



## E-DISCOVERY UPDATE

### August Edition of Notable Cases and Events in E-Discovery

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

1. An order by U.S. District Judge Shira Scheindlin withdrawing her February 2011 ruling that certain metadata was a part of an electronic record and should presumptively be included in any production in response to a Freedom of Information Act (FOIA) request;
2. An Eastern District of Virginia decision rejecting a request for sanctions and finding that the defendant had no preservation obligations with respect to the ESI at the time that it was discarded; and
3. Two separate decisions by U. S. Magistrate Judge Susan Cox of the Northern District of Illinois ordering that discovery costs be shifted between the parties.

#### **1. On June 17, 2011, Judge Shira Scheindlin issued an order withdrawing her February 7, 2011 opinion relating to the production of certain metadata in connection with FOIA requests.**

That February 7, 2011 opinion, *National Day Laborer Org. Network v. U. S. Immig. and Customs Enf. Agency*, 2011 WL 381625 (S.D.N.Y. Feb. 7, 2011), had found that certain metadata maintained by federal agencies was part of an electronic record and presumptively should be produced in response to a FOIA request. It appears that the parties to the litigation reached a settlement with regard to that issue, and subsequent submissions indicated that the decision may not have been based on a full and developed record. Judge Scheindlin withdrew her February 7, 2011 opinion and stated that it and a Supplemental Order dated February 14, 2011, should be given no precedential effect in the ongoing lawsuit or in any other lawsuit. *National Day Laborer Org. Network v. U. S. Immig. and Customs Enf. Agency*, No. 10 Civ. 3488 (SAS) (S.D.N.Y. June 17, 2011).

The order withdrawing the opinion states as follows:

In the interests of justice, this Court now believes that it would be prudent to withdraw the opinion it issued on February 7, 2011 (Docket # 41). By withdrawing the decision, it is the intent of this Court that the decision shall have no precedential value in this lawsuit or in any other lawsuit. The Court also withdraws its Supplemental Order dated February 14, 2011 (Docket # 50).

#### **2. In *E.I. DuPont de Nemours and Co. v. Kolon Industries, Inc.*, 2011 U.S. Dist. LEXIS 45888 (E.D. Va. Apr. 27, 2011), the Court denied defendant Kolon's motion for sanctions against plaintiff DuPont for alleged deletion of emails and electronic documents of four former employees. The**

**Court held that, at the time the emails and documents in question were deleted during routine deletion of inactive accounts, DuPont had no duty to preserve because it had no reason to believe that the documents would be relevant or potentially relevant to litigation.**

In the underlying dispute, DuPont brought suit against Kolon alleging trade secret misappropriation, theft of confidential business information and other business torts related to DuPont's Kevlar® product. *Id.* at \*4. In May 2007, DuPont's corporate counsel discovered that Kolon – DuPont's competitor – had retained the consulting services of a former DuPont employee, Mitchell, whose position had involved Kevlar® sales and marketing. *Id.* at \*4-6. DuPont's corporate counsel conducted an internal investigation, and DuPont prepared to file suit against Mitchell to prevent Mitchell's disclosure of proprietary information to Kolon. *Id.* On May 21, 2007, DuPont hired counsel to assist with the investigation and to advise on possible litigation options. *Id.* at \*7. U.S. District Court Judge Robert E. Payne held that, thereafter, DuPont was “under a duty to preserve what it knows, or reasonably should know, is relevant in the action, is reasonably calculated to lead to the discovery of admissible evidence, is reasonably likely to be requested during discovery, and/or is the subject of a pending discovery request.” *Id.* at \*39.

On June 25, 2007, DuPont issued a litigation hold order to 18 individuals thought likely to have relevant information in a potential suit against Mitchell and/or Kolon. *Id.* at \*7-8. On February 3, 2009, the day DuPont filed the action, it issued a revised litigation hold order to all 2,500 employees in the relevant business unit of the company. *Id.* at \*10. On April 20, 2009, Kolon filed a counterclaim alleging antitrust violations; in response, four days later, DuPont issued a third and revised litigation hold order. *Id.*

