LJN LAW JOURNAL NEWSLETTERS

LJN's Product Liability Law & Strategy®

An ALM Publication

Volume 26, Number 12 • April 2012

Leveling the Playing Field

Recouping e-Discovery Costs As Part of the Taxable Costs Awarded to Prevailing Parties Under 28 U.S.C. § 1920(4)

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Document production: What once consisted of collecting a few hardcopy files from a relatively short list of "key" custodians now typically requires the retention of litigation-support specialists to accomplish not only the imaging and production of hardcopy files, but also the identification, extraction, and production of relevant electronically stored information (ESI) from computers, databases, servers, and even disaster recovery systems.

The age of ESI changed everything in terms of how quickly and easily documents are created and then stored. As a consequence, every corporate defendant in a product liability case today can expect to spend thousands if not hundreds of thousands of dollars producing documents in discovery. Indeed, it is hardly an overstatement to say that discovery costs are staggering. According to one recent survey, "for the period 2006-2008, the average company paid average discovery costs per case of $621,880 to $2,993,567. Companies at the high end [of the scale] during the same time periods reported average per-case discovery costs ranging from $2,354,868 to $9,759,900." Lawyers for Civil Justice, et al., Litigation Costs Survey of Major Companies 3 (May 2010) (available at www.uscourts.gov/uscourts/RulesAndPolicies/rules/Duke%20Materials/Library/Litigation%20Cost%20Survey%20of%20Major%20Companies.pdf).

Discovery costs of this magnitude are troublesome for nearly every corporate defendant not just because they are an added cost of litigation, but because they routinely mount at the outset of the case, before the merits (or lack thereof) of the plaintiff's claims are ever seriously addressed. Discovery costs are particularly frustrating for a product liability defendant because they are asymmetrical. In product liability litigation, plaintiffs ordinarily do not face similar document production burdens. Taking advantage of this disparity, many plaintiffs' attorneys impudently serve wide-ranging requests for production not to obtain requested documents, but rather to gain early litigation leverage. *See, e.g., Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 559 (2007) (noting "the problem of discovery abuse" and that "the threat of discovery expense will push cost-conscious defendants to settle even anemic cases").

Skyrocketing discovery costs offend the very premise of the civil justice system, which is "to secure the just, speedy, and inexpensive determination of every action and proceeding." Fed. R. Civ. P. 1. Much discussion and debate has recently focused on whether to rewrite the Federal Rules of Civil Procedure to rein in runaway discovery costs and restore some semblance of equity to the discovery process. Suggested revisions include implementing heightened pleading standards under Rule 8, limiting the number and nature of requests for production available under Rule 34, defining a party's document/ESI preservation obligations under Rule 26, and reallocating the costs of discovery to the requesting party. *See generally* Lawyers for Civil Justice, et al., Reshaping the Rules Of Civil Procedure for the 21st Century: The Need For Clear, Concise, and Meaningful Amendments to Key Rules of Civil Procedure (May 2, 2010) (available at http://lfcj.digidoq.com/BLAP/Federal%20Rules%20of%20Civil%20Procedure/FRCP%20Wt%20Ppr%20FINAL%20CLEAN%20050210%20corrrected.pdf). Stakeholders on all sides of the issue will undoubtedly continue to debate both the problem and the solution, but barring some fundamental change in the Rules it seems corporate defendants can do little to avoid document discovery and the inordinate costs imposed by it.

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Taxation of Costs Under F.R.C.P. 54 aND 28 U.S.C. § 1920

Defendants subject to costly discovery are not without recourse, however. If a defendant withstands the discovery process and is fortunate enough to prevail on summary judgment or at trial, that defendant may be able to defray many costs under Rule 54 of the Federal Rules of Civil Procedure. Rule 54(d)(1) mandates that "costs — other than attorney's fees — *should be allowed to the prevailing party*" (emphasis added). Interpreting this language, courts have held that "Rule 54(d) creates a presumption in favor of awarding costs to prevailing parties, and [therefore] it is incumbent upon the losing party to demonstrate why the costs should not be awarded." *Jardin v. DAT Allegro, Inc.*, No. 08-CV-1462, 2011 WL 4835742, at *1 (S.D. Cal. Oct. 12, 2011) (quotation marks and citation omitted).

The primary limitation upon this presumption in favor of awarding costs is that a court may award only those costs specifically enumerated in 28 U.S.C. § 1920. Titled "Taxation of Costs," § 1920 was first enacted in 1948, and today it permits "[a] judge or clerk of any court of the United States [to] tax as costs the following:

1. Fees of the clerk and marshal;
2. Fees for printed or electronically recorded transcripts necessarily obtained for use in the case;
3. Fees and disbursements for printing and witnesses;
4. Fees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case;
5. Docket fees … ; [and]
6. Compensation of court appointed experts, compensation of interpreters, and salaries, fees, expenses, and costs of special interpretation services … ."

