

**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

MEMORANDUM

Baylson, J.

March 16, 2007

Plaintiff Regscan, Inc. and Defendant Citation Publishing, Inc. (“Citation”) are competitors in the field of publishing federal, state, local, and international environmental, health and safety regulations (“EHS”). Regscan brought suit in this Court against Citation, as well several of its current and former employees, on December 28, 2004, alleging that Citation had, among other things, misappropriated the proprietary data of its major competitors.

The Court has issued two prior decisions in this case determining dispositive motions, one dated February 17, 2006, 2006 WL 401852, granting Defendants’ motion for summary judgment on all but two of Plaintiff’s claims, and the other dated September 5, 2006, 2006 WL 4100007, granting summary judgment on the remaining claims, except as to one aspect of Plaintiff’s Lanham Act and unfair competition claims. The Court denied Plaintiff’s Motion for Reconsideration of the February 17, 2006 summary judgment decision in a second Memorandum and Order, also dated September 5, 2006, 2006 WL 2583602.

In a portion of its September 5, 2005 opinion (pp. 10-11), the Court determined that a jury could find that a statement made on the Citation website concerning “patented technology” was literally false under the Lanham Act, and thus could also constitute unfair competition under

Pennsylvania common law. However, the Court reserved decision on whether the Plaintiff had been injured as a result of this inaccurate statement and allowed an additional sixty-day period for discovery. The discovery deadlines were set forth in an Order dated August 22, 2006 (Doc. No. 97).

On November 22, 2006, Defendants moved for summary judgment regarding the patent statement claims (Doc. No. 118), and asserted that there were undisputed facts showing that Regscan had not lost any business or any customers as a result of Citation's inaccurate patent statement. Regscan's opposition to this motion not only responded to the Defendants' legal contentions, but also requested that the Court defer ruling on this issue in order to allow it to seek further discovery from Citation.

For the following reasons, Defendants' Motion for Summary Judgment on Regscan's remaining Lanham Act and unfair competition claims regarding the "patent statement" will be granted.

I. Discovery Issues

At the outset, the Court will address Regscan's request that, pursuant to Fed. R. Civ. P. 56(f), the Court defer ruling on Citation's motion and allow Regscan to conduct additional discovery. Regscan argues that additional discovery on its patent statement claims is necessary and appropriate because the requested discovery will allow Plaintiff to take several additional depositions to determine who wrote the patent statement and when, why the statement was written, who authorized the patent statement, and when the patent statement was placed on Citation's website.

Regscan believes this information will assist it in proving that Citation's motives for

composing and publishing the patent statement support its theory of damages. According to Regscan, Defendants issued the patent statement to minimize the negative fallout from a case brought by the Bureau of National Affairs (“BNA”) against Citation in the United States District Court for the District of Arizona. Regscan claims that additional discovery into the origins of the patent statement will show that the BNA case motivated Citation to issue the patent statement. Once it has established this fact, Regscan asserts that its damages will become apparent.

As this Court is aware from the numerous discovery conferences that have been held in this case, the Plaintiff has had ample opportunity for discovery. The Plaintiff has taken numerous depositions, and it has propounded written discovery of various types and has received voluminous responses from the Defendants. The Defendants have produced considerable documentation to the Plaintiff. On the limited remaining issue in this case of whether Plaintiff suffered damages as a result of the patent statement, the Court concludes that Plaintiff was given an ample additional period of time to gather evidence of damages, and that it took full advantage of that opportunity.

The Court has reviewed the papers filed by both Plaintiff and Defendants on the issue of additional discovery. The Court concludes that the Plaintiff would not be materially assisted by these additional depositions because the facts Plaintiff claims would be provided are simply not relevant to its damages claim. The patent statement speaks for itself, and Defendants concede that it was inaccurate at the time it was placed on Citation’s website. As discussed below, in order to establish damages, Plaintiff must show that consumers’ behavior was affected by this deceptive statement, causing them to choose Citation’s services because they believed Citation employed “patented technology” or not to choose Regscan’s services. The identity of the person

or persons who wrote the statement, authorized it, and/or placed it on the website would not be relevant on the issue of damages.

