

Recent Legal Developments and Standards in the Discovery of Electronic Media

Prepared and Presented by:

Jay H. Ong
Munsch Hardt Kopf & Harr, P.C.

Document Retention and Destruction in the Age of E-Discovery

I. Recent Legal Developments and Standards in the Discovery of Electronic Media

A. Introduction – A Few Attention Getting Figures

These days, hearing a \$6 million figure in the context of discussing litigation might hardly give pause to anyone experienced in our legal system...if such a figure is related to liabilities. If, however, we are informed that this figure relates to the cost of responding to discovery, let alone the overall costs and liabilities of litigation, the response is decidedly different. It should not be. In fact, the above figure is just a shade under the amount that one court recently found would cost a litigant to respond to discovery requests directed toward its electronic back-up tape files.¹ This is far from exceptional. In another recent case, the Court found a cost over \$4 million to properly respond to discovery requests directed toward electronic media, excluding attorneys fees and other costs of review.² Moreover, the Court went on to require, consistent with the general “American Rule,” that the responding party cover the majority of the costs.³

The foregoing nicely embodies some of the most troubling issues arising in connection with discovery of electronic media in litigation. In today’s business world, with the technological tools it incorporates, factoring such media into the pool of

¹ *Murphy Oil USA, Inc. v. Fluor Daniel, Inc.*, 2002 U.S. Dist. LEXIS 3196, *8 (E.D. La. 2002); Phillips, Sarah, *How Effective are Proposed Protections for “Not Reasonably Accessible” Data?*, 83 N.C.L. Rev. 984, 991 (May 2005).

² *Medtronic Sofamor Danek, Inc. v. Sofamor Danek Holding, Inc.*, 2003 U.S. Dist. LEXIS 8587, *25-26 (W. D. Tenn. 2003); Phillips, 83 N.C.L. Rev. at 984 (May 2005).

³ *Medtronic*, 2003 U.S. Dist. LEXIS 8587, at *26; Phillips, 83 N.C.L. Rev. at 985.

discoverable information exponentially increases the sheer volume of information that must be waded through and parsed by a respondent to discovery. A direct result of this tremendous volume is increased costs and burdens of wading through the sea of information. Scholars estimate that, today, 99.99% of all information is generated in non-paper form, and from 1999 to 2002 the amount of newly stored information grew by an estimated 30%.⁴ In 2002 alone, nearly 5 exabytes (1 exabyte is roughly equivalent to the volume of the Library of Congress, multiplied 500,000 times) of information were generated – “more information has been generated and stored between 1999-2003 than all of the information generated since the beginning of mankind” – and most such information never makes contact with a sheet of paper.⁵ If the foregoing figures are not sufficient, these increased costs further magnified by technological costs associated with electronically stored information which is stored on media that are not conveniently accessible, such as back-up tapes or network servers (“accessibility” will be a primary, running theme for us in this section). These issues plainly promote the position that discovery of electronic media makes for, at best, an inconsistent fit with our pre-existing, general rules of discovery.

A few more actual examples will drive these points home. Consider a discovery request requiring the responding party to expend up to an estimated 18,000 labor hours merely to review back-up tape data for relevance, or another involving the following estimates by a party to respond to e-discovery requests: (i) nearly 3,800 back-up tapes;

⁴ *Phillips*, 83 N.C.L. Rev. at 988.

⁵ *Id.*; *Back to the Future: FRCP and Electronic Discovery in Bankruptcy*, 24-1 A.B.I.J. 24, 24 (Seward, Jack ed., February 2005).

(ii) up to 10 hours to restore, duplicate and convert file contents per tape; at (iii) a total cost of over \$2.9 million.⁶ In fact, these costs can be so mountainous that they have given rise to a burgeoning industry devoted solely to providing professional services assisting litigants in navigating e-discovery, and the sheer numbers driving this market are staggering. One recent case cited to a 2005 survey reporting that the litigation consultant industry specializing in assisting parties in gathering and compiling responsive data (again ignoring the considerable costs of attorney time to review potentially responsive materials for relevance and privilege issues) produced aggregate revenues in the estimated range of \$832 million in 2004.⁷ Moreover, the trend is rapidly gathering steam. The 2004 estimate represents a 94% increase from 2003, and the survey further provided projections for the next three years: (i) \$ 1.282 billion in 2005; (ii) \$ 1.923 billion in 2006; and (iii) \$ 2.865 billion in 2007.⁸

The next obvious question, then, is to ask whether the law really requires that litigants wade through all such information in response to discovery requests reaching them? In other words, precisely what electronic media is within the scope of these obligations?

⁶ See *Phillips*, 83 N.C.L. Rev. at 991 (citing *Wiginton v. CB Richard Ellis, Inc.*, 2003 U.S. Dist. LEXIS 19128, *8-9 (N.D. Ill. 2003); *Quinby v. WestLB AG*, 2005 U.S. Dist. LEXIS 35583, *7 (S.D.N.Y. 2005). The need to “convert” tape files in *Quinby* refers to the need to convert individual files stored thereon – in compressed form — into their original “native format” in order to render them capable of review. More on this hereinbelow during our following discussion of types of discoverable electronic media.

⁷ *Hopson v. Mayor & City Council of Baltimore*, 232 F.R.D. 228, 239 (D. Md. 2005)(citing Socha-Gelbmann 2005 Electronic Discovery Survey Results, available at:

<http://www.sochaconsulting.com/2005surveyresults.htm>).

