

How To Protect Against Inadvertent Disclosure Of Privileged Documents

BY ROY SIMON

During my first few years of practice, my firm and its co-counsel were defending a large client against a government lawsuit. A name partner in the co-counsel firm was in charge of document production. One day paralegals at the co-counsel firm inadvertently produced a box of privileged documents. The co-counsel firm immediately sought the return of the privileged documents but did not succeed. The court held that the privilege had been waived. The client was furious and took its wrath out on the name partner. He was expelled from his firm, and the next time I saw him he was a struggling associate in a small office at a small firm.

Can this happen to you? Yes, it can -- we all make mistakes. Can you protect yourself against the harsh consequences of inadvertent production of privileged documents? Yes, you can. In *United States Fidelity & Guaranty Co. v. Braspetro Oil Services Co.*, 2000 WL 744369 (S.D.N.Y. June 8, 2000), Magistrate Judge Katz gave a short course in how to protect yourself against the disclosure of privileged documents by accident. This article summarizes that case and draws some lessons from it.

Background

The *Braspetro* case grew out of problems with the construction of two multi-million dollar oil production facilities in Brazil. For purposes of this article, all the important events happened during discovery. A month after the Second Circuit affirmed the denial of a motion to dismiss by defendants Petrobras and Brasoil, the defendants hurriedly produced about 400,000 pages of documents. Among these 400,000 pages, plaintiffs found about 30 documents that defendants had listed on their privilege log and supposedly had not produced.

Plaintiffs promptly notified the defendants about the privileged documents, and the next day defendants demanded their return on grounds that their production had been inadvertent and therefore did not waive the attorney-client privilege. The plaintiffs refused to return the documents, arguing that the production was *not* inadvertent and therefore *did* waive the privilege. To break this impasse, defendants moved for an order compelling the return of the privileged documents.

The court's analysis turned on a deceptively simple litmus test: "voluntary" disclosure of a privileged document generally waives the privilege, but "inadvertent" disclosure does not waive the privilege unless the producing party's conduct was "so careless as to suggest that it was not concerned with the protection of the asserted privilege." (Later, the court stated this test as "extreme carelessness.")

To cut to the chase, the defendants won and got their documents back. They won for two reasons. First, they had entered into a confidentiality agreement that expressly covered the inadvertent production of privileged documents. Second, the defendants had taken substantial precautions to prevent the

production of privileged documents and had acted promptly to correct their error. If you or your firm handle commercial litigation, you would be smart to mimic the defendants in both ways.

The Confidentiality Agreement

The first question was how to define “inadvertent.” Plaintiffs argued that the definition of “inadvertent” should follow established case law, which had articulated rigorous factors to measure whether production was “inadvertent.” Defendants argued that where parties had entered into a confidentiality agreement governing the inadvertent production of privileged documents, the definition of “inadvertent” was much more forgiving. The court sided squarely with defendants.

The key to the defendants’ victory was the following paragraph in the parties’ confidentiality agreement, which had been entered by the court as an order:

In the event documents which are claimed to be privileged or subject to the work product doctrine are inadvertently produced, such documents shall be returned by the receiving party within two days of any written request therefore, unless the receiving party challenges the privileged nature of the document(s), in which case the producing party shall be entitled to make an application to the Court for the return of the document(s). While such application is pending, the receiving parties shall not use or divulge the contents of such document(s) except to the Court under seal. The inadvertent production of any document claimed to be privileged or subject to the work product doctrine shall not constitute a waiver of such privilege.

Harry Potter could not have cast a better spell. When the court analyzed the dispute over the privileged documents, it found the quoted paragraph to be dispositive.

Quoting from *Prescient Partners, L.P. v. Fieldcrest Cannon, Inc.*, 1997 WL 736726 (S.D.N.Y. 1997), the court said “the provision in the parties’ confidentiality agreement regarding inadvertent production of privileged documents did not merely incorporate the caselaw standards governing inadvertent waiver, because, if it did, the provision would have no effect.”

The *Prescient* court recognized that the parties had drafted the confidentiality provision for three reasons: (1) to address their concerns related to voluminous document production, (2) to provide for out-of-court resolution of inadvertent production issues, and (3) to avoid the need to litigate issues of inadvertence. If the provision had merely incorporated the case law governing inadvertent production, it would not have protected the parties from litigation over inadvertent production. Accordingly, the *Prescient* court stated that “unless the production was *completely reckless* and the producing party showed *no regard* for preserving the confidentiality of the privileged documents, the producing party would be protected under the provisions of the confidentiality agreement.” (Emphasis added.) The *Braspetro* court found this reasoning “fully applicable to the confidentiality agreement in this action.”

Applying this reasoning, the *Braspetro* court found “no basis” to conclude the defendants had acted “completely recklessly” in producing privileged documents. On the contrary, the defendants had established an “elaborate system involving multiple layers of review” to identify and segregate privileged documents while producing 400,000 pages of documents. This system had successfully identified the documents in issue as privileged and included them on defendants’ privilege log, and had

intended to withhold them from production. Within the context of the confidentiality agreement, therefore, the documents were “accidentally and unintentionally, *i.e.*, inadvertently produced” and the court accordingly held that their production did not waive the attorney-client privilege.