The Court finds that Plaintiff has not shown that its most recent request for additional depositions is necessary or appropriate, and alternatively, that the facts which Plaintiff claims are necessary to establish its damages claim are, in reality, not relevant. As is discussed in more detail below, Plaintiff's theory of damages rests on unfounded speculation and is insufficient to survive a motion for summary judgment.

III. Summary Judgment Motion

A. 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." Fed. 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.” Fed. 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.

B. Discussion

In order to establish a claim under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a)(1), based on a false or misleading representation of a product, a plaintiff must show: (1) that the defendant has made false or misleading statements as to his own product [or another's]; (2) that there is actual deception or at least a tendency to deceive a substantial portion of the intended audience; (3) that the deception is material in that it is likely to influence purchasing decisions; (4) that the advertised goods traveled in interstate commerce; and (5) that there is a likelihood of injury to the plaintiff in terms of declining sales, loss of good will, etc. See Werner-Lambert Co. v. Brethasure, Inc., 204 F.3d 87, 92 (3d Cir. 2000) (citing Johnson & Johnson-Merck Consumer Pharms. Co. v. Rhone-Poulenc Rorer Pharms., Inc., 19 F.3d 125, 129 (3d Cir. 1994)).

Plaintiff’s remaining claims assert that the Defendants violated the Lanham Act and engaged in unfair competition when Citation made a false statement on its website that its principal product offering, CyberRegs, employed a “newly patented technology.” Citation concedes that this statement was inaccurate, and that Citation did not have a patent during the

entire time period that the statement appeared on its website. Citation also concedes that Regscan can establish the interstate commerce element of a Lanham Act claim. Nonetheless, Citation argues that Regscan has been unable to show actual deception, materiality, or damages as a result of this inaccurate patent statement as required by the Lanham Act.

Plaintiff responds that it can show damages because Citation's reference to "newly patented technology" was not an innocent mistake but instead "a calculated effort designed to re-focus attention on Citation's supposed technology as the engine behind its product" in the aftermath of the BNA case. (Pl.'s Br. 2.) According to Plaintiff, the BNA case created a perception that Citation had misappropriated some of BNA's regulatory data, and, without the patent statement, "Citation's customers would have canceled their subscriptions and purchased EHS products elsewhere." The Plaintiff goes on to argue that "Regscan's damages flow naturally from this knowingly-false marketing effort." Id.

The last element of a Lanham Act claim, whether the plaintiff has established a likelihood of injury, requires the plaintiff to produce evidence it is likely to suffer declining sales or loss of good will as a result of the defendant's false statement. See U.S. Healthcare, Inc. v. Blue Cross of Greater Phila., 898 F.2d 914, 922 -923 (3d Cir. 1990). When, as here, a plaintiff seeks monetary damages for a violation of a Lanham Act, the likelihood of injury element also requires the plaintiff to "show not only that the defendant's advertisement is false but also that this falsification actually deceives a portion of the buying public." Parkway Baking Co. v. Freihofers Baking Co., 255 F.2d 641, 648 (3d Cir. 1958); see also U.S. Healthcare, Inc., 898 F.2d at 922 (noting that, for a plaintiff to establish the likelihood of injury element for purposes of recovering damages in a Section 43(a) claim, the plaintiff must show that customers were actually deceived).

This requirement does not place the burden on the plaintiff to prove the precise quantum of damages that it has suffered through “detailed individualization of loss of sales.” Id. However, the plaintiff must show some customer reliance on the false statement. Id.

