



O R R I C K

TABLE OF CONTENTS

	<b>Page</b>
I. INTRODUCTION .....	1
II. WHERE TO BEGIN: THE FEDERAL RULES AND UPCOMING AMENDMENTS PERTAINING TO ELECTRONICALLY STORED INFORMATION.....	1
III. UNDERSTANDING THE TECHNOLOGY .....	5
IV. WHO PAYS FOR ELECTRONIC DISCOVERY .....	6
V. THE DUTY TO PRESERVE AND PRODUCE ELECTRONIC DOCUMENTS.....	10
VI. PRESERVING PRIVILEGE & INADVERTENT DISCLOSURE .....	12
VII. ADMISSIBILITY OF ELECTRONIC COMMUNICATIONS.....	14
VIII. SPOILIATION.....	15
IX. DISCOVERY OF SURREPTITIOUS TAPE RECORDINGS BY EMPLOYEES.....	23



O R R I C K

## **I. INTRODUCTION**

The proliferation of e-mail usage and other forms of electronic communication has fundamentally altered the way in which parties conduct document discovery in civil litigation, including the litigation of employment disputes. It was projected that in 2003, e-mail users in the United States would send approximately 547.5 billion e-mail messages.<sup>1</sup> According to one source, at least 70% of corporate records are stored in electronic form.<sup>2</sup> In addition to sheer quantity and cost, the use of electronic communication, in particular e-mail, creates other challenges for employers faced with employment litigation. The informal nature of e-mail communication often leads to the transmittal of unedited, unguarded and careless messages, including transmittal to unintended recipients, creating a treasure trove of discoverable information and potentially dangerous evidence for plaintiffs' attorneys. In fact, one recent survey found that one in five companies (20%) has had employee e-mail and similar documents subpoenaed in the course of a lawsuit or regulatory investigation.<sup>3</sup>

This outline will begin with a discussion of the new amendments to the Federal Rules of Civil Procedure ("FRCP") which will have a large impact on e-discovery. The paper will then present an overview of the legal issues surrounding paperless discovery, including a party's obligations to search for and produce electronic documents, who should bear the cost, the duty to preserve electronic records, maintaining privilege and confidentiality and the admissibility of e-mail. This outline will also examine the doctrine of spoliation. Finally, this outline will address an often-overlooked area of paperless discovery, the discovery of secretly made tape recordings.

## **II. WHERE TO BEGIN: THE FEDERAL RULES AND UPCOMING AMENDMENTS PERTAINING TO ELECTRONICALLY STORED INFORMATION**

For years, the Judicial Counsel's Committee on Rules of Practice and Procedure has been grappling with how to respond to concerns presented by the exploding presence of electronically stored information (ESI) in discovery. The U.S. Supreme Court adopted a new set of proposed amendments to the FRCP, which became effective on December 1, 2006. These new amendments require lawyers to confront e-discovery issues early on in the proceeding of almost every lawsuit. At the same time, the

<sup>1</sup> The Sedona Conference, *The Sedona Principles; Best Practices Recommendations and Principles for Addressing Electronic Document Production* (Jan. 2004) available at <http://www.thesedonaconference.org/dltForm?did=SedonaPrinciples200401.pdf>.

<sup>2</sup> Lori Enos, *Digital Date Changing Legal Landscapes*, E-COMMERCE TIMES, May 16, 2000.

<sup>3</sup> AMA Research, *2004 Workplace E-mail and Instant Messaging Survey Summary*, at [http://www.amanet.org/research/pdfs/IM\\_2004\\_Summary.pdf](http://www.amanet.org/research/pdfs/IM_2004_Summary.pdf).



## ORRICK

amendments increase attorneys' obligations to become familiar with their client's electronic data.<sup>4</sup>

The changes to the FRCP were designed to bring the rules in line with today's changing litigation practices, which encompass many new forms of information technology. In place of varying local rules on the subject, the revised FRCP bring unified guidance to an increasingly important aspect of litigation.<sup>5</sup> This section will set forth the changes to the FRCP in the following four subsections. Section A will discuss how the changes to the FRCP will force an early and more expansive discussion of ESI before trial. Specifically, the amendments to Rule 26, Form 35, Rules 16, 33, and 34 address issues surrounding data production, preservation, and the protection of privilege in matters involving e-discovery. Section B outlines how the accessibility of ESI is addressed by the amendments to Rule 26. The rules' new treatment of post-production assertions of privilege is addressed in Section C. Finally, Section D explains the revisions to Rule 37, which relate to sanctions and e-discovery. Section D also touches on the minor revision to Rule 45 involving subpoenas of ESI.

### A. Facing E-Discovery Upfront – FRCP 26(f), 16, 33, 34 and Form 35

1. **Rule 26(f)** orders parties to confer and develop a proposed discovery plan prior to the scheduling conference. As amended, Rule 26(f) requires that parties “address any and all issues related to the disclosure or discovery of electronically stored information, including the form of production, and also... discuss issues relating to the preservation of [ESI] and other information that may be sought during discovery.” Report, *supra* note 5 at \*6. The amendment also calls for parties to discuss whether they can agree on an approach to production that protects against privilege waiver and requires counsel to discuss issues related to the formatting of electronic evidence. *Id.*
2. With regard to information that must be included in initial mandatory disclosures, **Rule 26(a)** substitutes the term “electronically stored information” for “data compilations.” This substitution considerably broadens the category of information that must be included in initial disclosures. The potential scope is wide-ranging and may include “voicemail, MP3 files... URL history” etc.<sup>6</sup> With a wider range of materials subject to

<sup>4</sup> Joseph S. Wu, *Federal Litigators Face New Burdens in E-Data Discovery*, SAN FRANCISCO DAILY JOURNAL, Oct. 10, 2006, p. 6.

<sup>5</sup> See Committee on Rules of Practice and Procedure of the Judicial Conference of the United States, Report of the Civil Rules Advisory Committee (2004), available at <http://www.uscourts.gov/rules/comment2005/CVAug04.pdf> at \*3-4 [hereinafter “Report”].

<sup>6</sup> Joshua Gilliland, *Down to the Wire: 21st Century Litigation*, CT Summation (August 2006), available at [http://ctsummation.com/articles/down\\_to\\_wire.aspx](http://ctsummation.com/articles/down_to_wire.aspx).



## O R R I C K

mandatory disclosures, under this amendment, the burden for disclosing parties will increase at this phase of discovery.

3. **Form 35** memorializes the pre-trial discussions of counsel per Rule 26(f). Changes to Form 35 will make certain that the discovery plan covers issues related to the discovery of ESI and any agreements about protecting post-production assertions of privilege. *See Wu, supra* note 4.
4. Amendments to **Rule 16(b)** provide that scheduling orders may include provisions on the disclosure or discovery of ESI. The new Rule 16(b) will also allow for a case-management order adopting the parties' agreements for protection against waiving privilege.<sup>7</sup>
5. Changes to **Rule 33(d)** "clarify that an answer to an interrogatory involving review of business records should also involve a search of [ESI] and permit the responding party to answer by providing access to that information." Report, *supra* note 5 at \*15.
6. Amended **Rule 34(a)** expressly distinguishes between [ESI] and "documents." Although this makes the definition of "documents" more inclusive, the new rule does not clearly define ESI, so the scope of discoverable information may broaden considerably under the new rules. Amendments to Rule 34(a) also "[grant] the requesting party express rights to 'inspect, copy, test or sample' any [ESI]" and [mandate] translation, if necessary, to be performed by the respondent. *Wu, supra* note 4. While the amendment mentions that a requesting party may test and sample ESI, the Advisory Committee Notes to the Rule 34(a) still discourages direct inspection of a party's electronic information system by an opponent. *See Diepenhorst v. City of Battle Creek*, 2006 U.S. Dist. LEXIS 48551 at \*9 (W.D. Mich. June 30, 2006)
7. Amended **Rule 34(b)** allows parties to specify in their request for production the form or forms in which ESI should be produced. The responding party may object to the proposed format, but must offer reasons for their objection and state the form or forms it intends to use. If the requesting party does not specify a preferred form of production, the responding party must produce the information in a form in which it is "ordinarily maintained" or in a

<sup>7</sup> Individual judges or courts may also provide their own instructions to litigants requiring, for example, information about steps taken to preserve electronic evidence in joint case management statements. *See, e.g.,* Standing Order for All Judges of the N.D. Cal. at No. 6. *available at* [http://www.cand.uscourts.gov/.../b11df35425836aa488257290006d00fe/\\$FILE/CM%20Standing%20Order%203-1-07.pdf](http://www.cand.uscourts.gov/.../b11df35425836aa488257290006d00fe/$FILE/CM%20Standing%20Order%203-1-07.pdf) (effective March 1, 2007).



