Hot Button Privilege Issues for Franchise Counsel

Eric H. Karp
Witmer, Karp, Warner & Ryan LLP
and

Les Wharton
Epstein Becker Green

October 14-16, 2009
The Westin Harbour Castle
Toronto, Canada

© 2009 American Bar Association
# Table of Contents

I. Introduction ................................................................................................................ 1

II. Attorney-Client Privilege Defined ............................................................................. 1

III. Work Product Doctrine Defined ............................................................................. 3

IV. Corporate Privilege ................................................................................................. 5

V. Waiver ........................................................................................................................ 6

VI. Recent Privilege Cases Relating to Franchising ....................................................... 7
   A. Deposition of Counsel: AAMCO Transmissions, Inc. v. Mark E. Baker ............. 7
   B. Communications Through an Employer’s Computer System: Stengart v. Loving Care Agency, Inc. et al .......................................................... 8

VII. Erosion of the Privilege: Governmental Policies Affecting Waiver ...................... 10

VIII. Inadvertent Disclosure: The Landscape Prior to FRE 502................................. 14
   A. The Discovery Explosion ...................................................................................... 14
   B. Stemming the Tide: Claw-Back and Quick Peek Agreements .............................. 16
   C. Consequences of Inadvertent Disclosure ............................................................ 17
      1. The Never Waived Rule .................................................................................... 17
      2. The Always Waived Rule ................................................................................ 18
      3. The Middle Ground or Balanced Approach ..................................................... 19
   D. Scope of Waiver .................................................................................................. 22
   E. State Court Rules ................................................................................................ 22
   F. Congress (Finally) Steps In ............................................................................... 24

IX. FRE 502 .................................................................................................................... 25
   A. Scope of Waiver - FRE 502(a) ............................................................................ 25
   B. Inadvertent Disclosure – FRE 502(b) .................................................................. 26
   C. Disclosures Made in a State Court Proceeding – FRE 502(c) ............................ 27
   D. Controlling Effect of Court Orders – FRE 502(d) .............................................. 27
   E. Controlling Effect of Party Agreements – FRE 502(e) ........................................ 28
   F. Controlling Effect of the Rule - FRE 502(f) ....................................................... 28
   G. Definitions – FRE 502(g) .................................................................................. 28
   H. Application of FRE 502 ....................................................................................... 29
   I. A Road Map for Avoiding Waiver by Inadvertent Disclosure ............................. 30

X. Conclusion .................................................................................................................. 32

XI. Appendix A ............................................................................................................... 33

XII. Biographies .............................................................................................................. 35
I. INTRODUCTION

It has been said that the attorney-client privilege is the oldest recognized in common law, having been formalized in Elizabethan England. Others trace it back to the Roman Empire, where it is said that the Emperors wanted it in place to protect them if they had to go to advisors for counsel. Regardless, all would say today that it is not a new concept.

The work product doctrine (also referred to by some as a “privilege”), has not been around nearly as long. Most would say that it came into force in the United States in the late 40’s in the Supreme Court decision of Hickman v. Taylor.

As with many legal concepts, they have been refined over the years, through case law, statute, rule and practice. The privilege, as it will be referred to in this paper, and the work product doctrine come into play in many situations. And the world of franchising is no different. The attorney-client privilege and the work product doctrine in franchising was treated in detail at the October 2000 Forum.

However, this paper will only provide that information needed for background, in order to zero in on recent developments in the area—a couple of interesting recent cases, then the erosion of the privilege by zealous prosecutors and the newly adopted Federal Rule of Evidence 502 that seeks to address complex and difficult issues in the waiver area. After setting the stage with the definition of the privilege and the related work product doctrine, we will briefly touch on exceptions, carve-outs and waiver. But the focus of our discussion will be on the aforementioned recent developments.

II. ATTORNEY-CLIENT PRIVILEGE DEFINED

Several definitions of the privilege are worth examining to understand its basis and limits. First, the Wigmore definition:

(1) Where legal advice of any kind is sought (2) from a professional legal advisor in his capacity as such, (3) the communications relating to that purpose, (4) made in confidence (5) by the client, (6) are at his instance permanently protected, (7) from disclosure by himself or by the legal advisor, (8) except the protection be waived.

Next, the rule proposed in the 70’s, the Supreme Court Standard 503 that was not enacted by Congress, but is commonly cited by courts in their analysis:

1 8 J. Wigmore, Evidence, Section 2290 at 542-43 (McNaughton rev. ed. 1961).
2 It is said that Marcus Tullius Cicero, while prosecuting the governor of Sicily, could not call the governor’s advocate as a witness, because if he were to have done so, the governor would have lost confidence in his own defender.
4 The paper is not intended to go to the level of detail on general privilege and work product issues found in the paper presented on the subject at the Forum meeting nine years ago in New Orleans by Steve Goldman and Leslie Smith. You are referred to that paper for its road map to the general issues and exhaustive citations. See Goldman and Smith, Professional and Ethics Issues: The Attorney-Client Privilege, ABA Forum on Franchising, New Orleans, LA, October 2000.
5 8 J. Wigmore, supra note 2 at 554.
A client has the privilege to refuse to disclose and to prevent any other person from disclosing confidential communications made for the purpose of facilitating the rendition of professional legal services to the client, (1) between himself or his representative and his lawyer or his lawyer’s representative, or (2) between his lawyer and the lawyer’s representative, or (3) by him or his lawyer to a lawyer representing another in a matter of common interest, or (4) between representatives of the client or between the client and a representative of the client, or (5) between lawyers representing the client.6

And, finally the definition/rule from the 1950 United States v. United Shoe Machinery Corp. decision that is purportedly the most often cited:

The privilege applies only if (1) the asserted holder of the privilege is or sought to become a client: (2) the person to whom the communication was made (a) is a member of the bar of a court, or his subordinate and (b) in connection with this communication is acting like a lawyer; (3) the communication relates to a fact of which the attorney was informed (a) by his client (b) without the presence of strangers (c) for the purpose of securing primarily either (i) an opinion of law or (ii) legal services or (iii) assistance on some legal proceeding, and not (d) for the purpose of committing a crime or tort; and (4) the privilege has been (a) claimed and (b) not waived by the client.7

All are useful, but the basics are that the privilege belongs to the client, not the attorney, it must be a communication in confidence from or to an attorney, or his or her subordinate, for the purpose of obtaining legal advice, it must be asserted and it cannot have been waived.

The purpose of the privilege is to encourage clients to make full disclosure to their lawyers. The Supreme Court, in Upjohn, quoting from their earlier decision in Hunt v. Blackburn said privilege “is founded upon the necessity, in the interest and administration of justice, of the aid of persons having knowledge of the law and skilled in its practice, which assistance can only be safely and readily availed of when free from the consequences or the apprehension of disclosure.”8

Some exceptions are worth noting at this point—the advice cannot be for the purpose of committing a crime or a fraud.9 Further, it does not cover the underlying facts; that is, while the client may not be forced to divulge the conversation with the lawyer, the client can be asked about their independent knowledge of the facts of any given matter.10 And, the client cannot shield documents from a claimant merely by sending them to the lawyer. If the communication

---

6 Rules of Evidence for United States Courts and Magistrates, 56 F.R.D. 183 (1972). This has been called the “most useful” definition by Edna Selan Epstein in her treatise The Attorney-Client Privilege and the Work Product Doctrine (5th Ed. 2007) at 3.
10 Upjohn, supra at 395.
in the documents is not for the purpose of giving legal advice, then the documents will likely have to be produced.\footnote{Id. at 396.}

\section*{III. WORK PRODUCT DOCTRINE DEFINED}

In \textit{Hickman v. Taylor}, the court said, in establishing the work product doctrine:

\begin{quote}
``…, it is essential that a lawyer work with a certain degree of privacy, free from unnecessary intrusion by opposing parties and their counsel.

Proper preparation of a client’s case demands that he assemble information, sift what he considers to be the relevant from the irrelevant facts, prepare his legal theories, and plan his strategy without undue and needless interference. That is the historical and the necessary way in which lawyers act within the framework of our system of jurisprudence to promote justice and to protect their clients’ interests. This work is reflected, of course, in interviews, statements, memoranda, correspondence, briefs, mental impressions, personal beliefs, and countless other tangible and intangible ways -- aptly though roughly termed by the Circuit Court of Appeals in this case as the “work product of the lawyer.” Were such materials open to opposing counsel on mere demand, much of what is now put down in writing would remain unwritten. An attorney’s thoughts, heretofore inviolate, would not be his own. Inefficiency, unfairness, and sharp practices would inevitably develop in the giving of legal advice and in the preparation of cases for trial. The effect on the legal profession would be demoralizing. And the interests of the clients and the cause of justice would be poorly served.”\footnote{Hickman v. Taylor, 329 U.S. 495, 510 (1947).}
\end{quote}

The concept was codified as Federal Rules of Civil Procedure Rule 26 (b)(3), the relevant part of which states:

\begin{quote}
(A) \textit{Documents and Tangible Things}. Ordinarily, a party may not discover documents and tangible things that are prepared in anticipation of litigation or for trial by or for another party or its representative (including the other party’s attorney, consultant, surety, indemnitor, insurer, or agent). But, subject to Rule 26(b)(4), those materials may be discovered if:

(i) they are otherwise discoverable under Rule 26(b)(1); and

(ii) the party shows that it has substantial need for the materials to prepare its case and cannot, without undue hardship, obtain their substantial equivalent by other means.

