

# How to Perfect a Security Interest in Intellectual Property (Copyrights, Trademarks and Patents)

By Weintraub Firm on May 13, 2011

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When a creditor provides a loan to a debtor, the debtor will often grant to the creditor a security interest in the debtor's collateral, including the debtor's intellectual property. A creditor who receives a security interest in the debtor's intellectual property, usually by a security agreement, must perfect the security interest so that subsequent purchasers and creditors are on notice of the creditor's security interest in the collateral. Rules relating to the creation, attachment, perfection and priority of security interests in personal property, including "general intangibles" which include intellectual property, are governed by Division 9 (Secured Transactions) of the California Uniform Commercial Code ("Article 9"), unless federal law preempts Article 9. In order to determine where to perfect a security interest for each type of intellectual property, and since copyrights, trademarks, and patents are all governed by different statutes and case law, it is important to review and analyze not only Article 9 but also the Copyright Act of 1976, 17 U.S.C. § 101 *et. seq.* (the "Copyright Act"), the Lanham Trademark Act of 1946, 15 § 1051 *et. seq.* (the "Lanham Act"), and the Patent Act of 1952, 35 U.S.C. § 101 *et. seq.* (the "Patent Act").



## 1. Article 9 (Secured Transactions – California Uniform Commercial Code)

Article 9, which provides a comprehensive scheme for the regulation of security interests in personal property and fixtures, applies to "a transaction, regardless of its form, that creates a security interest in personal property or fixtures by contract." California Uniform Commercial Code ("U.C.C.") §§ 9109(a)(1), 9101 cmt. 1. However, Article 9 does not apply to the extent that a statute, regulation, or treaty of the United States preempts it. *Id.* § 9109(c)(1). Also,

the filing of a financing statement is “not necessary or effective” to perfect a security interest in personal property subject to a “statute, regulation, or treaty of the United States” which provides a national filing system for the perfection of security interests. U.C.C. §§ 9310(b)(3), 9311(a)(1), 9311 cmt. 2. Before analyzing whether the Copyright Act, the Lanham Act, or the Patent Act preempt Article 9 with respect to perfecting a security interest in a copyright, trademark or a patent, as the case may be, it is necessary to review the provisions contained in Article 9 for the creation, attachment, perfection and prioritization of security interests.

## 1. Creation of Security Interest

A “security interest”—which is an interest in personal property or fixtures which secures payment or performance of an obligation—is created by a “security agreement.” U.C.C. §§ 1201(b)(35), 9102(a)(73). The parties need not draft a separate document entitled “security agreement.” See *Komas v. Future Systems*, 71 Cal.App.3d 809, 814, 816 (1977). A security agreement is effective according to its terms between the parties, against purchasers of the collateral, and against creditors. U.C.C. § 9201(a). A “security interest” can be created in any “collateral,” which is defined as the property subject to a security interest, including the proceeds to which a security interest attaches. *Id.* § 9102(a)(12). “General intangibles” is a type of collateral and means any personal property, including things in action, other than types of collateral specifically exempted. *Id.* § 9202(a)(42). General intangibles include “various categories of intellectual property.” U.C.C. § 9102 Assem. Comm. cmt 5(d).

The security agreement which creates a security interest must sufficiently describe the collateral subject to the security interest, for evidentiary reasons. U.C.C. §§ 9108, 9203, 9108 Assem. Comm. cmt 1. A description of personal or real property in a security agreement is sufficient, whether or not it is specific, if it “reasonably identifies what is described.” U.C.C. § 9108(a). A description of collateral reasonably identifies the collateral if it identifies the collateral by any of the following: (1) specific listing; (2) category; (3) by type of collateral defined throughout the U.C.C., such as general intangibles; (4) quantity; (5) computational or allocational formula or procedure; or (6) any other method, so long as the identity of the collateral is “objectively determinable,” and the description of collateral does not merely state “all the debtor’s assets” or “all the debtor’s personal property.” *Id.* § 9108(b)-(e). The description of the collateral must “make possible the identification of the collateral described.” *Id.* §§ 9108, 9108 Assem. Comm. cmt. 2. A security agreement may also create or provide for a security interest in “after-acquired collateral” without requiring the creditor to take any further action—i.e., a “continuing general lien” or “floating lien.” U.C.C. §§ 9204(a), § 9204 cmt. 2.

