IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

GAVRIELI BRANDS LLC, a California Limited Liability Company, Plaintiff, v. SOTO MASSINI (USA) CORPORATION, a Delaware corporation, and THOMAS PICHLER, an individual, Defendants.	C.A. No. 1:18-cv-00462-GMS

RESPONSE TO PLAINTIFF'S MOTION FOR SANCTIONS

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Introduction

Defendants Soto Massini (USA) Corporation and Thomas Pichler (collectively "Defendants") hereby provide their response to Plaintiff's Motion for Sanctions. For the reasons that follow, this Court should deny Plaintiff's Motion.

On February 11, 2019, this Court granted Plaintiff's motion to compel and ordered Defendants[1] to ensure that they had completed their production of all documents in their possession, custody or control, including certain customer sales records and customer e-mails. Defendants complied fully and completely, and supplemented their production with some additional documents, including recently-created financial/tax documents. Yet Plaintiff is now seeking a "death penalty" sanction because it claims Defendants have not produced documents which are not available to defendants or do not exits. Even if Defendants had these documents (which they do not), the sanctions sought are dramatically disproportionate to the alleged missing information. Pichler's knowledge of Plaintiff's products or his *deminimus* sales are simply irrelevant to the questions of validity or infringement in the design patent case. At most, those facts go to the question of damages, and given that Pichler has produced all company tax returns, Defendant's sales revenue will not be in dispute. These facts do not justify the imposition of the most draconian sanction available to a Court – to deny a defendant the right to defend himself against baseless charges of infringement of a patent that is likely invalid. Thus, this Court should not impose any sanctions on Defendants.

[1] As a reminder, "Defendants" are a one-man company and just that one man—Mr. Pichler.

Argument

A. Defendants Did Not Violate this Court's Order

Rule 26(b)(1) limits the scope of an opposing party's discovery efforts to that which is "proportional to the needs of the case." Moreover, "a conclusory allegation premised on nefarious speculation has not moved several courts, nor will it move this one, to grant burdensome discovery requests late in the game." *Ford Motor Co. v. Edgewood Properties, Inc*., 257 F.R.D. 418, 427 (D.N.J. 2009). If a document "is not properly discoverable, a district court may not impose sanctions for non-compliance with an order requiring its production." *Daval Steel Prod., a Div. of Francosteel Corp. v. M/V Fakredine,* 951 F.2d 1357, 1367 (2d Cir. 1991). Further, respondents do not have the burden of producing documents "that are as easily accessible by the party seeking discovery." *Duffy v. Kent Cty. Levy Court*, 800 F. Supp. 2d 624, 630 (D. Del. 2011).

Defendants complied with this Court's February 11, 2019 Order. As stated above, Defendants have produced all requested documents reasonably within their possession, custody, and control. *See* Pichler Decl. ¶ 4. Defendants' document production includes, for example, SM001304-SM001310, SM001403-SM001427, SM001588-SM001617, SM001703-SM001705, SM001773, and SM001823-SM001879, documents which show the sales of the accused products and the associated revenue. Defendants also produced all emails in its possession, custody or control that mention "Tieks" or "Gavrieli," as shown by documents SM001653-SM001681 and SM001693-SM001702. *See* Pichler Decl. ¶ 6.

Plaintiff's "late in the game" and "conclusory arguments" that certain documents exist are not persuasive enough to impose sanctions. If any other emails existed at some time in the past, Defendants' non-production of these was not due to bad faith or negligence. Rather, any

such emails mentioning "Tieks" or "Gavrieli" possibly could have been deleted prior to this case as a routine cleanup to remain under Microsoft Outlook's data limits. *See* Pichler Decl. ¶ 7. Many of Plaintiff's complaints concern its improper insistence that Defendants find and "re-produce" documents which Plaintiff already obtained from other publicly-available sources. *See* Pichler Decl. ¶ 5. Regarding any social media messages and comments on Kickstarter, Indiegogo, or Facebook, for example, Defendants do not store these emails privately, and these websites do not have a reliable method to search for a "keyword" in public messages and comments. It would be unreasonable to manually review every single message when Plaintiff already has searched and gathered all of these publicly-available message (and possess the burden of doing so).

