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***Victor Stanley, Inc. v. Creative Pipe, Inc.:* How to Utilize Rule 502 to Prevent Inadvertent Disclosure and Reduce Discovery Costs in an Age of Electronically Stored Information**

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## Note

### **VICTOR STANLEY, INC. v. CREATIVE PIPE, INC.: HOW TO UTILIZE RULE 502 TO PREVENT INADVERTENT DISCLOSURE AND REDUCE DISCOVERY COSTS IN AN AGE OF ELECTRONICALLY STORED INFORMATION**

MICHAEL J. CHRISTIN\*

In *Victor Stanley, Inc. v. Creative Pipe, Inc.*,<sup>1</sup> 165 documents containing electronically stored information that were potentially attorney-client privileged or protected by the work-product doctrine were inadvertently produced by defendants.<sup>2</sup> United States Magistrate Judge Paul W. Grimm held that defendants waived any privilege or work-product protection for all 165 documents produced.<sup>3</sup> Since *Victor Stanley*, Congress passed, and President Bush signed, new Federal Rule of Evidence 502, essentially adopting the “intermediate approach” discussed in *Victor Stanley* for determining whether inadvertent production of privileged or work-product protected materials waived that privilege or protection.<sup>4</sup> Had Rule 502 been adopted prior to *Victor Stanley*, the parties involved and other similarly situated parties might have avoided the risks of inadvertent disclosure.<sup>5</sup> With Rule 502 in place, parties in federal proceedings can now take the proper steps to avoid inadvertent disclosure of electronically stored information, as well as cut the cost of Rule 34 productions.<sup>6</sup>

#### I. THE CASE

In *Victor Stanley*, the plaintiff, Victor Stanley, Inc., filed a motion asking the court to determine that five categories of documents inadvertently produced by defendants during discovery were not exempt

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1. 250 F.R.D. 251 (D. Md. 2008).
2. *Id.* at 253.
3. *Id.* at 267–68.
4. See FED. R. EVID. 502; *infra* Part II.C.
5. See *infra* Parts III.B–C, IV.A.
6. See *infra* Parts III.B–C, IV.B–C.

from discovery because the inadvertent production waived any attorney-client privilege or work-product protection.<sup>7</sup> Defendants, Creative Pipe, Inc. and Mark and Stephanie Pappas, argued that the inadvertent production of the 165 documents did not waive either the attorney-client privilege or work-product protection.<sup>8</sup>

In the course of discovery, defendants produced hard copy documents pursuant to Rule 34 of the Federal Rules of Civil Procedure.<sup>9</sup> Victor Stanley objected, arguing that the production was not sufficient.<sup>10</sup> Following a hearing, the United States District Court for the District of Maryland ordered that the parties confer and develop a joint protocol to search and retrieve relevant electronically stored information (“ESI”).<sup>11</sup> The agreed upon protocol contained “nearly five pages of keyword/phrase search terms” that were specifically designed to locate “responsive ESI.”<sup>12</sup> After using the search terms to identify relevant ESI, defendants were to review the results in order to eliminate any information that could be considered privileged or protected by the work-product doctrine.<sup>13</sup>

Given the volume of information to be reviewed, prior to review, defendants notified the court that individual review of the potentially protected information would “delay production unnecessarily and cause undue expense.”<sup>14</sup> Thus, defendants engaged a computer forensics expert to use a list of approximately seventy keywords to search for and retrieve potentially privileged/protected documents.<sup>15</sup> Recognizing the risk of inadvertent production of privileged or work-product protected material, defendants petitioned the court for a “clawback agreement,” an agreement that would allow defendants to assert post-production privilege or protection on inadvertently produced documents.<sup>16</sup> However, because Judge Garbis, the trial court judge, extended discovery by four months,

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7. *Victor Stanley*, 250 F.R.D. at 253.

8. *Id.*

9. *Id.* at 254; *see also* FED. R. CIV. P. 34 (“Any party may serve on any other party a request within the scope of Rule 26(b) . . . to produce and permit the requesting party or its representative to inspect, copy, test, or sample . . . any designated documents or electronically stored information . . .”).

10. *Victor Stanley*, 250 F.R.D. at 254. The court did not specify the reasons for the objection. *Id.*

11. *Id.*

12. *Id.*

13. *Id.*

14. *Id.*

15. *Id.* at 254–55. It is unclear whether these search terms were mutually agreed upon or not. *Id.*

16. *Id.* at 255.

defendants found it unnecessary to enter into a clawback agreement and withdrew their motion.<sup>17</sup>

After locating the responsive information, defendants' computer forensic expert determined that roughly 33.7 gigabytes of ESI was not in text-searchable format, and thus those documents could not be searched using the keyword search that was used on the 4.9 gigabytes of ESI that was in text-searchable form.<sup>18</sup> An attorney manually reviewed the non-text-searchable files.<sup>19</sup> This review consisted only of "reviewing the page titles of the documents," as defendants contended that the court's compressed discovery schedule did not allow for a full review of all the documents.<sup>20</sup> Using this manual review system, if the title page indicated that a document contained potentially privileged information, the attorney would review the entire document.<sup>21</sup> Anything determined privileged was not produced.<sup>22</sup>

Defendants electronically searched the text-searchable ESI, withheld documents that returned keyword hits, and produced the remaining documents.<sup>23</sup> In the course of this ESI production, 165 documents that potentially contained privileged and work-product protected material were inadvertently produced.<sup>24</sup> Victor Stanley's motion to find that the defendants waived privilege with respect to the 165 documents was referred to Chief Magistrate Judge Grimm for ruling.<sup>25</sup>

## II. LEGAL BACKGROUND

The Federal Rules of Civil Procedure specify certain procedures that parties must follow during the production of materials in discovery.<sup>26</sup> These Federal Rules do not address precisely how courts should treat inadvertent production of attorney-client privilege or work-product protected documents.<sup>27</sup> Over time, courts have developed three different tests to fill this gap: the lenient approach, the intermediate approach, and the

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17. *Id.*

18. *Id.* at 255–56.

