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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Perfecting Security Interests in Intellectual Property: Article 9, Federal IP Statutes and Foreign Laws

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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 of 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

- Article 9 of the UCC governs security interests in “general intangibles,” which includes patents, trademarks, copyrights, and other intellectual properties. See Official Comment No. 5(d) to Section 9-102 of the UCC.

  BUT there are exceptions:

  o Article 9, Section 9-109(c)(1) states “this Article does not apply to the extent that...a statute, regulation, or treaty of the United States preempts this Article.”

  o Article 9. Section 9-311(a)(1), provides that “…the filing of a financing statement is not necessary or effective to perfect a security interest in 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 subdivision (a) of Section 9- 310.”

- Accordingly, the relevant federal patent, trademark or copyright statute must be analyzed to determine whether the UCC or federal law controls the perfection of
security interests, liens and licenses.

Article 9 and Federal Preemption - Patents and Trademarks

- The statutory authority for recording assignments at the PTO is 35 U.S.C. Section 261 for patents, and 15 U.S.C. Section 1060 for trademarks, which provide in part:
  - “An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgage for a valuable consideration, without notice, unless it is recorded in the PTO within three months from its date or prior to the date of such subsequent purchase or mortgage.”

- Both the Patent Act and the Lanham Act are silent regarding priority of security interests, judgment liens, or licenses.

- Courts hold that the patent statute and the Lanham Act do not preempt UCC recording provisions.
  - Technically, the PTO does not consider a security interest, lien, or license to be an “assignment, grant or conveyance” subject to the mandatory patent recording provision.
  - Federal Courts consistently rule that filing a UCC financing statement with the appropriate state filing office, not the PTO, perfects a security interest in patents and trademarks and maintains the priority thereof as against a subsequent lien creditor.

  **ALERT:** But see below as to issue with respect to subsequent bona fide purchasers.

  - Filing a financing statement at the PTO does not perfect a security interest in the trademark under UCC Article 9.
  - See *In re Cybernetic Servs., Inc.*, 252 F.3d 1039 (9th Cir. 2001) (patents)
Article 9 and Federal Preemption - Copyrights

- The statutory authority for recording assignments of copyrights at the U.S. Copyright Office is set forth in 17 U.S.C. Sections 101, 201(d) and 205.

- Unlike the patent statute and the Lanham Act, the Copyright Act sets forth the method of executing transfers of copyright ownership, and clearly sets forth a priority scheme for conflicting transfers and provides that recordation of a document in the Copyright Office “gives all persons constructive notice of the facts stated in the recorded document.”

- Section 205 of the Copyright Act states that a “transfer of copyright ownership” is 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, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

- Courts have held that unlike the PTO, the extent to which the Federal Copyright Act regulates transfers, including security interests, leads to the conclusion that it preempts state methods of perfecting security interests in copyrights. Accordingly, to perfect a security interest in registered copyrights, a secured party must file with the Copyright Office. See In re Peregrine Entm’t, Ltd., 116 B.R. 194 (C.D. Cal 1990)

- **ALERT:** However, the U.S. Bankruptcy Court for the Northern District of California found that, with respect to an unregistered copyright, a security interest was perfected by a UCC financing statement. See In re World Auxiliary Power Co., 303 F.3d 1120 (9th Cir. 2002). Accordingly, best practice is to file...
both with the Copyright Office and to also file a UCC financing statement in the appropriate state filing office

So What and Where Do You File To Perfect Your Security Interest?

Patents and trademarks

- File a UCC financing statement in the appropriate state filing office.
  - Super generic “all asset” description is sufficient. Other generic descriptions such as “all general intangibles and accounts and the proceeds thereof” can be sufficient if you are only taking a security interest in IP.
  - Remember the UCC financing statement is only a notice filing. Description in the UCC financing statement need not be as detailed as the actual grant of the security interest in the collateral contained in the authenticated security agreement.
  - Such a UCC filing should cover substantially all of the debtor’s IP assets other than registered copyrights, including:
    - Any unregistered copyrights and applications.
    - Any patent and trademark applications and registrations.
    - Rights under exclusive and non-exclusive license grants to the debtor.
    - Proceeds from IP licenses granted by the debtor to third parties.
  - ALERT: See special rules regarding trademarks, goodwill and assets of the debtor which embody goodwill, in security agreement section below.
  - ALERT: Licenses may be subject to anti-assignment provisions that may restrict or limit the scope or effectiveness of the secured party’s security interests in the same. See section on Licenses below.
ALERT: Infringement claims likely constitute “Commercial Tort Claims” under the UCC.