In its motion for sanctions, Kolon claimed that DuPont violated its duty to preserve the emails and electronic documents of four former DuPont employees and that, as a result of this spoliation, it suffered substantial prejudice. *Id.* at \*35-36. Kolon claimed spoliation resulted from DuPont's decision to issue the first hold order to only 18 people and allegedly 13 months too late; Kolon also alleged that the deletion of one of the employee's electronic documents and email account “occurred under rather suspicious circumstances.” *Id.* at \*21-22. Kolon requested, as a sanction, “entry of specific findings, or, in the alternative, that the Court instruct the jury that it is permitted to make such adverse inferences against DuPont.” *Id.*

In denying Kolon's motion, the Court first outlined the scope DuPont's duty to preserve: “DuPont was obligated to implement a litigation hold with respect to relevant documents, including electronically stored information, for the ‘key players’ involved with the anticipated litigation.” *Id.* at \*40. Kolon argued that four former DuPont employees were “key players” to whom the first hold order should have been issued. *Id.* at \*41. The Court found, however, “that DuPont's duty to preserve relevant information did not extend to the four former DuPont employees because they could not reasonably have been seen to be ‘key players’ . . . when DuPont issued the First Hold Order.” *Id.* The Court reasoned that, upon recognizing the threat or anticipation of litigation, “litigants are not required to ‘preserve every shred of paper, every email or electronic document, and every back up tape,’ for ‘such a rule would cripple large corporations.” *Id.* at \*32 (citation omitted). In addition, the Court noted that DuPont's identification of key players was further complicated by a directive from the federal government – which was investigating Mitchell for the alleged theft of DuPont's trade secrets and for potential violations of U.S. export laws related to Kevlar® – to keep the investigation as confidential as possible. *Id.* at \*41.

The first employee's email account was deleted 60 days after he retired from DuPont, corresponding with DuPont's policies related to routine deletion of inactive email accounts. *Id.* at \*42-43 & n.9. The Court ruled that “[w]ith no duty to preserve triggered though, the routine deletion of his documents and email account does not amount to spoliation.” *Id.* In addition, the Court explained that, with regards to this employee's documents, any prejudice resulting from spoliation, if it did occur, was minimized or eliminated by the transfer of the archived email account to the employee's successor. *Id.*

The second employee's email account and documents had been deleted from DuPont's servers before December 17, 2008, when DuPont discovered the extent of Mitchell's misappropriation of its trade secrets. *Id.* at \*44. The Court

ruled that DuPont did not have “sufficient information to alert it to preserve” the documents and, therefore, “because the email account and electronic documents of [the second employee] were deleted without being subject to a duty to preserve, no spoliation of that information ha[d] occurred.” *Id.* at \*46.

Kolon argued that the third and fourth employee should have received the first litigation hold order because they were involved in collecting competitive intelligence, the methods of which Kolon alleged were key to its defenses. *Id.* at \*46. The Court rejected Kolon’s argument: “[J]ust as DuPont could not have anticipated that Kolon would file a counterclaim alleging violations of the antitrust laws, the Court finds that DuPont had no reason to know that Kolon would raise defenses related to DuPont’s own methods of collecting competitive intelligence.” *Id.* The fact that Kolon’s counsel had “fashioned such a theory does not mean that DuPont’s counsel reasonably should have anticipated it in describing the scope of a litigation hold.” *Id.* at \*50-51 n. 11. Therefore, the Court held, DuPont did not have a duty to preserve the electronic documents and email accounts of the third and fourth employee. *Id.*

Kolon’s final claim of spoliation was that DuPont deliberately, and in bad faith, destroyed the fourth employee’s email account 12 days after his formal departure and in contravention to DuPont’s document retention practices. *Id.* at 51-52. Although the Court found that DuPont did not have a duty to preserve this employee’s emails and documents before his departure, it further explained that, even assuming DuPont had a duty to preserve, Kolon failed to meet the standard required for an adverse inference instruction as a sanction for spoliation. *Id.* at \*53. The Court acknowledged that the employee’s email account had been deleted but ruled that Kolon did not show that the email account was deleted intentionally or willfully, rather than negligently, or that the emails were relevant to some issue at trial. *Id.* at \*54. As a result, an adverse inference was not warranted. *Id.* Finally, the Court explained that, “even if the Court found spoliation of [the] email account and electronic documents, prejudice to the aggrieved party is a factor the Court may take into account when determining what sanction to impose.” *Id.* at \*57. The Court ruled that any prejudice resulting to Kolon from the deletion of the emails and documents was minimized, if not eliminated, by the fact that they were all forwarded to the employee’s superiors, one of whom was subject to DuPont’s first litigation hold order. *Id.* at \*57-58.

