IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

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| LIAFAIL, INC., | ) | |
| | ) | |
| Plaintiff and Counterclaim Defendant | ) | CONSOLIDATED |
| | ) | |
| v. | ) | C.A. No. 01-599 GMS and C.A. No. 01-678 GMS |
| | ) | |
| LEARNING 2000, INC., JAMES RICHARD STORY, III, individually, ANTONIO SANTINI, individually, ILC, INC., SFD, INC,. and S & S ENTERPRISES, | ) | |
| | ) | |
| Defendants and Counterclaim Plaintiffs and Third-Party Plaintiffs, | ) | |
| | ) | |
| v. | ) | |
| | ) | |
| FRANK STUCKI, | ) | |
| | ) | |
| Third-Party Defendant. | ) | |

**MEMORANDUM AND ORDER**

## I. INTRODUCTION

On June 5, 2001, the plaintiff and counter-claim defendant, Liafail, Inc. ("Liafail") filed a complaint in the United States District Court for the Western District of Kentucky, setting forth various contractual theories of liability. The United States District Court for the Western District of Kentucky transferred this case to the United States District Court for the District of Delaware on August 29, 2001. This case became Civil Action Number 01-599-GMS.

On October 9, 2001, Learning 2000, Inc ("L2K") commenced Civil Action Number 01-678-GMS in the United States District Court for the District of Delaware. In this complaint, L2K alleges that Liafail has violated, *inter alia*, Section 43 of the Lanham Act, 15 U.S.C. § 1125(a); Section 2532 of the Delaware Uniform Deceptive Trade Practices Act, and the Anti-Cybersquatting

Consumer Protection Act, 15 U.S.C. § 1125(d).

By stipulation of the parties, the court consolidated Civil Actions 01-599-GMS and 01-678-GMS on November 2, 2001.

Presently before the court is L2K's motion for partial summary judgment on its Lanham Act, cybersquatting and alter ego claims. For the following reasons, the court will deny this motion.

## II. STANDARD OF REVIEW

The court may grant summary judgment only if there are no genuine issues of material fact and the moving party is entitled to judgment as a matter of law. FED. R. CIV. P. 56(c). An issue is "genuine" if, given the evidence, a reasonable jury could return a verdict in favor of the non-moving party. *See*, *e.g.*, *Abraham v. Raso,* 183 F.3d 279, 287 (3d Cir. 1999) (citing *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248-51 (1986)); *Lloyd v. Jefferson*, 53 F. Supp. 2d 643, 654 (D. Del. 1999) (citing same). A fact is "material" if it bears on an essential element of the plaintiff's claim. *See, e.g., Abraham*, 183 F.3d at 287; *Lloyd*, 53 F. Supp. 2d at 654. On summary judgment, the court cannot weigh the evidence or make credibility determinations. *See Anderson*, 477 U.S. at 255 ("Credibility determinations, the weighing of the evidence, and the drawing of legitimate inferences from the facts are jury functions, not those of a judge, whether he is ruling on a motion for summary judgment or for a directed verdict."); *International Union, United Auto., Aerospace & Ag. Implement Workers of America, U.A.W. v. Skinner Engine Co.*, 188 F.3d 130, 137 (3d Cir. 1999) ("At the summary judgment stage, a court may not weigh the evidence or make credibility determinations; these tasks are left to the fact finder."). Instead, the court can only determine whether there is a genuine issue for trial. *See Abraham*, 183 F.3d at 287. In doing so, the court must look at the evidence in the light most favorable to the non-moving party, drawing all reasonable

inferences, and resolving all reasonable doubts in favor of that party. *See, e.g., Pacitti v. Macy's*, 193 F.3d 766, 772 (3d Cir. 1999). With this standard in mind, the court will now describe the facts leading to the motion presently before the court.

