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Perfecting Security Interests in Intellectual Property: Article 9, Federal IP Statutes, and Foreign Laws

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PERFECTING SECURITY INTERESTS IN INTELLECTUAL PROPERTY ASSETS

I. The Two Methods of Perfecting Security Interests

Like other forms of personal property, security interests can be perfected in patents, copyrights, trademarks and trade secrets. Generally, there are two methods of perfecting security interests in intellectual property assets: (1) by a written security agreement; and (2) by assignment of ownership of the intellectual property to the secured party coupled with a license granted back to the pledging party.

When a security agreement is utilized, the parties execute a document granting the secured party a security interest in the pledged intellectual property. The security agreement creates rights as generally provided by the Uniform Commercial Code (UCC). Ownership of the rights remains with the pledging party.

In contrast, the assignment and license back model transfers ownership to the secured party and the pledging party takes back a license grant to the secured intellectual property. Title reverts to the pledging party upon satisfaction of the obligations. This method of perfecting intellectual property rights is less frequently used because it often imposes unintended burdens on the secured party. With respect to patents, this method creates issues in litigation and during patent prosecution because the secured party, as the new patent owner, must participate in those activities. With respect to trademarks, courts have held that this arrangement may result in the abandonment and loss of the trademark rights. See, e.g., Haymaker Sports, Inc. v. Turian, 581 F.2d 257 (C.C.P.A. 1978); Clorox Company v. Chemical Bank, Cancellation No. 23,559 (TTAB 1996).

Security interests in intellectual property must be recorded with the appropriate state or federal authorities. There are three federal statutes authorizing the recordation of patents, copyrights and trademarks with the appropriate governmental agencies. Notably, only the federal copyright recordation statute preempts state UCC law. These statutes and recordation requirements are discussed below.

II. Perfecting Security Interests in Copyrights

Any transfer of copyright ownership or other document pertaining to a copyright may be recorded in the United States Copyright Office. 17 U.S.C. § 205(a). The Copyright Act defines a

"transfer of copyright ownership" as "an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license." 17 U.S.C. § 101; In re Avalon Software Inc., 209 B.R. 517 (Bankr. D. Ariz. 1997) ("Under federal copyright law, the grant of a security interest is defined as a "transfer of copyright ownership," because within copyright law that term includes mortgages or other forms of hypothecation"). Recordation of registered copyrights under the Copyright Act preempts the UCC. A UCC filing alone is insufficient to perfect a security interest in a registered copyright. See In re Peregrine Entertainment, Ltd., 116 B.R. 194 (Bankr. C.D. Ca. 1990) (holding a copyright security interest not perfected even though the lender filed UCC financing statements in three states but not with the Copyright Office); Lauter v. Rosenblatt, No. CV 15-08481, 2020 WL 3545733, at *5 (C.D. Cal. June 30, 2020) ("[S]ecuritization of a copyright interest requires recordation with the Copyright Office, rather than through any state-prescribed procedure."). To timely perfect the security interest, the recordation of the registered work should be made: (1) within one month after execution of the security interest; or (2) within two months if the security interest is executed outside the United States; or (3) at any time before recordation of a later transfer. 17 U.S.C. § 205(d).

Perfection of security interests by recordation with the Copyright Office only applies to copyrighted works that have been registered. 17 U.S.C. § 205(c)(2); In re AEG Acquisition Corp., 127 B.R. 34 (Bankr. C.D. Cal. 1991) ("Perfection of a security interest in a motion picture, as in any copyright, requires two steps: the film must be registered with the Copyright Office, and the security interest must be recorded in the same office."). In general, copyright registration is voluntary. The rights exist from the moment of the work's creation. While the Copyright Office permits recordation of security interests in both registered and unregistered works, the Copyright Act's recordation statute treats them differently. The statute provides that the constructive notice given by recordation does not extend to unregistered works because they do not have a title or registration number that would be "revealed by a reasonable search" and therefore cannot preserve a creditor's priority. 17 U.S.C. § 205(c)(2); In re World Auxiliary Power Co., 303 F.3d 1120, 1130 (9th Cir. 2002) (rejecting lower court holdings that a security interest in an unregistered copyright could not be perfected under the UCC, but only by first registering the copyright and then recording the security interest with the Copyright Office).

There is disagreement among the courts whether recordation with the Copyright Office perfects interests in the copyright itself, or also includes interests in the receivables generated by the copyright, such as accounts, royalties and other licensing revenue. Two California courts found a UCC filing insufficient to perfect a security interest in those revenue streams:

> because a copyright entitles the holder to receive all income derived from the display of the creative work, see 17 U.S.C. § 106, an agreement creating a security interest in the receivables generated by a copyright may also be recorded in the Copyright Office . . . The question is, does the UCC provide a parallel method of perfecting a security interest in a copyright? . . . Here, the comprehensive scope of the federal Copyright Act's recording provisions, along with the unique federal interests they implicate, support the view that federal law preempts state methods of perfecting security interests in copyrights and related accounts receivable.

