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THE INTERSECTION BETWEEN UCC ARTICLE 9 AND INTELLECTUAL PROPERTY: THE NEED FOR A NATIONAL, CENTRALIZED FILING SYSTEM FOR IP

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ABSTRACT

Intellectual property has emerged as a commercially valuable and dominant asset to our economy promoting innovative technological developments that have and continue to stimulate economic growth promoting our free-enterprise, market-based system. Secured transactions involving intellectual property also promotes and stimulates our economic growth. Such transactions provide innovators with much needed capital to design, develop, and market their intellectual property. Despite the economic benefits derived from secured financing involving such property, legal uncertainty exists whether federal or state law governs how to perfect best security interests in intellectual property. Having a perfected security interest in collateral puts a lender in its best position to protect its interest against competing parties; but, the legal uncertainty surrounding perfection of security interests in intellectual property can make lending more costly and less predictive. To resolve this uncertainty, this Article posits that Congress should enact legislation that establishes a national, centralized, on-line filing system for recording security interests in intellectual property. Lender unease concerning how to perfect a security interest in intellectual property stems from the absence of uniform and comprehensive jurisprudence in the area of secured financing in intellectual property. The establishment of a national recording system would inject predictability and certainty into secured transactions by providing an efficient means of providing constructive notice that would further promote innovation and commercialization in the area of intellectual property.

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I. INTRODUCTION.....	84
II. PERFECTION OF SECURITY INTERESTS IN INTELLECTUAL PROPERTY.....	86
A. Introduction.....	86
B. The Copyright Act.....	88
C. The Lanham Act.....	88
D. The Patent Act.....	89
III. CONCLUSION.....	90

THE INTERSECTION BETWEEN UCC ARTICLE 9 AND INTELLECTUAL PROPERTY: THE NEED FOR A NATIONAL, CENTRALIZED FILING SYSTEM FOR IP

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I. INTRODUCTION

Intellectual property has emerged as a commercially valuable and dominant asset to our economy.¹ It has become a necessary component to stimulating and promoting our “free-enterprise, market-based system.”² Intellectual property is employed in all sectors of the economy, and in practically all U.S. industries, the assertion of intellectual property rights have become the basis for protecting creative and innovative ideas.³ The use of patents, trademarks, and copyrights evidencing ownership of innovative ideas provides a legal means to promote economic benefits to businesses, their employees, and consumers.⁴ Overall, “IP-intensive industries accounted for about \$5.06 trillion in value added, or 34.8 percent of U.S. gross domestic product (GDP), in 2010.”⁵

Secured financing involving intellectual property also stimulates and promotes economic growth.⁶ Financing transactions secured by intellectual property provide a boon to both debtors and creditors.⁷ Through such financing transactions, businesses can obtain needed capital and creditors can earn interest income and increase their loan receivables.⁸

Despite the economic benefits derived from secured financing involving intellectual property, legal uncertainty exists concerning whether federal or state law governs how to perfect a security interest in such property. Having a perfected security interest in intellectual property puts a lender in the best possession to

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¹ *Intellectual Property Issues: Lending*, Practical Law Finance & Practical Law IP and Technology, Resource ID. 6-383-4566 (2015) [hereinafter *Intellectual Property Issues: Lending*].

² ECONOMICS AND STATISTICS ADMINISTRATION & U.S. PATENT AND TRADEMARK OFFICE, INTELLECTUAL PROPERTY AND THE U.S. ECONOMY: INDUSTRIES IN FOCUS v (2012).

³ *Id.*

⁴ *Id.* Intellectual property intensive industries in the U.S. in 2010 provided employment for a substantial portion of the workforce—26.6 million jobs in sixty trademark intensive industries; 3.9 million jobs in 26 patent-intensive industries; and 5.1 million jobs in thirteen copyright-intensive industries. *Id.* at vii.

⁵ *Id.* at vii.

⁶ Kyle Tondo-Kramer, *Increasing Access to Startup Financing Through Intellectual Property Securitization*, 27 J. MARSHALL J. COMPUTER & INFO. L. 613, 614-615 (2010) [hereinafter Tondo-Kramer, *Increasing Access to Startup Financing*].

⁷ *Id.* at 615.

⁸ *Id.*

protect its interest against competing secured parties and lien creditors. On a state level, secured financing involving the perfection of intellectual property is generally governed by each state's version of Article 9 of the Uniform Commercial Code (UCC). State UCC Article 9 law provides that filing a "UCC" financing statement perfects a lender's security interest in intellectual property; and perfection is necessary to protect a lender's secured claim against competing security interests and lien creditors.⁹ The lender must file the financing statement in the appropriate Secretary of State's Office.¹⁰ In contrast, the Copyright, Lanham, and Patent Acts (Acts), which respectively govern copyrights, trademarks, and patents, include recordation provisions that require parties with certain interests to record those interests in the federal office designated by the federal statute within a specified time frame to prevail against competing interests.¹¹ These federal recordation provisions raise the question whether lenders with security interests in intellectual property must record those interests on a federal level, instead of filing a UCC financing statement, to perfect their security interests and to prevail against competing parties asserting interests in such property.

