



E-Discovery Task Force Update

The legal framework in litigation for addressing the explosion in electronic communications has been in flux for a number of years. Sidley Austin LLP has established an "E-Discovery Task Force" to stay abreast of and advise clients on this shifting legal landscape. An inter-disciplinary group of more than 25 lawyers across all our domestic offices, the Task Force monitors and examines issues and developments in the law regarding electronic discovery. The Task Force works seamlessly with our firm's Litigators who regularly defend and prosecute all types of litigation matters in trial and appellate courts, federal and state agencies, arbitrations, and mediations throughout the country. The co-chairs of the E-Discovery Task Force are:

Alan C. Geolot
+1 202.736.8250
ageolot@sidley.com

Colleen M. Kenney
+1 312.853.4166
ckenney@sidley.com

Joel M. Mitnick
+1 212.839.5871
jmitnick@sidley.com

To receive future copies of this and
other Sidley Updates via email,
please sign up at
www.sidley.com/subscribe

Attorney Advertising - For purposes of compliance with New York State Bar rules, our headquarters are Sidley Austin LLP, 787 Seventh Avenue, New York, NY 10019, 212.839.5300 and One South Dearborn, Chicago, IL 60603, 312.853.7000. Prior results do not guarantee a similar outcome.

Notable E-Discovery Cases and Events

This update addresses the following recent court decisions involving e-discovery issues:

1. A decision by Magistrate Judge Barbara Mayor in the Qualcomm discovery matter declining to impose sanctions on Qualcomm's attorneys and dissolving the order to show cause relating to the discovery issues that arose in the Qualcomm-Broadcom trial;
2. an Illinois federal court decision by U.S. District Judge Ronald Guzman finding that a party had an obligation to preserve instant messages and failed to do so but declining to impose sanctions because the failure did not involve willfulness or bad faith or a showing of harm;
3. a New York Magistrate Judge's order sanctioning defendants for failing to preserve and produce key information on a flash drive that was lost when the flash drive failed;
4. a New York bankruptcy court ruling sanctioning a plaintiff and its attorney for failing to locate and produce responsive documents in a timely manner and ordering them to pay attorneys' fees and costs for forensic searches; and
5. the action of social networking company Twitter.com in donating its digital archive of billions of public tweets for preservation to the U.S. Library of Congress.

This **Sidley Update** has been prepared by Sidley Austin LLP for informational purposes only and does not constitute legal advice. This information is not intended to create, and receipt of it does not constitute, a lawyer-client relationship. Readers should not act upon this without seeking advice from professional advisers.

1. In *Qualcomm Inc. v. Broadcom Corp.*, 2010 WL 1336937 (S.D. Cal. Apr. 2, 2010), Magistrate Judge Barbara Mayor issued the latest ruling in a discovery dispute between Qualcomm Inc. and Broadcom Corp., terminating a motion for sanctions and resolving a long running discovery dispute that had arisen in the Qualcomm-Broadcom trial and received national attention.

In January 2008, the Magistrate Judge Mayor issued a Sanctions Order against Qualcomm and its counsel for “intentionally with[holding] tens of thousands of documents that defendant [Broadcom] had requested in discovery.” *Id.* at *1. Qualcomm did not appeal the \$8.5 million fine imposed against it, but the sanctioned attorneys filed objections. *Id.* On March 5, 2008, U.S. District Judge Rudi Brewster held that the attorneys had a due process right to defend themselves and that the self-defense exception to the attorney-client privilege applied, allowing the attorneys to disclose privileged communications in their own defense against the sanctions. *Id.* Accordingly, Judge Brewster vacated the Sanctions Order as to the attorneys and remanded the matter. *Id.* What followed was, Magistrate Judge Mayor stated, an “almost unlimited opportunity [for the attorneys] to conduct discovery and present new facts to the Court.” *Id.* After a “massive discovery effort” including a review by Qualcomm of over 1.6 million documents, Magistrate Judge Mayor declined to impose sanctions against the attorneys, finding there was “insufficient evidence” to show that the attorneys had acted in bad faith in carrying out their responsibilities for discovery. *Id.* at *7.

