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Loser Pays Most Electronic Discovery Costs? Not So Fast

A recent opinion vacating most of the electronic discovery costs affirmed in Race Tires II *provides clarity in the Third Circuit as to the limited scope of electronic discovery costs recoverable by a prevailing civil party.*

The rapidly evolving area of the law regarding whether a prevailing party can recoup electronic discovery costs recently reversed course in the Third Circuit. In *Race Tires America, Inc. v. Hoosier Racing Tire Corp. (Race Tires III)*,[1] the U.S. Court of Appeals for the Third Circuit sought to provide "definitive guidance" on "the extent to which electronic discovery expenses are taxable" and vacated the majority of a $365,000 award of electronic discovery–related costs. The court of appeals found that less than 10% of the costs the district court awarded for electronic discovery charges were in fact taxable, eliminating more than $335,000 of the award. The court of appeals allowed recovery only for the costs it deemed equivalent to "making copies" under 28 U.S.C. § 1920(4), such as transferring VHS tapes to DVD, scanning hard-copy documents into electronic images, and converting native files into TIFF format. As a result, the court of appeals disallowed recovery for expenditures related to collecting, preserving, processing, indexing, and applying keyword searches to the electronically stored information (ESI).

Cost Recovery for Electronic Discovery

As we reported in our previous LawFlash on the topic of "Loser Pays,"[2] a prevailing civil party may recover nonattorney-fee "costs" under Federal Rule of Civil Procedure 54(d)(1).[3] Rule 54(d)(1) is limited, however, by 28 U.S.C. § 1920, which enumerates the expenditures that are taxable against the losing party. In particular, § 1920(4) specifies that "[f]ees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case" are recoverable costs. However, the interpretation of Rule 54(d)(1) and 28 U.S.C. § 1920(4) as applied to electronic discovery activities is unsettled.

Some courts have taken an expansive view of "exemplification" and "making copies" as related to electronic discovery costs. For example, courts have awarded costs for TIFF conversion and project management;[4] collecting, searching, and processing ESI;[5] ESI production when "the opposing party requested that responsive documents be produced in certain electronic formats";[6] and costs related to applying date ranges, custodian filters, and deduplication, and for repair of corrupt data and databases.[7]

Other courts have adopted a narrower interpretation and have disallowed many of the same costs. For example,

1. No. 11-2316, 2012 WL 887593 (3d Cir. Mar. 16, 2012).

2. "Electronic Discovery Costs: Loser Pays (for what?)," (June 20, 2011) is available at http://www.morganlewis.com/pubs/eData_LF_ElectronicDiscoveryCosts_20june11.pdf.

3. "Unless a federal statute, these rules, or court order provides otherwise, costs—other than attorney's fees—should be allowed to the prevailing party." Fed. R. Civ. P. 54(d)(1).

4. *Jardin v. DATAllegro, Inc.*, No. 08-CV-1462-IEG (WVG), 2011 WL 4835742, at *8 (S.D. Cal. Oct. 12, 2011).

5. *CBT Flint Partners LLC v. Return Path, Inc.*, 676 F. Supp. 2d 1376, 1381 (N.D. Ga. 2009), *reversed in part, vacated in part, on other grounds*, 654 F.3d 1353 (Fed. Cir. 2011) (awarding such costs because these services are not the types of services that attorneys are trained to provide).

6. *B&B Hardware, Inc. v. Fastenal Co.*, No. 4:10-cv-00317-SWW, 2011 WL 6829625, at *7(E.D. Ark. Dec. 16, 2011).

7. *Promote Innovation LLC v. Roche Diagnostics Corp.*, No. 1:10-cv-964-TWP-TAB, 2011 WL 3490005, at *1-*2 (S.D. Ind. Aug. 9, 2011).

courts have disallowed recovery of costs that "involved more than merely converting a paper version into an electronic document";[8] costs relating to ESI collection, extraction, and storage;[9] costs for "the processing of tapes to locate, retrieve, and store" ESI;[10] costs related to creating searchable ESI;[11] and costs for deduplication, metadata extraction, and database creation, which were more akin to creating documents than "making copies."[12]

The Race Tires Cases

After successfully defending an antitrust case, the defendants in the first *Race Tires* case were awarded more than $365,000 as recovery for electronic discovery costs. In affirming the clerk of the court's award of electronic discovery costs, the district court followed decisions where "the steps the third-party vendor performed appeared to be the electronic equivalents of exemplification and copying."[13] The plaintiff appealed the award to the Third Circuit claiming, among other things, that most of the electronic discovery costs were not eligible for recovery.

The court of appeals affirmed only a small portion of the award relating to certain ESI transferring, scanning, and conversion tasks that qualified under its analysis as "making copies"—approximately $30,000—and vacated the rest of the award—more than $335,000.[14] In reaching its decision, the court of appeals noted that "Section 1920 . . . defines the full extent of a federal court's power to shift litigation costs absent express statutory authority."[15] Analyzing the text of § 1920(4), the court of appeals distinguished "exemplification" from "making copies" and concluded that none of the electronic discovery services satisfied the definition of "exemplification." The court of appeals next addressed "making copies." Noting that § 1920(4) had a history of being relied on for recovering photocopying costs, the court cited common-use definitions of a "copy" and "copying" as relating to imitating, transcribing, reproducing, or duplicating an item.

