UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

GOLDBERGER COMPANY, LLC,	:	
Plaintiff,	:	16 Civ. 4630 (AJP)
-against-	:	**OPINION & ORDER**
UNEEDA DOLL COMPANY, LTD. and LARRY R. HOGGE,	:	
Defendants.	:	

ANDREW J. PECK, United States Magistrate Judge:

Plaintiff Goldberger Company, LLC brought this action against Uneeda Doll Company, Ltd. and its vice president, Larry R. Hogge (collectively "Uneeda"), alleging unfair competition, false advertising, trademark infringement, and other claims under federal and New York state law. (Dkt. No. 5: Compl.) Goldberger voluntarily dismissed the case, without prejudice, on March 17, 2017. (Dkt. No. 49.) Presently before the Court is Uneeda's post-dismissal motion for sanctions pursuant to Rule 11 of the Federal Rules of Civil Procedure, 28 U.S.C. § 1927, and the Court's inherent powers. (Dkt. No. 62: Uneeda Mot. for Sanctions.) Uneeda seeks $83,126.62 as partial reimbursement for its attorneys' fees and costs incurred in defending against Goldberger's action, plus the additional fees incurred for this motion. (Dkt. No. 64: Uneeda Br. at 22-24.) The parties have consented to decision of the motion by a United States Magistrate Judge pursuant to 28 U.S.C. § 636(c). (Dkt. No. 71.)

For the reasons set forth below, Uneeda's motion for sanctions is DENIED.

FACTS

Parties

Plaintiff Goldberger and defendant Uneeda both manufacture and sell children's dolls and related accessories. (Dkt. No. 21: Am. Compl. ¶¶ 1, 19-23, 43; Dkt. No. 27: Hogge Aff. ¶ 2.) Defendant Larry Hogge is Uneeda's president and has been employed by Uneeda since 2002. (Hogge Aff. ¶¶ 1, 6.)

The Allegations in Goldberger's Complaint

Goldberger alleged that Uneeda took dolls manufactured by Goldberger as part of their "Baby's First" line and placed them in Uneeda packaging to induce retailer customers to buy Uneeda's dolls rather than Goldberger's. (See Dkt. No. 21: Am. Compl. ¶¶ 1, 46.) Specifically, the complaint alleges that "[o]n or about December of 2015, a representative or agent of Defendant [Uneeda] provided a third party doll retailer located in South America . . . [Ripley] with two of [Goldberger's] 'Baby's First' dolls in Uneeda's packaging . . . , and sought to solicit orders" from Ripley. (Am. Compl. ¶ 47.) Goldberger alleged that such conduct caused Ripley to enter into a contract with Uneeda instead of Goldberger because of Uneeda's lower prices, whereas "[t]ypically, Goldberger would have entered into a multi-year account with Ripley that would have resulted in several hundred thousand dollars in revenues." (Dkt. No. 35: Goldberger Opp. to Mot. to Dismiss Ex. 1: Holtzman Aff. ¶ 8.) Goldberger claimed that the loss of the Ripley account, and possibly other accounts not identifiable at the time the complaint was filed, directly resulted from Uneeda's conduct. (Id. ¶¶ 8, 10.)

Goldberger's basis for bringing this action was a December 9, 2015 email from Soledad Jones, a Goldberger sales representative in South America affiliated with non-party Funmaxtoys, to Robert Schleicher, Goldberger's director of sales, and Jeff Holtzman, Goldberger's

CEO. (Holtzman Aff. Ex. 1.) Jones emailed that while at a sales meeting in Peru with Ripley in an attempt to sell Goldberger's "Baby's First" line of dolls, Ripley's representative showed them Uneeda's dolls that copied Goldberger's and were offered for "prices so much Cheaper!!" (Id.) Jones attached a photograph ("the Photograph") to the email showing two dolls each in a box with a "Uneeda" label displayed on the corner of the packaging with the name of the doll line listed as "I Love baby!!" (Id.) The dolls have "BF" displayed on their clothing in multiple places, which Goldberger contends is a recognized abbreviation for its "Baby's First" dolls, as well as other characteristics that allegedly are recognizable features of Goldberger dolls. (Id.) After receiving this email, Holtzman did not call Jones or anyone from Funmaxtoys, and did not "recall whether [he] addressed" the issue by sending a reply email to Jones. (Dkt. No. 63: Haddad Aff. Ex. C: Holtzman Dep. at 23-24.) Nor to Holtzman's knowledge did anyone else at Goldberger seek more information from Jones regarding her conversation with the Ripley representatives or the Photograph. (Id. at 24-25.)

