INTELLECTUAL PROPERTY RIGHTS
In contrast to real estate and tangible personal property, Intellectual Property refers to what the minds of men and women have created.

Trademarks and Service Marks
A "trademark" is a word, design or combination used by an individual or a business to identify its goods or services. In some cases a trademark can also be a sensory mark--a sound, a color or a smell. While marks identifying services rather than goods are technically referred to a "service marks" we will use the term trademarks to include service marks. Trademarks protect names used to identify goods (or services) and their source of origin. The law protects trademarks in part because trademarked items tend to carry with them certain quality assurances - one would expect an automobile carrying the *Rolls Royce* trademark to be far superior to most other automobiles. You may use any kind of name or symbol as a trademark to identify your product.

A mark is any word, name, symbol, or design that identifies a product or service. A *trademark* identifies a product (for example, *Coca Cola*). A *service mark* identifies a service (for example, *Holiday Inn*). A mark may be registered with the United States Patent and Trademark Office (USPTO) if the mark distinguishes a person's product or service from products or services of competitors. Registration of a mark on the *Principal Register* of the USPTO entitles a person the exclusive use of the mark. Registration can also be accomplished with a State (usually with the Secretary of State of a particular state). However, State registration does not provide as much protection as Federal registration. Before a mark can be registered, it must be used by the “owner,” and it must distinguish goods or services from others.

The owner of a mark cannot register it with the United States Patent and Trademark Office unless the mark is used in interstate commerce. Generic terms that merely describe a class of products cannot be registered. For example, the term *motor oil* or the word *airline* would not be accepted for registration. Descriptive or geographical terms cannot be registered unless they have acquired a secondary meaning. A mark acquires a secondary meaning when, through long usage; the public identifies the mark with a particular product. For example, *Best Western* Motels involves a mark which has a secondary meaning. One can be an owner of a trademark or service mark, whether or not it is registered. This is common law protection. Registration is proof of ownership and makes ownership rights easier to enforce. The basic question in lawsuits over marks is whether or not the general public is likely to be confused as to the origin of the service or product. If the owner of a mark permits widespread use of the mark to describe a general class of products, the exclusive right to the mark may be lost. Two examples are *cellophane* and *aspirin.* Trade dress is the total appearance of a product, including its packaging, label, shape, and size. Trade dress may also include physical structures associated with a particular product or

service, such as the “golden arches” of McDonald’s. Trade dress may qualify as a protected trademark or service mark if it is distinctive and identifies the source of a specific product or service.

Copyrights

A copyright is the exclusive right given by federal statute to the creator of a literary or an artistic work to use, reproduce, and display the work. The creator of the work has a limited monopoly on the work and can, with some exceptions, prohibit others from copying or displaying the work. Copyright law protects such works as writing, music, artwork, and computer programs.

A copyright gives one the exclusive right to use or reproduce a literary, artistic, dramatic, audiovisual or musical work, or a computer program for the creator's life plus 50 years. If a work is a “work made for hire,” this means that a person was hired specifically to create the copyrighted work. The employer of the creator of the work can register the copyright and is entitled to protection for 100 years from creation or 75 years from publication, whichever is less. Once a copyright expires, it is in the public domain and no longer has protection. Works created by the federal government are also in the public domain.

A copyright is obtained simply by creating the work. It comes into existence automatically on the dated it is created. However, in order to get federal protection of a copyright, you have to file two copies of the work with the Copyright Office in Washington, D.C.

Pursuant to an international treaty known as the Berne Convention, a work that is copyrighted under U.S. law is entitled to protection in all other countries that have approved this treaty.

Copyright law is designed to create an incentive for creativity by allowing the author to profit from his work. The Act tries to balance this need to protect the author with the public’s need for free and open discussion. A copyright owner has the exclusive right to:

- reproduce the work;
- prepare derivative works such as a script from the original work (ex., movie script for *The Rainmaker*);
- distribute copies or recordings of the work; and
- publicly display the work in the case of paintings, sculptures and photographs.

