BY JENNIFER LELAND

What Courts Consider When Deciding E-Discovery Cost Awards

IN DISCOVERY, SEARCHING FOR AND PRODUCING electronically stored information (ESI) can be an extremely time-consuming task that may require costly help. Although parties may avoid prohibitive ESI production expense if they can "show that the information is not reasonably accessible" due to excessive burden or cost,[1] it is not always evident who will have to pay for complying with e-discovery without a protective order or other ruling that identifies the liable party.

Some costs may be recouped, but courts remain divided as to what e-discovery costs are recoverable. Courts appear, however, to be trending toward a more conservative approach that makes them reluctant to award a prevailing party the significant costs that can be associated with e-discovery.

An award of costs in federal court is typically governed by Federal Rule of Civil Procedure 54(d), which provides that "[u]nless a federal statute, these rules, or a court order provides otherwise, costs—other than attorney's fees—should be allowed to the prevailing party."[2] While Rule 54(d) gives the federal courts discretion to tax costs, this does not mean that a court can award costs as it feels appropriate. Federal law limits the costs that a court may award under Rule 54(d) to 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 under section 1923, and 6) compensation of court-appointed experts and interpreters, in addition to salaries, fees, expenses, and costs of special interpretation services.[3]

ESI costs are analyzed under 28 USC Section 1920(4)—"fees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case."[4] Not long ago, the statute only permitted the courts to tax costs for "fees for exemplification and copies of *papers*…."[5] In 2008, Congress amended Section 1920(4) to allow fees for the costs of making copies of any materials.[6] The federal courts have recognized that this amendment was specifically intended to permit the taxing of the cost of copying digital materials.[7] Yet, while everyone understands what it means to make a copy of a paper document, what constitutes a copy of digital materials and what types of ESI activity fall under the category of exemplification is not always so clear. The courts are divided on the issue.

Nontaxable ESI Costs

For example, in one case, the Third Circuit denied over $334,000 in e-discovery costs as nontaxable.[8] In another, the Southern District of Illinois denied over $850,000.[9] In *Cordance Corporation v. Amazon.com, Inc.*, the Delaware district court awarded only $2,722 of the $447,695 requested by the defendant.[10] In *Plantronics, Inc. v. Aliph, Inc.*, the defendants requested $135,407 for in-house e-discovery costs and $100,948 for third-party vendor costs to search, gather, and electronically produce documents to the plaintiff. The Northern District of California awarded the defendants $20,613 for their in-house costs and denied their request for vendor costs entirely.[11] As these cases suggest, courts can be reluctant to award a prevailing party the significant costs of e-discovery.

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E-discovery can encompass a variety of tasks, including:

- Searching for, collecting, reviewing and determining which documents are relevant to a case or responsive to a document request.
- Imaging hard drives.
- Scanning documents.
- Creating a database.
- Converting files from native format to a noneditable format such as to a TIFF file.[12]
- Extracting metadata.
- Converting documents into a text searchable format.
- Bates numbering.
- Transferring data to a disc.
- Hosting and storing the data.

Some or all of these activities may be necessary in order for a party to respond to a request for ESI. Some of these tasks may also be necessary in order to preserve the attorney-client privilege, attorney work product, or confidentiality of the information. Nevertheless, the costs of performing these tasks are not necessarily taxable as fees for either exemplification or making copies.

The Ninth Circuit, like the majority of the circuits, has not yet considered the issue of what e-discovery costs may be awarded. The lead-

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ing case on this issue comes from the Third Circuit in *Race Tires America, Inc. v. Hoosier Racing Tire Corporation*.[13] Pursuant to a case management order, the parties were directed to 1) produce electronic documents in TIFF accompanied by "[a] cross reference or utilization file, in standard format (e.g., Opticon, Summation, DII, or the like) showing the Bates number of each page and the appropriate utilization of the documents," unless native file format was reasonably necessary to enable the other parties to review the files, 2) produce specific metadata fields if reasonably available (e.g., author, copied to, custodian name, date created, date last modified, and time), and 3) produce extracted text files or searchable versions for each electronic document.[14] Hoosier and codefendant Dirt Motor Sports, Inc. (DMS), hired separate vendors to assist with the production and paid in excess of $125,000 and $240,000, respectively, for the services, which included "(1) preservation and collection of ESI; (2) processing the collected ESI; (3) keyword searching; (4) culling privileged material; (5) scanning and TIFF conversion; (6) optical character recognition… and (7) conversion of racing videos from VHS format to DVD format."[15]

