

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

EMERGENCY CARE RESEARCH : CIVIL ACTION
INSTITUTE :
 :
v. :
 :
GUIDANT CORPORATION, et al. : NO. 06-1898

MEMORANDUM

Bartle, C.J.

December 5, 2006

Plaintiff Emergency Care Research Institute ("ECRI"), a non-profit health services research agency, instituted this diversity action seeking a declaratory judgment that it may continue to acquire and publish certain information it receives from hospitals regarding the prices they pay for medical devices made and sold by defendants Guidant Corporation, Guidant Sales Corporation ("GSC"), and Cardiac Pacemakers, Inc. ("CPI") (collectively, "Guidant"). ECRI also seeks a declaration that it has not tortiously interfered with any of Guidant's sales contracts with hospitals and other health care providers.

In its answer to ECRI's complaint, Guidant raises two counterclaims. It first asserts that ECRI has tortiously interfered with the contracts between Guidant and its customers. Guidant also brings a claim under the Pennsylvania Uniform Trade Secrets Act ("PUTSA"), 12 Pa. Cons. Stat. Ann. § 5301, et seq., alleging that ECRI has misappropriated its trade secrets by obtaining confidential pricing information from hospitals.

Now before the court are: (1) the motion of ECRI for partial summary judgment on Guidant's counterclaim under PUTSA; (2) the motion of Guidant for leave to amend its answer and counterclaims; and (3) the motion of ECRI for leave to amend its reply and affirmative defenses to Guidant's counterclaims.

I.

Summary judgment is appropriate only where there is no genuine issue of material fact and the moving party is entitled to judgment as a matter of law. Celotex Corp. v. Catrett, 477 U.S. 317, 323 (1986); see Fed. R. Civ. P. 56(c). A dispute 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, 254 (1986). After reviewing the evidence, the court make all reasonable inferences from the evidence in the light most favorable to the non-movant. In re Flat Glass Antitrust Litig., 385 F.3d 350, 357 (3d Cir. 2004).

II.

The following facts are either undisputed or viewed in the light most favorable to the Guidant, the non-movant.

Guidant manufactures cardiac rhythm management devices ("CRMs"), including pacemakers and defibrillators, that it sells in Pennsylvania and throughout the United States. Guidant negotiates individualized sales contracts with each of its hospital and healthcare customers, such that different customers pay different prices for the same CRM. Guidant uses what it calls a strategic pricing system which analyzes a variety of

factors to determine the price point at which a particular CRM will be sold to a particular customer. Guidant regards and treats its pricing analysis and the resultant contract prices as trade secrets, and all Guidant sales contracts include a confidentiality provision prohibiting its CRMs customers from disclosing the terms of their respective contracts.

Since 1996, ECRI has provided a service called "PriceGuide," which consists of a searchable database of the average and lowest prices paid for a wide range of different medical products throughout the country. Approximately 400 different hospitals, health systems, manufacturers, and government agencies, among others, subscribe to PriceGuide. These subscribers pay for the right to search the database and obtain information about what prices are being charged to other purchasers of the same and competing items. Some Guidant customers have furnished ECRI with specific purchase price information which ECRI has included in the PriceGuide database. The availability on PriceGuide of price information about these CPI-manufactured CRMs is at the center of the dispute between the parties.

Guidant first learned about ECRI's publication of Guidant contract prices in PriceGuide in May 2004. Guidant promptly sent a cease-and-desist letter to ECRI regarding the price information ECRI disclosed on its website. Preliminary negotiations between the parties to resolve the disputed publication of Guidant prices were not successful.

At around that same time, CPI and GSC, two of the three defendants here, filed suit in the United States District Court for the District of Minnesota against Aspen Healthcare Metrics ("Aspen"). See Cardiac Pacemakers, Inc. & Guidant Sales Corp. v. Aspen II Holding Co., Civ. A. No. 04-4048 ("Aspen" case). CPI and GSC alleged that Aspen, a healthcare consulting firm unrelated to ECRI, was collecting non-public pricing information from existing Guidant contracts that it then used to assist its own clients in negotiating more favorable terms with Guidant for future CRM contracts. CPI and GSC asserted four causes of action against Aspen: (1) tortious interference with confidentiality agreements; (2) tortious interference with contracts; (3) tortious interference with prospective contractual relations; and (4) misappropriation of trade secrets.

While the Aspen action was pending, discussions between ECRI and Guidant continued, and Guidant's counsel sent ECRI a second cease-and-desist letter in November 2005. Shortly thereafter, in February 2006, the District Court hearing the Aspen case granted partial summary judgment in favor of CPI and GSC on the issue of whether Aspen tortiously interfered with CPI's and GSC's confidentiality agreements. See Cardiac Pacemakers, Inc. v. Aspen II Holding Co., 413 F. Supp. 2d 1016 (D. Minn. 2006). The court determined that Aspen had intentionally procured the breach of these confidentiality agreements and that Aspen failed to sustain its burden of asserting any valid legal justification for such conduct. Id. at

1024-26. In May 2006, Aspen, CPI and GSC apparently reached a settlement of the lawsuit.