Goldberger claims trademark rights to the "BF" mark, the dolls' outfits, and the unique characteristics of the dolls' appearance. (Am. Compl. ¶¶ 22-36.) On the basis of the email and the Photograph, Goldberger alleged that Uneeda infringed on Goldberger's trademark rights in order to increase Uneeda's sales. (Id. ¶ 56.) Additionally, the complaint alleged that Hogge, Uneeda's President and principal officer, was the "moving, active, and conscious force" behind Uneeda's actions, which he "approved and authorized." (Id. ¶¶ 15-18.) Goldberger's complaint sought monetary damages and injunctive relief from Uneeda for "irreparable damage" to Goldberger's goodwill and business reputation. (Id. ¶¶ 67, 75, 83, 90, 97, 105, 112, 115.) Goldberger presented (in discovery) records of decreased sales of Goldberger products between 2015 and 2016 in support of its damages claim. (See Haddad Aff. Ex. D: Holtzman Dep. Ex. 11.)

Procedural History

Goldberger initiated this action against Uneeda on June 17, 2016, roughly six months after receiving Jones' email. (Dkt. Nos. 1, 5: Compl.) Uneeda moved to dismiss on August 4, 2016, alleging lack of personal jurisdiction and failure to state a claim. (Dkt. No. 12: Uneeda Mot. to Dismiss.) Judge Pauley struck the motion for failure to comply with court rules. (Dkt. No. 13.) Goldberger amended its complaint on September 30, 2016. (Dkt. No. 21.) I held an unsuccessful settlement conference with the parties on November 14, 2016. (Dkt. Nos. 20, 22.) Uneeda renewed its motion to dismiss on November 22, 2016. (Dkt. Nos. 26-28.) The motion was not based on a failure to allege or prove damages. (Id.) Judge Pauley heard oral argument on the motion to dismiss on January 19, 2017, but reserved ruling. (Dkt. No. 43.) Discovery proceeded while the motion to dismiss was pending. (Dkt. No. 19: 9/16/16 Scheduling Order; see pages 12-13 below.) Two weeks before the March 31, 2017 deadline for the close of fact discovery (9/16/16 Scheduling Order ¶ 7), Goldberger voluntarily dismissed the action without prejudice pursuant to Federal Rule of Civil Procedure 41(a)(1)(A)(i) on March 17, 2017 (Dkt. No. 49).[1/]

Uneeda's Motion for Sanctions

Uneeda wrote to Goldberger's counsel on November 23, 2016, and again on January 18, 2017, stating that it intended to file a motion for Rule 11 sanctions against Goldberger and its counsel; the second letter attached a copy of the proposed motion. (Dkt. No. 63: Haddad Aff. Exs. G, K.) Uneeda's second letter asserted that, after discovery and briefing on the motion to dismiss, it had become "more clear" that "the Action is completely frivolous, without any basis in fact and

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1/ The Court notes that Uneeda could have prevented a Rule 41(a)(1)(A)(i) dismissal without prejudice had it filed a protective (without prejudice) answer to the amended complaint even while the motion to dismiss was pending.

law[.]" (Haddad Aff. Ex. K: 1/18/17 Letter at 1.) Goldberger's counsel did not respond to either letter. (See Dkt. No. 64: Uneeda Br. at 11.)

Uneeda filed this sanctions motion on April 21, 2017 (Dkt. No. 62), arguing that Goldberger continued to litigate this case for a significant period of time despite having no damages. (Uneeda Br. at 5.) Uneeda further asserts that Goldberger's claims lacked any evidentiary support from the outset and that Goldberger produced "fraudulent discovery responses [and] false declarations" in support of its claims. (Id.) Specifically, Uneeda claims that Holtzman's deposition testimony conflicted with the complaint, his prior affidavit, and Goldberger's interrogatory responses. (Id. at 13-16.) Uneeda seeks $83,126.62, representing 85 percent of its attorneys' fees and expenses incurred from February 28, 2017[2/] to April 15, 2017, and also requests the fees incurred for this motion. (Id. at 22-24.)

ANALYSIS

I. LEGAL STANDARDS GOVERNING SANCTIONS

A. The Court's Inherent Powers

"[A] federal court . . . may exercise its inherent power to sanction a party or an attorney who has 'acted in bad faith, vexatiously, wantonly, or for oppressive reasons.'" Ransmeier v. Mariani, 718 F.3d 64, 68 (2d Cir. 2013).[3/] "These powers are 'governed not by rule or statute but

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[2/] Uneeda identifies this date as the point at which the case should have been dismissed by Goldberger because both parties were aware that the case was not going to result in a damage award. (Uneeda Br. at 22-23.)

