

2011 WL 9925879

Only the Westlaw citation is currently available.  
 United States District Court,  
 N.D. Ohio,  
 Eastern Division.

SNAP-ON BUSINESS SOLUTIONS, INC., Plaintiff,  
 v.  
 HYUNDAI MOTOR AMERICA, Defendant.

No. 5:07-CV-1961. | June 8, 2011.

#### Attorneys and Law Firms

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#### **FIRST REPORT AND RECOMMENDED RULING**

DAVID R. COHEN, Special Master.

\*1 Movants Snap-on Business Solutions, Click Commerce, and Reynolds & Reynolds Company move for sanctions against Hyundai Motor America (docket no. 217). The Special Master submits this report to the Court and **recommends the motion be granted in part**. Specifically, the Special Master recommends the Court sanction Hyundai, pursuant to [Fed.R.Civ.P. 37\(b\)\(2\)\(A\)](#), by entering an Order imposing one of two alternative sets of sanctions. These alternatives are set out in full in Section V.A of this Report, beginning on page 43.

The full basis for the Special Master's recommendation is set out below. The procedure for any party to file objections to and/or endorsements of any part of the Special Master's recommendation is set out in Section V.B of this Report, on page 45.

#### **I. Background.**<sup>1</sup>

<sup>1</sup> The factual and procedural background of this case is very complicated. The recitation set out here is

simplified as much as possible and omits information that would certainly be relevant in other contexts (e.g. when examining summary judgment motions). The Special Master has endeavored to describe only those circumstances necessary to understand and rule upon the pending motion for sanctions.

It is worth noting that, given the seriousness of the issues raised, and the complexity of the factual background, the Special Master took the unusual step of granting Hyundai leave to file a sur-reply to the motion for sanctions, and Movants leave to file a sur-sur-reply.

#### **A. Other Related Cases and the Broader Litigation Landscape.**

Like most automobile manufacturers, Hyundai operates and maintains a web-based automotive parts catalog and ordering system. This web-based parts catalog ("WPC") operates by virtue of certain software. In 2005, a company known as Orion IP sued Hyundai in Texas federal court, claiming that Hyundai's WPC infringed upon two patents that Orion owned ("the Texas Patent Litigation"). These patents are known as "the '627 patent" and "the '342 patent." In 2007, a jury in the Texas Patent Litigation concluded that Hyundai's WPC did infringe upon Orion's '627 patent (but not the '342 patent) and awarded \$34 million in damages. On appeal, however, the Federal Circuit reversed, finding that Orion's '627 patent was invalid and unenforceable. Thus, Hyundai does not owe Orion any damages for patent infringement.

Although Hyundai was ultimately found not liable for infringement in the Texas Patent Litigation, Hyundai still spent millions of dollars to defend itself against Orion's infringement claims. Accordingly, Hyundai filed at least two lawsuits seeking reimbursement for its defense costs.<sup>2</sup> One of those lawsuits is this one. In this lawsuit, Hyundai asserts that: (1) it entered into contracts with Snap-on Business Solutions, Click Commerce, and Reynolds & Reynolds Company (collectively "Movants") for the creation of the software that ran Hyundai's WPC; and (2) in those contracts, the Movants agreed to indemnify and defend Hyundai against claims of patent infringement. The essence of the instant lawsuit, then, is whether the Movants owe Hyundai for any of the costs it spent to defend itself in the Texas Patent Litigation. Importantly, Hyundai and the Movants agree that any software provided to Hyundai by Movants is related only to the '627 patent and not the '342 patent; thus, Hyundai seeks reimbursement from Movants only of its costs related to defense of the '627 patent in the Texas Patent Litigation.

2 The two lawsuits originally sought not only reimbursement of defense costs but also indemnification for the \$34 million in damages. Because the \$34 million damages award was later reversed, that aspect of the two lawsuits is now largely moot.

The second lawsuit filed by Hyundai seeking reimbursement of its defense costs is known as the “Insurance Litigation.” In this second lawsuit, Hyundai sued its business insurance carrier, AIG, asserting that Hyundai’s insurance policies obligated AIG to pay for Hyundai’s defense costs in the Texas Patent Litigation. The trial court in the Insurance Litigation granted summary judgment in favor of AIG, but the Ninth Circuit Court of Appeals reversed, concluding AIG did have a duty to pay for defense costs. On remand, AIG and Hyundai have tussled with several issues, including: (1) the amounts and reasonableness of Hyundai’s defense costs in the Texas Patent Litigation; and (2) how much of those defense costs should be allocated to each of the two patents. The latter allocation issue is important because: (a) it is still not entirely settled whether AIG has a duty to pay Hyundai’s defense costs related to both patents, or only one of them; and (b) AIG might have subrogation rights against various other entities, and the entities whom AIG might pursue are different for each patent. So far, AIG has paid over \$7 million to Hyundai for reimbursement of its defense costs in the Texas Patent Litigation, and has allocated over 70% of those costs to the ‘342 patent, with the remainder allocated to the ‘627 patent.

\*2 Finally, it is notable that, at one time, Hyundai believed it might have a claim for reimbursement of defense costs against still other businesses, in addition to the Movants and AIG. Specifically, during the Texas Patent Litigation, Hyundai sent letters not only to Movants but also to at least four other, foreign businesses, asserting each had a duty to indemnify Hyundai for any liability and litigation expense. Some of these other foreign businesses were related to Hyundai (e.g., Hyundai sent an indemnification letter to AutoEver, which is half-owned by the same parent company that owns 100% of Hyundai). Ultimately, Hyundai chose not to bring suit against these other foreign businesses, and sued only the Movants.

What the above discussion makes clear is that Hyundai has made a claim against the Movants in this case that is virtually identical to claims Hyundai has made against other entities. That is, in this case, Hyundai asserts the Movants must reimburse it for its defense costs in the Texas Patent Litigation; Hyundai asserted the same claim, for the same defense costs, against AIG in the Insurance Litigation; and Hyundai once made the same claim to several other foreign

businesses, although it is not now pursuing those other businesses in litigation.

Obviously, the existence of Hyundai’s claims against AIG and the foreign businesses, and how those claims are being or were resolved, is highly relevant to Hyundai’s claims against Movants in this case. For example, the conclusion in the Insurance Litigation that over 70% of the defense costs from the Texas Patent Litigation are attributable to the ‘342 patent has serious implications in this lawsuit—providing the Movants with an argument that they can be held liable, if at all, for only the remaining portion.<sup>3</sup> Similarly, Hyundai may have made statements to the foreign businesses about its indemnification rights that are inconsistent with statements made to Movants in this case; any such statements would also be important evidence in this lawsuit.

3 In other words, if Hyundai suffered a total of (for example) \$15 million for defense costs in the Texas Patent Litigation, and AIG determines in the Insurance Litigation that \$10 million of the total was spent to defend against infringement of the ‘342 patent, then Movants have an argument in this case that they can be held liable for only \$5 million—since, as noted above, Hyundai and the Movants agree that any software Movants provided to Hyundai related only to the ‘627 patent. This argument may or may not prevail on the merits, depending on the collateral source rule and other factors, but it is certain that the underlying facts are highly relevant.

Accordingly, from the beginning of this case, Movants have attempted to discover facts related to whether Hyundai ever sought to obtain defense cost reimbursement from other entities. It is Hyundai’s alleged failures to respond to this discovery that form the basis for Movants’ pending motion for sanctions.

### **B. Discovery in this Case.**

What is not explained in the background set forth above is *when* some of the critical facts were discovered by Movants, and how much effort it took to discover them. For example, Hyundai did not disclose the existence of the Insurance Litigation until 2010, three years after it filed its complaint in this case. The timing of the discovery in this case is addressed in the continued background below.

In May of 2010, before the Court appointed the undersigned as Special Master, the Movants raised with the Court the issue of whether Hyundai had responded properly to

requests for information regarding Hyundai's efforts to obtain indemnification. Specifically, Movants showed the Court as follows:

\*3 (1) Interrogatory Five of Snap-on's first set of interrogatories asked Hyundai to "[i]dentify each person from whom Hyundai has sought or may seek indemnification or defense costs relating to the [Texas Patent] Litigation, the date on which indemnification was sought, and any agreement that forms the bases of the claim for indemnification or defense."

(2) On September 22, 2008, Hyundai responded to Interrogatory Five that it "sought and is presently seeking indemnification from [only the three Movants]. At this time, Hyundai has no intention of seeking indemnification from any other persons." Hyundai also defined broadly the term "indemnification" in its response as meaning "indemnification, defense fees or costs ... relating to the [Texas Patent] Litigation."

(3) At the time that Hyundai submitted its verified response to Interrogatory Five, Hyundai's Insurance Litigation against AIG *had been pending for 18 months*.<sup>4</sup> Indeed, Hyundai's interrogatory response came a week after it appealed the trial court's summary judgment ruling in favor of AIG.

<sup>4</sup> Hyundai's complaint in the Insurance Litigation was filed on January 9, 2008, about nine months before Hyundai submitted its verified discovery response; but this complaint came only after Hyundai and AIG agreed, for procedural reasons, to the dismissal of a lawsuit filed by Hyundai on March 22, 2007, which had raised the same issues as the January 9 complaint. Thus, the Insurance Litigation was essentially pending for 18 months when Hyundai answered Interrogatory Five, and the Movants did not learn of the existence of the Insurance Litigation for another 18 months after that.

(4) Hyundai never disclosed the existence of the Insurance Litigation to Movants. Rather, Movants discovered the Insurance Litigation by accident in April of 2010, when Hyundai's successful appeal of the summary judgment ruling was reported in a legal publication.

Hyundai and the Movants each submitted both written and oral argument to the Court regarding these circumstances. Movants did not seek sanctions at that time; rather, Movants only asked the Court to order Hyundai to produce responsive documents.<sup>5</sup> The Court granted Movants' request

and ordered Hyundai to, among other things, update its interrogatory answers, supplement its document productions, submit a privilege log, certify that its document production was complete, and produce a 30(b)(6) deponent on the topic of all of Hyundai's requests for indemnification. Specifically, the Court ordered Hyundai to:

- <sup>5</sup> The parties' submissions to the Court setting out this dispute are at docket nos. 155–162.
- "supplement its response to Interrogatory No. 5" and "fully identify each entity (including but not limited to any insurance company) from whom it has sought or may seek defense costs, indemnification or reimbursement of any kind whatsoever relating to the [Texas Patent] Litigation;"
  - "produce all documents related to the [Insurance Litigation] including but not limited to pleadings, policies, non-privileged communications with the insurance companies relating to the dispute, and non-privileged communications with others (including internal communications) relating to the dispute. With respect to pleadings, Hyundai will produce pleadings in its possession, but will not be required to obtain additional pleadings from the district court's electronic docket to the extent such documents are publicly available;"
  - "supplement its discovery responses by producing all documents regarding any claims or potential claims for defense costs, indemnification or reimbursement of any kind whatsoever relating to the [Texas Patent] Litigation. This includes but is not limited to non-privileged communications with entities regarding the claims or potential claims, and non-privileged communications with others (including internal communications and communications with affiliates) relating to the claims or potential claims;"
  - \*4 • "produce a privilege log for any documents responsive to" the above two topics;
  - "provide a certification by counsel that to its knowledge and based upon reasonable inquiry Hyundai's production of documents is complete;" and

- “provide a 30(b)(6) witness regarding any claim or potential claim for defense costs, indemnification or reimbursement of any kind whatsoever relating to the [Texas Patent] Litigation, non-privileged communications regarding such claims or potential claims, and the status. Hyundai shall permit its witnesses to answer questions without regard to timeframe (*i.e.*, even after this lawsuit was filed), but reserves the right to object on the ground that information is privileged or subject to the work product doctrine.

