

# **SURVEY OF DEVELOPMENTS IN INTELLECTUAL PROPERTY LAW**

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## **I. PROPOSED PATENT RULE CHANGES**

During the survey period, the United States Patent and Trademark Office (“PTO”) proposed rule changes in two areas that, if adopted, will significantly and substantially alter prosecution practices that have been accepted for decades. At the time of this writing, these rules have not been put into practice, with the PTO noting on its website that the rule changes will not take effect without a minimum thirty-day notice to practitioners. The importance of these potential rule modifications in changing currently-accepted prosecution practices and possibly in altering the scope of protection available to a particular invention disclosure cannot be underestimated. The following discussion will review the proposed rule changes and detail a few of the expected results.

### *A. Changes to Continuation Practice*

Since at least the enactment of the 1952 Patent Act, the statutes have allowed one to file patent applications that disclose all or a part of the disclosure of another pending patent application and claim priority to that pending application.<sup>1</sup> Such “continuation” (containing only subject matter previously disclosed in a pending application) or “continuation-in-part” (or “CIP,” which includes additional new subject matter) applications are quite common, as they afford the opportunity to obtain claim coverage of a different scope compared to that of the earlier application and/or to add subject matter that has been developed as the inventive product or method has been used and as advantages or benefits have been discovered. As the statute makes plain, multiple such applications may be filed, each claiming the benefit of one or more prior applications.

The PTO, however, offered new amendments limiting not only the number of continuing (i.e., continuation and CIP) applications that can be filed, but also the filing of more than one Request for Continued Examination (“RCE”).<sup>2</sup> The

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1. See 35 U.S.C. § 120 (2000) (“An application for patent for an invention disclosed in the manner provided by the first paragraph of section 112 of this title in an application previously filed in the United States . . . which is filed by an inventor or inventors named in the previously filed application shall have the same effect, as to such invention, as though filed on the date of the prior application, if filed before the patenting or abandonment of . . . the first application or on an application similarly entitled to the benefit of the filing date of the first application . . .”).

2. Changes to Practice for Continuing Applications, Requests for Continued Examination

amendments were proposed, according to the PTO, as a means to keep an “excessive number [of continuing applications from] detract[ing] from the agency’s ability to examine new patent applications.”<sup>3</sup> In a nutshell, as of the effective date of the rule changes, one may not be able to file *any* of a continuation, CIP, voluntary divisional application, or an RCE, with the benefit of an earlier application.

The amended rules would allow one to file only one continuing application that claims priority benefit from a given application as a matter of right. In this context, a “continuing application” includes both nonprovisional applications and international applications that designate the United States which claim the benefits of sections 120, 121 or 365(c) from a given application. Put less formally, the definition of “continuing application” for the amended rules would include continuations, CIPs, voluntary divisionals, or RCEs. Conversely, an application that claims priority only to (1) an application for an inventor’s certificate, (2) an application filed in a foreign country, or (3) an international application designating countries other than the United States are not considered to be “continuing applications.”<sup>4</sup> Divisional applications made necessary by a restriction requirement issued and made final by the examiner in a pending application are not “voluntary divisionals,” and therefore do not count as continuing applications.<sup>5</sup> However, if one files an application characterized as a divisional from an application in which a restriction requirement does not appear, then that application would be considered a “voluntary divisional” within the ambit of the proposed rule amendments.<sup>6</sup>

If one desires to file a second continuing application under the proposed new rules, the application must be accompanied by a petition and fee (originally proposed to be \$400).<sup>7</sup> The petition must show why evidence submitted with the continuing application, or RCE, amendment(s), argument(s) or evidence submitted with it, could not have been presented earlier.<sup>8</sup> The PTO thus would place the onus on the applicant to make a showing of some level of necessity to its continuation or RCE filing. Not only is a burden created on the applicant that has never before existed, but the “could not have been presented” burden appears to be quite high.

Where the second application is a CIP, the proposed rule changes will allow the filing of a continuation or a new CIP that claims only the matter added in the

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Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. 48 (Jan. 3, 2006) (scattered sections throughout pages 48-61) (to be codified at 37 C.F.R. pt. 1) [hereinafter *Changes to Practice for Continuing Applications*].

3. See <http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/focuspp.html> (last visited on Mar. 8, 2007) [hereinafter USPTO website].

4. *Changes to Practice for Continuing Applications*, 71 Fed. Reg. at 52.

5. *Id.* at 53.

6. *Id.*

7. *Id.* at 56.

8. *Id.* at 58.

first CIP.<sup>9</sup> Thus, where an original application discloses certain subject matter, and a first CIP includes all of that subject matter plus extra disclosure, a continuing application claiming benefit to that first CIP can be filed so long as that continuing application is directed only to the extra disclosure in the first CIP.<sup>10</sup> However, in that case, it appears that the term of the continuing application will be measured from the filing date of the original application, and not from the filing date of the CIP application.

If allowed to come into force and not overridden by the language of the Patent Act as noted below, this change to PTO practice is likely to have far-reaching effects not only on the practice of patent law, but also on the scope of applications and patents issued from them. With the knowledge that only one follow-up application can be filed, in general, an initial application will become significantly more involved and expensive as applicants attempt to find needles in the prior-art haystack. To ensure that first application results in quality issued claims without resort to an RCE, the scope of those claims will likely have to be made narrow in the beginning or under prosecution. While broader claims may have good arguments for allowance over cited references, there is the risk of having the examiner disregard those arguments and issue a final rejection from which minimal amendments are allowed. From that final rejection, it may be that only an RCE will be available to try to obtain any claims and that RCE will effectively end prosecution on that case, since no further continuing applications will be permitted absent the showing previously indicated. Of course, if the applicant chooses to appeal the rejection rather than file an RCE, he or she retains the ability to file a later continuing application, but has to devote substantial resources to preparing and arguing the appeal. Ironically, it is possible that the new rules will not solve the problem of overwork to which the PTO adverts, but will instead shift that burden to the Board of Patent Appeals and Interferences as applicants choose to appeal rather than go straight to a continuing application.

