GENERAL INTANGIBLE OR COMMERCIAL TORT: MORAL RIGHTS AND STATE-BASED INTELLECTUAL PROPERTY AS COLLATERAL UNDER U.C.C. REVISED ARTICLE 9

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INTRODUCTION

When the American Law Institute and the National Conference of Commissioners on Uniform State Laws adopted Revised Article 9 of the Uniform Commercial Code in 1998,[1] they added a new type of collateral that could be used as security—commercial torts.[2] Prior to the 1998 revision, all tort claims were excluded as a form of security.[3] However, when drafting Revised Article 9, the drafters included commercial torts as a potential asset in early drafts.[4]

Characterizing certain rights as commercial torts can have important consequences in how a lender will perfect its security interest and whether it can obtain a secured position in intangible rights acquired after the original security interest was granted. In addition, the debtor or trustee in bankruptcy may be able to avoid the effect of a security interest in those assets if the specific rules governing commercial torts were not followed. For example, if a particular trade secret is more properly treated as a commercial tort rather than a general intangible, it is unlikely that the creditor would have a perfected security interest if the trade secret was created after the security interest originally attached.[5] Even if it were a trade secret that arose before attachment

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[1] U.C.C. § 9-101 cmt. 2 (2002). All citations to Article 9 of the Uniform Commercial Code are, unless otherwise indicated, to the 2002 edition of Revised Article 9. Revised Article 9 was completed in 1999. "Old Article 9" refers to the 1995 edition of Uniform Commercial Code Article 9. The Uniform Commercial Code was last amended in 2003, but this Article does not contain any references to those amendments.

[2] *Id.* § 9-109(d)(12).

[3] U.C.C. § 9-104(k) (1995) ("Old Article 9").

[4] *See infra* note 74 and accompanying text.

[5] See *infra* note 178 and accompanying text for a discussion of the treatment of after-acquired collateral.

of the original security interest, if not specifically listed in the security agreement, the creditor would not have a security interest in the trade secret. This possibility will create a strong incentive for a debtor or trustee in bankruptcy to attempt to recharacterize the collateral as a commercial tort claim to avoid the creditor's security interests in general intangibles.

Under Old Article 9 there was little question that the primary forms of federally protected intellectual property—patents,[6] copyrights,[7] and trademarks[8]—were treated as general intangibles and capable of being used as security.[9] While there was some debate as to the proper process of perfecting such an interest,[10] the category of collateral was never in dispute.[11]

While the law was clear on the categories for such types of intellectual property, several types of intellectual property are either only protected or defined under state law, or are subject to minimal federal protection. These intellectual property rights include trade secrets, the right of publicity, rights against unfair competition, and moral rights.[12] Many of these forms of intangible rights derive from tort law. For example, misappropriation of trade secrets was included in the first Restatement of Torts, and the definition of trade secrets from that Restatement is still relied upon by courts to this day.[13]

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6 See 35 U.S.C. §§ 1-376 (2000) for the federal law governing protection of patents.

7 See 17 U.S.C. §§ 101-1332 (2000) for the federal law governing protection of copyrights.

8 See 15 U.S.C. §§ 105-1141 (2000) for the federal law governing protection of trademarks.

9 See, *e.g.*, Aerocon Eng'g, Inc. v. Silicon Valley Bank (*In re* World Auxiliary Power Co.), 303 F.3d 1120, 1127 (9th Cir. 2002) (copyrights are general intangibles); Moldo v. Matsco, Inc. (*In re* Cybernetic Servs., Inc.), 252 F.3d 1039, 1045 (9th Cir. 2001) (patent is a general intangible); T.S. Note Co. v. United Kan. Bank & Trust (*In re* Topsy's Shoppes, Inc. of Kan.), 131 B.R. 886, 888–89 (D. Kan. 1991) (trademarks are general intangibles).

10 *See*, *e.g.*, *In re Cybernetic Servs., Inc.*, 252 F.3d at 1058–59 (9th Cir. 2001) (holding that because the creation of a security interest in a patent does not effect a transfer of ownership in a patent, the Patent Act does not apply and the security interest should be perfected by filing under Article 9); *see also* Shubha Ghosh, *The Morphing of Property Rules and Liability Rules: An Intellectual Property Optimist Examines Article 9 and Bankruptcy*, 8 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 99 (1997); Alice Haemmerli, *Insecurity Interests: Where Intellectual Property and Commercial Law Collide*, 96 COLUM. L. REV. 1645 (1996); Thomas M. Ward, *The Perfection and Priority Rules for Security Interests in Copyrights, Patents, and Trademarks: The Current Structural Dissonance and Proposed Legislative Cures*, 53 ME. L. REV. 391, 407–49 (2001) (discussing the conflict between Old and Revised Article 9, and the federal intellectual property recording acts).

11 *See generally* THOMAS A. WARD, INTELLECTUAL PROPERTY IN COMMERCE §§ 1:6-7, 9 (West Group 2003).

12 *See* BLACK'S LAW DICTIONARY 824 (8th ed. 2004) (defining intellectual property to include federally created rights in trademark, copyright, and patent, and also state-created trade secret rights, publicity rights, moral rights, and rights against unfair competition).

13 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 1.01 (2005).

To the extent that such intangible rights were defined solely as a right arising under tort law, they could not be used as security under Old Article 9.[14] If a court was willing to protect such intangible rights under Old Article 9, the only category these rights could fit in to was "general intangible," which was the catchall category under Old Article 9.[15] For example, trade secrets have been held to be general intangibles and thus covered by Old Article 9.[16]

Since Revised Article 9 now includes "commercial torts" as a new category of collateral, more intangible rights defined as torts can be used as collateral in a commercial transaction. It is therefore appropriate to reevaluate whether certain intellectual property rights, which may have been treated as general intangibles or excluded entirely under Old Article 9, should now be categorized as commercial torts under Revised Article 9. For example, a trade secret may be seen as merely a tort protecting certain special relationships, such as between an employer and employee. If so, the right is more akin to a tort and not a general intangible.

This Article does two things. First, it explores the extent to which forms of intellectual property that were not able to be used as security under Old Article 9 are now covered as commercial torts. Second, the Article considers whether forms of intellectual property, which might have been characterized as general intangibles under Old Article 9, are more properly characterized as commercial torts under Revised Article 9.

I. GENERAL INTANGIBLES V. COMMERCIAL TORTS UNDER REVISED ARTICLE 9

A. General Scope of Article 9[17]

The purpose of Article 9 of the Uniform Commercial Code is to "provide[] a comprehensive scheme for the regulation of security interests in personal property and fixtures."[18] Article 9 does not govern all liens created in personal

14 U.C.C. § 9-104(k) (1995) ("Old Article 9").

15 *Id.* § 9-106 & cmt.

16 United States v. Antenna Sys., Inc., 251 F. Supp. 1013, 1016 (C.D.N.H. 1966).

17 What follows is a short review of the general scope of the regulation of secured transactions as set forth in Article 9. This review is not intended to be an exhaustive discussion of the application of Article 9 generally, but rather, a brief review of those concepts contained in Article 9 that are relevant to a discussion of obtaining and perfecting security interests in general intangibles and commercial torts.

18 U.C.C. § 9-101 cmt. 1 (2002).

property, but rather, is generally limited to consensual[19] security interests[20] in personal property created by debtors for the benefit of creditors to secure repayment of loans.[21] Thus, the creation of a nonconsensual judgment lien in personal property is governed by law other than Article 9.[22] Nevertheless, to the extent that liens created outside of Article 9 affect the rights of secured parties in such personal property, such as judgment liens, the relative rights of the parties will generally be governed by Article 9.[23]

Personal property subject to a security interest is "collateral" under Article 9.[24] When a creditor has been granted a security interest in such collateral, the creditor becomes a secured party under Article 9.[25] The most common method for a creditor to become a secured party is for the debtor to grant a security interest in the debtor's personal property by way of a written security agreement that describes the collateral.[26] Once this is done, the security interest becomes enforceable against the debtor and attaches to the collateral.[27] At this point, the secured party has ensured that, as between the secured party and the debtor,[28] the secured party will be able to seek repayment of the debt by proceeding against the collateral.[29]

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19 *Id.* § 9-109 cmt. 10. "With few exceptions (nonconsensual agricultural liens being one), this Article applies only to consensual security interests in personal property." *Id*.

20 "Security Interest" is defined as "an interest in personal property or fixtures which secures payment or performance of an obligation." *Id.* § 1-201(35).

21 *Id.* § 9-109(a)(1) & cmt. 2. Article 9 also applies to certain other types of transactions in personal property not relevant to the topic of this Article, such as agricultural liens, U.C.C. § 9-109(a)(2), and sales of accounts, *id.* § 9-109(a)(3).

22 *Id.* § 9-401(a) & cmt. 6.

23 *See*, *e.g.*, *id.* § 9-317 (the rights of lien creditors against secured parties). Certain types of security interests in personal property, such as those governed by federal law, fall outside of the scope of Article 9. *Id.* § 9-109(c)(1). The relative rights of parties in such a case will be determined by that federal law. *See*, *e.g.*, *id.* § 9-311(a)(1) & cmt. 2 (giving the example of The Federal Aviation Act). Article 9 defers to such federal law to the extent that federal law preempts state law. U.C.C. § 9-109 cmt. 8.

24 *Id.* § 9-102(a)(12).

25 *Id.* § 9-109(a)(72).

26 *Id.* § 9-203(b)(3)(A). Technically, the debtor would "authenticate" the security agreement. "Authenticate" includes signing the security agreement, but also allows for a debtor to adopt the agreement by a method other than signing, such as by electronic communication. *Id.* § 9-102(a)(7) & cmt. 9(b). "Security Agreement" is defined as "an agreement that creates or provides for a security interest." *Id.* § 9-102(a)(73). Article 9 does not require a formal, authenticated security agreement in all cases. A secured creditor, for example, can obtain an enforceable security interest in particular types of collateral by possessing them. *See*, *e.g.*, *id.* § 9-203(b)(3)(B). Attachment by possession is not possible for either commercial torts or general intangibles, *id.* § 9-313, and will not be discussed in this Article.

27 *Id.* § 9-203(a).

28 A security agreement is also enforceable against purchasers of the collateral and other creditors that may claim an interest in the collateral. *Id.* § 9-201(a).

29 *See id.* § 9-601(a).

However, to help ensure that the secured party's security interest has priority over third parties, such as other secured parties, judgment lien creditors, and purchasers, the secured party needs to "perfect" its interest.[30] The essence of perfection under Article 9 is providing public notice to other creditors of the existence of the secured party's security interest in the collateral.[31] To perfect a security interest, the security interest must have attached, and the secured party must have taken the steps necessary to perfect.[32] In most instances, a secured party will perfect its interest by filing a financing statement describing the collateral.[33] The financing statement is a form[34] that provides basic information about the possible existence of a security interest by including information such as the debtor's name, a description of the collateral, and the name of the secured party.[35] Thus, in the typical secured transaction, the debtor will have executed a security agreement that describes the collateral and grants a security interest in that collateral to a secured party, the creditor. Additionally, the secured party will have filed a financing statement with the central filing office for the state where the debtor is located.[36] The creditor then becomes a perfected secured party.

Once a creditor has taken these steps to become a perfected secured party, its right to proceeds resulting from a disposition of the collateral after a default[37] will be determined by the creditor's relative priority with respect to the collateral. In general, priority is determined by the first to file rule—that is, a secured party will have greater rights to enforce its security interest in the collateral if it filed its financing statement before other creditors either filed

[30] *Id.* § 9-308 cmt. 2 states that

> [a] perfected security interest may still be or become subordinate to other interests. See, e.g., Sections 9-320, 9-322. However, in general, after perfection the secured party is protected against creditors and transferees of the debtor and, in particular, against any representative of creditors in insolvency proceedings instituted by or against the debtor.

[31] *Id.* § 9-502 cmt. 2; *see also id.* § 9-104 cmt. 3 (control as sufficient public notice of security interest).

[32] *Id.* § 9-308.

[33] *Id.* § 9-310(a). Perfecting by filing is the default method of perfecting a security interest, *id*., although there are other methods of perfecting, such as by possession, *id.* § 9-313. This Article focuses only on perfection by filing since this is the only method for perfecting a security interest in general intangibles and commercial torts. *Id*.

[34] *Id.* § 9-521 (providing a sample form financing statement).

[35] *Id.* § 9-502(a). This is the minimum information needed for the financing statement to be effective. Additional information will be needed to file the form, such as the address of the debtor. *Id.* §§ 9-516(b), 9-520(a).

[36] *Id.* § 9-501(a)(2) & cmt. 2 (usually the Secretary of State's office).

[37] *Id.* § 9-601. "The rights of a secured party to enforce its security interest in collateral after the debtor's default are an important feature of a secured transaction." *Id.* § 9-601 cmt. 2.

their own financing statements[38] or otherwise obtained their liens on the same collateral.[39]

B. Characterizing the Collateral

The preceding section describes the basic structure of obtaining and perfecting a security interest in collateral under Article 9. One stated purpose of the adoption of Article 9 was to unify the varied methods of creating security interests in different forms of personal property into a single system.[40] Even so, Article 9 retains distinctions among types of personal property for many purposes. In particular, the requirements for perfection depend upon the particular type of collateral in question. For example, certain types of collateral can only be perfected by filing,[41] whereas possession is the only permitted method for others.[42] Even as to those forms of collateral that may be perfected by filing, different requirements may apply.[43]

Revised Article 9 has an extensive definitional section that defines the types of collateral it covers.[44] To apply the correct rules to a form of intellectual property, one must determine the type of collateral, which includes intellectual property. To do so, one must distinguish those types of intellectual property that are properly categorized as general intangibles from those that should be categorized as commercial torts under Revised Article 9. This section discusses the definitions relevant to determining the proper characterization of intellectual property rights as collateral.

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[38] *Id.* § 9-322(a).

[39] *Id.* § 9-317(a)(2)(B).

[40] *Id.* § 9-101 cmt. 1 ("[Article 9] provides a comprehensive scheme for the regulation of security interests in personal property.").

> Under this Article the traditional distinctions among security devices, based largely on form, are not retained; the Article applies to all transactions intended to create security interests in personal property and fixtures, and the single term "security interest" substitutes for the variety of descriptive terms which had grown up at common law and under a hundred-year accretion of statutes.

U.C.C. § 9-101 cmt. 1 (1995) ("Old Article 9").

[41] See U.C.C. § 9-310(a) (2002), which states that filing is the mandatory method of perfection unless another method of perfection is permitted.

[42] See *id.* § 9-312(b)(3), which states that a security interest in money can only be perfected by possession.

[43] For example, filing is generally not necessary to perfect a security interest in consumer goods if the secured party advanced the credit necessary to allow the debtor to purchase such goods. *Id.* § 9-309(a) & cmt. 3.

[44] *Id.* § 9-102.

1. Definition of Intellectual Property

Intellectual property is not specifically defined under Article 9. The comments explaining the definition of "general intangibles" mention that "various categories of intellectual property" are examples of general intangibles,[45] but then fail to describe which categories are included. By using the phrase "various categories," one may reasonably conclude that not all forms of intellectual property are to be characterized as general intangibles. Thus, Article 9 must look to other law for the definition of intellectual property.

"Intellectual Property" is a broad concept, often defined to include the following types of rights: patents, trademarks, copyrights, trade secrets, moral rights, rights of publicity, and rights against unfair competition.[46] Thus, it is commonly accepted that the term "intellectual property" includes more than just patents, trademarks, and copyrights. The key element binding these types of rights is that they all relate to products of the human mind or human intellect.[47]

From this list, both patents and copyrights are personal property rights created exclusively by federal law. Patents are governed by Title 35 of the United States Code,[48] which specifically defines them as personal property.[49] Title 17 of the United States Code governs the rights granted under federal copyright law.[50] Both the Patent Act and the Copyright Act preempt state law with respect to the rights covered under each Act.[51]

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45 *Id.* § 9-102 cmt. 5(d).

46 J. THOMAS MCCARTHY ET AL., MCCARTHY'S DESK ENCYCLOPEDIA OF INTELLECTUAL PROPERTY 308 (3d ed. 2004) [hereinafter MCCARTHY'S DESK ENCYCLOPEDIA]; *see also* BLACK'S LAW DICTIONARY 813 (7th ed. 1999).

47 MCCARTHY'S DESK ENCYCLOPEDIA, *supra* note 46; *see also* BLACK'S LAW DICTIONARY 824 (8th ed. 2004).

48 35 U.S.C. §§ 1-76 (2000).

49 *Id.* § 261.

50 17 U.S.C. §§ 101-1332 (2000).

