RECENT DEVELOPMENTS IN INTELLECTUAL PROPERTY LAW

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INTRODUCTION

During the period of October 1, 1997 through September 30, 1998, several cases concerning intellectual property law were reported that are of interest to inventors, artists, lawyers, and businesses in Indiana. Patent law underwent, if not a major change, at least a rejection of the axiom that business methods are unpatentable. An Indiana federal court ruled on a relatively young provision of the Copyright Act1 that had not been addressed before in the Seventh Circuit. The interplay of intellectual property law and the internet continues to be a topic of litigation, and the Indiana Court of Appeals weighed in with an opinion concerning jurisdiction in a case involving trademark use on the internet. Indiana courts also continued to flesh out the parameters of the Indiana Trade Secret Act.2 These cases are the most important intellectual property cases of the past year affecting the rights and opportunities of Indiana citizens and businesses.

I. THE END OF THE “BUSINESS METHOD EXCEPTION” TO PATENTABILITY

A. Basis for the “Business Method Exception”

The Patent Act (the “Act”) of the United States provides that, subject to the conditions further laid out in the Act, anyone who “invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor . . . .” Thus, the first hurdle to overcome in obtaining patent protection is to fit the thing to be patented into one of the four statutory categories: process, machine, manufacture, or composition of matter. An idea or simple printed matter in and of itself cannot be patented; to be considered for patent protection, the idea must be placed into a practical, useful form by incorporation into a proposed or actual device, product, chemical composition, or set of actions.4

The term “process” is defined in the Act as a “process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.” This statutory definition indicates the generally broad


4. See, e.g., Diamond v. Diehr, 450 U.S. 175, 182 (1981) (holding that “laws of nature, natural phenomena, and abstract ideas” are unpatentable subject matter); Rubber-Tip Pencil Co. v. Howard, 87 U.S. (20 Wall.) 498, 507 (1874) (“An idea of itself is not patentable, but a new device by which it may be made practically useful is.”).
5. 35 U.S.C. § 100(b) (1994).
meaning of “process,” which focuses on ways of accomplishing a given task or goal and uses of physical things or acts. However, in interpreting § 101 and its predecessor statutes, the case law carved out two principal “exceptions” to the patentability of processes, the “mathematical algorithm” exception and the “business method” exception.

The mathematical algorithm exception is effectively a restatement of the principle that abstract ideas cannot be patented. In *Diamond v. Diehr*, the Court followed its earlier pronouncements in explaining that mathematical principles, equations, or computations by themselves are not patentable subject matter so long as they remain in the abstract. If such algorithms are made a part of a practical application or “a useful, concrete and tangible result,” then they may be patentable along with the application or result. Thus, the Pythagorean formula, \( a^2 + b^2 = c^2 \), mathematically expresses in the abstract the dimensional relationship between the legs of a right triangle, and cannot, standing alone, be patentable subject matter. However, a surveying device, which incorporates that formula into its computations and provides a result, is subject matter for which a patent can be sought.

The second exception is known as the “business method” exception. The 1908 case *Hotel Security Checking Co. v. Lorraine Co.* is the seminal case stating that a system for “transacting business disconnected from the means for carrying out the system” is not an art or process, and thus does not fall into a statutorily protectible category of invention. In *Hotel Security*, the court considered a claimed method “for cash-registering and account-checking” intended to prevent employee theft. Even though the court also addressed the apparent lack of novelty in the claimed method, the case has been cited as precedent for declaring methods and systems of doing business to be outside the categories of patentable subject matter.

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6. These doctrines are commonly called “exceptions,” even though it is unclear where the authority for an exception to 35 U.S.C. § 101 arises. They are more properly thought of simply as factual situations deemed to reside outside the categories identified by § 101. Nonetheless, to conform with common usage, the term “exception” is used in this Article to refer to these doctrines.


10. *In re Alappat*, 33 F.3d 1526, 1544 (Fed. Cir. 1994) (en banc).

11. See *Arrhythmia Research Tech., Inc. v. Corazonix Corp.*, 958 F.2d 1053, 1066 (Fed. Cir. 1992) (finding that a machine that performs calculations on electrocardiograph signals to convert the signals into information about heart condition is patentable subject matter).

12. 160 F. 467 (2d Cir. 1908).

13. *Id.* at 469.

14. *Id.* at 467.

15. See 1 DONALD S. CHISUM, CHISUM ON PATENTS § 1.03[5], at 1-75 to -76 & 1-76 n.3
B. State Street Bank & Trust Co. v. Signature Financial Group, Inc.

Both of these doctrines were reviewed by the U.S. Court of Appeals for the Federal Circuit in State Street Bank & Trust Co. v. Signature Financial Group, Inc. Signature owned U.S. Patent No. 5,193,056, entitled “Data Processing System For Hub And Spoke Financial Services Configuration.” As interpreted by the court, the patent included claims to a data processing system comprised of a computer processor, data storage, and several arithmetic logic circuits configured to perform operations on and store mutual fund data such as asset amounts, income, expenses, and gain or loss. The appellate court noted that the patent claims were directed to a machine, but that it mattered little whether the claims were machine claims or process claims because both categories are listed in § 101.