Of course, the applicant could file more than one application directed to the same subject matter as a pending application under the proposed new rules, but only one of the putative continuing applications could have the priority benefit of the parent application.<sup>11</sup> Combined with the fact that most U.S. applications are now published approximately eighteen months after the filing date, there is a substantial risk of the parent application being a statutory bar to “continuing” applications that do not claim priority to it.<sup>12</sup> If it takes eighteen months for a first action on the parent application, then the PTO’s first view of the subject matter arrives only when the parent application is published. The parent application becomes a statutory bar one year after its publication, and the applicant may not have allowed claims, or even the best available prior art from the PTO, before a decision must be made to file a new application that does not

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9. *Id.* at 50.

10. *Id.*

11. *Id.* at 48.

12. *Id.* at 51.

claim priority to the parent.<sup>13</sup>

The applicant could also make more than one initial filing, that is, file more than one original application disclosing the same subject matter but with claims that differ at least slightly. In that situation, the applicant has the advantage of having multiple applications with the same filing date, without having filed any continuing applications. The obvious disadvantage, of course, is that the applicant may not have the benefit of the prosecution in one case to assist in the prosecution of the other. Moreover, the proposed rule amendments would require the applicant to identify such applications to the PTO and may give rise to a rebuttable presumption that the claims in the applications are not patentably distinct from each other.<sup>14</sup> The PTO could also require elimination of claims from all but one of the applications unless the applicant provides a reason for retaining them.<sup>15</sup> Strategies involving making an initial PTO filing that designates the United States could also be useful. PTO applications receive an initial preliminary examination that will alert the applicant to relevant prior art and will generally offer the applicant the opportunity to amend the claims prior to nationalization. The nationalization of the application in the United States is counted as an original filing rather than a continuing application.<sup>16</sup> Thus, the applicant has some knowledge of the examiner's views and the art he or she will rely on as prosecution in the PTO begins.

Some debate remains over whether the proposed rule changes can be implemented. As discussed above, the plain language of 35 U.S.C. § 120 permits multiple continuing applications to be filed, each of which claims priority to a parent application.<sup>17</sup> It is the author's view that this is likely the reason that the rules amendments concerning continuations have not been put into effect, as further consideration is given to the jurisdiction of the PTO in this area. Further, it is this author's opinion that the proposals to curtail continuation practice in this way would run afoul of the statute and accordingly would be struck down as contrary to law. Nonetheless, it is recommended for practitioners and businesspersons that are concerned with patents to consider now how to alter or review their patent filing practices should these rules come into force.

#### *B. Changes to Information Disclosure Statement Practice*

As is well known, the rules of patent practice require the prosecuting attorney, the inventor(s), and others involved with a patent application to provide to the PTO all references that an examiner may consider to be material to patentability.<sup>18</sup> Such references are provided to the PTO by way of an information disclosure statement (IDS) which lists the references, along with a

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13. *Id.*

14. *Id.*

15. *Id.*

16. *Id.*

17. *Id.*

18. 37 C.F.R. pt. 1.56 (2007).

submission of copies of foreign or non-patent references.<sup>19</sup> Of course, depending on the subject matter claimed in an application, the relative “crowdedness” of the particular art, and other factors, there may be numerous references that could be material to patentability. Frequently the patent attorney is faced with a dilemma: to leave out references that are on the margins, and leave the patent (and the attorney) open to a charge of inequitable conduct, or to include such references and be accused of hiding the wheat among a large amount of chaff in the hope that the examiner will not find the good reference(s).

The PTO has taken the position that applicants can provide information in a way that hinders examination, such as by sending a long list of references, or by sending long references of which only a relatively small part may be of particular relevance.<sup>20</sup> To address those perceived problems, the PTO’s proposed rule changes<sup>21</sup> would again place the burden on the applicant to identify and cite only the most relevant reference documents, so as to provide the examiner with useful and relevant information early in the examination process. Documents that arguably have questionable or marginal relevance would be eliminated, making a clearer path to the best available information.

For the time period before the first office action on the merits (or within three months of the application’s filing date), any references cited in a foreign search (i.e. by a foreign patent office or by the PTO in a PCT application) can be cited without provision of additional information or a certification.<sup>22</sup> For references from other sources, if an IDS does not list more than twenty references itself or in combination with other IDS submissions, no explanation regarding any reference is generally required, just as with the current practice. However, the applicant would be required under the amended rules to provide an “explanation” for any reference not in English or that is longer than twenty-five pages.<sup>23</sup> A similar “explanation” must be provided for *every* document in cases where more than twenty references are listed.<sup>24</sup>

That explanation must be quite detailed under the proposed rule amendments. The portion of the document that caused it to be cited must be identified, along with a description of how the teaching, feature, or specification part in the document correlates with the language of the claims. Effectively, the applicant would be required to spell out how the references apply to his or her claims.<sup>25</sup> Thus, this provision is a major change from existing practice in which no assumption as to the level of materiality or relevance of the reference is to be made from the mere fact that the reference is cited. Under current practice, the

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19. *Id.* §§ 1.97-1.99.

20. *Id.*

21. *See* Changes to Information Disclosure Statement Requirements and Other Related Matters, 71 Fed. Reg. 38,808 (July 10, 2006) (to be codified at 37 C.F.R. pt. 1) [hereinafter Changes to Information Disclosure Statement Requirements].

22. 37 C.F.R. pt. 1.97(e).

23. Changes to Information Disclosure Statement Requirements, 71 Fed. Reg. at 38,810.

24. *Id.* at 38,819.

25. *Id.* at 38,820.

burden is on the PTO to establish that a reference includes features that are the same as or otherwise relevant to elements of claims in an application.<sup>26</sup> If the rule changes go into effect, an applicant that knows of more than twenty potentially relevant references will be faced with the daunting task of providing the necessary explanation of each of them, thereby limiting the scope of the claims to a great degree, or making a judgment that some of the references are cumulative or can otherwise be left out of the IDS, inviting inequitable conduct allegations.