⁸ *Id.*

B. Timing and Scope of Discoverable Information – The New Federal Rules

This issue actually contains two discrete subparts. First, we must examine the various categories of electronic media and modes of information storage that are typically encountered. Secondly, litigants will of course be keen to know how the courts will treat the various categories of information storage, and specifically, which of these following categories are, and which are not, within the scope of what the courts will deem discoverable information:

- (1) Types of Electronic Media.⁹
 - (a) *Active or Online Data*: electronic information that an everyday user consciously accesses and manipulates, such as e-mail, presentation software, spreadsheets, databases, and picture files.
 - (b) *Near-Line Data*: electronic information — like optical disk storage — that is located in a physical “library” and accessed by automated machines.
 - (c) *Internet Data*: includes data like cookies, cache memory, favorites, history, auto-complete information, etc.
 - (d) *Metadata / Embedded data*: electronic information that is embedded into a particular document. It is essentially “data about the data.”
 - (e) *Replicant Data / File Clones*: electronic data stored when the computer makes a flash copy of a document in use. The paradigmatic example is the automatic saving of a copy of a word processing document for document recovery purposes.
 - (f) *Residual Data*: data the ordinary user has deleted. Although the file no longer appears to the user to exist on

⁹ The following categories are taken from Larson, Nathan D., *Note: Evaluating the Proposed Changes to Federal Rule of Civil Procedure 37: Spoliation, Routine Operation and the Rules Enabling Act*, 4 Nw. J. Tech. & Intell. Prop. 212, 216-17 (Spring 2006)(citations omitted).

the hard drive, the file has merely been marked for deletion by the computer. This marking process simply allows the computer to make available the space on the hard drive for overwriting should the memory be needed.

- (g) *Backup Data*: usually exists outside of the network in the form of large network back-up magnetic tapes. The purpose of the storage is usually to restore the full system in the event of a massive system failure (disaster recovery). These tapes are typically overwritten periodically to facilitate more recent back-ups.
- (h) *Legacy Data*: data originally generated by outdated software no longer in use. Although the data still exists, the systems needed to read and manipulate the data are no longer used or available.

Looking at the foregoing categories reveals a progressive trend from top to bottom, moving from data consciously manipulated by the user sitting at her desk computer and stored in an accessible form and (virtual) location, to data that is not stored in any location or form that is conveniently accessible to your typical, day-to-day user. As mentioned previously, “accessibility” is a major theme for these topics, and is one provided by the Federal Rules of Civil Procedure (the “Federal Rules”) governing discovery. Accordingly, before we get too far ahead of ourselves, we must look to these.

(2) The Federal Rules.

Amendments to the Federal Rules, including those geared toward accommodating and addressing the foregoing tensions occasioned e-discovery, have recently been enacted (and became effective December 1, 2006).¹⁰ Among the relevant changes to the Federal Rules pertaining e-discovery are revisions to Rules 16 (Pretrial Conferences;

¹⁰ The amended Federal Rules, together with Advisory Committee notes on the amendments, can be accessed via the Federal Judiciary’s official website:

<http://www.uscourts.gov/rules/index.html> (last visited December 2006).

Scheduling; Management), 26 (General Provisions Governing Discovery), 33 (Interrogatories), 34 (Production of Documents), 37 (Failure to Disclose / Cooperate in Discovery; Sanctions), and 45 (Subpoena).

Rule 16. Rule 16(b) has been amended to expressly provide that a pretrial scheduling order may include: (i) “provisions for disclosure or discovery of electronically stored information;” and (ii) “any agreements the parties reach for asserting claims of privilege or of protection as trial-preparation material after production.”¹¹ These amendments must be read in concert with certain of the revisions to Rule 26 requiring parties to “discuss any issues relating to preserving discoverable information” during what is commonly referred to as a pretrial “Rule 26 Scheduling Conference,” and specifically requiring them to address: (i) “any issues relating to disclosure or discovery of electronically stored information, including the form or forms in which it should be produced;” and (ii) “any issues relating to claims of privilege or of protection as trial-preparation material, including — if the parties agree on a procedure to assert such claims after production — whether to ask the court to include their agreement in an order.”¹²

The clear import of the foregoing revisions is to require parties in litigation to discuss e-discovery issues early in the process if the parties anticipate that such discovery will be relevant to the proceedings, and to allow and encourage the courts to also consider them early in the process.¹³ One of the issues specifically contemplated relates to the

¹¹ See Fed. R. Civ. P. 16(b)(5) and (6).

¹² See Fed. R. Civ. P. 26(f)(3) and (4). Hereinafter, citations to the Federal Rules are omitted for brevity, unless to identify specific subsections, or to prior versions of the rules.

¹³ Finkelthal, Ophir D., *Developments in the Law: Scope of Electronic Discovery and Methods of Production*, 38 Loy. L.A. L. Rev. 1591, 1603-06 (Summer 2005); Advisory Committee Note (Rule 16),

greater risk of inadvertent production of electronically stored, privileged information, necessitating that the producing party assert its privileges subsequent to production. More on this later.

Rule 26. Rule 26 has been amended more extensively. In addition to the foregoing, the Rule now provides that a party’s initial disclosures must include copies or categorized descriptions of “electronically stored information” that the party has in its possession and may use to support its claims or defenses.¹⁴ In addition, two new, critical subsections have been added to the limitations set forth under subsection (b) (Discovery Scope and Limits) of Rule 26, providing:

(b)(2) Limitations

(A) A party need not provide discovery of electronically stored information from sources that the party identifies as not reasonably accessible because of undue burden or cost. On motion to compel discovery or for a protective order, the party from whom discovery is sought must show that the information is not reasonably accessible because of undue burden or cost. If that showing is made, the court may nonetheless order discovery from such sources if the requesting party shows good cause, considering the limitations of Rule 26(b)(2)(C). The court may specify conditions for the discovery;

* * * * *

(b)(5) Claims of Privilege or Protection of Trial-Preparation Materials

(B) Information Produced. If information is produced in discovery that is subject to a claim of privilege or of protection as trial-preparation material, the party making the claim may notify any

E-Discovery Amendments and Committee Notes, available from the following page of the Federal Judiciary’s official website:

<http://www.uscourts.gov/rules/congress0406.html> (last visited December 2006).

