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Litigation Alert: Recent Case Highlights Pitfalls in Electronic Discovery

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Electronic discovery continues as one of the more complex areas in civil litigation, replete with pitfalls and potholes that can derail the unwary practitioner. In one recent case, a federal judge in Maryland ruled in *Victor Stanley, Inc. v. Creative Pipe, Inc.*[1] that the attorney-client privilege did not protect a number of documents that the defendant, Creative Pipe, Inc. ("CPI"), said were produced inadvertently to the plaintiff, Victor Stanley, Inc. ("VSI"). The facts underlying the inadvertent production are instructive.

A Routine Review and Production Derailed by Poor Planning

Following a court order requiring both parties to produce electronically stored information ("ESI"), CPI's and VSI's computer forensic experts jointly established a protocol containing detailed search and information retrieval instructions and nearly five pages of keyword search terms. After the parties used this protocol to retrieve responsive ESI, CPI reviewed the documents to locate materials that were not discoverable due to privilege or work-product protection. Counsel for CPI, however, determined that individualized privilege review of the responsive documents would be unduly expensive and would delay production.

To address this concern, CPI's counsel used a common approach and developed a list of keywords designed to enable its document identification software to identify automatically, and without further consideration, privileged and/or protected documents. CPI's counsel also requested that the court approve a "clawback" agreement, acknowledging the possibility of the inadvertent disclosure of privileged or protected documents and requiring the return of any such documents without a waiver of the applicable privilege or protection. CPI later notified the court that because the deadline for production of the documents was extended by four months, CPI would be able to conduct a document-by-document privilege review. CPI subsequently abandoned its efforts to obtain the clawback provision in the protective order issued by the court.

CPI's ESI contained both text-readable and non-text-readable documents, meaning text could be "reviewed" automatically for privilege on some documents but not on others. To conduct its privilege review on these two sets of documents, CPI's "e-discovery" expert developed a keyword search containing 70 terms to be applied to the text-readable files to identify privileged documents. As for the non-text-readable files, the e-discovery expert reviewed only the title page of each document. CPI did nothing more to determine whether these documents were privileged.

After CPI completed the foregoing steps, it made its production to VSI. Shortly after receiving CPI's production, VSI's counsel discovered documents that were potentially privileged or work-product protected and notified counsel for CPI of the production of those documents. CPI's counsel responded by asserting that the production of the privileged and protected information was inadvertent and requested the immediate return of the documents, which VSI refused.

In considering whether CPI was entitled to the return of the supposedly inadvertently produced documents as part of the subsequent motion practice, the judge considered the reasonableness of CPI's actions in conducting its privilege review to determine if the production of the privileged documents was "reasonably" inadvertent.[2]

The judge ultimately determined that CPI failed to demonstrate that the keyword search it performed on the ESI was reasonable and noted that CPI was aware of the danger of inadvertent production of privileged or protected information, initially seeking the protections of a clawback agreement but then abandoning that effort. Accordingly, the judge concluded that, although the documents may have been produced unintentionally, because CPI did not demonstrate that it had acted reasonably, their production effectively waived any privilege or protection associated with the documents.

Lessons Learned

Victor Stanley serves as a cautionary tale to any attorney or client dealing with ESI and highlights:

- the practical safeguards associated with clawback agreements;
- the need to maintain transparency between the parties and the tribunal trying the case; and
- the need to conduct a thorough review of documents prior to production employing a review protocol that is reasonable in terms of identifying privileged documents and isolating those documents from production to an adversary.

The Practical Safeguards Associated with Clawback Agreements

As *Victor Stanley* delineates, clawback agreements are used to preserve the rights of the producing party when privileged materials are inadvertently disclosed to an opposing party. Such disclosure often occurs during discovery when the producing party must turn over vast amounts of both electronic and paper material and conduct an exhaustive privilege review in a limited period of time. As with other types of discovery agreements, parties have wide latitude to identify what terms and standards will work best for their particular case.[3] The best practice for parties seeking to avoid waiver in this situation is to first negotiate the terms of the clawback agreement, taking into consideration the particular characteristics of the case, and then to offer a stipulation to the court for entry as a protective order, based upon procedures and a document review protocol that the court will find reasonable.[4]

In the absence of an enforceable clawback agreement, courts generally employ one of three tests to determine if an inadvertent disclosure should result in waiver of any applicable privilege or protection:

- a strict waiver approach;
- a "middle road approach;" or
- the "to err is human" approach.[5]

The First Circuit has not voiced a firm opinion on which of the three tests should be used. Some early District Court decisions employed the strict waiver approach, where any inadvertent disclosure of privileged material was held to waive that privilege.[6] More recently, however, these courts have recognized the immense burdens that detailed privilege review presents to parties engaged in electronic and paper discovery and have trended, therefore, toward applying the "middle test" in the absence of a clawback agreement.[6]

The Massachusetts Supreme Judicial Court has held that a reasonableness analysis or the "middle test" should be applied to determine if a party producing documents has waived any privilege or protection in the event of an inadvertent disclosure.[8]

Transparency Between the Parties and the Tribunal Trying the Case

The judge's ruling in *Victor Stanley* underscores the need for cooperation between the parties in developing a discovery plan designed to address the potential for inadvertent disclosure of privileged or protected documents. As your team works to develop a clawback agreement particular to the needs of your case, the watchword is reasonableness as to the precautions undertaken to prevent inadvertent disclosure.[9] Factors considered by courts in determining reasonableness include:

