IN THE COURT OF COMMON PLEAS OF PHILADELPHIA COUNTY

FIRST JUDICIAL DISTRICT OF PENNSYLVANIA

CIVIL TRIAL DIVISION

MEDICAL RESOURCES, INC., and ATI RESOURCES, INC. Plaintiffs	: November Term, 2000
v.	: No. 2242
	:
BRUCE MILLER, and NORTHEAST OPEN MRI INC. Defendants	: Control No. 111041

O R D E R

AND NOW, this 29th day of January 2001, upon consideration of the Petition of plaintiffs, Medical Resources, Inc. and ATI Resources, Inc., for a Preliminary Injunction, the response by defendants, Bruce Miller and Northeast Open MRI, Inc., respective memoranda, all matters of record and after a full hearing and oral argument, it is **ORDERED** that the Petition is **Denied**.

BY THE COURT,

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ALBERT W. SHEPPARD, JR., J.

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FINDINGS OF FACT, DISCUSSION AND CONCLUSIONS OF LAW IN SUPPORT OF ORDER DENYING PLAINTIFF PETITION FOR PRELIMINARY INJUNCTION

ALBERT W. SHEPPARD, JR., J. .... January 29, 2001

Plaintiffs, Medical Resources, Inc. ("Medical Resources") and ATI Resources, Inc. ("ATI"), seek a Preliminary Injunction that would enjoin defendants, Bruce Miller ("Miller") and Northeast Open MRI, Inc. ("Open MRI"), from using the plaintiffs' trade secrets, doing business with any of the plaintiffs' referring doctors and customers, hiring the plaintiffs' employees and continuing to trade under the name Open MRI Northeast ("Petition").[1]

For the reasons set forth in the Findings of Fact, Discussion and Conclusions of Law, this court will enter a contemporaneous Order **denying** the request for the Injunction.

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[1]Defendant corporation is "Northeast Open MRI, Inc.". However, defendants trade under the name "Open MRI Northeast".

FINDINGS OF FACT

1. The plaintiffs are in the business of operating diagnostic imaging centers that provide magnetic resonance imaging ("MRI") procedures throughout the Delaware Valley, including Northeast Imaging. (N.T.[2] 167). Northeast Imaging is located at 8001 Roosevelt Boulevard, Philadelphia, Pennsylvania and offers eight MRI modalities, including an open MRI modality. (N.T. 10, 12, 17, 167).

2. Miller has worked in the imaging/MRI business since 1989. (N.T. 134). Between 1993 and May 1997, Miller was employed by ATI Centers, Inc. ("Centers") as a center manager and salesperson. (N.T. 125-26). Over the past eleven years, Miller has become familiar with physicians and hospitals in Northeast Philadelphia. (N.T. 126-28, 134).

3. Miller began working for Medical Resources in May 1997 and became area center manager at Northeast Imaging later that year. (N.T. 7, 9-10). While with Medical Resources, Miller was an at-will employee and was not bound by any restrictive covenant or covenant not to compete. (N.T. 42-43, 73).

4. On May 19, 1997, Miller executed a confidentiality agreement ("Confidentiality Agreement") with the plaintiffs that read as follows:

> **Confidentiality.** Serious problems could be caused for the Company by unauthorized disclosure of internal information about the Company, whether or not for the purpose of facilitating improper trading in the stock. Company personnel should not discuss internal Company matters or developments with anyone outside of the Company, except as required in the performance of regular corporate duties.

[2] References to Notes of Testimony ("N.T.") are to testimony taken on December 13, 2000 at a Preliminary Injunction Hearing ("Hearing") in Courtroom 513, City Hall.

. . .

> We will expect the strictest compliance with these procedures by all personnel at every level.

(N.T. 26-27, Plaintiffs' Exhibit 4).

5. The plaintiffs keep track of referring physician information on a computer system designated Imaging Center Information System ("ICIS"). (N.T. 151). ICIS includes such physician information as the number of referrals, referral patterns and reimbursement information. (N.T. 151-56).

