

Electronic Discovery in Civil Litigation: Avoiding Surprises in Cost Shifting Decisions

Genevieve H. Harte[†]

Introduction	267
I. History and Development of Discovery Issues Relevant to E-Discovery	270
II. Circuit Split	273
III. Relevant Rules	276
IV. Approaches to Rule Changes	280
V. Proposed Solutions	284
VI. Recommended Solutions	287
Conclusion	290

INTRODUCTION

Circuit courts are split over the interpretation of 28 U.S.C. § 1920(4), which addresses shifting of electronic discovery (“e-discovery”) costs at the end of the trial.¹ Although the statute lists “copies” and “exemplification” as taxable expenses, federal courts of appeals and district courts interpret these words differently, with drastically differing

[†] J.D., Seton Hall University School of Law, 2015; B.A., & M.A., *with honors*, Cambridge University, England, 1996. With gratitude: For your inspiration - Nicholas Keller, Esq. For your support - Grace Patterson, Esq. For your guidance - Professor D. Michael Risinger. For your constant encouragement - my daughters, Katerina and Gabriella Harte, and my sons, Sebastian and Benedict Harte.

¹ The relevant part of the statute states: “A judge or clerk of any court of the United States may tax as costs the following . . . [F]ees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case.” 28 U.S.C. § 1920(4) (2014).

effects on the allocation of costs.² The expense of discovery is presumptively borne by the responding party,³ but under the Federal Rules of Civil Procedure (“FRCP”), parties can petition for relief from e-discovery requests creating undue burden or expense.⁴ Courts are also required to limit discovery where possible,⁵ and, under Rule 54 of the FRCP, there is a presumption in favor of the award of costs to the prevailing party.⁶

The federal statute focuses on the post litigation stage and does not refer to any agreements between the parties at the pre-trial stage.⁷ Courts have split over what types of electronically stored information (“ESI”) are

² Compare *Race Tires Am., Inc. v. Hoosier Racing Tire Corp.*, 674 F.3d 158, 169 (3d Cir. 2012) (“The result does not depend upon whether the activities leading up to the making of copies are performed by third party consultants with technical expertise. As expressed by one court, ‘Section 1920(4) speaks narrowly of [f]ees for exemplification and copies of papers, suggesting that fees are permitted only for the physical preparation and duplication of documents, not the intellectual effort involved in their production’”) (quoting *Romero v. City of Pomona*, 883 F.2d 1418, 1428 (9th Cir.1989)); with *Hecker v. Deere & Co.*, 556 F.3d 575, 591 (7th Cir. 2009), (awarding one of the defendants \$164,814.43 in costs for “converting computer data into a readable format in response to plaintiffs’ discovery requests”) and *U.S. Bankr. v. Dorel Indus.*, No. A-08-CA-354, 2010 U.S. Dist. LEXIS 78096, at *13–14 (W.D. Tex. Aug. 2, 2010) (awarding the defendant \$27,171.88 under 28 U.S.C. § 1920(3) for the creation of an electronic database that managed 800,000 pages of emails).

³ See *Oppenheimer Fund v. Sanders*, 437 U.S. 340, 358 (1978) (“[A] rough analogy might usefully be drawn to practice under the discovery rules. Under those rules, the presumption is that the responding party must bear the expense of complying with discovery requests.”); see also Adrian K. Felix, *E-Discovery, Shifting the Costs of Compliance*, http://www.americanbar.org/groups/young_lawyers/publications/the_101_201_practice_series/e_discovery_shifting_the_costs_of_compliance.html (last visited Mar. 3, 2015) (“The general presumption is that the responding party will bear the costs of compliance with e-discovery requests.”).

⁴ See FED. R. CIV. P. 26(b)(2)(B).

⁵ FED. R. CIV. P. 26 (b)(2)(C) (“[T]he court must limit the frequency or extent of discovery . . . if it determines that: (i) the discovery sought is unreasonably cumulative or duplicative, or can be obtained from some other source that is more convenient, less burdensome, or less expensive; (ii) the party seeking discovery has had ample opportunity to obtain the information by discovery in the action; or (iii) the proposed discovery is outside the scope permitted by R. 26(b)(1).”); FED. R. CIV. P. 26(b)(1) (“Unless otherwise limited by court order, the scope of discovery is as follows: Parties may obtain discovery regarding any non-privileged matter that is relevant to any party’s claim or defense and proportional to the needs of the case, considering the importance of the issues at stake in the action, the amount in controversy, the parties’ relative access to relevant information, the parties’ resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit.”).

⁶ FED. R. CIV. P. 54(d) (“Unless a federal statute, these rules, or a court order provides otherwise, costs-other than attorney’s fees-should be allowed to the prevailing party.”).

⁷ 28 U.S.C. § 1920(6) (referring only to papers filed at the end of the case: “A bill of costs shall be filed in the case and, upon allowance, included in the judgment or decree”).

taxable and how much e-discovery is recoverable.⁸ The divergent opinions create unfair results for parties who are unable to recover the often prohibitive costs of that initially granted discovery.⁹ Uncertainty about the final costs of ESI threatens to deter litigants from pursuing a case and to push parties to settle early, regardless of the case's merits.¹⁰ These outcomes are at odds with the American legal system's goals of predictable outcomes, fairness in the litigation process, and equal access to litigation for all parties.¹¹

Parties decide what kind of e-discovery and how much e-discovery they pursue under the FRCP, but the court determines what costs are recoverable under 28 U.S.C. § 1920(4).¹² The court's role would be more effective if it enforced what the parties themselves agree to in e-discovery.

⁸ Michael D. Berman, *Taxation of E-Discovery Costs Under 28 U.S.C. Sec. 1920(4) after Taniguchi v. Kan Pacific Saipan*, A.B.A.J. (August 14, 2012), <http://www.esi-mediation.com/taxation-of-e-discovery-costs-under-28-u-s-c-sec-19204-after-taniguchi-v-kan-pacific-saipan/> (“Nevertheless, courts have split on which e-discovery costs may be awarded to a prevailing party under 28 U.S.C. § 1920(4).”).

⁹ M. Austrian, *Taxation of Costs and Offer of Judgment*, DRI (June, 2012), <http://dritoday.org/ftd/2012-06F.pdf/13> (suggesting use of an offer of judgment to pursue a request for costs and noting “[a]n enormous divergence of opinion” among the courts, “with outcomes that range from almost complete reimbursement to total denial”); see generally S. Bennett, *Are E-Discovery Costs Recoverable by a Prevailing Party?*, 20 ALB. L.J. SCI. & TECH. 537 (2010).

¹⁰ Jon Kyl, *A Rare Chance to Lower Litigation Costs*, WALL ST. J. (Jan. 20, 2014, 6:21 PM), <http://www.wsj.com/articles/SB10001424052702304049704579321003417505882>. Kyl points out that the cost of, when not specifically allocated to the requesting party, can lead to a form of effective litigation bullying: “A federal committee wants to hear your ideas on the subject. Speak up. Nothing provokes as much dread in the mind of a CEO or general counsel as the words, ‘We’ve been sued in federal court.’ Once they hear an estimate of the litigation costs, many executives say, ‘I don’t care if we’re right, settle the case.’” *Id.*

¹¹ See Shelley Podolny, Opinion, *The Digital Pileup*, N.Y. TIMES (March 12, 2011), <http://www.nytimes.com/2011/03/13/opinion/13podolny.html> (“[L]arge corporations face eye-popping litigation costs when they search for information that may be evidence in a lawsuit—so called e-discovery—that can add up to millions of dollars a year . . . the costs of can be crushing”); see also AMERICAN ASSOCIATION FOR JUSTICE, *What We Do: Advocate for the Civil Justice System*, <https://www.justice.org/what-we-do/advocate-civil-justice-system> (last visited March 13, 2015).

¹² See FED. R. CIV. P. 34(a)(1)(A) (“Any designated documents or electronically stored information—including writings, drawings, graphs, charts, photographs, sound recordings, images, and other data or data compilations—stored in any medium from which information can be obtained either directly or, if necessary, after translation by the responding party into a reasonably usable form.”); but see 28 U.S.C. § 1920(4) (referencing six specific types of fees that may be taxed: “(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 of this title; (6) Compensation of court appointed experts, compensation of interpreters, and salaries, fees, expenses, and costs of special interpretation services under section 1828 of this title”).

Amending the FRCP and the U.S.C. to make discovery settlements binding and create a cost sharing process that reflects parties' own agreements on discovery,¹³ is a practical solution that would reduce surprises and enhance fairness.