Hereinafter, all citations to “Advisory Committee Note” are to the foregoing.

¹⁴ Fed. R. Civ. P. 26(a)(1)(B).

party that received the information of the claim and the basis for it. After being notified, a party must promptly return, sequester, or destroy the specified information and any copies it has and may not use or disclose the information until the claim is resolved. A receiving party may promptly present the information to the court under seal for a determination of the claim. If the receiving party disclosed the information before being notified, it must take reasonable steps to retrieve it. The producing party must preserve the information until the claim is resolved.

The first of these provisions lays out the procedural standard for determining disputes over the scope of a litigant's obligations in the e-discovery arena, and incorporates our lynchpin concept of "accessibility." The second addresses the privilege issue just noted, and is specifically geared to the greater risk of inadvertent production of electronically stored information. We return to discuss both of these concepts at length hereinbelow.

Rule 33. Rule 33, governing interrogatories, has undergone one minor change in subsection (d) (Option to Produce Business Records), wherein the term "electronically stored information" has been expressly included among the business records referenced therein, to expressly allow parties, in response to interrogatories, to make electronically stored information available for inspection and copying by the requesting party.

Rule 34. Rule 34, governing the production of documents, naturally received the most extensive revisions, beginning with the express inclusion of "electronically stored information" among the scope of documents addressed in the heading and subsection (a) of the Rule. Subsection (a) is further revised to update the categories of documents from including "phonorecords" to "sound recordings and images," and from including "other data compilations" to "other data and data compilations stored in any medium."

Beyond these, subsection (a) is substantively amended to incorporate the notion of “testing or sampling” of portions of electronically stored data designated by the responding party. This latter revision speaks to the need to address large collections of electronically stored information that may not be easily accessed to evaluate issues of relevance and probative value. For example, in the case of back-up and legacy data, we now know that these can include enormous volumes of information which entails a fair amount of effort and expense to review, or even render capable of review. Accordingly, the Rule incorporates an approach whereby a party may be allowed to test and evaluate the degree and costs of accessibility, and sample a subset of such information to generally gauge the extent of relevant information contained therein so that the parties and Courts can intelligently perform costs-benefits analyses.¹⁵

In addition, subsection (b) of Rule 34 received several revisions aimed at addressing disputes over the precise form of production of electronically stored information (frequently a field for litigation gamesmanship). The Rule now provides that: (i) a request “may specify the form or forms in which electronically stored information is to be produced;” (ii) the responding party may object “to the requested form or forms for producing electronically stored information;” and (iii) if a responding

¹⁵ See Withers, Kenneth J., *Electronically Stored Information: The December 2006 Amendments to the Federal Rules of Civil Procedure*, 4 Nw. J. Tech. & Intell. Prop. 171, 178 (Spring 2006), in which Mr. Withers provides an example of this approach followed by the Court in *McPeck v. Ashcroft*, 202 F.R.D. 31 (D.D.C. 2001). Therein, the Court was confronted with a plaintiff’s request in an employment discrimination for all information stored in its back-up tapes, an extremely voluminous collection (the responding party was a federal agency). Rather than require the defendant to incur the initial expense of restoring and reviewing all such tapes, the Court ordered the defendant to conduct such review with a small sampling of the tapes (based on relevant time frame), and report to the Court in a sworn certificate the costs and substantive results of the sampling. *Id.* at 34-35. See also, Finkelthal, 38 Loy. L.A. L. Rev. at 1617; Advisory Committee Note (Rule 34).

party so objects or the requesting party fails to specify a specific form, then the responding party must also state in its response the form in which it intends to produce such information. Finally, subsection (b) of the Rule is also amended to provide that:

Unless the parties otherwise agree, or the court otherwise orders: (i) a [original text in brackets: party who produces documents for inspection shall produce them as they are kept in the usual course of business or shall organize and label them to correspond with the categories in the request;] (ii) if a request does not specify the form or forms for producing electronically stored information, a responding party must produce the information in a form or forms in which it is ordinarily maintained or in a form or forms that are reasonably usable; and (iii) a party need not produce the same electronically stored information in more than one form.

Prior to the enactment of the foregoing provisions, disputes over the form of production have begun to arise, often involving metadata. Responding parties often prefer to convert electronic files into fixed images such as paper or “pdf” files because such files generally cannot be manipulated and do not contain metadata that may inadvertently assist inspecting parties in tracing histories, drafts and comments, and identifying persons who have worked on the documents. On the other hand, requesting parties understandably prefer that metadata be preserved, and may object that the pre-existing Rule required production to either be in the form usually kept, or organized and labeled by category.¹⁶ These disputes ultimately have led to divergence among the courts as to whether paper production is sufficient, and if not, whether electronic information must be produced in native format (which may or may not be accessible to the other side), or whether it may be converted into other forms of electronic documents,

¹⁶ See Curreri, Shannon M., *Developments In the Law: II. Defining “Document” in the Digital Landscape of Electronic Discovery*, 38 Loy. L.A. L. Rev. 1541, 1545-46 (Summer 2005); Finkelthal, 38 Loy. L.A. L. Rev. at 1631; Withers, 4 Nw. J. Tech. & Intell. Prop. at 186-88.