The district court granted summary judgment in favor of Hoosier and DMS and, pursuant to Rule 54(d), Hoosier and DMS submitted a bill of costs to the clerk seeking to recover e-discovery costs. The clerk, noting that there was no precedent from the Third Circuit on the issue, concluded that e-discovery costs were taxable and awarded Hoosier $125,580.55 (excluding only amounts that lacked supporting detail and amounts for services performed by Hoosier's law firm) and awarded DMS $241,778.81, the entire amount it had requested.[16] The district court affirmed the award, finding that "the steps the third-party vendor(s) performed appeared to be the electronic equivalent of exemplification and copying."[17]

Race Tires appealed. The Third Circuit framed the issue as follows: "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.'"[18] The Third Circuit began its analysis by distinguishing between the terms "exemplification" and "making copies."[19] The court noted that exemplification had been defined as "an official transcript of a public record, authenticated as a true copy for use as evidence" by the Federal Circuit and as "the act of illustration by example," by the Seventh Circuit but held that none of the ESI charges qualified as exemplification fees under either definition.[20] The court next considered whether the fees could be awarded as the "costs of making copies" and held that, of all the activities undertaken by the vendors, only the conversion of native files to TIFF, the scanning of copies to create digital duplicates, and the transfer of VHS recordings to DVDs constituted "making copies" under the statute and were therefore taxable. These costs totaled $30,370—less than 10 percent of the amount incurred.[21] The fact that the vendors' services may have been necessary or "indispensable" to the production process was irrelevant:

> It may be that extensive 'processing' of ESI is essential to make a comprehensive and intelligible production. Hard drives may need to be imaged, the imaged drives may need to be searched to identify relevant files, relevant files may need to be screened for privileged or otherwise protected information, file formats may need to be converted, and ultimately files may need to be transferred to different media for production. But that does not mean that the services leading up to the actual production constitute 'making copies.'
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> The process employed in the predigital era to produce documents in complex litigation similarly involved a number of steps essential to the ultimate act of production. First, the paper files had to be located. The files then had to be collected, or a document reviewer had to travel to where the files were located. The documents, or duplicates of documents, were then reviewed to determine those that may have been relevant. The files designated as potentially relevant had to be screened for privileged or otherwise protected material. Ultimately, a large volume of documents would have been processed to produce a smaller set of relevant documents. None of the steps that preceded the actual act of making copies in the predigital era would have been considered taxable.[22]

While some courts have found that the technical nature of a task supports a finding that the costs are taxable,[23] the Third Circuit concluded that neither the highly technical nature of e-discovery services nor the potential cost savings attributable to using an e-discovery consultant were relevant to the analysis.[24] Finally, the court rejected the argument that because the Federal Rules of Civil Procedure provide for discovery of ESI or the parties agreed to exchange ESI, the costs should be taxable.[25]

The Ninth Circuit

The Ninth Circuit has yet to directly address the issue of what e-discovery costs may be awarded to a prevailing party. In *Romero v. City of Pomona*, a 1989 case decided well before the 2008 amendment to Section 1920(4), the Ninth Circuit held that "fees are permitted only for the physical preparation and duplication of documents, not the intellectual effort involved in their production."[26] District courts in the Ninth Circuit and elsewhere have relied on *Romero* to hold that costs associated with producing ESI that are attributable to intellectual effort are not taxable; however, the courts have varying interpretations of what constitutes intellectual effort. For example, in *Oracle America, Inc. v. Google Inc.*, the district court for the Northern District of California relied on *Romero* to disallow nearly $3 million in e-discovery costs incurred by an outside vendor, holding that "the problem with…[the] bill of costs is that many of item-line descriptions seemingly bill for 'intellectual effort' such as organizing, searching, and analyzing the discovery documents.…"[27] In *Jardin v. DATAllegro*, the district court for the Southern District of California upheld an award of costs for "project management" by an outside technician. The court in *Jardin* reasoned that the technician had been "engaged to perform duties limited to technical issues related to the physical production of information." The court determined that the project manager's tasks did not involve any intellectual effort because he did not review any documents or make any strategic decisions but rather oversaw the process of conversion "to prevent inconsistent and duplicative processing."[28]