For the period after the first office action on the merits, new references could be submitted, under the proposed rule, generally only if they were cited by a foreign patent office and were cited to the PTO within three months, or if they are accompanied by the description of all of the references as noted above.<sup>27</sup> That description must also include a discussion of the qualities of the reference(s) that make them non-cumulative with respect to other references already in the case.<sup>28</sup> Once again, a significantly larger amount of analysis and explanation would be necessary, with the concomitant likelihood of greater limitation of protection as a result of the required representations to the PTO. After allowance, the proposed new rule would require not only the explanatory information noted above, but also an amendment (if necessary) or an explanation of why the claims as they stand are patentable over the newly-cited references.<sup>29</sup>

Once again, these rules have been published for comment, and the response period has run.<sup>30</sup> There has not, however, been any announcement of when the rules will come into effect. At the time of this writing, it has been more than six months since the comment period ended. Thus, there is some speculation that these rules may not, in fact, be implemented. Should the decision be eventually taken to implement them, a minimum thirty-day period of notice will be given.

## II. RECENT CASES CONCERNING NON-COMPETITION AGREEMENTS

### A. *Dicen v. New SESCO, Inc.*

In December, 2005, the Indiana Supreme Court provided its first comments in some time concerning covenants not to compete. In *Dicen v. New SESCO, Inc.*,<sup>31</sup> the court took a different view of non-compete agreements incidental to sale of a business, as compared to non-compete agreements required by an employer of his or her employees.<sup>32</sup>

The plaintiff, *Dicen*, was one of the founders of a company called SESCO, relying on his years of experience with the Indiana Department of Environmental

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26. *Id.*

27. *Id.* at 38,810, 38,814.

28. *Id.* at 38,810, 38,815.

29. *Id.*

30. See USPTO website, *supra* note 3.

31. 839 N.E.2d 684 (Ind. 2005).

32. *Id.*

Management (IDEM) to provide consulting to businesses relating to environmental regulations. Dicen's position included managing SESCO's test division, marketing its services, and training others.<sup>33</sup> Within two to three years, an investment group had incorporated New SESCO, Inc. in order to purchase the assets of SESCO and other companies owned by Dicen and his co-founders. As part of the sale, Dicen executed a "non-solicitation" covenant that prevented him from soliciting business from particular persons or entities for a five-year period. He also executed an employment agreement through which he would be employed by New SESCO. Part of that agreement required Dicen not to work in the same field or use confidential information during his employment and for two years afterward.<sup>34</sup>

Dicen worked for New SESCO doing the same tasks he had done for SESCO for about three years, then left to begin a new smoke stack testing company. Six months later, New SESCO sued Dicen for breach of the purchase and employment agreements, and Dicen was enjoined from soliciting business from past or current customers of New SESCO. On appeal, however, the court of appeals reversed in part, finding that the non-competition provision in the employment agreement was unenforceable.<sup>35</sup> It also found that the non-solicitation provision in the purchase agreement was overbroad, but the contract authorized modification by the court "to effect the intent of the parties."<sup>36</sup>

The supreme court granted transfer and considered whether either or both of the agreements were unenforceable.<sup>37</sup> It began with the premise that covenants not to compete are not favored, and while courts have enforced reasonable restrictions, unreasonable restrictions are struck from agreements if divisible therefrom (the "blue pencil doctrine").<sup>38</sup> However, it then distinguished "covenants not to compete ancillary to the sale of a business," stating that such covenants generally "stand in better stead" apparently compared to other non-competition covenants.<sup>39</sup> The reasons for that standing, according to the court, are that commonly the sale of a business finds the parties with more equal bargaining power, provides proceeds to the seller that can be used for his or her support, and generally includes a premium for not competing with the purchaser. An employment agreement, on the other hand, does not provide such features, and the employee may only be able to rely on his or her own skills.<sup>40</sup>

The court found that "[t]his more favorable review" of covenants relating to

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33. *Id.* at 685-86.

34. *Id.*

35. *Id.* at 687.

36. *Id.*

37. *Id.*

38. *Id.*

39. *Id.*

40. *Id.* (citing *Fogle v. Shah*, 539 N.E.2d 500, 502 (Ind. Ct. App. 1989); *Alexander & Alexander, Inc. v. Danahy*, 488 N.E.2d 22, 28 (Mass. App. Ct. 1986)). Note that in *Fogle*, the evidence showed that a particular sum, about fifteen percent of the purchase price for the business, was directed to the covenant not to compete.

the sale of a business validated the trial court's finding that the covenant in the purchase agreement was reasonable was correct.<sup>41</sup> Such a covenant, under the more liberal enforcement concept, is reasonable if "limited to the area of business involved."<sup>42</sup> In the Indiana Supreme Court's view, the five-year time period and the identification of the prohibited activity as contracting and soliciting were both reasonable, even though "the reach of the covenant [was] not entirely clear."<sup>43</sup> The limit to the business area was also met because the covenant proscribed activities in competition with New Sesco.<sup>44</sup>

Dicen's argument that the agreement was arbitrary because it allowed New Sesco to add new business to the proscribed-competition list from time to time was not accepted by the court. It found that language made the provision ambiguous rather than unreasonable, and that ambiguity was resolved by evidence between the parties that followed the execution of the agreement.<sup>45</sup> The court noted that even though it found the provision reasonable, and thus enforceable, the provision was to be construed against the drafting party, so that the injunction against Dicen would be limited to soliciting from entities specifically identified in the proffered evidence.<sup>46</sup>

Perhaps most notably, the Indiana Supreme Court treated the employment agreement in essentially the same manner as the agreement in the business purchase agreement, without lengthy discussion.<sup>47</sup> That decision was based on the fact that the employment agreement was executed in the same transaction as the purchase agreement. The court reasoned from that fact that the parties' relative bargaining power was likely to be equal with respect to the employment agreement.<sup>48</sup> Nonetheless, having decided that the more liberal review standard would be applied to the employment agreement, the court then found the employment non-compete provision to be unreasonable.<sup>49</sup> A nation-wide restriction for two years "exceeds the bounds of reasonableness, especially when Dicen's contacts were in a limited number of states," in the court's view.<sup>50</sup> The geographic provision of the agreement could not be blue-penciled because the result would be no geographical limitation at all, and thus the entire covenant was adjudged unenforceable.<sup>51</sup>

While relatively short in terms of number of words, the *Dicen* opinion includes some notable legal positions. First, the court confirmed a separate

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41. *Id.* at 688.