In re Peregrine Entm't, Ltd., 116 B.R. at 199; In re AEG Acquisition Corp., 127 B.R. at 34. Another court rejected this. See MCEG Sterling, Inc. v. Phillips Nizer Benjamin Krim & Ballon, 646 N.Y.S.2d 778, 780 (Sup. Ct. 1996) ("these holdings are somewhat questionable because the assets in question were not themselves copyrights. A license and related receivable seem analogous to an installment note for the sale of land. Security interests in such installment notes are perfected under the U.C.C., not under real property recording statutes") (citing Moore, "Entertainment Bankruptcies: The Copyright Act Meets the Bankruptcy Code," 48 Business Lawyer 567, 571–572 (Feb. 1993)).

Accordingly, security interests in copyrights are perfected by: (1) for registered works, timely recording the interest with the Copyright Office, and (2) for unregistered works, making the appropriate state UCC filing. Recordation with the Copyright Office may also be necessary to perfect a security interest in royalties, accounts and other revenues derived from a copyrighted work. As a precautionary measure, both filings should be made for registered and unregistered works.

III. Perfecting Security Interests in Patents

Assignments and security interests in patents may be recorded with the United States Patent and Trademark Office (USPTO). Unless recorded, an assignment, grant or conveyance shall be void against any subsequent purchaser or mortgagee for valuable consideration. 35 U.S.C. § 261. In contrast to copyright law, the Patent Act does not preempt the UCC. In re Cybernetic Services, Inc., 239 B.R. 917, 922 (B.A.P. 9th Cir. 1999), aff'd, 252 F.3d 1039 (9th Cir. 2001) ("The failure of the Patent Act to include security interests within the scope of its regulation leads to the opposite conclusion [as the Copyright Act]; the Patent Act does not preempt state regulation of security interests in patents."); Raffel Sys., LLC v. Man Wah Holdings Ltd, Inc., No. 18-CV-1765, 2020 WL 3211684, at *3 (E.D. Wis. June 15, 2020) ("Courts . . . have consistently found that the Patent Act does not address perfection of security interests – it addresses assignments of title."); In re Coldwave Sys., LLC, 368 B.R. 91, 97 (Bankr. D. Mass. 2007); City Bank & Tr. Co. v. Otto Fabric, Inc., 83 B.R. 780, 784 (D. Kan. 1988) ("a federal filing is not required to perfect a security interest in patents as against the trustee in bankruptcy"); In re Transportation Design & Tech., Inc., 48 B.R. 635, 639 (Bankr. S.D. Cal. 1985) ("the grant of a security interest is not a conveyance of a present ownership right in the patent and, that like the creation of some other lesser rights in a patent (such as licenses) is not required to be recorded with the Patent Office"). The security interest must be perfected by filing a financing statement in accordance with state UCC law. As explained by one court:

> Given the limited focus and skeletal nature of the Patent Act and its lack of reference to the creation and perfection of security interests, we conclude that the Patent Act does not preempt state regulation of the perfection of security interests in patents.

In Re Cybernetic Services, Inc., 239 B.R. at 923 (citing 4 White & Summers, Uniform Commercial Code § 30–12). At least one court disagrees with this majority rule. See In re Peregrine Entertainment, Ltd., 116 B.R. at 203 (rejecting In re Transportation and In re City Bank & Trust Co.). In a more recent case, however, a district court found a valid and perfected security interest

where there was no federal filing because the contractual language assigning the security interest within a purchase agreement, security agreement, and loan agreement clearly included general intangibles and patents. JN Medical Corp. v. Auro Vaccines, LLC, 597 B.R. 879, 890-91 (D. Neb. 2019).

Security interests in patents must still be recorded with the USPTO despite their perfection by state UCC filings. Some federal courts have noted that a bona fide purchaser holding a duly recorded conveyance of its ownership rights in a patent or a mortgagee who has recorded its interest as a transfer of title in the USPTO will defeat the interests of a secured creditor who has not recorded its security interest with the USPTO. See In re Cybernetic Serv. Inc., 239 B.R. at 920 n.8 and In re Transp. Design and Tech., Inc., 48 B.R. at 639. These two courts held that the Patent Act's recordation statute narrowly preempts state law on this point:

> [A] security interest has two purposes: First, it protects the interest of a secured creditor in collateral against subsequent or competing lien claimants of its debtor. Secondly, a security interest protects the secured creditor against the debtor transferring title to the collateral free of its interest. Ordinarily, perfecting a security interest in personalty in accordance with the U.C.C. would protect both interests of the secured creditor. However, where a federal statute, such as the Patent Act, governs one area or interest which the secured creditor wishes to protect (e.g., ownership), then the federal statute pre-empts any other method of protecting that interest and is conclusive on the manner of protecting that interest. In other words, if the secured creditor wishes to protect itself against the debtor transferring title to the patent to a bona fide purchaser or mortgagee who properly records, then the secured creditor must bring its security interest (which is not ordinarily a transfer of title) within the provisions of the Patent Act governing transfer of title to patents. Only in that way can its debtor be barred from transferring title until the debt is repaid. In most cases, the sophisticated lender lending on intellectual property is in the best position to decide which of its interests it wishes to protect and if sale or transfer of that property by the debtor is a substantial concern, it will perfect its security interest by recording an assignment, grant or conveyance of the patent with the Patent Office to prevent its transfer.

