and resigned. Nevertheless, Qualcomm's other attorneys denied having deliberately withheld evidence. Judge Major disagreed and in January 2008 found that Qualcomm and six of its retained attorneys committed misconduct.[5] In Judge Major's view, "[i]t was unbelievable that the retained attorneys did not know or suspect Qualcomm had not conducted an adequate search."[6] In the end, it was a "monumental discovery violation."[7]

Electronic Discovery Considerations in Light of Qualcomm

The aftermath of Judge Brewster's and Judge Major's harsh assessments of Qualcomm's actions highlight the importance of implementing a comprehensive electronic discovery plan at the outset of any potential dispute and conducting a thorough review of potentially relevant ESI. Key employees must be identified by both the corporation and its counsel and all sources of ESI should be identified and considered as potential sources of relevant documents. While the ultimate inquiry remains whether discovery efforts were reasonable, *Qualcomm* makes clear that there exists a heightened burden to inquire into relevant data sources and reasonably determine which sources warrant harvesting for further review.

II. Codification of the "Clawback" Approach to Inadvertent Disclosure

We reported in a Litigation Alert in July 2008 that a federal judge recently ruled that the attorney-client privilege was waived with respect to a number of documents that were produced inadvertently to opposing counsel. Our Litigation Alert discussed the importance of a full-scale privilege review and the reasonable limits of agreements between the parties to return inadvertently produced documents, usually known as non-disclosure or "clawback" agreements. In response to the expanding use of such agreements, Congress enacted on September 19, 2008 a revised Federal Rule of Evidence 502 containing a provision designed to standardize the use of non-disclosure agreements.

Non-Disclosure Agreements and Rule 502

Although Rule 502(b) provides the framework for courts to follow when determining whether the disclosure of privileged information in a federal proceeding or to a federal agency constitutes a waiver, Rule 502(d) is the real newsmaker for 2008 because it allows litigants in federal courts to have substantial control over whether a disclosure of privileged material to an adversary will waive the applicable attorney-client privilege or work product protection.

With Rule 502(d) in place, parties can seek to have their non-disclosure agreement entered as a protective order, so that the applicable privilege or protection is neither waived on the basis of a disclosure in the litigation pending before that court nor in any future federal or state court proceeding. Further, as with other types of discovery agreements, parties have wide latitude to identify what standards will work best for their particular case, including the scope of waiver protection. However, parties should note that courts retain discretion in determining whether the terms of the proposed non-disclosure agreement are reasonable and whether entering the agreement as a protective order is appropriate.[8]

Best Practices in Light of Rule 502

Rule 502(d) aims to provide parties with predictable protection from inadvertent disclosure in order to encourage cooperation between the parties. Parties to litigation in any federal court are wise to avail themselves of this new feature and best practice remains to prepare a non-disclosure agreement based upon procedures and a document review protocol that the court will find reasonable. Parties should then seek adoption by the court of the non-disclosure agreement as a protective order. Finally, while state court practice may vary by jurisdiction, litigants in state courts should still seek court approval of any non-disclosure agreement entered into by the parties to maximize the protection that the agreement will provide.

III. Asserting Privilege Post-Inadvertent Production

Congress recently enacted major revisions to the Federal Rules of Civil Procedure as part of an effort to recognize the role of ESI in the discovery process. Rule 26 now contains guidance designed to facilitate a formulated approach to the production of ESI. One important provision, which received notable judicial attention in 2008, is Rule 26(b)(5)(B), which, in tandem with Federal Rule of Evidence 502(b), addresses cases where privileged or work product-protected documents are produced in the absence of a non-waiver agreement.

Under Rule 26(b)(5)(B), when a party discovers that it has produced privileged or protected information, it must notify the receiving party of the production and state the basis for the claimed privilege or protection. After receiving this notification, the receiving party must promptly return, sequester, or destroy the information. The receiving party must then submit the dispute to a court for determination of whether the disclosure was truly inadvertent or constitutes a waiver based on the reasonableness of the review precautions underlying the production. Federal Rule of Evidence 502(b) provides the uniform standard federal courts employ to determine whether an asserted privilege or protection is waived by the disclosure.

Rule 502(b) states that a disclosure does not constitute a waiver if:

- the disclosure is inadvertent and is made in connection with a federal litigation or a federal administrative proceeding;
- the holder of the privilege or protection took reasonable steps to prevent disclosure; and
- the holder promptly took reasonable steps to rectify the error, including following Federal Rule of Civil Procedure 26(b)(5)(B) (if applicable).

Waiver Analysis Under Rules 26 and 502: Rhoads Industries, Inc. v. Building Materials Corp. of America[9]

In November 2008, Judge Michael Baylson of the Eastern District of Pennsylvania applied a "reasonableness" test commonly used by District Courts in the Third Circuit to determine whether the production of privileged documents by Rhoads Industries waived the privilege pursuant to Rules 26(b)(5)(B) and 502. Judge Baylson concluded that, while Rhoads may have behaved unreasonably in its privilege review, the interests of justice weighed in favor of returning the documents and preserving the attorney-client privilege.

