UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

GUGGENHEIM CAPITAL, LLC, *et al.*, *Plaintiffs*, - *vs.* - CATARINA PIETRA TOUMEI, *et al.*, *Defendants*.	CIVIL ACTION NO. 10 cv 8830 (PGG)

MEMORANDUM OF LAW IN OPPOSITION
TO PLAINTIFFS' MOTION FOR
BOND FOR COSTS ON APPEAL

Ronald D. Coleman (RC 3875)
GOETZ FITZPATRICK LLP
One Penn Plaza—Suite 4401
New York, NY 10119
212-695-8100
rcoleman@goetzfitz.com
Attorneys for Defendants
David Birnbaum and Dabir International, Ltd.

PRELIMINARY STATEMENT

Defendants David Birnbaum and Dabir International, Ltd. ("defendants") submit this response in opposition to plaintiffs' motion for an order requiring defendants to file a bond in amount of "no less than $100,000" to cover costs on appeal. The Court should deny this cynical motion, made by plaintiffs in full awareness of the fact that defendants do not have the money to post such a bond. The statements in their submissions to the contrary, pretending ignorance of this Court's order of March 29, 2011 authorizing defendant Birnbaum to proceed in this case *in forma pauperis*, can only have been submitted in bad faith. The case authority relied on by plaintiffs is largely inapplicable to this situation.

Plaintiffs top off their misleading, make-work submission by a final reference to the "fact" – really, a half-truth – that Mr. Birnbaum was prosecuted for the same acts that form the basis of the judgment in this action. It is in fact less than a half-truth because those charges were **dismissed** nearly two weeks before plaintiffs filed their papers, a fact plaintiffs did not see fit to acknowledge even in a footnote. This omission speaks volumes.

The Court should deny plaintiffs' motion, filed a tactic to add extra work to defendants' already onerous task in preparing their appeal and responding to their pending motion for the award of a fortune in attorneys' fees against a man and a company with no assets and no income.

STATEMENT OF FACTS

Defendants rely on the empirical facts reported in plaintiffs' memorandum of law regarding the procedural history of this case. There is no need, despite plaintiffs' evident joy in doing so, to rehash that history given the Court's familiarity with the facts and circumstances.

Defendants note one fact omitted by plaintiffs that is material to consideration of various factors before the Court, however. As set forth in the accompanying Declaration of David Birnbaum filed herewith, on September 9, 2011 the criminal charges filed by the United States Attorney against this defendant arising out of the same alleged wrongs that form the basis of this civil action were dismissed.

Additionally, the Court is respectfully reminded of the Court's finding that there is no evidence that defendants reaped any profit from their infringing conduct. Order dated July 15, 2011 (Docket No. 102) at 6.

LEGAL ARGUMENT

PLAINTIFFS ARE NOT ENTITLED TO A BOND FOR COSTS ON APPEAL UNDER THE APPLICABLE LEGAL STANDARDS.

Plaintiffs correctly state that this Court has discretion to order an appeal bond under Fed. R. App. P. 7 and lay out the appropriate test as found in myriad cases. "District courts determining whether an appeal bond is appropriate consider the following factors: (1) the financial ability of the appellants to post the bond; (2) the risk of the appellants' non-payment if the appeal is unsuccessful; (3) the merits of the appeal; and (4) whether the appellants have shown any 'bad faith or vexatious conduct.'" *Curtis & Associates, P.C. v. Law Offices of David M. Bushman, Esq*., 09-CV-890 KAM RER, 2011 WL 917519 (E.D.N.Y. Mar. 9, 2011). We consider each of these in turn and suggest why the Court should reject plaintiffs' motion.

Plaintiffs leap from the legal truism that a party's ability to post a bond is presumed to the

conclusion that nothing in the record rebuts that presumption. They can only do so, however, by actually ignoring the record, and relying on cases in which, unlike this one, the appellant has, after full briefing, not submitted evidence regarding ability to pay. In *Paladino v. DHL Express (USA), Inc.*, 07 CV 1579 DRH ARL, 2011 WL 1344009 (E.D.N.Y. Apr. 8, 2011), for example, no affidavit or other documentation was submitted to support the appellant's claimed inability to post a bond. Similarly, in *Baker v. Urban Outfitters, Inc.*, 01 CV 5440 LAP, 2006 WL 3635392 (S.D.N.Y. Dec. 12, 2006), also relied on by plaintiffs, the Court noted that "Baker has submitted no financial information, and thus I conclude that he is not arguing that he does not have the financial ability to post a bond." Additionally, one party in that case was not a U.S. resident, a factor considered by the Court in entering the unusual $50,000 bond requirement for him, and – significantly, as discussed further below – the entire litigation had been initiated by the appellants and found to be meritless and vexatious by the Court in opinion found at 431 F. Supp. 2d 351 (S.D.N.Y. 2006) *aff'd*, 249 F. App'x 845 (2d Cir. 2007).

