LITIGATION & TECHNOLOGY:

ELECTRONIC DOCUMENT RETENTION & DISCOVERY

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TABLE OF CONTENTS

I. Introduction: Electronic Information and Franchising ........................................................1
II. Identifying Forms of Electronic Information and Storage ..................................................4
   A. Types of Electronic Information.............................................................................4
   B. Ways in Which Electronic Information is Stored....................................................5
III. Corporate Compliance Issues...........................................................................................7
   A. The Elements of a Document Retention Program.................................................9
   B. The Need for a Litigation Hold.............................................................................11
IV. Litigation Issues .......................................................................................................... ....13
   A. Obligations of Counsel; Meet and Confer; Initial Disclosures.........................13
   B. Mechanics/Form of Production/Review of Electronic Documents .......................14
   C. Pre-Trial Issues; Motions to Dismiss, Motions for Default May Be Granted.......23
   D. Trial Issues/Motions in Limine ...........................................................................26
V. Recent “Rule Making” Efforts Concerning Electronic Discovery .....................................31
VI. Conclusion ................................................................................................................. .....32
I. INTRODUCTION: ELECTRONIC INFORMATION AND FRANCHISING

Electronic discovery – whether in the context of franchise law or any other area of the law – is nothing new. It has been an emerging issue for decades, and it is routinely addressed in the courts today. Never before, however, has this subject been more prevalent, more of a focal point, or more important. The sheer quantity and widespread distribution of electronic information, the ever-changing nature and availability of technology, the virtually unlimited lifespan of electronic information (in a sense, it is often indestructible), and the increasing and much-publicized scrutiny of public companies by federal and state regulators present challenging issues which are slowly being addressed by the courts, policymakers, practitioners, businesses and individuals alike.

Because it has become so easy and inexpensive to maintain electronic information, the quantity of electronically-stored information is unprecedented. A standard computer compact disk can hold approximately 325,000 printed pages – more than 125 boxes of paper – and a typical desktop computer can hold approximately 20 to 60 million printed pages. Thus, a company with merely five employees could potentially have the equivalent of 100 to 300 million printed pages stored on its computers. A company with 50 employees could have 1 to 3 billion pages stored on its computers. The larger the organization, the more overwhelming these numbers become.

Even more daunting is the fact that this information can be transmitted instantaneously over the Internet by employees before litigation is ever anticipated. In 1998, there were roughly 1.98 billion pieces of paper mail delivered in the United States. During that same time, roughly 182.5 billion e-mails were sent. This disparity grows wider with each passing year. Indeed, it was estimated that in 2003, there were 105 million e-mail users in the United States alone, and that those users would send over 1.5 billion e-mail messages each day, approximately 547.5 billion e-mail messages each year. Once the electronic information is transmitted, it is

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1 Michael F. Cicero, Esq., an associate at Pitney Hardin LLP, assisted with the preparation of this paper.
2 See, e.g., Hon. Ronald J. Hedges, Discovery of Digital Information, April 13, 2005 (hereinafter, “Digital Information”) (collecting cases); Adam I. Cohen & David J. Lender, Electronic Discovery Practice Guidelines (February 2003) (collecting cases); Michael Traynor & Lori Ploeger, Hot Topics in Electronic Discovery (July 2002) (hereinafter, “Hot Topics”) (collecting cases); Martha J. Dawson & Helen Moure Bergman, Electronic Discovery Today, March 23, 2005, 1-7 (hereinafter, “Electronic Discovery Today”) (collecting cases); Sec. & Exch. Comm. v. Beacon Hill Asset Mgmt. LLC, 2004 WL 1746790 (S.D.N.Y. Aug. 3, 2004) (“For more than thirty years, Fed. R. Civ. P. 34(a) has included data stored on electronic media as being subject to a Rule 34 request. The fact that the document has not been printed out does not mean that the document does not exist.”); Bills v. Kennecott Corp., 108 F.R.D. 459, 461 (D. Utah 1985) (“It is axiomatic that electronically stored information is discoverable under Rule 34 of the Federal Rules of Civil Procedure if it otherwise meets the relevancy standard prescribed by the rules . . . .”). For a comprehensive, searchable database containing hundreds of state and federal cases addressing a variety of electronic discovery issues, see http://www.ediscoverylaw.com/cat-ediscovery-case-database.html. For informative summaries of the most influential cases, see http://www.ediscoverylaw.com/cat-case-summaries.html.
3 See Manual for Complex Litigation (Fourth) § 11.446 (“The sheer volume of such data, when compared with conventional paper documentation, can be staggering. A floppy disk, with 1.44 megabytes, is the equivalent of 720 typewritten pages of plain text. A CD-ROM, with 650 megabytes, can hold up to 325,000 typewritten pages. One gigabyte is the equivalent of 500,000 typewritten pages. Large corporate computer networks create backup data measured in terabytes, or 1,000,000 megabytes: each terabyte represents the equivalent of 500 billion typewritten pages of plain text”).
available for public consumption and review; and the transmission cannot be undone, even when the message is deleted. For example, Kenneth Starr discovered some of the most intimate details of President Clinton’s affair with Monica Lewinsky in e-mail messages, which Ms. Lewinsky had deleted and likely thought had been permanently erased.\(^5\)

As discussed below, technological advances with computer systems, and the prevalence of dissemination devices such as e-mail, palm pilots, PDA, cellular phones, and the like have facilitated the distribution of electronic information and have changed the way in which businesses function. Indeed, as a result of such advances, roughly 92 percent of new information created and disseminated today is electronic.\(^6\) Documents and drafts of documents are shared with third parties as attachments to e-mails in virtually every format imaginable. It is possible, in certain circumstances, to trace and review prior versions of such attachments and any hidden comments or redactions contained in the attachments unless the sender takes proper precautions. Likewise, casual words and subjects which might never be used or addressed in a formal letter are routinely disseminated via email.\(^7\) Compounding this problem is the fact that much of this information is never reduced to paper form and, thus, is never “documented” in the traditional sense of the word. Although we are not aware of any studies addressing this issue, it seems safe to say that at least some organizations do not print and retain in paper form each and every e-mail that is sent and received by employees. Nevertheless, these “undocumented” e-mails (and attachments thereto) are “documents” for discovery purposes.

Even if the electronic information is not transmitted to third parties, it is highly likely that such information may exist on a computer system in a form that is not readily apparent. Deleted documents, prior versions of documents that were never printed to paper, unsent e-mails, and documents that were never saved may exist on a user’s hard drive or a company’s server, and electronic documents may contain information that disappears when the file is converted to hard copy unless separately captured upon conversion. Examples of such information include hidden comments viewable only in the electronic version of the document, or the metadata attached to an electronic document, which reveals information such as when the document was last edited and by whom it was created.\(^8\)

Likewise, although the traditional file cabinets and storage boxes typically found in an office may not be perfectly organized, they at least present a contained, tangible environment which is usually organized in some meaningful way. The electronic world can be much less predictable. Employees generally store their information and electronic documents on their hard

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\(^7\) See Coleman (Parent) Holdings, Inc. v. Morgan Stanley & Co., Inc., Case No. 502003CA005045XXOCAI, Order dated March 1, 2005, at 10 (hereinafter, “Morgan Stanley”) (“Electronic data are the modern-day equivalent of the paper trail. Indeed, because of the informality of e-mail, correspondents may be less guarded than with paper correspondence”); and 2005 Extra LEXIS 94 (Fla. Cir. Ct. Mar. 23, 2005).

drives or in generic folders and take little effort to organize the information and documents according to a particular subject matter. Moreover, electronic material is often retained for no particular reason, regardless of whether it is relevant or useful. Employees may retain, for example, hundreds or thousands of e-mails which have absolutely no bearing on a particular litigation or even the business of your client. Regardless, this electronic information may affect electronic discovery obligations, at least insofar as it adds to the sheer volume of information which must be considered.9

Virtually none of the attention that has been focused on the issues raised by the retention and discovery of electronic information in recent years has dealt specifically with franchising. Yet, a number of factors are likely to make the issues associated with the retention and discovery of electronic information particularly troublesome in the franchise context. Those factors include the following:

1) The Length of Franchise Relationships -- Franchises are designed to be long-term relationships. Franchise agreements typically have terms of between five to twenty years and are often renewed by either the voluntary action of the parties or the operation of state statutes that permit the non-renewal of franchises under only certain circumstances. The length of the franchise relationship means that a huge amount of electronic information is often accumulated relating to just a single franchisor/franchisee relationship. In franchise systems with thousands of franchisees, the volume of electronic information quickly becomes staggering. Inasmuch as computer technology is constantly evolving, franchisors are constantly changing or at least upgrading their computer systems. Thus, decades of electronic information concerning the relationship between a franchisor and a franchisee likely exist, but much of it may not be easily retrievable.

2) The Financial and Operational Aspects of Franchise Relationships -- The financial and operational relationships between franchisors and franchisees ensure an almost daily flow of information between them and, now, virtually all of that information is electronic. For example, royalties and other franchise fees are often based on the franchisee’s revenue, making it necessary for the franchisee to transmit sales and other financial information on a daily, weekly, or monthly basis to the franchisor. Similarly, in their quest to maintain uniformity and quality, franchisors and franchisees communicate on a virtually limitless number of operational topics. While the types and volume of information exchanged between franchisors and franchisees obviously vary significantly depending upon the type of business (for example, the information exchanged between motor vehicle dealers and manufacturers is different from that exchanged between hotel franchisors and franchisees), in virtually all cases the information flow is constant and voluminous.

3) The Frequency of Disputes Arising in Franchise Relationships -- For reasons that go well beyond the scope of this article, franchisees and franchisors can and do develop adversarial relationships. When carried to an extreme, that adversity can, and often does, result in a resort to formal dispute resolution proceedings, such as lawsuits or arbitrations, where the discovery of electronic information can obviously be a significant issue. A less obvious consequence of strained relations between franchisors and franchisees, however, is that this tension is often expressed in e-mails and other documents created by the employees of both franchisors and franchisees. Thus, the potential problems created by the seemingly informal and instantaneous nature of electronic communications frequently arise in communications between franchisors and franchisees and, even more commonly, in internal communications about a franchisee or franchisor.

9 See Electronic Discovery Today, 7.
The compliance and discovery issues that arise concerning electronic information, in franchising and all other contexts, are largely driven by the forms in which electronic information is created and how it is stored. Thus, in the following sections of this paper, we will first briefly describe the common forms of electronic information and storage and then discuss the corporate compliance and discovery issues that are emerging in the case law. Finally, we will present a summary of the more recent “rule making” efforts undertaken by federal and state courts and by non-judicial bodies, including the American Bar Association and the Sedona Conference.

II. IDENTIFYING FORMS OF ELECTRONIC INFORMATION AND STORAGE

Electronic documents and data were largely science fiction and the advent of personal computers and the Internet decades away when the modern discovery era commenced. Yet, discovery is promulgated not on the medium, but, on the message, whatever the medium. In the computer and Internet era, the paper trail leads to e-mails, back-up tapes, crashed hard drives, and more.