Soto Massini is a one-man operation. Mr. Pichler is solely responsible for everything, including searching his computer systems for any and all documents responsive to Plaintiff's requests. *See* Pichler Decl. ¶ 8. At this point in the case, if a document that was requested by Plaintiff has not been produced, the document either (a) does not exist, (b) Plaintiff already has obtained it from another source, or (c) it is not reasonably within Defendants' possession custody or control. *See* Pichler Decl. ¶ 9. Thus, Defendants have produced all documents they were required to produce by both the Federal Rules and this Court. Plaintiff knows this, and is essentially seeking sanctions relating only to documents that Defendants either do not have, or do not even exist at all.

B. Infringement Would Be Completely Inappropriate

Plaintiff requests "an order finding that the Accused Products infringe the asserted patents and trade dress," which would constitute a default judgment. However, default is a "***drastic remedy***," and should only, "be imposed only in ***extraordinary circumstances***, usually

after less drastic sanctions are considered." *Travelers Prop. Cas. of Am. ex rel. Goldman v. Pavilion Dry Cleaners*, 2005 WL 1366530, at *3 (D.N.J. June 7, 2005)(emphasis added). Granting of default is a, "drastic solution and should be reserved for those cases where there is a clear record of delay or contumacious conduct." *Poulis v. State Farm Fire & Cas. Co*., 747 F.2d 863, 866 (3d Cir. 1984)(emphasis added). These, "most extreme sanction[s] eliminates the party's right to engage in the case, which inevitably leads to the party's losing the case exactly as if no appearance were made and no defense offered." *In re Catalan*, 590 B.R. 678, 686 (Bankr. E.D. Pa. 2018). Ultimately, the "seriousness of the discovery misconduct guides the seriousness of the sanction, so that the punishment fits the crime." *Id* at 685.

The Third Circuit also uses a six prong test to determine whether extreme sanctions are proper: "(1) the extent of the party's personal responsibility; (2) the prejudice to the adversary caused by the failure to meet scheduling orders and respond to discovery; (3) a history of dilatoriness; (4) whether the conduct of the party or the attorney was willful or in bad faith; (5) the effectiveness of sanctions other than dismissal, which entails an analysis of alternative sanctions; and (6) the meritorious of the claim or defense." *Ware v. Rodale Press, Inc.,* 322 F.3d 218, 221 (3d Cir. 2003).

Regarding the extent of Defendants' personal responsibility, Defendants performed their best, good faith efforts to conduct discovery and provide the requested documents at every step in this proceeding. *See* Pichler Decl. ¶ 12. Plaintiff has also failed to show they have been prejudiced. As addressed above, Defendants have produced everything in their possession, custody, and control. Whenever there was an alleged discrepancy, Defendants immediately sought to cure the issue. Further, any, "prejudice that Plaintiff might have suffered as a result in the delay of production of these documents has now been remedied because Plaintiff is now

seemingly in possession of all such materials." *Bozic v. City of Washington, Pa*., 912 F. Supp. 2d 257, 277 (W.D. Pa. 2012). Regarding the history of dilatoriness, Defendants have shown no inclination to unnecessarily prolong this proceeding or cause undue delay, and Plaintiffs do not introduce evidence showing otherwise. Regarding the effectiveness of sanctions other than dismissal, monetary sanctions against a small company would severely punish Defendants for any alleged misconduct as Soto Massini does not possess massive revenue stream. Regarding the effectiveness of sanctions other than dismissal, again, monetary sanctions would substantially punish Defendants, if this Court determines Defendants indeed engaged in any misconduct.

However, it is questionable how culpable Defendants even are in this present dispute. Plaintiff claims that Mr. Pichler "repeatedly made misrepresentations under oath by denying the existence of . . . evidence." Yet Plaintiff does not show how these alleged "misrepresentations" were willful or made in bad faith. As addressed above, Mr. Pichler is one man trying to run a corporation on his own. *See* Pichler Decl. ¶ 8. Mr. Pichler did his best to produce everything Defendants have, and if he said a document did not exist, then either it does not exist, it is not within Defendants reasonable possession, or it truly was a mistake not in proportion with any default judgment. *See* Pichler Decl. ¶ 10. Plaintiff has not introduced any evidence that shows that Mr. Pichler would lie under oath, or act in bad faith to hide or withhold discovery. On the contrary, Mr. Pichler has been as forthcoming and open throughout this process as he could possibly be. Any discrepancy between Mr. Pichler's deposition testimony and the documents produced can easily be attributed to an honest mistake, not a willful lie made in bad faith.

