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

REGSCAN, INC.	:	CIVIL ACTION
	:	
v.	:	
	:	
DEAN MARK BREWER, et al.	:	NO. 04-6043

Baylson, J. **February 17, 2006**

MEMORANDUM

I. Introduction

Plaintiff RegScan, Inc. ("Plaintiff" or "RegScan") filed this action against Defendants Dean Mark Brewer ("Brewer"), Kevin Spence ("Spence"), Bruce Regan ("Regan"), Gary Tabbert ("Tabbert") (collectively, "Individual Defendants"), and Citation Publishing, Inc. ("Citation") on December 28, 2004. Counts I, II, and III set forth claims of violations of the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. § 1964(c) ("RICO"), by the Individual Defendants. Counts IV, V, VI, and VII set forth claims of Unjust Enrichment, violation of the Lanham Act, 15 U.S.C. § 1125(a), Unfair Competition, and violation of Arizona's Uniform Trade Secrets Act, 44 A.R.S. § 401(4), respectively, against Citation.[1]

The Court has jurisdiction over the RICO claims pursuant to 18 U.S.C. § 1964(a) and over the Lanham Act claim pursuant to 29 U.S.C. § 1331. The Court exercises supplemental jurisdiction over the state law claims. Venue is appropriate under 28 U.S.C. § 1391. Presently before the Court is Defendants' Motion for Summary Judgment (Doc. No. 40) filed on

[1] There are currently only three claims remaining against Citation. The claim for violation of Arizona's Uniform Trade Secrets Act in Count VII of the Amended Complaint, ¶¶ 259–266, has subsequently been withdrawn. See Pl's Resp. at 12 n.4.

November 15, 2005. Plaintiff filed a response on December 1, 2005 and Defendants filed a reply brief on December 12, 2005. Oral argument was held on February 3, 2006. For the reasons set forth below, the Defendants' Motion will be granted as to Counts I, II, III, and IV and denied as to Counts V and VI.

II. Background

A. State Court Proceedings

In 2001 RegScan filed suit in state court (the "state action") against Citation, Inc. and Richard Martin ("Martin"), an employee of Citation, alleging improper use of customer information and proprietary software. Martin took a job with RegScan and after being terminated, was rehired by Citation, his original employer. Specifically, Plaintiff alleged that in a brief stint as a RegScan employee, Martin obtained a copy of that company's Goldmine database and subsequently used it to solicit RegScan customers after his termination. On September 12, 2002, Plaintiff filed a four-count amended complaint alleging improper use of RegScan's confidential customer information, tortious interference with a contract, and misleading advertising. See Def's Br., Ex. A.

On October 6, 2003, after briefs had been filed on Defendants' preliminary objections, the state court granted Citation's objections as to Count IV, which was based on the Pennsylvania Unfair Trade Practices and Consumer Protection Law, 73 Pa. Cons. Stat. § 201-1 et seq. The court held that the case was "not an action by a consumer aggrieved by a business entity," but was instead "an action by one commercial entity against a competing commercial entity." RegScan, Inc. v. Martin, No. 02-1152, Order on Prelim. Objections (Ct. of Com. Pl. Lycoming Cty. Oct. 6, 2003) at Def's Br., Ex. F. On December 24, 2003, Plaintiff filed a motion to amend

the complaint to include a RICO claim as well as claims of abuse of process and civil fraud. Def's Br., Ex. G. The RICO claim alleged false statements by the defendants in their preliminary objections, their brief in support of preliminary objections, and in their answers to requests for admissions. Plaintiff alleged that this misconduct constituted predicate acts, since the false statements were made through use of the mail and telephones and were therefore violations of the federal mail and wire fraud statutes. 18 U.S.C. §§ 1341, 1343. The state court denied this motion in a February 27, 2004 order, and eventually sanctioned Plaintiff for "a pattern of activity which the Court cannot help but conclude is designed to harass and needlessly increase the cost of litigation for Defendant Citation." See Def's Br., Ex. I at 5.

After the close of discovery, Citation moved for summary judgment on August 23, 2005. The state court dismissed all remaining claims against Citation on October 6, 2005, entering summary judgment in favor of Citation and against RegScan. RegScan, Inc. v. Martin, No. 02-1152, Summ. J. Order (Ct. Com. Pl. Lycoming Cty. Oct. 6, 2003) at Def's Br., Ex. D. Though the case continued as to Martin, the individual defendant in the matter, it has subsequently been withdrawn and settled. Tr. at 4.

