

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

LOKAI HOLDINGS LLC,

Plaintiff,

-against-

TWIN TIGER USA LLC, TWIN TIGER WORLD
MARKETS LTD., RORY COPPOCK and TROY
COPPOCK,

Defendants.

15cv9363 (ALC) (DF)

**MEMORANDUM
AND ORDER**

DEBRA FREEMAN, United States Magistrate Judge:

Currently before the Court is a motion filed by plaintiff Lokai Holdings LLC (“Plaintiff” or “Lokai”) (Dkt. 203), seeking sanctions pursuant to Federal Rule of Civil Procedure Rule 37(e) against defendants Twin Tiger USA LLC, Twin Tiger World Markets Ltd. (together, “Twin Tiger”), Rory Coppock (“Rory”), and Troy Coppock (“Troy”) (brothers and principals of Twin Tiger; together, the “Coppocks”) (collectively, “Defendants”), for Defendants’ destruction of electronically stored information (“ESI”), specifically emails. Lokai originally moved for sanctions in December 2016, but withdrew its motion and refiled it in August 2017, after learning that, even after Defendants had supposedly taken steps to preserve their emails, relevant emails had continued to be destroyed. In addition to seeking the attorneys’ fees and costs it incurred in trying to obtain the emails in question (and in twice moving for sanctions), Lokai now seeks the severe sanction of a default judgment in Lokai’s favor, with dismissal of Defendants’ counterclaims as to which the destroyed documents would have been relevant; alternatively, Lokai seeks an adverse inference and/or an order of preclusion.

For the reasons set forth below, based on Defendants’ conceded failure to preserve relevant ESI when it was obligated to do so and the prejudice that has resulted to Lokai, Lokai’s

motion for sanctions is granted, but not to the full extent it seeks. Certain attorneys' fees, costs, and a preclusion order are appropriately awarded here under Rule 37(e)(1), as reasonable and necessary to address the prejudice to Lokai resulting from the spoliation. On the record presented, however, this Court will neither grant nor recommend any more extreme sanction, including an adverse inference or any claim-dispositive sanction that would only be permissible under Rule 37(e)(2). Sanctions imposed under that subsection of the Rule, as discussed below, require a predicate finding of the spoliator's intent to deprive the opposing party of evidence for use in the litigation. In this Court's view, given the severity of the sanctions available under Rule 37(e)(2), the requisite intent finding should be based on clear and convincing evidence, and, in this case, while some circumstantial evidence is suggestive of an intent to deprive, that evidence is not sufficiently compelling to justify the necessary finding.

BACKGROUND

This is an action for trade-dress infringement, unfair competition, and false advertising brought under Section 1125(a) of the Trademark Act of 1946 (the "Trademark Act"), 15 U.S.C. § 1051, Sections 17200 and 17500 of the California Business and Professions Code, and common law, concerning the design and sale of silicone-beaded bracelets. (Sixth Amended Complaint, dated June 5, 2017 ("6th Am. Compl.") (Dkt. 156) ¶ 1). On June 1, 2016, this case was referred to this Court by the Honorable Andrew L. Carter, U.S.D.J., for general pretrial supervision (Dkt. 47), and this Court has supervised the discovery process since that time.

A. Relevant Factual and Procedural History

1. Defendants' Initial Failure To Preserve Emails

Lokai alleges that, around the middle of 2015, Twin Tiger began infringing Lokai's intellectual property rights by selling a line of silicone-beaded bracelets that were similar in both design and "message" to those designed and sold by Lokai. (6th Am. Compl. ¶¶ 22-24.) Lokai's

then-counsel, Bienstock & Michael, LLC (“Bienstock & Michael”), sent a cease-and-desist letter to Twin Tiger, dated May 1, 2015, demanding that Twin Tiger “immediately cease and desist from any present and future distribution, marketing, promotion, offering for sale, and/or sale of any and all products” that were related to the alleged infringement, and enclosing Lokai’s trademark registration certificate. (Declaration of Joel H. Rosner, Esq., dated Aug. 8, 2017 (“8/8/17 Rosner Decl.”) (Dkt. 205) ¶ 4 & Ex. C (Dkt. 205-3) (“Cease-and-Desist Letter”); 6th Am. Compl. ¶ 32.) Lokai claims the Cease-and-Desist Letter put Twin Tiger on notice of Lokai’s potential infringement claim. (6th Am. Compl. ¶ 32.) Lokai’s Cease-and-Desist Letter cited the federal law on which its suit is now based,¹ and threatened litigation if Twin Tiger failed to comply with its demands.² The Cease-and-Desist Letter requested a response from Twin Tiger, in writing, within seven days of the letter’s receipt, indicating compliance with Lokai’s demands, without which Lokai stated that it “[would] be forced to take action to protect its rights, interests and claims with respect to this matter.” (Cease-and-Desist Letter, at 2.)

Later that month, after receiving the Cease-and-Desist Letter, defendant Rory contacted Ronald Bienstock, Esq. (“Bienstock”), of Bienstock & Michael, by phone, and explained his belief that the use of green and grey beads in Twin Tiger’s bracelets did not infringe Lokai’s trademark for bracelets with black and white beads. (Declaration of Rory Coppock in Support of Defendants’ Opposition to Plaintiff’s Motion for Sanctions, dated Aug. 23, 2017 (“Rory Decl.”) (Dkt. 217-5) ¶ 5; 8/8/17 Rosner Decl., Ex. I (transcript of the deposition of Rory Coppock,

¹ Lokai’s Cease-and-Desist Letter stated that Twin Tiger’s “conduct [gave] rise to a number of causes of legal action, including, without limitation, trademark infringement, unlawful false designation of origin, and unfair competition in violation of [Lokai’s] intellectual property rights.” (Cease-and-Desist Letter, at 2 (citing 15 U.S.C. §§ 1114(1), 1125(a)).)

² Per the Cease-and-Desist Letter, “[Twin Tiger’s] full compliance with the above demands and [] good faith cooperation in preventing any further distribution of the Infringing Goods will help ensure that [Lokai] does not pursue legal action against your company.” (Cease-and-Desist Letter, at 2.)

conducted Aug. 24, 2016 (“Rory Dep.”)) (Dkt. 205-9), at 212:4-215:7).³) According to Rory, he also requested that Bienstock “send [him] an email explaining what exactly about [Twin Tiger’s] bracelet design infringed [Lokai’s] trademark,” but “did not receive any further communications from [] Bienstock after [the] phone call,” and so “concluded that Lokai was going to let the matter drop.” (Rory Decl. ¶¶ 5-6; *see also* Rory Dep., at 212:8-215:7.) The Coppocks declined to seek legal advice at that point, and Rory has stated that he was not independently aware of any obligation to preserve documents. (Rory Decl. ¶ 6.)

On November 30, 2015, approximately six months after sending its Cease-and-Desist Letter, Lokai commenced this lawsuit. (Complaint, dated Nov. 30, 2015 (Dkt. 1).) Twin Tiger was served with the Complaint in December of 2015, upon which the Coppocks retained the law firm of Call & Jensen to represent them and Twin Tiger in the lawsuit. (Rory Decl. ¶¶ 6-7.) As Rory recalls it, Scott Shaw, Esq., and Debbie Gubernick, Esq., attorneys with Call & Jensen, advised the Coppocks “to search for emails regarding Lokai and the claims in the lawsuit, and to make sure [they] didn’t delete anything that might have to do with the case.” (*Id.* ¶ 7.) Rory then “looked for any emails referencing Lokai,” as well as any other emails that, in his view, “might be relevant,” and forwarded those to defense counsel, but, he contends, “there was little there,” in part because Twin Tiger’s web-based email service provider, FuseMail, which the Coppocks used for their email addresses ending in “@twintiger.com,” only provided up to 10,000 megabytes of storage space for purchasers of the particular service plan then in use by Twin Tiger. (*Id.* ¶¶ 7-8.) According to Rory, the Coppocks “routinely” had to “clean out [their]

³ Included in support of Lokai’s original sanctions motion, but not in their now-pending motion, was a May 4, 2015 email from Rory in response to the Cease-and-Desist Letter. (Declaration of Joel H. Rosner in Further Support, dated Jan. 17, 2017 (Dkt. 81), Ex. R (Dkt. 81-1).) In the May 4, 2015 email, Rory denied commercializing bracelets bearing the Lokai logo, and requested clarification from Lokai regarding “how [Twin Tiger] [was] infringing on the Lokai registered trademark.” (*Id.*)

mailboxes by deleting old e-mails,” and it was impossible for them to “keep more than about one month’s worth of old emails in [their] mailboxes without running up against storage limits.” (*Id.* ¶ 8.) Thus, he asserts, at the time the lawsuit was commenced, “most if not all of [Defendants’] emails from earlier months would have already been deleted.” (*Id.*) Rory further asserts that, “[a]s the lawsuit progressed,” he “did not think it was necessary to save all of [his] everyday routine business emails,” and he also states that “[n]early all of [his] e-mail correspondence regarding this case and the claims in this case has been with [Defendants’] lawyers Scott Shaw, Debbie Gubernick, and Sam Brooks,” and is “confidential and privileged.” (*Id.* ¶ 10.)