## III. BACKGROUND

L2K's relationship with Liafail began as a partnership in 1997 to jointly market and sell a product known as the "Lifetime Library." The Lifetime Library was created by Keith Hansen ("Hansen"), Liafail's Vice President of Product Development. In order to pursue further development of this program, Hansen eventually met with Nicholas Quinn ("Quinn"), Frank Stucki and Robert Stucki. Liafail was formed to realize their vision of providing a widely accessible, high quality educational resource to schools and other institutions.

Liafail received its initial funding from its sole shareholder, Robert Stucki. As Liafail and Hansen have continued to develop and refine the Lifetime Library, Robert Stucki has made additional capital contributions and loans on an as-needed basis. Liafail maintains that its corporate records reflect these contributions, which approach $1,000,000. Robert Stucki denies playing any role in the day-to-day operation of Liafail's business. He also denies receiving a payment or distribution from Liafail of any kind.

Quinn originally served as Liafail's president. In that capacity, he exercised the broad authority delegated to him by Liafail's sole shareholder and its Board of Directors. After an illness, Quinn turned over the company's daily management to its current president, Frank Stucki. In addition to his salary, Frank Stucki has also received a loan from Liafail in the amount of $30,000. Liafail denies routinely paying personal expenses, credit card charges, or any other distributions to Frank Stucki.

Initially, McGraw Hill Publishing Company ("McGraw Hill") promoted the Lifetime Library under that name. After that distributorship agreement ended, Liafail took over distributions of the Lifetime Library for a short period of time. Soon thereafter, Quinn and Frank Stucki met with Richard Story ("Story") and Jeff Gerdes ("Gerdes"), who had experienced some success in promoting another software package. According to Liafail, Story and Gerdes were convinced that they could obtain the same exposure, and the same sales, for the Lifetime Library. In particular, Gerdes emphasized his close relationship with top executives at Gateway Computers.

Upon reaching an agreement with Liafail to become the exclusive distributor of Lifetime Library, Story and Gerdes decided not to work through Gerdes' existing company. Instead, Story and his partner, Tony Santini ("Santini") created a new corporation known as "SFD, Inc." ("SFD"). SFD then assigned its rights to another newly formed corporation, Learning 2000, Inc. ("L2K"). According to Story, prior to the Liafail transaction, L2K had promoted no products, provided no services and, in fact, did not exist. At his deposition, Story further testified that L2K has not offered any product, except for Liafail's Lifetime Library, on a material basis, and it has never provided any material services except in connection with the Lifetime Library.

Liafail contends that the media promotions the parties had originally discussed never materialized. Instead, the vast majority of L2K's sales of the Lifetime Library came though the Gateway relationship. L2K also reached a representation agreement with Steve Sborov ("Sborov"), who had previously sold the product for Liafail and McGraw Hill.

Liafail contends that it envisioned a close working relationship in which L2K would build off the solid reputation of the Lifetime Library to gain wider exposure among both educational institutions and consumers. Liafail also claims that, because L2K had no name recognition of its

own, it coupled its name with that of Liafail's product and began promoting the "Learning 2000 Lifetime Library" for the first time. To allegedly capitalize on the association of the product with Hansen, Stucki, and other Liafail employees, L2K provided them with business cards and stationary identifying them as representatives of L2K. It also provided L2K e-mail addresses for them. The employees willingly agreed to represent themselves as such because, in Liafail's view, the parties were pursuing a common goal, *i.e.* making the Lifetime Library available to a broad audience. To further this goal, Liafail also wrote various user guides and manuals which would accompany the Lifetime Library and inserted references to L2K in those materials. It followed the same procedure with regard to brochures and other promotional items.

As part of their joint effort, Frank Stucki registered several internet domain names to house websites for use in the Lifetime Library's promotion. One of these websites was www.learning2000.com. According to Liafail, L2K acknowledges that Frank Stucki originally registered the domain name and commissioned the website to occupy that domain. The parties disagree as to when, and for how long, Liafail paid for the site. Liafail maintains that, at least through September 2000, when L2K's attorneys drafted the Asset Purchase Agreement, the parties considered this site the property of Liafail and identified it as such on a schedule to that agreement.