## 2. Attachment of Security Interest

In order to perfect a security interest in a collateral, the security interest must first attach to the collateral. U.C.C. § 9308(a). A security interest attaches to collateral when it becomes “enforceable against the debtor with respect to the

collateral.” *Id.* § 9203(a). A security interest is enforceable against the debtor and third parties with respect to the collateral only if: (1) value has been given; (2) the debtor has rights in the collateral or the power to transfer rights in the collateral to a secured party, and, (3) the debtor has authenticated (i.e., executed) a security agreement that sufficiently provides a description of the collateral. *Id.* §§ 9203(b), 9102(a)(7).

### 3. Perfection of Security Interest

Under Article 9, the law of the jurisdiction of the debtor’s location governs the perfection of security interests in both tangible and intangible collateral, whether perfected by filing, automatically (through attachment), possession, or otherwise. U.C.C. §§ 9301, 9301 cmt. 4. A debtor who is an individual is located at the individual’s principal residence. *Id.* § 9307(b)(1). A registered organization, such as a corporation or a limited liability company, is located in the state under whose law it was organized. *Id.* §§ 9307(e), 9101 cmt. 4(c). A security interest is perfected if it has attached and if other requirements are met, including the possible filing of a financing statement. *Id.* §§ 9308(a), 9310(a). However, a financing statement does not need to be filed for security interests that are automatically perfected upon attachment, such as a purchase money security interest in consumer goods, or a sale of a promissory note. *Id.* §§ 9310(a)(1), 9309(1),(4). Further, a creditor may perfect a security interest in tangible negotiable documents, goods, instruments, money, or tangible chattel paper by taking possession. *Id.* §§ 9313(a), 9310(a)(6). In fact, a security interest in money may be perfected *only* by taking possession. *Id.* § 9312(b)(3). More importantly to this article, the filing of a financing statement is “not necessary or effective” to perfect a security interest in personal property subject to a “statute, regulation, or treaty of the United States whose requirements for a security interest’s obtaining priority over the rights of a lien creditor with respect to the property preempt” the filing provisions contained in Article 9 (i.e., because the federal law provides a national filing system). U.C.C. §§ 9310(b)(3), 9311(a)(1), 9311 cmt. 2. If federal law preempts Article 9 with respect to perfection of a security interest, then a financing statement would not be filed and the creditor would need to record the security interest with the appropriate federal office—i.e., the United States Copyright Office (“Copyright Office”) for filings related to copyrights, and the United States Patent and Trademark Office (“USPTO”) for filings related to patents and trademarks. Case law analyzing whether any of the federal statutes preempts Article 9 with respect to perfection of a security interest in a particular intellectual property is discussed below.

#### *i. Financing Statement*

If federal law does not preempt Article 9 with respect to perfecting a security interest in a particular intellectual property, a financing statement must be filed in the office of the Secretary of State, unless the collateral is real-estate-related, in which case a filing should generally be made with the county recorder’s office. U.C.C. § 9501. A financing statement must: (1) provide the name of the debtor; (2) provide the name of the secured party or a representative of the secured party; and (3) indicate the collateral covered by the financing statement. *Id.* § 9502(a)(1)-(3). The financing statement need not be signed by the debtor. *Id.* § 9502, cmt. 3. A financing statement sufficiently indicates the collateral that it covers if it provides either (1) a description of the collateral similar to that found in the security

agreement as set forth above, or (2) an indication that the financing statement “covers all assets or all personal property.” *Id.* § 9504. A financing statement is effective for a period of 5 years after the date of filing, unless its effectiveness is continued or terminated. *Id.* §§ 9513, 9515(a).

## *ii. Priority*

When more than one perfected security interest exists, the security interests rank according to priority in time of filing or perfection. U.C.C. § 9322(a)(1). A perfected security interest has priority over an unperfected security interest. *Id.* § 9322(a)(2). With respect to unperfected security interests, the first security interest to attach has priority. *Id.* § 9322(a)(3).

