

October 24, 2018

# Perfecting Security Interests in Intellectual Property: The Problem with Relying on UCC Financing Statements

Often a company's most valuable asset is its intellectual property. Lenders and other professionals, including law firms, often recognize the value of those assets but may not understand the nuisances in perfecting certain intangible assets.

Most lenders are very familiar with UCC-1 financing statements and security agreements that reference intellectual property or general intangibles. However, the creation of a "blanket lien" is most likely not enough to create or perfect a lender's lien on intellectual property.

## When is a UCC Financing Statement Insufficient?

To *perfect* a security interest in intellectual property, the lender must sufficiently describe and record the security interest with the proper governmental authority. As federal and state law governs different aspects of securitization of intellectual property, there is often uncertainty as to which agency is the proper one with which to record a security interest. Should lenders perfect security interests in intellectual property by using the state filing system or the federal filing system for copyrights, patents and trademarks, or both?

Article 9 of the UCC governs the method for perfecting security interests in personal property, which includes intellectual property. Under Article 9, the lender must file a UCC financing statement with the respective Secretary of State where the borrower resides in order to perfect a security interest. The financing statement requires basic information including identifying the parties and a description of the collateral. Article 9 also states that "the filing of a financing statement is not necessary 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 Section 9-310(a). As such, when a

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system for perfecting security interests under federal law has been established, state UCC filings alone are insufficient, and the lender must comply with the requisite federal system.

### **Copyrights, Trademarks and Patents**

Intellectual property (IP) is a complicated area of law. It is therefore essential for lenders to understand how to create a valid security interest and how to perfect that security interest should the borrower default. Copyrights, Trademarks, and Patents are all governed by different statutes and case law:

- Copyrights

The Copyright Act specifies the method for recording security interests in registered copyrights and therefore Federal law preempts state law in connection with registered copyrights. To perfect a security interest in a registered copyright, the lender must record the security interest at the U.S. Copyright Office. For security interests in copyrights not registered with the U.S. Copyright Office, the lender must perfect through a state UCC filing.

- Trademarks

There is a common misconception that recording a security interest in federally registered trademarks and trademark applications with the US Patent and Trademark Office (USPTO) will be sufficient. Unlike the Copyright Act, the federal trademark statute (Lanham Act) does not specifically address security interests in federally registered trademarks and therefore does not preempt the UCC with respect to security interests. As such, the proper method of perfecting security interests in federally registered trademarks and trademark applications is through a state UCC filing.

While the USPTO provides a method for recording security interests in trademarks, lenders should record trademark security interests at the USPTO in addition to making state UCC filings. While a recording with the USPTO alone is neither legally necessary nor sufficient to perfect a security interest in registered trademarks or trademark applications, making the additional USPTO filing assists in putting third-parties on notice of the security interests. A state UCC filing should be made to perfect security interests in common law (unregistered) and state trademarks.

- Patents

Patents are governed by a federal statute: U.S. Code, Title 35 (the Patent Statute). Similar to the Lanham Act, the Patent Statute does not explicitly address the issue of perfecting security interests in patents and courts have generally found that state UCC filing requirements are not preempted by the Patent Act. As such, a state UCC filing should be made to perfect a security interest in a patent against subsequent lien creditors. However, to perfect a security interest against a bona fide purchaser or mortgagee, a secured creditor should also record the security interest with the USPTO.

### **Lender Due Diligence and IP Assets**

IP due diligence and the proper transfer of all IP related assets is critical to insure a lender is secure. Just as a lender would perform due diligence when real property is pledged as collateral for a loan, including a full title review, all IP assets should be meticulously reviewed prior to closing. It is best practice to have the lender's counsel or outside counsel conduct an independent review of the transfer and acquisition of all IP assets from the seller to the borrower. As the lender's lien only conveys any rights the borrower

simultaneous has, the borrower's failure to properly review, transfer and document the acquisition of IP assets could in-turn lead to substantial losses for a lender. The same due diligence is required for new businesses including post-closing follow-up to confirm the proper paperwork was filed with the relevant state and/or federal authority.

### **Securitization of IP Assets**

Most, if not all, corporate borrowers have some form of IP assets. Therefore, it is essential for lenders and any outside counsel to understand the value and legalities of IP securitization. The advancement of technology and property exchanges on the internet continue to increase the interest and importance of using intellectual property to secure financing for new and existing businesses.

### **Related People**

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