## O R R I C K

“reasonably useable” form. Finally, Rule 34(b) makes it clear that a party need only produce the same ESI in one form. *Id.*

- B. **Accessibility Issues – Rule 26:** Some forms of ESI are more accessible than others. Changing technology renders certain forms of stored information obsolete and the need for businesses to archive electronic information makes some evidence costly and difficult to uncover. *See* Section III, *infra*, for additional discussion.

To address these issues, amended **Rule 26(a)(1)(B)** requires parties, in their initial disclosures, to review and disclose relevant ESI to opposing counsel. *Id.* However, while this amendment mandates early disclosure of ESI, the new rule also permits a party “to exclude from its discovery obligations any discovery of ESI ‘from sources that the party identifies as *not reasonably accessible* because of *undue burden or cost.*’” *Id.* [emphasis added] These amendments create a two-tiered system under which a party must reveal easily accessible ESI upfront in initial disclosures. On the other hand, a party need not review or produce ESI that is not reasonably accessible. Report, *supra*, note 5 at \*11. If, however, a party requests ESI that was not produced initially, the responding party must show that the ESI is not reasonably accessible. The court may still order the party to produce the information, but only if the requesting party demonstrates good cause. *Id.* “This rule makes it clear that the producing party has the burden of demonstrating that the [ESI] is inaccessible and the requesting party has the burden of demonstrating good cause for the production of inaccessible information.” *Id.* at \*12.

- C. **Dealing with Privilege – Rule 26:** Later sections of this paper will discuss privilege concerns involving ESI in greater depth. However, it is important to recognize at the outset that with the vast quantities of ESI involved in today’s complex litigation, inadvertent production of privileged information is more likely to occur.

Changes to **Rule 26(b)** account for this reality and create a so-called “clawback provision” which “allow[s] the responding party to assert privilege after production and [requires] the return, sequestration, or destruction of the material pending resolution of the privilege claim.” *Id.* at \*13. The Committee Note to the revised rule encourages courts to apply their developed principles to determine whether inadvertent production of privileged information constitutes waiver. *Id.* at \*14. Other amendments to Rules 16(b), 26(f), and Form 35 (discussed above) work in tandem with this rule and encourage parties to deal with privilege concerns in the infancy of a case.

- D. **Sanctions and Subpoenas – Rules 37 and 45: Rule 37(f)**, as amended, “provides a narrow ‘safe harbor’ to a party that fails to provide ESI, under



## O R R I C K

specified circumstances. The amendment protects the party from sanctions under the [FRCP] for failing to provide ESI lost because of the routine operation of the party's computer system." *Id.* at \*17. While this rule insulates a party from sanctions if it loses ESI because of routine information management, the rule also requires that the system's operation be made in "good faith." This qualifier may be interpreted "in view of a party's preservation duty under [existing] law." Thus, once a party is under a duty to preserve discoverable information, the safe harbor provision in amended Rule 37(f) may no longer apply. *See Wu, supra* note 4.

Finally, "the proposed amendments to **Rule 45** conform the provisions for subpoenas to changes in other discovery rules related to discovery of ESI." Report, *supra* note 5, at \*20.

### **III. UNDERSTANDING THE TECHNOLOGY**

- A. What is an electronic document? Not just e-mail. Electronic documents may include voice-mail and tape recordings, word-processed documents, Instant Messages,<sup>8</sup> PowerPoint presentations, Excel spreadsheets and the like stored electronically and data contained on BlackBerrys, laptops, personal digital assistants ("PDAs"), cell phones, employees' home computers, even chat rooms.<sup>9</sup>
- B. Attorneys need to understand their clients' technology:
  - 1. How does the e-mail system work?
  - 2. Where is data stored: is it accessible, nearly accessible, offsite?
  - 3. What is the backup and disaster recovery technology – hard disk or drive, optical media (CD-ROM), magnetic tape?

<sup>8</sup> Instant Messaging (IM) may pose heightened concerns for litigants because conversations recorded in "real time" might be even more unguarded than those that take place over e-mail. IM records might also be more difficult to preserve than e-mail messages. Though it has the feel of a typed telephone conversation, IM is "legally considered a document, and is subject to the same retention policies that cover other business records." Alexi Oreskovic, *Instant Messages: Instant Panic*, NATIONAL LAW JOURNAL, June 27, 2005.

<sup>9</sup> In a copyright infringement action against rival purse manufacturer, Dooney & Bourke ("DB"), plaintiff-Louis Vuitton claimed spoliation, alleging that DB improperly deleted e-mails from a customer relations chat room that pertained to the litigation. *Malletier v. Dooney & Bourke, Inc.*, 2006 WL 3851151, No. 04 Civ. 5316 RMB MHD (S.D.N.Y. Dec. 22, 2006). Although the court concluded that DB was not at fault for deleting the messages, in large part because they did not have adequate technology available to retain such communications, the case suggests that given requisite technical means, even chat room conversations could be subject to discovery as ESI.



## O R R I C K

4. Can data truly be deleted? Although a file may be deleted, it may remain on the disk and be recoverable. Such data is referred to as “residual data.”
5. Electronic files also contain “metadata,” which is embedded data about a document such as who created or modified the document and when, and who received a blind copy.<sup>10</sup> Metadata may be discoverable under certain circumstances, for example, where there is a suggestion that a document has been fabricated or tampered with.

### **IV. WHO PAYS FOR ELECTRONIC DISCOVERY**

- A. The presumption under the Federal Rules is that the “responding party bears the expense of complying with discovery requests.” *Oppenheimer Fund, Inc. v. Sanders*, 437 U.S. 340, 358 (1978).
- B. Given the volume and cost of electronic discovery, a party may object on the grounds that the electronic discovery requests run afoul of the Rule 26(b) proportionality test. Under the proportionality test in Rule 26(b)(2)(i), discovery may be limited if “the discovery sought is unreasonably cumulative or duplicative, or is obtainable from some other source that is more convenient, less burdensome, or less expensive.” Subsection (b)(2)(ii) also provides for limiting discovery if the requesting party has had “ample opportunity... to obtain the information sought.” Subsection (b)(2)(iii) limits discovery if “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 dispute.” Upon a motion for good cause listing Rule 26(b) proportionality factors,, the responding party may seek a cost-shifting protective order under Rule 26(c). *Id.*
- C. In *Rowe Entm’t, Inc. v. William Morris Agency, Inc.*, 205 F.R.D. 421 (S.D.N.Y. 2002), Magistrate Judge James C. Francis IV established an eight-part multi-factor balancing test for use in determining whether a Rule 26(c) protective order is appropriate in an electronic discovery case.

The *Rowe* factors are: (1) the specificity of the discovery request; (2) the likelihood of discovering critical information; (3) the availability of information from other sources; (4) the purposes for which the responding

<sup>10</sup> *Scotts Co. LLC v. Liberty Mut. Ins. Co.*, 2007 U.S. Dist. LEXIS 43005, \*11n.2 (S.D. Ohio June 12, 2007) (defining metadata as, among other things “a set of data that describes and gives information about other data” and clarifying that while some metadata is visible, other types of metadata are “hidden or embedded”).



## O R R I C K

party maintains the requested data; (5) the relative benefit to the parties obtaining the information; (6) the total cost associated with the production; (7) the relative ability of each party to control costs and its incentive to do so; and (8) the resources available each party. *Rowe*, 205 F.R.D. at 429.

*Rowe* involved a claim by minority concert promoters against white concert promoters and booking agencies, alleging discriminatory and anti-competitive business practices. The plaintiffs made a sweeping discovery request for all communications, including e-mails, between the defendants concerning promoter selections and concert bids. Applying the eight factors, the court shifted the cost of production to the plaintiffs. The court appeared to give equal weight to each factor, ultimately finding that more of the factors weighed in favor of shifting the cost of electronic discovery to the requesting party.

- D. In *Zubulake v. UBS Warburg LLC*, 217 F.R.D. 309 (S.D.N.Y. 2003) (“*Zubulake I*”), Judge Shira Scheindlin modified the *Rowe* analysis. The court articulated a seven-factor test, which placed greater weight on certain factors and in so doing, reinforced, in the court’s view, the traditional presumption that the producing party bears the cost.