6. All administrative staff members at Northeast Imaging have a password that allows access to ICIS. (N.T. 24, 155). As a member of Northeast Imaging's administrative staff, Miller accessed ICIS information once or twice a month. (N.T. 24).

7. Miller also was familiar with Northeast Imaging's marketing plan ("Marketing Plan") and was involved in the development of the Marketing Plan (N.T. 12, 29-30, 35). The Marketing Plan included commonly known information, such as the top referring physicians in the area, as well as information known only to Northeast Imaging, such as the referring physician reimbursement rates. (N.T. 18-20, 31-35, Plaintiffs's Exhibit 18).

8. Beginning in June 1999, Miller began to take steps toward opening his own MRI center. (N.T. 130-32). Among the steps Miller took were forming a corporation, purchasing an MRI magnet and renting office space. (N.T. 43-48, 53-57).

9. During the Summer of 1999, Miller had a brief "brainstorming" session with Roger Reilly, the chief salesperson at Northeast Imaging, about a list of prospective referring doctors for Miller's new

enterprise that could be provided to potential financial backers. (N.T. 53, 60, 63). After this conversation, Reilly contacted approximately twenty physicians and solicited letters from eight of them stating that the physicians would provide Miller with a client base. (N.T. 54, 60, 66). Aside from these letters and isolated conversations with individual referring physicians and clients of the plaintiffs, there is no evidence that Miller solicited customers for his MRI center while employed by the plaintiffs. (N.T. 53-54, 63-69).

10. In June 2000, the plaintiffs requested that Miller sign a confidentiality and non-competition covenant. (N.T. 189). Miller refused to sign. (N.T. 191).

11. Until as recently as the Summer of 2000, Miller was unsure that he would be able to overcome certain financial obstacles that prevented him from opening his center. (N.T. 92, 106). These obstacles were removed when Miller finalized a loan for $200,000 in August 2000. (N.T. 91-93).

12. On September 21, Miller informed the plaintiffs that he was opening a competing MRI center. (N.T. 105-06). Miller's last day of employment with Medical Resources was September 28. (N.T. 9, 195).

13. Upon leaving Medical Resources, Miller did not retain any property of the plaintiffs aside from a beeper, that was subsequently returned, and an employee manual that the plaintiffs have not requested. (N.T. 107-08, 134). Plaintiffs acknowledge that they are unaware that Miller took any of the plaintiffs' materials or property with him. (N.T. 157-58, 194-95, 200-01).

14. After leaving Medical Resources, Miller was contacted by Theresa Machen ("Machen") and Sandy Slusser ("Slusser"), two employees at Northeast Imaging, about possible employment with Miller. (N.T. 72, 76, 136-37). At some point thereafter, Machen and Slusser left Northeast

Imaging and came to work with Miller at Open MRI. (N.T. 73-77).

15. Miller opened his MRI office on November 20, 2000 at 8400 Roosevelt Boulevard, a site between four-tenths and five-tenths of a mile from Northeast Imaging. (N.T. 43, 50, 82).

16. Open MRI trades under the name of "Open MRI Northeast" and provides only the open MRI modality, whereas Northeast Imaging provides seven additional modalities. (N.T. 17, 45, 50).

17. In November 2000, Miller contacted Mathew Koshy ("Koshy"), a marketing manager at Raytel Imaging Network ("Raytel"), about possible referrals to Open MRI Northeast. (N.T. 67). During the course of his conversations, Miller disclosed to Koshy information that he had learned at a Medical Resources marketing meeting regarding direct solicitation of Raytel clients. (N.T. 109-110). Miller also stated that he would "see what he could do" about getting a copy of the internal Medical Resources E-mail that discussed the solicitation of Raytel clients. (N.T. 111). However, there is no indication that Miller has a copy of the E-mail in question or provided a copy of the E-mail to Raytel. (N.T. 149).[3]

18. Plaintiffs are unaware of any Northeast Imaging patients who have been confused by Open MRI's name. (N.T. 203). However, the MRI magnet for Open MRI accidentally was delivered to Northeast Imaging. (N.T. 165-66).