Here, however, Mr. Birnbaum has submitted both a successful IPF application, a successful CJA Form 23 application for pro bono representation in the criminal action, as well as a declaration with respect to his current economic condition filed along with this memorandum of law (Declaration of David Birnbaum, hereinafter "Birnbaum Decl."). He is a U.S. resident who lives in this District, and unlike the appellants who were required to file a bond in *Baker,* Mr. Birnbaum did not file a meritless claim stretching out beyond three years. He is a defendant. While here the Court has, regrettably, made harsh findings regarding vexatiousness and bad faith on Mr. Birnbaum's part, defendants respectfully submit that the pendency of the now-dismissed criminal charges against Mr. Birnbaum, his reliance on criminal counsel regarding the various defaults in this case and his role as a defendant, not a plaintiff, in this action make simple

comparison to *Baker* inappropriate.

As to the decision in *Paladino*, Mr. Birnbaum reasonably relies in part on the Court's entry of an order authorizing him to proceed *in forma pauperis* in this action, as the appellant did in *Paladino*; there, however, the similarity ends. There the Court understandably rejected as legally insignificant the mere representation by counsel that the plaintiff had submitted a financial affidavit in support of a motion to proceed on appeal *in forma pauperis* and that counsel was advised that the financial situation had not changed. In contrast, not only has Mr. Birnbaum submitted a first-person declaration testifying under penalty of perjury regarding his inability to pay, but in this case there was not merely an IFP application – Mr. Birnbaum was and remains authorized to proceed *in forma pauperis*.

On that note it is worth addressing plaintiffs' absurd suggestion that the payment of a $450 filing fee is probative of a party's ability to post a $100,000 bond, partly based on language not relied on in the otherwise inapposite opinion in *Paladino*. Under Fed. R. App. P. 24(a)(3), "A party who was permitted to proceed *in forma pauperis* in the district-court action, or who was determined to be financially unable to obtain an adequate defense in a criminal case, may proceed on appeal *in forma pauperis* without further authorization," barring circumstances not present here. Both circumstances are present here, as set out in the Birnbaum Declaration – Mr. Birnbaum was both assigned CJA counsel in the related criminal action and was authorized to proceed in this case on an IFP basis. The payment of the fee despite these considerations was one made by counsel, as described in the declaration of counsel filed herewith. In any event the suggestion that the financial wherewithal to post a $100,000 bond may be deduced from the ability to pay a $450 completely beggars all sense.

In fact, "a Rule 7 bond is designed to protect the amount the appellee stands to have

reimbursed, not to impose an independent penalty on the appellant." *Fleury v. Richemont N. Am., Inc.*, C-05-4525 EMC, 2008 WL 4680033 (N.D. Cal. Oct. 21, 2008) (internal quotes omitted). Thus while it is true that the Court may deduce from the fact that defendants here are unable to pay the existing judgments entered against them that they also could not pay any costs assessed on this appeal, it is also true that following this reasoning to its logical conclusion would eviscerate the first factor the Court must consider: The party's ability to post a bond. If it were the case that every party against which a judgment is entered that exceeded its ability to pay were required to post a bond for costs that also exceeded its resources in order to appeal, appeals would be available only to the wealthy. This is not the case. As the court explained in *Page v. A. H. Robins Co., Inc.*, 85 F.R.D. 139, 140 (E.D. Va. 1980):

> Rule 7 does not condition the right to an appeal on the filing of an appeal bond.1 Rather, Rule 7 leaves the question of whether a bond should be imposed, and if so, the amount of the bond, to the sound discretion of the district court. These decisions are not without consequence. Requiring too large a bond may have the undesirable effect of discouraging meritorious appeals. Requiring too small a bond, or no bond at all, may encourage frivolous, time-consuming, harassing appeals.

The court in *Page* went on to order that the appellant, which did not have IFP status in the District Court, submit an application to proceed *in forma pauperis* going forward, i.e., on the appeal. *Id*.

