

# Newsletter

VOLUME 3, NUMBER 2, Fall 2005

## LETTER FROM ERIC...

With this issue of the Newsletter, I'm addressing the subject of property and how people interact with one another concerning property. Since ownership of property, in one form or another, is the source of most disputes, I'm providing an overview of legal issues related to intellectual property, real estate, and the property of a deceased person.

Much of my practical knowledge comes from my experience with lawsuits and disputes over property. For example, I tried cases in Probate Court over the property of deceased persons who did little or no estate planning, creating bitter conflicts among their heirs. I have tried cases between owners of real property who had misunderstandings as to their intentions. I have counseled business owners who had their business methods or customers stolen.

I learned early in my career that different character traits and sensitivities tend to emerge when people get into a dispute over property. My advice is to think and to plan. Think about the property you have and plan for it. It takes time and consideration but is well worth the effort.

Sincerely,

*Eric D. Morton*

## PROTECTING INTELLECTUAL PROPERTY

For many small businesses, their most important assets are intangible things like the goodwill they have built over the years and their intellectual property. Intellectual property (or "IP") includes inventions, trademarks and tradenames, copyrights and trade secrets. Often, the most important assets that businesses own is their IP. And while business owners will always remember to lock the doors, they often leave their IP vulnerable. However, all business owners can take steps to protect these valuable assets.

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**Note:** I will not be discussing inventions and patents. Patent law is a specialized field. Always seek the advise of a patent attorney regarding any inventions.

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Trademarks and tradenames are the unique designs, logos, or names under which a business operates or places on its products. Consumers identify a company's goods or services with its name or trademarks. If a competitor uses a similar name or mark, then consumers can be confused and fooled.

The key to protecting a trademark or tradename is selecting a unique one. Names or logos that are simply generic or descriptive can not be protected so taking time to think through a business or product identity always pays off.. Consider, for example, the Internet

search engine companies Yahoo!<sup>®</sup> and Google<sup>®</sup>. The names not only provide a unique brand, they also help to protect valuable intellectual property. If you don't have a unique business name, you cannot protect your business against a competitor who uses the same or similar name.

Once a business owns a logo and uses it as a trademark for the business or its goods and services, then it has trademark rights as well as a copyright. That is why a unique, professionally designed logo can be good investment.

It's fairly simple to research a possible tradename. Check fictitious business filings with the county recorder and other data bases and Internet searches. Or hire a company that specializes in researching tradenames.

Trademarks and tradenames can be registered at the local, state and national levels. A fictitious business name filing with the county recorder gives public notice that a business is using a particular tradename but only presumes that the business is entitled to use the name within the county. A

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state trademark or tradename registration can be done with California Secretary of State. Since state trademark databases are always searched by trademark search companies, this has the effect of giving nationwide notice. I always recommend that businesses file state registrations for their trademarks and tradenames, especially if they are not eligible for a national registration. A national registration is done with the U.S. Patent and Trademark Office (USPTO). The USPTO is a part of the Department of Commerce. Only trademarks and tradenames that are used in interstate or international trade are eligible for a registration with the USPTO. Since registrations at all levels can and do expire, **always review your registrations periodically.**

Finally, business owners can identify their trademarks or tradenames by the use of the trademark symbols ® and TM. ® can only be used if the trademark or tradename is registered with the USPTO. TM can be used for any tradename or trademark unique to a business or its products and services.

**Trade secrets** are information, processes, and methods that is unique to a particular business. Customer lists and unpublished price lists are trade secrets. The terms of contracts with customers are also. A famous trade secret is the exact formula for Coca-Cola®. Revealing trade secrets is a crime under California law and can be the basis of a civil lawsuit.

The difficulty with trade secrets is that, once they are revealed, it can be difficult to prove that something was, in fact, a trade secret. Most businesses usually only have customer lists and methods of doing business to protect.

The first step in protecting trade secrets is identifying them. It may not be obvious. Business owners need to give some considered thought to what are their trade secrets.