In re Transportation Design & Tech., Inc., 48 B.R at 639–40. Accordingly, in addition to filing a UCC-1 financing statement, it is advisable to record a patent security interest in the USPTO to protect against the debtor later transferring title to the patent to another party. The recordation should be made: (1) within three months from its date of execution; or (2) prior to the date of such subsequent purchase or mortgage. 35 U.S.C. § 261.

In conclusion, security interests in patents are perfected by making the appropriate state UCC filing. As a precautionary measure, the security interests should also be recorded with the USPTO to protect a secured creditor from a later transfer of the patent by the borrower.

IV. Perfecting Security Interests in Federal Trademarks

Like patents, security interests in federally registered trademarks may be recorded with the

USPTO. 15 U.S.C. § 1060. Unless recorded, an assignment is void against any subsequent purchaser for valuable consideration without notice. Id. The Trademark Act does not preempt state UCC law. See In re Roman Cleanser Co., 43 B.R. 940 (Bkrcy. E.D. Mich. 1984) (holding that a federally registered trademark was a "general intangible" and its perfection was lawfully made by filing a UCC financing statement even if not recorded with the USPTO); Hallmark Indus., Inc. v. Hallmark Licensing, LLC, 417 F. Supp. 3d 1180, 1183 (W.D. Mo. 2019) (noting that state law governs a trademark security agreement); Opacmare USA, LLC v. Lazzara Custom Yachts, LLC, 314 F. Supp. 3d 1276, 1279-80 (M.D. Fla. 2018) (finding security interest in registered trademark perfected upon UCC financing statement filing); Trimarchi v. Together Development Corp., 255 B.R. 606 (D. Mass. 2000) (Lanham Act's registration provision does not preempt UCC filing requirements for the perfection of a security interest in a trademark); In re TR-3 Indus., 41 B.R. 128, 131 (Bankr. C.D. Cal. 1984) ("Neither Section 10 of the Lanham Act . . . nor the Lanham Act as a whole . . . contains any statutory provision for the registration recording or filing of any instrument or document asserting a security interest in any trademark, tradename or application for the registration of a trademark. The omission of such provision was intentional when the Lanham Act was enacted."); In re 199Z, Inc., 137 B.R. 778, 782 (Bankr. C.D. Cal. 1992) ("Had Congress intended that security interests in trademarks be perfected by filing with the Patent Office, it could have expressly provided for such a filing, as it did in the Copyright Act."). The recordation should be made: (1) within three months from its date of execution; or (2) prior to the date of such subsequent purchase. 15 U.S.C. § 1060.

However, as with patents, it is advisable to record security interests in trademarks with the USPTO because it may provide protection against subsequent transfers. But see, Hallmark Indus., Inc., 417 F. Supp. 3d at 1188 (finding subsequent trademark assignments to be unavailing because the secured party did not authorize such assignments). The Federal trademark act, known as the Lanham Act, contains the same language as the Patent Act with respect to securing priority. Compare 15 U.S.C. § 1060 with 15 U.S.C. § 261. Any subsequent purchasers and mortgagees that search the USPTO records will have actual notice of, and take the trademark registrations and applications subject to, the security interest.

In conclusion, security interests in federal trademarks are perfected by making the appropriate state UCC filing. As a precautionary measure, the security interests should also be recorded with the USPTO to protect a secured creditor from a later transfer of the trademark by the borrower.

V. Perfecting Security Interests in Florida Trademark Registrations

Security interests in trademarks registered with the State of Florida may be recorded in the trademark records maintained by the Secretary of State. Fla. Stat. § 485.081. However, recordation with the Secretary of State is not an exception to perfecting the security interest under Florida UCC law. See Fla. Stat. § 679.3111(a) (failing to identify Fla. Stat. § 485.081 as an exception). Accordingly, security interests in Florida registered trademarks are perfected by making the appropriate state UCC filing.

VI. Perfecting Security Interests in Trade Secrets and Common Law Trademarks

There is no federal or state statutory provision that addresses recordation of security interests in trade secrets. Trade secrets and unregistered common law trademarks fall within the UCC's definition of "General Intangibles." General Intangibles include, "[a]ny personal property (including things in action) other than goods, amounts, chattel paper, documents, instruments and money." Fla. Stat. § 679.102(1)(pp). A general security agreement covering general intangibles should suffice. The security interest is perfected by making the appropriate state UCC filing.

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Mr. Vermut, a partner at Driver, McAfee, Hawthorne & Diebenow, PLLC, practices exclusively in the area of information technology law and intellectual property law, including patent, copyright, trademark, trade secret and computer law and related unfair competition matters. He is a Registered Patent Attorney and a Florida Bar Board Certified Intellectual Property Lawyer. His practice includes patent and trademark prosecution, litigation and enforcement, licensing software and on-line service agreements and technology transactions.

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