A default finding of infringement in this case is far too severe a penalty if this Court determines Defendants violated the prior order. As stated above, Defendants' conduct was proper; however, even if this Court determines there was misconduct, it was certainly not willful,

and was at most mere negligence. An order finding infringement would be catastrophic to Defendants' case, and would be supremely heavy-handed in comparison to this minor discovery dispute. If any non-compliance occurred, it was for a very short duration. As soon as Defendants were made aware of Plaintiff's complaints about discovery misconduct, Defendants immediately sought to remedy the situation. Further, while Defendants were indeed warned by this Court that sanctions would be imposed if it did not comply with discovery, Defendants were not warned of any potential default or order of infringement. However, even if Defendants were warned of such severe consequences, Defendants' conduct would not have been any different because Defendants have done all they possibly could to comply with the court's order. *See* Pichler Decl. ¶ 11. Thus, this Court should not order a finding of infringement.

C. **No Adverse Jury Instruction Would Be Proper**

Similar to orders of default, adverse jury instructions are rare and reserved for extreme circumstances, such as a, "complete and utter failure to produce e-mails responsive" to a proponent's document requests. Another example where adverse jury instructions can be given is when a party's actions, "were 'part of [a] sordid scheme of deliberate misuse of the judicial process' designed 'to defeat [a] claim by harassment, repeated and endless delay, mountainous expense and waste of financial resources.'" *Chambers v. NASCO, Inc*., 501 U.S. 32, 56–57, 111 S. Ct. 2123, 2139, 115 L. Ed. 2d 27 (1991). Further, monetary sanctions are the only appropriate remedy when, "noncompliance with the discovery order was therefore neither in bad faith nor willful." *McLaughlin v. Phelan Hallinan & Schmieg, LLP*, 756 F.3d 240, 245 (3d Cir. 2014).

As addressed above, adverse jury instructions are "drastic" in nature should not be used unless all other options have been explored. Plaintiff has not shown that Defendants are involved in a "sordid scheme" intended to misuse the judicial process. Contrarily, Defendants

have done their utmost to comply with all discovery requests and court orders. Plaintiff has not shown that any alleged misconduct was done willfully in bad faith. Again, as addressed above, if Defendants unwittingly engaged in discovery misconduct, it was, at most, due to minor negligence; there was no willfulness, nor bad faith, and Plaintiff has failed to prove either of these factors. Indeed, "gross or even simple negligence on the part of a noncomplying party or its attorney can be sufficient basis for imposition of the less severe sanctions." *In re Tutu Wells Contamination Litig.*, 162 F.R.D. 46, 63 (D.V.I.), opinion clarified, 162 F.R.D. 81 (D.V.I. 1995).

The Third Circuit outlines a three prong test to determine if adverse jury instructions are warranted: ""(1) the degree of fault of the party who altered or destroyed the evidence; (2) the degree of prejudice suffered by the opposing party; and (3) whether there is a lesser sanction that will avoid substantial unfairness to the opposing party and, where the offending party is seriously at fault, will serve to deter such conduct by others in the future." *Id.*

First, as stated above, Defendants complied with this Court's discovery order. However, even if this Court determines Defendants did not substantially comply with the order, Plaintiff has not shown that Defendants "altered" or "destroyed" evidence, negating the first prong. Second, Plaintiff has failed to show they have been prejudiced. Plaintiff makes the grandiose claim that "Defendants have made it impossible for this Court to ascertain the full extent of harm caused by their infringement." Plaintiff has received thousands of documents from Defendants, and has had ample time to review these documents. Furthermore, Plaintiff cannot be prejudiced by lack of documents if the documents are not in Defendants' possession, custody, or control, or do not even exist at all. If Plaintiff feels that it cannot properly prosecute its claims against Defendants, that is Plaintiff's fault alone, and not the result of Defendants' conduct. Regarding the third and final prong, there are certainly lesser sanctions available (i.e. monetary sanctions)

that will "avoid substantial unfairness." Plaintiff fails to satisfy all three of the aforementioned prongs, and adverse jury instructions should not be given. If adverse jury instructions are imposed, Defendants will be severely prejudiced and will suffer a massive uphill climb to be able to prove its case.

Further, Plaintiff has not shown that Defendants are involved in a "sordid scheme" intended to misuse the judicial process. Defendants have done their utmost to comply with all discovery requests and court orders. Plaintiff has not shown that any alleged misconduct was done willfully in bad faith. Again, as addressed above, if Defendants unwittingly engaged in discovery misconduct, it was due to minor negligence; there was no willfulness nor bad faith, and Plaintiff has failed to prove either of these factors.

