Fast Facts

The clawback agreement is a contractual safeguard to mitigate the risk of waiver of privilege when dealing with voluminous discovery.

The Federal Rules of Civil Procedure and the Federal Rules of Evidence were recently amended to provide for clawback agreements.

While clawback agreements should be a standard tool in a litigator's toolbox, they may not be the right answer in every situation.

Clawback Agreements in Commercial Litigation

Can You Unring a Bell?

By Ashish S. Joshi

Imagine this scenario: Woe Mart, Inc.—a multibillion dollar corporation with hundreds of employees and offices all over the country—has been embroiled in several commercial disputes with its suppliers. During the past few months, Woe Mart's general counsel and his team have been trying to negotiate a settlement to avoid litigation. However, one fine Monday, Woe Mart receives a notice from the suppliers' lawyers of an imminent lawsuit to be filed in a federal court along with a request to preserve "any and all evidence, including but not limited to electronic evidence." Woe Mart decides to hire a brilliant and seasoned litigator to defend against this (frivolous!) lawsuit. Naturally, you get the call. You have not spoken to your client at length about the case, and you have not reviewed any documents. However, your brief chat with Woe Mart's general counsel tells you that this is a high-stakes, multi-party complex commercial litigation.

The first thing you do is have Woe Mart's general counsel send an e-mail to all its employees, instructing them to suspend all document-destruction policies and institute a "litigation hold." Next, you ask to meet with Woe Mart's IT personnel. Being the seasoned litigator that you are, you are well aware that discovery disputes are the black holes of the modern-day complex commercial litigation. Woe Mart's IT personnel inform you that your client possesses several types of electronic data that may be subject to discovery: e-mail (including attachments); word processing documents; spreadsheets; presentation documents; graphics; animations; images; audio, video, and audiovisual recordings; instant messaging; and voicemail.[1] After a preliminary review of Woe Mart's electronically stored information, you realize that responding to the plaintiffs' discovery requests may prove to be a Herculean task—both in terms of effort and cost.[2]

Soon you find yourself in a Rule 26(f) conference with the opposing counsel. You discuss a proposed discovery plan and try to agree on the repositories of electronically stored information that are relevant to the case. During the discussion, the opposing counsel tells you that they will soon serve discovery requests on your client seeking copies of *all* e-mails sent or received by any Woe Mart employee concerning Woe Mart's suppliers. You argue that this amount of information is voluminous and warn that if opposing counsel insists on seeking this information, it will take months to review the e-mails for applicable privileges and protections. The opposing counsel proposes that you forgo the customary preproduction privilege review and produce all responsive data under a "clawback agreement." You decide to discuss

this matter with Woe Mart's general counsel and promise to get back to opposing counsel soon with a discovery proposal. Before calling the general counsel, you wisely decide to brush up on your knowledge of clawback agreements and their use in commercial litigation in federal courts.

What is a Clawback Agreement?

The clawback agreement evolved as a contractual safeguard to mitigate the risk of inadvertent waiver of the attorney-client privilege or work-product doctrines—especially when dealing with a large volume of documents.[3] In a clawback agreement, both parties to a dispute agree in writing that inadvertent production of privileged materials will not automatically constitute a waiver of privilege. If the producing party realizes the disclosure in a reasonable time, it can request the document's return, or "claw it back," and the other party must comply. The requesting party is presumptively barred from using the privileged document to further its client's case.

Federal Rules of Civil Procedure were recently amended to provide for this clawback scenario in case of inadvertent production.[4] The Federal Rules of Evidence appear to follow suit.[5] However, parties (with the apparent encouragement of courts) have been using agreements to clawback the inadvertent disclosure of privileged material even before the amendment of the federal rules.[6] The general rule that partial disclosure on a given subject matter will bring in its wake total disclosure can be avoided by entering into a contract. Courts are willing to enforce "partial" waiver between two parties, whereby the waiver of some privileged materials will not constitute waiver of all between the two parties to the contract.[7]

A sample clause in a clawback agreement might read as follows:

(1) Any inadvertent disclosure or production of documents protected by the attorney-client privilege or work-product protection will not constitute a waiver of either any available privilege or protection by the disclosing party.

