

IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

PENDA CORP.,	:	CIVIL ACTION
Plaintiff	:	
	:	
v.	:	
	:	
STK, LLC,	:	NO. 03-5578
Defendant	:	NO. 03-6240

MEMORANDUM AND ORDER

McLaughlin, J.

July 16, 2004

The plaintiff in these consolidated patent infringement cases, Penda Corporation ("Penda"), brings suit against STK, L.L.C. ("STK"), in civil action No. 03-5578, and against Rick's Auto Repair ("Rick's") and CAR-MIC Enterprises, Inc. ("CAR-MIC"), in civil action No. 03-6240. STK and CAR-MIC have filed three motions for sanctions against Penda. In two motions, STK and CAR-MIC seek sanctions for alleged violations of Rule 11 of the Federal Rules of Civil Procedure. In the third motion, STK has moved for sanctions for violations of Rules 4.2 and 8.4 of the Pennsylvania Rules of Professional Conduct for alleged ex parte communications with a person known to be represented by counsel. For the reasons set forth below, the Court will grant STK's Rule 11 motion, grant in part and deny in part STK's motion for sanctions for violations of the Rules of Professional Conduct, and deny CAR-MIC's motion.

I. Procedural History

Penda filed civil action No. 03-5578 ("Penda I") on October 6, 2003, alleging patent infringement, unfair competition, and false designation of origin under the Lanham Act. Penda filed an amended complaint on October 14, 2004. On October 27, 2003, the defendant STK answered, counterclaimed, and filed a motion to transfer the action to the Western District of Pennsylvania pursuant to 28 U.S.C. § 1404(a).

In support of its motion, STK filed an affidavit claiming that it manufactures and sells the allegedly infringing pickup truck bedliners, has its principal place of business, maintains all of its records, and does substantially all of its business in the Western District. STK states that it sells its products to independent distributors outside of the Eastern District and that it does not do business here. The plaintiff is a Florida corporation whose principal place of business is in Michigan.

The plaintiff filed its opposition to the motion to transfer on November 7, 2003.<sup>1</sup> The plaintiff argued that STK sells the infringing product in the Eastern District through its largest distributor, Armor Deck. Although Armor Deck is located in New Jersey, Penda claimed that the distributor sells the

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<sup>1</sup> Local counsel for Penda signed the opposition and lead counsel designated themselves as "Of Counsel" on the opposition signature page.

infringing product directly to numerous retailers including Rick's and Stylecraft Auto Seat Covers ("Stylecraft") in Philadelphia. Penda claimed that Rick's and Stylecraft in turn sell the product to end users in this district.

On November 14, 2003, in further opposition to STK's motion to transfer, Penda sent a letter to the Court stating that it had filed a separate action against Stylecraft and Rick's for selling the infringing product in this district. The case against the retailers was docketed as civil action No. 03-6240 ("Penda II"). As later reaffirmed in attachment D of Penda's response to the Rule 4.2 motion, the letter stated that Penda II had been initiated because STK, in its motion to transfer, claimed that it did not offer the product for sale in this district, that it would not withdraw its motion to transfer, and that it would oppose any motion to amend the complaint to include the retailers.

The Court held a Rule 16 conference with counsel for the parties in Penda I on November 24, 2003. In its pre-conference submission, Penda indicated that Penda I and Penda II should be consolidated. STK opposed consolidation.

Before the conference, counsel for STK sent to the Court letters from Armor Deck, Stylecraft, and a representative of STK, which stated that neither STK nor Armor Deck had ever sold any STK product to either Stylecraft or Rick's. During the

conference, counsel for Penda represented that prior to filing the complaint in Penda I, they had made phone inquiries to a representative of STK and a representative of Armor Deck that gave them a good faith basis to believe that the retailers sold the allegedly infringing product in this district. Neither retailer had been served with the complaint in Penda II at the time of the conference.

On December 3, 2003, the Court entered a memorandum and order putting Penda I into suspense until the earlier of 60 days or the date when the retailer defendants responded to the complaint in Penda II. The Court stated that it would have granted the motion to transfer absent the existence of Penda II, and that it may yet do so even if the two cases were consolidated. The Court said, however, that it was reluctant to rule on the motion to transfer until it knew whether Penda would go forward with Penda II despite the evidence provided to Penda by STK.