State Street had brought a declaratory judgment action seeking, among other remedies, the invalidation of Signature’s patent. On State Street’s motion for summary judgment, on the ground that the patent claims did not define subject matter encompassed by § 101, the district court ruled that the patent’s claims delineated a mathematical algorithm that was not “applied to or limited by physical elements or process steps.” The district court also stated that the patent’s subject matter fell within the business method exception. Accordingly, summary judgment of invalidity was granted in favor of State Street.

On appeal, the Federal Circuit began by examining § 101. That provision’s “plain and unambiguous meaning” is that anything falling within a § 101 category is appropriate subject matter for a patent. Indeed, the court found that the wording of § 101 indicates that Congress’ intent was not to restrict the subject matter for which patents may be sought, except as specifically provided in § 101. This short but powerful opening foretold the court’s view of non-statutory “exceptions” to patentable subject matter, and in the author’s view is part of a continuing trend by the Federal Circuit of articulating bright-line standards for potentially gray areas of the patent laws.

The State Street court then turned its attention to the mathematical algorithm exception. It noted that the district court’s analysis incorporated a test known as

(Matthew Bender, 1997).
16. 149 F.3d 1368 (Fed. Cir. 1998).
17. Id. at 1371-72.
18. Id. at 515-16.
19. See id. at 517.
20. Id. at 515-16.
21. See id. at 1372.
22. State St. Bank & Trust, 149 F.3d at 1372.
the Freeman-Walter-Abele test to identify whether particular subject matter fell within § 101.24 Citing In re Alappat, Diamond v. Diehr, and Diamond v. Chakrabarty, the Federal Circuit took the opportunity to discard explicitly the Freeman-Walter-Abele test as potentially misleading.25 Insofar as the test looks for mathematical algorithms at the outset, it could cause a rejection of machines or processes employing the algorithm as unpatentable subject matter, even if the machine or process produces the “useful, concrete and tangible result.”26 Alappat identifies as the hallmark of patentable subject matter.

Consequently, the State Street court shifted the focus of a § 101 inquiry from an attempt to shoehorn a given invention into one of the four categories of § 101. Instead, “[t]he question of whether a claim encompasses statutory subject matter should . . . focus . . . on the essential characteristics of the subject matter, in particular, its practical utility.”27 The implication is that any subject matter showing a practical utility—i.e., providing a useful, concrete, and tangible result—is proper subject matter for a patent. With respect to the Signature patent, the court found that the claimed system produced such a result by transforming financial data via mathematical calculations into a final share price.28 The final share price was recorded and reported to interested parties, apparently including regulatory authorities. Because it produced that useful result, the Federal Circuit reasoned, the system constituted statutory subject matter under § 101, and if it were to pass the remaining conditions for patentability, it could be protected by a patent.29

Having found that the Signature patent was not an unpatentable abstract idea, the court then approached the alternative basis for invalidating the Signature patent, that the patent claimed an unpatentable method of doing business.30 After reviewing several cases commonly cited as support for the business method exception, the State Street court found that neither the Federal Circuit nor its predecessor, the Court of Customs and Patent Appeals, had used the exception

24. State St. Bank & Trust, 149 F.3d at 1373-74. The court expressed the Freeman-Walter-Abele test as:
   First, the claim is analyzed to determine whether a mathematical algorithm is directly or indirectly recited. Next, if a mathematical algorithm is found, the claim as a whole is further analyzed to determine whether the algorithm is “applied in any manner to physical elements or process steps,” and, if it is, “passes muster under § 101.”
25. Id. at 1374.
26. Id. at 1375.
27. Id.
28. Id. at 1373.
29. See id. at 1375.
30. Id.
to hold an invention unpatentable. Rather, cases such as In re Howard, In re Schrader, In re Maucorps, and In re Meyer rested their holdings of unpatentability on findings that the invention at issue was an abstract idea, lacked novelty, or was obvious. Even the Hotel Security case, as noted above, addressed the apparent lack of novelty in the patented method, and the State Street court interpreted Hotel Security to turn not on the business method exception, but on principles of novelty or lack of invention.

The State Street court determined that the case before it fit into the same class as those prior cases. The district court’s “primary reason for finding the patent invalid under the business method exception” consisted of a finding that the patented invention is claimed broadly enough to prevent use of “‘virtually any computer-implemented accounting method necessary to manage’” the given financial structure. This reasoning, which emphasizes the breadth of the claims, is not a judgment under § 101, but is instead part of the analysis concerning other conditions for patentability—novelty, nonobviousness, and proper specification.