A. Types of Electronic Information.

In this electronic era, information and evidence may be found not only in writings and databases, but also in other media including voice and sound recordings and film and other visual recordings. One court described electronic discovery as including: “voice mail messages and files, back-up voice mail files, e-mail messages and files, back-up e-mail files, deleted e-mails, data files, program files, back-up and archival tapes, temporary files, system history files, website information stored in textual graphic or audio format, website log files, cache files, cookies and other electronically recorded information.” Both franchisor and franchisee counsel need to be aware of the breadth of information that is out there, both obvious and not so obvious.

1. E-mails.

 E-mail evidence is increasingly common and often yields information that parties would seldom put in writing. Thus in Siemens Solar Industries v. Atlantic Richfield Co., 1993-1994 Transfer Binder, Fed. Sec. L. Rep (CCH) ¶ 98,167 (S.D.N.Y. 1994), an e-mail by an ARCO employee in a fraud action stated “the whole basis of our plan is almost invalid due to the fact that we have been operating on the wrong assumption for ten years.” Key evidence in criminal and civil trade secret allegations between Borland International and rival Symantec Corporation included e-mails written by a former vice president of Borland who went to work for Symantec. Counsel must be aware that e-mails pass through many computers before reaching a recipient and are usually stored haphazardly or deleted. Contrary to popular belief, however, deletion via the computer delete key is often not destructive, but rather merely removal from a known retrieval source. Thus, such files can present either side of a dispute with a treasure trove of evidence that can be helpful – or devastating – if it is not managed properly. The same is true of documents that have been created using word processing software.

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2. **Documents Created By Word Processing Functions.**

Data and information is often maintained using word processing programs and is almost always discoverable – even if you think it has been deleted.

3. **Financial and Other Types of Numerical Data Bases.**

Computer databases may hold data, which, in addition to being printed, may be manipulated from the database. In *National Union Electric Corp. v. Matsushita Electric Industrial Co.*, 494 F. Supp. 1257 (E.D. Pa. 1980), the district court ordered production of the data in computer readable format even though the data had already been produced in hard copy after the defendant seeking the records established the need and the substantial effort to enter the data manually.\(^{12}\) Failure to produce files in a computer format may result in a default.\(^{13}\)

4. **Digital Recordings, Voice/Text Messages.**

Computers and tape recorders may record voice messages. In *Smith v. SEC*, 1295 Sec.Rptr. 356 (6th Cir. 1997), a voice recording in an insider trading action was at issue in which the defendant stated: “Anyway, finally I sold all my stock off on Friday and I’m going to short the stock because I know it’s going to go down a couple of points here in the next week, as soon as Lou releases the information about next year’s earnings.”

5. **Other computer materials.**

Other computer materials may not be direct evidence to prove substantive case issues but may be necessary to discover relevant evidence. Operating system software engineers how a computer’s hardware communicates and the computer screen functions. Applications software processes and stores data for specified uses such as word processing and data processing, including Lotus and Excel spreadsheets. Finally, computers contain metadata, which is information about data such as when a file was created and altered. Computer experts may sometimes retrieve this metadata to show when a file was created and altered, who had access and when they had access to the file. Similarly, the “Wayback Machine” contains a gargantuan archive of historical web pages dating back nearly a decade.\(^{14}\)

Whatever the format, clients need to be made aware that any communication they make that utilizes any type of technology will likely be subject to discovery.

B. **Ways in Which Electronic Information is Stored.**

The manner in which the information is stored in computers also may have substantial impact on discovery. Thus, particular messages may be difficult or, conversely, easier to extract from a particular medium. Similarly, certain types of electronic media require extra expenses to remove information or data. The most common methods of data storage include: network servers, hard drives of individual PCs, backup tapes, floppy disks, CD-Rom, home computers, Palm Pilots, PDA, and Internet service providers. All of these methods of storage of documents and information may contain discoverable information; however, where and how the data or

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\(^{14}\) See webarchive.org or www.web.archive.org. Whether the information contained on the "Wayback Machine" is accurate and admissible is beyond the scope of this paper.
information is stored may affect its retrieval and use. Often, computer experts classify computer data into three categories: active data, residual data, and back-up data. These categories may impact discovery of the computer data and information, including the difficulty and expense of extracting data and which party pays the costs of production.

1. **Active Data.**

Active data is material directly accessible from an individual computer or network system. Active data includes user created files which are the most common source of documents sought in discovery, including word processing documents, e-mails, spreadsheets and other data. On a more technical level, active data may also include application software and operating systems.

Several courts have generally held that active data, defined as electronic data maintained for use in current activities of a business, may be discovered without expense from the propounding party. In *Rowe Entertainment, Inc. v. William Morris Agency, Inc.*, 205 F.R.D. 421, 430-31 (S.D.N.Y. 2002) (citation omitted), for example, the district court described the basic discovery rule as follows:

> If a party maintains electronic data for the purpose of utilizing it in connection with current activities, it may be expected to respond to discovery requests at its own expense. Under such circumstances, the guiding principle is that "information which is stored, used, or transmitted in new forms should be available through discovery with the same openness as traditional forms." A party that expects to be able to access information for business purposes will be obligated to produce that same information in discovery.

As an example, the district court noted that “some users may store recent e-mails in electronic files for ease of access. Such files would presumptively be discoverable at the expense of the producing party.”

2. **Residual Data.**

When a file is deleted from a computer, it is usually merely moved but not erased. Complete erasing of a computer file requires overwriting or a special program. Moreover, overwriting may not completely obliterate the original underlying file. Thus, many deleted files may nonetheless be recovered from computers. In addition, residual data may also be lodged as file fragments on computers. Computer experts may often retrieve residual data. One such computer retrieval program is called a mirror image which collects all information including all data in allocated space data, as well as all data in unallocated space data, including whole and partially deleted files.

As discussed below in the “cost shifting” section, many courts now consider computer data preserved by businesses but not readily available for current business usage, such as back-up tapes, as a factor in deciding whether to shift costs of producing discovery from a responding party to a requesting party.

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15 *Rowe Entertainment*, 205 F.R.D. at 431 n. 2.
3. **Backup Data.**

In *Toshiba America Electronic Components, Inc. v. Superior Court*, 124 Cal. App. 4th 762, 21 Cal. Rptr. 3d 532 (2004), the California Court of Appeal commented on the cost of production of materials from back-up tapes:

Computer backup tapes are magnetic tapes used to record the data contained in a computer network. The tapes are intended to provide users a means of recovering lost data in the event of a disastrous system failure. Businesses generally backup their networks on a routine schedule, such as daily, weekly and monthly. (Joan E. Feldman & Roger I. Kohn, *The Essentials of Computer Discovery*, in *Annual Internet Law Institute 51* (PLI Patents, Copyrights, Trademark, & Literary Property Course Handbook Series No. 564, 1999), pp. 54-55.) "Back ups provide a historical snapshot of the data stored on a system on the particular day the back up was made. Reviewing a series of back up tapes can provide a wealth of information about how a particular matter progressed over several weeks or months. The difficulty with using backup data is that the media (usually tapes) hold a large amount of data that is only loosely organized. Consequently, finding relevant data requires restoring a tape, viewing its directories, and searching within the directories for specific files. If the file is not on the tape, the process must be repeated for each backup tape." (Ibid.) Finding relevant data on a large number of backup tapes can be an expensive and time-consuming process. It is that expense that gave rise to the instant dispute.\(^\text{19}\)

Backup data is, as the name suggests, computer data preserved on a different medium, often as a safeguard against a system crash or other malfunction. The data may be copied automatically to a network server, systematically to back-up floppy diskettes, or sporadically to floppy diskettes or CD-ROM. Back-up data may be expensive to extract as it usually must be uploaded to a computer which may be time consuming and expensive. In addition, the software, and even hardware, used in the storage may be incompatible with that currently available adding yet more expense to production. As discussed further below, the cost of producing this data will almost be shifted to the requesting party.

**III. CORPORATE/COMPLIANCE ISSUES**

As anyone paying attention to the issue has likely noticed, courts and policymakers are increasingly taking electronic discovery more seriously, creating stricter civil rules and guidelines with which to comply, and exacting harsher civil penalties for failing to do so. A $1.45 billion example of this is the recent, highly-publicized jury verdict in a case where a Florida state court judge imposed significant penalties on Morgan Stanley for its alleged failure to comply with discovery orders relating to the production of electronic information. The alleged discovery abuses included, among other things, Morgan Stanley’s failure to: (1) search and include 1,423 back-up tapes in its production, (2) search for data in its archive system, (3) locate more than 360 tapes until 2005, long after they should have been produced, and (4) discover a script error in its document retrieval program that prevented Morgan Stanley from locating responsive e-mails and attachments.\(^\text{20}\)

As a result of these alleged abuses, Morgan Stanley began the trial with a severe handicap after the trial judge first issued an adverse inference order and then issued a partial

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\(^{19}\) *Id.*, 124 Cal. App. 4th at 769.
\(^{20}\) *See Morgan Stanley, supra* note 7.
default judgment designed to penalize the firm for concealing electronic evidence. The adverse inference order, entered March 1, 2005, "reversed the burden of proof on [the] aiding and abetting and conspiracy elements [of the claims against Morgan Stanley] and included a statement of evidence of [Morgan Stanley's] efforts to hide its emails to be read to the jury, as relevant to both [Morgan Stanley's] consciousness of guilt and the appropriateness of punitive damages."21

Thus, the trial court granted plaintiff's renewed motion for entry of partial default judgment. A redacted copy of plaintiff's complaint was read to the jury, and the jury was instructed that the facts in the complaint "are deemed established for all purposes in this action." The court also read a statement to the jury concerning Morgan Stanley's discovery practices and instructed the jury "that it may consider those facts in determining whether [Morgan Stanley] sought to conceal its offensive conduct when determining whether an award of punitive damages is appropriate."22 The court "relieved" Morgan Stanley of any future obligation to comply with previous discovery orders and revoked the pro hac vice admission of Morgan Stanley's out-of-state counsel to appear in the case.

These rulings handed plaintiff a nearly insurmountable advantage, which lowered the burden of proof and resulted in a $1.45 billion jury verdict. Regardless of whether the verdict is sustained on appeal, Morgan Stanley's experience in Florida state court demonstrates the absolute necessity for business entities to adopt, implement and practice clear document retention policies and programs that direct the approach, manner and methodology by which electronic and other information will be regularly created, received, stored, processed, distributed, protected, deleted, archived and retained.