## **2. Perfecting a Security Interest in Intellectual Property**

As a preliminary matter, it should be noted that most courts which have analyzed the proper place to record and perfect a security interest with respect to various types of intellectual property have conducted their analysis under (1) *former* U.C.C. § 9-104(a) (whether the federal statute governed the rights of parties affected by transactions) and (2) *former* U.C.C. § 9-302(3)(a) (whether the federal statute provided for national registration or specified a place of filing for a security interest different from that in the *former* U.C.C.). Under the *revised* Article 9, the analysis turns to whether the relevant federal statute (1) preempts Article 9 with respect to perfecting a security interest, as set forth in U.C.C. § 9109(c)(1), and (2) provides a national filing system for perfecting security interests, as set forth in U.C.C. § 9311(a)(1)—similar though not entirely the same analysis as was done in the *former* Article 9. Nonetheless, cases that have been published after the *revised* Article 9 went into effect have for the most part mirrored their analysis to the *former* Article 9 standards, and many of the cases have conflated the two issues set forth above into one issue or just analyzed both issues at the same time.

### 1. Copyrights

Under the Copyright Act, “copyright protection subsists . . . in original works of authorship fixed in any tangible medium of *expression*,” including literary works, musical works, dramatic works, motion pictures and sound recordings. 17 U.S.C. § 102(a). The Copyright Act confers upon copyright owners the exclusive rights to reproduce the copyrighted work, prepare derivative works based upon the copyrighted work and distribute copies of the copyrighted work to the public by sale or other transfer of ownership. *Id.* § 106(1)-(3).

The Copyright Act provides that any “*transfer of copyright ownership*” or other document pertaining to a copyright” may be recorded in the Copyright Office, and further 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.” 17 U.S.C. §§ 101, 205(a) (emphasis added). 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 U.S. 1130 (2002) (quoting Black's Law Dictionary 747 (7<sup>th</sup> ed. 1999)).

Because 17 U.S.C. § 205(a) covers assignments *and* hypothecations of copyrights (i.e., security interests), it establishes a uniform method for recording security interests in copyrights and preempts Article 9 with respect to perfecting security interests in *registered* copyrights. *Nat'l Peregrine, Inc. v. Capitol Fed. Sav. & Loan (In re Peregrine Entm't, Ltd.)*, 116 B.R. 194, 200-204 (C.D. Cal. 1990). Accordingly, the proper method for perfecting a security interest in a *registered* copyright is recording the security interest with the Copyright Office in order to give "all persons constructive notice of the facts stated in the recorded document," rather than filing a financing statement under Article 9. *Id.* (quoting 17 U.S.C. § 205(c)); *see also Aerocon Eng'g, Inc. v. Silicon Valley Bank (In re World Auxiliary Power Co.)*, 303 F.3d 1120, 1128 (9<sup>th</sup> Cir. 2002); *Morgan Creek Prods., Inc. v. Franchise Pictures LLC (In re Franchise Pictures LLC)*, 389 B.R. 131, 142 (Bankr. C.D. Cal. 2008); *In re Avalon Software Inc.*, 209 B.R. 517 (Bankr. D. Ariz. 1997). However, the perfection of an *unregistered* copyright must be done by filing a financing statement with the Secretary of State pursuant to Article 9—not by recording the security interest in the *unregistered* copyright with the Copyright Office. *In re: World Auxiliary Power Company*, 303 F.3d at 1128.

## 2. Trademarks

The Lanham Act defines a trademark to mean "any word, name, symbol, or device or any combination thereof" used by any person "to identify and distinguish his or her goods . . . from those manufactured or sold by others and to indicate the source of the goods." 15 U.S.C. § 1127. The Lanham Act also provides registered trademark owners protection against any person who, without the trademark holder's consent, uses the mark in connection with the sale, distribution or advertising of any goods or services, where such use is likely to cause confusion, mistake, or deception. *Id.* §§ 1125(a), 1141(1).