On April 25, 2016, Lokai served its first set of document requests.⁴ (8/8/17 Rosner Decl. ¶ 7 & Ex. E (Dkt. 205-5) (“Twin Tiger’s Responses to Lokai’s First RFPs”).) Upon its receipt on April 28, 2016, Samuel G. Brooks, Esq. (“Brooks”), counsel for Twin Tiger, forwarded Lokai’s first set of requests to his clients, and reminded them of their duty to preserve documents, including emails, that could be related to this litigation. (Declaration of Samuel G. Brooks in Support of Defendants’ Opposition to Plaintiff’s Renewed Motion for Sanctions, dated Aug. 23, 2017 (“8/23/17 Brooks Decl.”) (Dkt. 217-1) ¶ 2). On May 12, 2016, the parties jointly submitted a proposed discovery plan in accordance with Rule 26(f) of the Federal Rules of Civil Procedure, reporting that they did not “anticipate any issues regarding accessibility to ESI and [did] not believe that any special procedures regarding requests for electronically maintained documents [were] required.” (8/8/17 Rosner Decl., Ex. D (Joint Report of the Parties Pursuant to Rule 26(f), dated May 12, 2016 (“Rule 26(f) Report”))

⁴ Lokai’s document requests sought, *inter alia*, the production of Twin Tiger’s financial and profit statements; documents evidencing the costs incurred from the production, sale, and advertising of the allegedly infringing products, dating back to 2012; and any documents concerning Defendants’ knowledge of Lokai in 2013, 2014, and 2015. (*See* Twin Tiger’s Responses to Lokai’s First RFPs, at 6-7).

(Dkt. 205-4), at 2.) Around the week of July 4, 2016, Brooks learned of FuseMail’s storage limits requiring Defendants to “keep their email mailboxes relatively clear”; Brooks again “reminded [Defendants] of the need to preserve any emails relating to Lokai or to the case.” (8/23/17 Brooks Decl. ¶ 3.) Defendants’ responses and objections to Lokai’s first requests for production were dated July 27, 2016, although, according to Brooks, Defendants served those responses on July 13, 2016. (*Id.*)

Lokai first raised the issue of potential spoliation to Defendants’ counsel during meet-and-confer phone calls on August 2 and 3, 2016. (Rory Decl. ¶ 11; 8/8/17 Rosner Decl. ¶¶ 8-9.) According to Lokai, counsel for Defendants stated at the time that Call & Jensen “had sent a litigation hold notice to Defendants, but . . . did not know what action Defendants had taken to preserve documents, nor whether Defendants had destroyed documents relevant to this action.” (8/8/17 Rosner Decl. ¶ 10.) On August 16, 2016, Lokai filed a letter motion requesting a pre-motion conference to discuss the inadequacy of Defendants’ discovery responses, and what Lokai characterized as an “inescapable . . . conclusion that Defendants intentionally ha[d] destroyed documents critical to Lokai’s prosecution of this matter.” (Letter to the Court from Joel H. Rosner, Esq., dated Aug. 16, 2016 (Dkt. 52), at 3.) Defendants responded by charging that Lokai’s “inflammatory accusations of intentional destruction of evidence [were] completely baseless” (*see* Letter to the Court from Scott P. Shaw, Esq., dated Aug. 19, 2016 (Dkt. 53), at 1). This Court held a teleconference with the parties regarding the matter on September 15, 2016.

Around the same time, in August of 2016, Rory asserts that the Coppocks called FuseMail and requested that it recover “[their] old e-mails” dating back to March of 2015, when Twin Tiger began development of their Life Bracelet business. (Rory Decl. ¶ 12.) FuseMail reportedly informed the Coppocks that “they could not recover much,” but that “they could begin

archiving emails going forward.” (*Id.*) According to Rory, the Coppocks told FuseMail to “initiate the archiving,” and agreed to upgrade Twin Tiger’s FuseMail subscription plan, at additional cost, for the archiving service. (*Id.*) Rory also states that he authorized counsel to work with FuseMail in order to recover the deleted emails. (*Id.*)

“Alex” (whose last name is not provided in the email), a member of FuseMail’s technical support team, sent Troy an email on August 16, 2016, indicating that FuseMail only “[had] access” to email messages that were, at most, 60 days old, but was able to “set [Twin Tiger] up with archiving so all messages from now will be saved for [them].” (*Id.* ¶ 13 & Ex. 1.) On August 17, 2016, Twin Tiger’s FuseMail account representative, Rob Chidester (“Chidester”), then sent the Coppocks an email stating that “he could upgrade [Twin Tiger’s] email accounts to include archiving for an additional fee.” (*Id.* ¶ 14.) On August 19, 2016, Troy emailed Chidester, cc’ing Rory, and asked Chidester to begin “the three year retention that day for the emails troy@twin-tiger.com and rory@twin-tiger.com.” (*Id.*) Chidester responded via email on August 29, 2016, telling the Coppocks that he had been out of the office, offering to send Defendants a contract for the additional archiving service, and noting that the archiving service “would need to be for all mailboxes with a twin-tiger.com domain name.” (*Id.*) Chidester did not include any contract in his August 29, 2016 email. (*Id.*) Nonetheless, Rory states that, “[a]t that time, [the Coppocks] believed that the archiving had been set up and that the costs would just be added to [their] bills from Fuse[M]ail,” and they “did not realize that [Chidester] was waiting for an additional response.” (*Id.*)

Almost one month later, on September 28, 2016, Chidester emailed the Coppocks again, stating that archiving had still not been set up for Twin Tiger’s email accounts, and that other Twin Tiger email addresses would need to be included in the archiving service at cost, or

disabled from Twin Tiger's account. (*Id.*) The Coppocks arranged a conference call with Chidester and Brooks the next day, September 29, 2016, during which the Coppocks "agreed to pay for a mailbox export for all the accounts that had data in them, followed by removal of the extraneous accounts," and for archiving of all remaining active mailboxes on Twin Tiger's FuseMail account. (*Id.* & Ex. 2; 8/23/17 Brooks Decl. ¶ 6.) The Coppocks signed new FuseMail agreements reflecting the export and additional archiving service on September 30, 2016, and transmitted the signed contracts to Chidester the same day. (Rory Decl. ¶¶ 15-16 & Exs. 3, 4; 8/23/17 Brooks Decl. ¶ 6.) Rory states that, at that point, the Coppocks "believed that FuseMail had set up the archiving at least as of that date, and [they] therefore continued with [their] practice of deleting old emails to remain within storage limits." (Rory Decl. ¶ 16.) Chidester emailed the Coppocks on October 3, 2016, confirming receipt of the signed contracts and indicating that the contracts had been sent to FuseMail's billing and provisioning department. (Rory Decl. ¶ 15; 8/23/17 Brooks Decl. ¶ 6.) Rory and/or Troy forwarded Chidester's October 3, 2016 email to Brooks. (8/23/17 Brooks Decl. ¶ 6.)

Brooks reviewed Defendants' available ESI in September of 2016 and Call & Jensen made a production of 143 pages of emails and attachments on October 3, 2016. (*Id.* ¶ 5.) That production included "emails dated prior to June 24, 2014," purportedly leading Brooks to believe that "FuseMail had succeeded in restoring emails that had been deleted, and that it had also implemented archiving." (*Id.*) Brooks states that, "[b]etween October 2016 and April 2017 it never occurred to [him] that FuseMail might not have actually initiated the archiving," especially in light of Twin Tiger's executed agreements with FuseMail reflecting the additional archiving service. (*Id.* ¶ 7.)

On December 20, 2016, Lokai filed its initial motion for sanctions and supporting papers (*see* Notice of Motion, dated Dec. 20, 2016 (Dkt. 71); Declaration of Joel H. Rosner, dated Dec. 20, 2016 (“12/20/16 Rosner Decl.”) (Dkt. 72); Plaintiff’s Memorandum of Law in Support of its Motion for Sanctions, dated Dec. 20, 2016 (“12/20/16 Pl. Mem.”) (Dkt. 73)), arguing that Defendants’ duty to preserve arose upon receipt of the Cease-and-Desist Letter (12/20/16 Pl. Mem., at 10 n.2), but also arguing that Defendants had breached that duty even if it arose in November of 2015, when the lawsuit was filed (*id.*, at 15 (“Whether the duty to preserve attached in May 2015 or in November 2015, Defendants continued to destroy relevant documents for months thereafter.”)). Lokai contended that, following an August 26, 2016 teleconference before this Court, Defendants “[had] failed to produce any of the documents they deleted.” (12/20/16 Rosner Decl. ¶ 25.) Lokai also highlighted the insufficiency of Defendants’ efforts to obtain deleted ESI from third parties, and their failure to foresee their ESI-related difficulties as of the date of submission of the parties’ Rule 26(f) Report on May 12, 2016. (*Id.* ¶¶ 26-31.)