- “An intellectual property infringement action is a form of tort claim, and business-related tort claims that do not involve personal injury are classified as ‘commercial tort claims’ under [UCC § 9-102(a)(13)].” LOUIS R. DIENES ET AL., INTELLECTUAL PROPERTY IN BUSINESS TRANSACTIONS § 9.35 (2008)

- If an infringement claim is a commercial tort claim, special rules apply under the UCC.
  - UCC § 9-108(e): Description of collateral in security agreement must describe claim with specificity (“all commercial tort claims” is too generic – security interest will not attach)
  - UCC § 9-204(b): After-acquired property rule does not apply – claim must exist at the time the security interest is authenticated (need to amend security agreement to include commercial tort claims after they arise)

- While not necessary to perfect a security interest in patents and trademarks, it is a best practice to file with the PTO.
  - Bona fide purchasers for value without knowledge of a security interest can take free and clear of that security interest. Filing with the PTO gives notice to any bona fide purchaser who searches the PTO records of the existence of the security interest. 35 U.S.C. §261; 15 U.S.C. §1060(a)(4)
  - PTO regulations allow filing of “other documents affecting title to applications, patents or registrations” (including security agreements) at the discretion of the Commissioner in order to “give third parties notification of equitable interests” (See Cybernetics, 37 C.F.R. § 3.11(a), and Manual of Patent Examining Procedure (7th Ed. 1998) § 313)
o Generic, “all patents and trademarks” filings are not permitted, nor are after-acquired patents and trademarks picked up by an existing filing. Accordingly, the filing must specifically list each patent and/or trademark. [need citation here]

o **ALERT:** It is not sufficient to simply file a copy of the UCC-1 Financing Statement in the PTO because the recording document must specifically identify each patent or trademark that the security interest applies to. The solution is to file a copy of the security agreement with the PTO.

o **ALERT:** Because PTO records are public records, lenders may want to consider preparing a “stand alone” security agreement in the intellectual property so that the loan terms are not public record. This is generally done through an intellectual property security agreement (an “IPSA”), which is a short form security agreement that deals only with IP. Very few reps/warranties, covenants.

o Schedules setting forth the specific patents and trademarks (including registration numbers) should be attached to the IPSA. This allows for easy amendment to update the schedules whenever patents and trademarks need to be added.

**So What and Where Do You File To Perfect Your Security Interest?**

**Copyrights**

- Filing with the US Copyright Office is required to perfect security interests over the debtor’s registered copyrights.

- The Copyright Act allows for recordation in the Copyright Office of documents evidencing transfers of copyright interests, which include:
  
  o Grants of security interests.
  
  o Licenses, grants and outright assignments of title.
• Mechanics of filing with USCO (can be a slow process)
  o 17 U.S.C. § 205
    ▪ (a) filing must bear actual signature of person executing or be accompanied by sworn or official certification that it is a true copy of the original signed doc (can be done electronically)
    ▪ (c) Gives constructive notice if registered works are specifically identified (by title or registration number)
• Priority - 17 U.S.C. § 205(d)
  o NOT a pure first-to-file rule like Article 9
  o “Transfer” (includes assignments and security interests) executed first prevails as long as it is properly recorded w/in 1 month of execution (in US) or 2 months of execution (outside US), or if it is recorded any time before the second executed transfer
  o If those conditions are not met and second executed transfer did not have notice of the first transfer, second transfer will take priority

**ALERT:** Termination of transfers – 17 U.S.C. § 203
  o Author(s) or heirs may terminate grant of a transfer within the 5 years following the date that is 35 years after execution of the grant (or the earlier of 35 years from publication/40 years after execution of the grant for grants covering the right of publication)

**ALERT:** As with a filing at the PTO, it is not sufficient to file a copy of the UCC-1 financing statement in the Copyright Office, because (1) the recorded document must specifically identify each copyright registration that the security interest applies to, and (2) the recorded document must be signed by the debtor. The solution is to file a copy of the security agreement with the Copyright Office.