B. Federal Court Proceedings

Plaintiff filed a complaint against Defendants in this Court (the "federal action") on December 28, 2004. Since that time, the Court has ruled on several dispositive motions. In their motion to dismiss, Defendants argued that RegScan's complaint should be dismissed because the Court had no subject matter jurisdiction under the Rooker-Feldman doctrine due to judicial decisions in pending in the state action. The Court ultimately denied this motion based on the Supreme Court's decision in Exxon-Mobil Corp. v. Saudi Basic Industries Corp., 125 S. Ct. 1517

(2005). See RegScan, Inc. v. Brewer, 2005 WL 874662 (E.D. Pa. Apr. 13, 2005). Defendants next moved for abstention under Colorado River Water Conservation District v. United States, 424 U.S. 800 (1976), but the Court concluded that the case did not present the "exceptional circumstances" required under that doctrine. See RegScan, Inc. v. Brewer, 2005 WL 1459532 (E.D. Pa. June 17, 2005). Finally, after having directed counsel to file a memorandum on two issues concerning the sufficiency of Plaintiff's claims under RICO: (1) the naming of Defendant Citation Publishing as the "enterprise," and (2) the sufficiency of Plaintiff's allegations of causation, the Court carefully considered the responses from both parties. In an August 23, 2005 Memorandum and Order, the Court ruled on the adequacy of Plaintiff's RICO case statement and held that despite substantial reservations about the viability of its claim it would not dismiss Plaintiff's RICO complaint at that time. See RegScan, Inc. v. Brewer, 2005 WL 2039180 (E.D. Pa. Aug. 23, 2005). However, the Court did note that it would revisit these issues at an appropriate time after Plaintiff has been given an opportunity for discovery and possible clarification of the issues raised in the Memorandum. Id. at *3.

C. Factual Background

In the federal action, Plaintiff alleges that Defendants have "stolen all or part of the electronic databases that Citation now actively sells in the market place, stolen its competitors' marketing databases, threatened and otherwise attempted to intimidate witnesses, made material misrepresentations to various judicial tribunals and state agencies, and stolen the 401K deductions, health insurance co-pay deductions, employment tax withholdings, wages, and expense reimbursements of its employees." First Amended Complaint at 2.

Counts I, II, and III of the Amended Complaint are RICO claims which stem from ten

alleged "acts of misconduct." Plaintiff maintains that the money made through the alleged misdeeds of the Defendants has been used both for individual gain and for the funding of Citation's operations. Specifically, Count I alleges that "RegScan has been injured in its business by reason of the Individual Defendants' repeated and continuing violations of 18 U.S.C. Section 1962(a), (b), and (c). . ." Id. at ¶ 203. Count II alleges that the Individual Defendants "have maintained their interest in and control of Citation through a pattern of racketeering activity . . ." Id. at ¶ 224. Finally, Count III alleges that the Individual Defendants "have violated 18 U.S.C. Section 1962(c) by conducting Citation's affairs through a pattern of racketeering activity." Id. at ¶ 227. The predicate acts on which the RICO counts are based include mail and wire fraud and unlawful use of employee welfare and/or pension benefits plans.

In Counts IV, V, and VI of the First Amended Complaint, Citation is alleged to have profited from others' trade secrets and to have engaged both in misleading advertising and inadequate attribution to the contributions of other companies. Id. at ¶¶ 234–258. In Count IV, Plaintiff maintains that Citation was unjustly enriched through use of Plaintiff's trade secrets, specifically its state environmental, health, and safety regulatory content ("EHS content"). Id. at ¶¶ 229–233. Counts V and VI allege that Citation violated the Lanham Act and was involved in unfair competition on account of two separate acts. Id. at ¶¶ 234–258. Plaintiff asserts that Citation included incorrect information on its website concerning the company's "Advisory Board" and that the website failed to indicate that the EHS content advertised on the site was "misappropriated, in whole or in part, from BNA and/or RegScan." Id. at ¶ 248.

III. Parties' Contentions

A. Defendants' Motion

Defendants argue that Count IV (Unjust Enrichment) is a clear attempt to relitigate claims and issues that have already been decided against RegScan in the state court action. Defendants also contend that Counts V (Violation of the Lanham Act) and VI (Unfair Competition) arising out of alleged "deceptive and/or misleading advertising" are repetitions of an unfair competition claim dismissed on preliminary objection in the state action. The dismissed claim alleged that Citation falsely represented that its "goods or services were of a particular standard, quality or grade." Def's Br. at 4. Defendants maintain that RegScan's Lanham Act and Unfair Competition claims are simply an attempt to improve upon the dismissed claim from the state court action and should be barred under *res judicata* since they could have brought it in the earlier case.

As for the RICO claims in Counts I–III, Defendants note that in February of 2004, the Lycoming County Court denied RegScan's motion to amend its complaint to add a RICO cause of action. Defendants assert that four of the categories of alleged misconduct that purportedly constitute predicate acts relate procedurally or substantively to the state action and that the other six categories relate to the conduct of Citation's business. Considering the denial of Plaintiff's motion to add RICO counts to the state action, Defendants argue that the doctrines of *res judicata* and collateral estoppel function to bar Counts I–III of the federal suit.

Defendants contend that a comparison of the damages sought in the RICO claims sought in the state action and the RICO claims asserted in this case dispels any doubt that the current RICO claims are simply an effort to relitigate the earlier action. Defendant notes that in both

actions Plaintiff alleged racketeering conduct based on lost revenue and depressed market prices. Therefore, Defendants argue that RegScan's unsuccessful attempt to attribute depressed prices to Citation should bar it from claiming that such losses resulted from the actions of the individual Defendants in the instant case. Defendants also assert that even if *res judicata* does not apply to the RICO claims in the federal action, the doctrine of collateral estoppel should entitle them to summary judgment as well.