On January 5, 2004, the plaintiff filed an amended complaint in Penda II adding CAR-MIC, keeping Rick's, but dropping Stylecraft as a defendant. Penda attached several photographs and some receipts in support of its allegation that CAR-MIC, a retailer in Lancaster, sells the allegedly infringing

STK products in this district. The amended complaint contains no new allegations regarding Rick's.<sup>2</sup>

On February 2, 2004, Penda moved to consolidate the cases. STK filed its Rule 11 motion together with its opposition to consolidation on February 10, 2004.<sup>3</sup> On February 19, 2004, STK filed its motion for sanctions based on a violation of the Pennsylvania Rules of Professional Conduct. CAR-MIC, which had been served and is represented by counsel for STK, filed its Rule 11 motion on the same day. The Court heard oral argument on all the pending motions on April 28, 2004.

## II. Relevant Facts

The affidavits and documents submitted to the Court reveal that on October 6, 2003, a partner at the Woodcock Washburn firm, local counsel for Penda, directed a paralegal to call STK to inquire whether STK bedliners could be purchased in the Philadelphia area. The paralegal made the call and spoke to a person who identified himself as "Dan". STK has since identified this individual as Daniel Kuritz, a Customer Service

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<sup>2</sup> To date, Rick's has not been served. At the April 28, 2004, oral argument, lead counsel for Penda stated that the summons for Rick's had expired, and that he had not sought to renew it.

<sup>3</sup> On March 3, 2004, after holding an on-the-record status conference with counsel for Penda, STK, and CAR-MIC, the Court granted the motion to consolidate without deciding the motion to transfer.

Manager. Kuritz told the paralegal that STK did not sell its products in Philadelphia, but that she should contact their distributor, Armor Deck, who did.

The paralegal called Armor Deck and spoke to a person who identified himself as "Ray." The paralegal told Ray that her husband wanted to get a bedliner for his new pick-up truck. She asked if she could purchase an STK bedliner in Philadelphia. Ray said "yes" and gave her the name of two retailers: Stylecraft and Rick's. Ray told the paralegal to speak with "Eppie" at Stylecraft and with "Rick" at Rick's. Neither she nor any other agent of Penda ever called anyone at Stylecraft or Rick's.

The paralegal made the calls between 4:00 p.m. and 4:30 p.m. on October 6, 2003. The Penda I complaint was filed at 6:10 p.m. on that day.

At oral argument, local counsel for Penda represented that he directed the paralegal to make the call to verify the allegations that venue was proper, but that he did not tell the paralegal what to say or how to conduct her calls. Local counsel for Penda also explained that prior to filing the suit, he visited the Armor Deck website and found that the allegedly infringing product was the only STK product Armor Deck advertised on the website. Apr. 28, 2004, Hr'g Tr. ("Hr'g Tr.") at 41-42, 57-60.

### III. Motions for Sanctions

In its sanction motion based on violations of the Rules of Professional Conduct, STK argues that the communication to Dan Kuritz violates: (1) Rule 4.2 because it was ex parte and concerned matters in which Penda knew STK to be represented; and (2) Rule 8.4(c), because neither Kuritz nor Ray were told that they were speaking to an agent of an attorney for litigation purposes. In its Rule 11 motion, STK argues that there was no basis in fact to support Penda's claim, made in its opposition to transfer, that Rick's and Stylecraft had sold the product in Philadelphia. STK also argues that Penda, relying on its baseless claim that the retailers sold the product, filed Penda II merely to defeat transfer.<sup>4</sup> In its Rule 11 motion, CAR-MIC argues that the amended complaint in Penda II is frivolous because it contains false factual allegations regarding the co-defendant, Rick's.

#### A. Violations of the Rules of Professional Conduct

The Eastern District has adopted Pennsylvania's Rules of Professional Conduct. Loc. R. Civ. P. E.D. PA. 83.6 (IV)(B) (2003). Rule 4.2 provides in full:

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<sup>4</sup> STK also argues that there was no adequate basis in law for the opposition to transfer. Resolution of this issue is not necessary for the Court's decision.

