

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

IMS HEALTH, INC.,	:	CIVIL ACTION
	:	
Plaintiff,	:	
	:	
v.	:	
	:	
VALITY TECHNOLOGY, Inc.,	:	
	:	
Defendant.	:	No. 99-1500

M E M O R A N D U M

Reed, S.J.

June 22, 2000

This is a dispute over the use of software. The epicenter of the dispute is a series of licensing agreements in which Matchware Technologies, which was later purchased by defendant Vality Technology, Inc. (“Vality”), permitted IMS America, Ltd., the predecessor-in-interest of plaintiff IMS Health, Inc. (“IMS”), to use its data processing software.¹ It is the divergent views of the parties as to the permissible uses of the software under those licensing agreements that bring them before this Court.

This declaratory judgment action has a lively procedural history, highlighted by a race to the courthouse² and a motion for a preliminary injunction by Vality that was procedurally resolved.³ The parties have now agreed to a full trial on the merits and damages that will

¹ For the sake of simplicity, I will refer to “IMS” and “Vality,” even when discussing the conduct of their predecessors-in-interest, IMS America and Matchware Technologies.

² The filing of this declaratory judgment action by IMS was followed, weeks later, by the filing of an action by Vality against IMS in the District of Massachusetts. This Court ruled in a memorandum opinion that the case should stay in this Court, and enjoined Vality from proceeding with the action in the District Court of Massachusetts. See IMS v. Vality, 59 F. Supp. 2d 454 (E.D. Pa. 1999).

³ Defendant Vality filed a motion for preliminary injunction early in the case, however, the parties eventually agreed to a trial on the merits, and the motion for preliminary injunction was dismissed without prejudice.

commence in October. The three motions now before the Court could have a significant effect on the shape of that trial. The motions will be addressed here in omnibus fashion.

I. BACKGROUND

In 1994, IMS showed an interest in database software products developed by Vality (“Matchware software”)⁴ that were capable of processing large databases and multiple databases, correcting errors in data, eliminating duplication within and among databases, and integrating information from multiple databases. IMS sought the database management capabilities of the Matchware software because IMS maintains substantial databases of health care and pharmaceutical information. These databases are the core of the business of IMS; it provides to pharmaceutical companies, government agencies, managed care organizations, academic institutions, and the like the information in those databases, including information about the prescribing behavior of medical practitioners.

IMS and Vality entered into three licensing agreements. The first was an “End-User License Agreement” permitting IMS to use the Matchware software in a mainframe environment, which was signed on July 25, 1994, and the second was an “End-User License Agreement” allowing IMS to use the Matchware software in an HP UNIX network environment, which was entered into on September 8, 1994 (together “the 1994 agreements”).⁵ The third was an “End-User License Agreement” for the use of the Matchware software in a PC local area network

⁴The Matchware software consists of three programs, to which Vality holds the copyrights: Callable Libraries, Copyright Reg. No. TX4862695, Automatch, Copyright Reg. No. TX4862693, and Autostan, Copyright Reg. No. TX 4862694. (Motion of Vality for Summary Judgment, Exhs. 1,2 and 3).

⁵ Each of the 1994 agreements actually consisted of three parts; a licensing agreement, a rider, and a source code license agreement. This Court’s references to the 1994 agreements are intended to cover all three components of those agreements.

environment, which was signed on February 27, 1997. The disagreements in this case center around the two 1994 agreements.

Vality argues that soon after the 1994 agreements were entered into, IMS began using the Matchware software in ways not authorized by the 1994 agreements and in violation of Vality's copyrights. Specifically, Vality contends that IMS used, and continues to use, the Matchware software in providing data "scrubbing" services to IMS clients,⁶ a use that, according to Vality, is prohibited by the 1994 agreements. IMS maintains that its use of the Matchware software does not violate the terms of the 1994 agreements.