[3/] Accord, e.g., Chambers v. NASCO, Inc., 501 U.S. 32, 43, 111 S. Ct. 2123, 2132 (1991) ("'Courts of justice are universally acknowledged to be vested, by their very creation, with power to impose silence, respect, and decorum, in their presence, and submission to their lawful mandates.'"); Caldwell v. Pesce, 639 F. App'x 38, 39 (2d Cir.), cert. denied, 137 S. Ct. 307 (2016); Eisemann v. Greene, 204 F.3d 393, 395 (2d Cir. 2000) (per curiam) ("Under (continued...)

by the control necessarily vested in courts to manage their own affairs so as to achieve the orderly and expeditious disposition of cases.'" Chambers v. NASCO, Inc., 501 U.S. at 43-44, 111 S. Ct. at 2132; accord, e.g., Ransmeier v. Mariani, 718 F.3d at 68 (The Court's "authority to impose sanctions is grounded, first and foremost, in [its] inherent power to control the proceedings that take place before [it]"). "Because of their very potency, inherent powers must be exercised with restraint and discretion." Chambers v. NASCO, Inc., 501 U.S. at 44, 111 S. Ct. at 2132; cf. United States v. Seltzer, 227 F.3d 36, 41 n.2 (2d Cir. 2000) ("[T]he threshold finding required to justify sanctions under the inherent powers doctrine is 'extremely high.'").

B. 28 U.S.C. § 1927

Under 28 U.S.C. § 1927, a court may require any attorney "who so multiplies the proceedings in any case unreasonably and vexatiously . . . to satisfy personally the excess costs, expenses, and attorneys' fees reasonably incurred because of such conduct."[4/] "Section 1927 authorizes the imposition of sanctions when 'there is a clear showing of bad faith on the part of an

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[3/] (...continued)
its inherent powers to supervise and control its own proceedings, a district court has the authority to award attorney's fees to the prevailing party when the losing party 'has acted in bad faith, vexatiously, wantonly, or for oppressive reasons.'"); Schlaifer Nance & Co. v. Estate of Warhol, 194 F.3d 323, 336 (2d Cir. 1999); Crown Awards, Inc. v. Trophy Depot, Inc., 15 Civ. 1178, 2017 WL 564885 at *5 (S.D.N.Y. Feb. 13, 2017) (Peck, M.J.); Kennedy v. City of N.Y., 12 Civ. 4166, 2016 WL 3460417 at *2 (S.D.N.Y. June 20, 2016).

[4/] "[A]wards pursuant to § 1927 may be imposed only against the offending attorney; clients may not be saddled with such awards." United States v. Int'l Bhd. of Teamsters, Chauffeurs, Warehousemen & Helpers of Am., AFL-CIO, 948 F.2d 1338, 1345 (2d Cir. 1991); see also, e.g., Schlaifer Nance & Co. v. Estate of Warhol, 194 F.3d at 336 ("[I]n practice, 'the only meaningful difference between an award made under § 1927 and one made pursuant to the court's inherent power is . . . that awards under § 1927 are made only against attorneys . . . while an award made under the court's inherent power may be made against an attorney, a party, or both.'"); Crown Awards, Inc. v. Trophy Depot, Inc., 15 Civ. 1178, 2017 WL 564885 at *5 (S.D.N.Y. Feb. 13, 2017) (Peck, M.J.); Rates Tech. Inc. v. Broadvox Holding Co., 56 F. Supp. 3d 515, 527 (S.D.N.Y. 2014).

attorney.'" Schlaifer Nance & Co. v. Estate of Warhol, 194 F.3d at 336.[5/] "Section 1927, though, should be construed narrowly and with great caution, so as not to stifle zealous advocacy." Arclightz & Films Pvt. Ltd. v. Video Palace, Inc., 01 Civ. 10135, 2003 WL 22434153 at *7 (S.D.N.Y. Oct. 24, 2003) (quotations & fn. omitted).[6/] "Furthermore, even where the statutory standard is met, § 1927 by its terms ('may be required') confides an award of fees against counsel to the Court's discretion." Arclightz & Films Pvt. Ltd. v. Video Palace, Inc., 2003 WL 22434153 at *7 (quotations omitted); accord, e.g., Crown Awards, Inc. v. Trophy Depot, Inc., 2017 WL 564885 at *5; Sorenson v. Wolfson, 170 F. Supp. 3d 622, 634 (S.D.N.Y. 2016) ("The Court has discretion to decide whether to impose sanctions under 28 U.S.C. § 1927 and its inherent authority.").

C. Federal Rule of Civil Procedure 11

"By presenting to the court a pleading, written motion, or other paper – whether by signing, filing, submitting, or later advocating it," an attorney or unrepresented party thereby

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[5/] Accord, e.g., Zurich Am. Ins. Co. v. Team Tankers A.S., 811 F.3d 584, 591 (2d Cir. 2016); Crown Awards, Inc. v. Trophy Depot, Inc., 2017 WL 564885 at *5; Rates Tech. Inc. v. Broadvox Holding Co., 56 F. Supp. 3d at 526-27; Davey v. Dolan, 453 F. Supp. 2d 749, 757 (S.D.N.Y. 2006), aff'd, 292 F. App'x 127 (2d Cir. 2008); see also, e.g., United States v. Int'l Bhd. of Teamsters, Chauffeurs, Warehousemen & Helpers of Am., AFL–CIO, 948 F.2d at 1345 ("By its terms, § 1927 looks to unreasonable and vexatious multiplications of proceedings; and it imposes an obligation on attorneys throughout the entire litigation to avoid dilatory tactics.").

