UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

LIFEGUARD LICENSING CORP. and POPULARITY PRODUCTS, LLC, Plaintiffs, - against - JERRY KOZAK, ANN ARBOR T-SHIRT COMPANY, LLC, and RICHARD WINOWIECKI, Defendants.	15 Civ. 8459 (LGS)(JCF) MEMORANDUM AND ORDER

JAMES C. FRANCIS IV
UNITED STATES MAGISTRATE JUDGE

Just as a plaintiff may not take discovery regarding unpled claims, so a defendant is precluded from seeking discovery concerning unpled defenses. This is an intellectual property dispute over the use of the trademark designation LIFEGUARD on various types of apparel. The defendants -- Ann Arbor T-Shirt Company, LLC ("Ann Arbor"), Jerry Kozak, and Richard Winowiecki -- now move for an order (1) compelling the plaintiffs -- Lifeguard Licensing Corp. ("Lifeguard Licensing") and Popularity Products, LLC ("Popularity") -- to produce all requested discovery material; (2) compelling the plaintiffs to use a third-party vendor to search and produce responsive electronically-stored information; (3) compelling the plaintiffs to use a third-party vendor to search and produce responsive tangible materials; (4) compelling the

plaintiffs to produce responsive documents in the possession of their prior counsel; (5) compelling the plaintiffs to reappear for their depositions to testify about documents that have allegedly been improperly withheld; and (6) granting sanctions, including dismissal of the action and an award of costs.

For the following reasons, the motion is granted in part and denied in part.

Background

Lifeguard Licensing owns the federal trademark registrations for the designations LIFEGUARD and LIFE GUARD for use on swim trunks, men's underwear, and T-shirts. (Complaint ("Compl."), ¶ 19). Lifeguard Licensing has granted Popularity an exclusive license with respect to the marks for T-shirts. (Compl., ¶ 22).

On September 25, 2015, Ann Arbor received a cease-and-desist letter from Lifeguard Licensing, threatening litigation if Ann Arbor did not halt its sale of shirts featuring the word "Lifeguard." (Declaration of Thomas P. Heed dated April 7, 2016 ("Heed Decl."), ¶ 12). When the parties were unable to resolve their differences amicably, Ann Arbor commenced a declaratory judgment action in the United States District Court for the Eastern District of Michigan, Docket No. 4:15-cv-13647. (Heed Decl., ¶¶ 13, 19). In that case, Ann Arbor sought a declaration that, among other things, its use of the word "Lifeguard" was strictly

functional; the mark LIFEGUARD is generic; and the use of the word "Lifeguard" on T-shirts is a fair or descriptive use, and therefore not infringing. (Heed Decl., ¶¶ 14-16). Lifeguard Licensing and Popularity were served with the complaint in the Michigan action on October 19, 2015. (Heed Decl., ¶ 20).

On October 27, 2016, the plaintiffs commenced the instant action for infringement in this court. Lifeguard and Popularity filed a motion to dismiss the Michigan action on November 28, 2016, and, two days later, the defendants moved to dismiss this case. On December 17, 2015, the initial pretrial conference in this action was held by telephone before the Honorable Lorna G. Schofield, U.S.D.J. Counsel discussed with the court the dueling lawsuits as well as the impact of the pending motion to dismiss on any discovery schedule. Judge Schofield stated:

> I do not extend discovery or stay actions generally because of the pendency of a motion to dismiss, and so I'm not doing that here. Particularly, since it seems as though there's a bona fide dispute between the parties, you're going to have to exchange discovery in any event regardless of where this case proceeds.

(Transcript of telephone conference dated Dec. 17, 2015, attached as Exh. E to Heed Decl., at 11).

Thereafter, the defendants served requests for the production of documents on Lifeguard Licensing and on Popularity and scheduled the depositions of the plaintiffs. (Defendant's [sic] First Rule

34 Request for the Production of Documents [to Popularity], attached as Exh. A to Heed Decl.; Defendant's [sic] First Rule 34 Request for the Production of Documents [to Lifeguard Licensing], attached as Exh. B to Heed Decl.). The plaintiffs responded to both sets of requests. (Plaintiff Popularity Product [sic] LLC's Responses to Defendants' Demand for Discovery and Inspection, attached as Exh. C to Heed Decl.; Plaintiff Lifeguard Licensing Corporation's Responses to Defendants' Demand for Discovery and Inspection ("Lifeguard Doc. Resp."), attached as Exh. D to Heed Decl.). The defendants considered the plaintiffs' responses to be deficient and sought to adjourn the plaintiffs' depositions until the dispute could be resolved, but the plaintiffs declined.