Even the Patent and Trademark Office, in its Manual of Patent Examining Procedure (“MPEP”) and Examination Guidelines for Computer Related Inventions, has acknowledged that the business method exception is no longer viable and that any claims that might be characterized as business methods should be analyzed in the same manner as any other process claims. Accordingly, the Federal Circuit officially rejected any further use of the business method exception, stating that business methods are “subject to the same legal requirements for patentability as any other process or method.” Specifically the State Street court held that
the transformation of data, representing discrete dollar amounts, by a
machine through a series of mathematical calculations into a final share
price, constitutes a practical application of a mathematical algorithm,
formula, or calculation, because it produces “a useful, concrete and
tangible result”—a final share price momentarily fixed for recording and
reporting purposes and even accepted and relied upon by regulatory
authorities and in subsequent trades.\textsuperscript{42}

Although restating and clarifying earlier opinions of the Supreme Court and
the Federal Circuit, \textit{State Street} appears to have opened the possibility of patent
protection to a range of inventions previously thought by many to have been
unpatentable. Practically any transformation of data that produces a useful result,
particularly if embodied in computer equipment or other devices, has seemingly
been given the green light for patenting. However, the method or device that
transforms data must still meet the criteria of sections 102 and 103 of the Patent
Act—novelty and unobviousness. Thus, hardware that calculates the area under
given curve may be patentable subject matter under \textit{State Street}, but may not
be novel or non-obvious over the calculus. Nevertheless, many businesses,
particularly those like State Street that process a great deal of data, may wish to
examine their data transforming methods and devices for possible patent
protection.

\section{II. Internet Jurisdiction in Indiana}

As with many other areas of law, the proliferation of the internet has affected
intellectual property law. Generally speaking, the internet has not appreciably
affected the substance of patent, trademark, copyright, or trade secret law. An
original manuscript fixed in a tangible medium of expression is still entitled to
copyright protection whether that medium is a book or computer, and a trademark
still identifies the source of goods or services whether that trademark is in the
newspaper or on a web site.

Nonetheless, interesting challenges to intellectual property owners have
arisen as they move to protect their rights against alleged infringers who use the
internet. Perhaps that effect is most keenly felt in the trademark realm, as
commerce on the internet becomes more widespread and easy to use. Cases have
been reported in other jurisdictions that begin to address the interplay between
trademark law and the registration of internet domain names.\textsuperscript{43} These issues will

\textsuperscript{42} Id. at 1373.

\textsuperscript{43} See, e.g., Intermatic Corp. v. Toeppen, 947 F. Supp. 1227 (N.D. Ill. 1996); Panavision,
Inc. v. Toeppen, 945 F. Supp. 1296 (C.D. Cal. 1996), \textit{aff’d}, 141 F.3d 1316 (9th Cir. 1998). Briefly,
these cases stand for the general proposition that registration of a domain name that is the trademark
of another, combined with the offer to sell the domain name to the trademark owner, is an
infringement of the owner’s trademark rights. A “domain name” is a character set that identifies
a particular computer, or “server,” on the internet. For example, in the internet address
\texttt{www.uspatent.com}, “\texttt{www}” identifies the World Wide Web, “\texttt{com}” identifies the top-level domain
continue to find their way before state and federal judges as the importance and availability of electronic commerce increases.

At a more basic level, however, is the question of where a lawsuit based on intellectual property improperly placed or used on the internet may be brought. If an alleged infringer or unfair competitor is located in one jurisdiction, the internet service provider (i.e. the primary physical location of the allegedly infringing data) in another, the complaining plaintiff in a third, and consumers or other parties downloading the allegedly infringing data still in other places, it is often difficult to determine a proper venue for the lawsuit. The Indiana Court of Appeals has now weighed in on the issue of jurisdiction in an internet trademark case, *Conseco, Inc. v. Hickerson*.\(^44\)

*Conseco* involved a suit filed by an insurance company alleging trademark dilution, trademark infringement, commercial disparagement, and other claims against Hickerson, a resident of Texas. As the trustee of an estate, Hickerson promulgated a web site that sought information of “fraud or other evidence of unfair treatment” by Philadelphia Life Insurance Company, a subsidiary of Conseco, or any other Conseco subsidiaries, apparently to assist him in a lawsuit against Philadelphia Life.\(^45\) The web site included the term “Conseco Inc.,” in which Conseco claimed trademark rights, and also included a link enabling the reader to send electronic mail to Hickerson.\(^46\) According to the court, the web site “did not advertise or offer any product, or seek any money.”\(^47\)

Procedurally, Conseco obtained a temporary restraining order and a date for a preliminary injunction hearing.\(^48\) Hickerson filed a response, and the trial court held a hearing concerning the injunction.\(^49\) With the permission of the trial court, Hickerson filed a brief after the hearing disputing the court’s jurisdiction over him, and the court found that it did not have personal jurisdiction in the case.\(^50\) Conseco appealed.