(B) \textit{Protection Against Disclosure}. If the court orders discovery of those materials, it must protect against disclosure of the mental impressions,
\end{quote}
conclusions, opinions, or legal theories of a party's attorney or other representative concerning the litigation.⁰¹³

The work product doctrine belongs to the attorney and is not subject to waiver by the client.⁰¹⁴ It protects both tangible things, such as writings, memoranda and intangible things—the thoughts of the attorney.⁰¹⁵

The work product doctrine protects a broad range of materials. Basically, it covers anything prepared by or for the attorney at their direction in anticipation of litigation.⁰¹⁶ But, unlike privilege, the other party can discover tangible, factual, non-opinion work product where they can show the need for the items to prepare for their case and that they cannot otherwise obtain them without undue hardship.⁰¹⁷ On the other hand, intangible, opinion work product, receives near absolute immunity from discovery.⁰¹⁸

Nonetheless, protection of work product appears to be subject to increased scrutiny by courts. The majority of the circuits adhere to the “because of” test which holds that if "the document can fairly be said to have been prepared or obtained because of the prospect of litigation it is eligible for protection by the work-product privilege."⁰¹⁹ The Fifth Circuit utilizes a more restrictive “primary purpose” test which applies the protection only in the event that “the primary motivating purpose behind the creation of the document was to aid in possible future litigation.”⁰²⁰ Now a third test may be emerging. On August 13, 2009, the First Circuit sitting en banc in United States v. Textron Inc vacated the Rhode Island district court’s judgment and held tax accrual work papers are not subject to the work product doctrine.⁰²¹ The court opined that the doctrine’s protections are not triggered simply because “the subject matter of a document relates to a subject that might conceivably be litigated.”⁰²² Instead, the court examined whether the documents were prepared for any litigation.⁰²³ Concluding that the sole purpose of the work papers was to prepare the company’s financial statements, support financial filings and gain auditor approval, the court reaffirmed its prior precedent that work papers mandated by statutory and audit requirements will not be afforded the doctrine’s protection.⁰²⁴ The majority opinion can be read to say that for the work to be protected, it must be done with a claim made or imminent in mind. Criticism of the opinion is already abundant, with Frederick Krebs, president of the Association of Corporate Counsel stating that the ruling

---

⁰¹⁴ Epstein, supra (4th Ed. 2001) at 490. But some cases have held that the client can assert the work product protection. See In re Grand Jury Proceedings (FMC Corp.), 604 F.2d 798 (3d Cir. 1979). And the client can obtain the "work product" of the attorney. Epstein, supra at 493.
⁰¹⁵ Fed. R. Civ. P. 26(b)(3)(A) and (B).
⁰¹⁶ Id.
⁰¹⁷ Id. (A)(i) and (ii).
⁰¹⁸ Id. (B); See also the discussion in Upjohn, supra at 401.
⁰²¹ 2009 WL 2476475 (1st Cir. 2009 August 13, 2009)(en banc).
⁰²² Id. at 7 (Emphasis in original).
⁰²³ Id. at 8. (Emphasis in original).
⁰²⁴ Id. at 8-10, citing State of Maine v. U.S. Dep’t of the Interior, 298 F.3d 60 (1st Cir. 2002).
“eviscerates the work-product doctrine.”25 Whether the Textron decision will be appealed is as yet unclear, but corporate counsel should be aware of the need for greater diligence in protecting documents that they previously considered indisputably privileged. It would behoove in-house counsel to ensure that analysis concerning the likelihood of litigation of a given issue should not be communicated to anyone other than the client in order to preserve the attorney-client privilege—reliance on the work product doctrine would appear misplaced unless the analysis is done with a made or imminent claim in mind.

IV. CORPORATE PRIVILEGE

The privilege applies to corporations as well as individuals. But since the corporation is a fictional legal entity, a number of initial issues must be addressed. To whom does the privilege apply? That is, are conversations with any employees covered? Who can claim the privilege for the corporation? Who can waive it?

The Upjohn court tracks the application of the privilege to corporations back to that Court’s 1915 decision in United States v. Louisville Nashville R. Co.26 It then goes on to revise what had been referred to as the “control group” standard in determining which employees’ communications with employees would be covered by the privilege, to broaden the applicable group on the basis of a “subject matter” analysis as well.27

The control group analysis limited the privilege to communications between the attorney and members of the company that were in a position to control or even to take a substantial part in a decision about any action which the corporation could take upon the advice of the attorney.28 The subject matter analysis adopted by the Upjohn court looks in addition to the subject matter of the advice as to whether communication with other employees would provide relevant information in the context of the advice to be given.29 The Upjohn case involved questionnaires completed and provided to counsel at the direction of senior management in order for counsel to advise the company on certain legal issues.30

The privilege for the corporation generally must be asserted by the management of the corporation.31 Likewise, the privilege must be waived by the company’s management.32 The privilege as to matters in the past can be waived by successor management, and the prior management cannot normally prevent the successor management from waiving the privilege in that circumstance.33 And where a trustee has been appointed, in a bankruptcy, for example, the

26 Id. at 391-397.
28 Id. at 391-397.
30 Id at 394.
32 Id. at 349.
33 Id.
The trustee has the right to waive the privilege for the corporation, because he is in the position of management.\(^{34}\)

From an analytical standpoint, although in-house and outside counsel are treated equally by the courts,\(^{35}\) the dual role in-house counsel serve—legal and managerial—creates challenges for the maintenance of the privilege. The distinction between legal and business advice is not always marked with a bright-line. As a result, courts require a "clear showing" that advice is given in the counsel's "legal capacity."\(^{36}\)

The tests courts apply to distinguish between a legal and a business purpose for advice provided by in-house counsel can vary. The "primary purpose" test requires that the communication be primarily legal. "To be entitled to the privilege, a corporate lawyer must not only be functioning as a lawyer, but the advice given must be predominately legal, as opposed to business, in nature."\(^{37}\) Other courts require a heightened showing be made. Examples include offering a greater explanation of the nature of the communications in a privilege log,\(^{38}\) an affidavit explaining in-house counsel’s provision of legal advice\(^{39}\) and, an explanation for the involvement of non-legal employees in the claimed privileged communications.\(^{40}\)

V. WAIVER

For the privilege to apply, it must not have been waived by the client. Waiver can be intentional, or it can be inadvertent. Inadvertent waiver is discussed in more detail below in the sections of the paper dealing with the recently enacted Federal Rule of Evidence 502.

With respect to intentional waiver, the likely issues for a corporation will be in the area of who can commit the corporation to a waiver. See the discussion of the corporate privilege above. And, if the person claiming the privilege raises an advice of counsel defense, it is considered a waiver for the advice given.\(^{41}\) For example, if the corporation claims that a violation of New York’s franchise law was not willful because it had received advice of counsel that it was in compliance, that advice cannot be protected by the attorney-client privilege.

\(^{34}\) Id. at 354

\(^{35}\) See, e.g., Shelton v. Am. Motors Corp., 805 F.2d 1323, 1326 n.3 (8th Cir. 1986).

\(^{36}\) See In re Sealed Case, 737 F.2d 94, 99 (D.C. Cir. 1984).


\(^{38}\) Cf., In re Asousa P’ship, 2005 Bankr. LEXIS 2373 (Bankr. E.D. Pa. November 17, 2005)("[s]imply describing these individuals as ‘in-house counsel’ on a privilege log will be insufficient given their dual roles unless the document establishes the involvement of legal counsel." Id. at *5.

\(^{39}\) See, e.g., Rabushka ex rel. U.S. v. Crane Co., 122 F.3d 559, 565 (8th Cir. 1997)("[c]orporation met its burden of providing factual basis for asserting attorney-client and work product privileges when it produced detailed privilege log stating basis of claimed privilege for each document in question, together with accompanying explanatory affidavit of its general counsel").

\(^{40}\) See Minebea Co., Ltd. v. Papst, 228 F.R.D. 13 (D.D.C. 2005)("documents circulated among officers in the financial and accounting departments, the corporation's general counsel, and the manager of its legal department held to be non-privileged as they were not “prepared for a predominately legal purpose” and simply copying them to in-house counsel did not alter their status") Id. at 21.

VI. RECENT PRIVILEGE CASES RELATING TO FRANCHISING

A. Deposition of Counsel: AAMCO Transmissions, Inc. v. Mark E. Baker\textsuperscript{42}

In an interesting case last year in the District Court, Eastern District of Pennsylvania, the court dealt with a franchisor's motion for a protective order to prevent the franchisee from deposing its general counsel. In contrast to the outcome in the 1998 Dunkin' Donuts, Inc. v. Mandorico, Inc. case\textsuperscript{43}, where the court denied a request to depose counsel for the franchisor, the AAMCO court denied the motion for a protective order and permitted the deposition of counsel.

The cases had similar issues, in that in each case (1) there was a franchise termination involved that the franchisee claimed was a wrongful termination, and (2) the attorney the franchisee wanted to depose had prepared and sent the termination letter. The cases differed, however, in that the Dunkin’ attorney was outside counsel, Arthur Pressman, and the AAMCO attorney was in-house, James Goniea.

The Dunkin’ court used a three pronged analysis\textsuperscript{44} to determine whether it was appropriate to permit the attorney to be deposed:

(1) no other means exist to obtain the information than to depose opposing counsel;

(2) the information sought is relevant and nonprivileged; and

(3) the information is crucial to the preparation of the case.

The franchisee claimed that since Pressman had prepared the letter, he was the best one to testify as to Dunkin’s reasons for the termination. The court said that, to the contrary, the Dunkin’s executives were the best ones to testify as to the reasons for the termination. As to the second test, the franchisee argued that if the attorney was not acting in his capacity as an attorney, that is, giving business advice, then the privilege would not apply. But the court found that the franchisee offered no evidence that the attorney was acting other than in his capacity as an attorney—just that he wrote the letter. Accordingly, the court refused to permit the deposition.

In the AAMCO case, the court used a slightly different three pronged analysis:\textsuperscript{45}

(1) the extent to which the proposed deposition promises to focus on central factual issues, rather than peripheral concerns;

(2) the availability of the information from other sources, viewed with an eye toward avoiding cumulative or duplicative discovery; and


\textsuperscript{44} Id. at 2.

(3) the harm to the party’s representational rights resulting from the attorney’s deposition.

It noted that Goniea had submitted his own affidavits with the materials given to the court, and that he had a conversation with the franchisee relating to the termination. And, the franchisee’s wrongful termination claim was based to some degree on the fact that Goniea had been employed by the franchisor such a short time that he would not have known the franchisor’s normal practice and procedure, and so deviated from that norm in the termination.

The AAMCO court said it felt the franchisee had demonstrated that Goniea had played some role in the termination decision. And, in the court’s view, the deposition could be focused on central issues regarding that role. It recognized that there might be privilege issues, but that even those might be limited to the extent he was acting in a business capacity or to the extent of his conversation with the franchisee. While Goniea’s affidavit offered substantial reasons why he might not be a necessary witness, the court concluded that it would be inappropriate to deny the franchisee the opportunity to question Goniea regarding his involvement in the termination decision. To deal with the likelihood of privilege questions arising during the course of the deposition, the court required the deposition to be taken in the court’s jury room or in a conference room adjacent to the court’s chambers.