*Discovery Order* at 2–3 (May 26, 2010) (docket no. 163) (Adams, J.).

As required by the *Discovery Order*, Hyundai supplemented its response to Interrogatory Five. That response formally identified, for the first time, three Korean companies—Autoever, Mobis, and Sparemap—as entities from which Hyundai had sought reimbursement of defense costs incurred in the Texas Patent Litigation. Hyundai had not identified these Korean companies in its earlier verified response to Interrogatory Five, even though that earlier response stated Hyundai was “providing information concerning the persons from whom it sought indemnification or has a present intention of seeking indemnification, defense fees or costs (collectively, “indemnification”) relating to the [Texas Patent Litigation].”<sup>6</sup> Movants did not immediately bring this circumstance to the Court’s attention; rather, they sought more information by deposing 30(b)(6) witness Russ Meyer (Hyundai’s outside counsel in the Texas Patent Litigation) regarding Hyundai’s efforts to obtain indemnification from the three Korean companies.<sup>7</sup>

<sup>6</sup> See motion for sanctions, exh. 1 at 13 (first response to Interrogatory Five).

<sup>7</sup> When Movants later raised with the Court the issue of Hyundai’s original failure to mention the Korean companies, Hyundai asserted that certain documents produced in discovery had *already* revealed that Hyundai had sought indemnification from at least some of these Korean companies. See Hyundai’s status report at 7–8 (docket no. 192) (Sept. 29, 2010). Regardless, Hyundai’s first response to Interrogatory Five, verified by Hyundai Vice President Frank Ferrara, did not identify them.

Hyundai also produced many new documents, as required by the Court’s *Discovery Order*, along with a privilege log. On September 2, 2010, Hyundai also filed the required certification, stating that counsel had “inquired

of the attorneys representing Hyundai in ... the [Texas Patent] litigation, and the [Insurance Litigation],” and also “conferr[ed] with the client,” and “to its knowledge and based upon reasonable inquiry, Hyundai’s production of documents is complete, with [certain stated] exceptions.”<sup>8</sup> The stated exceptions generally related to documents showing the amount of legal fees Hyundai incurred in other litigation.<sup>9</sup> Hyundai added, in its certification, that, “[g]iven the expansive discovery requests from Snap-on, Click and Reynolds, it is possible that additional responsive non-privileged documents may occasionally surface, and they will be produced, but counsel for Hyundai does not anticipate any significant additional production ....”<sup>10</sup>

<sup>8</sup> Certification at 2 (docket no. 184).

<sup>9</sup> For example, Hyundai explained in its certification that it had not produced documents detailing the description and cost of the legal services it incurred in the Texas Patent Litigation (which documents are relevant to Hyundai’s damages claimed in this litigation) because those documents contained attorney work product and were subject to protective orders entered in other cases. *Id.* at 1–2. Production of this discovery was later resolved, with the help of the undersigned.

<sup>10</sup> *Id.* at 2.

Despite Hyundai’s supplemental discovery productions, the Movants remained concerned that Hyundai had not met all of its obligations contained in the *Discovery Order*. For example, Movants asked Hyundai to confirm it had searched the files of certain individuals likely to have responsive documents, including Hyundai in-house counsel Jason Erb. Hyundai confirmed it had done so.<sup>11</sup> Movants also asserted their deposition of Hyundai’s 30(b)(6) witness, Russ Meyer, was unhelpful, because Meyer was insufficiently knowledgeable about Hyundai’s communications with the three Korean companies.<sup>12</sup> Hyundai insisted Meyer was knowledgeable, had withheld only privileged information, and would supplement his answers where appropriate.

<sup>11</sup> See motion for sanctions, exh. 12 (Movant’s request for confirmation) and exh. 13 (Hyundai’s affirmative response). Mr. Erb was responsible for daily monitoring and oversight of the Texas Patent Litigation and the Insurance Litigation. He also wrote to and met with some or all of the three Korean companies from which Hyundai had once sought reimbursement of the Texas Patent Litigation defense costs. Further, Mr. Erb participated in

a Court-ordered mediation on September 1, 2011, the day before Hyundai filed its certification.

<sup>12</sup> Movants asserted that, during his deposition, Russ Meyer repeatedly and inappropriately stated he did not know certain information related to Hyundai's efforts to obtain indemnification from the Korean companies, but that Mr. Erb did. *See* docket no. 193 (Hyundai's response to these assertions).

<sup>\*5</sup> These ongoing discovery concerns came to a head in late September of 2010, when they combined with the additional, related issue of how much more discovery was allowed—Hyundai wanted to obtain 15 or more additional depositions, while the Movants insisted discovery should be considered complete. The parties raised all of these issues in their periodic status reports to the Court.<sup>13</sup> On October 5, 2010, the Court held a teleconference with the parties to address all open discovery issues.

<sup>13</sup> *See* docket nos. 186–95 (parties' status conference reports to the Court, as well as responses and replies to each others' reports)

There is no transcript of the Court's teleconference, but Movants summarize the Court's position as follows, and Hyundai does not disagree:

During the brief call, Judge Adams indicated that he was considering two alternatives to address the issues raised in the [parties' status reports]: (1) appointing a Special Master to manage and decide the discovery disputes, or (2) holding a full hearing to resolve the [discovery] disputes. He further advised the parties that, if he implemented the second option, *he would consider imposing severe sanctions up to and including dismissal of claims.* Following the hearing, the Court appointed the Special Master to resolve the discovery issues, and specifically authoriz[ed] the Special Master to issue a recommendation on sanctions.<sup>14</sup>

<sup>14</sup> Motion for sanctions at 5–6 (emphasis in original).

Movants also assert that, after reviewing the Meyer deposition transcript, the Court “warn[ed] that ‘word parsing’ would not be tolerated, and that he wanted compliance and cooperation.”<sup>15</sup>

<sup>15</sup> Reply at 7.

Following the Court's appointment of the undersigned, the Special Master met with the parties and issued several rulings, with the aim of resolving all of the parties' discovery disputes. Among other things, the Special Master: (1) ordered Hyundai to supplement certain interrogatories, and set out a schedule for Hyundai to produce documents related to damages;<sup>16</sup> (2) set fact and expert discovery deadlines, imposed limits on the number of allowed depositions, and ruled on whether certain persons could be deposed;<sup>17</sup> and (3) conducted an *in camera* review of documents withheld by both Hyundai and Movants, and ruled on their assertions of privilege.<sup>18</sup>

<sup>16</sup> *First Discovery Order* at 1–2 (docket no. 202).

<sup>17</sup> *Second Discovery Order* at 4–6 (docket no. 208).

<sup>18</sup> *Third Discovery Order* at 5–8 (docket no. 211). The Special Master ruled that Hyundai's claims of privilege were not unreasonable, but ordered Hyundai to produce about half of the 84 documents it had withheld. Most of these documents related to Hyundai's communications with the Korean vendors regarding indemnity.

In addition, the Special Master purposefully avoided ruling on certain discovery disputes. For example, Hyundai asserted it was not obligated to “identify the particular proportions of, and/or entries contained in, all legal bills for which each [Movant] is responsible.”<sup>19</sup> The Special Master concluded resolution of this particular dispute could be postponed, because Hyundai and the Movants “agreed that certain [threshold] issues may be made ripe by summary judgment motion before discovery going to damages is complete.”<sup>20</sup> That is, the Special Master determined that “separat [ion], to some extent, [of] discovery related to liability and discovery related to damages” would allow the principal issues in the case to ripen more quickly, and might eventually moot some of the parties' discovery disputes (or, at least, would allow the Special Master to focus on the disputes that were more exigent).<sup>21</sup> Thus, the Special Master: (1) set a “deadline for fact witness discovery *directed at liability*” and a “deadline for expert discovery *on issues other than damages*,” (2) ruled that “[q]uestioning of fact witnesses may [nonetheless] address any relevant issue, including damages;” and (3) stated

that, “[f]ollowing the court's ruling on summary judgment motions ..., the Special Master will discuss with the parties the extent to which they may pursue additional fact and expert witness discovery directed at damages.”<sup>22</sup>

19 *Second Discovery Order* at 2 (docket no. 208).

20 *Id.* at 3.

21 *Id.* at 3–4.

22 *Id.* at 5–6 (emphasis added).

\*6 During the first six months of the Special Master's oversight of discovery, none of the Movants pursued the issue of sanctions. Further, although the Court's Order of Appointment authorized the Special Master to impose sanctions,<sup>23</sup> the Special Master did not intend to reach this issue. Rather, the Special Master expected that resolution of all open disputes, followed by the eventual close of discovery, would render unnecessary any sanctions analysis. As the parties pursued the last of their discovery, however, Movants discovered information that led them to believe Hyundai had again failed to timely produce relevant documents and information. In particular, on March 18, 2011, Movants deposed Hyundai's in-house counsel, Jason Erb. As noted above, Mr. Erb was responsible for daily monitoring and oversight of the Texas Patent Litigation and the Insurance Litigation. At deposition, Mr. Erb disclosed the following facts:

23 The Order of Appointment gave the Special Master “the full authority set forth in [Fed.R.Civ.P. 53\(c\)](#).” Order at 1 (docket no. 200). [Rule 53\(c\)](#) states that the “master may by order impose on a party any noncontempt sanction provided by [Rule 37](#) or [45](#), and may recommend a contempt sanction against a party and sanctions against a nonparty.”

- Beginning in October of 2010 (before the undersigned was even appointed), in partial resolution of the Insurance Litigation, Hyundai began to receive millions of dollars from AIG as reimbursement for defense costs in the Texas Patent Litigation—the same costs Hyundai seeks to recover from Movants in this case. At the time of Mr. Erb's deposition, Hyundai had not produced any documents to Movants reflecting these payments, which had reached over \$7 million—although Hyundai did, one week before the deposition, send movants a two-sentence letter stating AIG had paid Hyundai over \$7 million, see motion for sanctions, exh. 20.

