

*Statement of Charges Allowed by the Illinois Supreme Court
and Imposing Discipline on Consent*

Allowed May 18, 2017

IN THE SUPREME COURT OF ILLINOIS

In the Matter of:

JOHN LAWRENCE STEELE,,

Supreme Court No. M.R.28663

Attorney-Respondent,

Commission No. 2015PR00068

No. 6292158.

**STATEMENT OF CHARGES
PURSUANT TO SUPREME COURT RULE 762(a)**

Jerome Larkin, Administrator of the Attorney Registration and Disciplinary Commission ("ARDC"), by his attorneys, Wendy J. Muchman and Chi (Michael) Zhang, pursuant to Supreme Court Rule 762(a), states that on the date John Lawrence Steele (hereinafter "Movant") filed a motion requesting that his name be stricken from the Roll of Attorneys, a complaint was pending against Movant before the Hearing Board of the Commission, charging Movant with engaging in a multi-jurisdictional copyright litigation scheme in which Movant and others abused the judicial system to exact settlements from tens of thousands of internet users who allegedly infringed on the copyrights of the owners of pornographic movies, including movies that Movant himself produced and distributed. Under the guise of fighting against piracy, Movant and his associates misled state and federal courts across the country into giving them the power to subpoena internet service providers ("ISPs") so that they could identify individuals from whom they garnered quick settlements based on the threat of substantially larger statutory damages and unwanted publicity. On December 16, 2016, a grand jury in Minnesota returned an 18-count federal indictment against Movant¹ for engaging in conspiracy to commit mail fraud and wire fraud; engaging in mail fraud and wire fraud; and engaging in conspiracy to commit money laundering. The allegations in the indictment were based, in large part, on the conduct described in this statement of charges. On March 6, 2017, Movant pled guilty to 2 of the 18 counts in the federal indictment. Had Movant's conduct been the subject of a hearing, the Administrator would have introduced the evidence described below, and that evidence would have clearly and convincingly established the misconduct indicated below:

¹ See *United States of America v. Paul R. Hansmeier and John L. Steele*, 16 CR 334 (D. Minn.)

I. FACTUAL BASIS

Movant's admissions, bank records, court orders and records, and the testimony of various individuals either formerly affiliated with Movant or defendants against whom Movant filed lawsuits, would establish the following facts:

1. In or about 2010, Movant, along with his law school friend and now-suspended Minnesota attorney Paul R. Hansmeier ("Hansmeier")², created the law firms Steele Hansmeier, PLLC ("Steele Hansmeier"), operating out of Chicago, and Alpha Law Firm ("Alpha Law"), operating out of Minneapolis. These two firms concentrated their practice on filing copyright infringement matters on behalf of entities that purportedly owned copyrights to pornographic movies. Movant had an interest in at least some of those entities.

2. Since 2010, Movant also created two successor law firms to Steele Hansmeier: Prenda Law, Inc. ("Prenda"), and Anti-Piracy Law Group. Both law firms occupied the same office in Chicago as that of Steele Hansmeier, and engaged in the same type of copyright litigation. While Prenda and Anti-Piracy Law Group were nominally managed by now-deceased Illinois attorney Paul A. Duffy, Movant and Hansmeier retained *de facto* control overseeing the firms' operations and obtaining financial rewards of at least \$6,000,000.

3. Between 2011 and 2014, Movant, through Steele Hansmeier and its various successor law firms, and using various local counsel acting at Movant's direction, sent settlement letters to thousands of individuals residing in California, Illinois, Minnesota and Florida, who had, allegedly, downloaded pornographic movies from file-sharing websites. Movant had overseen and directed the filing of lawsuits against "John Doe" defendants, initially identified only by their computers' Internet Protocol ("IP") addresses. Movant then sought discovery of the "John Doe" defendants' actual identities by obtaining permission from the courts to subpoena internet service providers ("ISPs") for subscriber information associated with those IP addresses allegedly used to download the movies. In making those requests, Movant did not disclose his own involvement in the plaintiff entities. After obtaining the necessary information, Movant, and others at his direction, caused letters to be sent to defendants that threatened statutory damages of up to \$150,000, and offered them the opportunity to settle for approximately \$4,000 to avoid the embarrassment of being publicly named in a lawsuit relating to their allegedly illegal downloading of pornography. To give the appearance of legitimacy, Movant and Hansmeier recruited ruse defendants and created shell corporations, both within the United States (Guava, LLC) and offshore (Ingenuity 13, LLC and AF Holdings, LLC), and identified those entities in filings as "clients" in their lawsuits.