It seemed much easier for the Dunkin’ court to believe that counsel’s involvement was strictly to provide legal advice, than for the AAMCO court. While this was not stated, and no reference was made to the Dunkin’ decision by the AAMCO court, it would appear that the fact that Goniea was in-house was taken as an indication that he would be acting in a capacity that was broader than providing legal counsel. However, the facts surrounding the termination in AAMCO also probably affected the decision—including an allegation that the length of time Goniea had been with AAMCO might have led him to effect a termination contrary to earlier policy of AAMCO. In contrast, in the Dunkin’ case, Pressman was going to be deposed simply to provide reasons for the termination, and he was clearly not the best witness to provide those.46

B. Communications Through an Employer’s Computer System: Stengart v. Loving Care Agency, Inc. et al

In another interesting case, Stengart v. Loving Care Agency, Inc., et al., a New Jersey appellate court ruled that an employee’s communication with her attorney effected through the employer’s computer was protected by the attorney client privilege in a case filed by the employee against the employer. While not a franchise case, if the franchisor has its franchisees on its computer system, there are some lessons to be learned.

Stengart, the employee, had used the laptop provided her by Loving Care Agency, her employer, to access her private email provider and send messages to her attorney related to the claim she ultimately filed against Loving Care. Loving Care later extracted the emails from the laptop’s hard drive, and its counsel read and used them in preparation of its case, without telling Stengart’s counsel. Stengart’s counsel discovered this when months later certain of the emails were referenced and some provided in response to interrogatories. Stengart, through her

46 For a discussion of some of the other pros and cons of an in-house litigation team, see the point-counterpoint article by James Goniea and Andra Terrell, Use of an In-house Litigation Team to Handle a Company’s Litigation Needs: Good Idea or Bad?, The Franchise Lawyer, Winter 2009.

counsel, asserted that the emails were protected by the attorney-client privilege and requested that all such messages be identified and returned. When Loving Care’s counsel refused, Stengart took the issue to the trial court through a motion. The trial court denied the motion and Stengart appealed the ruling.

Loving Care had an electronic communications policy in its company handbook, where it reserved the right “to review, audit intercept, access and disclose all matters on the company’s media systems and services— at any time, with or without notice.” The handbook also said, “E-mail and voice mail messages, internet use and communication and computer files are considered part of the company’s business and client records. Such communications are not to be considered private or personal to any individual employee.” And, “[t]he principal purpose of electronic mail (e-mail) is for company business communications. Occasional personal use is permitted.”48

However, the facts in the record made it appear that there were multiple versions of the “policy”. Loving Care did not produce any document from Stengart confirming receipt of the handbook or the policy, which the court said was the “custom among employers in these matters”. And, the court was not persuaded—as the trial judge apparently was—that a person in Stengart’s executive position with the company would have constructive knowledge of the policies. Further, there was a certification from Stengart as well as another former Loving Care executive, that the policy did not apply to executives.

The court also questioned whether the policy was clear regarding whether it applied to emails sent through the employee’s personal, password protected internet email account when a company computer is the vehicle used to send and receive those emails. The trial judge had felt that the policy put the employees on notice that emails through the company computer would be subject to company review—affording no reasonable expectation of privacy—regardless of whether it was sent from a work account or a personal web-based account.

The court seized the “occasional personal use is permitted” language to underscore the confusion around the intent of the policy as the final blow to the company’s arguments. It could not reconcile the concept of “personal use” with the thought that the company could retain all, even personal/private emails as its property, other than in the case where there was some valid basis to protect the company’s interests. Because of this, the court could not conclude that the employee would not have an expectation of privacy regarding personal emails.

The court walks through an analysis of why the company may have an interest in certain information that an employee may send through or store on its computer—information relating to criminal activities, such as theft or child pornography—and why the company has an interest in monitoring whether the employee is devoting themselves to their company duties, but then explains that the company cannot use the fact that it is a company computer to “rummage among information having no bearing upon its legitimate business interests.”49 It compared the company’s interest in these communications to “the highly impermissible conduct of electronically eavesdropping on a conversation between plaintiff and her attorney while she was on lunch break.”50 And, further compared it to “when an employer rifles through a folder containing an employee’s private papers or reaches in and examines the contents of an

48 Id. at 4.
49 Id. at 23.
50 Id. at 20.
employee’s pockets.” 51 Interesting analogies. The court seems to go well beyond the “occasional personal use” language being an exception to the asserted interests of the company as the basis for its analysis.

Ultimately, the court held that the attorney-client privilege will apply to the emails in question. In fact, the court takes Loving Care’s counsel to task for not “returning” the emails to Stengart’s counsel without reading them, and remanded the case to the trial court the issue of whether and what type sanctions should be levied on counsel for the ethical breach. 52

A final note—the court seemed to attach some importance to the fact that Stengart sent her email through her personal email provider, even though she accessed that provider through the company’s computer. But the court did not say that fact was determinative. In view of the court’s focus on the privacy issues, and the analogies used by the court in that regard, it may be that the same result would obtain had Stengart used the company’s email account.

Counsel for any franchise system that has its franchisees on its computer system should consider the reasoning in the case when working with the franchisor in developing its policies around use of the system. Any policy relating to the franchisor’s interest in information sent through the system must be clear, unambiguous, and communicated to the franchisees. Further, the franchisees must be required to have a policy in place relating to their employees’ use of the system acceptable to the franchisor, and the franchisor will want to have confirmation that it has been communicated to the employees. And even in that event, the franchisor needs to understand that it may not be able to push aside a claim of attorney-client privilege made by the franchisee as to information communicated through the system by the franchisee to its counsel.

VII. EROSION OF THE PRIVILEGE: GOVERNMENTAL POLICIES AFFECTING WAIVER

In the 90’s, the United States Department of Justice (“DOJ”) and other governmental agencies, began making it common practice to obtain privilege and work product waivers from corporations they were investigating. By 1999, this practice was embodied in a June 16 Memorandum from then Deputy Attorney General Eric Holder with its subject, “Bringing Criminal Charges Against Corporations” (the “Holder Memorandum”). 53

The Holder Memorandum included, as item 4 in a list of “factors in reaching a decision as to the proper treatment of a corporate target:

4. The corporation’s timely and voluntary disclosure of wrongdoing and its willingness to cooperate in the investigation of its agents, including, if necessary, the waiver of the corporate attorney-client and work product privileges…” 54

Following was a reference to a more detailed section of the memorandum entitled: “Charging the Corporation: Cooperation and Voluntary Disclosure”. That section said that “[i]n

51 Id. at 18.
52 Id. at 29-30.
54 Id. at 3.
gauging the extent of the corporation’s cooperation, the prosecutor may consider the corporation’s willingness to … waive the attorney-client and work product privileges.”\(^{55}\)

It went on to say:

“Prosecutors may, therefore, request a waiver in appropriate circumstances. The Department does not, however, consider a waiver of a corporation’s privileges an absolute requirement, and prosecutors should consider the willingness of a corporation to waive the privileges when necessary to provide timely and complete information as only one factor in evaluating the corporation’s cooperation.”\(^{56}\)

And, in the section dealing with plea agreements, the memorandum said:

“In plea agreements in which the corporation agrees to cooperate, the prosecutor should ensure that the cooperation is complete and truthful. To do so, the prosecutor may request that the corporation waive the attorney-client and work product privileges…”.\(^{57}\)

The concepts were revised in a January 20, 2003 memorandum from Larry Thompson, then Deputy Attorney General with the subject: Principles of Federal Prosecution of Business Organizations (the “Thompson Memorandum”), but not substantially.\(^{58}\)

These principles caused members of the bar serious consternation. The DOJ tried to allay the fears of the bar that there was coercion involved in this practice, but to no avail. The American Bar Association (“ABA”) said:

Willing cooperation is one thing; coercion is something else entirely. The ABA believes that in the aftermath of the Thompson memorandum many federal prosecutors routinely coerce corporations to waive their privileges, demanding such waivers at the onset of investigations before exercising other options such as grand jury subpoenas or warrants.\(^{59}\)

The ABA convened a task force to address the issue in September 2004, and that task force issued a detailed report in May of 2005.\(^{60}\) In response to the ABA task force report and to political pressure being applied, the DOJ looked at the issue and established a formalized two tiered review of all requests for a privilege waiver in the Memorandum of Paul J. McNulty, then Deputy Attorney General, in 2006 (the “McNulty Memorandum”).\(^{61}\)

\(^{55}\) Id. at 6.

\(^{56}\) Id. at 7.

\(^{57}\) Id. at 13.


\(^{59}\) The ABA Website in ANSWERS TO QUESTIONS ABOUT THE ATTORNEY-CLIENT PRIVILEGE.

\(^{60}\) The Report of the Task Force on Attorney-Client Privilege, R. William Ide III, Chair (May 18, 2005).

The McNulty Memorandum recites the concerns of the ABA and others as it addresses when waiver requests are to be used, and then establishes the review procedure for such requests. It formalizes the policy that:

“Waiver of attorney-client and work product protections is not a prerequisite to a finding that a company has cooperated in the government’s investigation.” 62

The review procedure is divided into two categories, depending on the type of information that is to be requested: purely factual information, such as copies of key documents, witness statements, or purely factual interview memoranda, organizational charts created by company counsel, etc. (“Category I”); or attorney-client communications or non-factual attorney work product, such as legal advice given before, during and after the underlying misconduct (“Category II”). 63

If the request is to be for Category I information, the prosecutor must obtain written authorization from the United States Attorney, who must in turn provide a copy to and consult with the Assistant Attorney General for the Criminal Division before granting or denying the request. If the request is to be for Category II information, the United States Attorney must obtain written authorization from the Deputy Attorney General. 64

The policy in the McNulty Memorandum then wraps up with:

“If a corporation declines to provide a waiver for Category II information after a written request from the United States Attorney, prosecutors must not consider this declination against a corporation in making a charging decision.” 65

The McNulty Memorandum policy carved out two exceptions which are based on two of the exceptions in common law noted above—(1) legal advice contemporaneous to the underlying misconduct when the corporation or one of its employees is relying upon an advice-of-counsel defense; and (2) legal advice or communications in furtherance of a crime or fraud, coming within the crime-fraud exception to the attorney-client privilege. In those cases, the approval of the Deputy Attorney General is not required. 66

Continued pressure on this subject caused the Department to again review its procedures in this area, and in August of 2008, DOJ again revised its procedures, this time incorporating the changes into its United States Attorney Manual (“US Attorney Manual”). 67 According to its press release:

“While prior guidance had allowed federal prosecutors to request, under special conditions, the disclosure of non-factual attorney-client privileged

62 Id. at 8.
63 Id. at 9-10.
64 Id. at 10.
65 Id.
66 Id.
communications and work product -- which the old guidelines designated “Category II” information -- the new guidance forbids it, with two exceptions well established in existing law.\footnote{\textsuperscript{68}}

Factual information can still be requested, but it is the company’s decision whether to disclose the facts by providing them in a form that would have been covered by the attorney-client privilege, thereby waiving the privilege. The prosecuting attorney cannot request that the company waive the privilege.\footnote{\textsuperscript{69}}

