

# RECENT DEVELOPMENTS IN INTELLECTUAL PROPERTY LAW

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In the relevant time-frame, federal and state courts issued several opinions affecting various parts of intellectual property law. Cases concerning fee-shifting in copyright litigation, the extent of patent misuse and exhaustion doctrines, analysis of noncompetition agreements under Indiana law, and trademark analysis under Seventh Circuit jurisprudence are among the cases reviewed below.

## I. *QUANTA COMPUTER, INC. V. LG ELECTRONICS, INC.*<sup>1</sup>

In this opinion, the U.S. Supreme Court considered the “longstanding doctrine of patent exhaustion”<sup>2</sup> in the context of patented methods involving computer technology. The opinion overturns a Federal Circuit opinion on two points, holding (1) that the doctrine applies to method patents and (2) that the appellate court’s view of a license agreement was incorrect, resulting in exhaustion of the patent rights at issue.<sup>3</sup>

Patent exhaustion refers to the concept that once a patented item has been sold by or under the authorization of the patent owner, any patent rights (i.e. the right to exclude others from making, using, selling, offering for sale, or importing) are exhausted *for that item*.<sup>4</sup> Once the patent owner has given consent for that specific item, or has received payment from its sale, then it has passed out of the exclusionary rights embodied by the patent.<sup>5</sup> To use a particular example, the sale by Camera Corporation of one of its patented cameras means that it cannot thereafter prevent others from using or selling that particular camera. The Court gave a brief history of the doctrine and ended by citing its case that held that an exhaustion exists “following the sale of an item . . . when the item sufficiently embodies the patent—even if it does not completely practice the patent—such that its only and intended use is to be finished under the terms of the patent.”<sup>6</sup>

In the *Quanta* case, respondent LG Electronics (LG) licensed a set of patents to Intel Corporation (Intel), permitting Intel to “make, use, sell (directly or indirectly), offer to sell, import or otherwise dispose of” products that practice technology in the licensed patents.<sup>7</sup> A limitation in the license stipulated that no

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1. 128 S. Ct. 2109 (2008).

2. *Id.* at 2115.

3. *Id.* at 2113, 2117, 2121-22.

4. *Id.* at 2115.

5. *See id.* at 2118. “[W]hen a patented item is ‘once lawfully made and sold, there is no restriction on [its] use.’” (quoting *Adams v. Burke*, 84 U.S. 453, 457 (1873)).

6. *Id.* at 2117.

7. *Id.* at 2114.

license was granted to third parties for a combination of a product covered by the license and other items acquired from other sources.<sup>8</sup> In other words, the parties wanted to keep any sale of additional components to be combined with the licensed products among themselves. Nonetheless, the license also mentioned that it would not “alter the effect of patent exhaustion that would otherwise apply” to sale of the licensed products.<sup>9</sup> Intel agreed in a separate document that it would notify its customers that a license did not extend to a combination of a licensed product and a non-Intel product.<sup>10</sup>

When Quanta Computer (Quanta) purchased Intel products, with the notice from Intel about license limits, and combined them with other devices so as to be within the coverage of LG’s patents, LG sued.<sup>11</sup> The district court initially granted summary judgment to Quanta based on patent exhaustion.<sup>12</sup> It found that the products Intel sold Quanta (legitimately under the LG license) had “no reasonable non-infringing use,” so that Intel’s proper sale of them used up LG’s right of exclusion under the patents.<sup>13</sup> A later order limited the summary judgment to apparatus claims, and held that patent exhaustion did not apply to process claims.<sup>14</sup> On appeal, the Federal Circuit agreed that the exhaustion doctrine did not apply to processes, but also held that the LG/Intel license did not allow Intel to sell its products to Quanta for use with non-Intel devices.<sup>15</sup>

After reviewing the naissance of the concept of patent exhaustion, the Court repeated the basic rule of the doctrine: “[T]he right to vend [the patented item] is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.”<sup>16</sup> It further noted the 1942 opinion in *United States v. Univis Lens Co.*,<sup>17</sup> an antitrust case that somewhat broadened the rule.<sup>18</sup> In *Univis*, Univis licensed another company to make eyeglass-lens blanks and to sell those blanks at a fixed price to others for finishing into lenses covered by Univis patents.<sup>19</sup> Even though the patent claims for finished lenses were practiced in part by Univis licensees, the Court held that exhaustion applied to the sale of the blanks:

[W]here one has sold an uncompleted article which, because it embodies

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8. *Id.*

9. *Id.*

10. *Id.*

11. *Id.*

12. *Id.* at 2114-15.

13. *Id.* at 2115.

14. *Id.*

15. *Id.*

16. *Id.* at 2116 (quoting *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917)).

17. 316 U.S. 241 (1942).

18. *Quanta*, 128 S. Ct. at 2116-17.

19. *Univis*, 316 U.S. at 243-44.

essential features of his patented invention, is within the protection of his patent, and has destined the article to be finished by the purchaser in conformity to the patent, he has sold his invention so far as it is or may be embodied in that particular article.<sup>20</sup>

Thus, exhaustion can apply if a patent owner sells a product which is not itself covered by the patent, when the “only and intended use” of such product is to be finished and, thereby, come within the patent’s claims.<sup>21</sup>

As to whether the exhaustion doctrine applied to method claims at all, the Court found no reason not to apply the doctrine.<sup>22</sup> Even though methods cannot be sold in the way products or devices can, there is precedent for exhausting method patents via the sale of something that “embodied” the method.<sup>23</sup> Further, a blanket rule keeping method claims out of the reach of the doctrine would provide a back door to keep apparatus away from exhaustion, insofar as most or all patents could include a claim to a method with the device.<sup>24</sup>

Having determined that exhaustion could apply to method claims, the Court turned to the parameters of applying it. Following *Univis*, the Court first discussed whether the Intel products at issue were capable only of use in practicing the patent.<sup>25</sup> No reasonable use for the products outside of combination into something that would practice LG’s patented subject matter was of record, and the goal of Intel’s sales to Quanta appeared to be Quanta’s use in computers that would practice that subject matter.<sup>26</sup> The Court also considered whether Intel’s products included essential features of the patented invention and concluded that they do and, in fact, “all but completely practice the patent.”<sup>27</sup>

The Court reviewed LG’s arguments attempting to distinguish *Univis* but rejected them.<sup>28</sup> Notably, LG’s position that exhaustion of one patent does not indicate exhaustion of another generally found agreement with the Court.<sup>29</sup> However, the Court then noted that a device that practices one patent “*while substantially embodying*” another patent suggests that both patents’ rights could be exhausted by the sale of the device.<sup>30</sup> “The relevant consideration is whether the Intel Products that partially practice a patent—by, for example, embodying its essential features—exhaust *that* patent.”<sup>31</sup>

Exhaustion arises from an authorized sale, and so the Court turned to the

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20. *Id.* at 250-51.

