

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS**

BEIJING CHOICE ELECTRONIC)	
TECHNOLOGY CO., LTD.,)	
)	
Plaintiff,)	Case No. 18-cv-0825
)	
v.)	
)	Judge Franklin U. Valderrama
CONTEC MEDICAL SYSTEMS USA)	Magistrate Judge Susan E. Cox
INC. and CONTECT MEDICAL)	
SYSTEMS CO., LTD.,)	
)	
Defendants.)	

REPORT AND RECOMMENDATION

For the reasons discussed more fully below, this Court recommends that Plaintiff’s Motion for Sanctions [259] be granted, and that the following sanctions be imposed: 1) Defendants are barred from calling Tianbao Li as a witness at trial and prohibited from using any documents or communications authored by Tianbao Li in any motion, hearing, or trial; 2) Defendants be ordered to pay Plaintiff’s attorney’s fees and costs related to drafting, preparing for, or attending: a) the status report of September 7, 2021; b) the status report of September 15, 2021; c) the status report of October 5, 2021; d) the status hearing of October 14, 2021; e) any meet and confers with Contec’s counsel regarding any of the aforementioned status reports or hearings; and f) filing and briefing on the instant motion for sanctions; and 3) Defendants’ counsel be fined \$2,500 payable to the Court. Within 14 days after being served with a copy of the recommended disposition, a party may serve and file specific written objections to the proposed findings and recommendations. A party may respond to another party’s objections within 14 days after being served with a copy. Unless the district judge orders otherwise, the objecting party must promptly arrange for transcribing the record, or whatever portions of it the parties agree to or the magistrate judge considers sufficient.

BACKGROUND

Plaintiff Beijing Choice Electronic Technology Company, Ltd. (“Choice”) sued Defendants Contec Medical Systems USA, Inc. and Contec Medical Systems Company, Ltd. (collectively, “Contec”) alleging infringement of Choice’s patent on an improvement for fingertip pulse oximeters. [Dkt. 1.] On February 17, 2020, Choice filed a motion to compel Contec to produce Tianbao Li for a deposition; according to Choice, Mr. Li (Contec’s manager of sales and foreign trade) was the individual with the most “direct knowledge about the marketing and sales of the accused products, communications with U.S. customers concerning the accused products, and the accused products Contec sold to U.S. customers.” [Dkt. 187 at 3.] On April 8, 2020, Judge Ellis granted that motion and directed “the parties to telephonically meet and confer regarding the timing of Mr. Li’s deposition” and to “work together to set dates that accommodate any disruptions, restrictions, and delays that may be caused by the ongoing global coronavirus pandemic.” [Dkt. 206.] Mr. Li lives and works in Qinhuangdao, China and his deposition was significantly delayed by the COVID-19 pandemic and accompanying travel restrictions to, from, and within China; as of August 2020, Mr. Li’s deposition had not taken place and the parties moved to extend fact discovery, which Judge Ellis granted. [Dkt. 212.]

By October 12, 2020, Choice’s patience had run dry and Choice moved again to compel Mr. Li’s deposition, seeking to take it in Macau due to China’s prohibition on depositions; Judge Valderrama referred that motion (and general discovery supervision) to this Court,¹ and the Court denied the motion because Contec’s company policy prohibited travel outside mainland China due to the COVID-19 pandemic. [Dkt. 231.] Additionally, Contec’s counsel reported that Mr. Li had a medical condition that made it “impractical” to travel during the pandemic. [Dkt. 264 at 7.] To

¹ This case was transferred from Judge Ellis to Judge Valderrama on September 28, 2020. [Dkt. 221.]

be clear, the Court did not delay Mr. Li's deposition because it was impossible to travel from mainland China to Macau; it was a courtesy to the parties and Mr. Li, as well as a recognition of the lack of readily available vaccines and medical interventions for COVID-19 in 2020 and the first half of 2021. The Court extended fact discovery again on March 26, 2021, noting that "[t]he circumstances preventing the depositions from taking place 5 months ago have not materially changed, and the parties have been unable to take depositions of witnesses residing in China," and repeated that ruling again on June 4, 2021. [Dkts. 244, 246.]