In the meantime, in March 2006, Guidant sent ECRI a copy of the February 2006 Aspen opinion along with a repeated cease-and-desist demand. It does not appear the parties engaged in any further negotiations prior to the filing of ECRI's complaint in this court on May 4, 2006.

III.

ECRI first asserts that the court should grant summary judgment on Guidant's counterclaim under PUTSA on the ground that Guidant should be judicially estopped from prosecuting its trade secrets claim under PUTSA. ECRI bases this contention on statements made by Guidant during the Aspen litigation in the United States District Court in Minnesota. In its memorandum in opposition to Aspen's motion for summary judgment, Guidant asserted trade secret protection for three aspects of its pricing: (1) its strategic pricing process; (2) its contracts; and (3) each hospital's price and contract terms. Guidant's Mem. in Opp'n to Aspen's Mot. for Summ. J. at 7. Guidant also stated that "two types of limited pricing information are not included in the trade secrets claim at issue here: 1) discrete price points paid by a particular hospital for CRM devices; and 2) average sales prices of Guidant's CRM devices across multiple hospitals." Id. at 7-8. ECRI now claims that because discrete prices and average prices are the only types of price information it receives and publishes, Guidant should be bound by the

definition it used in the Aspen litigation and judicially estopped from pursuing its misappropriation of trade secrets claim against ECRI.

The doctrine of judicial estoppel exists to protect the integrity of the judicial process. New Hampshire v. Maine, 532 U.S. 742, 750 (2001) (citation omitted). It "prevents a party from asserting a claim in a legal proceeding that is inconsistent with a claim taken by that party in a previous proceeding." Id. (quoting 18 C. Wright, A. Miller & E. Cooper, Federal Practice and Procedure § 4477, p. 782 (1981)). The Supreme Court has articulated the factors a lower court should consider when deciding whether to apply the doctrine:

First, a party's later position must be clearly inconsistent with its earlier position. Second, courts regularly inquire whether the party has succeeded in persuading a court to accept that party's earlier position, so that judicial acceptance of an inconsistent position in a later proceeding would create the perception that either the first or the second court was misled. ... A third consideration is whether the party seeking to assert an inconsistent position would derive an unfair advantage or impose an unfair detriment on the opposing party if not estopped.

Id. at 750-51 (internal citations and quotation marks omitted).

Our Court of Appeals has limited the application of the doctrine to those circumstances of intentional wrongdoing. It has explained that "[judicial estoppel] is designed to prevent litigants from playing fast and loose with the courts. ... [T]he doctrine will not apply where inconsistent positions are asserted

in good faith ... [or] unless intentional self-contradiction is used as a means of obtaining unfair advantage." In re Chambers Development Co., 148 F.3d 214, 229 (3d Cir. 1998).

We believe that the key factor in this case is the second one enumerated by the Supreme Court in New Hampshire. The Aspen court never held that the prices obtained from Guidant were anything other than trade secrets. In fact, the definition of trade secrets that the court used included each hospital's price and contract terms. Id. at 1020. If anything, it conforms to Guidant's claims here - that ECRI has misappropriated hospital purchasing records which, like the hospitals' contracts, contain information about the purchasing hospital and the hospital's purchasing volume, vendor usage and product mix. Although the Aspen court accepted Guidant's position that "two types of limited pricing information are not included in the trade secrets claim at issue here," this in no way constitutes a finding that that information was not protected as a trade secret. Aspen, 413 F. Supp. 2d at 1020. The Aspen court made no finding that would support the invocation of judicial estoppel here.

In addition, the other two factors articulated by the Supreme Court suggest that the application of judicial estoppel would be inappropriate in this case. We do not see any way that Guidant's position in this litigation will cause it to gain an unfair advantage or impose an unfair detriment on ECRI. Nor does it seem that Guidant's positions are clearly and incompatibly inconsistent with each other.

In sum, judicial estoppel does not bar Guidant's PUTSA counterclaim.

IV.

ECRI also seeks partial summary judgment on the ground that PUTSA, by its express terms, does not apply to the conduct at issue because the conduct began long before the effective date of the statute. The Pennsylvania General Assembly provided that PUTSA "shall not apply to misappropriation occurring prior to the effective date of this act, including a continuing misappropriation that began prior to the effective date of this act and which continues to occur after the effective date of this act." 2004 Pa. Laws 14 § 4. The Act became effective on April 19, 2004, sixty days after it was enacted. Id. at § 5.