IMS seeks a declaration that it has not violated the terms of the 1994 agreements, infringed on Vality's copyrights, or misused or misappropriated trade secrets. Vality asserts a counterclaims for copyright infringement, breach of contract, breach of implied covenant of good faith and fair dealing, *quantum meruit*, misappropriation of trade secrets, and rescission. Now before the Court are the motion of IMS for leave to amend its answer and affirmative defenses to the amended counterclaim of Vality (Document No. 49), the motion of IMS for partial summary judgment or, in the alternative, *in limine* (Document No. 42), and the motion of Vality for partial summary judgment (Document No. 50).

Motion for Leave to Amend

Vality argues that the affirmative defenses IMS now seeks to add should have been readily apparent to IMS long ago, and that allowing IMS to amend its answer to include them now would prejudice Vality.

⁶ The data scrubbing services provided by IMS generally include comparing a client's database against the databases maintained by IMS and improving client databases by updating them and correcting errors.

Rule 15 of the Federal Rules of Civil Procedure provides that after a pleading is served and 20 days have passed, “a party may amend the party’s pleading only by leave of court or by written consent of the adverse party; and leave shall be freely given when justice so requires.” The Court of Appeals for the Third Circuit recently observed that “in the absence of any apparent or declared reason – such as undue delay, bad faith or dilatory motive on the part of the movant, repeated failure to cure deficiencies by amendment previously allowed, undue prejudice to the opposing party by virtue of allowance of the amendment, etc. – the leave sought should, as the rules require, be ‘freely given.’” Rolo v. City Investing Co. Liquidating Trust, 155 F.3d 644, 654 (3d Cir. 1998) (quoting Foman v. Davis, 371 U.S. 178, 182, 83 S. Ct. 227 (1962)); see also Shane v. Fauver, No. 98-6205, 2000 U.S. App. LEXIS 11082, at *4 (3d Cir. May 19, 2000) (citations omitted).

The opposition of Vality to the motion for leave to amend rests largely on the alleged prejudice Vality would suffer were the Court to grant leave to amend “this late in the litigation when the parties and the Court are just one month from trial.” See Defendant’s Opposition to Motion for Leave to Amend, at 2. Circumstances have intervened, however, to delay the trial substantially, and the trial that was once was set for June will now take place several months hence. Thus, even though IMS may have been remiss in failing to raise these affirmative defenses sooner, this is no longer (if it ever was) a case of a party springing an affirmative defense on an unwitting opponent on the eve of trial. Vality has plenty of time to take discovery and prepare itself on these issues in anticipation of trial, and thus has not been unduly prejudiced.

Vality presents no substantial proof of bad faith or dilatory tactics on the part of IMS.⁷

Absent something more than allegations of absent-mindedness, Vality's opposition to the motion for leave to amend will not prevail and the motion will be granted.

IMS Motion for Partial Summary Judgment / Motion in Limine

IMS also moves for summary judgment, or in the alternative, a ruling excluding evidence, on the amount of money damages sought by Vality. IMS relies on a provision in a rider that was attached to both of the 1994 agreements, which provides:

The parties agree that Licensee's total liability for any and all losses arising out of any act or omission under the Software License Agreement, except confidentiality, shall not exceed the actual amount of the fees paid under the Software License Agreement commencing with the effective date of this agreement. Except in acts regarding confidentiality breaches [sic], Licensee will not be liable for special, incidental or consequential damages, even if Licensee has been advised of the possibility of such damages.

(IBM VMS License Agreement, Rider #1, Exh. A to IMS Motion for Summary Judgment, at ¶7).

IMS argues that this provision conclusively limits the damages available on Vality's counterclaims to the amount IMS paid Vality under the 1994 agreements; a total of \$45,000.

Vality contends that there are genuine issues of material fact as to whether the limitation on liability clause applies to this case.⁸

⁷ Furthermore, Vality's argument that the affirmative defenses raised by IMS should have been apparent to IMS at the start of the litigation cuts both ways; if these defenses were as obvious as Vality claims they were, then able counsel for Vality surely was not completely surprised when IMS asserted them.