21. *Quanta*, 128 S. Ct. at 2117.

22. *Id.*

23. *Id.*

24. *Id.* at 2117-18.

25. *Id.* at 2118.

26. *Id.* at 2118-21.

27. *Id.* at 2120.

28. *Id.*

29. *Id.*

30. *Id.*

31. *Id.* at 2121.

license itself to see if Intel's sale to Quanta was properly authorized. Because the license itself permitted Intel to make, use, and sell products covered by LG's patents, and the notice provision was not breached by Intel or a condition of the license, Intel's sales to Quanta were within the license.<sup>32</sup> Indeed, the Court noted that "[n]o conditions limited Intel's authority to sell products substantially embodying the patents" at issue.<sup>33</sup> The argument that Quanta had no "implied license" to use Intel's products as it did had no bearing because exhaustion was the issue, not any theory of license to Quanta.<sup>34</sup> In the end, the Court held that LG could not assert its patent rights against Quanta and reversed the Federal Circuit.<sup>35</sup>

There are two items of principal interest in this opinion. First, the Court has removed any doubt as to whether the exhaustion doctrine applies to patent rights for processes or methods.<sup>36</sup> Even so, it would appear in most cases that the doctrine will not often arise outside of the context of some product or device. The nature of methods simply does not permit one to trace a particular method in commerce, unlike individual articles, which can be traced. Nonetheless, it is clear that in an appropriate case, the sale of a product or composition of matter could exhaust not only a claim to that apparatus or composition, but also a claim to the methods involved.<sup>37</sup>

Second, whether a sale can exhaust a product patent claim or a method patent claim is not a mutually-exclusive question. The Court clearly rejected the idea that exhaustion based on the sale of one product can only affect one patent.<sup>38</sup> With the formulation of the exhaustion doctrine given in *LG*, it is possible for the sale of a product plainly within the apparatus claims of one patent to exhaust method claims of another patent, so long as the product has no reasonable other use than in such methods and it has essential feature(s) of the method. Patent practitioners recognize the commonness of prosecuting claims to a device itself in one patent application and claims to a method of making or using that or a similar device in another. While the hurdle of "no reasonable other use" may be quite a high bar to clear, a strategy of separating method from device both in patents and in licensing may backfire on the patent owner unless thought through very carefully. Similarly, a licensee or its customers may have an exhaustion defense against multiple patents, even though a license refers only to one patent.

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32. *Id.* at 2121-22.

33. *Id.* at 2122.

34. *Id.*

35. *Id.*

36. *Id.* at 2118 (rejecting the argument "that method claims, as a category, are never exhaustible").

37. *See id.* (noting that methods claims "as a *category*" are not excluded) (emphasis added).

38. *Id.* at 2120-21.

## II. *TOP TOBACCO, L.P. v. NORTH ATLANTIC OPERATING CO.*<sup>39</sup>

Although this case does not provide a great deal of substantive trademark law for Indiana and Seventh Circuit practitioners, it is interesting at least for its common-sense approach and discussion by Chief Judge Easterbrook. Top Tobacco sued North Atlantic and National Tobacco Co. for infringement of its registered trademark “TOP” as used on loose or “roll-your-own” tobacco.<sup>40</sup> Following a summary judgment in the defendants’ favor, Top Tobacco appealed.<sup>41</sup>

The first line of the opinion sets the tone and perhaps provides an overarching principle for deciding whether a trademark lawsuit is warranted: “This case illustrates the power of pictures. One glance is enough to decide the appeal.”<sup>42</sup> In fact, there is little more analysis in the opinion, and one wonders whether a request for attorney fees and/or Rule 11-type sanctions would have been granted.<sup>43</sup>

Essentially, the opinion gives pictures of the accused product’s labeling and that of the plaintiff’s product’s labeling and finds it “next to impossible to believe that any consumer, however careless, would confuse these products.”<sup>44</sup> The court adverted to the lack of evidence from the plaintiff, such as a survey or customer affidavits in noting that “the pictures are all we have.”<sup>45</sup> Focusing on that lack of evidence, the opinion accused Top Tobacco of asking the court “to ignore the pictures and the lack of any reason to believe that anyone ever has been befuddled.”<sup>46</sup> The court noted the multi-factor test for likelihood of confusion given in prior cases and gives examples of such factors.<sup>47</sup> In the end, however, the court effectively passed over the factors: “A list of factors designed as *proxies* for the likelihood of confusion can’t supersede the statutory inquiry. If we know for sure that consumers are not confused about a product’s origin, there is no need to consult even a single proxy.”<sup>48</sup> Thus, absent significant evidence—such as surveys or affidavits—and absent an analysis of traditional confusion-related factors, the comparison of the products as they are actually sold was sufficient for the court to reach the ultimate legal conclusion of no likelihood of confusion.<sup>49</sup>

This was certainly an efficient (and to this author’s mind, correct) resolution of the case. Perhaps this case is the exception that proves the rule, as the one

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39. 509 F.3d 380 (7th Cir. 2007).

40. *Id.* at 381.

41. *Id.* at 382-83.

42. *Id.* at 381.

43. *See* FED. R. CIV. P. 11(c) (providing sanctions for pleading violations).

44. *Top Tobacco*, 509 F.3d at 382-83.

45. *Id.* at 383.

46. *Id.*

47. *Id.*

48. *Id.*

49. *Id.*

case that is so clear that significant analysis is unnecessary. If so, the court might have levied sanctions on the plaintiff or at least provided a sentence or two of caution as a “word to the wise” for other attorneys.

On the other hand, the opinion seems to move too quickly past the fundamentals of the federal trademark statute. It is granted that the labels of the respective products are quite different, and the defendants use of the word “top” was arguably descriptive.<sup>50</sup> Nevertheless, infringement of a federally-registered trademark is not limited to a side-by-side comparison. Rather, the statute provides liability for unauthorized use in commerce of “[a]ny reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.”<sup>51</sup> A comparison of how the alleged infringer uses a word or phrase with how the mark’s owner uses it is not the test set forth in the statute. Rather, the alleged infringer’s actual use is compared to the registration to see whether the use is “likely to cause confusion.”<sup>52</sup>

Further, there are numerous cases which advise to consider marks “in light of what happens in the marketplace,” not “merely by looking at the two marks side-by-side.”<sup>53</sup> To depend so heavily on a side-by-side comparison in this case seems to undercut the directions in these earlier opinions not to rely on such comparisons. In that light, the lack of evidence proffered by the plaintiff to support its claims is particularly important. Had the plaintiff provided significant evidence, then a broader analysis of the likelihood of confusion might have been necessary. Perhaps the lesson is that the registration itself can only get the plaintiff so far, even though it is evidence of the plaintiff’s usage and its rights. Without further evidence as to the market and usages of the respective marks to back up the registration, the thousand words provided by a picture alone could flatten a case from the start.

