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Be Careful What You Ask For: Recovering the E-Discovery Costs as a Prevailing Party

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After you celebrate your win in federal court, as the prevailing party, you will likely turn your attention to the bill of costs. In the age of electronic discovery, a large majority of your client's costs may have been incurred to recover and produce electronically stored information. In fact, your opponent may have used e-discovery as a weapon throughout the litigation to extract a settlement.

But what if both parties knew the court could award e-discovery costs to the prevailing party? In this case, it is likely both parties would exercise restraint in making unlimited demands for ESI and willingly cooperate to minimize e-discovery costs. Or, both parties may be more apt to enter into a cost allocation agreement from the outset.

Before the advent of electronic discovery, a lawyer would review discovery requests, and either the client or the lawyer would personally gather the client's documents in order to respond to the requests. More often than not, the client's

documents would be presented to the lawyer in paper form, and the lawyer, after reviewing the documents for privilege and responsiveness, would have the documents bates-stamped, photocopied and sent off to the other side.

Today, the process of gathering documents is far more complicated. More than 90 percent of today's business records are electronic, as noted by David G. Reis, author of eDiscovery. In handling discovery requests, lawyers and their clients are not equipped with the knowledge or technical skill to gather electronically stored documents. The process of gathering documents is now a concerted effort between the legal and technical teams. The lawyer's role in collecting responsive documents is now that of a project manager and involves, among other duties, identifying and interviewing document custodians, determining the kinds of electronic documents that were created and uncovering the company's data preservation practices to determine where potentially responsive ESI resides and is stored. Once the lawyer's work is done, the technical team, often a skilled ESI vendor, processes the data by copying it from its original electronic format (commonly referred to as "native format") so that the lawyer can review the documents for privilege and responsiveness.

When responsive documents have been identified, the data must be prepared for production. Often, the parties will have agreed on a production format or the requesting party will have specified a production format as permitted under Rule 34 of the Federal Rules of Civil Procedure. Either way, the preferred production format is commonly a Tagged Image File Format (TIFF). In fact, sometimes the ESI will have been converted to TIFF before the documents are reviewed. Regardless, the copying of ESI from its original electronic format and its conversion to TIFF is, as the Northern District of Georgia in CBT Flint Partners LLC v. Return Path, Inc. described, "the 21st century equivalent of making copies" that the prevailing party may recover.

Under the Federal Rules of Civil Procedure, the prevailing party is generally entitled to seek an award of costs. The categories of such costs are set forth in

28 U.S.C. § 1920. Traditionally, and prior to the 2008 amendment to Section 1920, copying costs sought in a bill of costs were limited to the costs to copy "paper." Although some litigants sought e-discovery costs before 2008, the federal district courts struggled with the issue of whether such costs were recoverable under Section 1920. However, in 2008, Congress changed the language of Section 1920 from allowing the costs of making copies of "paper" to allowing the costs of making copies of "any materials." Despite the revision, the district courts remain divided as to whether e-discovery costs are recoverable. The dividing line seems to be whether the costs should be limited to the copying of ESI from its original electronic format and its conversion to TIFF, or if it should include the forensic costs to search and gather electronic data.

The most recent district court to award e-discovery costs to a prevailing party for searching and gathering ESI, as well as converting ESI to TIFF, was the Northern District of Georgia. In CBT Flint Partners , the defendant prevailed on summary judgment against a patent infringement claim and sought more than $240,000 in e-discovery costs. The costs included money it paid to an ESI vendor to not only copy the defendants' ESI, but also to collect, search and gather the data. In the end, the defendant produced more than one million documents and six versions of source code. In considering the defendant's bill of costs, the court allowed the recovery of all e-discovery costs, noting the costs are "the 21st century equivalent of making copies."

Significantly, the court observed the plaintiff had directed voluminous document requests to the defendant and suggested taxation of e-discovery costs might encourage parties to "exercise restraint in burdening the opposing party with the huge cost of unlimited demands for electronic information." Other district courts and the 6th U.S. Circuit Court of Appeals also have allowed recovery of "electronic scanning and imaging" costs. For example, the District of Idaho in Lockheed Martin Idaho Technologies Co. v. Lockheed Martin Advanced Environmental Systems Inc. allowed the taxation of $4.6 million for the costs incurred to create a litigation database.

On the other hand, several district courts and the 7th Circuit have disallowed recovery of e-discovery costs to search and gather electronic data. One commentator, Steven C. Bennett — the author of Are E-Discovery Costs Recoverable by a Prevailing Party? — noted that some courts have disallowed recovery of costs for searching and extracting documents if the work is more akin to that of a lawyer or paralegal. Judge Lee Rosenthal, chair of the Judicial Conference Committee on Rules of Practice and Procedure, in Kellogg Brown & Root, Intern Inc. v. Altanmia Commercial Marketing Co. , denied the prevailing plaintiff recovery of e-discovery costs on the grounds that in a paper document case, the majority of the work performed by the ESI vendor would be performed by lawyers and paralegals. More importantly, the court took issue with the fact that the plaintiff did not produce the data extracted by the ESI vendor and incurred most of the e-discovery costs before the defendant issued its discovery requests or after the court granted the plaintiff's motion for summary judgment.

Late last year, both the Northern District of Texas in Fast Memory Erase LLC v. Spansion, Inc. and the Southern District of California in Gabriel Technologies Corp. v. Qualcomm Inc. denied a portion of the prevailing party's claimed e-discovery costs. The courts relied on the rationale in CBT Flint Partners LLC v. Return Path Inc. that e-discovery tasks more akin to the work of a lawyer and not related to the "electronic equivalents of exemplification" are not recoverable.

As e-discovery continues to grow and more parties view it as a way to uncover the "smoking gun," the issue of recovering e-discovery costs will be a major focus. Until Congress amends Section 1920 or local rules providing clear guidelines regarding the recovery of e-discovery costs by the prevailing party are enacted, litigants are wise to keep in mind the division of authority. Parties hoping to get a head start on analyzing their claims and defenses before discovery requests are issued should consider that their e-discovery costs might not be recoverable if the other side carefully tailors its ESI requests.

These "head-start" litigants should consider reviewing documents before discovery in their less expensive "native format." Parties pursuing or defending a potentially weak case should carefully tailor their ESI discovery requests and consider requesting that documents be produced in their "native format." Open discussions should take place between the requesting party and the producing party, including how such costs can be minimized and whether a cost allocation agreement is appropriate. In addition, producing parties need to understand their e-discovery invoices may eventually be analyzed by a court. As a result, it is best to closely manage an ESI vendor to ensure that invoiced costs are clearly associated with the "exemplification" and copying process under Section 1920.