Plaintiff argues that it cannot adequately prosecute its case and has been prejudiced by this discovery dispute. Yet the only allusion Plaintiff makes as to why the requested documents are relevant relates to the alleged customer emails. Plaintiff says the emails "are highly-relevant to Gavrieli's trade dress infringement claims because they confirm not only that customers associate the blue outsole design with Tieks (demonstrating secondary meaning), but also that they were actually confused by Defendants' unauthorized use of the trade dress." This argument is tenuous at best and does not solidly establish relevance. It is extremely common for people to use a shoe from one company to help with the sizing of a shoe from another company. Walk into any shoe store throughout the United States, and one might likely hear a salesperson say, "Nikes run small, order a half size larger." Certainly, this information alone it is not enough to confer secondary meaning or customer confusion.

Lastly, granting adverse jury instructions at this juncture would be premature. Pre-trial sanctions of this nature are unwarranted because of, "the possibility that a spoliation inference

will be given to the jury. The availability of that instruction will depend upon the proofs adduced at trial. Since the content of a jury instruction is normally formulated after the conclusion of evidence, or at least during trial, see Fed. R. Civ. P. 51, it would be premature, in the absence of a judicial determination of defendant's misconduct at this pretrial stage, to conclude that the spoliation instruction will actually be given. *Scott v. IBM Corp*., 196 F.R.D. 233, 250 (D.N.J. 2000), as amended (Nov. 29, 2000). Further, a "a reasonable factfinder could also conclude that the absence of these documents is innocent". *Id.* This is simply not the right time, nor juncture to grant Plaintiff jury instructions because there are so many more facts that will be introduced at trial that could (and likely will) tremendously change the landscape of this case.

Adverse jury instructions should still not be given in this because of their extreme nature, the minimal culpability (if any) by Defendants, and the severe prejudice that would be imposed on Defendants.. Thus, this Court should deny Plaintiff's request.

D. No Sanctions Should Be Applied to Mr. Pichler

Mr. Pichler is not trying to hide behind a "paper company," as Plaintiff argues. Soto Massini is a very small and new corporation, so it is unavoidable that Mr. Pichler is the main individual responsible for corporate activities. This alone, however, does not mean Mr. Pichler should be held jointly and severally liable for any potential sanctions levied against Soto Massini. Plaintiff relies on *In re Bear Stearns Companies, Inc. Sec., Derivative, & Erisa Litig*., 308 F.R.D. 113 (S.D.N.Y. 2015) in an attempt to confer joint and several liability on Mr. Pichler, but Plaintiff's reliance on this case is misplaced. In *Bear Stearns*, the sanctioned individual was an alter-ego of a corporation who failed "to appear for a deposition." *Id.* at 120. The court held that because of "Koegel's position of complete control over the corporation, the failure of [the

corporation] to appear at the deposition could properly be considered to be the failure of the party Koegel to appear at his deposition." *Id.* at 120-21.

Failure to appear at a deposition is hardly the same as the present discovery dispute. It is not as if Mr. Pichler did not produce any documents or fail to appear at his deposition. In *Bear Stearns,* the principal essentially prevented the party from obtaining ***any*** discovery by failing to appear in a personal capacity and as the agent for his company. Whereas in this case, at worst, Plaintiff did not receive a mere smattering of cumulative and/or duplicative documents. Mr. Pichler has fully, or at least substantially, complied with all discovery requests and court orders. In addition, the documents being sought are not Mr. Pichler's personal documents; they are Soto Massini's corporate documents. Plaintiff also fails to argue that Soto Massini is in some way undercapitalized, which could prevent the corporation from satisfying any potential sanctions. Thus, even if monetary sanctions are ultimately imposed (which they should not be), Mr. Pichler should not be held jointly and severally liable with Soto Massini.

Conclusion

Defendants have provided Plaintiff with all the requested documents in Defendants' possession, custody, and control. If Plaintiff is not in possession of any document it requested, this is because the document either does not exist, is not within Defendants' possession, custody, or control, or Plaintiff already has it from another source. Thus, Defendants request that this Court deny Plaintiff's motion in its entirety. If, however, this Court determines a sanction is appropriate, Defendants respectfully request that any sanction not include any default or other severe evidentiary sanction as requested by Plaintiff, which would be far too extreme given the circumstances of this dispute.

Respectfully submitted,

Dated: March 29, 2019

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