Similarly, criminal laws and related SEC regulations exist which further necessitate retention policies for electronic and other information.23 For example, in response to several recent corporate and accounting scandals, such as those involving Arthur Anderson, Enron and WorldCom, Congress passed the Sarbanes-Oxley Act, which President Bush signed into law on July 30, 2002.24 The Act imposes new requirements on public companies and their accounting and auditing teams with regard to the retention and destruction of certain financial records. The Act compels mandatory document retention, including electronic documents, for certain accounting records and imposes criminal penalties upon individuals and organizations who destroy or alter certain documents. The Act applies to public companies, corporate counsel, and accounting and auditing professionals.25

Despite these considerable incentives to implement document retention programs, the fact is that most organizations and potential litigants are woefully unprepared for the rigors of

22 March 23, 2005 Order at p. 17.
23 See, e.g., Hicks v. Gates Rubber Co., 833 F.2d 1406, 1418-19 (10th Cir. 1987) (holding that an employer's destruction of personnel records in violation of a federal regulation gave rise to a presumption that the "destroyed documents would have bolstered [the plaintiff's] case"); See also The Sedona Principles, at 11-12 (stating that the code of Federal Regulations has over 1,500 references to reporting and record keeping requirements); J. Edwin Dietel, Designing an Effective Records Retention Compliance Program § 1:26 (2002) (same).
24 18 U.S.C. § 1512(c) makes it unlawful to alter, destroy, mutilate, or conceal a record, document, or other object "with the intent to impair the object's integrity or availability for use in an official proceeding." Similarly, 18 U.S.C. § 1519 makes it unlawful to alter, destroy, mutilate, conceal, cover up, falsify, or make a false entry in any record, document, or tangible object "with the intent to impede, obstruct, or influence the investigation or proper administration of any matter within the jurisdiction of the United States "or in relation to or contemplation of any such matter."
electronic discovery. Indeed, a survey conducted at the American Bar Association Section of Litigation 2000 Annual Meeting\textsuperscript{26} showed that:

- 82 percent of respondents reported that their clients do not have an established protocol for handling electronic discovery requests; and
- 76 percent of respondents said that, in 30 percent of their cases involving electronic discovery, their clients were not aware that electronic information could later become evidence.

More recently, a 2003 survey of records management professionals\textsuperscript{27} yielded similarly troubling statistics:

- 47 percent of the organizations represented did not include electronic records in their retention schedules;
- 59 percent of the organizations represented did not have any formal e-mail retention policy;
- 46 percent of the organizations represented did not have a formal system for implementing legal holds;
- 65 percent of the organizations represented reported that electronic records are not included in their organization’s legal hold;
- 62 percent of the organizations represented reported that they are either “not at all confident” or only “slightly confident” that their organization could demonstrate that its electronic records were accurate, reliable and trustworthy many years after such records were created.

This lack of preparedness is alarming and presents a considerable opportunity and challenge for organizations and their in-house and outside counsel to assist their clients with the development, implementation and enforcement of document retention programs.

A. The Elements of a Document Retention Program.

The touchstone of any document retention program is reasonableness.\textsuperscript{28} The program must be reasonable in light of the facts and circumstances surrounding the relevant documents, and document retention programs will, therefore, vary widely depending upon the specific business, regulatory and legal needs of a particular organization. For example, a three-year retention policy may be sufficient for documents such as appointment books or telephone messages but be inadequate for documents such as customer complaints, which are


particularly relevant in the franchise context. Thus, document retention programs should be developed after considering the unique needs of the particular organization, including the need to conserve space on e-mail and other servers. A company that determines it needs to retain only e-mail with business record significance may include that policy as part of its document retention program. Employees operating within such a program would then be responsible for implementing the policy and neither destroying such documents prematurely nor retaining such documents beyond their useful life.

Despite the fact that each organization’s document retention program will be unique, it is appropriate for all such programs to be in writing, to address records in both paper and electronic form and to involve most or all of the following:

- Establishing a thorough but practical records management program and training individuals to manage and retain business records created or received in the ordinary course of business;

- Helping business units establish practices and customs tailored to the needs of their businesses to identify the business records they need to retain;

- Implementing a system of presumptive limits (based on time or quantity) on the retention of e-mail and other communications, such as instant messaging and voicemail, to the extent their content does not merit treatment as business records, and developing communications policies that promote the appropriate use of company systems;

- Determining the recycle time applicable to back-up tapes based on disaster recovery needs;

- Developing and implementing appropriate procedures to identify and notify relevant individuals and business units of the need to preserve electronic and other records for reasonably anticipated or pending litigation;

- Establishing and maintaining awareness of the importance of preserving potential evidence in the case of threatened litigation, and training lawyers and business people on when and how to carry out their responsibilities; and

- Establishing procedures and an environment wherein electronic and other records are maintained according to the retention program regardless of whether the records are deemed “good” or “bad”.

Once a reasonable retention program has been adopted, it must be communicated to employees, consistently implemented and enforced in good faith.

29 Lewy v. Remington Arms Co., 836 F.2d 1104, 1112 (8th Cir. 1988); In re Prudential Ins. Co. of America Sales Practices Litig., 169 F.R.D. 598 (D.N.J. 1997); Akiona v. United States, 938 F.2d 158 (9th Cir. 1991); Electronic Discovery Today, at 18.
30 See The Sedona Principles, cmt. 1.a.
31 Compare Lewy v. Remington Arms Co., 836 F.2d 1104, 1112 (8th Cir. 1988) (“if the trial court is called upon again to instruct the jury regarding the failure to produce evidence, . . . [f]irst, the court should determine whether
B. The Need For a Litigation Hold.

Likewise, the touchstone of a “litigation hold”, which must be ordered by an organization when it anticipates litigation, is reasonableness. A litigation hold is a written notice which essentially functions to suspend an organization’s regular document retention program when litigation is threatened or pending. The notice is typically provided to an organization’s employees and, in some cases to third parties, and it details the extent and nature of any existing or threatened litigation and instructs employees as to what relevant documents must be preserved in order to remain in compliance with the organization’s legal duty. Judge Shira Scheindlin of the Southern District of New York is the author of the well known Zubulake line of decisions. In Zubulake IV, Judge Scheindlin held that an organization must take reasonable, affirmative steps to suspend its routine document retention program by putting a litigation hold in place when it reasonably anticipates litigation. The goal of the litigation hold is to make sure that documents that may be relevant to the litigation are retained, so it is sensible to use broad categories to describe the documents that should be held so that the notice is easy to follow and prevents the custodian from having to perform a detailed analysis to determine if a particular document must be preserved.

Zubulake IV also established three duties for legal counsel, which require counsel to monitor the preservation process even after the litigation hold is put in place. In particular, counsel must ensure that: (i) all relevant information, or at least sources of relevant information, has been identified, (ii) such relevant information is retained on a continuing basis, and (iii) relevant, non-privileged material is produced to the opposing party in response to proper discovery demands.

Zubulake V has further added to counsel’s ongoing duties. Now, it is no longer: sufficient to notify all employees of a litigation hold and expect that the party will then retain and produce all relevant information. Counsel must take affirmative steps to monitor compliance so that all sources of discoverable information are identified and searched. This is not to say that counsel will necessarily succeed in locating all such sources, or that the later discovery of new sources is evidence of lack of effort. But counsel and client must take some reasonable [defendant’s] record management policy is reasonable considering the facts and circumstances surrounding the relevant document. . . . Second, in making this determination the court may also consider whether lawsuits concerning the complaint or related complaints have been filed, the frequency of such complaints, and the magnitude of such complaints. Finally, the court should consider whether the document retention policy was instituted in bad faith”;


34 See Electronic Discovery Today, at 22.
35 See Zubulake IV, 220 F.R.D. at 218.
steps to see that sources of relevant information are located . . . Above all, the requirement must be reasonable. A lawyer cannot be obliged to monitor her client like a parent watching a child. At some point, the client must bear responsibility for a failure to preserve. At the same time, counsel is more conscious of the contours of the preservation obligation; a party cannot reasonably be trusted to receive a ‘litigation hold’ instruction once and to fully comply with it without active supervision of counsel.37

In this regard, in-house and outside counsel must demonstrate their continuous efforts by: (i) issuing a litigation hold, (ii) communicating directly with key players to the litigation and communicating clearly the preservation duty to the key players, and (iii) instructing all employees to produce electronic copies of the relevant active files and make sure that all required back-up media is identified and stored in a safe place.38

Complying with Judge Scheindlin’s Zubulake decisions may be easier said than done. The decisions fail to provide guidance, for example, as to how to identify the “key players” to a litigation, which method of communication to such key players will be deemed “clear,” and what the scope is of a party’s duty to preserve.39 Thus, counsel need to be able to identify, at a very early stage in a litigation, all potentially important witnesses, how such witnesses maintained their electronic information, whether there exist intra-office or intra-company differences in how electronic information is stored and maintained by employees, as well as the existence, location and condition of archived back-up tapes, local hard drives, network servers, CD-Rom, floppy disks and other types of removable drives, information on portable computers, PDA, I-Pods, home computers, voicemails and data from computers no longer in use.40

To be fair, it would be virtually impossible for a court to provide meaningful guidance with respect to these and other issues, given that every case will turn on its unique facts and circumstances. Nevertheless, despite the fact that the Zubulake decisions have set a very high standard for parties and counsel, at least within the Southern District of New York, it is clear that large corporations are not required to “preserve every shred of paper, every e-mail or electronic document, and every back-up tape” upon recognizing the threat of litigation.41 Indeed, it is generally recognized that “extraordinary efforts should be exercised only where there is a substantial likelihood that the information exists in the form sought, that it would not remain in existence absent intervention, and that its preservation or production is likely to materially

37 Zubulake V, 2004 U.S. Dist. LEXIS 13574, at *33-35 (stating that counsel must be “creative” and “become fully familiar with her client’s document retention policies, as well as the client’s data retention architecture”). In this regard, it makes eminent sense to work with the organization’s IT department to ensure that, from a technological standpoint, all relevant existing data is preserved.

38 See Zubulake V, 2004 U.S. Dist. LEXIS 13574, at *39-43 (requiring counsel to safeguard all potentially relevant backup tapes to avoid inadvertent recycling of such tapes). See also 7 Moore’s Federal Practice § 37A.12[5][e] (Matthew Bender 3d ed.) (“The routine recycling of magnetic tapes that may contain relevant evidence should be immediately halted on commencement of litigation”).

39 See The Sedona Principles, cmt. 5.a. (recognizing that the question of exactly what documents need to be preserved presents a “much greater challenge regarding electronic data and documents”); Concord Boat Corp. v. Brunswick Corp., No. LR-C-95-781, 1997 WL 33352759, at *4 (E.D. Ark. Aug. 29, 1997) (“to hold that a corporation is under a duty to preserve all e-mail potentially relevant to any future litigation would be tantamount to holding that the corporation must preserve all e-mail”).