In reaching her determination, the Magistrate Judge acknowledged there were serious failures in the discovery process as it had been carried out. She cited a lack of communication between all parties of the Qualcomm team (in-house counsel and outside counsel as well as Qualcomm staff and technical engineers) that led to a general breakdown in the discovery process. *Id.* at *2. For example, neither in-house counsel nor outside counsel met directly with Qualcomm technical engineers at the outset of the case to

“explain the legal issues and discuss appropriate document collection.” *Id.* Such a meeting would have clarified the obligations of the technical engineers and the broad scope of information Qualcomm was required to produce. *Id.* at *2 n.3. Nor did outside counsel take the necessary steps to fully understand how Qualcomm’s data infrastructure was organized, including how email was stored, how various databases were arranged, and how Qualcomm stored back up data, leading to undetected omissions in the production. *Id.*

Magistrate Judge Mayor further found a general failure to agree on defined roles and responsibility for document collection and production. For example, no single attorney played a supervisory role to ensure discovery obligations were met, and the discovery team demonstrated general confusion about what document collection policies and procedures were to be followed. *Id.* at *2-3. These factors were aggravated by what Magistrate Judge Mayor characterized as a lack of candor on the part of the principal Qualcomm employees. *Id.* at *4. For example, the remand proceedings made clear that several Qualcomm employees analyzed the H. 264 standard and participated in JointVideo Team (“JVT”) meetings (two issues critical in the underlying dispute) but did not inform the attorneys of this information. Finally, the attorneys ignored prominent warning signs that their document collection and production may have been inadequate, such as the discovery of 21 new emails from the computer of a key witness during trial. *Id.* at *5.

Despite what she characterized as a “massive discovery failure,” and “significant mistakes” on the part of the attorneys, the Magistrate Judge found the evidence also revealed the attorneys had made “significant efforts to comply with their discovery obligations” and had not acted in bad faith. *Id.* at *2. For example, Magistrate Judge Mayor found that the attorneys made concerted efforts to gain an accurate understanding of the issue of Qualcomm’s participation in the JVT. *Id.* (noting “confirmation by fifteen Qualcomm employees, including lawyers, on thirty-one occasions that Qualcomm did not

participate in JVT or that the same was probably or almost certainly correct”). After her review of the evidence, she concluded:

“It is undisputed that Qualcomm improperly withheld from Broadcom tens of thousands of documents that contradicted one of its key legal arguments. However, the evidence presented during these remand proceedings has established that while significant errors were made by some of the Responding Attorneys, there is insufficient evidence to prove that any of the Responding Attorneys engaged in the requisite ‘bad faith’ or that [the certifying attorney] failed to make a reasonable inquiry before certifying Qualcomm’s discovery responses.” *Id.* at *8

Based on this finding, Magistrate Judge Mayor declined to impose sanctions on the attorneys and dissolved the order to show cause that initiated the proceedings. *Id.*

Sidley had no role in the matter at trial but represented Qualcomm in connection with the appeal of the underlying judgment, which has now been resolved.

2. In *Oce North America, Inc. v. Brazeau*, 2010 U.S. Dist. Lexis 25523 (N.D. Ill. Mar. 18, 2010), a dispute over a non-competition agreement, U.S. District Judge Ronald Guzman determined that a party had an obligation to preserve instant messages (“IMs”), but declined to grant an adverse inference instruction for failure to preserve and produce the IMs because the failure did not involve willfulness or bad faith, and there had been no showing of harm. *Id.* at *17-19.

According to the Court, an adverse inference instruction may be appropriate if the defendant had a duty to preserve IM communications, the duty was breached by willfulness, bad faith or fault, and the plaintiff was harmed as a result. *Id.* at *17. A “minor blunder,” “mere mistake,” or “slight error in judgment” does not constitute fault. *Id.* (citation omitted). In

this case, the Court held that the defendant had a duty to preserve the instant messages from his work computer, but his failure to do so was a matter of oversight rather than willfulness or bad faith. *Id.* at *18. The defendant claimed he was unaware that he had to configure his computer to save IMs and understood that his IMs were captured and stored automatically, in the same manner as his emails. *Id.* at *18. As soon as he discovered his error, the defendant changed the settings on his computer to preserve all IM communications. *Id.* The plaintiff offered no evidence that the defendant knew or should have known the IMs were not automatically saved. *Id.* Further, the Court expressed skepticism that the IMs would contain the “smoking gun” for the plaintiff’s claim when little evidence in the plaintiff’s favor was contained in the 55,000 documents already produced by the defendant. *Id.* at *19. Finding the plaintiff had not been harmed by the defendant’s actions, the Court declined to issue an adverse inference instruction. *Id.* at *19.

3. In *Wilson v. Thorn Energy, LLC*, 2010 WL 1712236 (S.D.N.Y. Mar. 14, 2010), a dispute over a loan and equity investment, Magistrate Judge Frank Maas found the defendants acted with gross negligence when they did not copy relevant data from a flash drive, and the flash drive subsequently failed.

In a pre-trial conference on January 8, 2009, the plaintiffs requested financial information sufficient to demonstrate what had happened to disputed loan funds. *Id.* at *1. After six months and three missed production deadlines by the defendants, the plaintiffs deposed the defendant’s records custodian. *Id.* at *1-2. The records custodian testified that the data on the loan had been stored on a flash drive that had failed in the summer of 2008. *Id.* at *2. She stated she informed the defendants that the flash drive had failed and hired a consultant who tried, unsuccessfully, to retrieve the data. *Id.* She subsequently discarded the flash drive. *Id.* Although there may

have been other relevant bank records available, defendants had not provided the accounting sought by plaintiffs.