The Copyright Act contains several exemptions that allow a person or institution to use or copy a copyrighted work without the owner’s permission. One exemption of particular interest is the *fair use doctrine.* The fair use doctrine which allows copying for such purposes such as teaching; the right of libraries to

make limited copies; and certain performances and displays for teaching or religious purposes.

This doctrine allows reasonable use of copyrighted works without requiring the author's permission for teaching, research, and news reporting. The Act states: "[T]he fair use of a copyrighted work, including such use by reproduction in copies . . . for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright."

There are four important factors that must be looked at when determining whether or not the fair use doctrine applies:

- the purpose of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- the nature of the copyrighted work;
- the amount of the portion used in relation to the copyrighted work as a whole; and
- the effect of the use on the potential market for or value of the copyrighted work.

PATENTS

Federal statutes give an inventor the exclusive right to use, sell, and market his invention. The types of things that can be patented are things that are new, useful, and not obvious to those in the business to which the invention relates. An invention may be a machine, a process, a new chemical or even a new type of plant.

Patents are granted by the U.S. Patent and Trademark Office in Washington, D.C. There are three types of patents:

- Utility Patents: These are granted for most new products or processes and are valid for 20 years;
- Design Patents: These are granted for new and original designs for manufactured goods and are good for 20 years; and
- Plant Patents: These are granted for developing a new type of plant.

The owner of a patent is required to mark the word patent on the item patented and also put the patent number on the item. Failure to do this can prevent the patent holder from recovering damages is an infringement case.

Before a patent is granted the applicant must submit his idea to a patent examiner in the patent office who will make a determination as the whether or not the invention is new and not obvious to a person of ordinary skill in the area in which the invention is related. The examiner's decision can be appealed to the Board of Patent Appeals or the Court of Appeals for D.C. circuit.

Employers sometimes require employees to sign an agreement to assign any right to an invention of the employee to the employer. The invention must be related to the employer's business, or this assignment would possibly be void as a violation of public policy.

SECRET BUSINESS INFORMATION

A formula, process, or information that is secret, and gives its owner a business advantage may be protected under State laws concerning trade secrets. Trade secrets, basically, are any formula, device, or information that is used in a business, and is of such a nature that it gives the owner an advantage over competitors who do not have the information. Trade secrets are protected under State law rather than Federal law. This protection may be by virtue of common law or statutory law, such as the Uniform Trade Secrets Act. Customer lists may be protected unless they can be easily developed from public information.

When a trade secret is made public, it loses its protection as a trade secret unless it is disclosed in a restrictive manner to persons who know of its confidential nature.

The Industrial Espionage Act of 1996 makes it a crime to copy, steal or purchase a stolen trade secret.

Generally, computer programs may be copyrighted. The Computer Software Copyright Act protects copyrighted programs from infringement. In some cases, computer programs may be patented. However, since patents are public record, there is a danger that the program might be copied by someone. Trade secrets laws are sometimes used to protect computer programs.

Sometimes creators of software will require users to sign a licensing agreement which provides greater protection than the copyright laws. Sample restrictions include limited reverse engineering, which is a method of learning the structure of a program and limiting the renting of the program of third parties in order to prevent unauthorized copying.

REMEDIES FOR VIOLATION OF PROPERTY RIGHTS

When property is harmed, taken, or destroyed, the most common remedy is an action for monetary damages. The property itself may be recovered if unlawfully taken. Wrongful use of a copyright, trademark, service mark, or patent can result in injunctive action, as well as a suit for damages. If an infringement is intentional, profits resulting from the infringement may also be obtained.

Infringement of a trademark or service mark occurs when a person uses or copies the trademark or service mark of another person without the person's permission. (*e.g.,* putting Nike label on shoes and selling them)

If a person has a patent (i.e., ownership right) to an invention, this patent may be infringed if a person sells or uses the invention without the patent holder's permission. If someone uses the copyrighted material without permission, he is guilty of a copyright infringement. Photocopying sheet music and selling it to another person is a good example of a copyright infringement.