**3a. In *Clean Harbors Environmental Services, Inc. v. ESIS, Inc.*, 2011 U.S. Dist. LEXIS 53212 (N.D. Ill. May 17, 2011), U.S. Magistrate Judge Susan Cox ordered that \$91,000 of discovery costs incurred by plaintiff to restore and search data from backup tapes be split by the parties, with the plaintiff incurring half the costs, and the two defendants splitting the other half.**

In the underlying dispute, plaintiff Clean Harbors brought suit against several defendants alleging professional negligence, breach of contract, and breach of fiduciary duties. Defendant ESIS – a claims administrator that had contracted with the plaintiff – hired the law firm Myers Miller & Krauskopf, LLC (MMK) to defend Clean Harbors in a lawsuit brought by an employee of a waste disposal company in 2002 relating to a 2001 incident at a Clean Harbors facility. *Id.* at \*3-4. Clean Harbors alleged that it was forced into an unfavorable settlement with the waste disposal company employee just weeks before trial when Clean Harbors “was forced to hire independent counsel who soon discovered that MMK had improperly handled the case on several levels.” *Id.* at \*4.

From January 2010 through January 2011, the parties in the instant litigation exchanged emails regarding how discovery costs could be shared. *Id.* at \*17. ESIS sought discovery of emails dating back to April 2001, but Clean Harbors – which did not receive a litigation hold notice from ESIS until 2008 – kept most of the requested information on backup tapes in the ordinary course of business. To collect that information, Clean Harbors hired a third party vendor to cull, filter, and process ESI requested by defendants in discovery. Having incurred costs of nearly \$91,000, Clean Harbors moved for a protective order seeking to shift these costs. ESIS denied any responsibility for the costs, arguing that Clean Harbors did not raise any cost concerns with counsel or the court. *Id.* at \*5.

Magistrate Judge Cox explained that “[t]he general rule in discovery is that the responding party bears the costs of complying with the discovery requests” but that the responding party may ask the court to shift the costs to the

requesting party. She noted that “[c]ost shifting has been found to potentially be appropriate only when ‘inaccessible data is sought,’ such as with backup tapes.” *Id.* at \*6. In this case, Magistrate Judge Cox found that the information sought was inaccessible because “Clean Harbors had to physically pull the backup tapes for each month from an offsite storage facility, then load them onto a system, and extract certain information, repeating this for each month.” *Id.* at \*8. The Magistrate Judge highlighted that courts “have already agreed that when information is stored on backup tapes, it is ‘likened to paper records locked inside a sophisticated safe to which no one has the key or combination.’” *Id.* at \*8 (quoting *Zubulake v. UBS Warburg LLC*, 216 F.R.D. 280, 291 (S.D.N.Y. 2003)). Clean Harbors argued that it did not know until 2008 that there was a problem with the prior litigation, and as a result it had not taken steps to preserve the electronic information in any other form other than how it was maintained in the ordinary course of business. *Clean Harbors*, at \*8-9.

Magistrate Judge Cox cited *Wiginton v. C. B. Richard Ellis, Inc.*, 229 F.R.D. 568, 572 (N.D.Ill. 2004), as setting forth the factors applicable in deciding issues of cost shifting in the e-discovery context:

“1) the likelihood of discovering critical information; 2) the availability of such information from other sources; 3) the amount in controversy as compared to the total cost of production; 4) the parties’ resources as compared to the total cost of production; 5) the relative ability of each party to control costs and its incentive to do so; 6) the importance of the issues at stake in the litigation; 7) the importance of the requested discovery in resolving the issues at stake in the litigation; and 8) the relative benefits to the parties of obtaining the information.” *Clean Harbors*, at \*6-7 (quoting *Wiginton, supra*).