B. Plaintiff's Response

In response, Plaintiff first argues that Defendants should rely not on federal preclusion principles but instead on the elements of *res judicata* and collateral estoppel under Pennsylvania law. Plaintiff contends that a federal court may not apply the federal *res judicata* standard to determine the effect of a state court judgment and must instead refer to the preclusion law of the state in which the judgment was rendered. Pl's Resp. at 4. In addition, Plaintiff argues that the state court judgment at issue in this case is not "final" for purposes of *res judicata* and will not be until a timely appeal has been filed and ruled upon or the applicable time for filing an appeal has expired. Pl's Resp. at 6–7.

Plaintiff also contends that even if the Court considers the merits of Defendants' Motion, summary judgment should still be denied. Plaintiff asserts that the claims against the Individual Defendants in the instant case were never raised in the state action and that none of them were even parties to that suit. Plaintiff also notes that the Individual Defendants are not being sued in federal court as a result of their conduct as officers, directors, or employees of Citation, and because of this difference in capacity, there is no identity of capacity of the parties being sued.

Finally, Plaintiff argues that *res judicata* does not apply to the instant case because the

only act complained of was Citation's interference with the employment contract between RegScan and Martin. Because the facts at issue in that case revolved around tortious interference, namely matters concerning Martin's contract with RegScan, the claims against Citation in the federal action are "distinctly different," and therefore the preclusion doctrines should not be invoked.

C. Defendants' Reply

Defendants argue that Plaintiff has completely mischaracterized the law as to *res judicata* and that federal preclusion principles apply in a non-diversity case filed in federal court. Moreover, Defendants contend that the state court decision of October 6, 2005 is final for purposes of *res judicata* unless or until it is reversed on appeal. Def's Reply at 4.

As for Plaintiff's claims against the Individual Defendants, Defendants argue that Plaintiff has failed to consider that the state action was more than just a tortious interference suit and in fact involved a "multitude of alleged misconduct, including certain racketeering activity on the part of Citation's officers." Id. at 5.

IV. Legal Standard

Summary judgment is appropriate "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." F.R. Civ. P. 56(c). An issue is "genuine" if the evidence is such that a reasonable jury could return a verdict for the non-moving party. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248 (1986). A factual dispute is "material" if it might affect the outcome of the case under governing law. Id.

A party seeking summary judgment always bears the initial responsibility for informing the district court of the basis for its motion and identifying those portions of the record that it believes demonstrate the absence of a genuine issue of material fact. Celotex Corp. v. Catrett, 477 U.S. 317, 322 (1986). Where the non-moving party bears the burden of proof on a particular issue at trial, the moving party's initial burden can be met simply by "pointing out to the district court that there is an absence of evidence to support the non-moving party's case." Id. at 325. After the moving party has met its initial burden, "the adverse party's response, by affidavits or as otherwise provided in this rule, must set forth specific facts showing that there is a genuine issue for trial." F.R. Civ. P. 56(e). Summary judgment is appropriate if the non-moving party fails to rebut by making a factual showing "sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial." Celotex, 477 U.S. at 322. Under Rule 56, the Court must view the evidence presented on the motion in the light most favorable to the opposing party. Anderson, 477 U.S. at 255.

V. Discussion

A. *Res Judicata*

The Court will first determine the proper preclusion principles to apply in this case. The parties disagree as to whether to use state or federal law in applying *res judicata* and collateral estoppel to the October 6, 2005 state court decision.

"The preclusive effect of a state court judgment in a subsequent federal lawsuit generally is determined by the full faith and credit statute, which provides that state judicial proceedings shall have the same full faith and credit in every court within the United States . . . as they have by law or usage in the courts of such State . . . from which they are taken." Marrese v. Am.

Acad. of Orthopaedic Surgeons, 470 U.S. 373, 380 (1985) (quoting 28 U.S.C. § 1738 (2000)). Because the prior litigation occurred in the Pennsylvania state courts, this Court will apply Pennsylvania law to determine whether *res judicata* precludes Plaintiff's suit in this Court. See, e.g., Allegheny Int'l v. Allegheny Ludlum Steel Corp., 40 F.3d 1416, 1429 (3d. Cir. 1994) (applying Pennsylvania's *res judicata* standard).[2]

Under Pennsylvania law, the application of claim preclusion requires "the concurrence of four conditions between the present and prior actions: (1) identity of issues; (2) identity of causes of action; (3) identity of parties or their privies; and (4) identity of the quality or capacity of the parties suing or being sued." Radakovich v. Radakovich, 846 A.2d 709, 715 (Pa. Super. Ct. 2004) (citing Yamulla Trucking & Excavating Co. v. Justofin, 771 A.2d 782, 784 (Pa. Super. Ct. 2001)). The purposes underlying the *res judicata* doctrine are "to conserve judicial resources,

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[2] Although Defendants argue for the invocation of federal preclusion principles, *res judicata* under federal law is substantially the same as in Pennsylvania, though the requirements are set out in a different form. Under Pennsylvania law *res judicata* can be applied when there is: (1) identity of issues; (2) identity of causes of action; (3) identity of parties or their privies; and (4) identity of the quality or capacity of the parties suing or being sued. Radakovich v. Radakovich, 846 A.2d 709, 715 (Pa. Super. Ct. 2004); Matternas v. Stehman, 642 A.2d 1120, 1123 (Pa. Super. Ct. 1994). The Third Circuit provides a slightly different formulation of *res judicata*, requiring: "(1) a final judgment on the merits in a prior suit involving; (2) the same parties or their privies; and (3) a subsequent suit based on the same cause of action." Corestates Bank, N.A. v. Huls Am., Inc., 176 F.3d 187, 194 (3d Cir. 1999); see also Lubrizol Corp. v. Exxon Corp., 929 F.2d 960, 963 (3d Cir. 1991) (same).