(2) In the event that the receiving party discovers that it has received either attorney-client privilege or work-product-protected documents, it will bring that fact to the attention of the producing party immediately upon discovery.

(3) Upon the request of the producing party, the receiving party will promptly return to the producing party any attorney-client privilege or work-product-protected document and any copies that the receiving party may have made.

(4) Upon the request of the producing party, the receiving party will promptly disclose the names of any individuals who have read or have had access to the attorney-client privilege or work-product-protected document.

(5) No such inadvertently produced attorney-client privilege or work-product-protected document may be used in evidence against the producing party.

(6) If either party must seek judicial enforcement of this agreement, the costs and reasonable attorney's fees of the party seeking enforcement will be paid by the party against whom such enforcement must be sought, but only if the court finds the existence of a valid privilege and grants enforcement of this agreement by ordering the return and non-evidentiary use of the produced document.[8]

The Pros and Cons of Clawback Agreements

During your research on clawback agreements, you come across a case that jolts you awake: *Victor Stanley, Inc v Creative Pipe, Inc.*[9] *Victor Stanley* highlights for you the danger of not using a clawback agreement in commercial litigation. In *Victor Stanley,* defendant's counsel, acknowledging the vast volume of documents that were to be produced pursuant to a preproduction review for privileged and protected documents, initially requested that the court approve a clawback agreement. The court, after holding a telephone conference to discuss the proposed clawback agreement, expressed its willingness to approve one.[10] However, upon obtaining an extension of time to produce documents, defendant's counsel withdrew his request for a clawback agreement. Parties did not enter into a clawback agreement before producing documents pursuant to discovery requests. Apparently, defendant's counsel had not used proper review procedures and had produced documents that were clearly within the parameters of attorney-client privileged information and should have been withheld from production.[11] The court ruled that the defendant's counsel was aware that the case involved review of voluminous material and that there was a danger of inadvertent production of privileged information. The court also observed that the defendant's counsel had initially wisely sought the protection of a clawback agreement. Had the defense counsel not abandoned his request for a court-approved clawback agreement, defendant would have been protected. However, having abandoned the request for a clawback agreement, the defendant's counsel had waived any privilege for the documents in question.[12] Once the disclosure of privileged material is made, any order issued to redress the disclosure—in absence of a clawback agreement—would be the equivalent of "closing the barn door after the animals have already run away."[13] After reading the *Victor Stanley* opinion, you make a note to yourself to include clawback agreements as a standard tool in your litigator's toolbox.

> Regardless of whether a subsequent court decides to enforce a clawback, the fact remains that the receiving attorney has been exposed to privileged information and may still be able to use it to further his client's case.

However, upon doing further research, you discover that clawback agreements may not be the right answer in every situation. A clawback agreement, despite all its protective clauses, simply cannot guarantee against privilege waiver in other litigation

contexts. Courts have rejected parties' claims of privilege pursuant to protective agreements from *prior* litigation. In *Genentech, Inc v US Int'l Trade Commission,*[14] the plaintiff inadvertently disclosed 12,000 pages of privileged documents in a multi-district patent infringement suit. After the district judge held that privilege concerning those documents had been waived, the administrative law judge (ALJ) presiding over another patent suit involving Genentech and different defendants ruled that the privilege waiver extended to that proceeding. Genentech argued that no general waiver applied to the second case because the parties to the district court case had been subject to a protective order. Because the appeals court determined that Genentech had failed to use adequate screening procedures to review for privilege in the first action, the ALJ's finding of waiver in the second proceeding was sustained.