### III. *AUTOZONE, INC. v. STRICK*<sup>54</sup>

In contrast to the *Top Tobacco* opinion noted above,<sup>55</sup> in *Strick*, the Seventh Circuit reversed a summary judgment granted in favor of a trademark defendant.<sup>56</sup> Plaintiff AutoZone is a national retailer of automotive products, but AutoZone does not provide automobile maintenance or repair services.<sup>57</sup> The

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50. See *id.* at 381 (noting that “top” has any number of meanings including to “mean the best”).

51. 15 U.S.C. § 1114(1)(a) (2006).

52. *Id.*

53. See, e.g., *Ty, Inc. v. Jones Group, Inc.*, 237 F.3d 891, 898-99 (7th Cir. 2001) (internal quotation omitted).

54. 543 F.3d 923 (7th Cir. 2008).

55. See *supra* Part II.

56. *Strick*, 543 F.3d at 926.

57. *Id.*

record also showed that AutoZone had used its “AutoZone” trademark across the country since 1987 and had made substantial marketing and advertising efforts in the Chicago area from at least the mid-1990s.<sup>58</sup> Strick opened two businesses in that geographic area under the names of “Oil Zone” and “Wash Zone,” which provided maintenance services such as quick oil changes and car washes.<sup>59</sup>

While AutoZone became aware of and investigated Strick’s businesses in late 1998, AutoZone took no action until it contacted Strick in early 2003; it then filed suit under federal and state theories in November 2003.<sup>60</sup> In a summary judgment motion, Strick asked for judgment based on a lack of a likelihood of confusion and on AutoZone’s four-year delay in filing suit—laches.<sup>61</sup> The district court granted the motion, finding that the marks were “not similar enough” for a trier of fact to find a likelihood of confusion, but the court did not reach the laches issue.<sup>62</sup>

Writing for his co-panelists, Judges Ripple and Tinder, Judge Manion first restated the seven factors considered in this circuit in a determination of whether confusion is likely:

- (1) the similarity between the marks in appearance and suggestion; (2) the similarity of the products; (3) the area and manner of concurrent use; (4) the degree and care likely to be exercised by consumers; (5) the strength of the plaintiff’s mark; (6) any actual confusion; and (7) the intent of the defendant to “palm off” his product as that of another.<sup>63</sup>

While the similarity of the marks, the intent of the defendant and any actual confusion are “usually . . . particularly important,” the weight of each factor may vary according to the facts of record.<sup>64</sup> As a question of fact, the likelihood of confusion issue can be determined summarily “‘if the evidence is so one-sided that there can be no doubt’” of the answer.<sup>65</sup>

The opinion went on to discuss each of the factors except for actual confusion.<sup>66</sup> As to the marks themselves, the court considered the “prominent similarities” between them—namely, the presence of “zone,” and the size, font and slant patterns within each mark—“may very well lead a consumer” to believe

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58. *Id.* at 927.

59. *Id.*

60. *Id.* at 928.

61. *Id.*

62. *Id.* at 928-29.

63. *Id.* at 929.

64. *Id.*; see also *supra* Part II (discussing the *Top Tobacco* case). The overall question is confusion in the marketplace, and so it is the factor(s) addressing most directly that question that are most important. See *Strick*, 543 F.3d at 929 (noting that confusion “is ultimately a question of fact”).

65. *Strick*, 543 F.3d at 929 (quoting *Packman v. Chi. Trib. Co.*, 267 F.3d 628, 637 (7th Cir. 2001)).

66. *Id.* at 929-34.

that “Oil Zone” and “Wash Zone” could be AutoZone-affiliated businesses.<sup>67</sup> The court distinguished *AutoZone Inc. v. Tandy Corp.*,<sup>68</sup> concerning “AutoZone” and Radio Shack’s use of POWERZONE,<sup>69</sup> in which the Sixth Circuit found the marks not likely to be confused at least in part based on features and uses of the marks in addition to the difference between “power” and “auto” in them.<sup>70</sup> In *Strick*, the court saw such features and uses as being potential similarities, rather than the differences noted in the Sixth Circuit opinion, leaving open questions for a finder of fact.<sup>71</sup>

Similarly, the court decided that a reasonable consumer might believe that Oil Zone or Wash Zone are “spinoffs” of AutoZone based on a relationship between oil change or car wash services and products used in changing oil or washing cars.<sup>72</sup> The Sixth Circuit’s decision in *Tandy Corp.* was also less relevant in this context because the record showed hardly any overlap in the kinds of products sold, and so customers looking for one type of product were unlikely to go to the other store in search of it.<sup>73</sup>

The court also concluded that a fact-finder could see commonalities in geographic usage and customer base, that the degree of care exercised by consumers might be relatively low, and that the strength of AutoZone’s mark was significant.<sup>74</sup> The court further noted Strick’s experience in his industry and the possibility of inferring an intent by the defendant to confuse consumers as to the similarity between the marks where one has “attained great notoriety.”<sup>75</sup> All of these factors could be applied in the plaintiff’s favor, said the court, further leading away from summary judgment.<sup>76</sup>

This case is not especially notable for particular pronouncements of law or treatment of a case, except in comparison with the relative abruptness of the *Top Tobacco* opinion. *AutoZone* conveys a much more usual, or standard, way of analyzing a trademark case, albeit in the context of a summary judgment motion. The court considered the “likelihood of confusion” question indirectly by analyzing the seven listed factors against the background of actual market conditions and consumer behavior.<sup>77</sup> The conclusions drawn from those factors lead to the legal conclusion of whether confusion is likely. *Top Tobacco* starts with the same question—whether a likelihood of confusion exists—but suggests that in some cases that question can essentially be directly answered.<sup>78</sup> In a broad

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67. *Id.* at 930.

68. 2004 FED App. 0200P, 373 F.3d 786 (6th Cir.).

69. *Strick*, 543 F.3d at 930-31.

70. *Tandy Corp.*, 373 F.3d at 796.

71. *Strick*, 543 F.3d at 931.

72. *Id.*

73. *Id.* at 932.

74. *Id.* at 932-33.

75. *Id.* at 934.

76. *Id.* at 935.

77. *See id.* at 929-34.

78. *Top Tobacco, L.P. v. N. Atl. Operating Co.*, 509 F.3d 380, 381-83 (7th Cir. 2007).

sense, the opinion provided that two trademarks can be so different (or perhaps so similar) in the context of the actual marketplace that the likelihood of confusion is immediately determinable.<sup>79</sup> Of course, the context of *Top Tobacco* also included products and consumer groups that were identical,<sup>80</sup> and so perhaps a more traditional factor analysis was implicitly performed in that case. A practitioner should prepare his or her trademark case with all of the appropriate Seventh Circuit factors for likelihood of confusion in mind. Nevertheless, *Top Tobacco* suggests that a proper case will permit “short-circuiting” an indirect approach in favor of a direct consideration of whether confusion is likely.