DISCUSSION

Miller's behavior toward the plaintiffs is a far cry from what one expects from and hopes for in an employee. However, nothing that the plaintiffs have presented allows this court to issue the

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[3] Indeed, it appears that the e-mail in question does not exist. (N.T. 111).

preliminary injunction requested. Thus, the Petition is denied.

In order to be entitled to a preliminary injunction, as governed by Pennsylvania Rule of Civil Procedure 1531 ("Rule 1531"), a petitioner must satisfy a five-part test:

1. The activity sought to be restrained is actionable and the petitioner has a clear right to relief therefrom;

2. The injunction is necessary to prevent immediate and irreparable harm that cannot be compensated by monetary damages;

3. The injunction will restore the parties to the status quo as it existed prior to the wrongful conduct;

4. Greater injury will result from refusing to issue the injunction than from issuing it; and

5. The injunction is reasonably suited to abate the activity in question.

School Dist. of Wilkinsburg v. Wilkinsburg Educ. Ass'n, 542 Pa. 335, 337 n.2, 667 A.2d 5, 6 n.2 (1995). A court may issue a preliminary injunction only "if each element is fully and completely established." McCluskey v. Washington Twp., 700 A.2d 573, 576 (Pa. Commw. Ct. 1997). In this matter, the Plaintiffs have based their clear right to relief on common law trade secret principles, an agent's duty of loyalty and Pennsylvania's common law of unfair competition.[4]

I. Trade Secrets

Under Pennsylvania common law, an employee may not use or disclose trade secrets misappropriated from an employer, regardless of whether or not the employee has executed a

[4]There is no restrictive covenant in this case.

confidentiality agreement. Christopher M's Hand Poured Fudge, Inc. v. Hennon, 699 A.2d 1272, 1276 (Pa. Super. Ct. 1997). Pennsylvania courts will grant relief for the misappropriation of a trade secret if a plaintiff satisfies its burden by showing the following four elements:

> (1) that there was a trade secret . . . ; (2) that it was of value to employer and important in the conduct of his business; (3) that by reason of discovery [or] ownership the employer had the right to the use and enjoyment of the secret; and (4) that the secret was communicated to the employee while he was in a position of trust and confidence under such circumstances as to make it inequitable and unjust for him to disclose it to others, or to make use of it himself, to the prejudice of his employer.

A.M. Skier Agency, Inc. v. Gold, 747 A.2d 936, 940 (Pa. Super. Ct. 2000) (citing Gruenwald v. Advanced Computer Applications, Inc., 730 A.2d 1004, 1012-13 (Pa. Super. Ct. 1999)).[5]

At the outset, this court express its view that Miller's conduct has been significantly less than honorable, to say the least. During his term of employment with the plaintiffs, Miller made extensive preparations to open a competing business a mere one-half mile away. While Miller asserts that he did not lie to his superiors, it is clear that his actions would constitute grounds for termination. At a minimum, he failed to disclose developments that impacted the plaintiffs' business.

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[5] Among the factors a court may consider in determining the existence of a trade secret are the following:

> (1) the extent to which the information is known outside the owner's business; (2) the extent to which it is known by employees and others involved in the owner's business; (3) the extent of measures taken by the owner to guard the secrecy of the information; (4) the value of the information to the owner and to his competitors; (5) the amount of effort or money expended by the owner in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Christopher M's Hand Poured Fudge, Inc., 699 A.2d at 1275.

In spite of these misgivings, this Court is unable to conclude that a preliminary injunction based on misappropriation of trade secrets is appropriate. Only two items potentially rise to the level of being trade secrets: the information on ICIS and the Marketing Plan.

With regard to the former, the plaintiffs have produced no evidence that Miller made use of confidential ICIS information. Miller's conversation with Reilly was brief, albeit inappropriate, and the plaintiffs acknowledge that they have no evidence that any ICIS information was exchanged. (N.T. 36, 46, 207). In addition, there has been no testimony that Miller has retained anything belonging to the plaintiffs. In fact, plaintiffs acknowledge a lack of any evidence that Miller removed any of the plaintiffs' property. (N.T. 195-96).