The Supremacy Clause of the Constitution provides that federal law is "the supreme law of the land."¹² Accordingly, any state UCC recording laws in conflict with the federal recording laws are invalid.¹³ State UCC Article 9 law expressly provides that state UCC perfection laws are neither necessary nor effective to perfect a security interest if federal law preempts the state perfection laws.¹⁴ However, the jurisprudence addressing whether the Acts preempt state UCC recording requirements consists of a patchwork of legal opinions that are limited and incomplete. The limited and incomplete nature of the patchwork of legal opinions has created unease amongst lenders. Lenders have resorted to dual filings to best protect their security interests and record their security interests with both the federal office designated by the applicable federal statute and with the state office designated by the UCC.¹⁵ Moreover, the lack of definitive legal guidance most likely restricts intellectual property secured financing.

To eliminate the uncertainty that most likely stymies secured financing in intellectual property, Congress should enact federal legislation that creates a centralized, national, online filing system. Intellectual property rights are dominant assets on the financial statement of many businesses.¹⁶ Consistent with the tremendous growth in the intellectual property industry, the law should provide lenders with a centralized filing system that brings predictability to securitization of intellectual property. Such a system would most likely increase secured financing in

⁹ See UCC § 9-312 (2001).

¹⁰ See UCC §§ 9-310, 9-501 (2001).

¹¹ See Copyright Act, 17 U.S.C. § 205(d) (2012); Lanham Act, 15 U.S.C. § 1060 (2012); Patent Act, 35 U.S.C. § 261 (2012).

¹² U.S. Constitution, Art. VI, cl. 2.

¹³ See *Maryland v. Louisiana*, 451 U.S. 725, 746 (1981); *Gibbons v. Ogden*, 22 U.S. 1, 211 (1824).

¹⁴ UCC § 9-311 (a) (2001).

¹⁵ *Security Interests: Intellectual Property*, Practical Law Finance and Practical Law Intellectual Property and Technology, Resource ID 5- 383-5929 [hereinafter *Security Interests: Intellectual Property*].

¹⁶ *Intellectual Property Issues-Lending*.

intellectual property inuring not only to the benefit of creditors and their borrowers, but also to the economy.

II. PERFECTION OF SECURITY INTERESTS IN INTELLECTUAL PROPERTY

A. Introduction

Article 9 of the UCC provides that a lender should comply with the attachment and perfection provisions to render its interest in intellectual property enforceable against the debtor and competing parties.¹⁷ Federal statutes regulating intellectual property law do not preempt the attachment requirements of Article 9.¹⁸ Generally, lenders satisfy the attachment requirements by executing a security agreement authenticated by the debtor that describes the intellectual property, which UCC classifies as “general intangibles.”¹⁹ The UCC perfection laws require that lenders provide notice of their security interests to third parties.²⁰ Filing a financing statement with the appropriate Secretary of State’s Office can satisfy the perfection requirement for most types of personal property including intellectual property.²¹ However, state UCC law includes step-back provisions indicating that a UCC financing statement filing is neither necessary nor effective to perfect a security interest if federal law preempts such filing.²² Yet, the recordation provisions in the federal intellectual property laws do not specifically indicate that lenders must record security interests on a federal level to perfect such interests in intellectual property.

¹⁷ UCC §§ 9-203; 9-308 (2001).

¹⁸ *Security Interest: Intellectual Property*, *supra* note 15.

¹⁹ UCC § 9-203 (2001).

²⁰ *Id.*

²¹ UCC § 9-501 (2001). UCC state laws provide that the timing of the filing may, in certain instances, serve to rank the lenders priority in relation to subsequent competing parties since the financing statement filing provides constructive notice. UCC §§ 9-317, 9-322, and 9-323 (2001).

²² UCC §§ 9-109(c), 9-311(a) (2001).