The court of appeals discussed only one of the issues Conseco raised in its appeal: “Whether Hickerson’s use of Conseco’s trademarked name in his web site was sufficient to support personal jurisdiction in Indiana.” Conseco’s argument was based on the “effects test” of personal jurisdiction outlined in *Calder v. Jones*\(^52\) and applied in a trademark case by the Seventh Circuit in...
Indianapolis Colts, Inc. v. Metropolitan Baltimore Football Club, Inc. \(^{53}\) Conseco also relied on two recent cases specifically concerning personal jurisdiction in the context of internet usage, EDIAS Software International v. BASIS International, Ltd. \(^{54}\) and Panavision International, L.P. v. Toeppen. \(^{55}\) Conseco argued that the effects test as applied in the latter two cases supported the exercise of personal jurisdiction in Indiana over the Texas resident Hickerson.

The court of appeals, however, disagreed. After reviewing the standards for personal jurisdiction in Indiana, \(^{56}\) the court discussed and distinguished Indianapolis Colts, EDIAS, and Panavision. Indianapolis Colts concerned the defendant's use of the trademark “Colts” in connection with its professional football team. Although the defendant's contacts with Indiana were tenuous, the Seventh Circuit found that an Indiana federal court had jurisdiction over the defendant, basing its finding on the existence of national television broadcasts that could reach Indiana, and apparently also on the fact that, since the trademark owner was in Indiana and did considerable business under its trademark in Indiana, the effect of the trademark infringement would be primarily felt in Indiana. \(^{57}\) In a single sentence, the Conseco court dismissed the Indianapolis Colts opinion as not considering "the unique question of personal jurisdiction through the Internet." \(^{58}\) With that sentence, the court apparently elected not to visit the question of whether the situs of the trademark owner or the situs of a substantial portion of the business transacted in connection with the trademark has any bearing on personal jurisdiction, choosing instead to focus exclusively on the internet flavor of the case. \(^{59}\)

\(^{53}\) 34 F.3d 410 (7th Cir. 1994).
\(^{55}\) 141 F.3d 1316 (9th Cir. 1998).
\(^{57}\) Indianapolis Colts, 34 F.3d at 411-12.
\(^{58}\) Conseco, 698 N.E.2d at 818.
\(^{59}\) It would appear that, assuming Indianapolis Colts to be an accurate reflection of Indiana law concerning personal jurisdiction, there are two ways to interpret the court of appeals' quick distinction of the case. First, the court may not have wanted to consider a “site of injury” inquiry given a medium that potentially reaches to all points of the globe. Such a test for personal jurisdiction would probably have to presuppose a “constructive notice” to the defendant of the plaintiff's location(s) for the “traditional notions of fair play and substantial justice” of International Shoe Co. v. Washington, 326 U.S. 310 (1945), and its progeny to be satisfied. Second, the court may be implicitly distancing itself from Indianapolis Colts and the idea that the situs of trademark injury can support jurisdiction. In that event, Indianapolis Colts is implicitly called into question to the extent it interprets Indiana law. The latter position appears to the author to be the correct one at this point insofar as the court did not discuss the effect of the site of the alleged trademark injury on personal jurisdiction at all, either positively or negatively. Which of these or other positions on Indianapolis Colts is held by Indiana courts may be delineated at a future date.
The court then turned to the two federal district court cases specifically considering the internet. EDIAS, in the court’s view, was distinguishable “because the EDIAS court did not rely solely upon the ‘effects test’ to find personal jurisdiction.”60 Rather, in EDIAS the defendant, in addition to making allegedly defamatory remarks on its web site, sent electronic mail, telephone calls, and faxes into Arizona and sold merchandise in Arizona, all of which contributed to the assertion of jurisdiction over the defendant.61 The Conseco court, in a situation where no other such contacts were present, found EDIAS not germane.62

The second federal case, Panavision,63 concerned a so-called “cyber pirate” who had registered as a domain name trademarks belonging to the plaintiff, a California corporation. The defendant, an Illinois resident, then demanded a price for releasing the domain names to the plaintiff. The Panavision court found that personal jurisdiction existed over the defendant in California because the defendant aimed his “scheme to extort money” at a corporation located in California.64 Observing that the Panavision court relied on the defendant’s “purposefully aiming his extortion scheme” at California, the Conseco court distinguished Panavision because no actions were directed at Indiana in the case before it.65 Notably, the court mentioned the Panavision court’s apparent dictum that “simply registering a corporation’s trademark as a domain name and posting a web site would not be sufficient to support personal jurisdiction over a non-resident defendant.”66 Nevertheless, the Conseco court did not rely on Panavision to any obvious degree it its ultimate ruling.