Also, clawback agreements will be of little help if used to offer "selective" waivers—when a party is willing to disclose privileged information to one party, e.g., a governmental agency, but not to other parties. Federal courts (including the Federal Sixth Circuit, you note) have repeatedly struck down selective waivers, even when unconditional confidentiality agreements are entered into before the disclosure.[15] Although some decisions[16] have held that entering into an unconditional confidentiality agreement might, under some circumstances, protect the materials from subsequent compelled exposure, commercial litigators would do well not to bank on this notion. As the court in *Navajo Nation v Peabody Holding Co,*[17] upbraiding a party for its strategic use of disclosures, held: "[P]arties should not be permitted to disclose documents for tactical purposes in one context, and then claim attorney-client privilege in another context."[18]

You also find out that clawback agreements do not offer a license to "be asleep at the switch." Any attempt before the fact by attorneys to excuse negligent production of privileged or work-product documents by way of "blanket" agreements that such production will not constitute waiver are generally frowned upon and not enforced by courts.[19]

At this time, you pause. You wonder about a strategic dilemma of using clawback agreements. It is virtually impossible for the receiving lawyer in such an arrangement to erase from memory the privileged material that he has glimpsed.[20] Can you unring a bell? Regardless of whether a subsequent court decides to enforce a clawback, the fact remains that the receiving attorney has been exposed to privileged information and may still be able to use it to further his client's case. Even if that attorney does not formally seek to enter an inadvertently disclosed document into evidence, he can use the information it contains as a springboard to related documents or testimony. In effect, you fear that you may very well assist your opponent in developing his trial plan.[21] This, however, is a matter of strategy, and the decision whether to use a clawback agreement would have to be made on a case-by-case basis. You plod on.

Your research also reveals that using a clawback agreement in federal litigation may be deemed a waiver of the privilege in subsequent state court litigation.[22] Clawback provisions in the federal rules, while respected in federal courts, may be deemed a common-law waiver of privilege in state courts—not only for the document in question, but also as a broad waiver of the subject matter involved.[23] Therefore, you must be careful to identify the controlling law in each jurisdiction.[24] You decide to find out the controlling law in your state—Michigan.

Michigan's Jurisprudence Vis-à-Vis Waiver of Privilege

Michigan has recognized the attorney-client privilege as "the oldest of the privileges for confidential communications known to the common law."[25] Michigan has long held that a waiver of the privilege does not arise by accident.[26] Michigan courts have cogently set forth principles explaining the privilege and its waiver:

- In Michigan, the attorney-client privilege has a dual nature, i.e., it includes both the security against publication and the right to control the introduction into evidence of such information.
- The dual nature of the privilege applies when there has been inadvertent disclosure of privileged material.
- An implied waiver of the privilege must be judged by standards as stringent as for a "true waiver" before the right to control the introduction of privileged matter into evidence will be destroyed, even though the inadvertent disclosure has eliminated any security against publication.
- A true waiver requires an intentional, voluntary act and cannot arise by implication or the voluntary relinquishment of a known right.
- Error of judgment when a person *knows* that privileged information is being released, but concludes that the privilege will nevertheless survive, will destroy any privilege.[27]

You are happy to note that, in Michigan, a document inadvertently produced that is otherwise protected by the attorney-client privilege remains protected.[28] Absent a true waiver, a document retains its privileged status, regardless of whether it has been

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publicly disclosed.[29] You are also happy to note that, unlike some federal courts, Michigan courts have held that counsel's failure to take "reasonable precautions to protect from inadvertent disclosure" of privileged or protected material is not enough to be a true waiver.[30]

However, you are troubled by the fact that, in Michigan, once privileged information is disclosed to a third party by the person who holds the privilege, the privilege disappears.[31] And privilege need only be validly waived one time to be conclusively destroyed.[32] Unfortunately, no Michigan case discusses a clawback agreement.