While perhaps not readily apparent from the terms of the statute, discovery costs — including e-discovery costs — may be recoverable as taxable costs under subsection 4 of § 1920. In 2008, Congress amended § 1920 to reflect the realities of the modern, digital age. Instead of expressly allowing just the "costs of making copies of *papers*," § 1920(4) now permits courts to tax "the costs of making copies of *any materials*" (emphasis added).

Given the 2008 amendment of § 1920 and the sheer ubiquity of e-discovery, it is hardly surprising that some courts have taxed e-discovery costs in favor of prevailing parties, noting that "[w]e are well past the day when all copies are basic photocopies." *Jardin*, 2011 WL 4835742, at *5-*6 (quotation marks and citation omitted). But those same courts diverge on the question of what e-discovery costs may be taxed. For example, some courts have held that parties may not recoup even the costs of electronically scanning and imaging documents, a common e-discovery requirement. *Compare BDT Products, Inc. v. Lexmark Intern, Inc.*, 405 F.3d 415, 420 (6th Cir. 2005) ("electronic scanning and imaging could be interpreted as 'exemplification and copies of papers'") and *Brown v. McGraw-Hill Cos., Inc.*, 526 F. Supp. 2d 950, 959 (N.D. Iowa 2007) (holding "electronic scanning of documents is the modern-day equivalent of 'exemplification and copies of paper,' and therefore, can be taxed pursuant to § 1920(4)") with *Roehrs v. Conesys, Inc.*, No. 3:05–CV–829–M, 2008 WL 755187 at *3 (N.D. Tex. Mar. 21, 2008) (rejecting defendant's application for costs because "Section 1920 does not list conversion of paper documents into electronic format as a taxable cost") and *Chevron U.S.A., Inc. v. Aker Maritime, Inc.*, No. 03–2027, 2008 WL 594650 at *16 (E.D. La. Jan. 2, 2008) (denying recovery for "imaging documents, transferring documents to and from electronic media, [and] reproducing electronically stored documents on paper"). Such disparate assessments of recoverable costs are not surprising because, as the Ninth Circuit has noted, "[d]istrict courts are free to interpret the meaning of the cast of categories listed within § 1920." *Taniguchi v. Kan Pacific Saipan, Ltd.*, 633 F.3d 1218, 1221 (9th Cir. 2011). Thus, it remains an open question in many jurisdictions whether prevailing parties may recover costs associated with a number of modern e-discovery procedures, including data storage, file conversion, and metadata extraction.

Recent Decisions Offer Contrasting Views on the Types of e-Discovery Costs Recoverable Under § 1920(4)

Three recent taxation-of-costs decisions offer somewhat divergent views on the scope of recoverable costs under § 1920(4). The Central District of California's holding in the ERISA case captioned *Tibble v. Edison Int'l*, No. CV 07-5359, 2011 WL 3759927 (C.D. Cal. Aug. 22, 2011), starkly illustrates the magnitude of discovery costs that may be recouped by a prevailing party under 1920(4). In *Tibble*, the defendants sought to recover their "costs for utilizing the expertise of computer technicians in unearthing the vast amount of computerized data sought by [the p]laintiffs in discovery." *Id.* at *6. The plaintiffs first argued that such costs were more akin to attorneys' fees and thus outside the scope of § 1920, but the court rejected this argument. *See Id.* ("Defendants' Application to Tax Costs appropriately raises the issue because although costs associated with the function of attorneys are part of fees, costs associated with the technical expertise required to unearth electronically stored information are not."). Next, the plaintiffs argued that the e-discovery vendors were retained merely for the convenience of counsel, and therefore the costs were not necessarily incurred in response to the plaintiffs' discovery requests. *See Id.* at *7. The court rejected this argument as well, noting that "[c]ourts have found that costs such as those sought by [the d]efendants are recoverable under § 1920(4)." *Id.* The court found the costs "were not accrued merely for the convenience of counsel, but were necessarily incurred in responding to [p]laintiff's discovery requests." *Id.* This conclusion was bolstered by the fact that the plaintiffs "propounded twenty-eight requests for production

of documents, including electronically stored information, reaching documents over a decade old." *Id*. In addition, the plaintiffs "aggressively sought electronic files, whether active, deleted, fragmented, or stored on electronic media or network drives." *Id*. All told, the *Tibble* court held that the defendants were entitled to recover more than $530,000 in e-discovery costs.