Jardin, however, was decided before *Race Tires*. It was also decided before the U.S. Supreme Court's decision in *Taniguchi v. Kan Pacific Saipan, Ltd.*[29] Although *Taniguchi* addressed the costs of interpreters, not e-discovery, the case nevertheless has influenced the interpretation of Section 1920(4). Reversing a Ninth Circuit decision holding that the cost of document translation was taxable as "compensation of interpreters" under Section 1920(6), the Supreme Court rejected the notion that district courts are "free to interpret the meaning of the cast of categories listed within [Section] 1920."[30] The Court reasoned that taxable costs under Section 1920 are not synonymous with the everyday meaning of "expenses" but instead "are limited to relatively minor, incidental expenses."[31] Several district courts have since relied on *Taniguchi* to limit the scope of e-discovery costs that may be recovered.[32]

The Fourth Circuit is the only court of appeal to date to have expressly adopted *Race Tires*,[33] but numerous district courts across the country have relied on the Third Circuit's decision in analyzing whether to tax certain e-discovery costs. Most of those courts have agreed that the conversion of native digital files to an

agreed-upon production format (e.g., TIFF or PDF) and the scanning of paper documents to create digital duplicates for production in discovery are compensable costs under Section 1920(4).[34] The courts, however, are split on whether other types of ESI costs are taxable, especially those incurred prior to the conversion of the data to another format, such as TIFF or PDF. Examples of these "processing costs" include those incurred for performing key word searches, creating and maintaining an electronic discovery database, extracting metadata, OCR, eliminating duplicates, and hosting or storing electronic data.

Some courts take a conservative approach and hold that activities undertaken prior to conversion of the document to a PDF or TIFF are not taxable.[35] Other courts have read Section 1920(4) more broadly and have allowed a party to recover costs for collecting and processing ESI.[36] One factor that may be relevant is whether or not the parties agreed to the form of production or whether one party unilaterally decided to produce the information in a particular format.[37] Even having an agreement, however, does not guarantee that costs will be recoverable. In *Plantronics*, the parties had agreed on the form of production, yet the Northern District of California declined to tax over $200,000 in e-discovery processing costs when the agreement only discussed the form of production and not the costs associated with the production under Rule 54(d).[38]

While the courts are trending toward constraining costs to specific types of e-discovery tasks, case law in this area is continuing to evolve and consists for the most part of unpublished decisions. Unfortunately, it does not appear likely there will be a legislative fix soon. Last year, the Advisory Committee on Civil Rules published for public comment Proposed Amendments to the Federal Rules of Civil Procedure. No amendments to Rule 54 were proposed. Nor does it appear that the district courts are willing to resolve the question through amendments to the local rules. For now, the courts remained tasked with defining "exemplification" and "making copies" on a case-by-case basis—whether the courts will rely on the Supreme Court's rationale in *Taniguchi* to tip the scales against the recovery of e-discovery costs remains to be seen. Until then, attorneys and their clients should assume that the costs of meeting discovery requirements may be borne by the litigant that incurred them. ■

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[1] Fed. R. Civ. P. 26(b)(2)(B).
[2] Fed. R. Civ. P. 54(d) (emphasis added).
[3] *See generally* 28 U.S.C. §1920.
[4] Some district courts have local rules that attempt to clarify or expand the foregoing categories. *See, e.g.*, N.D. Cal. Civ. R. 54-3(d)(3) (providing that "[t]he cost of reproducing disclosure or formal discovery documents when used for any purpose in the case is allow-

able" but that "[t]he cost of reproducing copies of motions, pleadings, notices, and other routine case papers is not allowable"); S.D. CAL. CIV. R. 54.1(b)(6) (listing various criteria that must be met before costs of copies will be taxable).

[5] 28 U.S.C. §1920(4) (2008) (amended by Judicial Administration and Technical Amendments Act of 2008, Pub. L. No. 110–406, 122 Stat. 4291) (2008) (emphasis added).

[6] Race Tires Am., Inc. v. Hoosier Racing Tire Corp., 674 F. 3d 158, 165 (3d Cir. 2012) (citing Judicial Administration & Technical Amendments Act of 2008, Pub. L. No. 110–406, §6(2), 122 Stat. 4291 (2008)).

