New York Law Journal
A NEW YORK LAW JOURNAL SPECIAL SECTION
Litigation
An ALM Publication
WWW.NYLJ.COM
MONDAY, AUGUST 20, 2012

How the Second Circuit Liberalized Rule 11 Sanctions Availability

Reflecting on 'Star Mark Management.'

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ONE OF THE GOALS of the 1993 amendments to the Federal Rules of Civil Procedure was to reduce the frequency of motions and cross-motions for Rule 11 sanctions, in recognition of the time and resources spent litigating such motions. To accomplish these objectives, Rule 11 was amended to require a party, prior to filing a motion for sanctions with the court, to serve the motion on the opposing party and provide a 21-day "safe harbor" period during which the allegedly offending pleading could be withdrawn or amended and the sanctions motion thereby avoided.

Those efforts were largely successful, at least in part because the changes added substantial time and expense to making a sanctions motion. Indeed, the revised process created the real possibility that the opponent's pleading would be amended and the sanctions motion never heard. Thus, over the past two decades, sanctions motion practice has become a relatively small part of litigation in commercial cases in federal court, typically reserved by most practitioners for rare and truly egregious misconduct. In the view of some, this development also improved the civility among litigators, lowering the name-calling and hyperbolic accusations that some lawyers liked to use as weapons in civil litigation.

A recent decision by the U.S. Court of Appeals for the Second Circuit, *Star Mark Management v. Koon Chun Hing Soy & Sauce Factory*,[1] may have the potential to reverse that trend and revitalize Rule 11 sanctions as a weapon in the litigator's arsenal, by severely limiting what must be included in the "motion" to trigger the running of the safe harbor period.

This article examines the practical implications of the *Star Mark* decision, both from the perspective of the potential movant and the potential target of a sanctions motion. We begin by discussing the

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history of Rule 11 and the amendments thereto, then analyzing *Star Mark* and concluding by addressing strategic considerations in sanctions practice.

History of Rule 11

The initial version of Rule 11 was adopted as part of the Federal Rules of Civil Procedure in 1937. It provided simply that every pleading must be signed by an attorney (or by the party itself if unrepresented) and that the attorney's signature was a certification that there were good grounds for the pleading and it was not interposed for delay. The rule further provided that the attorney "may be subjected to appropriate disciplinary action" for a willful violation of the rule or for including "scandalous or indecent matter" in the pleading.[2] The rule did not specify the sanctions that could be imposed, which in any event could only be imposed for a willful violation. Not surprisingly, in this early formulation the rule was seldom used in litigation.

By 1983, the Federal Rules Advisory Committee concluded that "in practice Rule 11 has not been effective in deterring abuses,"[3] and sought to strengthen the Rule. The 1983 Amendment to Rule 11 expanded the certification to include the requirement that the lawyer conduct a "reasonable inquiry" and attest that, to the best of the lawyer's knowledge, information and belief, the pleading was "well grounded in fact" and warranted by existing law or a good faith argument for the extension, modification or reversal of existing law.[4] The 1983 Amendment deleted the willfulness requirement before a sanction could be imposed, provided that the court "shall" impose sanctions on a person found to have violated the rule, and specified that the sanctions may include an award of attorney fees to the party opposing the violative pleading.

Although the Advisory Committee Notes attempted to soften some of these provisions (for example, by clarifying that the rule was "not intended to chill an attorney's enthusiasm or creativity in pursuing factual or legal theories," and that the court should "avoid using the wisdom of hindsight" in deciding sanctions motions),[5] sanctions motion practice proliferated under the 1983 version of Rule 11. While the 1983 version required a motion or the court's own motion before Rule 11 sanctions could be imposed, it became more common for one party to include a motion for sanctions as an additional request for relief in its motion practice.