- Along with these \$7 million in payments to Hyundai, AIG sent Hyundai numerous “audit reports.” These audit reports addressed the reasonableness of Hyundai's defense costs in the Texas Patent Litigation, and also allocated more than 70% of the defense costs to the '342 patent. At the time of Mr. Erb's deposition, Hyundai had not produced any of these audit reports to Movants.
- Beginning in November of 2011, Hyundai filed supplemental responses to written discovery in the Insurance Litigation. At the time of Mr. Erb's deposition, Hyundai had not produced any of these discovery responses to Movants.
- Mr. Erb was deposed as a 30(b)(6) witness in the Insurance Litigation in February of 2011. At the time of Mr. Erb's deposition in this case, Hyundai had not informed Movants of this fact, nor produced the deposition transcript to Movants.

After learning at deposition of the existence of the above-listed documents (“newly-revealed information”), Movants' attorney asked Hyundai's attorney why they had not been produced. Following a deposition recess and telephone call with co-counsel, Hyundai's attorney responded that: (1) all of the newly-revealed information was related to damages, discovery of which was deferred pursuant to the Special Master's *Second Discovery Order*; and (2) nonetheless, Hyundai was immediately gathering the information for production.

On the following business day, Hyundai sent Movants copies of two Protective Orders that had been entered in the Insurance Litigation, and asked Movants to execute agreements of confidentiality so that Hyundai could produce the documents related to the newly-revealed information. In response, Movants observed that the Protective Orders had not even been entered in the Insurance Litigation until March 4, 2011—a mere two weeks before Mr. Erb's deposition—and that, by stipulating to the Protective Orders, Hyundai had agreed to provisions that effectively prevented Hyundai from complying with this Court's *Discovery Order*, entered almost a year earlier on May 26, 2010. Accordingly, Movants refused to execute the confidentiality agreements. Eventually, Hyundai agreed not to insist on the confidentiality agreements and produced to Movants over 800 documents, constituting of over 16,000 pages, related to the newly-revealed information.

\*7 Following Mr. Erb's deposition, Movants requested a meeting with Hyundai to discuss its late production of the newly-revealed information. At this meeting, Movants stated they intended to move for sanctions unless Hyundai agreed not to seek from Movants, as damages, any sums paid to Hyundai by AIG in the Insurance Litigation. Hyundai rejected this proposal. Movants asked whether Hyundai had any alternative proposal to offer; Hyundai did not. Accordingly, Movants filed their motion for sanctions. The motion asks the Court to dismiss Hyundai's claims with prejudice, asserting that "[l]esser sanctions are not adequate."<sup>24</sup>

<sup>24</sup> Motion for sanctions at 14 (docket no. 217).

## II. Legal Standard.

A Court's authority to impose sanctions may derive from several sources, including 28 U.S.C. § 1927, the Federal Rules of Civil Procedure, and its inherent authority. *Chambers v. NASCO, Inc.*, 501 U.S. 32, 48, 111 S.Ct. 2123, 115 L.Ed.2d 27 (1991); *Jones v. Illinois Central R. Co.* 617 F.3d 843, 850 (6th Cir.2010). In this case, Movants cite Fed.R.Civ.P. 37 as the appropriate source of authority for sanctioning Hyundai.<sup>25</sup> Put simply, this Rule authorizes a Court to impose various sanctions upon a party for: (1) failing to obey a Court's discovery order, or (2) failing to supplement an earlier discovery response as required by Rule 26(e).<sup>26</sup>

<sup>25</sup> Rule 37 rule reads as follows, in relevant part:

(b) FAILURE TO COMPLY WITH A COURT ORDER.

\* \* \*

(2) *Sanctions in the District Where the Action Is Pending.*

(A) *For Not Obeying a Discovery Order.* If a party ... fails to obey an order to provide or permit discovery, including an order under Rule 26(f) ... or 37(a), the court where the action is pending may issue further just orders. They may include the following:

(i) directing that the matters embraced in the order or other designated facts be taken as established for purposes of the action, as the prevailing party claims;

(ii) prohibiting the disobedient party from supporting or opposing designated claims or defenses, or from introducing designated matters in evidence;

\* \* \*

(v) dismissing the action or proceeding in whole or in part; [or]

(vi) rendering a default judgment against the disobedient party.

\* \* \*

(C) *Payment of Expenses.* Instead of or in addition to the orders above, the court must order the disobedient party, the attorney advising that party, or both to pay the reasonable expenses, including attorney's fees, caused by the failure, unless the failure was substantially justified or other circumstances make an award of expenses unjust.

(c) FAILURE TO DISCLOSE, TO SUPPLEMENT AN EARLIER RESPONSE, OR TO ADMIT.

(1) *Failure to Disclose or Supplement.* If a party fails to provide information or identify a witness as required by Rule 26(a) or (e), the party is not allowed to use that information or witness to supply evidence on a motion, at a hearing, or at a trial, unless the failure was substantially justified or is harmless. In addition to or instead of this sanction, the court, on motion and after giving an opportunity to be heard:

(A) may order payment of the reasonable expenses, including attorney's fees, caused by the failure;

(B) may inform the jury of the party's failure; and

(C) may impose other appropriate sanctions, including any of the orders listed in Rule 37(b)(2)(A)(i)-(vi).

The sanction authorized at Rule 37(b)(2)(A)(v), "dismissing the action or proceeding in whole or in part," is also authorized by Rule 41(b): "[i]f the plaintiff fails to prosecute or to comply with these rules or a court order, a defendant may move to dismiss the action or any claim against it."

<sup>26</sup> Rule 26(e) states: "A party who has made a disclosure under Rule 26(a)—or who has responded to an interrogatory, request for production, or request for admission—must supplement or correct its disclosure or response: (A) in a timely manner if the party learns that in some material respect the disclosure or response is incomplete or incorrect, and if the additional or corrective information has not otherwise been made known to the other parties during the discovery process or in writing; or (B) as ordered by the court."

If the trial court finds that a party did violate its discovery obligations, the court "has broad discretion in selecting a sanction that is proportionate to the particular discovery violations committed by [the] party." *In re Connolly North America, LLC*, 376 B.R. 161, 181–82 (Bkrtcy.E.D.Mich.2007); see *Dickenson v. Cardiac and Thoracic Surgery of Eastern Tenn.*, 388 F.3d 976, 983 (6th Cir.2004) (a "sanction must be one that a reasonable jurist,

apprised of all the circumstances, would have chosen as proportionate to the infraction”). Rule 37 suggests certain types of sanctions for certain types of violations. For example, if the Court remedies a violation by granting a motion to compel, Rule 37(a) provides the Court may impose as a sanction an award of associated attorney fees and costs. In contrast, “[i]f a party fails to comply with a Court’s order, then Rule 37(b)(2) comes into play and [allows] more severe sanctions such as striking out pleadings, prohibiting a party from introducing matters into evidence, or entering a default judgment or dismissal against the party failing to obey any orders.” *VSI Holdings, Inc. v. SPX Corp.*, 2005 WL 5980804 at \*2 (E.D.Mich. Apr.12, 2005) (emphasis in original). Rule 37(c)(1)(C) allows imposition of the same severe sanctions for failing to supplement earlier discovery responses, as Rule 26(e) requires.

Of course, the sanction requested by Movants—dismissal of Hyundai’s claims with prejudice—is “the most severe sanction.” *Bradbury v. Township of Plymouth*, 1997 WL 76187 at \*7 (6th Cir. Feb.20, 1997). Dismissal of a party’s claims should be “imposed only if the court concludes that a party’s failure to cooperate in discovery is due to willfulness, bad faith, or fault.” *Regional Refuse Systems, Inc. v. Inland Reclamation Co.*, 842 F.2d 150, 153–54 (6th Cir.1988). Dismissal remains “available in appropriate cases, however, because it ‘accomplishes the dual purpose of punishing the offending party and deterring similar litigants from such misconduct in the future.’ ” *In re Connolly*, 376 B.R. at 182 (quoting *Bass v. Jostens, Inc.*, 71 F.3d 237, 241 (6th Cir.1995)). “[I]t is presumed that dismissal is not an abuse of discretion if the party has the ability to comply with a discovery order but does not.” *United States v. Reyes*, 307 F.3d 451, 458 (6th Cir.2002).

\*8 The Sixth Circuit Court of Appeals has set out four factors to guide a trial court’s discretion when deciding whether to impose the sanction of dismissal with prejudice under Rule 37(b)(2)(C). “The first factor is whether the party’s failure to cooperate in discovery is due to willfulness, bad faith, or fault; the second factor is whether the adversary was prejudiced by the party’s failure to cooperate in discovery; the third factor is whether the party was warned that failure to cooperate could lead to the sanction; and the fourth factor in regard to a dismissal is whether less drastic sanctions were first imposed or considered.” *Freeland v. Amigo*, 103 F.3d 1271, 1277 (6th Cir.1997). “Although no one factor is dispositive, dismissal is proper if the record demonstrates

delay or contumacious conduct.” *United States v. Reyes*, 307 F.3d 451, 458 (6th Cir.2002).

The Special Master employs these legal standards in his analysis below.

### III. Analysis.

Hyundai asserts it should not suffer *any* sanction, much less the dismissal of its claims against Movants, because it did not fail to meet any of its discovery obligations. As explained immediately below in subsection A, the Special Master concludes this assertion is not well-taken—Hyundai failed to timely supplement its discovery responses, Hyundai failed to obey the Court’s May 26, 2010 *Discovery Order*, and Hyundai’s excuses are unconvincing. Thus, the Special Master recommends to the Court that the motion for sanctions should be granted. The harder question is what sanction(s) should be imposed. The Special Master examines this question in subsections B–E.

#### A. Hyundai Breached Its Discovery Obligations.

The threshold question raised by Movant’s motion is: Did Hyundai breach any discovery obligation that would make imposition of sanctions appropriate? The threshold answer is: yes.

It is important to note that the Special Master does *not* suggest Hyundai’s discovery conduct leading up to the Court’s May 26, 2010 *Discovery Order* should be the basis for sanctions. The Court already addressed that conduct in its *Discovery Order*. But the *Discovery Order* and Hyundai’s conduct preceding it gives critical context to current circumstances, so the Special Master begins there.

The essence of the May, 2010 discovery dispute between the parties was Movant’s assertion that Hyundai had failed to disclose the existence of the Insurance Litigation, and had not answered whether Hyundai ever sought indemnification from other entities. Hyundai offered excuses for not disclosing this information—asserting, for example, that Interrogatory Five asked only about indemnity and “did not ask about insurance coverage”<sup>27</sup>—but the Court roundly rejected those excuses and, in essence, ordered Hyundai to disclose all non-privileged information related to the Insurance Litigation, or to any other attempt by Hyundai to obtain indemnification or reimbursement for defense costs. This *Discovery Order*, quoted at length beginning on page 6 of this Report, was both sweeping and thorough. It is hard to imagine a Court

Order that could have directed Hyundai to disclose even more thoroughly all documents and facts related to the Insurance Litigation, or related to any other effort Hyundai undertook to obtain indemnification or reimbursement.