This paper will examine the current state of cost shifting of fees associated with discovery in the post litigation context in federal courts and argue that the divergent results in current holdings warrant a novel approach with more court supervision or otherwise binding rulings on cost sharing of e-discovery throughout the litigation. Section I gives a brief overview of the history of discovery issues relevant to the e-discovery debate. Section II provides an analysis of the major cases and trends in the circuit split on the taxing of e-discovery costs. Section III examines the rules and policies pertinent to this debate currently reflected in the FRCP and the U.S.C. Section IV analyzes approaches to amending the rules that would provide more clarity. Section V examines the suggested rule changes for e-discovery that various legal bodies have suggested. Section VI recommends solutions that address the legal and policy considerations discussed in the paper. Finally, the conclusion summarizes the issues and recommendations.

I. HISTORY AND DEVELOPMENT OF DISCOVERY ISSUES RELEVANT TO E-DISCOVERY

Discovery, in particular electronic discovery ("e-discovery"), has broadened over time.¹⁴ The discovery process is more complex, and

¹³ See FED. R. CIV. P. 16(f) (1) *In General*. On motion or on its own, the court may issue any just orders, including those authorized by Rule 37(b) (2) (A) (ii)–(vii), if a party or its attorney: (A) fails to appear at a scheduling or other pretrial conference; (B) is substantially unprepared to participate—or does not participate in good faith—in the conference; or (C) fails to obey a scheduling or other pretrial order.”)

¹⁴ See generally Michael Junk & John McNulty, *Leveling the Playing Field; Recouping e-Discovery Costs As Part of the Taxable Costs Awarded to Prevailing Parties ties Under 28 U.S.C. § 1920(4)*, PRODUCT LIABILITY LAW & STRATEGY (Law Journal Newsletter, Philadelphia, PA.), April 1, 2012, at *1, available at http://www.lawjournalnewsletters.com/issues/ljn_prodliability/30_10/news/156490-1.html (“Document production: What once consisted of collecting a few hardcopy files from a relatively short list of ‘key’ custodians now typically requires the retention of litigation-support specialists to accomplish not only the imaging and production of hardcopy files, but also the identification, extraction and production of relevant electronically stored information (ESI) from computers, databases, servers, and even disaster recovery systems. The age of ESI changed everything in terms of how quickly and easily documents are created and then stored. As a consequence, every corporate defendant in a product liability case today can expect to spend thousands-if not hundreds of thousands-of dollars producing documents in discovery. Indeed, it is hardly an overstatement to say that discovery costs are staggering.”).

consequently more expensive, in cases requiring e-discovery.¹⁵ Although courts or parties can restrict discovery, this is not a satisfactory solution, as there may be information of great value to the case that can only be discovered by looking at a large number of data points. E-discovery encompasses more sources than traditional discovery does; e-discovery includes: audio files, emails, social media postings, other forms of communication, and recordings of dealings and transactions that are relevant to the issues in the case.¹⁶ Dr. D. Michael Risinger noted in his article, *Wolves, Sheep, Predators and Scavengers*, that the purpose of promulgating the Federal Rules of Civil Procedure was to enhance access to the courts,¹⁷ and that one of the first proposed changes to the rules was to narrow the scope of permissible discovery and mandate a discovery conference.¹⁸ The proliferation of e-discovery, in contrast, pushes in the opposite direction.

E-discovery differs from traditional discovery not only in terms of the actual rules that are applied, but also in its process and its cost.¹⁹ The Southern District of New York case, *Pippins v. KPMG*, demonstrates both of these aspects. In that case, the court denied KPMG's motion to maintain only a representative sampling of its hard drives when served with a discovery order.²⁰ The court applied traditional discovery rules to allow discovery of all relevant information, failing to account for the enormous number of hard drives that had to be accessed in order for the corporation to comply.²¹ *KPMG* also implemented the traditional "American Rule" that each party pays its own costs in discovery.²² The American Rule is

¹⁵ See *id.* ("According to one recent survey, for the period 2006-2008, the average company paid average discovery costs per case of \$621,880 to \$2,993,567. Companies at the high end [of the scale] during the same time periods reported average per-case discovery costs ranging from \$2,354,868 to \$9,759,900.")

¹⁶ See *id.*

¹⁷ D. Michael Risinger, *Wolves and Sheep, Predators and Scavengers, or Why I Left Civil Procedure (Not With a Bang, But a Whimper)*, 60 UCLA L. REV. 1620, 1645-46 (2013) ("We have a right to a thrilling moment of self-congratulation as we contemplate the fact that in our federal courts we have come closer to making a reality of the right to equality before the law The Federal Rules swung the courthouse door wide open.") (quoting Jack B. Weinstein, *The Ghost of Process Past: The Fiftieth Anniversary of the Federal Rules of Civil Procedure and Erie*, 54 BROOK. L. REV. 1, 3, 24-26 (1988)).

¹⁸ *Id.* at 1639-40 ("The most radical proposal was to change the language of Rule 26 with the intent to narrow the scope of discovery (and perhaps indirectly raise the amount of detail required of pleadings). The recommendations also included provisions for a mandatory discovery conference[.]")

¹⁹ See Junk & McNulty, *supra* note 14, at *1.

²⁰ *Pippins v. KPMG LLP*, No. 11 Civ. 0377 (CM)(JLC), 2011 WL 4701849, at *1 (S.D.N.Y. Oct. 7, 2011), *aff'd*, 279 F.R.D. 245, 253 (S.D.N.Y. 2012).

²¹ *Id.*

²² See, e.g., Marie Gryphon, *Assessing the Effects of a 'Loser Pays' Rule on the American Legal System: An Economic Analysis and Proposal for Reform*, 8 RUTGERS J.L.

well established as a uniform approach to encourage litigants to proceed without fear of cost shifting.²³ But there is a huge increase in both the complexity of the process and the cost required to comply with its demands.²⁴ In *KPMG*, the cost of preserving, producing and processing the data requested was \$21 million.²⁵ Therefore, simply adopting the American Rule cannot be a satisfactory solution.

The *KPMG* discovery ruling has led commentators to point out that cases are settled early for more than they are worth.²⁶ Charles Fax notes in his article, *A Trend Towards Cost Shifting in Discovery*:

The warnings of pro-business groups like the U.S. Chamber of Commerce that the *KPMG* ruling could encourage overly aggressive discovery requests and force inequitable settlements—hyperbole aside—are not far-fetched. The *KPMG* ruling is consistent with a large body of case law. This seems paradoxical because the discovery rules authorize courts to require cost-sharing where circumstances warrant. Rule 26(c) permits a court, for good cause, to impose conditions on discovery, including, according to the advisory notes, “payment by the requesting party of part or all of the reasonable costs of obtaining information from sources that are not reasonably accessible.”²⁷

At the other extreme end of the spectrum of e-discovery rulings, courts deny e-discovery altogether.²⁸ In *United States v. University of Nebraska at Kearney*, the Nebraska District Court denied the plaintiff’s motion to compel e-discovery based on their proposed search terms, effectively leading to no e-discovery.²⁹ The magistrate judge in that case

& PUB. POL’Y 567, 567–68 (2011) (discussing the “American Rule” and explaining that parties pay their own costs under this rule).

²³ Charles Fax, *A Trend Towards Cost Shifting in Discovery*, A.B.A. LITIGATION NEWS (2013), http://apps.americanbar.org/litigation/litigationnews/civil_procedure/051013-cost-shifting-discovery.html (last visited March 5, 2015) (“The American Rule is rooted in the belief that injured parties might not bring meritorious suits for fear of losing and incurring liability for the defendant’s legal fees, even if that risk is slight. At best, plaintiffs might settle for less than fair value in an arms-length negotiation. Public interest suits might disappear. Thus, the belief holds, the American Rule promotes the ends of justice.”).

²⁴ See Junk & McNulty, *supra* note 14, at *1.

²⁵ *KPMG*, 2011 WL 4701849, at *1.

²⁶ See Kyl, *supra* note 10.

²⁷ See Fax, *supra* note 23.

²⁸ See, e.g., *United States v. Univ. of Neb.*, No. 4:11CV3209, 2014 WL 4215381, (D. Neb. Aug. 25, 2014), at *7 (“Having considered the allegations and docket filings, and absent any evidence that the defendants hid or destroyed discovery and cannot be trusted to comply with written discovery requests, the court is convinced ESI is neither the only nor the best and most economical discovery method for obtaining the information the government seeks. *Standard document production requests, interrogatories, and depositions should suffice—and with far less cost and delay.*”) (emphasis added).