[7] *See, e.g.,* Race Tires, 674 F. 3d at 165; Jardin v. DATAllegro, Inc., No. 08–cv–1462, 2011 WL 4835742, at *5 (S.D. Cal. Oct. 12, 2011); El Camino Res., Ltd. v. Huntington Nat. Bank, 1:07-cv-598, 2012 WL 4808741, at *5 (W.D. Mich. May 3, 2012) *report and recommendation approved*, 1:07-CV-598, 2012 WL 4808736 (W.D. Mich. Oct. 10, 2012).

[8] Race Tires, 674 F. 3d 158.

[9] Johnson v. Allstate Ins. Co., No. 07-cv-0781, 2012 WL 4936598 (S.D. Ill. Oct. 16 2012).

[10] Cordance Corp. v. Amazon.com, Inc., 855 F. Supp. 2d 244 (D. Del. 2012).

[11] Plantronics, Inc. v. Aliph, Inc., No. C 09-01714, 2012 WL 6761576 (N.D. Cal. Oct. 23, 2012).

[12] "TIFF" stands for Tagged Image File Format.

[13] Race Tires Am., Inc., 674 F. 3d 158.

[14] *Id.* at 161.

[15] *Id.* at 161-62.

[16] *Id.* at 162-63.

[17] *Id.* at 163.

[18] *Id.* at 164-65.

[19] Not all courts distinguish between "exemplification" and "making copies," sometimes treating the terms as interchangeable. *See, e.g.,* Eaglesmith v. Ray, No. 2:11-cv-00098, 2013 WL 1281823, at *3 (E.D. Cal. Mar. 26, 2013) ("costs related to converting e-data from one format into another, blowbacks, and Bates stamping are valid exemplification costs"); Pacificorp v. Northwest Pipeline GP, No. 3:10-cv-00099, 2012 WL 6131558, at *6 (D. Or. Dec. 10, 2012) (When "circumstances require conversion of electronic data into a different format to share with parties during discovery, 'exemplification' has been deemed to encompass all costs stemming from that process of conversion."); BDT Prods., Inc. v. Lexmark Int'l, Inc., 405 F. 3d 415, 420 (6th Cir. 2005), *abrogated on other grounds by* Taniguchi v. Kan Pacific Saipan, Ltd., 132 S. Ct. 1997, 182 L. Ed. 2d 903 (2012) ("[E]lectronic scanning and imaging could be interpreted as 'exemplification and copies of papers.'").

[20] Race Tires Am., 674 F. 3d at 166.

[21] *Id.* at 167-68.

[22] *Id.* at 169.

[23] *See, e.g.,* Pacificorp, 2012 WL 6131558, at *7 (D. Or. Dec. 10, 2012) ("Because the task of converting already selected files into a database is a purely technical one,…these costs are taxable.")

[24] *Id.*

[25] Race Tires Am., 674 F. 3d at 170.

[26] Romero v. City of Pomona, 883 F. 2d 1418, 1428 (9th Cir. 1989), *overruled in part on other grounds by* Townsend v. Holman Consulting Corp., 914 F. 2d 1136 (9th Cir. 1990).

[27] Oracle Am., Inc. v. Google Inc., No. C 10–03561, 2012 WL 3822129, at *3 (N.D. Cal. Sept. 4, 2012); *see also* Gabriel Techs. Corp. v. Qualcomm Inc., 2010 WL 3718848 (S.D. Cal. Sept. 20, 2010) ($1.5 million fee for third-party consultant to assist with e-discovery was not recoverable).

[28] Jardin v. DATAllegro, Inc., No. 08–cv–1462, 2011 WL 4835742, at *9 (S.D. Cal. Oct. 12, 2011).

[29] Taniguchi v. Kan Pacific Saipan, Ltd., 132 S. Ct. 1997, 2006, 182 L. Ed. 2d 903 (2012).