19. *Id.* at 256.

20. *Id.*

21. *Id.*

22. *Id.*

23. *Id.* Based on defendants' affidavits, the court inferred that the ESI that did not return any hits, as well as the information not determined privileged or protected by manual review, was produced, for defendants failed to specify which documents were and were not produced to plaintiff. *Id.*

24. *Id.* at 253.

25. *See generally id.* at 251.

26. *See infra* Part II.A.

27. *See infra* Part II.A.

strict accountability approach.<sup>28</sup> Unfortunately, the United States Court of Appeals for the Fourth Circuit has not adopted any of these tests, for it has not addressed inadvertent disclosure of attorney-client privilege or work-product protected information in a civil case involving voluminous Rule 34 productions.<sup>29</sup> The new Federal Rule of Evidence 502, however, governs all inadvertent disclosures in federal proceedings.<sup>30</sup>

A. *Federal Rules of Civil Procedure*

Rule 34 of the Federal Rules of Civil Procedure provides that a party may request production of “documents or electronically stored information . . . stored in any medium from which information can be obtained.”<sup>31</sup> The party served is expected to respond “within 30 days” after service unless a longer time is “stipulated to under Rule 29 or . . . ordered by the court.”<sup>32</sup> Moreover, the responding party is expected to produce ESI “as [it is] kept in the usual course of business.”<sup>33</sup> Even if the requesting party fails to specify a form of production, the responding party is required to produce the documents in the manner in which they are kept or in a “reasonably usable form.”<sup>34</sup>

Rule 26 of the Federal Rules of Civil Procedure limits the scope of discovery to documents that are not protected by the attorney-client privilege,<sup>35</sup> and generally does not allow discovery of “work-product” materials created in preparation for litigation or trial.<sup>36</sup> Rule 26 specifies that if either privileged or work-product protected material is accidentally produced, the producing party may notify the opposing party who received the material that it intends to assert privilege or work-product protection and the basis for this claim.<sup>37</sup> Once the producing party notifies the

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28. See *infra* Part II.B.

29. See *infra* Part II.B.

30. See *infra* Part II.C.

31. FED. R. CIV. P. 34(a).

32. FED. R. CIV. P. 34(b)(2)(A).

33. FED. R. CIV. P. 34(b)(2)(E). A party may not be required to produce the information as it is kept in the course of business if either the parties stipulate otherwise or the court orders otherwise. *Id.* Additionally, the court may allow a party to “organize and label” the information to correspond to the various categories in the original request. *Id.*

34. *Id.*

35. FED. R. CIV. P. 26(b)(1).

36. FED. R. CIV. P. 26(b)(3)(A). Rule 26 does, however, permit production of work-product materials if “they are otherwise discoverable under Rule 26(b)(1),” and the requesting party can demonstrate that “it has substantial need for the materials to prepare its case and cannot, without undue hardship, obtain their substantial equivalent by other means.” *Id.*

37. FED. R. CIV. P. 26(b)(5)(B).

opposing party, the opposing party may not use the information received “until the claim is resolved.”<sup>38</sup>

Additionally, Rule 26 limits the production of ESI if the producing party is able to establish that the ESI is “not reasonably accessible because of *undue burden or cost*.”<sup>39</sup> The court “must limit the frequency or extent of discovery” if the court finds that “the burden or expense of the proposed discovery outweighs its likely benefit.”<sup>40</sup> When weighing the potential benefit of discovery, the court considers the requirements of the case, the amount of money at stake, each party’s resources, the importance of the issues, and the importance of discovery in deciding those issues.<sup>41</sup>

Rule 26 also requires the parties to participate in a discovery planning conference.<sup>42</sup> The parties must “develop a proposed discovery plan” and submit a written report of that plan to the court.<sup>43</sup> This discovery plan must include, among other things, a provision for dealing with “issues about disclosure or discovery of electronically stored information, including the form or forms in which it should be produced,” as well as “any issues about claims of privilege or of protection as trial-preparation materials, including—if the parties agree on a procedure to assert these claims after production—whether to ask the court to include their agreement in an order.”<sup>44</sup>

#### B. Waiver of the Attorney-Client Privilege and Disclosure of Work-Product Protection

Prior to the adoption of Federal Rule of Evidence 502, jurisdictions throughout the country had developed three different standards for determining whether the inadvertent production of privileged or work-product protected material waived the privilege or protection for that material.<sup>45</sup> In *Hopson v. Mayor and City Council of Baltimore*, the United

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38. *Id.*

39. FED. R. CIV. P. 26(b)(2)(B) (emphasis added). The party from whom discovery is sought bears the burden of proof when making this assertion. *Id.* Moreover, despite this showing, the court can still “order discovery from such sources if the requesting party shows good cause, considering the limitations of Rule 26(b)(2)(C).” *Id.*

40. FED. R. CIV. P. 26(b)(2)(C). The court must also limit the “frequency or extent of discovery” if the court determines that “the discovery sought is unreasonably cumulative or duplicative, or can be obtained from some other source that is more convenient, less burdensome, or less expensive,” or if it finds that “the party seeking discovery has had ample opportunity to obtain the information by discovery in the action.” *Id.*

41. FED. R. CIV. P. 26(b)(2)(C)(iii).

42. FED. R. CIV. P. 26(f)(1).

43. FED. R. CIV. P. 26(f)(2).

44. FED. R. CIV. P. 26(f)(3).

45. *Hopson v. Mayor and City Council of Baltimore*, 232 F.R.D. 228, 235–36 (D. Md. 2005); see also *infra* notes 47–51 and accompanying text.

