UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

REALTIME DATA, LLC d/b/a IXO,

Plaintiff,

-v-

CME GROUP INC., et al.,

Defendants.

11-cv-6697-KBF
11-cv-6699-KBF
11-cv-6702-KBF

MEMORANDUM
DECISION & ORDER

KATHERINE B. FORREST, District Judge:

Three motions are currently pending in the above-referenced actions: (1) a motion for attorneys' fees and costs, filed on April 18, 2014 by defendants CME Group Inc. ("CME"), Board of Trade of the City of Chicago Inc., and the New York Mercantile Exchange (collectively, "CME Defendants") (ECF No. 875); (2) a motion for review of the Clerk of Court's denial of costs, filed on May 23, 2014 by the CME Defendants (ECF No. 910); and (3) a motion for review of the Clerk of Court's award of costs to CME, filed on May 27, 2014 by plaintiff Realtime Data, LLC ("Realtime"). Each of these motions will be addressed in turn.

I. MOTION FOR ATTORNEYS' FEES AND COSTS

On April 18, 2014, the CME Defendants filed a motion for attorneys' fees and costs and submitted their supporting papers under seal. On May 19, 2014, Realtime filed its opposition (ECF No. 903), and on June 18, 2014, the CME Defendants filed their reply (ECF No. 920).

The CME Defendants request that pursuant to 35 U.S.C. § 285, 28 U.S.C. § 1927, and the Court's inherent authority, the Court deem this case exceptional and award: (1) the fees and expenses incurred following the Court's Markman Order until the CME Defendants' motion for summary judgment was granted; (2) the fees the CME Defendants incurred litigating plaintiff's counsel's assertions of privilege; and (3) the fees incurred in preparing the motion for fees and costs now before this Court. (Memorandum of Law in Support of the CME Defendants' Motion for Fees and Expenses ("Defs.' Fees Mem.") at 2-3, April 18, 2014.)

a. 35 U.S.C. § 285

Pursuant to 35 U.S.C. § 285, a court may award attorneys' fees to a prevailing party in "exceptional" patent litigation cases. The United States Supreme Court recently held that "an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." Octane Fitness, LLC v. ICON Health & Fitness, Inc., – U.S. – , 134 S.Ct. 1749, 1756 (2014). Exceptional cases are not merely those that involve sanctionable conduct. Id. at 1756-57. "District courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances." Id. (citation omitted).

Here, the Court determines that this case is not so exceptional as to warrant an award of fees and costs pursuant to 35 U.S.C. § 285. While plaintiff ultimately

did not prevail in the underlying litigation, its conduct was not so extreme or unreasonable that this case "stands out from others." The CME Defendants believe that plaintiff should have given up its case following the Court's claim construction; that it did not do so and ultimately lost on summary judgment does not itself amount to unreasonable or baseless conduct. In fact, a district court in the Central District of California recently suggested:

> To hold that [plaintiff] had to give up its infringement suit after claim construction and prior to the trial court's adjudication of the infringement claim would put future plaintiffs in an untenable position. Early claim construction, performed separately from summary judgment, is a common practice in patent cases. These claim constructions, issued separately from other motions, do not analyze issues of infringement or validity. Without such an analysis, an appellate court cannot properly exercise its appellate jurisdiction. An adverse claim construction issued apart from a case-dispositive motion would therefore put future plaintiffs at the mercy of defendants – plaintiffs would be unable to pursue a case-dispositive order and therefore a suitable record for appeal without risking an award of attorney fees.

(See Pl.'s 5/29/14 Ltr. at 2 (citing Kaneka Corp. v. Zhejiang Medicine Co., No. 11 Civ. 2389, at 8 (C.D. Ca. May 23, 2014)).

Similarly, the fact that plaintiff submitted a privilege log that subsequently required significant revisions is insufficient to justify a finding that this case is extreme. While the deficiencies in plaintiff's privilege log did necessitate a great deal of time and attention on the part of the CME Defendants, there is no indication that plaintiff acted so unreasonably under the circumstances as to justify an award of attorneys' fees pursuant to 35 U.S.C. § 285.