The Lanham Act provides that an "assignment 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 U.S.C. § 1060(a)(4). Unlike the Copyright Act—which governs filings both with respect to assignments *and* transfer of security interests—the Lanham Act provides only for the recording of an assignment of a trademark with the USPTO, which does *not* include pledges, mortgages or hypothecation of trademarks. **Joseph v. Valencia, Inc. (In re 199Z, Inc.), 137 B.R. 778, 782 (Bankr. C.D. Cal. 1992)**; 15 U.S.C. § 1060(a)(4).

Trademark cases distinguish between security interests and assignments. **Roman Cleanser Co. v. Nat'l Acceptance Co. of Am. (In re Roman Cleanser Co.), 43 B.R. 940, 944 (Bankr. E.D. Mich. 1984)**, *aff'd*, **802 F.2d 207 (6th Cir. 1986)**. While a trademark *assignment* is an absolute transfer of the entire right, title and interest in and

to the trademark, the *grant of a security interest* is not such a transfer. *Id.* Rather, the grant of a security interest is merely “a device to secure an indebtedness,” or “a mere agreement to assign in the event of a default by the debtor.” *Id.* Given that the Lanham Act only covers assignments of trademarks and the fact that a security interest in a trademark is not equivalent to an assignment, the filing of a security interest is not covered by the Lanham Act. *Id.* Thus, the Lanham Act does not preempt Article 9 and the manner of perfecting a security interest in trademarks is governed by Article 9, which means that the secured creditor must file a financing statement with the Secretary of State to perfect the security interest in the trademark. *E.g., In re Roman Cleanser Co.*, 43 B.R. at 944; *In re 199Z, Inc.*, 137 B.R. at 782 (holding that secured party cannot perfect security interest in trademark by recording with the USPTO); **Trimarchi v. Together Dev. Corp., 255 B.R. 606, 610-11 (D. Mass. 2000)** (holding that the Lanham Act does not preempt Article 9); **In re Together Dev. Corp., 227 B.R. 439** (holding that filing of security interest with the USPTO failed to perfect security interest); **In re Chattanooga Choo-Choo Co., 98 B.R. 792 (Bankr. E.D. Tenn. 1989)** (holding that the U.C.C., not the Lanham Act, governs recordation of security interests in trademarks); **Creditors’ Comm. of TR-3 Indus., Inc. v. Capital Bank (In re TR-3 Indus.), 41 B.R. 128 (Bankr. C.D. Cal. 1984)**. Arguably, if Congress intended to provide a means for recording security interests in registered trademarks—in addition to recording *assignments* of trademarks—it would have done so, as it did in the Copyright Act with respect to recording security interests in registered copyrights. *In re Roman Cleanser Co.*, 43 B.R. at 944; *In re 199Z, Inc.*, 137 B.R. at 782.

Nonetheless, although cases uniformly suggest that a security interest in a trademark must be perfected by filing a financing statement with the Secretary of State of the state in which the debtor is located, it is recommended that a recording or filing also be made with the USPTO, especially since the USPTO has no authority to refuse to record a filed document on the ground that it is not a valid assignment. *In re Ellison Publications, Inc.*, 182 U.S.P.Q. 498, 1974 WL 19944 (Comm’r Pat. & Trademarks 1974). Filing a financing statement with the Secretary of State *and* recording the security interest with the USPTO will ensure that lien creditors and subsequent lenders and purchasers are all on notice of the security interests.

On a related note, when recording an assignment of a trademark in the USPTO, a creditor should make sure that the trademark is assigned together “with the goodwill of the business in which the mark is used.” 15 U.S.C. § 1060. Because a trademark is merely a symbol of goodwill and it has no independent significance apart from the goodwill it symbolizes, it cannot be sold or assigned apart from the goodwill it symbolizes. *Marshak v. Green*, 746 F.2d 927 (2d Cir. 1984). A sale of a trademark without its goodwill is an “assignment in gross” and is not a valid assignment. 1 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 18:3 (4th ed. 1996).

### 3. Patents

The Patent Act grants inventors and discoverers of “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof” the right to obtain a patent, which must be novel

and nonobvious. 35 U.S.C. §§ 101-103. The Patent Act protects the inventor or discoverer of the patent who applies for and pursues the patent from infringers who use or sell the patented invention without authority. 35 U.S.C. § 271(a).