42. *Id.* (quoting *Donahue v. Permacel Tape Corp.*, 127 N.E.2d 235, 238 (Ind. 1955)).

43. *Id.*

44. *Id.*

45. *Id.*

46. *Id.* at 688-89 (citing *Ind. & Mich. Elec. Co. v. Terre Haute Indus., Inc.*, 507 N.E.2d 588, 598 (Ind. App. 1987)).

47. *Id.* at 689.

48. *Id.*

49. *Id.*

50. *Id.*

51. *Id.*



review standard for non-compete covenants in an agreement for purchase of a business, as opposed to such covenants in an employment agreement.<sup>52</sup> The latter covenants are “not favored” and should have rather stringent time and geography limitations. Purchase-agreement covenants are treated with a more liberal, but otherwise undefined, standard. Presumably, limitations that are unreasonable in the context of an employment agreement could be considered reasonable in a purchase agreement, and the line might be drawn with particular reference to the individual’s ability to work or other needs. It will be seen that business-sale non-compete agreements are significantly more likely to be enforced than those in employment agreements, and thus should be negotiated, prepared and reviewed so that compensation or other terms balance the expected effect of the provision. Certainly no term in a business purchase is ever a “throw away,” but if the Indiana courts are going to assume more equal bargaining power in a business purchase, the parties should exercise that power when considering a non-compete provision.

Moreover, it is not simply a matter of drawing a line between “purchase-based” covenants and “employment-based” covenants. The *Dicen* opinion treats a covenant not to compete in an employment agreement connected with the sale of a business in precisely the same way as a similar covenant in the purchase agreement.<sup>53</sup> There may be some room to argue that an individual’s needs would prevent enforcement of such a covenant, or that in connection with the employment agreement the bargaining power was not actually equal or comparable. Even so, it would seem prudent to make sure that consideration of an employment agreement in conjunction with sale of a business is negotiated with the more liberal standard of enforcing that covenant in mind.

The liberal standard does not affect other issues in the interpretation of the covenant. The *Dicen* opinion allows that regardless of the source of the covenant not to compete, it will still be interpreted against the drafting party.<sup>54</sup> Further, the fact that it may be ambiguous is not equivalent to unreasonability.<sup>55</sup> Ambiguity may be resolved by evidence outside of the four corners of the provision, while unreasonability renders the provision unenforceable.<sup>56</sup> “Blue-pencilling” is still a possibility, where the intent of the parties and reason permits.<sup>57</sup>

#### B. MacGill v. Reid

Compare the *Dicen* opinion to the views of the Indiana Court of Appeals expressed in *MacGill v. Reid*,<sup>58</sup> which was decided after *Dicen*. The sole issue in *MacGill* was whether the covenant not to compete between the parties was

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52. *See id.* at 687.

53. *See id.* at 689.

54. *See id.* at 688-89.

55. *See id.* at 688.

56. *See id.*

57. *See id.* at 687.

58. 850 N.E.2d 926 (Ind. Ct. App. 2006)

enforceable.<sup>59</sup> The plaintiff Reid owned a housekeeping business in which she matched independent-contractor housekeepers with her clients, and the fees from the clients were shared between Reid and the housekeepers.<sup>60</sup> MacGill was employed by Reid in an administrative capacity, and her employment contract included a covenant not to compete under which MacGill was not to “own, manage, or materially participate in any business substantially similar to [Reid’s] business within a 25 mile radius of [Reid’s] principal business address,” for a period of two years.<sup>61</sup> After MacGill resigned, she distributed flyers and obtained one customer for whom she provided housekeeping services. Shortly thereafter, Reid sued to enforce the covenant not to compete, and the trial court granted summary judgment upholding the covenant.

On appeal, the court began its analysis of the covenant by citing at length from *Pathfinder Communications Corp. v. Macy*.<sup>62</sup> The court noted the freedom of parties to enter contracts, but stated:

[C]ovenants not to compete are in restraint of trade and are not favored by the law. Noncompetition agreements are strictly construed against the employer and are enforced only if reasonable. Covenants must be reasonable with respect to the legitimate interests of the employer, restrictions on the employee, and the public interest. To determine the reasonableness of the covenant, we first consider whether the employer has asserted a legitimate interest that may be protected by a covenant. If the employer has asserted such an interest, we then determine whether the scope of the agreement is reasonable in terms of time, geography, and types of activity prohibited. The employer bears the burden of showing that the covenant is reasonable and necessary in light of the circumstances. In other words, the employer must demonstrate that the former employee has gained a unique competitive advantage or ability to harm the employer before such employer is entitled to the protection of a noncompetition covenant.<sup>63</sup>

This formulation places several specific hurdles in front of an employer, the first of which is the demonstration of an interest (i.e., some competitive advantage or openness to harm) that would allow a covenant in the first place. Once that showing is made, then the reasonableness of the covenant is tested on several grounds. The *MacGill* court did not quote any standard for considering the public interest, but the identification of that interest as a consideration in the analysis suggests that at least the public interest in free and fair competition could play a part.

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59. *Id.* at 927.

60. *Id.* at 927-28.

61. *Id.* at 928.

62. *Id.* at 929 (citing *Pathfinder Commc’ns Corp. v. Macy*, 795 N.E.2d 1103, 1109 (Ind. Ct. App. 2003)).

63. *MacGill*, 850 N.E.2d at 929 (quoting *Pathfinder*, 795 N.E.2d at 1109) (internal citation and quotations omitted in original).

