UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

GUCCI AMERICA, INC.	
Plaintiff,	
- against -	**09 Civ. 6925 (HB)**
FRONTLINE PROCESSING CORP., WOODFOREST NATIONAL BANK, DURANGO MERCHANT SERVICES LLC, d/b/a NATIONAL BANKCARD SYSTEMS OF DURANGO, "ABC COMPANIES," and "JOHN DOES,"	**ORDER**
Defendants.	

Hon. Harold Baer, Jr., District Judge:

Presently before this court is a motion by plaintiff Gucci America, Inc. ("Plaintiff" or "Gucci") to sanction defendant Durango Merchant Services LLC ("Defendant" or "Durango") as a consequence of allegations charging spoliation of evidence. This issue arose following the deposition of Nathan Counley ("Counley"), a sales agent for Durango, and a prospective witness in this litigation. Plaintiff claims that it was Counley, on Durango's behalf, who convinced counterfeiting "replica" merchants to submit applications with credit card processing companies, and thereby make it possible for the counterfeit websites to sell their fake Gucci wares. Counley testified at his deposition that he bought a file-scrubbing program —a program that permanently deletes files so that they are completely unable to be recovered— a "couple of weeks ago" and used it to wipe clean the hard drives of two laptop computers that he used while working for Durango. The program was last run a day or so prior to his deposition. Notably, he testified that he used email as his main mode of communication and transmission of documents to merchants he worked with, including replica merchants. He further testified that he was unfamiliar with the concept of a "litigation hold," and continued his practice of deleting emails after receipt of the complaint in August 2009.

An evidentiary hearing before this Court was held on June 30, 2010. In his testimony at the hearing, Counley largely confirmed what he testified to at his deposition. He claimed that he only ran the file-scrubbing software on the computer's "free space" and only did so because of

concerns over theft of the computer and potential liability for any sensitive identifying information from customers that may be lost as a result of such a theft. Gucci, however, pointed out (1) that Durango and Counley knew Gucci sought discovery of business documents which would likely buttress its trademark infringement suit, particularly merchant applications; (2) that Durango and Counley never produced any merchant applications and claimed it was because they routinely delete them; and (3) Counley's decision to run the file-scrubbing software on the free space had the "coincidental" effect of ensuring that a forensic expert hired by Gucci could not reconstruct any previously deleted applications. Moreover, the software was run after Gucci raised the prospect of "imaging" Durango hard drives for the purpose of reconstructing deleted documents. Another Durango employee and/or owner,[1] William Dimopolis, testified that he also ran file-scrubbing software around the same time as Counley, but that it deleted information related only to the sales agents who solicited accounts for Durango. Finally, Plaintiff highlighted the fact that the informal discovery conference with this Court that was set up, in part, because Durango had only produced six (6) emails and no merchant applications. Following this conference, and apparently *after* the file-scrubbing program was run, Durango produced approximately 480 more emails on the eve of Counley's deposition, and another 500 emails shortly before the spoliation hearing.

SPOLIATION & SANCTIONS

"Spoliation is the destruction or significant alteration of evidence, or failure to preserve property for another's use as evidence in pending or reasonably foreseeable litigation." *Allstate Ins. Co. v. Hamilton Beach/Proctor Silex, Inc.*, 473 F.3d 450, 457 (2d Cir. 2007) (internal quotations omitted). Pursuant to Rule 37, a district court may impose sanctions against a party who fails to preserve evidence, Fed.R.Civ.P. 37, and may also impose sanctions for spoliation based on the inherent power to control litigation. *See West v. Goodyear Tire & Rubber Co.*, 167 F.3d 776, 779 (2d Cir. 1999); *Residential Funding Corp. v. DeGeorge Fin. Corp.*, 306 F.3d 99, 106-07 (2d Cir. 2002). There are three broad issues when considering sanctions for spoliation: (1) the duty to preserve; (2) the scope of the duty and (3) the specific types of materials that need be retained. *See Zubulake v. UBS Warburg LLC*, 220 F.R.D. 212, 216-19 (S.D.N.Y. 2003).