The new sections of the US Attorney Manual also make it clear that what is at issue is only “cooperation credit” or mitigating credit. It does not relate to whether or not the company will be indicted. If the relevant facts are provided, regardless of form, then the US Attorney can take that into consideration from a mitigating credit perspective.\footnote{\textsuperscript{70}}

Thus, according to Deputy Attorney General Mark R. Filip as he announced the changes:

“…credit for cooperation will not depend on whether a corporation has waived attorney-client privilege or work product protection, or produced materials protected by attorney-client or work-product protections. It will depend on the disclosure of facts. Corporations that timely disclose relevant facts may receive due credit for cooperation, regardless of whether they waive attorney-client privilege or work product protection in the process. Corporations that do not disclose relevant facts typically may not receive such credit, just like any other defendant.”\footnote{\textsuperscript{71}}

Is this attorney-client and work product privilege erosion still an issue? According to the Federal Evidence Review website:

On February 13, 2009, Senator Arlen Specter (R-PA) introduced S. 445, the Attorney-Client Privilege Protection Act of 2009. He noted that while the Department of Justice made improvements to the corporate prosecution guidelines last August, they were insufficient since they could be modified by the department and failed to carry the force of law. In his remarks, Senator Specter noted:

“Like my previous bills, this bill will protect the sanctity of the attorney-client relationship by statutorily prohibiting Federal prosecutors and investigators across the executive branch from requesting waiver of attorney-client privilege and attorney work product protections in corporate investigations. The bill would similarly prohibit the government from conditioning charging decisions or any adverse treatment on an

\textsuperscript{68} United States Department of Justice Press Release, August 28, 2008, Justice Department Revises Charging Guidelines for Prosecuting Corporate Fraud.

\textsuperscript{69} U.S. Attorney Manual, supra Section 9-28.710.

\textsuperscript{70} Id. at Section 9-28.720.

\textsuperscript{71} United States Department of Justice Website, Remarks Prepared for Delivery by Deputy Attorney General Mark R. Filip at Press Conference Announcing Revisions to Corporate Charging Guidelines (08-28-08).
organization’s payment of employee legal fees, invocation of the attorney-client privilege, or agreement to a joint defense agreement.”

154 Cong. Rec. S2331-S2332 (Feb. 13, 2009) (remarks of Senator Specter). The legislation has been referred to the Senate Judiciary Committee. 72

So, apparently it is still an issue, at least for some members of Congress. Senator Specter stated as his reasoning for the Bill:

“...as evidenced by the numerous versions of the Justice Department’s corporate prosecution guidelines over the past decade, the Filip reforms cannot be trusted to remain static. Moreover, unlike the Federal law—which requires the assent of both houses and the President’s signature or a super-majority in Congress—the Filip guidelines are subject to unilateral executive branch modification. Therefore, to avoid a recurrence of prosecutorial abuses and attorney-client privilege waiver demands, legislation is necessary.” 73

Joining Senator Specter in sponsoring the Bill are Thomas Carper (D-DE), Thad Cochran (R-MS), John Kerry (D-MA), Mary Landrieu (D-LA) and Claire McCaskill (D-MO). S 445 is currently in the Judiciary Committee. 74 Whether the Bill will be voted out of committee remains to be seen, but it highlights the lingering concerns over protection of the privilege.

VIII. INADVERTENT DISCLOSURE: THE LANDSCAPE PRIOR TO FRE 502

A. The Discovery Explosion

Document production has become an enormously time consuming and expensive undertaking. With the explosion of the use and availability of electronically stored information (ESI) 75, this problem has grown exponentially. It is no longer uncommon for cases to involve the disclosure of hundreds of thousands of documents involving millions of pages. 76

The court in Covad Communications Company v. Revonet, Inc. 77 aptly summarized the challenges regarding the retrieval and production of ESI as follows:

74 See Congress.org Roll Call, under the Legislation tab, for the most up to date status of the Bill.
76 For a case that predates the advent of ESI, yet involved the production of 17 million pages of documents, see Transamerica Computer Co. v. IBM, 573 F.2d. 646 (9th Cir. 1978).
77 2009 WL 1472348 (D.D.C. May 27, 2009). The court required the producing party to make forensic images of its drives and computers and to take reasonable steps to recover information destroyed when its email exchange server
“Production” of electronic information can quickly become quite expensive and disproportionate to what is truly at stake in the lawsuit. For one, retrieving the information, even when not done through forensic methods, may still require the assistance of a technological expert or consultant to provide guidance as to how the search should be conducted to gather the requisite information at the lowest possible cost. Additionally, the universe of items to be considered for production is ever expanding with the ubiquity of e-mail and other forms of electronic communication, such as instant messaging and the recording of voice messages. Electronic data is difficult to destroy and storage capacity is increasing exponentially, leading to an unfortunate tendency to keep electronically stored information even when any need for it has long since disappeared. This phenomenon—the antithesis of a sound records management policy—leads to ever increasing expenses in finding the data and reviewing it for relevance or privilege.

Out of necessity, high-volume document production substantially increases the cost and effort involved in pre-production reviews of documents, to ensure that privileged materials such as those covered by the attorney-client privilege and the attorney work product doctrine are not released to the opponent. As any experienced litigator is aware, however, the chance of inadvertent disclosure of privileged materials increases with the volume of documents produced in any given case. Consequently, although clients rightly are becoming increasingly concerned about the enormous cost of these undertakings, they are left with a very uncomfortable choice.

One option is to engage in an extensive and tedious pre-production, document-by-document review, in order to ensure that no privileged documents are released. As observed in Hopson v. Mayor of Baltimore, however, electronic discovery may encompass millions of documents, and to insist on a “record-by-record pre-production review, on pain of subject matter waiver, would impose upon parties costs of production that bear no proportionality to what is at stake in the litigation”.

crashed. The case illustrates the extent to which our courts are increasingly required to be conversant with technology issues.

See Andrew Rhys Davies, ‘Clawback’ Agreements Lose Their Grip in Court, The National Law Journal, July 24, 2006, http://www.law.com/jsp/legaltechnology/PubArticleFriendlyLT.jsp?id=115347723113 (“Reviewing electronic documents for privilege can be horribly time-consuming and expensive; and experience teaches that privileged material often slips through the net, as reviewers miss privileged communications buried in long e-mail chains or in invisible metadata.”).

The problems created by the inadvertent disclosure of confidential or private information is not confined to either the world of litigation in general or the attorney-client privilege in particular. On June 3, 2009 the New York Times reported that the federal government had mistakenly made public a “highly confidential” 266-page report containing detailed information about hundreds of civilian nuclear sites and programs, including maps showing the precise locations of stockpiles of fuel for nuclear weapons. Ironically, the disclosure was made in an online newsletter devoted to issues of federal secrecy.


See Containment Technologies Group, Inc. v. American Society of Health System Pharmacists, 2008 WL 4545310 (S.D. Ind. October 10, 2008), where the court analyzed the challenges of pre-production review to guard against the inadvertent disclosure of confidential materials and analogized the standards to those applied to the limitation on waivers reflected in FRE 502.

232 F.R.D. 228, 244 (D. Md. 2005).
As reflected by the flourishing cottage industry of computer consultants who are eager to assist counsel with digital discovery, the cost of pre-production privilege reviews is substantial. In fact, the cost of such reviews can be so daunting that some litigants have attempted, with limited success, to shift these burdens to the other side.82

B. Stemming the Tide: Claw-Back and Quick Peek Agreements

Before the enactment of FRE 502, it had already become commonplace for counsel to enter into so-called “claw-back” and “quick peek” production agreements. A claw-back agreement, the most common approach, generally requires the parties to use good faith efforts to cull privileged documents from their production, but also allows them to “claw-back” or take back privileged documents that were inadvertently produced. The claw-back agreement typically provides that neither party will claim a waiver of privilege based on the other’s inadvertent production of privileged materials, reserving the right to contest whether the privilege applied to the document in the first place. As one commentator has observed, this kind of agreement allows the parties “to apply some degree of proportionality to the review process and also relieve the parties of the obligation to leave no stone unturned”. 83 An alternative and much more risky approach is the use of a “quick peek” production agreement under which all responsive documents are produced without any prior review for privilege. Following the initial review by the receiving party, the documents are returned to the producing party which then conducts the privilege review of only those documents the opposing party designated as those it wished to receive.

Without the protections of FRE 502, both claw-back and quick peek production agreements carried with them two distinct risks. First, while the majority of courts honored and enforced such agreements,84 this was by no means assured. Some courts refused to approve non-waiver agreements between counsel.85 Other courts carved out a middle ground. For example, in United States Fidelity and Guaranty Co. v. Braspetro Oil Services,86 the court held that a claw-back agreement would preserve the privilege unless the producing party had acted completely recklessly. Similarly, in VLT, Inc. v. Lucent Technologies, Inc.,87 the stipulated claw-back order was found to protect negligent – but not recklessly or grossly negligent - production

82 See e.g., Rowe Entertainment, Inc. v. The Williams Morris Agency, Inc., 205 F.R.D. 421 (S.D.N.Y. 2002) (involving projected expenditure of $129,000 to $247,000 for pre-privilege reviews of requested documents) and Zubulake v. USA Warburg, LLC 216 F.R.D. 280 (S.D.N.Y. 2003) (involving an estimated $165,954.67 to search for and restore responsive ESI and an additional $107,694.72 for pre-production review).
85 See Koch Materials Co. v. Shore Slurry Seal, Inc, 208 F.R.D. 109 (D.NJ.2002) (refusing to give effect to an agreement between counsel that production of certain documents would not waive privilege, because this would lead to sloppy attorney review and improper disclosure which could jeopardize client’s cases).
of privileged material. In CBIA-Geigy Corp. v. Sandoz, LTD,\textsuperscript{88} where a privileged memorandum was disclosed without a prior privilege review, the court held that the memorandum was not protected under the parties’ claw-back agreement - which had been formalized as an order by the trial court – because reasonable precautions had not been taken to avoid its inadvertent production.

The second risk associated with such agreements, prior to the enactment of FRE 502, was the uncertainty of whether their protections would be honored by courts in unrelated proceedings. Several courts have ruled that non-waiver agreements do not bind third persons or entities in unrelated civil proceedings.\textsuperscript{89} This uncertainty extended not only to federal and state court litigation, but to civil and criminal matters as well.

