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Subject FW: Comments on Proposed Changes to FRCP.DOC

To Peter G. McCabe:

Attached please find a letter from Heller Ehrman White & McAuliffe LLP with comments on the recent proposed changes to the Federal Rules of Civil Procedure.

With best regards,
Katherine D. Johnson

<<Comments on Proposed Changes to FRCP.DOC>>

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Comments on Proposed Changes to FRCP.DOC

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February 18, 2005

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Peter G. McCabe, Secretary
Committee on Rules of Practice and Procedure
Administrative Office of the United States Courts
One Columbus Circle NE
Washington, DC 20544

Re: Comments on Proposed Amendments to the Federal Rules of Civil Procedure re Electronic Discovery

Dear Mr. McCabe:

On August 3, 2004 the Civil Rules Advisory Committee (the "Advisory Committee") issued a final report containing proposals for amendments to the Federal Rules of Civil Procedure. These proposals concerned, almost exclusively, amendments to the rules governing disclosure and discovery of electronic information. *See* Lee H. Rosenthal, *Report of the Civil Rules Advisory Committee* (Aug. 3, 2004) (the "Committee Report"). On September 13, 2004, Judge Shira Scheindlin, a member of the Committee, published an article in the *New York Law Journal*, specifically requesting that members of the New York and national bar provide comments on the proposed rule changes. *See* Shira A. Scheindlin, *Electronic Discovery Takes Center Stage*, N.Y.L.J., Sept. 13, 2004, at 4 (hereinafter *Electronic Discovery*).

Heller Ehrman White & McAuliffe LLP ("Heller Ehrman") commends the Committee's ongoing efforts to update the Federal Rules of Civil Procedure to address concerns regarding the discovery of electronically stored information. As advances in computer software and hardware have led to exponential capacity to store information electronically, the existing rules of civil procedure may not adequately address the way that discovery is currently conducted. The proposed amendments to the Federal Rules of Civil Procedure are needed to provide clear guidelines to both litigants and the courts to address issues concerning electronic discovery. Heller Ehrman is grateful to have an opportunity to share our views on the proposed amendments to the Federal Rules.

The comments below are drawn from our extensive experience representing a wide variety of clients who will be impacted by the proposed amendments. Heller Ehrman

represents both plaintiffs and defendants who may make engage in extended discovery, as well as clients in complex multi-party actions. However, for the sake of simplicity, this memorandum will refer generically to "defendants," when discussing the parties that are subject to electronic discovery requests, and "plaintiffs," when discussing the parties making such requests.

In drafting these comments, Heller Ehrman does not intend to address all of the proposed amendments to the Federal Rules. Rather, we thought it most useful to offer our thoughts on those provisions which may have implications beyond what was intended by the Advisory Committee and certain provisions for which we seek clarification. Our initial analysis led us to focus specifically on the "unintended disclosure" provision under Proposed Rule 26(b)(5), the discovery of electronic information which is deemed "not reasonably accessible" under Proposed Rule 26(b)(2), and the safe harbor provision of Proposed Rule 37(f).

I. "Unintended Disclosure" Provisions (Rule 26(b)(5)(B))

A. Proposed Rule 26(b)(5)(B)

Proposed amendments to Rule 26(b) establish a procedure to apply when a responding party asserts that it has produced privileged information without intending to waive the privilege. Although the amendment was prompted by costs and delay associated with privilege review of electronically stored information, it would apply to all discovery.

Currently, Rule 26(b)(5) provides for the withholding of privileged information by directing the party making the claim to do so expressly and to describe the nature of the documents, communications, or things not produced or disclosed in a manner that, without revealing information that is privileged or protected, will enable other parties to assess the applicability of the privilege or protection.

Under the proposal, the provision described above would become Rule 26(b)(5) subparagraph (A). An additional subparagraph would be added (Rule 26(b)(5)(B)), setting forth a procedure to follow when a party realizes it has inadvertently disclosed privileged or protected material:

- Proposed Rule 26(b)(5)(B) adds that "[w]hen a party produces information without intending to waive a claim of privilege it may, within a reasonable time, notify any party that received the information of its claim of privilege. After being notified, a party must promptly return, sequester, or destroy the specified information and any copies." The party who produced the material in question must then follow the procedure currently set forth in Rule 26(b)(5) to assert the privilege and preserve the material "pending a ruling by the court."

The Committee Report explains that the proposed amendment does not address how to resolve whether the privilege has been waived or forfeited, because there are already rules for modifying a privilege which are set forth in 28 U.S.C. Section 2074(b). As further noted by Judge Scheindlin's article, "[b]ecause the question of waiver involves either evidence or ethics, or both, this new rule does not set out standards for evaluating waiver."

The Proposed Rule does not prescribe the method by which a party must give notice that purportedly privileged material has been disclosed. Nor does it establish what constitutes a "reasonable time" for the party seeking to assert the privilege to give notice to the receiving party, but the draft Advisory Committee Note identifies certain factors for courts to consider, such as "date when the producing party learned of the production, the extent to which other parties have made use of the information in connection with the litigation, the difficulty of discerning that the material was privileged, and the magnitude of production." Comm. Rep. at 15. The Advisory Committee Note also provides that a receiving party who has disclosed or provided information to a nonparty should attempt to obtain the return of the information or (if a document) arrange for it to be destroyed.