In representing a client, a lawyer shall not communicate about the subject of the representation with a party the lawyer knows to be represented by another lawyer in the matter, unless the lawyer has the consent of the other lawyer or is authorized by law to do so.

PA. RULES OF PROF'L CONDUCT Rule 4.2 (2004)

Penda does not dispute that it knew that STK was represented by counsel or that it did not have consent of STK's counsel.<sup>5</sup> Penda instead argues that because the communication occurred prior to the filing of suit, Rule 4.2 does not apply. Penda also argues that even if the rule applies, Kuritz is not covered by the rule and the communication was not about the subject matter of the representation.

The Official Comment to Rule 4.2 expressly provides that the rule "also covers any person, whether or not a party to a formal proceeding, who is represented by counsel concerning the matter in question." PA. RULES OF PROF'L CONDUCT Rule 4.2 cmt. According to the language of this comment, the rule is applicable to STK even though it was not yet a party to a formal proceeding.

The plaintiff relies on Faragher v. National Railroad Passenger Corp., No. 91-2380, 1992 U.S. Dist. LEXIS 1810, \*4-\*5, (E.D. Pa. Feb. 7, 1992), which held that Rule 4.2 does not apply before a complaint has been filed. Faragher, however, did not

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<sup>5</sup> Prior to litigating this matter, Penda, through its General Counsel and pre-suit counsel, negotiated with counsel for STK regarding the patents and bedliners at issue in this case.

acknowledge the comment and so does not provide a reason why the comment's language should not apply.

At least two courts in the Third Circuit that have addressed the comment held that the rule applies pre-complaint. See, e.g., United States v. Grass, 239 F. Supp. 2d 535, 540-41 (M.D. Pa. 2003); Inorganic Coatings, Inc. v. Falberg, 926 F. Supp. 517, 519 n.3 (E.D. Pa. 1995). The Court agrees and finds that Rule 4.2 is applicable in this case.

This result comports with the reasoning behind the American Bar Association's ("ABA") 1995 amendment to the Model Rule. Because of the tendency of some courts to focus narrowly on the word "party" in the rule rather than on the word "person" in the comment, the ABA substituted the word "party" with the word "person" to clarify that the interests sought to be protected by the rule may equally well be involved when litigation is merely under consideration, even though it has not actually been instituted, and the persons who are potentially parties to the litigation have retained counsel with respect to the matter in dispute. See Excerpt from ABA Report Explaining the 1995 Amendment, reprinted in STEPHEN GILLERS & ROY D. SIMON, REGULATION OF LAWYERS: STATUTES AND STANDARDS 279 (2000 ed.).

The next question is whether local counsel for Penda violated Rule 4.2. The Official Comment to the rule addresses how it applies to an organization such as STK:

[T]his Rule prohibits communications by a lawyer for one party concerning the matter in representation with persons having a managerial responsibility on behalf of the organization, and with any other person whose act or omission in connection with the matter may be imputed to the organization for purposes of civil or criminal liability or whose statement may constitute an admission on the part of the organization.

PA. RULES OF PROFESSIONAL CONDUCT Rule 4.2 cmt.

The rule, therefore, applies to ex parte communications with Kuritz if he is either (1) a person with managerial responsibility, (2) a person whose acts could be imputed to STK for the purposes of civil liability, or (3) a person whose statement may constitute an admission on the part of STK.

Kuritz is a customer service manager for STK. Penda argues that Rule 4.2 does not apply to Kuritz because he does not have the requisite level of managerial responsibility, notwithstanding his title. Pennsylvania federal courts have held that a person has the requisite managerial responsibility if he or she supervises a significant number of subordinates or exercises a significant amount of individual discretion in his day to day duties. See Belote v. Maritrans Operating Partners, No. 97-3993, 1998 U.S. Dist. LEXIS 3571, \*6 (E.D. Pa. Mar. 20, 1998); Carter-Herman v. City of Philadelphia, 897 F. Supp. 899, 904 (E.D. Pa. 1995).

In his affidavit, Kuritz says that his duties include receiving and processing all incoming sales calls. There is no evidence that he supervises a significant number of subordinates

or that he exercises a significant amount of individual discretion. The Court cannot find on this record that Kurtiz has the requisite level of managerial responsibility.