and as to whether a responding party might be obligated in some situations to produce both paper and electronic information.¹⁷ The amendments seek to resolve at least some of these issues by allowing – but not requiring – a requesting party to specify different forms of production for different information, and allowing the responding party to specifically object to such requests. The objective is, in part, that this structure will cause such issues to manifest earlier in the process.¹⁸ Otherwise, for example, a party might produce information in a form that is unusable to the requesting party, thus forcing the parties to dicker over the same production a second time.¹⁹

Certain tensions remain unresolved by the amendments, however. For example, the new Rule does not address an attempt to convert files from their native format into another “reasonably usable” form which is, nevertheless, more cumbersome and less convenient than its native format. This approach appears to be allowed under a literal reading of the Rule, but it can be negated by a requesting party’s seizing the opportunity to specify a form of production initially, thus requiring the responding party to object and justify its objection in order to employ the approach.²⁰

Rule 37. This Rule governing discovery disputes before the Court receives a new, critical, subsection (f), providing that: “Absent exceptional circumstances, a court may not impose sanctions under these rules on a party for failing to provide electronically

¹⁷ *Id.*; *Semsroth v. City of Wichita*, 2006 U.S. Dist. LEXIS 83363, *11-13 (D. Kan. 2006).

¹⁸ Advisory Committee Note (Rule 34).

¹⁹ Curreri, 38 Loy. L.A. L. Rev. at 1548.

²⁰ *Id.* The Note also explains, however, that a requesting party may not know well enough at the time of the request to specify the native document format(s) used by the responding party, but also that subsection (a) of the Rule requires information to be translated into reasonably usable form if necessary.

stored information lost as a result of the routine, good-faith operation of an electronic information system.”

The foregoing is directed to what is commonly referred to as “spoliation,” a term referring to litigant’s active or passive destruction of relevant information. Two critical features of electronically stored information are: (i) it is very difficult to fully and finally “destroy” such information in today’s business world; and (ii) it is very easy to render such information inaccessible, both intentionally and inadvertently.²¹ As to the first, most of us accustomed to day-to-day, routine use of computers understand that deleted files on a computer are merely removed from a computer’s active directory and flagged as available space for overwriting, such that the files themselves remain recoverable from the computer, at least until they are actively overwritten.²² Even once this occurs, the files may be found in other locations, such as mirror images or back-up tapes on which regular “snapshots” of a system, and all files therein, are regularly taken and stored for disaster recovery purposes, through third-party recipients, or on external network servers through which such files may have been sent, which often store records of transmissions.²³ The flipside of this is that much electronic information is routinely impacted and destroyed inadvertently, or at least without any specific intent with respect to the lost information. For example, metadata contained in a document is altered and updated each time a document is manipulated, including simply by accessing and

²¹ Curreri, 38 Loy. L.A. L. Rev. at 1552-53; Phillips, 83 N.C.L. Rev. at 988-89; Withers, 4 Nw. J. Tech. & Intell. Prop. at 188-89.

²² Van Oostenrijk, Lloyd, *Paper or Plastic?: Electronic Discovery and Spoliation in the Digital Age*, 42 Hous. L. Rev. 1163, 1186-87 (2005).

²³ *Id.* at 1187; Curreri, 38 Loy. L.A. L. Rev. at 1558-59;

re-saving the document.²⁴ Back-up tapes are overwritten and recycled, and various systems often employ regular maintenance protocols that include emptying deleted file folders, deleting files which have not been accessed for extended periods of time, or utilizing disk defragmentation to maximize space and efficiency.²⁵ Of course, most persons and businesses are generally free to determine the extent to which (and how regularly), they wish to employ these protocols such as back-up tapes, if at all, and the extent to which their servers preserve information transmitted through them. Nevertheless, as to what information is, in fact, preserved in a litigant's possession, the law provides for a duty to protect and preserve information relevant to litigation claims which may arise as soon as the party anticipates such litigation, and the failure to do so constitutes spoliation of relevant information in the party's possession.²⁶

The greatest tension here is not with intentional destruction of documents, but with this latter category of information which may be inadvertently lost as a result of routine operations of a business and its computer systems. New Rule 37 allays this concern by providing that a party is not subject to sanctions for the loss of information as a result of such routines. However, the policy line drawn by this amendment will, in situations where litigants anticipate that relevant information may thereby be lost, cause proactive litigants to seek a "preservation" order requiring that such routine functions be suspended, or that the information otherwise be preserved (this is known as a "litigation

²⁴ Withers, 4 Nw. J. Tech. & Intell. Prop. at 189

²⁵ *Id.*

²⁶ Finkelthal, 38 Loy. L.A. L. Rev. at 1595-96; Van Oostenrijk, Lloyd, 42 Hous. L. Rev. at 1184-85. The consequences of spoliation in the form of sanctions fashioned by the Courts can be severe, commonly including monetary sanctions and adverse inferences against the offending party.

hold”).²⁷ Another effect is to spur earlier discovery efforts and conferences as parties attempt to explore and assess the risk of spoliation and possible consensual resolutions, and, barring that, to provide a record of notice to the opposing side in anticipation of seeking relief from the court. Note also that the Rule continues to require that parties confer to attempt to resolve their disputes prior to presenting them to the Court, which requirement now becomes applicable to the other matters implemented in the new Federal Rules, such as disputes over the form of production.