[6/] Accord, e.g., Crown Awards, Inc. v. Trophy Depot, Inc., 2017 WL 564885 at *5; Zen Cont'l Co. v. Intercargo Ins. Co., 151 F. Supp. 2d 250, 265 (S.D.N.Y. 2001), aff'd, 25 F. App'x 65 (2d Cir. 2002); see also, e.g., Schlaifer Nance & Co. v. Estate of Warhol, 194 F.3d at 341 ("On the one hand, a court should discipline those who harass their opponents and waste judicial resources by abusing the legal process. On the other hand, in our adversarial system, we expect a litigant and his or her attorney to pursue a claim zealously within the boundaries of the law and ethical rules.").

"certifies," "to the best of the person's knowledge, information, and belief, formed after an inquiry reasonable under the circumstances," that:

> (1) it is not being presented for any improper purpose, such as to harass, cause unnecessary delay, or needlessly increase the cost of litigation;
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> (2) the claims, defenses, and other legal contentions are warranted by existing law or by a nonfrivolous argument for extending, modifying, or reversing existing law or for establishing new law;
>
> (3) the factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery[.]

Fed. R. Civ. P. 11(b)(1)-(3). "Rule 11 sanctions are designed to deter baseless filings." Arbor Hill Concerned Citizens Neighborhood Ass'n v. Albany, 369 F.3d 91, 97 (2d Cir. 2004).

"If, after notice and a reasonable opportunity to respond, the court determines that Rule 11(b) has been violated," the Court may impose sanctions on an attorney or unrepresented party, either by motion or on its own initiative. Fed. R. Civ. P. 11(c)(1)-(3); see, e.g., Williamson v. Recovery Ltd. P'ship, 542 F.3d 43, 51 (2d Cir. 2008), cert. denied, 555 U.S. 1102, 129 S. Ct. 946 (2009); Baffa v. Donaldson, Lufkin & Jenrette Sec. Corp., 222 F.3d 52, 57 (2d Cir. 2000).[7/]

In deciding whether a pleading or other filing violates Rule 11, the Court typically applies "'an objective standard of reasonableness[.]'" Catcove Corp. v. Heaney, 685 F. Supp. 2d 328, 337 (E.D.N.Y. 2010); accord, e.g., Ferrari v. U.S. Equities Corp., 661 F. App'x 47, 51 (2d Cir. 2016); Smith v. Westchester Cty. Dep't of Corr., 577 F. App'x 17, 18 (2d Cir. 2014); ATSI

[7/] See also, e.g., United States v. Allstate Ins. Co., No. 16-705, 2017 WL 1247138 at *2 (2d Cir. Apr. 4, 2017); Ipcon Collections LLC v. Costco Wholesale Corp., 698 F.3d 58, 63 (2d Cir. 2012); Nuwesra v. Merrill Lynch, Fenner & Smith, Inc., 174 F.3d 87, 94 (2d Cir. 1999); Bright-Asante v. Saks & Co., 15 Civ. 5876, 2017 WL 1064890 at *5 (S.D.N.Y. Mar. 16, 2017); Truong v. Nguyen, 10 Civ. 386, 2013 WL 4505190 at *3 (S.D.N.Y. Aug. 22, 2013); Romeo & Juliette Laser Hair Removal, Inc. v. Assara I, LLC, 924 F. Supp. 2d 505, 508 (S.D.N.Y. 2013).

Commc'ns, Inc. v. Shaar Fund, Ltd., 579 F.3d 143, 150 (2d Cir. 2009); Storey v. Cello Holdings L.L.C., 347 F.3d 370, 387 (2d Cir. 2003) (Sotomayor, C.J.) (citing Margo v. Weiss, 213 F.3d 55, 65 (2d Cir. 2000)); Vanacore v. Vanco Sales LLC, 16 Civ. 1969, 2017 WL 2790549 at *6 (S.D.N.Y. June 27, 2017); In re Austl. & N.Z. Banking Grp. Ltd. Sec. Litig., 712 F. Supp. 2d 255, 263 (S.D.N.Y. 2010); Chow v. City of N.Y., No. 09-CV-1019, 2010 WL 2103046 at *3 (E.D.N.Y. May 25, 2010).[8/] "A party advances an objectively unreasonable claim if, at the time the party signed the pleading, 'it is patently clear that [the] claim has absolutely no chance of success under the existing precedents, and where no reasonable argument can be advanced to extend, modify or reverse the law as it stands[.]'" Catcove Corp. v. Heaney, 685 F. Supp. 2d at 337 (quoting Eastway Constr. Corp. v. City of N.Y., 762 F.2d 243, 254 (2d Cir. 1985)).[9/]