51 Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 168 (1989) (patent law preempts state law); *see* 17 U.S.C. § 301 (The Copyright Act expressly preempts "all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified in section 106 [] in works of authorship that are fixed in a tangible medium of expression . . . ."). Since the copyright preemption clause only preempts works that are fixed, works that have not been fixed can only be protected under state copyright law. *Id*. § 301(b)(1).

Trademarks, however, are protected under both state[52] and federal law.[53] The Lanham Act does not preempt state law except to the extent that registration of a trademark with the United States Patent and Trademark Office grants nationwide protection even in jurisdictions where the mark has not been used.[54]

Many of the other forms of intellectual property, although often referenced in federal law, are defined by state law. For example, while the Bankruptcy Code includes trade secrets as a form of intellectual property,[55] this federal law looks to state law to define trade secret.[56] Trade secrets are generally protected under state civil laws such as the Uniform Trade Secrets Act.[57] No federal law protecting trade secrets as commercial assets exists.[58] Some types of intellectual property, such as rights of publicity, are defined under state law but have no direct protection under federal law. For example,[59] there is no federally recognized right of publicity,[60] but violation of the state created right may give rise to an analogous false endorsement claim under section 43(a) of the Lanham Act.[61]

Moral rights straddle both federal and state law. One form of moral rights is specifically protected under the Copyright Act—the rights attribution and integrity for certain visual artists under the Visual Artists Rights Act.[62] Moral rights may also be protected under the common law, § 43(a) of the Lanham Act, or under state law.[63]

This Article focuses on those types of intellectual property that are created under state law and moral rights as protected both under federal and state law.

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52 *See* J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 22:1-4 (4th ed. 2004).

53 15 U.S.C. § 1051 (2000).

54 MCCARTHY, *supra* note 52, § 22:2.

55 11 U.S.C. §101(35A) (2000).

56 Harmon v. McGee (*In re* McGee), 157 B.R. 966, 975 (Bankr. E.D. Va. 1993).

57 Unif. Trade Secrets Act, 14 U.L.A. 433–67 (1990).

58 The federal Economic Espionage Act provides for criminal liability for theft of trade secrets, 18 U.S.C. § 1832 (2000), and includes its own definition of trade secrets, 18 U.S.C. § 1839(3). However, this statute does not include a private right of action, and so does not create a federal trade secret law similar to the Uniform Trade Secrets Act.

59 15 U.S.C. § 1125(a)(1)(A) (2000); J. THOMAS MCCARTHY, THE RIGHTS OF PUBLICITY AND PRIVACY, § 6:135 (2d ed. 2004) [hereinafter PUBLICITY AND PRIVACY]; *see also* MCCARTHY, *supra* note 52, § 28:14.

60 PUBLICITY AND PRIVACY, *supra* note 59, §§ 6:133–34 (2d ed. 2004).

61 15 U.S.C. § 1125(a) (2000).

62 17 U.S.C. § 106A (2000).

63 See *infra* notes 221–236 and accompanying text for a discussion of moral rights.

Patents, trademarks, and copyrights have historically been treated by courts as general intangibles under Article 9.[64] Since the drafters of Revised Article 9 likely did not intend to alter this understanding,[65] such intellectual property rights are not the focus of this Article.

2. Definition of General Intangible

Article 9 defines a "general intangible" as

> any personal property, including things in action, other than accounts, chattel paper, commercial tort claims, deposit accounts, documents, goods, instruments, investment property, letter-of-credit rights, letters of credit, money, and oil, gas, or other minerals before extraction. The term includes payment intangibles and software.[66]

As can be seen by this definition, a general intangible is a type of collateral defined in the negative. It is the residual category for personal property covered by Article 9 that does not fit into any other category.[67] Thus, if the collateral is not included in a specifically defined form of collateral, it will fall into the general intangible category.

A key requirement is, of course, that the property in question be "intangible." The type of collateral included under general intangibles, however, is narrower than what would normally be defined as "intangible property." For example, *Black's Law Dictionary* defines intangible property as property "that lacks a physical existence,"[68] such as stock options.[69] Stock options would likely be characterized under Article 9 as investment property,[70] thus specifically excluded from the Article 9 definition of general intangible.[71]

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[64] *See, e.g.*, Aerocon Eng'g, Inc. v. Silicon Valley Bank (*In re* World Auxiliary Power Co.), 303 F.3d 1120, 1127 (9th Cir. 2002) (copyrights are general intangibles); Moldo v. Matsco, Inc. (*In* re Cybernetic Servs., Inc.), 252 F.3d 1039, 1045 (9th Cir. 2001) (patents are general intangibles); Roman Cleanser Co. v. Nat'l Acceptance Co. of Am. (*In re* Roman Cleanser Co.), 43 B.R. 940, 943 (Bankr. E.D. Mich. 1984) (trademarks are general intangibles).

[65] U.C.C. § 9-102 cmt. 5(d) (2000) ("'General intangible' is the residual category of personal property, including things in action, that is not included in the other defined types of collateral. Examples are various categories of intellectual property . . . .").

[66] *Id.* § 9-102(a)(42).

[67] *Id.* § 9-102 cmt. 5(d).

[68] BLACK'S LAW DICTIONARY 1253 (8th ed. 2004).

[69] *Id.*

[70] U.C.C. § 9-102(a)(49). Specifically, it would be characterized as a "security entitlement" in the definition of investment property. *Id.*

[71] U.C.C. § 9-102(a)(42).

Therefore, the general intangible category does not include all intangible property. More specifically, general intangibles exclude collateral that is a good[72] or for which its existence is embodied in some physical object, such as a document[73] or instrument.[74] Also excluded are obligations to pay a debt that are not embodied in a particular physical object, such as accounts receivable or deposit accounts.[75]

The comments to section 9-102, the definitional section of Revised Article 9, mention that general intangibles includes "various categories of intellectual property,"[76] but do not explain what those various categories include. Thus, the definition of general intangible does not necessarily include all forms of intellectual property.[77]

3. Definition of Commercial Tort

Article 9 defines "commercial tort claim" as

> a claim arising in tort with respect to which: (A) the claimant is an organization; or (B) the claimant is an individual and the claim: (i) arose in the course of the claimant's business or profession; and (ii) does not include damages arising out of personal injury to or the death of an individual.[78]

Thus, a commercial tort is either a tort where the claimant is an organization other than an individual[79] or a tort where the claimant is an individual and the tort relates to the person's business. Specifically excluded are torts for personal injury or death.[80]

Commercial torts were added to the categories of collateral covered by Article 9 in the 1998 revisions. The Permanent Editorial Board of the UCC

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72 *Id.*

73 *Id*.

74 *Id*.

75 *Id.*

76 *Id.* § 9-102 cmt. 5(d).

77 WARD, *supra* note 11, §§ 1:6-7, 9. As noted, it is generally accepted that patents, trademarks, and copyrights clearly fall within the definition of general intangible. *Id.*

78 U.C.C. § 9-102(a)(13).

79 U.C.C. § 1-201(25) (2002). The definition under the pre-revision version of Article 1 is more cumbersome: "'Organization' includes a corporation, government or governmental subdivision or agency, business trust, estate, trust, partnership or association, two or more persons having a joint or common interest, or any other legal or commercial entity." *Id.* § 1-201(28) (1999).

80 U.C.C. § 9-102(a)(13)(B)(ii) (2000).

("PEB") discussed including commercial torts in its 1992 report about the need to revise Article 9.[81] Many commentators had noted that the reason for excluding torts as collateral under Article 9 did not make sense.[82] Additionally, the PEB received two memoranda outlining the reasons why torts should be included as collateral under Article 9. One important reason was some lenders were already taking security interests in torts to the extent permitted under state law.[83] While the PEB was not willing to permit all torts to function as collateral under Article 9, the PEB did broaden Article 9 to include a subset of torts that relate to a debtor's business.[84]

(a) "Arising in Tort"

Revised Article 9 allows the creation of security interests in those forms of commercial claims that are "arising in tort."[85] This seemingly simple phrase carries with it subtle complexities. No clear definition of a tort exists beyond the generally accepted "civil wrong." *Black's Law Dictionary* expands on this concept, defining a tort as "[a] civil wrong, other than breach of contract, for which a remedy may be obtained, usually in the form of damages; a breach of a duty that the law imposes on persons who stand in a particular relation to one another."[86] Although this definition suggests that all claims outside of contract law are torts, that interpretation is too broad. Professor Dobbs explained that "[t]he essence of tort is the defendant's potential for civil liability to the victim for harmful wrongdoing and correspondingly the victim's potential for compensation or other relief."[87] The key distinction, according to Dobbs, is

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81 PERMANENT EDITORIAL BD. FOR THE U.C.C., PEB STUDY GROUP UNIFORM COMMERCIAL CODE ARTICLE 9: REPORT 58–59 (Dec. 1, 1992) [hereinafter PEB REPORT].

82 *See* WILLIAM D. HAWKLAND, 8 HAWKLAND UNIFORM COMMERCIAL CODE SERIES § 9-104:12 (2002) ("In an age of substantial money judgments, the right to pursue a tort claim may be extremely valuable, and but for public policy impediments in some jurisdictions and the inherent juridical risks involved in pursuing a tort claim, these rights might well make for good collateral."); Amanda K. Esquibel, *An Article 9 Primer Regarding Uninsured Collateral Destroyed by a Tortfeasor*, 46 KAN. L. REV. 211 (1998); Harold R. Weinberg, *They Came from "Beyond the Pale": Security Interests in Tort Claims*, 83 KY. L.J. 443 (1994).

83 PEB REPORT, *supra* note 81, 549–88 (Memoranda of Professor Harold R. Weinberg).

84 6 AM. JUR. 2D *Assignments* § 60 (2001). One specific problem with pledging the right to the damages received from winning a claim for a tort is that there is a long-standing tradition that torts not be assignable. *Id.*

85 U.C.C. § 9-102(a)(13).

86 BLACK'S LAW DICTIONARY 1526 (8th ed. 2004).

87 DAN B. DOBBS, THE LAW OF TORTS § 1 (2000).

that torts are concerned with fault and the defendant is usually morally at fault for the wrong committed.[88]

Tort law is also concerned with protecting "interests," which are described as "a person's interest in (1) physical security and autonomy; (2) emotional security and other intangible interests such as privacy and reputation; and (3) economic security and opportunity."[89] The Restatement (Second) of Torts notes that the interest protected is "anything which is the object of human desire."[90] This interest, as understood under tort law, is distinguishable from the proprietary rights recognized in property law. Tort law protects human interests that may not be legally recognized as property. For example, the right to be free from assault is not a property right, but rather an interest protected under tort law. Thus, whether tort law will protect an interest does not hinge on the person owning anything.[91] There are, of course, some property-based torts, such as trespass to land.[92] Trespass to land, however, is concerned with "invasions of the interest in the exclusive possession and physical condition of land."[93] Anyone in exclusive control over property has sufficient possession to bring a claim for trespass to land, even if the person has no legal right to the property.[94] Thus, the interest protected by this tort is a possessory interest as opposed to an ownership interest.[95]

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88 *Id*. This is not universally true, however, because the concept of strict liability, in which proof of fault is not at issue, is also part of tort law.

89 *Id*.

90 RESTATEMENT (SECOND) OF TORTS § 1 cmt. a (1965).

91 *Id.* § 1 cmt. f.

> The word "interest" is used in the various Restatements in two senses: the one the sense here defined, the other denoting the beneficial side of legal relations, both generically to include the aggregate of "rights," "powers," "privileges," and "immunities," and distributively to mean any one of them. There is this fundamental difference between the two usages. As the word "interest" is used in this Restatement, it carries no implication as to whether it is legally recognized or not. When used in the second sense, the word "interest" denotes advantages which are legally recognized as incident to the possession or ownership of property and the like.

Id.

92 *Id.* § 158.

93 RESTATEMENT (SECOND) OF TORTS scope note to ch. 7.

94 *Id.* § 157 cmt. b. ("Possession of land may be acquired by one who is not by law entitled to it and thus, as against another, may not be rightful. Consequently, a disseisor is a possessor from the moment that his occupancy begins, although as between himself and the true owner, he is not entitled to possession until his adverse possession has ripened into ownership by lapse of time.").

95 *Id.* scope note to ch. 7.

Tort claims generally focus on vindicating a wrongful interference with a person's interest in physical, emotional, or economic security.[96] Unfortunately, this leaves a great deal of overlap between tort and property law. For example, trespass to land and trespass to chattels are both torts that vindicate the interest in being free from wrongful interference with the right of exclusive possession of property.[97] These torts exist, however, to vindicate the important property law right of exclusive possession.

Many forms of intellectual property have their genesis in tort law, not property law. For example, modern trademark law is a part of the law of unfair competition, which was originally considered part of tort law.[98] If an intellectual property right is more aptly characterized as a claim arising in tort, this will have a dramatic effect on its treatment under Article 9.[99]

(b) Proceeds v. Commercial Tort

Further confusing the matter, under Article 9, some torts against collateral are classified as "proceeds."[100] The Article 9 definition of "proceeds" includes "claims arising out of the loss, . . . interference with the use of, defects or infringement of rights in, or damage to, the collateral."[101] Therefore, a trespass to chattels case, while strictly speaking a tort, would be considered proceeds under Article 9 if the chattel in question were already collateral under the security agreement.[102] This means that where a tort claim is based on acts against collateral, the rules governing security interests in goods would apply, not the more restrictive rules for commercial torts. Likewise, an infringement action for intellectual property is also a proceed. Thus, for a form of intangible right to be treated solely as a commercial tort, the underlying interest must not be recognized as a proprietary right that is treated as a general intangible.

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96 DOBBS, *supra* note 87, § 1.

97 *Id*. § 4.

98 MCCARTHY, *supra* note 52, § 1:15.

99 See *infra* notes 137–213 and accompanying text for a discussion of the consequences of characterizing collateral as a commercial tort claim.

100 *See* William J. Murphy, *Proposal for a Centralized and Integrated Registry for Security Interests in Intellectual Property, Appendix 10-Commercial Tort Claims*, 41 IDEA 477, 477–79 (2002) (distinguishing "infringement claims offered separately as original collateral (special handling required) from those claims that become collateral because they are the 'proceeds' of general intangible collateral already held by the secured creditor.").

101 U.C.C. § 9-102(a)(64)(D) (2002) (limiting the value of the claim to the value of the collateral).

102 *Id.* Of course, if the tort occurred before the debtor granted a security interest to the secured party in the chattels, such tort would not be proceeds because the chattels would not have been collateral at the time the tort occurred.

To the extent that a tort claim exists for the violation of some right in property that is collateral under Article 9, then that claim is proceeds and, therefore, not a commercial tort.[103] The same is true of claims for violations of the types of intellectual property that are treated as general intangibles. Thus, a claim for infringement of a trademark subject to a security interest will be treated as a general intangible because the underlying trademark is treated as such.[104]

This means that deciding whether the right exists apart from the tort claim impacts how the asset is characterized. For example, if a trade secret is held to be a general intangible, a claim for misappropriation is merely proceeds of the trade secret. If the court characterizes the right as arising out of the tort itself,[105] however, the asset is the claim itself, and therefore, a commercial tort.

(c) Tort v. Thing in Action

The definition of general intangible in Article 9 includes "things in action."[106] A thing in action is the English translation for a "chose" in action.[107] "A chose in action is a personal right not reduced into possession, but recoverable by a suit at law."[108] This definition is often interpreted broadly to include all rights recoverable by suit, which would include torts.[109] For example, licenses of intellectual property are considered to be things in action.[110]

While a tort is arguably something recoverable by a suit at law, commercial torts are specifically excluded from the Article 9 definition of general intangible.[111] Therefore, an intellectual property right that might otherwise be characterized as a thing in action under the common law could still be treated as a commercial tort, notwithstanding the inclusion of things in action under the definition of general intangibles.

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[103] *Id.* § 9-102(a)(64) (defining proceeds).

[104] *Id.*; *see also* WARD, *supra* note 11, § 1:10.

[105] For example, treating a trade secret not as property but as protection for an employer's interest in preventing a former employee from using the employer's confidential information to compete against the employer.

[106] U.C.C. § 9-102(a)(42).

[107] BLACK'S LAW DICTIONARY 258 (8th ed. 2004).

[108] 63 AM. JUR. 2D *Property* § 22 (1997).

[109] *Id*. § 23.

[110] U.C.C. § 9-102 cmt. 5(d).

[111] *Id.* § 9-102(a)(42). Commercial torts were excluded because they are dealt with as a separate category of collateral. *Id.* § 9-102(a)(42) cmt. 5(d).