⁸ Vality contends that because IMS argued in response to Vality's motion for preliminary injunction that Vality was not entitled to an injunction because Vality had adequate claims for monetary damages, IMS is judicially estopped from arguing that damages are limited under the clause at issue. The Court of Appeals for the Third Circuit has set forth a two-part analysis for judicial estoppel: "(1) is the present position inconsistent with a position formerly asserted; and (2) if so, were either or both of the inconsistent positions asserted in bad faith with the intent to play 'fast and loose with the court.'" See Motley v. New Jersey State Police, 196 F.3d 160, 164 (3d Cir. 1999) (quoting Ryan Operations G.P. v. Santiam-Midwest Lumber Co., 81 F.3d 355 (3d Cir. 1996) and citing McNemar v. Disney Store, Inc., 91 F.3d 610, 618 (3d Cir. 1996)). I am not certain that the positions asserted by IMS are inconsistent, and even if they are, I cannot conclude that the positions were asserted in bad faith. Therefore, judicial estoppel is not appropriate here.

In deciding a motion for summary judgment under Rule 56 of the Federal Rules of Civil Procedure, “the test is whether there is a genuine issue of material fact and, if not, whether the moving party is entitled to judgment as a matter of law.” Medical Protective Co. v. Watkins, 198 F.3d 100, 103 (3d Cir. 1999) (citing Armbruster v. Unisys Corp., 32 F.3d 768, 777 (3d Cir. 1994)). “As to materiality, the substantive law will identify which facts are material. Only disputes over facts that might affect the outcome of the suit under the governing law will properly preclude the entry of summary judgment.” Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248, 106 S. Ct. 2505 (1986). Furthermore, “summary judgment will not lie if the dispute about a material fact is ‘genuine,’ that is, if the evidence is such that a reasonable jury could return a verdict for the nonmoving party.” Id. at 250. On a motion for summary judgment, the facts should be reviewed in the light most favorable to the non-moving party. See Coolspring Stone Supply, Inc. v. American States Life Ins. Co., 10 F.3d 144, 146 (3d Cir. 1993).

I conclude that there is a genuine issue of material fact as to the meaning of the limitation on liability clause. A genuine issue of material fact arises out of the ambiguity of the contract; there are at least two reasonable interpretations that might be given to the exception in the limitation on liability clause for “confidentiality bre[a]ches.” One reasonable interpretation is that the confidentiality breaches exception is intended only to apply to disclosures of information concerning the Matchware software to third parties. Another reasonable interpretation is that the confidentiality clause applies broadly to conduct involving the unauthorized use of the software.⁹ Because there are at least two reasonable interpretations to the limitation on liability clause and

⁹ The latter interpretation is bolstered by other uses in the 1994 agreements of the terms “in confidence” and “confidentiality” in clauses that restrict the use of the Matchware software to authorized uses only. (Terms and Conditions, ¶ 6, and Source Code License Agreement, at ¶ 3.1.a.).

the clause is therefore ambiguous, there is a factual issue as to the meaning of the clause, and that issue will be reserved for trial. See, e.g., Shapiro v. Massengill, 105 Md. App. 743, 754, 661 A.2d 202 (“When contract language is ambiguous, meaning that it is susceptible to different reasonable interpretations, it is for the trier of fact to determine the proper interpretation.”), cert. denied, 341 Md. 28, 668 A.2d 36 (1995).¹⁰

There being at least one genuine issue of material fact as to the limitation on liability clause, the motion of IMS for partial summary judgment on the issue of damages above the amount of \$45,000 will be denied. For the same reasons, the motion in limine of IMS to exclude evidence of damages over \$45,000 will be denied.

Motion of Vality for Partial Summary Judgment

Vality moves for summary judgment on two issues: (1) the ownership of the Matchware software and (2) whether the use of the Matchware software in services provided to IMS clients violates the terms of the 1994 licensing agreements. IMS argues that it is a co-author of the Matchware software and that its use of the Matchware software is authorized by the 1994 agreements.

