

Don't Be "Snakebit": ESI Pitfalls to Avoid

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As attorneys, we have all heard the saying, "Ignorance is no defense." Despite the fact that the Federal Rules of Civil Procedure were amended to address Electronically Stored Information (ESI) over 15 years ago, many in the legal profession continue to practice without fully understanding their ESI obligations. The need for attorneys to be competent in ESI stems from the civil rules and the rules of professional conduct. The Federal Rules of Civil Procedure (as well as many state rules) address counsel's ESI obligations and include sanction provisions if ESI is not maintained properly once litigation is anticipated. Further, nearly every state bar association has addressed, in some fashion, the belief that rules of professional conduct regarding basic competence include obligations to be competent regarding ESI. See *e.g.*, California State Bar Opinion, No. 2015-193.

However, lawyers and law firms continue to struggle with ESI, and ignorance is no defense. As illustrated by the January 29, 2021 opinion in *DR Distributors, LLC v. 21 Century Smoking, Inc.*, 12-CV-50324, 2021 WL 185082 (N.D. Ill.), an attorney's professed ignorance of technology can result in significant sanctions for both the attorney and his or her client. Significantly, the *DR Distributors* case highlights the importance of attorneys having an active involvement with ESI discovery and verifying information obtained from their clients. In a lengthy and scathing opinion, the court detailed the failures of both the client, 21 Century, and its counsel in not engaging in discovery in good faith and competently understanding the ESI obligations. The court's opinion sets the stage immediately:

'Snakebit'—That's how a former defense counsel described this case. But 'snakebit' connotes the unfortunate circumstances that befall unsuspecting victims. That didn't happen here. Instead, through a series of missteps, misdeeds, and misrepresentations, defendants and the former defense counsel find themselves looking down the barrel of a sanctions motion Howitzer. If any entity has been snakebit, it's this Court.

A. Factual Background

In this trademark infringement case, DR Distributors alleged 21 Century infringed upon its trademarks in the development of 21 Century's website. The website 21 Century developed included a metatag that utilized a mark belonging to DR Distributors. Metatags are part of a website's source code that search engines like Google and Bing search to identify website content. As a result, DR Distributors alleged that individuals performing internet searches for DR Distributors would be directed to 21 Century's website since the metatag contained DR Distributor marks. Due to the web-based nature of the infringement claims, the case would clearly be an ESI intensive one.

At the heart of the ESI debacle was 21 Century's use of e-mail and chat (think instant messaging) functions through GoDaddy and Yahoo! to communicate about its business,

including with the search optimization consultant. The GoDaddy and Yahoo! accounts were entirely web-based, meaning the e-mails and chats were not stored locally on a hard drive or server. The only way for the e-mails or chats to be stored on a hard drive would be for an account user to download them from the web-based programs, something 21 Century never did. 21 Century's counsel was unaware of the web-based nature of the GoDaddy and Yahoo! accounts.

After the initial scheduling conference, discovery ensued over a six-year period. In its Initial Disclosures, 21 Century represented that all ESI was stored on four hard drives. This representation was made after lead counsel instructed an associate to contact 21 Century to draft the disclosures. Following the Initial Disclosures, counsel instructed 21 Century to perform a search of the four hard drives, believing incorrectly that those drives were the sole source for ESI. At the hearing, counsel explained, "I just don't have the technological background necessarily to make the technical distinction that escapes us here, which is that those e-mails would not be revealed in the search that was done of those four computers." In other words, counsel professed ignorance of web-based e-mail. 21 Century never corrected its counsel's mistake. To further complicate matters, 21 Century did not implement a litigation hold and auto-deletion functions on GoDaddy and Yahoo! accounts were not disabled.

In 2014, DR Distributors questioned the paucity of e-mail production in discovery. As a result, 21 Century's counsel retained an ESI vendor to assist in producing all relevant and responsive ESI. The vendor suggested interviewing 21 Century to ensure complete and accurate ESI discovery occurred. For unknown reasons, counsel declined the interview and instructed the vendor to solely image the four hard drives. The vendor was never told by counsel or 21 Century about the GoDaddy or Yahoo! accounts. As a result, the vendor's production did not contain those messages or chats.