For these reasons, the CME Defendants' request for attorneys' fees and costs pursuant to 35 U.S.C. § 285 is denied.

b. 28 U.S.C. § 1927 and the Court's Inherent Authority

The CME Defendants' request for attorneys' fees and costs pursuant to 28 U.S.C. § 1927 is similarly denied. Pursuant to 28 U.S.C. § 1927, "[a]ny attorney . . . who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys' fees reasonably incurred because of such conduct." 28 U.S.C. § 1927. To impose sanctions under § 1927, "the trial court must find clear evidence that (1) the offending party's claims were entirely meritless and (2) the party acted for improper purposes." Agee v. Paramount Commc'ns Inc., 114 F.3d 395, 398 (2d Cir. 1997). Sanctions under § 1927 require "a clear showing of bad faith on the part of an attorney." Salovaara v. Eckert, 222 F.3d 19, 35 (2d Cir. 2000). "Bad faith may be inferred only if actions are so completely without merit as to require the conclusion that they must have been undertaken for some improper purpose such as delay." Id. (internal quotation marks and citation omitted).

Additionally, "a district court has inherent authority to sanction parties appearing before it for acting in bad faith, vexatiously, wantonly, or for oppressive reasons." PSG Poker, LLC v. DeRosa-Grund, No. 06 Civ. 1104, 2009 WL 2474683, at *3 (S.D.N.Y. Aug. 13, 2009) (quoting Sassower v. Field, 973 F.2d 75, 80 (2d Cir. 1992)).

There is nothing to suggest that plaintiff's counsel acted in bad faith or vexatiously in litigating this action. There similarly is nothing to suggest that the issues regarding plaintiff's privilege log were the result of conduct taken in bad faith.

Accordingly, the CME Defendants' request for attorneys' fees and costs pursuant to 28 U.S.C. § 1927 is denied.

II. MOTIONS FOR REVIEW OF DENIAL OF COSTS

On May 20, 2014, the Clerk of Court entered a Bill of Costs in this case. Two portions of that Bill of Costs are now at issue. First, the CME Defendants challenge the Clerk of Court's denial of $119,362.93 in exemplification and copies allegedly necessarily obtained for use in the case. (Defendants' Memorandum in Support of Motion for Review of Clerk's Denial of Costs ("Defs.' Costs Mem.") at 1, ECF No. 911, May 23, 2014.) Second, Realtime challenges the Clerk of Court's award of $19,458.55 for the costs associated with 18 distinct transcripts; Realtime argues that only seven transcripts, amounting to $7,986.00 in costs, are taxable. (Memorandum of Law in Support of Motion for Review of Clerk's Award of Costs to CME Group Inc. ("Pl.'s Costs Mem.") at 1, ECF No. 914, May 27, 2014.)

a. Legal Framework

Federal Rule of Civil Procedure 54(d)(1) provides district courts with the authority to award costs to a prevailing party. "Unless a federal statute, these rules, or a court order provides otherwise, costs – other than attorney's fees – should be allowed to the prevailing party." Fed. R. Civ. P. 54(d)(1). "The clerk may tax

costs on 14 days' notice. On motion served within the next 7 days, the court may review the clerk's action." Id.

"In reviewing a clerk's taxation of costs, a district court is to 'exercis[e] its own discretion to decide the cost question [it]self.'" Vuona v. Merrill Lynch & Co., No. 10 Civ. 6529, 2013 WL 1971572, at *1 (S.D.N.Y. May 14, 2013) (quoting Whitfield v. Scully, 241 F.3d 264, 269 (2d Cir. 2001) (internal quotation marks and citation omitted)); see also Cohen v. Bank of N.Y. Mellon Corp., No. 11 Civ. 456, 2014 WL 1652229, at *1 (S.D.N.Y. Apr. 24, 2014) (citations omitted) (explaining that a district court should review a clerk's award de novo). "However, 'because Rule 54(d) allows costs 'as of course,' such an award against the losing party is the normal rule [ ] in civil litigation, not an exception.'" Vuona, 2013 WL 1971572, at *1 (quoting Adkins v. Gen. Motors Acceptance Corp., 363 F. App'x 97, 99 (2d Cir. 2010)) (internal quotation marks and citation omitted).