States District Court for the District of Maryland discussed these approaches.<sup>46</sup> The first approach, the “strict accountability approach,” views nearly all disclosures as a waiver, finding that even an inadvertent production constitutes a waiver because once the confidentiality of a document is lost, it cannot be restored.<sup>47</sup> The second approach, the “lenient,” or “to err is human approach,” usually requires an “intentional and knowing” release of the privilege,<sup>48</sup> but a court may find that a waiver exists when a document is inadvertently produced as a result of gross negligence.<sup>49</sup> The third and final approach, the “intermediate approach,” uses a balancing test to determine on a case-by-case basis whether an inadvertent disclosure is excusable.<sup>50</sup> If excusable, a disclosure does not waive the privilege or work-product protection.<sup>51</sup> The Fourth Circuit has not expressed an opinion with respect to these tests because it has not decided a case raising the issue of inadvertent disclosure of privileged or work-product protected material in the course of voluminous civil discovery.<sup>52</sup>

### C. Federal Rule of Evidence 502

On September 19, 2008, President Bush signed and enacted into law new Federal Rule of Evidence 502, governing the inadvertent disclosure of information protected by the attorney-client privilege and work-product doctrine in a federal proceeding.<sup>53</sup> Under the new rule:

[when] made in a Federal proceeding or to a Federal office or agency, [a] disclosure is not considered a waiver in a Federal or State proceeding if: (1) the disclosure is inadvertent; (2) the holder of the privilege or protection took reasonable steps to

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46. *Hopson*, 232 F.R.D. at 235–36. In *Hopson*, defendants objected to a Rule 34 request, relying on undue burden and cost. *Id.* at 231. Following a hearing, the court supplemented its oral ruling with an order addressing several issues relating to Rule 34 requests for ESI. *Id.* at 231–32. These issues included:

the nature of privilege review that must be performed by a party producing [ESI], whether non-waiver agreements entered into by counsel to permit post-production assertion of privilege are permissible, and effective for their intended purpose, as well as the application of principles of substantive evidence law related to the waiver of privilege by inadvertent production.

*Id.* at 231.

47. *Id.* at 235 (quoting EDNA SELAN EPSTEIN, *THE ATTORNEY-CLIENT PRIVILEGE AND THE WORK-PRODUCT DOCTRINE* 309 (4th ed. 2001)).

48. *Id.* at 235–36 (quoting EPSTEIN, *supra* note 47, at 310–11).

49. *Id.* at 236.

50. *Id.* (citing EPSTEIN, *supra* note 47, at 311).

51. *Id.*

52. *Id.* (citing *F.C. Cycles Int'l, Inc. v. Fila Sports*, 184 F.R.D. 64, 76 (D. Md. 1998)).

53. FED. R. EVID. 502.

prevent disclosure; and (3) the holder promptly took reasonable steps to rectify the error, including (if applicable) following Federal Rule of Civil Procedure 26(b)(5)(B).<sup>54</sup>

In addition, the explanatory note to Rule 502 lists five non-exclusive factors that courts should consider when determining whether the holder of privilege or protection took reasonable steps to prevent disclosure: (1) the reasonableness of the precautions taken; (2) the time it took to correct the error; (3) the scope of discovery; (4) the extent of the disclosure; and (5) any overriding issues of fairness.<sup>55</sup> Rule 502 effectively eliminates separate tests for privilege and work-product information.<sup>56</sup>

### III. THE COURT'S REASONING

In *Victor Stanley, Inc. v. Creative Pipe, Inc.*, the United States District Court for the District of Maryland held that the attorney-client privilege and work-product protection for the 165 documents inadvertently produced by defendants were waived by defendants' voluntary production of the documents to plaintiff.<sup>57</sup> In so holding, the court analyzed both the attorney-client privilege and work-product protection under the three separate tests referred to above—the lenient approach, the intermediate approach, and the strict approach—to determine whether defendants had waived the privilege or protection.<sup>58</sup>

Chief Magistrate Judge Paul W. Grimm, a noted expert in the field of electronic discovery, wrote the court's opinion.<sup>59</sup> Judge Grimm observed

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54. FED. R. EVID. 502(b). *See also* FED. R. CIV. P. 26(b)(5)(B) (“If information produced in discovery is subject to a claim of privilege or of protection as trial-preparation material, the party making the claim may notify any party that received the information of the claim and the basis for it. After being notified, a party must promptly return, sequester, or destroy the specified information and any copies it has; must not use or disclose the information until the claim is resolved; must take reasonable steps to retrieve the information if the party disclosed it before being notified; and may promptly present the information to the court under seal for a determination of the claim. The producing party must preserve the information until the claim is resolved.”).

55. Explanatory Note on Evidence Rule 502, Prepared by the Judicial Conference Advisory Committee on Evidence Rules 7–8 (rev. Nov. 28, 2007). As Judge Grimm noted, Rule 502 “expressly declined to adopt” the five factor test used by some courts in the past. E-mail from The Honorable Paul W. Grimm, Chief Magistrate Judge, United States District Court for the District of Maryland, to Michael J. Christin, J.D. Candidate 2010, University of Maryland School of Law (Jan. 28, 2009, 02:57 EST) (on file with author). Unfairness alone, therefore, “should not be enough to preclude a finding of waiver where there was a failure to take reasonable precautions before and after disclosure.” *Id.* Judge Grimm emphasized the danger in falling back on a “fairness” argument, for “[h]ad Congress intended to let fairness trump reasonableness, they could have said so, but did not.” *Id.*

56. *See* FED. R. EVID. 502.