*Zubulake I* was a gender discrimination and retaliation case brought by a former equities trader at UBS. Zubulake served a broad discovery request seeking “all documents concerning any communication by or between UBS employees concerning plaintiff.” *Id.* at 312. In response to this request, UBS produced 100 pages of e-mails, among other documents. Zubulake objected to UBS’s limited production and thereafter, the parties agreed that UBS would provide all responsive e-mails from five individuals for the period August 1999 through December 2001. No additional e-mails were produced and UBS refused to search any back-up tapes, citing the time and expense involved. Zubulake, on the other hand, produced about 450 pages of e-mail communication that UBS did not produce.

After taking the deposition of UBS’s Manager of Global Messaging, who testified about UBS’s e-mail back-up system, Zubulake moved to compel discovery. UBS argued that the production of the requested e-mails was unduly burdensome and cost-prohibitive and that the court should shift the cost to Zubulake. The court disagreed.

The court first observed that cost-shifting need not be considered in every case involving electronic discovery since in some cases production of ESI is cheaper and easier than paper-based production. The key factor in terms of cost shifting, according to the court, is the accessibility of the data sought. Only if the data is stored in inaccessible form (such as back-up tapes) will cost-shifting be considered. *Id.* at 318-20.



## ORRICK

The court then outlined its new seven-factor test for cost-shifting, listing the factors in order of importance: (1) how specific the discovery request is; (2) the availability of the information from other sources; (3) the total cost of producing the requested documents compared to the amount in controversy; (4) the total cost compared to the resources each party has; (5) the relative ability of each party to control costs; (6) the importance of the issues at stake in the litigation; and (7) the relative benefits to the parties of getting the information. *Id.* at \*321-23.

Based on the sparse factual record before it, the court was not able to conduct the cost-shifting analysis. UBS was ordered to restore and produce responsive e-mails of the five individuals identified by plaintiff from the back-up tapes at its expense, document the cost and time involved and provide the court with the results of the sample restoration. The court would then conduct the cost-shifting analysis and decide whether further production was required.

- E. *Zubulake v. UBS Warburg, LLC*, 216 F.R.D. 280 (S.D.N.Y. 2003) (“Zubulake III”). In *Zubulake III*, the court considered the results of the e-mail sampling as well as affidavits from UBS’s attorneys about the time and cost involved in restoring five tapes and reviewing and producing responsive documents from the tapes. Based on plaintiff’s assertion that the e-mail sampling revealed a number of relevant documents, the court also considered plaintiff’s motion that UBS produce all responsive e-mails from the remaining 72 back-up tapes.

Applying the seven-factor test, the court held that all of the back-up tapes must be produced but that some cost-shifting was appropriate. Noting that the allocation of costs was a matter of “judgment and fairness” rather than a “mathematical consequence of the seven factors,” the court ordered that the costs of back-up tape restoration and searching (estimated to be \$165,000) be allocated between UBS and Zubulake, who were to pay 75 percent and 25 percent of the cost, respectively. 216 F.R.D. at 289. The court limited the cost-shifting to the restoration, noting that the rule remains that a producing party should bear the cost of reviewing and producing electronic data once it has been converted into accessible form.

- F. In *OpenTV v. Liberate Techs.*, 219 F.R.D. 474 (N.D. Cal. 2003), an intellectual property dispute, defendant Liberate offered to make its complete database available for inspection and copying so plaintiff OpenTV could extract the source code. The issue before the California district court was whether cost shifting was appropriate. In its analysis, the court strictly followed and conducted a thorough analysis of the *Zubulake I* factors in determining how to allocate costs of discovery. Ultimately, the Court found that there was an undue burden and expense involved in extracting and copying the source code and ordered the parties



## O R R I C K

to equally split the cost of extracting source code from Liberate's database. The court ordered only Liberate to bear the cost of copying the source code once it was extracted.

- G. Under California state law, in *Toshiba Am. Elec. Components, Inc. v. Superior Court*, 124 Cal. App. 4th 762 (Cal. Ct. App. 2004), the California Court of Appeals held that the reasonable expense of production should be on the demanding party. In *Toshiba*, Lexar Media filed suit against Toshiba alleging breach of fiduciary duty and trade secret misappropriation. Not satisfied with Toshiba's initial disclosures, Lexar filed a motion to compel production of documents located in obsolete data tapes. Toshiba estimated the analysis of those data tapes to be almost \$2 million dollars. After a motion to compel production was granted in favor of Lexar, Toshiba petitioned for a writ of mandate from the appellate court. The appellate court acknowledged that generally, the party responding to a discovery request is required to bear the cost of providing the response. However, former Section 2031(g)(1), now Section 2031.280(b), of the California Code of Civil Procedure provides an exception to the general rule and places the burden of translating data into useable form on the demanding party. CAL. CIV. PROC. CODE § 2031.280(b). According to the court, the subsection's "plain language clearly states that if translation is necessary, the responding party must do it at the demanding party's reasonable expense." *Id.* at 769. Thus, the appellate court concluded that the trial court should be charged with determining what "reasonable expense" means as applied to the case. The court recommended that samples of discovery expenditures be generated to aid in the reasonableness inquiry. Ultimately, the court used a *Zubulake III*-like sampling test.
- H. A New York state court, in an unpublished decision, *Lipco Elec. Corp. & Action Elec. Contracting Co. v. ASG Consulting Corp.*, 2004 NY Slip Op. 50967U (Aug. 18, 2004, S. Ct. N.Y.), was the first New York court to address electronic discovery under the state's discovery rules. Rather than adopt *Zubulake* and other federal precedent, the *Lipco* court held that under the applicable discovery rules, the party seeking discovery should bear the costs incurred in producing discovery material. *Id.* at \*8. Thus, the court denied the motion to compel the electronic discovery, but granted leave to the parties to submit evidence demonstrating the plaintiffs' willingness to bear the cost of production and the actual costs for extracting the desired information. Recent cases out of New York state court affirm the holding in *Lipco* that parties requesting electronic discovery pay the cost of production. *See Etzion v. Etzion*, 2005 N.Y. Misc. LEXIS 519 (N.Y. Sup. Ct., Nassau Cty. Feb. 17, 2005); *Delta Fin. Corp. v. Morrison*, 2006 NY Slip Op. 26332 (N.Y. Sup. Ct. Nassau Cty. Aug. 17, 2006) [unpublished opinion].



## ORRICK

- I. Courts may be more inclined to order cost-shifting for restoration of old legacy e-mail systems where the cost outweighs the likelihood of finding relevant information. *See, e.g., Byers v. Illinois State Police*, 2002 U.S. Dist. LEXIS 9861 (N.D. Ill. June 3, 2002) (requesting party in employment discrimination suit entitled to discovery of employer’s old e-mail system containing data up to eight years old but required to pay cost to review e-mails from obsolete e-mail system on back-up tapes).
- J. With the new changes to the FRCP, potential disputes over formatting issues should be addressed at the scheduling conference (Rule 26(f)) and in requests for production (Rule 34(b)). Up until now though, cost-shifting disputes have arisen over how electronic evidence is formatted and which party must pay for formatting conversion. In an employment discrimination case, *Quinby v. WestLB AG*, 2006 U.S. Dist. LEXIS 64531 (S.D.N.Y. Sept. 5, 2006), the plaintiff contended that the defendant violated its duty to maintain discoverable e-mails in a particular format. *Id.* at \*24. Allegedly, after it should have reasonably anticipated the litigation, defendant converted and “backed-up” relevant e-mails, making them less accessible for discovery. *Id.* at \*23. Defendant sought to shift costs of restoring and searching the data to the plaintiff. In ruling on defendant’s motion, the court declined to sanction the defendant but also refused to help the defendant by shifting costs to the plaintiff. *Id.* at \*26-27. The court held that whether cost-shifting is available for data conversion hinges on whether the litigation was reasonably foreseeable. If the litigation was not foreseeable, the conversion costs may still be shifted. *Id.* The policy articulated in this decision burdens the responding party with the cost of restoring any data they placed in an inaccessible format, thereby discouraging conversion to such formats in the first place. *Id.* at \*30.