#### IV. *COUNTY MATERIALS CORP. V. ALLAN BLOCK CORP.*<sup>81</sup>

In this opinion, the Seventh Circuit Court of Appeals found itself at the intersection of the law of patent misuse and a covenant not to compete.<sup>82</sup> The parties’ dispute centered on a production agreement in which County Materials Corporation (County) was authorized to manufacture Allan Block Corporation’s (Allan) patented concrete block, and in which County agreed not to sell competing products for a period after expiration of the agreement or if County stopped making the patented product.<sup>83</sup> Despite that language, after the agreement was terminated County did not wait the required period before offering a competing and non-infringing product.<sup>84</sup>

County took the position that the covenant not to compete was against the policy of the patent laws. It termed the inclusion of the covenant in the agreement “misuse” by Allan.<sup>85</sup> In its view, Allan used leverage from its patent rights to obtain something to which it was not otherwise entitled, namely an eighteen-month freedom from competition against County concerning products not covered by Allan’s patent.<sup>86</sup> The district court granted summary judgment against County, and the Seventh Circuit affirmed on appeal.<sup>87</sup>

Before it could attend to the substance of the appeal, the court explained why this dispute’s patent law-related issues were properly before the Seventh Circuit, and not before the Federal Circuit Court of Appeals. Federal Circuit jurisdiction obtains where “a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.”<sup>88</sup> The court

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79. *Id.*

80. *See id.* at 382.

81. 502 F.3d 730 (7th Cir. 2007), *cert. denied*, 128 S. Ct. 1709 (2008).

82. *Id.* at 732-33.

83. *Id.* at 733.

84. *Id.*

85. *Id.*

86. *Id.* at 733, 735-37.

87. *Id.* at 732-33.

88. *Id.* at 733 (quoting *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809

viewed the complaint as raising questions of enforceability of a license agreement,<sup>89</sup> and considered the case to parallel that of *Scheiber v. Dolby Laboratories, Inc.*<sup>90</sup> With that principal issue in mind, and jurisdiction over the case having apparently been based exclusively on diversity, the court determined that it had the proper appellate jurisdiction.<sup>91</sup>

On the merits, the court considered briefly whether the covenant might fit into a “per se” concept of misuse. The court noted that the infringement statute states that refusal to license a patent is not misuse, nor is conditioning a license on acquiring a license to another patent or buying a separate product, unless the patentee has market power.<sup>92</sup> Other examples of “per se” misuse come from the common law, and include “arrangements in which a patentee effectively extends the term of its patent by requiring post-expiration royalties.”<sup>93</sup> In brushing past these legal standards, the court took the view that they exemplified the general disfavor or rejection of the view of patent misuse put forward by County.<sup>94</sup> The covenant not to compete did not reach these standards.<sup>95</sup>

Beyond a “per se” view, the court looked to see whether the circumstances surrounding the covenant evidenced “the effect of extending the patentee’s statutory [patent] rights . . . with an anti-competitive effect.”<sup>96</sup> If so, then the court needed to conduct a rule of reason analysis to see if the covenant “imposes an unreasonable restraint on competition.”<sup>97</sup> After reviewing relevant authorities, the court reasoned that to get past summary judgment, “evidence tending to show an adverse effect in an economically sound relevant market is essential for [such a] . . . rule of reason”-based action.<sup>98</sup>

The court saw no evidence of abuse by Allan in the agreement.<sup>99</sup> Rather, the court understood that the terms of the agreement gave County substantial benefits in exchange for royalties and efforts to exploit Allan’s patent.<sup>100</sup> In the court’s view, the value provided by Allan in terms of services could have sufficed for the covenant not to compete.<sup>101</sup> The facts of record did not show that Allan “needed or used any kind of leverage made possible by the patent” to get the covenant.<sup>102</sup> In fact, the court went on to opine that the covenant was not “particularly

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(1988)).

89. *Id.* at 733-34.

90. 293 F.3d 1014 (7th Cir. 2002).

91. *County Materials*, 502 F.3d at 734 (citing 28 U.S.C. §§ 41, 1291 (2006)).

92. *Id.* at 734 (citing 35 U.S.C. § 271(d) (2006)).

93. *Id.* (quoting *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997)).

94. *Id.* at 734-35.

95. *Id.* at 735.

96. *Id.* (quoting *Va. Panel Corp.*, 133 F.3d at 869).

97. *Id.* (quoting *Va. Panel Corp.*, 133 F.3d at 869).

98. *Id.* at 736.

99. *Id.* at 736-37.

100. *Id.* at 737.

101. *Id.*

102. *Id.*

onerous.”<sup>103</sup> The consideration of the covenant itself and its minimal or non-existent effect on competition in the relevant market and geographical area further supported the court’s dismissal of the patent misuse defense.<sup>104</sup>

This opinion, although not from the Federal Circuit, seems to confirm a general view that a misuse defense to a patent case will need a showing akin to an antitrust case. The easy scenario is where the patent owner has created a scheme to keep royalties flowing past the expiration of a patent. Otherwise, a misuse defense will require evidence of market power along with tying of another product to the patent rights, and/or evidence of a restraint on competition that is unreasonable in light of the conditions of the relevant market. It may be that the circumstances surrounding the negotiation or entering of a license are indicative of a degree of market power held by the patentee, but without some evidence of such power or an unreasonable restraining of a market, a patent misuse defense may not make it to trial.

#### V. *PATRIOT HOMES, INC. V. FOREST RIVER HOUSING, INC.*<sup>105</sup>

In *Patriot Homes*, the Seventh Circuit Court of Appeals considered a preliminary injunction issued against Forest River Housing on issues of copyright and trademark infringement and trade secret misappropriation.<sup>106</sup> The suit arose out of allegations that Forest River’s subsidiary, Sterling, and a group of its employees—who formerly were Patriot Homes employees—had taken Patriot modular home designs.<sup>107</sup> Once Sterling distributed sales materials showing the designs, Patriot sued under a variety of theories.<sup>108</sup>

Defending against a preliminary injunction motion, Sterling argued that all of the alleged confidential or trade secret information was in fact readily available or ascertainable, and thus, Sterling could properly use the information.<sup>109</sup> Specifically, Sterling noted that modular home manufacturers must submit a substantial range of information to state agencies in order to obtain approval for sale.<sup>110</sup> After the preliminary injunction hearing, Sterling made Freedom of Information Act requests to three states for the documents submitted by Patriot as part of its approval submission, and in response the states sent thousands of documents, none of which were marked confidential.<sup>111</sup> While Patriot contended that all of that material was proprietary and confidential, Sterling maintained that only a relatively small amount of particular categories

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103. *Id.*

104. *Id.*

105. 512 F.3d 412 (7th Cir. 2008).