²⁹ *Id.* at *1.

allowed only traditional discovery tools and denied e-discovery altogether.³⁰ This response to the cost issue at stake in e-discovery missed several aspects of the debate, which could lead to an impeding effect on future litigation.³¹ Most cases today probably require some degree of e-discovery because most files are stored electronically and most communication is done via electronic means such as e-mail. E-discovery can be an efficient tool: professionals trained in appropriate search techniques can conduct narrow searches, thus allowing lower-cost discovery over a broader scope of searchable material.

Turning back the clock to traditional discovery techniques ignores the reality of daily filing and communication techniques. It also limits the scope of discoverable material by disallowing search term based sweeps of electronic files. In the *University of Nebraska* case, the court noted the key problems with the e-discovery requests at issue were not the costs *per se*, but the parties' failure to persuade the court as to cost allocation.³²

II. CIRCUIT SPLIT

The history of the circuit split demonstrates that courts have been aware of the costs associated with e-discovery and that cost shifting may be necessary. The 2002 case, *Rowe Entertainment v. William Morris Agency*, set the guidelines for future decisions by noting the excessively high costs of e-discovery and creating an eight-factor test for consideration in the cost shifting issue.³³ The decision in *Zubulake v. UBS Warburg LLC* modified this test, favoring cost shifting and giving the most weight to the first two *Rowe* factors, dropping one factor, and weighting the rest in descending order.³⁴ The factors as modified are:

1. The extent to which the request is specifically tailored to discover relevant information;
2. The availability of such information from other sources;

³⁰ *United States v. Univ. of Neb.*, 4:11CV3209 (Dist. Neb. Aug. 5, 2014).

³¹ *See United States v. Univ. of Neb.*, No. 4:11CV3209, 2013 WL 2146049, at *4–5 (D. Neb. May 15, 2013) (referring only to the relevancy standard as limiting the scope of permissible discovery).

³² *See id.* at *5–6 (noting that it was “(i) the failure of the government to provide a cost-benefit analysis or a ‘sound articulation’ of how this cost was required to comply with the plaintiff’s demands, (ii) the plaintiff’s failure to suggest reasonable cost allocation or to show a ‘reasonable likelihood of uncovering relevant or admissible evidence’; (iii) the overly broad nature of the scope of production in the government’s request for comparator evidence Act, which raised privacy concerns for parties unrelated to the lawsuit”).

³³ *Rowe Entm’t, Inc. v. William Morris Agency*, 205 F.R.D. 421, 425–26, 429 (S.D.N.Y. 2002).

³⁴ *Zubulake v. UBS Warburg LLC*, 217 F.R.D. 309, 322–324 (S.D.N.Y. 2003).

3. The total cost of production, compared to the amount in controversy;
4. The total cost of production, compared to the resources available to each party;
5. The relative ability of each party to control costs and its incentive to do so;
6. The importance of the issues at stake in the litigation;
7. The relative benefits to the parties of obtaining the information.³⁵

The *Zubulake* court also recommended the initial use of a data sample to determine whether the information in electronically stored format would be likely to promote the issues to be explored in the litigation.³⁶

In 2008, Congress amended the federal statute, which had previously only allowed for costs of “exemplification and copies of papers,” to include fees for “exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case.”³⁷ Courts are split over whether electronic document production for review is a necessity or a mere convenience for opposing counsel; the Federal and Seventh Circuits held that it is a necessity.³⁸

By contrast, the Third Circuit held in *Race Tires America, Inc. v. Hoosier Racing Tire Corp.* that 28 U.S.C. § 1920(4) only applied to the “scanning of hard documents, the conversion of native files to Tagged Image File Format (TIFF), and the transfer of VHS tapes to DVD.”³⁹ After the *Race Tires* decision, the prevailing party filed a petition for certiorari in 2012, asking the Supreme Court to define the scope of recoverable costs in the electronic document production context. The Court denied certiorari, leaving the present confusion.⁴⁰

The change in approach to this issue was reflected in the Fourth Circuit’s decision in *Country Vintner of North Carolina, LLC v. E. & J. Gallo Winery Inc.*, which limited “copying” to exclude almost all ESI charges.⁴¹ The Fourth Circuit held that the prevailing defendant could only recover fees from file conversion and transferring files onto discs,

³⁵ See *id.* at 322.

³⁶ See *id.* at 324.

³⁷ 28 U.S.C. § 1920 (4).

³⁸ See *Ricoh Co. v. AMI Semiconductor*, 661 F.3d 1361 (Fed. Cir. 2011) (holding that the Cost Statute extends to “all costs producing a document electronically”); *Hecker v. Deere & Co.*, 556 F.3d 575 (7th Cir. 2009) (holding that the award of almost \$165,000 in costs associated with selection and conversion of ESI was allowed).

³⁹ *Race Tires Am., Inc. v. Hoosier Racing Tire Corp.*, 674 F.3d 158, 171 (3d Cir. 2012).

⁴⁰ *Hoosier Racing Tire Corp. v. Race Tires Am., Inc.*, 133 S. Ct. 233 (2012).

⁴¹ *Country Vintner of N.C., LLC v. E. & J. Gallo Winery, Inc.*, 718 F.3d 249, 260 (4th Cir. 2013) (following the Third Circuit in *Race Tires*).

resulting in the requested \$111,000 fees dropping to \$218.00.⁴² The *Country Vintner* court disallowed costs for: flattening and indexing, ESI, searching and data extraction, managing the processing of ESI, and preparing for production of documents to opposing counsel.⁴³ The *Country Vintner* decision reflects the trend in *Race Tires*, which started the new move away from broad recovery of costs in e-discovery.⁴⁴ The court in *Country Vintner* used the same reasoning as the *Race Tires* court, noting “a prevailing party may recover costs associated with copying or duplicating its files, but it may not receive reimbursement for any other ESI related expenses.”⁴⁵

In May 2012, the Supreme Court in *Taniguchi v. Kan Pacific Saipan* held that 28 U.S.C. § 1920(6) prohibited the prevailing defendant from recovering as “interpreter” costs those that were associated with translating documents.⁴⁶ This literal reading of the statute seems to indicate how the Supreme Court would rule if it chose to grant certiorari on the question of “exemplification” and “copying” under 28 U.S.C. §1920(4).⁴⁷

The Fourth Circuit in *Country Vintner* referenced the *Taniguchi* decision and the *Race Tires* decision, noting:

We find the Third Circuit’s reasoning persuasive. The court properly took into account the statute’s history, its plain language, and the Supreme Court’s narrow contemporary interpretation of the costs taxable under § 1920. [T]hese considerations support the conclusion that . . . subsection (4) limits taxable costs to . . . converting electronic files to non-editable formats, and burning the files onto discs.⁴⁸

⁴² *Id.* at 261 (agreeing with the District Court’s reduction in fees.)

⁴³ *Country Vintner of N.C., LLC v. E & J Gallo Winery, Inc.*, No. 5:09-CV-326-BR, 2012 U.S. Dist. LEXIS 108905, at *5 (E.D.N.C. Aug. 3, 2012).

⁴⁴ *Race Tires*, 674 F.3d at 171 (“Here, neither Hoosier nor DMS obtained a cost-shifting protective order. We are consequently limited to shifting only those costs explicitly enumerated in § 1920 . . . [W]e conclude that of the numerous services the vendors performed, only the scanning of hard copy documents, the conversion of native files to TIFF, and the transfer of VHS tapes to DVD involved ‘copying,’ and that the costs attributable to only those activities are recoverable under § 1920(4)’s allowance for the ‘costs of making copies of any materials.’”).

⁴⁵ *Country Vintner*, 2012 U.S. Dist. LEXIS 108905, at *8.

⁴⁶ *Taniguchi v. Kan Pac. Saipan, Ltd.*, 132 S. Ct. 1997, 1998, 2000 (2012) (holding that a “plain language” narrow meaning of the word “interpreter” meant that only oral interpretation costs and not document translation could be recovered).

⁴⁷ *See* 28 U.S.C. §1920(4).

⁴⁸ *Country Vintner of N.C., LLC v. E. & J. Gallo Winery, Inc.*, 718 F.3d 249, 260 (4th Cir. 2013).