### V. THE DUTY TO PRESERVE AND PRODUCE ELECTRONIC DOCUMENTS

- A. Once a party has notice of a potential claim, that party is under a duty to preserve records that might be subject to discovery, including electronic data and information. Failure to do so may lead to a claim of spoliation. (See Section VIII, *infra.*) Upon notice of a possible claim, it is recommended that in-house attorneys advise their clients in writing, including individuals with responsibility for preservation of the company’s electronic data, of the need to preserve evidence. Plaintiffs’ attorneys are with increasing frequency sending preservation letters to opposing counsel – even before the dispute has developed into a lawsuit – reminding them of their duty to preserve records.
- B. In yet another sequel, the court in *Zubulake v. UBS Warburg LLC*, 229 F.R.D. 422 (S.D.N.Y. 2004) (“Zubulake V”), created a guideline for a

THE E-DISCOVERY TRACK: WHAT EVERY LAWYER NEEDS TO KNOW; WHAT’S EXPECTED



## O R R I C K

party and its legal counsel to follow for locating discoverable information and ensuring preservation of that information. The court's decision was spurred by evidence plaintiff submitted demonstrating that defendant, and its legal counsel, failed to communicate with some key employees about retaining and turning over discoverable information. Further, discovering that some of defendant's employees intentionally deleted relevant e-mails in spite of legal counsel's admonishments not to do so, the court ultimately held the defendant party responsible for spoliation.

The court explained that a party and its legal counsel have an obligation, once they reasonably anticipate litigation: (1) to locate relevant information and (2) to ensure preservation of the information. First, a party and its counsel must make certain that all sources of potentially relevant information are identified and placed "on hold." This might include counsel directly communicating with "key players" (*i.e.*, the people identified in a party's initial disclosure and any subsequent supplementation thereto) or running a system-wide keyword search to discover potential sources of information. Counsel must take "affirmative steps" to identify and monitor discoverable information, and not solely rely on employees to retain and produce relevant information on their own.

Second, counsel must periodically re-issue the litigation hold to inform new employees and to remind already existing employees of their duty to retain relevant information. The court emphasized that since key employees are most likely to have relevant information, counsel should stress the importance of preserving relevant information to them (including providing reminders). Finally, counsel should instruct all employees to produce electronic copies of their relevant active files and ensure that all backup media, which might be a source of relevant information, be safeguarded, either by taking physical possession or holding it in storage.

- C. Under the new FRCP amendments, counsel must be even more proactive in locating and producing ESI. In *Phoenix Four, Inc. v. Strategic Res. Corp. [SRC]*, 2006 U.S. Dist. LEXIS 32211 (S.D.N.Y. May 22, 2006), Judge Harold Baer, Jr. referenced (what were at the time forthcoming amendments and are now) new FRCP rules, and made it clear that counsel for the producing party must not only request documents, their duty also extends to searching for sources of information. *Id.* at \*17. Counsel for the producing party in *SRC* failed to ask about computers their clients had moved and never undertook a "methodological survey" of their client's electronic resources. Because of these deficiencies, the court found that the inaction of SRC's counsel constituted "gross negligence." *Id.* at \*17-18. Although the court found that the plaintiff had established all the elements necessary for an adverse inference instruction, in this instance,

THE E-DISCOVERY TRACK: WHAT EVERY LAWYER NEEDS TO KNOW; WHAT'S EXPECTED



## O R R I C K

the court declined to impose that sanction since the defendants eventually came forward with the information. *Id.* at \*21. In a later proceeding, monetary sanctions were assessed against defendants for destruction and late production of ESI. *Phoenix Four, Inc. v. Strategic Res. Corp. [SRC]*, 2006 U.S. Dist. LEXIS 52402 (S.D.N.Y. Aug. 1, 2006).

- D. Even where a party has produced paper documents, it may be required to preserve and produce computer-generated documents reflecting the same information. *See, e.g., Zhou v. Pittsburg State Univ.*, 2003 WL 1905988 (D. Kan. Feb. 5, 2003) (in employment discrimination case, university compelled to preserve and produce all data compilations, computerized data and other electronically recorded information reflecting salaries of university's faculty, despite having produced typewritten documents setting forth requested salary data in table format).
- E. A court may permit a requesting party on-site access to the responding party's computer system where a responding party has failed to cooperate in document production or there is some reason to suspect that responding party may have intentionally deleted data. *See, e.g., Playboy Enters. v. Welles*, 60 F. Supp. 2d 1050 (S.D. Cal. 1999) (ordering defendant to grant plaintiff access to defendant's hard drive through court-appointed expert after receiving evidence of likely deletions); *Premier Homes and Land Corp. v. Cheswell, Inc.*, 240 F. Supp. 2d 97 (D. Mass. 2002) (ordering production of "mirror copy" of plaintiff's electronic data to defendant's experts upon showing that part of an e-mail may have been fabricated); *Jicarilla Apache Nation v. United States*, 60 Fed. Cl. 413 (Fed. Cl. 2004) (granting protective order allowing the requesting party access to all records not privileged or protected from disclosure).
- F. Willful destruction or withholding of discoverable information may result in harsh sanctions. *Zubulake V* explained that once legal counsel makes clear to the party and its employees their duty to retain and preserve relevant information (see Part B, above), the party acts at its own peril if it disregards the instructions given. *Zubulake*, 229 F.R.D. at 436. Because the court found in part that the defendant's employees "willfully" deleted and withheld discoverable information, the court sanctioned the defendant by giving an adverse inference instruction and ordering defendant to pay costs of any deposition or re-deposition required due to the late production.

Negligent delay in producing electronic evidence may also lead to severe sanctions. In *Residential Funding Corp. v. De George Fin. Corp.*, 306 F.3d 99 (2d Cir. 2002), the Second Circuit vacated a lower court order denying sanctions (an adverse inference jury instruction) and ordered a new hearing on sanctions because plaintiff had failed to produce responsive e-mail until after trial had begun. Plaintiff had relied on a



## O R R I C K

computer expert to assist with production, who plaintiff claimed had trouble retrieving e-mail, did not excuse plaintiff's conduct. The court held that mere negligence was sufficient to establish the "culpable state of mind" factor required for an adverse inference instruction.

### VI. PRESERVING PRIVILEGE & INADVERTENT DISCLOSURE

- A. Information stored in electronic format is subject to the same traditional legal privileges applicable to paper (attorney/client privilege and work product doctrine). The sheer volume of e-mails that may need to be reviewed in connection with a discovery request increases the likelihood that a privileged document may be inadvertently produced to the requesting party. Courts are likely to apply traditional tests, which vary by jurisdiction, to determine whether the inadvertent disclosure waived the privilege. The FRCP amendments encourage early resolution of how parties to litigation will protect against waiver of privilege due to the inadvertent production of documents and data. While these changes will hopefully prevent later disputes, discussion of case law involving recent battles over ESI and privilege illuminate possible pitfalls.
- B. Inadvertent disclosure may lead to a subject-matter waiver. A case in point is *Hollingsworth v. Time Warner*, 812 N.E.2d 976 (Ohio 2004). In this wrongful discharge case, the Ohio state court ruled that the voluntary production of an e-mail in a prior proceeding had the effect of a subject matter waiver. During the prior proceeding, defendant's counsel produced an e-mail that had been sent to defendant's senior counsel summarizing why the employee had been fired. In the later case, the same e-mail was produced inadvertently. The employee claimed subject-matter waiver and filed a motion to compel production of related documents. The trial court found for the employer, ordered the employee to return the e-mail, and denied the motion to compel. On appeal, the court reversed the decision on the grounds that the trial court abused its discretion in not ordering the production of other e-mails and documents. *Id.* at 991-92.

A more recent Ohio decision, involving the inadvertent but voluntary production of privileged documents during discovery, adopted federal factors for Ohio trial courts to apply when addressing contested materials. *Miles McClellan Constr. Co. v. Bd. of Education Westerville City Sch. Bd.*, 2006 Ohio App. LEXIS 3366 (Ct. App. Ohio, June 30, 2006). The five federal factors, used in a balancing test are: "(1) the reasonableness of the precautions taken by the party asserting privilege to prevent the disclosure, (2) the time taken to rectify the inadvertent error, (3) the scope and nature of the discovery proceedings, (4) the extent of the disclosure in relation to a role in discovery proceedings, and (5) the overriding issue of fairness." *Id.* at \*16.