Defendants opposed Lokai’s initial motion on January 17, 2017. (*See* Memorandum of Law in Opposition to Plaintiff’s Motion for Sanctions, dated Jan. 17, 2017) (Dkt. 84); (Declaration of Samuel G. Brooks, dated Jan. 10, 2017 (“1/10/17 Brooks Decl.”) (Dkt. 85).) In his opposition Declaration, Brooks stated that Defendants had “requested that the email provider restore emails that had been deleted going back as far as possible,” and that he had been “informed and believe[d] that the archiving and restoration was accomplished in or around

August 2016, and that emails were restored from on or around June 24, 2016.” (1/10/17 Brooks Decl. ¶ 3.)⁵

2. Defendants’ Continuing Failure To Preserve Emails

Apparently, however, Defendants’ emails were *not* archived and preserved as of June 2016, or August 2016, or even October 2016 – when FuseMail’s representative confirmed receipt of the signed contracts. Brooks states that he discovered this after Twin Tiger received another set of document requests from Lokai on March 29, 2017 (8/23/17 Brooks Decl. ¶ 8; 8/8/17 Rosner Decl. ¶ 24 & Ex. P (Defendants’ Responses to Plaintiff Lokai Holdings LLC’s [Third] Set of Requests for Production of Documents)), well after Lokai’s initial sanctions motion was fully briefed and while that motion was *sub judice*. In an effort to respond to Lokai’s requests for production, Brooks states that he attempted to contact FuseMail “on several occasions” in April of 2017, without success. (8/23/17 Brooks Decl. ¶ 8.) Brooks did not reach anyone at FuseMail until May 10, 2017, when he had a phone call with a member of FuseMail’s support team, who reportedly informed him that Twin Tiger “did not have archiving set up on their account.” (*Id.* ¶ 9.) According to Lokai’s counsel, Twin Tiger’s counsel conveyed to Lokai’s counsel that Defendants would make a document production by May 18, 2017; when the production was not then forthcoming, Lokai’s counsel states that he contacted Defendants’ counsel, who indicated that Defendants expected to produce documents the following week, although they then only began producing documents on June 12, 2017. (8/8/17 Rosner Decl. ¶¶ 25, 26.) Defendants did not complete their production in response to Lokai’s March 2017 requests until July 14, 2017. (*Id.* ¶ 26.)

⁵ Lokai twice filed a reply memorandum in further support of its original motion for sanctions. (*See* Plaintiff’s Memorandum of Law in Further Support of Its Motion for Sanctions, dated Jan. 17, 2017 (Dkt. 80); Plaintiff’s Memorandum of Law in Further Support of Its Motion for Sanctions, dated Jan. 20, 2017 (Dkt. 88).)

Meanwhile, on May 10, 2017, Brooks emailed Chidester, stating that, after making “several attempts” to access Twin Tiger’s archived emails, Brooks had discovered that archiving had not been set up for the Twin Tiger account. (Rory Decl. ¶ 17; 8/23/17 Brooks Decl. ¶ 10 & Ex. 1.) Chidester did not immediately respond to Brooks’ email. (Rory Decl. ¶ 17; 8/23/17 Brooks Decl. ¶ 11.) Rory called Chidester “a few weeks later,” and Chidester responded to Brooks’ email on June 2, 2017, confirming that archiving had been set up for Twin Tiger mailboxes, effective that day. (Rory Decl. ¶ 17; 8/23/17 Brooks Decl. ¶ 11.) Counsel believed that the archiving would capture not only all correspondence sent or received from those mailboxes after that date, but also any earlier emails that were stored in Twin Tiger’s mailboxes on that date (8/23/17 Brooks Decl. ¶ 11); according to Brooks, even in the course of reviewing and producing emails on July 13, 2017, he “did not realize that the archive had only captured emails sent and received beginning in June 2017” (*id.* ¶ 14).

On July 18, 2017, Lokai filed a letter motion requesting a pre-motion conference regarding continued deficiencies in Defendants’ document production. (Letter to the Court from Joel H. Rosner, Esq., dated July 18, 2017 (“7/18/17 Ltr.”) (Dkt. 185).) In that letter, Lokai cited Defendants’ failure “to produce any emails from the *eight-month period* of September 29, 2016 through May 31, 2017” (*id.*, at 1 (emphasis in original)), and argued that Defendants’ “failure to produce many other categories of documents,” such as invoices beyond a certain period and contracts with two retailers, Rue21 and Five Below, “demonstrate[d] that [Defendants] continue[d] to destroy relevant documents” (*id.*, at 1-3). Defendants responded to Lokai’s letter motion on July 21, 2017, asserting, *inter alia*, that Defendants had not intentionally destroyed relevant ESI, as they had “believed in good faith that their emails were being archived” following the execution of the archiving services agreement with FuseMail, and that, in any

event, none of the destroyed ESI would have been relevant. (*See* Letter to the Court from Samuel G. Brooks, Esq., dated July 21, 2017 (“7/21/17 Brooks Ltr.”) (Dkt. 187), at 1-5.)

Defendants additionally argued that many of Lokai’s document requests were overbroad and disproportional to the needs of the case. (*Id.*, at 5-6.)

This Court held a teleconference with counsel on July 28, 2017. (*See* Dkt.) In light of the additional facts concerning Defendants’ continued failure to preserve emails, as discussed in the teleconference, Lokai indicated that it would voluntarily withdraw its initial motion for sanctions in order to supplement its motion papers with the updated facts. (*See* Order dated July 31, 2017 (Dkt. 198), Dkt. 199 (Lokai’s Notice of Withdrawal Without Prejudice of Motion for Sanctions).)

Lokai filed its renewed sanctions motion, currently before the Court, on August 8, 2017. (*See* Notice of Motion, dated Aug. 8, 2017 (Dkt. 203); Plaintiff’s Memorandum of Law in Support of its Motion for Sanctions, dated Aug. 8, 2017 (“Pl. Mem.”) (Dkt. 204); 8/8/17 Rosner Decl. (Dkt. 205).) Defendants filed opposition papers on August 23, 2017. (*See* Defendants’ Opposition to Motion for Sanctions, dated Aug. 23, 2017 (“Def. Mem.”) (Dkt. 217); Rory Decl.; 8/23/17 Brooks Decl.) In his Declaration in opposition to the motion, Rory denied that he or Troy had ever “intentionally destroy[ed] emails about this lawsuit,” stating that, while he, himself, “had deleted emails in the ordinary course of business, [he was] not aware of any that related to Lokai or the claims in this case, and [he] did not have any intention to deprive Lokai of relevant evidence,” but rather “was simply trying to heep [his] mailbox in working order.” (Rory Decl. ¶ 11). Lokai filed reply papers on August 31, 2017. (*See* Plaintiff’s Reply Memorandum of Law in Further Support of Its Motion for Sanctions, dated Aug. 31, 2017 (“Pl. Reply Mem.”)

(Dkt. 119); Reply Declaration of Joel H. Rosner, dated Aug. 31, 2017 (“Rosner Reply Decl.”) (Dkt. 220).)

B. Potential Relevance of Destroyed Emails

Lokai includes with its renewed motion various examples of email correspondence between Defendants and their customers and distributors, dated as early as May of 2015, which Lokai has obtained by subpoena, and which would have also been in the possession, custody, or control of Defendants, were it not for their failure to preserve ESI. (*See* 8/8/17 Rosner Decl., Exs. K (Dkt. 205-11), L (Dkt. 205-12), M (Dkt. 205-13), N (Dkt. 205-14), Q (Dkt. 205-21) (filed under seal), S (Dkt. 205-23) (filed under seal), T (Dkt. 205-24) (filed under seal).) According to Lokai, these emails illustrate the likely relevance to its claims of the destroyed ESI that it has not been able to obtain from other sources, and the attendant prejudice to Lokai from Defendants’ failure to preserve. (Pl. Mem., at 13-22.) The contents of the emails that were not filed under seal (the “Galaxy Emails”⁶) are described below.

In a May 6, 2015 email to “Darren” at Galaxy Toys (“Galaxy”), one of Defendants’ distributors, cc’ing Troy, Rory included the subject line: “Life Bracelets – The grey bead has earth from below sea level. The green bead has water from the mountains.” (8/8/17 Rosner Decl., Ex. M (Dkt. 205-13).) In the body of the email, Rory wrote:

Attached is our LIFE bracelet which is blowing up. There is a company called Lokai who has a similar bracelet and they are retailing for \$18. Let us know if you would be interested in these for your distribution. We think a \$5 retail could sell very well. . . . Life bracelet – “Live a balanced Life”. This is a unisex bracelet and extremely popular. Each Life Bracelet has properties from the

⁶ According to Lokai, “[a]lthough these and other Galaxy documents [were] designated as confidential or highly confidential, they [were] not . . . filed under seal because Defendants’ counsel, who also represent Galaxy, waived that confidentiality by openly discussing all of the Galaxy documents in Defendants’ opposition to Lokai’s [original, voluntarily withdrawn] motion for sanctions.” (8/8/17 Rosner Decl. ¶ 18 (citing Dkts. 84, 88).)

highest & lowest points on earth. The grey bead has earth from below sea level. The green bead has water from the mountains. Our Life bracelets elements are a reminder to the wearer to be grounded & live a well & balanced life.

(*Id.*) The attachments are photographs of Defendants' Life bracelets with transparent beads or blue beads. (*See id.*)

On May 15, 2015, Rory sent an email to Darren at Galaxy, cc'ing Troy, attaching a photograph of three bracelets with colored beads, with hangtags reading "Fortune Bracelet," and wrote:

Here are pics of the 3 styles of bracelets I will send u as soon as I get them. I just spoke to our team in [C]hina and they are pricing the fakes out now. I'll have all the info Monday am for u. We can beat anyone's price and would like to bring u this program and work with u on this one.

