Perfecting Security Interests in Intellectual Property: Article 9, Federal IP Statutes and Foreign Laws
Navigating Overlapping Laws Impacting Security Interests in Copyrights, Patents, Trademarks and Domain Names

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Why Focus on Intellectual Property?

With the ongoing trend in the U.S. away from a manufacturing economy and towards an “innovation” economy, intellectual property is becoming a more and more important part of the collateral package available to lenders. Increasingly, it may constitute the only valuable asset that a company may possess. Also, failure to include intellectual property in your security, or failure to perfect in the same, can affect the value that a lender can realize on the rest of its collateral.
What is Intellectual Property?

Books, movies, photos, essays, articles, images, characters, video, source code, computer code, software, architectural plans, schematics, equations, medicines, bio-engineering, formulas, messages, treatments, screenplays, music, master tapes, recordings, trademarks, licenses, tradenames, slogans, symbols, trade secrets, patents, copyrights and on and on and on. Even this outline is copyrighted—although not registered with the US Copyright Office.
The Basics
Creation and Attachment of Security Interests

The “normal” rules for the creation and attachment of security interests generally apply to intellectual property. UCC 9-203(b) provides three basic requirements for the creation and attachment of security interests:

• The secured party must give value;
• The debtor must have rights in the collateral; and
• Authenticated security agreement that provides description of collateral and granting language.

Perfection and priority of security interests in intellectual property is where things get tricky and depend on whether state or federal law governs.
Article 9 and Federal Preemption

UCC Article 9 governs security interests in “general intangibles,” which includes patents, trademarks, copyrights, and other intellectual properties. A security interest in general intangibles is generally perfected by filing a financing statement.

Exceptions:
• UCC 9-109(c)(1) - Article 9 does not apply to the extent that a statute, regulation, or treaty of the U.S. preempts Article 9
• UCC 9-311(a)(1) – No financing statement is necessary to perfect a security interest in property subject to a US statute, regulation or treaty whose priority requirements preempt UCC 9-310(a)
Article 9 and Federal Preemption

**Patents and Trademarks**

Assignments of patents (35 U.S.C. § 261) and trademarks (15 U.S.C. § 1060) may be recorded at the USPTO, but statutes are silent with respect to priority of security interests, judgment liens, and licenses.

Federal courts consistently rule that filing a UCC financing statement with the appropriate state filing office is necessary and sufficient to perfect a security interest in patents and trademarks. Filing with does not perfect a security interest in patents or trademarks. See, e.g., *In re Cybernetics Servs., Inc.*, 252 F.3d 1039 (9th Cir. 2001) (patents); *Trimarchi v. Together Dev. Corp.*, 355 B.R. 606 (D. Mass. 2000) (trademarks)

But be aware of issues related to subsequent bona fide purchasers
Copyrights

Copyright Act sets forth method for executing transfers of copyright ownership (including “hypothecations”) and clear priority scheme for conflicting transfers. 17 U.S.C. §§ 101, 201(d), 205.

To perfect a security interest in registered copyrights, secured party must file evidence of transfer with the US Copyright Office. In re World Auxiliary Power Co., 303 F.3d 1120 (9th Cir. 2002); see also In re Peregrine Entm’t, Ltd., 116 B.R. 194 (C.D. Cal. 1990).

To perfect a security interest in unregistered copyrights, secured party must file a UCC financing statement with the appropriate state filing office. World Auxiliary Power.
RECAP: What and Where to File

**Patents, Trademarks, Unregistered Copyrights:**
- UCC-1 financing statement identifying collateral (e.g., “all assets,” “all general intangibles”) filed with appropriate state filing office
- Not necessary, but best practice to file with USPTO.
  - Filing must specifically identify each patent/trademark to which security interest applies.
  - Consider stand-alone IP Security Agreement.

**Registered Copyrights:**
- Evidence of transfer filed with USCO
- Consider stand-alone IP Security Agreement
- 17 U.S.C. § 205:
  - Filing must be signed
  - Must specifically identify registered works to which security interest applies
  - Not a “pure” first-to-file rule
Other IP,
Domain Names

- Twitter Accounts
- SnapChat
- Facebook
- Apple/Droid Applications
- Search Metadata
- Domain Names (so 1990s...)

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Licenses of IP - Special Rules and Considerations

General Rule and Exceptions

Assignment of rights under IP licenses
• Non-exclusive licenses are almost uniformly not assignable without licensor’s consent
• Exclusive licenses are generally assignable without licensor’s consent, but there appears to be a trend towards non-assignability without consent.

Impact of UCC on assignability restrictions
• UCC 9-408(a)
• UCC 9-321
Security Agreements – Best Practices

Due Diligence

Initial Due Diligence

Subsequent Due Diligence

Alert: Federal Tax Liens and Debtor Names
Security Agreements – Best Practices

Describing IP Collateral

Sufficient vs. Best Practice

Licenses – “Savings Clauses”

Trademarks – Special Rules: Collateral description must include goodwill and, ideally, should include assets of debtor that uniquely embody goodwill. Failure to include goodwill is an invalid or void “assignment in gross.” See, e.g., 15 U.S.C. § 1060(a)(1); Marshak v. Green, 746 F.2d 927 (2d Cir. 1984).
Security Agreements – Best Practices

Reps, Warranties, and Covenants

Reps/Warranties:
• Sole owner
• No claims, infringement, litigation
• No defaults under IP licenses; no “restricted licenses”
• No part of IP has been judged invalid or unenforceable
• All IP current with USCO/USPTO

Covenants
• Protect, defend, maintain validity and enforcement of IP
• Advise of infringements and other adverse events
• Keep IP current with USCO/USPTO (pay fees, file renewals, etc.)
• Provide notice to secured party of new IP and licenses and provide period updating in connection with financial reporting
• Provide notice of restricted licenses
• If substantial licensing proceeds, consider cash management/lockbox arrangement and/or agreements with material licensees
Enforcement of a Lien in Intellectual Property

Mechanics of Secured Party Sale

Public vs. Private Secured Party Sales

How to Properly Effectuate a Secured Party Sale
• Safe Harbor Searches
• Notification of Disposition
  • Timing
  • Contents
• Advertisements/Marketing
• Purchase Agreement and Bill of Sale

Effect of Secured Party Sale

Deficiency
Enforcement of a Lien in Intellectual Property

Strict Foreclosure as a Means of Enforcement

UCC 9-620(a)

Strict Foreclosure Procedure
• Notification
• Objection by Notified Person
• Partial vs. Full Satisfaction

Effect of Strict Foreclosure
Enforcement of a Lien in Intellectual Property

Litigation

Litigation is always a measure of last resort, but it provides an enforcement mechanism above and beyond those available under the UCC. For instance, in a situation with a domain name, while a lender may foreclose, it may not have the right to take over the domain name from the operator. As such it may require a court appointed receiver or court order.

When is Litigation Necessary?

Litigation Strategies