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Client Alert

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# Modern Day Copying: Recovery of Costs for Electronic Discovery Under 28 U.S.C. § 1920

"Most courts . . . agree that at least some portion of e-discovery costs are taxable under the statute, but there is a split among the courts as to exactly which e-discovery activities are recoverable."

Given the massive volume of electronically stored information (ESI) being maintained by many companies today, discovery costs have skyrocketed as corporate clients are typically required to collect, process, and review thousands of electronic documents in response to an opposing party's discovery requests. In an effort to recoup some of these costs, prevailing parties have begun requesting an award of costs for expenditures related to e-discovery activities pursuant to 28 U.S.C. § 1920. In relevant part, the statute provides that "A judge or clerk of any court of the United States may tax as costs the following: … (4) Fees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case." Most courts that have considered whether to award costs under § 1920(4) agree that at least some portion of e-discovery costs are taxable under the statute, but there is a split among the courts as to exactly which e-discovery activities are recoverable. While many of the courts facing this issue wrestle with the question of which activities are necessary to make a copy of an electronic document, a few courts, in recent decisions, have granted an award of costs for a number of e-discovery activities because they are required for efficient discovery in modern litigation.

## The Electronic Reproduction of a Paper Document

To reflect the reality of modern litigation, in 2008 the U.S. Congress amended the text of § 1920(4) by replacing the phrase "fees for exemplification of copies of papers" with "fees for exemplification and the costs of making copies of any materials." Even before the Congressional amendment, courts were willing to award costs under the statute for activities deemed to be similar to the copying of paper documents. *See, e.g., BDT Products, Inc. v. Lexmark International, Inc.*, 405 F.3d 415, 420 (6th Cir. 2005) (affirming the district court's decision to award costs for the electronic scanning and imaging of documents on the grounds that such activities "could be interpreted as 'exemplification and copies of papers.'"); *Brown v. McGraw-Hill Companies, Inc.*, 526 F. Supp. 2d 950, 959 (N.D. Iowa 2007) (finding that "electronic scanning of documents is the modern-day equivalent of 'exemplification and copies of paper'"). Since the amendment, a majority of courts are in agreement that costs for scanning and imaging of documents may be recovered under § 1920(4) and, in one noteworthy decision, the District Court for the Northern District of California recently held that the prevailing party

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was entitled to an award of costs for the scanning and imaging of all documents that were collected for review regardless of whether the documents were actually produced to the opposing party. *See Parrish v. Manatt, Phelps & Phillips, LLP*, 2011 WL 1362112 (N.D. Cal. Apr. 11, 2011). Courts' interpretation of the statute begins to diverge, however, when parties seek reimbursement for the costs of activities beyond simple imaging or scanning.

## What Processes are Necessary to Produce an Electronic Copy of a Document

When requesting an award of e-discovery costs, prevailing parties typically seek reimbursement for a variety of activities, such as document collection and processing, database creation, optical character recognition (OCR) scanning and metadata extraction. Some courts have denied such requests because they are simply unwilling to award costs for activities that are not analogous to the photocopying of paper. For example, in *Fells v. Virginia Department of Transportation*, 605 F. Supp. 2d 740 (E.D. Va. 2009), the court denied the prevailing party's request for the costs of processing documents, extracting metadata, and converting files, explaining that such techniques were done to "*create* searchable documents, rather than merely *reproduce* paper documents in electronic form." Similarly, in *Computer Cache Coherency Corp. v. Intel Corp.*, 2009 WL 5114002 (N.D. Cal. Dec. 18, 2009), the court, citing a Ninth Circuit case from 1989, explained that § 1920(4) only permits the recovery of costs associated with "the physical preparation and duplication of documents." In *Computer Cache*, Intel successfully defended a patent infringement action and sought recovery of over $84,000 in costs incurred for electronic scanning, OCR scanning, metadata extraction and bates labeling. The clerk originally disallowed approximately $50,000 of the request, but Intel disputed the clerk's decision. Although the court in this case allowed recovery for electronic scanning and bates numbering as necessary reproduction costs, it denied costs for OCR scanning and metadata extraction because they were done "merely for the convenience of counsel."

Other courts have refused to award costs on the grounds that certain e-discovery activities are not necessary to produce an electronic copy of a document because the activities are similar to work that would normally be performed by an attorney or a paralegal. In *Kellogg Brown & Root International, Inc. v. Altanmia Commercial Marketing Co. W.L.L.*, 2009 WL 1457632 (S.D. Tex. May. 26, 2009), Kellogg Brown & Root (KBR) sought to recover costs for, among other things, data extraction and storage services provided by a third-party vendor. The court denied KBR's request stating that "extracting data from an electronic medium and storing that data for possible use in discovery is more like the work of an attorney or legal assistant in locating and segregating documents … than it is like copying those documents for use in the case." Some courts, however, have rejected this exact same argument in deciding to award costs for a host of e-discovery services and activities. In *Race Tires America, Inc. v. Hoosier Racing Tire Corp.*, 2011 WL 1748620 (W.D. Pa. May 6, 2011), the defendants prevailed at both the trial and appellate courts. The plaintiff filed a motion challenging the clerk's decision to award defendants costs related to electronic discovery totaling more than $360,000. Defendants were awarded costs for a variety of services provided by third-party vendors, including forensic collection of documents, imaging and indexing of documents, metadata extraction, and OCR scanning. In rejecting plaintiff's argument that such services are similar to the work of

attorneys or paralegals, the *Race Tires* court found that "the requirements and expertise necessary to retrieve and prepare these e-discovery documents for production were an indispensable part of the discovery process."