Pursuant to that Court order, the parties filed a joint status report on September 7, 2021, but it was "extremely vague as to the critical matter of the quarantine requirements and travel restrictions for individuals traveling from mainland China to Macau, despite the parties having three months to prepare the joint status report," and the Court ordered the parties to file another status report one week later "with concrete explanations of the aforementioned information." [Dkt. 250.] The next status report was filed on September 15, 2021. [Dkt. 252.] After reviewing that report, the Court found that conditions had changed sufficiently to allow Mr. Li's deposition and, on September 23, 2021, ordered Contec to produce Mr. Li and a 30(b)(6) witness for deposition. [Dkt. 253.] Instead of providing deposition dates in their next status report on October 5, 2021, the parties informed the Court that Mr. Li had given Contec notice six weeks earlier (August 16, 2021) that he would be resigning from the company effective September 14, 2021 [Dkt. 256]; in other words, Mr. Li was no longer within Contec's control and Contec would not produce him for his deposition, in contravention of Judge Ellis's April 2020 order. The Court set a telephonic status to discuss this surprising turn of events, and the instant motion for sanctions from Choice followed shortly thereafter. Choice's motion seeks: 1) monetary sanctions against Contec; 2) an adverse inference that Mr. Li's testimony would have been unfavorable to Contec on damages; and 3) monetary sanctions against Contec's counsel.

For the purposes of this motion, it is important to examine the timeline of events and the flow of information between all the relevant individuals and counsel. According to Contec, Mr. Li informed Contec’s CEO (Mr. Kun Hu) and Contec’s principal point of contact with Contec’s lawyers (Ms. Nadia Guo) “more than once (since September or October 2020) that [he] would terminate [his] employment with Contec in the event [he] was required by Contec or the Court to travel abroad for a deposition.” [Dkt. 264-2 at ¶ 11.] This fact was never articulated to the Court, and it is unclear whether Contec’s counsel was aware of Mr. Li’s stance. In August 2021, Mr. Li informed Contec’s human resources department and Mr. Hu that he intended to leave the company, and Mr. Hu attempted to convince Mr. Li to stay. [Dkt. 264 at 7.] Once again, this fact was never disclosed to the Court or counsel because, according to Contec, “neither human resources nor Mr. Hu understood that this information might be relevant to the ongoing litigation.” [*Id.*] On September 13, 2021, Ms. Guo learned of Mr. Li’s impending departure and informed counsel. [*Id.*] However, that extremely important piece of information was not included in the parties’ September 15 status report to the Court. Ms. Guo claims she was unaware Mr. Li would be terminating his employment the following day. [Dkt. 264 at 8-9.] Therefore, Contec posits, “[b]ased on Contec’s and counsel’s understanding that Mr. Li’s resignation was not imminent and because the parties’ status report focused on travel restrictions and quarantine requirements, neither Contec nor Contec’s counsel thought to include information about Mr. Li’s intentions” in the September 15 status report. [Dkt. 264 at 8.] Ms. Guo did not learn of Mr. Li’s departure from the company until September 29, 2021, and informed counsel the following day; the first time the Court was alerted to Mr. Li’s resignation was in the parties’ joint status report on October 5, 2021. [Dkt. 264 at 8.]

DISCUSSION

I. RULE 37

Pursuant to Federal Rule of Civil Procedure 37(b)(2)(A), “[i]f a party...fails to obey an order to provide or permit discovery...the court where the action is pending may issue further just orders,” including “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,” and “prohibiting the disobedient party from...introducing designated matters in evidence.” Additionally, “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.” Fed. R. Civ. P. 37(b)(2)(C). There is no set group of factors that the Court must consider in determining the proper sanction, although courts often consider “the frequency and magnitude of the [party’s] failure to comply with court deadlines, the effect of these failures on the court’s time and schedules, the prejudice to other litigants, and the possible merits of the plaintiff’s suit.” *Williams v. Chicago Bd. of Educ.*, 155 F.3d 853, 857 (7th Cir.1998).

II. CONTEC VIOLATED A COURT ORDER

Clearly, Contec violated a Court order. Judge Ellis ordered Contec to produce Mr. Li for a deposition and Contec failed to do so. Contec’s argument that it did not disobey a Court order because it was unable to comply with Judge Ellis’s order in unavailing. First, Contec never claimed that Mr. Li was prohibited by Chinese law to travel to Macau at any time. Instead, Contec’s arguments during the relevant time period (April 2020 through September 2021) were that Contec’s company policy prohibited travel and that the quarantine requirements imposed by various governments were onerous and inconvenient. [See Dkt. 244, 246, 252.] There were large periods of time when travel from mainland China and Macau was permitted and Mr. Li could have