[8/] This "standard is appropriate in circumstances where the lawyer [or party] whose submission is challenged by motion has the opportunity, afforded by the 'safe harbor' provision, to correct or withdraw the challenged submission." In re Pennie & Edmonds LLP, 323 F.3d 86, 90 (2d Cir. 2003); accord, e.g., ATSI Commc'ns, Inc. v. Shaar Fund Ltd., 579 F.3d at 150. Where, however, a court invokes Rule 11 "'long after'" the offending litigant has "an opportunity to correct or withdraw the challenged submission," the Second Circuit requires a finding of "subjective bad faith." ATSI Commc'ns, Inc. v. Shaar Fund Ltd., 579 F.3d at 150; In re Pennie & Edmonds LLP, 323 F.3d at 90-92; Truong v. Nguyen, 2013 WL 4505190 at *3; Castro v. Mitchell, 727 F. Supp. 2d 302, 309 (S.D.N.Y. 2010); Centauri Shipping Ltd. v. W. Bulk Carriers KS, 528 F. Supp. 2d 197, 200 (S.D.N.Y. 2007).

[9/] Accord, e.g., Vanacore v. Vanco Sales LLC, 16 Civ. 1969, 2017 WL 2790549 at *6; City of Perry, Iowa v. Procter & Gamble Co., 15 Civ. 8051, 2017 WL 2656250 at *2 (S.D.N.Y. June 20, 2017); Graves v. Deutsche Bank Sec., Inc., 07 Civ. 5471, 2010 WL 997178 at *7 (S.D.N.Y. Mar. 18, 2010), aff'd, 548 F. App'x 654 (2d Cir. 2013); Ho Myung Moolsan Co. v. Manitou Mineral Water, Inc., 665 F. Supp. 2d 239, 263 (S.D.N.Y. 2009); see also, e.g., Morley v. Ciba-Geigy Corp., 66 F.3d 21, 25 (2d Cir. 1995) ("'An argument constitutes a frivolous legal position for purposes of Rule 11 sanctions if, under an objective standard of reasonableness, it is clear . . . that there is no chance of success and no reasonable argument to extend, modify or reverse the law as it stands.'" (quoting Caisse Nationale de Credit Agricole-CNCA, N.Y. Branch v. Valcorp, Inc., 28 F.3d 259, 264 (2d Cir. 1994))).

The Second Circuit has enumerated factors to be considered in determining whether an inquiry was reasonable:

> "[W]hat constitutes a reasonable inquiry may depend on such factors as how much time for investigation was available to the signer; whether he had to rely on a client for information as to the facts underlying the pleading, motion, or other paper; whether the pleading, motion, or other paper was based on a plausible view of the law; or whether he depended on forwarding counsel or another member of the bar."

Kamen v. AT & T, 791 F.2d 1006, 1012 (2d Cir. 1986) (emphasis omitted) (quoting Fed. R. Civ. P. 11 Advisory Committee Notes to 1993 Amendments).

An attorney's subjective good faith belief in the merits of the claim is not a defense to a Rule 11 motion if the claim is otherwise objectively unreasonable. See, e.g., Valenti v. SleepMed, Inc., No. 15-CV-1281, 2017 WL 2945721 at *13 (D. Conn. July 10, 2017); Cont'l Cas. Co. v. Marshall Granger & Co., LLP, 11 Civ. 3979, 2017 WL 1901969 at *6-7 (S.D.N.Y. May 9, 2017); LaVigna v. WABC Television, Inc., 92 Civ. 4330, 159 F.R.D. 432, 434 (S.D.N.Y. Jan. 11, 1995).

District Courts have "'broad discretion' to 'tailor[] appropriate and reasonable sanctions under [R]ule 11.'" Lawrence v. Wilder Richman Sec. Corp., 417 F. App'x 11, 15 (2d Cir. 2010) (quoting O'Malley v. N.Y.C. Transit Auth., 896 F.2d 704, 709 (2d Cir. 1990)); see also Fed. R. Civ. P. 11 Advisory Committee Notes to 1993 Amendments ("The court has significant discretion in determining what sanctions, if any, should be imposed for a violation . . . ."). Sanctions may include "nonmonetary directives; an order to pay a penalty into court; or, if imposed on motion and warranted for effective deterrence, an order directing payment to the movant of part or all of the reasonable attorney's fees and other expenses directly resulting from the violation." Fed. R. Civ. P. 11(c)(4). "Where a district court concludes that a monetary award is appropriate, its broad discretion extends to determining the amount of the award." Lawrence v. Wilder Richman Sec. Corp., 417 F.