The next step is ensuring that all employees are aware that these certain things are secret and should not

be revealed. Employees can unwittingly harm a business by sharing with others the really unique way in which the business does something or that customers are sold certain products at certain prices. You can mitigate against this type of exposure by having employees sign a non-disclosure agreement (NDA) at the time of employment, and possibly a separate contract to prevent employees from initiating contact with customers in order to protect trade secrets. To avoid misunderstanding, it's important to require an NDA from anyone—not just employees—with whom you discuss trade secrets.

### **Copyrights**

Any time that a person creates a unique art work or writing, that person owns the right to copy it. Thus we get the word “copyright.” Artists own the copyright to their paintings and sculptures; musicians to recordings of them playing music; composers to the use of their music and songs; and writers to their novels and poems. The copyright exists at the moment of creation.

Like individuals, businesses own copyrights to their work products. For instance, Microsoft Corporation owns the copyright for the source code of Windows XP® and I own the copyright to the contents of this newsletter. Works that are created by employees or independent contractors are called for “works for hire” and the copyright is with the employer. To prevent disputes over copyrights, businesses can take the following steps.

1. Place notices on copyright-protected material such as written documents. This is the familiar “©” symbol and the name of the copyright owner. It indicates that the information or artwork should not be copied without the permission of the owner.
2. More importantly, be clear about ownership. For instance, don't use logo samples provided by a graphic artist until you have an agreement to purchase the exclusive rights. Otherwise,

you are violating the graphic artist's copyright. Once you hire the graphic artist and pay for the work, the copyright transfers to your business. If you don't pay for the work, you don't buy the right to use it, even if the artist gave you samples.

Artists and writers can give written notice to their customers, before they produce anything, as to who owns the copyright for any work they create. Likewise, business owners can establish copyright ownership for any work that they use. Works that are copyright protected can be registered with the U.S. Copyright Office.

### **Keep Track of Your IP**

I urge clients who have IP holdings to create an IP portfolio or file with a list of all the business' IP holdings and pertinent information about them. Such a file can include trademarks and registration information, license agreements, and so on. Schedule a periodic review of your IP portfolio to ensure that it's current and that registrations are renewed. An attorney can audit the IP portfolio to ensure legal compliance and to give a fresh perspective to the company.

Protecting your intellectual property requires that you think it through. The steps outlined in this article take some time, cost, and intention, but they are well worth the effort to protect the valuable IP assets of your business.

### **HOLDING PROPERTY IN A BUSINESS ENTITY**

Individuals who own real estate for investment often ask whether it's appropriate to hold title in their own name (possibly with relatives or friends), or to hold property in the name of a business entity such as a partnership or LLC. While the answer usually depends on financial or tax issues, what follows are some of the legal perspective.

## Advantages

Holding title as a business entity can provide a liability shield to property owners, since lawsuits are directed at the legal owner, in this case the business entity. I always recommend that clients form such an entity if to hold property that will involve a number of contracts, such as an apartment building or property that will be developed.

Another advantage is that title cannot be clouded by a debt of one of the owners. Otherwise, if one of the owners is sued and a judgment is awarded against him or her, the title to the property will be clouded and it can't be developed or sold unless the judgment is satisfied. This may be a source of major disputes if the property is held jointly by several individuals.

One advantage to having a business entity hold title to real property is the often overlooked fact that it can prevent deadlocks between the owners. If real estate is owned by individuals, the joint owners must all agree if they want to sell or develop their property. You cannot build or otherwise develop the property unless everyone agrees. If they don't, the only legal recourse is a lawsuit for partition, an expensive measure that usually results in the sale of the property.

If the property's title is held in the name of a business entity, the owners can state in writing their purpose for the property and allow a majority of owners to make a decision. Agreements between owners can also provide for owners to buy one another out in the case of disagreements or if one of them dies.

Finally, a business entity can provide for unequal contributions between the owners, which may be advantageous in real estate development. For instance, LLCs that are formed for real estate development frequently provide that investors make cash contributions for their ownership interests (called "membership interests") while the developers who form the LLC receive

membership interests without cash contributions. When the property is developed, the investor members are repaid their cash contributions (or "capital contributions") after which all members split the profits according to their membership interests.