**ALERT:** As with a filing at the PTO, because the Copyright Office filing is public record, lenders may want to consider filing an IPSA so that the terms of the loan arrangement are not made public.
  o Schedules setting forth the specific copyrights (including title and registration
numbers) should be attached to the IPSA. This allows for easy amendment to update the schedules whenever copyrights need to be added.

- File a UCC-1 financing statement in the appropriate state filing office to perfect a security interest in unregistered copyrights. See In re World Auxiliary Power Co., 303 F.3d 1120 (9th Cir. 2002).
  - Super generic “all asset” description is sufficient. Other generic descriptions such as “all general intangibles and accounts and the proceeds thereof” or “all copyrights and accounts and proceeds thereof” can be sufficient if you are only taking a security interest in IP.
  - Remember the UCC financing statement is only a notice filing. Description in the UCC financing statement need not be as detailed as the actual grant of the security interest in the collateral contained in the authenticated security agreement.

So What and Where Do You File To Perfect Your Security Interest?

Other IP, Domain Names,

Twitter Accounts and Facebook Accounts

- A UCC financing statement describing the collateral (again generic is fine with respect to state UCC filings) filed in the applicable state filing office should be sufficient to perfect a security interest in other forms of IP such as trade secrets.
- California law recognizes domain names as intangible property subject to the same laws that govern intellectual property.
- Can be perfected by recording a UCC-1 financing statement listing the domain names and all related goodwill, intellectual property, accounts, accounts receivable, general intangibles, instruments, and payment intangibles arising from the use of the domain,
and proceeds.

- So does a Twitter Account or Facebook Page constitute property of a debtor?
  - It’s an interesting discussion. The short answer is no, but it may be a sliding scale...

**Licenses of IP; Special Rules and Considerations**

- The general rule regarding the assignability of contracts is that if the contract is silent on transferability, rights thereunder can be assigned or transferred freely unless:
  - A statute or public policy provides otherwise; or
  - There are materially adverse consequences to the non-assigning party

- The classic example of a public policy exception to the free assignability rule is the personal service contract

- The general rule applies to whether a licensor of IP can assign its rights in IP
  - Generally, a licensor can assign its rights in a license it has granted unless the license expressly restricts the licensor from doing so

- However, assignment of rights under a license of IP by licensees falls into the public policy exception
  - Authors and inventors receive special protections under the U.S. Constitution
  - Trademarks are given special protection under the Lanham Act and various state laws on unfair competition
  - As a result courts have treated patent, copyright, and trademark licensing by a licensee like personal service contracts

- Distinction between exclusive and non-exclusive licenses
  - Non-Exclusive Licenses - Courts have almost uniformly held that non-exclusive licenses of IP not assignable without consent
    - Personal to the licensee
    - Policy reasons favor IP owner’s right to control identity of licensee
    - See *In re Catapult Entm’t*, 165 F.3d 747 (9th Cir. 1999) (patents)
Exclusive Licenses - exclusive licenses have been held to be assignable without consent. The rational is that an exclusive license is more akin to an outright sale of IP, and therefore the licensee should have more rights in the license.

However, there appears to be a trend towards non-assignability without express consent.

- Patents – trend is moving toward non-assignability (E.g., In re Hernandez, 285 B.R. 435 (Bankr. D. Ariz. 2002) ("[A]pplicable federal patent law would require the consent of the Licensor to assign the License in this case even if the License is exclusive.")