It is important to note the overlap of the federal and state requirements. Essentially, the first and second Pennsylvania requirements correspond to the third federal *res judicata* requirement (same cause of action), and the third and fourth Pennsylvania requirements correspond to the second federal requirement (same parties or their privies). Both analytical methods require a final judgment in the earlier proceeding. While a final judgment is the first of the three stated federal prongs for *res judicata*, Pennsylvania courts do not list it as a distinct requirement.

In this case, RegScan asserts (1) that *res judicata* should not be invoked because the prior suit did not constitute a final judgment, (2) that it has brought different claims in the federal action, (3) that the different claims are being brought against different parties, and (4) that the different claims are being brought against different parties acting in different capacities. Pl's Resp. at 5–9. For purposes of discussion, the Court will refer to these requirements as final judgment, identity of cause of action, identity of party, and identity of capacity.

establish certainty and respect for court judgments, and to protect the party that relies on prior adjudication from vexatious litigation." Jett v. Beech Interplex, Inc., 2004 WL 1588230, at *2 (E.D. Pa. July 15, 2004) (quoting Radakovich, 846 A.2d at 714). It is important to note that "*res judicata* will 'not be defeated by minor differences of form, parties or allegations' where the 'controlling issues have been resolved in a prior proceeding in which the present parties had an opportunity to appear and assert their rights.'" Massullo v. Hamburg, Rubin, Mullin, Maxwell & Lupin, P.C., 1999 WL 313830, at *5 (E.D. Pa. May 17, 1999) (quoting Helmig v. Rockwell Mfg. Co., 131 A.2d 622, 627 (Pa. 1957)).

B. Final Judgment Requirement

Before examining the individual counts of the federal action, this Court will first turn to the final judgment requirement. Though not one of the numbered prongs set forth in Pennsylvania case law, a final judgment must be reached in the prior suit for *res judicata* to apply. Plaintiff argues that the October 6, 2005 decision by the Court of Common Pleas for Lycoming County is not a final judgment for purposes of *res judicata* because "the right to appeal has not run its course." Pl's Resp. at 5. The Supreme Court of Pennsylvania has held that an order is final for preclusion purposes unless or until it is overturned on appeal. Shaffer v. Smith, 673 A.2d 872, 874–75 (Pa. 1996). The Court in this case is applying Pennsylvania rules of preclusion, and the Shaffer case clearly establishes that a possible appeal by RegScan of the state court summary judgment order does not prevent the application of *res judicata* or collateral estoppel in the federal action. At oral argument, Plaintiff's counsel could not distinguish Shaffer. Tr. at 41–42. Therefore, the Court holds that the October 6, 2005 summary judgment order issued by the Court of Common Pleas for Lycoming County in the state action is a final judgment

for purposes of *res judicata* [3]

C. Unjust Enrichment Claim Against Citation

1. Identity of the Thing Sued Upon

Having established that the October 6 order from the state court constitutes a final order, the Court will first consider the identity of the thing sued upon in the state and federal actions. The federal action involves alleged misappropriation of Plaintiff's Goldmine database and EHS content as well as claims of misleading advertising. In the state action, Plaintiff primarily focused on misappropriation of the GoldMine database but also alleged misappropriation of its subscription-access database. See Ertel Dep. (State Vol. I) at 77–79 (July 6, 2005). The complaint in the state action also included an unfair competition claim alleging that Citation falsely represented the quality of its goods and services and thereby induced purchasers to purchase Citation's goods rather than Plaintiff's. State Complaint at ¶¶ 33–35.[4]

The Court also notes the inherent similarities in the damages sought in the state and federal actions. For instance, the unjust enrichment claim seeks damages for money saved and profits earned by Citation due to misappropriation of the EHS content. See Ertel Dep. (Federal) at 343 (Nov. 2, 2005). In their Motion for Summary Judgment, Defendants include portions of Mr. Ertel's deposition from the state action, in which he acknowledges that RegScan was seeking

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[3] Though not specifically addressed by Plaintiff in its opposition brief, the Court also notes that similar logic applies to the Lycoming County Court of Common Pleas' dismissal of Count IV at the preliminary objection stage and its February 27, 2004 order denying Plaintiff's motion to amend the complaint by adding RICO claims. See discussion of RICO counts at pages 17–23, infra. That is, just as the October 6, 2005 summary judgment order constitutes a final judgment, these orders will be accorded similar treatment.

