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Perfection at the Intersection of the UCC and Federal IP Law



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Intellectual property (IP) rights can be among a company's most valuable assets. Knowing whether a security interest in those assets is properly perfected requires more than a reflexive review of the Uniform Commercial Code's (UCC) perfection rules. A secured creditor can quickly find itself in an unsecured position pursuant to the avoiding powers found in §§ 544 and 547 of the Bankruptcy Code if it has not properly perfected its security interest.

Intellectual property is included in the UCC's definition of "general intangibles" at § 9-102(a)(42) and Official Comment 5(d). Sections 9-308 through 9-316 of Article 9 specify how to perfect a security interest in a variety of transactions, whether by filing a financing statement, possession, control or via a purchase money interest in consumer goods. The UCC may be the first place one looks for direction on how to perfect a security interest in intellectual property assets, but it certainly can not be the only place. Most, but not all, IP rights are governed by federal statutes and to the extent a federal statute or regulation pre-empts Article 9, then Article 9 may not apply to patents, trademarks, copyrights, domain names or trade secrets. At a minimum, the Patent Act, Lanham Act and Copyright Act must be carefully reviewed when determining how best to perfect a security interest in intellectual property.

Patents

Patents are governed by the Patent Act, which specifically provides that patents have the attributes of personal property.¹ Patents are inventions or discoveries and take the form of nearly anything, including devices, methods, processes, articles of manufacture, machines, compositions of matter and improvements. A patent is an exclusionary right granted by the U.S. to prevent others from making, using, offering for sale or selling the invention throughout the U.S. or importing the invention into the U.S. for a limited time in exchange for public disclosure of the invention when the patent is granted.² Patent applicants go through rigorous examination having to overcome many burdens before finally being issued a patent. Notwithstanding that a patent applicant does not have enforceable rights until a patent issues, any type of conveyance, such as a security agree-

ment, may be filed against a patent application or an issued patent.

The Patent Act does not contain explicit pre-emption language, as the Ninth Circuit Court of Appeals pointed out in the *Cybernetic Services* case.³ In *Cybernetic Services*, a secured creditor perfected its interest in a patent under California's version of the UCC and did not file with the U.S. Patent and Trademark Office (USPTO). The trustee argued that the Patent Act pre-empts Article 9 because § 261 of the Patent Act expressly delineates the place where a party must go to acquire notice and certainty about liens on patents as assignments of patents must be recorded with the USPTO.⁴ The Ninth Circuit distinguished between assignments and security interests and held that because § 261 of the Patent Act provides that only an "assignment, grant or conveyance shall be void" as against subsequent purchasers and mortgagees, only those transfers of ownership interests need to be recorded with the USPTO.⁵

In other words, the Patent Act does not pre-empt the UCC with respect to perfection of a security interest in a patent, and filing a financing statement pursuant to Article 9 was sufficient in the *Cybernetic Services* case. Other courts of appeal have not weighed in on this issue, and even though the U.S. Supreme Court denied *certiori* given the strength of the trustee's arguments with respect to assignments, secured parties should not only file a financing statement pursuant to Article 9, but they may wish to file the underlying security agreement with the USPTO. Keep in mind that all documents filed with the USPTO are a matter of public record. As such, if there are particular details in a security agreement that need to be kept confidential, a short-form security agreement may be desirable for filing purposes before the Patent Office.

Trademarks

The Lanham Act protects trademarks, such as words, phrases, symbols or designs, or a combination of words, phrases, symbols or designs, that identify and distinguish the source of the goods of one party from those of others.⁶ Examples of trademarks registered with the U.S. Patent

² 35 U.S.C. § 271.

³ *Moldo v. Matsco Inc.*, (In re *Cybernetic Services Inc.*), 252 F.3d 1039 (9th Cir. 2001), cert. denied, 534 U.S. 1130 (2002).

⁴ *Cybernetic Services* at 1047.

⁵ *Id.* at 1052.

⁶ 15 U.S.C. § 101, et seq.

¹ 35 U.S.C. § 101, et seq.

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and Trademark Office include Coca Cola®, Xerox® and McDonalds®.

The Lanham Act, like the Patent Act, only outlines the recordation of transfers in ownership interests.⁷ Bankruptcy courts have held that filing a UCC financing statement or a memorandum of security interest with the USPTO is not adequate to perfect a secured creditor's interest in a trademark.⁸ *Together Development* and *199Z* determined that the Lanham Act requires only assignments be filed with the USPTO; evidence of security interests may be filed with the USPTO, but such a filing is not sufficient to perfect those interests.

Trademarks do not need to be registered with the USPTO for a person or entity to claim rights because trademark rights accrue upon use, and for varying reasons, a trademark holder may decide not to pursue a federal registration. These unregistered trademarks may be designated by "TM." Because they are not registered with the USPTO, a UCC financing statement should be filed with the appropriate state authority to perfect a security interest. The Lanham Act has not been found to pre-empt Article 9, but due to the permissive nature of the Lanham Act with respect to notice filing of security interests and other copyright case law, filing a financing statement pursuant to Article 9 in conjunction with a USPTO filing confirms a secured party's perfection.