41 Zubulake IV, 220 F.R.D. at 217; The Sedona Principles, cmt. 5.a. (stating that a reasonable balance must be struck between: (i) an organization’s duty to preserve relevant data, and (ii) an organization’s need, in good faith, to continue operations).
advance the interests of justice in the individual case.” \(^{42}\) Thus, despite their limitations, the vagueness of the *Zubulake* decisions provides an opportunity for counsel to negotiate and agree upon electronic discovery parameters. This opportunity provides a window for counsel to save their clients considerable sums of money by negotiating more restrained electronic discovery guidelines in a particular case than might otherwise be suggested by *Zubulake*. \(^{43}\)

The proposed amendments to the Federal Rules also contemplate such negotiation in the meet and confer process. Under the proposed amendments to Rule 26(f), the parties are to address during their initial conference any issues relating to the disclosure or discovery of electronically stored information, including the form of production, and also to discuss issues relating to the preservation of electronically stored information and other information that may be sought during discovery. In addition, the amendment calls for discussion of whether the parties can agree on an approach to production that protects against privilege waiver. The results of these discussions, as appropriate, are to be included in the joint discovery plan that the parties present to the court. \(^{44}\)

IV. LITIGATION ISSUES

A. Obligations of Counsel; Meet and Confer; Initial Disclosures.

Even in the absence of amendments to the Federal Rules of Civil Procedure, federal district courts often require counsel to meet and confer over many aspects of every newly filed action to complete a joint scheduling report under Rule 26(f). Such reports usually provide for discovery scheduling. A typical joint scheduling report may require, for example, a complete detailed discovery plan, including a firm cut off date for discovery, as outlined in Federal Rules of Civil Procedure, Rule 26(f)(2), and a proposed date for disclosure of expert witnesses. \(^{45}\) Following submittal of the joint scheduling report, a conference is typically held with counsel and the judge, during which motions, discovery, and trial dates are discussed and set.

When significant issues involving electronic discovery are anticipated, counsel should discuss those issues and incorporate them in the joint scheduling report. Counsel should also raise those issues at the conference. Early discussion of electronic discovery issues may obviate the need for expensive and time consuming discovery later on.

Many state courts follow less formal practices. For example, case management conferences, prevalent in California Superior Courts due to the Trial Delay Reduction Act, may allow for discussion of discovery issues early in an action before the trial court judge is assigned.

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\(^{42}\) *The Sedona Principles*, cmt. 5.e; Martin H. Redish, *Electronic Discovery and the Litigation Matrix*, 51 Duke L.J. 561, 621 (2001) (“(1) Electronic evidence destruction, if done routinely in the ordinary course of business, does not automatically give rise to an inference of knowledge of specific documents’ destruction, much less intent to destroy those documents for litigation-related reasons, and (2) to prohibit such routine destruction could impose substantial costs and disruptive burdens on commercial enterprises”).

\(^{43}\) For example, Federal Rule of Civil Procedure 26(f), in its current form, requires parties to confer early in the litigation to jointly develop a discovery plan. See, e.g., *In re Bristol-Myers Squibb Sec. Litig.*, 205 F.R.D. 437, 441 (D.N.J. 2002) (“counsel should take advantage of the required Rule 26(f) meeting to discuss issues associated with electronic discovery”).

\(^{44}\) See *Advisory Committee Report*, at pp. 6-7. The proposed amendments are available at: http://www.abanet.org/leadership/2004/annual/daily/journal/103B.doc.

B. Mechanics/Form of Production/Review of Electronic Documents.

1. Produce Electronically and Hard Copies.

Both before and after any initial consultation on the issue, counsel should consider whether documents are to be produced as hard copies or as electronic data. For instance, electronic data format production may increase its usefulness. Thus, electronic files may be produced in formats which may be searched and which may also be compiled and edited. When data is voluminous and will need to be searched for key names, events, or topics, counsel should insist on electronic production in a format to allow such analysis. Similarly, when financial data is relevant, for example regarding earnings claims, having such data available electronically in a computer database rather than simply in hard copy may greatly aid financial and other expert analysis of the data. Multiple cases have required production of data in a computer readable format rather than simply in hard copies.\textsuperscript{46}

The decision to demand production in an electronic format may not be a foregone conclusion. However, production of data in electronic format in discovery may create substantial additional costs that may result in the responding party seeking, and sometimes obtaining, cost shifting regarding the discovery. In at least two cases, plaintiffs had sought and obtained hard copies of certain relevant data from defendants but subsequently sought to obtain the same data in electronic format. In both actions, the district courts allowed the discovery, but since the hard copy data had already been requested and produced by the defendant responding parties, the plaintiffs were required to pay the costs of creating computer programs to extract the electronic database from the defendants’ computers.\textsuperscript{47}

2. Retrieval of “Lost Data” by Experts.

Most computer files, down to the level of individual keystrokes, are etched into the memory of the computer. When a file is “deleted,” it is usually only moved to another location in the computer. Further, even when files are overwritten, it may be possible to retrieve the files. Lost data may also be located elsewhere such as in a computer server or on back-up tapes. E-mails may also be located on e-mail network servers, even after being deleted by both sender and recipient. Counsel should advise their clients that such deleted or lost data may generally be discovered, but may raise burden and cost issues – particularly when the only way to search for, and potentially retrieve, the data is through the hiring of a computer expert.\textsuperscript{48}

3. Invasive Computer Searches and Burden Objections.

Discovery orders providing for computer searches, such as searches for lost data, raise issues regarding whether and how actual access to the opposing parties’ computers will be allowed. Courts nonetheless may order such discovery, despite objections that confidential information may be exposed, upon a showing that there is a likelihood of recovering relevant

\textsuperscript{46} See, e.g., Crown Life Ins. v. Craig, 995 F.2d 1376, 1383 (7th Cir.1993) (sanctions for failure to produce computer data not available in hard copy format); U.S. v. Davey, 543 F.2d 996 (2d Cir. 1976); Daewoo Electronics Co., Ltd. v. United States, 650 F. Supp. 1003, 1006 (U.S. Ct. Intl. Trade 1986).


information and that no less obtrusive means exists for the discovery. Unrestricted access to opposing parties’ computers, however, may be overturned as excessive.

4. **Depositions of Persons Knowledgeable re: Information Systems.**

A Federal Rule 30(b)(6) deposition of a corporate designee most knowledgeable (“PMK”) may lead to more effective electronic discovery. Interrogatories may also elicit the number of computers, servers, application software, back-up systems and locations. For instance, a Rule 30(b)(6) PMK deposition was ordered in *In re Carbon Dioxide Indus. Antitrust Litigation*, 155 F.R.D. 209, 213 (M.D. Kan. 1993). In that instance, the court noted that among the useful subjects for a computer PMK deposition are the following:

1. Identification of computer hardware and software used by the party, including identification of laptops and home computers used by employees of parties for company business.

2. Identification of passwords, encrypted data, and similar information needed for access.

3. Descriptions of all back-up and retention programs and procedures including equipment, programs used, and frequency of back-ups and recycling of back-ups.

4. Descriptions of deletions on computers of parties including all document retention policies.

5. Identification of computer maintenance programs which may affect data, including programs for network maintenance, network security, defragmentation and wiping files.

6. Description of all computer modifications since service of complaint and demand letter, and service of discovery, including suspension of computer deletions, and memos regarding the same.

7. Description of computer equipment changes such upgrading and changes in computer support personnel.

8. Identification of databases and data (e.g., information on earnings claims and other data.

9. Identification of company personnel and outside vendors responsible for maintenance of the computers and entry of data at the company.

10. Identification of e-mail providers and servers.

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The organization responding to a PMK deposition notice has a duty to identify and prepare a witness for the deposition, even if it is burdensome. In the event the PMK designee lacks knowledge in the requested subject, the organization must provide a substitute PMK witness. In sum, the computer PMK may set the stage for obtaining additional documents, addressing burden issues, recovering relevant data, as well as the authentication of the data obtained. Much of this information may be useful when questioning subsequent recipient witnesses – absent preparation, maintenance, and production of data from individual deponents who used the computers.

5. Framing and Responding to Discovery Requests.

The proposed amendments to Rules 33 and 34 of the Federal Rules of Civil Procedure address and expressly include the requirement that parties must disclose and produce electronic information. The proposed amendments are thus designed to adapt the rules to modern practice. Specifically, the proposed amendment to Rule 33 clarifies that an answer to an interrogatory involving business records should also involve a search of electronically stored information and permits the responding party to answer by providing access to that information. Under the amendment, a party electing to respond to an interrogatory by providing electronically stored information must ensure that the interrogating party is able to locate and identify it as readily as the responding party, and the responding party must give the interrogating party a reasonable opportunity to examine, audit or inspect the information.

The proposed amendment to Rule 34 expressly distinguishes between electronically stored information and documents. This means that litigants should frame discovery requests to specify whether they seek discovery of documents, electronically stored information, or both. Discovery requests should go beyond boilerplate definitions and should target specific electronic data that the propounding party believes is important to resolve the case. By identifying particular relevant documents, parties can avoid the sort of blanket, burdensome requests for electronic documents that invite blanket objections and judicial intervention.

The proposed amendment also means that Rule 34 responses and objections should indicate that reasonable steps have been taken to produce responsive electronic data and documents. If production has not been made from all reasonably available sources of electronic documents and data, a respondent should tender appropriate objections based upon existing production efforts, costs, burden, overbreadth of the request, and any other relevant factors. Although it is neither reasonable, feasible, nor required, under Rule 34 to produce every file or message that might potentially be relevant to each issue in the litigation, it is sound practice to

53 See Advisory Committee Report, at 14-15 (stating that “special difficulties may arise in satisfying these provisions as applied to electronically stored information. Aspects of the form in which the information is maintained or the need for a particular system to make it intelligible may require the responding party to require some combination of technical support, information on application software, or other assistance. The key question is whether such support enables the interrogating party to use the electronically stored information as readily as the responding party”).
54 See Advisory Committee Report, at 15.
55 See The Sedona Principles, p. 19, cmt. 4.a. The requesting party should also identify the form in which it wants the data to be produced. See e.g., TEX R. CIV. P. 196.4 (“To obtain discovery of data or information that exists in electronic or magnetic form, the requesting party must specifically request production of electronic or magnetic data and specify the form in which the requesting party wants it produced”).
specify the way in which the responses have been limited so that any disputes can be addressed and resolved early and expediently.  

6. Assertion of Privilege After Production.

Not surprisingly, the volume of electronically stored information can make discovery a daunting process. Likewise, the features of electronic information – e.g., hidden comments, undated drafts, the availability of prior versions, documents that have been deleted and then recaptured, and the like – can make a review for privilege extremely difficult. The inadvertent production of privileged electronic documents is thus a substantial risk, and the costs and delay associated with a privilege review of electronic documents are becoming increasingly problematic. The proposed amendment to Rule 26(b)(5) addresses these concerns by establishing a procedure to help resolve a responding party’s claim that it has inadvertently produced privileged electronic documents.

The proposed amendment does not address how to resolve whether a privilege has been waived with respect to a particular document. Rather, the amendment would permit the responding party to assert a privilege by notifying its adversary within a reasonable time after production and “to require the return, sequestration, or destruction of the material pending resolution of the privilege claim.” After receiving such notice, the receiving party must return, sequester or destroy the information, and may not disclose it to third parties. The producing party must then preserve the information and enter it on a privilege log, pending the court’s ruling on whether the information is, in fact, privileged and whether any privilege has been waived or forfeited by inadvertent production.