Thereafter, 21 Century's owner gave his deposition and testified he had searched all e-mail accounts to find documents, and had turned over all his records to defense counsel. As a result of his testimony and the ESI vendor's search, DR Distributors and the court believed all existing ESI had been searched and produced.

With discovery believed to be completed, the case moved procedurally into summary judgment motions in 2018. Around this same time, 21 Century retained new counsel. To try to overcome DR Distributor's motion, 21 Century's new counsel began scrambling to do a new search for ESI. The ESI vendor was contacted again, and this time allowed to do an

interview. 15,000 new pages of e-mails were identified with many being highly relevant to the claims and damages sought. For instance, one e-mail contained online sales data from the period when the infringement was occurring. That data had never been produced in discovery. However, even this new search for ESI was incomplete because 21 Century did not disclose its use of the Yahoo! chat function to the vendor.

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In responding to the summary judgment motion, over 100 new documents were attached as exhibits by 21 Century. An hour after filing the response brief, 21 Century supplemented its discovery with the 15,000 new messages. The supplemental discovery responses also disclosed the auto-deletion function that had been known by 21 Century since 2014 or 2015. DR Distributors quickly called

foul and began filing motions to compel and motions for sanctions to determine where these previously undisclosed documents had been for the past six years. Those motions resulted in the ESI vendor finally performing a search for the Yahoo! chat messages. None were found, despite testimony establishing the chat function had been used by the owner and the search optimization consultant. No explanation was provided concerning why the messages were no longer available.

A lengthy 5-day evidentiary hearing was held on DR Distributor's motion for sanctions wherein DR Distributors effectively established 21 Century and its counsel had failed to reasonably search for ESI and respond to ESI discovery. The court utilized FRCP 26(g), FRCP 37(a), 37(b), 37(c) and 37(e) to impose and award sanctions against both the client and its counsel.

The court first ruled both the client and counsel should be sanctioned under FRCP 26(g) with regard to the initial disclosures. The court ruled that counsel has an obligation to prepare the initial disclosures following "reasonable inquiry." In that regard, the court affirmatively stated a "reasonable inquiry" meant a proper custodian interview wherein counsel investigated the information technology utilized by 21 Century to identify custodians and locations of all ESI. Counsel cannot rely on the representation of a single representative of the client as proof of "reasonable inquiry."

The court further chastised counsel for failing to develop an ESI plan. As a result, the court noted that the lead counsel had left associates with no guidance or monitoring for fully gathering ESI and had retained an ESI vendor but given instructions to the vendor that prevented the vendor from gathering all ESI. While the court recognized 21 Century's failure to be candid with its counsel played a significant role in the discovery issues, the court nevertheless held that counsel's failure

to make a reasonable inquiry had permitted the client's subterfuge to succeed. As a result, the court ordered both the client and counsel to pay DR Distributors' attorneys' fees for the discovery motions and sanctions hearing.

The next basis for imposing sanctions from the court was FRCP 37(a) and 37(c). FRCP 37(a) permits an award of attorneys' fees once DR Distributors successfully moved to compel discovery unless 21 Century or counsel could prove their evasive or incomplete answers were substantially justified. FRCP 37(c) provides for an award of fees if a party fails to disclose or supplement initial disclosures. In awarding fees under this rule, the court sanctioned not only 21 Century and its former counsel, but also 21 Century's new counsel that had not become involved until 2018. The court apportioned much of the fee award to 21 Century and its old counsel, but noted new counsel also shared blame in the matter. In so holding, the court chastised new counsel for taking the client and former counsel at their word without any independent investigation. The court noted this was especially true given the ESI vendor's second search had returned 15,000 additional e-mails never before produced. In the court's reasoning, this should have triggered new counsel to begin afresh to ensure ESI was being properly searched for and produced.