106. *Id.* at 413.

107. *Id.*

108. *Id.*

109. *Id.*

110. *Id.* at 414.

111. *Id.*

of information was not in the materials obtained from the states.<sup>112</sup>

The district court issued a preliminary injunction broadly forbidding Sterling from actions with "Patriot's copyrights, confidential information, trade secrets, or computer files."<sup>113</sup> While Sterling apparently did not object to a prohibition on use of computer files, it argued on appeal that the remainder of the injunction was too vague.<sup>114</sup> The Seventh Circuit agreed.<sup>115</sup>

After discussing basic principles concerning vagueness of injunctions, the court rejected the injunction because it did not specify what was included in the "trade secrets" or "confidential information."<sup>116</sup> The court noted that *American Can Co. v. Mansukhani*<sup>117</sup> rejected an injunction entered "without determining whether the defendant's [products] were in fact substantially derived from plaintiff's trade secrets."<sup>118</sup> The court flatly denied Patriot's argument that the court was not required to identify all elements of copyright originality or trade secret protection in the injunction.<sup>119</sup> On the contrary, the court recognized difficulty in "ascertain[ing] what information is a trade secret or confidential at this stage of the proceedings, [but] the district court still must make this determination in order to clearly delineate Sterling's responsibilities pursuant to the injunction."<sup>120</sup>

While at first glance this opinion would appear to place a relatively high burden on Seventh Circuit district courts in fashioning injunctions in a trade secret or similar case, this author takes the view that the determinations required are nothing more than the usual indication of whether a likelihood of success exists on the merits at trial. As part of any trade secret preliminary injunction proceeding, the plaintiff will have to provide sufficient evidence of: (1) the existence of a trade secret and (2) the misappropriation of it to establish a likelihood of success. If convinced of the likelihood that trade secrets exist and will be misappropriated, then the court can incorporate the definition of the trade secret material—at least that information demonstrated as likely to be a trade secret at a hearing—into the injunction. What this opinion most directly says is that in order to issue an injunction, the district court must at least make a concrete finding of whether particular information is likely to be a trade secret.<sup>121</sup> Without a specification of what information the enjoined party cannot use, an injunction will be too vague.

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112. *Id.*

113. *Id.*

114. *Id.*

115. *Id.* at 416 (citing FED. R. CIV. P. 65(d)).

116. *Id.* at 415-16.

117. 742 F.2d 314 (7th Cir. 1984).

118. *Patriot Homes*, 512 F.3d at 415 (citing *American Can*, 742 F.2d at 326).

119. *Id.* (citing *American Can*, 742 F.2d at 332).

120. *Id.*

121. *See id.* at 415-16.

VI. *RIVIERA DISTRIBUTORS, INC. v. JONES*<sup>122</sup>

This Seventh Circuit opinion examined an award of attorney fees in a copyright case.<sup>123</sup> Chief Judge Easterbrook's opinion is short, but provides an eye-opening view of fee-shifting in the copyright context.

The federal Copyright Act provides that a court can "award a reasonable attorney's fee to the prevailing party as part of the costs" of an action.<sup>124</sup> The "prevailing party" can be either plaintiff or defendant—no statutory presumption exists favoring one over the other.<sup>125</sup> Under Seventh Circuit precedent, "the prevailing party in copyright litigation is presumptively entitled to reimbursement of its attorneys' fees."<sup>126</sup>

The question of what constitutes "prevailing" remains. Without question, a party who wins a verdict after trial is the prevailing party. In *Riviera*, however, the parties never went to trial.<sup>127</sup> Instead, the suit had been dismissed by *Riviera* well after the time had run for a voluntary dismissal without prejudice, with *Riviera* admitting that it could not prove its claim at that time.<sup>128</sup> The district court dismissed the case with prejudice.<sup>129</sup> The trial court rejected the defendants' request for attorney's fees, however, because in its view they had not prevailed on the merits.<sup>130</sup> Without findings concerning the underlying substance of the case, the district court did not believe the defendants to be entitled to "prevailing party status."<sup>131</sup>

The Seventh Circuit rejected the view that whether one "prevails" depends on the content of a judge's opinion.<sup>132</sup> Instead, relying on Supreme Court precedent concerning other areas of law, the court considered that any judgment in a party's favor brings about a "material alteration of the[ir] legal relationship," and means that the party prevails.<sup>133</sup> Even in a consent judgment context, where the parties admit no liability and the judge makes no independent findings, a party still prevails, according the Seventh Circuit.<sup>134</sup> The fact that the judge made no findings did not make the defendants less of a prevailing party.<sup>135</sup> A "win" is all that is required to be given prevailing party status.

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122. 517 F.3d 926 (7th Cir. 2008).

123. *Id.* at 927-28.

124. 17 U.S.C. § 505 (2006).

125. *Riviera Distribs.*, 517 F.3d at 928 (citing *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994)).

126. *Id.*

127. *Id.* at 927.

128. *Id.*

129. *Id.*

130. *Id.* at 928.

131. *Id.*

132. *Id.*

133. *Id.* (quoting *Buckhannon Bd. & Care Home, Inc. v. W. Va. Dep't of Health & Human Res.*, 532 U.S. 598, 604 (2001)).

134. *Id.*

135. *Id.*

The court moved on to consider whether it was appropriate “not to honor the presumption that the prevailing party, plaintiff *or* defendant, recovers attorneys’ fees.”<sup>136</sup> The court identified three potential factors against honoring the presumption: (1) defendants’ failed motion to dismiss the complaint, (2) defendants’ abandonment of mediation, and (3) defendants’ delay in responding to discovery.<sup>137</sup> The court dismissed the first two factors, claiming that a failed motion to dismiss is a “common step” and “not a good reason” to withhold fees, and that a party is entitled to adjudication and is not required to mediate.<sup>138</sup> As to the last factor, the court considered that discovery delay might warrant a reduction, but not an elimination of fees for the prevailing party.<sup>139</sup>

The court also considered the history between the parties. Given the acrimony between them, and the existence of a prior suit for substantially the same cause that was settled with an agreement to submit materials to an independent expert for analysis, the court found the case to be “an especially good candidate for fee shifting.”<sup>140</sup> While it was not clear as to whether the district court considered that expert-resolution agreement to be of consequence, the Seventh Circuit found it to be highly relevant.<sup>141</sup> Referring to *Omni Tech Corp. v. MPC Solutions Sales, LLC*,<sup>142</sup> the court stated that an agreement for alternative dispute resolution must be enforced if valid under appropriate state contract law.<sup>143</sup> The prior settlement provided for alternative resolution, and so plaintiffs in this case “came to the wrong forum.”<sup>144</sup> Defendants were forced to spend attorney’s fees despite the agreement to avoid them, and their win entitled them to those fees, including fees incurred on appeal.<sup>145</sup>

#### VII. *EAGLE SERVICES CORP. V. H2O INDUSTRIAL SERVICES, INC.*<sup>146</sup>

This case also concerned an award of attorneys’ fees in a copyright case won by a defendant.<sup>147</sup> After four of Eagle Services Corporation’s (Eagle) employees left to set up defendant H2O Industrial Services, Inc. (H2O), Eagle sued for infringement of copyright in its safety manual that the employees had taken with them.<sup>148</sup> Eagle verified that H2O had the manual and had made copies, but apparently, H2O later made its own manual, and no prospective customers other

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136. *Id.*

137. *Id.* at 928-29.