In Parkway Baking, the plaintiff, a baking company, brought an action against one of its competitors under Section 43(a) of the Lanham Act seeking damages and injunctive relief. The district court denied the plaintiff’s claim even though the court found that the defendant’s bread wrapper contained a false statement that it was licensed to make and sell bread in the Philadelphia area. The Third Circuit upheld this ruling. On the plaintiff’s damages claim, the court reasoned that the plaintiff “has introduced no evidence that anyone who purchased . . . bread with the false designation on the wrapper did so because of the false wrapper, nor is there any evidence that anyone would have refused to purchase this bread had they known of the fallacious label.” Parkway Baking, 255 F.2d at 648-49. The court observed that the purpose of “Section 43(a) was to promote fair business dealings. . . . not to provide a windfall to an overly eager competitor.” Id. at 649 (internal quotation omitted).¹ Under the rule laid out in Parkway Baking, in order for Regscan to establish its claim under the Lanham Act, it must show that

¹ The court in Parkway, went on to note that, in the case of injunctive relief, there is no requirement that the plaintiff show actual customer deception. Nonetheless, it upheld the district court’s decision that the plaintiff was not entitled to injunctive relief because the defendant had already discontinued the use of the false label. Parkway Baking Co., 255 F.2d at 649. More recent cases have also recognized the distinction between the proof required to establish a claim for damages as opposed to one for injunctive relief under Section 43(a). See, e.g., Novartis Consumer Health, Inc. v. Johnson & Johnson-Merck Consumer Pharms. Co., 290 F.3d 578, 586 (3d Cir. 2002) (stating that, in a case where the plaintiff has shown that a claim is “‘literally false,’ a court may grant relief without considering whether the buying public was actually misled”). Regscan is not seeking injunctive relief in this case, only damages. Nor would injunctive relief serve any purpose here. The “newly patented technology” statement on Citation’s website has since been modified to state that Citation’s technology is not “patented” but is instead the subject of a pending patent application. (Regan Decl. ¶ 9.)

customers were deceived by Citation's false patent statement and purchased Citation's products because of that statement or would have refused to purchase them if they had known the statement was false.

Moreover, in order to survive a motion for summary judgment, Regscan is also required to produce evidence that it has been damaged in some way by Citation's actions. See Callahan v. A.E.V., Inc., 182 F.3d 237, 247 (3d Cir. 1999) (noting that plaintiffs must show evidence or support at the summary judgment stage that, if believed, would prove loss, causation and specific damages). Even though Defendants concede that the patent statement was a violation of the Lanham Act, Regscan's recovery for this violation is contingent on its ability to show Citation actually profited from the false statement, or Regscan sustained damages as a result of it. See 15 U.S.C. § 1117 (providing when "a violation under section 1125(a) . . . of this title . . . [has been] established in any civil action arising under this chapter, the plaintiff shall be entitled . . . to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action"); Syngy, Inc. v. Scott-Levin, Inc., 51 F. Supp. 2d 570, 577 (E.D. Pa. 1999) (finding that plaintiff's Lanham Act claim failed in part because plaintiff produced no evidence that it suffered actual damages as a result of defendant's alleged false statement).

Citation argues that Regscan has produced no evidence to support this theory of damages. Citation cites Plaintiff's answers to its discovery interrogatories, which were submitted shortly after this Court's September 5, 2006 decision. Regscan responded to these interrogatories by stating that it could not calculate its damages until it received further discovery from Citation. Although Plaintiff has since taken five depositions of present or former employees of Citation, it still has not come forward with any evidence that it has lost customers, or that Citation has

gained customers, as a result of the patent statement.

Citation further notes that it deposed Edward Ertel, Regscan's President and Chief Executive Officer, on September 15, 2006, and he could not designate a single customer that Regscan had lost because of Citation's website statement referencing newly patented technology. (Ertel Dep., Defs.' Br., Ex. E.) Ertel was equally unable to identify any potential customer that Regscan had lost because of this patent statement and could not offer any other facts that would lend support to Plaintiff's claim that it was damaged because of the inaccurate statement about patented technology. During his deposition, Ertel repeatedly asserted that he would be not be able to respond to Citation's questions about damages until Regscan deposed a number of individuals at Citation. Regscan has since had an opportunity to conduct further discovery on this issue, but it continues to be unable to show any evidence of damages.