- Trademarks –
  - Recent cases pronounce trademark licenses to be non-assignable, no distinction between exclusive and nonexclusive See, eg., Inre XMH Corp., 647 F.3d690 (7th Cir. 2011)

- Copyrights
  - Exclusive copyright license is considered a transfer of copyright ownership under 17 U.S.C. § 101. Under 17 U.S.C. § 201(d)(2), owner of exclusive right in copyright is entitled to all rights of copyright owner (i.e., assignable without consent)
  - 9th Circuit has held that holder of exclusive copyright license must obtain consent of licensor prior to granting sublicense (Gardner v. Nike, 279 F.3d 774 (9th Cir. 2002))

- UCC impact on restrictions on assignability
  - UCC § 9-408(a) (general intangibles) – contract terms in licenses of general intangibles that prohibit/restrict assignability are ineffective to impair the creation, attachment or perfection of a security interest and do not give rise to default as a result of the assignment
  - Even through restrictions are not effective as against creation/attachment/perfection of security interest, secured party does not have the right to enforce the security interest against the license itself
- Primary value is to enforce security interest in proceeds of license

- Where does this leave us?
  - If the license that will serve as collateral is an “out-bound” license (i.e., the debtor is the licensor), then unless there are specific restrictions in the out-bound license, a secured party’s security interest should allow the secured party to transfer the license to a buyer through a secured party enforcement action such as a secured party sale.
  - If the license that will serve as collateral is an “in-bound” license (i.e., the debtor is the licensee), restrictions on transferability or assignability may render the secured party’s security interest ineffective as to the license itself, and only cover the proceeds of such license. The secured party will not be able to enforce against the license itself and/or transfer the license to a third party at a secured party sale, for instance.

- **Practice Tip** - If licenses held by the debtor are of particular value, or are essential to the operation of the debtor (e.g., brand name inventory, proprietary operating system software, reservation or booking systems) secured party should consider obtaining consent of licensor(s) of such licenses to the grant of a security interest in favor of the secured party and to the secured party’s right to transfer such license to a buyer at a secured party sale or other disposition.

- **ALERT**: Non-exclusive licenses in the ordinary course take free and clear of a security interest in the underlying IP. See UCC § 9-321. This is similar to the buyer in the ordinary course provisions with respect to inventory. Debtor can dilute the value of the IP through extensive licensing, particularly if it is in a distressed situation and begins licensing at discounted rates. Infringement actions can be comprised as infringers can argue that the lower royalty rates apply to any damage claims for infringement. However, it is difficult to draft provisions to address this concern without impairing a debtor’s ability to run its business in the ordinary course.

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**Security Agreements – Best Practices**

**Due Diligence**

- Secured Party Due Diligence
o Initial due diligence
  - Like any collateral, UCC, corporate, tax lien, and judgment searches
  - Conduct searches at Copyright Office and/or PTO as applicable
  - Require a perfection certificate early in process
  - Review license agreements (for both “incoming” and “out-going” licenses)

  Practice Tips -
  - If possible search inventor names as well as debtor name(s) as it is possible that a patent may be filed under an individual name and not yet assigned to the debtor
  - Best to use service. Online searching is available, but indexing at CO and PTO can be sloppy and good services will search various permutations of debtor’s name. See Alert below.

o Subsequent due diligence
  - As noted above, IPSA or other document evidencing a security interest filed at the PTO or CO will not automatically pick up new patents, trademarks or registered copyrights
  - Covenants requiring periodic updates as to new IP and licenses of IP (and updated perfection certificate) and periodic searches at the PTO and Co are highly recommended

  ALERT: In 2011, U.S. Court of Appeals held that a federal tax lien filed using an abbreviation of the debtor’s legal name trummed a lien filed by a bank using the debtor’s exact legal name.
  - The Court reasoned that a federal tax lien is valid if a “reasonable and diligent”
search would find the lien.

- No requirement like that in the UCC that a debtor’s name needs to be the exact legal name
- As a result of this decision, when searching the CO or PTO or searching for tax liens in general, the search must include “similar names.”