Unlike the existing Rule 26(b)(5), which applies "[w]hen a party withholds information otherwise discoverable . . . by claiming that it is privileged or subject to protection as trial preparation material," the Proposed Rule, on its face, is not strictly limited to the discovery context. It does not give guidance to a party who receives apparently privileged material where the producing party has not given notice that it produced privileged material.

B. Comments Regarding Proposed Rule 26(b)(5)(B)

Proposed Rule 26(b)(5)(B) although at first harmless on its face – providing an answer to the frequently discussed question what to do in the event of inadvertent disclosure – is likely to generate substantial resistance and debate. Analysis of the proposal beyond a first read reveals that in practice the rule would be destined to fail its ascribed purpose; the procedures it suggests would add, not subtract, time and expense associated with the discovery process. Moreover, the proposal presents more questions than it answers, many of them going to fundamental and longstanding tenets of the attorney-client relationship.

The Committee Report explains that the time and cost associated with privilege reviews of electronic material, due to the high volume of data that can be stored electronically, form the impetus to amend the existing rule on claims of privilege. The draft Advisory Committee Note to the Proposed Rule also alludes to the purpose of the amendment: "The Committee has repeatedly been advised that privilege waiver, and the review required to avoid it, add to the costs and delay of discovery." Comm. Rep. at 15. Although the proposed rule sets forth a procedure to assert privilege after material has been produced, it does not explain how that procedure reduces the time and cost associated with privilege review, unless it is assumed that parties will change the way they conduct review of electronically stored data before producing it. Specifically, the proposed amendment only can reduce the time and cost associated with privilege review if producing parties undertake mere cursory reviews or eliminate pre-production privilege review altogether. The amendment thus poses the risk that substantial amounts of privileged material may be disclosed inadvertently. A party requesting discovery

material and a district court approving discovery plans will be able to look to the new rule to justify discovery deadlines that fail to provide adequate time for a party to conduct privilege review before producing the material.

Even assuming the amendment succeeds in its goal of reducing delays and costs from privilege review conducted prior to production of discovery materials, the proposed rule is unlikely to reduce the expense and time associated with the discovery process overall. Because it is in the best interest of the client to assert privilege, even after documents have been produced, counsel will still conduct privilege reviews; the cost of such review will therefore be unaffected. Moreover, delays are just as likely to result from efforts to resolve privilege disputes post-production as from privilege reviews conducted before material is produced.

In sum, the proposed rule probably will change the way in which parties conduct review of documents before producing them. It can also be expected that there will be more court hearings to resolve privilege disputes. At best, these changes will simply shift at what stage costs are incurred (pre-production versus post-production review) and the source of delay (privilege review versus privilege disputes). At worst, the Proposed Rule will have the opposite effect of its drafters' intentions: in addition to the cost of privilege review will come the cost of litigating privilege disputes and additional time to resolve such disputes.

In many ways, the amendment creates more questions than provides answers. Specifically, it leaves uncertain: how quickly a party must act upon realizing that it has provided privileged material; what form of notice will be sufficient to put the receiving party on notice that a claim of privilege is being asserted; who has the authority to determine that the material be returned, sequestered, or destroyed and how disputes over whether to return, sequester or destroy material are to be resolved; what constitutes prompt return, sequestration, or destruction of the purportedly privileged material; what is the impact, if any, on a producing party's failure to notify the receiving party "within a reasonable time" that it has produced privileged information (i.e., is the privilege thus waived); what are the obligations, if any, of a party receiving potentially privileged material; how attorneys should handle any existing conflict between the new rule and (i) certain state ethics rules that require lawyers to use all disclosed information that will advance their clients' interests; (ii) state ethics rules that may be inconsistent with the new rule's requirement of returning, sequestering or destroying the material; and (iii) state substantive law that declares privilege non-existent once disclosure is made, even inadvertently.

The amendment is controversial in part because, as the Association of Trial Lawyers of America points out in *Proposed E-Discovery Rules Changes Could Help Business Litigants*, it arguably creates a new substantive right regarding privileged material that would apply to all

discovery. Some courts currently hold that any revelation of privileged material, inadvertent or not, results in waiver of the privilege. *See VLT Corp. v. Unitrode Corp.*, 194 F.R.D. 8, 11-12 (D. Mass. 2000) (summarizing three distinct approaches courts have taken with respect to consequences of an inadvertent disclosure, one of which concludes that inadvertent disclosure always constitutes waiver). The proposed rule, which provide a means for asserting the privilege after disclosure, suggests that fact of disclosure might not weigh into a court's determination of whether a privilege should apply. It would be difficult for a court to conclude that mere inadvertence of disclosure waives the privilege if the Federal Rules explicitly provide a means for assertion of the privilege post-disclosure.