1. Ownership of the Matchware Software

Vality seeks a ruling that it is the sole owner of the Matchware software. Language in the 1994 agreements, according to Vality, unambiguously establishes its ownership. For instance, the 1994 agreements provide that:

6. PROPRIETARY INFORMATION: (a) MTI (Vality) shall retain all right, title and interest in and to the Software, the Documentation and the copies thereof furnished to Licensee (IMS) hereunder. This Agreement does not transfer ownership of the Software, the Documentation or of any copy thereof, but only a right of limited use. (b) The Software is a commercially valuable,

¹⁰ It is undisputed that the 1994 agreements are governed by Maryland law.

proprietary product of MTI ...

(Vality Motion, Exh. 4, End-User License Agreement Terms and Conditions, at ¶ 6). The source code license agreements include the following language:

All right, title, and interest in and to the Licensed Programs, including the media on which they are furnished to Licensee (IMS), are and shall remain with MTI (Vality). Licensee is granted only a limited right to use the Licensed Programs which may be terminated in accordance with the terms of this Agreement.

(Vality Motion, Exh. 4, Source Code License Agreement, at ¶ 2). Moreover, Vality registered claims for copyrights in the Matchware software within five years of its publication, and that registration serves as *prima facie* evidence of the validity of its copyright, the originality of the work, and its ownership. See 17 U.S.C. § 410 (c).¹¹

IMS responds that it was a joint author of the software, and therefore acquired an ownership interest in the Matchware software that the 1994 agreements did not alter. See 17 U.S.C. § 101.¹² IMS relies on the deposition testimony of Matthew Jaro, former president of Vality's predecessor Matchware Technologies, that IMS allowed him to spend three months at IMS facilities in 1994, prior to the signing of the IBM VMS licensing agreement, using IMS hardware to test and improve a version of the Matchware software that could run on a mainframe computer. (IMS Motion, Exh. 3, Deposition of Matthew Jaro, at 154-158). IMS also points to testimony from Jaro and a senior systems programmer at IMS, Blair Meglathery, that Meglathery

¹¹ 17 U.S.C. § 410 (c) provides that:

In any judicial proceedings the certificate of registration made before or within five years after first publication of the work shall constitute prima facie evidence of the validity of the copyright and of the facts stated in the certificate. The evidentiary weight to be accorded the certificate of registration made thereafter shall be within the discretion of the court.

¹² It is possible for a work to have joint authors if the work was "prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole." 17 U.S.C. § 101. Joint authors are co-owners of the copyright in a work. See 17 U.S.C. § 201 (a).

played a key role in adapting the Matchware software to the mainframe environment, giving technical advice and even writing lines of code that were incorporated into the Matchware software. (Jaro Deposition, at 159-162; IMS Motion, Exh. 13, Affidavit of Blair Meglathery, at ¶ 10-15).¹³

IMS argues that because of the assistance and input provided by IMS and its staff, it attained joint authorship status, and thus the Matchware software is a “joint work” under the Copyright Act. See 17 U.S.C. § 101. The 1994 agreements had no effect on its joint ownership of the Matchware software, IMS argues, because the 1994 agreements simply maintained the status quo at the time of the agreements; under the agreements, Vality simply “retain[s]” joint ownership of the software, and “remain[s]” a joint owner of the software. The agreements did not, in the view of IMS, transfer any ownership interest IMS had in the software as a joint owner.¹⁴

I believe the language in the license agreement is quite favorable to Vality, and the contributions of IMS to the authorship of the Matchware software appear modest. Nevertheless, viewing the facts in the light most favorable to the non-moving party, IMS, I conclude that the evidence brought forward by IMS concerning its involvement in the adaptation of the Matchware

¹³ The truncated deposition excerpts submitted by the parties make it difficult for the Court to determine what conduct took place prior to the signing of the first licensing agreement, however, viewing the record in the light most favorable to IMS, it appears that the conduct which IMS claims gave it joint ownership status took place before September licensing agreement was signed.

