4. An opinion from the U.S. District Court for the Eastern District of New York finding that the Plaintiff failed to preserve relevant evidence, including from messaging applications on mobile devices, when it instituted its document hold in 2019 at the time it filed its complaint, rather than in 2016 when it first believed Defendants' product violated Plaintiff's trade dress rights, but also finding that there was not enough circumstantial evidence to conclude that Plaintiff acted with an intent to deprive Defendants of any ESI.

In *EBIN New York, Inc. v. SIC Enterprise, Inc.*, 2022 WL 4451001 (E.D.N.Y. Sept. 23, 2022), U.S. Magistrate Judge Taryn A. Merki addressed Defendants' motion for sanctions based on Plaintiff's alleged spoliation of ESI including WeChat and KakaoTalk messages on certain custodians' mobile devices.

In this action seeking damages for trade dress violation and unfair competition pursuant to the Lanham Act, Plaintiff alleged that Defendants sold a hair product with packaging closely resembling the trade dress of Plaintiff's products. *Id*. at *1. After Plaintiff filed its complaint in February 2019, it instituted a litigation hold, which included sending a letter to its customers instructing them to preserve records of their purchases and sales of Plaintiff's products and other products that may infringe on Plaintiff's intellectual property rights.

In April 2020, Defendants filed a motion to compel seeking an order directing Plaintiff to comply with its discovery obligations and award Defendants' attorneys' fees pursuant to Fed. R. Civ. P. 37(a)(5)(A). *Id*. at *2. Defendants also represented that Plaintiff had not produced any responsive correspondence from the app WeChat, despite the manufacturer's confirmation that such communications occurred, nor responsive communications through other media (such as KakaoTalk) through which Plaintiff's sales representatives communicated with retailers regarding the allegedly infringing product. Defendants stated that during meet and confers, Plaintiff claimed that it no longer possessed WeChat communications with its manufacturer. Defendants also stated that Plaintiff had engaged a discovery vendor but had not yet produced any documents at issue and that Plaintiff claimed it was too expensive to conduct e-discovery and review documents for production.

In response, Plaintiff argued that the COVID-19 lockdown impeded its ability to collect information and documents. The day before it indicated that it would produce documents, Plaintiff requested that its e-discovery vendor process the documents; however, the vendor told Plaintiff there would be a delay. Nonetheless, Plaintiff produced almost 100,000 pages of documents, which Plaintiff argued rendered most of Defendants' issues moot. During a hearing on Defendants' motion to compel, Plaintiff represented that it had collected, but not yet reviewed, relevant ESI and was attempting to collect additional ESI from other custodians. The court had granted in part and denied

in part the motion to compel, directing the parties to refine the scope and search terms for Plaintiff to review and directing Plaintiff to provide information relevant to the creation and possible deletion of relevant text messages.

In June 2020, Plaintiff requested, and one of the Defendants agreed to help find, a vendor to assist Plaintiff in processing and collecting additional ESI. *Id*. at *3. Nonetheless, Plaintiffs still had not produced any text messages by August 2020. Plaintiff stated that with the assistance of a discovery vendor called Haystack, it had collected forensic imaging copies of the smartphones used by 13 employees of Plaintiff, including WeChat and KakaoTalk messages.

However, Plaintiff stated that the WeChat and KakaoTalk messages were encrypted and thus could not be reviewed. Defendant then referred Plaintiff to an e-discovery vendor called Setec Investigations (Setec) that could assist in decrypting the messages. Setec informed Plaintiff that after processing data from the phone of its president, John Park, it found that there were no WeChat or KakaoTalk messages.

Plaintiff represented to the court in October 2020 that its vendors had not been able to locate these text messages on Park's phone but were processing other phones he owned. The court gave Plaintiff six days to provide either these communications or an affidavit from Park stating that the communications never existed or why he no longer had access to them. Additionally, if the reason Plaintiff was unable to produce the text messages in time was because its ESI vendor could not process them, the ESI vendor was to provide an affidavit containing the reason for such inability. Plaintiff was also ordered to provide a schedule by which it was to process and review the relevant text messages, subject to meet and confers with the defendants.

Plaintiff filed a declaration from Park per the district court's order explaining why he no longer possessed the text messages. *Id*. at *4. Park had both a company and personal cell phone at the time the declaration was filed, but because the company cell phone had been obtained after the time period for responsive documents, that phone contained no responsive messages. Additionally, Park changed his personal device during the relevant time period, and the phone he had been using prior had been damaged. While his cell phone provider was able to transfer some iPhone data to his new device from iCloud, only some data was available for transfer, which did not include any WeChat or KakaoTalk messages. Park discarded the phone thereafter, before anticipating any discovery dispute over the data it contained. Park also stated that this occurred two months prior to when Defendants launched the product at issue.

