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LEGAL ALERT

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Recoverability of e-Discovery Costs in Federal Court: An Update

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Last summer, we discussed the split of authority regarding the recoverability of e-discovery costs by a prevailing party in federal court under 28 U.S.C. § 1920. Generally, a court may award "[f]ees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case." 28 U.S.C. § 1920(4).

We alerted our readers to a federal district court case — and growing trend toward — awarding a substantial amount as taxable costs for a broad array of e-discovery activities (See July 2011 Legal Alert here). Recently, the United States Court of Appeals for the Third Circuit ruled in the appeal of this same case, overturning most of the award and providing definitive guidance to district courts in that circuit on the narrow extent to which e-discovery costs are taxable under § 1920(4).

The Third Circuit Strictly Limits the Recoverability of e-Discovery Costs

In *Race Tires America, Inc. v. Hoosier Racing Tire Corp.*, the Western District of Pennsylvania had affirmed the Clerk of the Court's award of more than $365,000 in broad e-discovery costs to the prevailing party, including creating a litigation database and engaging consultants to collect and image hard drives and servers, scan documents, process and index data, extract required metadata fields, enable documents to be Optical Character Recognitions (OCR) searchable and convert electronically stored information (ESI) to the required format. No. 2:07-cv-1294, 2011 U.S. Dist. LEXIS 48847, at *27-28, *34 (W.D. Pa. May 6, 2011). The district court reasoned that the "requirements and expertise necessary to retrieve and prepare [the] e-discovery documents for production were an indispensable part of the discovery process." *Id*. at *30.

In its ruling, the Third Circuit rejected the district court's sweeping rationale and reduced the award by more than 90 percent, to approximately $30,000. *Race Tires America, Inc. v. Hoosier Racing Tire Corp.,* No. 11-2316, slip op. at *24, *30 (3d Cir. Mar. 16, 2012). In interpreting the taxable cost statute and its application to e-discovery, the Third Circuit focused instead on the definitions of "exemplification" and "copy."

Of the e-discovery activities undertaken by the vendors in *Race Tires America*, the court found "only the conversion of native files to .TIFF (the agreed-upon default format for production of ESI), and the scanning of documents to create digital duplicates are recoverable as 'making copies of material.'" *Id*. at *20. The Court also concluded that costs incurred for transferring/converting VHS recordings to DVD format were properly taxed as "making copies." *Id*. at *22. Beyond that, however, the Third Circuit rejected costs for collecting and preserving ESI, processing and indexing ESI and keyword searching of ESI for responsive and privileged documents. *Id*. at 20. These rejected costs amounted to more than $330,000.

The Third Circuit then explicitly rejected the rationale

of the district court, and other courts, that allow taxation of all, or essentially all, e-discovery consultant charges as "untethered from statutory mooring." *Id*. at 24. In getting to the heart of the issue, the Court explained that:

> It may be that extensive "processing" of ESI is essential to make a comprehensive and intelligible production. Hard drives may need to be imaged, the imaged drives may need to be searched to identify relevant files, relevant files may need to be screened for privileged or otherwise protected information, file formats may need to be converted, and ultimately files may need to be transferred to different media for production. But that does not mean that the services leading up to the actual production constitute "making copies."

Id. at 25. The fact that technical expertise is required to gather and process the materials does not make the cost of doing so recoverable under § 1920(4), nor does the fact that creating computer databases and using predictive coding software result in a significant cost savings as compared to manual review of documents.

Other Circuit Courts Addressing the Recoverability of e-Discovery Costs

The Third Circuit's rationale aligns it with the Sixth Circuit, which previously held that e-discovery costs associated with electronic scanning and imaging of documents are recoverable because the actions could be interpreted as exemplification and copies. *BDT Products, Inc. v. Lexmark International, Inc.*, the 405 F.3d 415, 420 (6th Cir. 2005).