App'x at 15. Any sanction imposed must, however, be "limited to what suffices to deter repetition of the conduct or comparable conduct by others similarly situated." Fed. R. Civ. P. 11(c)(4); e.g., Margo v. Weiss, 213 F.3d 55, 64 (2d Cir. 2000) ("Once a court determines that Rule 11(b) has been violated, it may in its discretion impose sanctions limited to what is 'sufficient to deter repetition of such conduct.'"); Ho Myung Moolsan Co. v. Manitou Mineral Water, Inc., 665 F. Supp. 2d at 265 (same). A court may award attorneys' fees as a sanction "if imposed on motion." Fed. R. Civ. P. 11(c)(4); see, e.g., Nuwesra v. Merrill Lynch, Fenner & Smith, Inc., 174 F.3d 87, 94 (2d Cir. 1999); Hutter v. Countrywide Bank, N.A., 9 Civ. 10092, 2014 WL 4207588 at *25 (S.D.N.Y. Aug. 22, 2014).[10/]

"[E]ven when a district court finds a violation of Rule 11, '[t]he decision whether to impose a sanction for a Rule 11(b) violation is . . . committed to the district court's discretion.'" Ipcon Collections LLC v. Costco Wholesale Corp., 698 F.3d at 63 ("In short, sanctions under Rule 11 are discretionary, not mandatory.").

II. SANCTIONS ARE NOT APPROPRIATE UNDER THE COURT'S INHERENT AUTHORITY, 28 U.S.C. § 1927 OR RULE 11

The Court cannot find, on this record, that Goldberger or its counsel acted in bad faith, for an improper purpose, or continued to pursue this case when they knew or should have known that their claims were baseless or lacked evidentiary support. The December 9, 2015 Jones email (see pages 2-3 above) provided Goldberger with a reasonable basis to bring this lawsuit:

[10/] Accord, e.g., Baffa v. Donaldson, Lufkin & Jenrette Sec. Corp., 222 F.3d at 57 ("[A]bsent a specific motion for attorneys' fees, the court only ha[s] authority to order sanctions payable to the court."); Castro v. Mitchell, 727 F. Supp. 2d at 309 ("[A]ttorney's fees can only be included in a sanction that is 'imposed on motion.'"). Sanctions imposed by the Court sua sponte are limited to "nonmonetary directives" or "an order to pay a penalty into court." Fed. Rule Civ. P. 11(c)(4); e.g., Nuwesra v. Merrill Lynch, Fenner & Smith, Inc., 174 F.3d at 94; Castro v. Mitchell, 727 F. Supp. 2d at 309-10.

Jones described a sales meeting at which Ripley representatives showed her dolls with distinctive Goldberger markings in Uneeda packaging; according to Jones, "[a]ll items exactly copied from [Goldberger] and prices so much Cheaper!!" (Dkt. No. 35: Goldberger Opp. to Mot. to Dismiss Ex. 1: Holtzman Aff. Ex. 1.) Goldberger had reason to believe that what happened with Ripley was "a representative example of what [Goldberger] believe[d] went on all with buyers throughout the world" (Dkt. No. 45: 1/19/17 Oral Arg. Tr. at 18), but would need discovery to prove whether or not this was an isolated occurrence.

When asked why there was an over six month delay between Jones' email and the case's filing on June 17, 2016, Goldberger's counsel explained: "Immediately upon getting that email from our South American representative [Jones], Uneeda was contacted, a lawyer was hired. Efforts to resolve it ensued that went on and on for months . . . ." (1/19/17 Oral Arg. Tr. at 21-22.) After initiating suit, Goldberger filed Rule 26(a) disclosures, commenced discovery that was continuing when Goldberger dismissed this case, and sought Court intervention due to Uneeda's alleged failure to produce requested documents and information. (See 1/19/17 Oral Arg. Tr. at 23-25 ("MR. HADDAD [defense counsel]: . . . . [Y]our Honor, they [Goldberger] did take significant-- they [Goldberger] did take discovery. . . . [W]e did some premediation discovery before we saw Judge Peck last fall, and then we had actual formal discovery thereafter, and we responded to all of those very pointed interrogatory questions that they asked about, did we sell any of these dolls to anybody, who is our customers . . . ."); Dkt. No. 53: 2/28/17 Conf. Tr. at 2 ("MR. ROSS [plaintiff's counsel]: Discovery is proceeding. . . . Both sides served additional discovery requests."); id. at 3-4 (referring to Goldberger's Rule 26(a) disclosures); Dkt. No. 57: 3/13/17 Conf. Tr. at 11-16 ("MR. ROSS: . . . . We also served a document request on the defendants. They objected to producing any of the documents requested."); Dkt. No. 60: 4/5/17 Conf. Tr. at 9 ("MR. ROSS: . . . . There was two

months of discovery really. That's it. One deposition. There was document production which was largely directed by us towards the damages issue.").) It appears that when discovery revealed that Goldberger had no viable damages theory, it appropriately dismissed the case.

