New York Law Journal
Technology Today
WWW.NYLJ.COM
An ALM Publication
VOLUME 247—NO. 20
TUESDAY, JANUARY 31, 2012

FEDERAL E-DISCOVERY

Cost Recovery In the Digital Age


By **H. Christopher Boehning**
And **Daniel J. Toal**

E-discovery is a costly necessity of modern litigation. With the ease of e-mail and network data-storage came a deluge of litigation expenses. But producing parties, who historically have born the majority of these costs, may now find some relief in Rule 54(d) of the Federal Rules of Civil Procedure.

Rule 54(d) provides that "costs—other than attorney's fees—should be allowed to the prevailing party." The awardable or "taxable" costs are listed in 28 U.S.C. §1920, and include "[f]ees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case." At first glance, this provision might not seem to encompass e-discovery costs. Since an amendment in 2008 that replaced the word "papers" with "any materials," however, courts uniformly have concluded that §1920 covers at least some e-discovery costs.[1]

The question that remains is what e-discovery costs are recoverable. Courts confronting this question have identified five elements that a party must establish to tax its adversary with e-discovery costs: (1) the party seeking costs must have been the "prevailing party"; (2) the costs must stem from a modern equivalent of "copying"; (3) the costs must have been necessary; (4) the costs must be reasonable; and (5) the costs must be sufficiently documented to support the other elements.


ISTOCK

Although these elements provide a useful analytical framework, they provide an uncertain guide as to how courts will actually rule on requests to recover e-discovery costs. Indeed, courts frequently come to inconsistent conclusions regarding seemingly similar requests for costs. Although it remains the case that there are few bright-line rules as to what e-discovery costs are taxable, trends are beginning to emerge in how courts interpret each of these requirements.

Prevailing Party

The "prevailing party" for the purposes of Rule 54(d) is "the litigant in whose favor judgment is rendered."[2] In cases where both parties are successful to some extent, courts must decide which "party prevails in the substantial part of the litigation."[3] The two situations in which this issue most commonly arises are when defendants file counterclaims that are dismissed along with the plaintiff's claims, and when plaintiffs recover only a small amount of what they sought. In both situations, courts tend to find that the defendant was the prevailing party.[4]

Modern Form of 'Copying'

To be recoverable under §1920, a cost also must be for services that are "'the 21st Century equivalent of making copies.'"[5] In recent cases, a consensus seems to be emerging about whether the most basic tools of e-discovery meet this requirement. For example, courts have almost invariably held that the costs of scanning documents and converting files to TIFF or PDF format for production is recoverable under §1920.[6] The line between modern-day copying and nontaxable costs blurs, however, for most other e-discovery costs, such as creating a production database, collecting and storing ESI, managing e-discovery, extracting privileged metadata from ESI, converting documents to a searchable format, and running search terms.

Courts have adopted two approaches when assessing whether such e-discovery services fall within the scope of §1920. The first approach is to analogize the e-discovery service to a paper equivalent. If the equivalent service would have been completed by an attorney in the days of paper discov-

H. CHRISTOPHER BOEHNING *and* DANIEL J. TOAL *are litigation partners at Paul, Weiss, Rifkind, Wharton & Garrison LLP.* TARA PANATTONI, *a law clerk, assisted in the preparation of this article.*

ery, the cost is deemed nontaxable. Courts employing this approach have held that the costs of collecting, processing and storing ESI, formatting documents to permit electronic searching, and conducting electronic key-word searches are not taxable because these acts are equivalent to attorneys physically collecting paper documents from their clients and reading each individual page for key words. Similarly, courts have used this approach to deny costs for managing and storing ESI, reasoning that lawyers used to manage their own paper productions and store the relevant papers.[7]

Some courts have relaxed this approach so that if a discovery request requires the expertise of a technician, that technician's services are considered a modern analog of copying. For example, courts employing this relaxed view have held that technical management of e-discovery—including hiring a computer consultant to collect, search, identify and help produce electronic documents—is a recoverable cost.[8] These courts reason that e-discovery technicians provide technical, not legal, services, just as copy centers once provided their own form of technical services in the days of paper discovery. This relaxed approach has gained currency and greatly expanded what costs courts deem taxable to include such services as creating litigation databases, storing data, imaging hard drives, de-duplication and data extraction.[9]