(d) Right to Assign Commercial Torts and Things in Action

Torts were not assignable at common law.[112] As a result, they were not a useful source of collateral because the creditor could never be assigned ownership of the claim. That general rule has changed dramatically in recent years. Most things in action, including torts, are now assignable[113] with the exception of certain types of claims, such as personal torts.[114] Non-assignable personal torts include claims based on assault and battery, personal injury, false imprisonment, malicious prosecution, invasion of privacy, defamation, conspiracy to injure another's business, and unfair and deceptive trade practices.[115]

The reason personal torts are not usually assignable is that such assignments are against public policy because they promote champerty.[116] Champerty is the transfer of a claim to a third party who then pursues the claim on his own behalf.[117] The purpose of the champerty doctrine was to "prevent officious intermeddlers from stirring up strife and contention by vexatious and speculative litigation which would disturb the peace of society, lead to corrupt practices, and prevent the remedial process of the law."[118]

Revised Article 9, to the extent that it permits the use of commercial torts as security, is not intended to change other laws outside of Article 9 regarding the assignability of a tort claim.[119] Therefore, to the extent that the granting of a security interest in a commercial tort is deemed to be an illegal assignment of a tort claim as champerty, the assignment would presumably be invalid.

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112 Francis M. Dougherty, Annotation, *Assignability of Claim for Legal Malpractice*, 40 A.L.R. 4th 684 (1985).

113 6 AM. JUR. 2D *Assignments* § 53 (2004).

114 *Id*. § 63.

115 *Id*. § 64. Note, in some jurisdictions, no tort is assignable until judgment. *Id*. § 60 (such as New Jersey); *see, e.g.*, Vill. of Ridgewood v. Shell Oil Co., 673 A.2d 300, 307 (N.J. Super. Ct. App. Div. 1996).

116 Horton v. New S. Ins. Co., 468 S.E.2d 856, 858 (N.C. Ct. App. 1996).

117 BLACK'S LAW DICTIONARY 246 (8th ed. 2004).

118 Schnabel v. Taft Broad. Co., 525 S.W.2d 819, 823 (Mo. Ct. App. 1975) (citation omitted).

119 U.C.C. § 9-102 cmt. 5(g) (2002). "Although security interests in commercial tort claims are within its scope, this Article does not override other applicable law restricting the assignability of a tort claim." *Id; see also id.* § 9-401(a) ("Except as otherwise provided in subsection (b) and Sections 9-406, 9-407, 9-408, and 9-409, whether a debtor's rights in collateral may be voluntarily or involuntarily transferred is governed by law other than this article.").

C. Distinguishing Commercial Torts from General Intangibles

Under Article 9, the categories of general intangibles and commercial torts are mutually exclusive—the collateral may be one or the other, but not both. This is derived from the definition of general intangible, which specifically excludes commercial torts.[120] Because general intangible is the residual type of collateral category, it must be determined whether the intellectual property fits in the commercial tort category. If it does, it cannot be a general intangible; conversely, if the intellectual property is not a commercial tort, it must be a general intangible.

To make this determination, two issues must be considered. First, is the intellectual property right directed at vindicating ancillary interests in the owner or creator of the right? Second, to what extent is the right fully alienable? If the right is primarily directed at protecting interests ancillary to the right as defined and is not alienable, it is likely a commercial tort. Alternatively, if the intellectual property right consists of exclusive rights unrelated to the creator or owner and it is fully assignable, it is a general intangible.

1. Does the Intellectual Property Right Vindicate an Interest Ancillary to the Underlying Right

Whether an intellectual property right should be treated as a tort rather than a general intangible is related to whether intangible rights should generally be treated as property. Professor Ward, in his treatise *Intellectual Property in Commercial Transactions*, posits two questions that determine whether an intangible right is property: "Is the primary or underlying right absolute or co-relative? Is the right definable in terms of some underlying res or is it merely a right of action for a specifically defined wrong?"[121]

Under Article 9, the issue is not whether the rights are property, however defined, because Article 9 permits both general intangibles and commercial torts to function as collateral. Nevertheless, these questions are helpful in determining the dividing line between an intellectual property right that should be treated as a commercial tort rather than a general intangible.

[120] *Id.* § 9-102(a)(42).

[121] WARD, *supra* note 11, § 1:4. Professor Ward includes a third question, not relevant to this discussion, regarding whether contract rights arising out of intellectual property rights are themselves property. *Id.*

The essence of the questions posed by Professor Ward is whether the intellectual property right stands alone, apart from the creator, or instead exists to protect some ancillary interest of the creator or owner of the right. As discussed above, tort law is generally focused on vindicating a wrongful interference with a person's interest in physical, emotional, or economic security.[122] In this sense, the interests protected by tort law are co-relative in that the scope of the "right" to be free from a wrongful interference is really only determined by the nature and degree of the interference.

This is not to suggest that there are never any rights underlying a tort. For example, the tort of intentional interference with performance of contract by a third person[123] applies where a person "intentionally and improperly frustrate[s] dealings that have been reduced to the form of a contract."[124] Thus, this tort supports an underlying contractual right. The claim is not based upon breach of contract, however, because the tortfeasor is interfering with someone else's contract.[125] The tort exists to protect a person's interest in avoiding wrongful interference by a third party with an enforceable contract, and the right does not arise until an improper interference has occurred.[126] The quantum of damages from a breach of contract claim can be determined by reference to the nature and scope of performance agreed upon by the parties in that contract. The quantum of damages arising from a tortious interference with a contract cannot truly be valued until the interference has occurred. Additionally, the quantum of damages is dependent upon the nature of the acts committed and the harm caused to the claimant.

The comments to Article 9 further illustrate this point. Assume that a business owns a factory, and that a third party wrongfully causes the business' factory to explode.[127] Clearly the business had an interest in not having its factory explode and would be able to bring a tort claim against the third party (either for negligence or for an intentional tort). That does not mean, however,

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122 DOBBS, *supra* note 87, § 1.

123 RESTATEMENT (SECOND) OF TORTS § 766 (1965).

124 *Id*. § 766 cmt. b.

125 *Id.* § 766 ("One who intentionally and improperly interferes with the performance of a contract (except a contract to marry) *between another and a third person* by inducing or otherwise causing the third person not to perform the contract, is subject to liability to the other for the pecuniary loss resulting to the other from the failure of the third person to perform the contract.") (emphasis added). The plaintiff may still have a separate cause of action against the third party (the party to the contract) even though the tortfeasor is liable under this tort. *Id.* § 766 cmt. v.

126 *See id.* § 737 (discussing the elements of what makes an interference improper).

127 U.C.C. § 9-108 cmt. 5 (using the hypothetical given in the comments to Article 9 to explain the example of a commercial tort).

that the business has an intangible property right in being free from exploding factories. The rights that the business has relate to the claims that result from the explosion of the factory. That is, the business has rights, but those rights are not absolute but rather co-relative, determined by the scope of the violation of its interest in being free from third parties causing its factories to explode.

When does an intellectual property right exist on its own, and when is it defined by its relationship to some other interest? In analyzing whether certain intellectual property rights are better treated as commercial torts under Article 9, the question is whether the intellectual property right in question exists primarily to remedy a wrong committed against the creator or owner of the right. If the essence of the intellectual property right is the "right" of the creator or owner to be free from an interference with that person's business or personal interests, it is properly categorized as a commercial tort. If the claim solely vindicates an exclusive right in the intellectual property asset itself, however, such right should be treated as a general intangible.

For example, the rights protected under a patent are directed towards the invention covered by the patent, not the professional or personal interests of the inventor or assignee. That is not to say that the owner does not benefit from winning a patent infringement claim. Certainly the owner does benefit in such a case. However, patent infringement is proven solely based on the claims contained in the patent, regardless of the identity of the owner or the owner's interest in the patent.[128] By comparison, an unfair competition claim (a doctrine often included in the list of intellectual property rights)[129] is defined as a generalized right to be free from wrongful interference with a right to compete. It is directed at vindicating a particular company's interest in fair competition and is proven by showing how a company's business was harmed by the wrongful acts of a competitor.[130] It is not, however, a stand-alone right in free competition.[131]

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[128] This is not to say that the interests of the patentee or the assignee are irrelevant—they will often impact the scope of the remedies. However, whether there is infringement in the first instance is not determined based on such considerations.

[129] *See infra* notes 238–240 and accompanying text.

[130] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 1 & cmt. g. (1995).

[131] Coll. Sav. Bank v. Fla. Prepaid Postsecondary Educ. Expense Bd., 527 U.S. 666, 674 (1999) ("To sweep within the Fourteenth Amendment the elusive property interests that are 'by definition' protected by unfair-competition law would violate our frequent admonition that the Due Process Clause is not merely a 'font of tort law.'" (quoting Paul v. Davis, 424 U.S. 693, 701 (1976))). The Supreme Court, in analyzing whether there is a "property right in freedom from a competitor's false advertising about its own products" for purposes of the Fourteenth Amendment Due Process Clause, held that a tort is not property simply because it protects a property interest. *Id.* at 673.

Thus, where the intellectual property right is easily defined as a separate, stand-alone right, the value of which is not determined in relation to some other interest, such right should be characterized as a general intangible. However, if the rights protected under a form of intellectual property are primarily directed towards vindicating the interests of the owner or creator of the right, rather than the creation or protection of the underlying intellectual property itself, it should be treated as a commercial tort.[132]

2. Is the Intellectual Property Right Fully Alienable?

If an intellectual property right has been historically recognized as fully alienable, this suggests that the right should be treated as a general intangible. For example, patents are statutorily recognized as a form of personal property that may be fully assigned to an unrelated third party.[133] In fact, employees are often contractually obligated to assign patent rights to their employer, including pending patent applications.[134] Copyrights are almost as fully alienable as patents, although there is a narrow exception which limits the alienability for works created by individuals: under the Copyright Act, an author may reclaim a copyrighted work thirty-five years after a transfer occurs or the work was published.[135] Notwithstanding this narrow exception, it is generally accepted that copyrights are fully alienable.

Unlike patents and copyrights, many torts are still not assignable,[136] particularly those that relate to personal injury. To the extent that an intellectual property right is not assignable, or its assignability is limited, this should favor the right being categorized as a commercial tort.

3. How to Apply

The test cannot be applied in a mathematical fashion. First, one has to determine how a particular intellectual property right fits into the test: Is it a self contained right, and to what extent is it alienable? Two easy characterizations exist. If an intellectual property right is both defined without reference to any ancillary interests of the creator or owner and is fully alienable

[132] The distinction is not based upon whether the intellectual property right allows one to exclude others—the rights described in this Article all permit, to a greater or lesser extent, the right to prevent others from exercising the right.

[133] 35 U.S.C. § 261 (2000).

[134] DONALD S. CHISUM, 8 CHISUM ON PATENTS §§ 22.01, 22.03 (1978).

[135] 17 U.S.C. § 203(a)(3) (2000). This right does not cover works made for hire. *Id.* § 203(a)(1).

[136] *See supra* notes 112–119 and accompanying text.

under law, it is a general intangible. If, instead, the intellectual property right exists primarily to support or vindicate a right of the owner or creator and is not alienable, it is a commercial tort.

Between those extremes, there are many possible variations. One must weigh and balance which of the two factors is most dominant. For example, while the right may exist to vindicate personal interests of the creator, it may be treated in law as fully alienable. In such a case, the courts may see the power to transfer the right as paramount and characterize the right as a general intangible. It may be that the answer depends on the particular circumstances of how the intellectual property right is being used.

II. IMPACT OF CHARACTERIZATION OF THE ASSET

The purpose of Article 9 is to provide a system governing the creation of consensual security interests in personal property.[137] Many important consequences flow from the characterization of assets under Article 9. To start with, not every type of collateral that can be termed personal property is included within the scope of Article 9. A number of categories of assets are excluded,[138] such as the assignment of a claim for wages or salary,[139] and tort claims other than commercial tort claims.[140]

Even for those assets covered under Article 9, characterization of the collateral has an impact on the methods and consequences of obtaining a perfected security interest in collateral. This Article will focus on the differences between perfecting a security interest in general intangibles and commercial torts.

A. Attachment

In the event that a debtor is unable to repay a loan, a lender will seek repayment by seizing and selling the debtor's assets. Lenders have a choice when they extend credit whether to obtain a lien on the debtor's assets to secure repayment of the loan. If they do not, and the lender is unsecured, then only upon the issuance of an order of a court will the lender have the authority to seize such assets. If the lender chooses to be a secured lender, then the

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137 U.C.C. § 9-109(a).
138 *Id.* § 9-109(d).
139 *Id.* § 9-109(d)(3).
140 *Id.* § 9-109(d)(12).

lender will have the debtor grant to such lender a security interest in particular collateral to hold secure repayment of the loan. A lender seeking to use personal property to secure repayment must meet the requirements of Article 9 for those types of personal property covered by Article 9. The first step in this process is to ensure that the security interest attaches to the collateral.

Three elements are generally required for attachment to occur:

- The lender must have given value, usually by extending credit to the debtor;
- The debtor must have rights in the collateral; and
- The debtor must have agreed to the creation of the security interest, as evidenced by authorizing a security agreement, by granting possession to the creditor, or granting control over the collateral to the creditor.[141]

As soon as all three of these conditions are met, the security interest of the creditor will attach[142] and be enforceable between the lender and the debtor.[143]

The characterization of the collateral is key to determining which methods of attachment are adequate under the third element of attachment. Because intellectual property will be characterized as either a general intangible or a commercial tort, the only acceptable method of evidencing an agreement by the debtor to the creation of a security interest is by authenticating a security agreement.[144] That is to say, the debtor will usually execute a written document called a security agreement, which describes the collateral. In this regard, commercial torts and general intangibles are similar. However, what constitutes an adequate description in such a security agreement for these respective types of collateral varies dramatically.

To create an enforceable security interest, the description in the security agreement must reasonably identify the collateral.[145] While a supergeneric[146]

141 *Id.* § 9-203(b).
142 *Id.*
143 *Id.* § 9-203(a).
144 A security interest cannot attach in either general intangibles or commercial torts by way of possession or control. *See id.* § 9-203(b)(3)(B) to (D).
145 *Id.* § 9-108(a).
146 This term is the heading to U.C.C. § 9-108(c).

description, such as "all collateral," is not adequate,[147] for most collateral the description can be quite broad. Thus, a description by type of collateral, such as "all general intangibles," will be adequate to create a security interest in all of the debtor's intellectual property that is characterized as a general intangible.[148] That is, a description listing general intangibles will create a security interest in all of the debtor's patents, copyrights, and trademarks.

The same is not true for commercial torts.[149] A listing by type of collateral, such as "all commercial torts," will be inadequate. For commercial torts, the description must be more specific; however, not all that much detail is required. The official comments to section 9-108 provide the following explanation:

> [A] description such as 'all tort claims arising out of the explosion of debtor's factory' would suffice, even if the exact amount of the claim, the theory on which it may be based, and the identity of the tortfeasor(s), are not described. (Indeed, those facts may not be known at the time.)[150]

Nevertheless, this requires the lender to provide a description that is more specific than typical boilerplate provision. The justification mentioned in the comments is that the drafters did not want to allow a debtor inadvertently to encumber commercial tort claims.[151] As a result, a secured party who wants to take a security interest in a form of intellectual property that is characterized as a commercial tort claim must list the claim with more specificity than "commercial tort claims."

An interesting question is whether a description of a commercial tort is adequate even if the debtor does not yet know it has occurred. For example, would a description such as "all tort claims arising from unfair competition by a competitor against the debtor" be adequate where the debtor is not aware of any specific acts of competitors constituting unfair competition? The example of the factory explosion provided in the comments to section 9-108 states that

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[147] U.C.C. § 9-108(c).
[148] *Id.* § 9-108(b)(1).
[149] *Id.* § 9-108(e).
[150] *Id.* § 9-108 cmt. 5.
[151] *Id.* The drafters also included a requirement for more specific descriptions regarding consumer transactions covering "consumer goods, a security entitlement, a securities account, or a commodity account." *Id.* § 9-108(e)(2).

the lender does not have to know the precise theory of liability or identity of the tortfeasor for the description to be adequate.[152]

This description for unfair competition claims would appear adequate considering the example, and function to capture all unfair competition tort claims existing at the time of creation of the security interest, even if the debtor did not know that the torts had occurred. This description is distinguishable from the example, because the debtor knows that an explosion has occurred at its factory, even if it does not know the precise nature of the tort claims that the debtor will be able to bring. By comparison, if the "all unfair competition claims" description does not relate to specific acts causing a loss to the company, such a description would presumably be akin to a description by type, not a description of a specific incident giving rise to a commercial tort claim.