On April 5, 2016, the Michigan action was dismissed for lack of personal jurisdiction, and on April 7, 2016, the defendants filed the instant motion. I will address the specific discovery demands and responses in more detail below.

Discussion

A. Discovery Concerning Defenses

According to the defendants, "[t]his motion presents the simple question of whether plaintiffs should be permitted to file a lawsuit and then, due to the pendency of a pre-answer motion to dismiss, refuse to produce (or even search for) discoverable information relevant to the defendants' likely defenses and

counterclaims." (Defendants' Memorandum of Law in Support of Motion to Compel Production of Documents from Plaintiffs Lifeguard Licensing Inc. and Popularity Products LLC ("Def. Memo.") at 1). On that basis, the defendants contend that they are entitled to discovery of information that would go to possible defenses of "genericness, descriptive use, functional use, and naked licensing." (Def. Memo. at 7).

Prior to December 1, 2015, Rule 26(b)(1) contained a two-tier definition of the scope of discovery. First, "[p]arties may obtain discovery regarding any nonprivileged matter that is relevant to any claim or defense . . . ." Fed. R. Civ. P. 26(b)(1). Second, "[f]or good cause, the court may order discovery of any matter relevant to the subject matter involved in the action." Fed. R. Civ. P. 26(b)(1) (amended 2015). The 2015 amendments, however, deleted the second tier, so that discovery now extends only as far as information relevant to claims or defenses. Fed. R. Civ. P. 26 advisory committee's note to 2015 amendment ("The amendment deletes the former provision authorizing the court, for good cause, to order discovery of any matter relevant to the subject matter involved in the action.").

Even before 2015 amendment, it was well-established that information relevant only to claims not yet pled was beyond the scope of discovery, at least without leave of court. Thus, in

United States v. $17,980.00 in United States Currency, No. 3:12-cv-1463, 2014 WL 4924866 (D. Or. Sept. 30, 2014), a forfeiture case, the court reasoned:

> A party must be able to rely on its opponent's pleadings in guiding discovery. See McHenry v. Renne, 84 F.3d 1172, 1177-78 (9th Cir. 1996) (providing that an affirmative pleading must "fully set[] forth who is being sued, for what relief, and on what theory, with enough detail to guide discovery."). Thus, the fact that Plaintiff arguably had notice of Claimant's allegation of factual ownership of the Defendant Currency does not mitigate the prejudice to Plaintiff in relying on Claimant's pleading of a possessory interest while conducting discovery. To hold otherwise would force parties to conduct often wasteful discovery on myriad unpled, but arguably factually-plausible claims.

Id. at *4. Similarly, another court explicitly stated that the federal rules prohibit discovery on unpled claims. Altman v. Ho Sports Co., No. 1:09-CV-1000, 2010 WL 4977761, at *2 (E.D. Cal. Dec. 2, 2010); see also 246 Sears Road Realty Corp. v. Exxon Mobile Corp., No. 09 CV 889, 2012 WL 4174862, at *8 (E.D.N.Y. Sept. 18, 2012) (noting that court had denied discovery of unpled fraud claims); Travelers Insurance Co. v. Broadway West Street Associates, 164 F.R.D. 154, 158 (S.D.N.Y. 1995).

There are sound reasons for limiting discovery to claims that have been pled, and those reasons apply with full force to defenses as well. First, it would be a waste of resources to devote discovery to issues that may never be addressed in the litigation. Second, a party and its attorney must have conducted "an inquiry

reasonable under the circumstances" before filing a pleading. Fed. R. Civ. P. 11(b). Permitting discovery on unpled claims or defenses would dilute this obligation by permitting a party to file one plausible claim and then take discovery on any tangentially related potential claims before deciding whether to actually assert them. Finally, and perhaps most significantly, Rule 26(b)(1) makes no distinction between claims and defenses; to be discoverable, information must be "relevant to a party's claim or defense." And the plain language of the Rule does not provide for discovery of "likely," "antcipated," or "potential" claims or defenses.

