



## Intellectual Property Security Interests in the U.S.

---

Many people are familiar with the different types of property that can be the subject of a secured transaction, whether a bank has an interest in someone's home or a credit agency takes an interest in an individual's car. However, creditors can also hold interest in another valuable possession: intellectual property.

The owners of patents, trademarks, and copyrights can grant security interests in their valuable intellectual property and, in many cases, someone's IP can be worth more than any of their tangible belongings. This makes it all the more important that a security interest is legally official. This process is called perfecting, and though it is a rather straightforward concept, it cannot be overlooked. Just because someone says in a contract that they are granting a creditor an interest in a patent, copyright, or a trademark is not enough. There are steps that need to be taken to make the interest fully enforceable.

Whether someone is selling their IP or is a creditor looking to hold an interest in the property of someone else, it is crucial to understand how to perfect an interest and the benefits to perfecting. Beyond this, in an increasingly global world, it is crucial for IP owners and buyers alike to also understand how to properly protect themselves.

### The basics of security interests

Before discussing how to create and enforce a security interest in intellectual property, it is important to understand how security interests work.

In general, secured transactions are governed by Article 9 of the Uniform Commercial Code (UCC). In a secured transaction, there is either a loan or a purchase that involves a borrower or buyer (who is called the debtor) and a lender or seller (the creditor). In this transaction, the loan or purchase is secured by the creditor taking an interest in some kind of collateral of the debtor. Ultimately, if the debtor fails to pay the creditor what is owed, then the creditor takes ownership of that collateral.

There are steps that need to be taken in order to make the interest official. First, the interest needs to be attached. For an interest to be attached, UCC § 9-203 states that value must be given to the collateral. Additionally, the debtor must possess rights to the collateral or have the ability to transfer rights in the collateral. Finally, an agreement must be authenticated that includes a description of the collateral. Under § 9-108, a description is considered sufficient "if it reasonably identifies what is described."

Once an interest is attached, then it needs to be perfected. When perfecting an interest, a creditor is ensuring that their interest takes priority over others—for instance, if there is another creditor out there that also was given interest in the same collateral. It is a crucial step that protects creditors from potentially messy situations that could crop up down the road.

### How do you perfect an interest in a patent or trademark?

Before discussing how to create and enforce a security interest in intellectual property, it is important to understand how security interests work.

In general, secured transactions are governed by Article 9 of the Uniform Commercial Code (UCC). In a secured transaction, there is either a loan or a purchase that involves a borrower or buyer (who is called the debtor) and a lender or seller (the creditor). In this transaction, the loan or purchase is secured by the creditor

taking an interest in some kind of collateral of the debtor. Ultimately, if the debtor fails to pay the creditor what is owed, then the creditor takes ownership of that collateral.

There are steps that need to be taken in order to make the interest official. First, the interest needs to be attached. For an interest to be attached, UCC § 9-203 states that value must be given to the collateral. Additionally, the debtor must possess rights to the collateral or have the ability to transfer rights in the collateral. Finally, an agreement must be authenticated that includes a description of the collateral. Under § 9-108, a description is considered sufficient “if it reasonably identifies what is described.”

Once an interest is attached, then it needs to be perfected. When perfecting an interest, a creditor is ensuring that their interest takes priority over others—for instance, if there is another creditor out there that also was given interest in the same collateral. It is a crucial step that protects creditors from potentially messy situations that could crop up down the road.

## How do you perfect an interest in a copyright?

From manuscripts to films, a copyright can hold immense value. However, for those who are looking to perfect an interest in a copyright, the laws are quite different when compared to those of patents and trademarks. The Copyright Act of 1976 actually addresses the issue of perfecting interests. According to the Act, a transfer must be recorded with the United States Copyright Office to perfect an interest in a registered copyright. A creditor should try to record this interest within one month of the effective date of the interest. It should be noted that this is only in regard to copyrights that have been *registered*, which is a voluntary act by the copyright holder, as someone retains a copyright as soon as a work is created. However, if someone is trying to perfect an interest in an unregistered copyright, then Article 9 of the UCC is likely the prevailing law. This means that like those creditors perfecting interests in patents and trademarks, it is necessary to file a UCC-1 with the secretary of state’s office wherever the debtor is located.

To illuminate the mechanisms of perfecting security interests in copyright, consider the case of *National Peregrine, Inc. v. Capitol Federal Savings and Loan Ass’n*. In this 1990 case, National Peregrine was a debtor that held copyrights, distribution rights, and licenses to nearly 150 movies. In that case, the collateral held by the creditor was described in the security agreement and UCC-1 as “[a]ll inventory consisting of films and all accounts, contract rights, chattel paper, general intangibles, instruments, equipment, and documents related to such inventory, now owned or hereafter acquired by the Debtor.” However, though Capitol Federal had filed the UCC-1 with three states, it did not record its security interest with the United States Copyright Office. According to the court, there was a straightforward question to answer: “does the UCC provide a parallel method of perfecting a security interest in a copyright?” In its ruling, the court wrote that “the comprehensive scope of the federal Copyright Act’s recording provisions, along with the unique federal interests they implicate, support the view that federal law preempts state methods of perfecting security interests in copyrights and related accounts receivable.” Ultimately, because it never recorded with the Copyright Office, Capitol Federal’s interest was ruled to not be perfected.

## How do you perfect an interest in a trade secret?

In addition to the aforementioned forms of IP, a party can also perfect an interest in a trade secret. Pursuant to the UCC, a trade secret is what is called a “general intangible,” which is defined in § 9-102 as “any personal property, including things in action, other than accounts, chattel paper, commercial tort claims, deposit accounts, documents, goods, instruments, investment property, letter-of-credit rights, letters of credit, money, and oil, gas, or other minerals before extraction. The term includes payment intangibles and software.” Like with patents and trademarks, as well non-registered copyrights, a UCC-1 needs to be filed with the secretary of state’s office of the state where the debtor is located.

## Domain names are not straightforward

Lastly, a recent topic of contention in regard to perfecting security interests should also be mentioned. One of the most valuable assets of a company are its domain names. They represent a crucial place for marketing business, communicating with the public, and a place where people can shop. On the surface, given just how valuable a domain name is, it may logically seem like a no brainer that companies are able to use that domain name as collateral in a secured transaction. Well, not so fast.

There is a difference in opinion regarding what domain names represent. Some consider domain names to be the intangible property of a company. However, there are others that view domain names as a right that exists only for the term of a contract with the company providing the registration. So, for example, if a company registers a domain name for a two year period, then they hold a right for that period but do not own the actual property. So, with the courts lacking consensus on what a domain name is in a legal context, its ability to be perfected also lies in a gray zone.

Beyond this, there is a question of enforceability if a debtor fails to pay. Transferring ownership of a domain name requires permission from the registrar, and a registrar is not required to comply with a creditor per the UCC. If a registrar does not want to transfer ownership, it is difficult to compel them to do so. Additionally, another potential hiccup lies with the Anticybersquatting Consumer Protection Act. Under the Act, a party that registers a domain name that potentially infringes on the trademark of another can face a cause of action. Thus, by registering a domain name that infringes on even the debtor's trademark, the creditor can prospectively face liability. 🤔

DISCLAIMER: This paper provides background information of potential interest to facilitate and inform a reader's specific inquiry to be made with legal advisers of their choosing. It does not constitute legal advice. This paper is neither a guide nor an explanation of all relevant issues under consideration. Moreover, the law is ever evolving; observations made today may be inapplicable tomorrow. Fishman Stewart PLLC assumes no responsibility for any use of, or reliance on, this paper.