In applying this analysis to the various services performed by the electronic discovery vendors, the court of appeals found that scanning of paper documents, converting native files to TIFF images, and transferring VHS tapes to DVD all constituted "making copies" and were therefore taxable against the losing party. While acknowledging that extensive processing of ESI may be an essential and indispensable part of electronic discovery, the court of appeals observed, "that does not mean that the services leading up to the actual production constitute 'making copies.'"[16] The court also rejected the "degree of expertise necessary to perform the work," "the identity of the party performing the work," the encouragement of cost saving, or general equitable concerns as factors affecting taxability.

The court of appeals criticized the district court's ruling and other "decisions that allow taxation of all, or essentially all, electronic discovery consultant charges" as being "untethered from the statutory mooring."[17] Indeed, the court of appeals noted that "[n]either the language of § 1920(4), nor its history, suggests that Congress intended to shift all the expenses of a particular form or discovery—production of ESI—to the losing party," and thus, even though there may be policy reasons or compelling circumstances in a particular case that

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8. *Francisco v. Verizon South, Inc.*, 272 F.R.D. 436, 446 (E.D. Va. 2011).

9. *Fast Memory Erase, LLC v. Spansion, Inc.*, No. 3-10-CV-0481-M-BD, 2010 WL 5093945, at *6 (N.D. Tex. Nov. 10, 2010).

10. *Kellogg Brown & Root Int'l, Inc. v. Altanmia Commercial Mktg. Co.*, No. H-07-2684, 2009 WL 1457632, at *5 (S.D. Tex. May 26, 2009).

11. *Fells v. Va. Dep't of Transp.*, 605 F. Supp. 2d 740, 733-44 (E.D. Va. 2009).

12. *Mann v. Heckler & Koch Defense, Inc.*, No. 1:08cv611(JCC), 2011 WL 1599580, at *9 (E.D. Va. Apr. 28, 2011).

13. *Race Tires Am., Inc. v. Hoosier Racing Tire Corp.*, No. 2:07-cv-1294, 2011 WL 1748620, at *8 (W.D. Pa. May 6, 2011) (*Race Tires II*), *aff'd in part, vacated in part, and remanded, Race Tires Am., Inc. v. Hooiser Racing Tire Corp.*, No. 11-2316, 1012 WL 887593 (3d Cir. Mar. 16, 2012).

14. *Race Tires III.* The Court of Appeals vacated all of defendant DMS's electronic discovery costs because they found that their vendor invoices "do not disclose any charge for scanning or TIFF conversion." *Race Tires III,* at *8 fn 8.

15. *Race Tires III,* at *5 (quotation marks, alteration, and citations removed).

16. *Id.* at *9.

17. *Id.* at *9.

warrant making such an award, "the federal courts lack the authority to do so . . . under the statute."[18]

Conclusion

While the issue of broad recoverability of electronic discovery costs remains unsettled, at least *Race Tires III* provides clarity in the Third Circuit. While the law continues to develop in other jurisdictions, however, litigants outside the Third Circuit should be aware that they may be taxed more of the opposing party's electronic discovery costs than just those the Third Circuit deemed as "making copies" should the opposing party prevail. Through the meet-and-confer process, cooperation, an agreed-upon case management plan, and a focus on identifying relevant information in a cost-efficient manner, the parties can help limit any costs they may be required to pay should they lose.

Contacts

If you have any questions or would like more information on the issues discussed in this LawFlash, please contact any of the following Morgan Lewis eData attorneys and technologists:

Attorneys

Stephanie A. "Tess" Blair	Philadelphia	215.963.5161	sblair@morganlewis.com
Scott A. Milner	Philadelphia	215.963.5016	smilner@morganlewis.com
Jacquelyn A. Caridad	Philadelphia	215.963.5275	jcaridad@morganlewis.com
Tara S. Lawler	Philadelphia	215.963.4908	tlawler@morganlewis.com
Denise E. Backhouse	New York	212.309.6364	dbackhouse@morganlewis.com
Lorraine M. Casto	San Francisco	415.442.1216	lcasto@morganlewis.com
Graham Rollins	Washington, D.C.	202.739.5865	grollins@morganlewis.com
Jennifer Mott Williams	Houston	713.890.5788	jmwilliams@morganlewis.com

Technologists

L. Keven Hayworth	New York	212.309.6929	khayworth@morganlewis.com
James B. Vinson	Philadelphia	215.963.5391	jvinson@morganlewis.com
Wayne R. Feagley	San Francisco	415.442.1737	wfeagley@morganlewis.com
George E. Phillips	Houston	713.890.5769	george.phillips@morganlewis.com

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18. *Id.* at *11.