As to the employer's interest, the court started with the premise that Reid had to "show some reason why it would be unfair to allow the employee to compete."<sup>64</sup> Reid argued that her interests included the good will and reputation of the business, and the court agreed that Indiana law recognizes a protectable interest in such good will.<sup>65</sup> The court found a legitimate employer interest to be protected because good will includes customer information and "advantage acquired through representative contact," and MacGill had extensive client contact and compensation that depended on the success of the business.<sup>66</sup>

The scope of the covenant was a different matter, as it is so often. The scope must be specific enough so that it coincides with the employer's legitimate protectable interest and clearly identifies to the employee what actions are not allowed.<sup>67</sup> Conversely, where a non-compete agreement is broad enough to prohibit harmless conduct, it is not a reasonable covenant.<sup>68</sup> As a particular example, a covenant is invalid if it restricts an employee from competing with a part of a business with which he or she was not associated.<sup>69</sup>

MacGill argued, and the Indiana Court of Appeals agreed, that the covenant in question was too broad as extending beyond Reid's interest in protecting its good will.<sup>70</sup> Guided principally by the holding in *Norlund v. Faust*,<sup>71</sup> with some references to other cases, the court decided that preventing MacGill from owning, managing or materially participating in a similar business "would [effectively] prevent her from employment by any capacity in any other cleaning business."<sup>72</sup> To do so would have gone beyond protecting customers, housekeepers or other features of the business. The court noted that neither party requested it to "blue-pencil" the restriction of MacGill's activities, and that such blue-penciling would not have saved the covenant.<sup>73</sup> Further, it did not address the viability of the geographic restrictions in the covenant, since the unreasonable nature of the activities restriction voided the covenant.<sup>74</sup>

*MacGill* provides a straightforward treatment of employment-based non-compete agreements. The stringent requirements for creating and enforcing such agreements begin with establishing a proper interest of the employer that must be protected. That interest may be a recognized intellectual property right, such as trade secret information or business good will, or can presumably be some other harm that the employee could visit upon the business through competition. Once such an interest is defined, the restrictions in the covenant are allowable so

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64. *Id.* (quoting *Unger v. FFW Corp.*, 771 N.E.2d 1240, 1244 (Ind. Ct. App. 2002)).

65. *Id.*

66. *Id.* at 929-30.

67. *Id.* at 930.

68. *Id.*

69. *Id.* at 930-31.

70. *Id.* at 932.

71. 675 N.E.2d 1142 (Ind. Ct. App. 1997).

72. *MacGill*, 850 N.E.2d at 932.

73. *Id.* at 932 n.4 (citing *Norlund v. Faust*, 675 N.E.2d 1142, 1154 (Ind. Ct. App. 1997)).

74. *Id.* at 932-33.

long as they do not extend beyond what is necessary to protect that interest. Separate analyses as to the reasonableness of geographic, activity, time or other restrictions should be made. As noted above, the *Dicen* case suggests that much the same template for analysis is used in the context of non-compete agreements as part of the sale of a business, but the level of reasonableness in the business-sale context will be generally easier for the plaintiff to prove.

### C. Press-A-Dent, Inc. v. Weigel

The case of *Press-A-Dent, Inc. v. Weigel*<sup>75</sup> was decided against the covenant not to compete based on the lack of a protectable interest.<sup>76</sup> The plaintiff claimed an interest in preserving its good will through the covenant, but could not overcome that first hurdle in litigation. Rather, the evidence established that there was no protectable good will in the plaintiff company.<sup>77</sup> That lack foreclosed the possibility of enforcing the covenant. To summarize, *Press-A-Dent* uses the same analytic framework as *MacGill*, but provides an example of a case in which no covenant not to compete would be proper because a protectable interest could not be shown.

## III. TRADE SECRET CASES

### A. Physiotherapy Associates, Inc. v. White

In *Physiotherapy Associates, Inc. v. White*,<sup>78</sup> the United States District Court for the Northern District of Indiana had before it a complaint alleging that the plaintiff's former employees had breached their duty of loyalty, misappropriated trade secrets, interfered with business relationships, committed fraud, and violated an administrative rule concerning solicitation of patients. In this opinion, after a review of subject matter jurisdiction, the court considered a motion to dismiss the trade secret misappropriation count.<sup>79</sup>

The opinion recited parts of the Indiana Uniform Trade Secret Act,<sup>80</sup> and saw that the plaintiff's complaint alleged trade secrets in its "patient list and information . . . not generally available to . . . competitors and the secrecy of which is protected by federal law."<sup>81</sup> The alleged misappropriation was soliciting patients on the plaintiff's premises during the defendants' treatment of patients. The court found that those assertions, even if proven, would not state an adequate cause of action because the alleged actions did not take the alleged trade

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75. 849 N.E.2d 661 (Ind. Ct. App. 2006). This opinion is the most recent chapter in a business saga previously reviewed in the trade secret case of *Weston v. Buckley*, 677 N.E.2d 1089 (Ind. Ct. App. 1997).

76. *Press-a-Dent, Inc.*, 849 N.E.2d at 663.

77. *Id.* at 669-70.

78. No. 1:06-CV-22-TS, 2006 WL 545542, at \*1 (N.D. Ind. Mar. 6, 2006).

79. *Id.* at \*2.