In a newly published opinion, the United States Court of Appeals for the Federal Circuit found that the district court did not err in holding that costs associated with the use of an electronic database to produce email to an opposing party were recoverable under § 1920(4). *See In re Ricoh Company, Ltd. Patent Litigation*, 661 F.3d 1361 (Fed. Cir. 2011). At the outset of discovery, Ricoh insisted on receiving email in its native form and suggested that Synopsys use a specific e-discovery vendor for the processing, review and production of email. Synopsys agreed to both the use of the third-party vendor and to pay the vendor one half of the invoiced database-related fees. After the district court granted Synopsys' motion for summary judgment, Synopsys was awarded costs for a variety of discovery-related activities, including $234,702.43 for the electronic database used to produce email to Ricoh. On appeal, Ricoh argued that the electronic database costs were not recoverable because the database was unnecessary. In rejecting Ricoh's argument, the Federal Circuit agreed with the district court's conclusion that the use of the electronic database "constituted electronic production" of the email because the database was needed to produce the email in native form. The Federal Circuit, however, ultimately reversed the district court's decision to award the costs for the database finding that despite the absence of any knowing waiver of costs under 28 U.S.C. § 1920, Synopsys' agreement to pay half of the e-discovery vendor's database-related fees was an agreement to split the costs, and that agreement was controlling. *See also U.S. ex rel. Davis v. U.S. Training Center, Inc.*, 2011 WL 6317336 (E.D. Va. Dec. 8, 2011) (finding the issue of whether ESI-related discovery costs are recoverable was moot because the parties had a joint discovery agreement in which they agreed to bear their own production costs).

## The Realities of Electronic Discovery in Modern Litigation

Recently, courts have granted awards of costs for numerous e-discovery activities, not because these services are necessary to produce electronic copies of documents, but because such activities are necessary for parties to conduct efficient and effective discovery. In *Jardin v. DATAllegro*, 2011 WL 4835742 (S.D. Cal. Oct. 12, 2011), defendants were awarded costs for converting documents into .TIFF format, as well as for the project management costs associated with its e-discovery efforts. With respect to the costs of the .TIFF conversion, the *Jardin* court noted that the Federal Rules of Civil Procedure require parties to produce electronically stored information and that such data may exist in a variety of formats. The court then explained that "converting data into a format that all parties can utilize not only allows for more efficient and less expensive discovery, but is often necessary for any meaningful discovery at all." In upholding the clerk's decision to award the conversion costs, the court relied on the fact that discovery in the case involved "massive amounts of e-data stored in various digital formats," which the parties agreed in advance to produce in .TIFF format "because the .TIFF conversion made discovery easier, more efficient, and less expensive for all parties."

*In re Aspartame Antitrust Litigation*, 2011 WL 4793239 (E.D. Pa. Oct. 5, 2011), represents the broadest interpretation of recoverable costs under § 1920(4) to date. In this case, defendants sought an award of costs for a number of e-discovery services. Before reaching a decision on this

issue, the court noted the huge volume of discovery — over 100 million pages of potentially responsive material was collected between the three defendants — and pointed out that the parties agreed to use keyword searches and de-duplication tools to reduce discovery-related costs. Convinced by the defendants' argument that the various discovery-related activities helped to cut down on costs and make the discovery process more efficient, the court awarded costs for the following activities: creation of a litigation database, data storage, data processing and hosting, metadata extraction, imaging of hard drives, de-duplication, keyword searches and privilege screens, and OCR processing. Additionally, defendants were awarded costs associated with "the technical support necessary to complete these tasks," costs to create load files, and costs for data recovery and tape restoration. The court refused, however, to award costs for a review tool with the capability to conceptually cluster documents. The court found that such a program went above and beyond simple keyword searches and was used "for the convenience of counsel."

## Outlook

The types of discoverable evidence has greatly expanded over the last ten years. Gone are the days of clients having to only provide an opposing party with a couple boxes of paper documents. Now litigants have to search, among other sources, email, databases, voicemail, instant messages, and social media websites for documents that may be responsive to a party's discovery requests. In complex litigation matters, the costs associated with collecting, processing and reviewing high volumes of such diverse electronic information are enormous. In light of the realities of modern litigation, there appears to be a shift among courts to award prevailing parties costs for numerous e-discovery activities. While the reasoning relied on by the courts in *Jardin* and *In re Aspartame Antitrust Litigation* may turn out to be the exception rather than the rule, these decisions provide a unique argument for parties seeking to recover discovery-related costs under § 1920(4).

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