PERFECTION OF INTELLECTUAL PROPERTY

TYPE OF IP	APPLICABLE FEDERAL STATUTE	PREEMPTION QUESTION	REQUIRED PERFECTION METHOD	ADDITIONAL PERMISSIBLE RECORDING METHOD
Registered Copyrights	Copyright Act, 17 U.S.C. § 205.	The Copyright Act preempts state law regarding perfection of a security interest in a registered copyright.	Record an IP security agreement in the Copyright Office.	None.
Unregistered Copyrights	Copyright Act, 17 U.S.C. § 205.	The Copyright Act does not preempt state law regarding the perfection of a security interest in an unregistered copyright.	File a UCC financing statement in the UCC filing office in the appropriate jurisdiction.	None.
Trademarks	Lanham Act, 15 U.S.C. § 1060 (a).	<p>The Lanham Act does not preempt state law regarding the perfection of a security interest in a trademark. The Act does not address security interests or lien creditors.</p> <p>The Lanham Act does preempt state law regarding the validity and terms of an assignment of trademark ownership.</p>	File a UCC financing statement in the UCC filing office in the appropriate jurisdiction.	37 C.F.R. § 3.25 allows a lender to file a short-form patent security agreement with the USPTO. Filing a short-form trademark security agreement is not necessary or effective to perfect a security interest; however, filing such a security agreement is recommended to protect against subsequent bona fide purchasers and mortgages.
Patents	Patent Act, 35 U.S.C. § 261.	<p>The Patent Act does not preempt state law regarding the perfection of a security interest in a patent. The Act does not address security interests or lien creditors.</p> <p>The Patent Act does preempt state law regarding the validity and terms of an assignment of patent ownership.</p>	File a UCC financing statement in the UCC filing office in the appropriate jurisdiction.	37 C.F.R. § 3.11 (a) allows a lender to file a short-form patent security agreement with the USPTO. Filing a short-form patent security agreement is not necessary or effective to perfect a security interest; however, filing such a security agreement is recommended to protect against subsequent bona fide purchasers and mortgages.

B. The Copyright Act

The Copyright Act provides language that courts have interpreted as preempting the UCC state perfection laws, but the Copyright Act is not a model of clarity concerning the preemption issue.²³ The Copyright Act provides that “[a]ny transfer of copyright ownership or other document pertaining to a copyright” may be recorded in the United States Copyright Office.²⁴ The Copyright Act defines a transfer to include a “mortgage.”²⁵ Further, the Copyright Act grants priority between two conflicting transfers to the transfer executed first, provided it is recorded with the Copyright Office “within one month after its execution in the United States or within two months of its execution outside the United States” or before a competing transfer is recorded.²⁶ Courts have found that the term “transfer” in the Copyright Act includes the creation of a security interest.²⁷

In *In re Peregrine*, an oft-cited bankruptcy case holding that the Copyright Act preempts the state UCC perfection laws, the court noted that the Copyright Act’s recordation system “gives nationwide, constructive notice to third parties of the recorded encumbrance.”²⁸ The court subordinated the lender’s security interest that was not recorded in the U.S. Copyright Office to an involuntary lien asserted by the bankruptcy trustee noting that “the Copyright Act establishes its own scheme for determining priority between conflicting transferees, one that differs in certain respects from that of Article Nine.”²⁹ Notwithstanding the court’s finding, the Copyright Act does not explicitly define the term “transfer” to include involuntary conveyances such as a bankruptcy trustee’s lien creditor rights; nonetheless, the courts have construed the term “transfer” broadly to include such conveyances.³⁰

Neither the language of the Copyright Act nor *In re Peregrine* address whether the Copyright Act preempts state UCC perfection laws where lenders seek to take security interests in unregistered copyrights. However, twelve years after *In re Peregrine*, the Ninth Circuit Court of Appeals in *In re World Auxiliary Power* concluded that the Copyright Act did not preempt state UCC filing requirements for perfection of unregistered copyrights since the absence of copyright registration with respect to such copyrights precluded lenders from filing any type of effective notice with the Copyright Office.³¹

C. The Lanham Act

In contrast to the Copyright Act, the Lanham Act does not specifically address security interests in trademarks. The Lanham Act provides that “[a]ny assignment

²³ See Copyright Act, 17 U.S.C. § 205 (2012).

²⁴ *Id.*

²⁵ *Id.* at § 101.

²⁶ Copyright Act, 17 U.S.C. § 205(d) (2012).

²⁷ *In re World Auxiliary Power*, 303 F.3d 1120, 1125-26 (9th Cir. 2002); see also *In re Peregrine*, 116 B.R. 194, 199 (C.D. Cal. 1990).

²⁸ *Id.* at 202.

²⁹ *Id.* at 201.

³⁰ See *In re Franchise Pictures LLC*, 389 B.R. 131, 142 (C.D. Cal. 2008).

³¹ *In re World Auxiliary Power*, 303 F.3d at 1120.