As to the first factor, the Magistrate Judge noted that there was no question that the communications discovered through the process were critical to the case. *Clean Harbors*, at \*10. She stated that the court did not have enough information to determine whether ESIS – as the party that hired MMK – could have retrieved the emails through MMK. *Id.* \*11. The Magistrate Judge then found that “the relationship between the amount in controversy as compared to the discovery costs at least partially weigh[ed] in favor of Clean Harbors,” reasoning that “\$91,000 is enough of a financial burden on Clean Harbors to find it ‘substantial.’” *Id.* at \*11. She found the fourth factor “generally unhelpful,” explaining that it “is better suited to a dispute where there is a large discrepancy in each side’s financial positions,” which was not the case in the instant dispute. *Id.* at \*12. Regarding the fifth factor, Magistrate Judge Cox stated that defendants had more of an ability to control costs, reasoning that they responded to plaintiff’s emails by requesting search parameters. *Id.* at \*13. She noted that both defendants “left it to Clear Harbors to decide” on a vendor, which is where “a large part of any cost analysis” lies. *Id.* at \*14-15. Coupled with the “defendants’ agreement with Clean Harbors as to the proposed search terms,” this factor weighed in favor of Clean Harbors. Finally, Magistrate Judge Cox explained that the seventh factor – the importance of the requested discovery – was “neutral because both parties needed this information and agree[d] it is relevant.” *Id.* at \*16.

In addressing the parties’ discussions regarding cost shifting, Magistrate Judge Cox concluded that, although “there was no meeting of the minds as to whether the costs of discovery would be shared before Clean Harbors proceeded with the entire production,” it was reasonable for Clean Harbors to avoid court intervention and wait to file a motion until ESIS concluded that it was not willing to share the costs. *Id.* at \*18-19. On the cost shifting issue, the Magistrate Judge relied on the fact that the defendants indicated the possibility of working out a deal with Clean Harbors. *Id.* at \*19. Ultimately, Magistrate Judge Cox – due in part to the fact that Clean Harbors, as the plaintiff, would benefit by the discovery – found it appropriate to assign 50% of the costs to Clean Harbors, with the other 50% to be split evenly between ESIS and MMK. *Id.* at \*20.

**3b. In *IWOI, LLC v. Monaco Coach Corp.*, 2011 U.S. Dist. LEXIS 55333 (N.D. Ill. May 24, 2011), U.S. Magistrate Judge Susan Cox ordered the parties to share the cost of additional discovery necessitated after the plaintiff discovered that key documents were missing from the defendants’ production. Although concluding that the defendants failed to meet fully their**

**discovery obligations, Magistrate Judge Cox concluded that both plaintiff and defendants were partly to blame for the dispute due to a breakdown in communication during the discovery process.**

The discovery dispute began in this breach of warranty and consumer fraud case in September 2010, when the plaintiff moved to re-open fact discovery after it found “irregularities” in the defendants’ production of documents. *Id.* at \*2. Specifically, there were email messages that the plaintiff expected to see in the production that were not included in the production set. *Id.* The amount in controversy was only \$250,000 (prior to any punitive damages), and the Magistrate Judge agreed to re-open discovery only after the plaintiff offered to cover the cost of new electronic searches on the hard drives of certain of defendants’ computers. *Id.* at \*3. Despite “repeated directives to meet and confer” about the matter, the parties failed to agree on new search parameters or a new search protocol. *Id.* Magistrate Judge Cox intervened twice after the parties failed to resolve their differences, and ultimately ordered the time, place, and date of the new search as well as the protocol for exactly how the search was to be carried out. *Id.* at \*3-4.

At the conclusion of the search, the plaintiff found an email that appeared to contradict the deposition testimony of one of the defendants’ witnesses that he had been unaware of any mechanical or safety problems related to a motor home—a central issue in the underlying dispute. *Id.* at \*5-6. After discovering the document, the plaintiff filed a motion to shift the cost of the new search to the defendants, requested attorneys’ costs and fees, and asked for “any other relief the court deem[ed] necessary to remedy the failure to produce this email.” *Id.* at \*7.

Magistrate Judge Cox noted that sanctions are meant to “eliminate” prejudice and “deter future misconduct.” *Id.* at \*14-15. The Magistrate Judge criticized the defendants for what she found to be inadequate steps to search their ESI and found that the document “could have been produced with minimal effort,” but she also characterized both parties as being “unwilling or unable to communicate effectively with one another” and found that their “joint intransigence [was] more responsible for the dispute that the Court must now resolve than any one action taken by either party.” *Id.* at \*10-11. Magistrate Judge Cox found no evidence that the defendants deliberately withheld the email and concluded that the plaintiff was not unduly prejudiced by its initial omission. *Id.* at \*15-16. She also noted that “allow[ing] defendants to walk away scot free from such an obvious discovery violation would be unfair.” *Id.* at \*16. Given these considerations, she shifted half the cost of the search to the defendants, but imposed no other sanctions. *Id.*

**The E-Discovery Task Force of Sidley Austin LLP**

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 interdisciplinary 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:

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