57. *Victor Stanley, Inc. v. Creative Pipe, Inc.*, 250 F.R.D. 251, 253–54 (D. Md. 2008).

58. *Id.* at 257–63.

59. *Id.* at 253.



that the Fourth Circuit had not addressed the inadvertent production of work-product protected materials, but stated that “a careful reading” of Fourth Circuit decisions regarding inadvertent production of privileged materials indicated that the Fourth Circuit might analyze the question using the strict approach.<sup>60</sup> Under that test, Judge Grimm contended, “there is no legitimate doubt that Defendants’ production of the 165 asserted privileged/protected documents waived the attorney-client privilege and work-product protection.”<sup>61</sup>

Despite concluding that the Fourth Circuit would most likely adopt the strict approach, Judge Grimm analyzed the work-product and privilege disclosures under the intermediate test, using a balancing test to weigh: “(1) the reasonableness of the precautions taken to prevent inadvertent disclosure; (2) the number of inadvertent disclosures; (3) the extent of the disclosures; (4) any delay in measures taken to rectify the disclosure; and (5) overriding interests in justice.”<sup>62</sup> The Judge rejected defendants’ claims that they “did their best” and that their “conduct was reasonable.”<sup>63</sup> Judge Grimm noted that defendants did not identify the words used to electronically search for potentially relevant documents or indicate the qualifications of the persons who selected the electronic search criteria.<sup>64</sup> Defendants also failed to produce any evidence of quality assurance testing, or offer support for “what they had done and why it was sufficient.”<sup>65</sup> Judge Grimm emphasized the fact that defendants “voluntarily abandoned” their court approved request for a clawback agreement, failed to reinstate that request, and did not ask for an extension of time to review the documents.<sup>66</sup>

Judge Grimm also thought it important that 165 documents had been inadvertently produced, rather than one or two that had “slip[ped] through the cracks.”<sup>67</sup> He determined that the majority of these documents contained substantive material, and that an attempt to “redress these disclosures would be the equivalent of closing the barn door after the

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60. *Id.* at 258.

61. *Id.* Judge Grimm noted that under the lenient approach, no waiver existed because there was not a “knowing and intentional” production of documents. *Id.* at 257. Conversely, under the strict approach, there would be waiver, because once documents are disclosed, “there can no longer be any expectation of confidentiality.” *Id.*

62. *Id.* at 258–59 (citing *McCafferty’s, Inc. v. Bank of Glen Burnie*, 179 F.R.D. 163, 167 (D. Md. 1998)).

63. *Id.* at 263.

64. *Id.* at 262.

65. *Id.*

66. *Id.* at 262–63.

67. *Id.* at 263.

animals have already run away.”<sup>68</sup> He also emphasized the fact that the inadvertent disclosures were discovered by plaintiff and not defendants.<sup>69</sup>

On these grounds, Judge Grimm concluded that defendants had waived the attorney-client privilege and work-product protection and that plaintiff was permitted to use the documents as evidence, to the extent those documents were admissible.<sup>70</sup>

#### IV. ANALYSIS

Prior to the adoption of Federal Rule of Evidence 502, many problems existed regarding voluminous Rule 34 productions of ESI in civil proceedings.<sup>71</sup> Rule 502 was adopted in an attempt to address these problems.<sup>72</sup> Now, with the safety provisions of Rule 502, along with the combination of steps discussed in *Victor Stanley*, parties should be more inclined to work together to cut undue costs and prevent the potential effects of inadvertent disclosure.<sup>73</sup>

##### A. *The Problem: Discovery Disputes Involving Electronically Stored Information*

A major problem with production of ESI stems from the massive quantity of information that can be stored in computers, databases, and servers.<sup>74</sup> The increased amount of discoverable information leads to more information that needs to be reviewed in order to preserve privilege and work-product protection, which in turn leads to higher discovery costs.<sup>75</sup> In

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68. *Id.* (citing *FDIC v. Marine Midland Realty Credit Corp.*, 138 F.R.D. 479, 483 (E.D. Va. 1991); *Parkway Gallery Furniture, Inc. v. Kittinger/Pennsylvania House Group*, 116 F.R.D. 46, 52 (M.D.N.C. 1987)).

69. *Id.* This is distinguishable from a situation in which a defendant produces documents, immediately discovers that he produced them inadvertently, and then requests that the documents be returned immediately. *Id.*

70. *Id.* at 267–68. Judge Grimm also held that whether or not defendants properly established the existence of privilege was moot, for even if there was privilege, it had been waived by the inadvertent production. *Id.* at 267. Judge Grimm, however, discussed the proper way to establish privilege “for the benefit of future cases.” *Id.* at 264.

71. *See infra* Part IV.A.

72. *See infra* Part IV.B.

73. *See infra* Part IV.C.

74. *See, e.g.*, Julie Cohen, Note, *Look Before You Leap: A Guide to the Law of Inadvertent Disclosure of Privileged Information in the Era of E-Discovery*, 93 IOWA L. REV. 627, 641 (2008) (“An average laptop computer can house enough information to fill a small library.”).