In this age of increased reliance on technologies such as e-mail and fax machines, where documents are sent and received with the swift touch of a button, the problem of inadvertent disclosure of privileged material is of common concern. Because parties currently resolve these issues on their own on or before the court, and there appears to be no overwhelming question of how to do that procedurally, the proposed rule giving guidance to a party who has inadvertently produced a privileged document seems unnecessary, particularly when the Rule's purpose in no way concerns the question of waiver. As discussed, moreover, the proposal is unlikely to decrease, and may indeed increase, time and expense associated with discovery. The proposal is this unnecessary and potentially harmful.

For these reasons, we recommend against adoption of Proposed Rule 26(b)(5)(B) and encourage the committee to think of other ways to meet the stated goals of the proposed rule.

II. Electronic Information that Is Not "Reasonably Accessible"

A. Proposed Rule 26(b)(2)

Rule 26(b)(2) presently describes the limitations that a court may order on discovery, to the extent that discovery requests are duplicative or burdensome. Proposed changes to the Rule would add language to specifically address one type of information that may be the subject of a discovery request, "electronically stored information that . . . [is] not reasonably accessible," and creates a special presumption regarding discovery of such information:

- Proposed Rule 26(b)(2) states that a party "need not provide discovery of electronically stored information that the party identifies as not reasonably accessible. On motion by the requesting party, the responding party must show that the information is not reasonably accessible. If that showing is made, the court may order discovery of the information for good cause and may specify terms and conditions for such discovery."

B. Comments Regarding Proposed Rule 26(b)(2)

This proposal may be controversial to the litigation bar as it may cause concerns both for plaintiffs' and defendants' counsel. Plaintiffs' counsel could be dismayed at the prospect that there are going to be documents in defendants' possession that will neither be searched for relevance to their discovery requests, nor produced in response to them. Defense counsel may be concerned that plaintiffs will routinely make a *pro forma* motion requesting production of any information its clients designate as "not reasonably accessible," and that the burden will then switch to the defendants to make complex technical showings regarding inaccessibility of information. Further, even once a defendant makes a showing that its electronic data are not reasonably accessible (and extremely costly to retrieve), the proposed rule still gives the district court authority to order production of the documents "for good cause," although it may apply certain restrictions.

A number of district court cases, some of which are cited in the draft Advisory Committee Notes, have already addressed the distinction between reasonably accessible electronic information and information that is not reasonably accessible. These opinions come to the general consensus that information that is maintained in substantially the same format as on an active computer is reasonably accessible, i.e., it can be viewed on existing computer systems without complicated retrieval processes, and can be searched and manipulated in the same way that normal documents can. This typically includes information on active computer systems (e.g., current e-mails and documents on active servers), as well as documents stored on readily accessible second-tier systems, such as secondary servers or CD-ROM backups. On the other hand, information that is maintained on true "backup" systems (e.g., tape backups), that feature heavily compressed, non-searchable data that is expensive to retrieve, is generally not considered reasonably accessible. In addition, older "legacy" data maintained on obsolete systems in many circumstances may not be reasonably accessible either. Similarly, data which computer users think they have "deleted" is often not actually erased from the system but, rather, relegated to unused portions of the system and can be "restored" using expensive "forensic" techniques; this type of data also usually is considered not reasonably accessible.

Some courts that have addressed requests for data that is deemed not reasonably accessible have found that the showing required to justify production of such documents is the presence of similar (but reasonably accessible) documents that contain information responsive to the discovery requests. For example, if discovery of reasonably accessible e-mails has proven fruitful, some courts have allowed discovery of e-mails from back-up tapes. *See, e.g., Zubulake v. UBS Warburg LLC*, 217 F.R.D. 309 (S.D.N.Y. 2003) (Scheindlin, J.).

At least one commentator has questioned the need to add any language to the present Rule to address the retrieval of electronic data. In an article that appeared on October 4, 2004 in the *National Law Journal*, Gregory P. Joseph argued that this proposed rule is essentially no different from the current provision in Rule 26(b)(2)(iii) that excuses production when "the burden or expense of the proposed discovery outweighs its likely benefit, taking into account the needs of the case, the amount in controversy, the parties' resources, the importance of the issues at stake in the litigation, and the importance of the proposed discovery in resolving the issues." Gregory P. Joseph, *Electronic Discovery I*, Nat'l L.J., Oct. 4, 2004, at 12 Col.1. He argues that this existing standard adequately addresses the discovery of electronic information not reasonably accessible, and if it does not, or if the proposed rule advocates a different standard, such a position should be made more clearly. Indeed, it is far from clear what the difference is between the above-quoted standard of the current Rule, and the "good cause" showing that the proposed rule would require a requesting party to make in order to discover electronic information where the producing party has shown that the information is not reasonably accessible.

Two other issues that have arisen with respect to discovery of electronic information not reasonably accessible are data sampling and cost-shifting. Data sampling refers to district courts' practice to try to take "baby steps" with regard to electronic discovery of information not reasonably accessible. In several cases, before a final determination is made as to whether such information needs to be searched and produced, a court has asked a party to test a sample of the data (e.g., restore a limited number of back-up tapes and search for responsive information). *E.g.*, *Zubulake*, 217 F.R.D. 309. At the conclusion of such an inquiry, the district court is in a better situation to assess whether the potential for uncovering responsive information justifies the expense of restoring the remaining data. However, even data sampling often involves significant costs (in the tens of thousands of dollars, not including attorney time for privilege review), and these costs typically fall on defendants.