Thus, in response to receiving the complaint, a defendant's lawyer might send a letter to the plaintiff's attorney asserting that the complaint was frivolous and, if not withdrawn, will subject the attorney to sanctions. Such a letter rarely had the hoped-for effect of withdrawal of the lawsuit, but certainly set the tone for the litigation. Then, when the defendant moved to dismiss the complaint, it would include after its arguments for dismissal an additional argument that the plaintiff's attorney should be sanctioned for filing the complaint without a factual or legal basis. And, in particularly hotly contested litigation, the request for sanctions itself could lead to sanctions litigation, with the adversary responding to the request for sanctions with its own sanctions motion, arguing that the first motion for sanctions itself lacked a factual or legal basis.

Perhaps not surprisingly, within a decade the pendulum had swung back and the Advisory Committee sought to "place[] greater constraints on the imposition of sanctions and…reduce the number of motions for sanctions presented to the court."[6] Among other changes, the 1993 Amendment required that a motion for sanctions "must be made separately from any other motion and must describe the specific conduct that allegedly violates Rule 11(b)." The Rule also provided that the motion must be served pursuant to Rule 5 of the Federal Rules of Civil Procedure, but "must not be filed or be presented to the court" if the challenged contention was withdrawn or corrected within 21 days after service of the motion.[7] Moreover, the Advisory Committees Notes indicate that in addition to the minimum 21-day safe harbor mandated by the Rule, "[i]n most cases…counsel should be expected to give informal notice to the other party, whether in person or by a telephone call or letter, of a potential violation before proceeding to prepare and serve a Rule 11 motion."[8]

'Star Mark' may revitalize Rule 11 sanctions as a weapon in the litigator's arsenal by severely limiting what must be included in the "motion" to trigger the running of the safe harbor period.

The 1993 Amendments had their desired effect. The frequency of Rule 11 motions was reduced significantly over the past two decades.[9] In most cases, it was not seen as an effective expenditure of time by lawyers and thousands of dollars of attorney fees by clients for drafting and fully briefing a motion for sanctions that might never be presented to the court, especially with respect to issues that could be amended by the adversary without affecting the continued viability of the litigation as a whole. While a lawyer still might send a letter to the adversary asserting that the litigation or particular allegations were frivolous and sanctionable, such letters rarely were followed by service of a formal motion for sanctions.[10]

Against this backdrop of a reduction in Rule 11 motion practice because of the appropriate procedural hurdles, the Second Circuit's recent decision in *Star-Mark* may lead to a reinvigorating of sanctions motion practice. As discussed below, the decision substantially reduces what is required to be served to trigger the safe harbor period.

'Star Mark'

Star Mark involved two related trademark litigations in the Eastern District of New York over Koon Chun's and Star Mark's respective hoisin sauces. In the first, Koon Chun accused Star Mark of selling counterfeit versions of Koon Chun's hoisin sauce, and asserted claims for trademark and trade dress infringement. Star Mark threatened to counterclaim in that action for cancellation of Koon Chun's trademark. However, after the magistrate judge expressed skepticism of the viability of the counterclaim, Star Mark opted instead to bring a separate action for cancellation of the trademark. Koon Chun succeeded on its claims of willful infringement in the first action, and the Second Circuit affirmed.[11]

Star Mark nevertheless refused to withdraw its complaint in the second action seeking cancellation of Koon Chun's trademark. After trial of the first action (but prior to the Second Circuit's opinion on appeal), Koon Chun's lawyer sent a letter threatening to seek Rule 11 sanctions in the event Star Mark refused to withdraw its cancellation complaint. The letter contained citations to legal authority and attached a notice of motion specifying six grounds for sanctions, but did not include the memorandum of law or affidavits referenced in the notice of motion.

When Star Mark refused to withdraw the complaint, Koon Chun moved for judgment on the pleadings and for sanctions. The court granted the motion for judgment on the pleadings and the motion for sanctions under Rule 11 (but denied the motion for sanctions under 28 U.S.C. §1927, which requires a higher degree of proof of bad faith or improper purpose before sanctions may be imposed). Despite the magistrate's recommendation of more than $105,000 in sanctions, the court awarded Koon Chun $10,000 after considering the financial condition of Star Mark and its counsel.

On appeal, Star Mark and its counsel argued, inter alia, that the district court erred in imposing Rule 11 sanctions because Koon Chun had not served its "formal" motion, including the memorandum of law

and supporting affidavits, prior to filing the motion and supporting documents with the court.