28 U.S.C. § 1920 outlines the specific costs that are recoverable. See Crawford Fitting Co. v. J.T. Gibbons, Inc., 482 U.S. 437, 441-42 (1987).

b. Exemplification and Copies

28 U.S.C. § 1920(4) allows recovery of "[f]ees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case." In accordance with 28 U.S.C. § 1920(4), Local Rule 54.1(c)(5) provides that exemplifications and copies are taxable. However, a Committee Note provides the following gloss on that rule:

> The Committee recommends that Local Civil Rule 54.1(c)(5) remain unchanged. This subsection is

> authorized by § 1920(4), which allows taxation of "fees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for us in this case."
>
> Courts in other circuits have begun to address the question whether and to what extent the costs of electronic discovery can be taxed as costs of copying or exemplification. See, e.g., Race Tires America, Inc. v. Hoosier Racing Tire Corp., 674 F.3d 158 (3d Cir. 2012). Particularly in the absence of authoritative guidance from the Second Circuit on the issue, the Committee has concluded that it is premature to address this question in Local Civil Rule 54.1(c).

According to the CME Defendants, its sought-after costs – which were for "copying documents to electronic production media" in accordance with paragraph 4(e) of the Discovery Order (e.g., conversion to TIFF, preservation of metadata, OCR for non-native files, creation of load files) – are recoverable pursuant to 28 U.S.C. § 1920, as amended,[1] and Federal Circuit case law. (Defs.' Costs Mem. at 1 (citing CBT Flint Partners, 737 F.3d at 1325).) The CME Defendants contend that because the Second Circuit has not yet addressed the issue, and since the Local Rules have abstained from taking a position, the Court should use as its guidepost the Federal Circuit case law on point.

In opposition, Realtime argues that the electronic discovery expenses for which the CME Defendants seek recovery are not covered by 28 U.S.C. § 1920 and

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[1] The statute was amended in 2008 to replace the provision covering "[f]ees for exemplification and copies of papers necessarily obtained for use in the case" with "[f]ees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case." CBT Flint Partners, LLC v. Return Path, Inc., 737 F.3d 1320, 1326 (Fed. Cir. 2013) (internal quotation marks and citations omitted) (emphasis in original).

are not taxable. (Memorandum of Law in Opposition to Motion for Review of Clerk's Denial of Costs to CME Group Inc. ("Pl.'s Costs Opp'n.") at 1-3, ECF No. 916, June 5, 2014.) While the CME Defendants contended in connection with their initial costs application that their request for $119,362.93 consists "only [of] costs for exemplification of documents . . . (e.g., conversion to TIFF, preservation of metadata, OCR for non-native files, creation of load files), copying documents to production media, and the taxes for those costs," (Declaration of William Rothwell in Support of the CME Defendants' Bill of Costs ¶ 6, ECF No. 876-2, Apr. 18, 2014), Realtime argues that "[t]hese processes and services far exceed the simple conversion of native files to TIFF and PDF and the scanning of documents to electronic format which have been allowed on a limited basis by other courts in other circuits." (Pl.'s Costs Opp'n at 4.) Realtime cites to CBT Flint Partners, 737 F.3d at 1328, itself in support of its argument: "But only the costs of creating the produced duplicates are included, not a number of preparatory or ancillary costs commonly incurred leading up to, in conjunction with, or after duplication." (Id.)

Since the Second Circuit has not yet addressed the issue of whether and how electronic document copying is covered by 28 U.S.C. § 1920, the Court turns to decisions by other district and circuit courts for guidance. Importantly, the Court also adheres to Supreme Court precedent that indicates the taxing of costs is to be administered "in a very limited way." Crawford Fitting Co., 482 U.S. at 444; see also Taniguchi v. Kan Pac. Saipan, Ltd., – U.S. – , 132 S.Ct. 1997, 2006 (2012)

(explaining that "[t]axable costs are limited to relatively minor, incidental expenses").