Moreover, the fact that both the Plaintiffs and Open MRI use some of the same referring doctors is not surprising and does not, in and of itself, support the plaintiffs' position.
Generally, information known to an employee prior to his employment with a particular employer is necessarily known outside the employer's business and thus cannot be classified as a trade secret. See Fidelity Fund, Inc. v. DiSanto, 347 Pa. Super. 112, 122, 500 A.2d 431, 437 (1985) ("if the information was originally in the employee's possession then it could not have been communicated to him by the employer so as to make it inequitable or unjust for the employee to disclose it to others"). Here, Miller has been working in the imaging and MRI field in Northeast Philadelphia since 1989, long before taking employment with either of the plaintiffs. (N.T. 125-128, 134). Furthermore, the plaintiffs have presented no evidence to counter Miller's testimony that the names of key referring doctors in the area are "no

secret." (N.T. 32-33).[6] Likewise, there is no proof that Miller made use of any confidential ICIS data, such as the specific referring physician statistics and insurance information. Consequently, the plaintiffs have failed to show that Miller misappropriated any trade secret stored on ICIS.

Similarly, there has been no demonstration that any use of the Marketing Plan threatens immediate and irreparable harm. In granting an injunction, a court must look not only at past harm inflicted by the defendant but also, and more significantly, at future harm:

> Although obviously one cannot be held liable for damages for misappropriation of a trade secret without proof of actual harm through past use or disclosure, as to injunctive relief, our focus is necessarily prospective. The proper inquiry is not whether defendant already has used or disclosed, but whether there is sufficient likelihood, or substantial threat, of defendant doing so in the future.

Den-Tal-Ez, Inc. v. Siemens Capital Corp., 389 Pa. Super. 219, 255, 566 A.2d 1214, 1232 (1989) (citations omitted). See also Township of South Fayette v. Commonwealth of Pa., 477 Pa. 574, 583-84, 385 A.2d 344, 349 (1978) (incidents occurring months earlier did not amount to a showing of immediate and irreparable harm); Three County Servs., Inc. v. Philadelphia Inquirer, 337 Pa. Super. 241, 246-47, 486 A.2d 997, 1000 (1985) (where solicitation of plaintiff's clients had ceased, there was no evidence of harm necessary for issuing a preliminary injunction).

In this matter, there has been no demonstration of immediate and irreparable prospective harm based on the Marketing Plan. While Miller may have told Raytel of the plaintiffs' plan to solicit Raytel clients, the plaintiffs have not shown how Miller's use of the Marketing Plan will lead to harm in the future.

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[6] Indeed, Stephen DeLozier, Regional Vice President for Medical Resources, acknow- ledged as much when he said that it "wouldn't surprise" him if Miller knew all of Medical Resource's top referring physicians prior to coming to work with the Plaintiffs. (N.T. 206).

Specifically, there has been no evidence that Miller has used the Marketing Plan to build his own business or for any purpose other than to sabotage the plaintiffs' relationship with Raytel. In the absence of such evidence, the Court cannot conclude that Miller has misappropriated the Plaintiffs' trade secrets.

The plaintiffs' reliance on A.M. Skier Agency, Inc. is misplaced. The Skier decision cannot be used to change this court's analysis. There, it was clear that the defendant used confidential information belonging to the plaintiff-employer. Here, there is no evidence that Miller used confidential information, whether belonging to Medical Resources or otherwise. Cf. Gilbert v. Otterson, 379 Pa. Super. 481, 490, 550 A.2d 550, 554-55 (1988) (even where a former employee informed customers of his intention to open his own business, in the absence of a restrictive covenant, a former employee's right to compete includes the right to divert business from a former employer).