Security Agreements – Best Practices

Describing IP Collateral

- Unlike a financing statement, the description of collateral in the security agreement needs to specifically identify the category of assets in which the security interest is granted.
  - “All General Intangibles and proceeds and products thereof” might be sufficient for most IP. However, best practice is to list out the general categories, and then include, without limitation, a full and exhaustive list of IP and related assets.
  - See Exhibit A for a sample collateral description for an IPSA

- “Savings Clauses” - Given the possibility of restricted licenses that contain provisions that make the granting of a security interest a breach of the license or worse, cause the termination of the license, many security agreements will contain a “savings clause” which automatically limits the scope of the security interest in such licenses to the proceeds thereof.
  - A note of caution here if the licenses in question are valuable or otherwise material to the operations of the debtor or to the secured party’s ability to realize upon the collateral, you may not want an automatic savings clause that excludes that license from the secured party’s collateral

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• Trademarks – Special Rules
  
  o A trademark is a symbol of the owner’s goodwill and exists only in association with the goodwill of the owner’s business.

  o Collateral description must include goodwill and, ideally, should include assets of debtor that uniquely embody goodwill

  o Failure to assign goodwill together with trademark is an invalid or void “assignment in gross”
    
    
    ▪ E.g., Marshak v. Green, 746 F.2d 927 (2d Cir. 1984)

  o If taking security interest in “intent to use” applications, should get a security interest in assets that comprise business or portion thereof to which mark pertains

• ALERT: Sometimes you may think your client is lending on tangible assets such as inventory, so you don’t need to worry about IP. This is a trap for the unwary! Disposing of inventory which is “branded” can pose a problem if the secured party does not also have a security interest in the license to use the brand name. Many producers of consumer products (especially high end, high fashion products) very carefully control the marketing of their products by retailers. If inventory of this nature is a significant part of your client’s collateral, you need to carefully review the license agreements under which the debtor sells the branded merchandise and understand whether there are restrictions on its resale by the secured party. Sometimes this can be resolved by taking a security interest in the license or securing the consent of the supplier of the inventory to use the brand name when selling the same.
Security Agreements – Best Practices

Representations, Warranties and Covenants Specific To IP

- Representations and warranties
  - Debtor is sole owner of all of its IP except for non-exclusive licenses granted in the ordinary course, over-the-counter software commercially available to the public and IP licensed to the Debtor (which should be scheduled out)
  - No claims, infringement, litigation regarding IP except as scheduled
  - No defaults under any IP licenses held by the debtor
  - No part of IP has been judged invalid or unenforceable
  - No “restricted licenses” except as scheduled
    - “restricted licenses” are those with restrictions on the granting of a security interest in the license or to the transfer of the license or which the breach of or termination of could interfere with the secured party’s right to sell any collateral
  - All IP is current with CO/PTO as applicable (ie. all issuance and maintenance fees have been paid; all extensions have been filed for; etc.)

- Covenants
  - Debtor will, at its sole cost, expenses and risk, take all actions necessary to protect, defend and maintain the validity and enforceability of its IP and to prevent the dilution of the same
  - Debtor will promptly advise the secured party in writing of infringements or other events that may adversely affect the value or enforceability of the IP
  - Debtor will keep IP current with CO/PTO as applicable and in connection
therewith pay all issuance, maintenance and renewal fees, file for all extensions, and not allow any material IP to be abandoned, forfeited, or dedicated to the public without secured party’s prior written consent

- Notice to secured party of any and all new IP, including licenses, other than over-the-counter software
- Notice of restricted licenses and agreement to take steps at request of secured party to obtain the consent of any licensee under a restricted license to allow the secured party to take a security interest in the same and dispose of same after default by debtor
- No licenses of IP other than non-exclusive licenses in the ordinary course of business which cannot be further sub-licensed

- **Practice Tip** – A distressed and/or incompetent debtor or the rare “bad actor” can significantly damage the value of IP by extensive non-exclusive licensing of the IP, particularly at discounted royalties or if they allow further sub-licensing. Depending on the business of the debtor, the value of the IP, and other deal specific considerations, the secured party may want to consider further restrictions on the ability of the debtor to license its IP. This is particularly true in a workout situation.