But not all courts are narrowing the recovery of e-discovery costs.⁴⁹ In February 2013, a U.S. district judge in San Diego awarded \$2.8 million in attorneys' fees to the prevailing defendant, Qualcomm, for costs incurred in performing predictive coding.⁵⁰ This decision suggests that the way that parties frame their e-discovery costs may affect the court's view of whether they are recoverable.⁵¹

III. RELEVANT RULES

Judge Scheindlin significantly noted, "in an era where vast amounts of electronic information is available for review, discovery in certain cases has become increasingly complex and expensive."⁵² The general rule in discovery is that the party producing requested documents shoulders the burden of the cost.⁵³ But under FRCP 26(b)(2)(B), if the requested party can show that the e-discovery is not "reasonably accessible because of undue burden or cost,"⁵⁴ the requesting party must show good cause for production.⁵⁵ In this case, the discovery need only be identified and not produced.⁵⁶ At the end of the litigation, courts generally grant costs, other than attorneys' fees, to the prevailing party under FRCP 54(d). That is, "unless a federal statute, these rules [FRCP], or a court order provides otherwise."⁵⁷ The nature of the exact costs that can be shifted is not entirely clear due to courts' different interpretations of "copies" and "exemplification" under the federal statute.⁵⁸ There is currently a circuit split in the interpretation of 28 U.S.C. §1920(4) regarding the nature of taxable costs to the losing party in the electronic production setting.⁵⁹ The

⁴⁹ See *Ricoh Co. v. AMI Semiconductor*, 661 F.3d 1361 (Fed. Cir. 2011) (holding that the Cost Statute extends to "all costs producing a document electronically"); *Hecker v. Deere & Co.*, 556 F.3d 575 (7th Cir. 2009) (holding that the award of almost \$165,000 in costs associated with selection and conversion of ESI was allowed).

⁵⁰ *Gabriel Techs. Corp. v. Qualcomm Inc.*, No. 08cv1992 AJB (MDD), 2013 U.S. Dist. LEXIS 14105 *35 (S.D. Cal. Feb. 1, 2013) ("[T]he Court finds Cooley's decision to undertake a more efficient and less time-consuming method of document review to be reasonable under the circumstances. In this case, the nature of Plaintiffs' claims resulted in significant discovery and document production, and Cooley seemingly reduced the overall fees and attorney hours required by performing electronic document review at the outset. Thus, the Court finds the requested amount of \$2,829,349.10 to be reasonable.").

⁵¹ See *id.*

⁵² *Pension Comm. of the Univ. of Montreal Pension Plan v. Banc of Am. Sec. LLC*, 685 F. Supp. 2d 456, 461 (S.D.N.Y. 2010).

⁵³ See sources cited *supra* note 3.

⁵⁴ FED. R. CIV. P. 26(b)(2)(B).

⁵⁵ *Id.*

⁵⁶ See *id.*

⁵⁷ FED. R. CIV. P. 54(d).

⁵⁸ 28 U.S.C.S. § 1920(4) (2014).

⁵⁹ Compare *Romero v. City of Pomona*, 883 F.2d 1418, 1428 (9th Cir.1989) (taking a narrow view of allowable costs), with *Hecker v. Deere & Co.*, 556 F.3d 575, 591 (7th Cir.

statute states that the court may tax “[f]ees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case.”⁶⁰ Attorney fees may also be awarded, however, they are not covered by § 1920.⁶¹

“Taxing” refers to shifting some of the costs to the losing party at the end of the litigation. A recent trend to narrow or fully restrict the shifting of electronic production costs has emerged. The Federal Circuit, for example, has read “exemplification” to mean an official transcript of a public record that has been authenticated for use as evidence.⁶² As recently as February 2015, the Ninth Circuit, in *Resnick v. Netflix, Inc.*, held that only the cost of copies necessarily obtained for use in the case, but not those obtained for the lawyer’s convenience, were taxable.⁶³ But the Seventh Circuit saw the term “exemplification” as including a “wide variety of exhibits and demonstrative aids.”⁶⁴ Nevertheless, after *Taniguchi*, federal courts of appeals generally follow a narrow reading of costs and exemplification.⁶⁵

Some academics propose that the *Taniguchi* approach should be universally adopted in cost shifting decisions.⁶⁶ At the demand stage, it is common to grant broader access to electronically stored material than traditional discovery allows for hard copy.⁶⁷ Consequently, preservation of electronic data is recommended, especially where there are policy

2009) (awarding costs to defendant in the amount of \$164,814.43) and *Cefalu v. Vill. of Elk Grove*, 211 F.3d 416, 428 (7th Cir. 2000) (finding “no limits inherent in the term exemplification that would . . . preclude [a court] from compensating a party for . . . computer-based, multimedia displays,” and that “[t]his approach allows appropriate room for the more sophisticated types of multi-media presentations made possible by technological advances”).

⁶⁰ See *supra* note 1 (noting the types of awards that may be made under 28 U.S.C.S. § 1920(4)).

⁶¹ See, e.g., 42 U.S.C. § 1988(b)–(c) (2006) (awarding attorney and expert fees in civil rights cases).

⁶² See *Kohus v. Cosco, Inc.*, 282 F.3d 1355, 1360–61 (Fed. Cir. 2002) (noting that 6th and 11th Circuit precedent indicates that video costs would not be recoverable).

⁶³ *Resnick v. Netflix, Inc.* (In re Online DVD-Rental Antitrust Litig.), 779 F.3d 914, 930 (9th Cir. 2015) (stating that “the ability to conduct the review by looking at the original document establishes that the uploaded copy was not necessarily obtained for use in the case Accordingly, these charges are non-taxable under [28 U.S.C.] § 1920(4)”).

⁶⁴ See *Cefalu v. Vill. of Elk Grove*, 211 F.3d 416, 427 (7th Cir. 2000).

⁶⁵ See *Country Vintner of N.C., LLC v. E. & J. Gallo Winery, Inc.*, 718 F.3d 249, 260 (4th Cir. 2013) and sources cited *supra*, notes 44, 45 and 59.

⁶⁶ See, e.g., Emily Overfield, *Shifting the E-Discovery Solution: Why Taniguchi Necessitates a Decline in E-Discovery Court Costs*, 118 PENN ST. L. REV. 217, 234 (2013); Preston Register, *How Much Do I Owe You For That Copy? Defining Awards Under 28 U.S.C. § 1920 (4)*, 65 ALA. L. REV. 1087, 1106 (2014).

⁶⁷ See *Zubulake v. UBS Warburg LLC*, 217 F.R.D. 309, 321 (S.D.N.Y. 2003) (“[I]f a case has the potential for broad public impact, then public policy weighs heavily in favor of permitting extensive discovery.”).

interests at stake. The amount of discoverable ESI material that parties are requesting is exponentially larger than that requested under traditional discovery.⁶⁸ For many years, the legal community has noted with increasing alarm the nature of ESI as involving both great quantity and costs.⁶⁹ ESI is more voluminous than hard copy, is not automatically erased even when deleted, and can be searched in many more ways and places than paper documents.⁷⁰ E-discovery now includes:

- [1] voice mail;
- [2] e-mail;
- [3] deleted e-mail;
- [4] data files;
- [5] program files;
- [6] back-up files;
- [7] archival tapes;
- [8] temporary files;
- [9] system history files;
- [10] web site information in textual, graphical or audio format;
- [11] web site files;
- [12] cache files;
- [13] “cookies” and other electronically stored information.⁷¹

The circuit split reflects the varying approaches taken by state and district courts. Courts, following the FRCP, or similar state rules, may grant broad motions to compel production of all ESI documents that are likely to be relevant to the litigation.⁷² But some district courts are starting to restrict or altogether disallow these requests in order to limit cost.⁷³ The

⁶⁸ See Junk & McNulty, *supra* note 14, at *1.

⁶⁹ See, e.g., Podolny, *supra* note 11.

⁷⁰ See *Thompson v. U.S. Dep’t of Housing and Urban Dev.*, 219 F.R.D. 93, 97 (D. Md. 2003) (“[S]ince ‘deleting’ electronic records does not actually result in their instantaneous erasure, but rather simply designates the file as ‘not used,’ thereby enabling the computer to write over it, courts have ruled that Rule 34 requests seeking ‘deleted’ electronic records are permissible.”) (internal citation omitted).

⁷¹ James W. McElhaney, *Channeling Discovery*, A.B.A.J., (November 2004), http://www.abajournal.com/magazine/article/channeling_discovery.

⁷² FED. R. CIV. P. 26(b)(1) (“Unless otherwise limited by court order, the scope of discovery is as follows: Parties may obtain discovery regarding any non-privileged matter that is *relevant* to any party’s claim or defense . . . relevant information need not be admissible at the trial *if the discovery appears reasonably calculated to lead to the discovery of admissible evidence.*”) (emphasis added).