Uneeda argues that Goldberger should have known earlier that its damages theory was flawed. (Dkt. No. 73: Uneeda Reply Br. at 2 ("[T]he most egregious conduct by Goldberger concerns its claim for damages.").) But Uneeda cites no evidence to conclusively establish that Goldberger knew at some date certain prior to March 17, 2017 (the dismissal date) that it could not prove its damages case, notwithstanding Uneeda's continued denials of liability throughout discovery. Indeed, discovery was still ongoing, and some of Goldberger's discovery requests still were outstanding in the days immediately prior to the dismissal. (See generally 3/13/17 Conf. Tr.)

It is true that at oral argument on the motion to dismiss, Judge Pauley questioned whether Goldberger's damages were "worth the candle" of the case going forward. (1/19/17 Oral Arg. Tr. at 22.) Goldberger's counsel responded that damages were the "lost sales to Ripley and others that will be discovered," i.e., through information that was in Uneeda's control. (Id. at 22-23.) In other words, at that time, Goldberger still objectively believed that discovery would allow it to prove damages.[11/]

[11/] Goldberger explained its damages theory as follows:

> Plaintiff's damages will be computed, after fact and expert discovery has been completed, as follows: an amount equal to Defendants' [Uneeda's] profits made from the distribution of dolls infringing [Goldberger's] Trademarks and Trade Dress, plus [Goldberger's] lost sales proximately caused by [Uneeda's] improper conduct, including lost sales attributable to the lost Ripley account, plus an award of [Goldberger's] costs and attorneys' fees . . . .

(Dkt. No. 63: Haddad Aff. Ex. J: Goldberger Resp. to Interrog. No. 19, at 9.)

At the March 13, 2017 discovery conference, I questioned whether Goldberger was "spending a lot of money on a case that may have zero damages" based on a sales chart showing Goldberger's reduced sales from 2015 to 2016. (3/13/17 Conf. Tr. at 10-11.) I explained that the fact that Goldberger's sales had declined from year to year, without more, would not be sufficient to prove causation (even if liability were proven), analogizing to a stock price drop being insufficient in the securities law context to prove damages causation. (Id.) Perhaps that convinced Goldberger, which asserts that it "made a cost/benefit analysis as to the possible damage recovery and the difficulties of obtaining evidence from South America and Hong Kong." (Dkt. No. 66: Goldberger Opp. Br. at 1.) In any event, Goldberger voluntarily dismissed its case before the week was out. (See page 4 above.)

Uneeda identifies multiple inconsistencies between Goldberger's interrogatory responses verified by Holtzman, and Holtzman's subsequent deposition testimony, that it cites as additional evidence that this litigation was prosecuted in bad faith. (Dkt. No. 64: Uneeda Br. at 13-16.)[12/] In response to defendants' interrogatories, Goldberger, with verification from Holtzman,

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[12/] Goldberger's four page opposition brief summarily contends that "Plaintiff's interrogatory responses, Declaration, and Mr. Holtzman's deposition testimony do not contain contradictions[,]" and that, in any event, the alleged inconsistencies are immaterial. (Goldberger Opp. Br. at 1, 3.) Goldberger's brief offers little explanation for these conclusory statements, aside from mischaracterizing Holtzman's deposition testimony. (Compare Goldberger Opp. to Mot. to Dismiss Ex. 1: Holtzman Aff. ¶ 5 ("Over the last several years, when I have had occasion to contact Uneeda, it was always with Mr. Hogge.") and Haddad Aff. Ex. C: Holtzman Dep. at 193-94 ("Q: Prior to December 2015 you had never spoken to [Hogge]? A: No, I don't really know him. I just know of him . . . ."), with Goldberger Opp. Br. at 3 ("Mr. Holtzman's statement that when he spoke with Uneeda it was always with Mr. Hogge, is factually correct. There is no evidence that he ever spoke with anyone else at Uneeda . . . he spoke with Mr. Hogge, and only Mr. Hogge, upon learning of the improper conduct of Uneeda in December 2015.").) Goldberger's assertion that Holtzman's statements "do not contain contradictions" is simply not well-supported by the record.

stated: "Plaintiff identifies Rolf Klarmann [a Funmaxtoys employee] as the individual who took the subject photograph" attached to Jones' email. (Haddad Aff. Ex. J: Goldberger Resp. to Interrog. No. 13, at 7.) Holtzman testified initially at his deposition that the Photograph was taken by Klarmann, and that he (Holtzman) assumed it was taken when Klarmann was at Uneeda's showroom in Hong Kong in 2015 with Jones. (Haddad Aff. Ex. C: Holtzman Dep. at 9-11.) Holtzman stated that his basis for this knowledge was "exclusively the [Jones] e-mail[.]" (Id. at 12, 21.) When Uneeda's counsel showed Holtzman that this information was nowhere to be found in the Jones email, Holtzman admitted that he personally did not "know who took the photograph," and did not know whether it had been taken in Hong Kong. (Id. at 21-22.)