Unfair competition is very similar to trademark and service mark infringement. It is unfair competition to imitate signs, store fronts, advertisements, and the packaging of goods of a competitor

It is common practice for lenders to extend credit to their customers that require their customers to use their Intellectual Property (such as copyrighted material, trademarks or patents) as collateral.

Perfecting Security Interest in Trademarks, Patents and Service Marks
In order to properly foreclose on that collateral and enforce its priority position, a lender needs to ensure that it has properly perfected its security interest in the borrower's intellectual property. If the security interest in the collateral is not properly perfected, the lender is relegated to the status of an unsecured creditor and may be left without recourse to cover its losses.

Uniform Commercial Code §9-102 includes intellectual property within the definition of "general intangibles." Generally a lender's security in general intangibles is perfected by the filing of a UCC-1 financing statement in the state where the borrower's principal place of business is located. It should be noted, however, that UCC §9-311 provides an exception when the intellectual property rights are governed by federal statutes, regulations, or treaties, federal procedures take precedence. Thus, patents, federally protected trademarks and copyrights are ultimately governed by these federal laws and regulations.

Perfecting security interests in patents, trademarks, copyrights, and domain names all have different requirements and to complicate matters, there are inconsistencies in court rulings and regular changes in the applicable law.

Perfecting Security Interest in Trademarks and Service Marks
Trademarks and service marks protect names, symbols, words, designs, slogans, or combinations thereof, used by an entity to identify and distinguish its goods or services from those provided or manufactured by others. Trademarks are governed by both state and federal regulations but, a lender should register its security in a trademark with the United States Patent and Trademark Office.

There are many benefits of recording security interests in trademarks with the USPTO. A USPTO recording may (1) be necessary to cut off rights of subsequent purchasers for value without notice; and (2) put potential purchasers of the borrower on notice of the lender's security interest. Finally, lenders should

keep in mind that a security interest recorded in a trademark with the USPTO should also grant a security interest in the goodwill.

Perfecting Security Interest in Copyrights

Copyrights, in general, protect original works of authorship fixed in any tangible medium of expression and are governed by federal law. The Ninth Circuit Court of Appeals held that the only proper method to perfect a security interest in registered copyrights was to record a lien or "copyright mortgage" with the U.S. Copyright Office. This ruling confirmed the prior ruling of *In re Peregrine* Entertainment Ltd.116 B.R. 194 (C.D. Cal. 1990) which holds that registered copyrights can only be perfected by recording with the U.S. Copyright Office.

The *Peregrine* case also held that a security interest in unregistered copyrights was properly perfected by filing UCC financing statements. But, the Court suggested that it is the creditor's responsibility to monitor whether the unregistered work becomes registered and to then take appropriate action to perfect.

As such, we recommend to our lender clients that, in taking a copyright as security, the borrower be required to register the copyrighted material with the U.S. Copyright Office. Prudent lenders should require borrower to disclose copyright registrations via loan covenants and monitoring procedures, and require that all copyrightable works be registered. **Finally, many attorneys also recommend that, in order for a lender to perfect a security interest in a copyright whose application is pending before the U.S. Copyright Office, that lender also file an appropriate UCC financing statement.**

Perfecting Security Interest in Patents

Patents cover inventions of new and useful processes, products or improvements and are governed by federal law. However, no federal statute governs the registration of a lender's security interests in a patent. As a practice, we recommend that our clients record their security interest in a Patent with the USPTO. Recording a lien in the USPTO is necessary to cut off a subsequent purchaser or mortgagee for valuable consideration without notice. In other words, a bona fide purchaser, or mortgagee, that duly records an interest in a patent with the USPTO may defeat a secured creditor that has not recorded their interest in the USPTO. Many attorneys also recommend that a lender file an appropriate UCC financing statement.