(*Id.*, Ex. K (Dkt. 205-11).)

On June 11, 2015, Rory emailed Darren at Galaxy, again cc'ing Troy, with the subject line "Lokai's trademark." (*Id.*, Ex. L (Dkt. 205-12).) Rory wrote:

We think it's best to stay away from white and black because they called these colors out in their trademark. . . . They more than likely would never have a case even if we did use black or white but we think it's best to build green and grey.

(*Id.*)

Finally, an email thread from August 6, 2015 among Rory, Troy, and Darren concerns the details of Galaxy's plans to purchase displays of Defendants' Life bracelets for retail sale. (*Id.*, Ex. N (Dkt. 205-14).) In a message to Darren at 4:30 p.m., Troy asked:

[A camouflage color scheme] we can do . . . same as Lokai? Do you want a full [camouflage] package? Or a half clear, half [camouflage] package?

(*Id.* (Bates no. GALAXY 000084).)⁷

DISCUSSION

I. APPLICABLE LEGAL STANDARDS

A. Authority of This Court To Decide Motion

Pursuant to Fed. R. Civ. P. 72(a), “[p]retrial matters ‘not dispositive of a party’s claim or defense’ may be referred to a magistrate judge for hearing and decision, subject to review, if timely objections are filed, on a ‘clearly erroneous’ or ‘contrary to law’ standard.” *Seena Int’l, Inc. v. One Step Up, Ltd.*, No. 15cv01095 (PKC) (BCM), 2016 WL 2865350, at *10 (S.D.N.Y. May 11, 2016) (quoting Rule 72(a)); *see also Shanghai Weiyi Int’l Trade Co., Ltd. v. Focus 2000 Corp.*, No. 15cv3533 (CM) (BCM), 2017 WL 2840279, at *8 (S.D.N.Y. June 27, 2017).

“Discovery motions, including those seeking sanctions . . . , are ordinarily considered non-dispositive, and therefore fall within the grant of Rule 72(a), ‘unless the sanction deployed disposes of a claim.’” *Seena Int’l*, 2016 WL 2865350, at *10 (quoting *Lan v. Time Warner, Inc.*, No. 11cv2870 (AT) (JCF), 2016 WL 928731, at *1 (S.D.N.Y. Feb. 9, 2016)). The “critical issue” in determining whether a discovery motion falls under Rule 72(a) “is what sanction the magistrate judge actually imposes,” rather than the sanctions sought by the moving party. *Id.* (internal quotation marks and citation omitted).

Here, while Lokai seeks case-dispositive sanctions – a default judgment and a dismissal of counterclaims – the discovery sanctions that this Court finds appropriate would not “‘fully dispose of a claim or defense,’” *id.* (quoting *Oracle USA, Inc. v. SAP AG*, 264 F.R.D. 541, 546

⁷ In discussing, *infra*, the arguments raised by Lokai in its sanctions motion, this Court briefly refers to two additional emails, from other retailers (Michaels and Five Below), apparently also obtained by Lokai by way of subpoenas. (*See* Discussion, *infra*, at Section II(B).) Although those emails were filed under seal, this Court is confident that nothing in its cursory description of their contents reveals confidential business information.

(N.D. Cal. 2009)), as discussed below. Accordingly, this case having been referred to this Court for general pretrial supervision, it is appropriate for Lokai's motion to be resolved by this Court in the first instance.

B. Rule 37(e)

Rule 37(e) of the Federal Rules of Civil Procedure, as amended in 2015, governs sanctions for failure to preserve ESI, and provides as follows:

- (e) **Failure to Preserve Electronically Stored Information.** If electronically stored information that should have been preserved in the anticipation or conduct of litigation is lost because a party failed to take reasonable steps to preserve it, and it cannot be restored or replaced through additional discovery, the court:
- (1) upon finding prejudice to another party from loss of the information, may order measures no greater than necessary to cure the prejudice; or
 - (2) only upon finding that the party acted with the intent to deprive another party of the information's use in the litigation may:
 - (A) presume that the lost information was unfavorable to the party;
 - (B) instruct the jury that it may or must presume the information was unfavorable to the party; or
 - (C) dismiss the action or enter a default judgment.

Fed. R. Civ. P. 37(e).

Absent a showing of "intent to deprive another party of the information's use in the litigation," the sanctions enumerated under subsection (2) of Rule 37(e) are not available. Rather, sanctions for spoliation without a showing of intent to deprive are governed solely by subsection (1). *Simon v. City of New York*, 14cv8391 (JMF), 2017 WL 57860, at *7 (S.D.N.Y.

Jan. 5, 2017). Even sanctions available under Rule 37(e)(1), though, may only be imposed upon a finding of prejudice to the moving party, and “[c]are must be taken . . . to ensure that curative measures under subdivision (e)(1) do not have the effect of measures that are permitted under subdivision (e)(2).” Fed. R. Civ. P. 37(e) advisory committee’s note to 2015 amendment.

Available sanctions under Rule 37(e)(1) may include “forbidding the party that failed to preserve information from putting on certain evidence, permitting the parties to present evidence and argument to the jury regarding the loss of information, or giving the jury instructions to assist in its evaluation of such evidence or argument.” (*Id.*) Ultimately, “[t]he decision of what type of sanction is appropriate in a given case is left to the sound discretion of the district court.”

Tchatat v. O’Hara, No. 14cv2385 (LGS) (GWG), 2017 WL 1379097, at *4 (S.D.N.Y. Apr. 14, 2017) (opinion and order) (citing *West v. Goodyear Tire & Rubber Co.*, 167 F.3d 776, 780 (2d Cir. 1999); *Fujitsu Ltd. v. Fed. Express. Corp.*, 247 F.3d 423, 436 (2d Cir. 2001); *Deanda v. Hicks*, 137 F. Supp. 3d 543, 554 (S.D.N.Y. 2015)).

The sanctions permitted under Rule 37(e)(2) – after a finding of “intent to deprive” has been made – are particularly harsh, and the 2015 advisory committee’s notes warn that “[c]ourts should exercise caution” in using them. Fed. R. Civ. P. 37(e) advisory committee’s note to 2015 amendment. An adverse-inference instruction that missing evidence may or should be presumed to be unfavorable to the party who destroyed the evidence has long been considered an “extreme” sanction that “should not be given lightly.” *Zubulake v. UBS Warburg*, 220 F.R.D. 212, 219-20 (S.D.N.Y. 2003). Dismissal and the entry of a default judgment are even more “drastic remed[ies],” most typically considered in the context of “extreme circumstances” warranting sanctions under Rule 37(b), where the non-moving party has “fail[ed] to comply with the court’s discovery orders willfully, in bad faith, or through fault.” *John B. Hull, Inc. v.*

Waterbury Petroleum Prods., Inc., 845 F.2d 1172, 1176 (2d Cir. 1988). Unlike subdivision (e)(1), subdivision (e)(2) does not “include a requirement that the court find prejudice to the party deprived of the information,” as “the finding of intent [to deprive] . . . support[s] . . . an inference that the opposing party was prejudiced by the loss of information.”

Fed. R. Civ. P. 37(e) advisory committee’s note to 2015 amendment. Although Rule 37(e)(2) does not specify the standard by which the “intent to deprive” must be established, it is appropriate, given the severity of the sanctions permitted under that provision of the Rule, for the intent finding to be based on clear and convincing evidence. *See CAT3, LLC v. Black Lineage, Inc.*, 164 F. Supp. 3d 488, 499 (S.D.N.Y. 2016) (finding that, where a party seeks “terminating sanctions” pursuant to Rule 37(e)(2), “it is appropriate to utilize the clear and convincing standard” in making a finding of intent to deprive).

As the advisory committee’s notes point out, “a finding of intent does not *require* a court to impose the sanctions listed under [37](e)(2).” Fed. R. Civ. P. 37(e) advisory committee’s note to 2015 amendment (emphasis added). In general, a court should impose the “least harsh sanction that can provide an adequate remedy.” *Tchatat*, 2017 WL 1379097, at *4 (noting that sanctions should be designed to deter spoliation, to shift to the wrongdoer the risk of an erroneous judgment, and to “restore the prejudiced party to the same position he would have been in absent the wrongful destruction of evidence by the opposing party” (quoting *West*, 167 F.3d at 779)); *see also Moody v. CSX Transportation, Inc.*, 271 F. Supp. 3d 410, 432 (W.D.N.Y. 2017) (noting that “courts must be wary of issuing case-dispositive sanctions; such sanctions should be imposed only in extreme circumstances, usually after consideration of alternative, less drastic sanctions” (internal quotation marks, alteration, and citation omitted)). “The remedy should fit the wrong, and the severe measures authorized by [Rule 37(e)(2)] should not be used

when the information lost was relatively unimportant or lesser measures such as those specified in subdivision (e)(1) would be sufficient to redress the loss.” Fed. R. Civ. P. 37(e)(2) advisory committee’s note to 2015 amendment.