B. Perfection

Perfection is the method by which the secured party attempts to ensure that its security interest in collateral is superior to the claims of other parties that have an interest in the same collateral.[153] That is to say, if a secured party has not perfected its security interest, Article 9 sets out which other creditors and third parties, such as purchasers, will have a superior interest in the collateral.[154] In order for a creditor to perfect, its security interest must have attached and the creditor must have taken all steps necessary to perfect that attachment.[155]

Depending on the type of collateral, Article 9 establishes several different methods to perfect. In most cases, the required method of perfecting a security interest is filing a financing statement.[156] Article 9 allows perfection through other means,[157] however, for certain types of collateral. Those methods

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152 *Id.* § 9-108 cmt. 5.

153 Perfecting a security interest does not guarantee that a creditor's interest will be superior to all other interests. For example, a creditor's perfected security interest will be subordinate to another creditor's perfected security interest if that other creditor filed its financing statement first. *Id.* § 9-322(a)(1).

154 *Id.* §§ 9-317, 9-322. "The security interests given priority under Section 9-322 and the other sections to which it refers take priority in general even over a perfected security interest. *A fortiori* they take priority over an unperfected security interest." *Id.* § 9-317 cmt. 3.

155 *Id.* § 9-308(a).

156 *Id.* § 9-310(a).

157 *Id.* § 9-310(b).

include automatic perfection,[158] perfection by possession,[159] and perfection by control.[160] Because none of these additional methods apply to general intangibles or commercial tort claims, the only method to perfect in either case is by filing a financing statement.[161]

To perfect by filing, the creditor must file a properly completed "financing statement"[162] in the correct filing office, as determined by the law governing perfection of the particular type of collateral. While some variations on where to file may exist, whether a form of intellectual property is characterized as a commercial tort claim or a general intangible will not have any impact on the method of perfecting by filing.

First, the law governing perfection of general intangibles and commercial tort claims is determined by the location of the debtor.[163] This is the default rule for most collateral,[164] although there are exceptions.[165] However, none of those exceptions apply to general intangibles or commercial tort claims.[166] Therefore, if the debtor is an individual, the law governing perfection for either of these types of collateral will be determined by the debtor's principal residence.[167] If the debtor is an organization, the law governing perfection will

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158 *Id.* § 9-309. This is also referred to as the "perfection-upon-attachment" rule. *Id*. § 9-309 cmt. 2. A purchase money security interest in consumer goods can be perfected this way. *Id.* § 9-309(1).

159 *Id.* § 9-313. Perfection by possession is permitted for tangible negotiable documents, goods, instruments, money, or tangible chattel paper. *Id.* § 9-313(a).

160 *Id.* § 9-314. Perfection by control is permitted for investment property, deposit accounts, letter-of-credit rights, or electronic chattel paper. *Id.* § 9-314(a).

161 *Cf*. PETER F. COOGAN ET AL., SECURED TRANSACTIONS UNDER THE UCC § 19.01[2] (2005).

162 U.C.C. § 9-102(a)(39).

163 *Id.* § 9-301(1).

164 *Id.* § 9-301 cmt. 4 ("Paragraph (1) contains the general rule: the law governing perfection of security interests in both tangible and intangible collateral, whether perfected by filing or automatically, is the law of the jurisdiction of the debtor's location, as determined under Section 9-307.").

165 *Id.* § 9-301 cmt. 5.

> The general rule is subject to several exceptions. It does not apply to goods covered by a certificate of title (see Section 9-303), deposit accounts (see Section 9-304), investment property (see Section 9-305), or letter-of-credit rights (see Section 9-306). Nor does it apply to possessory security interests, i.e., security interests that the secured party has perfected by taking possession of the collateral (see paragraph (2)), security interests perfected by filing a fixture filing (see subparagraph (3)(A)), security interests in timber to be cut (subparagraph (3)(B)), or security interests in as-extracted collateral (see paragraph (4)).

Id.

166 *Id.*

167 *Id.* § 9-307(b)(1).

be determined by its place of business[168] or, if the organization has more than one place of business, the location of its chief executive office.[169]

Second, the proper place to file a financing statement for either general intangibles or commercial tort claims is the filing office designated by the version of section 9-501[170] that the state has adopted. Generally it is the Secretary of State's office.[171]

Third, the creditor must complete a sufficient financing statement. To be sufficient, the financing statement must provide the name of the debtor, the name of the creditor, and indicate the collateral covered.[172] Because the Article 9 system for recording security interests is designed to provide notice of the possible existence of a security interest, and not to establish that security interest itself, very little information is required for a sufficient financing statement.[173] As stated in the official comments, "[t]he notice itself indicates merely that a person may have a security interest in the collateral indicated. Further inquiry from the parties concerned will be necessary to disclose the complete state of affairs."[174]

Thus, unlike the security agreement, where a supergeneric description of collateral is insufficient,[175] a financing statement is sufficient even if it merely describes the collateral as "all assets or all personal property."[176] If the creditor chooses to use a more specific listing of collateral, however, any asset not included in the description would not be perfected.[177] Therefore, if the secured party describes the collateral as covering "general intangibles," this would not suffice to perfect an interest in commercial tort claims.

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168 *Id.* § 9-307(b)(2).

169 *Id.* § 9-307(b)(3).

170 *Id.* § 9-501.

171 *Id.* § 9-501(a) & legislative note. Old Article 9 allowed a state to require local filing of financing statements. However, local filing was eliminated in favor of a central filing system, except in limited cases such as real estate related collateral and transmitting utilities. *Id.* § 9-501(a) cmt. 2.

172 *Id.* § 9-502(a).

173 *Id.* § 9-502 cmt. 2.

174 *Id.*

175 *Id.* § 9-108(c).

176 *Id.* § 9-504(2).

177 *Id.* § 9-504 cmt. 2 ("To comply with Section 9-502(a), a financing statement must 'indicate' the collateral it covers.").

C. After-Acquired Property

Whether a form of intellectual property is a general intangible or commercial tort claim will have a significant impact on whether a creditor can have a security interest in after-acquired intellectual property. After-acquired property is property acquired by a debtor after the security interest has attached. If there is a clause in the security agreement covering after-acquired property, such security interest will attach to future assets of the debtor upon acquisition.[178] Of course, the security interest only attaches to those types of collateral described in the security agreement. For example, the security agreement might describe the collateral as "all goods, now owned or hereafter acquired by the debtor." All goods acquired by the debtor after the effective date of the security agreement would be included as collateral.

There are two types of collateral for which a security interest may not attach under an after-acquired property clause: consumer goods acquired more than ten days after the creditor gives value[179] and commercial tort claims.[180] As explained in the official comments, "[i]n order for a security interest in a tort claim to attach, the claim must be in existence when the security agreement is authenticated."[181] What is meant by "in existence" is not explained in the comments to section 9-204. However, the comments to section 9-108 state, under Section 9-204, "an after-acquired collateral clause in a security agreement will not reach future commercial tort claims. It follows that when an effective security agreement covering a commercial tort claim is entered into the claim already will exist."[182]

Thus, it seems clear that the facts sufficient to create liability under a commercial tort claim must have already occurred at the time the security agreement is executed. Note, however, that the description of the commercial tort claim does not need to be very exact to be sufficient.[183]

This limitation is not applicable to general intangibles; an after-acquired property clause covering general intangibles will create a security interest in

178 *Id.* § 9-204(a) cmt. 2.
179 *Id.* § 9-204(b)(1).
180 *Id.* § 9-204(b)(2).
181 *Id.* § 9-204 cmt. 4.
182 *Id.* § 9-108 cmt. 5.
183 See *supra* notes 149–52 and accompanying text for a discussion of the requirements for an adequate description of a commercial tort.

any kind of general intangible. Therefore, a creditor will clearly prefer that intellectual property be treated as a general intangible.

D. Default Under Article 9

If a debtor defaults under its agreement with the secured party,[184] the secured party may enforce its security interest in accordance with the default provisions of Article 9.[185] A secured party has the right to enforce its security interest using either the judicial procedures for foreclosure permitted in the jurisdiction[186] or the self-help repossession powers available in Article 9.[187]

Whether an intellectual property right is characterized as a general intangible or a commercial tort claim will have little bearing on the ability to repossesses the collateral. Given that all intellectual property represents a form of intangible asset, the difficulties will be the same, because a secured party cannot physically possess, and thus cannot repossess, the collateral.[188]

E. Bankruptcy

As summarized by Professor Ward,

> [b]ankruptcy is a procedure within the structure of federal statutory law that provides the honest debtor with a discharge from existing debt in exchange for the orderly marshaling of the debtor's assets and either the restructuring or the sale and division of those assets for the general benefit of creditors.[189]

The full application of the Bankruptcy Code as it pertains to debtors that own intellectual property is beyond the scope of this Article. Instead, this Article will focus on the strong arm powers of the trustee in a chapter 7 bankruptcy,[190]

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184 "Default" is not defined in Article 9. Instead, what constitutes a default is determined by agreement between the parties. *Id.* § 9-601 cmt. 3.

185 *Id.* §§ 9-601 to 9-628.

186 *Id.* § 9-601(a).

187 *Id.* § 9-609.

188 *See generally* WARD, *supra* note 11, §§ 3:22-34 (discussing the issues relating to repossession of intellectual property under Article 9).

189 *Id.* § 4:1. Professor Ward's treatise discusses in detail the process and effect of filing for bankruptcy by a debtor that has intellectual property assets. *See id*. §§ 4:1-136. This article will only discuss the bankruptcy laws as they pertain to the effect of characterizing the collateral as a commercial tort.

190 11 U.S.C. §§ 701-728 (2000).

and the use of those powers by a debtor in possession filing for reorganization under chapter 11.[191]

When the debtor files for bankruptcy, this immediately causes the creation of a bankruptcy estate.[192] The estate includes almost all of the debtor's legal and equitable interests in property,[193] subject to certain limited exceptions.[194] Because this definition includes intangible property and the debtor's claims against others, intellectual property[195] and commercial tort claims are property of the estate.[196]

Once the debtor has filed for bankruptcy protection, the Bankruptcy Code immediately establishes an automatic stay.[197] The automatic stay stops all collection activity by a secured party, including the commencement[198] or continuation[199] of an action to foreclose on the assets of the debtor and prohibiting the secured party from repossessing collateral.[200] Notwithstanding the stay, a secured creditor can make a claim that it has a perfected security interest in the property of the debtor, and therefore should be granted relief from the stay in order to take possession and sell that property before the case is completed.[201]

To avoid this, a debtor (or trustee in a chapter 7 liquidation) has two main options. First, in a chapter 11 case the debtor can challenge the request for relief from the stay by arguing that such property is necessary for the

191 *Id.* §§ 1101-1146.

192 *Id.* § 541(a).

193 *Id.* § 541(a)(1).

194 *Id.* § 541(b).

195 Intellectual property is defined by the Bankruptcy Code as follows: "'intellectual property' means—(A) trade secret; (B) invention, process, design, or plant protected under title 35; (C) patent application; (D) plant variety; (E) work of authorship protected under title 17; or (F) mask work protected under chapter 9 of title 17; to the extent protected by applicable nonbankruptcy law." *Id.* § 101(35A).

Note that this definition does not include trademarks, moral rights, or other rights typically included in the broad category of intellectual property. This has little significance for purposes of this Article, however, because the Bankruptcy Code definition of intellectual property applies only with respect to § 365(n), which deals with the right of the bankruptcy trustee to reject certain executory license agreements where the debtor is a licensor of such intellectual property. *Id.* § 365(n).

196 *See* S. REP. NO. 95-989, at 82 (1978), *as reprinted in* 1978 U.S.C.C.A.N. 5787, 5868 ("The scope of this paragraph is broad. It includes all kinds of property, including tangible or intangible property, [and] causes of action . . . .").

197 11 U.S.C. § 362(a).

198 *Id*. § 362(a)(1).

199 *Id*. § 362(a)(2).

200 *Id*. § 362(a)(3).

201 *Id*. § 362(d).

reorganization of the business.[202] The bankruptcy court must conduct a hearing on the nature of the property and its value. The court could grant relief from the stay, which would require the debtor to deliver the property to the secured borrower,[203] or, if the court finds the property is necessary for the reorganization of the debtor, order the borrower to grant the secured lender adequate protection[204] of the value of the secured party's security interest, usually in the form of additional liens on other property.[205]

The other possibility is for the trustee in a chapter 7 case, or the debtor as a debtor in possession in a chapter 11 reorganization,[206] to challenge the validity of the secured party's perfected security interest. The trustee may do so because the trustee is deemed to be a hypothetical creditor whose lien attached to all of the property of the debtor at the time of the filing of the bankruptcy petition.[207] This hypothetical creditor status allows the trustee (and thus the debtor in possession) to avoid any security interest that would not have priority over a lien creditor, as of the filing date.[208] Applying this rule to Article 9, if the secured party's security interest is not perfected at the time of filing bankruptcy, or if the secured party has not filed a financing statement and obtained a security agreement, each adequately describing the collateral as of the date of filing, then the trustee would have priority over the secured creditor.[209]

If an intellectual property right is properly characterized as a commercial tort, the trustee will be able to argue that under U.C.C. section 9-108, the description in the security agreement would have to describe the particular claim specifically in order for it to have attached and be perfected.[210] If it has not, then the trustee would have priority under U.C.C. section 9-317(a)(2). If so, the trustee could avoid the creditor's security interest in the intellectual property,[211] allowing the trustee to use and sell that intellectual property right for the benefit of the unsecured creditors in a chapter 7 liquidation. Further, if

202 *See id.* § 362(d)(2)(B).
203 *See id.* § 362(d).
204 *See id.* § 362(d)(1).
205 *Id.* § 361(2).
206 *Id*. § 1107. In general, the debtor may exercise the powers of the trustee in bankruptcy when acting as a debtor-in-possession. *Id*. § 1107(a).
207 *Id.* § 544(a).
208 *Id.* § 544(b)(1).
209 U.C.C. § 9-317(a)(2)(A) & (B) (2002).
210 *See supra* notes 141177 and accompanying text for a discussion of attachment and perfection of a security interest in a commercial tort.
211 11 U.S.C. § 544(b)(1).

the intellectual property right is characterized as a commercial tort claim, it cannot cover any such rights acquired after the effective date of the security interest, leaving all such intellectual property free of even an otherwise perfected security interest in commercial tort claims.[212]

If the debtor is acting as a debtor in possession in a chapter 11 reorganization, the debtor can make the same arguments. Instead of the assets becoming available to the trustee to pay off the unsecured creditors, however, the debtor remains in possession of the intellectual property for use in the reorganization.[213] Thus, the debtor retains control over the intellectual property without concern about having to surrender any intellectual property right to a secured creditor.

III. MORAL RIGHTS AND STATE-BASED INTELLECTUAL PROPERTY & TRADE VALUES AS ASSETS IN COMMERCIAL TRANSACTIONS

Numerous articles have been written about the issues surrounding the use of the primary forms of intellectual property rights as collateral (namely patents, trademarks, and copyrights).[214] While there are thorny issues regarding the applicability of the Article 9 system for perfecting a security interest in such assets,[215] they have been discussed by commentators[216] and reviewed by the courts.[217] In particular it is generally well settled that these assets are treated as general intangibles under Article 9.[218] Thus, these assets are beyond the scope of this Article.

However, less attention has been paid to the use of secondary intellectual property rights in commercial transactions, such as moral rights or rights

212 *See supra* Part II.C. for a discussion of the after-acquired property rules applicable to commercial torts.

213 11 U.S.C. § 1115(b).

214 *See generally* Robert S. Bramson, *Intellectual Property as Collateral - Patents, Trade Secrets, Trademarks and Copyrights*, 36 BUS. LAW 1567 (1981); Haemmerli, *supra* note 10; Ward, *supra* note 10.

215 For example, it has been held that priority and perfection for copyrights registered with the Copyright Office are determined under the Copyright Act. *See* Nat'l Peregrine, Inc. v. Capitol Fed. Sav. & Loan Ass'n of Denver (*In re* Peregrine Entm't, Ltd.), 116 B.R. 194, 203–07 (Bankr. C.D. Cal. 1990). However, the Ninth Circuit has held that where the copyrights have not yet been registered, the state Article 9 system of perfection and priority governs. *See* Aerocon Eng'g, Inc. v. Silicon Valley Bank (*In re* World Auxiliary Power Co.), 303 F.3d 1120, 1126–31 (9th Cir. 2002).

216 *See, e.g.*, WARD, *supra* note 11, §§ 1:6-9; *see also*, PEB REPORT *supra* note 81, app. at 525–47.

217 *See In re World Auxiliary Power Co.*, 303 F.3d at 1126–31.

218 *See* WARD, *supra* note 11, at §§ 1:6-9.

created under unfair competition law.[219] This Article considers whether secondary forms of intellectual property, broadly defined as moral rights, should instead be classified as commercial tort claims.