138. *Id.* at 929.

139. *Id.*

140. *Id.*

141. *Id.*

142. 432 F.3d 797 (7th Cir. 2005)

143. *Riviera Distribs.*, 517 F.3d at 929.

144. *Id.*

145. *Id.* at 929-30.

146. 532 F.3d 620 (7th Cir. 2008).

147. *Id.* at 621.

148. *Id.* at 622.

than Eagle employees posing as customers had seen the copies.<sup>149</sup> Despite H2O apparently obtaining no business from or in the presence of the copies, Eagle claimed restitution of H2O's profits made prior to creating its own manual, insofar as H2O could not provide services without a manual under applicable regulations.<sup>150</sup> Eagle admitted that statutory damages were not available.<sup>151</sup>

After Eagle presented its case, H2O won a motion for judgment for lack of evidence that the applicable regulations in fact required a manual.<sup>152</sup> The district court did not award fees to the defendant, finding that Eagle's suit was not frivolous or in bad faith, and further noted that "the standards for what the parties call an 'indirect profits' suit are vague."<sup>153</sup>

Judge Posner wrote that the district court was "wrong on all three counts, but even if it had been right it would not have been justified in refusing to award fees."<sup>154</sup> The Seventh Circuit considered the suit frivolous not only because its theory was not borne out by the regulations it relied on, but also apparently because of the relative ease of the task of creating a manual.<sup>155</sup> Since Eagle was suing for damages, but had no ground for obtaining such a judgment, "the fact that his rights may have been violated does not save his suit from being adjudged frivolous."<sup>156</sup>

In light of that judgment, the court found H2O entitled to fees "[u]nder any standard we know for shifting attorney's fees from a losing plaintiff to a winning defendant."<sup>157</sup> The court noted that plaintiffs and defendants are to be treated alike in the copyright scheme of shifting fees, and repeated its view that the presumption for an award of fees is very strong in the case of a prevailing defendant.<sup>158</sup>

The opinion took a moment to consider the Sixth Circuit's view that a plaintiff's presentation of "colorable, albeit meritless, claims" do not entitle a defendant to an award of attorney fees.<sup>159</sup> The use of a standard akin to that of an employment discrimination case, in the Seventh Circuit's view, misses special characteristics of a copyright or other intellectual property case.<sup>160</sup> In particular, the court noted that a successful defendant in most copyright cases enlarges the public domain (insofar as it is established that no copyright exists or rights are

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149. *Id.*

150. *Id.*

151. *Id.*

152. *Id.*

153. *Id.* at 623.

154. *Id.*

155. *Id.* at 623-24.

156. *Id.* at 623.

157. *Id.* at 624.

158. *Id.*

159. *Id.* at 624-25 (quoting *Murray Hill Publ'ns, Inc. v. ABC Commc'ns, Inc.*, 2001 FED App. 0295P, 264 F.3d 622, 640 (6th Cir.)).

160. *Id.* at 625.

limited in some fashion) and, therefore, benefits the public.<sup>161</sup> It is quite evident from both *Riviera Distributors* and *Eagle Services*, copyright fee-shifting cases, that a plaintiff in the Seventh Circuit should tread carefully, as a loss of any kind will put him or her on the defensive on the issue of attorney fees.

#### VIII. *AGS CAPITAL CORP. V. PRODUCT ACTION INTERNATIONAL, LLC*<sup>162</sup>

This Indiana Court of Appeals opinion addresses a question of first impression—whether Indiana’s trade secret statute pre-empts a claim under the racketeer-influenced corrupt organizations (RICO) laws.<sup>163</sup> The opinion lists in great detail the actions of several individuals employed by defendant Fast Tek Group, LLC (Fast Tek) who obtained information from Product Action International (Product Action).<sup>164</sup> The information was useful to Fast Tek in getting up to speed and in competition quickly after the company’s formation.<sup>165</sup> As part of its suit, Product Action made claims under both Indiana’s enactment of the Uniform Trade Secrets Act, and under its RICO statute.<sup>166</sup> Fast Tek and the other appellants argued that the Trade Secrets Act, which “displaces all conflicting law of this state pertaining to the misappropriation of trade secrets, *except contract law and criminal law*,”<sup>167</sup> pre-empted application of RICO civil remedies in the present case.<sup>168</sup>

The court looked first to *Infinity Products, Inc. v. Quandt*<sup>169</sup> for guidance on applying the pre-emption provision of the Trade Secret Act.<sup>170</sup> *Quandt* considered the common law concept of *respondeat superior* in connection with the requirement of the Act that a defendant know or have reason to know that a trade secret was acquired improperly.<sup>171</sup> The *Quandt* court noted the legislative history of the pre-emption provision calling the Indiana provision “stronger” than a similar provision in the Uniform Trade Secrets Act in existence at the time the General Assembly adopted the provision.<sup>172</sup> Nevertheless, while acknowledging the Act’s non-displacement of the criminal law, *Quandt* left open the question of whether civil remedies provisions arising from criminal acts were pre-empted.<sup>173</sup>

The court of appeals tackled this question in *AGS* by focusing on the

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161. *Id.*

162. 884 N.E.2d 294 (Ind. Ct. App.), *trans. denied*, 898 N.E.2d 1222 (Ind. 2008).

163. *Id.* at 306.

164. *Id.* at 300-03.

165. *Id.* at 299-303.

166. *Id.* at 299, 303.

167. *Id.* at 306 (quoting IND. CODE § 24-2-3-1(c) (2007)) (emphasis added) (footnote omitted).

168. *Id.*

169. 810 N.E.2d 1028 (Ind. 2004).

170. *AGS*, 884 N.E.2d at 306-07.

171. *Quandt*, 810 N.E.2d at 1029, 1033-34; *see also* IND. CODE § 24-2-3-2 (2007) (defining “misappropriation”).

172. *Quandt*, 810 N.E.2d at 1033.