[30] Taniguchi v. Kan Pacific Saipan, Ltd., 633 F. 3d 1218, 1221 (9th Cir. 2011).
[31] Taniguchi, 132 S. Ct. at 2006.
[32] *See* Country Vintner of N.C., LLC v. E&J Gallo Winery, 718 F. 3d 249, 260 (4th Cir. 2013) (limiting taxable costs to converting electronic files to noneditable formats and burning files on to disks); Ancora Techs., Inc. v. Apple, Inc., No. 11-cv-06357, 2013 WL 4532927, at *3 (N.D. Cal. Aug. 26, 2013) (Costs associated with storage and hosting of electronic documents were not recoverable under Section 1920 in light of Taniguchi's holding—rejecting authority that predated Taniguchi.); Plantronics, Inc. v. Aliph, Inc., No. C 09-01714, 2012 WL 6761576 , at *16-17 (N.D. Cal. Oct. 23, 2012) (The costs for electronic TIFF and PDF conversion and OCR of documents produced in discovery were permissible exemplification costs, but preproduction document collection and processing costs were not.).
[33] Country Vintner, 718 F. 3d 249 (4th Cir. 2013).
[34] *See, e.g.,* El Camino Res., Ltd. v. Huntington Nat. Bank, 1:07-cv-598, 2012 WL 4808741, at *7 (W.D. Mich. May 3, 2012) *report and recommendation approved*, 1:07-CV-598, 2012 WL 4808736 (W.D. Mich. Oct. 10, 2012) ("Under the *Race Tires America* approach, the only compensable costs are (a) the conversion of native digital files to the agreed-upon production format and (b) the scanning of paper documents to create digital duplicates for production in discovery."); Warner Chilcott Labs. Ireland Ltd. v. Impax Labs., Inc., No. 08-6304, 2013 WL 1716468, at *10 (D. New Jersey, Apr. 18, 2013) (taxing only costs associated with TIFF conversion and making copies of original DVDs and CD); Eaglesmith v. Ray, No. 2:11-cv-00098, 2013 WL 1281823, at *4 (E.D. Cal. Mar. 26, 2013) (holding that costs associated with OCR were not recoverable); Amana Soc'y, Inc. v. Excel Eng'g, Inc., No. 10-cv-168, 2013 WL 427394, at *6 (Feb. 4, 2013) (disallowing cost of OCR performed by on the ground that OCR is an activity "traditionally…done by attorneys or support staff, and therefore, are not taxable"). At least one court, however, has disallowed even the costs for conversion of native files to TIFF because the decision to convert the files was voluntary. *See* Eolas Techs. Inc. v. Adobe Sys., Inc., 891 F. Supp. 2d 803, 807 (E.D. Tex. 2012), *aff'd sub nom.* Eolas Techs. Inc. v. Amazon.com, Inc., 521 F. App'x 928 (Fed. Cir. 2013).
[35] *See, e.g.,* Country Vintner, 718 F. 3d at 253 (allowing costs in the amount of $218.59 but disallowing $101,858 in ESI processing charges); Abbott Point of Care, Inc. v. Epocal, Inc., No. CV-08-S-543, 2012 WL 7810970, at *2-4 (N.D. Ala. Nov. 5, 2012) (denying request for costs in the amount of $340,498 for maintaining an electronic discovery database); Finnerty v. Stiefel Labs., Inc., 900 F. Supp. 2d 1317 (S.D. Fla. Oct. 16, 2012) (refusing to award the costs of an electronic database that was solely for the creating party's convenience); Johnson v. Allstate Ins. Co., No. 07-cv-0781, 2012 WL 4936598, at *6 (S.D. Ill. Oct. 16 2012).
[36] *See, e.g.,* Pacificorp v. Northwest Pipeline GP, No. 3:10-cv-00099, 2012 WL 6131558, at *7 (D. Or. Dec. 10, 2012) (costs of converting selected files into a database and the storage of electronic data were taxable); eBay Inc. v. Kelora Sys., LLC, No. C 10-4947, 2013 WL 1402736, at *8-9 (N.D. Cal. April 5, 2013) (allowing "relatively modest" processing costs); Parrish v. Manatt, Phelps & Phillips, LLP, No. 10-03200, 2011 WL 1362112, at *2 (N.D. Cal. Apr. 11, 2011) ("The reproduction costs defendants incurred…were necessary….As such, they are properly taxable.")
[37] *See, e.g.,* Race Tires Am., Inc. v. Hoosier Racing Tire Corp., 674 F. 3d 158, 166 (3d Cir. 2012); In re Ricoh Co., Ltd. Patent Litig., 661 F. 3d 1361, 1367 (Fed. Cir. 2011); eBay, 2013 WL 1402736, at *8; Plantronics, Inc., 2012 WL 6761576, at *15.
[38] Plantronics, 2012 WL 6761576 at *16.