The instant lawsuit, commenced on November 30, 2015, had been pending for a single day at the time the amendments to Rule 37 took effect, on December 1 of that year. An April 29, 2015 Order issued by Chief Justice John G. Roberts clarified that the amendments were to “govern in all proceedings in civil cases thereafter commenced and, insofar as just and practicable, all then pending,” 2015 U.S. Order 0017, and courts in this District have generally proceeded to apply the amendments retroactively, *see CAT3*, 164 F. Supp. 3d at 496 (citing 2015 U.S. Order 0017; 28 U.S.C. § 2074(a), and noting that both “the Supreme Court’s order and the governing statute create a presumption that a new rule governs the pending proceedings unless its application would be unjust or impracticable”).

Under the prior version of Rule 37, an array of sanctions, including severe sanctions, could be imposed for spoliation of evidence merely upon a court’s finding that the non-moving party had destroyed documents through negligence. *See generally Residential Funding Corp. v. DeGeorge Capital Corp.*, 306 F.3d 99, 108 (2d Cir. 2002) (applying Rule 37(b)(2) and citing *Byrnie v. Town of Cromwell*, 243 F.3d 93, 109 (2d Cir. 2001)). In the context of ESI, the 2015 amendments to Rule 37(e) explicitly “reject[ed]” the *Residential Funding* standard that “authorize[d] the giving of,” *e.g.*, “adverse-inference instructions on a finding of negligence or gross negligence.” Fed. R. Civ. P. 37(e) advisory committee’s note to 2015 amendment. The amended Rule 37(e) thus makes it more difficult for a moving party to obtain sanctions for spoliation of ESI, requiring, at minimum, that the court find prejudice, and, in order to impose more extreme sanctions, that it find an intent to deprive. In light of this, combined with the fact

that the amendments went into effect nearly contemporaneously with the filing of this action – and the fact that neither party has suggested that the application of the new standard to this case would be “unjust” or “impracticable” – this Court will apply the current version of Rule 37(e) to Plaintiff’s motion.

In addition to any other sanctions expressly contemplated by Rule 37(e), as amended, a court has the discretion to award attorneys’ fees and costs to the moving party, to the extent reasonable to address any prejudice caused by the spoliation. *See, e.g., CAT3*, 164 F. Supp. 3d at 499.

II. LOKAI’S MOTION FOR SANCTIONS

As noted above, Lokai seeks attorneys’ fees and costs, as well as the following sanctions: (1) a default judgment in its favor, with dismissal of those counterclaims as to which the destroyed documents would have been relevant; (2) an adverse inference that the destroyed documents should be presumed to be unfavorable to Twin Tiger; and/or (3) an order of preclusion. (Pl. Mem., at 2-3.) For the reasons discussed below, Lokai is entitled to sanctions, but not those as severe as a default, dismissal, or an adverse-inference charge.

A. The Destroyed ESI Meets Rule 37(e)’s Threshold Requirements.

Before determining whether the sanctions available under subsection (1) or (2) of Rule 37(e) should come into play, the Court must first determine whether the three threshold requirements of Rule 37(e) have been satisfied – specifically whether: (a) the ESI should have been preserved in the anticipation or conduct of litigation; (b) it was lost because both Defendants and their counsel failed to take reasonable steps to preserve it; and (c) it cannot be entirely restored or replaced. In this case, the parties’ submissions make clear that all three of these requirements have been met.

1. The ESI Should Have Been Preserved.

“The obligation to preserve evidence arises when the party has notice that the evidence is relevant to litigation or when a party should have known that the evidence may be relevant to future litigation.” *Zubulake*, 220 F.R.D. at 216 (quoting *Fujitsu*, 247 F.3d at 436). A party’s duty to preserve is based on a two-part inquiry: (1) when did the duty to preserve arise, and (2) what evidence was the party obligated to preserve? *Id.*⁸ In a typical case, a party’s duty to preserve relevant evidence is triggered no later than the date the action is commenced. *Arista Records LLC v. Usenet.com*, 608 F. Supp. 2d 409, 430 (S.D.N.Y. 2009) (citing *Kronisch v. United States*, 150 F.3d 112, 126 (2d Cir. 1998); *Zubulake*, 220 F.R.D. at 216-17). Where, however, “infringement is alleged, and a cease and desist letter issues, such a letter triggers the duty to preserve evidence, even prior to the filing of litigation.” *Arista Records*, 608 F. Supp. 2d at 430 (cease-and-desist letter regarding alleged copyright infringement sufficient to trigger duty to preserve); *Regulatory Fundamental Group v. Governance Risk Management*, No. 13cv2493 (KBF), 2014 WL 3844796, at *6, *13 (S.D.N.Y. 2014) (cease-and-desist letter threatening to “seek legal recourse” if recipients failed to comply with demands contained in that letter was sufficient to trigger obligation to preserve documents). In this case, then, Defendants’ duty to preserve relevant evidence arose in May of 2015, upon receipt of the Cease-and-Desist Letter.

⁸ The 2015 amendments to Rule 37(e) did not change previously existing federal standards concerning when a party’s duty to preserve attaches and what evidence a party is obligated to preserve. *See* Fed. R. Civ. P. 37(e) advisory committee’s note to 2015 amendment (“Rule 37(e) is based on the common-law duty; it does not attempt to create a new duty to preserve.”); *Marten Transport v. Platform Advertising*, No. 14-cv-02464-JWL-TJJ, 2016 WL 492743, at *4 (D. Kans. Feb. 8, 2016) (citing advisory committee’s note for proposition that authority pre-dating the 2015 amendments regarding when a party’s duty to preserve attaches still controls); *Keim v. AFD Midatlantic*, No. 12-CV-80577, 2016 WL 7048835, at * 4 (S.D. Fla. Dec. 5, 2016) (citing advisory committee’s note, and finding that Rule 37(e) “does not alter existing federal law as to whether evidence should have been preserved”).

Defendants' argument that the Cease-and-Desist Letter did not put them on notice that "litigation was likely" (Def. Mem., at 8) is unpersuasive. The Cease-and-Desist Letter communicated to Defendants Lokai's position that Defendants had violated Lokai's intellectual property rights by commercializing "bracelets that [were] substantially similar to and infringe upon [Lokai's] Registered Trademark," enclosed a copy of the trademark certificate, and indicated that Lokai would consider taking "legal action" if Defendants did not provide a "satisfactory response" to the Cease-and-Desist Letter within seven days of receipt. (Cease-and-Desist Letter, at 1-2; Pl. Mem., at 7.) Defendants' argument that the Cease-and-Desist Letter did not *itself* "demand that they preserve any documents" (Def. Mem., at 9) is also unavailing. Had Defendants consulted an attorney on receipt of the Cease-and-Desist Letter, they would have been apprised of their preservation obligation, which "runs first to counsel, who has a duty to advise his client of the type of information potentially relevant to the lawsuit and of the necessity of preventing its destruction." *Orbit One Commc'ns, Inc. v. Numerex Corp.*, 271 F.R.D. 429, 437 (S.D.N.Y. 2010) (internal quotation marks and citation omitted). Defendants' failure to consult an attorney in light of the unmistakable threat of litigation contained in the Cease-and-Desist Letter, and their supposed assumption that Lokai's silence on receipt of Rory's email response to the Cease-and-Desist Letter indicated that Lokai would not, in fact, be pursuing litigation, were, at best, unreasonable errors of judgment.

Once a party is under a duty to preserve evidence pending litigation, it is not required to preserve "every document in its possession." *Zubulake*, 220 F.R.D. at 217. That party, however, "is under a duty to preserve what it knows, or reasonably should know, is relevant in the action, is reasonably calculated to lead to the discovery of admissible evidence, is reasonably likely to be requested during discovery and/or is the subject of a pending discovery request." *Arista*

Records, 608 F. Supp. 2d at 433 (quoting *Turner v. Hudson Transit Lines, Inc.*, 142 F.R.D. 68, 72 (S.D.N.Y. 1991)).

This Court agrees with Lokai that Defendants' professed understanding of what was relevant to this litigation was "too narrow." (Pl. Mem., at 14). Rory testified that, at the time Defendants were served with the Complaint, he believed that the only "relevant" emails were those that referred to or concerned Lokai in particular. (Rory Dep., at 83:11-88:22.) According to Troy, "relevant" emails would be those that "would [have] mention[ed] the case or discuss[ed] the case." (8/8/17 Rosner Decl., Ex. J (transcript of deposition of Troy Coppock, conducted Aug. 25, 2016 ("Troy Dep.")(Dkt. 205-10), at 91:10-23.) The Cease-and-Desist Letter, however, put Defendants on notice of potential claims under the Trademark Act, 15 U.S.C. §§ 1114(1) and 1125(a), which entitles successful plaintiffs to the remedies enumerated at *id.* § 1117 (defendant's profits, any damages sustained by the plaintiff, and the costs of the action). Even if Defendants, themselves, could not have been expected to know what evidence to preserve after receiving the Cease-and-Desist Letter, had they sought legal advice regarding that letter, as reasonable business owners would have done, they would have learned that, for example, Defendants' profits and costs of production would have certainly fallen under the scope of information relevant to Lokai's potential claims.