In support of its rationale, the Third Circuit pointed to the Ninth Circuit's 20-year-old precedent that held § 1920(4) permits costs only for the physical preparation and duplication of documents, not the intellectual effort involved in their production. *See Romero v. City of Pomona*, 883 F.2d 1418, 1428 (9th

Cir. 1989) (denying costs for expert research expenses incurred in assembling and preparing exhibits). The Ninth Circuit reasoned that to read exemplification any broader would swallow up other statutory provisions, such as the prohibition against attorneys' fees and expert witness fees in the normal case. *Id*.

On the other hand, a recent Federal Circuit decision reasoned that the electronic production of documents, including database costs, can constitute "exemplification" or "making copies." *Synopsis, Inc. v. Ricoh Company, Ltd.* (*In re Ricoh Company, Ltd. Patent Litigation*), 661 F.3d 1361, 1365-66 (Fed. Cir. 2011). The court did not consider database costs to fall into the unrecoverable category of "intellectual efforts" because it was used to produce the documents in their native form. *Id*. at 1365.

District Courts Recently Awarding Broad e-Discovery Costs

Since our last update, a number of district courts across several circuits have awarded a broad array of e-discovery costs.

The Eastern District of Arkansas awarded costs under § 1920(4) for the technical, specialized services used to locate, collect and extract ESI. The court found the services were necessary to produce the information in the specific format requested by the opposing party. *B&B Hardware, Inc. v. Fastenal Company*, No. 4:10-cv-00317-SWW, 2011 U.S. Dist. LEXIS 150543, at *17-25 (E.D. Ark., Dec. 16, 2011).

The Southern District of California allowed costs for converting data to .TIFF format and for project management of the .TIFF conversion. The court found that where the circumstances of a particular case necessitate converting data from various native formats to another format accessible to all parties, the costs stemming from the process of that conversion are taxable exemplification. Further, it found that where a third-party technician is engaged to perform duties limited to technical issues related to the physical production of information, the related

costs were not unrecoverable as intellectual effort. *Jardin v. Datallegro, Inc.*, No. 08-CV-1462-IEG (WVG), 2011 U.S. Dist. LEXIS 117517, at *13-26 (S.D. Cal. Oct. 12, 2011).

See also LG Electronics U.S.A., Inc. v. Whirlpool Corporation, No. 08 C 0242, 2011 U.S. Dist. LEXIS 121361, at *24-25 (N.D. Ill. Oct. 20, 2011) (finding it undisputed that e-discovery costs are available under § 1920(4), but deducting half of the request because the invoice's technical nomenclature made it difficult for the court to determine which costs were recoverable); *In re Aspartame Antitrust Litigation*, No. 2:06-CV-1732-LDD, 2011 U.S. Dist. LEXIS 118226, at *7-15 (E.D. Pa. Oct. 5, 2011) (awarding e-discovery costs that allowed significant cost savings over manual production, including creating a litigation database, processing and hosting ESI, conducting keyword and privilege screens, making documents OCR searchable and related technical support); *Tibble v. Edison Int'l*, No. CV 07-5359 SVW (AGRx), 2011 U.S. Dist. LEXIS 94995, at *19-25 (C.D. Cal. Aug. 22, 2011) (allowing e-discovery costs necessarily incurred in responding to discovery requests and required to be produced under Fed. R. Civ. P. 26(b)(2)(B)).

Other district courts limited recovery of e-discovery costs to scanning and file conversion — the same, narrow categories of the costs awarded by the Third Circuit in *Race Tires America* — but did not similarly limit their rationale. Instead, they focused on whether the costs were necessary or for the convenience of counsel. *See Aguiar v. Natbony*, No. 09-60683-CIV, 2011 U.S. Dist LEXIS 106777, at *6 (S.D. Fl. Sept. 20, 2011); *Advance Brands, LLC v. Alkar-Rapidpak, Inc.*, No. 08-CV-4057-LRR, 2011 U.S. Dist. LEXIS 105061, at *16-17 (N.D. Iowa Sept 13, 2011).