The per curiam panel of the Second Circuit (Circuit Judges Robert Katzmann and Denny Chin, and U.S. District Judge Lee H. Rosenthal of the Southern District of Texas, sitting by designation) acknowledged that an "informal warning" in a letter unaccompanied by a separate motion is insufficient to trigger the safe harbor period. Nevertheless, the court rejected appellant's argument and affirmed the sanction award because it concluded that the letter and notice of motion were sufficient to meet the literal notice requirements of Rule 11(c)(2). Specifically, the court held that Rule 11 requires service only of "the motion," and makes no mention of service of briefs, affidavits or other supporting documents. The court held that Koon Chun met this procedural hurdle by serving "the motion"—its notice of motion—more than 21 days before filing its notice of motion (then supported by a memorandum of law and affidavits) with the court.[12]

To reach this result, the Court of Appeals had to deal with the fact that Local Civil Rule 7.1(a) requires all motions to be accompanied by a memorandum of law as well as any affidavits necessary to put before the court factual information necessary to its determination. The Second Circuit held that those requirements for actually filing the motion with the court were not incorporated in the notice and safe harbor provisions of Rule 11. Of perhaps greater significance, the court further reasoned that Koon Chun had complied with the spirit of the safe harbor requirement because its letter and notice of motion identified six bases for a sanctions motion. As evidence that the letter and notice of motion provided Star Mark's attorney sufficient information to make a professional judgment whether the complaint in the second action was frivolous and should be withdrawn, the court cited Star Mark's response to the sanctions threat, where its attorney asserted that none of Koon Chun's points had any merit.

Strategic Implications of 'Star Mark'

Whether *Star Mark* represents a changing view about the strictures of Rule 11 practice, or merely a reaction to an extreme set of facts where sanctions seemed appropriate, remains to be seen. Regardless of the ultimate approach to Rule 11, the *Star Mark* opinion has important practical and strategic considerations, of which both the proponent and potential target of a sanctions motion must be aware.

Star Mark is likely to lead once again to an increase in the sending of a "sanctions letter" or a demand that a complaint or particular allegation be withdrawn, coupled with a threat to seek Rule 11 sanctions in the event it is not. Although not part of its legal analysis, the Second Circuit noted that Koon Chun's letter provided citations to relevant legal authority; while perhaps unnecessary, it would be wise for a lawyer relying on the sanctions letter and notice of motion in place of a memorandum of law to do the same.

The lawyer sending the sanctions letter also should include a notice of motion that provides notice to the adversary that sanctions will be sought and identifies with specificity the grounds on which sanctions will be sought. For example, the notice of motion might specify as one ground for a potential sanctions motion that the factual allegation is contrary to facts known to or contained in documents in the possession of the plaintiff, or that the legal theory has been uniformly rejected by controlling appellate courts. Even then, the notice likely will not exceed a page or two and should not be difficult or time consuming to draft. Moreover, using the sanctions letter approach, one need not spend the time and money to prepare a memorandum of law. If the letter has its intended effect, the opposing party will withdraw the offending pleading.

Of course, there is no requirement that a lawyer who sends a sanctions letter, even with a notice of motion, actually follow the letter by filing a motion for sanctions in the event the challenged pleading is not withdrawn or corrected. In light of the relative ease and lesser expense of sending a letter compared to drafting a formal memorandum of law and supporting affidavits, there may be situations where is it appropriate and strategically desirable to send a sanctions letter even if it is unclear or unlikely that a Rule 11 motion actually would follow. Naturally, the lawyer should be careful to avoid a practice of threatening sanctions and not following through, or the strategic value of such a letter will quickly dissipate and that lawyer's threats will simply be ignored. In fact, the practice of such threats might itself be the object of a sanctions motion.

The lawyer who receives the sanctions letter faces a more difficult analysis as a result of *Star Mark*. Prior to the decision, the lawyer could safely disregard the threat of a future sanctions motion as mere litigation posturing. The lawyer might simply ignore the letter, or might respond with a letter of her own, but did not have to consider the possibility of facing sanctions unless a memorandum of law in support of the motion also had been drafted and served.