In *Jardin v. DAT Allegro, Inc., supra*, which involved a patent dispute, the plaintiff challenged approximately $130,000 in discovery costs taxed in favor of the defendants. The court rejected the plaintiff's attempt to avoid the cost of converting electronic data from its native format to ".TIFF" images, noting that "a categorical rule prohibiting costs for converting data into an accessible, readable, and searchable format would ignore the practical realities of discovery in modern litigation." 2011 WL 4835742 at *6. The court explained that "[c]onverting data to the .TIFF format was a necessary part of discovery in th[e] case" because "[t]he information sought in discovery included massive amounts of e-data stored in various digital formats, including email files, attached documents, and data in several formats that [otherwise] require special software and proprietary licenses in order to gain access." *Id*. at *7. The court also rejected the plaintiff's effort to avoid "project management" costs billed by the e-discovery technicians, holding that where "a third-party technician is engaged to perform duties limited to technical issues related to the physical production of information, related costs are recoverable under § 1920." *Id*. at *8.

The decisions in *Tibble* and *Jardin* suggest that some courts are increasingly willing to utilize cost-shifting as a tool to inject accountability into the discovery process. However, the trend in favor of taxing a broad array of e-discovery costs lost some momentum with the most recent case, *Race Tires America, Inc. v. Hoosier Racing Tire Corp.*, -- F.3d --, 2012 WL 887593 (3d Cir. 2012). In *Race Tires*, the Third Circuit considered "whether § 1920(4) authorizes the taxation of an electronic discovery consultant's charges for data collection, preservation, searching, culling, conversion, and production as either the 'exemplification [or] the … making [of] copies of any materials where the copies are necessarily obtained for use in the case.'" *Id*. at *5 (quoting § 1920, alterations in original). The court ultimately reversed a prevailing party's award of more than $365,000, "conclud[ing] that none of the electronic discovery vendors' activities in this case can be regarded as 'exemplification' of materials … [and] only scanning and file format conversion can be considered to be 'making copies'" properly recoverable under § 1920. 2012 WL 887593, at *1; *See Id*. at *6 (electronic discovery vendor's work did not come within any traditional definition of "exemplification" because the vendor neither "produce[d] illustrative evidence or the authentication of public records"); *Id*. at *7-*8 (although § 1920(4) allows for recovery of more than just making paper copies, only conversion of native files to .TIFF, scanning of documents, and reproduction of videos are recoverable expenses). The decision was based upon both the history and plain language of the statute, which in the Third Circuit's view strictly circumscribes the type of costs recoverable under § 1920. *See Id*. at *11. Notably, the court refused to permit recovery of e-discovery costs merely because the costs were unavoidable and the vendor's services were highly technical or led to greater efficiencies in the litigation. *See Id*. at *9-*10. According to the Third Circuit, "it is possible to tax only the costs incurred for the physical preparation of ESI produced in litigation," and "[t]he highly technical nature of the services [of an e-discovery vendor] does not exempt parties who seek to recover their electronic discovery costs under § 1920(4) from showing that the costs fall within the subsection's limited allowance for 'the costs of making copies of any materials where the copies are necessarily obtained for use in the case.'" *Id*. at *11. At this point, it remains unclear how the Third Circuit's narrow interpretation of recoverable costs under § 1920(4) will influence the rapidly changing e-discovery landscape.

Practical Recommendations For Seeking Costs Under § 1920(4)

Although many of the cases awarding substantial e-discovery costs under § 1920 are not product liability cases, the rationale underlying decisions like *Tibble* and *Jardin* finds equal if not greater application in the product liability realm, where enterprising plaintiffs' attorneys take full advantage of the liberal discovery rules and seek massively burdensome amounts of electronic discovery from corporate defendants. In the event that a court is ultimately inclined to tax e-discovery costs under § 1920(4), product liability defendants should take specific actions before, during, and after discovery to improve their chances of recovery. These common-sense steps may include: 1) negotiating a written production agreement with opposing counsel before commencing discovery; 2) tracking costs carefully as discovery proceeds; 3) showing the court that e-discovery expenses were reasonable; and 4) demonstrating that e-discovery techniques produced efficiencies that reduced the overall cost of litigation.

1. Start with a Negotiated, Written Production Agreement

The party seeking taxation of costs under § 1920(4) has the burden of documenting costs and showing that the costs were necessarily incurred in the case. *KBR v. Altanmia*, No. H-07-2684, 2009 WL 1457632, at *3 (S.D. Tex. May 26, 2009). The costs submitted by a prevailing party are frequently challenged in one aspect or another, and courts have consistently held that "[c]osts incurred for the convenience of the parties are not taxable against the losing party." *MEMC Elec. Materials, Inc. v. Sunlight Group, Inc.*, No. 4:08CV535, 2012 WL 918743, at *3 (E.D. Mo. Mar. 19, 2012).