In a somewhat chilling result, the court in \textit{In re: Chrysler Motors Corp. Overnight Evaluation Program Litigation}\textsuperscript{90} held that certain documents that Chrysler had produced during a civil class action pursuant to a non-waiver agreement were not privileged in the context of a subsequent criminal proceeding. The court found that Chrysler had destroyed the privilege by disclosing the documents to the civil action plaintiffs, notwithstanding the existence of the non-waiver agreement in the civil case. In a case that represents the obverse set of facts but yielded the same result, \textit{Columbia/HCA Healthcare Corp. Billing Practices Litigation},\textsuperscript{91} Columbia had entered into an agreement with the government in an earlier Justice Department investigation providing that the production of documents would not waive the attorney-client privilege or the work product doctrine. In the litigation, Columbia listed those documents on its privilege log. The court noted that the disclosure of privileged documents to the government was for the benefit of the corporation, and thus constituted a waiver as to “all other adversaries”.\textsuperscript{92}

C. Consequences of Inadvertent Disclosure

One of the primary goals behind the enactment of FRE 502 was to resolve the longstanding conflict among district courts and the circuits over the consequences of inadvertently disclosing information subject to the attorney-client privilege or work product doctrine. Over time, three distinct approaches had evolved: (i) a “never waived” rule, under which inadvertent disclosure of privileged materials never constitutes a waiver, (ii) an “always waived” rule, and (iii) a middle ground or balanced approach, under which the court assesses various factors such as the reasonableness of the precautions taken to prevent inadvertent disclosure, the time taken to rectify the error, the scope of the discovery and the extent of the disclosure.

1. The Never Waived Rule

A leading case holding that the inadvertent disclosure of privileged materials never constitutes a waiver is \textit{Mendenhall v. Barber-Greene, Co.}\textsuperscript{93} In that case, the court reasoned

\begin{itemize}
    \item \textsuperscript{88} 916 F.Supp. 404 (D.N.J. 2005).
    \item \textsuperscript{89} See e.g., \textit{Westinghouse Electric Corp. v. Republic of the Philippines}, 951 F.2d 1414 (3\textsuperscript{rd} Cir. 1991) and \textit{Bowne v. AmBase Corp.}, 150 F.R.D. 465 (S.D.N.Y. 1993).
    \item \textsuperscript{90} 860 F.2d 844 (8\textsuperscript{th} Cir. 1989).
    \item \textsuperscript{91} 192 F.R.D. 575 (M.D. Tenn. 2000).
    \item \textsuperscript{92} Id. at 579.
    \item \textsuperscript{93} 531 F. Supp. 951 (M.D. Ill. 1983).
\end{itemize}
that the disclosure of privileged material would never affect a waiver of the protections afforded by the privilege, because the holder of the privilege lacks the subjective intent to forego its protection.\(^{94}\) As the *Mendenhall* court explained:

Mendenhall’s lawyer (not trial counsel) might well have been negligent in failing to cull the files of the letters before turning over the files. But if we are serious about the attorney-client privilege and its relation to the client’s welfare, we should require more than such negligence by counsel before the client can be deemed to have given up the privilege. No waiver will be found here.\(^{95}\)

The never waived rule is highly protective of the attorney-client privilege as well as of the practicing lawyer, taking the view that negligence of the attorney does not bind the client. However, it provides little incentive for counsel or the client to safeguard communications protected by the privilege. For these reasons, it has always been and is likely to remain very much the minority view.

2. **The Always Waived Rule**

A larger number of courts have taken the opposite and equally extreme “always waived” approach to inadvertently-produced privileged documents. The rationale most frequently cited for this approach is that the serious consequences associated with a privilege waiver provide a powerful incentive for attorneys to take adequate precautions to prevent inadvertent disclosure and to protect their clients’ privileges. These courts generally have concluded that to hold otherwise would be to encourage sloppiness on the part of producing counsel.

The leading case expressing this view is *In re: Sealed Case*.\(^{96}\) In language that should cause every litigator to ensure that his or her malpractice premiums have been paid current, the court stated as follows.

Although the attorney-client privilege is of ancient lineage and continuing importance, the confidentiality of communications covered by the privilege must be jealously guarded by the holder of the privilege lest it be waived. The courts will grant no greater protection to those who assert the privilege than their own protections warrant. We therefore agree with those courts which have held that the privilege is lost “even if the disclosure is inadvertent”. *In re: Grand Jury Proceedings*, 828 F.2d 1352, 1356 (4th Circuit 1984) (quoting *Suburban Sew N Sweep, Inc. v. Swiss-Bernina, Inc.* 91 F.R.D. 254, 258-59 (N.D. Ill. 1981)); *State v. Vennard*, 159 Conn. 385, 260 A.2d 837, 849 (1970), cert. denied, 400 US 1011, 91 S.Ct. 576, 27 L.ED.2d 625 (1971).

In other words, if the client wishes to preserve the privilege, it must treat the confidentiality of attorney-client communications like jewels, if not

---

\(^{94}\) *Berg Electronics, Inc. v. Molex, Inc.* 875 F. Supp. 261 (D. Del. 1995) (never waived rule best protects the client from inadvertent disclosure by others) and *Connecticut Mutual Life Insurance Co. v. Shields*, 18 F.R.D. 448 (S.D.N.Y. 1995). (“Only the client can waive (the) privilege and, to support such a finding of waiver, there must be evidence that he intended to waive it”).

\(^{95}\) *Mendehall*, supra at 221.

\(^{96}\) 877 F.2d 976 (8th Cir. 1989).
crown jewels. Short of court–compelled disclosure, cf. *Transamerica Computer Co. v. IBM Corp.*, 573 F.2d. 646, 651 (9th Cir. 1978), or other equally extraordinary circumstances, we will not distinguish between various degrees of “voluntariness” in waivers of the attorney-client privilege.97

A similar approach was taken in *Digital Systems Corp. v. Digital Equipment Corp.*98 In that case, a team consisting of a lawyer, three paralegals and 13 of the client’s employees engaged in a pre-production review of approximately 500,000 documents, yet failed to withhold from their production 20 privileged documents totaling 88 pages. The court refused to consider the precautions taken by the producing party, noting that “if the precautions had been adequate, the disclosure would not have occurred.”99 The court went on to state that “a strict rule. . . would probably do more than anything else to instill in attorneys the need for effective precautions against such disclosure.”100

The court in *Underwater Storage, Inc. v. US Rubber Co.*101 likewise stated the following:

> The court will not look behind this objective fact (of disclosure) to determine whether the plaintiff really intended to have the letter examined. Nor will the court hold that the inadvertence of counsel is not chargeable to his client. Once the document was produced for inspection, it entered the public domain. Its confidentiality was breached thereby destroying the basis for the continued existence of the privilege.102

Like the never waived rule, the always waived rule is grounded in an effort to protect the privilege; it does so by imposing severe sanctions on acts that result in inadvertent waiver, hoping to incentivize practitioners to be eternally vigilant in protecting their client’s privileged documents. Like the never waived rule, the always waived rule has many serious disadvantages. It does nothing to address the burgeoning and sometimes crushing cost of pre-production privilege reviews in complex litigation. It also subjects counsel to enormous exposure when a very small quantity of documents slip through the cracks due to the inattention of paralegals or even the client’s own employees. On the other hand, like the never waived rule, the always waived rule, obviates the need to delve into the circumstances surrounding the inadvertent disclosure.

### 3. The Middle Ground or Balanced Approach

The middle ground or balanced approach, ultimately adopted by FRE 502, is embodied in a line of cases dating to *Lois Sportswear, USA Inc. v. Levi Strauss & Co.*103 In *Lois Sportswear*, the producing party first culled 30,000 pages of documents from its files, from

---

97 *Id.* at 980.
99 *Id.* at 449.
100 *Id.* at 450.
102 *Id.* at 549.
which 16,000 pages were produced for review by opposing counsel. Opposing counsel then designated approximately 3,000 pages of documents that it wished to copy. Before copying and returning the documents, the producing party discovered 22 documents which it considered to be privileged.

The court opined that it would be an unduly harsh result if it were to find that the privilege had been waived. The court instead framed the question presented as “whether or not the release of the documents was a knowing waiver or simply a mistake, immediately recognized and rectified”, taking into account “the reasonableness of the precautions to prevent inadvertent disclosure, the time taken to rectify the error, the scope of the discovery and the extent of the disclosure.”104

Although the court was troubled by the fact that the producing party had no internal procedures to designate privileged materials as confidential in the normal course of its business, and the instructions given to the pre-production review team were vague and unspecific, the court nevertheless determined, applying a “bare preponderance” standard, that the disclosure had been inadvertent rather than a knowing waiver of the attorney-client privilege.105

Expanding slightly on the Lois Sportswear factors, the court in Fidelity and Deposit Co. of Maryland v. McCulloch106 considered the following five factors in assessing inadvertently disclosed privileged materials:

1. The reasonableness of the precautions taken to prevent 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;
5. Whether the overriding interests of justice would or would not be served by relieving the party of its error.107

Applying the above factors to two separate categories of inadvertently disclosed documents, the Fidelity and Deposit Co. court reached two very different conclusions. The court found, on one hand, that although the plaintiff was not especially vigilant in rectifying the inadvertent disclosure of the first group of documents, the attorney-client privilege had not been waived, because the initial precautions taken were at least minimally adequate, the number of privileged documents was relatively small as compared to the number of total documents reviewed and produced, the disclosures were minimal and did not reveal any significant facts about the substance of legal opinions of counsel for the producing party, and the discovery schedule was very tight and had created time pressures on counsel.108

104 Lois Sportswear, 104 F.R.D. at 105.
105 Id.
107 Fidelity and Deposit Co., 168 F.R.D. at 522. Many states have adopted a similar approach. For example see Lighthouse v. McCollum, 969 So. 2nd 320 (Fla. 2007).
On the other hand, the court found that the privilege had been waived with respect to a second group of documents, which the plaintiff had carelessly produced. Those documents had been twice reviewed by the plaintiff, and two of the six documents that had been produced not only were privileged but went to the very heart of the privilege that the plaintiff was asserting in the case. In addition, the time pressures in the litigation had substantially lessened by the time those inadvertent disclosures were made, and the plaintiff had made no effort to rectify the situation.109

In Amgen, Inc. v. Hoechst Marion Roussel Inc.,110 involving 200 privileged documents produced out of 3,821 pages of discovery, the court employed a balanced or middle ground approach, rejecting both the never waived rule of Mendonhall and the strict waiver approach of In re: Sealed Case. The court stated in pertinent part as follows:

The never waived approach . . . creates little incentive for attorneys to guard privileged material closely and fails to fully recognize that even an inadvertent disclosure undermines the confidentiality which undergirds the privilege. Likewise while the strict accountability rule certainly holds attorneys and clients accountable for their lack of care, it nonetheless diminishes the attorney-client privilege relationship because, in rendering all inadvertent disclosures – no matter how slight or justifiable – waivers of the privilege, the rule further undermines the confidentiality of communications.