The Committee Note to the proposed amendment also includes various factors that a court could consider when determining whether the privilege was claimed within a reasonable time, such as: (i) the date when the producing party learned of the production; (ii) the extent to which other parties have made use of the information; (iii) the magnitude of the production; and (iv) the difficulty of discerning that the material was privileged.

The Sedona Principles suggest that counsel should discuss the need for a protective order at the outset of litigation and that they should approach the court for entry of an appropriate non-waiver order. Such an order should provide that the inadvertent disclosure of

56 See The Sedona Principles, p. 19, cmt. 4.b.
57 See Advisory Committee Report, at 12-13. In the absence of an amendment, a court is likely to apply one of the three common law approaches that have been developed to resolve the inadvertent disclosure of privileged electronic documents: (i) Inadvertent disclosure is never a waiver (see Corey v. Norman, Hanson & Detry, 742 A.2d 933 (Me. 1999)); (ii) Strict accountability for inadvertent disclosures, e.g., inadvertent disclosure is a waiver (see Ares-Serono, Inc. v. Organon Intl, 160 F.R.D. 1 (D. Mass. 1994)); and (iii) the middle of the road approach, e.g., sometimes inadvertent disclosure constitutes a waiver, sometimes it does not, depending on the facts of each particular case (see Amgen, Inc. v. Hoechst Marion Roussel, Inc., 190 F.R.D. 287 (D. Mass.); SEC v. Cassano, 189 F.R.D. 83, 86 (S.D.N.Y. 1999). See also Ciba-Geigy Corp., 916 F. Supp. 404 (D.N.J. 1995).
58 See Advisory Committee Report, at 14 (stating that the Committee Note to the proposed amendment emphasizes that courts have developed principles to decide whether waiver or forfeiture results from inadvertent production of privileged information).
59 Advisory Committee Report, at 13.
60 See id. at 13-14 (stating that a party that has disclosed inadvertently produced information to a nonparty before receiving notice should attempt to obtain the return of the information or arrange for it to be destroyed).
61 See id. at 13.
62 See The Sedona Principles, p. 36, cmt. 10.a, 10.b; ABA Civil Discovery Standards at § 32(b).
a privileged document does not constitute a waiver of privilege, that the privileged document
should be returned, and that any notes or copies will be destroyed or deleted.63

7. Cost of Production.

a. Who Should Pay?

In addressing who should pay for the costs of discovery production, the starting point in
federal court is that the responding party should pay for the cost of production.64 The
responding party, however, can reverse the cost of production onto the requesting party upon
establishing undue burden and expense. The decisions, several of which are reviewed below,
are often fact specific and address pragmatic factors, such as the specificity and importance of
the discovery, alternative means of obtaining the discovery, and the relative burdens upon the
parties of production. The result may be of great importance in an action as retrieving back-up
tapes, searching for relevant data, and production may entail hundreds of thousands of dollars.

b. Court Refuses to Shift Cost.

The issue raised in In Re Brand Name Prescription Drugs Antitrust Litigation, 1995 U.S.
Dist. LEXIS 8281, 1995 WL 360526 (N.D. Ill. 1995), centered on who should pay an estimated
$50,000 to $70,000 for retrieving, compiling, formatting, and searching particular e-mail
messages from at least thirty million pages of e-mails at defendant CIBA-Geigy Corporation.
The district court first noted that “the mere fact that the production of computerized data will
result in a substantial expense is not sufficient justification for imposing the costs of production
on the requesting party.”65 Similarly, a requesting party “should not be forced to bear a burden
cau sed by [the responding party’s] choice of electronic storage.”66

Several additional factors were analyzed in Brand Name Prescription Drugs Antitrust
Litigation to determine whether costs of production should be shifted to the producing party:
whether the cost of production is inordinate and excessive; whether the burden would be
greater to the requesting party than the responding party; and whether the expense or burden is
“undue”. In reviewing these factors, the district court found that while the retrieval cost was
expensive to the defendant, it was not a burden the plaintiff class representatives should bear.
Of particular significance was the court’s conclusion that the plaintiffs should not have to pay
extra costs for retrieval due to the limitations of the software storage system chosen by the
defendants. The court concluded “where as here, the costliness of the discovery procedure
involved is . . . a product of the defendant’s record-keeping scheme over which the [plaintiffs
have] no control.”67 The plaintiffs in In Re Brand Name Prescription Drugs Antitrust Litigation
were, however, ordered to pay for hard copies of documents per a previous agreement.
Further, given the costs of production, plaintiffs were ordered to limit their e-mail requests and
the parties directed to confer on the scope of e-mail discovery.

63 See id.
64 See In Re Brand Name Prescription Drugs Antitrust Litig., 1995 U.S. Dist. LEXIS 8281, 1995 WL 360526 (N.D. Ill.
1995); Toshiba America Electronic Components, Inc. v. Superior Court, 124 Cal. App. 4th 762, 21 Cal. Rptr. 3d 532
(2004) (“The general rule in both state and federal court is that the responding party bears the expense typically
involved in responding to discovery requests such as the expense of producing documents”).
65 Id. at *4.
66 Id. Responding parties should attempt to secure express written agreements which provide that propounding
parties will pay the costs associated with compiling, formatting, searching and retrieving responsive e-mail.
Such an agreement would likely persuade a court to shift costs. Id. at *1.
67 Id. at *5-6; see also Dunn v. Midwestern Indemnity, 88 F.R.D. 191, 198 (S.D. Ohio 1980) (discovery of computer
data and tapes not unduly burdensome).
Another action resolving a defense request to shift discovery production costs involved
(C.D. Utah 1985), the district court first concluded that the key issue was whether discoverable
computer records should be subject to a protective order under Rule 26(c) Federal Rule of Civil
Procedure, as involving undue burden and expense. In denying the request to shift costs, the
district court found that the discovery costs were not excessive, and the burden of shifting the
cost of discovery from the defendant corporation to the plaintiff employees seeking relief for
alleged age discrimination would be substantial.68

c. Court Shifts Cost.

Rule 26(b)(2) of the Federal Rules of Civil Procedure authorizes federal courts to limit
discovery when the burden or expense of production outweighs the likely benefit of the
discovery. The rule has been invoked in a variety of computer discovery actions to deny or limit
Ill. 2002), the plaintiffs sought state wide documents from defendant Illinois State Police,
including archived e-mails regarding their sex discrimination claims under Title VII of the Civil
Rights Act. Defendant Illinois State Police responded with testimony from their administrator for
information services. His testimony established that the e-mails were located on backup tapes
that would require licensing the old e-mail system software again at a cost of $8,000 per month.
In addition, downloading the tapes and searching the e-mails would result in a time-consuming
expense costing between $20,000 and $30,000.

In the face of the significant cost for the responding party to retrieve and produce the
computer data, the district court held in Byers that “a court should focus on the marginal utility of
the proposed search. The more likely it is that the archived e-mails contain relevant information,
the fairer it is that the responding party bears the cost of production; the less likely it is, the more
unjust it is to make that party bear the cost.”69 While plaintiffs asserted that one particular
offensive discriminatory e-mail existed, the district court found that plaintiffs had failed to
establish that such an e-mail existed and that a search of archived e-mails would likely result in
relevant evidence.70 Due to the failure to establish that the search would likely result in relevant
information, and because plaintiffs sought e-mails for several years earlier rather than limiting
the request to the period before the failure to grant the plaintiff female officers promotions when
male officers were promoted, the court granted the discovery request conditioned on plaintiffs
paying the cost of production. The district court further noted that shifting the expense would
encourage the plaintiffs to limit their requests to the time period most likely to result in relevant
evidence. The concluding order further balanced the burden between the parties: “Accordingly,
this portion of the plaintiffs’ motion is granted to the extent that they bear the cost of licensing
the old e-mail program, though the defendants shall continue to bear the expense of any review
for responsive documents, as well as for privileged or confidential material.”71

31385832 (S.D.N.Y. 2002), a magistrate judge reconsidered his prior discovery order which,
inter alia, ordered production in an employment dispute of all e-mail messages which mentioned
plaintiff but required plaintiff to pay for the cost of the e-mail search. The magistrate judge
continued the order with virtually no explanation of the cost of the search or the likelihood of
relevant evidence being obtained. The district court, however, noted that the plaintiff had

69 Id. at 15.
70 Id. at 16.
71 Id. at 16.
alternative discovery available to lessen the search by asking the names of all who were involved with plaintiff's employment termination or who might have saved relevant e-mails. Finally, the district court reserved as premature an evidence preclusion order and missing evidence charge order.72

The defendants in a large securities fraud action sought fee shifting to require that the plaintiffs pay for both paper copies of hundreds of thousands of documents as well as the electronic scanning of those documents.73 The district court ordered the plaintiffs to pay the cost of paper production of the documents, estimated at $308,599.40, less certain cost savings.

Rowe Entertainment v. William Morris Agency, 205 F.R.D. 421 (S.D.N.Y. 2002), involved discovery in an action involving discrimination and monopolization claims by black concert promoters. One of the central discovery issues was production of archived e-mail messages as raised by several defendant booking agencies via motions for protective orders. The magistrate judge’s opinion begins with a Delphic admonition:

Too often, discovery is not just about uncovering the truth, but also about how much of the truth the parties can afford to disinter. As this case illustrates, discovery expenses frequently escalate when information is stored in electronic form.74

The defendants in Rowe Entertainment each provided detailed information via declarations and affidavits from their information system employees and computer consultants on subjects such as the type of back-up files, the need for software for retrieval, the time and expenses for retrieval, and the expenses associated with review of retrieved material. One of the defendants’ computer consultants estimated that to review all the back-up tapes would cost $9,700,000, while estimates to review the several years of e-mails requested would run in multiple hundreds of thousands and require two and one-half years to complete. Plaintiffs countered with their own experts asserting that the time and expenses were exaggerated and could be managed at far lower costs. The level of detail submitted in the motion practice included a defense expert recommending that e-mail attachments be converted to a Tagged Image File Format or “TIFF” file, at considerable expense, so that redactions could be made.

The district court in Rowe Entertainment quickly disposed of the initial issue of discoverability. First, the district court concluded that e-mail records which seek generally relevant evidence are equally discoverable as paper records. Defendants' general assertions that e-mail was unlikely to yield relevant information were also rejected. Second, defendants contended that e-mail discovery should be limited to that which was printed out as signifying importance. This was rejected since the court found that, generally, two-thirds of all e-mail is never printed out. In addition, no corporate policy of printing out important e-mail documents was established. Moreover, the court added: “to the extent that any employee of the defendants was engaged in discriminatory or anti-competitive practices, it is less likely that communications about such activities would be memorialized in an easily accessible form such as a filed paper document.”75 Finally, employee privacy objections were rejected as not raised regarding paper discovery and, further, because employees using corporate computers for personal communications assume the risk those communications will be viewed by their corporate

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72 Id. at 4.
74 Id., 205 F.R.D. at 423.
75 Id., 205 F.R.D. at 428.
employer and others.\textsuperscript{76} In sum, despite multiple arguments, a blanket protective order as to all e-mail communications was rejected.