The second approach distinguishes between costs to "create" and costs to "reproduce." Under this approach, a reproduction cost is considered the modern equivalent of copying, and therefore is deemed to fall within §1920. By contrast, costs attributable to the creation of a production, review or management aid are not taxable. For example in *Fells* v. *Virginia Department of Transportation*, the court found that "defendant's techniques of processing records, extracting data, and converting files, [] served to *create* searchable documents, rather than merely *reproduce* paper documents in electronic form," and therefore these costs were held to be unrecoverable.[10]

Necessity

To be recoverable, a prevailing party also must show that e-discovery costs are for services "necessary" for the litigation, rather than merely "for convenience of counsel."[11] The subtlety of this distinction has led to inconsistency in courts' decisions about the necessity of various e-discovery costs. In the midst of this uncertainty, however, it is possible to discern five principles that bear on the likelihood that a cost will be found to be necessary.

First, there is a weak presumption that all costs are necessary because "it is unlikely that a party would increase its costs unnecessarily without knowing that it would prevail at trial."[12] As a general matter, however, this presumption tends to be cited only when the court otherwise is inclined to hold that certain costs are recoverable.

To be recoverable under §1920, a cost must be for services that are 'the 21st Century equivalent of making copies.'

Second, technical costs of converting ESI to the format required by the discovery request are almost always deemed necessary. This includes the costs of converting ESI that is reviewed for *potential* production, but that is not actually produced.[13] The principle is limited, however, to the technical conversion and retrieval of ESI. Additional costs, such as running searches, may or may not be taxed, depending on the court.

Third, the more complex the litigation and the discovery request, the more likely courts will find that technology services, such as hiring an e-discovery manager, are necessary.[14] This principle was invoked as early as 2006 to justify awarding costs for the creation of a litigation database, a cost that was then rarely considered recoverable.[15]

Fourth, courts are more likely to find an e-discovery service necessary if the prevailing party can show that the service reduced the costs that would have been taxed absent use of the service.[16] For example, in *CBT Flint Partners, LLC* v. *Return Path Inc.*, the court found services from an e-discovery consultant to be necessary partly because "production in paper form would have cost far more than the fees sought for the e-discovery consultant."[17]

Fifth, courts are unlikely to find "cutting-edge" e-discovery tools to be necessary. For example, in *In re Aspartame Antitrust Litigation*, the court "refus[ed] costs for a sophisticated e-discovery program" that searched for relevant documents using "visual clustering of a document collection based on concepts extracted from those documents."[18] The court held that this "advanced technology" was "acquired for the convenience of counsel." By contrast, certain technology that was not taxable when it was new is routinely taxed today. In the 1991 case *Northbrook Excess & Surplus Insurance Co.* v. *Procter & Gamble Co.*, for example, the court recognized and reaffirmed the then-accepted doctrine that "expenditures for a computerized litigation support system are not taxable costs under section 1920."[19] Yet today, costs of creating electronic litigation databases are routinely taxed.[20]

Reasonable

Courts also require taxable costs to be reasonable, although there is little guidance as to how a court should determine what satisfies this standard. Some judges decide reasonableness based on their personal experience as to the normal costs of e-discovery.[21] Other courts compare the costs sought to what has been awarded in similar cases.[22] Still others look to the process by which the prevailing party determined that an e-discovery service was reasonably-priced.[23]

One common question in the reasonableness inquiry is whether parties signed a cost-allocating agreement regarding e-discovery.

Courts faced with such an agreement have found it to trump Rule 54(d) and §1920, so that prevailing parties generally will not be permitted to recover anything more than what was previously agreed.[24]

Documentation

Courts have required prevailing parties to support their claims for costs with documentation as to the nature of services provided. In cases where the prevailing party's records contain only vague explanations of the services provided, courts have drastically limited the costs awarded.[25] Courts vary as to how extensive the documentation must be, but litigators seeking e-discovery costs must bear in mind that the prevailing party has the burden of showing that their costs are comparable to copying, necessary and reasonable. Detailed documentation often is a prerequisite for shouldering this burden.

> To be recoverable, a prevailing party also must show that e-discovery costs are for services 'necessary' for the litigation, rather than merely 'for convenience of counsel.'

What's a Litigator to Do?