Citation has produced evidence that Citation's website as a whole generated very few customer calls and even fewer, if any, sales. Bruce Regan, an individual defendant in this case who identifies himself as a senior member of the sales and marketing group at Citation, testified in his deposition that Citation's website generated in the past year "under five, seven [calls]. I mean, just very few. Where we generate our interest is being at a trade show, talking to people, referrals. . . . Most of our business actually comes off referrals." (Regan. Dep. 32, Defs.' Br., Ex. B.). Furthermore Joel Kobren, a former employee of Citation who worked in sales, also testified that the Citation website generates very few customer calls "[m]aybe once every two or three years. I mean, I can't say that it never has happened, but you can count them on one hand and have a few fingers left over." (Kobren Dep. 61-62, Defs.' Br., Ex. F.). After viewing printouts of the homepage of Citation's website, Kobren further testified that customers would never call

the company to purchase Citation's products based on viewing an advertisement on that homepage, "I mean, that's a big zero. That's not even once in a blue moon, to my knowledge. That's never happened." Id.

Defendants also submit Bruce Regan's declaration for further support of their argument that the website patent statement did not cause Regscan to suffer any damages. (Regan Decl., Defs.' Br., Ex. G.). Regan asserts that, to his knowledge, there are no customers of EHS products who chose Citation over its competitors based on the inaccurate patent statement on Citations's website. Id. ¶ 10. Moreover, he is unaware of any customers who chose Citation over its competitors because of *any* of the statements made on its website. Id. Instead, Regan states that, based on his experience, sales to EHS customers usually result from one on one telephone calls, face to face meetings, product demonstrations, and free trials. Id. ¶ 11.

Regan also outlines the research Citation performed to determine whether its inaccurate patent claim caused it to secure additional business. Id. ¶¶ 12-18. He reports that a search of Citation's database of Citation's customers and potential customers revealed that, out of thousands of entries, only eighty-five referred to "patented technology." All eighty-five of those entries were emails from Joel Kobren, a former member of Citation's sales team, and eighty-two of the recipients of those emails were not and have never have been customers of Citation. Id. ¶¶ 12-16. Regan then reports that he contacted the remaining three recipients, who had obtained a subscription to Citation's services at one time, to determine whether the reference to "patented technology" in Kobren's emails influenced their purchasing decisions. Id. ¶ 17. Regan states that these customers did not purchase these products as a result of the reference to patented technology in Kobren's emails, but instead because it was suitable to the customers' particular

needs. Id. ¶ 18. He also states that the sales process for each of these customers involved product demonstrations and/or a client visit as well as a free trial of the product.

1. Plaintiff's Evidentiary Objections

In its response, Plaintiff has argued that the Court should not consider a number of the statements in Regan's declaration as inadmissible hearsay or as barred by the best evidence rule. Regscan argues that Regan's statements regarding the reasons the three Citation customers who saw the "patented technology" statement chose to purchase Citation's products are inadmissible hearsay. (Reg. Decl. ¶¶ 17-18.) In Callahan, the Third Circuit reviewed a district court's decision to exclude the testimony of the plaintiffs in that case, that several customers had told the plaintiffs they had stopped shopping at plaintiffs' stores because of the defendants' competing operation. See Callahan, 182 F.3d at 252 (3d Cir. 1999). The Third Circuit held this evidence was admissible under Federal Rule of Evidence 803(3) for the limited purpose of showing the motive for the customers' purchasing decisions. Id. Furthermore, the court held that the customers need not be identified for the statements to be admissible. Id. at 252 n.11. Regan's declaration is admissible for the same reasons: He offers these statements to show that Citation's customers were not motivated to purchase Citation's products because of the "patented technology" statements. Therefore, the Court will consider these statements in evaluating whether Plaintiff has a cause of action under the Lanham Act.