[4] Plaintiff's unfair competition claim in the state action was dismissed on October 6, 2003 at the preliminary objection stage. See Def's Br., Ex. F.

damages based on Citation's ability to cut development costs and then to depress market prices after making such savings. See Ertel Dep. (State Vol. I) at 77–79. Moreover, during oral argument, Plaintiff's counsel acknowledged the identical nature of the damage theories. See Tr. at 22–23.

Therefore, in comparing the "thing sued upon" in the state and federal actions, the Court concludes that based on all of the above, the operative facts and the subject matter are closely aligned, and the first element of the *res judicata* doctrine is satisfied.

2. Identity of the Causes of Action

In determining whether a cause of action is "identical" for purposes of preclusion under Pennsylvania law, a court should examine "whether the factual allegations of both actions are the same, whether the same evidence is necessary to prove each action and whether both actions seek compensation for the same damages." Dempsey v. Cessna Aircraft Co., 653 A.2d 679 (Pa. Super. Ct. 1995). Though the Third Circuit has specifically stated that defining "cause of action" involves inherent conceptual difficulties, it has noted that "claim preclusion 'generally is thought to turn on the essential similarity of the underlying events giving rise to the various legal claims, although a clear definition of that requisite similarly has proved elusive.'" Gregory v. Chehi, 843 F.2d 111, 117 (3d Cir. 1988) (quoting Davis v. U.S. Steel Supply, 688 F.2d 166, 171 (3d Cir. 1982) (en banc)). The "central focus" concerning the identity of cause of action is "whether the 'ultimate and controlling issues have been decided.'" Jett, 2004 WL 1588230, at *3 (quoting Dempsey, 653 A.2d at 681). A careful comparison of the claims in the federal and state actions is necessary in order to ensure proper application of the second prong of the preclusion doctrine.

The Court finds that under Pennsylvania preclusion law Count IV of the federal action

constitutes an identical cause of action to one put forth by Plaintiff in the state action. Plaintiff's claim for unjust enrichment arises out of Defendants' alleged use of the data obtained from the license generating program. Defendants assert that this claim "was at the heart of the dismissed state court action." Def's Br. at 12. Though Plaintiff raises several arguments concerning the other claims, it makes no specific assertions as to the Unjust Enrichment count. As discussed above, the use of RegScan's software to obtain confidential information was one of the bases for the state action, see Ertel Dep. (State Vol. I) at 77–79, and Plaintiff is now seeking damages in the federal action for the value of the allegedly stolen data. See Amended Complaint at ¶¶ 229–233. In the absence of any meaningful response by Plaintiff as to the unjust enrichment count, the Court holds that the cause of action is, for preclusion purposes, identical to the claims in the state action.

3. Identity of the Parties and Identity of the Capacity of the Parties

The third and fourth factors for this Court to consider are whether there is identity of the parties and identity of the capacity of the parties in the state and federal actions. Because the unjust enrichment claim in the federal action was filed only against Citation and not against the Individual Defendants, there is little for the Court to consider. Both Plaintiff, RegScan, and Defendant, Citation, were named parties in the state action, thus meeting the identity of parties prong of the preclusion test. As for the capacity of the parties, the issue is again rather straightforward. RegScan sued in the same capacity in both lawsuits and that Citation was sued in the same capacity in both actions. Consequently, the Court concludes that the fourth prong of the *res judicata* doctrine is satisfied.

D. Lanham Act and Unfair Competition Claims Against Citation

The Court finds that under Pennsylvania preclusion law Counts V and VI of the federal action are not identical to causes of action set forth by Plaintiff in the state action. Defendants argue that the unfair competition and Lanham Act claims are simply rehashes of the dismissed unfair competition claim in the state action. Defendants argue that the unfair competition claim was based upon allegedly false representations by Citation as to its own products and services which resulted in RegScan losing business. Def's Br. at 4; Def's Reply at 9–10. Plaintiff contends that the state action chiefly concerned tortious interference with Martin's contract and that the facts necessary to establish Lanham Act and unfair competition violations have nothing to do with "Richard Martin, Richard Martin's employment contract, or Citation's interference with that contract." Pl's Resp. at 11.

After reviewing the complaint in the state action, the Court holds that the dismissed Count IV is not based upon the same set of facts as those used to establish the unfair competition and Lanham Act claims in the federal action. Count IV of the state action focused on Defendants' misrepresenting the completeness and currentness of the listings of federal and state regulations, alleging that the codes in their possession were neither complete nor current. State Complaint at ¶ 35(a). Plaintiff also alleged that Defendants violated state law by "publicly advertising and misrepresenting the completeness and currentness" of the state and federal codes to the public. Id. at ¶ 35(b)–(c). The Lanham Act and unfair competition claims in the federal action are based upon inaccuracies displayed on Citation's website concerning the company's "Advisory Board" as well as a failure to properly indicate on the site that at least some of its state regulatory databases have been misappropriated. Amended Complaint at ¶¶ 234–258.

While the claims set forth on the state and federal actions are similar, it appears that the factual underpinnings in the two actions are quite different. The Court is therefore not persuaded that the dismissed fourth count of the state action should preclude the Lanham Act and unfair competition claims in the federal action as a matter of law, and therefore without discovery.