4. The sheer volume of boilerplate lawsuits Movant filed across several jurisdictions over the span of three years, combined with thousands of identical letters sent to internet subscribers, were eventually met with resistance from both ISPs and defendants. The courts also took notice of Movant's tactics, which resulted in several sanctions and punitive damages being

² On September 12, 2016, the Minnesota Supreme Court indefinitely suspended Hansmeier from the practice of law, with no right to petition for reinstatement for four years, in a disciplinary action involving allegations similar to those set forth in this statement of charges. See *In re Petition for Disciplinary Action against Paul Robert Hansmeier, a Minnesota Attorney*, A15-1855.

imposed on Movant and the various law firms with which he was affiliated. These sanctions are detailed below:

Ingenuity 13 v. John Doe, 12-CV-8333

5. On May 6, 2013, in a case filed in the Central District of California, the Honorable Otis D. Wright entered an order issuing sanctions and ordering Movant to pay double the defendant's attorneys' fees and costs, in the amount of \$81,319.72. The punitive multiplier was justified by what the court deemed to be Movant's "brazen misconduct and relentless fraud" perpetrated on the court, stemming from Movant's actions in misleading the court into granting early discovery requests, and creating the aforementioned offshore entities, including Ingenuity 13 and AF Holdings, to shield the principals (Movant, Hansmeier, and Duffy) from potential liability by obscuring their own interest in those entities, and to give their lawsuits an appearance of legitimacy. In addition to engaging in actions designed to coerce settlement, Movant also used the identity of his former housekeeper, Alan Cooper ("Cooper"), without Cooper's knowledge or permission, and listed Cooper as an officer of plaintiff AF Holdings in pleadings filed in various lawsuits. On appeal, the United States Court of Appeals for the Ninth Circuit affirmed the sanction, and held that Judge Wright had not abused his discretion in finding Movant, Hansmeier, and Duffy to be the parties responsible for the abusive litigation.

Alan Cooper v. John Lawrence Steele, Prenda Law, LLC, AF Holdings and Ingenuity 13, 27-CV-13-3463

6. In February 2013, Movant's former housekeeper, Alan Cooper, brought suit in the District Court of Hennepin County, Minnesota, against Movant, Prenda, and their associate entities, alleging that Movant engaged in identity theft by using Cooper's name in connection with AF Holdings' and Ingenuity 13's purchase of copyrights to pornographic movies. Cooper had entered into a written rental agreement with Movant to reside in the guest house on the property as part of the caretaking arrangement. Movant later used Cooper's signatures from that rental agreement, without Cooper's knowledge or authorization, in court filings, falsely identifying Cooper as an officer or director of AF Holdings and as manager of Ingenuity 13. Movant settled Cooper's claims against him for \$35,000 in April 2015. The court subsequently entered a judgment against the Prenda law firm in amounts of \$5,000 as damages for humiliation and \$250,000 in punitive damages in July 2015.

Lightspeed Media Corp v. Smith, 12-CV-899

7. In 2012, Lightspeed Media Corporation ("Lightspeed"), an adult entertainment enterprise, represented by Movant, Hansmeier, and Duffy, filed suit in the Circuit Court of St. Clair County, Illinois, against "John Doe" defendant, alleging that the defendant hacked computer systems belonging to Lightspeed. Movant, Hansmeier and Duffy issued subpoenas to ISPs seeking personally identifiable information of approximately 6,600 individuals who Movant alleged were "co-conspirators" with "John Doe". On June 27, 2012, this Court entered a supervisory order directing the trial court to quash Lightspeed's subpoenas. Following that supervisory order, Movant and other Prenda principals substituted "John Doe" with Anthony Smith ("Smith"), a nursing student in Collinsville, and amended the complaint to list internet service providers AT&T and Comcast as co-conspirators. Movant's amended complaint

alleged violations under a federal statute, the Computer Fraud and Abuse Act, and the St. Clair County case was removed to the federal district court for the Southern District of Illinois and assigned to the Honorable David R. Herndon.

8. Following Judge Herndon's denial of Lightspeed's emergency motion requesting the ISPs to produce the identities of the alleged "co-conspirators", Movant and the Prenda principals voluntarily dismissed all claims in the litigation. Movant filed the *Lightspeed* lawsuit for the express purpose of discovering the identities of individuals from whom the Prenda principals could exact settlements, and dismissed the case once it came under scrutiny. For filing a baseless and frivolous claim against Smith, Judge Herndon sanctioned Movant, Hansmeier, and Duffy and ordered them to pay defendants' attorneys' fees and expenses totaling \$261,025.11.