A. *Moral Rights*

Under American law, protection for moral rights derives primarily from treaty obligations; however, there is some protection for limited forms of moral rights under state law.[220] Moral rights are first and foremost a creation of the civil law system.[221] Under continental European law, there exists special recognition of the rights of authors, which exceed the copyright law, referred to in France as the *drôit moral*.[222] Moral rights are generally considered to have three aspects: the right of attribution, the right of integrity, and the right of withdrawal.[223]

The right of attribution, or more fully, the right of attribution and paternity, is "the right of an author to receive credit as the author of a work, to prevent others from falsely being named [an] author, and to prevent use of the author's name in connection with works the author did not create."[224] The right of integrity gives the author the right to prevent mutilation of the author's work.[225] Finally, the right of withdrawal gives the author the right to remove a work from distribution if "it no longer represents the views of the author."[226] One of the key components of moral rights is that they are not assignable. Therefore, they must remain with the author. An author may waive his or her moral rights in a particular work with respect to a particular person, but the

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219 Although trademark law is commonly thought of as a subset of the law of unfair competition as well, nevertheless it is considered a primary form of intellectual property, and thus, outside the scope of this Article. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 1 (1995).

220 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8D.02[A] (1978); Roberta Rosenthal Kwall, *Copyright and the Moral Right: Is an American Marriage Possible?*, 38 VAND. L. REV. 1, 5–16 (1985).

221 *See* Adolf Dietz, *The Moral Right of the Author: Moral Rights and the Civil Law Countries*, 19 COLUM.-VLA J.L. & ARTS 199 (1995).

222 J. THOMAS MCCARTHY ET AL., MCCARTHY'S DESK ENCYCLOPEDIA OF INTELLECTUAL PROPERTY 386 (2d ed. 1995).

223 *Id*.

224 *Id*.

225 *Id*.

226 *Id*. The Berne Convention Article 6bis does not require a country to adopt the right of withdrawal. *See* NIMMER & NIMMER, *supra* note 220, § 8D.01[B].

author cannot generally transfer the rights of attribution, integrity, or withdrawal.[227]

The Berne Convention, to which the United States adheres, requires that a signatory nation include moral rights.[228] The United States did not adopt the Berne Convention as a self executing treaty; instead, the United States acceded to the treaty by adopting implementing legislation.[229] In doing so, Congress initially made no changes to the copyright law to include any provisions for protection of moral rights. Instead, Congress believed that the patchwork of state laws and section 43(a) to the Lanham Act provided equivalent protection to the formal moral rights required under Berne.[230] Whether this complies with the requirements of Berne is disputed,[231] especially since the Supreme Court's decision in *Dastar Corp. v. Twentieth Century Fox Film Corp.*[232]

However, Congress later adopted the Visual Artists Rights Act of 1990 ("VARA").[233] VARA provides the moral rights of attribution and integrity to artists that produce limited-number works of visual arts.[234] VARA is limited to

[227] Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co., 53 U.S.P.Q.2d (BNA) 2023 (S.D.N.Y. Feb. 17, 2000) ("It is undisputed by the parties that moral rights are inalienable and unassignable."); WILLIAM F. PATRY, COPYRIGHT LAW AND PRACTICE 137 (1994); Kwall, *supra* note 220, at 5. *See generally* STEPHEN P. LADAS, THE INTERNATIONAL PROTECTION OF LITERARY AND ARTISTIC PROPERTY §§ 272-287 (1938); NIMMER & NIMMER, *supra* note 220, § 8.21[A], at 8-249; Martin A. Roeder, *The Doctrine of Moral Right: A Study in the Law of Artists, Authors and Creators*, 53 HARV. L. REV. 554, 559–72 (1940).

[228] International Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1896, art. 6bis, 828 U.N.T.S. 221 ("Independently of the author's economic rights, and even after the transfer of said rights, the author shall have the right to claim authorship of the work and to object to any distortion, mutilation, or other modification of, or other derogatory action in relation to, the said work, which shall be prejudicial to his honor or reputation.") Only the rights of attribution and integrity are required. *See* NIMMER & NIMMER, *supra* note 220 § 8D.01[B].

[229] NIMMER & NIMMER, *supra* note 220, § 8D.02[C].

[230] *Id.* § 8D.02[D][1]; Kwall, *supra* note 220, at 17–33.

[231] NIMME & NIMMER, *supra* note 220, § 8D.02[D][1].

[232] 539 U.S. 23 (2003). In *Dastar*, the Court held that Lanham Act's section 43(a) prohibition against false statement of origin relates to the origin of the manufacture of an item, not a requirement of attribution of the work to the original author. *Id*. at 36–38. This puts earlier holdings such as *Gilliam v. American Broadcasting Co's*., 538 F.2d 14 (2d Cir. 1976), and *Smith v. Montoro*, 648 F.2d 602 (9th Cir. 1981), often cited as examples of how moral rights are protected in the United States under section 43(a) of the Lanham Act, into doubt. David Nimmer, *The Moral Imperative Against Academic Plagiarism (Without a Moral Right Against Reverse Passing Off)*, 54 DEPAUL L. REV. 1, 45 n.263 (2004).

[233] 17 U.S.C. § 101 (2000). Congress did not enact VARA for the purposes of complying with Berne, although it was noted that the rights granted to visual artists under VARA were "analogous to those protected by Article 6bis of the Berne Convention . . . ." H.R. REP. 101-514, pt. I (1990), *as reprinted in* 1990 U.S.C.C.A.N. 6915.

[234] 17 U.S.C. § 106A. A "work of visual art" is generally defined as a work consisting of no more than 200 signed and consecutively numbered copies. *Id.* § 101.

works of visual art, such as painting and sculpture.[235] Despite this limited applicability of VARA, the rights protected under VARA represent the clearest example of protection of moral rights in the United States.

Moral rights seem to represent the clearest example of intellectual property rights that should be treated as commercial torts under Article 9. First, the rights of attribution and integrity as recognized under U.S. law are designed to protect the individual artist's personal interests and professional reputation—not to protect a right embodied in the work itself. In particular, the purpose of protecting moral rights is consistent with the concept of "arising in tort" as described in the Article 9 definition of commercial torts. Protecting an artist's interest in attribution and integrity conforms well with tort law's concern with "(1) physical security and autonomy; (2) emotional security and other intangible interests such as privacy and reputation; and (3) economic security and opportunity."[236]

Second, due to the inability of an artist to assign his or her moral rights, such as under VARA,[237] these rights lack an important aspect of a property right. Although the right of attribution clearly grants the artist the right to "exclude" others from using the artist's name without permission, this right to exclude is not alienable. Therefore, moral rights do not fit the concept of an general intangible under Article 9. Rather moral rights fit the concept of a commercial tort.

B. Restatement (Third) of Unfair Competition[238]

Unfair competition is often listed as a form of intellectual property right. However, the doctrine of unfair competition is more aptly described as the category of rights protecting against harm to one's business from another's unscrupulous business practices.[239]

The Restatement (Third) of Unfair Competition divides the types of claims for unfair competition into three general categories: deceptive marketing, trademark infringement, and appropriation of intangible trade values. In addition to those specific types of common law protections against unfair competition, the Restatement further includes a catch-all type of claim for "the

[235] NIMMER & NIMMER, *supra* note 220, § 8D.06[A].
[236] DOBBS, *supra* note 87, § 1.
[237] 17 U.S.C. § 106A(e)(1).
[238] RESTATEMENT (THIRD) OF UNFAIR COMPETITION (1995).
[239] *Cf. id.* § 1 cmt. 1.

acts or practices of the actor [which] are actionable by the other under federal or state statutes, international agreements, or general principles of common law apart from those considered in this Restatement."[240] As noted in the introduction, trademarks have been generally accepted as general intangibles, and are therefore outside the scope of this Article. The following sections will analyze the claims that fall into the remaining sections of the Restatement (Third) of Unfair Competition, namely deceptive marketing and appropriation of intangible trade values, including misappropriation, trade secrets, and right of publicity.

C. Deceptive Marketing

1. Definition

As explained by the Restatement:

> Competitive markets cannot operate efficiently unless consumers have access to information about the goods and services offered by competing sellers. Much of the information available to prospective purchasers is provided by sellers in the form of advertising. If the message that it communicates is accurate, advertising can function as a convenient, low-cost source of information that assists consumers to choose intelligently among competing products. False or deceptive advertising, however, can result in improvident expenditures or force consumers to spend additional resources in an effort to acquire more reliable information.[241]

The essence of a deceptive marketing claim is that a business has made representations about its goods or services which are likely to mislead or deceive potential customers.[242] A competitor has a cognizable claim when such business's representations are material to prospective purchasers' conduct and it is reasonable to believe that this will cause a diversion of trade from, or harm to the goodwill of, such competitor.[243] The claims can take the form of misrepresentations relating to source, in the form of passing off[244] or reverse

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240 *Id*. § 1(b).
241 *Id*. § 1 cmt. d.
242 *Id*. § 2.
243 *Id*. § 3.
244 *Id*. § 4.

> The misrepresentations that are proscribed by this Section cause prospective purchasers to believe that another person is associated with the actor or with the goods or services marketed by the actor,

passing off.[245] Also included are misrepresentations, other than as to source, in marketing the goods or services of another that will cause harm to the product or manufacturer of the product.[246]

The essence of the right against unfair competition is that a business has a legitimate commercial interest in the right to compete freely based on the merits of its product and the right to be free from harm to its goodwill or reputation.[247] Thus, the right is that a business's competitors will not misrepresent the nature or source of their own products. This right does not include a cause of action by the business for misrepresentations as to the business's products by its competitors. Such an action would be brought under tort law as a product disparagement claim or trade libel under sections 623A to 652 of the Restatement (Second) of Torts.[248] An action for deceptive marketing can be brought under either state law or under section 43(a) of the Lanham Act.[249]

In proving its case, the plaintiff must show that the defendant's statements about its own products are likely to deceive or mislead "prospective purchasers."[250] Prospective purchaser is a broad concept that includes the defendant's immediate customers, customers of its suppliers, and also professional buyers and purchasing agents of the defendant's customers.[251] Those prospective purchasers have to be influenced in their purchasing decision in some material fashion—in a way that is likely to cause a "diversion

> thus placing the other's reputation at risk and diverting to the actor the benefit of the other's good will.

Id. § 4 cmt. a.

[245] *Id.* § 5. "The misrepresentations of source that are the subject of this Section differ from those described in the preceding Section in that they result in the passing off, not of the actor's goods as those of another, but of another's goods as those of the actor." *Id.* § 5 cmt. a.

[246] *Id.* § 6.

> This Section applies the general principle stated in § 2 to situations in which the representation relates to goods or services truthfully identified as originating from another. In the typical case, the misrepresentation concerns goods marketed under the other's trademark, but the other's association with the goods or services may also be communicated to prospective purchasers in any manner.

Id. § 6 cmt. a.

[247] *Id.* § 2 cmt. a.

[248] *Id.* § 2 cmt. c (citing RESTATEMENT (SECOND) OF TORTS §§ 623A - 652).

[249] *Id.* § 2 introductory note.

[250] *Id.* § 2 cmt. d.

[251] *Id.*

of trade" from, or harm to the good will of, the plaintiff.[252] Statements that are mere puffery are not actionable.[253]

2. *False Advertising Vindicates the Interest a Business Suffers from the Loss of Sales or Harm to Its Goodwill*

The interest protected by the deceptive marketing cause of action under the Restatement (Third) of Unfair Competition is directed towards preventing the diversion of sales to a competitor that misleads the public about the competitor's own products or hurts the "business reputation or good will of another."[254] As noted in the comments to section 2,

> [t]he use of deceptive representations in the marketing of goods and services may also cause injury to the legitimate commercial interests of other sellers by unfairly depriving them of the opportunity to compete on the merits of their products in the marketplace or by threatening harm to their reputation and good will.[255]

This interest is clearly co-relative; defined by the extent to which a competitor has misstated the facts about its products. Until the competitor has done so, the business does not have a right to exclude the competitor. All statements about the competitor's products are protected, including puffery. Once the competitor's statements rise to the level of a material misstatement about its product that is likely to influence consumers' purchasing decisions, the business has a claim and the nature of its rights can be determined.[256]

3. *Right to Be Free of Deceptive Advertising Held Not a Property Right*

Although whether an intellectual property right is treated as a general intangible or commercial tort claim under Article 9 is not directly related to whether such right is treated as property, the issues are closely related. To the extent that courts have held that an intellectual property right is not property,

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[252] *Id*. § 3.

[253] U.S. Healthcare, Inc. v. Blue Cross of Greater Phila., 898 F.2d 914, 922 (3d Cir. 1990) ("Mere puffing, advertising 'that is not deceptive for no one would rely on its exaggerated claims,' is not actionable under § 43(a)."); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 3 cmt. d (1995).

[254] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 3 cmt. f.

[255] *Id*. § 2 cmt. a.

[256] *Id.* § 3(a); Cook, Perkiss & Liehe, Inc. v. N. Cal. Collection Serv. Inc., 911 F.2d 242, 244 (9th Cir. 1990) (citing Skil Corp. v. Rockwell Int'l Corp., 375 F. Supp. 777, 783 (N.D. Ill. 1974)); *U.S. Healthcare*, 898 F.2d at 922.

this supports the conclusion that it should be treated as a commercial tort claim under Article 9.

The United States Supreme Court considered whether the right to be free from deceptive advertising is a property right recognized under Lanham Act section 43(a). In *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*,[257] a New Jersey bank brought suit against the Florida Prepaid Postsecondary Education Expense Board, an agency of the State of Florida, which marketed a prepaid tuition plan. Specifically, College Savings Bank alleged that Florida Prepaid made material misstatements about Florida Prepaid's savings program in violation of section 43(a) of the Lanham Act.[258] In order for the claim to survive, Florida's sovereign immunity would have to have been abrogated under the Eleventh Amendment.[259] College Savings Bank claimed that Congress had validly done so by enacting the Trademark Remedy Clarification Act[260] ("TRCA") under Congress's Fourteenth Amendment power to prevent states from depriving persons of their property without due process of law.[261] College Savings described its property rights as follows: "(1) a right to be free from a business competitor's false advertising about its own product, and (2) a more generalized right to be secure in one's business interests."[262]

The Supreme Court stated that "[n]either of these qualifies as a property right protected by the Due Process Clause."[263] As to the first claimed property right, the court held that there was no property interest because there was no right to exclude others under a right to be free from false advertising.[264] In particular "Florida Prepaid's alleged misrepresentations concerning its own products intruded upon no interest over which petitioner had exclusive dominion."[265] Thus, there is no property interest in being free from unfair competition, as a general matter, at least with respect to the Due Process Clause of the Fourteenth Amendment. The Court noted that the petitioner could not cite to any cases standing for such a proposition.[266]

257 527 U.S. 666 (1999).
258 *Id.* at 671.
259 *Id.* at 670–72. College Savings Bank also argued that Florida waived its sovereign immunity. *Id*.
260 Pub. L. No. 102-542, 106 Stat. 3567 (codified as amended in scattered sections of 15 U.S.C.).
261 *Fla. Prepaid*, 527 U.S. at 672.
262 *Id*.
263 *Id*.
264 *Id.* at 673.
265 *Id*.
266 *Id*.

As to the second claimed property interest, the Supreme Court held that although there were property rights in the assets of a business, such as its goodwill, there was no property interest in the right to conduct a business.[267] The Court reasoned that "business in the sense of *the activity of doing business*, or *the activity of making a profit* is not property in the ordinary sense—and it is only *that*, and not any business asset, which is impinged upon by a competitor's false advertising."[268]

Although not directly related to the issue of how a claim of false advertising should be handled under Article 9, the Supreme Court's reasoning in *Florida Prepaid* is illustrative of the fact that a claim of unfair competition is in the nature of a personal claim, which should be treated as a commercial tort rather than a general intangible.

4. A False Advertising Claim is Generally Not Alienable

The tort of unfair competition is commonly cited as an example of the kind of rights that are non-assignable.[269] Such a right is deemed to be personal in nature, and thus should not be assignable.[270] The Restatement (Third) of Unfair Competition makes no statement with regard to the assignment of such claims, but since it is an expansion of the false advertising rules contained in section 761 of the Restatement of Torts, presumably the same reasoning would apply.[271] Thus, given that a claim for deceptive advertising is generally treated as personal in nature, and not usually alienable, it should be a commercial tort claim and not a general intangible.

D. Appropriation of Trade Values

1. General Principles

The Restatement (Third) of Unfair Competition rejects the general recognition of exclusive rights in intangible trade values, instead adopting a

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[267] *Id.* at 675.