75. FED. R. CIV. P. 26(b)(5) advisory committee’s note (2006) (“When the review is of electronically stored information, the risk of waiver, and the time and effort required to avoid it, can increase substantially because of the volume of electronically stored information and the difficulty in ensuring that all information to be produced has in fact been reviewed.”).

one case, for example, Verizon spent \$13.5 million on privilege review alone.<sup>76</sup>

In *Hopson v. Mayor and City Council of Baltimore*, defendants objected to a Rule 34 request for hard copy documents and ESI.<sup>77</sup> Specifically, defendants raised concerns regarding the undue burden and cost of performing pre-production privilege review of the records sought.<sup>78</sup> Chief Magistrate Judge Paul Grimm noted that the issues in *Hopson* “prominently showcase[d] challenges that recur in connection with the discovery of electronic data.”<sup>79</sup> Specifically, these issues were: (1) the type of privilege review that a producing party must perform; (2) whether clawback agreements<sup>80</sup> entered into by the parties permit “post-production” assertion of privilege; and (3) application of the Federal Rules of Evidence to the waiver of privilege in the ESI context.<sup>81</sup> Judge Grimm stated that:

This case vividly illustrates one of the most challenging aspects of discovery of [ESI]—how properly to conduct Rule 34 discovery within a reasonable pretrial schedule, while concomitantly insuring that requesting parties receive appropriate discovery, and that producing parties are not subjected to production timetables that create unreasonable burden, expense, and risk of waiver of attorney-client privilege and work product protection.<sup>82</sup>

Prior to the adoption of Rule 502, the issues involved in ESI discovery had “yet to be fully developed by the courts. And . . . there [was] no controlling precedent in the Fourth Circuit . . . .”<sup>83</sup> For example, a problem in many jurisdictions was whether inadvertent production of privileged ESI was considered a waiver with regard to the specific item produced, the entire subject matter of the data produced, or the entire collection of data

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76. Alvin F. Lindsay, *New Rule 502 to Protect Against Privilege Waiver*, THE NATIONAL LAW JOURNAL, Sept. 2, 2008, <http://www.law.com/jsp/legaltechnology/pubArticleLT.jsp?id=1202424162418>.

77. *Hopson v. Mayor and City Council of Baltimore*, 232 F.R.D. 228, 231 (D. Md. 2005).

78. *Id.*

79. *Id.*

80. Under a clawback agreement, parties may “agree that if privileged or protected information is inadvertently produced, the producing party may by timely notice assert the privilege or protection and obtain return of the materials without waiver.” FED. R. CIV. P. 16(b) advisory committee’s note (2006).

81. *Hopson*, 232 F.R.D. at 231.

82. *Id.* at 232.

83. *Id.* at 231–32. Although this Note addresses the problems in the Fourth Circuit and the State of Maryland, the same problems are also prevalent in other jurisdictions that lack a controlling precedent, or where the federal rules governing privilege waiver differ from the state rules.

itself.<sup>84</sup> Since the failure to “screen out even one privileged item” could result in a subject matter waiver of all the material,<sup>85</sup> parties would spend more time performing privilege review prior to production to prevent even one document from slipping through the cracks. This uncertainty surrounding inadvertent waiver adds significant “cost and delay” to the discovery process.<sup>86</sup>

The Committee on the Rules of Practice and Procedure attempted to solve the problem of the risks posed by inadvertent production in its 2006 changes to the Federal Rules of Civil Procedure.<sup>87</sup> Now, as a result of changes to Rule 16(b), parties are permitted to enter into clawback agreements.<sup>88</sup> Such an agreement, if approved by a judge, can then be placed in the scheduling order.<sup>89</sup>

Despite the 2006 amendment to Rule 16(b) allowing for clawback agreements, prior to adoption of Federal Rule of Evidence 502, confusion remained with respect to whether post-production assertion of privilege or work-product protection was in fact waived by the initial inadvertent production as a matter of law.<sup>90</sup> Controlling law in various jurisdictions split between three approaches: the “strict accountability approach,” the “lenient approach,” or the “balancing test approach.”<sup>91</sup> Other jurisdictions lacked controlling law altogether, for courts had not fully addressed the inadvertent waiver of privilege and work-product protection in the context of Rule 34 ESI productions in civil actions.<sup>92</sup> Moreover, even in jurisdictions where clawback agreements were effective as to the parties to

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84. *Id.* at 232.

85. *Id.*

86. *Id.*

87. FED. R. CIV. P. 16(b) advisory committee’s note (2006).

88. *See id.*; *see also supra* note 80.

89. FED. R. CIV. P. 16(b)(3)(B)(iv) (stating that a scheduling order may “include any agreements the parties reach for asserting claims of privilege or of protection as trial-preparation material after information is produced”).

90. FED. R. CIV. P. 26(b)(5)(b) advisory committee’s note (2006) (“Rule 26(b)(5)(B) does not address whether the privilege or protection that is asserted after production was waived by the production.”); *see also* *Victor Stanley, Inc. v. Creative Pipe, Inc.*, 250 F.R.D. 251, 258 n.5 (D. Md. 2008) (“[The 2006 Amendments] do not effect any change in the substantive law of privilege waiver . . . because the Rules Enabling Act precludes creation or abrogation of any privilege by ordinary rule making. This is reserved for Congress.”).

91. *Hopson*, 232 F.R.D. at 235–36.