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 (USPTO) within three months after the date of the assignment prior to the subsequent purchase.”³² The Lanham Act does not include a definition for the term “assignment.” Courts have found, however, that the term “assignment” does not include a security interest.³³ Accordingly, court opinions have held consistently that the Lanham Act does not preempt the state UCC perfection laws.³⁴ In *Trimarchi v. Together Development Corporation*, a federal district court upheld a bankruptcy ruling finding that the Lanham Act did not preempt state UCC perfection laws.³⁵ The bankruptcy court reasoned that when Congress passed the Lanham Act in 1946, the term “mortgage” rather than the term “assignment” was an operative term for describing the grant of a security interest.³⁶ Moreover, the bankruptcy court noted that Congress intended the term “assignment” to refer to “sale of an entire business of which the trademark is a part.”³⁷ In affirming the bankruptcy ruling, the district court found that the “[c]ase law addressing the issue at hand consistently supports the proposition that the Lanham Act does not pertain to security interests and that Article 9, therefore, continues to govern the perfection of such interests.”³⁸ Notwithstanding consistent court opinions holding that the Lanham Act does not preempt the state UCC perfection laws, the USPTO allows one to, and lenders’ counsel typically do, record their trademark security agreements with the USPTO.³⁹

D. The Patent Act

The Patent Act provides that “[a]n assignment, grant, or conveyance shall be void as against a subsequent purchaser or mortgagee for a valuable consideration, without notice unless it is recorded in the Patent and Trademark Office (PTO) within three months from its date or prior to date of such subsequent purchase or mortgage.”⁴⁰ In *In re Cybernetic Services, Inc.*, the Ninth Circuit Court of Appeals employed the historical meaning of the terms “assignment,” “grant,” and “conveyance” from when the Patent Act was enacted by Congress in 1870 and found that such terms meant to convey the transfer of ownership interests in patents.⁴¹ Accordingly, the court held that the Patent Act did not preempt the state UCC

³² Lanham Act, 15 U.S.C. § 1060(a) (2012).

³³ *Trimarchi v. Together Development Corp.*, 255 B.R. 606 (D. Mass. 2000).

³⁴ *Id.*; *In the Matter of Roman Cleanser*, 43 B.R. 940 (Bankr. E.D. Mich. 1984), *aff’d* 802 F.2d 207 (6th Cir. 1986); *In re Chattanooga Choo-Choo Co.*, 98 B.R. 792 (Bankr. E.D. Tenn. 1989); *In re CC. & Co., Inc.*, 86 B.R. 485 (Bankr. E.D. 1988); *In re TR-3 Indus.*, 41 B.R. 128 (Bankr. C.D. Cal. 1984).

³⁵ *In re Together Development Corporation*, 227 B.R. 439 (D. Mass. 1998).

³⁶ *Id.* at 441.

³⁷ *Id.* The court was most persuaded that Congress did not intend the Lanham Act to include the recordation of security interest because unlike the Lanham Act, Congress “expressly included consensual liens in the copyright recording system. *Id.*”

³⁸ *Trimarchi*, 255 B.R. at 611.

³⁹ *Intellectual Property Issues: Lending*, *supra* note 1.

⁴⁰ Patent Act, 35 U.S.C. § 261 (2012).

⁴¹ *In re Cybernetic Serv. Inc.*, 252 F.3d 1039, 1048—50 (9th Cir. 2001).

perfection laws because the language of the Act spoke only to recordation in the USPTO of transfer of an ownership interest and not to the conveyance of a security interest in a patent as the term “conveyance” is understood in modern times.⁴² The court noted that viewing the terms in an historical context and reading them “in light of Supreme Court precedent establish[es] that Congress was concerned only with providing constructive notice to subsequent parties who take an ownership interest in the patent in question.”⁴³ Despite the unbroken line of precedent holding that the Patent Act does not preempt the state UCC filing requirements, lenders usually file a UCC-1 financing statement with the appropriate state authority and record a patent security agreement with the USPTO.⁴⁴

III. CONCLUSION

Intellectual property has become a mainstay of our economy, serving as an engine for stimulating free-market enterprise. Our laws should support efficient, predictable financing mechanisms that support the collateralization of intellectual property to further enervate growth in our economy. Lender unease concerning how to perfect a security interest in intellectual property stems from the absence of uniform and comprehensive jurisprudence in the area of secured financing in intellectual property. Congress should enact federal legislation establishing a national, centralized, on-line filing system for recording security interests in intellectual property. Such a system would provide constructive notice to third parties and it would inject predictability into intellectual property secured financing. As intellectual property adds trillions of dollars in value added to U.S. gross domestic product, laws governing secured financing in such property should be certain and efficient to further support economic growth.

⁴² *Id.*; see *In re Coldwave Systems*, 368 B.R. 91, 97 (Bankr. D. Mass 2007).

⁴³ *In re Cybernetic Serv. Inc.*, 252 F.3d at 1054.

⁴⁴ See *Security Interests: Intellectual Property*, *supra* note 15.