In this case, Rhoads used electronic search terms to identify approximately 210,000 e-mails as responsive to Building Materials' document requests. To filter out privileged e-mails, Rhoads' electronic discovery consultant conducted additional searches that identified 2,000 e-mails. Because more than 208,000 e-mails remained after Rhoads culled the document set, its attorneys revised the keyword searches and further culled the document set to 78,000 e-mails. Rhoads' attorneys manually reviewed a selection of these e-mails and removed additional privileged documents, logging them on a privilege log. This privilege log, however, did not contain entries for the 2,000 e-mails that had been removed from the document set in the

initial searches run by Rhoads's consultant. Rhoads then produced the 78,000 e-mails to Building Materials.

Soon after receiving the production, Building Materials notified Rhoads that at least 812 of the e-mails it produced were privileged. Rhoads' counsel responded that any privileged documents were produced inadvertently and subsequently created a privilege log for the 812 e-mails. Pursuant to Rule 26(b)(5)(B), Rhoads requested that Building Materials sequester the e-mails pending resolution of the dispute.

Building Materials thereafter filed a motion arguing that Rhoads had waived the attorney-client privilege on the basis of its careless privilege review and its delay in claiming that the produced documents were privileged. To further complicate matters, during a hearing on the waiver issue, Rhoads presented a third privilege log containing entries for the 2,000 documents that it had originally culled from the document set some four months earlier.

Judge Baylson found that this inadvertent production stemmed from Rhoads' attempt to substitute electronic keyword searches for a physical privilege review. Accordingly, Judge Baylson ordered that the 2,000 e-mails that Rhoads failed to log when they were originally culled from the data set be produced to Building Materials. Judge Baylson explained that the four-month delay in logging the documents was "too long and inexcusable."[10]

As for the 812 e-mails identified by Building Materials, Judge Baylson looked to the disclosure/waiver framework contained in Rule 502(b). Judge Baylson addressed the issue of whether Rhoads "took reasonable steps to prevent disclosure" by applying the analysis commonly employed by District Courts in the Third Circuit to determine the issue of whether a party behaved reasonably with respect to preventing an inadvertent disclosure.[11] Judge Baylson concluded that "although Rhoads took steps to prevent disclosure and to rectify the error, its efforts were, to some extent, not reasonable."[12] Nevertheless, Judge Baylson concluded that the overriding interests of justice tipped the balance in favor of non-waiver, noting that the "[l]oss of the attorney-client privilege in a high-stakes, hard-fought litigation is a severe sanction and can lead to serious prejudice."[13]

Key Takeaways From Rhoads

Judge Baylson's opinion in *Rhoads* provides guidance into how federal courts will react to the inadvertent production of privileged or protected documents given recent revisions to the Rules that guide these courts. This decision underscores the importance of seeking a non-disclosure agreement in any case and should serve as a further reminder of the risks associated with relying exclusively on keyword searches for privilege review. While keyword searches can be a useful tool, nothing can replicate or replace a manual and comprehensive review of documents for privilege prior to production to an adversary.

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[1] *Qualcomm, Inc. v. Broadcom Corp*., 2008 WL 5047675 (Fed. Cir. Dec. 1, 2008).
[2] Civ. No. 05-CV-01958-B-BLM, Doc. No. 593.
[3] *Id.* at 32.

[4] Doc. No. 593 at 38.
[5] Judge Major also referred the six attorneys to the California State Bar for investigation to address possible ethics violations. Judge Major's formal sanctions against these attorneys were vacated by Judge Brewster and remanded to Judge Major to allow the attorneys to explain their knowledge with regard to the non-produced e-mails. This investigation remains ongoing, as does the California Bar investigation against the attorneys.
[6] Doc. No. 718 at 25.
[7] *Id.* at 26.
[8] To further encourage parties to seek judicial approval of their non-disclosure agreements, Rule 502(e) states that a non-disclosure agreement will be binding only on the parties to the agreement unless the agreement is adopted as a court order pursuant to Rule 502(d). Accordingly, if parties fail to incorporate their agreement into a court order, they run the risk that an inadvertent production of a privileged or protected document will allow a party in a future dispute to access the previously disclosed information.
[9] 2008 WL 491602 (E.D. Pa. November 14, 2008).
[10] *Id.*
[11] *See Fidelity & Deposit Co. of Md. v. McCulloch*, 168 F.R.D. 516 (E.D. Pa. 1996) (Courts consider five factors to determine whether an inadvertent disclosure constitutes a waiver: (1) the reasonableness of the precautions taken to prevent inadvertent disclosure in view of the extent of the document production; (2) the number of inadvertent disclosures; (3) the extent of the disclosure; (4) any delay and measures taken to rectify the disclosure; and (5) whether the overriding interests of justice would or would not be served by relieving the party of its errors.). Practitioners should note that *Fidelity's* "middle ground" approach on the issue of reasonableness is employed in many other federal courts, including Massachusetts. *See e.g. Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 190 F.R.D. 287, 292 (D. Mass. 2000).
[12] *Rhoads,* 2008 WL 4916026, at *11.
[13] *Id.*