L2K asserts that, on October 31, 2000, Frank Stucki changed the domain registrant to Liafail and wrongfully listed himself as the domain's contact person. Conversely, Liafail argues that Frank Stucki merely changed the contact information, which had listed him with an address at L2K, to reflect his Liafail address. The parties now disagree as to Frank Stucki's right to request this change. Liafail argues that, prior to the time Stucki made the request, both he and L2K had acted as if Liafail owned the domain. Moreover, Stucki acted with the full authority of Liafail when he

made the request. Liafail also asserts that L2K did not lose access to the site. Indeed, according to Liafail, the site continues to direct customers to L2K, not to Liafail. Liafail further maintains that it has made no changes to the site, nor has it promoted itself on the site.

Liafail also contends that its efforts to support the Lifetime Library continued long after the establishment of the L2K website and extended even to meeting responsibilities contractually allocated to L2K. Throughout the life of the parties' relationship, Liafail argues that it made all of the upgrades and performed all of the Lifetime Library's development. Similarly, Liafail argues that it provided virtually all of the Lifetime Library's customer and technical support.

Liafail further contends that nothing occurred during the course of the parties' relationship that lends any credence to L2K's contention that the L2K designation added value to the Lifetime Library name, either in reality, or in the minds of the customers. Liafail makes this claim because L2K did not exist before its association with Lifetime Library. According to Liafail, L2K chose to link its name exclusively with the Lifetime Library, and did not offer anything independent of the Lifetime Library. Moreover, Liafail contends that it performed all the development of the product, wrote the user manuals, and provided the vast majority of the technical and customer support.

Finally, according to the terms of the last agreement signed by the parties, L2K retained no rights after June 30, 2001 with regard to the Lifetime Library, except the right to distribute it to existing customers pursuant to contracts already in place on that date. It removed all the references to L2K that it had inserted in its existing materials and hired a sales force familiar with the product. Sborov, who hired this sales force, maintains that he specifically instructed the sales people not to identify themselves as L2K employees. L2K, however, contends that Liafail's sales representatives repeatedly failed to inform customers and potential customers that they no longer represented L2K.

Indeed, L2K argues that some sales representatives went so far as to continue to use the L2K mark, thereby creating the false impression that they still represented L2K. Moreover, L2K argues that Liafail's current user manual contains forty-seven references to L2K.

## IV. DISCUSSION

L2K requests that the court grant summary judgment in its favor on its Lanham Act, cybersquatting, and alter ego claims. The court will now discuss each claim in turn.

### A. Lanham Act

L2K's Lanham Act claim centers on its contention that Liafail has improperly used L2K's trade name in marketing the Lifetime Library product as the "Learning 2000 Lifetime Library." It argues that, in so doing, Liafail has created the likelihood of consumer confusion as to the source of the product. Specifically, L2K characterizes its Section 43(a) claim as "an amalgam of a classic section 43(a) claim alleging misuse of a mark, a claim of false advertising pursuant to 15 U.S.C. § 1125(a)(2), and a claim of passing off." *AT&T Co. v. Winback & Conserve Program, Inc.*, 42 F.3d 1421, 1428 & n.9 (Fed. Cir. 1994) (characterizing the plaintiff's claim as such wherein, "by a series of misrepresentations - including oral representations, misleading use of [the plaintiff's] marks, and misleading description of [the defendant's] name - the defendants confused end-user customers into believing [the defendant] was affiliated with [the plaintiff]".)

Under Section 43(a) of the Lanham Act, unfair competition occurs where, *inter alia*, a defendant uses a false designation of origin in connection with goods or services in interstate commerce that is likely to cause confusion in the marketplace and likely to cause the plaintiff injury. *See* 15 U.S.C. § 1125(a)(1). To prevail on this claim, L2K must prove the following four elements: (1) Liafail used a false designation; (2) that such use of a false designation occurred in interstate

commerce in connection with goods and services; (3) that such false designation is likely to cause confusion, mistake or deception as to the origin, sponsorship, or approval of Liafail's goods or services by another person; and (4) that L2K has been or is likely to be damaged. *See AT&T*, 42 F.3d at 1428.