traveled to Macau for his deposition. *See* Zheping Huang, *Macau Tightens Covid Controls Before Weeklong China Holidays*, BLOOMBERG POLITICS (Sept. 25, 2021, 12:22 AM), <https://www.bloomberg.com/news/articles/2021-09-25/macau-tightens-covid-controls-before-weeklong-china-holidays> (“Mainland China and Macau have opened their borders for almost a year”) (last accessed Dec. 16, 2021); *see also* Government Information Bureau (GCS), *Foreigners Meeting Certain Requirements Permitted to Enter Macao From Mainland China*, GOVERNMENT PORTAL OF MACAO SPECIAL ADMINISTRATIVE REGION OF THE PEOPLE’S REPUBLIC OF CHINA, <https://www.gov.mo/en/news/133111> (last accessed Dec. 16, 2021). Despite being allowed to travel to Macau, the Court exhibited significant patience and sensitivity to Mr. Li’s still-undisclosed medical condition in waiting to enforce the order requiring Mr. Li to appear for his deposition. That patience and sensitivity was repaid by Contec hiding crucial information from the Court and failing to produce Mr. Li for his deposition. The Court rejects Contec’s argument that it did not disobey any orders and did not have the ability produce Mr. Li for his deposition.²

III. THE RELEVANT FACTORS WEIGH IN FAVOR OF SANCTIONING CONTEC

Contec’s failure to produce Mr. Li for his deposition warrants sanctions. First, the magnitude of Contec’s violation is significant. The moment Contec became aware Mr. Li was planning to leave the company, it was incumbent on Contec to alert Choice or the Court in a timely manner to Mr. Li’s intention to resign from Contec. However, almost a month elapsed before Ms. Guo finally alerted her counsel on September 14, 2021. Astonishingly, counsel neglected to mention Mr. Li’s impending departure in its status report to the Court on September 15, 2021.

² Even if the Court found Contec had not disobeyed a court order, it likely violated its duty to supplement pursuant to Rule 26(e). Contec disclosed Mr. Li as a witness in its initial disclosures pursuant to Rule 26(a)(1) on April 6, 2018. [Dkt. 264 at 4.] At a minimum, those initial disclosures became incomplete in a material respect when Mr. Li announced to Contec’s CEO and human resources department that he intended to leave the company. There can be no credible argument that waiting until Mr. Li was out of Contec’s control qualifies as acting in a timely manner. As such, Contec clearly violated Rule 26(e). In that case, sanctions would also likely be appropriate under Rule 37(c).

Contec's feeble and utterly unbelievable explanation that "[b]ased on Contec's and counsel's understanding that Mr. Li's resignation was not imminent and because the parties' status report focused on travel restrictions and quarantine requirements, neither Contec nor Contec's counsel thought to include information about Mr. Li's intentions" beggars belief. The entire purpose of analyzing the quarantine rules in Macau and Qinhuangdao was to secure Mr. Li's deposition testimony. If Mr. Li left Contec, the issue of the quarantine rules would have been completely moot; any indication he might leave the company was of paramount importance and that should have been crystal clear to everyone even tangentially associated with this case. Instead, neither counsel nor Contec informed Choice or the Court until a September 30, 2021 meet and confer that occurred weeks after Mr. Li had resigned. The Court did not find out until October 5, 2021. Moreover, Mr. Li was not a random witness buried in the initial disclosures. Mr. Li was a C-suite executive at Contec who was named by Mr. Hu in his deposition as the Contec employee with the most knowledge about Contec's marketing in the U.S. [Dkt. 259 at 3.] His deposition was the subject of significant motion practice, and the Court held this case in abeyance for almost 18 months to allow conditions with the COVID-19 pandemic to improve sufficiently to secure deposition testimony that Choice believed was crucial to proving damages in this matter. Contec's actions have prevented Choice from deposing an important damages witness in this case, which constitutes a serious discovery violation, and cuts in favor of issuing sanctions against Contec.

Second, Choice suffered prejudice as a result of Contec's actions. Contec asserts Choice did not suffer any prejudice because Mr. Li would have quit at any time had he been ordered to appear for a deposition at a time when he felt it was not safe for him to travel. In other words, Contec's failure to inform Choice or the Court of Mr. Li's intention to leave did not harm Choice because that information would have led the Court to order Mr. Li to appear for his deposition in Macau, which would have ended in the same result – *i.e.*, Mr. Li leaving the company before

Choice could depose him. The Court is not persuaded by this argument. First, although the Court does not reach this issue, it is possible that Contec's failure to inform the Court of severity of Mr. Li's stance on travel – namely, that he would quit if forced to travel – is itself a violation of Rule 26(e). At the very least, it may have run afoul of counsel's duty of candor to the Court, as Contec led Choice and the Court on a doomed 18-month odyssey to secure a deposition Mr. Li had no intention of giving. Given Mr. Li's willingness to quit his job rather than travel, it was a colossal waste of Choice's time and an abuse of this Court's patience and understanding for Contec and its counsel to continue to represent that there was any likelihood Mr. Li would appear for a deposition at any time; this waste of time and abuse of process is, in and of itself, prejudicial – witnesses' memories fade, institutional knowledge is lost, companies experience turnover – and the Court rejects Contec's argument that it was harmless.