The court elected instead to follow the guidance of a different Ninth Circuit case, Cybersell, Inc. v. Cybersell, Inc.67 Cybersell involved facts much closer to those in Conseco. An Arizona corporation sued a Florida corporation in Arizona, alleging trademark infringement by improper use of the Arizona corporation’s name on the Florida corporation’s web site. The web site including an Arizona corporation’s name was the only contact the Florida corporation had with the state of Arizona. Further, the Arizona and Indiana long-arm statutes both extend personal jurisdiction to the extent due process allows.68 As in Cybersell, the Conseco court found that personal jurisdiction over Hickerson did not exist.69

In doing so, the court listed two factors used in a personal jurisdiction analysis involving an interactive web site: (1) “the level of interactivity of the
site,”70 and (2) the “commercial nature of the information exchange.”71 Evidently addressing the first factor, the court referred again to the Cybersell opinion for the proposition that “something more” than just an internet advertisement would be required before personal jurisdiction could be acquired over the web site creator or owner.72 The “something more” must indicate that the defendant “directed his activity in a substantial way to the forum state,”73 and will probably be satisfied by telephone calls, electronic mail, regular mail, merchandise, or advertisements specifically sent into the proposed forum state.74 Because none of these additional contacts were present, the Conseco court affirmed the trial court’s finding of no personal jurisdiction over Hickerson.75

Perhaps the most interesting statement in the Conseco opinion is that the effects test is not readily applicable in cases involving national or international corporations and the Internet. The “effects test” does not apply with the same force to a corporation as it does to an individual because a corporation’s harm is generally not located in a particular geographic location as an individual’s harm would be.76

The first portion of the statement clearly articulates that the court is concerned with the category of cases having two components: corporations and the Internet. The remainder of the statement, and indeed the rest of the court’s paragraph rejecting the effects test, does not refer at all to the internet. Rather, the court reasons that the national or multi-national character of a corporation means that injury to it would be felt wherever the corporation is present, instead of where the corporate headquarters is located.77 The implicit statement is that this result would impermissibly enlarge personal jurisdiction. That reasoning would seem to apply regardless of whether the internet is the instrument used to inflict injury. Insofar as the court’s declared position on the effects test represents a basis for

70. Id.
71. Id. (citing Cybersell, 130 F.3d at 418; Zippo Mfg. Co. v. Zippo Dot Com, Inc., 952 F. Supp. 1119, 1124 (W.D. Pa. 1997)). The court remarked specifically that it was making the assumptions for purposes of the appeal that Hickerson’s web site was interactive and that it was commercial in nature. Id. at 820 nn. 6-7.
72. Id. (citing Cybersell, 130 F.3d at 430).
73. Id. (citing Cybersell, 130 F.3d at 430; Blumenthal v. Drudge, 992 F. Supp. 44, 56 (D.D.C. 1998)).
74. See id. (“In the present case . . . Hickerson did not direct any advertising, send any e-mails or letters, or make any phone calls to Indiana.”); see also Panavision Int’l, L.P. v. Toeppen, 141 F.3d 1316, 1322 (9th Cir. 1998).
75. Conseco, 698 N.E.2d at 820.
76. Id. at 819.
77. Id. at 819-20. This passage of the opinion seems to be a clearer, although still unstated, rejection of Indianapolis Colts to the extent that the latter stands for the proposition that personal jurisdiction exists in the forum encompassing the headquarters of a corporation alleging trademark injury. See supra note 59.
the court’s decision to follow Cybersell in this case, it should be regarded as a precedential statement.

Further analysis reveals several additional points that may require resolution in future cases. In its opinion, the court left open the question of whether either of the two identified “internet jurisdictional” factors is necessary or sufficient to a finding that personal jurisdiction exists. Next, in considering what constitutes the “something more” above an internet website or advertisement that is needed to establish jurisdiction, the court recited the subjective standard from Cybersell. The “something more” must indicate that the defendant directed actions “in a substantial way” toward the proposed forum. In the context of the well-known “minimum contacts” analysis in federal and Indiana personal jurisdiction jurisprudence, perhaps “substantial way” has a meaning the same as or similar to “minimum contacts.” On the other hand, it is possible that the phrase will be interpreted as an additional component in determining personal jurisdiction. Third, the court did not address to any degree whether, in considering the commercial nature of the information exchange, the consideration is relative or absolute. In other words, it is not clear whether the court will consider a website as having any commercial elements to meet the second factor, or that a threshold level of commercial-relatedness must exist to trigger jurisdiction.

III. INDIANA TRADE SECRET LAW AFTER AMOCO

In 1993, the Indiana Supreme Court decided Amoco Production Co. v. Laird, which was one of its first pronouncements on the Indiana Uniform Trade Secrets Act (“IUTSA”). The Amoco court interpreted and applied the statutory term “not being readily ascertainable” to determine whether given information was a trade secret, and thereby somewhat clarified the parameters of trade secret protection. In Hydraulic Exchange and Repair, Inc. v. KM Specialty Pumps, Inc., the Indiana Court of Appeals applied the Amoco decision when it considered whether customer and pricing information qualified as a trade secret. The court also considered the breadth of an injunction against trade secret misappropriation.