Rule 45. This Rule, governing discovery generally directed at third parties, receives several revisions to streamline it with the foregoing amendments. First, “electronically stored information” is inserted in several places to make clear that references to documents and other discoverable media include electronic media, including a specific provision that provides, in tandem with new Rule 34, that a “subpoena may specify the form or forms in which electronically stored information is to be produced.” Additional revisions geared toward consistency with new Rule 34 include: (i) provisions relating to inspection and copying of documents, modified to expressly include testing and sampling; and (ii) incorporation of language providing that information is to be produced either in native format or in “reasonably usable form,” and that information need not be produced duplicatively in differing forms. Finally, the new provisions found in Rule 26 setting forth the standard of accessibility and pertaining to inadvertent production of privileged information, also now appear in subsection (d) of Rule 45.

²⁷ Mason, Andrew, *Throwing Out the (Electronic) Trash: True Deletion Would Soothe E-Discovery Woes*, 7 Minn. J.L. Sci. & Tech. 777, 792, 794 (May 2006); Finkelthal, 38 Loy. L.A. L. Rev. at 1598-99.

Taken together, the new Federal Rules constitute an approach to e-discovery under which electronic media is recognized as being within the scope of discoverable information, but also utilizing some special treatment of e-discovery (such as an accessibility standard) to account for its particular difficulties. Note that even where a party determines not to produce information it believes is not reasonably accessible because of undue burden or cost, the Federal Rules also provide that the responding party has the burden of establishing this position, and even if it does so, courts may nevertheless order that such information be produced upon a showing of real need (good cause) by the other side. In connection therewith, the Federal Rules provide that courts may order such discovery with conditions. Leaving aside restrictions based on irrelevance or lack of probative value in relation to burden (the allowable scope of information which a court would and would not order produced), these “conditions” frequently turn on one of the most primary disputes implicated by e-discovery: cost-shifting.

C. Shifting Costs for Electronic Discovery

The enormous cost of e-discovery discussed at the beginning of this article naturally raises issues of “cost-shifting,” which is simple notation for variance from the general “American Rule” that party litigants bear their own costs. In short, where a discovery request appears to be unduly burdensome yet cause exists to order it fulfilled, the courts have formulated standards under which they will depart from the American Rule and order that the requesting party bear some or all of the costs of production. As a departure to general rules, the cost-shifting movement began fairly restrictively, and it is

no surprise that the increased incidence of this doctrine has corresponded with our ever-increasing awareness of the difficulties occasioned by e-discovery.²⁸

The two most oft-cited, seminal cases with respect to cost-shifting both emanated from the Federal District Court for the Southern District of New York. The first, *Rowe Entm't, Inc. v. William Morris Agency, Inc.*²⁹, involved arguments by several defendants, pertaining to e-mails and other electronic media within the scope of rather broad discovery requests, including: (i) that the number of relevant e-mails relative to the burden is extremely small (relates to good cause); (ii) older e-mails were available only as back-up files in formats that are no longer commercially available (legacy data); and (iii) a mere sample of cataloguing, restoring, and processing back-up tapes would, in one instance, cost nearly \$400,000, and the entire library almost \$10 million (undue burden or cost – a number of defendants asserted similar objections and figures).³⁰

The plaintiff responded that the e-mails were critical, that prior discovery had indicated some validity to the claims and established their relevance, and disputed the defendants' cost estimates. In addition, the plaintiff proposed a number of protocols and solutions to minimize the expense, including sampling, limiting relevant files to key employees, producing information in native format to spare expenses of conversion and copying, and conducting automated key word searches for privilege and relevance.³¹

²⁸ Repa, Jessica L., *Adjudicating Beyond the Scope of Ordinary Business: Why the Inaccessibility Test in Zubulake Unduly Stifles Cost-Shifting During Electronic Discovery*, 54 Am. U.L. Rev. 257, 271 (October 2004).

²⁹ 205 F.R.D. 421 (S.D.N.Y. 2002)

³⁰ *Id.* at 425-26.

³¹ *Id.* at 424-25, 426-427.

After finding that the relevance of the electronic information had been established, the Court noted that the plaintiff was entitled to e-discovery the same as any other medium, and found that conventional business practices and realities refuted any position that e-mails were not generally used in the business process, or if so, would generally be printed into hard copy files if significant. As a result, the Court generally determined to allow the requested discovery.³²

The Court next considered the issue of cost-shifting raised by the defendants, finding that Federal Rule 26 allowed the Court to protect responding parties from “undue burden or expense” by shifting costs.³³ The question, then, was what burden or cost should be considered “undue.” In rejecting the plaintiffs’ argument that responding parties choosing electronic media for storage should bear the cost of production because this choice carries a presumption that the retrieval of useful information is a foreseeable component of business, the Court explained that, in the case of electronic rather than paper documents, these are often preserved inadvertently, or at least, not because of usefulness, but because such information can be stored at virtually no cost. The Court also rejected the opposing bright line argument that the requesting party should bear the cost because it is better able to gauge the significance to the party’s claims and weigh the costs and benefits. The Court explained that such a holding would violate the traditional rules of discovery and that the social impact of discouraging meritorious claims was

³² *Id.* at 428.

³³ *Id.* at 428-33.

unacceptable. Instead, the Court enunciated a balancing approach based on a number of factors gleaned from prior cases. Those factors, with some brief rationale, are:

- (1) the specificity of the discovery requests – here, the failure to properly tailor requests shifts the increased burden to the requesting party;
- (2) the likelihood of discovering critical information – the more unlikely the relevance of information, the more reasonable to shift to the requesting party;
- (3) the availability of such information from other sources – this indicates that the plaintiff has freely chosen to request information from a particular source, again supporting cost-shifting;
- (4) the purposes for which the responding party maintains the requested data – here, the concept of accessibility arises. If a party maintains information for a day-to-day business purpose, it can expect to have to access and produce that information in the course of its business. Conversely, if information is stored for unlikely purposes (disaster recovery) or unintentionally, it should not be required to bear this burden;³⁴
- (5) the relative benefit to the parties of obtaining the information – where the producing party also benefits, such as by instituting protocols or programs which would also benefit the business going forward, cost-shifting is less justified;
- (6) the total cost associated with production – if not unusual, then no cause exists to depart from traditional rules;
- (7) the relative ability of each party to control costs and its incentive to do so – where the cost is “incremental, it is most efficient to place the burden on the party best able to control it,”³⁵ and
- (8) the resources available to each party – burden is relative.