Data sampling nevertheless may be a boon to defendants, because it might allow them to show, while incurring only a fraction of the expense of a full search and production, that the information not reasonably accessible does not contain much in the way of documents responsive to the discovery requests, or that the costs involved in the restoration are unreasonable compared to the fruits of the search.

With respect to cost shifting, a matter already contemplated by the existing Rules, two district courts have come up with multi-factor tests to determine when a requesting party should be asked to either share in the cost of retrieving electronic information, or even pay for it in full. Magistrate Judge Francis, of the Southern District of New York, has proposed an eight-factor test that considers: "(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." *Rowe Entertainment, Inc. v. William Morris Agency, Inc.*, 205 F.R.D. 421 (S.D.N.Y. 2002). Judge Scheindlin has criticized these factors as being too defendant-friendly, and has proposed seven of her own: "1. [t]he extent to which the request is specifically tailored to discover relevant information; 2. [t]he availability of such information from other sources; 3. [t]he total cost of production, compared to the amount in controversy; 4. [t]he total cost of production, compared to the resources available to each party; 5. [t]he relative ability of each party to control costs and its incentive to do so; 6. [t]he importance of the issues at stake in the litigation; and 7. [t]he relative benefits to the parties of obtaining the information." *Zubulake*, 217 F.R.D. at 322. She further notes that these factors are organized in descending order of importance, with the first two factors being the most significant. *See id.*

As can be imagined, applying these factors results, for the most part, in the costs falling on defendants. Although this may seem unduly harsh, it is important to remember that the Supreme Court has noted, in an oft-quoted statement in the case law in this area, that "[u]nder [the discovery] rules, the presumption is that the responding party must bear the expense of complying with discovery requests." *Oppenheimer Fund, Inc. v. Sanders*, 437 U.S. 340, 358 (1978). This, and the typical financial disparities between plaintiffs and defendants make it unlikely that a more defendant-friendly practice will emerge.[1]

At first blush, the proposed rule seems a fitting solution to an emerging problem — placing electronic information not reasonably accessible outside the scope of discovery in most circumstances. However, in practice the opposite is likely to result. Despite the proposed rule's presumption against such production, it is likely that most plaintiffs will move to discover such information, and that many courts presented with nonfrivolous claims (in which traditional discovery has yielded substantial responsive information) will find "good cause" for searching information not reasonably accessible as well. Thus, in many cases such discovery will be ordered, with only a small likelihood that the plaintiff may be asked to bear any portion of the substantial costs. This presents a problematic situation. A higher threshold

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[1] Notably, in New York state courts, it is typically the requester of discovery (typically the plaintiff) that pays for the cost of production, and a recent state supreme court decision has held that this practice should hold true in the case of electronic discovery as well, including the substantial costs associated with production of backup data and deleted files. *See Lipco Elec. Corp. v. ASG Consulting Corp.*, No. 01 Civ. 8775, 2004 WL 1949062, at *8-10 (N.Y. Sup. Ct. Aug. 18, 2004).

should be set to identify what types of circumstances warrant an order for such discovery to be made. The Committee is encouraged to consider whether certain types of not-reasonably-accessible information, such as deleted files, should not be subject to discovery at all (just as a company is under no obligation to search through its garbage dumpsters or shredded document heaps to find responsive paper documents) — because the burden of retrieving such information is almost invariably outweighed by its possible benefit. Any problems associated with defendants' purposeful (or negligent) deletion of discoverable electronic files could be addressed through Proposed Rule 37(f), the "safe harbor" rule, discussed *infra*.

III. Safe Harbor

A. Proposed Rule 37(f)

Rule 37 presently imposes sanctions on parties who fail to make disclosure or cooperate in discovery. The Advisory Committee's proposal adds a subparagraph to provide a narrow "safe harbor" in the event of loss or destruction of electronically stored data resulting from routine operation of a computer system:

- Proposed Rule 37(f) provides that, "[u]nless a party violated an order in the action requiring it to preserve electronically stored information, a court may not impose sanctions under these rules on the party for failing to provide such information if: (1) the party took reasonable steps to preserve the information after it knew or should have known the information was discoverable in the action; and (2) the failure resulted from loss of the information because of the routine operation of the party's electronic information system."

The draft Advisory Committee Note explains that the safe harbor protections would apply only to electronic information "lost due to the routine operation of the party's electronic information system." It further explains that the safe harbor addresses only sanctions under the Rules and applies only to data losses that occurred after the lawsuit is filed. The Note reminds parties that Proposed Rule 37(f) does not define the scope of the duty to preserve electronic information nor does it address loss of electronic information that may occur before the commencement of the lawsuit. Furthermore, there is no safe harbor for the loss of hard copy materials. The Advisory Committee suggests that, once the subjects of litigation have been identified, a party should consider imposing a "litigation hold" – an "e-freeze" that preserves e-mail records and electronic files of key individuals and litigation-related departments. But it would impose no duty to do so. *See* Comm. Rep. at 18.