Park stated that by October 2020, his personal phone contained only WeChat communications from his most recent device, but none concerned the design or packaging for this device, nor did any messages on his business phone. Park also stated

he did not use SMS messages, KakaoTalk, or any other messaging apps to communicate. Park stated he did not intentionally delete responsive messages, and no responsive messages were inadvertently lost. Park stated that any responsive communications occurred in person at a trade show in Las Vegas, NV in 2014.

Plaintiff also filed a declaration from the director of investigative services at Setec, Michael Kunkel. Kunkel confirmed that Setec was asked to provide a report regarding Park's devices and that the report did not include WeChat or KakaoTalk messages. Kunkel stated that Haystack might not have been able to create the necessary imaging from Park's phone, which was described as an Android phone. Kunkel stated that Setec might have success if it acquired Park's phone.

Defendants later filed the instant motion for sanctions pursuant to Federal Rule of Civil Procedure 37(e) for Plaintiff's alleged failure to preserve KakaoTalk messages regarding the products at issue. Defendants alleged that despite Plaintiff's belief "as early as 2016 that Defendants' product infringed Plaintiff's alleged trade dress rights and contacting counsel to discuss the matter as early as 2017, Plaintiff did not institute a litigation hold until February 2019 when it filed the instant lawsuit." Defendants argued that Plaintiff communicated internally and with retailers using KakaoTalk as early as December 2017. Defendants pointed to a 2018 email from Park to himself attaching a KakaoTalk thread created per Park's instructions involving Plaintiff's personnel that included responsive messages about the products at issue. *Id*. at *5. But this thread was not preserved by Park or produced to Defendants.

Defendants also claimed that Plaintiff's production included a number of separate KakaoTalk chats from 11 custodians, but only one was dated in 2017, five were dated from 2019, and only seven were intercompany threads. Additionally, the thread attached to Park's email should have been produced because the custodians included members of that thread. Defendants argued that the "unavoidable conclusion is that Plaintiff destroyed or failed to take reasonable steps to collect and preserve before their destruction" responsive KakaoTalk messages. Defendants argued that they were entitled to a presumption that the lost information was unfavorable to Defendants and to attorneys' fees. Defendants argued they were prejudiced because the destroyed information was not available through other discovery and was relevant to issues in the litigation.

In response, Plaintiff argued that its duty to preserve documents arose with its 2019 demand to Defendants to cease and desist, and at that point, Plaintiff successfully preserved and collected all relevant documents and information, including KakaoTalk messages. Plaintiff also explained that the KakaoTalk platform does not retain data beyond six months.

Magistrate Judge Merki began her discussion with the rules governing Plaintiff's duty to preserve ESI under Rule 37(e). Magistrate Judge Merki stated that the party moving for sanctions must first show that the party with control over the ESI had an obligation to preserve it at the time it was destroyed. Determining when litigation is "reasonably foreseeable" depends on the extent to which a party was on notice that litigation was likely and that the information would be relevant. The duty arises most commonly once a suit has been filed, but can arise if the party should have known the evidence may be relevant to future litigation. Magistrate Judge Merki noted that a court has the discretion to determine when litigation is "reasonably foreseeable." This standard is fact-specific and gives the court "the discretion necessary to confront the myriad factual situations inherent in the spoliation inquiry."

Magistrate Judge Merki stated that once the court has determined that a duty to preserve existed and when it began, the court "must determine whether [pursuant to Rule 37(e)] the party breached its duty to preserve by failing to take reasonable steps to preserve the information." She noted that courts must consider whether there was a "routine, good-faith operation of an electronic information system" and "the party's sophistication with regard to litigation." *Id*. (quoting Fed. R. Civ. P. 37(e) advisory committee's note to the 2015 amendment). Magistrate Judge Merki stated, however, that the rule does not apply when information is lost despite reasonable steps to preserve it, but courts should examine what steps parties took to avoid risks. *Id*. at *5.

Magistrate Judge Merki further explained that before ordering sanctions, a court must determine that the ESI cannot be restored or replaced through additional discovery and that the loss of information either prejudiced another party or took place with the intent to deprive the other party of the information. *Id*. at *7. The burden of proof does not fall on one party or the other, but generally some proof is needed that the lost evidence was probative and would affirmatively support the movant's claim. However, because sanctions are intended as a deterrent, such proof is not strictly necessary.

With respect to determining intent, Magistrate Judge Merki stated that the standard differs among courts, with some applying a "preponderance of the evidence" standard and others applying a "clear and convincing evidence" standard. She continued, however, that *she* need not determine which standard to use because "under either standard, Defendants have not demonstrated that Plaintiff acted with an intent to deprive." Magistrate Judge Merki provided the following description of intent:

(1) [E]vidence once existed that could fairly be supposed to have been material to the proof or defense of a claim at issue in the case; (2) the spoliating party engaged in an affirmative act causing the evidence to be lost; (3) the spoliating party did so while it knew or should have known of its duty to preserve the evidence; and (4) the affirmative

act causing the loss cannot be credibly explained as not involving bad faith by the reason proffered by the spoliator.