[268] *Id.*

[269] *See*, *e.g.*, Horton v. New S. Ins. Co., 468 S.E.2d 856, 858 (N.C. Ct. App. 1996); Vinson & Elkins v. Moran, 946 S.W.2d 381, 396 (Tex. App. 1997) (explaining that Texas law assumes that causes of action are generally assignable, however, no assignment of a claim of a violation of the Deceptive Trade Practices Act is permitted for policy reasons); 6A C.J.S. *Assignments* § 53 (2004).

[270] Investors Title Ins. Co. v. Herzig, 413 S.E.2d 268, 271–72 (N.C. 1992); 6A C.J.S. *Assignments* § 53 (2004).

[271] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 2 reporters' note (1995).

general right to copy that is subject to a series of specified exceptions.[272] The general rule is stated as follows:

> One who causes harm to the commercial relations of another by appropriating the other's intangible trade values is subject to liability to the other for such harm only if:
>
> > (a) the actor is subject to liability for an appropriation of the other's trade secret under the rules stated in §§ 39-45; or
> > (b) the actor is subject to liability for an appropriation of the commercial value of the other's identity under the rules stated in §§ 46-49; or
> > (c) the appropriation is actionable by the other under federal or state statutes or international agreements, or is actionable as a breach of contract, or as an infringement of common law copyright as preserved under federal copyright law.[273]

The emphasis in the general rule is that there should be no liability for a competitor in using the intangible trade values of another unless there has been a misappropriation of that trade value. This emphasis on misappropriation sounds in tort, much as the right to be free from deceptive advertising does, as discussed above. Assuming this is true, this leaves some room to argue that some intellectual property "assets" are best treated as commercial torts under Article 9 rather than general intangibles.

2. Trade Secrets

(a) Information Protected as Secret

(i) Definition of Trade Secret

Trade secret protection is generally a creature of state law. While certain federal statutes create criminal liability for theft of trade secrets,[274] trade secrets are primarily protected under state civil law.[275] There are three main formulations for protecting trade secrets under state law—one is statutory and the other two are common law. First, legislation can protect trade secrets,

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272 *Id*. § 38 intro. note to ch. 4.

273 *Id*. § 38.

274 *See*, *e.g.*, 18 U.S.C. §§ 1341, 1343 (2000) (mail fraud); Economic Espionage Act, 18 U.S.C. § 1831 (2000); National Stolen Property Act, 18 U.S.C. § 2314 (2000).

275 *See, e.g.,* Christopher Rebel J. Pace, *The Case For A Federal Trade Secrets Act*, 8 HARV. J.L. & TECH. 427, 435 (1995) ("[T]he [state law] trade secret misappropriation tort fills a significant gap in the federal law of intellectual property by enabling companies to safeguard their valuable but non-patentable innovations.").

usually in some form of the Uniform Trade Secrets Act ("UTSA").[276] So far, forty-five states and the District of Columbia have adopted some version of the UTSA.[277] Second, trade secrets are protected under section 757 of the original Restatement of Torts.[278] While liability for misappropriation of trade secrets was removed from the Restatement (Second) of Torts,[279] courts often rely upon the definition of a trade secret from the first Restatement.[280] Third, trade secrets are protected under the more recent Restatement (Third) of Unfair Competition.[281] The Restatement (Third) of Unfair Competition is the modern restatement of the common law protection of a trade secret.[282]

Although the definition of "trade secret" under each of these formulations is slightly different,[283] the effect of each is to cover the same type of

[276] Unif. Trade Secrets Act, 14 U.L.A. 433–67 (1990).

[277] *Id.* at refs. & annots.

[278] RESTATEMENT OF TORTS § 757 (1939).

[279] The drafters of the Restatement (Second) of Torts felt that:

> the law of Unfair Competition and Trade Regulation is no more dependent upon Tort law than it is on many other general fields of the law and upon broad statutory developments, particularly at the federal level. The Council formally reached the decision that these chapters no longer belong in the Restatement of Torts, and they are omitted from this Second Restatement. If it should be later decided that the law on these subjects ought to be restated, it will be done by separate restatements on the subjects involved.

RESTATEMENT (SECOND) OF TORTS, introductory note to div. 9 (1977).

[280] MILGRIM, *supra* note 13, § 1.01[2].

[281] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995).

[282] *Id*. reporters' note (also noting the applicability of the Restatement to UTSA cases).

[283] The Uniform Trade Secrets Act defines a trade secret as follows:

> "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
>
> (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
>
> (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Unif. Trade Secrets Act § 1(4), 14 U.L.A. 438 (1990).

The Restatement (Third) of Unfair Competition also defines trade secrets as "any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others." RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39.

Trade secret is also defined in the comments to section 757 of the first Restatement of Torts. "A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." RESTATEMENT OF TORTS § 757 cmt. b (1939).

information.[284] The Restatement (Third) of Unfair Competition has the most succinct definition of the three: "A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others."[285]

Almost any information can be a trade secret under this definition if it is valuable and secret. The Restatement (Third) of Unfair Competition does not require that the information be contained in written form, if it can be sufficiently defined.[286] In fact, a trade secret can consist of the information gained by employees in the process of performing their duties for their employer.[287] Thus, a trade secret can consist of transitory, ephemeral information that is never recorded.[288]

Trade secret law does not create an exclusive right in information as such, but rather protects certain information that is subject to reasonable efforts to maintain its secrecy.[289] This means that the owner of the information needs to take certain steps to ensure that the information does not become generally known to the public or to those in their industry.[290] For example, the information should not be disclosed to too many people[291] and should be

[284] Unif. Trade Secrets Act § 1(4), 14 U.L.A. 438 (1990); MILGRIM, *supra* note 13, § 1.01[2][a]. One difference between the definition of trade secrets contained in the UTSA and the Restatement (Third) of Unfair Competition on the one hand, and the definition in the Restatement of Torts section 757, is that section 757 states that information of short duration should not be protected as a trade secret, whereas the UTSA and Restatement (Third) of Unfair Competition contain no such restriction. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. d; RESTATEMENT OF TORTS § 757 cmt. b.

[285] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. d. The drafters of the Restatement intended this to be consistent with the definition of trade secrets under the UTSA. *Id.* cmt. b.

[286] *Id.* § 39 cmt. d ("[t]here is no requirement that the information be incorporated or embodied in a tangible form if it is otherwise sufficiently delineated.").

[287] *Id*. § 42 cmt. e. If the trade secret is developed in the course of the employee's normal duties for the employer, then the employer would own such trade secrets, even if the employee used the employee's own knowledge and skill to develop the trade secrets. *Id.* (citing the RESTATEMENT (SECOND) OF AGENCY § 397).

[288] *Id*. § 39 cmt. d. This comment specifically distinguishes the modern rule from that stated in the first Restatement of Torts, which did deny protection for information of short duration. *See* RESTATEMENT OF TORTS § 757 cmt. b ("[A trade secret] differs from other secret information in a business (see § 759) in that it is not simply information as to single or ephemeral events in the conduct of the business . . . . A trade secret is a process or device for continuous use in the operation of the business.").

[289] The term "secret" is used in the definition of trade secret in all three formulations. Unif. Trade Secrets Act § 1(4); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39; RESTATEMENT OF TORTS § 757 cmt. b.

[290] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. f ("Information known by persons in addition to the trade secret owner can retain its status as a trade secret if it remains secret from others to whom it has potential economic value."); MILGRIM, *supra* note 13, § 1.05.

[291] *Id.* § 39 cmt. g; *see also id.* cmt. f, reporters' note ("[t]he precautions required of the trade secret owner may increase with increasing dissemination.").

disclosed in confidence. Limited disclosure, even without a duty of confidence, may not destroy the trade secret if the information is nevertheless kept secret.[292] Also, for those not subject to an implied duty of confidentiality, the owner should have non-disclosure agreements with those that receive the information. If the owner does not take these steps, the owner will not have a trade secret protected under the law.

Even if the owner has taken all reasonable means to keep the information secret, it may nevertheless become generally known. If it does, there is nothing that the owner can do to recapture the trade secret.[293] Therefore, information otherwise protectable under trade secret law may be freely available to all once it loses its confidential status and all exclusive rights will disappear.[294] This also means that whether information will be protected under trade secret law requires litigation to prove that the information was, and remains, secret at the time of the litigation.[295] The owner will have the burden to prove that it owns a trade secret.[296]

(ii) Duty of Confidence

Information is protected under trade secret law where there is a duty to keep that information secret. That obligation is created either by implication,[297] as through the duty of loyalty imposed on employees,[298] or expressly by contract.[299]

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292 *Id.* § 39 cmt. f.

293 *Id*. ("If the information has become readily ascertainable from public sources so that no significant benefit accrues to a person who relies instead on other means of acquisition, the information is in the public domain and no longer protectable under the law of trade secrets."); *see also* MILGRIM, *supra* note 13, § 1.03; 2 CALLMANN ON UNFAIR COMP., TR. & MONO. § 14:27 (4th ed. 2005).

294 *See*, *e.g.*, Religious Tech. Ctr. v. Netcom On-Line Commc'n Servs., Inc., 923 F. Supp. 1231, 1256 (N.D. Cal. 1995) ("While the court is persuaded by the [Church of Scientology's] evidence that those who made the original postings likely gained the information through improper means, as no one outside the Church or without a duty of confidence would have had access to those works, this does not negate the finding that, once posted, the works lost their secrecy.") (citations omitted); *see also* JAMES POOLEY, TRADE SECRETS § 4.04[3][f] (2004). DVD Copy Control Assn., Inc. v. Bunner, 10 Cal. Rptr. 3d 185, 192-93 (Ct. App. 2004).

295 *See* MILGRIM, *supra* note 13, §§ 15.01-.02.

296 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. d.

297 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41(b); MILGRIM, *supra* note 13, §3.01.

298 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42; MILGRIM, *supra* note 13, § 5.02[1] ("The relationship between an employer and an employee is a confidential one. The existence of such relationship between employer and employee imposes a duty upon the employee not to use or disclose the employer's confidential information to the employer's detriment.").

299 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41(a) (1995); MILGRIM, *supra* note 13, §4.01.

(iii) Misappropriation of Trade Secrets

What is prohibited by the UTSA, as well as the Restatements, is the misappropriation of trade secrets.[300] Unlike other forms of intellectual property law that grant the owner exclusive rights in the underlying invention or original expression, such as patent and copyright law, trade secret law does not create a right in the information itself.[301] Instead, trade secret law prohibits the appropriation of that information by improper means.[302] Thus, while a patent owner may prohibit the use of the patented technology regardless of how the infringer came by the technology, and regardless of fault, a trade secret owner may only obtain a remedy where the alleged infringer has obtained or disclosed secret information in an improper manner. If the alleged infringer independently discovers the information, or obtains the information by examining publicly available products and information, then the alleged infringer cannot be found liable.[303]

Misappropriation is defined under the UTSA as

> (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
>
> (ii) disclosure or use of a trade secret of another without express or implied consent by a person who
>
> > (A) used improper means to acquire knowledge of the trade secret; or
> >
> > (B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was
> >
> > > (I) derived from or through a person who had utilized improper means to acquire it;
> > >
> > > (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
> > >
> > > (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

300 Unif. Trade Secrets Act §§ 2, 3, 14 U.L.A. (1990); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40; RESTATEMENT OF TORTS § 757 cmt. b (1939).

301 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. c.

302 Unif. Trade Secrets Act §§ 2, 3; RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40; RESTATEMENT OF TORTS § 757 cmt. b.

303 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43.

> (C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.[304]

This definition leaves someone free to obtain otherwise secret information and to use it for a benefit without fear of liability if the information was not obtained inappropriately.[305] As stated in the Restatement (Third) of Unfair Competition, "[i]ndependent discovery and analysis of publicly available products or information are not improper means of acquisition."[306] For example, it is legal to purchase a competitor's product and reverse engineer it to determine any trade secret information.[307] The Restatement provides the following example:

> *A* sells a drug compounded from a secret formula. *B*, a competing drug manufacturer, purchases a quantity of *A*'s drug on the open market and learns the formula through scientific analysis. *B* then begins to market a similar product. *B* has not acquired *A*'s trade secret by improper means.[308]

(b) Protection of Confidential Relationships

The limitation of trade secret protection to misappropriation of trade secrets has led some to argue that this form of intellectual property is directed more to protecting certain confidential relationships rather than creating a property right in the particular secret information.[309] Professor Thomas Ward points out, "trade secrets [can be seen] as no more than the amalgam of rights and duties that arise between discrete persons under contract law, tort law, and trust law, rather than a right in some 'thing' that can be asserted against the world."[310]

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304 Unif. Trade Secrets Act §1(2).

305 *See*, *e.g.*, Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 155 (1989) ("The public at large remain[s] free to discover and exploit the trade secret through reverse engineering of products in the public domain or by independent creation."); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 cmt. a ("The owner of a trade secret does not have an exclusive right to possession or use of the secret information. Protection is available only against a wrongful acquisition, use, or disclosure of the trade secret.").

306 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43.

307 *Id*. § 43 cmt. b.

308 *Id.* § 43 cmt. b, illus. 1.

309 *See*, *e.g.*, Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241, 245 (1998) ("[T]rade secret law is merely a collection of other legal norms—contract, fraud, and the like—united only by the fact that they are used to protect secret information.").

310 WARD, *supra* note 11, § 1:11.

The Restatement (Third) of Unfair Competition claims, in the comments to section 39, that one interest of the early trade secrets cases was to enforce a level of ethical behavior and fair competition in the business environment.[311] This goal includes imposing upon those with knowledge of certain confidential information a duty to keep that information secret.[312] By enforcing a code of conduct on certain legal relationships, the Restatement encourages the dissemination of secret information in limited circumstances and the use of confidential information in an efficient manner. For example, by imposing a general duty of confidentiality upon employees, an employer can safely disclose secret information to help an employee in her job, further developing the employer's business.[313]

The Restatement (Third) of Unfair Competition notes in the discussion of the development of trade secret doctrine, however, that a property analysis of trade secrets was needed in order to obtain injunctive relief.[314] Even so, many early cases "concluded that the essence of a trade secret action is a breach of confidence or other improper conduct, sometimes explicitly disavowing any property dimension to a trade secret."[315] In particular, the Restatement (Third) of Unfair Competition notes that the first Restatement of Torts, section 757, specifically rejected the property theory of trade secrets: "The influential formulation in section 757 of the Restatement of Torts (1939), reporting that the property conception 'has been frequently advanced and rejected,' concluded that the prevailing theory of liability rests on 'a general duty of good faith.'"[316]

Milgrim argues that such intellectual analysis of the nature of trade secrets is subject to "a certain opaqueness."[317] In his view, it is clear that a trade secret is property and the property rights in a trade secret are the rights "*to use and disclose* it to others subject to restrictions on their use and disclosure."[318] He compares the property right to that of a copyright, and the discussion of the Restatement (Third) of Unfair Competition as "a cascade of underanalyzed

311 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. a.
312 *Id.* § 41.
313 *Id*. § 39 cmt. a ("The rules protecting trade secrets also promote the efficient exploitation of knowledge by discouraging the unproductive hoarding of useful information and facilitating disclosure to employees, agents, licensees, and others who can assist in its productive use.").
314 *Id.* § 39 cmt. b.
315 *Id.*
316 *Id.* (quoting RESTATEMENT OF TORTS § 757 cmt. a (1939)).
317 MILGRIM, *supra* note 13, § 2.01.
318 *Id.*

notions."[319] Milgrim strongly believes that this discussion has created "more conceptual heat than light,"[320] in no small part because courts have generally accepted that trade secrets are a form of property.[321] Other reasons supporting the property view of trade secrets, according to Milgrim, are that trade secrets are assignable,[322] have been accepted as property contributed in exchange for a stock issuance,[323] may be the subject of a trust,[324] may pass by will or intestate succession,[325] and may be property of a bankruptcy estate.[326]

(c) Trade Secret Most Likely General Intangible, but . . .

In applying the two part test to trade secrets, it is easiest to start with the second question: Is a trade secret assignable? As the Supreme Court stated in *Ruckelshaus v. Monsanto Co.*, the answer is clearly yes.[327] While there may be issues relating to the right of the assignor to keep[328] or to further assign[329] a trade secret, nevertheless the law recognizes the transfer of the trade secret from one party to another party.[330] Therefore, in applying the two part test, the question of assignability falls squarely on the side of characterizing a trade secret as a general intangible.

With respect to the first question, whether trade secret law vindicates an interest in the owner ancillary to the underlying secret information, the answer is less clear. Obviously, many trade secrets have enormous intrinsic value apart from the identity of the owner. The secret formula to the Coca-Cola soft drink is a prime example. Such trade secrets are easily reducible to tangible form, clearly exist apart from their creators, and can be transferred to and owned by someone wholly unrelated to the original creator. In this way, a

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319 *Id*. ("Thus, *comment b* emits a cascade of underanalyzed notions to the effect that courts protect trade secrets sometimes under property theories, sometimes under breach of good faith theories and sometimes under general prohibition against unfair methods of competition.").