Even if the Court were to find that Rule 803(3) does not apply to these statements, they are still admissible under Federal Rule of Evidence 701 as the lay opinion testimony of Regan about how Citation obtains its customers. In Lightning Lube, Inc. v. Witco Corp., 4 F.3d 1153, 1175 (3d Cir. 1993), the Third Circuit held that the trial court did not err in when it refused to set

aside a large compensatory damages verdict because the plaintiff company's principal damages evidence was based on the lay opinion testimony of the company's owner. Id. The owner's testimony relied in part on a damage report prepared by an accounting firm with his assistance. In response to the defendants' argument that this testimony was inadmissible under Rule 701 because it lacked foundation, the court found "given [the owner's] knowledge and participation in the day-to-day affairs of his business, his partial reliance on the report, even if prepared by an outsider, does not render his testimony beyond the scope of Rule 701." Id.; see also United States v. Polishan, 336 F.3d 234, 242 (3d Cir. 2003) ("A witness testifying about business operations may testify about 'inferences that he could draw from his perception' of a business's records, or 'facts or data perceived' by him in his corporate capacity.")

Even though Regan did not personally search Citation's database, the Court finds Regan, as the Executive Vice President of Citation and a senior member of its sales and marketing group with knowledge of the day-to-day operations of the business, was entitled to rely on the work of the individuals who searched Citation's databases as well as his own experience, in concluding that the patented technology language did not affect consumer's purchasing decisions. Moreover, Regan directly contacted the Citation customers who he knew saw the patented technology language to ascertain their reasons for subscribing to Citation's service. The Court concludes that Regan had the requisite personal knowledge and foundation to make his opinion about those customer's purchasing decisions admissible under Rule 701.

Plaintiff also asserts that the Court should not consider Regan's statements describing Citation's investigation into customer communications that refer to "patented technology," the contents of those communications, or the overall results of that investigation as barred by the best

evidence rule, Federal Rule of Evidence 1002. (Reg. Decl. ¶¶ 17-18.) Plaintiff contends that the Defendants were obligated to produce the database documents and emails that Regan refers to in his declaration and not to rely on Regan's declaration alone. The Court finds that Regan's testimony is not barred by the best evidence rule. The Advisory Committee Notes to Rule 1002 clarify:

Application of the rule requires a resolution of the question whether contents are sought to be proved. Thus an event may be proved by nondocumentary evidence, even though a written record of it was made. If, however, the event is sought to be proved by the written record, the rule applies. For example, payment may be proved without producing the written receipt which was given. Earnings may be proved without producing books of account in which they are entered. Nor does the rule apply to testimony that books or records have been examined and found not to contain any reference to a designated matter.

Regan's declaration outlines how Citation's search of thousands of customer communications resulted in a limited number of references to "patented technology." Defendants are not required to produce all of the documents where that statement did not appear. See United States v. Paxton, 403 F.2d 631, 632-33 (3d Cir. 1968) (holding district court acted well within its discretionary limits when it did not require government to produce original bank records that bank auditor had testified did not contain certain entries). Regan may state that the "patented technology" statement was not made in customer communications without producing each individual email. Finally, as noted above, as a senior sales executive at Citation, Regan may opine that Citation's business was not generated by the "patented technology" statement based on his review of those business records and his own experience. Therefore, the Court will consider Regan's declaration in its entirety in deciding Defendants' Motion for Summary Judgment.