- Require periodic updating of all IP in connection with debtor’s other financial reporting.

- **Practice Tip** – Require a new perfection certificate with any amendment or extension. Despite the requirement to notify the secured party on new IP, and to provide updates, debtor’s seem to routinely fail to report new IP. Requiring the debtor to actually list out all of its IP on a new perfection certificate often picks up IP that has previously been missed.
Debtor agrees to provide any IPSA’s or other documents, and to take any actions, that secured party reasonably requests to perfect or further secure its security interests in IP.

Debtor also grants authority/power of attorney to secured party to file the IPSA with the PTO/CO as applicable and to unilaterally amend such filings, and to file updated schedules to the IPSA, from time to time without further consent or authority in order to reflect new IP.

Indemnity in favor of the secured party for any claims or losses arising out of third party claims related to the IP and agreement to cooperate in connection with any litigation arising from same.

Grant to secured party of a royalty-free license or other right to use all IP in connection with preparing collateral for sale and advertising and selling the same in connection with secured party enforcement actions.

- If licensing proceeds are a significant part of collateral, or if a particular license is a key part of the collateral pool, consider requiring (i) cash management/lock box arrangements for incoming royalties, and (ii) agreements from material licensees recognizing the secured party’s security interest, agreeing not to allow amendment of license without secured party consent, and agreeing to comply with the directions of the secured party from and after default without further consent of the debtor.

**Enforcement of a Lien in Intellectual Property**

**Secured Party Sale and its Mechanics**

- It is an out-of-court, statutorily prescribed process by which the debtor’s title in its assets is transferred to a purchaser for the agreed-upon consideration; typically, the process can be completed within 30 days.

- Negotiations occur primarily between the secured lender and the purchaser.
o Buyer is not going to want to buy directly from Debtor as it does not want to assume liabilities, indemnities or other warranties.

o Junior lienholder interests, if proceeds of the sale are insufficient, cannot make further claims to the Buyer in a Secured party sale.

**How do you properly effectuate a Secured Party Sale:**

1. disseminate a notice of disposition of collateral to those parties, including the debtor, any guarantors and certain lienholders of record entitled to receive notice under UCC section 9-611

   ▪ the notice identifies the secured party and the debtor, the collateral being sold and the date of a public sale or the date after which a private sale will occur which, in all events, must be at least ten days after the notice of disposition of collateral has been sent.

   ▪ **ALERT**: a private sale is the preferred means if a purchaser of the assets is identified

2. Promptly after the notice of disposition of collateral is sent, the secured party and the purchaser negotiate the definitive purchase agreement.

   ▪ The agreement sets forth:

      • The assets being conveyed (that should mirror the description of the collateral contained in the security agreement);

      • The purchase price;

3. The closing of a secured party sale results in the secured party conveying to the purchaser whatever rights the debtor had in the assets covered by the secured party’s lien under article 9.

4. The operative conveyance document is a secured party bill of sale, which
identifies the assets being conveyed, notes that the conveyance is being made pursuant to a secured party sale under UCC article 9 and, typically, disclaims all warranties, including warranties of title, merchantability and fitness for a particular purpose.

5. The secured party sale effects a discharge of the secured party’s lien, as well as all subordinate liens

6. You are not required to file a UCC3 Termination Statement.

7. If the assets include registered patents, copyrights or trademarks, it is recommended that assignments be filed in the U.S. Copyright Office or the USPTO.

**Strict Foreclosure as a Means of Enforcement**

1. Section 9-620(a) expressly permits acceptance "in full or partial satisfaction of the obligation" with respect to any type of collateral, whether tangible or intangible and whether or not in the secured party’s possession.

2. The secured party must follow several procedural steps before initiating a strict foreclosure. It must provide notice of the proposed strict foreclosure to the Notified Persons, including whether such strict foreclosure will be in partial or full satisfaction of the debt.