320 *Id.*

321 *Id.* § 2.01 n.15.

322 *Id.* § 2.02.

323 *Id.* § 2.03.

324 *Id.* § 2.04.

325 *Id*. § 2.05 (Milgrim concedes that a trade secret "does not lend itself to such transmission as readily as other forms of property.").

326 *Id.* § 2.06. The Bankruptcy Code includes trade secret in its definition of intellectual property. 11 U.S.C. § 101(35A)(A) (2000).

327 Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1002 (1984) (holding trade secrets are assignable); *see also* Painton & Co. v. Bourns, Inc., 442 F.2d 216, 225 (2d Cir. 1971).

328 MILGRIM, *supra* note 13, § 2.02[1].

329 *Id.* § 2.02[2].

330 *Ruckelshaus*, 467 U.S. at 1002; Milgrim, *supra* note 13, §2.02.

trade secret appears to be a form of intellectual property that exhibits many of the characteristics of intangible personal property which should be treated as a general intangible. Roger Milgrim describes the property right as follows: "Quite simply, it is the right of the owner of the trade secret to use and disclose it to others subject to restrictions on their use and disclosure."[331]

Nevertheless, a trade secret is a form of intangible property that has several characteristics that distinguish it from the primary forms of intellectual property. Whether a trade secret is a form of property is not the controlling issue in deciding whether to characterize it as a general intangible or commercial tort. Even accepting Milgrim's persuasive argument that a trade secret is property,[332] it is a less absolute form of property. In particular, comparing the nature of trade secrets as property to patents, trademarks, and copyrights points out some of the distinct differences between trade secrets compared to those primary forms of intellectual property. These differences suggest that perhaps some trade secrets may be better analyzed as commercial torts rather than general intangibles under Article 9.

First, unlike a patent, trademark, or copyright, whether a person owns a trade secret can never be determined from publicly available facts. Certainly, a person may publicly claim to have a trade secret, but that assertion can never amount to more than a claim, because the act of publicly proving its existence destroys it.[333] By comparison, patents and trademarks are easily determined by a review of publicly available facts.[334] Copyrights are a little more difficult because one must separate out the copyrightable original expression;[335] nevertheless, such expression is commonly publicly available.

Second, it is not possible to create a registration system for trade secrets because any public registration of the nature of a trade secret would destroy its existence. By contrast, a patent only exists once the Patent and Trademark Office (PTO) has issued the patent.[336] Trademarks and copyrights, while not

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331 MILGRIM, *supra* note 13, § 2.01.

332 *See supra* notes 317–326 and accompanying text.

333 *See supra* notes 289–96 and accompanying text regarding the requirement of secrecy for a trade secret.

334 Searches of issued patents and certain pending patent applications, as well as trademark registrations and all pending trademark applications, can be made at the United States Patent and Trademark Office website. *See* http://www.uspto.gov. Further, there are private trademark searching agencies.

335 NIMMER & NIMMER, *supra* note 220, § 2.01.

336 35 U.S.C. § 151 (2000). Generally, pending patent applications are kept confidential until publication of the application eighteen months after filing, 35 U.S.C. § 122(a) – (b), although publication destroys any trade secrets contained in the application, RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. c (1995)

requiring registration for their existence, can be, and often are, registered.[337] Thus the three primary forms of intellectual property have registration systems, that provide public notice of their existence and the scope of protection.

Third, in all cases, a party claiming to own a trade secret carries the burden of sufficiently defining what information is claimed as secret[338] as well as proving that the owner used reasonable efforts to maintain its secrecy.[339] With patents, trademarks, and copyrights, registration creates a presumption of validity.[340]

Finally, trade secrets do not grant the owner the general power to exclude others from utilizing the information to the benefit of the owner's business, which most forms of intellectual property grant. Instead, a trade secret "merely limits the means by which others are free to appropriate the 'things' that satisfy the definition of a 'secret.'"[341] There must be an illegal act, the misappropriation of the information, that precedes the power to prevent the use of the information. That is to say, the trade secret right is not a right as against the world, but only against those under a duty to maintain the secrecy of the information contained in the trade secret. In this regard, it is much more of a tort right than a traditional property right.

By comparison, the primary forms of intellectual property include the exclusive rights over the subject matter as against the world, regardless of fault. A patent grants the owner the power to prevent anyone from making, using, selling, offering for sale, or importing the invention.[342] Fault is not an element of a patent infringement claim—a patent owner may prevent infringement even by an innocent infringer.[343] Nor is fault required for

("Thus, for matter disclosed in the patent, issuance terminates the secrecy required for continued protection as a trade secret, even if the patent is subsequently declared invalid.").

337 15 U.S.C. § 1051 (2000) (trademarks may be registered with the PTO); 17 U.S.C. §§ 409, 410 (2000) (copyrights may be registered with the Copyright Office); MCCARTHY, *supra* note 52, § 22.10 (there are also state registration statutes).

338 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. d.

339 *Id*. § 40 cmt. a.

340 15 U.S.C. § 1057 (certificate of registration is prima facie evidence of validity of registered trademark); 17 U.S.C. § 410(c) (registration of copyright within five years of publication constitutes prima facie evidence of validity); 35 U.S.C. § 282 (patent presumed valid).

341 *See* WARD, *supra* note 11, § 1:11.

342 17 U.S.C. § 271(a).

343 *Id.*; JOHN GLADSTONE MILLS III ET AL., 4 PAT. L. FUNDAMENTALS § 20:4 (2d ed. 2005) ("There is no intent element to direct infringement. It is immaterial whether the manufacturer knew or was ignorant of the fact that the article as made and sold infringed the patent.") (footnotes omitted).

trademark infringement.[344] All that is required to prove trademark infringement is that the use of a mark is likely to cause confusion, mistake, or deception.[345] A copyright owner is specifically granted several enumerated exclusive rights to a copyright, including the rights to make copies, prepare derivative works, and distribute copies.[346] Violating any of these exclusive rights creates liability for copyright infringement, regardless of the intent of the actor.[347]

Further, does it make sense to call something a general intangible if we have to litigate whether it even exists[348] or if its existence can evaporate without any misfeasance by the putative trade secret owner?[349] If the critics of the property view are correct, the right exists to protect confidential relationships, and so can be said to vindicate the interest in the holder of the right to be free from having those under a duty of confidentiality from disclosing what they know. There is certainly an argument for this point of view. Of necessity, there is no public database of the information that is secret. The trade secret property can easily evaporate if the information is publicly disclosed, regardless of how it is disclosed. As a result, it is difficult to know whether there is any property at all.

Perhaps a distinction should be made between those trade secrets that have been reduced to tangible form and those that represent the more ephemeral types of trade secrets. For example, a pending patent application that has not yet been published may contain trade secrets, at least until it is published.[350] The patent application must contain a full written description of the invention,[351] including the best mode of practicing the invention,[352] and so

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344 MCCARTHY, *supra* note 52, § 23:124 ("A mistaken, good faith belief will not excuse otherwise illegal infringement . . . .").

345 15 U.S.C. § 1114(1)(a) (infringement of a registered mark); § 1127(a)(1)(A) (infringement of unregistered mark).

346 17 U.S.C. § 106.

347 *Id.* § 501. If the infringement is willful, the copyright owner may be able to obtain enhanced statutory damages of up to $150,000. *Id.* § 504(c)(2).

348 *See* MILGRIM, *supra* note 13, §1.03 ("Fundamentally, existence of a trade secret is a question of fact for determination by the trier of fact, secrecy being a basic element of any claimed trade secret.") (citations omitted).

349 *See id.* ("However, a discoverer of a trade secret may forfeit protection if the entire combination of its aspects is disclosed in several publications.").

350 Patent applications are initially kept confidential. 35 U.S.C. § 122(a) (2000). Although there is now a presumption that applications should be published eighteen months after the date of filing, *id*. § 122(b)(1)(A), nevertheless there are certain exceptions to this presumption, such as where an applicant requests that it not be published and the applicant has not filed the application in any other country, *id.* § 122(b)(2)(B).

351 *Id*. § 112 (requirements for specification).

likely represents a clear example of a trade secret that has been reduced to a tangible form. Patent applications may be assigned,[353] and so represent a form of trade secret that should be treated as a general intangible. If a trade secret embodies information that is clearly reduced to tangible, written form in the nature of a patent application, and can easily be assigned as with a patent application, then it should be treated as a general intangible.

However, where the trade secret is ephemeral or represents knowledge known by certain employees but not reduced to tangible form, the trade secret is more properly characterized as a commercial tort. This is markedly so where "[t]he rules governing liability for the appropriation of trade secrets play a more central role in regulating the behavior of employees after the termination of the employment relationship."[354] According to Milgrim, "[t]he great majority of reported trade secret cases arise in the context of the employer-employee relationship."[355] As he points out, aggressive enforcement of trade secret protection runs the risk of preventing an employee with trade secret knowledge from pursuing the employee's livelihood in a meaningful way.[356] While courts have recognized the right of an employer to protect the valuable trade secrets known by former employees,[357] this protection is counterbalanced by the recognition of a worker's right to use the skills and experience the worker gained while working for a former employer.[358]

Certain legal doctrines, such as the inevitable disclosure doctrine,[359] or the doctrine that where an employee is specifically hired to create inventions for the employer, the employer owns the trade secret,[360] exist to protect employers from having their former employees disclose trade secrets to their new employers. In such situations, however, the former employer will often have an added burden beyond merely showing that a protectable trade secret exists.[361] An employer may be expected to show additional facts, for example, an employee having knowledge of specialized information about the employer,

352 *Id.*
353 *Id*. § 261.
354 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. b (1995).
355 MILGRIM, *supra* note 13, § 5.01.
356 *Id.*
357 *Id.* § 5.02[2].
358 *Id.* § 5.02[3][a].
359 *Id.* § 5.02[3][d].
360 *Id.* § 5.02[4][a].
361 *Id.* § 5.02[3][c] ("On the other hand, where there is no restrictive covenant, the plaintiff-employer of such a previously skilled employee may have the burden of carefully identifying its trade secret and isolating it from the defendant ex-employee's prior *and* job-enhanced skills.").

the inability of competitors to develop the information themselves, or the former employee absconding with some tangible form of the information.[362]

In such circumstances, a highly fact-based analysis of the existence of the trade secret, the relative rights and duties of the parties, and the public policy considerations such as an employee's right to practice a trade, will likely be necessary. Therefore, where protection of a trade secret involves considerations, relating to the particular nature of the relationship between the parties, trade secret law is more focused on issues ancillary to protecting the underlying secret information. In such a case, perhaps the trade secret is more properly characterized as a commercial tort.

This characterization makes sense given the circumstances in which a lender would come to own a trade secret. If a borrower defaults because the business is failing, many employees, particularly technically skilled workers, will likely leave to work for competitors in the same industry. Assuming the borrower granted a security interest in collateral, including general intangibles (including after acquired collateral), the secured party will likely repossess the general intangibles when it repossesses the assets of the borrower. If all trade secrets are defined as general intangibles, the secured party would in effect have a right to the trade secrets contained in the minds of the former employees, granting the bank—or someone who buys the general intangibles in a sale of the collateral—a right to sue those former employees to prevent the disclosure of the trade secrets to their new employers. Apart from the difficulty in proving such a case, the lender would be suing the former employees of the now defunct business and preventing them from pursuing their trade.

If the borrower instead files a chapter 11 bankruptcy petition, many of those same employees would remain employed by the borrower. Here, the situation is even more remarkable. Such trade secrets would be property of the estate[363] and subject to the automatic stay.[364] The secured lender would initially be prohibited from repossessing the trade secrets.[365] However, a secured lender would be able to make a claim that it has a perfected security interest in the trade secret knowledge of the current employees and could request relief from the automatic stay in order to take possession and sell those

362 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (1995).
363 11 U.S.C. § 541(a)(1) (2000).
364 *Id*. § 362(a).
365 *Id*. § 362(a)(3).

secrets.[366] While the borrower could likely make a cogent argument that such trade secrets are necessary for the reorganization of the business,[367] the bankruptcy court would have to hold a hearing on the nature of the trade secrets and their value.[368] The court could grant relief from the stay, which would allow the creditor to foreclose on the borrower's trade secrets.[369] More likely, the court will find the trade secrets necessary for the reorganization of the debtor and order the borrower to grant the secured lender adequate protection[370] to maintain the value of the secured party's security interest, often in the form of additional liens on other property.[371]

In either of these scenarios, the interests of the employees and the borrower are better protected by characterizing the trade secret knowledge as a commercial tort, requiring that it be described with specificity in the security agreement, and preventing the creation of a lien on after acquired trade secret knowledge.

3. Right of Publicity

The right of publicity has been described by one commentator as the right of a person to control the use of his or her persona for commercial purposes.[372] The right of publicity had its genesis in the right of privacy,[373] which in turn developed out of an influential article written by Samuel Warren and Louis Brandeis, entitled *The Right of Privacy*.[374] The right of privacy was further refined into four separate torts in an article by William Prosser,[375] which were then included in the Restatement (Second) of Torts.[376]

366 *Id*. § 362(d).

367 *Id.* § 362(d)(2)(B).

368 *Id.* § 362(d); 3 COLLIER ON BANKRUPTCY ¶¶ 361.04, 362.08 (Alan N. Resnick & Henry J. Sommer eds., 15th ed. 1996) [hereinafter COLLIER ON BANKRUPTCY].

369 11 U.S.C. § 362(f); *see also* COLLIER ON BANKRUPTCY, *supra* note 368, ¶ 362.07.

370 11 U.S.C. § 362(d)(1).

371 *Id.* § 361(2); COLLIER ON BANKRUPTCY, *supra* note 368, ¶ 361.03[3].

372 MCCARTHY'S DESK ENCYCLOPEDIA, *supra* note 46, at 528; RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 46 (1995).

373 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 46 cmt. b ("The principal historical antecedent of the right of publicity is the right of privacy.").

374 Samuel Warren & Louis Brandeis, *The Right of Privacy,* 4 HARV. L. REV. 193 (1890).

375 William Prosser, *Privacy,* 48 CAL. L. REV. 383 (1960).

376 *See* RESTATEMENT (SECOND) OF TORTS §§ 652A-652I (1977). The Restatement built upon the scholarly work of William Prosser, who described the right of privacy incorporating four torts: "unreasonable intrusions upon another's seclusion, public disclosure of private facts, publicity placing another in a false light, and the appropriation for the defendant's advantage of the plaintiff's name or likeness." RESTATEMENT (THIRD) UNFAIR COMPETITION § 46 cmt. b (citing Prosser, *supra* note 375).

The right of publicity generally refers to the use of a person's name or likeness, although the Restatement (Third) of Unfair Competition also prohibits the appropriation of "other indicia of identity,"[377] which may include use or imitation of a person's voice or other identifying features.[378] The right of publicity is recognized in half the states, either by statute or common law.[379]

The right of publicity, as currently understood, derived from the specific privacy tort described as the "appropriation" tort.[380] The Restatement (Second) of Torts states, "[o]ne who appropriates to his own use or benefit the name or likeness of another is subject to liability to the other for invasion of his privacy."[381] However, the privacy appropriation tort protects the plaintiff against harm to both personal and commercial interests when the plaintiff's identity has been exploited by a third party without permission.[382]

Because the right of publicity is only recognized in half of the states, in the other half of the states, presumably, there is no general intangible publicity right that may function as collateral under Article 9.[383] Instead, a person attempting to grant a security interest in the right to be free from use of his or her identity in commerce without permission would be relying on the privacy tort. As a result, a secured party would likely have to perfect the right according to the commercial tort rules, if at all. It is also likely that a celebrity would meet the requirement that the appropriation tort be a commercial tort because the tort arises by definition "in the course of the claimant's business or profession."[384] However, because of the difficulty in pledging commercial torts, this, of course, makes the right that much less valuable an asset for an individual.

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[377] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 46.

[378] *Id.* § 46 cmt. d. (the use of voice or "performing persona" may create liability).

[379] PUBLICITY AND PRIVACY, *supra* note 59, § 6.1.

[380] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 46 cmt. b; *see also* Melissa B. Jacoby & Diane Leenheer Zimmerman, *Foreclosing on Fame: Exploring the Uncharted Boundaries of the Right of Publicity*, 77 N.Y.U. L. REV. 1322, 1328-32 (2002) (discussing the development of the right of publicity).

[381] RESTATEMENT (SECOND) OF TORTS § 652C (1977).

[382] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 46 cmt. b.