[1] The party was unclear as to whether he actually had an ownership interest in Durango.

The duty to preserve arises when a party has notice that evidence is relevant to litigation or when a party should have known that it may be relevant to future litigation. *See Fujitsu Ltd. v. Federal Express Corp.*, 247 F.3d 423, 436 (2d Cir. 2001); *Zubulake*, 220 F.R.D. 212 at 216. This typically means that a duty to preserve arises at the latest when the complaint has been filed and can frequently mean even earlier. *See Zubulake*, 220 F.R.D. at 216. Here, there appears to be little question that a duty to preserve has existed at least since Gucci filed its complaint in 2009, well before the erasures occurred. The scope of preservation has been defined as "[w]hat 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." *Id.* at 217. This essentially means any documents, emails, and so forth, created by or for the "key players" or about key issues in a case. *See id.* Finally, the party is supposed to retain all relevant documents in existence at the time the duty to preserve attaches, and any relevant docs created thereafter. *Id.* at 218. Here, Counley is quite obviously a key player in this litigation, and his testimony demonstrates that his actions, whether deliberate or otherwise, ensured that potentially relevant merchant applications he had previously deleted could never be recovered by Gucci.[2]

Once it is determined that party had obligation to preserve the documents in question, a court must then consider whether it was destroyed intentionally and the likely contents. *Fujitsu*, 247 F.3d at 436. The appropriate sanctions for spoliation is within the sound discretion of the district court, assessed on case-by-case basis, *see id.*, and includes paying costs associated with resolving the dispute, deeming the facts involved as established, prohibiting the party from supporting or opposing certain claims or introducing certain evidence, striking pleadings, delaying the start of trial, or giving an adverse inference instruction to the jury. *See Residential Funding*, 306 F.3d at 107; Fed.R.Civ.P. 37(b)(2)(A)(i)-(vii). Whether Durango's employees ran the software to permanently delete files to frustrate Plaintiff's discovery is an open question that merits further inquiry. But the actions can most kindly be described as negligent, on both the part of Durango and its employees, and its counsel who was under an obligation to be sure his client retained any potentially relevant materials. Given the rather coincidental timing of the purchase and use of this program after litigation began, after an informal discovery conference

[2] Defendant asserts that the documents were already deleted and the program was only run on free space, but that is precisely the point Plaintiff makes: by doing so, they ensured that none of the previously deleted documents could be recovered.

about the lack of Durango's disclosures, and before other relevant documents miraculously appeared, Durango's assurance that nothing deleted was relevant is at best suspect and cold comfort for this Court and even more so for Gucci.

Based on the above, I must conclude that Durango's destroyed potentially relevant documents in violation of its duty to preserve, and as such, it is hereby

ORDERED, that Durango shall not run any further "file-scrubbing"-type software on any computers that may contain documents or data relevant to this litigation, nor otherwise delete or destroy documents that could be relevant to this litigation; and it is further,

ORDERED, that Durango allow Gucci to have a forensic expert "image" the hard drives of computers owned by William Dimopolis and Nathan Counley, and provide the imaged drives to Plaintiff. Durango shall pay the costs for the imaging and reconstruction process.[3] The parties are instructed to confer and establish a proper method to exclude privileged documents (i.e. a privilege log) in this process or before the imaged drives are turned over to Gucci. If Gucci believes it needs to image any other computer hard drives controlled by Durango, it will file a letter brief with this court that explains why it seeks to do so; and it is further,

ORDERED, that should new information come to light or if Plaintiff feel that further sanctions are necessary, it will make this request in its dispositive motion papers, should any be filed.

SO ORDERED.

New York, New York
July 2, 2010

HAROLD BAER, JR.
U.S.D.J.

[3] The Court recognizes that imaging is potentially fruitless because of the software that was run. However, at the very least it will "freeze" whatever information remains on the hard drives, may clarify what documents were selected for file-scrubbing, and could uncover further discovery malfeasance (i.e. more relevant documents that were not turned over).