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78. Conseco, 698 N.E.2d at 820.
79. Id.
80. 622 N.E.2d 912 (Ind. 1993).
81. IND. CODE §§ 24-2-3-1 to -8 (1998). The IUTSA defines a trade secret as information that “[d]erives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use” and is the subject of reasonable efforts to maintain its secrecy. Id. § 24-2-3-1 (emphasis added).
82. Amoco, 622 N.E.2d at 919.
84. Id. at 784-86.
85. Id. at 786-88.
The facts of Hydraulic Exchange are not uncommon among trade secret cases. As part of its lubrication business, KM daily updated its customer and pricing information, such as the names of contacts at its customers’ locations and its overhead information. KM considered such information confidential. KM provided customer names, contact names, and customer sales histories to its salesperson, Titzer, for use in the course of his sales efforts on behalf of KM.\(^{86}\) KM had a two-year non-competition agreement with Titzer, which provided that Titzer would not sell pumps and lubrication in geographic areas in which he sold or made sales calls on behalf of KM, and would not directly or indirectly solicit KM’s customers or accounts. The court noted that the non-competition agreement also provided that an injunction was available as a remedy for breach of the agreement.\(^{87}\)

About one month after resigning from KM, Titzer was hired as a sales representative by Hydraulic Exchange, a business that repaired hydraulic components and performed lubrication work. Hydraulic Exchange had done lubrication work for several clients who were also clients of KM.\(^{88}\) KM sued Hydraulic Exchange and Titzer on trade secret and other grounds after it discovered that Titzer called upon one of the companies’ mutual customers, and after Titzer stated to a KM officer that “he would not turn down any work that came to him.”\(^{89}\) On KM’s motion, the trial court issued a preliminary injunction prohibiting the defendants from offering pumps or lubricant systems to KM customers, interfering with KM’s employees or agreements between KM and other parties, and using or disclosing KM trade secrets “or other proprietary information or pricing information.”\(^{90}\) Hydraulic Exchange then filed an interlocutory appeal.

Judge Najam first considered Hydraulic Exchange’s claim that the customer and pricing information at issue was not entitled to trade secret protection. He cited a provision of the IUTSA\(^{91}\) and the court’s prior opinion in Ackerman v. Kimball International, Inc.\(^{92}\) in identifying four “characteristics” of a trade secret: “(1) information, (2) which derives independent economic value, (3) is not generally known, or readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use, and (4) the subject of efforts reasonable under the circumstances to maintain its secrecy.”\(^{93}\) In spite of its four-element formulation, the court did not specifically discuss the first or second elements as it reviewed the trade secret status of KM’s customer and pricing information. It is not difficult to see that such materials constitute

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86. See id. at 784.
87. Id.
88. See id. at 784-85.
89. Id. at 784.
90. Id. at 785.
93. Hydraulic Exchange, 690 N.E.2d at 785-86.
“information.” The court did not explicitly review the fourth element either, but noted evidence that KM informed employees as to confidentiality and backed-up the information from the computer system, storing it in a safe. Consequently, it is not surprising that the court focused its attention elsewhere.

However, the court either lumped the second and third elements together in its analysis, or chose to ignore the element of independent economic value. Relying on the declaration in *Amoco* that “‘where the duplication or acquisition of alleged trade secret information requires a substantial investment of time, expense, or effort, such information may be found “not being readily ascertainable” so as to qualify for protection,’” the court found that KM had protectible trade secret information. Hydraulic Exchange argued that the customer information was readily ascertainable because the “discrete market” for the two companies’ goods and services would permit any competitor in the market to obtain information on potential customers “through the telephone book.” On one hand, the court agreed that KM’s customer list itself is not a trade secret. On the other hand, the court decided that, because KM’s accumulation of information included more than customer names, under the *Amoco* rule “KM’s effort of compiling its customer and pricing information is entitled to protection even if the customer names may generally be known.”

The *Hydraulic Exchange* opinion seems implicitly to view both the second and third trade secret elements as addressed by that rule. While the opinion does not separately consider those elements, the second element, “deriving independent economic value,” may be addressed by simply inferring that a compilation of information would have an independent economic value if for no other reason than resources would have to be spent to duplicate it. Further, it is evident that the third element, “not being readily ascertainable,” was addressed by the court because of its reliance on *Amoco*. However, *Hydraulic Exchange* does not necessarily stand for the principle that a compilation of available information may be “not readily ascertainable” under the IUTSA because the case dealt with information over and above available customer names. Nevertheless, the language of the opinion seems to provide support that available information accumulated or organized and kept secret can be a protectible trade secret.