The Court, however, finds that Kuritz is a person whose statements may constitute an admission on the part of the organization. An admission is a statement by the party's agent or servant concerning a matter within the scope of the agency or employment, made during the existence of the relationship. Fed. R. Evid. 801(d)(2)(D); see also Univ. Patents, Inc. v. Kligman, 737 F. Supp. 325, 328 (adopting Rule 801(d)(2)(D) definition of "admission" for Rule 4.2 purposes).

Kuritz's statements may constitute an admission on the part of STK. They were made while he was on duty as an employee of STK. The statements address how and where a customer may purchase STK's products -- a matter which is within the scope of his employment as a customer service manager responsible for receiving and processing sales calls. In fact, Penda relied on his statement to conclude that STK had a distributor who sold the bedliners in Philadelphia. The rule, therefore, applies to Penda's ex parte contact with Kuritz.

Because the Court finds that Kuritz's statements may constitute an admission by STK, it does not rule on whether he is also a person whose acts may be imputed to the STK for the purposes of civil or criminal liability.

Penda next argues that there was no Rule 4.2 violation because the communication did not regard the subject matter of the representation. The Court is unpersuaded. Whether or not STK sold or offered for sale infringing products in this district is directly relevant to this litigation. Indeed, as local counsel for Penda stated, the phone call to Kuritz was made to verify the allegation in the complaint that venue was proper in this district. Hr'g Tr. at 41-42. The Court, therefore, finds that local counsel for Penda violated Rule 4.2.

The Court does not want to overstate the violation. It was not egregious. But Rule 4.2 is designed to protect the represented but uncounseled layperson against overreaching by adverse counsel and to safeguard the integrity of the client-lawyer relationship. See ABA Comm. on Ethics and Prof'l Responsibility, Formal Op. 95-396 (1995). Penda's actions invaded both these interests.

There was no violation of Rule 8.4(c), which provides that "[i]t is professional misconduct for a lawyer to: . . . engage in conduct involving dishonesty, fraud, deceit or misrepresentation." The paralegal for local counsel may have engaged in misrepresentation when she failed to identify herself as an agent for the plaintiff and suggested that she was a potential customer. Under certain circumstances, a lawyer may be responsible for his paralegal's actions if he directs her to

engage in the conduct or, knowing of the conduct, ratifies it. PA. RULES OF PROF'L CONDUCT Rule 5.3(c)(1)-(2). At oral argument, local counsel for Penda assured the Court that he merely directed her to make the call to verify whether the product could be purchased in the district, and that he did not instruct her in any particular way what to say, how to say it, or what to do. Hr'g Tr. at 41-42.

B. Violation of Rule 11

Under Rule 11 any party must conduct a reasonable inquiry into the facts and the law in connection with every filing. Bradgate Assocs., Inc. v. Fellows, Read & Assocs., Inc., 999 F.2d 745 (3d Cir. 1993). With respect to STK's Rule 11 motion, the core issue is whether in opposing the motion to transfer, the plaintiff did a reasonable inquiry into the facts to allow it to allege that STK had sold the bedliners in the past and were currently offering them for sale in Philadelphia through Rick's and Stylecraft. The Court finds that counsel for Penda did not conduct a reasonable enough inquiry.

Penda admitted at oral argument that its entire investigation into whether Rick's and Stylecraft sold the bedliners consisted of a visit to Armor Deck's website and the ex parte phone calls to STK and Armor Deck. It was not reasonable for Penda to have concluded on the basis of this investigation

that Rick's and Stylecraft had sold the bedliners in the past and were currently offering them for sale.

In an email that the paralegal sent to her supervising attorney regarding her call, and which counsel for Penda submitted to the Court at oral argument, the paralegal states that she:

. . . called Armor Dick (sic) and spoke to Ray and explained that my husband wanted to get a bed liner for his new pick up. Ray then gave me the following two names where I could purchase bed liners. I then specifically asked if they were STK bed liners and Ray said 'yes, that he was an STK distributor.'

See November 4, 2003 email from paralegal to partner at Penda's local counsel.