9. On December 12, 2013, Movant caused a notice of appeal to be filed with the United States Court of Appeals for the Seventh Circuit, appealing the district court's imposition of attorneys' fees and sanctions in the *Smith* case. During the pendency of his appeal, Movant took steps to hide his assets, all the while representing to the court, during a show-cause hearing, that he was unable to pay Judge Herndon's sanctions. The district court held Movant and Duffy in contempt and imposed additional sanctions in the amount of 10% of the original sanction, to be apportioned equally between Movant and Duffy, for their willful violations of the court's earlier sanction order by refusing to pay Smith's and the ISPs' fees and costs. Movant and Duffy appealed Judge Herndon's finding, which was consolidated with their earlier appeal.

10. After the Seventh Circuit affirmed both sanctions, Movant and Duffy claimed insolvency and utilized various obstructive tactics, including attempting to mislead bank officials at JPMorgan Chase by sending them a motion to quash Smith's subpoenas after that motion had already been denied by the district court, in an effort to prevent Chase from producing Movant's financial records. Movant's attempts to circumvent Smith's efforts in discovery prolonged the discovery process, and led the district court to impose additional sanctions against Movant and Duffy in the amount of \$94,343.51 for Smith's discovery costs (hereafter, "Discovery Sanction"), and \$65,623.00 for misleading the court by falsely claiming insolvency (hereafter, "Contempt Sanction"). Following these sanctions, Movant once again pursued an appeal. This time, however, rather than risking additional sanctions by claiming insolvency, Movant made two wire transfers to the court in amounts of \$65,000 and \$47,171.75 (his half of the Discovery Sanction).

11. While their second appeal was pending, Movant and Hansmeier emptied accounts they controlled in sums vastly in excess of the sanctions they owed. The Seventh Circuit later affirmed the Discovery Sanction, but vacated the Contempt Sanction and remanded the case for further proceedings. On remand, Judge Herndon noted that "it was evident that [Movant], as the last man standing, felt aggrieved at the possibility of being held responsible for all of Smith's costs."³ However, finding that "the discovery costs Smith incurred [were] a direct result of the overlapping wrongs committed by Steele, Hansmeier, and Duffy", Judge Herndon

³ At the time the Seventh Circuit issued its ruling, Paul Hansmeier had filed for bankruptcy in Minnesota and Paul Duffy was deceased.

ected to impose civil contempt against Movant in the amount of \$47,171.76 (Smith's unrecovered portion of his discovery costs), to be drawn from Movant's earlier transfer of \$65,000 to the court.

Guava v. Comcast Cable Communications, LLC, 12 MR 417

12. Movant and Duffy filed a petition in the Circuit Court of St. Clair County on behalf of Guava, LLC ("Guava"), a U.S.-based entity of controlled by Movant and Hansmeier, seeking to discover from Comcast Cable Communications, LLC ("Comcast"), prior to filing suit, the identities of approximately 300 "hackers" who had allegedly attempted to obtain access to pornographic material. The petition did not include sufficient facts to support a cause of action against the persons it sought to identify. Consistent with the other lawsuits filed across the country, Movant's objective in filing this petition was not to state a cause of action against the Comcast subscribers, but to obtain information about individuals from whom they could attempt to exact settlements for the purportedly improper downloads of pornographic movies.

Prenda Law, Inc. v. Paul Godfread, Alan Cooper, and John Does 1-10, 13-CV-4341

13. In 2013, the Prenda law firm, through Paul Duffy, caused a complaint to be filed in the Circuit Court of St. Clair County against Alan Cooper, Cooper's attorney Paul Godfread, and certain "John Doe" defendants. The case was docketed as *Prenda v. Godfread, et al.* At the same time, Duffy also filed another case in the Circuit Court of St. Clair County, against the same defendants, in which he himself was the named plaintiff. That case was docketed as *Duffy v. Godfread, et al.* Both cases contained claims that the defendants had engaged in libel, defamation, and tortious interference with contractual relationships.

14. At or about that same time, Movant filed a similar case on his own behalf against the same defendants in the Circuit Court for the 11th Judicial District of Florida. Movant's case was docketed as *Steele v. Godfread et al.*, and it contained claims that the defendants had engaged in libel, defamation, and tortious interference with contractual relationships. Movant voluntarily dismissed *Steele v. Godfread, et al.*, 18 days after he filed it. Movant was aware that *Prenda v. Godfread, et al.* and *Duffy v. Godfread, et al.* remained pending.

