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ARTICLE

Granting or Recording a Security Interest in a Patent at the USPTO Does Not Deprive the Patent Owner of the Ability to Enforce the Patent

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Abstract

A patentee did not lose the ability to bring a patent infringement lawsuit when it entered into a security interest agreement covering all of its intellectual property and the agreement was recorded at the USPTO

Background

Raffel, a manufacturer of electronic controls for the seating, bedding and industrial marketplaces, entered into an "Intellectual Property Security Agreement" with two different banks granting the banks a security interest in all of its intellectual property. The banks filed notices of their security interests with the USPTO. Shortly thereafter, Raffel sued Man Wah for patent infringement and other causes of actions. In response, Man Wah moved to dismiss Raffel's patent infringement claims arguing that Raffel lacked the right to sue for infringement because the security agreements transferred title of Raffel's intellectual property to the banks.

Trial Court's Decision

Lenders take security interests in a debtor's intellectual property and other assets to protect themselves if the debtor defaults on a loan. In some instances, the lender demands that the security agreement transfer the ownership in the intellectual property until the loan is repaid.

The trial court found the act of granting a security interest in intellectual property and recording that security interest at the USPTO did not transfer title of the patents from Raffel to the banks, and, therefore, Raffel retained the right to enforce the patents.

To have the ability or "standing" to sue for patent infringement, an entity must satisfy the

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in the patent but lacks “all substantial rights,” it typically must join the owner of the patent in any infringement suit.

Man Wah argued that Raffel’s grant of a security interest and the subsequent recording of that security interest transferred title to the banks and thus, deprived Raffel of “standing” to sue. In support, Man Wah relied on a Supreme Court case from 1891, *Waterman v. Mackenzie*, which supported the principle that recording a security interest in patents was equivalent to transferring title. The court noted, however, that *Waterman* was decided prior to the enactment of the Uniform Commercial Code (“UCC”) in 1952, which fundamentally changed the way a security interest is perfected. After the enactment of the UCC in 1952, transfer of title was unnecessary to perfect a security interest.

Man Wah asserted that state UCC laws provide only one way for a party to perfect security interests and are preempted by the Patent Act and *Waterman* when they conflict. Specifically, Man Wah argued that, under the Patent Act and *Waterman*, a security interest is created through transfer of the patent when it is recorded at the USPTO. Man Wah asserted that this preempts perfecting a security interest through the UCC which does not transfer title. The court rejected the preemption argument citing numerous cases showing the Patent Act does not address perfection in security interests, but only assignments of title, and, thus, does not preempt state regulation of security interests in patents.

In looking at the actual agreements with the banks, the court confirmed that “[n]othing in the Intellectual Property Security Agreements states that Raffel is assigning title of the patents to the banks; rather, the agreements specifically state that Raffel is granting a ‘security interest’ in its intellectual property.” Thus, Raffel never transferred title and maintained standing. The court, therefore, denied the motion to dismiss.

Strategy and Conclusion

A party receiving a security interest in a patent may record the security agreement with the USPTO to protect itself against and give notice to subsequent bona fide purchasers or mortgagees. Standard security agreements that do not include language assigning title of the patents, however, will not prevent a patentee from bringing a patent infringement lawsuit. This case demonstrates the value of drafting the security agreement in a way that does not transfer ownership of intellectual property to the lender while the loan is pending.

The *Raffel* decision can be found here.

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