190 F.R.D. at 292.

Using the balanced approach, the court held that the conduct of the producing party’s counsel amounted to “gross negligence” and noted that “if the court does not hold that a waiver has occurred under the egregious circumstances presented here, it might as well adopt the ‘never waived’ rule and preclude such a holding in all cases.”111

These cases demonstrate that the balanced approach requires the court to make a detailed and painstaking determination of the adequacy and reasonableness of the precautions taken by the producing party, as well as the reasonableness and timeliness of the actions taken following discovery of the inadvertent disclosure. This inquiry necessarily involves time-consuming and extensive hearings and briefs and often requires counsel to lay bare all of its internal pre-production procedures in the form of an affidavit or through testimony during an evidentiary hearing.

---

109 Fidelity and Deposit Co., 168 F.R.D. at 523.
D. Scope of Waiver

The scope of the waiver of the attorney-client privilege created by inadvertent disclosure of privileged material is an extremely important issue for lawyers attempting to navigate the treacherous waters of large-scale document production. The broader the scope of the waiver that might result from an inadvertent disclosure of privileged materials, the more likely counsel is to engage in an extensive and expensive pre-production review.

Prior to the enactment of FRE 502, however, the federal courts were all over the map on this issue. Some courts held that the waiver resulting from an inadvertent disclosure extends to all communications dealing with the same subject matter.112 Other courts held that there was no subject matter waiver; the privilege is waived only with respect to the specific documents that are inadvertently produced.113 One court carved out a fairness exception to the latter rule, finding that the waiver should cover only the specific document that was inadvertently disclosed, “unless it is obvious a party is attempting to gain an advantage or make offensive or unfair use of the disclosure.”114 Even among those courts that utilized the always waived approach, there was no unanimity on the scope of the resulting waiver.115

E. State Court Rules

Two aspects of state court rules bear brief mention as they relate to inadvertent disclosure of privileged materials.

First, many state ethics rules require counsel to safeguard the clients privileged materials. For example, the Maryland Lawyer’s Rule of Professional Conduct, provides that,

A lawyer must act competently to safeguard information relating to the representation of a client against inadvertent or unauthorized disclosure by the lawyer or other persons who are participating in the representation of the client or who are subject to the lawyer’s supervision.116

Similar provisions, all based on Comment 16 to Rule 1.6 of the ABA Model Rules of Professional Conduct117, are to be found in the rules of professional conduct in many other states, including, Minnesota,118 New Mexico119, Kentucky120, Oklahoma121 and Washington122, as just a few examples.

112 In re Sealed Case, supra.
115 Compare International Digital Systems Corp. v. Digital Equipment, Corp., supra (finding no subject matter waiver) and In re: Sealed Case, supra (finding that waiver extended to all of the communications relating to the same subject matter).
116 MD Rules, Rule 16-812, MRPC 1.6, Comment 19.
118 52 M.S.A., Rules of Prof. Conduct, Rule 1.6, Comment 15.
119 NM RPC, Rule 1.6, Comment 18.
120 SCR Rule 3.130 (1.6), Comment 14.
Second, some states have adopted their own rules regarding inadvertent waiver that govern proceedings in their state courts. Most recently, California adopted the following provision,

(a) If electronically stored information produced in discovery is subject to a claim of privilege or of protection as attorney work product, the party making the claim may notify any party that received the information of the claim and the basis for the claim.

(b) After being notified of a claim of privilege or of protection under subdivision (a), a party that received the information shall immediately sequester the information and either return the specified information and any copies that may exist or present the information to the court conditionally under seal for a determination of the claim.

(c) (1) Prior to the resolution of the motion brought under subdivision (d), a party shall be precluded from using or disclosing the specified information until the claim of privilege is resolved.

(2) A party who received and disclosed the information before being notified of a claim of privilege or of protection under subdivision (a) shall, after that notification, immediately take reasonable steps to retrieve the information.

(d) (1) If the receiving party contests the legitimacy of a claim of privilege or protection, he or she may seek a determination of the claim from the court by making a motion within 30 days of receiving the claim and presenting the information to the court conditionally under seal.

(2) Until the legitimacy of the claim of privilege or protection is resolved, the receiving party shall preserve the information and keep it confidential and shall be precluded from using the information in any manner.

---

121 T. 5, Ch. 1, App. 3-A, Rule 1.6, Comment 16.
122 WA R RPC 1.6, Comment 16.
123 Texas has adopted a no-waiver rule as part of its Rules of Civil Procedure. The rule provides as follows: “(d) privilege not waived by production. A party who produces material or information without intending to waive a claim of privilege does not waive that claim under these rules or the Rules of Evidence – within ten days or a shorter time ordered by the court, after the producing party actually discovers that such production was made – the producing party amends the response, identifying the material or information produced and stating the privilege asserted. If the producing party thus amends the response to assert a privilege, the requesting party must promptly return the specified material or information and any copies pending any ruling by the court denying the privilege.

Many other states have provisions that deal with the issue.\textsuperscript{125} Careful attention should be paid to these rules as in some cases they provide similar rights and obligations as are as found in FRE 502.

F. Congress (Finally) Steps In

The stage thus was set for congressional intervention to resolve the divergent views among the courts regarding this issue. As summarized by one commentator:

\textit{... although courts have different views with regard to scope of waiver there is authority, both in case law and in scholarly writing, for the proposition that the scope of waiver should be governed by considerations of fairness. Subject matter waiver makes sense where production of previously disclosed material is necessary to protect an adversary from a misleading presentation of the evidence. It is unnecessarily punitive in other instances. But as important as it is to adopt a fair rule it is equally important to have a predictable, uniform rule. Providing uniformity in this area of the law would be a worthwhile pursuit.}\textsuperscript{126}

Responding to the escalating concerns of the legal community, House Judiciary Committee Chairman James Sensenbrenner, Jr. sent a letter to the Federal Court Administrative Office on January 23, 2006, requesting that the Judicial Conference of the United

\textsuperscript{125} For example, Arizona Rules of Civil procedure provide as follows: If a party contends that information subject to a claim of privilege or of protection as trial-preparation material has been inadvertently disclosed or produced in discovery, 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 made and may not use or disclose the information until the claim is resolved. A receiving party may promptly present the information to the court under seal for a determination of the claim. If the receiving party disclosed the information before being notified, it must take reasonable steps to retrieve it. The producing party must preserve the information until the claim is resolved. 16 A.R.S. Rule of Civil Procedure, Rule 26.1 (f).

See also the following provision of the Arkansas Rules of Civil Procedure: \textit{Inadvertent Disclosure}:

\begin{enumerate}
  \item (A) A party who discloses or produces material or information without intending to waive a claim of privilege or attorney work product shall be presumed not to have waived under these rules and the Arkansas Rules of Evidence if the party takes the following steps: (i) within fourteen calendar days of discovering the inadvertent disclosure, the producing party must notify the receiving party by specifically identifying the material or information and asserting the privilege or doctrine protecting it; and (ii) if responses to written discovery are involved, then the producing party must amend them as part of this notice.
  \item (B) Within fourteen calendar days of receiving notice of an inadvertent disclosure, a receiving party must return, sequester, or destroy the specified materials and all copies. After receiving this notice, the receiving party may not use or disclose the materials in any way.
  \item (C) A receiving party may challenge a disclosing party’s claim of privilege or protection and inadvertent disclosure. The reason for such a challenge may include, but is not limited to, the timeliness of the notice of inadvertent disclosure or whether all the surrounding circumstances show waiver.
  \item (D) In deciding whether the privilege or protection has been waived, the circuit court shall consider all the material circumstances, including: (i) the reasonableness of the precautions taken to prevent inadvertent disclosure; (ii) the scope of the discovery; (iii) the extent of disclosure; and (iv) the interests of justice. Notwithstanding Model Rule of Professional Conduct 3.7, and without having to terminate representation in the matter, an attorney for the disclosing party may testify about the circumstances of disclosure and the procedures in place to protect against inadvertent disclosure. ARCP, Rule 26.1(b)(5).
\end{enumerate}

States initiate a rulemaking on what he termed the “forfeiture” of privileges, stating that “an absence of clarity on this subject, particularly as it relates to the attorney-client privilege, is causing significant disruption and cost to the litigation process.” This letter initiated the process that ultimately led to the enactment of FRE 502.

IX. FRE 502

FRE 502 was signed into law by President Bush on September 19, 2008.¹²⁷

The Rule applies to all proceedings commenced after September 19, 2008, “and, insofar as is just and practicable, in all proceedings pending on such date of enactment.”¹²⁸

According to the Explanatory Note prepared by the Judicial Conference Advisory Committee on Evidence Rules, FRE 502 has two major purposes: (1) to resolve longstanding disputes in the courts about the effect of inadvertent disclosures and subject matter waiver of privileged or protected communications and information, and (2) to respond to widespread concerns – particularly in cases involving electronic discovery - about the prohibitive cost of protecting against such waiver out of fear that any disclosure (however innocent or minimal) will operate as a subject matter waiver of all protected communications and information.¹²⁹ As summarized in the Explanatory Note: “The rule seeks to provide a predictable, uniform set of standards under which parties can determine the consequences of a disclosure of a communication or information covered by the attorney-client privilege or work-product protection.”¹³⁰

FRE 502 is an important step forward in creating a uniform set of guidelines which govern the consequences of an inadvertent disclosure of privileged materials in federal courts. The Rule brings some but not total certainty to the process. As written, however, the Rule places a tremendous burden upon the judiciary, requiring federal courts to engage in a case-by-case and sometimes intensive, expensive and subjective review of both the precautions taken to prevent inadvertent disclosure and the steps taken to rectify same following their discovery.

A. Scope of Waiver - FRE 502(a)

Under FRE 502(a), the disclosure of an attorney-client privileged or work product protected document in a federal proceeding generally results in a waiver of the privilege only for the disclosed communication or information. The waiver does not extend to any undisclosed communications or information concerning the same subject matter unless the waiver is intentional, and unless in fairness the disclosed and undiscovered communications or information


¹²⁸ Public Law No. 110-322, § 1(c).


¹³⁰ Explanatory Note 2, supra.
ought to be considered together. This scope of waiver provision explicitly rejects the holding in In re: Sealed Case.