Ray did not state that Rick's and Stylecraft had sold STK bedliners in the past or were currently selling them. Ray's statements are consistent with his merely assuring the paralegal that he is an STK distributor who could supply STK bedliners to the two retailers in Philadelphia if the paralegal ordered the bedliners from them. Counsel for Penda merely assumed, erroneously as it turns out, that Rick's and Stylecraft were currently selling the bedliners. It was unreasonable for Penda's counsel to make and rely on this assumption. It was also unnecessary to do so. Counsel could have visited or even just telephoned Rick's or Stylecraft to see if they sold the bedliners. Unlike STK, neither retailer was known to be

represented by counsel in the matter at the time. The Court, therefore, finds that counsel for Penda violated Rule 11.

The Court, however, will deny CAR-MIC's motion for sanctions. Unlike STK, it is not clear how CAR-MIC was harmed by the violation of Rule 11. CAR-MIC argues that absent the allegations and suit against Rick's and Stylecraft, Penda I would have already been transferred and Penda would not have been compelled to sue or add CAR-MIC to keep the case here. The Court finds this unpersuasive. Penda appears to have complied with its Rule 11 obligations with respect to the claims it makes against CAR-MIC, and could have sued CAR-MIC even if Penda I had been transferred.

C. Remedies

Although Rule 4.2 contains no provisions regarding remedies for violations of the rule, federal courts have the inherent power to discipline attorneys practicing before them. See In re Corn Derivatives Antitrust Litig., 748 F.2d 157, 160 (3d Cir. 1984). Courts have broad, but not unlimited, discretion in fashioning an appropriate penalty or sanction to discipline attorneys and remedy the problems caused by improper ex parte contacts. See In re Abrams, 521 F.2d 1094, 1099 (3d Cir. 1975); Kligman, 737 F. Supp. at 329.

Courts have fashioned various remedies for violations of Rule 4.2: preclusion of the use of the evidence and information obtained through such ex parte communication; requiring the production of all work product related to or generated as a result of the prohibited contact; disqualification of the offending attorney(s); the awarding of fees; and, in exceptional cases, dismissal of the pending litigation. See, e.g., Belote, 1998 U.S. Dist. LEXIS 3571 at \*21 (preclusion of evidence); Kligman, 737 F. Supp. at 328 (production of work product); Inorganic Coatings, 926 F. Supp. at 521 (disqualification of counsel); Hill v. St. Louis Univ., 123 F.3d 1114, 1121 (8th Cir. 1997) (affirming award of fees in preparing sanctions motions); Link v. Wabash R.R. Co., 370 U.S. 626 (1962) (dismissal of litigation).

STK seeks (1) the preclusion of evidence that was obtained through the ex parte contact; (2) disqualification of Penda's local counsel; and (3) reasonable expenses and fees associated with the sanction motion.<sup>6</sup>

The Court will preclude the plaintiff from using during this litigation any information obtained through the ex parte

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<sup>6</sup> STK had also requested the Court to order plaintiff and its counsel to produce all documents, recordings, notes, and memoranda relating to or generated as a result of the ex parte contact. The Court had previously ordered the plaintiff and its counsel to do so, and is satisfied that they have complied with that order.

contact.<sup>7</sup> The plaintiff has already used the information gained through the communication to the detriment of STK. It would be inequitable to permit the plaintiff to keep any advantage it may have gained from the ethical violation. See Kligman, 737 F.Supp. at 329.

The Court will deny STK's request for disqualification of Penda's local counsel. The Court must balance a party's right to be represented by counsel of his or her choice, as well as the opposing party's right to prepare and try its case without prejudice. See id. STK's ability to litigate the merits of the core issues of this case has not been sufficiently prejudiced by this violation to warrant a disqualification of Penda's local counsel. The communications did not deal with whether the bedliners infringed any of Penda's patents.