Id. (quoting *CBF Industria de Gusa S/A v. AMCI Holdings, Inc.*, No. 13-CV-2581 (PKC) (JLC), 2021 WL 4190628, at *18 (S.D.N.Y. Aug. 18, 2021)). Further, "[i]ntentional failure to take steps necessary to preserve relevant evidence may demonstrate the requisite level of intent." *Id*. at *7.

Turning to sanctions, Magistrate Judge Merki stated that if the court finds prejudice but not an intentional deprivation, sanctions may be awarded that are "no greater than necessary to cure the prejudice." *Id*. (quoting Fed. R. Civ. P. 37(e)(1)). Sanctions can include forbidding parties from putting on certain evidence, permitting parties to present arguments relating to the loss of information to the jury, and issuing a jury instructions as to how to evaluate this information. In finding intentional deprivation, courts may presume the lost information was unfavorable, instruct the jury that it may or must presume the information was unfavorable, or dismiss the action or enter a default judgment. *Id*. at *8.

Magistrate Judge Merki next concluded that "litigation was reasonably foreseeable when Mr. Park thought Defendants' product violated Plaintiff's trade dress rights in 2016 and, a couple of months later, contacted Plaintiff's counsel to discuss Defendants' product." She reasoned that "although litigation may not have been certain, it was 'reasonably foreseeable.'" Accordingly, she found that Plaintiff "breached its duty to preserve the KakaoTalk messages regarding Defendants' allegedly infringing products because it failed to take reasonable steps to preserve them." *Id*. at *9. She pointed to the marketing thread that took place on KakaoTalk between 2017 and 2018 discussing Defendants' allegedly infringing product, noting that Plaintiff had produced the thread as an attachment to an email but not the actual messages.

Magistrate Judge Merki stated that Plaintiff's defense that KakaoTalk deletes messages after six months "underscores that Plaintiff did not take reasonable steps to preserve potentially relevant KakaoTalk messages[.]" Rather, Plaintiff should have issued litigation holds or other form of notice to participants telling them to save or create copies of the messages. Magistrate Judge Merki commented on the fact that Park forwarded the thread to his personal email almost six months after the thread began, suggesting he thought it would be important to retain and would not have been retained otherwise. Park therefore could have instructed the others to save the messages as well.

Magistrate Judge Merki further commented on the fact that Plaintiff did not collect its employees' smartphones until 2020, despite the litigation hold's having been issued in February 2019, nor did Plaintiff produce KakaoTalk messages until October 2020.

Plaintiff did not produce the messages until Defendants' motion to compel, during which time one employee's phone broke and messages were lost.

On this basis, Magistrate Judge Merki stated she had "little difficulty concluding that Plaintiff failed to take reasonable steps to preserve the messages in question and that they cannot be restored or replaced through additional discovery." *Id*. at *10. However, despite this finding, Magistrate Judge Merki stated that the "prejudicial effect" was "relatively minimal," in particular because Defendants had a portion of the marketing thread from Park's email. With respect to the other KakaoTalk messages, Magistrate Judge Merki stated "it is entirely unclear what messages may have existed and whether they would assist either party in this litigation."

Magistrate Judge Merki also found that there was not enough circumstantial evidence to conclude that Plaintiff acted with an intent to deprive Defendants of the ESI. For example, while Plaintiff did not take reasonable steps to preserve ESI, it did take *some* steps by instituting a litigation hold. Additionally, when Plaintiff's counsel indicated it would conduct ESI searches in August 2019, they advised Plaintiff to search for and retain materials relating to the pending litigation. Plaintiff also engaged a vendor to download and conduct forensic imaging of cell phones and attempted to resolve the encryption issue with the WeChat and KakaoTalk messages. In October 2020, Plaintiff's counsel reviewed all records from the smartphones and then filed a joint letter informing the court that Plaintiff produced all available records from the phones. *Id*. at *11.

Based on this analysis, Magistrate Judge Merki concluded that "Defendants have not shown that it is more likely than not that Plaintiff intended to deprive Defendants of the ESI or that there was an intent to deprive shown by clear and convincing evidence." Magistrate Judge Merki added that Plaintiff's actions were not as negligent as those in the case law cited by Defendants in support of their motion.

Magistrate Judge Merki noted the Advisory Committee's note to the rule that courts should consider the party's sophistication with regard to litigation and whether the information was in the party's control. Plaintiff argued that it did not have the resources or sophistication to archive all of the KakaoTalk messages sent in the course of business prior to having instituted a formal communications policy. Magistrate Judge Merki stated that while this did not absolve Plaintiff, the lack of sophistication with regard to limitation "further support[s] the Court's conclusion that Plaintiff did not act with an intent to deprive."

As a result of the above, Magistrate Judge Merki found unwarranted Defendants' request for a presumption that the lost information was unfavorable to Plaintiff and for

award of attorneys' fees, as "those two sanctions are 'greater than necessary to cure the prejudice.'" *Id*. at *12 (quoting Fed. R. Civ. P. 37(e)(1)).