

1. In *DR Distributors, LLC v. 21 Century Smoking, Inc.*, 2021 WL 185082 (N.D. Ill. Jan. 19, 2021), U.S. District Judge Iain D. Johnston of the Northern District of Illinois entered a variety of curative measures and sanctions against Defendants and Defendants' former counsel for failure to timely collect and produce ESI and for spoliation.

In this trademark case, Plaintiff, an electronic cigarette company, brought suit against a competitor and its owner, alleging that they misappropriated Plaintiff's registered trademark. *Id.* at *7. Plaintiff alleged that Defendants inserted a "metatag" onto their website (not visible in an internet browser but picked up by search engines) containing Plaintiff's own trademark for the purpose of driving web traffic away from the Plaintiff. *Id.* at *10. Defendants brought counterclaims alleging that Plaintiff made defamatory remarks at a tradeshow. *Id.* at *7.

After numerous discovery disputes and hearings, Plaintiff brought a motion seeking "nuclear" sanctions — namely, defaulting Defendants and dismissing their counterclaims — against Defendants and Defendants' former counsel alleging "failure to timely produce ESI and for the spoliation of ESI as well as other alleged misdeeds." *Id.* at *3. Plaintiff sought sanctions based on "civil contempt, inherent authority, 28 U.S.C. § 1927, and Federal Rules of Civil Procedure 11, 26(g), 37, and 56(h)." The court held a five-day evidentiary hearing on the motion, which included testimony from Defendants, Defendants' former counsel, and an ESI vendor used by Defendants. *Id.* at *8.

Judge Johnston provided an exhaustive factual background detailing the multiple failures on the part of Defendants and Defendant's former counsel to explain his decision. Discovery issues arose early in the matter. First, former counsel failed to conduct a custodial interview to identify ESI. *Id.* at *11, 19. As Judge Johnston noted, "a reasonable custodian interview can require counsel to cross-examine the client and test the accuracy of the client's response to document requests to ensure that all appropriate sources of data have been searched and that responsive ESI has been collected — and eventually reviewed and produced." *Id.* at 52. It is no excuse for attorneys to "not understand" computers in failing to conduct a thorough custodial interview. *Id.* at *51. Here, former counsel did not understand the difference between cloud-based and locally stored emails. *Id.* at *19. Judge Johnston explained that the primary basis for sanctions against one former defense counsel was the counsel's failure to understand "basic elements" of ESI and rely entirely on a client to identify ESI — especially after having reason to question the client's credibility.

Judge Johnston also found that former defense counsel failed to issue a written document hold and only orally communicated to defendants the requirement to preserve documents. *Id.* at *11-12, 19. The "standard and recognized method to ensure clients have been adequately informed of their preservation duties is through a written litigation hold letter," and attorneys must provide "specific instructions detailing where ESI might be stored and what steps the client may need to take to preserve it." *Id.* at 54. Judge Johnston specifically noted that "an adequate hold notice must include a warning to disable autodelete functions. *Id.* at *55. "[A]ttorneys and parties that ignore their obligations to reasonably investigate the possibility of or disregard autodelete functions run the risk of destroying relevant evidence and visiting prejudice upon their litigation adversaries, thereby earning sanctions. A litigation hold — whether verbal or written — that fails to instruct a party to disable autodeletion functions is not much of a litigation hold." *Id.* at *56. Finally, Judge Johnston noted that the "issuance of a litigation hold does not end counsel's duty in preserving ESI. ... They

must continue to monitor and supervise or participate in a party's efforts to comply with the duty to preserve." Id. at *56.

Judge Johnston detailed another early failure when former defense counsel allowed defendants to "self-collect" ESI. Id. at *57. "Custodian self-collection occurs when counsel direct their clients to identify, preserve, collect, and produce documents and electronic information in response to discovery requests." Id. Judge Johnston identified several failure points in permitting clients to self-collect ESI. First "is the client's failure to identify all sources of responsive information." Second, "is the client's failure to preserve evidence." Id. at *58. Third is that the "client may not find or provide to counsel all responsive documents and ESI." Fourth, "that clients who self-collect may not fully document how they conducted their searches." Id. at *59. Judge Johnston cautioned that "[c]lients may fail to find or provide all responsive information for the additional reason of self-interest." Despite noting the many potentials for failure in self-collection, Judge Johnston recognized that self-collection may be acceptable where counsel provides an adequate legal hold notice, properly instructs the client on searches, conducts a reasonable inquiry to ensure that the self-collection "resulted in a responsive production of information, and document[s] their efforts." Id. at *60.