The court also imposed sanctions under FRCP 37(b) for failing to comply with a discovery order issued in 2015. That order had granted DR Distributor's motion to compel communications with the search optimization consultant. Following the order, former counsel asked an associate to contact 21 Century to obtain the communications. 21 Century falsely represented that no documents existed, and counsel blindly took the client at its word. While again faulting the client for its deception, the court noted that counsel knew of the use of Yahoo! e-mail and chat at that time and did not question the client as to why no chats or e-mails had been produced. As a result, the court barred 21 Century from contesting the allegation that the search engine consultant was working for 21 Century when the metatag was inserted onto the website's source code.

Finally, the court addressed whether additional curative measures should be imposed under FRCP 37(e). With regard to the Yahoo! chats, the court inferred the absence of any chats meant they had been deleted. First, the court held that the jury would be allowed to hear of 21 Century's behavior resulting in the loss of ESI. Additionally, the jury would be instructed that 21 Century had a duty to preserve the evidence, had failed to do so, and that the evidence was relevant to the action. This in turn would allow the jury to infer 21 Century had intentionally destroyed the evidence because it was harmful to 21 Century's case. Finally, the court precluded 21 Century from placing blame for the metatag's presence on the website upon the search optimization consultant. The court reasoned that the chats would have resolved that defense, and since 21 Century had deleted the chats, it should be precluded from attempting to shift blame

to the consultant.

B. Lessons Learned for ESI Best Practices

The court's lengthy opinion detailed clearly the steps counsel should have taken to avoid being sanctioned along with its client. First, attorneys should educate themselves on ESI and continually stay abreast of changes in technology even when not actively participating in an ESI-intensive matter. This can and should include actively seeking continuing education courses on ESI. Having a basic competence will help attorneys be prepared to competently begin when representing the next client whose case involves ESI.

Second, attorneys should conduct an ESI interview early in the case. This interview should be designed to understand all methods of electronic communication and storage utilized by the client. It is not enough to understand what e-mail providers are used. Rather, counsel must understand how e-mails are stored and deleted and in what formats. Involvement of an ESI vendor can assist counsel in ensuring she is asking the right questions to fully understand the ESI landscape of her client.

Third, based on the information gathered in the ESI interview, counsel should develop an ESI plan. The plan is designed to ensure that all attorneys working on the case along with

all client representatives involved in gathering ESI are fully gathering and responding to discovery. Importantly, counsel should never permit a party to gather ESI independently. The court repeatedly emphasized that counsel must supervise the client throughout its ESI search to ensure the client is fully and accurately searching and producing discovery.

Fourth, attorneys should ensure they fully understand their client's ESI retention and deletion policies or lack thereof. Simply sending a litigation hold letter without discussing the implementation of the hold with the client is not sufficient. The court emphasized that counsel had an affirmative duty to ensure the client had disabled auto-deletion functions in the Yahoo! chat function.

Finally, attorneys should be forthcoming with the court if they discover or suspect ESI may have been unintentionally destroyed. In *DR Distributors*, the former counsel for 21 Century knew in 2014 and 2015 about the auto-deletion problem with the chats, but never disclosed that in response to discovery. The court emphasized that if documents responsive to a discovery request no longer exist due to inadvertent destruction, disclosure of that fact should be made. While the delay in disclosure was one of many actions that made the court disbelieve counsel and 21 Century, it nevertheless was a contributing

factor to the court indicating it did not believe any explanation offered years later to explain the missing chats.

C. Conclusion

The importance of maintaining basic competency in ESI remains crucial to the successful litigation practice. As the *DR Distributors* case illustrates, an attorney's ignorance of ESI can lead to costly sanctions and bad outcomes for the client. Following the order granting sanctions, the court instructed DR Distributors to file a petition for fees. The petition, which is pending before the court presently, seeks nearly \$2.5 million in fees related to the discovery motions and summary judgment motions. While it remains unclear whether the court will award the totality of the requested fees, the significance of the court's sanctions ruling remains—counsel must actively participate and understand the ESI process in each case.

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