The Explanatory Note indicates that subject matter waiver will only apply “in those unusual situations in which fairness requires a further disclosure of related, protected information in order to prevent a selective and misleading presentation of evidence to the disadvantage of the adversary.” This “fairness” exception is drawn from FRE 106 “on the theory that an advocate that makes a selective or misleading presentation that is unfair to the adversary opens itself to a more complete and accurate presentation.” This provision of FRE 502 adopts the holding in United Mine Workers of America Employee Benefit Plans Litigation, which limited the waiver of work product protection to the materials actually disclosed, where the disclosure was not a deliberate attempt to gain a tactical advantage.

If the inadvertent disclosure is made in a federal proceeding, the federal court rules on subject matter waiver govern any subsequent proceeding in federal or state court concerning the scope of the waiver resulting from the disclosure in question.

This portion of the Rule largely ends the debate over the scope of the waiver in federal proceedings and may also influence the view of state courts as well.

B. Inadvertent Disclosure – FRE 502(b)

If inadvertent disclosure of communications or information covered by the attorney-client privilege or work product doctrine is made in connection with federal litigation or federal administrative proceedings, it does not operate as a waiver in a state or federal proceeding if the holder of the privilege or work product protection took “reasonable precautions to prevent disclosure” and took “reasonably prompt means, once the holder knew or should have known of the disclosure, to rectify the error, including (if applicable) following the procedures in Federal Rules of Civil Procedure 26(b)(5).” In a post FRE 502 case, the court in Preferred Care Partners Holding Corp. v. Humana, Humana was served with a motion on February 17, 2009 which cited a privileged email that it had inadvertently produced, but it did not assert the privilege and demand return of the document until March 4, 2009. This 15 day delay caused the court to rule that Humana has not taken reasonable steps and found the privilege to have been waived. This case illustrates the premium on alacrity once you determine that a privileged document has been inadvertently disclosed.

This subsection of FRE 502 does not explicitly incorporate the multi-factor tests that have been developed by various district courts, including those in Lois Sportswear USA Inc. v. Levi & Strauss Co., supra and Hartford Fire Insurance Co. v. Garvey. The Explanatory Note does not delineate any particular set of factors that the court is to use but does take special note

131 FRE 502(a).
132 877 F.2d 976 (8th Cir. 1989).
133 Explanatory Note, Subdivision (a), supra.
134 Id.
136 FRE 502 (b).
that a party that uses advanced analytical software applications and linguistic tools in screening for privilege and work product may be found to have taken “reasonable steps” to prevent inadvertent disclosure.\textsuperscript{139}

The Explanatory Note also makes clear that if the producing party has implemented “an efficient system of records management before litigation” that will be a factor in their favor.\textsuperscript{140} While this portion of the rule does not require the producing party to engage in a post-production review of documents to ensure that privileged material has not been produced, it does require that party to follow-up and take steps to protect the inadvertently disclosed information. The Explanatory Note further clarifies that these provisions apply not only to cases pending in federal court, but to disclosures made to a federal office or agency that is acting in the course of its regulatory investigative or enforcement authority.\textsuperscript{141}

C. Disclosures Made in a State Court Proceeding – FRE 502(c)

Under FRE 502(c), unless it has been specifically addressed in a state court order, a disclosure made in a state proceeding does not operate as a waiver in a federal proceeding if the disclosure either (i) would not be a waiver under FRE 502, or (ii) is not a waiver under the law of the state where the disclosure occurred. Accordingly, if privileged communications or information are offered in a federal proceeding on the basis that their disclosure in a prior state proceeding waived the privilege or protection, FRE 502(c) applies the law that provides the greater protection. The policy behind this provision demonstrates that the overall policy objective of FRE 502 is to avoid inadvertent waivers except in carefully defined and limited circumstances.

D. Controlling Effect of Court Orders – FRE 502(d)

Because the utility of a confidentiality order in reducing discovery costs is substantially diminished if it provides no protection outside the particular litigation in which the order is entered,\textsuperscript{142} FRE 502(d) provides that where a federal court orders that the attorney-client

\textsuperscript{139} Explanatory Note, Subdivision (b), supra. See also, Kumar. V. Hilton Hotels Corporation, 2009 WL 1683479 (W.D. Tenn. June 16, 2009), where the court applied the “intermediate approach” set out in Jackson v. Board of Education of Memphis City Schools, 2008 WL 747288 (W.D. Tenn. March 18, 2008) in applying FRE 502 to the inadvertent production of privileged communications. No waiver was found as the producing party took immediate steps to rectify the error and mitigate the damage of the disclosures.

\textsuperscript{140} One commentator opines that these guidelines will do little to reduce the risks and burdens of pre-production review. She states: “I’m sad to report that despite the political hype, FRE 502 is not likely to provide you with any substantial cost savings related to your electronically stored information (“ESI”) and document productions. This is because FRE 502 does not eliminate the need for one of the largest discovery costs – namely, the dreaded page-by-page document review (not to mention the ensuing carpal tunnel of the finger). FRE 502 merely codifies the current law of the majority of federal courts on the inadvertent production of privileged material – i.e., there can be no waiver of privilege on inadvertently disclosed documents if you took reasonable steps to prevent and rectify the disclosure. But what reasonable steps? Although omitted from the law itself, the FRE Advisory Committee informs us that: ‘A party that uses advanced analytical software applications and linguistic tools in screening for privilege and work product may be found to have taken reasonable steps to prevent inadvertent disclosure.’ And that may actually be helpful, but for the fact that the federal courts have long recognized that such screening comes with limitations and risks because the proper selection and implementation of such technology involves both legal and scientific knowledge. Is it really a reasonable step to use methods judicially deemed “not foolproof?” Heather Y. Fong, E-Discovery Bytes. Quarles & Brady, http://ediscovery.quarles.com/2009/01/articles/case-law/fre-502-a-reasonable-step-to-reduce-costs.

\textsuperscript{141} Explanatory Note, Subdivision (b), supra.

\textsuperscript{142} Explanatory Note, Subdivision (d), supra.
privilege or work product protection is not waived as a result of disclosure in connection with the litigation pending before that court, the disclosure is also not a waiver in any other federal or state proceeding.

While FRE 502(d) makes explicit that federal confidentiality orders are binding on state proceedings, FRE 502(c) does not make the same statement with respect to the effect of state confidentiality orders on federal courts. The Explanatory Note states that such a provision was not necessary because principles of comity, courtesy and federalism require the federal court to honor the state court order, giving it full faith and credit.\textsuperscript{143}

According to the Explanatory Note, this portion of the rule creates needed predictability and contemplates the court’s enforcement of both claw-back\textsuperscript{144} and quick peek arrangements as a way to reduce the excessive cost of pre-production privilege reviews.

E. Controlling Effect of Party Agreements – FRE 502(e)

FRE 502(e) not only binds all parties to an agreement on the effect of inadvertent disclosure in a federal proceeding, it allows the federal court to expand the controlling effect of that agreement to non-parties.

FRE 502(e) does not contain any new law. It reiterates that the parties to a federal proceeding can enter into agreements that have the effect of limiting their exposure for the inadvertent disclosure of privileged materials. Needless to say, such an agreement can only bind the parties to that agreement. If the parties desire to have such the agreement bind parties who are not in the litigation of the federal proceeding, the agreement must be made part of a court order in the manner contemplated by FRE 502(d).

F. Controlling Effect of the Rule - FRE 502(f)

FRE 502(f) notes that the rule “applies to State proceedings and to Federal court-annexed and Federal court-mandated arbitration proceedings” and that the Rule applies “even if State law provides the rule of decision.” This makes the protections of the Rule applicable when privileged communications that were disclosed in federal proceeding are offered in a state court proceeding. As set forth in the Explanatory Note, without this general applicability, “the holders of protected communications and information, and their lawyers, could not rely on the protections provided by the Rule, and the goal of limiting costs in discovery would be substantially undermined.”\textsuperscript{145}

G. Definitions – FRE 502(g)

FRE 502(g) defines “attorney-client privilege as “the protection that applicable law provides for confidential attorney-client communications”, and it defines “work-product protection” as “the protection that applicable law provides for tangible material (or its intangible equivalent) prepared in anticipation of litigation or for trial.”


\textsuperscript{144} Explanatory Note, Subdivision (d), supra. See Zubulake v. UBS Warburg LLC, 216 F.R.D. 280, 290 (S.D.N.Y. 2003) (noting that parties may enter into “so-called ‘claw-back’ agreements that allow the parties to forego privilege review altogether in favor of an agreement to return inadvertently produced privilege documents”).

\textsuperscript{145} Explanatory Note, Subdivision (f), supra.
The Explanatory Note incorporates the view of those courts that have found that work product “material” includes both tangible and intangible information.\(^\text{146}\)

H. Application of FRE 502

A limited number of cases have been decided in the wake of the enactment of FRE 502.

The court in *Alcon Manufacturing, Ltd. v. Apotex, Inc.*\(^\text{147}\) held that the plaintiffs had not waived the attorney-client privilege, where one version of the document in question was listed in the plaintiffs’ privilege log but an additional copy containing an attorney’s handwritten notes had been produced as well. The court found that the plaintiffs had complied with a protective order by making a good faith representation that the disclosure was inadvertent and by taking prompt remedial action, notwithstanding that the plaintiffs had allowed the document containing the privileged handwriting to be used without objection at two depositions.

In *Heriot v. Byrne*,\(^\text{148}\) the court applied FRE 502 to a case that had been commenced prior to the Rule’s enactment. The court reasoned that FRE 502(b) largely incorporated existing Seventh Circuit law regarding inadvertent disclosure of materials covered by the attorney-client privilege.\(^\text{149}\)

FRE 502 was also applied by the court in *Rhoades Industries, Inc. v. Building Materials Corp. of America*.\(^\text{150}\) The court found no waiver with respect to 800 privileged electronic documents. In doing so, the court gave great weight to the fact that the producing party had retained consulting experts, and used a specialized computer program to perform electronic searches after testing a trial version of the program. This procedure substantially complied with the Explanatory Note to Rule 502, which suggests the use of advanced analytical software applications and linguistic tools in screening for privilege and work product materials.\(^\text{151}\)

In *Rodiguez-Monguio v. The Ohio State University*,\(^\text{152}\) the defendant had inadvertently produced a single email between the university and its trial counsel. An Agreed Protective Order in the case gave a producing party ten days following discovery of an inadvertent disclosure to amend its discovery responses and notify the other party that the document should have been withheld. The court held no waiver as the university had complied with the Order.

\(^{146}\) Explanatory Note, Subdivision (g), supra. See *In re: Cendant Corp. Sec. Litigation*, 343 F.3d 658, 662 (3rd Cir. 2003) (finding that “work product protection extends to both tangible and intangible work product”).