Plaintiffs brought a motion for sanctions. While noting that the court has considerable discretion in deciding whether to sanction a party for failing to comply with discovery orders, Magistrate Judge Maas focused his analysis on three general factors: 1) whether there was a duty to preserve, 2) whether the evidence was lost or destroyed with a culpable state of mind, and 3) whether the evidence was relevant. *Id.* at *2-3. Concluding that the duty to preserve arose well before the flash drive failed and that the evidence on the flash drive was highly relevant, the Magistrate Judge focused on the culpability of the defendant. *Id.* at *3. In the Second Circuit, sanctions may be imposed on a showing of negligence. *Id.* Quoting Judge Scheindlin in *Pension Committee*, Magistrate Judge Maas noted that failing to preserve documents in a manner that results in loss or destruction of evidence is “surely negligent, and depending on the circumstances, may be grossly negligent or willful.” *Id.* at *3 (quoting *Pension Comm. of the Univ. of Montreal Pension Plan v. Banc of America Securities, LLC.*, 2010 WL 184312 (S.D.N.Y. Jan. 15, 2010)). In this case, the Magistrate Judge concluded that the failure to collect the flash drive “in a timely manner from a key witness” constituted “gross negligence or willfulness.” *Wilson* at *3. He further stated that “it . . . was at least grossly negligent for the Defendants not to have made a copy of the flash drive before it allegedly failed.” *Id.* The Magistrate Judge stated in part:

“by the summer of 2008, the Defendants were fully aware that the Plaintiffs contemplated litigation to recover the funds that they were owed. Accordingly, the Defendants had a duty to preserve their data. At a minimum, that duty required that they make a copy of the files on the flash drive . . . The Defendants’ failure to do so means that they failed to act in good faith.” *Id.* (internal citations omitted).

The Magistrate Judge also rejected defendants’ claim that they were entitled to rely on the “safe harbor” provisions of Fed. R. Civ. P. 37(e). *Id.*

The Magistrate Judge noted that the evidence indicated that there may have been other financial records that could have been used to prepare the accounting sought by plaintiffs, but no such accounting had been provided. *Id.* at *4. Magistrate Judge Maas granted the plaintiffs’ motion for sanctions and ruled that the defendants would be precluded at trial from offering evidence concerning the financial records or the data on the flash drive. *Id.* at *4.

4. In *In re A&M Florida Properties II, LLC v. American Federated Title Corp.*, 2010 WL 1418861 (Bankr. S.D.N.Y., Apr. 7, 2010), Chief Bankruptcy Judge Arthur Gonzalez sanctioned plaintiff and its attorney for failing to locate and produce responsive documents in a timely manner, ordering them to pay the costs associated with multiple forensic searches as well as attorneys’ fees incurred by the defendant in litigating the discovery dispute.

In this contract dispute over a real estate deal, plaintiff GFI Acquisition LLC (“GFI”), alleged that the defendant, among other things, failed to disclose certain lock-out features of three loans related to properties that GFI had agreed to purchase. *Id.* at *1. The defendant claimed that GFI was well aware of the lock-out features based on emails the defendant had sent to GFI containing promissory notes detailing the lock-out procedures. *Id.*

Defendant served discovery requests on GFI and a subpoena *duces tecum* on GFI’s lawyer regarding the real estate deal. *Id.* The lawyer subsequently produced all responsive non-privileged documents in the law firm’s possession. *Id.* GFI then claimed there was no need for an additional production by the company as all communications relating to the real estate deal would have included outside counsel and would have been

incorporated in the law firm's production. *Id.* The defendant contended that GFI had internal communications that did not include outside counsel and continued to seek production. *Id.*

The case was transferred to bankruptcy court after a bankruptcy filing by GFI's parent company, and GFI retained new counsel, Kevin Nash. *Id.* at *2. In response to defendant's claim that the production from GFI's first attorney was not sufficient, Nash asked GFI to conduct a company-wide search for responsive documents not already produced. *Id.* GFI asked its Information Technology department to conduct the search, but the search included only live email inboxes for responsive documents, and not archived email folders or deleted items folders kept by many of the custodians at issue. *Id.* As a result, GFI identified only 346 new documents. *Id.* When an error by Nash led to only 28 of the 346 emails being turned over to the defendant, and when the defendant discovered that none of the 28 emails contained the specific emails it was certain GFI had in its possession, the defendant sought relief from the court. *Id.* at *3. In a pre-hearing conference on September 15, 2009, the parties agreed that a computer forensic company would conduct a new search to capture additional documents. *Id.*