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94. *Id.* at 786.
95. *Id.* (quoting *Amoco Prod. Co. v. Laird*, 622 N.E.2d 912, 919 (Ind. 1993)).
96. *Id.*
97. *Id.*
98. *Id.*
99. “The customer and pricing information that KM claims as a trade secret includes profits, sales, and special suppliers that are specific to each customer.” *Id.*
100. *Id.*
101. The *Hydraulic Exchange* opinion noted that *Amoco* held that information may be found “not readily ascertainable” if duplicating or procuring the information would require a substantial amount of time, expense, or effort. *Id.* In such a case, it is clear that such information has independent economic value.
The court’s principal holding on the first issue was that “KM’s effort of compiling its customer and pricing information is entitled to protection even if the customer names may generally be known.” 102 This statement of the law, while appealing from the standpoint of protecting business effort and investment, appears to the author to be somewhat awkward. The IUTSA specifically identifies “information” as the subject matter it protects, rather than a person’s effort, diligence, or “sweat of the brow.” 103 Certainly, a compilation of data is “information,” and the compiler’s effort in accumulating and preparing the compilation is indicative of the availability or ascertainability of the compilation. However, the precept that the effort of compiling information is protectible under the IUTSA does not necessarily follow from the language of the act.

The second issue addressed by the court was the breadth of the injunction issued by the trial court. 104 The court’s discussion began by acknowledging that trade secret misappropriation requires not only non-consensual use or disclosure of trade secrets, but also an element of impropriety. 105 In this case, the court characterized that impropriety as Hydraulic Exchange’s knowledge or reason to know that the trade secrets came from Titzer, who owed a duty of secrecy to KM through his non-competition agreement. 106 KM did not establish that Hydraulic Exchange received KM’s customer and pricing information from Titzer or that Hydraulic Exchange knew of the non-competition agreement between KM and Titzer. KM did show that Hydraulic Exchange used Titzer “in preparing bids for customers that Titzer had as clients when he worked at KM.” 107

The court found that using Titzer to prepare such bids would support the inference that KM’s customer and pricing information could be used to Hydraulic Exchange’s benefit and KM’s detriment. 108 Because threatened trade secret misappropriation may be enjoined, 109 the preliminary injunction against Hydraulic Exchange’s use or disclosure of KM’s information when preparing bids was upheld. 110 As noted above, however, the injunction went considerably further, including prohibitions on Hydraulic Exchange and Titzer from offering certain goods “to any customer or client of KM [and] . . . [u]sing or disclosing any trade secret or other proprietary information or pricing information of KM.” 111

102. Id.
103. See Feist Publications, Inc. v. Rural Tel. Serv., Inc., 499 U.S. 340, 363-64 (1991) (holding that the Federal Copyright Act does not protect the effort or “sweat of the brow” of one who collects and publishes information, but protects only the person’s expression of the information).
104. Hydraulic Exchange, 690 N.E.2d at 786.
105. Id. at 787.
106. Id.
107. Id.
108. Id.
110. See Hydraulic Exchange, 690 N.E.2d at 787.
111. Id. at 788 (emphasis added).
Those provisions of the preliminary injunction were determined to be overbroad. The trade secrets at issue were KM’s “customer and pricing information,” not the customer names themselves. Accordingly, relief that enjoins business contact with KM’s customers, without regard to whether any of the “customer and pricing information” was used in the contact, does not have a proper connection to the trade secrets, and therefore to the threatened misappropriation. In Judge Najam’s words, the injunction “should be limited to those solicitations made by [Hydraulic Exchange] in which [it] might utilize KM’s trade secrets including, specifically, transactions in which Titzer participates, directly or indirectly.” This aspect of the Hydraulic Exchange opinion highlights an obvious consideration in trade secret litigation, the importance for the plaintiff of defining and proving trade secret misappropriation as broadly as possible.

IV. Martin v. Indianapolis—Copyright Damages

One other Indiana case decided in the past year deserves mention because it considered damages in a copyright-related action. Martin v. Indianapolis was a case of first impression in the Seventh Circuit, and was one of the first cases in the nation concerning the Visual Artists Rights Act (“VARA”). In October 1997, Martin won summary judgment on his claim that the City of Indianapolis infringed his rights under VARA by destroying a sculpture he created. At that time, the court reserved its final ruling and directed the parties to present arguments as to the level of damages. The Martin opinion reviewed those arguments and decided the remedies to be awarded.

VARA was enacted in 1990 to bring U.S. copyright law further into agreement with international copyright law. Among other terms, VARA provides that

the author of a work of visual art . . . subject to the limitations set forth in section 113(d), shall have the right—(A) to prevent any intentional distortion, mutilation, or other modification of that work which would be prejudicial to his or her honor or reputation, and any intentional distortion, mutilation, or modification of that work is a violation of that right, and (B) to prevent any destruction of a work of recognized stature, and any intentional or grossly negligent destruction of that work is a violation of that right.\(^\text{117}\)

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112. See id.
113. Id.
114. 4 F. Supp. 2d 808 (S.D. Ind. 1998).
116. See Martin, 4 F. Supp. 2d at 809.
117. 17 U.S.C. § 106A(a)(3) (1994). The exceptions in § 113(d) concern works of visual art incorporated or made part of a building. Id. § 113(d).
The provision applies to a “work of visual art,” which is generally defined as a painting, print drawing, sculpture, or still photograph produced for exhibition, existing in a single copy or a limited edition. Further, it is the “author” of the work, not the owner of a copy or of the premises where the copy is situated, whose rights are protected by VARA. Thus, business owners, public entities, and others who own or display works of visual art must remain cognizant of the author’s right to the maintenance of the quality of his or her works.

