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Be Careful What You Ask for: Loser Pays Prevailing Party Electronic Discovery Costs (Again)

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Following on the heels of *Race Tires II*,[1] which awarded electronic discovery costs in favor of the prevailing party, several recent awards suggest that when deciding whether to pursue litigation, parties should take into consideration the costs of electronic discovery—and the discovery methods used—as courts are increasingly taxing nonprevailing parties for the costs of electronic discovery.

Recently, courts in California and Pennsylvania found that the prevailing party can recover electronic discovery costs under Federal Rule of Civil Procedure 54. The types of costs awarded under Rule 54 depend upon a court's interpretation of 28 U.S.C. § 1920(4), which lists "fees for exemplification and the cost of making copies of any materials where the copies are necessarily obtained for use in the case," as taxable, or recoverable, costs. In each of the four cases below, the court found that electronic discovery costs related to the duplication and production of data in discovery were recoverable.

Jardin v. DATAllegro, Inc.

In *Jardin v. DATAllegro, Inc.*,[2] the U.S. District Court for the Southern District of California granted the defendants summary judgment on noninfringement and dismissed their counterclaims. The Clerk of the Court entered the judgment and taxed costs, including electronic discovery costs, against the plaintiff. Because Rule 54(d) creates a presumption in favor of awarding costs to a prevailing party, the court rejected Jardin's arguments that costs should not be awarded because he litigated in good faith, the issues in the case were close and difficult, and there was an economic disparity between Jardin and DATAllegro's parent company.

The court then examined two specific types of electronic discovery costs awarded to determine whether each was properly taxable: (1) costs associated with converting electronic data into a TIFF file format and (2) costs associated with electronic discovery project management.

As to TIFF conversion, Jardin argued that this should not be taxed because defendants could have produced the electronic data in its original format. The defendants countered that such conversion allowed for Bates stamping, prevented alterations to the electronic data, protected the confidentiality of metadata, and allowed the parties to use document review software. While noting that federal courts are divided on

1. S*ee* our June 20, 2011 Law Flash, "Electronic Discovery Costs: Loser Pays (for what?)," available online at http://www.morganlewis.com/pubs/eData_LF_ElectronicDiscoveryCosts_20june11.pdf.

2. *Jardin v. DATAllegro, Inc.*, 2011 WL 4835742 (S.D. Cal., Oct. 12, 2011).

the issue of whether the costs for converting electronic data from one format into another is a taxable cost, the court found the conversion "was a necessary part of discovery" here because the Federal Rules require the production of electronically stored information. The court reasoned that converting data into a format that all parties could use "not only allows for more efficient and less expensive discovery, but is often necessary for any meaningful discovery at all." Thus, costs for converting electronic data into TIFF format were taxable exemplification costs under 28 U.S.C. § 1920(4).

Next, the court reviewed the costs for electronic discovery project management. The court differentiated between costs associated with physical production, i.e., physically replicating and producing the data, and with intellectual effort, or the costs arising out of strategy or other matters involving a lawyer's judgment. Under Section 1920(4), fees for preparing and producing documents are recoverable while the fees associated with a lawyer's intellectual effort are not. Because the project manager's duties were limited to overseeing data conversion, and he did not review documents or contribute to case strategy, the project management costs were fully recoverable.

Tibble v. Edison International

The U.S. District Court for the Central District of California in *Tibble v. Edison International*[3] also awarded electronic discovery costs. In *Tibble*, Edison prevailed on 11 claims while the plaintiffs prevailed on one part of an ERISA claim. Both parties sought an award of costs as the prevailing party, but the court determined that the defendants were the prevailing party because they "prevailed in the substantial part of the litigation."

The defendants requested that any award of taxable costs offset any attorney fees awarded to the plaintiff. The defendants' submission for costs included approximately $530,000 for electronic discovery, specifically, the costs for "utilizing the expertise of computer technicians" to unearth computerized data sought by the plaintiffs' discovery requests. The Clerk of the Court reviewing the cost application suggested that electronic discovery costs were not recoverable. The court disagreed. The opinion distinguished between costs incurred "merely for the convenience of counsel" and those "necessarily incurred in responding to . . . discovery requests." The court found the latter to be taxable. Ultimately, the court declined to award attorney's fees, rendering the defendants' request for taxation of costs moot; in the alternative, the court granted the request for taxation of costs as an offset up to the amount of any attorney fee award.