173. *Id.* at 1033 n.4.

difference between the pre-emption provision as enacted by the General Assembly and the then-existing pre-emption provision in the uniform act.<sup>174</sup> The latter specified that the uniform act would displace “conflicting tort . . . and other law of this State” that provides civil remedies for trade secret misappropriation.<sup>175</sup> The court emphasized that focus on remedies and noted in contrast that Indiana’s provision refers to the area of criminal law as a whole, so that “the criminal law and its concomitant criminal remedies” are exempt from this provision of the Indiana Trade Secret Act.<sup>176</sup>

Turning then to an analysis of the nature of the RICO action, the court focused on the defendant’s “predicate acts” that had to be proven, which included “various types of criminal activity” such as receiving stolen property.<sup>177</sup> Multiple offenses can fall into the category of “corrupt business influence,” which supports additional criminal liability.<sup>178</sup> In the court’s words, over and above “criminal law sanctions for such activities,” there is “a private right of action against such corrupt business influences.”<sup>179</sup> The court viewed these provisions as having the “common goal” of deterring “egregious and schematic criminal activity.”<sup>180</sup> Because the civil remedy is “derivative of the criminal law,” the court ruled that a RICO claim based on corruption in the form of “acquisition of economically valuable information through . . . artifice” is not pre-empted by the Indiana Trade Secrets Act.<sup>181</sup>

Thus, the court took the position that the use of “criminal law” in the Trade Secrets Act’s pre-emption provision is broad enough to encompass any action arising from conduct defined to be criminal, even if the action itself is in civil court.<sup>182</sup> That position is consistent with the idea that the exception from pre-emption in the provision is broader than in the uniform act, and so more subject matter falls outside of pre-emption. Nevertheless, it seems somewhat counterintuitive to call what is clearly a civil action, giving a right of action to affected non-law-enforcement parties, a part of the criminal law. The *AGS* court made no secret of its disgust for defendants’ conduct noted in the findings from the preliminary injunction hearing, and it seems likely that such a feeling influenced the outcome on the pre-emption question.<sup>183</sup> Perhaps the result for this and similar questions is dependent on whether the focus is on preventing conduct that is detrimental to the public, versus redressing damage or providing restitution from an act or series of acts.

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174. *AGS*, 884 N.E.2d at 307-09.

175. *Id.* at 307 (quoting UNIF. TRADE SECRETS ACT § 7 (amended 1985)).

176. *Id.* at 308.

177. *Id.*

178. *Id.*; *see also* IND. CODE § 34-24-2-6 (2008) (providing an action for injunctive relief and damages from “corrupt business influence”).

179. *AGS*, 884 N.E.2d at 308 (citing IND. CODE § 34-24-2-6 (2008)).

180. *Id.*

181. *Id.* at 308.

182. *Id.* at 308-09.

183. *See id.* at 300-05 (noting the extensive bad acts by defendants).

IX. *CENTRAL INDIANA PODIATRY, P.C. v. KRUEGER*<sup>184</sup>

In the realm of non-competition agreements, the Indiana Supreme Court handed down an opinion addressing the specific situation of a physician leaving his or her medical practice, and the interpretation and effect of a noncompetition agreement between the physician and the practice.<sup>185</sup> Defendant Krueger was a podiatrist who had been employed by Central Indiana Podiatry (CIP) under a succession of employment agreements, each having restrictions on his activities following termination.<sup>186</sup> These restrictions included, for a period of two years after leaving CIP, (1) contacting patients to provide podiatry services, (2) soliciting CIP employees, and (3) practicing podiatry within fourteen central Indiana counties, any other county in which CIP maintained an office, and any county "adjacent" to those counties.<sup>187</sup> The counties included in that practice-restriction provision covered, in the court's words, "essentially the middle half of the state."<sup>188</sup>

At various points, Krueger worked at offices in five counties, and during 2005, when Krueger was terminated, he was working at an office on the north side of Marion County, as well as in offices in Tippecanoe County and Howard County.<sup>189</sup> About two months after his termination, Krueger agreed to practice podiatry with Meridian Health Group, P.C. in Hamilton County, at an office Krueger characterized in a mailing as about ten minutes away from the CIP office in northern Marion County at which Krueger worked.<sup>190</sup>

CIP sued for injunctive relief against Krueger and Meridian, but the trial court found the geographic restriction in the Krueger/CIP employment agreement to be unenforceable.<sup>191</sup> After the court of appeals reversed that ruling, the supreme court granted transfer to review the restriction.<sup>192</sup> The court found this case to present a matter of public interest capable of repetition, and so, even though any possible injunction had been mooted by the passage of time, it chose to address the matter.<sup>193</sup>

Krueger raised four issues for the court to consider, two of which were treated at some length. The first of these was whether his non-competition agreement was void as against public policy as interfering with physician/patient relationships.<sup>194</sup> The court saw a significant difference between the general case

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184. 882 N.E.2d 723 (Ind. 2008).

185. *Id.* at 725-26.

186. *Id.* at 725.

187. *Id.* at 725-26.

188. *Id.* at 726.

189. *Id.*

190. *Id.*

191. *Id.*

192. *Id.*

193. *Id.* at 726-27.

194. *Id.* at 727.

(considering that many times a non-competition agreement “affects only the interests of the employee and employer”) and the physician-specific case, which “involves other considerations as well.”<sup>195</sup> These considerations naturally centered on “the patients’ legitimate interest in selecting the physician of their choice,” based typically in confidence in the physician, and the fact that patients typically have “direct contact” with the physician at the latter’s office.<sup>196</sup> There is no question that the physician/patient relationship is, and has long been, considered a special relationship, deserving of particular handling. However, the court’s general characterizations of other scenarios for non-competition agreements seem to give short shrift to the interests of third parties who have developed comfortable relationships based in trust with salespersons, business consultants, or a variety of other employees. While it is granted that such relationships may not merit the sorts of protections given to those between doctors and their patients, arguments similar to Krueger’s in this case can be made with respect to other business fields.

Even so, the court was not persuaded by the relationship arguments Krueger advanced, nor by examples from other jurisdictions, preferring not to extend itself beyond existing Indiana precedent.<sup>197</sup> The Colorado,<sup>198</sup> Delaware,<sup>199</sup> and Massachusetts<sup>200</sup> statutory elimination of non-competition agreements involving physicians, and the Tennessee Supreme Court’s 2005 holding that such agreements are against public policy (relying on an American Medical Association ethics opinion discouraging such agreements),<sup>201</sup> were not sufficient to cause the court to find for Krueger on this ground.<sup>202</sup> Instead, the court chose shelter in *Raymundo v. Hammond Clinic Ass’n*.<sup>203</sup> The court noted that *Raymundo* had been decided at a time when the AMA’s ethics opinion was in place, and reasoned that it rejected a blanket prohibition on physicians’ non-competition agreements as it adopted a reasonableness standard for such agreements.<sup>204</sup> The court went on to say that *Raymundo* was consistent with a majority of other jurisdictions, including a 2006 opinion from the Illinois Supreme Court.<sup>205</sup> Following its discussion of the viability of *Raymundo*, the court noted that the legislature has not taken any steps on the issue, and left the

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195. *Id.*

196. *Id.*

197. *Id.* at 728.

