Intellectual Property @ MINTZ LEVIN
Mintz Levin Cohn Ferris Glovsky and Popeo PC

Intellectual Property Alert

JUNE 27, 2012

Perfecting Security Interests in Intellectual Property... Not as Obvious as You Might Think

BY SUSAN NEUBERGER WELLER

The economy has not been kind to many businesses in the last several years. In trying to obtain credit to keep afloat, many businesses have had to secure their loans with not only their tangible assets, but also their intangible intellectual property assets. In order to secure their places in line in the event of bankruptcy or a default on a loan, banks, venture capitalists, and other lenders must perfect their security interests in all of the borrower's assets, including trademarks, copyrights, and patents. However, the proper methods for doing this are not as straightforward as they might seem to be.

The Uniform Commercial Code (UCC) is a set of uniform laws enacted in all 50 states governing the conduct of business and also proscribing procedures for making the appropriate filings to perfect security interests in certain tangible and intangible assets. A security interest in most types of personal property is "perfected" by providing public notice of the interest through filing a UCC-1 Financing Statement with the Secretary of State's Office in the borrower's jurisdiction of organization.

The law has not been uniformly interpreted over the years regarding the appropriate method for perfecting security interests in the different types of intellectual property. The Copyright Act addresses the issue of security interests but neither the Lanham Act (trademarks) nor the Patent Act does. There also does not appear to be any specific method for perfecting a claim of security in a domain name registration. Moreover, the methods for perfection may differ depending on whether a copyright or a trademark is federally registered or unregistered. Thus, even the most sophisticated practitioners can make inadvertent errors in filing documents seeking to perfect security interests if they are unfamiliar with the specialized nature of intellectual property assets.

Copyrights

The Copyright Act protects "original works of authorship fixed in any tangible medium of expression," and the statute sets forth eight categories of copyrightable works: literary works, musical works, dramatic works, motion pictures and other audiovisual works, works of art, sound recordings, choreographic works and pantomimes, and architectural works. Copyright does not protect any "idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in a work." 17 USC 102. A copyright in a work exists from the moment the work is created in tangible form. There is no need to obtain a copyright registration nor is it required that a copyright notice appear on a work in order for the protection to exist. The owner of a copyright is the individual who creates the work in tangible form. If an individual creates such a work within the scope of his or her employment, the employer automatically owns the copyright in the work as a work for hire.

The Copyright Act specifically provides that any "hypothecation of a copyright or of any of the exclusive rights comprised in a copyright" be recorded in the Copyright Office as a "transfer of copyright ownership." 17 USC 101, 205(a). A "hypothecation" means the "'pledging of something as security without delivery of title or possession.'" *Moldo v. Matsco, Inc. (In re Cybernetic Servs., Inc.*), 252 F.3d 1039, 1056 (9th Cir. 2001), *cert. denied*, 534 US 1130 (2002). Since the Copyright Act is federal law and provides for a method of perfecting and recording security

interests in *registered* copyrights, it preempts the UCC. Thus, the proper method for perfecting a security interest in a *registered* copyright is by recording the security interest at the U.S. Copyright Office. However, since U.S. law recognizes unregistered copyrights, any security interest in such an intellectual property asset must be perfected by filing a financing statement with the appropriate Secretary of State or as provided for in Article 9 of the UCC.

Patents

Patents protect inventions and do not exist in unregistered form. Patents only exist through application to and issuance by the U.S. Patent and Trademark Office (USPTO). The Patent Act does not address security interests in patents. The courts are not, however, uniform in their approach to recordation of security interests in patents. Nevertheless, since there is no federal law preempting state UCC law, perfecting a security interest against "subsequent lien creditors" of a patent should be recorded pursuant to the UCC. This interpretation of the law has been adopted by most courts. Although perhaps not required by law, it is also *strongly* recommended that a security interest in a patent against a "subsequent lien creditor" also be recorded at the USPTO.

The Patent Act does, however, address ownership interests in patents. Thus, a security interest against a "bona fide purchaser" or "mortgagee" of a patent should, according to various judicial interpretations, be recorded at the USPTO in order to perfect this type of security interest. Given the somewhat unsettled nature of perfecting security interests in patents, it is *strongly* recommended that any security interest in a patent against a subsequent lien creditor or a subsequent purchaser or a mortgagee be recorded both at the state level through the UCC procedure and at the USPTO.

Trademarks

Trademarks are source indicators. They are the brands under which a business's products and/or services are advertised to the public. They can consist of words, logos, movements, sounds, shapes, colors, smells, and almost anything else that identifies the source of a product or service and distinguishes it from another's. Trademarks can be registered at the USPTO, can be registered at the state level, and can also exist in unregistered, common law form. Like the Patent Act, the Lanham Act does not address security interests in trademarks, whether registered or unregistered. The Lanham Act does distinguish between security interests and assignments, stating that "an assignment [of a federally registered trademark or pending federal trademark application] shall be void against any subsequent purchaser for valuable consideration without notice, unless the prescribed information reporting the assignment is recorded in the United States Patent and Trademark Office within 3 months after the date of the assignment or prior to the subsequent purchase." 15 USC 1060(a)(4). Moreover, a pending federal trademark application that is based on an *intent-to-use* the applied-for mark *cannot* be assigned until after proof of use has been filed with the USPTO. Any assignment of such an application before filing proof that the mark is in actual use will render the application void. The exception to this statutory requirement allows the assignment of a pending intent-to-use application if it is assigned " to a successor to the business of the applicant, or a portion thereof, to which the mark pertains, if that business is ongoing and existing." 15 USC 1060(a)(1). Thus, it is very important in drafting security interest documents involving trademark assets *not* to designate the document or have it function as an assignment of any type, including a collateral assignment, if intent-to-use applications are involved.

Since there is no federal law governing either registered or unregistered trademarks, security interests in trademarks should be recorded under the terms of the UCC. However, again, it is *highly* recommended that all security interests in federal trademark registrations and applications be recorded not only with the appropriate Secretary of State, but also be recorded with the USPTO to ensure that lien creditors and all subsequent lenders and purchasers are aware of any security interests which may exist.

Security interests in state trademark registrations and domain name registrations should be recorded pursuant to the terms of the UCC.

IP Outside the U.S.

Often, security agreements will list not only intellectual property assets owned in the U.S., but also those applied for, registered, or otherwise owned in countries around the world. The perfection procedures previously described apply only to U.S. intellectual property assets. Thus, if the parties intend that non-U.S. IP assets are to be used as collateral, it is necessary to follow the proper procedures in each relevant jurisdiction, if any exist, for recording security interests to perfect rights in the assets.

Conclusion

For the protection of all parties involved, and their attorneys, it is strongly recommended that security interests in intellectual property assets be recorded both at the respective federal agencies responsible for those intellectual property assets and at the state level under the procedures prescribed by Article 9 of the UCC. Better to have more notice and protection than may be necessary than not utilizing procedures that are not overly burdensome or expensive and will ensure that no stone has been left unturned.

View Mintz Levin's Intellectual Property attorneys.

Read and subscribe to Copyright & Trademark Matters blog.

Boston · London · Los Angeles · New York · San Diego · San Francisco · Stamford · Washington www.mintz.com

Follow Us

2023-0612-NAT-IP