Defendants have been unable to locate any reported case in which a District Court did in fact grant an application to a party to proceed i*n forma pauperis*, as here, and yet still imposed the requirement of a bond for costs on appeal under Fed. R. App. P. 7. Plaintiffs have brought no such case to the Court's attention themselves. But addressing a closely-related issue, the Eastern District wrote the following in a trademark infringement case where, the plaintiff sought a bond as security for costs at the trial level pursuant to Local Civil Rule 54.2:

> There is justification for distinguishing between plaintiffs and defendants in the application of this rule, as the above cases seem to recognize. There are times when defendants need protection from the machinations of overzealous plaintiffs who have claims of dubious merit and who, because they are essentially judgment proof, have no incentive to hold down the costs for which they may be held liable. In such situations, the imposition of a bond serves as a tool not only to protect the defendant but also to force the plaintiff to make a fresh cost-benefit analysis concerning the litigation. The situation is entirely different, however, when it is the plaintiff who seeks to impose on a defendant of modest means the obligation to post a bond to cover the plaintiff's potential costs and attorneys' fees, the extent of which are often largely within the plaintiff's ability to control. In such a situation the court must guard against the transformation of this tool into a potentially formidable weapon for forcing a defendant into submission. Indeed, in the case now before the court, where the plaintiff asserts that it has incurred attorneys' fees in excess of $100,000, requiring the defendant to post a bond in that amount could well force the defendant into a default.

Pfizer, Inc. v. Y2K Shipping & Trading, Inc., 207 F.R.D. 23, 25-26 (E.D.N.Y. 2001). Here admittedly the range of future expenses, unlike in the case of a bond for costs at the trial level, – while hugely overstated by plaintiffs, as discussed below – is not primarily within plaintiffs' control. But the Eastern District's fundamental point in *Pfizer* is that a bond for costs is not meant to shatter a party's ability to defend itself and to exhaust its procedural options by imposing on that party a condition it cannot meet. It should not act as one in this procedural setting either.

Indeed, the Court can hardly be unaware of the turn the proceedings have taken here. It is a matter of record that this Court has determined that the defendants, Mr. Birnbaum in particular, have little income and virtually no assets. Mr. Birnbaum testifies that matters now are only worse, not better. Defendants have been assessed with a $1.25 million judgment for torts which, though they deny any unlawful conduct, the Court acknowledges made them not one penny of profit. Now they have been "hit" with serial motions by a financial institution represented by a major law firm for attorneys fees of over half a million dollars on top of that judgment, plus this motion demanding an impossible $100,000 bond for "litigation costs."

Plaintiffs know full well that these defendants cannot satisfy even the underlying judgment here, much less additional costs such as attorneys' fees and appeal bonds. Their obvious purpose is not to secure a fund from which to finance the costs of photocopies and staples, but to utilize endless procedural devices to drain defendants of resources to prosecute their appeal or, better yet, to avoid any consideration of the merits of the appeal by forcing them to abandon it. Notwithstanding the Court's views of the merits of defendants' substantive positions in this litigation, the Court should not be a party to such practice.

This raises the issue, emphasized by plaintiffs, of the supposed lack of merit of defendants' pending appeal. Initially the unjustified claim by plaintiffs that this appeal is "frivolous" must be disposed of. While it is within this Court's discretion to make an initial assessment of the merits of the appeal, it may not impose a bond requirement that anticipates a finding of frivolousness by the Circuit Court of Appeals. As the Fifth Circuit has cautioned:

> There is no provision in the rules of procedure for a district court to predict that an appellate court will find an appeal frivolous and to set a bond for costs on appeal based on an estimate of what "just damages" and costs the appellate court might award. We have observed that Rule 38 only allows an appellate court to impose damages and costs in a frivolous appeal. We have held that "the appellate court is generally better qualified to determine whether an appeal lacks merit." The district court could not use Rule 7 in conjunction with Rule 38 as a vehicle to erect a barrier to [appellant's] appeal in the form of a $150,000 bond for costs on appeal.

Vaughn v. Am. Honda Motor Co., Inc., 507 F.3d 295, 299 (5th Cir. 2007).