92. *See, e.g., id.* at 234 (“Within the Fourth Circuit, however, no case has been found that would provide definitive guidance to practitioners and their clients whether the procedures proposed by the recommended changes to the discovery rules and apparently being utilized at present by counsel, would waive attorney-client privilege or work product protection.”); *see also Victor Stanley*, 250 F.R.D. at 258 (“As also noted in *Hopson*, the Fourth Circuit Court of Appeals has yet to decide which approach it will follow, although individual district courts within the circuit have adopted the intermediate balancing approach.”).

those agreements, the agreements may not have had a binding effect on third parties.<sup>93</sup>

*B. The Effect of New Federal Rule of Evidence 502*

The adoption of Federal Rule of Evidence 502, in combination with steps suggested in *Victor Stanley*, effectively “resolves some longstanding disputes” in the production of ESI, specifically those involving subject matter waiver, inadvertent disclosure, the effect of inadvertent disclosure in unrelated proceedings, and the effect of clawback agreements on third parties.<sup>94</sup>

Under Rule 502(a), disclosures will result in subject matter waiver in a federal proceeding, or any proceeding involving a federal office or agency, only if: “(1) the waiver is intentional; (2) the disclosed and undisclosed communications or information concern the same subject matter; and (3) they ought in fairness to be considered together.”<sup>95</sup> Subject matter waiver will result only when “a party intentionally puts protected information into the litigation in a selective, misleading and unfair manner,” and not when the disclosure is inadvertent.<sup>96</sup>

Rule 502(b) resolves conflicts between various federal courts over the question of what constitutes a waiver of privilege or work-product protection.<sup>97</sup> If a disclosure is made in “a Federal proceeding or to a Federal office or agency,” the disclosure will not constitute a waiver of privilege or work-product protection in a state or federal proceeding if “(1) the disclosure is inadvertent; (2) the holder of the privilege or protection took reasonable steps to prevent disclosure; and (3) the holder promptly took reasonable steps to rectify the error, including (if applicable) following Federal Rule of Civil Procedure 26(b)(5)(B).”<sup>98</sup> This test adopts the “intermediate approach” discussed by Judge Grimm in *Hopson*<sup>99</sup> and *Victor Stanley*.<sup>100</sup> Moreover, the Advisory Committee discussed five non-dispositive factors, similar to those Judge Grimm discussed in *Victor Stanley*, that could be used in applying this test: “the reasonableness of precautions taken, the time taken to rectify the error, the scope of discovery,

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93. *Hopson*, 232 F.R.D. at 235 (citing *Westinghouse Elec. Corp. v. Republic of the Philippines*, 951 F.2d 1414, 1426–27 (3d Cir. 1991)).

94. Explanatory Note on Evidence Rule 502, Prepared by the Judicial Conference Advisory Committee on Evidence Rules 4 (rev. Nov. 28, 2007).

95. FED. R. EVID. 502(a).

96. Explanatory Note on Evidence Rule 502, Prepared by the Judicial Conference Advisory Committee on Evidence Rules 6 (rev. Nov. 28, 2007).

97. FED. R. EVID. 502(b).

98. *Id.*

99. 232 F.R.D. 228, 236 (D. Md. 2005).

100. 250 F.R.D. 251, 259 (D. Md. 2008).

the extent of disclosure and the overriding issue of fairness.”<sup>101</sup> Consequently, Rule 502(b) resolves any conflict as to what law applies to the issue of waiver of privilege or work-product protection resulting from an inadvertent production in a federal proceeding.<sup>102</sup>

Rule 502(c) resolves other conflicts that may arise when disclosure in a state proceeding becomes an issue in a subsequent federal proceeding.<sup>103</sup> The rule states that disclosure in a prior state proceeding that is not subject to a state court order “does not operate as a waiver in a Federal proceeding if the disclosure: (1) would not be a waiver under this rule if it had been made in a Federal proceeding; or (2) is not a waiver under the law of the State where the disclosure occurred.”<sup>104</sup> In other words, the Advisory Committee decided to “apply the law that is most protective of privilege and work product.”<sup>105</sup>

Rule 502(d)–(e) addresses the question of whether clawback agreements are binding to third parties not involved in the initial proceeding.<sup>106</sup> As Judge Grimm explained in *Hopson*, “it is questionable whether [non-waiver agreements] are effective against third-parties.”<sup>107</sup> Rule 502(d)–(e), however, allows clawback agreements in one federal proceeding to be enforceable against non-parties in any other federal or state proceeding, so long as the agreement is incorporated into a federal

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101. Explanatory Note on Evidence Rule 502, Prepared by the Judicial Conference Advisory Committee on Evidence Rules 7–8 (rev. Nov. 28, 2007) (citing *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 104 F.R.D. 103, 105 (S.D.N.Y. 1985); *Hartford Fire Ins. Co. v. Garvey*, 109 F.R.D. 323, 332 (N.D. Cal. 1985)). These factors are remarkably similar to the factors discussed in *Victor Stanley*, the only difference being that in *Victor Stanley* Judge Grimm included “the number of inadvertent disclosures,” instead of the “scope of discovery.” See *Victor Stanley*, 250 F.R.D. at 259. Rule 502, however, did not expressly adopt this five factor test. E-mail from The Honorable Paul W. Grimm, Chief Magistrate Judge, United States District Court for the District of Maryland, to Michael J. Christin, J.D. Candidate 2010, University of Maryland School of Law (Jan 28, 2009, 02:57 EST) (on file with author). Unfairness alone, therefore, will not be sufficient “to preclude a finding of waiver where there was a failure to take reasonable precautions before and after disclosure.” *Id.*

102. See FED. R. EVID. 502(b).

103. See FED. R. EVID. 502(c).

104. *Id.* If a state court issued a confidentiality order on the disclosure, that order “shall have the same full faith and credit in every court within the United States . . . as they have by law or usage in the courts of such State . . . from which they are taken.” Explanatory Note on Evidence Rule 502, Prepared by the Judicial Conference Advisory Committee on Evidence Rules 9 (rev. Nov. 28, 2007) (quoting 28 U.S.C. § 1738).

105. Explanatory Note on Evidence Rule 502, Prepared by the Judicial Conference Advisory Committee on Evidence Rules 8–9 (rev. Nov. 28, 2007).