In September 2009, the computer forensic technician conducted a second search of the plaintiff's ESI. The technician was not informed that the company maintained archive folders and deleted items folders, however, and these folders again went unsearched. *Id.* As a result, the subsequent production included very few new documents from the relevant time period, and, again did not include the specific communications sought by the defendant. *Id.* In November 2009, after learning of the existence of archive and deleted items folders, the computer technician re-ran the search. *Id.* at *4. The search resulted in 9,586 new documents, many of which were to be turned over to the defendant immediately, with the remainder to be held back for privilege review by Nash. *Id.*

Nash inadvertently failed to turn over the first batch of responsive documents for two months, and the defendant

brought a motion for sanctions for spoliation of evidence. *Id.* at *5. Before the motion was heard, Nash discovered his error and turned over the missing documents, including the specific documents the defendant had been seeking. *Id.* The defendant dropped its request for spoliation sanctions, but asked the court to sanction the plaintiff for "intentionally obstructing the discovery process," in what it believed was a deliberate attempt by GFI to conceal documents harmful to its case. *Id.* The defendant asked the court to dismiss the case, or in the alternative, issue an adverse inference instruction and award attorneys' fees for the extra cost incurred litigating the issue. *Id.*

Bankruptcy Judge Gonzalez rejected the defendant's request for dismissal, noting that a terminating sanction is justified in only the most egregious cases, such as when evidence is intentionally destroyed. *Id.* In this case, Bankruptcy Judge Gonzalez stated, "While it is undoubtedly true that GFI and its counsel could have handled the discovery process better, there was no intentional destruction of evidence or failure to obey court orders. Dismissal would be unjustly harsh here, especially considering that [the defendant] eventually acquired the documents it sought all along." *Id.* The Bankruptcy Judge also declined to grant the "severe sanction" of an adverse inference instruction, stating that the penalty would be "overly harsh," particularly when there appeared to be no bad faith on the part of the plaintiff or the plaintiff's lawyer. *Id.* at *6.

The Bankruptcy Court did, however, grant defendant's motion for monetary sanctions based on what it characterized as GFI's failure to fulfill its discovery duties. *Id.* The Bankruptcy Judge primarily assigned fault to the lawyer, finding that Nash had not taken appropriate steps to familiarize himself with GFI's data retention system in an effort to ensure all relevant documents were identified and produced in a timely manner. *Id.* According to the Bankruptcy Court,

"Had [Nash] posed the proper questions . . . [he] would have gained a more nuanced understanding of how GFI

employees stored emails much earlier in the discovery process. Assuming GFI was operating in good faith, it is almost certain that the archive folders would have been mentioned.

“Had Nash fulfilled his obligation to familiarize himself with GFI’s policies earlier, the forensic searches and subsequent motions would have been unnecessary.” *Id.* at *6-7.

The Bankruptcy Judge ordered GFI and Nash to reimburse the defendant for the costs associated with bringing the motion and for the defendant’s cost incurred on the forensic searches. *Id.* at *7. It further ordered a hearing to determine the appropriate allocation of such costs between GFI and Nash. *Id.*

5. Twitter.com has donated all public tweets to the U.S. Library of Congress.

On April 15, 2010, the U.S. Library of Congress reported that the social networking site Twitter.com is donating to the Library of Congress its digital archive of public tweets for preservation. On average, Twitter processes approximately 50 million tweets—posted web messages up to 140 characters—every day. The donated archive contains billions of tweets dating back to 2006 when the present service was founded. It is currently unclear when the archive will be available for public searching. When available, the database is certain to become a future discovery tool in litigation.

If you have questions about any of these items, please contact your regular Sidley Austin LLP contact.

BEIJING BRUSSELS CHICAGO DALLAS FRANKFURT GENEVA HONG KONG LONDON LOS ANGELES NEW YORK PALO ALTO SAN FRANCISCO SHANGHAI SINGAPORE SYDNEY TOKYO WASHINGTON, D.C.

www.sidley.com

Sidley Austin LLP, a Delaware limited liability partnership which operates at the firm’s offices other than Chicago, London, Hong Kong, Singapore and Sydney, is affiliated with other partnerships, including Sidley Austin LLP, an Illinois limited liability partnership (Chicago); Sidley Austin LLP, a separate Delaware limited liability partnership (London); Sidley Austin LLP, a separate Delaware limited liability partnership (Singapore); Sidley Austin, a New York general partnership (Hong Kong); Sidley Austin, a Delaware general partnership of registered foreign lawyers restricted to practicing foreign law (Sydney); and Sidley Austin Nishikawa Foreign Law Joint Enterprise (Tokyo). The affiliated partnerships are referred to herein collectively as Sidley Austin, Sidley, or the firm.

SIDLEY AUSTIN LLP
SIDLEY