<sup>27</sup> Hyundai letter to Court at 2 (May 13, 2010) (docket no. 159). Hyundai also asserted that all information regarding its attempts to obtain indemnification from the three Korean companies—including even the fact of the attempts—was privileged.

\*9 Further, the parties and the Court certainly understood that the discovery obligations imposed by the Court's Order were in addition to—and did not supplant—[Fed. R. Civ. P. 26\(e\)](#). [Rule 26\(e\)](#) is a “standing rule” which requires a party to timely supplement earlier discovery responses “if the party learns that in some material respect the ... response is incomplete or incorrect, and if the additional or corrective information has not otherwise been made known to the other parties during the discovery process or in writing.” Taken together, [Rule 26\(e\)](#) and the Court's *Discovery Order* gave crystal clear notice to Hyundai that, going forward, nothing about the Insurance Litigation should be hidden from Movants, as it had been; to the contrary, Hyundai should be entirely and proactively forthcoming with discovery connected to the Insurance Litigation (including identification of materials withheld on the basis of privilege).

The Movants assert that, following the Court's entry of the *Discovery Order*, Hyundai was not proactive or forthcoming and breached its discovery obligations in two principal respects: (1) Hyundai did not timely produce Insurance Litigation documents, as required in the Court's *Discovery Order*; and (2) Hyundai's certification, also required by the Court's *Discovery Order*, was false. The second failure, if true, violates [Rule 37\(b\)](#) (“failure to comply with a court order”), while the first failure, if true, violates [Rule 37\(b\)](#) and also [Rule 37\(c\)](#) (“failure to ... supplement an earlier [discovery] response”).

There is no question but that, after entry of the *Discovery Order*, Hyundai did not produce to Movants numerous documents related to the Insurance Litigation—at least, not until after Mr. Erb's deposition in March of 2011. These documents include: (1) records of payments by AIG to Hyundai for reimbursement of defense costs in the Texas Patent Litigation, as well as documents memorializing the parties' prior discussions of and negotiations on that topic; (2) audit reports by AIG addressing the reasonableness of Hyundai's defense costs, and allocating those costs to the

two patents; (3) Hyundai's supplemental responses to written discovery in the Insurance Litigation; (4) various motions and briefs filed by Hyundai and AIG in the Insurance Litigation; and (5) Mr. Erb's 30(b) (6) deposition transcript in the Insurance Litigation. Hyundai offers the following explanations for not producing these documents, but the Special Master concludes none of these explanations are acceptable excuses:

- “*The [Discovery Order] does not direct that new materials from the [Insurance Litigation] be produced on a rolling-forward basis, and [Movants] did not ask for a rolling-forward production. In contrast, Special Master Cohen did direct that Hyundai produce on a monthly basis the new legal bills from the Insurance Litigation, and Hyundai has complied with that December 3, 2010 directive.*”<sup>28</sup>

<sup>28</sup> Response brief at 1–2 (docket no. 219).

\*10 When the Special Master was appointed, one of the outstanding discovery disputes was that Hyundai had produced some, but not all, of its legal bills from the Texas Patent Litigation and the Insurance Litigation. These legal bills are evidence of the damages Hyundai seeks from Movants, as Hyundai wants Movants to reimburse it for all of those bills. In addition to past bills, new legal bills payable by Hyundai are still being generated in these two cases. The Special Master resolved this dispute by ordering Hyundai to “supplement its previous interrogatory responses regarding damages” and also to “produce in discovery all newly-received bills on a rolling basis on the first business day of every month.”<sup>29</sup>

<sup>29</sup> *First Discovery Order* at 2 (footnote omitted) (docket no. 202).

That the Special Master, on January 3, 2010, obligated Hyundai to produce these legal bills on a rolling basis, however, has very little to do with the timing aspect of Hyundai's broader obligation, imposed earlier by the Court on May 23, 2010, to produce “all documents related to the [Insurance Litigation] including ... non-privileged communications with the insurance companies relating to the dispute.”<sup>30</sup> Even if the obligation to produce legal bills on a “rolling basis” could somehow be read to imply there is *no* obligation to produce *other* Insurance Litigation documents on a continuing basis—which is a weak proposition—Hyundai's obligation to produce other Insurance Litigation documents certainly did not *end completely* when the Special

Master was appointed. At the very least, Hyundai should have produced (and, given the history behind the *Discovery Order*, should have *known* it should produce) all existing Insurance Litigation documents on two discrete occasions, if not on a “rolling basis”: (1) before the parties engaged in Court-ordered mediation on September 1, 2010, since the documents could certainly be relevant to the parties' settlement positions; and (2) before the deposition of Mr. Erb, since Mr. Erb was responsible for the daily monitoring and oversight of both the Texas Patent Litigation and the Insurance Litigation. But Hyundai did not produce existing Insurance Litigation documents at either juncture.

<sup>30</sup> *Discovery Order* at 2.

In sum, the excuse that Hyundai did not believe it was required to supplement its production of Insurance Litigation documents on a “rolling basis” does not excuse its *complete non-supplementation for over six months*. Indeed, in light of the general breadth of the obligations the Court imposed on Hyundai in its *Discovery Order*, this excuse is difficult to understand.

- “Hyundai recognizes that it has an obligation to supplement discovery responses by providing new documents generated in the Insurance Litigation, and it did so within a reasonable period of time following a request by [Movants] on March 2, 2011.”<sup>31</sup>

<sup>31</sup> Response brief at 2 (docket no. 219).

Hyundai's assertion that it supplemented its production of Insurance Litigation documents “within a reasonable period of time following a request by [Movants] on March 2, 2011” is somewhat misleading. Hyundai's supplemental production may have *followed* Movant's request, but it was not in *response* to it.

\*11 On March 2, 2011, Movants wrote to Hyundai, reminding it that, “[on] May 26, 2010, the Court ordered Hyundai to produce ‘all documents related to the [Insurance Litigation].’ While we have received bills and some pleadings related to this case, we have not received expert reports, written discovery and responses or communications from 2001 to the present between Hyundai and its opposing counsel. Please produce these documents.”<sup>32</sup> Movants' letter also asked about other categories of discovery. Movants sent this letter two weeks before the scheduled deposition of Mr. Erb, although Movants did not state explicitly they needed to receive the discovery before the deposition.

<sup>32</sup> *Id.*, exh. W at 1.

Hyundai did *not* respond to this letter before Mr. Erb's deposition. And Hyundai's subsequent supplemental production was clearly *not* made in response to the letter, either. Rather, Hyundai produced the additional 800-plus documents related to the Insurance Litigation only after Mr. Erb discussed the “newly-revealed information” in deposition on March 18, 2010, and after Movants complained.<sup>33</sup> Even then, Hyundai initially insisted that Movants sign agreements of confidentiality before Movants could receive any supplemental production—a requirement Hyundai later abandoned.<sup>34</sup>

<sup>33</sup> Further, Hyundai produced these documents in three batches—the latter two of which came only after Movants notified Hyundai that the prior batch had evident gaps. See reply at 2 (docket no. 222) (detailing these batches); sur-reply at 4 (docket no. 226) (responding that these documents were produced in batches as they became available from counsel in the Insurance litigation).

<sup>34</sup> The timing of the entry of the stipulated protective order (“SPO”) in the Insurance Litigation, which ostensibly required Movants to sign confidentiality agreements before they could receive Insurance Litigation documents, is odd. The SPO was entered nearly a year after entry of the *Discovery Order* in this case, and after Mr. Erb's deposition was noticed, but before his deposition was taken.

Moreover, Hyundai's suggestion that, by having now “responded” to Movant's request for supplemental production, it did all it should, is wrong in any event. It was not Movants' job to first ask for supplemental production of the Insurance Litigation documents—the *Discovery Order* made clear it was Hyundai's job to produce them, and [Rule 26\(e\)](#) (if not the *Discovery Order* itself) makes clear it was Hyundai's job to seasonably supplement the production. On September 2, 2010, Hyundai certified its document production was complete. Hyundai did not supplement its production until over six months later, after the deposition of its own in-house counsel. The excuse that the supplemental production was within a reasonable time of Movant's request is inaccurate and inapposite.

- *Hyundai is not required to produce pleadings in the Insurance Litigation that are available to the public on the PACER docket, and the information [that Movants]*

*claim has been concealed has been available on PACER for months.*

After directing Hyundai to “produce all documents related to the [Insurance Litigation] including but not limited to pleadings,” the *Discovery Order* adds: “With respect to pleadings, Hyundai will produce pleadings in its possession, but will not be required to obtain additional pleadings from the district court’s electronic docket to the extent such documents are publicly available.”<sup>35</sup> Hyundai asserts that some (but not all) of the Insurance Litigation documents that Movants complain Hyundai did not timely produce were available on the electronic docket of the Insurance Litigation. Hyundai asserts that, at the very least, enough of these “unproduced” documents were filed on the public docket to give Movants notice of the critical facts, such as that AIG had begun making payments to Hyundai and had issued audit reports allocating those payments between the two different patents.

<sup>35</sup> *Discovery Order* at 2.

\*12 As an initial matter, this argument appears to be based on a misunderstanding of the word “pleadings.” “Pleadings” are defined in [Fed.R.Civ.P. 7\(a\)](#) to include only a certain few documents, such as a complaint, answer, and third-party complaint.<sup>36</sup> Other documents that parties file with the court are formally referred to in the rules as “written motion[s], and other paper[s].”<sup>37</sup> Thus, the Court’s direction that Hyundai did not need to produce to Movants “pleadings from the district court’s electronic docket” in the Insurance Litigation did not relieve Hyundai from producing other motions and papers filed on that docket.<sup>38</sup>

<sup>36</sup> “[Fed R. Civ. P. 7\(a\)](#) states: “Only these pleadings are allowed: (1) a complaint; (2) an answer to a complaint; (3) an answer to a counterclaim designated as a counterclaim; (4) an answer to a crossclaim; (5) a third-party complaint; (6) an answer to a third-party complaint; and (7) if the court orders one, a reply to an answer.”

<sup>37</sup> [Fed.R.Civ.P. 11\(a\)](#); [Fed R. Civ. P. 7\(b\)](#).

<sup>38</sup> The Special Master recognizes that, despite this distinction in the Rules, it is extremely common for attorneys to use the term “pleadings” to mean any formal document filed on the Court’s docket that is signed by counsel or the Judge—including pleadings, motions, briefs, and Orders. The Court’s *Discovery Order* adopted proposed language by Movants (*see* docket no. 160,

exh. A), and the parties all appear to follow this casual meaning for “pleadings” in their briefs, so the Special Master does not rely on this distinction of terminology to conclude Hyundai’s explanation regarding PACER is not well-taken.