You also find out that, in Michigan, "involuntary disclosure" of information upon order of the court does not amount to a waiver of privilege.[33] You finally see light at the end of the tunnel. You decide that the best option would be for the parties to agree to a clawback agreement and then request the court to incorporate the clawback provisions into a scheduling or protective order. However, you make sure that your participation in drafting the protective order is not interpreted in any way, shape, or manner as a waiver of privilege.[34]

Clawback Agreements and Protective Orders

You now turn to the issue of protective orders. You are aware of the recent amendments to the Federal Rules of Civil Procedure whereby clawback provisions can be adopted and incorporated into a protective order.[35] Protective orders—often negotiated by the parties and entered by the court on a stipulated basis—have become commonplace before producing documents in discovery.[36] In a complex commercial litigation, it is not unusual for a court to enter a highly detailed protective order fleshing out all the contours for production and exchange of information, including inadvertent disclosure of confidential or privileged material.[37] Three rules potentially govern the entry of such protective orders: the court can issue a (1) scheduling order under FR Civ P 16, (2) a protective order under FR Civ P 26(c), or (3) a discovery management order under FR Civ P 26(b)(2). You correctly reason that having a clawback provision incorporated into a protective order would allow your client to contend (in a subsequent proceeding) that disclosure of privileged or protected information in the former case was involuntary and pursuant to court order.[38] When there is a protective order in place, courts have allowed the terms of the protective order to "trump" existing caselaw; in some cases, a protective order may well operate to change the effect of extremely unforgiving caselaw.[39]

Of course, being an experienced litigator, you are also aware that the existence of a protective order does not allow a privilege holder to sit on its right to retrieve the privileged document. A cavalier attitude toward further disclosure or a failure to act promptly to retrieve the privileged document may act to nullify any clawback.[40]

Conclusion

Having researched the federal caselaw on clawback agreements and having found little or no caselaw on this matter in Michigan jurisprudence, you sit back to review your options. You are aware that, as was the practice before the adoption of new federal rules, federal courts have continued to encourage the use of clawback agreements in commercial litigation—even more so after the rules were amended.[41] It is highly likely that your court would agree to (and may even welcome) a proposal of incorporating clawback provisions in a protective order to speed up discovery. Without a clawback agreement, you are faced with an exhaustive and complete pre-production review of physical and electronically stored documents concerning privileged or protected material. You know that this would be a seriously time-consuming and expensive (and thereby unrealistic) option. Even then, prudence mandates that you use the safety net of a clawback agreement for any inadvertent disclosures. Finally, you distill the essential rulings of the federal courts regarding the clawback agreements, juxtapose them against existing Michigan jurisprudence, and come up with three conditions that should protect your inadvertent disclosure from a challenge in your current federal litigation or any future state litigation:

(1) The party claiming the privilege took reasonable steps—in view of the volume of data to be reviewed, the time permitted in the scheduling or protective order to do so, and the resources of the producing party;

(2) The producing party took reasonable steps to promptly assert the privilege once it learned that some privileged information had inadvertently been disclosed, despite the exercise of reasonable measures to screen for privilege; and, importantly

(3) The production had been compelled by court order that was issued after the court's independent evaluation of the scope of electronic discovery permitted, the reasonableness of the procedures the producing party took to screen out privileged material, and the amount of time that the court allowed the producing party to spend on the production.[42]

You surmise that a properly drafted clawback agreement that has been incorporated into a court order would achieve its goal: unring a bell in case of an inadvertent disclosure. You are now ready to call the general counsel. ■