## ORRICK

In contrast to *Hollingsworth*, other courts have found no subject matter waiver. For example, in *United States v. Rigas*, 2003 WL 22203721 (S.D.N.Y. Sept. 22, 2003), Defendants supplied Plaintiff with 26 computer hard drives in response to subpoenas. Plaintiff installed the hard drives at the U.S. Attorney's Office to review the data. A computer consultant hired by the defense was allowed to make a copy of the hard drives while they were installed in the government's system. The result was that the defense inadvertently copied grand jury information, confidential law enforcement information, and work product. The court, using a multifactor balancing test found that there was no work product waiver. More specifically: 1) there were reasonable precautions preventing disclosure; 2) compared to the total materials produced, the disclosure was only a miniscule amount; 3) there was no delay in asserting privilege and return of the files. In cases such as *Rigas*, fairness concerns will preclude the finding of a waiver.

- C. Allowing one party on-site access to another party's computer system also creates a risk of privilege waiver. Accordingly, courts attempt to safeguard privileged information by appointing computer forensics experts to review the data and by limiting the scope of discovery. For example, in *Simon Property Group L.P. v. mySimon, Inc.*, 194 F.R.D. 639 (S.D. Ind. 2000), the court granted plaintiff's request to access defendant's computers and retrieve deleted files. However, the court limited discovery to areas reasonably likely to contain relevant information and allowed discovery only on mirror images created by a court appointed expert. To the extent the computer expert had access to privileged information, such disclosure was not deemed to be a waiver of the attorney-client privilege.
- D. The amendments to FRCP 34, also discourage direct inspection of an opponent's computer system. Under the new rule, and in line with prior case law, access is allowed to perform mirror imaging only when the court finds that the party's own document production has been deficient and when a search of the computer system could uncover relevant deleted information. *Diepenhorst v. City of Battle Creek*, 2006 U.S. Dist. LEXIS 48551 at \*9 (W.D. Mich. June 30, 2006) (denying defendant in a sexual harassment suit the opportunity to image the plaintiff's disk drive because defendant failed to show any discovery misconduct on the plaintiff's part and did not identify any relevant information to be uncovered from the proposed process). *See also, Scotts Co. LLC v. Liberty Mut. Ins. Co.*, 2007 U.S. Dist. LEXIS 43005 (S.D. Ohio June 12, 2007) (affirming *Diepenhorst*).

## **VII. ADMISSIBILITY OF ELECTRONIC COMMUNICATIONS**

- A. Computerized business records do not require any special authentication evidence simply because the documents are in computerized form.

THE E-DISCOVERY TRACK: WHAT EVERY LAWYER NEEDS TO KNOW; WHAT'S EXPECTED



## ORRICK

Weinstein's *Federal Evidence*, 2d Ed., Vol. 5, § 901.08 (2003). For example, in *Victory Mem'l Hosp. v. Rice*, 143 Ill. App. 3d 621 (1986), the plaintiff hospital brought an action against the defendant patient to seek payment for medical hospital services that were rendered to him. The plaintiff sought to introduce into evidence computer-generated hospital bills to demonstrate the reasonableness of the charges. The trial court did not allow the computer-generated hospital bills into evidence questioning the reliability and trustworthiness of the data as it was entered into the computer. The hospital maintained that the only way to verify the information was to match the computerized bill against the original entry data, a process that was extremely complicated and time consuming. The appellate court held that the records were admissible because "proper foundation was presented to establish that the source of the information and method of preparation indicated trustworthiness and supported admission of the entire computerized bill." *Id.* at 627.

- B. The authentication foundation for admitting e-mail is the same for admitting paper documents, that is, "evidence sufficient to support a finding that [it] is what its proponent claims." FED. R. EVID. 901(b)(4). Weinstein's *Federal Evidence*, 2d Ed., Vol. 5, § 900.07[3][c]. An e-mail's distinctive characteristics, such as its "contents, substance, internal patterns, or other distinctive characteristics, taken in conjunction with circumstances" may be sufficient for authentication. *Id.*
- C. Although the evidentiary requirements for introducing ESI are the same as other, more conventional forms of evidence, in an extremely detailed opinion, the District of Maryland, explained how often litigants neglect to properly set forth grounds for the admission of ESI. *Lorraine v. Markel Am. Ins. Co.*, 2007 U.S. Dist. LEXIS 33020, No. PWG 06-1893 (D. Md. May 4, 2007). In this 84 page opinion, the court emphasizes the importance of adhering to the basic thresholds of relevance and authenticity when dealing with ESI. The court also painstakingly, details various methods for meeting the authentication requirements for, among other things, e-mails, website postings, chat room content, and digital photographs. This thorough opinion, which addresses a host of admissibility issues, may be a particularly useful reference for attorneys seeking or opposing the admission of ESI.
- D. E-mail communications will often be considered hearsay, but may be admissible under the business record exception. The offering party must show that: (1) the message reflects the drafter's personal knowledge; (2) the message was made in the regular course of business; and (3) the business entity regularly makes and retains such records. FED. R. EVID. 803(6).



O R R I C K

**VIII. SPOILIATION**

- A. Spoliation Defined: Spoliation has been defined as the destruction, alteration, or failure to preserve evidence. *See, e.g., Byrne v. Town of Cromwell*, 243 F.3d 93, 107 (2d Cir. 2001). New York courts generally do not recognize a separate cause of action for spoliation of evidence. *See Sterbenz v. Attina*, 205 F. Supp. 2d 65, 71-72 (S.D.N.Y. 2002); *Tiano v. Jacobs*, 2001 WL 225037, \*12-13 (S.D.N.Y. March 6, 2001).
- B. Requirements for Imposing Sanctions for Spoliation:
1. Obligation to Preserve Evidence. The party accused of spoliation “must have had an obligation to preserve [the evidence] at the time it was destroyed.” *Kronisch v. United States*, 150 F.3d 112, 126 (2d Cir. 1998).
  2. Obligation Triggered by Litigation. An obligation to preserve evidence arises “when the party has notice that the evidence is relevant to the litigation or when a party should have known that the evidence may be relevant to future litigation.” *See Fujitsu Ltd. v. Fed. Express Corp.*, 247 F.3d 423, 435-36 (2d Cir. 2001). A party may be put on notice of the relevance of documents when it receives:
    - a. notice that litigation is “likely to be commenced,” *i.e.*, receipt of a pre-litigation attorney demand letter, *see Turner v. Hudson Transit Lines, Inc. v. Zozichowski*, 142 F.R.D. 68, 73 (S.D.N.Y. 1991);
    - b. a copy of the complaint, *see Skeete v. McKinsey & Co., Inc.*, 1993 WL 256659, at \*4 (S.D.N.Y. July 7, 1993) (“the complaint itself may alert a party that certain information is relevant and likely to be sought in discovery”); and
    - c. discovery requests, *see Turner*, 142 F.R.D. at 73.
  3. Obligation Triggered by Record Retention Laws. Record retention laws, such as the Equal Employment Opportunity Commission’s record retention regulations, *see* 29 C.F.R. § 1602.40, can create an obligation to preserve evidence for purposes of a spoliation claim. However, for such a duty to attach, the party seeking sanctions for spoliation must be a member of the general class of persons that the legislature or regulatory agency sought to protect in promulgating the statute or rule. *Byrne*, 243 F.3d at 109



## O R R I C K

(“destruction of evidence in violation of a regulation that requires its retention can give rise to an inference of spoliation”).<sup>11</sup>

4. Culpable State of Mind. Courts differ on the state of mind requirements needed to issue sanctions on a charge of spoliation. In the Second Circuit, courts may determine on a case-by-case basis what state of mind is required in order to issue sanctions for spoliation. *Id.* at 108. The Second Circuit has noted that sanctions for spoliation may be imposed when a party intentionally destroyed evidence, destroyed evidence in bad faith, or was grossly negligent in failing to preserve evidence. *Id.*

In other jurisdictions, a bad faith requirement is necessary to issue sanctions on a charge of spoliation. Mere negligence or unintentional conduct will not satisfy the elements of the spoliation doctrine. *See Slattery, Jr. v. United States*, 46 Fed. Cl. 402, 405 (Fed. Cl. 2000).

In a discussion about the culpable state of mind required to impose adverse inference sanctions on a spoliating party, the court in *Consol. Aluminum Corp. v. Alcoa, Inc.*, 2006 U.S. Dist. LEXIS 66642 at \*23 n.14 (M. D. La. July 19, 2006) distinguished cases that imply bad faith from the negligence of the spoliating party since those cases involved tangible evidence. The court reasoned that electronic evidence should be subject to a different standard since it is routinely destroyed via regular procedures.