Liafail asserts that there exist numerous genuine issues of material fact that preclude the entry of summary judgment in L2K's favor. Specifically, Liafail argues that the issue in this case arises because L2K coupled its trade name with Liafail's product. This action resulted in the creation of the "Learning 2000 Lifetime Library." In such cases, courts have concluded that whether one of these trade names can, in and of itself, qualify for trademark protection in conjunction with a product is determined by "whether that part of the composite creates a commercial impression on the average [customer] of such [product] separate and distinct from the composite." *Four Seasons Hotels, Ltd. v. Koury Corp.*, 776 F. Supp. 240, 247 (D.N.C. 1991); *see also A&H Sportswear, Inc. v. Victoria's Secret Stores, Inc.*, 237 F.3d 198, 218 (3d Cir. 2000). This determination is "purely a question of fact." *Four Seasons Hotels*, 776 F. Supp. at 247.

In the present case, Liafail offers Sborov's deposition testimony that its educational software product was developed and marketed as the "Lifetime Library" long before L2K had any involvement with the product. It has further adduced deposition testimony that L2K itself recognized Liafail's right to use the term "Learning 2000" to refer to the services Liafail rendered in supporting the product. Conversely, L2K has produced statements from a Liafail sales representative that, "the [Lifetime Library] icon on [a sale's representative's computer] screen caused folks to ask is that 'Learning 2000'?" Furthermore, L2K has proffered testimony that third parties used "Lifetime Library" and "Learning 2000" synonymously. In light of this, and other,

evidence, the factual issue of whether coupling L2K's tradename with Liafail's trademark served to identify the source of that product is clearly in dispute. Therefore, the court cannot grant summary judgment on this issue.

**B. The Anti-Cybersquatting Consumer Protection Act**

To establish a claim of cybersquatting under the Anti-Cybersquatting Consumer Protection Act ("ACPA"), L2K must show: (1) that the defendant's domain name is either (a) dilutive of a famous trademark or (b) identical or confusingly similar to a distinctive trademark, and (2) that the defendant has 'a bad faith intent to profit from that mark.'" *A.B.C. Carpet, Co., Inc. v. Mehdi Naeini*, 2002 WL 100604, at *5 (E.D.N.Y. Jan. 22, 2002) (quoting 15 U.S.C. § 1125(d)(1)); *Sporty's Farm L.L.C. v. Sportsman's Mkt., Inc.*, 202 F.3d 489, 497-498 (2d Cir. 2000). The ACPA also provides for a safe harbor provision, specifying "that bad faith, 'shall not be found in any case in which the court determines that the person believed and had reasonable grounds to believe that the use of the domain name was a fair use or otherwise lawful.'" *March Madness Athletic Ass'n, L.L.C. v. Netfire, Inc.*, 162 F. Supp. 2d 560, 573 (N.D. Tex. 2001) (quoting 15 U.S.C. § 1125(d)(1)(B)(ii)). The inquiry into whether a party registered a domain name in bad faith is particularly fact-intensive and not amenable to disposition on summary judgment. *See March Madness*, 162 F. Supp. 2d at 574.

The court finds that the following disputed issue of material fact, among others, will preclude it from entering summary judgment in L2K's favor. L2K must establish that the name "Learning 2000" is a distinctive or famous mark. *See Shields v. Zuccarini*, 254 F.3d 476, 482 (3d Cir. 2001). Such a determination depends, however, on factors such as advertising, degree of public recognition, and extent of use. *See Domain Name Clearing Co., L.L.C. v. F.C.F., Inc.*, 2001 WL 788975, at *3

(4th Cir. July 12, 2001). As the court noted in Section IV B, *supra*, a dispute remains as to the success of the moniker as an identifier of the product separate and apart from the existing trademark "Lifetime Library." Accordingly, the court will deny L2K's motion for summary judgment on this claim.