3. If any Notified Person, including any junior lender, objects to the foreclosure, for any reason or no reason, within twenty days after the proposal was sent by the foreclosing party, the secured party cannot proceed with the proposed strict foreclosure.

4. Moreover, if the secured party proposes to accept the collateral only in partial satisfaction of the debt or places conditions on the acceptance of the collateral as satisfaction in full of the debt (other than a condition that collateral not in possession of the secured party be preserved or maintained), the debtor must consent to the
proposed strict foreclosure, and can only do so after the default has occurred.

5. If there are no objections to the proposed strict foreclosure, the secured party takes title to the collateral, forgives either the full amount of debt or that portion of the debt on which the parties agreed, and all subordinate security interests and liens are discharged.

**ALERT:** A subordinated creditor should almost always object to a senior creditor’s strict foreclosure if the value of the assets being foreclosed upon is higher than the debt owed to the foreclosing secured creditor; otherwise, the foreclosing party will take possession of collateral that could have been used to satisfy the debt owed to the subordinated creditor.

**ALERT:** If a lender proceeds with a strict foreclosure to satisfy a partial debt, the lender should ensure that it has properly valuated the assets being foreclosed just in case the Debtor seeks to contest the value of the collateral foreclosed upon.

**Public Sale as Means of Enforcement**

1. Section 9-610(b) of Article 9 provides that a creditor can foreclose upon collateral by selling the collateral at a public sale.

2. Before conducting any such sale, the secured party must provide reasonable notification of the foreclosure sale (at least 10 days), including the “time and place of [the] public disposition,” to the (1) debtor, (2) secondary obligors and (3) other persons of which the secured party is deemed to have notice of such person’s interest (including a security interest) (collectively, the “Notified Persons”).

3. To identify any persons with security interests in the collateral, the secured party must order a lien search between twenty to thirty days prior to the “Notification Date” of the proposed sale.

4. Competitive bidding. Includes some form of advertisement or public notice must precede the sale and that the public must have access to the sale.
a. Note that publication in a newspaper of general circulation may not be sufficient.

b. Advertisement in trade journals may be warranted.

5. Secured party may apply sale proceeds from the sale to its debt and the expenses it incurred in conducting the sale.

6. If there is any surplus, the secured party must pay over any remaining proceeds to any subordinated secured creditor who made a demand for payment prior to the distribution of the proceeds from the sale; the remaining excess, if any, goes to the debtor.

7. If there is a deficiency, the secured creditor may proceed against the debtor for the amount of the deficiency.

8. Secured Party can bid at Public Sale.

**Litigation**

Litigation is always a measure of last resort, but it provides 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?**

1. Are there liabilities associated with foreclosing or transfer of ownership?

2. Is the Debtor cooperative?

3. Are there assets in multiple jurisdictions?

4. Is there an on-going business that needs to be maintained?
5. Are there accounts receivable?
6. Is there liability associated with the assets?
7. Are there competing claimants and disputes over priority?
8. Is the intellectual property licensed to third parties?
9. Is there incomplete source code or other incomplete intellectual property?
10. Are there domain names or other “internet” assets?
11. Are assets being moved out of the jurisdiction?
12. Is the Debtor denying the Lender access to premises, accounts, etc.?
13. Is there a rapidly diminishing asset?
14. Is there widespread dissemination of intellectual property? (Internet?)

**Litigation Strategies**

*(If we have time we can discuss certain litigation strategies)*

Receiver

Writ of Possession

Injunction

Sheriff or Marshall Assistance

Assignment for Benefit of Creditors
EXHIBIT A

Sample Collateral Description

Definitions

“Copyrights” shall mean all copyrights, copyright applications and like protections in each work of authorship or derivative work thereof of the Grantor, whether registered or unregistered, whether published or unpublished and whether or not constituting a trade secret, including, without limitation, the United States copyright registrations listed on EXHIBIT A annexed hereto and made a part hereof, together with any goodwill of the business connected with, and symbolized by, any of the foregoing.