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FOOTNOTES

1. See ABA Civil Discovery Standards (2004).
2. See Socha-Gelbmann, *2005 Electronic Discovery Survey Results,* cited by *Hopson v Mayor and City Council of Baltimore,* 232 FRD 228, 239, n 33 (D Md, 2005). It is estimated that in 2004 revenues of "discovery consultants" were in the range of $832 million—a 94 percent increase from 2003. Projections for the next three years were equally attention grabbing: 2005, $1.282 billion; 2006, $1.923 billion; and 2007, $2.865 billion.
3. See generally, Ingebretsen, *Crafting a Discovery Plan,* 33 Litigation (Summer 2007).
4. FR Civ P 26(b)(5)(B). However, it may not be correct to use the term "inadvertent." Because the rule's application is not limited to inadvertent disclosures, the rule can be read to authorize "quick peek" agreements—which involve the purposeful offering of privileged information—as well. See *Report of the Civil Rules Advisory Committee* (2005), p 36.
5. FRE 502(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.").
6. See *Zubulake v UBS Warburg LLC,* 216 FRD 280, 290 (SD NY, 2003) ("Indeed, many parties to document-intensive litigation 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 privileged documents. The parties here can still reach such an agreement with respect to the remaining seventy-two tapes and thereby avoid any cost of reviewing these tapes for privilege."). See also *Ames v Black Entm't Television,* unpublished opinion of the U.S. District Court, SD New York, issued November 18, 1998 (Docket No. 98CIV0226); *Dowd v Calabrese,* 101 FRD 427, 439 (D DC, 1984); *Western Fuels Ass'n, Inc v Burlington Northern R Co,* 102 FRD 201, 204 (D Wy, 1984); *Eutectic Corp v Metco,* 61 FRD 35, 42 (ED NY, 1973); *United States v United Shoe Machinery Corp,* 89 F Supp 357, 359 (D Mass, 1950).
7. Epstein, *The Attorney-Client Privilege and the Work-Product Doctrine* (5th ed) (ABA, 2007), pp 1243–1252. See also *Ames v Black Entm't Television, supra; Dowd v Calabrese, supra; Eutectic Corp v Metco, Inc, supra; United States v United Shoe Machinery Corp, supra.*
8. Epstein, *supra.*
9. *Victor Stanley, Inc v Creative Pipe, Inc,* 250 FRD 251 (D Md, 2008).
10. *Id.* at 255.
11. *Id.* at 267.
12. *Id.* at 267–268.
13. *Id.* at 263, citing *FDIC v Marine Midland Realty Credit Corp,* 138 FRD 479, 483 (ED Va, 1991).
14. *Genentech, Inc v US Int'l Trade Commission,* 122 F3d 1409, 1413 (CA Fed, 1997).
15. See *Columbia/HCA Healthcare Corp,* 192 FRD 575, 577–578 (MD Tenn, 2000), aff'd 293 F3d 289 (CA 6, 2002) (holding that an agreement with the government to produce documents without waiving privilege/work product protection is invalid, rejecting the doctrine of "selective waiver"). See also *In re Bank One Securities Litigation, First Chicago Shareholder Claims,* 209 FRD 418, 423–425 (ND Ill, 2002); *United States v Bergonzi,* 216 FRD 487, 494, 496–498 (ND Cal, 2003); *United States v South Chicago Bank,* unpublished memorandum opinion and order of the U.S. District Court, ND Illinois, issued October 30, 1998 (Docket No. 97-CR-849-1, 97-CR-849-2).
16. *In re McKesson HBOC,* unpublished opinion of the U.S. District Court, ND California, issued March 31, 2004 (Docket No. 99-CV-20743); *In re M&L Business Mach Co, Inc,* 167 BR 631, 637 (D Colo, 1994); *Saito v McKesson HBOC, Inc,* unpublished opinion of the Court of Chancery of Delaware, issued November 13, 2002 (Docket No. 18553).
17. *Navajo Nation v Peabody Holding Co,* 209 F Supp 2d 269, 284 (D DC, 2002).
18. *Id.* at 286. See also *Permian Corp v United States,* 214 US App DC 396, 403; 665 F2d 1214 (1981) ("The client cannot be permitted to pick and choose among his opponents, waiving the privilege for some and resurrecting the claim of confidentiality to obstruct others, or to invoke the privilege as to communications whose confidentiality he has already compromised for his own benefit. . . . The attorney-client privilege is not designed for such tactical employment.").