80. IND. CODE § 24-2-3-3 (2004).

81. See, e.g., *Physiotherapy Assocs.*, 2006 WL 545542, at \*6.

secrets.<sup>82</sup> In the court's view, while customer lists have been considered trade secrets in proper situations, the plaintiff had not in fact alleged that the defendants had taken such a list.<sup>83</sup> It drew a distinction between the taking of a list of patients and actually soliciting the patients.<sup>84</sup> Relying on *PrimeCare Home Health v. Angels of Mercy Home Health Care, L.L.C.*,<sup>85</sup> which it viewed as drawing a similar distinction between taking a list and personal solicitation, the court took the position that the defendants in this case did not obtain their knowledge of the patients by improper means.<sup>86</sup>

The holding that personal solicitation does not amount to misappropriation sounds quite odd at first, particularly in light of the plaintiff's claims of interference, breach of duty of loyalty, and violation of state administrative rules. At first blush, it would seem that conduct that can be characterized in those terms should constitute "improper means" sufficient to state a trade secret misappropriation claim; however, it must be borne in mind that the "improper means" generally applies to the acquisition of the trade secret information. The Indiana trade secret statute defines misappropriation, in pertinent part, as acquiring information by improper means, or disclosure or use of a trade secret acquired by improper means.<sup>87</sup> White and the other defendants had acquired their knowledge (patient's names) in a proper fashion, i.e., by working with them and performing their employment duties for the plaintiff. The court summarized: "While the Defendants' actions . . . may have violated their duty of loyalty, this does not automatically turn their knowledge of the Plaintiff's clients [legitimately obtained during treatment] into a protectable trade secret."<sup>88</sup>

The court's analysis appears to be sound, at least as far as it goes. The conduct complained of may fit nicely into a claim for breach of duty or another tort, but the reality of the situation is that the defendants obtained their information by working as the plaintiff directed them, not through the statutory examples of "improper means" of theft, bribery, misrepresentation, breach of secrecy, and espionage. The employee may rest relatively easily on the trade secret front if he or she uses only the information obtained through his or her personal contact or work, but should still be aware of other duties owed to the employer.

Nevertheless, the court missed (or perhaps the plaintiff did not argue) another part of the Indiana trade secret statute, which includes within the scope of "misappropriation" use of a trade secret by one who had reason to know that the information was derived from or through a person who had a duty to maintain

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82. *Id.* at \*6-7.

83. *Id.* at \*7.

84. *Id.*

85. 824 N.E.2d 376 (Ind. Ct. App. 2005); *see also* Christopher A. Brown, *Recent Developments in Intellectual Property Law*, 39 IND. L. REV. 1123, 1137-39 (2006) (discussing *PrimeCare*).

86. *Physiotherapy Assocs.*, 2006 WL 545542, at \*7.

87. *See* IND. CODE § 24-2-3-2 (2004).

88. *Physiotherapy Assocs.*, 2006 WL 545542, at \*8.

secrecy or limit use, or was acquired under circumstances giving rise to such a duty.<sup>89</sup> Based on the limited facts given in *Physiotherapy Associates*, one might easily conclude that even if the defendants' *acquisition* of patient information could not be a misappropriation, their alleged *use* of it would state a misappropriation claim sufficient to overcome dismissal. The court noted that the defendants had acknowledged that the count for breach of loyalty stated a claim, and yet did not consider whether that breach of loyalty claim would include a duty to maintain secrecy or limit use of the alleged trade secret information. Whether it was the court or the plaintiff that overlooked the "use" part of the definition of misappropriation, it seems that reliance on a theory of misappropriation by use of information to be kept secret or limited in use could have saved the trade secret count in this case.

*B. The Finish Line, Inc. v. Foot Locker, Inc.*

In counterpoint to the case of *Northern Electric Co. v. Torma*,<sup>90</sup> reviewed in last year's survey, there were two notable trade secret cases during the survey period in which the trade secret allegations were not proven, even though the kinds of information at issue and the conduct at issue appeared to be of a similar sensitivity to that at issue in *Torma*. *Finish Line, Inc. v. Foot Locker, Inc.*<sup>91</sup> concerned allegations that the defendant had raided the plaintiff's employees in order to open stores in competition. Given the facts of the case, including that the employees at issue were employed "at-will" and were not covered by non-compete agreements, and that the plaintiff used similar policies and tactics in recruiting, there was no tortious interference or unfair competition in Foot Locker's actions.<sup>92</sup>

As to a trade secret claim, the court considered the allegedly stolen information not to constitute trade secrets.<sup>93</sup> The first piece of information, a list of plaintiff's managers, had only names, addresses and telephone numbers, and was thus not extensive or detailed enough to be a trade secret, apparently because it was not valuable enough to the plaintiff.<sup>94</sup> The court also noted that the list was not stamped "confidential" and that an outside vendor was on the distribution list for the information.<sup>95</sup> Further, the court found that the information in the list was readily ascertainable by legitimate means, since a quarter of plaintiff's managers previously worked for defendant, the two companies have stores in many of the same locations, and managers for one

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89. IND. CODE § 24-2-3-2(2)(B).

90. 819 N.E.2d 417 (Ind. Ct. App. 2004), *trans. denied*, 831 N.E.2d 748 (Ind. 2005); *see Brown*, *supra* note 85, at 1123-31.

91. No. 1:04CV877RLYWTL, 2006 WL 146633, at \*1 (S.D. Ind. Jan. 18, 2006).

92. *Id.* at \*7-9, \*12.

93. *Id.* at \*8, \*10-11.

94. *Id.* at \*10.

95. *Id.*

company are acquainted with managers for the other.<sup>96</sup> Name, address, and phone information concerning plaintiff's managers is thus easily obtained from personal knowledge and public directories.<sup>97</sup>

The last two grounds for denying trade secret protection are straightforward, but the first of these grounds appears to weigh the value of the information to the plaintiff, and find that it does not meet a threshold value.<sup>98</sup> However, the Indiana trade secret statute, like other uniform trade secret acts, simply notes that information must derive economic value from not being generally known.<sup>99</sup> Perhaps the best way to harmonize the opinion with the statute is to consider the opinion to hold that the type of information at issue could not provide any economic value, which seems to comport with the ease with which the information could be legitimately duplicated.

A second piece of information alleged to be a misappropriated trade secret was a "rolling operating forecast" that indicated projections of plaintiff's business.<sup>100</sup> The court found that this, too, was not a trade secret because it did not have an independent economic value.<sup>101</sup> Plaintiff had argued that the report would allow competitors to identify a "mark up" it received from its vendors as well as sales trends and product categories it intended to emphasize, but conceded that the report would not allow a competitor to determine such information for particular products or particular stores.<sup>102</sup> Apparently, the court viewed such particularized information as being the economically-valuable substance, and without it, there was no economic value that would support trade secret status for the information.<sup>103</sup> Perhaps the plaintiff did not adequately argue the value of the information that was present in the report, or it is possible that once again the district court placed a threshold on value that the plaintiff could not reach. Notably, the court also found that because the report and its kin were not marked "confidential" or kept under lock, the plaintiff had not established reasonable steps to maintain secrecy.<sup>104</sup> This would seem to indicate that a threshold for secrecy of documents, at least in one judge's view, is to mark them as confidential and keep them locked up. Without that, perhaps no trade secret claim will lie.