After Indianapolis was adjudged to have violated VARA, Martin requested statutory damages under the Copyright Act as well as costs and attorney fees. Martin contended that Indianapolis’ (the “City’s”) actions were willful, and therefore supported enhanced statutory damages of $100,000. Not surprisingly, the City countered that it did not act willfully, as that term is used in the Copyright Act, entitling Martin to only $20,000 in statutory damages, and that Martin was not entitled to full costs or fees.

Judge Barker first considered the meaning of “willfulness,” noting that the term is not defined in the Copyright Act. Citing both the Nimmer treatise and Wildlife Express Sales Corp. v. Carol Wright Sales, Inc., the judge decided that willfulness requires the infringement defendant to know or have reason to know that his or her “actions constituted infringement, whether through past infringement activity and lawsuits or direct notice from the plaintiff or some other acceptable form of notice.” That the defendant’s actions are intentional, i.e., that the defendant’s purpose was to cause the action or consequence that was caused, is not sufficient to establish willfulness. In the copyright realm, to prove willfulness a plaintiff must show that the defendant was on notice that its actions amount to a copyright infringement.

In Martin, the plaintiff showed that the City knew of his “contractual rights and ownership rights” in the work, but failed to show that the City knew of his VARA rights, and thus the City was not liable for enhanced statutory damages. This is at least one instance in which ignorance of the law may be an excuse. In pointing out the insufficiency of his case, the court particularly noted that Martin did not assert “that the City knew about the existence of VARA.” The court
proceeded to award the maximum amount of non-enhanced statutory damages based primarily on the fact that Martin’s work had been subjected to “the most extreme form of copyright infringement possible: total destruction.”\textsuperscript{130} The court also noted that even though the City had not willfully infringed, its proven disregard for the work and Martin’s statutory rights in it further justified such an award.\textsuperscript{131}

The court then moved on to Martin’s claim for costs and attorney’s fees. Quoting the Copyright Act, Judge Barker acknowledged that such an award may be made in the court’s discretion.\textsuperscript{132} She also rejected the City’s argument that the case counseled against awarding costs and fees because it encompassed “a novel and complex area of copyright law.”\textsuperscript{133} Rather, while case law concerning VARA is relatively “undeveloped,” in the court’s words, guidance was found in \textit{Carter v. Helmsley-Spear, Inc.}\textsuperscript{134} and the fact that many of the issues faced in \textit{Martin} were governed by agency and contract law.\textsuperscript{135} Ultimately, the \textit{Martin} court relied on the holding in \textit{Chi-Boy Music v. Charlie Club, Inc.}\textsuperscript{136} that attorney’s fees may be awarded “for reasons other than simply making the plaintiff whole, such as encouraging the assertion of colorable copyright claims and deterring infringement.”\textsuperscript{137} Recognizing that the statutory damages award “does not compensate Martin fully,” that not awarding costs and fees “would have the effect of reducing further the adequacy of the damages award,” and an award would “encourage artists . . . to assert their VARA rights in court,” the court granted reasonable attorney’s fees to Martin.\textsuperscript{138} In this way, the court appears uniquely to have fashioned a quasi-damages remedy, on principles of equity and a policy of making legal action more available to copyright plaintiffs, based on a statutory provision for court costs and attorney’s fees.

CONCLUSION

In sum, the year ending September 30, 1998 produced several published decisions that will affect the acquisition, protection and enforcement of intellectual property rights. Indiana law practitioners should be aware of these pronouncements as they counsel clients on these issues. The protection of trade secrets, the scope of potential patent protection, the use of the internet, and protection of artist’s are just some of the matters the practitioner should consider as intellectual property plays an ever-greater role in the development and success of business.

\textsuperscript{130} \textit{Id.}
\textsuperscript{131} \textit{Id.}
\textsuperscript{132} \textit{Id.} at 812 (quoting 17 U.S.C. § 505 (1994)).
\textsuperscript{133} \textit{Id.}
\textsuperscript{134} 861 F. Supp. 303 (S.D.N.Y. 1994), aff’d, 71 F.3d 77 (2d Cir. 1995).
\textsuperscript{135} \textit{See Martin,} 4 F. Supp. 2d at 812.
\textsuperscript{136} 930 F.2d 1224 (7th Cir. 1991).
\textsuperscript{137} \textit{Martin,} 4 F. Supp. 2d at 812 (quoting \textit{Chi-Boy Music}, 930 F.2d at 1230).
\textsuperscript{138} \textit{Id.}