“Copyright Licenses” shall mean all agreements, whether written or oral, providing for the grant by or to the Grantor of any right under any Copyright, including, without limitation, the agreements listed on EXHIBIT A annexed hereto and made a part hereof.

“Licenses” shall mean, collectively, the Copyright Licenses, Patent Licenses, Trademark Licenses, and any other license providing for the grant by or to the Grantor of any right under any IP Collateral.

“Patents” shall mean all patents and applications for patents of the Grantor, and the inventions and improvements therein disclosed, and any and all divisions, revisions, reissues and continuations, continuations-in-part, extensions, and reexaminations of said patents including, without limitation, the United States patent registrations listed on EXHIBIT B annexed hereto and made a part hereof.

“Patent Licenses” shall mean all agreements, whether written or oral, providing for the grant by or to the Grantor of any right under any Patent, including, without limitation, the agreements listed on EXHIBIT B annexed hereto and made a part hereof.

“Trademarks” shall mean all trademarks, trade names, corporate names, company names, domain names, business names, fictitious business names, trade dress, trade styles, service marks, designs, logos and other source or business identifiers of the Grantor, whether registered or unregistered, including, without limitation, the United States trademark registrations listed on EXHIBIT C annexed hereto and made a part hereof, together with any goodwill of the business connected with, and symbolized by, any of the foregoing.

“Trademark Licenses” shall mean all agreements, whether written or oral, providing for the grant by or to the Grantor of any right under any Trademark, including, without limitation, the agreements listed on EXHIBIT C annexed hereto and made a part hereof.

(Note: Terms in brackets are defined by reference to the all-asset security agreement between the parties.)

Grant of Security Interest. In furtherance and as confirmation of the security interest granted by the Grantor to the Secured Party under the Security Agreement, and as further security for the payment or performance in full of the [Obligations], the Grantor hereby grants to the Secured Party a continuing security interest, with a power of sale (which power of sale shall be exercisable only following the occurrence and during the continuance of an [Event of Default]), in all of the present and future right, title and interest of the Grantor in and to the following property, and each item thereof, whether now owned or
existing or hereafter acquired or arising, together with all products, proceeds, substitutions, and accessions of or to any of the following property (collectively, the “IP Collateral”):

(a) All Copyrights and Copyright Licenses;
(b) All Patents and Patent Licenses;
(c) All Trademarks and Trademark Licenses;
(d) All other Licenses;
(e) All renewals of any of the foregoing;
(f) All trade secrets, know-how and other proprietary information; works of authorship and other copyright works (including copyrights for computer programs), and all tangible and intangible property embodying the foregoing; inventions (whether or not patentable) and all improvements thereto; industrial design applications and registered industrial designs; books, records, writings, computer tapes or disks, flow diagrams, specification sheets, computer software, source codes, object codes, executable code, data, databases, and other physical manifestations, embodiments or incorporations of any of the foregoing, and any Licenses in any of the foregoing, and all other IP Collateral and proprietary rights;

(g) All [General Intangibles] connected with the use of, or related to, any and all IP Collateral (including, without limitation, all goodwill of the Grantor and its business, products and services appurtenant to, associated with, or symbolized by, any and all IP Collateral and the use thereof);

(h) All income, royalties, damages and payments now and hereafter due and/or payable under and with respect to any of the foregoing, including, without limitation, payments under all Licenses entered into in connection therewith and damages and payments for past or future infringements, misappropriations or dilutions thereof;

(i) The right to sue for past, present and future infringements, misappropriations, and dilutions of any of the foregoing; and

(j) All of the Grantor’s rights corresponding to any of the foregoing throughout the world.

(Note: The foregoing covers only IP and IP-related collateral. It is not an “all asset” security interest description. You will need to additional language to cover other collateral such as goods, inventory, equipment, accounts, etc. if you intend to have an “all asset” security interest. Also, as discussed in more detail in the outline, if you are taking a security interest in trademarks, you may want to include other assets that uniquely embody goodwill, such as signs, marketing materials, branded merchandise, or other tangible assets. Also, consider adding existing commercial tort claims with specificity if you intend to pick up such claims in your security interest.)