#### C. M.K. Plastics Corp. v. Rossi

Similarly, the Indiana Court of Appeals affirmed a denial of a preliminary

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96. *Id.* at \*11.

97. *Id.* at \*10.

98. *Id.*

99. IND. CODE § 24-2-3-2 (2004).

100. *Id.* at \*6, \*11.

101. *Id.* at \*11.

102. *Id.*

103. *Id.*

104. *Id.*

injunction in the trade secret case of *M.K. Plastics Corp. v. Rossi*.<sup>105</sup> Rossi had been a vice president of sales and marketing for M.K. Plastics, and prior to that was an independent representative of them, and had experience in the field since 1977.<sup>106</sup> As vice president, Rossi had access to a variety of sensitive information, and kept important data and software on company computers. On his last day with the company, after having chosen to leave M.K. Plastics, Rossi turned in one of his computers (with the data from the others copied onto it and erased from them) and refused to sign a “release” agreement that included confidentiality and non-disclosure language.<sup>107</sup> Rossi later returned other items, including the erased computers. On the day he gave notice to M.K. Plastics, but before his last day, Rossi already had signed an employment agreement with a competitor that included incentives for developing a product that would compete with M.K. Plastics.<sup>108</sup> After a competing product came out, M.K. Plastics filed suit, alleging trade secret misappropriation, conversion and unjust enrichment.

The appellate court took note of the trial court’s finding of a lack of proper secrecy in denying the plaintiff’s requested injunction.<sup>109</sup> Passing by that issue, however, the court concentrated on whether the items that were taken by Rossi were, in fact, trade secrets.<sup>110</sup> The first item, a sales binder showing lines of the company’s product and certain drawings, was “regularly distributed to independent manufacturer representatives and consulting engineers.”<sup>111</sup> The drawings were provided in a form that would allow engineers to use them with their own drawings or plans.<sup>112</sup> The binder was not secret, and therefore the court concluded it could not have trade secret protection.<sup>113</sup>

The second item was business contact information from the data on Rossi’s computers. M.K. Plastics relied on *Northern Electric Co. v. Tosma*<sup>114</sup> and *U.S. Land Services, Inc. v. U.S. Surveyor, Inc.*<sup>115</sup> to argue that Rossi’s compiled contact information was a trade secret that belonged to M.K. Plastics.<sup>116</sup> However, the court viewed that argument as an invitation to re-weigh the evidence before the trial court, and declined to do so, noting that Rossi had provided evidence that the information in question was readily available from a number of sources and that he had kept only such information when he left.<sup>117</sup>

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105. 838 N.E.2d 1068, 1070 (Ind. Ct. App. 2005).

106. *Id.* at 1070-74.

107. *Id.* at 1071-72.

108. *Id.* at 1072.

109. *Id.* at 1075-76.

110. *Id.* at 1076-77.

111. *Id.* at 1076.

112. *Id.*

113. *Id.*

114. 819 N.E.2d 417 (Ind. Ct. App. 2004), *trans. denied*, 831 N.E.2d 748 (Ind. 2005); *see Brown, supra* note 85, at 1123-31.

115. 826 N.E.2d 49 (Ind. Ct. App. 2005); *see Brown, supra* note 85, at 1133-35.

116. *M.K. Plastics*, 838 N.E.2d at 1076.

117. *Id.* at 1077.



The appellate court noted that Rossi's evidence suggesting that he had kept only readily-available information and left behind other information was undisputed.<sup>118</sup> Once again, the upshot is that there was nothing protectable by the trade secret law.

Nevertheless, the appellate court continued on to consider whether any actions that could be characterized as misappropriation had occurred. The plaintiff argued that the evidence demonstrated a systematic harvesting of data by Rossi, relying particularly on his access to product data, reports and drawings and his use of them in his work.<sup>119</sup> The court, to the contrary, saw that evidence as showing the breadth of Rossi's access, but not suggesting that "he took any affirmative action to misappropriate . . . the information."<sup>120</sup> In response to arguments that Rossi "pirated away" data when he left, the court again declined to re-weigh evidence that the trial court had seen in rendering its judgment.<sup>121</sup> In short, while the record reflected quite a range of information to which Rossi had access, that access by itself was not sufficient to present a case of misappropriation, particularly where the defendant presented evidence of his actions and knowledge which the trial court examined and apparently found credible. Without a finding that the information allegedly taken was a trade secret, and with the lack of evidence of an affirmative action to misappropriate information, there was no likelihood of success on the merits of the trade secret claim at trial, and accordingly no injunction would issue.

#### IV. *KEATON AND KEATON V. KEATON*: TRADEMARK AND UNFAIR COMPETITION

As a follow-up to a case reviewed in last year's survey,<sup>122</sup> the Indiana Supreme Court heard argument in the case of *Keaton & Keaton v. Keaton*,<sup>123</sup> an unfair competition case filed by one law firm against another concerning the firms' names.<sup>124</sup> The court of appeals had previously affirmed a trial court ruling rejecting the plaintiff's claims and allowing each firm to continue using its name. In particular, the court of appeals decided that the plaintiff firm had failed to provide evidence of a likelihood of confusion, and held that an unfair competition cause of action required a showing of the defendant's "subjective intent to deceive" the consumer.<sup>125</sup>

The Indiana Supreme Court upheld the lower court's grant and sustaining of summary judgment against the plaintiff, but disagreed on some of the reasoning.<sup>126</sup> Consequently, the court took a short but instructive trip through

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118. *Id.* at 1078.

119. *Id.*

120. *Id.*

121. *Id.* at 1078-79.

