

## Federal Circuit Reverses Taxation of ESI Expenses Where Parties Entered into Cost-Sharing Agreement, and Finds Abuse of Discretion Due to Lack of Evidence that Documents Were In Fact Produced

By Susan Ardisson, Esq.

The Federal Circuit recently held in *In re Ricoh Company, Ltd. Patent Litigation*, 661 F.3d 1361 (Fed. Cir. 2011) that the prevailing party in a patent case was not entitled to \$550,000 of expenses related to electronically stored information (ESI) which had been “taxed” as “costs” under 28 U.S.C. Section 1920(4) by the district court. First, the appellate court disallowed more than \$234,000 of taxed costs because the parties had entered into a cost-sharing agreement during litigation. Rejecting both

ter seven years of litigation, the district court granted summary judgment in favor of Synopsys, finding no infringement of the Ricoh patent.

After the entry of summary judgment against Ricoh, Synopsys filed a bill of costs, seeking the taxation of approximately \$1.375 million under Section 1920. The clerk taxed \$855,000 as costs which, after review, the district court increased to more than \$938,000.

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the clerk and district court’s decisions taxing such expenses, the Federal Circuit held that the parties’ cost-sharing agreement was “controlling” and should be interpreted as “a final, not interim, sharing of costs.” Second, the *Ricoh* court held that the district court abused its discretion in taxing over \$322,000 in “copying” costs under Section 1920(4) because there was insufficient evidence in the record to establish that the prevailing party had in fact produced the documents to Ricoh, the opposing party, as required by Section 1920(4) and the district court’s local rule. According to the *Ricoh* court, invoice descriptions such as “document production” were “generic” and “unhelpful” in shedding light on whether the documents were actually produced. The Federal Circuit remanded the case to the district court for further consideration.

In 2003, Ricoh filed a patent infringement suit in the District of Delaware against seven of Synopsys’ customers, relating to systems and processes for the design of application-specific integrated circuits. Synopsys responded by filing a declaratory judgment action against Ricoh in the Northern District of California. The lawsuits were consolidated in the Northern District of California. Af-

The first issue that the *Ricoh* court addressed was whether expenses associated with the creation of an on-line database used for the production of electronic documents were taxable under Section 1920(4) as “fees for exemplification and the cost of making copies of any materials where the copies are necessarily obtained for the use in the case.” Because the parties had been unable to agree on the form of ESI production (hard copy, TIFF or native), Ricoh suggested using an e-discovery vendor, Stratify, to produce emails in native format, and that the expenses for the ven-

### Note for Western District of Pennsylvania Practitioners:

The case of *Race Tires America v. Hoosier Racing Tire Corp.*, in which the court taxed ESI expenses as costs under 28 U.S.C. Section 1920(4), is currently on appeal to the Third Circuit. A decision is expected in the next several months.

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## Court Disallows Taxation of ESI Expenses Due to Cost-Sharing Agreement

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dor's services be shared between the parties. Synopsys agreed and the parties entered into a fourteen-page agreement. The vendor created a "document review database" which allowed Ricoh's lawyers to review the electronic documents that were produced.

The court first addressed Ricoh's argument that Synopsys' written agreement to share the ESI expenses precluded Synopsys from recovering its share of these expenses as a taxed cost under section 1920(4). Noting that there was "scant" authority from other circuits on the cost-sharing issue, the *Ricoh* court began its analysis by examining the cost-sharing agreement between the parties. The court concluded:

There is no indication in any of the extensive communications between the parties that they intended this cost-sharing agreement to be any-

original documents produced for the opposing party where that copy is supplied to the opposing party." See, *Stearns Airport Equip. Co. v. FMC Corp.*, 170 F.3d 518, 536 (5th Cir. 1999).

Under the district court's local rule, the burden was on Synopsys to provide appropriate documentation to support each item of expense claimed. The *Ricoh* court rejected the district court's finding that the copying expenses were recoverable because they "were primarily incurred in connection with the parties' document productions." After reviewing the invoices, the *Ricoh* court was unable to determine "what documents were being produced and to which side the copies were ultimately provided." Descriptions such as "document production" in the court's view did "not automatically signify that copies were produced to opposing counsel." Additionally, the court stated that such "generic statements" on the invoices are "unhelpful" in

***"According to the Ricoh court, after reviewing the invoices, it was unable to determine 'what documents were being produced and to which side the copies were ultimately provided.'"***

thing other than a final settlement of the cost of the...database.

Finding that Synopsys' agreement to share the cost of the database was controlling, the *Ricoh* court reversed the taxation of over \$234,000 in favor of Synopsys. In the course of its ruling, the Federal Circuit rejected Ricoh's alternative argument that the on-line email database was not "necessarily obtained for use in the case" because it was simply a "document review database" for the convenience of counsel, as opposed to a form of "document production." The Federal Circuit agreed with the district court that "the Stratify database was used as a means of document production in this case..." and that "[t]he act of producing documents is not so narrowly construed as to cover only printing and Bates-labeling a document..." (relying on Black's Law Dictionary).

Next the court addressed Ricoh's challenge to over \$322,000 in taxed costs under Section 1920(4), which Ricoh claimed were not incurred by Synopsys in the actual production of documents to Ricoh. On this point, the court stated that under Section 1920(4), the prevailing party can recover, as costs for reproduction and exemplification, "the costs incurred in preparing a single copy of the

determining whether those expenses are taxable. Finding abuse of discretion, the court remanded the case for a determination as to each item of claimed expenses.

As illustrated in *Ricoh*, if counsel enter into an ESI cost-sharing agreement, they should specifically state whether the agreement is only an "interim" agreement, or whether it waives any right to recover any taxable ESI copying expenses at the end of the case. In addition, a bill of costs claiming ESI copying expenses should be carefully documented to prove what was copied, and whether the copies were produced to the opposing party.

For questions or comments regarding this issue of qubit, please contact us at [info@bit-x-bit.com](mailto:info@bit-x-bit.com).

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