Holtzman further testified that he did not know whether or not "Uneeda sold a single one of [Goldberger's] dolls in their boxes[,]" either to Ripley or anyone else, and that he had no knowledge of "how many times . . . Uneeda attempt[ed] to pass off Goldberger dolls in their boxes[.]" (Id. at 55-56.) Holtzman admitted that he had "no way of knowing that Goldberger would actually have entered into a multiyear contract with Ripley" had Uneeda's alleged conduct not occurred (id. at 103), even though he previously stated in his affidavit in opposition to Uneeda's motion to dismiss that "Goldberger lost the Ripley account as a direct consequence of Uneeda's improper use of our dolls" (Goldberger Opp. to Mot. to Dismiss Ex. 1: Holtzman Aff. ¶ 8).[13/]

The inconsistencies between Holtzman's deposition testimony, Goldberger's interrogatory responses that he verified and his affidavit do not alter the Court's conclusion that sanctions are not appropriate here. Even though Holtzman signed the interrogatory responses on

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[13/] Holtzman admitted that Goldberger had not made any sales to Ripley in 2015 or 2016 and that any assertions of a multiyear contract that would have resulted in "several hundred thousand dollars in revenues" would be speculation. (See Holtzman Dep. at 102-03.)

Goldberger's behalf, he was deposed as an individual, not a Federal Rule of Civil Procedure 30(b)(6) witness. (Compare Haddad Aff. Ex. J: Goldberger Interrog. Resp. at 11, with Holtzman Dep. at 1 and 4/5/17 Conf. Tr. at 9: Holtzman deposed as an individual, not a 30(b)(6) witness.) Holtzman's personal knowledge at his deposition is different than information he learned as an officer of Goldberger and corporate representative signing interrogatory responses. See, e.g., Sabre v. First Dominion Capital, LLC, 01 Civ. 2145, 2001 WL 1590544 at *1 (S.D.N.Y. Dec. 12, 2001) ("A deposition pursuant to Rule 30(b)(6) is substantially different from a witness's deposition as an individual. A 30(b)(6) witness testifies as a representative of the entity, his answers bind the entity and he is responsible for providing all the relevant information known or reasonably available to the entity.").[14/] To be clear, this does not condone any of Holtzman's contradictory statements, and Goldberger's counsel would have been wise to have Holtzman clarify his testimony at the conclusion of the deposition. Uneeda's motion does not clarify who at Goldberger (attorneys included) knew what, when, and Goldberger did not help by opposing the sanctions motion with a four page, cursory brief. The Court is not prepared to find that Goldberger and/or its attorneys acted in bad faith or for an improper purpose when they submitted filings that were later only somewhat contradicted by Holtzman's deposition.

[14/] Had Uneeda deposed Holtzman as a 30(b)(6) witness, he would have had to prepare to "testify about information known or reasonably available to the organization." Fed. R. Civ. P. 30(b)(6); see also, e.g., GEOMC Co. v. Calmare Therapeutics, Inc., No. 14-CV-01222, 2017 WL 2294282 at *2 (D. Conn. May 25, 2017) ("The testimony provided by a corporate representative at a [Rule] 30(b)(6) deposition binds the corporation. This is quite unlike a deposition of an employee of the corporation, which is little more than that individual employee's view of the case and is not binding on the corporation." (quotations omitted)); 8A CHARLES A. WRIGHT & ARTHUR R. MILLER, Fed. Prac. & Proc. Civ. § 2103 (3d ed. 2017). Because Uneeda did not do so, it was getting Holtzman's personal knowledge, not Goldberger's corporate knowledge.

In conclusion, the Court does not find that Goldberger or its counsel acted in subjective bad faith in commencing or continuing this action. The Court further does not find a violation of Rule 11. Even if there were a Rule 11 violation, the Court would and does decline, in the exercise of its discretion, to impose sanctions on Goldberger or its attorneys.

CONCLUSION

For the reasons set forth above, Uneeda's motion for sanctions (Dkt. No. 62) is DENIED.

SO ORDERED.

Dated: New York, New York
July 21, 2017

Andrew J. Peck
United States Magistrate Judge

Copies ECF to: All Counsel