Now, the lawyer who receives such a letter (which itself is likely to be sent more frequently) must carefully analyze whether there is any risk of sanctions and satisfy herself that there is a sound factual and legal basis at that time for the allegations that have been made and/or the legal theories being pursued. In most instances, the lawyer should not have difficulty concluding that she can proceed with the litigation because she should already have considered the adequacy of the legal and factual foundation for the allegations prior to serving the challenged pleading. But the sanctions letter, rather than a formal motion, will serve as a reminder and second chance for the lawyer to take a fresh look at those issues. In situations where the lawyer has second thoughts about the case after receiving the sanctions letter, it may be wise to consult with ethics counsel or another specialist in the field, whether within the lawyer's firm or independent, before deciding whether to continue with or withdraw from the representation.

Finally, lest defense lawyers believe that *Star Mark* only will affect their practice for the better by making it easier to seek sanctions against a frivolous lawsuit, they should remember that Rule 11 applies equally to pleadings and motions filed by the defense. Thus, it would not be surprising to see an aggressive plaintiff's lawyer—particularly one who has been burdened by the relaxed procedural prerequisites to a sanctions motion—to respond to a motion to dismiss or to what she views as unreasonable denials in an answer with a sanctions letter of her own.

1. 682 F.3d 170 (2d Cir. 2012).
2. Fed. R. Civ. Pro. 11 (1937 version).
3. Advisory Committee Notes, Fed. R. Civ. Pro. 11, 1983 Amendment.
4. Fed. R. Civ. Pro. 11 (1983 version).
5. Advisory Committee Notes, Fed. R. Civ. Pro. 11, 1983 Amendment.
6. Advisory Committee Notes, Fed. R. Civ. Pro. 11, 1993 Amendment.
7. Fed. R. Civ. Pro. 11(c)(2).
8. Advisory Committee Notes, Fed. R. Civ. Pro. 11, 1993 Amendment.
9. The 1993 Amendments expressly carved out discovery requests and responses from Rule 11. Sanctions for discovery violations are governed by Rule 37 of the Federal Rules of Civil Procedure, and motion practice under that rule remains strong, especially with respect to preservation and production of emails and other electronic files.
10. In one case, *Nisenbaum v. Milwaukee County*, 333 F.3d 804, 808 (7th Cir. 2003), the Seventh Circuit held that a detailed letter explaining with specificity the violative conduct was sufficient to trigger the safe harbor because the letter "substantially complied" with Rule 11's requirement that the motion be served at least 21 days before being presented to the court. But *Nisenbaum* was widely criticized in other circuits, which recognized that it ignored the plain language of Rule 11. See, e.g., *Cadle Co. v. Pratt*, 524 F.3d 580, 587-88 (5th Cir. 2008); *Roth v. Green*, 466 F.3d 1179. 1193 (10th Cir. 2006); see also *Brickwood Contractors v. Datanet Eng'g*, 369 F.3d 385, 389 (4th Cir. 2004); *Gordon v. Unifund CCR Partners*, 345 F.2d 1028, 1030 (8th Cir. 2003); *Radcliffe v. Rainbow Constr.*, 254 F.3d 772, 789 (9th Cir. 2001). And in a more recent case, the Seventh Circuit, without mentioning *Nisenbaum*, affirmed the denial of Rule 11 sanctions because the party seeking sanctions had not complied with the strict requirement of serving the sanctions motion and providing a 21-day safe harbor before filing the motion. See *Olson v. Reynolds*, No. 11-2273, 2012 WL 2403519 (7th Cir. June 27, 2012).
11. See *Koon Chun Hing Kee Soy & Sauce Factory v. Star Mark Mgmt.*, 409 Fed. Appx. 389 (2d Cir. 2010).
12. See *Star Mark Management v. Koon Chun Hing Kee Soy & Sauce Factory*, 682 F.3d 170, 176 (2d Cir. 2012).