As mentioned, in CBT Flint Partners, LLC v. Return Path, Inc., the Federal Circuit, interpreting Eleventh Circuit law, held that the costs associated with converting documents to a certain production format (e.g., TIFF) and protecting metadata during the process of conversion, are taxable costs. 737 F.3d at 1329. While decryption, deduplication, and other activities undertaken to prepare documents for production are not covered, the creation of "load files" – which indicate where one document ends and the next begins – is also taxable. Id. at 1332;[2] see also, e.g., Akanthos Capital Mgmt. LLC v. CompuCredit Holdings Corp., No. 10 Civ. 844, 2014 WL 896743, at *10-11 (N.D. Ga. Mar. 7, 2014) (holding that "[t]he cost of converting [electronically-stored information] format to TIFF may be taxable as a modern analogue to photocopying paper documents" and "[o]ther tasks, such as digitizing paper documents, may also be taxable").

The Third Circuit and Fourth Circuits take a narrower view. These courts agree that scanning hard copy documents and converting native files to TIFF are taxable (as is converting VHS tapes to DVD), but do not otherwise allow for the taxation of costs associated with document production. Race Tires, 674 F.3d at 171; Country Vinter of N. Carolina, LLC v. E. & J. Gallo Winery, Inc., 718 F.3d 249, 261

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[2] Whether the additional information potentially included in a load file, such as metadata or extracted text, is also covered depends "on whether that information is required to be produced, in which case it is part of the cost of 'making copies.'" CBT Flint Partners, LLC, 737 F.3d at 1332.

(4th Cir. 2013) (adopting the Third Circuit's rationale and holding). Hard-drive imaging and metadata extraction are not taxable because in the Third Circuit's view, they are preparatory in nature as opposed to part of the "copying" process. Race Tires, 674 F.3d at 169-70.[3]

A number of district courts in the Northern District of California have held that "TIFF and OCR conversion, Bates stamping, load file and other physical media generation are recoverable as copying fees under section 1920(4)." Kwan Software Eng'g, Inc. v. Foray Techs., LLC, No. 12 Civ. 3762, 2014 WL 1860298, at *4 (N.D. Ca. May 8, 2014) (internal quotation marks and citation omitted) (citing cases); Plantronics, Inc. v. Aliph, Inc., No. 09 Civ. 1714, 2012 WL 6761576, at *3 (N.D. Cal. Oct. 23, 2012) (finding as taxable converting to TIFF, OCR, scanning and converting to PDF, image endorsement, and electronic reproduction to media).

However, certain district courts have held otherwise. For example, at least one court held that that Bates matching and OCR are used to make the process of document production more efficient, but do not constitute "copying" under the language of the statute. See Amana Soc., Inc. v. Excel Eng'r, Inc., No. 10 Civ. 168, 2013 WL 427394, at *6 (N.D. Iowa Feb. 4, 2013). Another court reasoned that TIFF conversion is only a necessary (and thus taxable) cost when production of the native documents is not an option. See Eolas Techs., Inc. v. Adobe Sys., Inc., 891 F. Supp. 2d 803 (E.D. Tex. 2012) (refusing to allow costs for conversion of documents to TIFF

[3] The Seventh Circuit has characterized taxable costs as those amounts spent on "converting computer data into a readable format in response to [the losing side's] discovery requests." Hecker v. Deere & Co., 556 F.3d 575, 591 (7th Cir. 2009).

because the parties agreed documents could be produced either in native format or TIFF and thus, the cost of conversion was not "necessarily obtained for use in the case") (emphasis in original).

Here, the Court finds that the costs requested by the CME Defendants reach beyond that which is covered by the applicable framework – at least as it currently exists. While the CME Defendants contend that their proposed $119,362.93 figure consists solely of the amounts incurred in the basic copying and exemplification of documents, this figure is too high to constitute reasonable, "incidental" costs under the circumstances of this case.