[383] *See* Jacoby & Zimmerman, *supra* note 380, at 1335 ("For the debtor-creditor system to recognize publicity rights and treat them as assets, those rights would have to exist in the applicable jurisdiction. Currently it is unclear how many states do, or probably would, recognize an alienable property interest in the human persona."). The Jacoby & Zimmerman article primarily focuses on whether the right of publicity should be treated as property of the estate in a chapter 7 bankruptcy case and not whether such right should be treated as a general intangible under Article 9. *Id.* at 1342–43.

[384] U.C.C. § 9-102(a)(13)(B)(i) (2000).

(a) Appropriation of the Commercial Value of a Person's Identity: The Right of Publicity

In the leading treatise on the right of publicity, Professor McCarthy states that the right of publicity should be treated as any other property right which may be sold or licensed.[385] It is Professor McCarthy's belief that a right of publicity should be fully assignable, and thus alienable to a third party.[386] This allows the celebrity to maximize the value of the celebrity's publicity right and gives the assignee full control over the use of the celebrity's persona.[387]

The Restatement (Third) of Unfair Competition describes a cause of action for violation of a right of publicity arises when "[o]ne who appropriates the commercial value of a person's identity by using without consent the person's name, likeness, or other indicia of identity for purposes of trade is subject to liability for the relief appropriate under the rules stated in §§ 48 and 49."[388]

While this statement of the law could be read only to recognize liability for a violation of a right of publicity and not a stand alone property right, in the reporters' notes, the Restatement clearly stands for the proposition that "[t]he interest in the commercial value of a person's identity is *in the nature of a property right* and is freely assignable to others."[389] If the right is assigned, the assignor is prohibited from "exploiting" the right of publicity in a way that conflicts with the assignment, and further, is deemed to have consented to the use of his or her name and likeness by the assignee.[390] "Thus, conduct by the assignee that would otherwise violate the publicity or privacy rights of the assignor is privileged if the use is within the terms of the assignment."[391]

Even though the right of publicity has its historical roots in the tort of privacy,[392] both the McCarthy treatise and the Restatement take the position that the right is alienable regardless of that history.[393] Based on that reasoning,

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385 PUBLICITY AND PRIVACY, *supra* note 59, § 10:14.

386 *Id.*

387 *Id.*

388 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 46 (1995).

389 *Id*. § 46 cmt. g (emphasis added).

390 *Id.*

391 *Id.*

392 *See* Jacoby & Zimmerman, *supra* note 380, at 1357–58 (noting that "publicity rights have never been completely severed from their roots in privacy, and the property-privacy tension is clearly implicated by the prospect of placing publicity rights in the hands of the highest bidder as a result of debt collection or bankruptcy.").

393 PUBLICITY AND PRIVACY, *supra* note 59, § 10:14; RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 46 cmt. g (1995).

in those states that have recognized the right of publicity as distinct from the right of privacy, where the right is fully assignable,[394] it should function as a general intangible under Article 9. Any possible conflict between the historical non-assignability of a personal tort based on invasion of privacy and the full alienability of the right of publicity should be resolved in favor of permitting transfer of the individual's publicity right.[395]

The reporters' notes do provide a caveat to the broad property right basis for protection: "an assignment of the right of publicity transfers only the right to exploit the commercial value of the assignor's identity; the personal interests protected under the right of privacy are not transferable, and thus invasions of those rights by third persons remain actionable by the assignor."[396]

This is a curious limitation. Given that "the right of publicity protects an individual's interest in personal dignity and autonomy"[397] akin to a right of privacy, could this be a distinction without a difference? In other words, if a person retains the right to sue for an invasion of privacy based on false light, even if that person has transferred the right of publicity, what is the right of publicity really worth? Is it truly a stand alone right, in the nature of property, or does it retain its strong links to the tort of the invasion of privacy and protection of the interest of the celebrity to be free from not having his or her name or likeness used commercially without permission? If so, is it a right that can really ever be foreclosed upon and sold to repay a loan?

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394 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 46 cmt. g (1995).

395 *See* Jacoby & Zimmerman, *supra* note 380, at 1357–67.

> An exemption for publicity rights [from treating them as assets in the debtor-creditor system] would have to proceed, of course, from an assumption that the associational and dignitary interests at stake outweigh the benefits of treating these rights like other ordinary assets in the debtor-creditor system. We question whether such an assumption is valid.

Id. at 1361. Not all commentators agree that the right of publicity should be treated as fully separate from the underlying personal interest of the individual. *See, e.g.*, Alice Haemmerli, *Whose Who? The Case for a Kantian Right of Publicity*, 49 DUKE L.J. 383, 408–09 (1999) ("The problem is that in the process of defining the right of publicity as a strictly economic property right (even while tort law clung to that fourth prong of privacy), the right of publicity lost a crucial part of its *raison d'être* as a right based on, and protective of, personal autonomy."); Roberta Rosenthal Kwall, *Preserving Personality and Reputational Interests of Constructed Personas Through Moral Rights: A Blueprint for the Twenty-First Century*, 2001 U. ILL. L. REV. 151.

396 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 46 cmt. g.

397 *Id*. § 46 cmt. c.

The Restatement posits the following example to highlight the distinction:

> *A*, a famous actress, assigns to *B* the right to exploit the commercial value of *A*'s identity. *C*, without the permission of either *A* or *B*, markets posters that feature *A*'s picture in a pose that places *A* before the public in a false light. *C* is subject to liability to *B*, but not to *A*, for an appropriation of the commercial value of *A*'s identity under the rule stated in this Section. *C* is subject to liability to *A*, but not to *B*, for placing *A* before the public in a false light under the rule stated in Restatement, Second, Torts § 652E.[398]

This example stands for the proposition that that rights of publicity are, and should be, fully alienable. It also reinforces the idea that a person has several different interests tied up in his or her identity: in the example the interest, or more appropriately the right to use one's identity for trade, and the interest in being free from being placed before the public in a false light. They appear to exist separate from each other, one alienable, one not.

What if the example is put in an Article 9 default, repossession and sale context? As revised, the facts might go like this:

> *A*, a famous actress, grants a security interest to *B* in the commercial value of *A*'s identity, to secure repayment of a loan. *A* defaults, and so *B* exercises its right to "repossess" under UCC sections 9-601 to 9-625, and takes possession of *A*'s right of publicity. In order for this to be a meaningful transfer, *B* would have to receive an assignment of all of *A*'s right of publicity. *B* then sells—reassigns—the right to *C*, through a private sale. Assuming that the sale is commercially reasonable, *C* is the owner of *A*'s identity for commercial use. *C* then uses *A*'s identity to market products without *A*'s consent.

According to the Restatement, the assignment and subsequent sale of *A*'s right to publicity in the above example should be fully permitted. In fact, it is a logical consequence of the acceptance of the concept of the full alienability of a right of publicity.[399] But several questions arise from this conclusion. First, is *A* forever estopped from endorsing a product or service, even if the

398 *Id*. § 46 cmt. g, illus. 1; *see* MJ & Partners Rest. Ltd. P'ship v. Zadikoff, 10 F. Supp. 2d 922, 930 (N.D. Ill. 1998) (exclusive licensee of Michael Jordan's right of publicity has standing to sue for misappropriation of that right).

399 Jacoby & Zimmerman, *supra* note 380, at 1362 ("Furthermore, the very concept of alienability means that the law contemplates the real possibility that celebrities will assign all or part of the right to use their personas to others—at which point they necessarily give up, albeit voluntarily, any legal right to object to how the assignee uses their identities in the future.").

original assignee no longer "owns" her right of publicity? Presumably so, because she assigned that right to *B*.[400] Would a movie studio be foreclosed from using *A*'s name or likeness to promote a movie she is in if *C* did not consent? Probably not, because the studio would only be promoting the truth about its movie—that *A* is in it. This is most likely a form of nominative fair use.[401] But movie merchandising containing images of *A* is probably prohibited because of the commercial nature of the use of a celebrity's name or likeness. [402]

What if *C* uses *A*'s identity to market products that *A* would not otherwise endorse? *A* would have no claim for misappropriation of her identity because she no longer owns the right to use her identity for purposes of trade. Could *A* sue under some other theory? This problem demonstrates where the bifurcation of the identity of a celebrity may become problematic. If *A* believes that she is portrayed in a false light because of the implied endorsement of a product she does not like, it would seem that she could bring a cause of action under invasion of privacy. For example, if actress *A* does not drink, and *C* uses her name and likeness to promote a brand of beer,[403] *A* may have both a defamation tort and a false light tort under Restatement (Second) of Torts sections 565 and 625E, respectively[404] In addition, she may have a deceptive marketing claim under Restatement (Third) of Unfair Competition section 4.[405]

If *C* is limited, however, in the products that it can sell using the celebrity's name and likeness, because of possible liability to *A* for violation of her privacy rights, can it be said that *C* really owns *A*'s right of publicity? Conversely, if *A* is estopped from making claims against *C* regardless of the

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[400] *Id.* at 1355 (citing Haelan Labs., Inc. v. Topps Chewing Gum, Inc., 202 F.2d 866, 870 (2d Cir. 1953) (holding that a baseball player could not transfer exclusive rights to use his image on a baseball card and then turn around and grant exclusive rights for the same purpose to someone else.)) ("Clearly, the celebrity must refrain from exercising the right of publicity once it is owned by someone else so as not to negate the value of the asset that has been transferred.").

[401] *See* MCCARTHY, *supra* note 52, § 11:45.

[402] *See* Jacoby & Zimmerman, *supra* note 380, at 1356 ("For example, a model like Cindy Crawford earns her livelihood wearing clothes and makeup designed by others. In some instances, when she shows the clothes and makeup she is pursuing her primary career as a fashion model. In others, she may be exhibiting herself in the clothes or makeup specifically to endorse them as products. Distinguishing one from the other might be difficult, but courts are no strangers to this kind of line-drawing . . . .").

[403] *Cf.* Newcombe v. Adolf Coors Co., 157 F.3d 686, 692–94 (9th Cir. 1998) (holding former major league baseball pitcher, who was a recovering alcoholic, had stated an adequate claim under California statutory and common law for misappropriation of his likeness in an advertisement for beer).

[404] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 46 cmt. b (1995).

[405] *Id*.

nature of the products *C* is marketing, does that not deprive her of the ability to protect her name and reputation guaranteed under the right of publicity?

(b) Right of Publicity Most Likely a General Intangible, but . . .

The right of publicity, where recognized as a right that is separate from the right of privacy, would tend to fall into the category of general intangible. As suggested by Professor McCarthy, this is the trend in many states, where the right of publicity is protected for upwards of 100 years after a celebrity's death.[406] Thus, it is easy to say that the right stands apart from an interest in the celebrity where the celebrity does not need to be alive for the right to be protected. Also, it is increasingly recognized as transferable right, both during the celebrity's life and after death.[407] Lisa Marie Presley sold rights to her father's name and likeness for $100 million, and Elvis Presley is listed as *Forbes*' top earning dead celebrity, bringing in a total of $40 million in 2003.[408]

There is a significant trend to recognize the right of publicity as a fully assignable and inheritable right. Certainly, this is likely to maximize the value of the right, because advertisers are likely to increase the price they are willing to pay for the right if they can obtain "ownership" of a celebrity's persona for marketing purposes. This will also maximize the right's value as a piece of commercial property, because a lender is more likely to accept a right of publicity as collateral if the right is fully alienable. This means that a right of publicity is likely to be considered a general intangible.

Even so, there are aspects of this right that do not fit well with such a categorization, particularly if the celebrity is still alive. For example, following Professor McCarthy's view, the right should be fully alienable.[409] This would allow a secured creditor to foreclose and sell the asset to seek repayment of the loan secured by the right. Only in this way can the creditor fully use the right as collateral.[410]

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406 PUBLICITY AND PRIVACY, *supra* note 59, § 6:8.

407 *Id.* § 10:13.

408 Lisa DiCarlo, *Reaping Millions After Death*, FORBES.COM, Oct. 26, 2004, http://www.forbes.com/business/2004/10/25/cx_ld_1025deadcelebsintro.html (last visited Nov. 7, 2005). *See also* Jacoby & Zimmerman, *supra* note 380, at 1331–32 (describing efforts by singer David Bowie, baseball player Frank Thomas, and rap singer Sean Combs to "securitize the value of their identities").

409 PUBLICITY AND PRIVACY, *supra* note 59, § 10:14.

410 Jacoby & Zimmerman, *supra* note 380, at 1364 ("[T]he overall philosophy of our current debtor-creditor system puts the interests of the creditor in forcing the sale of the debtor's assets—publicity rights or otherwise—ahead of the preferences of the delinquent debtor.").

But this has some strange and unwelcome consequences, both for the celebrity and also for the public. For example, assume that John Q. Celeb signs a security agreement with First Bank that lists "general intangibles" as a type of collateral covered by the bank's security interest. As a result, if the right is a general intangible, Celeb will have granted a security interest in his right of publicity to First Bank without specifically listing it.

When Celeb defaults on the payment, First Bank will have a right to repossess Celeb's right of publicity.[411] First Bank, in order to seek repayment of the loan, can then proceed with a sale of Celeb's publicity right through either a public or private sale. The buyer will obtain full ownership of that right.[412] Assuming Celeb's right of publicity is fully alienable, the owner of the right can use Celeb's name and likeness to sell any product the owner wishes, regardless of the impact such marketing would have on the celebrity. If not, saying that the right is fully alienable would have no meaning. Celeb's publicity right must transfer without any restrictions, otherwise Celeb's publicity right would have much less value.

To be alienable would mean that Celeb's name and likeness can appear in advertising for products that Celeb does not endorse and in a form to which the celebrity does not consent. Even if Celeb dislikes the product, no action may lie, presumably, because the advertiser either owns or has licensed from the owner the celebrity's publicity right. This immediately raises the specter of a claim by Celeb for false endorsement, assuming the nature of the product is anathema to Celeb. Conversely, perhaps the advertiser of Celeb's right of publicity has a cause of action to prevent Celeb from interfering with the advertiser's use of Celeb's name and likeness.

Professor McCarthy suggests that such a view is correct; a celebrity should be fully capable of assigning his or her right of publicity without restriction.[413] He posits several reasons why there are circumstances when it is appropriate to assign a right of publicity, such as assigning the right to a corporation for tax purposes[414] or for estate planning purposes while the celebrity is alive.[415] He notes that the courts possess the power to undo transfers made under duress or due to fraud or mistake, "[b]ut in the ordinary situation of a freely bargained

[411] U.C.C. §§ 9-601, 9-609 (2000).

[412] *Id.* § 9-401.

[413] PUBLICITY AND PRIVACY, supra note 59, § 10.14. Other commentators agree. *See, e.g.*, Jacoby & Zimmerman, *supra* note 380, at 1357–67.

[414] PUBLICITY AND PRIVACY, *supra* note 59, § 10:14.

[415] *Id.* § 10:14.

assignment devoid of any overtones of pressure or unfair advantage, the courts should treat persons as freely consenting adults, capable of adequately protecting themselves in assignments of the right of publicity."[416]

The problem with this scenario is that if the right of publicity is treated as a general intangible, the assignment can be made without any explicit reference to the celebrity's publicity right—the mere mention of "general intangibles" would capture that right in the security agreement. Any default would trigger the right to repossess and sell the right,[417] including mere technical defaults to the loan. Article 9 does not appear to allow for a different result if the right of publicity is to be treated as a general intangible.[418]

CONCLUSION

With the adoption of Uniform Commercial Code Revised Article 9, the states have added a new form of collateral available to creditors—commercial torts. With this expansion of the types of collateral to include commercial torts, it is appropriate to reevaluate whether the characterization of the broad collection of rights termed intellectual property as general intangibles is appropriate. While it appears that the drafters of Revised Article 9 intended for the primary forms of federally protected intellectual property, namely patents, trademarks, and copyrights, to be so categorized, the same is not necessarily true of state-based and secondary intellectual property rights.

When considering the co-relative nature of these rights—the protection of interests relating to the owner of the rights—and the inability to transfer such rights in a meaningful way, it is likely that a strong argument can be made that they should be treated as commercial torts as opposed to general intangibles. This will limit creditors' ability to obtain perfected security interests in such intellectual property rights, and allow the debtor, or the trustee in bankruptcy, to avoid the effect of such security interests.

Whether this has a positive or negative impact on the business of lending is questionable. In some cases, this will have the positive impact of avoiding overly aggressive behavior by lenders in a way that inhibits commerce, such as those claiming a security interest in the ephemeral trade secret knowledge of employees. However, it may cause the value of such information to decline in

[416] *Id.*
[417] U.C.C. § 9-609 (2000).
[418] *Id.*

the marketplace if creditors cannot rely on such collateral to seek repayment in the event of default. This is likely true with moral rights and the right of publicity.