- The time allotted for review and production of documents by the applicable scheduling order
- The number of documents to be reviewed and produced
- The complexity of the document extraction and collection to be undertaken in preparing for document production
- The state of the documents: hard copy versus ESI, text-readable versus non-text readable, etc.
- Whether the privilege review is to be computer assisted or conducted manually, or a combination of the two approaches
- Precautions and quality control measures to be employed if privilege review is computer or keyword assisted

A Thorough Review of Documents Prior to Production

Increasingly, practitioners are using electronic searches for responsiveness and privilege, especially in situations where discoverable materials comprise hundreds of thousands of pages. While electronic document review procedures can assist attorneys and clients in narrowing, culling, and identifying potentially responsive and/or privileged ESI, no electronic procedure or document review program can fully "review" documents in any sense of the word. Parties using such techniques should agree on electronic search terms with an adversary, should conduct manual "spot checks" on the searches to determine whether they are under- or over-inclusive, and should approach the tribunal to seek approval of the agreed-upon methods before attempting an electronic privilege review.

Although the amount and scope of documents that are reviewed manually may vary by the type of case, and despite the speed with which documents need to be produced or the volume of documents being dealt with, best practice dictates, and the cases decided to date suggest, that a manual review of documents for privilege or work-product protection included as part of the ESI review process will best position a party for the recovery of documents inadvertently produced to an adversary.

This likelihood is increased, as highlighted above, by incorporating the clawback agreement into a court order. Parties should also be ready to educate opposing counsel and the court as to the discovery measures to be undertaken, the risks associated therewith, and the steps necessary to minimize inadvertent production as a result of those risks. By integrating these best practices, the parties can increase the likelihood that a court will order the return of any inadvertently produced privileged or protected documents.

Mintz Levin's Electronic Discovery Practice Group

Mintz Levin's electronic discovery practice group is comprised of a multidisciplinary team of attorneys and information technology professionals dedicated to finding innovative solutions to each client's electronic discovery needs and the demands of each litigation or document production. By employing cutting-edge technology, in-house document management and review software, and maintaining a close relationship with vendors and third parties associated with the electronic discovery process, the electronic discovery practice group is able to adapt to the ever-changing landscape of electronic discovery and ensures that our solutions comport with the unique discovery requirements and client expectations associated with each matter.

Endnotes

[1] Civ. A. No. MJG-06-2662

[2] The judge made note of the fact that CPI was "regrettably vague" in its description of the 70 keywords it used for its "review" of the text-readable ESI, how those keyword terms were developed, how the keyword search was conducted, or what quality controls were employed to assess the reliability and accuracy of the keyword terms in automatically identifying the universe of potentially privileged documents.

[3] Practitioners should be aware that clawback agreements typically only protect parties from privilege or protection waiver as to the other party to the clawback agreement. Courts have held that production of privileged information to another party constitutes a waiver of any privilege or protection as to third parties. *See, e.g., Hopson v. Mayor & City Council of Baltimore*, 232 F.R.D. 228 (D. Md. 2005) (only if a document production is compelled by a court can a party successfully defend against a claim of waiver by a non-party following the disclosure of privileged material); *In re Qwest Comm. Int'l, Inc.*, 450 F.3d 1179 (10th Cir. 2006) (production of computerized information to a government agency, pursuant to a confidentiality agreement, resulted in a waiver of privilege as to third parties).

[4] Clawback agreements have generally been endorsed by the Massachusetts District Court. Several judges have employed pre-discovery stipulations to create clawback agreements and have subsequently used those agreements to resolve issues of inadvertent disclosure. For an example of a clawback provision in a protective order, *see Ken's Foods, Inc. v. Ken's Steak House, Inc.*, 213 F.R.D. 89, 95 (D. Mass. 2002); *see also VLT Corp. and Vicor Corp. v. Unitrode Corp.*, 194 F.R.D. 8 (D. Mass. 2000).

[5] *See e.g. Amgen, Inc. v. Hoechst Marion Roussel, Inc. and Transkaryotic Therapies, Inc.*, 190 F.R.D. 287, 290–291 (D. Mass. 2000).

[6] *See FDIC v. Singh*, 140 F.R.D. 252 (D. Me. 1992); *Ares-Serono, Inc. v. Organon Int'l B.V.*, 160 F.R.D. 1 (D. Mass. 1994)).

[7] *See Amgen, Inc.*, 190 F.R.D. at 292.

[8] *See Matter of Reorganization of Electric Mutual Liability Insurance Co, Ltd. (Bermuda) ("EMLICO")*, 425 Mass. 419, 423 (1997); *see also Commerce and Industry Insurance Co. et al. v. E.I. Du Pot de Nemours and Co. et al.*, 2000 WL 33223235 at *2 (Mass. Super. 2000) (J, Van Gestel).

[9] The U.S. Judicial Conference's *Manual on Complex Litigation*, cited frequently in complex cases by federal judges, approves of the use of clawback agreements and incorporates prototypical language into the model discovery and case management orders it provides. *See* Federal Judicial Center, *Manual for Complex Litigation, Fourth* (2004), available at http://www.fjc.gov/public/pdf.nsf/lookup/mcl4.pdf/$file/mcl4.pdf.

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