Further, even assuming Hyundai was not obligated to produce *any* document that was filed on the Insurance Litigation docket, the Special Master concludes that Hyundai vastly overstates the extent to which a few documents filed on the Insurance Litigation electronic docket could have given Movants notice of the critical facts. In August and September of 2010, AIG filed two documents in the Insurance Litigation, both of which were procedural in nature—a motion for leave to file counterclaims, and a motion for additional discovery to oppose summary judgment. Attached to these motions were numerous exhibits; within a couple of these exhibits were brief statements suggesting that AIG intended to begin making conditional payments to Hyundai and to audit the costs for which Hyundai sought reimbursement. These references amount to a few sentences buried within many dozens of pages of exhibits attached to motions that are nominally addressed to case management issues. It is stretching to assert these references should have put Movants on notice of the critical facts.

Hyundai’s argument gains only a little more traction when Hyundai points to other documents filed on the electronic docket in the Insurance Litigation in January and February of 2011. Specifically, in January of 2011, Hyundai sought to consolidate the Insurance Litigation with another, related case known as the Bad Faith Litigation. The motion to consolidate was granted, so the Bad Faith Litigation became a part of the Insurance Litigation. Before this consolidation, Hyundai had filed a brief in opposition to summary judgment in the Bad Faith Litigation; attached to that brief were exhibits detailing payments AIG had made to Hyundai, along with AIG audit reports. Some of these exhibits could have given notice that AIG had begun making payments to Hyundai in reimbursement of the Texas Patent Litigation expenses, and allocating those payments between the two patents.

There are three reasons, however, why Hyundai’s reliance on these documents, filed in 2011 on the Insurance Litigation electronic docket, is insufficient. First, the *Discovery Order* had been pending since May 2010; the documents filed in the Insurance Litigation in February of 2011 reflected relevant information that was several months old, and Hyundai’s excuse does not explain the gap. Second, even if the *Discovery Order* relieved Hyundai from producing

to Movants all documents that were publicly available on the Insurance Litigation docket, there are only a handful of such documents. After the deposition of Mr. Erb, Hyundai produced over 800 documents, constituting of over 16,000 pages. Hyundai does not even pretend to assert all of these documents were publicly available on the Insurance Litigation docket—Hyundai is willing to state only that Movants had notice of “each subject” about which Hyundai did not earlier produce information.<sup>39</sup> And third, the obvious thrust of the *Discovery Order* was to place clearly, firmly, and broadly upon Hyundai the obligation of timely producing documents related to the Insurance Litigation. The essence of Hyundai's argument regarding documents available on PACER is that Movants failed their own obligation to monitor the Insurance Litigation docket. But even if Movants did fail to uncover available clues contained in exhibits attached to briefs, this failure does not excuse Hyundai from its own, overriding Court-imposed obligation of production.<sup>40</sup>

<sup>39</sup> Response at 7 (docket no. 219).

<sup>40</sup> Indeed, Movants' knowledge of Hyundai's Court-ordered obligations largely explains why Movants did not find the “clues” Hyundai identifies. Movants reasonably relied upon Hyundai's compliance with the *Discover Order* to assume Hyundai would produce at least some fraction of the 16,000 pages that arrived only after Mr. Erb's deposition. Movants' obligation to monitor the Insurance Litigation docket was secondary to Hyundai's surpassing obligation to timely produce responsive documents.

\*13 Hyundai is correct that its duty to supplement discovery applies only “if the additional or corrective information has not otherwise been made known to the other parties during the discovery process or in writing” Fed.R.Civ.P. 26(e)(1)(A). But the documents that Hyundai asserts Movants should have seen on their own, and which should have informed Movants regarding new, critical events, provided incomplete notice at best. Ultimately, Hyundai's reliance on documents appearing on the electronic docket of the Insurance Litigation to explain its non-production is insufficient, and has the ring of an excuse manufactured after the fact.<sup>41</sup>

<sup>41</sup> Cf. *Saint Gobain Autover USA, Inc. v. Xinyi Glass North America, Inc.* 666 F.Supp.2d 820, 826–27 (N.D. Ohio 2009) (rejecting argument that plaintiff should have known about prior art in patent case based on terse references in discovery and on information “otherwise

known” to plaintiff, and therefore precluding defendants' use of the prior art defense, as a discovery sanction).

- *The information [Movants] complain about (produced three weeks after their request), relates primarily to damages. The Special Master issued an order to complete liability discovery. No time limit has been established for the completion of damages discovery. Snap-on asserted at the outset of Mr. Erb's deposition that the deposition was limited to liability issues, not damages. Snap-on then proceeded to question Erb on damages issues, and then Snap-on led the other [Movants] in complaining, for the first time, that damages-related documents from the Insurance Litigation had not been produced.*<sup>42</sup>

<sup>42</sup> Response at 2.

As noted earlier, the Special Master put on a discovery plan that “separate [d], to some extent, discovery related to liability and discovery related to damages.”<sup>43</sup> In particular, the Special Master limited the number of fact witnesses, set a deadline for fact discovery directed at liability, and stated that, “[f]ollowing the court's ruling on summary judgment motions ..., the Special Master will discuss with the parties the extent to which they may pursue additional fact and expert witness discovery directed at damages.”<sup>44</sup> As such, the parties knew to focus their deposition discovery primarily on liability issues, and that they could pursue additional deposition discovery going to damages later on. This plan had the salutary effect of avoiding pending discovery disputes related to damages, while making ripe threshold issues that might moot those disputes entirely. Nonetheless, the Special Master also directed that, during the first phase of discovery, “[q]uestioning of fact witnesses may address any relevant issue, *including damages*.”<sup>45</sup> That is, discovery was not *bifurcated* between liability and damages; rather, the parties were simply directed to focus their discovery primarily on liability, and told they could expect to pursue some appropriate amount of additional depositions and discovery going to damages later on.

<sup>43</sup> *Second Discovery Order* at 3–4.

<sup>44</sup> *Id.* at 5.

<sup>45</sup> *Id.* (emphasis added). Thus, Hyundai's characterization that the Special Master “direct[ed] that discovery on liability issues be completed before damages discovery begins,” sur-reply at 2 (emphasis added), is inaccurate.

Hyundai suggests this phased discovery plan meant it did not have to produce any Insurance Litigation documents *related to damages*. Obviously, however, the Special Master's discovery plan did not and could not trump the Court's earlier *Discovery Order*. The Court's directive that Hyundai had to "produce all documents related to the [Insurance Litigation]" continued unabated after the Special Master set out the discovery plan. The discovery plan was never meant to, and by its clear terms did not, direct the parties to discontinue, and ignore until later, discovery related to damages.

\*14 Moreover, there is no bright-line distinction between Insurance Litigation documents related to damages, and documents related to liability. Although the Special Master has not seen the 16,000 pages produced by Hyundai after Mr. Erb's deposition, it is certain that some of the documents must touch on both damages *and* liability. Even if Hyundai is correct that its obligation to produce Insurance Litigation documents related to damages was abated by the Special Master's discovery order, Hyundai's obligation to produce documents related to liability certainly was not.

In sum, Hyundai cannot reasonably attribute its failure to timely produce documents from the Insurance Litigation, as required by the *Discovery Order*, on any subsequent discovery directive.

- *During the many discussions and exchanges of correspondence among counsel and the Special Master preceding the Erb deposition, including four emails from Snap-on to the Special Master and a teleconference with him, Defendants never mentioned the Order, much less requested production of the Insurance Litigation documents prior to the Erb deposition.*

As reflected in the detailed legal bills submitted by the undersigned to the Court,<sup>46</sup> the Special Master has had numerous, ongoing, oral and written communications from and with the parties to resolve discovery issues. Hyundai notes that Movants "never raised this issue [of non-production of Insurance Litigation documents] with the Special Master before the Erb deposition."<sup>47</sup> Although the parties "engaged in extensive discussions among themselves and with Special Master Cohen regarding" whether the Erb deposition would take place and what its scope would be, Movants "never raised with the Special Master the issue of the [*Discovery Order*] or the desire to have more Insurance Litigation documents before the Erb deposition."<sup>48</sup> Hyundai suggests Movants have no right to complain about non-production when they

could have raised and resolved the issue with the Special Master. And Hyundai observes that, once Movants *did* raise the issue of non-production at Mr. Erb's deposition, Hyundai responded with discovery within a few weeks.

46 See exhibits filed at docket nos. 203, 212, & 225.

47 Response brief at 2; *see also id.* at 22 ("The Special Master was specifically appointed to facilitate the handling of such matters and yet Defendants failed to take advantage of this resource ahead of time.")

48 *Id.* at 12. Actually, Movants did write to Hyundai on March 2, 2011, two weeks before Mr. Erb's deposition, requesting additional documents from the Insurance Litigation: "While we have received bills and some pleadings related to [the Insurance Litigation], we have not received expert reports, written discovery and responses, or communications from June 2001 to the present between Hyundai and its opposing counsel. Please produce these documents." Hyundai is correct, however, that Movants did not explicitly request that this production occur before Mr. Erb's deposition.

The problem with Hyundai's position is that, if there was one area of discovery that had *already* been clearly and fully addressed, it was production of documents related to the Insurance Litigation. Hyundai is correct that, had Movants raised the issue, the Special Master would have addressed it before Mr. Erb's deposition and current circumstances might have been avoided. But Hyundai is not correct that Movants had an obligation to raise the issue once again with the Special Master. The Court had already directed Hyundai to produce all documents related to the Insurance Litigation. [Rule 26\(e\)](#) required timely supplementation. Hyundai's obligations were clear. Movants were entitled to rely on the *Discovery Order* and [Rule 26\(e\)](#) and assume they did not need to approach the Special Master to seek enforcement.

\*15 • *Hyundai complied with, and certified its compliance with, this Court's [Discovery Order].*<sup>49</sup>

49 Sur-reply at 1.

Movants filed their motion for sanctions after learning at Mr. Erb's deposition that Hyundai had not produced certain documents related to the Insurance Litigation. *After* Movants filed their motion for sanctions, Hyundai produced 800 new documents. Movants examined these documents and, in their reply brief, raise a new complaint: Hyundai's "recent productions contain at least 90 documents from June, July, and August 2010 that Hyundai did not produce until now."<sup>50</sup>

The reason Movants make this observation is that, “on September 2, 2010, Hyundai filed a certification stating that its production of documents pursuant to the [*Discovery Order*] was complete.”<sup>51</sup> Movants thus assert that “Hyundai falsely certified the completeness of its production in violation of the [*Discovery Order*].”<sup>52</sup>

<sup>50</sup> Reply at 4.

<sup>51</sup> *Id.*

<sup>52</sup> *Id.* at 3

Movants also observe that Hyundai confirmed in September of 2010 that it had searched the files of in-house counsel Mr. Erb, but some of the newly-produced documents from pre-September 2010 came from Mr. Erb's files or show him as a copy-recipient. Some of these documents reflect commitments by AIG to begin making payments to Hyundai. Mr. Erb had to know of this fact when he participated in a mediation with the Movants on September 1, 2010. But Movants did not receive these documents and were not made aware of their contents before the mediation. Movants now believe that “Hyundai did not wish to disclose these payments [from AIG] in connection with the mediation process, hoping that the mediation would result in a double recovery.”<sup>53</sup> Movants also insist this non-disclosure fits a pattern: just as Hyundai did not reveal before the mediation that AIG had agreed to make payments, Hyundai also did not reveal the existence of the Insurance Litigation in the first place, and did not timely reveal it had once sought indemnification from three Korean businesses.<sup>54</sup>

<sup>53</sup> *Id.* at 4.