⁷³ See *D.C.G. Sys., Inc. v. Checkpoint Techs.*, No. C-11-03792 PSG, 2011 WL 5244356 at *2 (N.D. Cal. Nov. 2, 2011). Magistrate Judge Grewel used a model rule developed by the Federal Rules Advisory Comm. to address a “largely unchecked problem.” *Id.* The same judge later ruled in another case to limit search terms used in recovering relevant ESI in order

results therefore lack uniformity, and parties are at the mercy of the courts' discretion.⁷⁴ Legal professionals predict that “[i]f counsel and parties do not manage e-discovery effectively, courts will take control of these issues [and] fundamentally change the way we litigate.”⁷⁵

Many advocates in legal practice are coming together to demand clearer rules in this rapidly changing area, both at the cost shifting and the demand stages. For example, in a recent law review article, Overfield requests that the Supreme Court articulate and mandate a test to clarify the scope of the terms “copying” and “exemplification.”⁷⁶ But Overfield’s approach is limited to the notion of simply restricting recovery of e-discovery costs in all cases.⁷⁷ This fails to take into account those cases where large costs may have been necessary as well as proportionate to the issues in the case.⁷⁸ Overfield argues that costs should be restricted under a narrow interpretation of 28 U.S.C. § 1920(4).⁷⁹ A universal approach that is based on a narrow reading of 28 U.S.C. § 1920(4) may initially seem like a satisfying solution, but this leaves out the parties and their agreements and gives all the power to the courts.⁸⁰ A recent tax court decision, *Dynamo Holdings Ltd. Partnership v. Commissioner of Internal Revenue*, notes that parties should not delegate the execution of the e-discovery process to the courts because:

[T]he Court is not normally in the business of dictating to parties the process that they should use when responding to discovery. If our focus were on paper discovery, we would not (for example) be dictating to a party the manner in which it should review documents for responsiveness or privilege, such as whether that review should be done by a paralegal, a junior attorney, or a senior attorney. Yet that is, in essence, what the parties

to address the “crushing burdens imposed on both the parties and the court by cases of this type.” *Apple, Inc. v. Samsung Elecs., Co.*, No. C 11-1846 LHK (PSG), 2012 U.S. Dist. LEXIS 9921 *43–44 (N.D. Cal. Jan. 27, 2012).

⁷⁴ Steven Williams, *Limit E-Discovery or the Courts Will*, CAL. LAWYER 61, 62 (Apr. 2012), http://callawyer.com/Clstory.cfm?eid=921396&wteid=921396_Limit_E-Discovery,_or_the_Courts_Will.

⁷⁵ *See id.*

⁷⁶ *See* Overfield, *supra* note 66, at 233.

⁷⁷ *See id.* at 225.

⁷⁸ *See* Overfield, *supra* note 76. Overfield does not address the issue of necessarily large costs or their relationship to the issues in the case.

⁷⁹ *See id.*

⁸⁰ *See id.* at 235–36 (recommending that courts follow the Seventh Circuit’s interpretation of exemplification in *United States v. Cefalu* 338 F.2d 582 (7th Cir. 1964) (adopting a “necessity” standard for reimbursing costs of copies and interpreting the “reasonably necessary” language of the statute to mean that the copy must be “vital to the presentation of the information”)).

are asking the Court to consider—whether document review should be done by humans or with the assistance of computers.⁸¹

It is more practical, therefore, to amend the FRCP and the U.S.C. to make discovery settlements binding, and create a cost sharing process that reflects parties' own agreements on discovery.⁸² This would reduce surprises and enhance fairness.

IV. APPROACHES TO RULE CHANGES

One possible approach to the problems discussed above would be to amend FRCP Rule 34 to specifically delineate what kinds of electronic format are permissible. Currently, the request may be for any format that is reasonable.⁸³ This list could be amended to indicate exactly what formats are reasonable, as well as what specific methods of copying and exemplifying these materials would be allowed.⁸⁴ This list would thus specify what is a copy and what is exemplification for purposes of litigation, such that interpreting the language of the federal cost shifting statute at the end of litigation would be permissible.⁸⁵

Such an approach would clarify when courts can shift costs.⁸⁶ Currently, federal courts can allocate costs to the requesting party under Rules

⁸¹ *Dynamo Holdings L.P. v. Comm'r*, 143 T.C. 183, 189 (2014).

⁸² See FED. R. CIV. P. 16 advisory committee's notes to 1993 amendment ("However, in other respects particularly with regard to case management, the rule has not always been as helpful as it might have been. Thus there has been a widespread feeling that amendment is necessary to encourage pretrial management that meets the needs of modern litigation. Major criticism of Rule 16 has centered on the fact that its application can result in over-regulation of some cases and under-regulation of others. In simple, run-of-the-mill cases, attorneys have found pretrial requirements burdensome. It is claimed that over-administration leads to a series of mini-trials that result in a waste of an attorney's time and needless expense to a client. This is especially likely to be true when pretrial proceedings occur long before trial. At the other end of the spectrum, the discretionary character of Rule 16 and its orientation toward a single conference late in the pretrial process has led to under-administration of complex or protracted cases. *Without judicial guidance beginning shortly after institution, these cases often become mired in discovery.*") (emphasis added) (citing Nat'l Comm'n for the Review of Antitrust Laws and Procedures, *Report to the President and the Attorney General* (1979) and Pollack, *Pretrial Procedures More Effectively Handled*, 65 F.R.D. 475 (1974)).

⁸³ See FED. R. CIV. P. 34 (a party may "serve on any other party a request that is within the scope of Rule 26(b): (A) any designated documents or electronically stored information—including writings, drawings, graphs, charts, photographs, sound recordings, images, and other data or data compilations—stored in any medium from which information can be obtained either directly or, if necessary, after translation by the responding party into a reasonably usable form").

⁸⁴ See FED. R. CIV. P. 34.

⁸⁵ See *id.* Additions to the list could include what forms of technology are acceptable to be produced and what methods of copying could be reasonable.

⁸⁶ See 28 U.S.C. §1920(4) (2015). There is no list of what qualifies as copying or exemplification under the statute.

37(a)(5)(B4)(b) and 26(c) when the other party can show the information is not reasonably accessible.⁸⁷ Some legal professionals advocate expanding this authority to make all costs go to the requesting party.⁸⁸ But simply moving the cost allocation to the requesting party in all cases would lead to inequity in some cases, such as those of *pro se* litigants trying to find evidence for their own appeals.⁸⁹

The FRCP was amended in 2006 to address the issues of e-discovery; these changes went into effect on December 1, 2006. The amendments pertain to the planning and managing of discovery and the regulating of privilege and imposing of sanctions.⁹⁰ They do not directly address the issue of cost shifting after litigation.⁹¹ Parties should be fully aware in advance of the consequences of their behavior with regard to ESI for recovery of costs after trial. For these reasons, the rules should be amended. Furthermore, the term “reasonably accessible” in Rule 26(b)(2) should be clearly defined instead of being left open to the courts to interpret, as should the term “good cause.”⁹²

Rules on sanctions in e-discovery are particularly important to the issue of cost shifting and in the failure of production. The most dramatic example here is that of the Florida state court award of \$1.45 million based on ESI sanctions in *Coleman Holdings, Inc. v. Morgan Stanley & Co., Inc.*⁹³ Rule 37(e) addresses bad faith requirements in its “safe-harbor” provision, which disallows courts from imposing sanctions for failure to

⁸⁷ See FED. R. CIV. P. 37(a)(5)(B)–(C).

⁸⁸ See *Kyl supra* note 10.

⁸⁹ See sources cited *supra* note 3. The current presumption is that the responding party pays, but there would be problems for low income litigants if the rule were a blanket rule in favor of the responding or the requesting party.

⁹⁰ See FED. R. CIV. P. 16(b)(3)(B)(ii)–(iii) (allowing the court to order pre-trial conferences and issue a scheduling order which may “modify the extent of discovery; [and] provide for disclosure or discovery of electronically stored information[.]”); see also FED. R. CIV. P. 33 (discussing interrogatories and ESI based business records); FED. R. CIV. P. 34 advisory committee’s note to 2006 amendment (“Rule 34(a) is amended to confirm that discovery of electronically stored information stands on equal footing with discovery of paper documents.”); FED. R. CIV. P. 45 advisory committee’s note to 2006 amendment (“Rule 45 (d)(1)(B) is amended to provide that if the subpoena does not specify the form or forms for electronically stored information, the person served with the subpoena must produce electronically stored information in a form or forms in which it is usually maintained or in a form or forms that are reasonably usable. Rule 45(d)(1)(C) is added to provide that the person producing electronically stored information should not have to produce the same information in more than one form unless so ordered by the court for good cause.”).

⁹¹ See FED. R. CIV. P. 16(b)(3)(B)(ii)–(iii).

⁹² See FED. R. CIV. P. 26(b)(2).