Choice was certainly prejudiced when Mr. Li's departure became more concrete following his statement to Contec human resources and Mr. Hu that he intended to resign his position. There was approximately one month between his announcement and his resignation; had Contec or its counsel promptly alerted the Court of Mr. Li's resignation plans, it could have explored alternative options for getting his testimony, including deposition by written question.³ Instead, neither Contec nor its counsel informed any of the relevant parties until it was too late and Mr. Li had left the company. By failing to inform the Court of Mr. Li's plans to leave Contec, the Court was unable to order his deposition while he was still within control of Contec. This caused Choice to lose the ability to get discovery it was entitled to and believed was imperative to prove damages flowing from the alleged patent infringement. Choice was harmed by this loss, and the harm is irreparable because Contec no longer controls Mr. Li, and as a citizen of China, Mr. Li is beyond

³ It is unclear whether questioning by written deposition would have been allowed under Chinese law, [Dkt. 270 at 10 n. 2.], but Contec offered it as a potential solution. [Dkt. 264 at 10.]

the reach of this Court. Choice was harmed by this failure and this prejudice also cuts in favor of sanctioning Contec.

Third, the effect of these failures on the Court's time and schedules is plain. As noted above, the Court held this case in abeyance for approximately 18 months for the primary purpose of Mr. Li's deposition. By failing to comply with the Court's order after all that time, Contec has significantly delayed this matter and wasted an enormous amount of the Court's time. As such, this factor also weighs in favor of sanctions against Contec. All of the possible factors in this case weigh in favor of issuing a sanction, and the Court recommends that the district judge grant Choice's motion.

IV. SANCTIONS PURSUANT TO RULE 37

A. Prohibition on Using Mr. Li as a Witness

Having determined that Contec disobeyed a Court order and that sanctions are justified, the Court must determine the appropriate sanctions. Rule 37(b)(2)(A)(ii) allows the Court to prohibit a disobedient party from entering certain matters into evidence. Barring witnesses from testimony as a sanction is contemplated in Rule 37(b)(2)(A). *See Smith v. Chicago School Reform Bd. of Trustees*, 165 F.3d 1142, 1145 (7th Cir. 1999). Having failed to produce Mr. Li for deposition, Contec should not be allowed to call him as a witness at trial or to use any evidence or communications authored by him at trial to defend the case. They cannot hide Mr. Li from the scrutiny of a deposition and then use his testimony to their advantage at trial. Therefore, the Court recommends Contec be barred from using Mr. Li as a witness to supply evidence on any motion, hearing, or at trial. However, to the extent that documents or communications authored by Mr. Li would be useful to Choice in proving its damages case, Choice should be allowed to use such documents or communications at trial and Contec should be prohibited from objecting on the basis of lack of foundation or any other basis that results from Mr. Li's unavailability at trial.

B. Jury Instruction

The Court does not believe a jury instruction would be appropriate at this time, and recommends the district judge deny Choice's motion without prejudice to the extent it seeks an adverse inference jury instruction. In crafting the appropriate sanction for a discovery violation, the Court must determine whether the proposed sanction can ameliorate the prejudice that arose from the breach; if a lesser sanction can accomplish the same goal, the Court must award the lesser sanction. *Larson v. Bank One Corp.*, 2005 WL 4652509, at *9 (N.D. Ill. Aug. 18, 2005).

At this point in the proceedings, it is not clear that a jury instruction is necessary to cure Contec's breach. Choice may still be able to adequately prove its damages through documentary evidence and testimony from Contec's designated 30(b)(6) witness. In this instance, the less severe sanction of barring Contec from using Mr. Li for any reason at trial is sufficient to cure the violation in this case, and an adverse jury instruction may serve to prejudice Contec at trial. However, the Court recommends the sanction be denied without prejudice. It remains possible that Mr. Li's departure will stymie Choice's ability to prove its damages, in which case an adverse jury instruction might be necessary. That will not become clear until the parties complete discovery and the case gets closer to trial. At this time, the Court recommends the district judge deny the motion without prejudice to allow discovery to play out and reveal whether Mr. Li's departure prevents Choice from adequately proving its damages at trial.