<sup>54</sup> See Reply at 15 (“Perhaps the most stark example of a flat out lie relates to a comparison of information now known about [the Korean businesses] and Hyundai’s sworn interrogatory answers in this case. In response to the [Court’s *Discovery Order*] and the Special Master’s [*Third Discovery Order* ruling on privilege claims], Hyundai finally [produced documents describing] its negotiations and ultimate agreement with [its] Korean affiliates. Hyundai’s September 2008 interrogatory answer had stated that the parties to this case and Infomedia were the *only entities* from whom ‘Hyundai has sought ... indemnification.’ In fact, Hyundai had spent the entire previous year seeking indemnification from its [Korean] affiliates, including dozens of communications, a trip to Korea *by counsel in this case* and an agreement between [Hyundai and the

Korean businesses] entered into just months before the interrogatory answer was submitted. Hyundai’s excuses relating to the insurance discovery—weak though they were—at least were excuses. The failure to disclose that Hyundai had engaged in a lengthy process seeking indemnification against the affiliated vendors was an indefensible misrepresentation.”) (emphasis in original).

Hyundai responds that its September 2, 2010 certification was in full compliance with the Court’s *Discovery Order*, which recognized that counsel could only certify that, “*to its knowledge and based upon reasonable inquiry* Hyundai’s production of documents is complete.”<sup>55</sup> Hyundai notes that: (1) “Hyundai is or has been involved in five trial court and two appellate proceedings,” where it has been “represented ... by seven law firms, with multiple attorneys in each firm, in three states and the District of Columbia;” (2) “production of documents from other cases has usually required reaching agreement with opposing counsel in those cases on protective orders;” (3) “in a case with as many participants and records as this one, oversights can occur;” and (4) “[g]iven the scope of this litigation and the multiple sources of documents, certifying that production is complete is not as simple as it might seem.”<sup>56</sup>

<sup>55</sup> *Discovery Order* at 3.

<sup>56</sup> Sur-reply at 3–4.

The issue Movants raise in their reply brief is whether Hyundai violated the *Discovery Order* by filing a false certification. Ultimately, the Special Master does not need to resolve this question, because Hyundai violated the *Discovery Order* in another way—that is, by failing to timely produce documents from the Insurance Litigation. This fact, alone, is a sufficient basis upon which to conclude sanctions are appropriate.

**\*16** Given this conclusion, the Special Master must examine the four *Freeland* factors cited earlier and determine whether to recommend the sanction of dismissal.<sup>57</sup> Each factor is discussed separately, below.

<sup>57</sup> See *Trustees of Laborers, Local 310 Pension Fund v. Able Contracting Group, Inc.*, 2007 WL 184748 (N.D. Ohio Jan. 19, 2007) (“Once a court has determined that an award of sanctions is appropriate under **Rule 37**, it must address the measure of those sanctions.”).

**B. First *Freeland* Factor: Whether the Party's Failure to Cooperate in Discovery Is Due to Willfulness, Bad Faith, or Fault.**

Movants have carried their burden of showing Hyundai violated its discovery obligations. Accordingly, the burden shifts to Hyundai to “show[ ] that [its] failure to comply was due to inability and not to willfulness, bad faith, or fault.”<sup>58</sup>

<sup>58</sup> *United States v. Reyes*, 307 F.3d 451, 458 (6th Cir.2002); see *Regional Refuse Sys.*, 842 F.2d 150, 154 (“the burden of proof is on the dismissed party to establish ‘that the failure to comply was due to inability, and not to willfulness, bad faith or any fault of the party’ ”); *In re Connolly*, 376 B.R. at 183 (a litigant may “avoid the dismissal of its complaint under Rule 37(b) (2) if [its] failure to comply with discovery ‘was due to inability fostered neither by its own conduct nor by circumstances within its control’ ”) (quoting *Societe Internationale v. Rogers*, 357 U.S. 197, 78 S.Ct. 1087, 2 L.Ed.2d 1255 (1958)).

A discovery violation is “willful” if it is a “conscious or intentional failure to comply.”<sup>59</sup> Similarly, a discovery violation occurs in “bad faith” if the party's conduct is “intentional or in reckless disregard of a party's obligations to comply with a court order.”<sup>60</sup> Discovery failures due to “fault” refer to “objectively unreasonable behavior; [fault] does not include conduct ... classif[ied] as a mere mistake or slight error in judgment.”<sup>61</sup> “[W]illfulness and bad faith are associated with conduct that is intentional or reckless,” while “fault” refers to “gross negligence.”<sup>62</sup> Gross negligence, in turn, means acting “without even slight diligence or care, and in ‘reckless disregard’ of [one's] legal duties.”<sup>63</sup>

<sup>59</sup> *Bass v. Jostens, Inc.*, 71 F.3d 237, 241 (6th Cir.1995).

<sup>60</sup> *Marrocco v. General Motors Corp.*, 966 F.2d 220, 224 (7th Cir.1992).

<sup>61</sup> *In re Connolly*, 376 B.R. at 184.

<sup>62</sup> *Id.*

<sup>63</sup> *Id.* at 186.

The Special Master concludes that, at the least, Hyundai's non-production of Insurance Litigation documents in violation of the Court's *Discovery Order* is due to fault. To repeat, the obvious thrust of the *Discovery Order* was to place clearly, firmly, and broadly upon Hyundai the

obligation of timely producing documents related to the Insurance Litigation. The Court imposed this obligation on Hyundai after concluding Hyundai had engaged in “word-parsing” and had not met existing discovery obligations on its own. It was fair for Movants to expect Hyundai's reasonable response would be to steer well clear of any danger of violating the Court's Order.<sup>64</sup> Avoiding this danger meant not only making a thorough production immediately, but also complying with Rule 26(e) by supplementing production as necessary, such as when additional relevant documents were created or found. And there was no doubt that additional documents *would* be created or found, since the Insurance Litigation was ongoing.

<sup>64</sup> See reply at 10 (following the Court's issuance of the *Discovery Order*, Movants believed “they could rely on Hyundai to produce the insurance materials, if only out of self-preservation, given Judge Adams's warning that dismissal could result from failure to comply with discovery obligations”).

For some reason, however, Hyundai chose to produce far less than would an objectively reasonable litigant, and now offers excuses based on the premise it is Movants who acted improperly. For example, Hyundai asserts it was Movants' obligation to request additional Insurance Litigation documents, and make clear it wanted them before Mr. Erb's deposition. But Rule 26(e) (not to mention the *Discovery Order*) “places the burden on ... [Hyundai] to supplement its disclosures, not on [Movants] to request updated information as it becomes available.”<sup>65</sup> Similarly, Hyundai asserts the *Discovery Order* “effectively placed on [Movants] the responsibility to monitor the Insurance Litigation docket.”<sup>66</sup> But Hyundai somehow ignores the fact that the same Order imposed upon it the primary and overriding and broader responsibility to “produce all documents” related to the Insurance Litigation. Hyundai's attempts to characterize its non-production as being Movants' fault are untenable; to the contrary, it was Hyundai's own fault.

<sup>65</sup> *Adams v. Teck Cominco Alaska, Inc.*, 231 F.R.D. 578, 580 (D.Alaska 2005). See also *AVX Corp. v. Cabal Corp.*, 251 F.R.D. 70, 76 (D.Mass.2008) (“the duty to supplement is a continuing duty and a ‘party may not free itself of the burden to fully comply’ by placing ‘a heretofore unrecognized duty of repeated requests for information on its adversary’ ”) (quoting *Arthur v. Atkinson Freight Lines Corp.*, 164 F.R.D. 19, 20 (S.D.N.Y.1995)); *In re Connolly*, 376 B.R. at 188 n. 99 (defendant argued plaintiff was free to inspect documents

and could have discovered critical information on its own, but the court rejected this argument because plaintiff “had the right to rely on the accuracy of the [defendant’s] document request response in deciding not to review these documents”).

66 Sur-reply at 6.

\*17 It may be, as Movants assert, that Hyundai’s discovery failures were part of a concerted and repeated attempt to withhold from Movants information about other possibly-responsible parties and other possible set-off amounts. Even if not willful, however, Hyundai’s conduct was “objectively unreasonable” and goes well beyond a “mere mistake or slight error in judgment.”<sup>67</sup> Hyundai’s failures cannot be blamed simply on inadvertence or oversight due to the complexity of litigation.<sup>68</sup> Accordingly, the first *Freeland* factor weighs in favor of imposition of serious sanctions.

67 *In re Connolly*, 376 B.R. at 184. See *Technology Recycling Corp. v. City of Taylor*, 2006 WL 1792413 at \*6 (6th Cir. June 28, 2006) (“it was not unreasonable for the district court to find that plaintiffs’ noncompliance was the result of willfulness, bad faith, or fault,” given that plaintiffs’ “noncompliance with discovery orders was neither isolated nor short-lived”).

68 Case law is clear that a district court may “dismiss a complaint, as the first and only sanction, solely on the basis of the plaintiff’s counsel’s neglect,” because a plaintiff “voluntarily [chooses his] attorney as his representative in the action, and he cannot ... avoid the consequences of the acts or omissions of this freely selected agent.” *Bradbury*, 1997 WL 76187 at \*4 (quoting *Link v. Wabash R.R. Co.*, 370 U.S. 626, 633–34, 82 S.Ct. 1386, 8 L.Ed.2d 734 (1962)). Similarly, it was Hyundai’s choice to obtain representation in its various lawsuits “by seven law firms, with multiple attorneys in each firm,” and the consequences of that choice—including the discovery “oversights” Hyundai claims occurred as a result—are Hyundai’s to bear. It is also notable that Mr. Erb (at the mediation) and Mr. Ferrara (who verified the interrogatories) both knew Movants did not have critical and relevant information.

### C. Second *Freeland* Factor: Whether the Adversary Was Prejudiced by the Party’s Failure to Cooperate in Discovery.

Hyundai asserts the Movants have not suffered any prejudice from the late production of Insurance Litigation documents, because the Special Master’s case management plan explicitly contemplates a second phase of additional discovery directed

at damages—including a second deposition of Mr. Erb, who can be questioned about all the newly-produced documents. Hyundai notes that the endpoint of this additional discovery period has not even been established, nor has a date for actual trial, so sanctions are inappropriate: “There should be a direct relationship between the time before trial and findings of prejudice—as the trial date gets closer, the Court should be more critical of non-disclosures.” *Southern Electric Supply Co., Inc. v. Lienguard, Inc.*, 2007 WL 2156658 at \*3 (S.D. Ohio July 25, 2007).