Nevertheless, the defendants contend that Judge Schofield has already permitted the discovery sought. They reason that: they had raised the defenses as to which they now seek discovery as affirmative claims in the Michigan action; the pendency of the Michigan action was discussed with Judge Schofield; and Judge Schofield recognized that the defendants "had the right to discovery issues germane (1) to their eventual defenses in this suit; and (2) to their Michigan Action." (Def. Memo. at 3-4). This syllogism fails in a number of respects. First, the Michigan Action has been dismissed, so there is no extant pleading to which the defendants can tie their requested discovery. Second, Judge Schofield said nothing about the scope of discovery in this action. Rather, she observed that because the parties would eventually have

to exchange discovery in one forum or the other, she would not stay discovery here during the pendency of the motion to dismiss in this action. Now that the Michigan Action has been dismissed, the pleadings in this case define the scope of discovery.

Finally, the defendants complain that it is inequitable for the plaintiffs to be able to take discovery on their claims while the defendants are delayed in seeking information to support potential defenses. This is a problem of the defendants' own making. Whatever their strategic reasons for moving to dismiss before answering, nothing precluded the defendants from filing an answer together with their motion to dismiss, asserting any available defenses, and thereby providing the predicate for the discovery they seek.

To be sure, Rule 12(b) provides that a motion raising certain defenses, including a defense of lack of personal jurisdiction such as the defendants asserted here, "must be made before pleading if a responsive pleading is allowed." Nevertheless, "[a]lthough Fed. R. Civ. P. 12(b) encourages the responsive pleader to file a motion to dismiss before pleading, nothing in the rule prohibits the filing of a motion to dismiss with an answer . . . ." Beary v. West Publishing Co., 763 F.2d 66, 68 (2d Cir. 1985). Nor does the rule prohibit filing the answer after a motion to dismiss has been filed but before it has been decided. See Hicks v. City of

Vallejo, No. 2:14-cv-669, 2015 WL 3403020, at *1 & n.2 (E.D. Cal. May 27, 2015) (noting that where defendant submitted answer while motion to dismiss pending, only consequence was that motion should technically be considered motion for judgment on the pleadings pursuant to Rule 12(c)).

Accordingly, the defendants' motion is denied insofar as it seeks to compel discovery responses related to the unpled defenses of genericness, naked licensing, descriptive use, or functional use.

B. Plaintiffs' Search for Responsive Documents

Next, the defendants seek an order requiring the plaintiffs to engage third-party vendors to search both the plaintiffs' electronically stored information ("ESI") and their hard copy document respositories. According to the defendants, the plaintiffs' search has been deficient, and, in some instances, non-existent. (Def. Memo. at 8-10). The plaintiffs, in turn, argue that where they have not produced documents, it is because (1) they have already disclosed what they have; (2) they possess no responsive materials; or (3) they have asserted valid objections. (Declaration of Gerald Grunsfeld dated April 21, 2016 ("Grunsfeld Decl."), ¶ 12).

The problem with the plaintiffs' argument is that they do not appear to have conducted a search sufficient to make confident

representations concerning the completeness of their production. There is, of course, no obligation to search sources that are reasonably certain not to contain responsive information. And, depending upon the size of an organization, the knowledge of the information custodians, and the extent to which documents are properly labeled and segregated, a party may be able to represent that a particular email account or server or file cabinet contains no relevant documents. But that is not the case here. For example, Lifeguard Licensing has communicated with Popularity by email (Deposition of Ruben Azrak dated March 10, 2016 ("Azrak Dep.") at 142-43; Deposition of Benjamin Tebele dated March 11, 2016 ("B. Tebele Dep.") at 31-32; Deposition of Daniel Tebele dated March 11, 2016 ("D. Tebele Dep.") at 13-14), yet no search was conducted of the computers of either company (Azrak Dep. at 183; B. Tebele Dep. at 79-80; D. Tebele at 39-40), nor of the phones of Lifeguard Licensing's principal and Popularity's principal, which are sometimes used for email communication (Azrak Dep. at 142, 183; B. Tebele Dep. at 31, 79). Similarly, the principal of Popularity indicated that no search was conducted of the filing cabinet in which that company maintains copies of its licensing agreements with Lifeguard Licensing. (B. Tebele Dep. at 25).