In re Aspartame Antitrust Litigation

Finally, the U.S. District Court for the Eastern District of Pennsylvania in *In re Aspartame Antitrust Litigation*[4] upheld the taxation of most of the electronic discovery costs awarded by the Clerk of the Court. The clerk had ruled that the losing plaintiffs should be taxed more than $575,000. The clerk repeatedly emphasized that the congressional record and case history state that costs incurred, other than attorney's fees, have a "heavy presumption" of being "automatically" taxed and awarded to the prevailing party. Because of this heavy presumption, the nonprevailing party bears the burden of showing that the costs should not be awarded. Although the plaintiffs fought the award—claiming inability to pay, that the lawsuit was brought in good faith, that the costs sought were not sufficiently explained, and that the costs were incurred as a result of the defendants' bad faith—like the court in *Jardin*, the clerk found the

3. *Tibble v. Edison Int'l*, 2011 WL 3759927 (C.D. Cal. Aug. 22, 2011).

4. *In re Aspartame Antitrust Litig.*, 2011 WL 4793239 (E.D. Pa. Oct. 5, 2011).

plaintiffs failed to meet their burden of overcoming the heavy presumption of automatically taxing costs and dismissed each argument in turn.[5]

In upholding the majority of clerk's award, the court noted that "in cases of this complexity, electronic discovery saves costs overall by allowing discovery to be conducted in an efficient and cost-effective manner." The court awarded electronic discovery costs for the creation of a litigation database, storage of data, imaging of hard drives, keyword searches, privilege screen searches, deduplication, data recovery, data extraction, data processing, running documents through an optical character recognition (OCR) program, creating load files, creating production CDs and DVDs, and the technical support required to complete these tasks. The court also awarded fees for scanning, though it reduced the award because the defendants failed to demonstrate the necessity of scanning all documents in color. However, the court denied the taxation of costs related to the use of clustering software. The court similarly denied the costs for converting documents from TIFF into PDF format, finding such costs were incurred for the convenience of counsel, as the parties had agreed to production in TIFF, PDF, or native format (unlike in *Jardin*, where documents were converted to TIFF for production). Thus, the *Aspartame* court denied the taxation of costs for converting TIFF documents into PDF documents. Finally, the court denied costs for document branding and Bates labeling.

Conclusion

The decisions discussed here emphasize that a party engaged in litigation should be prepared to pay an opponent's electronic discovery costs if the party is unsuccessful in the litigation. At a minimum, attorneys and clients should include these costs in their discussion when they assess the costs and benefits of pursuing or defending a claim. Once discovery commences, parties should attempt to minimize electronic discovery expenses by negotiating an Electronic Discovery Plan with the other side. This plan may include limiting the number of custodians, limiting the relevant timeframe, agreeing on search terms or other filtering criteria, and sampling. Failure to cooperate with the other side will only increase expenses that a party may have to pay if it loses. As discovery progresses, attorneys should keep their clients fully informed of how certain discovery decisions may increase costs that could eventually be taxed against the client. Attorneys should also ensure that costs incurred are fully documented and can be articulated for the court in the event that their client prevails. Finally, a party must consider that there is a strong presumption in favor of awarding the prevailing party its costs and that few arguments will rebut the presumption.

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. 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

5. As to the first argument, the clerk found that "even complete and utter inability to pay is not grounds for a disallowance of costs." Similarly, the clerk found he "may not consider" the second argument that an action was brought in good faith. To find otherwise would eclipse the meaning of 28 U.S.C. § 1920(4). The clerk dismissed the third argument, that costs were not sufficiently explained, as the attorneys submitted affidavits that the costs were "correct and were actually and necessarily incurred." Finally, the clerk rejected the plaintiffs' final objection to the bill of costs for failure to demonstrate the alleged misconduct. The clerk further opined that "the misconduct must have been extremely egregious for this objection to prevail."

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 M. 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
Deanna E. Blomquist	Philadelphia	215.963.5369	dblomquist@morganlewis.com
George E. Phillips	Houston	713.890.5769	george.phillips@morganlewis.com

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