As to the merits of the appeal "beyond frivolousness," plaintiffs state, at page 8 of their memorandum of law, that "The Court did not overlook any authorities or facts, and there is no basis whatsoever for reversing the Court's order." It is understandable that plaintiffs would say this, and that the Court might well agree. Defendants, naturally, are in a nearly impossible position on this issue. Nonetheless, rather than attempt to submit a second motion for reconsideration, which would be improper, defendants respectfully submit that the following

factors – unlike the facts and procedural posture found in the cases cited by plaintiffs – should militate in favor of a more charitable view by the Court of the pending appeal than plaintiffs suggest:

- The judgment being appealed is a default judgment. "Strong public policy favors resolving disputes on the merits." *Am. Alliance Ins. Co., Ltd. v. Eagle Ins. Co.*, 92 F.3d 57, 61 (2d Cir. 1996).
- "[D]ismissal with prejudice is a harsh remedy to be used only in extreme situations," *Bobal v. Rensselaer Polytechnic Inst.*, 916 F.2d 759, 764 (2d Cir. 1990). Yet the default judgment was imposed by way of sanction and upon a motion by plaintiffs against an unrepresented party who had repeatedly sought a stay of the action due to pending criminal charges, and with little or no attempt to impose lesser sanctions tailored to the circumstances.
- The default judgment was entered only three months after the motion for default judgment – a relatively short period of time under the circumstances – against a party not represented by counsel and acting on advice of criminal counsel. See, *Pecarsky v. Galaxiworld.com Ltd.*, 249 F.3d 167, 172 (2d Cir. 2001) (noting typical amount of time afforded between filing of motion for default motion and granting of the same, and observing that defendant's "inability to find new counsel is not surprising, and its failure to appear cannot accurately be described as willful").
- The Court relied on, and made reference to, the criminal charges against Mr. Birnbaum at numerous points in its Default Judgment opinion of July 15, 2011 (Docket No. 102). Even accepting the premise that the mere filing of criminal against a party is a legitimate factor to weigh when considering the merits of a civil case or the severity of sanctions to

be entered against that party, those charges have been dismissed.

- In light of the dismissal of the criminal charges against Mr. Birnbaum only a month ago, the question of the Court's exercise of its discretion in refusing to enter a stay of the proceedings in this action pending resolution of the criminal complaint against Mr. Birnbaum can certainly be seen in a different light. As this Court has observed,

> That the Constitution does not prevent litigants from prosecuting civil and criminal actions does not mean that courts have no power to do so. Rather, it is equally well-established that a court may decide in its discretion to stay civil proceedings when the interests of justice seem to require such action. Courts are afforded this discretion because the denial of a stay could impair a party's Fifth Amendment privilege against self-incrimination, extend criminal discovery beyond the limits set forth in Federal Rule of Criminal Procedure 16(b), expose the defense's theory to the prosecution in advance of trial, or otherwise prejudice the criminal case. A stay may be entered to address the interests of a defendant who faces the choice of being prejudiced in the civil litigation if he asserts his Fifth Amendment rights or prejudiced in the criminal litigation if those rights are waived. . . .
>
> There is no question that a court has discretion to stay a civil litigation even in favor of a pending investigation that has not ripened into an indictment. Rather, each case must be evaluated individually in a case-by-case determination, with the basic goal being to avoid prejudice. Courts have accordingly exercised their discretion to stay civil forfeiture proceedings even where no party to those proceedings has been indicted.

In re 650 Fifth Ave., 1:08-CV-10934-RJH, 2011 WL 3586169 (S.D.N.Y. Aug. 12, 2011) (citations and internal quotes omitted); *accord*, *In re AOL Time Warner, Inc., Sec. & "Erisa" Litig.*, 02 CV. 5575 (SWK), 2007 WL 2741033 (S.D.N.Y. Sept. 20, 2007).

- There is a split within this Circuit about the propriety of the award of attorneys' fees in addition to statutory damages in trademark counterfeiting cases, as discussed at length in defendants' brief filed in opposition to plaintiffs' attorneys' fees application.

- There is also a legitimate question to be raised, as a matter of substantive trademark law, regarding the sufficiency of the Court's determination, in its default judgment opinion,

that the trademarks in question were "famous" or that this case constitutes a appropriate application of the anticounterfeiting provisions of the Lanham Act.

- The Court found that "there is no evidence that defendants reaped any profit from their infringing conduct," Order dated July 15, 2011 (Docket No. 102) at 6, nor is there any proof of damage to plaintiffs. Yet the Court imposed a $1.25 million judgment against a party it had already found was entitled to proceed *in forma pauperis*. The magnitude of this award of statutory damages is a significant departure from like cases. See, *Lyons P'ship, L.P. v. D & L Amusement & Entm't, Inc.*, 702 F. Supp. 2d 104, 117 (E.D.N.Y. 2010) ("Where the infringement has been shown to be willful, a statutory award should incorporate a compensatory as well as a punitive component to discourage further wrongdoing by the defendants and others. In similar situations courts in this circuit have awarded $25,000 per infringing mark or group of marks.")