The plaintiffs must therefore conduct a further search for responsive documents of both their physical filing systems and

their electronic document repositories. These searches shall not be conducted, however, until the parties have met and conferred with respect to the proper scope of the defendants' document requests. There is no basis for requiring the searches to be conducted by third-parties, as the flaws in the plaintiffs' prior search do not relate to any technical incompetence nor to any demonstrated attempt to secrete evidence.

C. Possession, Custody, or Control

The plaintiffs have objected to producing documents relating to prior litigations, partly on the basis that those materials are not in their possession, but, instead, in the possession of their prior counsel, Pryor & Cashman. (Lifeguard Doc. Resp. No. 12; Def. Memo. at 11; Def. Reply at 5). However, "[u]nder Fed. R. Civ. P. 34, which governs the production of documents during discovery, the clear rule is that documents in the possession of a party's current or former counsel are deemed to be within that party's 'possession, custody and control.'" MTB Bank v. Federal Armored Express, Inc., No. 93 Civ. 5594, 1998 WL 43125, at *4 (S.D.N.Y. Feb. 2, 1998) (emphasis omitted); accord Polanco v. NCO Portfolio Management, No. 11 Civ. 7177, 2013 WL 3733391, at *2 (S.D.N.Y. July 15, 2013); CSI Investment Partners II, L.P. v. Cendant Corp., No. 00 Civ. 1422, 2006 WL 617983, at *6 (S.D.N.Y. March 13, 2006); Johnson v. Askin Capital Management, 202 F.R.D. 112, 114 (S.D.N.Y. 2001).

Therefore, to the extent that the requested documents are in the possession of Pryor & Cashman and are not otherwise subject to a proper objection, the plaintiffs shall produce them.

D. Continued Depositions

The defendants' application to compel the plaintiffs to reappear for continued depositions is denied without prejudice to being renewed after the production of additional documents as required by this order. At that time, the defendants should be able to demonstrate with greater specificity the need to depose any witness concerning newly-produced information.

E. Sanctions

The discovery deficiencies alleged by the defendants would not, under any circumstances, justify severe sanctions such as dismissal of the action. See Agiwal v. Mid Island Mortgage Corp., 555 F.3d 298, 302 (2d Cir. 2009) (holding that harsh sanctions such as default and dismissal reserved for extreme situations); see also Shcherbakovkiy v. Da Capo Al Fine, Ltd., 490 F.3d 130, 140 (2d Cir. 2007) (noting that "the severity of sanction must be commensurate with the non-compliance").

Nor, in this circumstance, are the defendants entitled to the costs incurred in filing their motion. When a court grants a motion to compel discovery, "the court must . . . require the party . . . whose conduct necessitated the motion, the party or attorney

advising advising that conduct, or both to pay the movant's reasonable expenses incurred in making the motion, including attorney's fees." Fed. R. Civ. P. 37(a)(5)(A). However, the court "must not order this payment if . . . the opposing party's nondisclosure, response, or objection was substantially justified." Fed. R. Civ. P. 37(a)(5)(A)(ii). In this case, the plaintiffs' position, even where I have rejected it, had a substantial justification. Moreover, any award of fees to the defendants would be offset by the fees to which the plaintiffs would be entitled by virtue of having prevailed on other issues. Fed. R. Civ. P. 37(a)(5)(B), (C). Accordingly, no costs or fees will be awarded to any party in connection with this motion.

Conclusion

For the reasons set forth above, the defendants' motion to compel discovery (Docket no. 55) is granted in part and denied in part. Within one week of the date of this order, counsel shall meet and confer with respect to the scope of discovery generally and the plaintiffs' objections to the defendants' document demands in particular. Within three weeks thereafter, the plaintiffs will conduct the further searches required by this order and produce responsive documents.

SO ORDERED.

JAMES C. FRANCIS IV
UNITED STATES MAGISTRATE JUDGE

Dated: New York, New York
May 23, 2016

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