Copyrights

Copyrights are protected by 17 U.S.C. § 101, *et seq.*, known as the Copyright Act of 1976, and they protect original works of authorship including books, movies, songs, artwork, technical drawings and architectural works. Under the U.S. Copyright Act, the author of the work does not need to take any formal action in order to obtain copyright protection. Copyright protection occurs once the work is "fixed in a tangible medium of expression."⁹ By registering one's copyrighted work with the U.S. Copyright Office, the author obtains various advantages, such as the ability to bring a lawsuit for copyright infringement in federal district court with the potential to win attorney's fees and enhanced damages. While an individual copyright application is relatively inexpensive at \$35, creation of a copyrightable work is also quite easy. A company with a design engineering team may produce vast amounts of technical drawings, and it may be cost-prohibitive to register each set of drawings. This results in two sets of copyrighted works: (1) registered copyrighted works formally registered with the U.S. Copyright Office; and (2) unregistered copyrighted works that simply exist because someone reduced an original expression into a tangible medium. The Copyright Act has the most extensive federal rules with respect to recording ownership interests in federal intellectual property rights. Section 205(a) of the Copyright Act expressly provides:

Any transfer of copyright ownership *or other document pertaining to a copyright* may be recorded in the Copyright Office if the document filed for recordation bears the actual signature of the person who executed it, or if it is accompanied by a sworn or official certification that it is a true copy of the original, signed document. (emphasis added).

The Copyright Act has been held to establish "a uniform method for recording security interests in copyrights," which creates a different priority scheme than state law.¹⁰ *Peregrine* held that the Copyright Act, unlike the Patent Act or Lanham Act, pre-empts Article 9 due to its breadth of rules regarding ownership interests. *Peregrine* has been limited by the Ninth Circuit Court of Appeals to registered copyrights. *In re World Auxiliary Power Co.*¹¹ found that while § 205 of the Copyright Act provides a national registration "system" applicable to security interests, the registration/constructive notice requirements for priority under the Copyright Act exclude unregistered copyrights from that system.

When looking to perfect a security interest in a copyright, a secured party must diligently determine whether the copyright is registered. Per the Ninth Circuit, the Copyright Act only pre-empts Article 9 as to registered copyrights, so filing a security interest with the Copyright Office is mandatory as to registered copyrights for perfection to attach. Because the Copyright Act does not pre-empt Article 9 with respect to unregistered copyrights, filing a financing statement pursuant to Article 9 is sufficient. Even after making the distinction between registered and unregistered copyrights, it is still the safe and smart move toward perfection to file security interests in the Copyright Office and is also pursuant to Article 9.

Domain Names

While many consider domain names an IP asset, the issue is still debatable. A domain name is nothing more than an alphanumeric representation of a designated numerical code, similar to a home address for real estate. Domain names most closely resemble trademarks; however, the state of current law is quite clear that domain names in and of themselves do not constitute trademarks. Nevertheless, domain names frequently find themselves on schedules and exhibits in various agreements, including security agreements. The authority ultimately responsible for domain names is the Internet Corporation of Assigned Names and Numbers (ICANN). Following the foregoing discussion, it would seem that ICANN should be the appropriate authority to accept documents for perfecting a security agreement.

Unfortunately, ICANN does not accept such filings, which is likely due to the fact that it governs domain names worldwide. As such, to perfect a security interest in a domain

7 15 U.S.C. § 1060.

8 *In re Together Development Corp.*, 227 B.R. 439 (Bankr. D. Mass. 1998), and *In re 199Z Inc.*, 137 B.R. 778 (Bankr. C.D. Cal. 1992).

9 17 U.S.C. § 101.

10 *In re Peregrine Entertainment Ltd.*, 116 B.R. 194, 200-1 (C.D. Cal. 1990).
11 303 F.3d 1120, 1128, (9th Cir. 2002).

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name, one should file a UCC financing statement listing domain names as part of the collateral with the appropriate state authority.

Trade Secrets

Trade secrets are just that—secret. A trade secret, however, is not just any secret. It is a secret that provides its owner an economic advantage over its competitors. Some examples of well-guarded trade secrets include the formulas for Coca-Cola and Kentucky Fried Chicken. Trade secrets are governed by state law, and there is no federal governmental agency overseeing their creation or enforcement. Thus, a UCC financing statement needs to be filed with the proper state authority to perfect a security interest in a trade secret.

Conclusion

Perfection of security interests in IP assets can be a complicated process. As a first step, all intellectual prop-

erty, registered and unregistered, must be identified. This can be a cumbersome process as companies may not even realize they are holding IP assets. Due diligence should also be conducted independently to ensure that all registered intellectual property is found along with its current status. All IP rights should be categorized as patents, trademarks, copyrights, domain names or trade secrets so that security interests in the collateral can be properly perfected or, in the case of a trustee with avoiding powers, can be properly analyzed. **abi**

Editor's Note: *For more information on this subject, purchase Bankruptcy and Its Impact on Intellectual Property Law, Second Edition, for the ABI member-only price of \$25 from the ABI Bookstore (members must log in to bookstore.abi.org first to receive the member price).*

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