Applying the foregoing, the Court found in favor of shifting the majority of costs to the plaintiffs. In implementing its ruling, the Court set forth a specific protocol

³⁴ The Court also analogized here to “dumpster” discovery, explaining that while a litigant may be free to go through an opponent’s trash, the opponent is not required to shift through its own.

³⁵ *Id.* at 432.

utilizing the following progression: (i) the defendants' and plaintiffs' technical experts would coordinate on obtaining mirror images and copies of hard drives and back-up tapes; (ii) the plaintiffs would choose whether to employ sampling, convert them as necessary, and then have their attorneys review them using agreed-upon search parameters; (iii) after receiving the set of allegedly responsive documents from the plaintiffs, the defendants would review them for privilege; and (iv) any additional conversion of documents or privilege review by the defendants of their electronic files prior to allowing the plaintiffs to conduct their initial review would be borne solely by the defendants.

Not long after the enunciation of these factors, the Southern District of New York had the occasion to revisit these same cost-shifting issues in *Zubulake v. UBS Warburg, et al.*, which further refined the *Rowe* factor test.³⁶ In *Zubulake I*, the Court again addressed a broad discovery request reaching all of the defendants' e-mail correspondence pertaining to the plaintiff over the course of approximately three years. Such information was located primarily on back-up tapes and optical disks which would require considerable costs to access, restore, convert, and/or review.

As with *Rowe*, the Court began its analysis recognizing that electronic media are subject to discovery and the American Rule. The Court went on to explain that the "undue burden and expense" standard for cost-shifting indicates that cost-shifting is not to be automatically considered in every case involving e-discovery, because this includes

³⁶ The *Zubulake* case actually spans several reported decisions. For our purposes, we shall confine ourselves to *Zubulake v. UBS Warburg*, 217 F.R.D. 309 (S.D.N.Y. 2003) ("Zubulake I"), and *Zubulake v. UBS Warburg*, 216 F.R.D. 280 (S.D.N.Y. 2003) ("Zubulake II").

virtually all cases and would eviscerate the general rule.³⁷ Moreover, “undue burden and expense” is also refined in Federal Rule 26(b)(2), providing that a Court is to protect against discovery if it determines, *inter alia*, that “the burden or expense of the proposed discovery outweighs its likely benefit, taking into account the needs of the case, the amount in controversy, the parties’ resources, the importance of the issues at stake in the litigation, and the importance of the proposed discovery in resolving the issues.”³⁸

The Court then incorporated the concept of accessibility, explaining that the cost and burden of e-discovery is generally a factor of whether the electronic media in question are or are not reasonably accessible.³⁹ Using a progression of electronic media similar to the laundry list set forth near the beginning of our discussion (p. 5), the Court explained that electronic media stored in readily usable format by day-to-day users (including active, online data, near line data, and offline storage such as optical drives and magnetic tapes) are reasonably accessible. Conversely, back-up tapes and erased, fragmented or damaged data requiring considerable restoration and processing to render usable, are not readily accessible. Using this rationale, only the back-up tapes among the media at issue in *Zubulake* presented any issue of cost-shifting.

The Court then re-examined the adequacy of the *Rowe* factor test, and explained that it was in need of repair due to three difficulties causing it to improperly favor cost-shifting rather than being neutral: (i) the *Rowe* factors were incomplete; (ii) the factors should be weighted; and (iii) the Courts had previously applied the factors without

³⁷ *Zubulake I*, 217 F.R.D. at 317-18.

³⁸ *Zubulake I*, 217 F.R.D. at 318.

³⁹ *Id.* at 318-20.

properly developing the factual record.⁴⁰ The Court remedied the first issues in three ways. First, it expressly incorporated the “total amounts at stake in the litigation and the significance of the issues it presents,” as a factor to balance out the “total cost of discovery” inquiry, which typically weighs in favor of cost-shifting when not viewed in the context of the amounts and issues at stake. Secondly, the Court explained that the relative resources of the parties must be viewed against the total cost of discovery to such party, in order to ensure that the relative burdens on the parties is fairly considered. Third, two Rowe factors were eliminated: (a) “specificity of a request” is considered redundant of relevance issues to which it speaks, which is already a separate factor. Accordingly, the Court combined relevance and specificity into a single factor; and (b) the “purpose for which data is retained” factor is discarded in favor of the more precise factor of accessibility, because such purpose does not affect the discoverability of information, and is meant to raise issues of accessibility in any event.⁴¹

The Court then explained that the factors should be weighted in order from first to last, because the first two factors, “comprising the marginal utility test,” are the most fundamental.⁴² The third through fifth factors speak to an evaluation of the total costs, and the extent to which the parties are able to absorb them. The Court explained that the sixth factor, pertaining to the significance of the litigation and issues to the general

⁴⁰ *Id.* at 320-24.

⁴¹ The foregoing analysis produced the following, revised 7-factor test: (i) the extent to which the request is specifically tailored to discover relevant information; (ii) the availability of such information from other sources; (iii) the total cost of production, compared to the amount in controversy; (iv) the total cost of production, compared to the resources available to each party; (v) the relative ability of each party to control costs and its incentive to do so; (vi) the importance of the issues at stake in the litigation; and (vii) the relative benefits to the parties of obtaining the information.