**C. Alter Ego Claims**

To prevail on an alter ego claim under Delaware law, L2K must first show that the parent and subsidiary "operated as a single economic entity." *Harper v. Delware Valley Broadcasters, Inc.*, 743 F. Supp. 1076, 1085 (D. Del. 1990), *aff'd* 932 F.2d 959 (3d Cir. 1991). L2K must also demonstrate that an "overall element of injustice or unfairness . . . [is] present." *Id*. Effectively, "the corporation must be a sham and exist for no other purpose than as a vehicle for fraud." *In re Sunstates Corp. Shareholder's Litig.*, Del. Ch. 788 A.2d 530, 534 (Del. Ch. 2001).

The United States Court of Appeals for the Third Circuit has set forth several considerations for a court to consider in determining whether a "single economic unit" existed. *See United States v. Pisani*, 646 F.2d 83, 88 (3d Cir. 1981). These consideration are as follows: (1) undercapitalization; (2) failure to observe corporate formalities; (3) nonpayment of dividends; (4) the insolvency of the debtor corporation at the time; (5) siphoning of the corporation's funds by the dominant stockholder; (6) absence of corporate records; and (7) the fact that the corporation is merely a facade for the operations of the dominant stockholder or stockholders. *See id*. Moreover, the situation must present an element of injustice or fundamental unfairness. *See id*. However, the *Pisani* list of factors is not conjunctive, nor is it an exclusive list. *See Galgay v. Gangloff*, 677 F. Supp. 295, 299-300 (M.D. Pa. 1987).

L2K argues that, in the past, Liafail has paid the salaries of employees of another company

owned by Richard Stucki and a nephew of the Stucki brothers. L2K further contends that Liafail made an undocumented $20,000 to $30,000 loan to Frank Stucki for his daughter's wedding. Frank Stucki testified at his deposition that this money has not been repaid. Finally, L2K maintains that Liafail forwards monthly $5,000 payments to an individual in Vancouver because, as Robert Stucki testified, "[Liafail] likes to support him." Moreover, Frank Stucki testified that Liafail will continue to do so for as long as this individual continues to pray for Liafail. L2K is aware of no evidence that any written terms exist to support these payments. It further contends that neither Frank Stucki, nor this individual, know the terms of the payments or whether they are fair to Liafail.

In response, Liafail argues that Robert Stucki has contributed approximately one million dollars to Liafail, while not taking any distributions himself. Liafail has also offered evidence that Liafail documented such contributions. Furthermore, with regard to the allegations that it pays salaries to another company's employees, Liafail offers its accountant's testimony that Liafail received repayment for the sums it put forth while "incubating" this related company. Moreover, Robert Stucki testified that he had no ownership interest in this other company. Liafail also contends that the payments it makes to the individual in Vancouver are in consideration of this former principal's contributions to the company. Finally, although Liafail maintains that its loan to Frank Stucki for his daughter's wedding was documented, it has provided no record evidence to support this assertion. The court concludes, however, that the lack of evidence on this point is not sufficient to justify granting L2K's motion.[1] The court will also decline to grant summary judgment on this issue in light of the above-discussed disputed facts, among others.

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[1]Although L2K argues that the lack of formal shareholder meetings is an additional factor weighing in its favor, the court must disagree. Indeed, as Liafail has only one shareholder, the lack of formal shareholder meetings holds little significance in this analysis.

## V. CONCLUSION

For the foregoing reasons, IT IS HEREBY ORDERED that:

1. Learning 2000's Motion for Partial Summary Judgment (D.I. 250) is DENIED.

Dated: October 23, 2002

Gregory M. Sleet
UNITED STATES DISTRICT JUDGE