C. Attorney's Fees

Rule 37(b)(2)(B) also allows the Court to order the reasonable expenses, including attorney's fees, caused by the party's discovery violation, unless the failure was substantially justified or other circumstances make the award of expense unjust. Here, that is an appropriate sanction, as Contec's failure wasted counsel's time preparing status reports and the instant motion, that may have been unnecessary had Contec been forthright with the Court or Choice about Mr.

Li's employment status. Moreover, the violation was not substantially justified. Contec has offered no justification for its failure to inform its counsel that Mr. Li announced his intention to resign in August 2021 until September 13, 2021. Indeed, there can be no justification. Mr. Hu should have been acutely aware of Mr. Li's importance to the case – indeed it had been Mr. Hu's deposition testimony that led to Choice's conclusion it needed to secure Mr. Li's deposition. Contec's insinuation that it did not need inform counsel because Mr. Hu hoped he could persuade Mr. Li to stay at the company is unavailing. Regardless of Mr. Hu's wishful thinking, he had a duty to inform counsel and the Court of Mr. Li's desire to leave Contec. Nor can counsel adequately explain why it failed to inform the Court of Mr. Li's change in status in the status report filed on September 15, 2021. As discussed above, counsel's claim that it did not dawn on him that such information would need to be included in the status report is weak and the Court does not accept it as valid.

Mr. Li informed Contec of his resignation plans in August 2021. As such, the Court recommends that Contec be ordered to pay all fees Choice incurred between August 2021 and today that related to drafting, preparing for, or attending: a) the status report of September 7, 2021; b) the status report of September 15, 2021; c) the status report of October 5, 2021; d) the status hearing of October 14, 2021; e) any meet and confers with Contec's counsel regarding any of the aforementioned status reports or hearings; and f) filing and briefing on the instant motion for sanctions.

V. SANCTIONS UNDER THE COURT'S INHERENT AUTHORITY

The Court further recommends the District Court use its inherent authority to fine Contec's counsel \$2,500 payable to the Court for counsel's failure to immediately alert Choice and the Court to Mr. Li's decision to leave the company in the status report of September 15, 2021. "As part of the power to control the conduct of attorneys appearing before it..." a federal court has the inherent

power to impose sanctions against counsel to “prevent unprofessional conduct by those attorneys who are practicing before them...” *Schmude v. Sheahan*, 312 F. Supp. 2d. 1047, 1073 (N.D. Ill. 2004) (quoting *Dale M. ex rel. Alice M. v. Board of Education*, 282 F.3d 984, 986 (7th Cir.2002)). These sanctions include fines payable to the Court to discipline counsel for its misconduct. *Id.* at 1096 (“The court finds that a fine payable to the court is appropriate. While the sanction of disgorgement will return counsel and the affected parties to their positions before the sanctionable conduct, the sanction of a fine of \$5,000 assessed against attorneys...and payable to the court, will serve to underscore the impropriety of counsels’ conduct”).

In this instance, the Court does not believe it would be appropriate for Contec’s counsel’s failure to inform this Court about crucial developments to go unpunished. As discussed above, Contec itself is being sanctioned by disallowing any evidence from Mr. Li and paying for Choice’s attorney’s fees, but Contec’s counsel is not blameless in this fiasco. Counsel was aware of Mr. Li’s impending resignation no later than September 14, 2021 and failed to inform the Court or Choice in the status report filed the following day. Under normal circumstances, this may have been an excusable oversight. Not so here, where Mr. Li’s availability for a deposition was the central reason for an almost 18-month delay in the case. For a significant portion of that time, that delay was caused by circumstances outside the control of the parties, counsel, or the Court. However, as the Court and parties began considering the logistical requirements to secure his deposition, Mr. Li decided – for reasons completely apart from his reported health issues – to leave Contec and no longer be available for deposition, and Contec’s counsel remained silent about that turn of events in their report to the Court. Counsel’s claim that it was a simple oversight rings hollow, and the Court does not accept that excuse as valid. The failure constitutes sanctionable conduct and the Court recommends the district judge fine Contec’s counsel \$2,500 under its inherent authority to discipline counsel for its unprofessional conduct in this case.

CONCLUSION

This Court recommends Plaintiff's Motion for Sanctions [259] be granted, as discussed above. Within 14 days after being served with a copy of the recommended disposition, a party may serve and file specific written objections to the proposed findings and recommendations. A party may respond to another party's objections within 14 days after being served with a copy. Unless the district judge orders otherwise, the objecting party must promptly arrange for transcribing the record, or whatever portions of it the parties agree to or the magistrate judge considers sufficient.

ENTERED: December 17, 2021



Susan E. Cox,
United States Magistrate Judge