5. Destroyed Evidence Relevant to Litigation. In order to demonstrate prejudice, the party making the spoliation motion must demonstrate that the destroyed evidence would have been relevant to the pending litigation. *Byrnie*, 243 F.3d at 108 (“The burden falls on the ‘prejudiced party’ to produce ‘some evidence suggesting that a document or documents relevant to substantiating his claims would have been included among the destroyed files.’”); *Kronisch*, 150 F.3d at 127 (“before we permit the drawing of an adverse inference, we require some showing indicating that the destroyed evidence would have been relevant to the contested issues”).

### C. Purpose of Sanctions:

<sup>11</sup> In *Byrnie*, the court noted, in *dicta*, that “violation of a rule that records be retained for securities disclosure purposes would not create a duty to preserve covered records for use in a subsequent employment discrimination suit.” 243 F.3d at 109.



## O R R I C K

1. Punishment & Deterrent. Sanctions are designed to deter and punish parties from destroying evidence. A sanction, such as an adverse inference instruction, places the risk of an erroneous evaluation of the content of the destroyed evidence on the party responsible for its destruction. *Byrnie*, 243 F.3d at 107; *Kronisch*, 150 F.3d at 126.
2. Remedial Purpose. Sanctions are designed to restore the party harmed by the loss of the evidence to the same position it would have been in absent the spoliation of evidence. *Id.*; *Kronisch*, 150 F.3d at 126.

### D. Sanctions Available:

1. Monetary Fees. One of the least severe sanctions for spoliation is a monetary award, which often is limited to the attorneys' fees and costs incurred in seeking the lost evidence and in making the spoliation motion. *See Turner*, 142 F.R.D. at 78-79 (awarding \$6,723.65 in sanctions for destruction of evidence and other discovery abuses).

In place of more stringent sanctions, courts may also order spoliating parties to pay their opponent's costs of re-deposing witnesses about issues raised by destroyed or newly discovered evidence. *Alcoa*, 2006 U.S. Dist. LEXIS 66642 at \* 36; and *see infra*, *Zubulake v. UBS Warburg LLC*, 220 F.R.D. 212 (S.D.N.Y. 2003).

2. Adverse Inference. Perhaps the most common remedy for spoliation is an adverse inference instruction. Such instructions can greatly penalize the parties against whom they are asserted. In the typical case where a court finds that an adverse inference instruction is warranted, the court will instruct the jury that it may infer from a party's destruction of documents that such documents would have been unfavorable to that party. Courts also have imposed an adverse inference sanction to deny a party's motion for summary judgment. *See Kronisch*, 150 F.3d at 128 ("where the innocent party has produced some (not insubstantial) evidence in support of his claim, the intentional destruction of relevant evidence by the opposing party may push a claim that might not otherwise survive summary judgment over the line").

In *Zubulake v. UBS Warburg LLC*, 229 F.R.D. 422 (S.D.N.Y. 2004) ("Zubulake V"), the court held that UBS intentionally and willfully deleted information, which resulted in the tardy production or even complete absence of such information. As a sanction, the court provided an adverse inference instruction to the

THE E-DISCOVERY TRACK: WHAT EVERY LAWYER NEEDS TO KNOW; WHAT'S EXPECTED



## O R R I C K

jury. In essence, the adverse inference instruction allowed the jury to infer that the information destroyed or withheld would not have been favorable to UBS. The jury used this instruction to award Zubulake \$29.2 million dollars in compensatory and punitive damages.

3. Preclusion of Evidence. Another more severe spoliation sanction precludes a party from even offering certain evidence at trial. *See Cine Forty-Second St. Theatre Corp. v. Allied Artists Pictures Corp.*, 602 F.2d 1062, 1064 (2d Cir. 1979) (holding that a plaintiff's grossly negligent failure to produce discovery justified the preclusion of all evidence related to damages, even though that sanction was "tantamount to a dismissal" of plaintiff's claim).
4. Dismissal of Case. Dismissal of a case due to spoliation is generally used in only the most "most extreme circumstances" and only upon a finding of willfulness or bad faith destruction of documents. *See Jones v. Niagara Frontier Transp. Auth.*, 836 F.2d 731, 734-35 (2d Cir. 1987).

### E. Recent Decisions of Interest:

1. *United States v. Philip Morris USA Inc.*, 327 F. Supp. 2d 21 (D.D.C. 2004). In a lawsuit to recoup health care costs paid by the federal government as a consequence of tobacco-related illnesses, the court imposed severe sanctions against the defendant for failing to comply with its order to preserve documents (Order #1) and the defendant's own internal retention policies, including a "print and retain" policy. The court further found "astounding" that several key employees (11 total), including those at the highest corporate level, willfully disobeyed Order #1 and the defendant's retention policy, which lead to the destruction of potentially highly relevant documents. Calling the defendant a "sophisticated corporate litigant," the court implied that the giant tobacco company should have known better than to defy Order #1 and its own retention policies for more than two years. Recognizing the prejudice to the government, the court precluded those key employees, and any other employee who failed to comply with the defendant's retention policy, from testifying in any capacity. Although the court refused to provide an adverse inference instruction against the defendant, it awarded a monetary sanction of \$2,995,000 against the defendant (\$250,000 per key employee).
2. *Zubulake v. UBS Warburg LLC*, 220 F.R.D. 212 (S.D.N.Y. 2003) ("Zubulake IV"). Following the court's order in *Zubulake III* (see Section IV.E *supra*) that UBS produce certain backup tapes and



## ORRICK

e-mail files, UBS discovered that some of these files, including those of “key players” in the case, had been destroyed. Zubulake moved to sanction UBS for failing to preserve missing backup tapes and deleted e-mails. Applying the test for spoliation, Judge Scheindlin found that UBS was negligent in failing to retain backup tapes of co-workers and grossly negligent for losing the backup tapes of a human resources employee handling Zubulake’s charge. In so holding, the court noted that UBS was on notice of potential litigation even before Zubulake filed her EEOC charge and should have known that the files in question were likely to have relevant information. The court also noted that UBS had failed to follow its own document retention policy as well as a directive from in-house counsel that certain tapes be preserved. Thus, the court held that Zubulake met the first two elements of spoliation. However, according to the court, Zubulake failed to show that the missing e-mails would support her claims, the third prong of the analysis. Accordingly, the court denied Zubulake’s request for an adverse inference instruction as well as an order requiring UBS to pay the full costs of restoring the remainder of the backup tapes. However, the court did grant Zubulake’s request that UBS bear the costs for redepositing certain witnesses regarding the issues raised by the destruction of documents and any newly discovered e-mails.

3. *Kucala Enters. Ltd. v. Auto Wax Co.*, 2003 WL 21230605 (N.D. Ill. May 27, 2003). In *Kucala*, a patent infringement action, the district court granted defendant’s request to have its computer forensic expert inspect plaintiff’s computers. Upon examining plaintiff’s computer, defendant’s computer forensic expert discovered that, the night before the scheduled inspection, plaintiff had used “Evidence Eliminator,” a software deletion program, to delete over 15,000 potentially relevant files from its computer. Citing plaintiff’s egregious conduct which resulted in the destruction of relevant evidence, the district court dismissed plaintiff’s complaint and awarded defendant its attorneys’ fees.
4. *Keir v. Unumprovident Corp.*, 2003 WL 21997747 (S.D.N.Y. Aug. 23, 2003). In *Keir*, an ERISA class action suit, defendant (the “Company”) was sued by its disability insurance policyholders who alleged that the company had provided incentives to its employees to deny claims. During discovery, plaintiffs sought e-mail messages sent in the days following the airing of two television reports relating to the class action, and the district court entered an order requiring the Company to preserve such e-mails. Thereafter, the Company caused the deletion of the e-mails. Although it concluded that the deletion of the e-mails was



## ORRICK

inadvertent, the court found that the Company had delegated the task of complying with the court's order to information technology workers (many of whom were contract workers), who were insufficiently supervised and who were not fully informed of the scope of the court's preservation order. The court refrained from issuing any sanctions for spoliation, explaining that it was premature to determine whether the plaintiffs had suffered any prejudice, since the Company still was trying to recover other relevant e-mail messages.