⁴² *Id.* at 322-23.

public, is rarely present, but may dominate the analysis when it is. Finally, the seventh factor is also weighed separately because it generally weighs in favor of one party (the requesting party), and will only factor in to the analysis where there is some unusual tangible or strategic benefit to the producing party.⁴³

The Court's final point regarding the application of the test through an adequately developed factual record, primarily relates to encouraging the courts to make use of sampling and testing protocols, which provide the most specific and documented assessments of relevance and costs, so that the courts are not left making generalized and speculative statements regarding the factors.⁴⁴

In *Zubulake II*, the Court then revisited the foregoing standard it set forth above, after receiving the results of sampling conducted pursuant to *Zubulake I*, to apply its new standard to the results of the sampling ordered. In so doing, the Court found that the request had been tailored by subsequent agreements to limit the request to key employees, that the sampling indicated that considerable relevant information was discovered, and that the total cost of restoring the remaining back-up tapes, approximately \$166,000, was not unreasonably high in a case involving potential damages in the multi-millions, although the defendant had a somewhat better ability to absorb the costs. Accordingly, because the remaining factors were adjudged as neutral, other than the benefit of the production clearly running to the plaintiff, the Court

⁴³ *Id.* at 323.

⁴⁴ *Id.* at 323-24.

determined that few costs should be shifted.⁴⁵ The Court then went on to assess the specific amount, explaining that the factors are only to be used as a guide, and did this first by holding that the plaintiff would have to bear less than 50% of the costs in light of the Court's ruling. From that point the Court held that too much shifting would chill the assertion of meritorious claims, while noting that the defendant was entitled to some relief because of the speculative issue of what information would eventually be revealed on the remaining back-up tapes. Accordingly, the Court shifted 25% of the costs.⁴⁶

D. Privilege Issues

The final topic remaining to be addressed involves issues of privilege raised by e-discovery. A few points may be drawn here from the materials already covered. First, note that Federal Rule 26(b)(1) omits privileged matters from its generally broad scope of discovery.⁴⁷ Second, the risk of inadvertent production of privileged information is far greater with e-discovery than with traditional discovery. The increase in the sheer volume of information at issue simply magnifies the total incidence of errors and oversights in privilege review.⁴⁸ In turn, the greater risk of error in privilege review causes considerable tension with the already mushrooming costs of e-discovery; privilege

⁴⁵ *Zubulake II*, 216 F.R.D. at 287-89.

⁴⁶ The summary nature of the Court's calculation in *Zubulake II*, which plainly dispensed with any specific calculation of the expenses to be shifted, is somewhat surprising in light of its admonition that such decisions must be specifically tied to a specific factual record.

⁴⁷ "Parties may obtain discovery regarding any matter, not privileged, that is relevant ..." Fed. R. Civ. P. 26(b)(1); Danna, Sasha K., *Developments in the Law: V. The Impact of Electronic Discovery on Privilege and the Applicability of the Electronic Communications Privacy Act*, 38 Loy. L.A. L. Rev. 1683, 1684 (Summer 2005).

⁴⁸ Danna, 38 Loy. L.A. L. Rev. at 1690-91, 1711-12; Withers, 4 Nw. J. Tech. & Intell. Prop. at 185, 201.

reviews being among the primary areas of cost expenditure.⁴⁹ Another contributing factor is that e-discovery often implicates protocols for sampling, testing, restoring and converting electronic media, which steps may require that the requesting party's professionals have access to such information prior to the time that the responding party's counsel have conducted a thorough privilege review.⁵⁰ Third, in recognition of these issues, the new Federal Rules incorporate and encourage discovery agreements addressing the treatment of inadvertently produced, privileged information.⁵¹ Finally, Courts have tended to ignore issues of privilege as an item for cost-shifting, assuming that such costs should not be shifted.⁵²

The "discovery agreements" contemplated in the new Federal Rules typically take one of two basic forms: the "claw back" arrangement and the "quick peek" arrangement. Under a claw back arrangement, the parties agree in advance that a party may, after production, demand the return of any document subsequently identified as privileged, which is considered inadvertently produced.⁵³ A "quick peek" arrangement contemplates that parties agree to conduct a privilege review only after the requesting party has performed its initial review for relevance.⁵⁴ The crux of this structure is the parties' agreement that the requesting party's initial "quick peek" does not serve to waive the

⁴⁹ Larson, 4 Nw. J. Tech. & Intell. Prop. at 214; Withers, 4 Nw. J. Tech. & Intell. Prop. at 185, 201.

⁵⁰ Withers, 4 Nw. J. Tech. & Intell. Prop. at 185, 202.

⁵¹ Larson, 4 Nw. J. Tech. & Intell. Prop. at 214.

⁵² See *Rowe*, 205 F.R.D. at 433 ("Should any defendant elect to review its database prior to production, it shall do so at its own expense."); *Zubulake II*, 216 F.R.D. at 290. The *Zubulake II* Court explains that costs of review should not be shifted once materials have been rendered accessible, because accessibility effectively removes such review from the purview of the unduly burdensome standard.

⁵³ Danna, 38 Loy. L.A. L. Rev. at 1721-22; Withers, 4 Nw. J. Tech. & Intell. Prop. at 201.