In deciding the more difficult issue of burden shifting of the costs of discovery, the district court in \textit{Rowe Entertainment} applied the two basic rules. First, under the federal discovery rules, a presumption exists that the responding party must bear the expenses.\textsuperscript{77} Second, a court may nonetheless shift the cost of production, in whole or in part, onto the requesting party upon finding "undue burden and expense" upon the responding party. Rather than a bright line test, the district court noted that a variety of factors are to be considered in the burden shifting analysis:

(1) the specificity of the discovery requests; (2) the likelihood of discovering critical information; (3) the availability of such information from other sources; (4) the purposes for which the responding party maintains the requested data; (5) the relative benefit to the parties of obtaining the information; (6) the total cost associated with production; (7) the relative ability of each party to control costs and its incentive to do so; and (8) the resources available to each party.\textsuperscript{78}

While some of the burden shifting factors favored each side in \textit{Rowe Entertainment}, the overall factors favored requiring plaintiffs to pay the costs of obtaining the e-mail discovery. Factors favoring burden shifting included: that plaintiffs discovery was extremely broad rather than targeted; that the back-up tapes or deleted e-mails were not shown to have been accessible in the normal course of business; the costs were substantial; the plaintiffs might be able to limit discovery and therefore costs although this factor alone did not militate a result; and both parties had the resources to conduct this litigation.\textsuperscript{79} Although the plaintiffs established there was a likelihood of relevant evidence in the e-mails, the plaintiffs did not have direct evidence of e-mails containing substantial evidence. Moreover, there was no evidence that plaintiffs had already received the requested computer evidence in hard copy or could have obtained it elsewhere.

In concluding that the cost of production of the e-mail evidence should be shifted from the responding defendants to the requesting plaintiffs, the district court set protocols on the process and required the responding defendants to bear the expense of review of the documents being produced for privilege and confidentiality objections.\textsuperscript{80} As to the latter issue, the court held that, as with paper documents, when a company mixes its confidential documents with its non-confidential documents, the company must bear the costs of segregating the same for discovery.\textsuperscript{81} The court then announced a detailed initial protocol including use of experts on computer discovery. The entire protocol is useful for counsel considering such discovery:

The protocol set forth here for the defendants’ production of e-mails is necessarily only a set of guidelines, and the parties are free to add detail and otherwise modify the protocol by agreement.

Initially, the plaintiffs shall designate one or more experts who shall be responsible for isolating each defendant’s e-mails and preparing them for review. The defendants shall have the opportunity to object to any expert so designated.

\textsuperscript{76} Ibid.
\textsuperscript{77} Id., 205 F.R.D. at 428 (citing \textit{Oppenheimer Fund, Inc. v. Sanders}, 437 U.S. 340, 358 (1978)).
\textsuperscript{78} Id.
\textsuperscript{79} Id., 205 F.R.D. 433.
\textsuperscript{80} Id., 205 F.R.D. 432.
The expert shall be bound by the terms of this order as well as any confidentiality order entered in the case.

With the assistance and cooperation of the defendants' technical personnel, the plaintiffs' expert shall then obtain a mirror image of any hard drive containing e-mails as well as a copy of any back-up tape. The plaintiffs may choose to review a sample of hard drives and tapes in lieu of all such devices.

Plaintiffs' counsel shall formulate a search procedure for identifying responsive e-mails and shall notify each defendant's counsel of the procedure chosen, including any specific word searches. Defendants' counsel may object to any search proposed by the plaintiffs.

Once an appropriate search method has been established, it shall be implemented by the plaintiffs' expert. Plaintiffs' counsel may then review the documents elicited by the search on an attorneys'-eyes-only basis. The plaintiffs may choose the format for this review; they may, for example, view the documents on a computer screen or print out hard copy. Once plaintiffs' counsel have identified those e-mails they consider material to this litigation, however, they shall provide those documents to defendants' counsel in hard copy form with Bates stamps. The plaintiffs shall bear all costs associated with the production described thus far. However, the defendants shall pay for any procedures beyond those adopted by the plaintiffs, such as the creation of TIFF files.

Defendants' counsel shall then have the opportunity to review the documents produced in order to designate those that are confidential and assert any privilege. Any purportedly confidential or privileged document shall be retained on an attorneys'-eyes-only basis until any dispute about the designation is resolved. The fact that such a document has been reviewed by counsel or by the expert shall not constitute a waiver of any claim of privilege or confidentiality.

Should any defendant elect to review its database prior to production, it shall do so at its own expense. In that event, the defendant shall review those hard drives and back-up tapes selected by the plaintiffs and shall create copies from which privileged or confidential and unresponsive material has been deleted. The defendant shall then provide plaintiffs' counsel with each "redacted" hard drive or tape, together with a privilege log identifying the documents removed. The process would then continue as described above.82

Finally, cost shifting has begun to make its way into statutes. For example, California has enacted a general discovery statute provision which provides for shifting of discovery costs for translating data compilation as follows: “If necessary, the responding party at the reasonable expense of the demanding party shall, through detection devices, translate any data compilations into reasonably usable form.”83

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82 Id., 205 F.R.D. at 432-33.
83 California Code of Civil Procedure, Section 2031(g).
C. Pre-Trial Issues: Motions to Dismiss, Motions for Default May Be Granted.

When a party engages in destruction of electronic data and other evidence, courts may issue sanctions, including evidentiary inferences, evidentiary sanctions and even default sanctions. Indeed, some jurisdictions authorize preservation of records immediately upon filing a complaint, including via ex parte applications. While these orders may ultimately raise issues of burden and scope, courts almost always grant such requests to preserve computer records, especially from routine deletion or destruction pending the action.84

Illustrative of the point, the decision in Wm T. Thompson Co. v. General Nutrition Co., 539 F. Supp. 1443 (C.D. Cal. 1984) involved discovery in an action by a vitamin manufacturer against GNC, which operates retail vitamin outlets, including franchised outlets. Plaintiff contended that GNC had improperly advertised sales of plaintiff's vitamin products without adequate inventory. The plaintiff requested that GNC conduct inventories of its stores via a pre-litigation demand letter. Thereafter, the district court confirmed that a party to litigation, on notice of relevant or potentially relevant documents, can be liable for sanctions for destruction of such documents.85 The basis for sanctions included Rule 37 of the Federal Rules of Civil Procedure, as well as the inherent equity powers of the court.86

Four types of notice which may lead to discovery sanctions were identified in Wm T. Thompson Co: pre-litigation notice; notice of litigation;87 notice via formal litigation document requests; and notice via court ordered document production.88 All four types of notice were present in Wm T. Thompson, beginning with a pre-litigation letter from plaintiff's counsel alerting defendant GNC of case issues and inviting it to conduct its own analysis regarding those inventory issues. After litigation commenced, formal document requests and court orders followed. The district court found that defendant GNC destroyed not only paper records, but also erased electronic computer files so that requested information was no longer available. Even after a special master ordered document preservation, defendant GNC failed to inform its employees, and the destruction of relevant records continued. Among the findings of fact regarding bad faith document destruction was the following instructive passage, illustrating how not to go about document preservation:

GNC’s destruction of documents, violations of court orders, and violations of its duties reflect bad faith. This bad faith is demonstrated, at a minimum, in GNC’s failure to preserve critical documents after commencement of these actions; its failure to implement procedures to monitor or control document destruction after the commencement of these actions; its erroneous or negligent representations to the court and counsel; its failure to preserve any records other than relatively useless bulk cash register tapes and store order strips in response to a clear preservation order of the court; its erasure of computer tapes and discs which could have been utilized to store some of the destroyed information relatively simply; its failure to implement any procedures to monitor or control document destruction after entry of the Special Master’s orders; its providing employees with instructions that amounted to approval for document destruction; its belated attempt to exonerate itself from its order violations by proffering a series of contradictory and factually unsupportable excuses; its attempts to obstruct or

84 See, e.g., In re Cheyenne Software Sec. Litig., 1997 WL 714891 (E.D.N.Y. 1997).
85 593 F. Supp. at 1455.
88 See William T. Thompson, 539 F Supp. at 1450-55.
delay the court’s inquiry into the scope and import of GNC’s destruction as alleged by Thompson; and its indifference to the authority of the court and its violations of other discovery orders of the court.\footnote{Id., 593 F. Supp. at 1454.}

Due to the substantial document destruction, the district court imposed the ultimate sanction in \textit{Wm T. Thompson Co. v. GNC} of striking the answer and entering a default against defendant GNC. As the destroyed documents involved relevant issues for plaintiff, a default was appropriate: “GNC’s willful destruction of documents and records . . . deprived Thompson of the opportunity to present critical evidence on its key claim to the jury.”\footnote{Id., 593 F. Supp at 1456.} The repeated violations of discovery orders by defendant GNC provided an independent basis for a default. The district court order concluded by outlining a procedure for plaintiff’s counsel to seek attorneys’ fees.\footnote{Id. 91}

Sanctions for electronic discovery violations were also at issue in \textit{Proctor & Gamble Co. v. Haughen}, 179 F.R.D. 622 (C.D. Utah 1998). This case involved the discovery of e-mail communications of plaintiff Proctor & Gamble, and defendant Amway contended that P&G failed to preserve e-mail data including tapes. The court began its analysis by denying relief under Rule 37(b)(2) of the Federal Rules of Civil Procedure, as there was no prior discovery ruling against plaintiff Proctor & Gamble, concluding that Rule 37(b)(2) provides for sanctions only for violation of a discovery order.\footnote{Id., 179 F.R.D. at 631.}

Defendant Amway also sought relief for bad faith destruction of documents by plaintiff Proctor & Gamble under the inherent authority of the court, including moving for an inference that production of the suppressed document would have been unfavorable.\footnote{Id. 93} The district court declined a broad inference order, since the record evidence did not yet establish willful or bad faith destruction of evidence. The district court, however, found one act of bad faith destruction of evidence. Namely Proctor & Gamble had identified five individuals having relevant evidence in its own initial disclosures, but had not saved all of their e-mail communications. The district court accordingly ordered monetary sanctions of $10,000 as “P&G’s own identification of these individuals belies any possible claim that P&G was not on notice that their e-mail communications would be relevant.”\footnote{Id., 179 F.R.D. at 632.} Other courts have ordered sanctions when senior management only haphazardly sought retention of potentially relevant e-mail documents.\footnote{See \textit{In re Prudential Ins. Co. of America Sales Practices Litigation}, 169 F.R.D. 598 (D.N.J. 1997) (e-mail request to preserve e-mail records insufficient as not followed by hard mail document preservation request).}

In \textit{Metropolitan Opera Association, Inc. v. Local 100 Hotel Employees and Restaurant Employees Int’l Union}, 212 F.R.D. 178 (S.D.N.Y. 2003), the plaintiff opera association had unsuccessfully sought discovery from the union in an action involving multiple claims, including defamation, violation of the Lanham Act, and several tort claims. The action involved multiple document requests and an initial oral court order to produce in connection with a preliminary injunction request, followed by repeated discovery stonewalling by the defendant union.