5. *Metro. Opera Ass'n, Inc. v. Local 100*, 212 F.R.D. 178 (S.D.N.Y. 2003). In *Metropolitan Opera*, the district court entered judgment against the defendants due to the spoliation of evidence (including e-mail messages and other electronic evidence) and other egregious discovery abuses by the defendants and their attorneys. The court began its detailed and lengthy opinion by stating that the "discovery process in this case . . . transcended the usual clashes between adversaries, sharp elbows, spitballs and even Rambo litigation tactics." *Id.* at 181. The court went on to find that, not only had relevant evidence been destroyed, but defense counsel also: (1) had repeatedly represented to the court that all documents responsive to plaintiff's requests had been produced "when, in fact a thorough search had never been made and counsel had *no* basis for so representing;" (2) had failed to force the defendants to institute a document retention policy which would have prevented the destruction of relevant documents; (3) had completely abdicated their responsibilities in the discovery response; and (4) had lied to the court about a witness' availability for a court-ordered deposition. *Id.* at 181. The court specifically noted that, although individually the spoliation and discovery abuses "would not ordinarily move a court to impose the most severe sanction," "the combination of outrages" warranted the rarely used remedy because the abuses prejudiced the plaintiff's ability to prepare for trial. *Id.* at 229-30.
6. *In re J.P. Morgan Sec. Inc.*, SEC, Admin. Proc. File No. 3-11828 (Feb. 14, 2005). The SEC, NASD, and NYSE charged J.P. Morgan for not preserving e-mail for the requisite three-year period and for not having adequate e-mail preservation systems or procedures. Without admitting or denying wrongdoing, J.P. Morgan settled the charges for \$2.1 million. J.P. Morgan also agreed to establish procedures for e-mail preservation compliance.
7. *Nartron Corp. v. Gen. Motors Corp.*, 2005 WL 26991 (Mich. Ct. App. Jan. 6, 2005) (unpub.). Nartron appealed a trial court decision granting costs, sanctions for discovery abuse, and



## O R R I C K

prejudgment interest in favor of the defendant. The trial court found that plaintiff's reluctance to produce a requested database sufficiently damaged the entire discovery process. On appeal, Nartron argued that it did not need to produce the database since it had produced more than 61,000 pages of documentation. The appellate court affirmed the trial court's holding since Nartron did nothing to refute the trial court's finding by demonstrating its conduct regarding the database was justified. All sanctions and fees in favor of the defendant were affirmed.

8. *United States v. Merck-Medco Managed Care, L.L.C.*, 2005 WL 273030 (E.D. Pa. Feb. 2, 2005). Plaintiffs filed for a motion to modify a case management order based on defendants' prior discovery conduct. A month after the discovery deadline, defendants "completed" production. Included in this production were several hard drives and files containing questionable and missing data. Not included in this production were thirteen boxes withheld as potentially privileged. The court admonished the defense for their "dilatatory" disclosure. The court granted plaintiffs' motion to amend the case management order and warned defendants that any other violations of discovery processes could result in sanctions.
  
9. *Coleman (Parent) Holdings, Inc. v. Morgan Stanley & Co.*, 2005 WL 679071 (Fla. Cir. Ct. Mar. 1, 2005). In a suit alleging a fraudulent sale of stock, Coleman sought to have Morgan Stanley produce ESI. Morgan Stanley responded by stating that the items sought could only be retrieved at a large cost. Eventually, the court entered an order (agreed upon by both parties) under which Morgan Stanley was to meet certain production requirements. After the production requirements were met, Morgan Stanley was certify its compliance with the agreed order. Morgan Stanley then produced 1,300 more pages of e-mail and certified its compliance order. The court ordered an adverse inference instruction after finding that Morgan Stanley certified the compliance order when more than 1,400 backup tapes containing data had not yet been processed, much less produced. The court also found that there were several other examples of Morgan Stanley flouting discovery requirements. Thus, in addition to the adverse inference instruction, the court required Morgan Stanley to pay the costs of plaintiff's motions. In a separate but related proceeding, which was later overturned, the court revoked the *pro hac vice* admission of Morgan Stanley's out-of-state counsel to appear in the case. *Clare v. Coleman (Parent) Holdings, Inc.*, 928 So. 2d 1246, 1247 (Fla. Dist. Ct. App. May 24, 2006).



O R R I C K

10. *Galvin v. The Gillette Co.*, 19 Mass. L. Rep. 291 (Mass. Super. Apr. 28, 2005). Under his powers as the Secretary of the Commonwealth of Massachusetts, William Galvin sought information regarding the acquisition of Gillette by Proctor & Gamble. Galvin served Gillette with a *duces tecum* subpoena demanding the production of a wide array of material involving the acquisition. More specifically, Galvin sought to examine the e-mail of certain Gillette employees who communicated information to UBS and Goldman Sachs. Although the subpoena was quashed for being too far reaching in scope, the court did so without prejudice. This effectively allowed Galvin to resume his inquiry, albeit in a limited scope. In a second attempt to subpoena records from Gillette, *Galvin v. The Gillette Co.*, 1005 Mass. Super. LEXIS 248 (May 19, 2005), the court enforced an order compelling Gillette's production of a limited class of electronic evidence likely to pertain to the acquisition at issue. The court declined to enforce a more expansive order which would have forced Gillette to produce, at its own expense, all evidence from the company's electronic and computerized devices.
11. *Leon v. IDX Sys. Corp.*, No. 04-35983, 2006 U.S. App. LEXIS 23820 (9th Cir. Sept. 20, 2006). Dr. Leon, a director at IDX, complained about financial irregularities and mismanagement in the reporting of one of the company's federally funded projects. In response, IDX placed Leon on unpaid leave and sought declaratory relief to establish that IDX had a right to terminate him without violating anti-retaliation provisions of the False Claims Act, Sarbanes-Oxley Act (SOX), and the Americans with Disabilities Act (ADA). After Leon sued on his own behalf, the Department of Labor brought a SOX claim on Leon's behalf, which IDX sought to enjoin. IDX immediately sought production of Leon's work-issued laptop, but allowed Leon (upon his request) to keep possession of his laptop for the "specific purpose of responding to [audits regarding the federally-funded program at issue]." IDX sent letters to Leon warning him to preserve all data. Despite these warnings, once IDX received his laptop, a forensics expert confirmed that all the data in the "hard drive's unallocated space" had been wiped and that the laptop had been used to view pornography. In response to IDX's motion for dismissal and sanctions based on spoliation of evidence, the District Court found that the destruction of evidence was intentional and in bad faith. The court dismissed Leon's claim with prejudice and ordered Leon to pay the costs of IDX's motion to dismiss. However, the District Court refused to enjoin the DOL suit. On appeal, the Ninth Circuit affirmed the dismissal of Leon's action. With regard to the DOL suit, the Ninth Circuit found it was in privity with Leon's

THE E-DISCOVERY TRACK: WHAT EVERY LAWYER NEEDS TO KNOW; WHAT'S EXPECTED



O R R I C K

individual suit and sent this issue back to the District Court to consider issuing an injunction.

**IX. DISCOVERY OF SURREPTITIOUS TAPE RECORDINGS BY EMPLOYEES**

- A. When an employee anticipates that his employment is about to be terminated, he might attempt to arm himself for a potential lawsuit against his employer by opting (with or without input from his attorney) to tape record conversations with his supervisors, in the hopes of capturing a “smoking gun” comment on tape.

After the employee sues, is the employer entitled to obtain copies of the tape recordings through discovery, or are the recordings protected as work product? If the recordings are discoverable, is the employee nonetheless entitled to withhold producing them until after the depositions of the individuals captured on tape?

- B. Tape recordings like those described above arguably constitute work product because they were made in anticipation of litigation, and thus would be discoverable only upon a showing of substantial need and inability to obtain equivalent information by the employer. FED. R. CIV. P. 26(b)(3). Since the employer can speak with the supervisor(s) to determine what was said to the former employee, it would be difficult for the employer to argue that it could not obtain the substantial equivalent of the tape-recorded statement.<sup>12</sup>

Because the employer can only speak through its employees, however, the supervisor’s statement would be attributable to the employer. As the employer is a party to the action, it is entitled to the statement without a showing of substantial need. FED. R. CIV. P. 26(b) (“A party may obtain without the required showing a statement concerning the action or its subject matter previously made by that party.”). The same is true where the supervisor himself is a party to the litigation, *e.g.*, where a claim is made under a statute that permits individual liability.