Judge Johnston diagnosed the discovery issues as stemming from three primary sources: (1) the lack of competence in counsel, (2) that the client was not honest and candid with counsel, and (3) that counsel failed to properly document the processes used. Id. at *63–68. With respect to competence, Judge Johnston noted that "[c]ounsel must be competent in their knowledge and ability to identify, preserve, collect, review, and produce ESI." Id. at *63. He found fault with the former defense counsel's "very limited scope of work" given to the ESI vendor. With respect to Defendant's candor, Judge Johnston noted that one Defendant was knowledgeable about the relevant computer systems and had a duty to correct former defense counsel's misapprehension that collecting data from Defendants' computer hard drives would be sufficient to collect data in Defendant's cloud-based email accounts. Id. at *67. Finally, Judge Johnston explained that counsel's failure to document the ESI process meant that counsel was unable to "accurately explain and defend their actions taken." Id. at *68.

Judge Johnston then turned to a discussion of the court's power to sanction. He held that because Defendants' conduct could be adequately sanctioned under the Federal Rules of Civil Procedure or a specific statute, he would not rely on the court's inherent authority or civil contempt to impose sanctions. Id. at *69. He also declined to impose sanctions under Fed. R. Civ P. 11 because that rule does not allow for discovery sanctions, or under Fed. R. Civ P. 56(h). Id. at *70. Nor did Judge Johnston impose sanctions under 28 U.S.C. § 1927, which allows courts to sanction attorneys for unreasonably protracting litigation. Id. at *71.

Judge Johnston did impose sanctions under Fed. R. Civ P. 26(g), 37(a), 37(b), and 37(c). Rule 26(g) requires disclosures and discovery responses to be made upon reasonable inquiry, with disclosures being complete and correct when made and discovery responses being consistent with the Federal Rules of Civil Procedure. Fed. R. Civ. P. 26(g)(1)(A),(B)(i). Judge Johnston found sanctions appropriate because Defendants' initial disclosures did not provide relevant documents or accurate information about the location of ESI, which should have been identified after a reasonable inquiry, and were not updated when counsel affirmatively learned of the issue. Id. at *73. He found that one of the Defendants and one of Defendants' former counsel must pay

Plaintiff's attorneys' fees under this rule because counsel failed to perform a custodial interview and the Defendant failed to be candid with counsel about the location of his ESI. Id. at *81-82.

Under Rule 37(a), a party can be ordered to pay reasonable expenses, including attorneys' fees, where it provides incomplete or evasive disclosures, answers to interrogatories, or responses to requests to produce. Id. at *74. Judge Johnston noted that sanctions were appropriate under this rule because Defendants failed to produce documents that it was obligated to produce and failed to search other documents with the agreed-on terms before the close of fact discovery. Accordingly, he ordered Defendants to produce all responsive documents requested by Plaintiff and to pay Plaintiff's reasonable expenses, including attorneys' fees. Id. at *83.

Under Rule 37(b), sanctions can be ordered when a party fails to obey an order to provide or permit discovery, including an order under Rule 37(a). Id. at *74. Judge Johnston noted that sanctions were appropriate under this rule because Defendants failed to comply with one of the court's discovery orders by claiming that documents did not exist when, in fact, they did exist. Accordingly, he ordered that one of the Defendants and one of Defendants' former counsel pay attorney's fees and barred Defendants from using any of the documents or information contained in the documents that were not produced, in addition to other sanctions. Judge Johnston found these sanctions to be tailored to the severity of Defendants' and counsel's conduct and sufficient to remedy the prejudice Plaintiff suffered. Id. at *85.

Under Rule 37(c), sanctions must be awarded when a party fails to provide information that is required to be disclosed under Rule 26(a) or 26(e) and that failure is neither substantially justified nor harmless. Id. at *86. Judge Johnston noted that significant and material ESI that should have been produced during discovery either was not produced at all or was produced after the close of discovery. As sanctions, he ordered that Defendants pay attorney's fees, that Defendants were barred from using any of the ESI that was produced late, and that the fact finders would be informed of Defendants' failures. Id. at *87.

Finally, Judge Johnston ordered former defense counsel to complete at least eight hours of continuing legal education coursework relating to e-discovery by the end of 2021. Id. at *4.

Ultimately, although Judge Johnston issued severe sanctions, he declined to impose default and dismissal: "Default and dismissal are the most extreme sanctions available." Id. at *97. Here, Judge Johnston found that less drastic sanctions remediated the prejudice to Plaintiff, and there was no need, therefore, to use default and dismissal.