198. COLO. REV. STAT. ANN. § 8-2-113(3) (West 2007).

199. DEL. CODE ANN. tit. 6, § 2707 (2005).

200. MASS. GEN. LAWS ANN. ch. 112, § 12X (West 2003).

201. *Murfreesboro Med. Clinic, P.A. v. Udom*, 166 S.W.3d 674, 684 (Tenn. 2005).

202. *Cent. Ind. Podiatry*, 882 N.E.2d at 728.

203. 449 N.E.2d 276 (Ind. 1983).

204. *Cent. Ind. Podiatry*, 882 N.E.2d at 728.

205. *Id.* (citing *Mohanty v. St. John Heart Clinic, S.C.*, 866 N.E.2d 85, 95 (Ill. 2006); Ferdinand S. Tinio, Annotation, *Validity and Construction of Contractual Restrictions on Right of Medical Practitioner to Practice, Incident to Employment Agreement*, 62 A.L.R.3d 1014 §§ 6-25 (1975)).

proverbial ball in the legislature's court.<sup>206</sup>

The second issue focused on reasonableness, and was the basis on which the court found the geographic scope of the non-competition agreement to be too broad.<sup>207</sup> The reasonableness analysis followed the standard themes in this area of the law—the disfavored nature of non-competition agreements and the employer's burden of demonstrating a legitimate interest protected by the agreement and the agreement's reasonableness as to the duration of restriction, activities and geographical scope.<sup>208</sup> The court agreed with the appellate opinion that CIP's goal of protecting its patient population and preventing its loss in income was sufficient to serve "the legitimate interest of preserving patient relationships developed with CIP resources."<sup>209</sup> That finding provides something of a blueprint for drafters of non-competition provisions in the medical field as to evidence of what the Indiana Supreme Court believes will support a non-competition provision.

Where CIP's provision failed, however, was in its geographical scope. Starting from the premise that such scope is a function of the employer's protected interest, the court noted that the only such interest involved in this case was development of a "patient base."<sup>210</sup> Given that interest, the court looked to the locations in which that investment coincided with Krueger's work.<sup>211</sup> Where the noncompetition provision is "justified by the employer's development of patient relationships," the court limited the geographic scope to that in which the physician has had patient contact.<sup>212</sup> Without any evidence that Krueger used CIP's resources to develop patient relationships for CIP in a number of the counties ostensibly covered in the employment agreement, the court found the agreement to be overbroad.<sup>213</sup> Since "blue-penciling" allows removal of provisions, but not rewriting of the agreement, the three counties in which it was proven Krueger worked within the relevant period were the only counties in which the noncompetition agreement would be enforced.<sup>214</sup> The majority opinion considered *all* of contiguous counties to be too broad—even if parts of other counties adjacent to Marion County might have some economic overlap, it could not be said that the *entire* contiguous county would have such overlap.<sup>215</sup>

One other argument Krueger made bears some review. He argued that a prior material breach of the employment agreement by CIP had occurred, and thus, the noncompetition agreement was not enforceable.<sup>216</sup> The court considered the

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206. *Id.*

207. *See id.* at 728-31.

208. *Id.* at 728-29.

209. *Id.* at 729.

210. *Id.* at 730.

211. *Id.* (citing Tinio, *supra* note 205, §§ 18-20).

212. *Id.*

213. *Id.*

214. *Id.* at 731.

215. *Id.*

216. *Id.* at 731-32.

alleged breach to be “arguably immaterial in the context of” the entire agreement.<sup>217</sup> Of particular interest, the court looked to the “no-defense” provision of the agreement, which stated that the noncompetition agreement

shall be construed as independent of any other provision . . . and shall survive the termination of this Contract. The existence of any claim or cause of action of [Krueger] against [CIP], whether predicated on this Contract or otherwise, shall not constitute a defense to the enforcement by [CIP] of this Restrictive Covenant.<sup>218</sup>

The court found sparse authority from other jurisdictions on the enforceability of such provisions, but what authority it found upheld them “even in the face of apparently major breaches by the employer.”<sup>219</sup> The court did not explicitly approve that authority, and it left open the question of whether there is some employer breach that would “override” such a provision.<sup>220</sup>

Clearly, this case is instructive not only for its authority arising from the Indiana Supreme Court, but also for its requirement of a very direct correlation between the employer’s protectible interest and the restrictions—in time, geography, and otherwise—in a noncompetition agreement.<sup>221</sup> It is well known that such restrictive provisions must be carefully drafted if they are to be upheld. *Central Indiana Podiatry* does not merely repeat that caveat, but spells out the kind of restriction that can be sustained.<sup>222</sup> Had the geographic restriction been prepared in terms of miles from Krueger’s workplaces, or in units smaller than counties, the scope of the noncompetition provision might have been significantly greater. The court appeared receptive to considering geographic area in terms of economic influence or effect, and so a provision defining geographic scope in those terms might have been upheld. Even so, there is some logical disconnect in including all of Marion County in the injunction area because of work at a location in the far north of that county, while excluding all of Hamilton County, even those parts reasonably economically linked.

The restrictive use of the “blue pencil” doctrine is notable as well. The Indiana Supreme Court very clearly considered that doctrine as usable to *exclude* language from an agreement, and not merely to limit it.<sup>223</sup> One could imagine that a legitimate limitation of the agreement would have been to define a smaller geographic region that was a part of the original region as the geographic scope

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217. *Id.* at 732.

218. *Id.*

219. *Id.*

220. *Id.*

221. *Id.* at 730.

222. *See id.* at 730-31 (noting that where the noncompetition provision is “justified by the employer’s development of patient relationships[, it] must be limited to the area in which the physician has had patient contact” and that economic bonds between counties, or likelihood of patient travel across county lines was not sufficient).

223. *Id.* at 730.

of the agreement.<sup>224</sup> Such a result would not have been an enlargement to the employee's detriment, and could have accomplished the aims of the law concerning noncompetition agreements. Nonetheless, the court viewed its ability to limit the geographical region as only in striking material out of the agreement. CIP's definition of territory in terms of counties meant that counties were either in or out—no in-between possibility exists under this court's conception of the blue-pencil doctrine.

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224. *Id.* (“[T]he court may apply the blue pencil doctrine to permit enforcement of the reasonable portions. The blue pencil doctrine permits excising language but not rewriting the agreement.” (citation omitted)).