15. Later in 2013, *Prenda v. Godfread, et al.* and *Duffy v. Godfread, et al.* were removed to the Southern District of Illinois. Prenda, through Paul Duffy, filed a motion to remand the cases to the Circuit Court of St. Clair County, which Judge David Herndon of the Southern District of Illinois denied. The cases were then transferred to the Northern District of Illinois. Thereafter, Prenda, through Paul Duffy, again sought the remand of the cases to state court, advancing the same arguments that Judge Herndon had already rejected. In so doing, Prenda intentionally mischaracterized Judge Herndon's prior ruling.

16. At no time during the foregoing proceedings did Movant formally withdraw from participating in Prenda's business operations or formally terminate his association with Prenda and Duffy.

17. On June 12, 2014, the Honorable John W. Darrah entered an order in *Prenda v. Godfread, et al.* imposing sanctions against Prenda in the amount of \$11,758.20 for filing a frivolous pleading and misrepresenting Judge Herndon's prior ruling concerning the remand of the cases

to state court. As of the date the instant statement of charges was filed, the sanctions had not been paid.

CONCLUSIONS OF MISCONDUCT

18. By reason of the conduct outlined above, Movant has engaged in the following misconduct:

- a. bringing a proceeding without a basis in law and fact for doing so that is not frivolous, by conduct including filing lawsuits without supporting facts, under the names of entities Movant created as part of his litigation scheme to exact settlements; misusing the identity of Alan Cooper by holding Cooper out to be a corporate representative; by using third-party discovery to improperly obtain information on individuals from whom settlements could be exacted; and by attempting to transfer Prenda's suit against Cooper to the Northern District without legal basis, in violation of Rule 3.1 of the Illinois Rules of Professional Conduct (2010);
- b. making a false statement of fact to a tribunal, by conduct including fraudulently claiming an inability to pay the sanction awards imposed against him in the *Smith* case, in violation of Rule 3.3(a)(1) of the Illinois Rules of Professional Conduct (2010);
- c. knowingly disobeying an obligation under the rules of a tribunal by conduct including failing to abide by Judge Wright's order quashing discovery in *Ingenuity 13 v. John Doe*; and failing to comply with the sanction order entered by Judge Darrah, in violation of Rule 3.4(c) of the Illinois Rules of Professional Conduct (2010);
- d. in a pretrial procedure making frivolous discovery requests, by conduct including filing the motions for early discovery on behalf of his shell corporations in violation of Rule 3.4(d) of the Illinois Rules of Professional Conduct (2010);
- e. in representing a client, using means that had no substantial purpose other than to embarrass or burden a third person, or using methods of obtaining evidence that violates the legal rights of such a person, by conduct including sending settlement letters, without disclosing his own interest in the case, and threatening adverse publicity against the recipients, in violation of Rule 4.4 of the Illinois Rules of Professional Conduct (2010);
- f. conduct involving dishonesty, fraud, deceit, or misrepresentation, by conduct including filing lawsuits without supporting facts, under the names of entities like Ingenuity 13 and AF Holdings, which were created by Movant for purposes of exacting settlements; misusing the identity of Alan Cooper and holding Cooper out in various court pleadings as a principal of Ingenuity 13 and AF holdings; using third-party discovery to improperly obtain from ISPs the identities of individuals from whom settlements could be exacted; making

misrepresentation to Judge Herndon during the show-cause hearing about his ability to pay sanctions; and obstructing discovering and misleading the court in an effort to avoid paying sanctions imposed against him in the *Smith* case, in violation of Rule 8.4(c) of the Illinois Rules of Professional Conduct (2010); and

- g. conduct that is prejudicial to the administration of justice, by conduct including filing lawsuits without supporting facts and under the names of entities he created for the purposes of exacting settlements; by falsely stating that Alan Cooper was a principal of AF Holdings and Ingenuity 13 to conceal Movant's own interest in those entities; by filing a petition seeking discovery prior to suit for the improper purpose of using that discovery to obtain from ISPs the identities of individuals from whom settlements could be exacted; failing to comply with the sanction orders entered by Judge Darrah in *Prenda Law Inc. v. Paul Godfreed et.al.*; and wasting the court's time in resolving sanction issues in *Lightspeed Media Corp. v. Smith*, in violation of Rule 8.4(d) of the Illinois Rules of Professional Conduct (2010).

Respectfully submitted,

Jerome Larkin, Administrator
Attorney Registration and
Disciplinary Commission

By: /s/Chi (Michael) Zhang
Chi (Michael) Zhang

Chi (Michael) Zhang
Wendy J. Muchman
Counsels for the Administrator
130 East Randolph Drive, Suite 1500
Chicago, Illinois 60601
Telephone: (312) 565-2600
Email: mzhang@iadc.org;
wmuchman@iadc.org