Accordingly, and particularly in the absence of either Second Circuit precedent or a Local Rule instructing otherwise, the Court declines to award the sought-after $119,362.93. Instead, the Court awards $30,000 for the costs associated with exemplification and the copying of documents in this case. The Court finds $30,000 to be commensurate with its understanding of the costs associated with converting documents into electronic form in a case of this size.

c. Deposition Transcripts

28 U.S.C. § 1920(2) provides that fees for "printed or electronically recorded transcripts necessarily obtained for use in the case" are taxable. Local Civil Rule 54.1(c)(2) provides, inter alia:

> Costs for depositions are also taxable if they were used by the Court in ruling on a motion for summary judgment or other dispositive substantive motion. Costs for depositions taken solely for discovery are not taxable.

Realtime argues that only seven of the 18 transcripts for which costs were taxed were actually "used by the Court" in any substantive summary judgment rulings on the merits and thus, only $7,986.00 in costs should have been awarded to the CME Defendants. (Pl.'s Costs Mem. at 1.) Realtime explains that the remainder of the transcripts were submitted in connection with summary judgments motions that were denied without prejudice "pursuant to the Court's request for 'prioritization' and the agreement of the parties." (Id. at 2.) According to Realtime: "Because the Court never considered the merits of these motions or the applicability of the deposition transcripts to CME's arguments, these transcripts cannot be said to have been 'used by' the Court for purposes of the motions and are, therefore, not taxable." (Id.)

In response, the CME Defendants argues that because the relevant depositions "appear to be reasonably necessary and were submitted in support of CME's motions for summary judgment," rather than solely for the purpose of discovery, they were properly taxed by the Clerk of Court. (Memorandum of Law in Opposition to Realtime's Motion for Review of Clerk's Award of Costs ("Defs.' Costs Opp'n") at 2, ECF No. 917, June 9, 2014 (citing cases).)

The Second Circuit has interpreted Local Civil Rule 54.1(c)(2) as follows:

> The plain language of the Rule's first sentence, providing that depositions are taxable if "used or received in evidence at the trial," suggests that the word "use" extends well beyond explicit reliance on the deposition as a basis for decision. In addition, the second and third sentences, allowing taxation if the deposition was "used by the court in a ruling on a motion for summary judgment" but not if "taken solely for discovery," further

> suggest an either-or dichotomy between depositions submitting in conjunction with a motion for summary judgment, on the one hand, and purely investigative depositions never actually submitted to the court for its use, on the other.

Whitfield, 241 F.3d at 271 (emphasis omitted). The Second Circuit went on to explain that "the filing of a deposition transcript [in connection with a motion for summary judgment] necessarily means a court will 'use' it, since summary judgment may be granted only 'if the pleadings, depositions, answers to interrogatories, and admissions on file, . . . show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Id. (quoting Fed. R. Civ. P. 56(c)) (adding emphasis); see, e.g., Cohen, 2014 WL 1652229, at *3 (holding that a particular transcript was taxable because it was attached as an exhibit to an affidavit filed in support of a motion for summary judgment and was cited in defendant's memorandum of law).

Here, there is no dispute that the depositions in question were not for investigatory purposes – they were submitted in connection with the CME Defendants' summary judgment motions. As a result, they were properly taxed under the law. The Court therefore affirms the Clerk's award of costs for the CME Defendants' depositions.

III. CONCLUSION

For the reasons set forth below, the Court hereby DENIES the CME Defendants' motion for attorneys' fees and costs, GRANTS IN PART the CME Defendants' motion for review of the Clerk of Court's denial of costs for

exemplification and copies, and DENIES Realtime's motion regarding imposition of costs for certain deposition transcripts.

The Clerk of Court is directed to terminate the motions at ECF Nos. 875, 910, and 913 in Case No. 11-cv-6697, ECF Nos. 226 and 229 in Case No. 11-cv-6699, and ECF Nos. 265 and 268 in Case No. 11-cv-6702.

SO ORDERED.

Dated: New York, New York
June 24, 2014

KATHERINE B. FORREST
United States District Judge