¹⁴ Vality does not meet the argument of IMS directly. Resting on the licensing agreement language, Vality argues that this case involves its retention of copyright ownership, rather than a transfer of such ownership. It seems to this Court that IMS presents an issue antecedent to an interpretation of the contract language; that is, what were the interests of the parties prior to the 1994 agreements being signed? There is just enough evidence to proceed to trial on the question. That said, even if this Court were to find that IMS had joint ownership of the Matchware software, IMS would face an uphill battle in persuading this Court that the language placing “all right, title, and interest in and to the Software” squarely with Vality could be interpreted to leave some copyright or ownership interest in IMS.

software to the mainframe environment is just enough to create a genuine issue of material fact as to whether, at the time the license agreement was signed, IMS held a joint ownership interest in the Matchware software.

Vality's motion for summary judgment as to the ownership of the Matchware software will therefore be denied.

2. Authorized Use Under the Licensing Agreements

Vality also asks this Court to grant its motion for summary judgment on the ground that IMS is using the Matchware software in a manner not permitted under the 1994 agreements. Specifically, Vality contends that the use of the Matchware software by IMS in providing data scrubbing services to its clients violates language in the 1994 agreements restricting the use of the Matchware software to IMS's "internal business purposes" and prohibiting the use of the software "for providing service bureau, timesharing, data processing or other similar services to third parties." (Vality Motion, Exh. 4, IBM VMS End-User License Agreement Terms and Conditions, at ¶ 1).

IMS counters with contract language of its own, which appears in the rider to the 1994 agreements. According to IMS, the use of the Matchware software in providing services to third parties is specifically permitted by the first paragraph of the rider,¹⁵ which provides,

The Software may be used by the Licensee (IMS), its affiliates (any entity controlling, controlled by, or under common control with Licensee), and their respective employees, independent contractors, distributors, customers and representatives to access the Licensee on-line application and/or applications with which Software has been integrated provided however that the Software be located at the location currently covered by this agreement.

¹⁵ The language of the rider is to control in the event of a conflict between the rider and the end-user license agreement. (Vality Motion, Exh. 4, IBM VMS End-User License Agreement Terms and Conditions, at preamble). This Court draws no conclusions today as to whether there is any conflict between the rider and the license agreement.

(Vality Motion, Exhibit 4, Rider, at ¶1).

This rider language is the vortex of this case. The parties champion dueling interpretations of the language. IMS argues that the language clearly allows “customers” to “access ... applications with which the Software has been integrated... .” Vality responds that the rider only allows “customers” to access “*on-line* ... applications,” allegedly a small portion of the services IMS provides to its customers.

I conclude that both interpretations are reasonable, and that the rider is therefore ambiguous. The intent of the parties as to the rider must be ascertained, and that requires a factual inquiry that will be conducted at trial. Therefore, I conclude that a genuine issue of material fact remains as to the meaning of the rider.

For the foregoing reasons, the motion of Vality for partial summary judgment on the issue of prohibited uses of the Matchware software will be denied.

An appropriate Order follows.

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

IMS HEALTH, INC.,	:	CIVIL ACTION
Plaintiff,	:	
	:	
v.	:	
	:	
VALITY TECHNOLOGY, Inc.,	:	
Defendant.	:	No. 99-1500

ORDER

AND NOW, this 22nd day of June, 2000, upon consideration in omnibus fashion of the motion of IMS for leave to amend, the motion of IMS for partial summary judgment or, in the alternative, *in limine*, and the motion of Vality for partial summary judgment, for the reasons set forth in the foregoing memorandum, **IT IS HEREBY ORDERED** that:

- (1) the motion of IMS for leave to amend (Document No. 49) is **GRANTED** and IMS shall file, no later than June 30, 2000, its amended pleading in the form attached to its motion;
- (2) the motion of IMS for partial summary judgment and, in the alternative, in limine, (Document No. 42) is **DENIED**;
- (3) the motion of Vality for partial summary judgment (Document No. 50) is **DENIED**.

In all other respects the Third Amended Pretrial Order remains in full force and effect.

LOWELL A. REED, JR., S.J.