The Court will also deny STK's request for fees and costs associated with the 4.2 sanctions motion. As STK correctly points out, federal courts have awarded such fees for violations of Rule 4.2. See Faison v. Thornton, 863 F. Supp. 1204, 1218 (D. Nev. 1993). These cases, however, involve egregious, willful, or bad faith violations of the rule. See, e.g., Hill, 123 F.3d at 1117 (plaintiff's counsel interviewed and obtained an affidavit from a chairperson of the defendant University despite having

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<sup>7</sup> This includes the fruit of that contact, namely, statements and information obtained from the telephone conversation with Ray at Armor Deck.

been warned in writing by opposing counsel that such contact would violate Rule 4.2). Indeed, Faison, upon which STK relies, involved a five-hour ex parte contact with a named defendant who reviewed documents relevant to the litigation during the communication.<sup>8</sup> 863 F. Supp. at 1211-12. Penda's violation of the rule does not rise to this level of egregiousness. The communication lasted a few minutes and was very limited in scope. Although local counsel for Penda should have known that the call to STK presented at least the potential for violating Rule 4.2, there is no evidence that the communication was done knowing such a violation would necessarily result.

With respect to the Rule 11 violation, the Court may impose an appropriate sanction limited to an amount sufficient to deter repetition of the conduct. If warranted, the Court may also award to the party prevailing on the motion the reasonable expenses and fees in presenting the motion.<sup>9</sup> Fed. R. Civ. P.

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<sup>8</sup> The Court notes that fees were granted in Faison pursuant to Rules 26(c) and 37(a)(4) of the Federal Rules of Civil Procedure. The ethical violations occurred during discovery and the court assumed that the above cited rules, which permit the award of fees and costs for discovery violations, applied. 863 F. Supp. at 1218. The Court makes no assessment of that assumption. The ethical violations here occurred before the advent of formal discovery.

<sup>9</sup> The record shows that STK complied with the safe-harbor provisions of Rule 11, which requires that any motion for sanctions pursuant to the rule shall not be presented to the Court unless, within 21 days after service of the motion on the opposing party the alleged violation is not corrected. See Fed. R. Civ. P. Rule 11(c)(1)(A).

Rule 11(c)(1)(A), (c)(2). The Court finds that the violation of Rule 11 warrants the award of STK's expenses and fees associated with litigation of its Rule 11 motion. The Court will also grant STK's request for an award of its reasonable expenses and fees associated with the additional work STK had to put into litigating the transfer motion as a result of the Rule 11 violation. This sanction is imposed jointly and severally against Penda's local and lead counsel.

An appropriate Order follows.

IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

PENDA CORP.,	:	CIVIL ACTION
Plaintiff	:	
	:	
v.	:	
	:	
STK, LLC,	:	NO. 03-5578
Defendant	:	NO. 03-6240

ORDER

AND NOW, this 16th day of July, 2004, upon consideration of the defendant STK's Motion For Sanctions Pursuant to Fed. R. Civ. P. Rule 11 (Doc. No. 19 in civil action No. 03-5578), all responses and replies thereto, STK's Motion for Sanctions for Violations of the Rules of Professional Conduct (Doc. No. 25 in civil action No. 03-5578), all responses and replies thereto, and defendant CAR-MIC's Motion for Sanctions Pursuant to Fed. R. Civ. P. Rule 11 (Doc. No. 8 in civil action No. 03-6240), all responses and replies thereto, and following oral argument in the above captioned cases, IT IS HEREBY ORDERED, for the reasons stated in a memorandum of today's date, that:

1. The defendant STK's Motion for Sanctions Pursuant to Fed. R. Civ. P. Rule 11 is GRANTED. Lead and local counsel for Penda are jointly and severally liable for the reasonable costs and fees incurred by STK associated with said motion, as well as for the reasonable costs and fees associated with the additional work STK put into litigating its transfer motion as a

result of the Rule 11 violation. STK shall file an application that outlines in detail such costs and fees on or before July 30, 2004;

2. The defendant STK's Motion for Sanctions for Violations of Rules of Professional Conduct is GRANTED in part and DENIED in part. The plaintiff is prohibited from using any information obtained as a result of the telephone conversations with Daniel Kuritz of STK and Ray of Armor Deck. The motion is denied to the extent it seeks to disqualify local counsel for Penda and to the extent it seeks reasonable fees and costs associated with the Rule 4.2 sanctions motion; and

3. The defendant CAR-MIC's Motion for Sanctions Pursuant to Fed. R. Civ. P. Rule 11 is DENIED.

BY THE COURT:

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MARY A. McLAUGHLIN, J.