2. Plaintiff's Theory of Damages

Plaintiff's theory of damages is based on what it terms is a "reasonably held belief" that Citation started using the false patent statement as an affirmative means to counter bad publicity generated by Citation's involvement in the BNA case. Regscan cites to its damages statement: "Citation wanted its existing prospective customers to believe Citation's impossibly-low prices were the result of technological prowess, not the result of Citation misappropriating data from its competitors." (Pl.'s Br. 12.) Plaintiff goes on to cite numerous facts about the BNA litigation in the District of Arizona, which the Court finds to be accurate, but irrelevant.

Plaintiff then claims that it has determined that its damages are approximately one-third of Citation's annual revenue for the relevant time period, and in support, cites the deposition of Tom Balaban, Regscan's Executive Vice President and Chief Operating Officer. (Balaban Decl. ¶ 7, Pl.'s Br., Ex. 8.) Balaban's declaration states that Citation's customer base consists of a "highly ethical subset of the business population with a low tolerance for unethical behavior." Id. ¶ 4. According to Balaban, if these customers had learned of the BNA litigation, they would have terminated their subscriptions with Citation:

Regscan reasonably believes that under these circumstances, it would have become the supplier of full-text regulatory information to about one-third of these customers. The Bureau of National Affairs (BNA) would have received one-half of this business and the remaining one-sixth would have been divided among various suppliers.

Id. ¶¶ 5-6. Finally, Balaban asserts that, in Regscan's experience, a public website can function as a valuable marketing tool and that Regscan's own website receives 1600 "hits" per month from different visitors. Id. ¶ 8.

Regscan relies almost entirely on this single declaration to support its theory of damages.² The Court finds that this declaration offers no hard data or affirmative support for Regscan's assertion that it is entitled to one-third of Citation's annual revenues for the time period during which the "patented technology" statement appeared. Regscan's theory is based solely on the unfounded speculation of an interested witness. Such a theory would require evidence that a significant number of Citation's customers, representing one third of its revenues, would have purchased services from the Plaintiff but for the false statement about the patent. See 15 U.S.C. § 1117; Syngy, Inc. v. Scott-Levin, Inc., 51 F. Supp. 2d at 577.

While Balaban, as officer of Regscan, may offer his lay opinion as to how many "hits" Regscan's website generates in a month, this does nothing to counter Defendants' evidence that its own website rarely, if ever, generates customer sales. There is a large divide between an individual who simply visits a company's website, and one who contacts the company based on that visit and purchases its products. Similar to the deposition of Mr. Ertel noted above, Mr. Balaban in his declaration does not claim any firsthand knowledge of any customer who Plaintiff has lost because of Citation's conduct or of any additional customers who, but for the inaccurate statement, would have become customers of Plaintiff. Although it is true that Plaintiff is not required to show its damages at the summary judgment stage with specificity, because it is seeking monetary damages, it must show at least some evidence that customers were deceived by the statement on Citation's website and that deception affected their decision to purchase

² It is also worth noting that this theory bears a close resemblance to Regscan's Lanham Act claim based on misappropriation of data asserted by Regscan earlier in this case, which this Court rejected in its September 5, 2006 Memorandum and Order. The same misappropriation theory was also asserted in Plaintiff's RICO allegations, a claim this Court found in its February 17, 2006 Memorandum and Order was precluded by the earlier state court decision.

Citation's products or not to purchase Regscan's. See Parkway Baking, 255 F.2d at 648-49; Callahan, 182 F.3d at 247.

Without any evidence that any former, current, or prospective customers altered their purchasing behavior in any way as a result of the "patented technology" statement on Citation's website, Plaintiff has failed to make out a sufficient case of injury, and summary judgment must be granted in favor of Defendants. An appropriate Order follows.

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

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

ORDER

AND NOW, this 16th day of March, 2007, for the reasons laid out in the forgoing Memorandum, Defendant' Motion for Summary Judgment Regarding "Patent Statement" (Doc. No. 118) is GRANTED. Inasmuch as all of the Plaintiff's claims have now been dismissed, it ordered that final judgment is entered for the Defendants and against the Plaintiff. The Clerk shall close this case.

BY THE COURT:

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