District Courts Recently Limiting the Award of e-Discovery Costs

The Third Circuit's decision in *Race Tires America* may signal a reverse in this recent trend to allow broader costs and may erode the foothold this

minority view was gaining. Since our last update, other district courts have continued to limit the award of e-discovery costs under § 1920(4).

When awarding taxable costs under § 1920(4), the Eastern District of Virginia has focused on which e-discovery costs are akin to copying. In *Mann v. Heckler & Koch Defense, Inc.*, it awarded costs for burning documents onto a CD as "copying," but rejected the costs for a vendor to compile electronic files into a database for production to the opposing party as "creating." No. 1:08cv611, 2011 U.S. Dist. LEXIS 46045, at *20-24 (E.D. Va. Apr. 28, 2011). Similarly, in *Francisco v. Verizon South, Inc.*, the court rejected e-discovery costs for processing, storage and production of ESI because the technique involved more than merely converting a paper version into an electronic document, but also created searchable documents. The court found the technique to be *comparable* to scanning and copying, but not *identical*. 272 F.R.D. 436, 445-446 (E.D. Va. 2011).

The Northern District of Illinois rejected e-discovery costs for electronically producing and processing email accounts and user-created files into a searchable format. The court found that the tasks were conducted to aid attorneys in reviewing documents and went far beyond mere reproduction or exemplification of documents. *Rawal v. United Air Lines, Inc.*, No. 07 C 5561, 2012 U.S. Dist. LEXIS 21880, at *5-10 (N.D. Ill. Feb. 22, 2012).

Practice Pointers

1. To Maximize Cost Recovery, Carefully Review Vendor Invoices As They Are Received and Assure They Clearly Explain and Detail the Work Performed. Even when following a strict interpretation of § 1920(4), invoices "just" for copying, scanning or format conversion of large volumes of materials can still run into the many thousands of dollars. To increase the likelihood of recovering such costs at the end of the case, such invoices should be reviewed as they are received to assure that they clearly explain and detail the services rendered. The Third Circuit in *Race Tires*

America called out the vendor invoices for their lack of specificity and clarity as to the services actually performed. No. 11-2316, slip op. at *20. Not only did the Court note that technical jargon made it difficult to decipher what exactly was done, but it also remarked that the invoices provided no indication of the rationale for the activities, nor their results in terms of the actual production of discovery material. *Id*.

2. If You Cannot Understand the Bill, Neither Will the Court. The lack of clarity in vendor invoices has resulted in reductions of taxable cost awards in other cases. *See Rawal*, 2012 U.S. Dist. LEXIS 21880, at *9 (noting it was possible some electronic processing costs were incurred simply for scanning, but sustaining the objection to costs because they were not separated from unrecoverable costs); *LG Electronics U.S.A., Inc.*, 2011 U.S. Dist. LEXIS 121361, at *24-25 (deducting half of the costs requested because the invoice's technical nomenclature made it difficult for the court to determine which costs were recoverable).

3. Consider Cost-Sharing Agreements With Other Parties. Cost-sharing agreements in advance of incurring e-discovery costs can have several benefits. First, such agreements may allow parties to contractually recover costs beyond the limitations of § 1920. For example, agreeing to retain jointly an e-discovery vendor may result in a lower cost per side than if each side had retained its own e-discovery vendor. *See In re Ricoh Company, Ltd. Patent Litigation*, 661 F.3d at 1365-66 (enforcing agreement to share e-discovery costs otherwise not recoverable under § 1920). Second, a cost-sharing agreement may motivate parties to be more focused and efficient in their e-discovery requests by making both sides partially responsible for the costs incurred by a jointly retained e-discovery vendor.

Case law regarding the recovery of e-discovery costs has evolved in recent months and will continue to do so as more federal courts — particularly more federal appellate courts —address the issue. We will continue

to monitor and provide further updates as warranted.

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