Although Defendants assert that they have, in fact, produced Twin Tiger's relevant invoices, which were "maintained separately from their email system" and "would not have been lost as a result of" a failure to preserve (Def. Mem., at 21-22), it is clear from the content of Defendants' email communications with third parties that Defendants conducted a substantial

portion of their business via email that would not be reflected in invoices alone.⁹ In any event, the Coppocks' apparent decision to share with defense counsel only those emails explicitly referring to Lokai or to this case (*see* Rory Decl. ¶¶ 7, 10) was plainly inadequate to preserve the full scope of potentially relevant discovery, and defense counsel has not provided any explanation as to why they failed to supervise their clients' document-preservation efforts more closely. Moreover, Defendants continued to fail to preserve relevant ESI not only after they received service of the Complaint and retained Call & Jensen, but even after they were served with Lokai's discovery requests.

2. The ESI Was Lost as a Result of Defendants' Failure To Take Reasonable Steps To Preserve It.

“Once a party reasonably anticipates litigation, it must suspend its routine document retention/destruction policy and put in place a ‘litigation hold’ to ensure the preservation of relevant documents.” *Treppel v. Biovail Corp.*, 249 F.R.D. 111, 118 (S.D.N.Y. 2008) (quoting *Zubulake*, 220 F.R.D. at 218). Rule 37(e), however, “does not call for perfection.” Fed. R. Civ. P. 37(e) advisory committee's note to 2015 amendment. The advisory committee's notes to the 2015 amendments to Rule 37(e) emphasize that courts should consider an individual party's “sophistication” and resources, and state that “[a] party may act reasonably by choosing a less costly form of information preservation, if it is substantially as effective as more costly forms.”

⁹ For example, Twin Tiger issued at least some invoices to retailers through email, and retailers placed purchase orders with Twin Tiger via email (Rory Dep., at 40:2-23, 41:8-13); Twin Tiger placed orders with its manufacturers in China via email, for which they would receive “PIs” (bills sent from the manufacturer or agent in China (*id.*, at 54:16-17)) from the manufacturer via email (*id.*, at 47:14-18; 54:13-19); Twin Tiger communicated extensively with their manufacturers via email, regarding, *inter alia*, orders, adjustments to packing lists, shipping details, and new designs (*id.* 55:22-59:3); and Twin Tiger sent “art files” of their bracelet designs via email (*id.* 111:24-112:20).

In this case, the Coppocks run “very small companies with very few employees” (Rory Decl. ¶ 1), and, therefore, should not held to the same standard as a large corporation with greater resources. Nonetheless, Defendants and their counsel failed to take reasonable steps to preserve relevant evidence, not only after receiving the Cease-and-Desist Letter in May of 2015, but almost throughout the discovery phase of this litigation. (*See* Pl. Mem., at 4-6.) Defense counsel were obligated to “oversee compliance with [a] litigation hold, monitoring the party’s efforts to retain and produce the relevant documents,” and to “become fully familiar with [their] client’s document retention policies, as well as the client’s data retention architecture,” *Zubulake*, 229 F.R.D. at 431-32, but Call & Jensen fell far short of meeting their responsibilities in these respects. In or about December of 2015, Call & Jensen attorneys apparently advised Defendants to locate email correspondence concerning Lokai or the claims in the lawsuit, and not to delete “anything that might have to do with the case,” but somehow failed to convey to the Coppocks that their “everyday routine business emails” could be relevant, much less to take steps to ensure that any such emails would be preserved. (Rory Decl. ¶¶ 7, 10.)

The Coppocks did not contact FuseMail regarding potential recovery of deleted emails and archiving of existing emails until *eight months later*, in August of 2016, following receipt of Lokai’s discovery requests, and it does not appear that they even involved Call & Jensen in their conversations with FuseMail at that time. (*See id.* ¶¶ 12, 13 & Ex. 1.) After discussing the possibility of archiving with FuseMail, Defendants continued, for an additional month, their habit of deleting emails to accommodate storage limits, purportedly under the false impression that FuseMail had begun archiving their mailboxes, despite the fact that they had not yet signed any contract for the additional archiving service. (*See id.* ¶ 14.) Not until October 3, 2016 was an agreement for archiving services executed with FuseMail, at which point defense counsel

finally became directly involved. (*Id.* ¶ 14-16 & Exs. 2, 3, 4; 8/23/17 Brooks Decl. ¶ 6.) This Court finds that, as of October 3, 2016, when Defendants' agreements for upgraded services with FuseMail were executed, it was reasonable for Defendants and their counsel to have assumed that archiving was, in fact, in place for Twin Tiger's mailboxes, effective as of the date of the contracts. (Def. Mem., at 12.) Up to October 3, 2016, however, it was unreasonable for the Coppocks to continue routinely deleting emails absent any reliable indication that the deleted emails would be recoverable, and defense counsel's periodic and perfunctory reminders to their clients of their obligation to preserve relevant documents (*see, e.g.*, Rory Decl. ¶ 7; 8/23/17 Brooks Decl. ¶¶ 2, 3) were inadequate to ensure that Defendants' preservation obligation was met, *see Zubulake*, 229 F.R.D. at 432 ("Counsel must take affirmative steps to monitor compliance [with a litigation hold] so that all sources of discoverable information are identified and searched").

3. The Destroyed ESI Cannot Be Fully Restored or Replaced.

Based on the information before the Court, it seems that the ESI in question cannot be entirely restored or replaced. FuseMail has reportedly informed Defendants that it is only capable of restoring emails that are up to 60 days old. (Rory Decl. ¶ 13 & Ex. 1.) Further, while some of the relevant ESI has become available through Lokai's efforts to obtain copies from third parties,¹⁰ Defendants, themselves, have apparently contacted only five customers in furtherance of gaining access to the destroyed ESI, and none of those customers seems to have provided any relevant documents. (Pl. Mem., at 22-23; 8/8/17 Rosner Decl. ¶¶ 41-42 & Ex. P, at 2.) According to Lokai, Defendants have still not produced relevant invoices sent by them, by

¹⁰ Lokai has subpoenaed Galaxy, Five Below, and Michaels, three of Defendants' retailers, and "[a]ll three companies have produced documents showing that Defendants regularly correspond[ed] with them." (8/8/17 Rosner Decl. ¶ 36.)

email, to the third-party representative who handled their Amazon sales; invoices sent by email to Olympia Sports; invoices sent directly to consumers for direct sales prior to June 2, 2017; electronic documents concerning Defendants’ “infusion of water and earth into their bracelets, such as orders or invoices for purchases of water and earth they have made”; or electronic documents “concerning the supposed change to their bracelet design since February 2017, when [Defendants] allegedly ceased infusing water into their bracelets and stopped advertising that they did so.” (8/8/17 Rosner Decl. ¶¶ 32-33, 37-38.)

Defendants have not even suggested that duplicates of all such evidence could be recovered from other sources, merely offering to “identify a few customers who would likely have emails,” so that Plaintiff could try to obtain third-party discovery from them, if it wished. (Def. Mem., at 15 n.5.) This is insufficient to show that all of the missing emails can be replaced, and Defendants’ additional offer to substitute testimonial evidence for the destroyed documents (*see* Pl. Mem., at 22) is equally inadequate. It is the documentary evidence that would presumably demonstrate the accuracy (or inaccuracy) of any witness testimony, and that would afford Lokai with the means to challenge the witnesses’ credibility. Testimony itself, therefore, cannot be deemed equivalent to the missing documents.

B. The Additional Requirement of Rule 37(e)(1) Has Been Met, as It Is Evident That Lokai Has Been Prejudiced by Defendants’ Failure to Preserve ESI.

After the threshold requirements have been satisfied, Rule 37(e)(1) “permits the imposition of sanctions only when there is ‘prejudice to another party from loss of the information.’” *Leidig v. BuzzFeed, Inc.*, No. 16cv542 (VM) (GWG), 2017 WL 6512353, at *12 (S.D.N.Y. Dec. 19, 2017) (opinion and order) (citing Fed. R. Civ. P. 37(e) advisory committee’s note to 2015 amendment). In this case, Defendants assert that Lokai has not shown that the lost

evidence ““would have been helpful in proving its claims or defenses,”” and, from this, argue that Lokai has suffered no prejudice as a result of the spoliation. (*See* Def. Mem., at 16-17 (quoting *Pension Comm. Of Univ. of Montreal Pension Plan v. Banc of America Sec.*, 685 F. Supp. 2d 456, 457 (2d Cir. 2010) (*abrogated on other grounds by Chin v. Port Auth. of N.Y. & N.J.*, 685 F.3d 135 (2d Cir. 2012))).) Rule 37(e)(1), however, ““does not place a burden of proving or disproving prejudice on one party or the other,’ [and] ‘leaves judges with discretion to determine how best to assess prejudice in particular cases.’” *Leidig*, 2017 WL 6512353, at *12 (citing Fed. R. Civ. P. 37(e) advisory committee’s note to 2015 amendment). Here, this Court finds that the existence of prejudice to Lokai is evident, although the extent of that prejudice is not as great as Lokai contends.