Similarly, analysis of the Confidentiality Agreement, does not result in persuasive support for plaintiffs' position. An employer's rights under a non-disclosure agreement or restrictive covenant extend only so far as necessary to protect the employer's legitimate business interest in its trade secrets, customer goodwill and specialized training. Thermo-Guard, Inc. v. Cochran, 408 Pa. Super. 54, 65, 596 A.2d 188, 193-94 (1991). Here, the Confidential Agreement does not address goodwill or training and thus, at most, can do no more than shore up the plaintiffs' interest in their trade secrets. Because there has been no demonstrated infringement of this specific interest, the court has no choice but to reject the Petition insofar as it is based on a claim of trade secret misappropriation.

II. Duty of Loyalty

Pennsylvania law holds that, "in all matters affecting the subject of the agency, [an] agent must act with the utmost good faith in furthering and advancing the principal's interest." Basile v. H. & R. Block, Inc., __ Pa. __, 761 A.2d 1115, 1120 (2000) (citing Sylvester v. Beck, 406 Pa. 607, 610-11, 178 A.2d 755, 757 (1962)). See also Sutliff v. Sutliff, 515 Pa. 393, 404, 528 A.2d 1318, 1323 (1987) ("[a]n agency relationship is a fiduciary one, and the agent is subject to a duty of loyalty to act only for the principal's benefit"). However, this obligation is not absolute, as stated by our Pennsylvania Supreme Court in Spring Steels, Inc. v. Molloy, 400 Pa. 354, 162 A.2d 370 (1960):

> After the termination of his agency, in the absence of a restrictive agreement, the agent can properly compete with his principal as to matters for which he has been employed . . . . Even before the termination of the agency, he is entitled to make arrangements to compete, except that he cannot properly use confidential information peculiar to his employer's business and acquired therein. Thus, before the end of his employment, he can properly purchase a rival business and upon termination of employment immediately compete . . . .

400 Pa. at 357, 162 A.2d at 372 (citing Restatement (Second) of Agency § 393 cmt. e). See also Renee Beauty Salons, Inc. v. Blose-Venable, 438 Pa. Super. 601, 605, 652 A.2d 1345, 1347 (1995) (quoting Restatement (Second) of Agency § 393 cmt. e).

Admittedly, Miller's conduct was, from one perspective, reprehensible. However, there is no evidence that Miller competed with the plaintiffs during his term of employment. The record establishes that he was terminated on September 28 but did not open his business until November 20. (N.T. 28, 50). In addition, as discussed supra, there is no conclusive evidence that Miller has used any confidential information or trade secrets. These facts distinguish the cases cited by the Plaintiffs from the instant matter.[7] Consequently, the court cannot grant a preliminary injunction based on an alleged breach of duty of loyalty.[8]

III. Unfair Competition

A plaintiff is entitled to an injunction to protect a trade name under Pennsylvania's unfair competition common law if she can prove three things: "first, the plaintiff's right to exclusive use of the name; second, the defendant's use of a name confusingly similar to that name; and third, a likelihood of confusion in plaintiff's competitive area caused by the defendant's use." Brody's, Inc. v. Brody Bros., Inc., 308 Pa. Super. 417, 421, 454 A.2d 605, 607 (1982) (citing Zimmerman v. Holiday Inns of America, Inc.,

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[7] See Maritrans GP Inc. v. Pepper, Hamilton & Scheetz, 529 Pa. 241, 260, 602 A.2d 1277, 1287 (1992) (noting that defendant law firm's confidential relationship with plaintiff was in danger of breach); SHV Coal, Inc. v. Continental Grain Co., 376 Pa. Super. 241, 249, 545 A.2d 917, 920-21 (1988) (concluding that the defendant diverted business from employer to competitor during his term of employment), rev'd on other grounds, 526 Pa. 489, 587 A.2d 702 (1991); Boyd v. Cooper, 269 Pa. Super. 594, 410 A.2d 860 (1979) (reversing trial court's denial of injunction where trial court had failed to allow plaintiffs to develop a record as to use of confidential information).

[8] As questionable as Miller's conduct may have been, it alone is not grounds for a preliminary injunction:

> Perhaps the moral position of the defendants would have been improved if they had left the ship of their current employment as soon as they began to lay the keel for the ship which was to offer not only competition but possible shipwreck to the vessel of their original allegiance. But, be that as it may, the employees were free employees. They were not under contract with the plaintiff company. The company could discharge them at any time they chose, and, returning like for like, the defendants were equally free to part company with their employer when it should please them so to do.