Movants respond by insisting Hyundai’s discovery failures have caused them to suffer real prejudice, including not only unnecessary delay and expense but also undermining their ability to defend themselves. Movants assert, for example, that, because of Hyundai’s discovery failures and recalcitrance, they incurred (or will have to incur) expenses for: (1) the briefing and hearings to secure the *Discovery Order*; (2) re-deposing Mr. Meyer regarding the Korean businesses; (3) preparing for and attending a meaningless mediation; and (4) re-deposing Hyundai Vice President Frank Ferrara and Hyundai in-house counsel Jason Erb regarding the Insurance Litigation. Movants add that Hyundai’s actions have also caused repeated delays: “The case has also suffered multiple delays as the Movants thought they had essentially completed written discovery in April 2010, only to determine that there existed entirely new and previously undisclosed cases, agreements with indemnitors and other communications. They again believed that they had essentially completed written discovery in March 2011, only to discover a substantial volume of not-yet-produced documents, including the critically important fact of insurance payments.”<sup>69</sup> And Movants explain that Hyundai’s conduct has affected litigation strategy and timing: Movants (1) “did not have the benefit of the documents from the Insurance Litigation in determining whether to serve additional written discovery or request depositions in light of documents in the Insurance Litigation;” and (2) participated in mediation in this case with an incorrect understanding that, of the \$10 million in damages Hyundai claimed for expenses related to the Texas Patent Litigation “98.5% of those costs allegedly related to the ‘627 patent.”<sup>70</sup>

69 Reply at 13.

70 *Id.* at 12–13. As explained earlier, Hyundai’s indemnification claim against Movants relates only to costs associated with the ‘627 patent and not the ‘342 patent. At mediation, Movants understood Hyundai was

claiming 98.5% of the Texas Patent Litigation costs were associated with the '627 patent, and AIG had not agreed to pay any amounts. Insurance Litigation documents show AIG had already committed to pay some amounts at the time of mediation, and allocated only 30% of the Texas Patent Litigation costs to the '627 patent.

\*18 Some of the prejudicial effects identified by Movants do not stem from Hyundai's most recent failure to timely supplement discovery related to the Insurance Litigation. For example, the cost incurred for briefing and hearings to secure the *Discovery Order* stem from Hyundai's earlier failure to disclose the existence of the Insurance Litigation, not from the recent failure to supplement discovery. But Movants did certainly suffer additional prejudice caused purely by the most recent non-production. The most obvious example is that the May 16, 2011 deadline for fact witness discovery directed at liability has passed. Movants surely would have employed a different discovery strategy during the months leading up to this deadline—perhaps by choosing different deponents, asking them different questions, and/or promulgating different written discovery—if they had timely received the Insurance Litigation documents. Similarly, Movants would surely have employed a different mediation strategy had they known AIG was beginning to make payments.<sup>71</sup>

<sup>71</sup> Hyundai suggests Movants' position at mediation was implacable and the parties would not have settled their dispute regardless of whether Movants had earlier received the undisclosed Insurance Litigation documents revealing AIG's payments. Sur-reply at 6. But there is no telling what agreements the parties might have reached at mediation—including possible resolution of smaller disputes, short of a full settlement—if Movants then knew of the highly relevant and meaningful information about AIG's payments and allocations.

In sum, the Special Master agrees with Hyundai that not all of the prejudicial effects identified by Movants are fairly attributed to the untimely supplementation of Insurance Litigation documents, and also that some of the prejudicial effects identified by Movants are ameliorated because there is already planned additional discovery going to damages.<sup>72</sup> But the Special Master also agrees with Movants that they did suffer some degree of real prejudice caused directly by Hyundai's failure to timely supplement discovery of Insurance Litigation documents. Accordingly, the second *Freeland* factor also weighs in favor of imposition of serious sanctions.

<sup>72</sup> *But see Technology Recycling Corp. v. City of Taylor*, 2006 WL 1792413 at \*6 (6th Cir. June 28, 2006) (“prejudice includes deprivation of information through non-cooperation with discovery and need not include irreparable harm”) (citations and internal quotation marks omitted).

#### **D. Third *Freeland* Factor: Whether the Party Was Warned That Failure to Cooperate Could Lead to the Sanction.**

As noted earlier, on October 5, 2010, the Court held a teleconference with the parties to address discovery issues. There is no transcript of this teleconference, but Movants state the Court told the parties it was considering “holding a full hearing to resolve the [parties' discovery] disputes” and, if it did, the Court “would consider imposing severe sanctions up to and including dismissal of claims.”<sup>73</sup> Instead, the Court appointed the undersigned to manage discovery and included in its grant of authority the power to impose or recommend sanctions.<sup>74</sup>

<sup>73</sup> Motion for sanctions at 5–6.

<sup>74</sup> The Order of Appointment states: “Special Master Cohen shall have the full authority set forth in [Fed.R.Civ.P. 53\(c\)](#), including but not limited to the power to “recommend a contempt sanction against a party and sanctions against a nonparty.” Order at 1 (docket no. 200). [Rule 53\(c\)](#) provides that “[t]he master may by order impose on a party any noncontempt sanction provided by [Rule 37](#) or [45](#).” Technically, then, the undersigned has the authority to impose sanctions on Hyundai directly, up to and including dismissal, rather than recommend to the Court that it impose a sanction. Because of the seriousness of the matter and the Court's familiarity with the history of the parties' discovery disputes before the Court appointed the undersigned, however, the Special Master submits his analysis in the form of a recommended ruling to the Court.

Hyundai does not disagree with Movants' characterization of the Court's message during the teleconference. Rather, Hyundai observes it received “no prior warning [that it had to make] a rolling production of documents from the Insurance Litigation.”<sup>75</sup> This is a non sequitur. The Court: (1) entered the *Discovery Order* on May 26, 2010, ordering Hyundai to “produce all documents related to the [Insurance Litigation]”; (2) received a status report from Movants on September 13, 2010 (docket no. 187) raising problems with Hyundai's compliance with the *Discovery Order*; and (3) after further

briefing and discussion with the parties, warned Hyundai on October 5, 2010 that it was considering convocation of a full, formal hearing and imposition of severe sanctions, including dismissal. This served as a full warning that adherence to the Court's *Discovery Order* must be complete, on pain of possible dismissal. Hyundai is not entitled to (and the law does not require) a more detailed warning that it must engage in "a rolling production of documents from the Insurance Litigation" before the Court may impose sanctions. Accordingly, the third *Freeland* factor also weighs in favor of imposition of serious sanctions.

<sup>75</sup> Response at 20.

#### E. Fourth *Freeland* Factor: Whether less Drastic Sanctions Were First Imposed or Considered.

\*19 It suffices to say the Special Master has not only *considered* whether sanctions less drastic than dismissal should be imposed, the Special Master *recommends* less drastic sanctions, in the alternative. Thus, the fourth *Freeland* factor does not counsel against imposition of serious sanctions.<sup>76</sup>

<sup>76</sup> Hyundai notes that "a less severe sanction [than dismissal] has not been imposed in this case." Response at 20. The fourth *Freeland* factor examines only whether the trial court considered lesser sanctions, not whether the court earlier imposed them. See *Technology Recycling Corp. v. City of Taylor*, 186 Fed. Appx. 624, (6th Cir.2006) (affirming dismissal for failure to comply with discovery orders, and stating: "[b]ecause the district court did not impose any sanctions short of dismissal with prejudice, we consider whether the district court at least considered such lesser sanctions"); *Bradbury*, 1997 WL 76187 at \*4 (a court need not necessarily make *explicit* its consideration of lesser sanctions).

#### F. Meet-and-Confer Requirement.

Before turning to the question of which sanctions are appropriate, the Special Master must address one final issue. In response to the motion for sanctions, Hyundai reciprocates Movants' accusation of bad faith, asserting the Movants' outrage is "manufactured" and that the current "discovery dispute was created by [Movants'] bad faith failure to comply with this Court's rules."<sup>77</sup> Specifically, Hyundai asserts that: (1) Fed.R.Civ.P. 37(a)(1) and Local Rule 37.1 require Movants to confer with Hyundai and undertake good faith efforts to resolve any discovery dispute before bringing it to the attention of the Court;<sup>78</sup> (2) when Movants met with

Hyundai, they "gave Hyundai the option of either dismissing its case with prejudice or reducing its damages against them by millions of dollars," and "made clear ... that, unless Hyundai accepted their demands, they would file a sanctions motion the next day;"<sup>79</sup> (3) Movants' proposals were extreme and unrealistic, reflecting an "approach to this matter [that] indicates a desire to create a dispute, not resolve one;"<sup>80</sup> and (4) Hyundai offered to and did effectively resolve the parties' dispute by promptly producing the documents at issue.

<sup>77</sup> Sur-reply at 17, 15.

<sup>78</sup> The rules to which Hyundai refers are quoted below:

#### **Rule 37. Failure to Make Disclosures or to Cooperate in Discovery; Sanctions**

(a) MOTION FOR AN ORDER COMPELLING DISCLOSURE OR DISCOVERY.

(1) In General. On notice to other parties and all affected persons, a party may move for an order compelling disclosure or discovery. The motion must include a certification that the movant has in good faith conferred or attempted to confer with the person or party failing to make disclosure or discovery in an effort to obtain it without court action.

#### **Local Rule 37.1 Discovery Disputes**

(a) In the absence of a Judicial Officer establishing an alternative procedure for handling discovery disputes, the following procedure shall apply.

(1) Discovery disputes shall be referred to a Judicial Officer only after counsel for the party seeking the disputed discovery has made, and certified to the Court the making of, sincere, good faith efforts to resolve such disputes.

<sup>79</sup> Response at 15; sur-reply at 16.

<sup>80</sup> Sur-reply at 16. Hyundai also insists that "[Movants'] knowledge of the amount of payments to Hyundai by [AIG of over \$7 million, which was supplied to Movants] a week before the deposition, and the very strong probability that [Movants] knew other details of the Insurance Litigation from the monthly [attorney] bills provided to them, and their access to the public docket, raises significant questions about the [Movants'] intent. \* \* \* [Movants'] manufactured outrage ... is consistent with sandbagging, not obtaining discovery." *Id.* at 71.

Hyundai's position needs little analysis. First, **Rule 37(a)(1) of the Federal Rules of Civil Procedure** applies when a party files a *motion to compel*; motions for sanctions for failing to comply with a Court Order are governed by **Rule 37(b)(2)(A)**, which does not have a meet-and-confer requirement.

Second, even if Local Rule 37.1(a) is read to add to the requirements of [Fed.R.Civ.P. 37\(b\) \(2\)\(A\)](#), Movants *did* meet and confer with Hyundai. The Special Master agrees with Hyundai that the Movants' position at this meeting was sharp and uncompromising, but, given the parties' discovery history, disagrees that Movants' position was unjustified and in bad faith.