With these considerations in mind, e-discovery should be undertaken pursuant to a written protocol agreed to and signed by both parties. Such

an agreement may be a standalone document or incorporated into a case management or scheduling order that specifically addresses ESI. Some courts actually require parties to meet and confer about and then submit a joint e-discovery protocol. *See, e.g.*, Standing Order for the United States District Court for the Southern District of New York, Nov. 1, 2011 (available at www.nysd.uscourts.gov/cases/show. php?db=notice_bar&id=261).

An e-discovery protocol will help manage expectations as discovery proceeds, but more importantly, it creates a record that can guide the court if a dispute arises over whether a cost was necessary in the first place. *See Jardin*, 2011 WL 4835742 at *7 (awarding format conversion costs and noting "the parties agreed to produce documents electronically in the .TIFF format because the .TIFF conversion made discovery easier, more efficient, and less expensive for all parties."); *but see Race Tires*, 2012 WL 887593, at *1-*2 (limiting costs recoverable under § 1920 notwithstanding parties' e-discovery protocol).

2. Carefully Track Potentially Taxable Costs As Discovery Proceeds

Often, an initial question is whether discovery should be handled "in-house" or with the assistance of a third-party vendor, and the answer may depend upon the size of the litigation and the sophistication of client and counsel. But, whether e-discovery is done in-house or coordinated by a third-party vendor, maintaining detailed accounting records as discovery proceeds is a simple way to ensure that litigants and, ultimately, the court will have at their disposal sufficient documentation supporting a bill of costs.

Courts will not hesitate to reject a request for taxation of costs where the prevailing party fails to provide accurate, detailed documentation of the expenses it seeks to recoup. *See, e.g., Conoco, Inc., v. Energy and Envtl. Intern., L.C.*, 2006 WL 734396 at *2 (S.D. Tex. Mar. 22, 2006) (denying costs where prevailing party "failed to itemize [expenses] so that this Court could evaluate whether the [expenses] were necessary"); *KBR*, 2009 WL 1457632 at *6 ("KBR's counsel submitted an affidavit stating the in-house copies were 'necessary for this litigation,' but this conclusory assertion alone is not enough."). This principle was affirmed in the *Race Tires* decision, where the Third Circuit criticized at length the "notable … lack of specificity and clarity" in the invoices submitted by the defendants in support of their bill of costs. 2012 WL 887593, at *7.

Therefore, in-house support staff and outside vendors alike should maintain accurate and detailed records and/or invoices that itemize the purpose and cost associated with each discovery activity. Where a party can cogently provide the description, purpose and cost for each e-discovery process undertaken throughout the litigation, courts will be hard pressed to deny taxation on vagueness grounds.

3. After Prevailing, Show the Court That e-Discovery Expenses Were Reasonable

The prevailing party must justify its costs, and this includes some showing that the e-discovery expenses incurred were reasonable. Although districts courts have noted that "it is unlikely that a party would increase its costs unnecessarily without knowing that it would prevail at trial," the prevailing party should nonetheless anticipate such a challenge. *Petersen v. Union Pac. R.R. Co.*, No. 06-3084, 2009 WL 2163470, at *4 (C.D. Ill. July 17, 2009).

The plaintiffs in *Tibble* argued that e-discovery costs should not be taxable because the defendants used third-party technicians who charged excessive rates. In response, the defendants were able to show that their vendors charged market rates for their services. The court found this comparative data persuasive, noting that the defendant selected its vendor "on the basis of their expertise and after a competitive bidding process." 2011 WL 3759927 at *8.

4. Demonstrate That e-Discovery Techniques Produced Efficiencies

Aside from the Third Circuit's *Race Tires* decision, many courts awarding e-discovery costs often reconcile the expense of e-discovery with the realization that modern e-discovery techniques can ultimately reduce the overall costs of litigation. Given this influence on courts' decision-making, prevailing parties should be prepared to demonstrate that the e-discovery procedures utilized were the only truly cost-effective means of responding to burdensome requests.

In *Jardin*, for example, the court recognized that the "information sought in discovery included massive amounts of e-data stored in various digital formats, including e-mail files, attached documents, and data in several formats that require[d] special software and proprietary licenses in order to gain access." 2011 WL 4835742, at *7. Conversion and production of this information in TIFF format "made discovery easier, more efficient, and less expensive for all parties." *Id*.

Conclusion

Prevailing at summary judgment or at trial may be enough vindication for some product liability defendants, but litigants should not overlook their ability to recoup substantial e-discovery expenses as part of the taxable costs awarded under 28 U.S.C. § 1920(4) and Rule 54 of the Federal Rules of Civil Procedure. With proper planning and execution, defendants may significantly improve their chances of recovering these costs and, in doing so, turn the asymmetry of e-discovery costs against uncompromising plaintiffs and their attorneys.