Spring Steels, Inc., 400 Pa. at 357, 162 A.2d at 372.

438 Pa. 528, 534-35, 266 A.2d 87, 90 (1970)).[9] The requisite likelihood of confusion exists when "the consumers viewing the mark would probably assume that the product or service it represents is associated with the source of a different product or service identified by a similar mark." Pennsylvania State Univ. v. University Orthopedics, Inc., 706 A.2d 863, 869 (Pa. Super. Ct. 1998) (citing Fisions Horticulture, Inc. v. Vigoro Indus., Inc., 30 F.3d 466, 472 (3rd Cir. 1994)). See also Quality Weaving Co. v. Regan, 245 Pa. Super. 66, 71, 369 A.2d 296, 298 (1976) ("the mere possibility of confusion is not enough").[10] Where the trademark owner and the alleged infringer are in direct competition, courts generally focus on the mark alone. Fisions Horticulture, Inc., 30 F.3d at 473 (citation omitted).

While geographic terms may not be appropriated exclusively, the use of such a term acquires "secondary meaning" and may be enjoined where "people in the trade or the purchasing public

[9] These elements are essentially identical to the requirements for a false designation of origin claim under 15 U.S.C.A. § 1125(a) of the Lanham Act, with the exception that the Lanham Act also requires that an effect on interstate commerce be shown. Gideons Int'l, Inc. v. Gideon 300 Ministries, Inc., 94 F. Supp. 2d 566, 580 (E.D. Pa. 1999). See also Pennsylvania State Univ., 706 A.2d at 870 (noting persuasive authority of federal law when addressing trademark infringement unfair competition claims arising under Pennsylvania common law).

[10] Factors considered by Pennsylvania courts in determining the likelihood of confusion are:

(a) the degree of similarity between the designation and the trade-mark or trade name in
  (i) appearance;
  (ii) pronunciation of the words used;
  (iii) verbal translation of the pictures or designs involved;
  (iv) suggestion;
(b) the intent of the actor in adopting the designation;
(c) the relation in use and manner of marketing between the goods or services marketed by the actor and those marketed by the other;
(d) the degree of care likely to be exercised by the purchaser.

Conti v. Anthony's Shear Perfection, Inc., 350 Pa. Super. 606, 611, 504 A.2d 1316, 1319 (1986) (quoting Thomson-Porcelite Co. v. Harad, 356 Pa. 121, 124-25, 51 A.2d 605, 607 (1947)).

perceives the word or name as standing for the business of a particular company." Pennsylvania State Univ., 706 A.2d at 871 (citing Golden Slipper Square Club v. Golden Slipper Restaurant & Catering, Inc., 371 Pa. 92, 96, 88 A.2d 734, 736 (1952)). Here, however, the plaintiffs have failed to show that any other MRI provider, any referring physician or the public perceives the term "Northeast" as representing Northeast Imaging.[11] In addition, while the court acknowledges the possibility that patients may confuse the names of Northeast Imaging and Open MRI Northeast, there is no proof that confusion is likely. Consequently, the plaintiffs do not have a clear right to relief on their unfair competition claim.

CONCLUSIONS OF LAW

1. The plaintiffs have failed to show that they will suffer immediate and irreparable harm if the injunction is not granted.
2. The plaintiffs have failed to show that they have a right to relief clear.
3. These conclusions require that the court deny the plaintiffs' Petition for Preliminary Injunction.

In summary, based upon the foregoing this court will enter a contemporaneous Order denying the Petition for an Injunction.

BY THE COURT,

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ALBERT W. SHEPPARD, JR., J.

[11] While the plaintiffs point to two isolated incidents, "confusion, in and of itself, does not establish that one party's use of a name has given it a secondary meaning." Miscellaneous, Inc. v. Klein's Fashions, Inc., 452 Pa. 62, 65, 305 A.2d 22, 24 (1973).