## Disadvantages

The major disadvantage to holding property in the name of a business entity is the cost associated with forming and maintaining entities such as corporations and LLCs. Selecting the right business entity can also be important. Holding title to property through a corporation might be a problem if later the property owners want to transfer the property to a partnership or LLC.

Another potential downside is that a minority owner might lose the right to veto a use of the property that is unwise. Generally speaking, if two or more individuals own property together, and they are not married to each other, then I invariably advise them to at least have a well thought out and carefully drafted agreement as to how they will use the property.

Even when a property will not be developed and the property owners are few in number and related, there are advantages to having a written partnership agreement between them. Such an agreement can state who will be responsible for the payment of taxes, upkeep, payment of loans, and so on. For instance, there may be disagreements when a property is inherited by several relatives. Rather than risk a future disagreement, they can sign a partnership agreement to spell out their intentions. Maybe one relative will live in the property and be responsible for the payment of taxes, utilities, maintenance and any improvements but not responsible for payment of rent or the rental value of the property. In five years time, one party buys the other party out or the property is sold. Such an agreement can be keep family members on friendly terms and prevent disputes.

I always urge friends and family members to have such partnership agreements between them if they own residential real estate between them. The property does not need to be maintained in the name of the partnership but the agreement is still enforceable.

Remember: always seek the advise of an accountant as to how to hold real property.

## ESTATE PLANNING IS IMPORTANT

It's a simple fact that everyone—whether you own a business or not—can benefit from estate planning. Most of us don't want to contemplate our own death, let alone plan for it. But there are a few things that all adults can do to make sure their loved ones know what to do in the event of their death.

First of all, everyone needs a will. Even single persons with few assets should have a will, since it names an executor who is designated to wrap up the affairs of the deceased and distribute any assets. The executor with a properly executed will can finish business affairs, pay and collect debts, and, in some states, transfer title to vehicles and close bank accounts without formally opening a court ordered probate. Having a will and designating an executor can save a lot of unnecessary trouble for your loved ones.

Anyone who has children **must** have a will (there is no law but, in my opinion, there should be). Parents can designate a custodian who will take care of minor children in case both parents die. Naming a custodian can be crucial in the event of a tragedy and can prevent disputes and misunderstandings between relatives. There might be several custodians, one to take physical custody of children and another to take custody of any money and property that the child might inherit, depending on individual circumstances.

A will can also be used to create trusts from inherited property for the benefit of children. The trust can hold property for a child until the child is old enough to responsibly handle inherited assets.

A living trust allows Individuals who own real estate should to avoid the costly and time-consuming probate proceeding to transfer title to the property owner's heirs. A living trust is a trust that can be changed or revoked during the lifetime of the person (or persons) who sets up the trust. The trust can be used to hold title to real estate.

Typically, individuals hold title to their homes in a living trust. They can still sell or refinance the property normally. When the property owner dies, the trust continues to hold title to the property for benefit of the heirs of the property owner. A person named in the trust as the successor trustee then either transfers the property to the heirs or sells the property and distributes the proceeds to the heirs.

Finally, I highly recommend that people execute a Durable Power of Attorney for Health Care. With that document, you can nominate a person to make health care decisions in the event that you are incapacitated. You can also state your desires in the event that you are in a hopeless or terminal state. If Teri Schiavo had executed a DPAHC, then there would never have been a controversy about her case.

This is just a very brief overview of some estate planning documents and the reasons for having them. Give some thought to your affairs and your property and how you would like them to be handled in the event of your death. This can save a great deal of trouble and misunderstanding.



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#### **ABOUT THE NEWSLETTER...**

The *NEWSLETTER* is published in Carlsbad, California. We welcome your suggestions for future issues. If you would like to be removed or added to our mailing list, please let us know.

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Editing and Layout by Bright Folio, Inc.  
Photo by Darren Edwards Photography

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