Underlying this proposed rule is the Advisory Committee's recognition that electronic data can "vaporize" through commercial programs that routinely and automatically recycle, overwrite and erase certain data even though no one has intentionally destroyed such data.

B. Comments Regarding Proposed Rule 37(f)

Many scholars and commentators consider the proposed safe harbor provision as the most controversial. According to Kenneth J. Whithers of the Federal Judicial Center, "the proposed amendment was driven in part by the corporate defense bar stemming from its perception that their clients have been saddled with draconian preservation orders and unfairly sanctioned for violation of those orders . . . stemming from the deletion of data that routinely and automatically occurs in the course of computer operations." *See* Carol E. Heckman, *A Safe Harbor*, N.Y.L.J., Dec. 2, 2004, at 5. On the other hand, plaintiffs' attorneys may hotly contest this provision out of fear that defense counsel will rely on it to engage in "spoliation."[2] In fact, at least one commentator has suggested that the safe harbor would "change corporate behavior. Parties who are routinely sued will accelerate the routine deletion of data." Gregory P. Joseph, *Federal Practice: Electronic Discovery II*, N.L.J., Dec. 6, 2004, at 16.

The Advisory Committee is specifically interested in soliciting public comments on whether the proposed rule and note "accurately describe the kind of automatic computer operations, such as recycling and overwriting, that should be covered by the safe harbor." Comm. Rep. at 20. The Advisory Committee is also interested in feedback concerning whether the standard of culpability for destruction of electronic files under Rule 37(f) should be (1) negligence which is embodied in the current draft, or (2) willful misconduct. This culpable state of mind is no doubt the most controversial issue and the focal point of debate.

A review of the case law reveals that the state of the law on the culpable state of mind required for Rule 37 sanctions is unsettled. The severity of the Rule 37 sanction to be imposed tends to turn on the degree of culpability. It is well settled that

> [Rule 37] provides a spectrum of sanctions. The mildest is an order to reimburse the opposing party for expenses caused by the failure to cooperate. More stringent are orders striking out portions of the pleadings, prohibiting the introduction of evidence on particular points and deeming disputed issues determined adversely to the position of the disobedient party. Harshest of all are orders of dismissal and default judgment.

Cine Forty-Second Street Theatre Corp. v. Allied Artists Pictures Corp., 602 F.2d 1062, 1066 (2d Cir. 1979).

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[2] Spoliation is the "destruction or significant alteration of evidence, or the failure to preserve property for another's use as evidence in pending or reasonably foreseeable litigation." *Zubulake v. UBS Warburg LLC,* No. 02 Civ. 1243 (SAS), 2004 WL 1620866, at *6 n.58 (S.D.N.Y. July 20, 2004)

In *Residential Funding Corp. v. DeGeorge Financial Corp.*, the Second Circuit held that "discovery sanctions, including an adverse inference instruction, may be imposed upon a party that has breached a discovery obligation not only through bad faith or gross negligence, but also through *ordinary negligence*." 306 F.3d 99, 113 (2d Cir. 2002) (emphasis added). The court, however, focused the discussion primarily on the standard for imposing the sanction of an adverse inference as opposed to the other more stringent sanctions. *Residential*, 306 F.3d at 108. In *Residential*, the plaintiff's e-mails for the relevant time period had been deleted in accordance with the plaintiff company's document retention and destruction policy. The defendant pressed for the backup tape but the tape was not produced until the trial of the case was actually in progress. The Second Circuit did not reverse a jury verdict in favor of the plaintiff but remanded the case to the District Court to consider whether the plaintiff should forfeit post-judgment interest and/or receive additional sanctions.

Gross negligence seemed to be the governing standard in the fifth *Zubulake* opinion issued by Judge Scheindlin and in several other cases.[3] In *Zubulake*, Judge Scheindlin imposed sanctions on defendants for their failures to preserve and produce e-mails that were relevant to plaintiff's claim of employment discrimination. *Zubulake*, 2004 WL 1620866, at *1. Specifically, the plaintiff claimed that some of the lost emails provided substantial support for her claim and thus requested the court to give an adverse inference instruction to the jury. *Id.* at *6. Judge Scheindlin found the defendant "acted willfully in destroying potentially relevant information, which resulted either in the absence of such information or its tardy production." *Id.* at *12. Similarly, in *Pastorello v. City of New York*, the court granted plaintiff's application for an adverse inference instruction to the jury where gross negligence of the defendant municipal hospital resulted in destruction of security officers' memo books, previously demanded by plaintiff during pretrial discovery. No. 95 Civ. 470, 2003 WL 1740606, at 13 (S.D.N.Y. Apr. 1, 2003). These memo books might have contained entries supporting plaintiff's claims of unlawful detention and excessive medication. Likewise, in *Cine Forty-Second Street Theatre Corp. v. Allied Artists Pictures Corp.*, *supra*, the Second Circuit using the willful/bad faith/fault standard to govern its analysis and arrived at the

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[3] Although Judge Scheindlin did not discuss whether the legal standard required for imposing sanctions for failures to preserve and produce electronically stored information is negligence or willful misconduct in *Zubulake*, in *Electronic Discovery*, she writes "a review of the case law reveals that most courts have not imposed the extreme sanction of dismissing an action (or defaulting a defendant) in the absence of willful or reckless conduct. But lesser sanctions, such as shifting the costs of discovery, imposition of attorney's fees or an adverse inference, or preclusion have been approved in all of the circuits based on a negligent failure to provide discovery."

conclusion that gross negligence in discovery may justify severest disciplinary measures available under Rule 37.