Although there are few bright-line rules when it comes to awarding costs for e-discovery, case law does provide some guidance on how attorneys should approach a litigation involving e-discovery so as to maximize the likelihood of recovering the costs incurred:

Know Your Judge: Judges have a lot of discretion in interpreting the language of §1920, so study your judge. How comfortable is the judge with new technology in his court? Was the judge still practicing when e-discovery was common? Is the judge comfortable awarding substantial attorney's fees and other costs? These are all questions an attorney should know before making e-discovery decisions.

New Sophisticated Tools: Courts most likely will find that the costs of cutting-edge e-discovery tools are not recoverable. Counsel should take this into consideration when evaluating the cost-effectiveness of any service, tool, or technique that is not yet commonplace.

Document Everything: Keep a detailed account of all e-discovery services. Documentation is a simple hurdle to overcome as long as counsel plan ahead.

Tailor Your Discovery Requests: When drafting your discovery requests, remember that the extensiveness of a request affects the likelihood that e-discovery costs will be taxable. As noted by one court "[t]axation of [e-discovery] costs [should] encourage litigants to exercise restraint in burdening the opposing party with the huge cost of unlimited demands for electronic discovery."[26]

Stay Informed: This body of law evolves at the pace of new technology, so do not rely too heavily on past experience in considering what can be taxed. In that vein, do not be afraid to push the envelope in requesting costs. At some point, yesterday's cutting-edge e-discovery technology will become today's indispensable tool.