⁵⁴ Danna, 38 Loy. L.A. L. Rev. at 1722-23; Withers, 4 Nw. J. Tech. & Intell. Prop. at 202.

responding party's claims to privilege as to such documents, despite that the responding party is actively consenting to allow the other side to view potentially privileged information. Once the scope of relevant documents is identified, the responding party then conducts its privilege review and produces only those relevant documents that are non-privileged. The chief benefit to this approach is that it confines the producing party's privilege review to a subset of documents already evaluated for relevance, thus substantially diminishing the scope of documents to be reviewed for privilege and the corresponding costs of review.⁵⁵ Looking at these structures, one can see that the "claw back" is an arrangement that responding parties will frequently espouse, as it protects against oversights in responding to discovery, whereas requesting parties often champion a "quick peek" agreement because that option maximizes the requesting party's control over the scope of documents to be produced.⁵⁶

Despite the apparent policy determination embodied in the Federal Rules to promote these agreements to govern the treatment of inadvertently produced information, it cannot be ignored that such agreements are not always enforceable in other courts and proceedings. In other words, while parties to litigation may agree to such arrangements, they are not binding on other litigants, especially in other forums, who may argue that a party has waived its right to claim privilege as to information that it has allowed a third party to view.⁵⁷ In fact, the very existence of a formal agreement providing for such

⁵⁵ *Id.*

⁵⁶ That is not to say that these are exclusive approaches, rather, they may be used in tandem.

⁵⁷ Withers, 4 Nw. J. Tech. & Intell. Prop. at 202.

review could be used as evidence of such waiver.⁵⁸ For this reason, parties utilizing such agreements are very keen to memorialize them in protective orders issued by the presiding court, but even this step is often not binding on other entities not parties to the litigation.⁵⁹ Still, such protective orders do constitute an added layer of protection, and are particularly relevant in the sense that courts will often look to the extent and reasonableness of the precautions taken to avert or address inadvertent production of privileged materials in determining whether to find a waiver of privilege.⁶⁰

The possible exposure to parallel or subsequent litigation severely diminishes the adequacy of these privilege agreements, and as a result, their utility in minimizing costs and maximizing efficiency in the e-discovery process is similarly muted. Faced with such exposure, many parties will simply determine that there is no acceptable substitute to advance review by their own, trusted counsel of all documents to be produced, prior to allowing any inspection by third parties.⁶¹ In order to address these concerns, the new subsection (b)(5) to Federal Rule 26 expressly provides that privileged matters inadvertently produced may be subsequently reclaimed, and if upheld, the receiving party must return or destroy all such information. Interestingly, however, it does not expressly provide that such inadvertent production cannot constitute any waiver of an applicable privilege, although this appears to be the clear import of the rule. Moreover, this provision in the Federal Rules appears to favor claw-back agreements rather than quick

⁵⁸ *Id.*

⁵⁹ Herrmann, Richard K. et al., *Managing Discovery in the Digital Age: A Guide to Electronic Discovery in the District of Delaware*, 8 Del. L. Rev. 75, 97 (2005); Danna, 38 Loy. L.A. L. Rev. at 1728-29.

⁶⁰ *Id.* at 1731.

⁶¹ Withers, 4 Nw. J. Tech. & Intell. Prop. at 202.

peeks, as quick peeks are less likely to involve disclosures deemed to be inadvertent because a party thereunder expressly allows the other side to view materials without conducting any advance privilege review.

E. Conclusion

Plainly, these policy determinations in the Federal Rules and case law represent imperfect compromises to extremely complex issues, but it must be acknowledged that e-discovery continues to be a fluid and developing area of the law, progressing as technology progresses. Fittingly then, while technological innovations are at the root of these e-discovery issues, they also offer the promise of assisting in their alleviation. A few examples of these still-developing technological advances include: (i) those that assist in relevance and privilege screening through keyword search or filter functions incorporated into programs, allowing parties to search for topics covered or referenced in any particular document or file; (ii) metadata programs that provide “cleansing” functions for documents transmitted electronically (to remove such metadata); and (iii) automated computer functions designed to regularly remove and cleanse latent data, defragment drives, improve efficiency and implement “true deletion” protocols, which provide comfort that latent and residual data is not lurking unbeknownst.⁶² Parties may also agree on an expert to handle the initial processing of e-discovery (restoration, conversion, keyword searching, relevance and privilege screening, etc.), which expert could be

⁶² Beckham, Brian, *Production Preservation and Disclosure of Metadata*, 7 Colum. Sci. Tech. Rev. 1 (2006); Mason, Andrew, Recent Development: Throwing Out the (Electronic) Trash: True Deletion Would Soothe E-Discovery Woes, 7 Minn. J.L. Sci. & Tech. 777, 788, 791 (May 2006); Danna, 38 Loy. L.A. L. Rev. at 1720-21; Withers, 4 Nw. J. Tech. & Intell. Prop. at 201.

designated an officer of the presiding court in fulfilling its functions.⁶³ This structure has the considerable benefit of keeping all privileges fully intact, because disclosure to the Court in a confidential manner would not operate in waiver.

As these technologies continue to develop and shape the course of our legal system's approach to discovery of electronic media, the newly enacted Federal Rules constitute a welcome initial effort to formally accommodate and alleviate tensions occasioned by efforts to reconcile e-discovery with our traditional notions and structure of litigation discovery. It remains to be seen how the compromises embodied therein will be refined by the Courts in their efforts to weather the storm of developing technologies.

⁶³ See Seward, Jack, *E-sleuthing and the Art of Electronic Data Retrieval. Uncovering Hidden Assets in the Digital Age: Part II*, 23-2 A.B.I.J. 14, 53 (March 2004)(citing *Simon Property Group L.P. v. My Simon Inc.*, 194 F.R.D. 639 (S.D. Ind. 2000); Fed. R. Civ. P. 53 (providing for the appointment of "special masters" by the court to address pretrial matters and other matters consented to by the parties).