As *Residential*, *Zubulake* and other cases demonstrate, the state of the law on this particular issue is unsettled or at least there is a "continuum of fault" ranging from ordinary negligence to intentional/willful misconduct that falls within Rule 37 sanctions. *See Residential*, *supra,* at 108. The fact that members of the Advisory Committee have not been able to agree on the precise language for the culpable state of mind required for a court to impose sanctions indicates that the deliberations of the Advisory Committee are also in a state of flux. According to Judge Scheindlin, "many who have entered this debate believe that precluding a court from issuing a Rule 37 sanction in the absence of willful or reckless conduct will unduly restrict a court in exercising its discretion to supervise and control discovery. Others feel that without this protection the new rule will have little impact." *Electronic Discovery*.

Some commentators question why the safe harbor provision applies only to "the preservation of electronic, as opposed to more conventional forms of information." *See* Carol E. Heckman, *A Safe Harbor*, N.Y.L.J. 5 (Dec. 2, 2004). The Advisory Committee has justified the limited application of safe harbor to electronically stored information on the basis of the "distinctive feature of computer operations, the routine deletion of information that attends ordinary use." *See* Lee H. Rosenthal, *Report of the Civil Rules Advisory Committee* (Aug. 3, 2004) at 33.

As set forth above, most courts have used the gross negligence/willful misconduct standard as the basis for imposing sanctions under rule 37. The proposed safe harbor provision currently under discussion adopts the mere negligence standard. As Judge Scheindlin wrote in *Zubulake* "the subject of the discovery of electronically stored information is rapidly evolving. When this case began more than two years ago there was little guidance from the judiciary, bar associations or the academy as to the governing standards." *Zubulake*, 2004 WL 1620866 at *15. In view of the fact that the predominant standard in the case law is the gross negligence/willful misconduct standard, the proposed safe harbor provision should follow the prevailing standard set forth in the case law.

In practice, the mere negligence standard proposed presents a number of problems for large corporate defendants. First, because most large corporate defendants have multiple offices, in some cases all over the world, it would be prohibitively expensive to assure that everyone of these offices put a litigation hold on their respective document retention – document destruction computer programs that are already in place. For example, if a remote office in Alaska of a New York-based corporation failed to put a litigation hold in effect based upon an instruction from in-house counsel, it would be unfair to impose Rule 37 sanctions on

the corporation for the Alaska office's failure to follow the in-house counsel's directive. Furthermore, it would be expensive and burdensome for large corporations with multiple offices to follow up and police each of the offices to assure that each will fulfill its preservation obligations.

Second, faced with the prospect of being sanctioned under the higher negligent standard of Proposed Rule 37(f), parties – particularly large corporate defendants that are routinely sued – may construe their preservation obligations "to over-preserve, despite the crushing costs and burden of such behavior." *Electronic Discovery*. In fact, the intent of the drafters of Proposed Rule 37(f) is precisely to avoid the "uncertainty and the ugly prospect of sanctions" particularly for parties that are routinely sued. Employing the negligence standard will have the opposite effect.

In short, Proposed Rule 37(f)'s negligence standard would place a significant burden in terms of executive time and also entail significant increases in expenses for large corporations to comply with that standard. It should be the purpose of a safe harbor provision to provide some protections for inadvertent losses or destruction of documents not to create additional burdens and expenses for large corporations which make honest efforts to comply with legitimate discovery demands. For the above reasons, Heller Ehrman supports the adoption of Proposed Rule 37(f) with language establishing gross negligence as the standard for culpability.

IV. "Meet and Confer" Provisions

A. Proposed Rules 16(b) and 26(f), and Form 35

Amendments to Rules 16(b) and 26(f), as well as to Form 35, will require parties to discuss matters relating to electronic documents and productions during the early stages of discovery. The individual proposed amendments can be separated into three categories: those that call upon the parties to address generally electronic discovery in their early discussions, those that call upon the parties to address specifically privilege-waiver issues during such discussions, and those that address the format of electronic discovery productions.

1. Provisions relating to electronic discovery in general

- Proposed Rule 16(b)(5) adds to the topics that can be included in a scheduling order "provisions for disclosure or discovery of electronically stored information";

- Proposed Rule 26(f) generally adds to the list of topics the parties should discuss in advance of a scheduling conference "any issues relating to preserving discoverable information";

- Proposed Rule 26(f)(3) adds to the list of topics about which the parties, at their pre-scheduling conference meeting, should formulate proposals "any issues relating to disclosure or discovery of electronically stored information";

- Proposed Form 35 adds to the list of topics that may be included in a "discovery plan" the way in which "[d]isclosure or discovery of electronically stored information should be handled."