⁹³ See *Coleman Holdings, Inc. v. Morgan Stanley & Co., Inc.*, No. 502003CA005045XXOCAI, 2005 WL 679071 at *6 (Fla. Cir. Ct. Mar. 1, 2005) (holding that defendant’s “willful disobedience of the Agreed Order justifies sanctions”).

produce ESI, where ESI was lost as a result of “routine, good faith operation of an electronic information system.”⁹⁴ This provision provides little protection, considering the *Coleman* and *Zubulake* opinions and their successors. Attorneys need to ensure that their document retention programs are fail-safe to avoid spoliation claims and sanctions, which courts can also impose through their inherent powers. Accordingly, the rules must indicate the purpose of sanctions in the ESI context.⁹⁵

The relevance standard under Rule 26 includes a proportionality test that can limit the scope of discovery at the outset. This test may reduce costs, but it does not address the issue of cost itself.⁹⁶ The changed rules themselves indicate that committees have been trying to regulate the entire e-discovery process more strictly, but these changes fall short of demanding binding cost allocations on the parties prior to litigation.⁹⁷ For instance, a change to Rule 16 indicates that courts expect attorneys to be ready for litigation, including being fluent in information technology (IT)

⁹⁴ FED. R. CIV. P. 37(e).

⁹⁵ See George Kanabe & Jacob Heath, *A Better Way to Litigate?—The December 1, 2015 Amendments to the Federal Rules of Civil Procedure Aim for More Efficiency and Less Delay*, NorCal IP Blog, (March 27, 2016) <http://blogs.orricks.com/norcal-ip/2015/11/11/a-better-way-to-litigate-the-december-1-2015-amendments-to-the-federal-rules-of-civil-procedure-aim-for-more-efficiency-and-less-delay/> (This issue was addressed in the 2015 amendments: “Rule 37(e), as amended, will provide a uniform standard for courts to apply when determining how to address lost or missing ESI. If a party fails to preserve ESI and *only* upon a finding of prejudice, amended Rule 37(e)(1) authorizes a court to order curative measures “no greater than necessary to cure the prejudice.” According to the Committee comments, curative measures may include: (a) forbidding the party that failed to preserve ESI from putting on certain evidence; (b) permitting the parties to present evidence and argument to the jury regarding the loss of ESI; or (c) giving jury instructions to assist in its evaluation of such evidence or argument. Amended Rule 37(e)(2) allows a court to undertake more drastic measures if it finds a party acted with an intent to deprive another party of the information. Those measures include: (1) presuming that the lost information was unfavorable to the party; (2) instructing the jury that it may or must presume the information was unfavorable to the party; or (3) dismissing the action or entering a default judgment.”).

⁹⁶ See Overfield, *supra* note 66; *infra* note 130 and accompanying text; see also FED. R. CIV. P. 26 advisory committee’s note to 1983 amendment (“The elements of Rule 26(b)(1)(iii) address the problem of discovery that is disproportionate to the individual lawsuit as measured by such matters as its nature and complexity, the importance of the issues at stake in a case seeking damages, the limitations on a financially weak litigant to withstand extensive opposition to a discovery program or to respond to discovery requests, and the significance of the substantive issues, as measured in philosophic, social, or institutional terms. Thus the rule recognizes that many cases in public policy spheres, such as employment practices, free speech, and other matters, may have importance far beyond the monetary amount involved. The court must apply the standards in an even-handed manner that will prevent use of discovery to wage a war of attrition or as a device to coerce a party, whether financially weak or affluent.”).

⁹⁷ See Register, *supra* note 66, at 1105 (noting importance of agreeing on cost allocation at pre-trial conference).

and network architecture, so that the pretrial conference leads to agreements on what ESI is discoverable.⁹⁸ Rule 26(f)(C)(3) demands that parties discuss the form of e-discovery to be used. The notes from the advisory committee suggest there is a trend toward clearer enforcement of e-discovery agreements and cost allocation pre-trial, as Register has suggested as an important issue.⁹⁹ Rule 26(a)(1)(C) addresses the need for timely initial disclosures, meet and confer rules, protecting third parties from excessive cost of discovery, and procedures governing disclosure of privileged or third party privacy protected information.¹⁰⁰ The rules collectively purport to enforce some agreements between parties regarding e-discovery, early on in the litigation. Amendments to the rules, which took effect on December 1, 2015, were aimed at limiting the scope of discovery and requiring parties and the courts to limit over broad discovery.¹⁰¹ Finally, amendments to the rules adopted in 2015 address the issues of excess costs and the administration of justice by requiring

⁹⁸ FED. R. CIV. P. 16 addresses scheduling orders in pretrial conferences. Part (b)(3)(B) provides that “the scheduling order *may* . . . provide for disclosure or discovery of electronically stored information.” FED. R. CIV. P. 16(b)(3)(B).

⁹⁹ The advisory committee’s notes to the 2006 amendment demonstrate a move towards increased supervision of discovery schedules earlier on in the litigation, stating that “[t]he amendment to Rule 16(b) is designed to alert the court to the possible need to address the handling of discovery of electronically stored information early in the litigation if such discovery is expected to occur An order that includes the parties’ agreement may be helpful in avoiding delay and excessive cost in discovery. *See Manual for Complex Litigation* (4th) §11.446. Rule 16(b)(6) recognizes the propriety of including such agreements in the court’s order.”) *See Register, supra* note 66, at 1105.

¹⁰⁰ FED. R. CIV. P. 26(a)(1)(C) (requires that parties make initial disclosures no later than 14 days after the Rule 26(f) meet and confer, unless an objection or another time is set by stipulation or court order. If parties have an objection, they should voice it early on).

¹⁰¹ *See George Kanabe & Jacob Heath, A Better Way to Litigate?- The December 1, 2015 Amendments to the Federal Rules of Civil Procedure Aim for More Efficiency and Less Delay*, NORCAL IP BLOG, (March 27, 2016) <http://blogs.orricks.com/norcal-ip/2015/11/11/a-better-way-to-litigate-the-december-1-2015-amendments-to-the-federal-rules-of-civil-procedure-aim-for-more-efficiency-and-less-delay/> (“[T]here are also several amendments affecting the *scope* of discovery in recognition of the significant costs that unfettered discovery imposes on modern companies. Amended Rule 26(b)(1) allows parties to obtain discovery of any non-privileged matter relating to a party’s claim or defense, so long as the proposed discovery is *proportional to the needs of the case*. Amended Rule 26(b)(2) requires courts to limit the frequency or extent of discovery if the proposed discovery is ‘outside the scope permitted by Rule 26(b)(1).’ Amended Rule 26(c)(1) allows a court to issue a protective order allocating expenses. Amended Rule 26(d) allows parties to serve requests for production 21 days after service of the summons and complaint, regardless of whether the parties have held their Rule 26(f) conference. To coincide with the changes to Rule 16(b), amended Rule 26(f) requires parties to discuss the preservation of ESI and the possibility for agreements under FRE 502 during their scheduling conference.”).

parties to implement the rules to “secure the just, speedy and inexpensive determination of every action and proceeding.”¹⁰²

Amendments to date have not adequately addressed the high cost of e-discovery or uncertainty with respect to allocation of discovery costs. It is evident that further measures are necessary.

V. PROPOSED SOLUTIONS

Academics, like the courts, tend to advocate the narrow interpretation of the cost shifting statute. Register’s 2014 article advocates such an interpretation.¹⁰³ Register notes that state statutes have taken varied approaches to cost shifting in association with copying, with Nevada allowing for any cost associated with copying, including labor.¹⁰⁴ New Jersey, on the other hand, has limited shifting of costs for copying to the institution’s usual rate for making copies, or actual costs of films and photographs.¹⁰⁵ On the federal level, the First Circuit decided that it would only award fifty percent of photocopying costs, stating that these were only taxable if they were “reasonably necessary to the maintenance of the action.”¹⁰⁶ Using a different type of narrow view, the Tenth Circuit adopted a local rule that “necessary” copies should be taxed at cost, but set a specific monetary cap at fifty cents a copy.¹⁰⁷ Noting these diverse examples of the restrictive view of how to tax e-discovery costs, Register posits that *Race Tires* takes the correct approach because it is reflective of traditional coverage of discovery procedures. *Race Tires* limited cost shifting to: (i) converting files to easily searchable format; (ii) scanning documents, excluding costs of collecting and preserving ESI, and processing and indexing ESI; and (iii) keyword searching of ESI.¹⁰⁸ Analogizing e-discovery to traditional discovery questions misses the central focus of the debate: how to sustain a workable system of cost recovery given the large sums of money involved. Traditional discovery

¹⁰² See FED. R. CIV. P. 1. The rule previously applied only to courts.