106. FED. R. EVID. 502(d)–(e).

107. *Hopson v. Mayor and City Council of Baltimore*, 232 F.R.D. 228, 235 (D. Md. 2005) (citing *Westinghouse Elec. Corp. v. Republic of the Philippines*, 951 F.2d 1414, 1426–27 (3d Cir. 1991)).

court order.<sup>108</sup> Party agreements not approved by a court will bind only the parties to the agreement and not third parties.<sup>109</sup> As the Advisory Committee on Evidence Rules pointed out, this “predictable protection” will allow a party to “limit the prohibitive costs of privilege and work product review and retention.”<sup>110</sup>

*C. The Solution to Discovery Disputes Involving Electronically Stored Information: Rule 502 and Victor Stanley*

With Rule 502’s introduction of protection against inadvertent waiver and subject matter waiver of ESI, and the binding effect of federal court orders regarding waiver on third parties in both state and federal proceedings, parties should be more inclined to work together to cut discovery costs and not exploit inadvertent disclosure.<sup>111</sup>

Had Rule 502 been in place prior to the events in *Victor Stanley*, the parties might have taken “reasonable” steps in both production and review of ESI materials to protect against waiver of privilege and protection. One of the major causes of inadvertent production of ESI is the difficulty of formulating keyword searches.<sup>112</sup> The Sedona Conference Best Practices, for example, identified six different types of searches: (1) Boolean search models;<sup>113</sup> (2) probabilistic search models;<sup>114</sup> (3) fuzzy search models;<sup>115</sup>

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108. FED. R. EVID. 502(d) (“A Federal court may order that the privilege or protection is not waived by disclosure connected with the litigation pending before the court—in which event the disclosure is also not a waiver in any other Federal or State proceeding.”); FED. R. EVID. 502(e) (“An agreement on the effect of disclosure in a Federal proceeding is binding only on the parties to the agreement, unless it is incorporated into a court order.”). This rule only applies to disclosures in federal proceedings and not to disclosures in state proceedings. FED. R. EVID. 502(e).

109. FED. R. EVID. 502(e).

110. Explanatory Note on Evidence Rule 502, Prepared by the Judicial Conference Advisory Committee on Evidence Rules 10 (rev. Nov. 28, 2007).

111. *Id.* at 5 (noting that Rule 502 “responds to the widespread complaint that litigation costs necessary to protect against waiver of attorney-client privilege or work product have become prohibitive”).

112. *Victor Stanley, Inc. v. Creative Pipe, Inc.*, 250 F.R.D. 251, 260 (D. Md. 2008) (“While keyword searches have long been recognized as appropriate and helpful for ESI search and retrieval, there are well-known limitations and risks associated with them, and proper selection and implementation obviously involves technical, if not scientific knowledge.”).

113. Boolean search models focus on “describing a set of objects or ideas” using operators such as “or,” “and,” or “not.” *The Sedona Conference Best Practices Commentary on the Use of Search and Information Retrieval Methods in E-Discovery*, 8 SEDONA CONF. J. 189, 217 (2007).

114. Probabilistic search models are used to determine a universe of relevant documents by computing a formula based on the value assigned to a word as well as “interrelationships, proximity, and frequency.” *Id.* at 218–19.

115. Fuzzy search models attempt to reduce words to their roots and search for multiple variations of those roots. *Id.* at 219.

(4) statistical methods;<sup>116</sup> (5) machine learning approaches to semantic representation;<sup>117</sup> and (6) concept and categorization tools.<sup>118</sup> *Victor Stanley* is a classic example of the consequences of a careless keyword search.<sup>119</sup> In *Victor Stanley*, Judge Grimm ruled that defendants' inadvertent production of 165 potentially privileged and protected documents containing ESI constituted waiver.<sup>120</sup> In so holding, he relied heavily on the fact that defendants were unable to show that their keyword search was reasonable.<sup>121</sup> For example, the *Victor Stanley* defendants were unable to identify either the keywords used or the "qualifications of the persons who selected them to design a proper search."<sup>122</sup> As Judge Grimm highlighted, it is important to involve experts who are qualified to design efficient and safe ESI search criteria.<sup>123</sup>

As a result of the "reasonableness" requirement of Rule 502,<sup>124</sup> a party wishing to maintain privilege or protection of inadvertently produced discovery material must explain the "reasonableness of precautions taken."<sup>125</sup> Such an argument may require explaining why the search criteria were chosen and being able to demonstrate that the search was properly performed.<sup>126</sup> Judge Grimm suggested that complying with the Sedona Conference Best Practices would "go a long way towards convincing the court that the method chosen was reasonable and reliable."<sup>127</sup> These practices include: (1) choosing a method that is relevant to the legal context in which it is being used; (2) performing "due diligence" when selecting retrieval products or services from vendors; (3) implementing various search methods to account for the "characteristics of

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116. Statistical methods, such as clustering, may attempt to group documents together based on the similarity of their content by comparing the number of words that overlap between documents. *Id.*

117. Machine learning approaches to semantic representation focus on the correlation between certain words. *Id.* at 219–21.

118. Concept and categorization tools use a thesaurus to search for similar keywords expressed in a different way. *Id.* at 221.

119. See *Victor Stanley, Inc. v. Creative Pipe, Inc.*, 250 F.R.D. 251, 262 (D. Md. 2008) (noting that not using the "utmost care in selecting [search] methodology that is appropriate for the task . . . may [result in] the disclosure of privileged/protected information to an adverse party, resulting in a determination by the court that the privilege/protection has been waived").

120. *Id.* at 267–68.