2. Provisions relating to privilege-waiver agreements

- Proposed Rule 16(b)(6) adds to the topics that can be included in a scheduling order "adoption of the parties' agreement for protection against waiving privilege";

- Proposed Rule 26(f)(4) adds to the list of topics about which the parties, at their pre-scheduling conference meeting, should formulate proposals "whether, on agreement of the parties, the court should enter an order protecting the right to assert privilege after production of privileged information";

- Proposed Form 35 adds to the list of topics that may be included in a "discovery plan" the extent to which "the parties have agreed to a privilege protection order," and a description of such an order.

3. Provisions relating to the form of electronic production

- Proposed Rule 26(f)(3) adds to the list of topics about which the parties, at their pre-scheduling conference meeting, should formulate proposals "the form in which" electronic information "should be produced";

- Proposed Rule 34(b) allows a party to specify in a discovery request "the form in which electronically stored information is to be produced," and allows the opposing party specifically to object to such aspect of the request;

- Proposed Rule 34(b)(ii) states that "if a request for electronically stored information does not specify the form of production, a responding party must produce the information in a form in which it is ordinarily maintained, or in an electronically searchable form"; the rule further notes that a party "need only produce such information in one form."

B. Comments Regarding Proposed Rules 16(b) and 26(f), and Form 35

The first two categories identified above, reflecting proposed changes to Rules 16 and 26 and Form 35, should not, in and of themselves, have a great deal of substantive effect on

Heller Ehrman clients. To the extent that the other amendments discussed in this memorandum are enacted, the "meet and confer" provisions will simply require parties to discuss their plans and attempt to reach agreement on the issues that may arise in each individual litigation. Any increased or decreased burdens will arise out of the substantive obligations themselves, rather than as a result of an obligation to discuss them. Thus, for example, the category of provisions relating to discussion of privilege-waiver agreements will only affect clients insofar as Proposed Rules 26(b)(5) and 34(b), regarding inadvertent production of privileged material, and discussed *supra*, are enacted. Furthermore, the draft Advisory Committee Notes explain that Proposed Rule 26(f) is designed to engage the parties in a discussion about "any issues regarding preservation of discoverable information," but then explains that such discussion will be informed by Proposed Rule 37(f), discussed *infra*, which sets up a "safe harbor" for the unintended loss or destruction of electronic information.

The third category of proposals, those designed to address the form of an electronic production, contains provisions that might give Heller Ehrman clients some pause. The draft Advisory Committee Notes to Proposed Rule 26(f)(3) explain that the parties are to discuss "the form or format in which a party keeps such information . . . as well as the form in which it might be produced." Considering that format, at least in the first instance, will lie with the plaintiff, there may be instances in which production in the plaintiff's preferred format may pose problems to a client.

Production in "native" format, i.e., the format in which the information is stored on the producing party's own system, can be costly if complex, uncommon software is used to store the information. For example, in lieu of using standard platforms like Microsoft Word or WordPerfect, some companies maintain their information on specially designed proprietary systems, from which it can be difficult to extract information without exposing professional secrets (because the design of the proprietary software may reveal how the company conducts its internal business). Native-format documents also may contain sensitive and confidential "meta-data" (data encoded into the document file), such as the substance of edits to previous versions of a document, authorship, dates of revision, and the like. This type of information might not be independently discoverable.

The Proposed Rules allow a party to object to a particular requested format of electronic production and, presumably, the grounds identified above would likely qualify as bona fide grounds for such an objection. However, the structure of the provision may make it difficult for defendants to prevail in defeating a request for native-format production; it is worth considering whether to suggest altering the proposed rule to a more egalitarian, consensus-based approach, in which the parties agree on an electronic production format, rather than the plaintiff demanding one format, and the defendant posing opposition.

As for production in electronic formats other than native format, e.g., PDF/TIFF images, there is less concern that anything other than the responsive documents will be produced to the opposing party. One interesting point is that when a plaintiff does not specify a specific format, Proposed Rule 34(b)(ii) requires the production of electronic documents in either native format or in an "electronically searchable form." Notably, not all electronic image productions now are in a searchable form. In fact, many formats used today, including TIFF images, are specifically not text-searchable – meaning that an actual picture of the document is produced, and the opposing party is unable to use its computer to search for particular terms in the produced documents. It may well be that some defendants would wish to object to the production of searchable documents on the grounds that this allows their opponents to more easily identify those documents in which they are interested; however, such opposition to this added efficiency in electronic document review would be unlikely to find sympathy in the Rules Committee.

V. Document Redefined

A. Proposed Rules 33(d), 34(a), and Rule 45

Amendments to Rules 33 and 34 as well as to Rule 45 redefine the term "document" to include electronically stored information. The purpose of these proposed changes is to make clear that the rules governing discovery cover any type of information that can be stored electronically and to encompass future developments in computer technology.

1. Document requests from adversaries

- Proposed Rule 33(d) adds "electronically stored information" to the general category of business records. Under the current rule, a party who is served with an interrogatory may produce business records providing the information requested in lieu of a text answer.