Initially, there is the threshold issue of whether surreptitious recordings are even discoverable. In *Fisher v. Nat’l R.R. Passenger Corp.*, 152 F.R.D. 145 (S.D. Ind. 1993), the court differentiates between recordings offered as evidence at trial, and non-evidentiary films. “Although surveillance films offered as evidence at trial must be provided to the opposing party upon proper request, non-evidentiary films remain

<sup>12</sup> Notably, work product protection in this situation does not turn on whether the employee’s attorney advised the employee to make the recordings. Rule 26(b)(3) protects not only material prepared in anticipation of litigation by a party’s attorney, but also material prepared *by the party*.



## O R R I C K

undiscoverable unless a substantial need for the films is shown.” *Id.* at 159. The court also adds in dicta that it would be quite difficult “to conceive of any circumstances which might prove so compelling as to justify disclosure of non-evidentiary videotapes and the concomitant intrusion into attorney work product.” *Id.* at 159.

- C. Even where statements are not attributable to an employer, courts have held that work product protection will not attach where recordings are surreptitiously made, because of the “unethical” conduct in secretly recording the conversations.

In *Ward v. Maritz Inc.*, 156 F.R.D. 592 (D.N.J. 1994), for example, Sally Ward sued her employer for sexual harassment and constructive discharge. Shortly after she commenced her lawsuit, Ward secretly tape recorded conversations she had with a former Maritz employee regarding the “working environment” in Maritz’s offices. Ward made the recordings at the suggestion of her counsel, who told her it would be helpful to obtain statements of employees familiar with the environment in Maritz’s offices.

Despite first holding that the tapes constituted work product, because they were prepared solely for use in litigation, the *Ward* court held that any work product protection which attached to the recordings was vitiated. *Id.* at 598. The court reached this conclusion by focusing on the New Jersey Rules of Professional Conduct and ABA Formal Opinion 337, which prevented Ward’s attorney from secretly tape recording the conversations on his own. The court held that it would be improper to permit Ward’s attorney to short circuit this rule simply by having his client make the recordings.

Other courts addressing this issue have reached the same conclusion, even where the party’s attorney was not involved in the decision to tape record the conversations. *See, e.g., Smith v. WNA Carthage, LLC*, 200 F.R.D. 576, 578 (E.D. Tex. 2001); *Sea-Roy Corp. v. Sunbelt Equip. & Rentals, Inc.*, 172 F.R.D. 179, 182 (M.D.N.C. 1997); *Otto v. Box U.S.A. Group, Inc.*, 177 F.R.D. 698, 701 (N.D. Ga. 1997); *Pfeifer v. State Farm Ins. Co.*, No. CIV. A. 96-1895, 1997 WL 276085, at \*3 (E.D. La. May 22, 1997).<sup>13</sup>

Many states, however, have rejected as too rigid Formal Opinion 337, upon which *Ward* and the other cases cited above relied, casting some doubt on the universal application of these cases. A recent opinion by the American Bar Association also raises a question as to their continued viability. In 2001, the ABA explicitly withdrew Formal Opinion 337,

<sup>13</sup> It is unclear how a court would rule if the plaintiff or his attorney made the witness aware that he was recording the conversation at the time the tape was made.



## ORRICK

after a groundswell of criticism regarding the Opinion. ABA Comm. on Prof'l Ethics and Grievances, Formal Op. 01-422 (June 24, 2001). It is now the ABA's opinion that surreptitious recording is not unethical as long as the recording is permitted by the law of the state where it occurs. *Id.* Accordingly, in one-party consent states,<sup>14</sup> work product protection may apply to such recordings. No court appears to have endorsed this conclusion, however. *Cf. Mena v. Key Food Stores Co-Operative, Inc.*, 758 N.Y.S.2d 246, 248-50 (N.Y. Sup. Ct. 2003) (holding that surreptitious tape recordings should not be suppressed because they did not violate New York's ethical rules).

- D. Courts have also grappled with the question of *when* surreptitious recordings must be produced, and have reached inconsistent conclusions.

Some courts have held that, because a party is entitled to a witness' unrefreshed recollection of a conversation reflected on a tape recording, it is proper to delay production of the tape until after the witness has been deposed. For example, in *Poppo v. AON Risk Servs., Inc.*, No. 00 Civ. 4165, 2000 WL 1800746 (S.D.N.Y. Dec. 6, 2000), the plaintiff sought a protective order delaying the production of surreptitious tape recordings until after the depositions of the persons captured on tape, to prevent the witnesses from "altering their testimony in order to conform with their recorded statements." Noting that "[s]ince biblical times the prospect of tailoring testimony and its ramifications has been understood and condemned," the court granted the plaintiff's motion, and ordered that the tapes be produced only after the depositions took place. *Id.* at \*1-2. *See also Walls v. Int'l Paper Co.*, 192 F.R.D. 294, 298-99 (D. Kan. 2000); *Torres-Paulett v. Tradition Mariner, Inc.*, 157 F.R.D. 487, 489 (S.D. Cal. 1994); *Sherrell Perfumes, Inc. v. Revlon, Inc.*, 77 F.R.D. 705, 707 (S.D.N.Y. 1977).<sup>15</sup>

A number of courts have reached the opposite conclusion, and ruled that a party should be permitted to review his prior recorded statement before being deposed. *See Smith v. WNA Carthage, LLC*, 200 F.R.D. at 579; *Pro Billiards Tour Ass'n, Inc. v. R.J. Reynolds Co.*, 187 F.R.D. 229, 231-32 (M.D.N.C. 1999); *Giladi v. Albert Einstein Coll. of Med.*, No. 97 Civ. 9805, 1998 WL 183874, at \*1 (S.D.N.Y. Apr. 15, 1998); *Sims v. Lafayette*

<sup>14</sup> According to a 1998 law review note cited in the Formal Opinion, only twelve states require the consent of all parties to the conversation: California, Connecticut, Delaware, Florida, Illinois, Maryland, Massachusetts, Michigan, Montana, New Hampshire, Pennsylvania, and Washington.

<sup>15</sup> Courts have also delayed production of other types of "statements" by a party until after the party's deposition. *See Daniels v. Nat'l R.R. Passenger Corp.*, 110 F.R.D. 160, 161 (S.D.N.Y. 1986) (delaying production of surveillance videotapes of witness until after witness' deposition); *Smith v. China Merchants Steam Navigation Co., Ltd.*, 59 F.R.D. 178, 179 (E.D. Pa. 1972) (proper to delay production of deponent's prior written statement until after deposition).



## ORRICK

*Parish Sch. Bd.*, 140 F.R.D. 338, 339 (E.D. La. 1992). *See also Ex parte Weeks*, 810 So. 2d 661, 666 (Ala. 2001).

The holdings in these latter cases find some support in the 1970 Amendments to Rule 26, in which the Advisory Committee noted that “[i]n appropriate cases the court may order a party to be deposed before his [prior] statement is provided.” This note suggests that there is a presumption in favor of the production of prior recorded statements before depositions, and that the presumption is only overcome in “appropriate” circumstances. The note does not explicate what those circumstances might be, however.

- E. The cases requiring immediate production of previously recorded statements generally draw a distinction between situations in which the statements will be introduced as substantive evidence at trial and those in which the statements will be used only for impeachment purposes.

Where the prior statements will be used as substantive evidence – such as where a plaintiff intends to introduce a recorded statement to support a claim of a hostile work environment – courts generally have held that pre-deposition production is required, because of the importance in the value of the statements to the issues in the case. *See Pro Billiards Tour Ass’n*, 187 F.R.D. at 231 (collecting cases). Where the statement is merely to be used for impeachment, however, its value is less significant, and delayed production is more appropriate. *See id*; *but see Sims*, 140 F.R.D. at 339 (rejecting a substantive/impeachment dichotomy; “[i]f preservation of impeachment value were a valid reason for delaying production of statements, then production would be delayed to a post-deposition point in every case,” which does not comport with the Advisory Committee note requiring delayed production only in “appropriate circumstances”).

- F. In the end, because courts are invested with significant latitude to control the “timing and sequence of discovery,” FED. R. CIV. P. 26(d), courts will have wide discretion to resolve disputes concerning the timing of production of prior recorded statements. *See e.g., Perkins v. Mem’l Sloan-Kettering Cancer Ctr.*, No. 02 Civ. 6493, 2003 WL 1831246, at \*1-2 (S.D.N.Y. Apr. 4, 2003) (requiring conversations tape-recorded by a sex discrimination plaintiff to be stored in a safe deposit box jointly controlled by the parties, so as to neither advantage nor disadvantage either side of the litigation).