There is no doubt that Defendants’ destruction of relevant ESI – evidencing its business communications with third-party retailers and distributors and at least certain of its sales data – has limited the universe of documents available for Lokai to use in this litigation, both in support of its claims for trade dress infringement, diversion of sales, false advertising, unfair competition, and damages, and in defense of Defendants’ counterclaims for tortious and intentional economic interference. *See CAT3*, 164 F. Supp. 3d at 497 (“Plaintiff’s case against Defendants is weaker when it cannot present the overwhelming quantity of evidence it otherwise would have to support its case.” (quoting *Victor Stanley v. Creative Pipe, Inc.*, 269 F.R.D. 497, 533 (D. Md. 2010))). Further, the content of even the emails between Defendants and Galaxy, as set out above, suggests that the lost correspondence with third parties may have been valuable to Lokai in proving the elements of its claims, and the lost correspondence concerning Defendants’ sales may well have been helpful to Lokai in proving the extent of its damages. The prejudicial

effect of Defendants' destruction of ESI also lies in the extra time and expense that have been necessary to obtain relevant discovery from third parties.

As is clear from Lokai's own submissions, however, the discovery it has been able to obtain, both from Defendants and from third parties, via subpoenas, provides Lokai with meaningful evidence with which to support its claims and challenge the counterclaims. While Defendants' conduct has made it impossible to know the full contours of Twin Tiger's business dealings during the relevant time, Lokai has not been so prejudiced by the spoliation that it is unable to make out its affirmative case or to defend itself.

As to its trade-dress-infringement claim, Lokai argues that the spoliation of emails has prejudiced its ability to prove that Defendants intentionally copied its products, or created "actual consumer confusion" between the parties' products, as well as its ability to establish Defendants' net profits from infringing sales. (Pl. Mem., at 14-15.) Asserting that Defendants "made changes to [their] original designs on at least two occasions . . . [in] an attempt to deviate their design from the original design copying Lokai," Lokai argues that communications between Defendants and their "designer, [] factories, retailers and distributors, or with consumers" regarding those design changes "clearly once existed," and would likely show Defendants' intent to infringe. (*Id.*, at 15-16.) Indeed, Lokai asserts that it is "highly" likely that ESI that "would have shown that Defendants intentionally copied Lokai's products" was destroyed. (*Id.*, at 16.)

For purposes of determining the extent of any prejudice, though, this Court notes that, in making its argument regarding the importance of the missing emails, Lokai is able to cite the Galaxy Emails, which, it contends, "contradict Defendants' claim that they did not target Lokai." (*Id.*, at 17.) In other words, in its effort to demonstrate prejudice to its ability to assert its trade-dress-infringement claim, Lokai relies on evidence that it has been able to obtain, and which, it

contends, demonstrates the strength of that claim. Thus, Lokai's own evidentiary presentation shows that it has not been so prejudiced as to preclude it from pursuing its infringement claim.

As for Lokai's sales-diversion claim, this Court notes that Lokai has been able to obtain copies of email communications between Defendants and three of their retailers – Galaxy, Michaels, and Five Below (*see id.*, at 18 (stating that the subpoenaed productions show that “Defendants regularly corresponded with” these retailers)), but Lokai still argues that, because Defendants failed to preserve ESI, its “ability to prove that Defendants intentionally sought to divert sales from Lokai . . . has been crippled.” (*Id.*, at 18.) Lokai does not explain whether anything appears to be missing from the email correspondence it has been able to obtain by subpoena, or why any still-missing emails between Defendants and these retailers would be more likely to show diversion of sales than the emails located in the subpoenaed productions. Nor does Lokai suggest that Defendants' communications with Galaxy, Michaels, and Five Below were likely to be substantively different from those that Defendants may have had with other retailers or distributors. As a result, Lokai's assertion that it has been greatly hindered in its ability to prove its sales-diversion claim is overly conclusory and unpersuasive.

Lokai also alleges prejudice to its ability to pursue its false-advertising and unfair-competition claims. (*Id.*, at 20.) The core of these claims appears to be Lokai's allegation that Defendants falsely advertised their bracelets as having been infused with “water from the mountains” and “earth from below sea level” “in an effort to divert customers from purchasing Lokai's products,” which were marketed as containing these same elements. (*Id.*) Lokai asserts that Defendants changed their bracelet design in February of 2017, “when they allegedly ceased infusing water into their bracelets and stopped advertising that they did so,” but that Defendants “failed to produce *any* documents concerning their [purportedly earlier] infusion of water and

earth into their bracelets,” which Lokai assumes would have included, for example, “invoices for purchases of water and earth . . . or documents indicating their factories made such purchases.” (*Id.* (emphasis in original).) Lokai further assumes that, because such invoices were not produced, Defendants must have destroyed them. (*Id.*)

It is apparent from Lokai’s arguments, however, that it is already in possession of discovery sufficient to suggest that, at a minimum, Defendants decided to stop infusing their bracelets with earth and/or water in February of 2017. In addition, Lokai has received, from third-party Michaels, a copy of an April 24, 2017 email (filed under seal) in which Defendants described their bracelets as having been infused with water and earth. (8/8/17 Rosner Decl., Ex. T (under seal); *see also* Rosner Reply Decl., Ex. V (email dated June 19, 2017 from Rory to [third party (redacted)], advertising Defendants’ Life bracelets as containing “mud from below sea level and water from the mountains”).) Lokai asserts that, because Defendants did not produce the April 24, 2017 Michaels email, Defendants must have intentionally destroyed its copy of that email, so as to make it impossible for Lokai to prove that Defendants falsely advertised that their bracelets contained water and earth. (Pl. Mem., at 21.) Lokai’s logic here does not hold, as, if Defendants deleted the April 24, 2017 email, then they did so *after* they had signed an archiving agreement with FuseMail, thereby manifesting an intent to preserve evidence. Defendants’ apparent inability to produce the April 24, 2017 email, seemingly because FuseMail did not immediately effectuate the agreed-upon archiving, therefore does not suggest an intent to deprive Lokai of relevant discovery. Regardless, Lokai is now in possession of the April 24, 2017 email by means of third-party discovery. Thus, Lokai is again trying to explain the extent of its “prejudice” by touting favorable evidence that is actually now in its possession.

As for its ability to prove Defendants' profits on its damages claim, Lokai does not appear to dispute Defendants' representation that Twin Tiger's invoices were "maintained separately from their email system" (Def. Mem., at 21-22), and Lokai acknowledges that Defendants have produced invoices, including for the period when Defendants failed to preserve emails. Lokai suggests, however, that the number of invoices produced for certain time frames gives rise to an inference that other invoices have been withheld. Specifically, Lokai points out that Defendants produced 621 invoices for their sales to retailers and distributors for the period between May 26, 2015 and September 12, 2016 (Pl. Mem., at 19), but, "for the 11-month period since September 12, 2016, Defendants . . . produced only 56 such invoices, a reduction of almost 90 [percent]" (*id.*). Lokai further states that, according to the set of 56 invoices, "Defendants' sales revenue for the same period [fell] by more than 80 [percent]," but that Defendants did not produce "any documentation suggesting a massive drop-off in their sales." (*Id.*) Lokai also cites a June 2017 email from Defendants' Amazon sales representative (filed under seal), regarding a supposed increase in Twin Tiger's sales over the prior three months. (*Id.*; Rosner Decl., Ex. Q (under seal), at 2.) Lokai also asserts that Defendants only produced Amazon sales records upon specific request by Lokai, and have produced no sales records for Olympia Sports or documents evidencing their direct consumer sales pre-dating June 2, 2017. (Pl. Mem., at 19-20.)

On these points, Lokai appears to suggest that Defendants must have selectively produced evidence of their sales volume and net profits to serve their own ends in this litigation. The issue before the Court, however, is not whether Defendants have improperly withheld non-ESI in their possession, custody, or control; any such issue could have been separately raised with this Court through a motion to compel, and separately resolved. The question here is the extent to which Defendants' failure to preserve *ESI* is prejudicial because relevant sales

information was only available in the emails that were deleted and not archived. Given the apparent existence and production by Defendants of hard-copy invoices, the submissions before the Court are unclear as to the extent Twin Tiger's sales volumes would have been captured only in unpreserved emails. Additionally, the record is unclear as to whether Lokai ever sought to subpoena Twin Tiger's emails with Amazon and Olympia Sports, if critical sales information was still needed by Lokai and would have been contained in the destroyed emails. Under these circumstances, it is difficult to ascertain the scope of the prejudice suffered by Lokai in connection with its ability to prove its damages, but, once again, Lokai appears to have overstated the importance of the lost evidence.

Finally, Lokai asserts that it has been prejudiced in its ability to raise adequate defenses to Defendants' economic-interference counterclaims. (Pl. Mem., at 21-22.) Specifically, Lokai argues that Defendants failed to produce even "the alleged contracts with Rue21 and Five Below that are the basis of their interference claim[s]." (*Id.*, at 21.) Defendants, in response, submit that "the existence of [] business relationship[s]" between Defendants, on the one hand, and Rue21 and Five Below, on the other, "is established by the purchase orders and invoices Defendants produced early in this case" (Def. Mem., at 24), although they do not explain why their early productions did not, apparently, include executed agreements with either Rue21 or Five Below. Such agreements would certainly be relevant to both Defendants' counterclaims and Lokai's defenses thereto, but, if they were part of the ESI that was destroyed, copies should be available from Rue21 and Five Below, as Defendants point out (*id.*). For this reason, Lokai's ability to defend itself against Defendants' counterclaims has not been prejudiced to the degree alleged.