•••••••••••••●●•••••••••••••

1. Judicial Administration and Technical Amendments Act of 2008, Pub. L. No. 110-496, §6, 122 Stat. 4291; *Race Tires Am. Inc.* v. *Hoosier Racing Tire Corp.*, No. 2:07-cv-1294, 2011 WL 1748620, at *6 n.6 (W.D. Pa. May 6, 2011).
2. *Tibble* v. *Edison Int'l*, No. CV 07-5359, 2011 WL 3759927, at *2 (C.D. Cal. Aug. 22, 2011) (internal quotation marks and citation omitted).
3. Id. (internal quotation marks and citation omitted).
4. See, e.g., id.; *LG Electr. U.S.A. Inc.* v. *Whirlpool Corp.*, No. 08-c-0242, 2011 WL 5008425 (N.D. Ill. Oct. 20, 2011).
5. *Jardin* v. *Datallegro Inc.*, No. 08-CV-1462, 2011 WL 4835742, at *6 (S.D. Cal. Oct. 12, 2011) (quoting *CBT Flint Partners, LLC* v. *Return Path Inc.*, 676 F. Supp. 2d 1376, 1381 (N.D. Ga. 2009), vacated as moot, 654 F.3d 1353 (Fed. Cir. 2011)).
6. See *Jardin*, 2011 WL 4835742, at *5-8; *Fast Memory Erase, LLC* v. *Spansion Inc.*, No. 3-10-CV-0481, 2010 WL 5093945, at *5 (N.D. Tex. Nov. 10, 2010); *Rundus* v. *City of Dallas*, No. 3-06-CV-1823, 2009 WL 3614519, at *3 (N.D. Tex. Nov. 2, 2009), aff'd, 634 F.3d 309 (5th Cir. 2011); *Bus. Sys. Eng'g Inc.* v. *IBM*, 249 F.R.D. 313, 315 (N.D. Ill. 2008); *Cargill Inc.* v. *Canbra Foods, Ltd.*, No. CV 03-1209-MO, 2007 WL 2840396, at *1 (D. Or. Sept. 27, 2007); *Brown* v. *McGraw-Hill Cos. Inc.*, 526 F. Supp. 2d 950, 959 (N.D. Iowa 2007); *BDT Prod. Inc.* v. *Lexmark Int'l. Inc.*, 405 F.3d 415, 420 (6th Cir. 2005).
7. See *Comrie* v. *IPSCO Inc.*, No. 08 CV 3060, 2010 WL 5014380, at *3-4 (N.D. Ill. Dec. 1, 2010); see also *Francisco* v. *Verizon S. Inc.*, 272 F.R.D. 436, 446 (E.D. Va. March 2, 2011); *Kellogg Brown & Root Int'l* v. *Altanmia Commercial Mktg. Co., W.L.L.*, Civ. No. H-07-2684, 2009 WL 1457632, at *5 (N.D. Tex. May 26, 2009); *Klayman* v. *Freedom's Watch Inc.*, No. 07-22433-CIV, 2008 WL 5111293, at *2 (S.D. Fla. Dec. 4, 2008); *Windy City Innovations, LLC* v. *Am. Online Inc.*, 2006 WL 2224057, at *3 (N.D. Ill. July, 31 2006).
8. See *Jardin*, 2011 WL 4835742; *CBT*, 676 F. Supp. 2d at 1381; see also *B & B Hardware Inc.* v. *Fastenal Co.*, 2011 WL 6829625, at *7 n.10 (E.D. Ark. Dec. 16, 2011); *Hecker* v. *Deere & Co.*, 556 F.3d 575, 591 (7th Cir. 2009).
9. *In re Aspartame Antitrust Litig.*, No. 2:06-cv-1732, 2011 WL 4793239 (E.D. Pa. Oct. 5, 2011); *Promote Innovation LLC* v. *Roche Diagnostics Corp.*, No. 10-cv-964, 2011 WL 3490005, at *1-2 (S.D. Ind. Aug. 9, 2011); *Race Tires*, 2011 WL 1748620, at *9; *Chenault* v. *Dorel Indus.*, No. A-08-CA-354-SS, 2010 WL 3064007, at *3-4 (W.D. Tex. Aug. 2, 2010).
10. 605 F. Supp. 2d at 743-44 (emphasis in original); see also *Mann* v. *Heckler & Koch Def. Inc.*, No. 08-cv-611, 2011 WL 1599580, at *8-9 (E.D. Va. April 28, 2011).
11. *Race Tires*, 2011 WL 1748620, at *4; see also *In re Aspartame Antitrust Litig.*, 2011 WL 4793239, at *4; *Roehrs* v. *Conesys Inc.*, 2008 WL 755187, at *3 (N.D. Tex. March 21, 2008).
12. *Race Tires*, 2011 WL 1748620, at *10 (internal quotation marks and citation omitted); see also *Rundus*, 2009 WL 3614519, at *3.
13. See *Parrish* v. *Mannatt, Phelps, & Phillips, LLP*, No. C 10-03200, 2011 WL 1362112, at *2 (N.D. Cal. April 11, 2011); *Comrie*, 2010 WL 5014380.
14. See *B&B Hardware Inc.*, 2011 WL 6829625; *In re Aspartame Antitrust Litig.*, 2011 WL 4793239, at *3; *Tibble*, 2011 WL 3759927, at *7; *Cargill*, 2007 WL 2840396, at *1.
15. *Lockheed Martin Idaho Tech. Co.* v. *Lockheed Martin Adv. Envtl. Sys.*, No. CV-98-316, 2006 WL 2095876, at *2 (D. Idaho July 27, 2006).
16. See *Promote Innovation*, 2011 WL 3490005, at *1; *Chenault*, 2010 WL 3064007, at *4; *Neutrino Dev. Corp.* v. *Sonosite Inc.*, No. H-01-2484 , 2007 WL 998636, at *4 (S.D. Tex. March 30, 2007).
17. 676 F. Supp. 2d at 1381.
18. 2011 WL 4793239, at *4.
19. *Northbrook Excess & Surplus Ins. Co.* v. *Procter & Gamble Co.*, 924 F.2d 633, 643 (7th Cir. 1991).
20. See *Chenault*, 2010 WL 3064007, at *3-4.
21. See *Lockheed*, 2006 WL 2095876, at *2.
22. See *Race Tires*, 2011 WL 1748620, at *10.
23. See *Tibble*, 2011 WL 3759927, at *8.
24. See, e.g., *In re Ricoh Comp., Ltd. Patent Litig.*, 661 F.3d 1361, 1366-67 (Fed. Cir. 2011); *United States* v. *U.S. Training Ctr. Inc.*, No. 1:08-cv-1244, 2011 WL 6317336, at *4 (E.D. Va. Dec. 8, 2011).
25. See *Francisco*, 272 F.R.D. 426; *Windy City Innovations*, 2006 WL 2224057; c.f. *Tibble*, 2011 WL 3759927, at *8.
26. *CBT*, 676 F. Supp. 2d at 1381.