¹⁰³ See Register, *supra* note 66, at 1106.

¹⁰⁴ See Register, *supra* note 66, at 1095 (citing NEB. REV. STAT. § 84-712 (3)(b)(iii) (2000)).

¹⁰⁵ N.J. REV. STAT. § 17:16S-1(b)(2) (2013).

¹⁰⁶ See Register, *supra* note 66, at 1095 (citing *Summit Tech., Inc. v. Nidek Co.*, 435 F.3d 1371, 1378 (Fed. Cir. 2006)).

¹⁰⁷ See Register, *supra* note 66, at 1096 (citing 10th Cir. R. 39-1).

¹⁰⁸ See Register, *supra* note 66, at 1099 (“The narrow understanding provided by the court in *Race Tires America* offers a better alternative because it draws a clear line in the area of e-discovery. The line drawn is the same as previous versions of § 1920(4). The change in language for the newest amendment clearly allows e-discovery costs to be recovered. But only those items that are the electronic version of traditional copying costs are allowed. By limiting the costs to the narrower definition, the awards given are much smaller, which is in keeping with the scope and history of the statute itself.”).

simply does not cost as much as e-discovery and cannot provide us with satisfactory analogies for cost allocation purposes.¹⁰⁹ Register also mentions briefly that parties can always contract to allocate cost.¹¹⁰ Other legal bodies are imposing a mandatory procedure to ensure that parties will in fact reach agreement on the cost allocation for e-discovery before proceeding in the litigation.

Proposals to cap e-discovery costs have emerged recently.¹¹¹ Mazanec suggested that costs paid by producing parties should be capped at one-half of the claim in question.¹¹² Mazanec noted that her approach would foster cooperation and allow parties to pursue litigation without fear of ending up with a prohibitive discovery bill.¹¹³ This fifty-percent proposition shields producing parties from exploitation, but fails to account either for the individual nuances of each case or for the costs that parties are willing to pay.¹¹⁴ Other proposed solutions aim to determine the cost allocation of discovery at different stages before the end of the trial.¹¹⁵ Professors Cooter and Rubinfeld suggest shifting costs to the requesting party once the other party has provided a certain level of compliance with discovery.¹¹⁶

In a recent *Wall Street Journal* editorial article, Senator Kyl analyzed proposed changes to the FRCP, noting that some of the most significant changes in the package are aimed at reducing the cost and burdens associated with discovery.¹¹⁷ The three most important committee proposals are: (i) to provide a clear national standard which limits sanctions for discarding information that was sought in litigation to companies which have acted in bad faith; (ii) to provide a “narrower scope” for discovery, focusing on claims and defenses in each case instead of allowing discovery of any information that might lead to admissible evidence; and (iii) to confirm judicial authority under Rule 26(c), which allows courts to allocate the costs of discovery to the requesting party.¹¹⁸ A “requester pays” system would be particularly effective in

¹⁰⁹ See *supra* note 14 and accompanying text.

¹¹⁰ Register, *supra* note 66, at 1105 (“Even with a narrow reading of § 1920(4), parties are able to contract broader costs.”).

¹¹¹ See, e.g., Karel Mazanec, *Capping E-Discovery Costs: A Hybrid Solution to E-Discovery Abuse*, 56 WM. & MARY L. REV. 631, 634 (2014); Robert D. Cooter & Daniel L. Rubinfeld, *An Economic Model of Legal Discovery*, 23 J. LEGAL STUD. 435, 455–56 (1994).

¹¹² See Mazanec, *supra* note 111, at 634.

¹¹³ See Mazanec, *supra* note 111, at 634.

¹¹⁴ See Mazanec, *supra* note 111, at 634.

¹¹⁵ See Cooter & Rubinfeld, *supra* note 111, at 455–456.

¹¹⁶ See *id.* at 437.

¹¹⁷ See Kyl, *supra* note 10.

¹¹⁸ See Kyl, *supra* note 10.

accomplishing the goals of reducing costs and precluding overly broad requests, which have the effect of coercing the other side to settle.¹¹⁹

Senator Kyl also noted that state bodies, such as the New Jersey Civil Justice Institute, are commenting on the proposed rules in a more favorable manner. He stated that there will be a significant reduction in litigation costs and trial delay if these rules are adopted.¹²⁰ One way to ensure that the broader goals of Rules Committee are met would be an addition to 28 U.S.C. § 1920(4), referencing parties' ESI pre-trial determinations. Such an addition would deter punitive litigation techniques by plaintiffs as they would face clear consequences based on pre-trial conference decisions or arbitration agreements.¹²¹

Other effective solutions include the system used by the Financial Industry Regulatory Authority (FINRA), a self-regulatory non-profit organization that operates under the oversight of the SEC,¹²² in arbitration proceedings. Arbitrators regulate the entire discovery process.¹²³ Arbitrators can impose sanctions, including the shifting of costs for failure to comply or bad faith efforts to manage document production by the parties.¹²⁴ The proposal requesting approval of these procedures indicated that they would help to limit what was noted as the large increase in discovery disputes, noting that they "encourage[] the parties to agree to the voluntary exchange of documents and information and to stipulate to certain matters."¹²⁵ Controlling discovery costs and enforcing party cooperation throughout the litigation ensures more fairness and leaves no room for surprise bills of up to millions of dollars.

Several of the approaches discussed above seek to promote cooperation between the parties through increased regulation of the

¹¹⁹ See Kyl, *supra* note 10.

¹²⁰ See Kyl, *supra* note 10.

¹²¹ Debra Cassens Weiss, *Sanctions Will Deter Discovery Abuse, Qualcomm Magistrate Says*, A.B.A.J. (Oct. 15, 2007) ("If there isn't some kind of sanction, there's no deterrence," [U.S. Magistrate Judge Barbara Major] said. "How can this possibly be tolerated in the age of digital evidence?").

¹²² See Order Approving FINRA Proposed Rule Change Creating NASD Discovery Guide, 64 Fed. Reg. 49256 (Sept. 10, 1999) (approving use of arbitration procedures during discovery in customer cases). The National Association of Securities Dealers (NASD) was merged into FINRA in 2007. See SEC Historical Society, *The Institution of Experience: Self-Regulatory Organizations in the Securities Industry, 1792-2010, Creation of FINRA* <http://www.sechistorical.org/museum/galleries/sro/sro06g.php>.

¹²³ See generally FINRA, DISCOVERY GUIDE, <http://www.finra.org/sites/default/files/ArbMed/p394527.pdf> (last visited March 23, 2016).

¹²⁴ See generally FINRA R. 12511, Discovery Sanctions (providing for sanctions for non-cooperation in discovery under FINRA R. 12212); FINRA R. 12212 (specifying sanctions, including "assessing attorney's fees, costs and expenses").

¹²⁵ FINRA Rule Change Creating NASD Discovery Guide, 64 Fed. Reg. 20036, 20036 (proposed April 23, 1999).

discovery process throughout the litigation. What is missing is a link between such cooperation and the eventual imposition of costs. As discussed in Section VI, the rules governing discovery and cost allocation at both the beginning and end of litigation can provide such a link. The amended rules should both require that parties decide on a very specifically delineated cost allocation and discovery schedule and reward those who cooperate during the proceedings by not imposing unexpected costs afterwards. This approach does not eliminate the possibility of cost shifting, but instead recommends keeping the process under strict control by requiring the parties to agree on the basis and amount of costs to be shifted and enforcing that agreement through court orders.

VI. RECOMMENDED SOLUTIONS

A streamlined approach under the U.S.C. cost shifting statute from the outset of litigation to the post-litigation stage, with amendments to the Federal Rules of Civil Procedure (FRCP) governing e-discovery, would facilitate e-discovery while enforcing a workable scheme of cost-shifting. A re-worked set of rules requiring an enhanced discovery schedule and cost agreements would increase efficiency and create uniformity across the state and district court systems. Alongside this new set of rules should be guidelines and detailed explanations for attorneys of the rules governing e-discovery and suggested methods for managing discovery. One such method might be a multi-stage approach to arriving at a discovery schedule, perhaps beginning with samples of discoverable data from each set of electronically stored data sought for analysis.