In sum, Lokai has demonstrated entitlement to sanctions pursuant to Rule 37(e)(1), as Lokai has both met the threshold requirements of Rule 37(e), described above, and has been prejudiced, although not as significantly as it would claim, by Defendants' spoliation of evidence. After examining the question of whether Lokai has also satisfied the requirements of Rule 37(e)(2), this Court will turn to the question of what sanctions should be imposed.

C. The Evidence Does Not Sufficiently Support a Finding That Defendants Acted with the Intent to Deprive Lokai of Use of ESI.

Lokai seeks not only fees, costs, and an order of preclusion, but also the severe sanction of an adverse inference, or the even more extreme sanctions of a default judgment in Lokai's favor on its false-advertising and unfair-competition claims, and dismissal of Defendants' economic-interference counterclaims. (Pl. Mem., at 24.) As set out above, these severe sanctions are only available under Rule 37(e)(2), and must be grounded on a finding that the non-moving party "acted with the intent to deprive another party of the information's use in the litigation." If the evidence does not support a finding that Defendants acted with the requisite intent to deprive, then the Court is limited to awarding less severe sanctions under Rule 37(e)(1), that are "no greater than necessary to cure the prejudice" caused by the spoliation. (*Id.*) Here, some of the circumstances surrounding Defendants' spoliation of ESI could be seen to support an inference that Defendants acted with the intent to deprive Lokai of evidence, but, overall, the evidence falls short of compelling such a finding.

Defendants concede that the Coppocks destroyed ESI by knowingly deleting emails on a regular basis, but assert that their intention in doing so was merely to avoid "running up against storage limits" imposed by their email provider. (Rory Decl. ¶ 8.) Defendants further argue that the Coppocks' intentional destruction of evidence was mitigated by the fact that they believed they were complying with their obligation to preserve, at least as of December 2015, by

forwarding “relevant” emails to defense counsel. (*Id.* ¶¶ 7-8; Def. Mem., at 25-26.) While stopping short of arguing that the record contains direct evidence of Defendants’ bad faith, Lokai seeks to undermine Defendants’ contention that their deletion of email was “routine” by summarizing conduct by Defendants that, Lokai suggests, is more consistent with an intent to deprive it of evidence supporting its claims. For example, Lokai points to the fact that Defendants initially denied that they had “copied” Lokai’s bracelet design (*see* Pl. Mem., at 15 (quoting deposition testimony)), but then, after being confronted by Lokai with emails obtained from Galaxy, conceded that they “patterned” their design after Lokai’s, and “emulated” that design (Def. Mem., at 18, 19) – statements that Lokai now describes as an admission of copying (*see* Pl. Reply Mem., at 3, 10). For additional examples, Lokai contends that Defendants “knowingly conducted an improperly narrow search for relevant documents,” “continued destroying documents even after being instructed by counsel to preserve them in December 2015,” and “selectively retained emails from December 2015 through June 2016, belying their claim to routinely destroy all of their documents in the ordinary course of business.” (Pl. Reply Mem., at 10.)

While the Coppocks’ denials that they had copied Lokai’s designs in any way does seem suspect in light of the Galaxy Emails, this Court notes that those emails were dated from May to August of 2015, before this suit was filed in November of that year, and thus before the Coppocks started forwarding documents to their counsel for preservation. Further, while Defendants’ counsel should have explained to Defendants from the outset that many types of documents (including, for example, sales information) could be relevant to this action, the fact that the Coppocks may have had too narrow a view of relevance does not necessarily suggest bad faith.

The issue of any “selective” deletion of emails could be telling, but the record lacks development in this respect. Significantly, and contrary to Lokai’s argument, Defendants do not actually claim to have “routinely destroy[ed] *all* of their documents in the ordinary course of business.” (*Id.* (emphasis added).) Rather, according to Brooks, his clients were “required to keep their mailboxes relatively clear” (8/23/17 Brooks Decl. ¶ 3), an assertion echoed by Rory, who states that the Coppocks “have always had to keep [their] mailboxes clear in order to run [their] business” (Rory Decl. ¶ 8). Keeping the mailboxes clear has required “deleting old e-mails” (*id.*), and, according to Rory, the Coppocks have been “unable to keep more than about one month’s worth of old emails in [their] mailboxes without running up against storage limits” (*id.*). As described by Rory, “[b]y the time the lawsuit was filed in [November] 2015, most if not all of [their] emails from earlier months would have already been deleted.” (*Id.*) Nowhere, however, do Defendants explain exactly *how* they have endeavored to keep their mailboxes within the applicable storage limits. Presumably, Defendants’ mailbox storage limits have been constrained by message and attachment size, and not by the date messages were sent or received. Hypothetically, then, there are a number of ways in which Defendants could have kept their mailboxes operational: they could have batch-deleted all email messages that had aged past 30 days, for example; or they could have deleted certain categories of emails, such as those to or from certain senders or recipients; or they could have reviewed their messages and selected, on an individualized level, which ones to keep and which to discard. Selective deletion could explain why Defendants’ October 3, 2016 production of 143 documents “included emails dated prior to June 24, 2014,” leading Brooks to believe, incorrectly, “that FuseMail had succeeded in restoring emails that had been deleted, and that it had also implemented archiving.” (8/23/17

Brooks Decl. ¶ 5.) Selective deletion, moreover, could have been motivated by a desire to deprive Lokai of evidence damaging to Defendants' position in this litigation.

On the record before the Court, however, there is no basis to conclude whether Defendants even engaged in selective deletion, much less whether they did so with an intent to deprive. While a court may infer that a party acted with an intent to deprive on the basis of circumstantial evidence, *see, e.g., Moody*, 271 F. Supp. 3d at 431-32 (W.D.N.Y. 2017) (finding such intent where defendants' failure to preserve evidence over a period of years was "so stunningly derelict as to evince intentionality"), here, the presented evidence is capable of more than one interpretation, and this Court will not make a finding of intent to deprive on the basis of suspicion alone. Certainly, the evidence, as it stands, does not clearly and convincingly show that Defendants sought out emails that could disadvantage them in this case, and then chose those particular emails to delete, for the purpose of keeping them out of Lokai's hands. *Cf. CAT3*, 164 F. Supp. 3d at 500, 502 (finding by clear and convincing evidence that plaintiffs had "manipulated" their emails, where plaintiffs presented "[no] evidence that might have bolstered their alternative theories" as to how changes to emails could have been made). Accordingly, this Court will not impose sanctions under Rule 37(e)(2).

D. Sanctions That Should Be Awarded in This Case

As set out above, the question of what sanctions should be imposed for a violation of Rule 37(e)(1) falls within the Court's discretion. In the exercise of its discretion, this Court hereby imposes the following sanctions on Defendants:

First, Defendants are directed to reimburse Lokai for the attorneys' fees and costs it has incurred in (a) raising with Defendants and the Court the issue of ESI not initially produced in response to Lokai's document requests; (b) seeking to obtain substitute discovery via subpoenas served on third parties; and (c) bringing both its original and current motions for sanctions.

“This remedy ameliorates the economic prejudice imposed” on Lokai, “and also serves as a deterrent to future spoliation.” *CAT3*, 164 F. Supp. 3d at 502. Lokai’s counsel is directed to provide Defendants’ counsel with a breakdown of those fees and costs, and, if Defendants do not agree as to the amounts included, to schedule a conference with this Court to address any disputes in that regard.

Second, pursuant to Rule 37(e)(1), Defendants shall be precluded from offering testimony at trial as to the content of any unpreserved emails (unless duplicate copies of those emails have otherwise been obtained by any party),¹¹ including any testimony suggesting that such emails would have supported any elements of their defenses or counterclaims. *See id.*, at 500, 502 (even where the moving party had demonstrated an intent to deprive, finding that an order precluding the non-moving party from relying on “their version of the emails at issue” was appropriate, as it was “no more severe than [was] necessary to cure the prejudice to the [moving party]”).

Finally, if Lokai is able to demonstrate that there are material gaps in the records it has been able to obtain regarding the revenue and profits generated by Defendants’ sales, and that those gaps are the result of Defendants’ deletion of records only maintained by email, then, in advance of the trial of this action, Lokai may request that Judge Carter (before whom this case will be tried) give the jury an instruction that, because certain sales records were not retained, the jury is permitted to make reasonable extrapolations or interpolations from the sales data that is available. Such an instruction, in a form to be determined by Judge Carter in his discretion, may be appropriate to address any prejudice to Lokai’s ability to present the jury with the full evidence of its claimed damages.

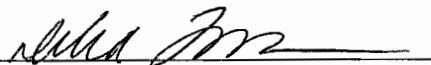
¹¹ This portion of the Court’s Order shall not be construed to impose any obligation on Lokai to seek duplicate emails from third parties, to the extent it has not already done so.

CONCLUSION

For all the foregoing reasons, Lokai's sanctions motion (Dkt. 203) is granted in part and denied in part, and sanctions pursuant to Rule 37(e)(1) of the Federal Rules of Civil Procedure shall be imposed on Defendants, consistent with this Order.

Dated: New York, New York
March 12, 2018

SO ORDERED


DEBRA FREEMAN
United States Magistrate Judge

Copies to:

All counsel (via ECF)