ECRI asserts that it began collecting price and other information from hospitals for the PriceGuide database as early as 1996. It urges the court to view the entire course of its information collection from hospitals as one uninterrupted chain of activity. If ECRI's conduct is characterized as a continuing misappropriation, Guidant's PUTSA counterclaim would be barred.¹

ECRI analogizes its conduct to a series of tortious acts which are treated as a single, continuing tort. In such cases, it is the cumulative effect that is actionable rather than each individual incident of wrongful conduct. E.g. Roemmich v.

1. Although ECRI asserts that its conduct amounts to a single action and thus would not be actionable under PUTSA, it does not concede that its acquisition of pricing and other information from hospitals constitutes misappropriation.

Eagle Eye Dev., LLC, 386 F. Supp. 2d 1089 (D.N.D. 2005); Chudzik v. Wilmington, 809 F. Supp. 1142 (D.Del. 1992). Guidant counters that ECRI's actions do not constitute a continuing misappropriation and that ECRI commits a new misappropriation of trade secrets each time it acquires confidential CRM pricing information from a hospital. Thus, according to Guidant, ECRI has committed actionable misappropriations of Guidant trade secrets on or after the effective date of PUTSA.

The term "continuing misappropriation" under PUTSA is not defined in the statute or, as far as we know, by any appellate decision in Pennsylvania. The California Supreme Court, in a discussion of a similar statute, described a continuing misappropriation as: "[T]he continuing use or disclosure of a trade secret after that secret was acquired by improper means" Cadence Design Systems, Inc. v. AvantA Corp., 29 Cal.4th 215, 222 (Cal. 2002). Thus, to commit a continuing misappropriation, a party must wrongfully misappropriate a single trade secret and then proceed to utilize that same improperly obtained information over and over again. This is the fact pattern of each case ECRI cites. See, e.g. Doeblers' Pennsylvania Hybrids, Inc. v. Doebler, 442 F.3d 812, 829 n.20 (3d Cir. 2006); BP Chemicals Ltd. v. Jiangsu Sopo Corp., 429 F. Supp. 2d 1179 (E.D. Mo. 2006).

In Jiangsu, for example, the plaintiff alleged that the defendant copied the specifications for a chemical plant the plaintiff had designed to manufacture a type of acid through a

special, licensed process. After the defendant built a plant for itself, it sold the plant design to other companies. The court concluded that regardless of whether defendants had built one or twenty plants with use of the trade secrets, all of the disclosures stemmed from the one single misappropriation of the technology and constituted a single claim under the Missouri Uniform Trade Secrets Act.

The facts presented here, however, do not fit this pattern. ECRI is obtaining different bits of information from a variety of hospitals at different times. It is this medley that is contained in the PriceGuide, and it is ever changing. Since different trade secrets and combinations of trade secrets are being obtained and disclosed, each event is separate so as to constitute an independent misappropriation.

Because each of ECRI's misappropriations consists of a discrete act, rather than the continued use of the same information, we will deny ECRI's motion for partial summary judgment. We will permit Guidant to pursue its counterclaim under PUTSA to the extent that any misappropriation occurred on or after April 19, 2004, the effective date of the Act.

V.

In addition to ECRI's motion for partial summary judgment, two other motions remain pending before the court: (1) the motion of Guidant for leave to amend its answer and counterclaims; and (2) the motion of ECRI for leave to amend its reply and affirmative defenses to counterclaims.

The lawsuit is in a very early stage. No party will be prejudiced by any amendment. Under the circumstances leave to amend should be granted liberally. Fed. R. Civ. P. 15(a); Bensel v. Allied Pilots Ass'n, 387 F.3d 298, 310 (3d Cir. 2004), *cert. denied* 554 U.S. 1018 (2005). We will grant Guidant's motion to amend its answer to include a counterclaim for trade secret misappropriation under the common law, and we will grant ECRI's motion for leave to amend its reply and affirmative defenses.

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ORDER

AND NOW, this 5th day of December, 2006, for the reasons set forth in the foregoing memorandum, it is hereby ORDERED that:

(1) the motion of Emergency Care Research Institute ("ECRI") for partial summary judgment on the counterclaim of Guidant Corporation, Guidant Sales Corporation, and Cardiac Pacemakers, Inc. (collectively, "Guidant") under the Pennsylvania Uniform Trade Secrets Act is DENIED as to any acts of misappropriation occurring on or after April 19, 2004, and is otherwise GRANTED;

(2) the motion of Guidant for leave to amend its answer and counterclaims is GRANTED. Guidant, within 10 days of this Order, shall file and serve its amended answer and counterclaim; and

(3) the motion of ECRI for leave to amend its reply and affirmative defenses to Guidant's counterclaims is GRANTED. ECRI, within 10 days after Guidant files and serves its amended

answer and counterclaims, shall file and serve its amended reply and affirmative defenses.

BY THE COURT:

/s/ Harvey Bartle III
C.J.