122. See Brown, *supra* note 85, at 1140-43.

123. 842 N.E.2d 816 (Ind. 2006).

124. See *id.* at 819.

125. *Id.*

126. *Id.*

aspects of unfair competition law, at least as it applies to names. Because the complaint alleged that the defendant's name might "pass off" its services for those of the plaintiff, the court began by reviewing the tort of "passing off" or "palming off," where liability arises for "intentional misrepresentation of goods or services as those of another."<sup>127</sup> Characterizing "passing off" as "nothing more than a subspecies of fraud," for which (like common law fraud) a showing of intentional deception was required, the court agreed with the summary judgment because it was conceded that no intentional misrepresentation had occurred.<sup>128</sup> This holding is of interest insofar as it requires a relatively high intent element for "passing off." In intellectual property parlance, commonly "passing off" and "trademark infringement" are considered much the same concept, and therefore if a junior user marks his or her goods or services with a name that is confusingly similar to a senior user's and distributes them in commerce, that is a sufficient "intent" for a case of "passing off" type of trademark infringement. The *Keaton* opinion, however, appears to take the view that a cause of action for "passing off" sounds more in the law of fraud than in the trademark law. As discussed below, the court also discussed principles of infringement of a trade name, and thus characterizing "passing off" as fraud seems not to limit a plaintiff's rights or options in a lawsuit in a practical sense. It does appear at least to change the usage of some of the language.

Moving to a consideration of "trade name infringement," the court called it also a subspecies of the tort of unfair competition, quoting with approval a prior Indiana Court of Appeals holding calling unfair competition much broader than simply palming off, and including such acts as interference with contract or business relationship and predatory pricing under the "unfair competition" heading.<sup>129</sup> Trade name infringement, the court stated, is the more accurate name for use of confusing similar corporate, business or professional names.<sup>130</sup> The court adopted the definition of "trade name" in the Restatement (Third) of Unfair Competition, and gave the common law cause of action as use of a trade name that is likely to cause confusion as to source of goods or products, irrespective of the defendant's subjective intent.<sup>131</sup>

The supreme court thus disagreed with the court of appeals' determination that intent was an element of common law trade name infringement, but nonetheless agreed with the affirmance of the summary judgment against the plaintiff.<sup>132</sup> It based that conclusion on the plaintiff's lack of a protectable trade name.<sup>133</sup> While at common law, the court said, everyone had that right to use his or her name in business, "[m]odern authority holds that a trade name, including

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127. *Id.*

128. *Id.* at 819-20.

129. *Id.* at 820 (citing *Bartholomew County Beverage Co. v. Barco Beverage Corp.*, 524 N.E.2d 353, 358 (Ind. Ct. App. 1988)).

130. *Id.*

131. *Id.* (citing RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 12 (1995)).

132. *Id.* at 820-21.

133. *Id.*

a personal name, is protectable if it is distinctive.”<sup>134</sup> Still relying on the Restatement, the court’s next logical step was to require proof of secondary meaning to accord protection to a personal name as a trademark or a trade name. Evidence that the name has come to be “uniquely associated with a particular business through use” is required for secondary meaning,<sup>135</sup> and the burden on one attempting to prove secondary meaning is even higher where the alleged infringer is using his or her own name.<sup>136</sup> Because the court viewed the evidence of record as not meeting that burden, the plaintiff had no protectable trade name, and the summary judgment against the plaintiff was upheld.<sup>137</sup>

This case is instructive for the Indiana practitioner and businessperson for two reasons. First, the opinion provides the Indiana Supreme Court’s most definitive (and certainly the first in many years) views on unfair competition in general, and trademark or trade name infringement in particular. Its statement that the tort of unfair competition is broader than commonly thought is not a new concept,<sup>138</sup> but its extension as an umbrella over both trademark or trade name infringement and varieties of fraud in the conduct of business may be a new characterization. Whether that umbrella characterization is particularly useful or not is an open question. A cause of action for “unfair competition” would seem to be made simply by proving acts in a business environment “unfair,” yet there are still individual elements of infringement, fraud, or other acts that must be proven. Use of the term “unfair competition” thus does not seem to make the law any clearer.

The heavy reliance on the Restatement and cases decided by the United States Court of Appeals for the Seventh Circuit in this opinion certainly indicates some likelihood of later reliance by Indiana courts on those same sources in deciding other issues of unfair competition. Further, a cause of action for “passing off” requires subjective intent to deceive, while a cause of action for trademark or trade name infringement does not. Other than the possibility of increased relief simply by virtue of intentional conduct, it is not clear what benefit might be gained by alleging “passing off” rather than infringement. Perhaps for that reason alone the twilight of the “passing off” tort is upon us.

Somewhat more importantly, at least in an academic sense and likely in a practical sense as well, the Indiana Supreme Court essentially equates a “trade name” with a “trademark” in this case. Both protectability and infringement standards identified by the court in the context of trade name infringement are identical or similar to those for trademarks, at least under the common law. Certainly at least one difference remains, and that is between the definitions of trademark and trade name. The former must be used on goods or services so as to indicate the source, and the latter must be used so as to indicate the business.

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134. *Id.* at 821.

135. *Id.*

136. *Id.*

137. *Id.*

138. *See* Bartholomew County Beverage Co. v. Barco Beverage Corp., 524 N.E.2d 353 (Ind. Ct. App. 1988).

The Indiana Trademark Act<sup>139</sup> differentiates between trademarks and trade names,<sup>140</sup> prevents registration of a new trademark over a confusingly similar trade name in prior use,<sup>141</sup> and prevents adoption of a trade name that would dilute a famous trademark.<sup>142</sup> Nevertheless, the common law protection for trade names appears, in light of *Keaton and Keaton*, to be practically coextensive with common law protection for trademarks.

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139. IND. CODE § 24-2-1-0.5-15.3 (2004).

140. *Id.* § 24-2-1-2.

141. *Id.* § 24-2-1-3(6).

142. *Id.* § 24-2-1-13.5(b).