During early discovery in \textit{Metropolitan Opera}, various defense counsel made little effort to instruct defendant union members on their duties of location, preservation, and production of documents. When confronted, one of the defense counsel asserted that they were new to the matter and could not respond. Meanwhile, evidence of failures to search and non-production
were identified in depositions of union employees. Among other items, plaintiff's counsel discovered that the union was routinely deleting information from its computers, and that the weekly status reports of its leading organizer had not been produced. As a result, the district court granted plaintiff's request for discovery regarding discovery compliance, requiring responses from defense counsel as to what the union and its counsel had done to comply with discovery requests from plaintiff Metropolitan Opera.

In the face of repeated discovery failures, plaintiff Metropolitan Opera eventually sought a default against the defendant union. The district court noted that Rule 37 of the Federal Rules of Civil Procedure authorized multiple types of sanctions, including defaults for intentional bad faith or grossly negligent discovery responses. In exercising that discretion to order default and other sanctions, the district court set forth multiple factors:

Over time, however, courts have identified relevant considerations to assist in deciding whether discovery abuse warrants the entry of judgment, including: (a) willfulness or bad faith of the noncompliant party; (b) the history, if any, of noncompliance; (c) the effectiveness of lesser sanctions; (d) whether the noncompliant party had been warned about the possibility of sanctions; (e) the client’s complicity; and (f) prejudice to the moving party.

In *Metropolitan Opera*, the district court also discussed the role and duties of counsel in discovery. First, pursuant to Rule 26(g)(2), counsel are to sign discovery responses certifying the appropriateness of the responses after a reasonable inquiry. This includes a duty "to stop and think about the appropriateness of the response." The district court noted that proper responses involve adequate inquiry, including communication with all employees or agents potentially possessing responsive information and with a coherent and effective system. In finding a Rule 26(g) violation by counsel, the district court made the following findings of facts:

Here, there is no doubt whatsoever that counsel failed to comply with that standard in that, among other things, counsel (1) never gave adequate instructions to their clients about the clients' overall discovery obligations, what constitutes a "document" or about what was specifically called for by the Met's document requests; (2) knew the Union to have no document retention or filing systems and yet never implemented a systematic procedure for document production or for retention of documents, including electronic documents; (3) delegated document production to a layperson who (at least until July 2001) did not even understand himself (and was not instructed by counsel) that a document included a draft or other non-identical copy, a computer file and an e-mail; (4) never went back to the layperson designated to assure that he had "established a coherent and effective system to faithfully and effectively respond to discovery requests," *National Ass'n of Radiation Survivors*, 115 F.R.D. at 556; and (5) in the face of the Met’s persistent questioning and showings that the production was faulty and incomplete, ridiculed the inquiries, failed to take any action to remedy the situation or supplement the demonstrably false responses, failed to ask important witnesses for documents until the night before their depositions and, instead, made repeated, baseless representations that all documents had been produced. Indeed given the almost complete disconnect

96 Id., 212 F.R.D. at 219.
97 Id., 212 F.R.D. at 220.
98 Id., 212 F.R.D. at 221.
99 Id.
between counsel (who had the document requests but knew nothing about the documents in the Union’s possession other than the files were in disarray and there was no retention system) and defendants (who had the documents but were entirely ignorant of the requirements of the requests), there is simply no way that any discovery response made by counsel could have been based on a reasonable inquiry under the circumstances. See Phinney v. Paulshock, 181 F.R.D. at 204 (Rule 26(g) sanctions imposed, where lawyer “could not have known whether his clients had made a ‘significant search,’ but he nonetheless led plaintiffs to believe that every effort had been made to comply with their requests”).

Due to the repeated serious violations in discovery, the district court in Metropolitan Opera, granted a default judgment against the defendant union, rather than lesser sanctions such as adverse inferences or preclusion.

D. Trial Issues/Motions in Limine.

1. Tangible Evidence Issues – Primarily Authentication Issues; Use of Summaries; Use of Surveys.

The admissibility of computer generated documents was reviewed in Perfect 10, Inc. v. Cybernet Ventures, Inc., 167 F. Supp. 2d 1114 (C.D. Cal. 2001), a trademark infringement action. In the process of ruling on a preliminary injunction, the district court admitted several types of computer generated documents submitted via affidavit.

The first objection raised to the computer generated documents in Perfect 10, Inc. was to the authentication of documentary exhibits printed from websites on the Internet. The applicable standard for establishing authenticity required “sufficient proof . . . so that a reasonable juror could find in favor of authenticity.” The court accepted printouts from third party websites as prima facie authentic when accompanied by a declaration that they were true and correct copies of pages printed from the Internet, since the printouts also contained “circumstantial indicia of authenticity (such as the dates and web addresses).”

Additional objections in Perfect 10 centered on the prohibition of hearsay evidence and asserted personal privacy of employee e-mails. Printouts from third party websites were admitted into evidence, despite the hearsay rule, as they were not statements of fact, but rather were offered simply to show the images and text of the websites. Employee e-mails were also admissible as party admissions.

In Kearley v. State of Mississippi, 843 So.2d 66 (Miss. App. 2002), the Mississippi Court of Appeals addressed the admission of e-mails over an authentication objection. Under Mississippi Rule of Evidence Section 901(a), authentication was satisfied by an initial admission

100 Id., 212 F.R.D. at 222-23.
102 213 F. Supp. 2d at 1154 (citations omitted).
103 Id. When an expert is allowed to search a party’s computer, ideally the expert should seek to make mirror image. See Gates Rubber Co. v. Band Chemical Industries, Inc., 167 F.R.D. 90, 112 (D. Colo. 1996).
104 Id., 213 F. Supp. 2d at 1155.
105 Id.
of evidence to support a finding that the document was what the proponent asserted. The trial court had received evidence from the proponent that she exchanged e-mails with the defendant. This was sufficient authentication to allow the admission of the e-mails.106

Proving the axiom that: all that is, is not always what it appears – *Premier Homes & Land Corp. v. Cheswell, Inc.*, 240 F. Supp. 2d 97 (D. Mass 2002) involved a case of fabricated data. In *Premier Homes*, the plaintiff filed a breach of lease claim against the defendants, asserting defendants’ alleged failure to comply with an addendum to the lease. Attached to the complaint was the asserted addendum, along with a December 18, 2001 e-mail. The defendants contended that the addendum and the attached e-mail were fabricated and sought permission to create mirror images of plaintiff’s computer hard drives, back-up types and storage devices. After the motion was granted and defendants’ computer consultants began their mirror imaging work, the plaintiff admitted that the e-mail and the addendum supporting the complaint were fabricated by pasting changes onto other e-mails.107 Not surprisingly, the defendants’ motion for attorneys’ fees on dismissal was granted.

The admissibility of an inculpatory e-mail by a supervisory employee of a defendant in a criminal prosecution for fraudulent kickbacks was addressed in *United States v. Ferber*, 966 F. Supp. 90 (D. Mass. 1999). The e-mail was initially rejected as hearsay, not meeting either the business records or the excited utterance hearsay exceptions. However, the e-mail was subsequently admitted as a present sense impression exception to the hearsay rule.108 Some courts have also admitted computer records, while not technically meeting the business records hearsay exception, as nonetheless sufficiently reliable under the general hearsay exception.109

a. **Documents May be Precluded Based on Failure to Produce or Production on Eve of Trial.**

In *Thompson v. United States*, 219 F.R.D. 93 (D. Md. 2003), a district court addressed a motion in limine to exclude voluminous e-mail communications produced on the eve of trial although requested much earlier. The motion was granted precluding the use of the 80,000 e-mail records suddenly discovered on the eve of trial. Such evidence was barred from use as evidence and from further being used to prepare witnesses for trial or to refresh trial witnesses.110

2. **Testimonial Evidence Issues.**

a. **Expert Witnesses May be Precluded; Ability to Reply to Opposition to Own Expert May be Precluded.**

In *DeLouch v. Philip Morris Companies*, 206 F.R.D. 568 (M.D.N.C. 2002), plaintiffs had sought certain tobacco purchase data that defendants failed to produce, but subsequently provided to their expert witness. Defendants’ expert subsequently utilized the data. After finding the document withholding was prejudicial to plaintiffs, the court authorized plaintiffs to file a supplemental expert report to which defendants could not reply.111

106 *Kearley*, 843 So.2d at 70.
107 See *Premier Homes*, 240 F. Supp. 2d at 98.
110 See *Thompson*, 219 F.R.D. at 104-05.
111 See *DeLouch*, 206 F.R.D. at 574.
3. **Jury Issues.**

a. **Spoliation Question May Go to Jury.**

Spoliation is the altering, destruction, or hiding of evidence – electronic or otherwise. In actions involving spoliation of evidence, the history of misconduct allowing the destruction of evidence may itself be admissible evidence. For instance, in *Strasser v. Yalamanchi*, 783 So.2d 1087 (Fla. App. 2001), two plastic surgeons separated their practice and litigated a dispute over fees. Plaintiff Yalamanchi claimed he was short-changed a percentage of fees owed him for his billings, and his counsel sought billings and other records from defendant Strasser. Hard copy records were unavailable due to an inadvertent roof leak and a mysterious chemical spill. Undaunted, plaintiff Yalamanchi sought computer records which required extensive motion practice and appeals, especially due to patient privacy assertions. Ultimately, when specified computer discovery was authorized, defendant Strasser stated for the first time that lightning severely damaged the computer, which was then thrown away by another employee. However, a former employee of defendant Strasser came forward to admit that documents were shredded during discovery. In such a setting, i.e., when relevant evidence is destroyed or unexplained disappearance of key evidence occurs, then such evidence is admissible to prove negligent or willful destruction of evidence.112

Another action with alleged spoliation of evidence, *Linnen v. A.H. Robins Co.*, 10 Mass. L. Rep. 189 (Mass. Sup. Ct. 1999), involved discovery in a wrongful death action emanating from weight loss products. The discovery centered around back-up tapes of e-mails which were ordinarily recycled after several months, but which were instead saved for litigation. During discovery, plaintiffs sought e-mail communications from fifteen specific employees on specified relevant topics and also conducted a 30(b)(6) person most knowledgeable (“PMK”) deposition of defendant Wyeth Laboratories’ use of electronic mail software in its business.

The corporate PMK deposition in *Linnen* raised issues and led to revelations of multiple back-up types which had not been recycled. The court ordered production over burden objections. As to the contention that plaintiffs were on a multi-million dollar fishing expedition, the court found that the plaintiffs’ requests were tailored. As to the burden of producing, the court concluded that “to permit a corporation such as Wyeth to reap the business benefits of such technology and simultaneously use that technology as a shield in litigation would lead to incongruous and unfair results.”113

Further, plaintiffs’ counsel had initially obtained an initial broad *ex parte* order to preserve relevant records on filing the complaint. While defendant Wyeth succeeded in having the order lifted, shortly thereafter plaintiff served initial document discovery. Defendants stated that a stipulation to preserve evidence was not needed. However, for the first four months after the filing of the complaint, e-mail back-up types were not preserved and instead were recycled.