The Patent Act provides that an “assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.” 35 U.S.C. § 261. The Ninth Circuit has held that the terms “assignment, grant or conveyance” refer to ownership interests only, and a security interest in a patent that does not involve a transfer of the rights of ownership is a “mere license” and not an “assignment, grant or conveyance” within the meaning of 35 U.S.C. § 261. *In re Cybernetic Servs., Inc.*, 252 F.3d at 1052. Since 35 U.S.C. § 261 provides that only an “assignment, grant or conveyance shall be void” as against subsequent purchasers and mortgagees, only transfers of ownership interests need to be recorded with the USPTO. *Id.* Unlike the Copyright Act, which refers to a *transfer* of ownership, which is further defined to include any “hypothecation” (i.e., the pledging of something as security without delivery of title or possession), the Patent Act does not refer to hypothecation, or to any security interests. *Id.* at 1056. The Patent Act does not preempt Article 9 with respect to filing security interests in patents, and a transaction that grants a creditor a security interest in a patent but does not effect a transfer of title or ownership is not the type of “assignment, grant or conveyance” that is referred to in 35 U.S.C. § 261. *Id.* at 1058. Accordingly, the proper method to perfect a security interest in a patent against *subsequent lien creditors* is to file a financing statement with the Secretary of State, in accordance with Article 9, rather than to record the interest with the USPTO. *Id.*; *Pasteurized Eggs Corp. v. Bon Dente Joint Venture (In re Pasteurized Eggs Corp.)*, 296 B.R. 283, 291-292 (D.N.H. 2003); *In re Transportation Design and Technology, Inc.*, 48 B.R. 635, 638-639 (Bankr. S.D. Cal. 1985); *City Bank and Trust Co. v. Otto Fabric, Inc.*, 83 B.R. 780 (D. Kan. 1988); *Chesapeake Fiber Packaging Corp. v. Sebro Packaging Corp.*, 143 B.R. 360, 369 (D. Md.) 1992). However, such a filing pursuant to Article 9 does not perfect security interests in patents against *subsequent bona fide purchasers*. *In re Transportation Design and Technology, Inc.*, 48 B.R. 635, 638-639 (Bankr. S.D. Cal. 1985). In order to properly perfect a security interest in patents against both future lien creditors *and* subsequent purchasers or mortgagees for value, it is best to file a financing statement with the Secretary of State, *and* to record the security interest with the USPTO. See *Rhone-Poulence Agro, S.A. v. DeKalb Genetics Corp.*, 284 F.3d 1323 (Fed. Cir. 2002) (noting that a secured creditor should record the security interest with the USPTO to perfect the security interest against a bona fide purchaser or mortgagee).

In summary, after reviewing Article 9, along with the Copyright Act, the Lanham Act and the Patent Act, and the case law interpreting those statutes, here's what appears to be the consensus: (1) to perfect a security interest in a *registered* copyright, the secured creditor must record the security interest with the Copyright Office (2) to perfect a security interest in an *unregistered* copyright, the secured creditor must file a financing statement with the Secretary of State of the state where the debtor is located, (3) to perfect a security interest in trademark (whether registered or

not), the secured creditor must file a financing statement with the Secretary of State of the state where the debtor is located, (4) to perfect a security interest in a patent against *subsequent lien creditors*, the secured creditor must file a UCC financing statement with the Secretary of State of the state where the debtor is located, and (5) to perfect a security interest in a patent against *subsequent bona fide purchasers*, the secured creditor must record the security interest with the USPTO. Nonetheless, due to the fact that some of the cases were decided under the *former* Article 9, and to ensure that the secured creditor is completely protected against subsequent lien creditors and bona fide purchasers, it is recommended that when perfecting a security interest in a copyright, trademark or a patent, that the secured creditor file *both* a financing statement with the Secretary of State of the state where the debtor is located, *and* to record the security interest with the Copyright Office (for copyrights) or with the USPTO (for patents and trademarks).