But even assuming that the confidentiality provision had merely incorporated the governing case law, the court said, the defendants would still win. The court explained the governing case law and its application to *Braspetro*.

The Governing Case Law: Four Criteria

The court set out four criteria that state and federal courts in New York had “consistently applied” to assess the issue of waiver: “(1) the reasonableness of the precautions taken to prevent inadvertent disclosure; (2) the time taken to rectify the error; (3) the scope of the discovery and the extent of the disclosure; and (4) overarching issues of fairness.”

The Precautions: The court spent most of its time describing the precautions the defendants had taken to prevent the inadvertent production of privileged documents. These precautions were particularly elaborate because, although the litigation was pending in New York and was being defended by an American law firm, the documents were located in Brazil and were written in Portuguese. The precautions may be fairly summarized as follows:

- 1) Before any documents were produced, a “senior litigation partner” at the firm representing defendants (Cameron & Hornbostel) instructed defendants on the proper way to assemble and produce documents. These instructions included a description of United States attorney-client privilege law.
- 2) Based on these instructions about American privilege law, a Brazilian attorney who was fluent in both Portuguese and English showed several Brazilian law students how to identify and segregate potentially privileged documents.
- 3) The Brazilian attorney reviewed all of the documents which the law students had identified as privileged and sent all potentially privileged documents to the U.S. attorneys.
- 4) Final determinations about whether to claim privilege were made by American attorneys at Cameron & Hornbostel.
- 5) After privileged documents were identified and entered onto the privilege log, defendants made efforts to “identify various corporate departments which had received copies of documents identified as privileged, and to remove those documents from their files.”

The court was not totally impressed with these procedures. It had “little doubt that [defendants] could have taken greater precautions to protect privileged documents, and it reflects poorly on the screening process that some privileged documents were produced multiple times.” Nonetheless:

The Court finds that, in light of the voluminous document production and the fact that the documents were in a foreign country and language, the procedures used by Petrobras/Brasoil,

including multiple checks of the documents, the segregating of privileged documents, attempts to locate all copies of privileged documents, and the final determination of privilege by American attorneys, constituted reasonable precautions to protect the privilege.

The Remaining Factors: The court quickly disposed of the remaining three factors. As to timing, the court said: “The request for the return of these documents on the business day following notification of their production constituted prompt action to rectify the disclosure.” The court cited other Southern District cases finding no waiver where the negligent party demanded return of its documents within one or two business days after learning about the inadvertent production. In contrast, in *S.E.C. v. Cassano*, 189 F.R.D. 83, 85 (S.D.N.Y.1999), the court found a waiver where the government waited an unlucky thirteen days before demanding the return of a highly sensitive 100-page privileged memorandum from the SEC’s staff that weighed the Commission’s evidence, provided legal analysis, and discussed “the strengths and weaknesses of the Commission’s case.” Ouch!

As to the extent of disclosure, the court noted that “where a large number of documents are involved, there is more likely to be an inadvertent disclosure rather than a knowing waiver.” The court then held that the accidental production of fewer than 40 privileged documents out of 400,000 pages of documents “while not insignificant, is relatively small and suggests inadvertence, rather than recklessness in protection of the privilege.” The court supported its ruling by citing New York cases finding no waiver where counsel had produced (a) 227 pages of privileged documents out of 10,000 pages produced; (b) 99 pages of privileged documents out of 630,000 pages produced; and (c) 6 privileged documents out of 40,000 documents produced; and (d) 22 privileged documents out of 16,000 pages produced. (The highest ratio there, if you’re counting, is 227/10,000, or 2.27%.)

As to fairness, the court looked to “whether plaintiffs would be prejudiced by restoring privilege to the documents, not to whether the privilege itself deprives the parties of pertinent information.” Here, if the privilege remained intact, the plaintiffs “would simply be deprived of the use of privileged documents which might be helpful to their case — a not uncommon situation.” Therefore, this factor also weighed in defendants’ favor.

Having concluded that all of the relevant factors suggested that the production of privileged documents had been “inadvertent,” the court determined that their production “did not constitute a waiver of privilege.” Accordingly, the court ordered plaintiffs to return the documents to defendants’ counsel and to treat the documents as privileged.

Can You Afford To Take Similar Precautions?

The *Braspetro* litigation was mammoth and international. Millions of dollars were at stake. The defendants could therefore justify paying an American law firm, a Brazilian lawyer, and Brazilian law students to cull through thousands of files, looking for privileged documents. You may be wondering whether you can afford to take similar precautions in your own practice. Whether a court or a disciplinary authority would agree with the conclusion is unclear.