It is respectfully submitted that these are among the legitimate issues that are being placed before the Circuit Court of Appeals, and that the Court should not accede reflexively to plaintiffs' insistence that no aspect of the default judgment from which defendants appeal is open amenable to appellate scrutiny.

Finally, while defendants believe the foregoing demonstrates that an order requiring an appeal bond would not be appropriate, it may be necessary, by way of avoiding waiver, to address the question of the phenomenally large amount of the appeal bond sought by plaintiffs – "not less than $100,000." This amount is, according to plaintiffs, for "photocopying, printing, binding, filing and service as well as anticipated attorneys' fees for the appeal." As is typical of plaintiffs' "funny money" approach to awards of costs and fees in this case, plaintiffs have not troubled themselves to separate the portion of this vast sum attributable to copying costs and the

amount attributable to their anticipated attorneys' fees, a category thrown in after office supplies and copies almost as an afterthought. There is a very big difference, however.

Regarding the inclusion of traditional "hard costs" such as copying and the like in the amount of an appeal bond, defendants do not dispute that many of them are properly included. Here, however, there is no trial transcript, there are no trial exhibits, and there is not even a set of summary judgment submissions. The record has been transmitted electronically to the Circuit Court of Appeals and minimal printing costs can be anticipated. These costs can be anticipated as relatively trivial, therefore.

As to attorneys' fees, the cases cited by plaintiffs are of limited application here. The decision in *Adsani v. Miller*, 139 F.3d 67 (2d Cir. 1998) very specifically and carefully tracked the application of the definition of costs under § 505 of Title 17, by which the Copyright Act allows attorney's fees to be levied "as part of the costs." *Id*. at 75. In this case, as set out at length in defendants' brief in opposition to plaintiffs' attorneys' fees submission, there is a legal question whether an award of attorneys' fees in addition to statutory damages for trademark infringement is supported by the law. Furthermore, the amount sought by plaintiffs of "not less than $100,000," even if completely attributed to attorneys' fees, is entirely arbitrary, though not surprising for a litigation team that billed its client approximately $800,000 in fees alone to obtain a default judgment against one *pro se* defendant and two non-appearing ones.

No court has ever authorized a Rule 7 appeal bond in the amount sought here, notwithstanding defendants' "back of the envelope" math by which they conclude that the $50,000 bond awarded in *Tri-Star Pictures, Inc. v. Unger*, 198 F.3d 235 (2d Cir. 1999) should be casually translated to "not less than $100,000" in this case. Plaintiffs' reliance on *Tri-Star*, a true outlier of a decision, is unsurprising, but misplaced. This office subscribes to Westlaw, not

Lexis, and therefore cannot confirm that the decision cited by plaintiffs as 1999 U.S. App. LEXIS 25098 (2d Cir. Oct. 4, 1999) is the same one cited by Westlaw as 193 F.3d 235 and reported as being dated October **6**, 1999. By all indications it is. Either way, *Tri-Star* is an unpublished opinion and has no precedential effect. *See* Second Circuit Court of Appeals Local Rule 32.1.1.

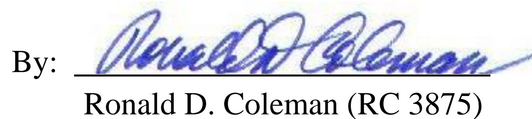
There is no precedent, in fact, for an appeal bond of such magnitude, nor justification for one in circumstances anything like those at bar. Plaintiffs have, by their overreaching by seeking a bond of that size, demonstrated the underlying nature of their motion: to prevent any appeal from proceeding in any way possible.

CONCLUSION

For the foregoing reasons, defendants David Birnbaum and Dabir International, Ltd. pray that the Court deny plaintiffs' motion for an order imposing an appeal bond for costs in the amount of $100,000.

Respectfully submitted,

Goetz Fitzpatrick LLP

By: 
Ronald D. Coleman (RC 3875)

One Penn Plaza—Suite 4401
New York, NY 10119
212-695-8100
rcoleman@goetzfitz.com
Attorneys for Defendants
David Birnbaum and Dabir International, Ltd.

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