\(^{147}\) 2008 WL 50704465 (S.D. Ind. 2008).


\(^{149}\) As articulated in *Judson Atkinson Candies, Inc. v. Latin-Hohberger Dhamantec*, 529 F.3d 371 (7th Cir. 2008), the determination of waiver involves a three-part inquiry: (1) whether the disclosed material was privileged, (2) whether the disclosure was inadvertent, and (3) whether the privilege was waived. The *Heriot* court viewed the second and third *Judson* factors as having been folded into the entire FRE 502(b) inquiry. *Heriot, supra* at 6.


\(^{151}\) See Note 126, supra.

\(^{152}\) 2009 WL 1575277 (S.D. Ohio June 3, 2009).
I. A Road Map for Avoiding Waiver by Inadvertent Disclosure

Borrowing in part from an order entered by the court in Alcon Manufacturing, Ltd. v. Apotex, Inc.,\textsuperscript{153} we offer the following example of a provision that may be used to limit the effect of an inadvertent disclosure of materials subject to the attorney-client privilege or work product protection:

If a Producing Party inadvertently or mistakenly produces or provides information, documents or tangible items via discovery in this Action that the Producing Party was entitled to withhold subject to a claim of attorney-client privilege or work product immunity, such production shall not prejudice such claim or otherwise constitute a waiver of any claim of attorney-client privilege or work product immunity regarding such information, provided that, upon its discovery, the Producing Party promptly makes a good-faith representation that such production was inadvertent or mistaken and takes prompt remedial action to withdraw the disclosure. Within three (3) business days of receiving a written request to do so from the Producing Party, the Receiving Party shall return to the Producing Party any documents or tangible items that the Producing Party represents are covered by a claim of attorney-client privilege or work product immunity and were inadvertently or mistakenly produced. The Receiving Party shall also destroy all copies or summaries of, and all notes and/or recordings relating to, any such inadvertently or mistakenly produced information; provided, however, that this Order shall not preclude the Receiving Party returning such information from making a motion to compel production of the returned information on a basis other than a waiver because of its inadvertent production as part of a discovery production under this Order. Return of the document or thing by the Receiving Party shall not constitute an admission or concession, or permit any inference, that the returned document or thing is, in fact, properly subject to a claim of attorney-client privilege or work product immunity nor shall it foreclose any party from moving the Court for an order that such document or thing has been improperly designated or should be producible for reasons other than a waiver caused by the inadvertent production. The Producing Party shall retain copies of all returned documents and tangible items for further disposition.\textsuperscript{154}

The parties may wish to further define how promptly after discovering that it has disclosed privileged materials, the producing party must take remedial action to withdraw the disclosure and further define those steps in including amending both discovery responses and privilege log, if the document was not previously listed in the log.

In addition, we believe that a party producing discovery in litigation should take the following steps to minimize the risk that inadvertent disclosure of privileged materials will not result in a waiver:

\textsuperscript{153} 2008 WL 50704465 (S.D.Ind. Nov. 26, 2008).

\textsuperscript{154} Id. at 4.
1. Encourage your clients to maintain an efficient system of records management before litigation;

2. Encourage your clients to regularly and clearly designate privileged materials as such in their records;

3. Plan for the inevitable production of large amount of documents as far in advance as possible;

4. Seek to enter into a claw-back agreement in every case;

5. Seek the federal court’s approval of the claw-back agreement; even if you are in state court where there is no similar procedure, ask the court to approve the claw-back agreement;

6. Move for a court order under FRE 502(d) if your opponent will not agree to a claw-back agreement;

7. Be mindful of any applicable state ethics rule requirement to safeguard your client’s confidences from unauthorized or inadvertent disclosure;

8. Diligently comply with the privilege log requirements of Fed. R. Civ. P. 26(b)(5) or any comparable state rule if you are in state court;

9. In cases with large quantities of documents, use advanced analytical software applications and linguistic tools in pre-production screening for privileged materials;

10. Employ experienced and qualified personnel to utilize and apply the software-based screening techniques;

11. For electronic searches, choose key words for the privilege document search carefully and expansively;

12. Ensure that the software is capable of searching the entire body of each document, not just the title or subject line of an e-mail;

13. Provide explicit instructions for those undertaking preproduction reviews and supervise them diligently;

14. Carefully explain to your client the risks and rewards of dispensing with or substantially reducing the scope of the pre-production review;

15. Engage in a post-production review of documents provided to the opponent;

16. Attempt not to allow a tight discovery schedule to dictate the nature and scope of your pre-production review; if you need more time, ask for it early on;

17. If there has been an inadvertent disclosure, take immediate steps to rectify the disclosure and strive to bring the matter to the fore before your opponent does so;

18. If an inadvertently disclosed document surfaces in a deposition for the first time; immediately object to its use during the deposition and demand it return;
19. Immediately add an inadvertently-disclosed document to your privilege log; and

20. Immediately demand the return of a inadvertently-disclosed document under the terms of the claw-back agreement, the court's order under FRE 502(d) as well as Fed. R. Civ. P. 26(b)(5)(B).

X. CONCLUSION

The attorney-client privilege and the work product doctrine continue to evolve. Some of the changes relate to changes in technology and others just to changes in attitudes and perceptions of what is in the public interest.

The ruling in the Stengart case would not have come about but for the fact that in today's workplace, it is common, and in many cases absolutely necessary for the employer to provide a laptop to its workers. 20 years ago, virtually no one had a “portable” computer. Where a filing cabinet or a desk drawer would have been the repository for correspondence 20 years ago, the correspondence now resides on a server or a PC or the laptop hard drive. Text and voice messages are sent also through the a PC or a handheld device or a telephone. A telephone would not have stored a message, at least not for very long, 20 years ago—now the numbers called and from which calls were received, as well as text and voice messages can be recovered from the PC or laptop hard drive, if not the phone itself.

Rule 502 was prompted by the technological changes in electronic document storage that resulted in serious discovery issues where there are thousands upon thousands of electronic documents to be provided—mistakes happen. And, when they do, what will be the result?

Other changes relate to evolving attitudes. If I am a prosecutor, do I want to reward conduct that helps in my investigation and subsequent case? Of course I do. But what if my incentives serve to coerce the defendant into giving up his right to effective counsel? Is that fair? Is it in the public interest? Does that change for a corporate defendant?

So, just as most areas of the law change, the attorney-client privilege and the work product doctrine will continue their evolution. It is hard to predict what will be important in this area in 10 years. Come back to the 2019 Forum and find out.
XI. Appendix A

FRE 502. Attorney-Client Privilege and Work Product; Limitations on Waiver

The following provisions apply, in the circumstances set out, to disclosure of a communication or information covered by the attorney-client privilege or work-product protection.

(a) Disclosure made in a Federal proceeding or to a Federal office or agency; scope of a waiver. When the disclosure is made in a Federal proceeding or to a Federal office or agency and waives the attorney-client privilege or work-product protection, the waiver extends to an undisclosed communication or information in a Federal or State proceeding 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.

(b) Inadvertent disclosure. When made in a Federal proceeding or to a Federal office or agency, the disclosure does not operate as 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 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).

(c) Disclosure made in a State proceeding. When the disclosure is made in a State proceeding and is not the subject of a State-court order concerning waiver, the disclosure 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.

(d) Controlling effect of a court order. 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.

(e) Controlling effect of a party agreement. 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.

(f) Controlling effect of this rule. Notwithstanding Rules 101 and 1101, this rule applies to State proceedings and to Federal court-annexed and Federal court-mandated arbitration proceedings, in the circumstances set out in the rule. And notwithstanding Rule 501, this rule applies even if State law provides the rule of decision.

(g) Definitions. In this rule:
(1) “attorney-client privilege” means the protection that applicable law provides for confidential attorney-client communications; and

(2) “work-product protection” means the protection that applicable law provides for tangible material (or its intangible equivalent) prepared in anticipation of litigation or for trial.
XII. BIOGRAPHIES

Eric H. Karp
Witmer, Karp, Warner & Ryan LLP
Boston, Massachusetts

Eric H. Karp serves as counsel to numerous franchisee associations and has represented franchisees throughout the country in a myriad of franchise issues. He has been selected for inclusion in The International Who’s Who of Franchise Lawyers, as a Legal Eagle by Franchise Times, one of America’s Leading Franchise Lawyers by Chambers USA, and a New England Super Lawyer by Boston Magazine.

He served on the Board of Directors of the American Franchisee Association (AFA) for ten years. Mr. Karp also served as Chair of the AFA Model Responsible Franchise Practices Act Committee, was the principal author of the Model Act and served as the Program Chair of the 1999 AFA Franchisee Legal Symposium. He was Co-Chair of the 2009 Annual Meeting of the American Association of Franchisees & Dealers (AAFD) and serves on the AAFD’s Fair Franchising Standards Committee.

In June, 1994 Mr. Karp testified before the U.S. House Small Business Committee on “Self Regulation of Franchising: The IFA Code of Ethics” and was an elected delegate to the 1995 White House Conference on Small Business.

Since 1996, Mr. Karp has served on the Franchise Project Group of the Franchise and Business Opportunities Committee of the North American Securities Administrators Association. He has been a presenter at the ABA Forum on Franchising and the IFA Legal Symposium and currently serves as the Editor-In-Chief of The Franchise Lawyer.

Mr. Karp is a graduate of Boston University (B.A. Political Science 1974) and Boston University School of Law (J.D. 1977).
LES WHARTON is Senior Counsel with Epstein Becker Green in the firm’s Atlanta office. Previously, he was in-house with Spherion Corporation and its predecessor, Norrell, as its Vice President, Legal Affairs, Franchise Division. He is a frequent speaker on franchise law issues. Mr. Wharton has served the IFA as the Chair of its Legal/Legislative Committee and Corporate Counsel Committee, as well as Chairing the Legal Symposium Task Group in 2004, 2005 and 2006. He has testified before a Congressional Subcommittee relating to the revisions to the FTC Rule on Franchising on behalf of the IFA. He has been on the Board of the Corporate Counsel Steering Committee of the American Bar Association’s Forum on Franchising, and, he is Vice Chair for the Southeast Franchise Forum. Mr. Wharton has also held leadership roles in national and regional staffing organizations. He has been involved in franchising since 1981 and is listed in the Franchise Section of Best Lawyers in America for 2009, The International Who’s Who of Franchise Lawyers for 2009, and The International Who’s Who of Business Lawyers for 2010. Mr. Wharton received his undergraduate degree from the United States Military Academy at West Point, and his J.D., cum laude, from the University of Georgia School of Law, where he was Editor in Chief of The Georgia Journal of International & Comparative Law.