121. *Id.* at 262.

122. *Id.*

123. *Id.*

124. FED. R. EVID. 502(b) (stating that one consideration in determining if inadvertent disclosures operate as a waiver is whether or not the "holder of the privilege or protection took reasonable steps to prevent disclosure").

125. Explanatory Note on Evidence Rule 502, Prepared by the Judicial Conference Advisory Committee on Evidence Rules 7 (rev. Nov. 28, 2007).

126. *Victor Stanley*, 250 F.R.D. at 262.

127. *Id.*



human language;” (4) making good faith efforts to work with the opposing side regarding “retrieval methods, tools, and protocols;” and (5) anticipating that the choice of search methodology will require explanation in subsequent legal contexts.<sup>128</sup> As evidenced by *Victor Stanley*, where defendants cannot describe the steps they took in reviewing and producing ESI,<sup>129</sup> the inadvertent production of privilege and work-product protected materials may constitute a waiver.<sup>130</sup>

Keeping these practices and the cautionary tale of *Victor Stanley* in mind, parties to a lawsuit must work together to maximize efficiency of the production process and minimize its cost, particularly when that production includes ESI.<sup>131</sup> For example, it is imperative that parties develop reasonable budgets for discovery.<sup>132</sup> Once a party develops a budget, it can identify experts skilled in the field of ESI to assist in the search and retrieval process.<sup>133</sup> All parties’ experts should work together to determine appropriate search terms, techniques, and tools to identify the entire field of relevant data.<sup>134</sup> As demonstrated in *Victor Stanley*, failure to use appropriate experts can result in a post-production waiver of the attorney-client privilege or work-product protection.<sup>135</sup> Once the experts identify the field of relevant data, all other information can be ignored.<sup>136</sup> The

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128. *Id.* at 261–62 (citing *The Sedona Conference Best Practices Commentary on the Use of Search and Information Retrieval Methods in E-Discovery*, 8 SEDONA CONF. J. 189, 194–95 (2007)).

129. *Id.* at 256–57.

130. *Id.* at 267–68.

131. See George L. Paul & Jason R. Baron, *Information Inflation: Can the Legal System Adapt?*, 13 RICH J.L. & TECH. 10, \*2 (2007), <http://law.richmond.edu/jolt/v13i3/article10.pdf> (“Litigators must collaborate far more than they have in the past, particularly concerning the discovery of information systems. If they do not, they act against their own self-interest.”).

132. See The Proposed Sedona Conference Cooperation Proclamation 2 (July 2008), available at <http://www.law.com/jsp/legaltechnology/pubArticleLT.jsp?id=1202424162418> (noting that one method to accomplish cooperation is by “[d]eveloping case-long discovery budgets based on proportionality principles”). As of July 2008, four judges sitting in Maryland, one federal and three state, endorsed the Proposed Sedona Conference Cooperation Proclamation—The Honorable Lynne A. Battaglia (Maryland Court of Appeals, Annapolis, MD), The Honorable Paul W. Grimm (United States District Court for the District of Maryland, Balt., MD), The Honorable Michael Mason (Montgomery County Circuit Court, Rockville, MD), and The Honorable Albert Matricciani (Maryland Court of Special Appeals, Balt., MD). *Id.* at 4.

133. Interview with The Honorable Paul W. Grimm, Chief Magistrate Judge, United States District Court for the District of Maryland, in Balt., Md. (Sept. 17, 2008).

134. The Proposed Sedona Conference Cooperation Proclamation, *supra* note 132, at 2 (stating that it is important to “[j]ointly develop[] automated search and retrieval methodologies to cull relevant information”); Interview with The Honorable Paul W. Grimm, Chief Magistrate Judge, United States District Court for the District of Maryland, in Balt., Md. (Sept. 17, 2008).

135. See *Victor Stanley*, 250 F.R.D. at 262 (noting that defendants failed to identify the qualifications of the persons who designed the keyword search).

136. Interview with The Honorable Paul W. Grimm, Chief Magistrate Judge, United States District Court for the District of Maryland, in Balt., Md. (Sept. 17, 2008).

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requesting party can then issue discovery requests and the experts should confer again regarding relevant search terms, techniques, and tools to retrieve data responsive to the requests.<sup>137</sup> Prior to production of this information, and again with expert assistance, the responding party should develop its own search and retrieval protocol to sift out privileged information from the responsive data.<sup>138</sup> By conducting discovery following this protocol, parties can minimize the number of documents that require manual review and cut the cost of privilege review considerably.<sup>139</sup>

## V. CONCLUSION

In *Victor Stanley, Inc. v. Creative Pipe, Inc.*, Chief Magistrate Judge Grimm held that defendants waived the attorney-client privilege and work-product protection for all 165 inadvertently produced ESI documents.<sup>140</sup> Federal Rule of Evidence 502, enacted after the decision in *Victor Stanley*, adopted the “intermediate” approach discussed in that case.<sup>141</sup> Had Rule 502 been adopted prior to *Victor Stanley*, the parties could have avoided the consequences of inadvertent production and worked together to reduce the costs of production and review.<sup>142</sup> Now, with the protections of Rule 502 in place, parties in federal proceedings can take steps such as those outlined by Judge Grimm in *Victor Stanley* to avoid inadvertent disclosure of ESI, as well as cut down on the cost of Rule 34 productions and privilege review.<sup>143</sup>

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137. *Id.*

138. *Id.*

139. *Id.*

140. *Victor Stanley*, 250 F.R.D. at 267–68.

141. See FED. R. EVID. 502; see also *supra* Part IV.B.

142. See *supra* Part IV.C.

143. See *supra* Part IV.C.