Furthermore, the new approach should include increased use of agreements that are binding on the parties, as they are in arbitration procedures required by FINRA during discovery. Alternatively, there could be a judicially managed process such as a stipulation so ordered. A binding agreement created between the parties as a pre-requisite to beginning the litigation process could then govern cost-shifting at the post-litigation stage, given an appropriately amended rule under U.S.C. § 1920(4). This would obviate the need for a specified list of what can be considered “copying” or “exemplifying.” Relying on definitions in statutes may lead to indefinitely divergent results despite a list, as judicial understanding of emerging technologies varies and there is ongoing need to update the list.¹²⁶ The rule change would place the responsibility for

¹²⁶ See e.g., Jason B. Bonk, *Reasonableness and Proportionality Win Another Fight for Predictive Coding*, (Sept. 17, 2014), E-DISCOVERY L. REV. (Sept. 17, 2014), available at <http://www.ediscoverylawreview.com> (follow “September 2014” hyperlink) (quoting *Bridgestone Ams., Inc. v. IBM*, No. 3:13-1196, 2014 U.S. Dist. LEXIS 142525 (M.D. Tenn. July 22, 2014) (indicating that even where judges do understand the complexities of

cost-shifting on the shoulders of the parties, leaving the role of the judiciary to be one of enforcement of parties' agreements, rather than one of individual courts' interpretations of a long list of technical terminology.

To remove doubt as to cost allocations for e-discovery, these changes to U.S.C. § 1920(4) would be echoed at the beginning of litigation with changes to the FRCP setting up the ultimate outcome of the potential cost shifting. Specifically, FRCP 26(f)(3)(C) should be amended to make parties' agreements binding as to what *forms* the e-discovery should take.¹²⁷ Similarly, parties should also be required to agree on preservation of ESI, and that agreement should specify what to do when privileged or third party private information is inadvertently produced.¹²⁸ The current reference in FRCP 26(f)(2)(1) to preservation of information requirements is simply inadequate for the purposes of e-discovery.¹²⁹

With the changes suggested here, the reward for abiding by the discovery schedule, keeping effective preservation plans in place, providing broad access where it is relevant to the litigation, and keeping the scope of non-required discovery to a minimum, would be generous cost shifting reflecting the terms of the demand stage agreement.¹³⁰ These ideas are in keeping with the requirement imposed by the rules that parties must sign all disclosures, requests, responses and objections with costs in mind.¹³¹

technology, there will always be room for judicial discretion as to which technology should be used; the Bridgestone court issued a discovery order which allowed the use of predictive coding to narrow a document set that had been searched using keywords, while noting that “[t]here is no single, simple, correct solution possible under these circumstances”).

¹²⁷ See FED. R. CIV. P. 26(f)(3)(C).

¹²⁸ FED. R. CIV. P. 26 (f)(3)(D) (“A discovery plan must *state the parties’ views and proposals on*: . . . any issues about claims of privilege or protection as trial preparation materials, including-if the parties agree on a procedure to assert these claims after production-whether the court to include their agreement in an order.”) (emphasis added).

¹²⁹ FED. R. CIV. P. 26(f)(2) (“In conferring, the parties must consider the nature and basis of their claims and defenses and possibilities for promptly settling or resolving the case . . . [.] discuss any issues about preserving discoverable information; and develop a proposed discovery plan.”).

¹³⁰ FED. R. CIV. P. 26. The current scope of discovery is general and broad, but the “relevance” standard of Rule 26(b)(1) is limited to some extent by the consideration of costs to the parties. Rule 26 (b)(2)(C) expresses these limits: “[T]he court must limit the frequency or extent of discovery . . . if it determines that: (i) the discovery sought is unreasonably cumulative or duplicative, or can be obtained from some other source that is *more convenient, less burdensome, or less expensive*; . . . (iii) the proposed discovery is outside the scope permitted by Rule 26(b)(1).” *Id.* (emphasis added).

¹³¹ FED. R. CIV. P. 26(g)(1)(B)(3). Attorney certification under Rule 26 (g) (1) (B) (3) is required to indicate “with respect to a discovery request, response or objection it is: . . . (iii) neither unreasonable nor unduly burdensome or expensive, considering the needs of the case, prior discovery in the case, the amount in controversy and the issues at stake in the action.” *Id.*

The suggestions of the Rules Committee and FINRA's arbitration procedures contain important lessons. The mandatory arbitration clauses recommended in the e-discovery context also grant maximum flexibility to the parties without jeopardizing the prospect of just litigation. Clear FRCP rules reflecting the final taxation of costs under U.S.C. § 1920(4) would allow parties to pursue lawsuits in federal court without the fear that discovery will be stymied by concerns about paying for the necessary information. This change would lead to predictability and fairness, provided that justification for the requested material is clearly stated at the outset and that parties agree to cost allocations. It would also create uniformity across the circuit courts and affect how federal district courts and state courts handle ESI discovery requests and cost allocations.

Some district courts have responded to requests for cost shifting by finding against the litigants on the basis of inaction and bad faith in failure to address the issue of discovery costs at the demand stage. The Eastern District of Michigan held in 2008 that there would be no cost shifting in *Cason-Merenda v. Detroit Med. Ctr.*¹³² In *Cason-Merenda*, the defendant did not identify ESI under FRCP 26(b)(2)(B) as "not reasonably accessible" or file a motion for an order protecting it from burden or cost, but instead produced responsive ESI and then sought an order imposing half of its own costs on plaintiffs.¹³³ The court denied the motion as both untimely, because the defendant had not raised the issue before incurring the costs, and inappropriate because the defendant conceded that the ESI was accessible, precluding any issue of good cause under FRCP 26(b)(2)(C).¹³⁴ Similarly, in a decision later affirmed by the Federal Circuit, *CBT Flint Partner, LLC v. Return Path, Inc.*, the district court judge shifted discovery fees to the requesting party where the defendants complied with overbroad demands and the plaintiff lacked both early planning and good faith.¹³⁵ The solution proposed here would guide parties away from incurring costs in the hope of post-litigation relief; most

¹³² *Cason-Merenda v. Detroit Med. Ctr.*, No. CIV.A. 06-15601, 2008 WL 2714239, (E.D. Mich. July 7, 2008).

¹³³ *See id.* at *1-3.

¹³⁴ *See id.* at *3-4.

¹³⁵ *CBT Flint Partner, LLC v. Return Path, Inc.*, No. 1:07-CV-1822-TWT, 2008 WL 4441920, *2-4 (N.D. Ga. August 7, 2008) (holding that a combination of bad faith and lack of early planning in the case to fairly share the enormous expense incurred in producing vast quantities of data formed the basis of the decision to shift the majority of the costs onto the requesting party. The court noted "the extraordinary demands made by the Plaintiff upon Cisco for document production, the costs incurred to date by Cisco, and the Plaintiff's failure to demonstrate that the relevance and importance to the case of the documents are proportional to the cost required for their production." The court further ruled that the defendant was entitled under Rule 37(a)(5) to an additional \$86,787 which was 75% of its discovery cost.) *aff'd*, 501 Fed. Appx. 980 (Fed. Cir. 2013).

parties would agree on cost allocation in advance, and the court would simply enforce that agreement.

CONCLUSION

The narrow interpretation on the part of some circuit courts of the words “copying” and “exemplifications” in 28 U.S.C. § 1920(4), which has led to their refusal to shift costs for production of ESI material, will lead to increasingly unequal litigation.¹³⁶ Parties that face potentially crippling ESI costs will be deterred from bringing a lawsuit or going to trial. Uncertainty about post-litigation cost allocations broadens this effect to include many of those who would have recovered their costs. The two recently proposed solutions, that is, advocating a “narrow” interpretation of the statute or a rule change requiring the requesting party to pay all discovery costs, do not address these problems, especially for cases where an enormous volume of data must be sifted through.¹³⁷ The current status quo is not likely to prevent e-discovery abuses either. But if there are clear rules at the outset of the trial, *and* at the end of trial, then the parties can resolve question of cost shifting in a court-supervised pre-trial conference process, and the court can simply impose the logical consequences of their agreement post-litigation. Without a solid set of effective practice and procedural rules in place, however, the question of who bears the burden of e-discovery costs may become the deciding factor in the litigation outcome. That result will never be a satisfactory one for the American justice system.¹³⁸

¹³⁶ See, e.g., *Race Tires Am., Inc. v. Hoosier Racing Tire Corp.*, 674 F.3d 158 (3d Cir. 2012).

¹³⁷ See *supra* note 10 and accompanying text (noting that costs of e-discovery lead to decisions to settle regardless of the merits of the case); see also *Junk & McNulty*, *supra* note 25, at *1 (“Skyrocketing discovery costs offend the very premise of the civil justice system, which is ‘to secure the just, speedy, and inexpensive determination of every action and proceeding.’”).

¹³⁸ See *American Association for Justice*, *supra* note 11 (noting that all Americans deserve access to the courts to “hold wrongdoers accountable”).