The draft Advisory Committee Note states that "Rule 33(d) is amended to parallel Rule 34(a) by recognizing the importance of electronically stored information." The term "electronically stored information" has the same broad meaning in Rule 33(d) as in Rule 33(a).

- Proposed Rule 34(a) provides that "[a] party may serve on any other party a request (1) to produce and permit the party making the request, or someone acting on the requestor's behalf, to inspect, copy, test, or sample any designated electronically stored information or any designated documents (including writings, drawings, graphs, charts, photographs, sound recordings, images, and other data or data compilations in any medium — from which information can be obtained, translated, if necessary, by the respondent through

detection devices into reasonably usable form), or to inspect, copy, test, or sample any designated tangible things ..."

Under Proposed Rule 34(a) "sound recordings" and "images" are added to the list of discoverable items while the obsolete term "phonerecords" is dropped from the list. The proposed rule also allows parties to request to test or sample in addition to inspecting and copying materials sought under the rule.

The draft Advisory Committee Note highlights e-mail as a common example of electronically stored information. According to Judge Scheindlin's article, "electronically stored information" can be read to include voice mail and instant messaging. In short, the proposed rule is broad enough to cover current types of computer-based information as well as information stored "in any medium" that may be supported by future advances in technology. The draft Advisory Committee Note also emphasizes that the burden and intrusiveness of requests to test or sample can be addressed under Rules 26(b)(2) and 26(c).

As discussed earlier in this memorandum, Proposed Rule 34(b) gives the party making a Rule 34 request the right to specify the form in which production of electronically stored information is made, and allows the opposing party specifically to object to this aspect of the request.

2. Third-party subpoenas

The draft Advisory Committee Note explains that Rule 45 is amended to conform rules concerning subpoenas to proposed changes relating to discovery of electronically stored information.

- Proposed Rule 45(a)(1)(C) recognizes that electronically stored information can be sought by subpoena;
- Proposed Rule 45(a)(1)(B) provides that a subpoena may call for "testing and sampling" as well as inspection and copying as proposed in Rule 34(a);
- Proposed Rule 45(a)(1)(D) provides that "[a] subpoena may specify the form in which electronically stored information is to be produced";
- Proposed Rule 45(c)(2)(B) authorizes the person served with a subpoena to object to the requested form;
- In addition, Proposed Rule 45(d)(1)(B) provides that the person served with the subpoena must produce electronically stored information either "in a form in which the person

ordinarily maintains it or in an electronically searchable form", and that the person producing electronically stored information should not have to produce it in more than one form unless so ordered by the court for "good cause";

- Proposed Rule 45(d)(1)(C) provides that the subpoena recipient need only provide "reasonably accessible" electronically stored information, unless the court orders additional discovery for "good cause";

- Proposed Rule 45(d)(2)(B) adds a procedure for assertion of privilege after inadvertent production of privileged information.

B. Comments Regarding Proposed Rules 33(d), 34(a), and Rule 45

It appears that the proposed amendments expanding the definition of "document" to include "electronically stored information" merely codify what is already established in the case law. A review of the case law demonstrates that electronically stored information has been subject to discovery for over a decade. *See Anti-Monopoly, Inc v. Hasbro, Inc.*, 1995 WL 649934, 1995-2 Trade Cases P 71, 218 (S.D.N.Y. Nov. 3, 1995) (holding "today it is black letter law that computerized data is discoverable if relevant."); *Seattle Audubon Soc 'y v. Lyons*, 871 F. Supp. 1291 (W.D. Wash. 1994) (ordering production of e-mail); *see also Crown Life Ins. Co. v. Craig*, 995 F. 2d 1376 (7th Cir. 1993) (respondent who failed to produce properly requested raw computer data is subject to sanctions, even though such data was not available in hard-copy). Thus, the definitional codification of current law in the proposed amendment seems unlikely to have any notable effect on current discovery practices.

The expansive proposed definition of "document" may present problems in the future however. It is impossible to know what technological advances in data storage will become available. Some of these advances may render it difficult for parties to seek to access stored data as a company's data storage system is often designed to provide maximum confidentiality by restricting access.

According to Judge Scheindlin, under Proposed Rule 34(d), a party producing electronically stored information in response to an interrogatory may be required to provide "some combination of technological support, information on software, access to their computer system, or other assistance." *Electronic Discovery*. This burden to producing parties and non-parties as well is likely to be exacerbated with new and possibly more complex data storage technologies. The defendants in litigation should not have to bear what may be a considerable expense in hiring technical support personnel to assist the parties seeking discovery in navigating through data stored under sophisticated and advanced technologies.

VI. Conclusion

Heller Ehrman applauds the Advisory Committee's outstanding efforts to draft Rules of Civil Procedure to reflect the ever-increasing role technology plays in the discovery process. As discussed above, we encourage the Advisory Committee to careful consider the effects, some unintended, that certain of the provisions may have. Thank you very much for the opportunity to offer our thoughts on the extraordinary work the Advisory Committee has undertaken.

Respectfully yours,

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Katherine D. Johnson
Jean-David Barnea
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