19. *Koch Materials Co v Shore Slurry Seal, Inc,* 208 FRD 109, 118 (D NJ, 2002) (The court observed that an agreement to waive negligent production of privileged documents immunized attorneys from negligent handling of documents and therefore could lead to sloppy attorney review and improper disclosure, which could jeopardize the client's case. The court refused to enforce such an agreement.). See also *Ciba-Geigy Corp v Sandoz Ltd,* 916 F Supp 404 (D NJ, 1995).
20. See Lange & Nimsger, *Electronic Evidence and Discovery: What Every Lawyer Should Know* (ABA, 2004), p 49 ("You cannot put the toothpaste back into the tube.").
21. Epstein, *supra* at n 8.
22. *Henry v Quicken Loans, Inc,* unpublished opinion (slip copy) of U.S. District Court, ED Michigan, issued February 15, 2008 (Docket No. 04-40346).
23. *Id.* at n 1.
24. *Hopson, supra* at 235.
25. *Leibel v General Motors Corp,* 250 Mich App 229, 236; 646 NW2d 179 (2002).
26. *Sterling v Keidan,* 162 Mich App 88, 95–96, 99; 412 NW2d 255 (1987).
27. *Franzel v Kerr Mfg Co,* 234 Mich App 600, 615–616; 600 NW2d 66 (1999), citing *Sterling v Keidan,* 162 Mich App 88, 95–96, 99; 412 NW2d 255 (1987).
28. *Franzel, supra* at 618.
29. *Leibel,* 250 Mich App 229, 241; 646 NW2d 179 (2002).
30. *Leibel v GMC,* unpublished opinion per curiam of the Court of Appeals, issued December 13, 2002 (Docket No. 240971) (after remand) citing Michigan's rejection of the district court's analysis in *United States v Kelsey-Hayes Wheel Co,* 15 FRD 461, 465 (ED Mich, 1954).
31. *Oakland Co Prosecutor v Dep't of Corrections,* 222 Mich App 654, 658; 564 NW2d 922 (1997).
32. *Leibel v General Motors Corp,* 250 Mich App 229, 242; 646 NW2d 179 (2002).
33. *Co-Jo, Inc v Strand,* 226 Mich App 108, 113; 572 NW2d 251 (1997).
34. *Leibel v GMC, supra* (holding that when a party negotiates the terms of a court order, participates in drafting the order, and agrees in the order to not assert any privilege, the party intentionally, voluntarily, and effectively waives the privilege).
35. FR Civ P 16(b)(3)(B)(iv) in conjunction with FR Civ P 26(b)(5).
36. See *Rogers v Nucor Corp,* unpublished protective order of the U.S. District Court, ED Arkansas, issued April 27, 2006 (Docket No. 00933); *Wal-Mart Stores, Inc v General Power Prods, LLC,* unpublished stipulated confidentiality order of the U.S. District Court, WD Arkansas, issued May 15, 2006 (Docket No. 00003).
37. *In AFP Advanced Food Prods LLC v Snyder's of Hanover Mfg Inc,* unpublished protective order of the U.S. District Court, ED Pennsylvania, issued June 23, 2005 (Docket No. 2:05-CV-03006), the court entered a protective order that was highly detailed and ran on for roughly 40 pages.
38. See n 4, *supra.*
39. See *Cardiac Pacemakers, Inc v St Jude Med, Inc,* unpublished opinion of the U.S. District Court, SD Indiana, issued May 30, 2001 (Docket No. IP96-1718-C); *Prescient Partners, LP v Fieldcrest Cannon, Inc,* unpublished memorandum and order of the U.S. District Court, SD New York, issued November 26, 1997 (Docket No. 97CIV.7590); *Minebea C, Ltd v Papst,* 370 F Supp 2d 297, 300 (D DC, 2005) ("Simply put, the language of the Protective Order trumps the case law."). See also FRE 502(f).
40. See *Calderwood v Omnisource Corp,* unpublished memorandum opinion and order of the U.S. District Court, ND Ohio, issued May 10, 2006 (Docket No. 3:04-CV-07765).
41. See *In re Delphi Corp,* unpublished opinion and order of the U.S. District Court, ED Michigan, issued February 15, 2007 (Docket No. 05-md-1725).
42. *Hopson, supra.*