This does not end the inquiry, however, as the United States Supreme Court has held that "[u]nder *res judicata*, a final judgment on the merits of an action precludes the parties or their privies from relitigating issues that were *or could have been raised* in that action." Allen v. McCurry, 449 U.S. 90, 94 (1980) (emphasis added); see also Balent v. City of Wilkes-Barre, 669 A.2d 309 (Pa. 1995) (holding that "[*r*]*es judicata* applies not only to claims actually litigated, but also to claims which could have been litigated during the first proceeding"). Here, the Court holds that it is a disputed question of fact as to whether Plaintiff's Lanham Act and unfair competition claims could have been included when the First Amended Complaint was filed in the state action on September 12, 2002. See Tr. at 33 (Defendant's counsel acknowledged that it "would be a factual question as to whether [Plaintiff] knew about" additional facts which gave rise to the Lanham Act claim in the federal action). Without any clear indication that the Lanham Act and unfair competition claims in the federal action could have been litigated during the state court proceedings, the Court concludes that the identity of cause of action prong of the preclusion analysis is not satisfied as to Counts V and VI.[5] Tr. at 24–25, 31. Therefore, as set forth at oral argument on February 3, 2006 and in a subsequent Order on February 6, 2006 (Doc. No. 59),

[5] Although the other prongs of the *res judicata* test would likely have been satisfied for the Lanham Act and unfair competition claims, the lack of identity of cause of action in prong two prevents application of the preclusion doctrine to these counts. The Court will therefore dispense with an analysis of the remaining factors.

discovery will proceed as to Counts V and VI but will be limited in time to September 1, 2002 to the present.

E. RICO Claims Against Individual Defendants

1. Identity of the Thing Sued Upon

The RICO claims which were rejected by the Court of Common Pleas in the state action involved alleged false statements by Defendants during the course of that litigation. Plaintiff alleged that this misconduct was accomplished through the use of the mail and telephones and therefore constituted violations of federal mail and wire fraud statutes. 18 U.S.C. §§ 1341, 1343. The federal action involves RICO claims based on alleged misappropriation of Plaintiff's property, unlawful use of employees' funds, and various false statements and misdeeds related to the state court action. In this case, Plaintiff has alleged ten separate acts of misconduct as the basis for the RICO counts against the Individual Defendants. Plaintiff maintains that these "acts of misconduct" have been subsumed into the predicate acts for RICO purposes, see Tr. at 10–11, and alleges that Defendants have, *inter alia,* unlawfully converted to their own use employee welfare benefit funds, 18 U.S.C. § 664, and violated the mail and wire fraud statutes. Id. at §§ 1341, 1343. In addition to the similarities between the RICO claim in the two cases, the Court also finds that the damages recoverable for the ten alleged acts of misconduct in the federal action are the same as those included in the state action. At oral argument Plaintiff's counsel was asked about each individual act and acknowledged that the damages arising therefrom were the same as damages sought in the state action. See Tr. at 34–38.

Because Plaintiff's claims admittedly center around alleged misstatements and misdeeds of the Defendants which resulted in a competitive advantage to Citation, the Court concludes that

the operative facts and subject matter of this action are identical to the state court action. A comparison of the RICO claims will follow under the second prong of the *res judicata* test. Here, the Court examines the general subject matter of the case and facts at issue in each. Considering that both the federal and state actions concerned the alleged misappropriation of Plaintiff's database by Defendants, that both cases include allegations of false statements during court proceedings, and that the theory of damages was identical to that put forth in the state action, the Court holds that the thing sued upon in each suit is similar enough to satisfy the first prong of the *res judicata* analysis.

2. <u>Identity of the Causes of Action</u>

The RICO claim in the federal action alleges multiple acts of misconduct, which are the basis for the three counts of RICO violations.[6] The RICO counts which Plaintiff sought to include in the state action were based upon three alleged improper acts and were part of a "racketeering enterprise" which had three goals: (1) to deceive the court from finding jurisdiction over the case and having it dismissed; (2) to deceive the court by preventing jurisdiction from being asserted and therefore forcing Plaintiff to file suit in another state; and (3) to preserve Defendant's assets by preventing the court from assessing damages. Second Amendments to

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[6] The "acts of misconduct" included in the First Amended Complaint are as follows:
(1) Misappropriating Data Offered for Resale;
(2) Misappropriating Sales and Marketing Information from Competitors;
(3) Unlawful Use of Funds from Employee Benefit Plans;
(4) Unlawful Use of Funds from Employee Welfare Benefit Plans;
(5) Failure to Pay Employees' Wages and Expenses;
(6) Knowingly False Statements in the Lycoming County Action;
(7) Unlawful Witness Tampering in the Lycoming County Action;
(8) False Statements to Other Courts;
(9) False Statements to Government Agencies; and
(10) Unlawful Failure to Turn Over Payroll Withholdings.

State Complaint at ¶ 47, at Def's Br., Ex. G.