Muddying the waters even more is the fact that some states have adopted rules of professional conduct that go beyond the Code’s permissive authority and may mandate disclosure of a client’s fraud. This crazy patchwork quilt of ethics rules on confidentiality places a particular burden on lawyers who are

licensed in more than one jurisdiction or who work in law firms with offices in more than one state. In the 1999 amendments to the Code, an effort was made to assist lawyers in resolving interstate choice of law dilemmas in the application of different states' rules of professional conduct. See DR 1-105. This provision was discussed in my article entitled *Crossing State Lines — Which Law Governs*, NYPRR, September 1999.

In short, a lawyer who is licensed in New York and another jurisdiction must exercise special caution in considering how to respond to situations in which she has unwittingly given an opinion or made a representation based on materially inaccurate information or participated in a client's fraud or criminal activity. The lawyer's right to make a noisy withdrawal pursuant to DR 4-101(C)(5) depends upon the threshold application of DR 1-105.

I think you can. In fact, you can't afford not to. The steps are fairly simple. I'll modestly call them "the seven habits of highly effective lawyers."

First, an experienced lawyer should meet with the paralegals or lawyers who will be reviewing documents to tell them how to recognize privileged documents. As DR 4-101(D) says: "A lawyer shall exercise reasonable care to prevent his or her employees, associates, and others... from disclosing... confidences or secrets of a client." Don't assume that your paralegals — or even your associates — know jack about the attorney-client privilege. (They should, but don't assume they do.) Therefore, an experienced lawyer should give explicit oral and written instructions explaining how to identify all *potentially* privileged documents. This will include all documents written *by* counsel, or to counsel, or copied to counsel, or *mentioning* "counsel," "lawyers," or the "legal department," or mentioning any kind of law or legal advice, or stamped "privileged and confidential." Stress that "counsel" includes both inside and outside counsel. And ask your client to provide a list naming *every* lawyer and *every* legal intern and every paralegal who has worked in the company's legal department, and every outside law firm that has done legal work for the company, during the entire time period covered by the discovery request. (A list of current lawyers and paralegals is not sufficient. Litigation is always about past history, and a smoking gun may have been fired by a lowly Assistant Counsel who left the company or its outside counsel five or ten years ago.)

Second, the document reviewers should set aside every document that meets any of the criteria for a privileged document. Don't even let the paralegals start through the files until you have conspicuously marked a box "PRIVILEGED DOCUMENTS — DO NOT PRODUCE." Obviously, not all of these documents will be entirely privileged, and some might not be privileged at all. But the point is that an experienced lawyer, not a paralegal, must make the final determination which documents — or portions of documents — to designate as privileged. (By the way, remember that designating too many documents as privileged can lead to sanctions for discovery abuse or to intense embarrassment at trial. Remember when Richard Nixon's obscure assistant told the Senate Watergate Committee, "Well, you could check the tapes"?)

Third, once privileged documents are identified, they should be studied to determine who received copies. The files of every person that received copies of the privileged documents should be re-checked to make sure that all copies have been weeded out. The fact that one paralegal identified a privileged document doesn't mean the others also caught it.

Fourth, set aside the privileged documents and mark them clearly. Put all privileged documents in a special box or folder as soon as possible after they are identified. Do not leave boxes or folders of privileged documents in the same place as the documents that are going to be produced. If possible, put the privileged documents in a different room or lock them up in a separate file cabinet — and mark them in big letters, “PRIVILEGED — DO NOT PRODUCE.” A moving man with a hand truck can undo hundreds of hours of meticulous screening in about ten seconds if he loads privileged documents on the cart to be delivered to the opposing side.

Fifth, list every privileged document on a privilege log, and double-check the list to make sure every privileged document is on the list. (In *Braspetro*, the plaintiffs might not have notified defendants about the privileged documents if they had not been listed on the privilege log.)

Sixth, enter into a confidentiality agreement with the other parties to the litigation providing that inadvertently produced privileged documents will be returned upon demand and that their production will not be construed as a waiver of the privilege. Model your provision on the one used in *Braspetro*. It worked for them; it should work for you.

Seventh — this is probably the most important - don’t wait until litigation starts to identify privileged documents. Whether you are inside or outside counsel, stress to your client that every document to or from counsel (or discussing the advice of counsel with others inside the company) should be clearly marked “PRIVILEGED & CONFIDENTIAL.” Every letter, and every e-mail, memo, and handwritten note to or from a lawyer should automatically be labeled as privileged. Give clients the same speech now about identifying privileged documents that you give to paralegals searching for privileged documents in litigation. If a privileged document is plainly marked “PRIVILEGED” when it is written, it is unlikely to be overlooked by a paralegal five years later during the pressures of document production. And stress to all of the lawyers that work with you that they should mark all of their own notes and memos “PRIVILEGED & CONFIDENTIAL — ATTORNEY WORK PRODUCT.” Preserving confidentiality is a habit. Get into it, and insist that everyone you work with get into it. That’s the meaning and the purpose of DR 4-101(D), quoted above.

Roy Simon, a Professor of Law at Hofstra University School of Law, annually writes SIMON’S NEW YORK CODE OF PROFESSIONAL RESPONSIBILITY ANNOTATED. The 2000 edition is available from West.