The court imposed sanctions for Wyeth’s failure to preserve evidence, finding a duty of a litigant to preserve evidence. Next, the court found a spoliation inference instruction was appropriate for trial, namely an instruction that a party destroyed potentially relevant evidence because it realized it was unfavorable.

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112 *See Strasser*, 783 So.2d at 1093.
b. Adverse Inference Charge.

Many courts provide for the taking of an adverse inference against a party which willfully or negligently destroys relevant evidence. This rule applies to the destruction of computer evidence such as e-mails.\(^{114}\)

In Residential Funding Corp., e-mails were sought from the cross-defendant Residential Funding Corporation ("RFC"). RFC did not produce e-mails and its back-up tapes from a critical period. Instead, the back-up tapes were examined by an expert retained by RFC, but still no records were produced. Three days before trial, the back-up tapes were produced, which did contain some e-mails from the critical period, but those e-mails did not contain anything harmful to RFC. Eventually at trial, RFC received a verdict for $96.4 million. The court recognized adverse instructions were proper for both deliberate destruction of records and also for failure to timely produce evidence for use at trial.\(^{115}\) The first category requires willful, or in some cases, negligent destruction of evidence. In both categories, the missing evidence must be relevant to obtain an adverse inference. This standard requires missing evidence with a tendency to establish a fact of consequence. The standard is not a strict one because to "hold the prejudicial party to too strict a standard of proof regarding the likely contents of the destroyed or unavailable evidence . . . would subvert the . . . purposes of the adverse inference, and would allow parties who have . . . destroyed evidence to profit from that destruction."\(^{116}\) Similarly, bad faith destruction of evidence may itself be sufficient to establish relevancy, i.e., that the evidence was destroyed was unfavorable. The circuit court concluded that the district court had not applied the appropriate standards and had abused its discretion in denying the motion for an adverse inference instruction. On remand, the culpability of RFC on non-production and any new evidence on back-up tapes was to be considered, as was the issue whether reversal of judgment or lesser sanctions was warranted.

In Trigon Ins. Co. v. United States, 204 F.R.D. 277 (E.D. Va. 2001), the asserted spoliation of evidence involved non-production of drafts provided to experts by counsel for the United States. Initially, the district court held that federal courts may use their inherent authority to fashion remedies for spoliation of evidence even without court orders on discovery. An initial element in a spoliation claim is that the offending party have some knowledge that the evidence might be necessary for a claim, such as by a discovery request.\(^{117}\) Next, some level of intentional destruction or bad conduct is required for spoliation.\(^{118}\) Finally, sanctions are mandated for deterrence as to place the injured party in the same evidentiary position as before the destruction. Appropriate factors include the degree of fault in destroying evidence, the degree of prejudice to the opposing party, and whether a lesser sanction would be appropriate.\(^{119}\) Here, the communications with the experts were evidence under Rule 26 (a)(2) of the Federal Rules of Civil Procedure. The awarding of an adverse inference was granted.

In Stevenson v. Union Pacific Railroad Co., 354 F.3d 739 (8th Cir. 2004), the defendant railroad failed to preserve a train crew audio tape from a train accident and certain track inspection records. An adverse inference instruction was given that: "You may, but are not required to, assume that the contents of the voice tape and track inspection records would have

\(^{114}\) See e.g., Stevenson v. Union Pac. R.R. Co., 354 F.3d 739 (8th Cir. 2004); Residential Funding Corp. v. De George Financial Corp., 306 F.3d 99 (2d Cir. 2002).

\(^{115}\) See Residential Funding, 306 F.3d at 107.

\(^{116}\) Id., 306 F.3d at 109 (citations omitted).

\(^{117}\) See Trigon, 204 F.R.D. at 287.

\(^{118}\) Ibid.

\(^{119}\) Id., 204 F.R.D. at 288.
been adverse, or detrimental, to the defendant.”120 In Stevenson, the circuit court first addressed the routine prelitigation destruction of track records as follows:

Thus, while in dicta we articulated a “knew or should have known” negligence standard, such a standard, standing alone, would be inconsistent with the bad faith consideration and the intentional destruction required to impose an adverse inference for the prelitigation destruction of documents. We have never approved of giving an adverse inference instruction on the basis of prelitigation destruction of evidence through a routine document retention policy on the basis of negligence alone. Where a routine document retention policy has been followed in this context, we now clarify that there must be some indication of an intent to destroy the evidence for the purpose of obstructing or suppressing the truth in order to impose the sanction of an adverse inference instruction.121

In Stevenson, the defendant railroad routinely taped over voice tapes after ninety days. However, it was aware and preserved such tapes in cases where the tapes were helpful for the railroad. Since it did not preserve the tapes in this case, an adverse inference conclusion by the district court was upheld on that basis alone.122 The district court, however, found that the railroad should be permitted to describe its document destruction program.

In a recent, well-publicized trial, discussed in more detail in Section III of this paper, a state judge in a Florida trial struck the defense of defendant Morgan Stanley in a fraud trial due to alleged destruction of e-mail evidence. The evidence was sought by plaintiff financier Ronald Perelman, who alleged that defendants Morgan Stanley and Sunbeam conspired to hide its poor financial condition when he accepted Sunbeam stock for the sale of the Coleman camping gear company. After the court instructed the jury on liability, stating that causation was all that was necessary, the jury awarded Mr. Perelman $604 million in computer damages and $850 million punitive damages.123

\[c.\] **Criminal Sanctions.**

Both federal and state statutes prohibit the destruction of evidence.124 However, in a case thought to be a clear-cut case of document destruction, the Supreme Court of the United States recently overturned a criminal conviction under the federal statute in Arthur Anderson, L.L.P. v. United States, 128 S.Ct. 2129, 161 L.Ed.2d 1008 (2005). The case centered on an instruction by an internal attorney for the CPA firm regarding its Enron work to “[m]ake sure to follow the [document destruction] policy.” The same attorney had both earlier and later discussed with other in-house counsel that an SEC investigation was “highly probable.” Following the policy reiteration, many Enron documents were destroyed.125 The Supreme Court reversed the conviction, however, because the jury instructions did not require proof that the defendant knowingly or dishonestly impeded a government investigation.126

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120 Stevenson, 354 F.3d at 746.
121 Id., 351 F.3d at 746, 747 (citations and footnotes omitted).
122 Id., 354 F.3d at 747-48.
123 See Morgan Stanley, supra note 7.
125 Id.
126 Id.
V. RECENT “RULE MAKING” EFFORTS CONCERNING ELECTRONIC DISCOVERY

In recent years, the subject of electronic discovery has been addressed by a number of official and unofficial rulemaking bodies, including the following:

1. Standing Committee on Rules of Practice and Procedure, May 17, 2004, Proposed Amendments to the Federal Rules of Civil Procedure. The proposed amendments address five areas related to electronic discovery: (i) early attention to issues relating to electronic discovery, including the form of production, preservation of electronically stored information, and problems of reviewing electronically stored information for privilege; (ii) discovery of electronically stored information that is not reasonably accessible; (iii) the assertion of privilege after production; (iv) the application of Rules 33 and 34 to electronically stored information; and (v) a limit on sanctions under Rule 37 for the loss of electronically stored information as a result of the routine operation of computer systems. In addition, amendments to Rule 45 are made to correspond to the proposed changes in Rules 26-37. 127


3. The Sedona Principles. In October 2002, The Sedona Conference Working Group on Electronic Document Production, a group of attorneys and others experienced in electronic discovery matters, met to address the production electronic documents and data in discovery. The group was concerned about whether rules and concepts developed largely for paper discovery would be adequate to handle issues of electronic discovery. 128 The result was a set of core principles and best practices which address electronic data and document production. The Sedona Principles complement the proposed amendments to the Federal Rules and suggest modification to other proposed amendments. 129

4. Enactment of Local Civil Rules:

a. While relatively new, several states and federal courts have begun to establish and adopt their own rules regarding electronic discovery. For instance, Local Civil Rule 26.1(d) of the United States District Court for the District of New Jersey now provides that “During the Fed. R. Civ. P. 26(f) conference, the parties shall confer and attempt to agree on computer-based and other digital discovery matters.” Local Rule 26.1(d)

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128 See The Sedona Principles, at iii.
requires attorneys to: (i) investigate how their client’s electronic information is stored and how it can be retrieved; (ii) review the client’s information files (including active and passive files) to determine whether that information may be used to support claims or defenses; (iii) identify a person(s) knowledgeable about the client’s electronic information with the ability to facilitate reasonably anticipated discovery; (iv) notify opposing counsel of electronic information (identified as clearly as possible) that is requested; (v) confer with opposing counsel at the Rule 26(f) conference and attempt to agree upon electronic discovery matters such as preservation and production, inadvertent production of privileged electronic information, whether restoration of deleted information is necessary, whether back-up or history data is within the scope of discovery, and media, format and procedures for discovery; and (vi) who will bear the costs of preservation, production and restoration (if necessary).  

b. The Eastern and Western Districts of Arkansas rules provide (U.S. Dist. Ct. Ark. L. R. 26.1: “The Fed. R. Civ. P. 26 (f) report filed with the court must contain the parties’ views and proposals regarding . . . [w]ether any party will likely be requested to disclose or produce information from electronic or computer-based media. If so, [the report must also specify details on the anticipated electronic discovery].”);


VI. CONCLUSION

Discovery and retention of electronic information are receiving increasingly widespread attention. Despite the extensive treatment of this subject, the existing rules lack uniformity and the decisions vary across jurisdictions. Although virtually none of the discussions in the cases or legal commentaries focus on franchising in particular, the importance placed on electronic document retention and discovery by courts, and the very nature of franchise relationships, requires franchise lawyers – both litigation and transactional – to confront these issues with their clients. As the law in this area continues to develop, compliance will likely become easier. Until then, however, the failure to adopt and implement reasonable document retention programs and

130 See Krause, Todd, L. & Coggio, Brian, D., Electronic Discovery: Where We Are, And Where We’re Headed, 16 No. 3 J. Proprietary Rts. 16, at 18 (March, 2004).

131 Two U.S. District Courts have adopted special electronic discovery guidelines or standards to be observed by litigants appearing in their courts: (a) The U.S. District Court for the District of Delaware (http://www.ded.uscourts.gov/Announce/HotPage21.htm); and (b) The U.S. District Court for the District of Kansas [add citation].

State Court E-discovery Rules. California, Illinois, Texas and Mississippi have enacted civil rules of procedure specifically addressing electronic discovery.
to comply in good faith with the rigors of electronic discovery could result in serious sanctions for franchise lawyers and their clients.
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