As mentioned above concerning the claims against Citation, two actions are generally deemed to be the same where there is an essential similarity of the underlying events rather than on the specific legal theories invoked. See Chehi, 843 F.2d at 117; Lubrizol, 929 F.2d at 963; Tyler v. O'Neill, 52 F. Supp. 2d 471 (E.D. Pa. 1999), aff'd 189 F.3d 465 (3rd Cir. 1999). "The courts should therefore look to whether the acts complained of and the demand for relief are the same; whether the theory of recovery is the same; whether the witnesses and documents necessary at trial are the same; and whether the material facts alleged are the same." Inofast Mfg. v. Bardsley, 103 F. Supp. 2d 847 (E.D. Pa. 2000) (citing United States v. Athlone Indus., Inc., 746 F.2d 977, 984 (3rd Cir. 1984)).

Looking at the RICO claims in the federal action, it is first apparent that three of the alleged "acts of misconduct" by the Defendants very closely resemble the dismissed RICO claims from the state action. Paragraphs 122–167 of the First Amended Complaint filed on September 22, 2005 allege (1) knowingly false statements in the Lycoming County Action, (2) unlawful witness tampering in the Lycoming County action, and (3) false statements to other courts. The dismissed RICO claims in the state action involved alleged untruths regarding the Defendants' preliminary objections (as well as the brief in support of the preliminary objections) and Defendants' answers to requests for admissions. The basic facts alleged are the same and the witnesses and documents which support the allegations are also very similar. Therefore, in appreciation of the essential similarity of the underlying events, the Court holds that ¶¶ 122–167 of the First Amended Complaint constitute an identical cause of action and satisfy the second prong of the *res judicata* doctrine.

The Court will next turn to the two alleged acts of misconduct in ¶¶ 42–76 of the first amended complaint, (1) misappropriating data offered for resale and (2) misappropriating sales and marketing information from competitors. For the same reasons that Count IV was precluded, ¶¶ 42-76 of the First Amended Complaint are also recreations of the dismissed state action. The Court finds that the allegations of misappropriating data offered for resale and misappropriating sales and marketing information are precluded by the decision of the state court to dismiss the tortious interference claims at the summary judgment stage. The Court of Common Pleas for Lycoming County wrote as follows:

> Citation argues that RegScan cannot establish the second and fourth elements of the claim [for tortious interference], specifically, that RegScan has produced no evidence that Citation condoned much less encouraged or participated in, Martin's alleged breach of contract, and further, that there is no evidence that RegScan's asserted damages, i.e., its declining customer base, have resulted from improper conduct on the part of Citation rather than ordinary market forces. . . . [T]he Court agrees with Citation that the requisite level of proof is lacking.

RegScan, Inc. v. Martin, No. 02-1152, Summ. J. Order (Ct. Com. Pl. Lycoming Cty. Oct 6, 2005), Def's Br., Ex. D. Because the state court considered and rejected RegScan's allegations that Citation had caused RegScan's loss of business and decline in sales, this Court holds that any allegations of misappropriation contained in the RICO claims in the federal action have been addressed in a prior suit and that ¶¶ 42–76 of the First Amended Complaint amount to an identical cause of action for *res judicata* purposes.

Finally, the Court will consider the remaining acts of misconduct alleged in the federal RICO claims:

(1) Unlawful Use of Funds from Employee Benefit Plans;

(2) Unlawful Use of Funds from Employee Welfare Benefit Plans;

(3) Failure to Pay Employees' Wages and Expenses;

(4) False Statements to Government Agencies; and

(5) Unlawful Failure to Turn Over Payroll Withholdings.

These alleged acts involve conduct almost all of which occurred prior to RegScan's December 24, 2003 motion in state court to amend the complaint to include RICO claims.[7] It is well established that *res judicata* applies to claims which were litigated in the prior action or could have been litigated in the prior action. See Allen, 449 U.S. at 94; Balent, 669 A.2d at 313. Because each of the five alleged acts of misconduct now under consideration could have been included in the failed motion for RICO claims, the Court holds that the identity of cause of action requirement of the preclusion analysis is therefore satisfied as to all of the alleged acts of misconduct included in the RICO claims in the federal action. Therefore Counts I, II, and III of

[7] As to Unlawful Use of Funds from Employee Benefit Plans Plaintiff alleges that "Beginning in February 2001, Citation stopped forwarding to [its plan administrator] the moneys it was deducting from its employees' wages for purposes of funding the employees' 401K Plans." First Amended Complaint at ¶ 85. As to Unlawful Use of Funds from Employee Welfare Benefit Plans, Plaintiff alleges that "In or about September 2001, Citation attempted to pay the health insurance premiums for its participating employees with a check drawn on an account that did not have sufficient funds to cover the amount of the check. . . . [T]he checking account did not contain sufficient funds because employee co-pay moneys had been diverted by Brewer to fund Citation's ongoing operations." Id. at ¶¶ 94–95.

As to Failure to Pay Employees' Wages and Expenses, Plaintiff alleges that "Beginning in 2000, at approximately the same time as Defendant Brewer's arrival at Citation, Citation employees began receiving paychecks that were drawn upon accounts which lacked the necessary funds to cover those checks." Id. at ¶ 106. As to False Statements to Government Agencies, Plaintiff alleges that "Since at least 2000, when Citation incorporated as the successor to CPI, numerous reports have been filed with government agencies by or on behalf of Citation that contained factually erroneous information." Id. at ¶ 169.