#### IV. Alternative Sanctions.

Movants ask the Court to “enter an Order imposing sanctions against Hyundai in the form of a dismissal of [Hyundai's] claims against the Movants and an entry of default judgment against Hyundai with respect to [Movant] Snap-on's claims.” Motion at 16–17. Movants assert any lesser sanction is inadequate, as Hyundai has displayed a “consistent pattern of misconduct,”<sup>81</sup> including failing to identify the existence of the Insurance Litigation, failing to identify the Korean businesses as entities from which it sought indemnification, failing to produce all existing Insurance Litigation documents while certifying it had done so, and failing to timely supplement its production of Insurance Litigation documents before the Erb deposition.

<sup>81</sup> Reply at 14.

\*20 In the alternative, Movants ask that, if the Court disagrees that dismissal is appropriate, the Court consider other sanctions, including: (1) prohibiting Hyundai from “seeking any sums from the Movants that have been paid to date by its Insurers;” (2) prohibiting Hyundai from “seeking its attorney fees for prosecuting the Insurance Litigation;” (3) ordering Hyundai “to produce all documents from the ongoing Insurance Litigation on a rolling basis;” and (4) ordering Hyundai “to pay the costs, including attorney fees, of redeposing Jason Erb and any other witnesses identified based on documents from the Insurance Litigation.”<sup>82</sup>

<sup>82</sup> Motion at 14–15. Movants list other alternative sanctions as well. Recent correspondence from Hyundai to Movants states that Hyundai has already voluntarily taken on the obligation to produce all documents from the ongoing Insurance Litigation on a rolling basis.

The Special Master has reviewed a large number of cases (and cited most of them herein) where trial courts imposed the sanction of dismissal upon a party who failed to obey a court's discovery order, including cases both affirmed and reversed on appeal. The Special Master has also reviewed a recent Order issued by the Honorable John R. Adams, in a

case known as *Ocean Innovations*, imposing a \$15.6 million default judgment against a defendant in a patent case for failing to obey discovery orders.<sup>83</sup> Having compared the circumstances in all of these cases to the facts in this case, the Special Master believes that this case is within the heartland of cases where dismissal of claims was imposed and upheld. That is, the Special Master concludes Hyundai's discovery failures are no less serious than the discovery failures in other cases where dismissal was entered as a sanction.<sup>84</sup> Accordingly, it would not be unfair for the Court to grant Movants' motion in full.

<sup>83</sup> See *Ocean Innovations, Inc. v. Quarterberth, Inc.*, 2011 WL 1467371 (N.D. Ohio Apr. 18, 2011) (Adams, J.) (entering default judgment on plaintiff's claim for \$5.2 million in lost profits, then trebling this amount for willful patent infringement under 35 U.S.C. § 284, and also awarding attorney fees).

<sup>84</sup> See, e.g., *Link v. Wabash R. Co.*, 370 U.S. 626, 82 S.Ct. 1386, 8 L.Ed.2d 734 (1962) (affirming dismissal of plaintiff's case where plaintiff had been consistently dilatory in providing discovery—but *did* provide the requested information—and then failed to appear for the final pretrial conference); *United States v. Reyes*, 307 F.3d 451, 455 (6th Cir. 2002) (dismissing plaintiff's case for failure to respond timely to discovery, even though plaintiff was allegedly “elderly, his English is poor, he lives a great distance from the attorney and the court,” he was “caring for his terminally ill mother,” and he did ultimately produce the requested information after deadline).

The Special Master hastens to add, however, that most of the cases where dismissal was entered as a sanction reveal facts more egregious than in this case. For example, the trial court dismissed plaintiffs' claims in *In re Connolly* after “it came to light, during trial, that the [plaintiff] had failed to properly disclose and produce in discovery some 36 bankers boxes of documents, containing many documents that [defendant] had requested two and one half years earlier.”<sup>85</sup> Similarly, in *Ndabishuriye v. Albert Schweitzer Soc'y, USA, Inc.*,<sup>86</sup> the court entered default judgment in favor of plaintiff because “defendants engaged in a deliberate, bad faith strategy of delay and obfuscation,” including making explicit statements refusing to produce responsive documents as ordered by the court. And in *Magana v. Hyundai Motor America*, the court affirmed an \$8 million default judgment against Hyundai (plus attorneys fees) based on “Hyundai's willful efforts to frustrate and undermine truthful pretrial discovery efforts,”

including spoliation.<sup>87</sup> Hyundai's behavior in this case is simply not as contumacious as in *Magana or Ndabishuriye or In re Connolly*.

<sup>85</sup> 376 B.R. at 164.

<sup>86</sup> 2005 WL 1386475 at \*5 (6th Cir.2005).

<sup>87</sup> 167 Wash.2d 570, 220 P.3d 191, 194 (Wash.2009).

Having compared Hyundai's failures to comply with its discovery obligations in this case to the circumstances in other cases, the Special Master believes it would be more fair—both to Hyundai and also to Movants—to impose sanctions more measured than dismissal. As the cases all note, dismissal of claims is the most extreme of sanctions, a relatively blunt instrument that the Court must be reluctant to pull from its toolkit.<sup>88</sup> Accordingly, the Special Master recommends to the Court a sanction tailored to the facts of this case, which is short of outright dismissal of Hyundai's claims.

<sup>88</sup> Dismissal is “the most severe in the spectrum of sanctions provided by statute or rule.” *Regional Refuse Systems, Inc. v. Inland Reclamation Co.*, 842 F.2d 150, 154 (6th Cir.1988).

\*21 The Special Master further observes, however, that this Court has an intimate familiarity with the facts in *Ocean Innovations*, and also with all of the facts in this case before it appointed the undersigned. Given this familiarity, the Special Master believes it is appropriate to suggest to the Court a second sanctions option, which does include dismissal. The Court's own knowledge of the history of discovery in this case, and how it compares with all of the circumstances in *Ocean Innovations*, will allow the Court to determine which option is more appropriate. These two options are set out below.

## V. Conclusion.

### A. Sanctions Options.

The Special Master concludes Movants' motion for sanctions against Hyundai is well taken, pursuant to [Fed.R.Civ.P. 37\(b\) \(2\) \(A\)](#). Accordingly, the Special Master **recommends the Court enter an Order imposing the first set of sanctions listed below as “Sanction Option One.”**

#### SANCTION OPTION ONE

- Require Hyundai to produce all documents from the Insurance Litigation on a rolling basis.<sup>89</sup>

<sup>89</sup> Movants also ask for permission to subpoena AIG as a cross-check on Hyundai's complete production, motion at 15, but the Special Master believes this is unnecessary at this juncture. The Special Master also considered, but chose not to recommend, the sanction of ordering Hyundai to produce those documents the Special Master earlier ruled were properly withheld on the basis of privilege (almost all of which are related to the Korean companies).

- Require Hyundai to reimburse Movants for attorneys fees and costs incurred in connection with filing and briefing the motion for sanctions.<sup>90</sup>

<sup>90</sup> To avoid satellite litigation on this issue, the Court could give Hyundai the alternative of simply paying a liquidated amount as reimbursement of these attorney fees and costs, such as \$60,000.

- Require Hyundai to pay all of the Special Master's fees, both past and future, instead of 1/3 of those fees, as is the current circumstance.<sup>91</sup>

<sup>91</sup> This provision would require Hyundai to reimburse Movants for amounts they previously deposited into the Court's registry for payment of the Special Master, totaling \$40,000. Movants did not request imposition of this sanction, but the undersigned believes it is appropriate because it is Hyundai's actions that led to the need for the Special Master's appointment.

- Require Hyundai to pay half the costs, including Movants' attorney fees, of any second depositions (re-depositions) of witnesses identified based on documents from the Insurance Litigation.<sup>92</sup>

<sup>92</sup> The Special Master would determine whether re-deposition of witnesses for this reason is appropriate. Movants asked that Hyundai pay the *entire* amount of such costs and fees, not half, but the phased discovery plan always contemplated the possibility of re-deposition of certain witnesses. Movants also asked that Hyundai be prohibited from “arguing that inconsistent statements made in pleadings and discovery responses in the Insurance Litigation are ‘inaccurate’ or ‘mistaken,’ but the Special Master concludes this is not workable and any inconsistent statements by Hyundai carry their own evidentiary penalty.

- Prohibit Hyundai from recovering from Movants any sums paid by its insurers in reimbursement of the cost of defending claims related to the '627 patent in the Texas Patent Litigation.<sup>93</sup>

93

This provision would preclude Hyundai from recovering roughly \$10 million of the \$18.6 million in damages it alleges the Movants owe. Essentially, this provision would override the collateral source rule, which allows an insured to collect both damages and insurance compensation.

Movants asked that Hyundai also be prohibited from recovering from Movants any sums Hyundai paid as attorneys fees for prosecuting the Insurance Litigation. Motion at 14. The Special Master concludes that the prohibition stated in the main text above, however, is adequate—and fitting, given Hyundai's precise failures.

Of course, these recommendations have no bearing on the merits of Hyundai's claims for damages.

- Notify Hyundai that any additional discovery failure will lead to dismissal plus attorneys fees.

In the alternative, if the Court concludes that Hyundai's actions in this case are tantamount to the defendants' discovery failures in *Ocean Innovations*, such that the sanctions included in Option One are not sufficient, then the Special Master recommends in the alternative that the Court instead enter an Order imposing the second set of sanctions listed below as "Sanction Option Two."

## SANCTION OPTION TWO

- Entry of default judgment on Snap-on's claim for declaratory judgment against Hyundai.
  - Dismissal with prejudice of all of Hyundai's counterclaims against Snap-on.
  - Dismissal with prejudice of all of Hyundai's third-party claims against Click Commerce and Reynolds & Reynolds.<sup>94</sup>

94

This includes all third-party defendants.

- All parties to bear their own costs.

- No award of attorney fees.<sup>95</sup>

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Fed.R.Civ.P. 37(b)(2)(C) provides that: "Instead of or in addition to the orders above, the court *must* order the disobedient party, the attorney advising that party, or both to pay the reasonable expenses, including attorney's fees, caused by the failure, unless the failure was substantially justified or other circumstances make an award of expenses unjust." (Emphasis added.) *See Technology Recycling Corp.*, 2006 WL 1792413 at \*12 (discussing a prior version of this rule: "the district court was **required** to award defendants the fees they incurred *as a result of* plaintiffs' failure to obey discovery orders, unless one of the stated exceptions applied") (bold emphasis added, italics in original).

Despite this provision, the Special Master recommends no attorney fee award because the entry of judgment in favor of Movants is an extreme sanction and Hyundai's failures, while serious, were not clearly all willful; thus, it appears to the undersigned that the additional sanction of attorneys fees would be excessively punitive and unjust.

## B. Procedure Regarding Objections.

On or before June 27, 2011, Hyundai and Movants may each file a single brief, not to exceed 20 pages in length, objecting to and/or endorsing the sanctions recommended herein.

On or before July 11, 2011, Hyundai and Movants may each file a single brief, not to exceed 15 pages in length, responding to the initial briefs.

\*22 No other briefs will be allowed, absent leave of Court.

## All Citations

Not Reported in F.Supp.2d, 2011 WL 9925879