Finally, as to Unlawful Failure to Turn Over Payroll Withholdings, Plaintiff alleges that "Brewer deliberately failed to pay withheld employment taxes over to the United States government, thereby triggering an investigation by the Internal Revenue Service." Id. at ¶ 194. Though there is no clear indication of the time at which the alleged wrongdoing occurred in regard to the payroll taxes, the frame of reference provided by other similar allegations tends to indicate that the wrongdoing could also have been included in the earlier suit.

the federal action meet the second prong of the *res judicata* doctrine.

3. Identity of the Parties

The third factor for this Court to consider is whether there is identity of the parties in the state and federal actions. The dismissed RICO claims in state court were filed against Citation, whereas the RICO claims in the federal action involve only the Individual Defendants. "The concept of privity in the *res judicata* area means that 'the relationship between one who is a party on the record and another is close enough to include the other within the *res judicata*'" Jett, 2004 WL 1588230, at *4 (quoting Equal Employment Opportunity Comm'n v. U.S. Steel Corp., 921 F.2d 489, 493 (3d Cir. 1990)). "The doctrine of *res judicata* applies to and is binding, not only on actual parties to the litigation, but also to those who are in privity with them. A final valid judgment upon the merits by a court of competent jurisdiction bars any future suit between the same parties or their privies on the same cause of action." Day v. Volkswagerwerk Aktiengesellschaft, 464 A.2d 1313, 1317 (Pa. Super. Ct. 1983) (quoting Stevenson v. Silverman, 208 A.2d 786, 787–88 (Pa. 1965), cert. denied, 382 U.S. 833 (1965)).

In this case, the RICO claims were asserted against Dean Brewer, Kevin Spence, Bruce Regan, and Gary Tabbert, all of whom are current or former officers of Citation.[8] Though all of the claims in the state action, including the dismissed RICO claims, were filed against Citation, three of the four Individual Defendants (Brewer, Regan, and Tabbert) were specifically identified

[8] All of the following information is alleged in Plaintiff's First Amended Complaint. Brewer is in "effective control" of Citation and has been identified by current and former employees as Citation's General Manager, President, Chief Operations Officer, and Chief Financial Officer. First Amended Complaint at ¶¶ 11–12, 16. Tabbert was Citation's President from 2001–2003 and also formerly sat on the company's board of directors. Id. at ¶ 17–19. Regan is the current Vice-President of Citation and has been an employee of the company since 2001. Id. at ¶ 22–23. Spence is the current President of Citation and has been employed there since early 2004. Id. at ¶ 26–27.

in the RICO case statement and were alleged to have been involved in acts constituting racketeering activity. In its response, Plaintiff argues simply that there is no identity of parties because the Individual Defendants were not named in the state action. Pl's Resp. at 8–9. Plaintiff fails to appreciate that a close or significant relationship between the successive defendants is sufficient to meet the identity of parties requirement. The Court holds that as former and current officers of Citation, the Individual Defendants are in privity with Citation and that the third prong of the *res judicata* doctrine is satisfied.

4. Identity of the Capacity of the Parties

Plaintiff also argues that Defendants have not met the fourth prong of *res judicata* under Pennsylvania law, since the federal action is a suit against the Individual Defendants in their individual capacities, and not as officers, directors, and/or employees of Citation. Id. at 9. The various allegations in the RICO counts in the federal action all involve the Individual Defendants serving as employees of Citation in committing the "acts of misconduct." Whether it is the alleged misstatements made during the state court action or the issues concerning pensions and payroll, Brewer, Regan, Spence, and Tabbert were involved in the relevant acts only due to their connection with Citation. There is no indication that the Individual Defendants acted outside of their roles as employees during any of the alleged misconduct, and it is misleading at best for Plaintiff to argue otherwise. Because the Individual Defendants were serving as employees of Citation during all of the predicate acts alleged under the RICO claims filed in the federal action, the Court holds that the identity of the capacity of the parties has been established and the fourth prong of the *res judicata* doctrine is satisfied.

VI. Conclusion

For the reasons stated above, this Court finds all four prongs of the *res judicata* standard have been met as to both the RICO claims against the Individual Defendants and the unjust enrichment claim against Citation. On those counts the federal action thus fails as a matter of law. Because issues of fact remain as to whether the Lanham Act and unfair competition claims are precluded by the resolution of the state court action, discovery will proceed on those claims and Plaintiff has been permitted both to move forward with party depositions and to serve requests for documents and interrogatories limited in time from September 1, 2002 to the present. Defendant's Motion for Summary Judgment will be granted as to Counts I, II, III, and IV and denied as to Counts V and VI.

An appropriate Order follows.

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

REGSCAN, INC.	:	CIVIL ACTION
	:	
v.	:	
	:	
DEAN MARK BREWER, et al.	:	NO. 04-6043

ORDER

AND NOW, this 17th day of February, 2006, after consideration of briefs and oral argument, it is ORDERED that Defendants' Motion for Summary Judgment (Doc. No. 40) is GRANTED IN PART and DENIED IN PART. Summary judgment is granted as to Counts I, II, III, and IV and DENIED as to Counts V and VI.

BY THE COURT:

s/ Michael M. Baylson

Michael M. Baylson, U.S.D.J.