



Advanced Seminar on IP Traps in Secured Financing

**September 14, 2014
Chicago, IL**

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A PRIMER ON IP RIGHTS

Patents

A patent is an intellectual property right granted by the Government of the United States of America to an inventor “to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States” for a limited time in exchange for public disclosure of the invention when the patent is granted.¹

There are three types of patents. Utility patents may be granted to anyone who invents or discovers any new and useful process, machine, article of manufacture, or composition of matter, or any new and useful improvement thereof. Design patents may be granted to a person who invents a new, original, and ornamental design for an article of manufacture. Plant patents may be granted to someone who invents or discovers and asexually reproduces any distinct and new variety of plant.

To be patentable, an invention or discovery must be “new and useful,”² not previously disclosed,³ and non-obvious.⁴ Laws of nature, natural phenomena, abstract ideas, and mathematical algorithms are not patentable.⁵

In general, patents are valid for 20 years from the first application date. In essence, therefore, when a patent is issued, its effectiveness is retroactive to the application date. The patent holder might therefore have a cause of action for infringement with respect to actions taken by third parties between the time of the patent application and the date of issue.

Trademarks

Trademarks are words or other marks that the trademark owner uses in connection with its business or products to identify their source. Trademark rights are designed to protect the meaning of the mark in the mind of the consumer.

¹ 35 U.S.C. § 154(a)(1). *See also* 35 U.S.C. §§ 163 (dealing with plant patents); 271(a) stating that “whoever without authority makes, uses, offers to sell, or sells any patented invention . . . infringes the patent.”).

² 35 U.S.C. § 101. The Patent Office does not examine applications for newness or usefulness.

³ 35 U.S.C. § 102.

⁴ 35 U.S.C. § 103.

⁵ *Diamond v. Diehr*, [450 U.S. 175](#) (1981).

Trademarks are protected under state, federal, and international law. In the United States, trademark protection begins when the mark is first used, provided the mark does not infringe on another trademark. Registration is not required for trademark rights to attach to a mark. Registration of a trademark under the Lanham Act does, however, serve as *prima facie* evidence that the registrant is the owner of the mark.⁶ It also extends trademark protection throughout the country even if the mark is not used nationwide.⁷

For a trademark to be protected, it must be distinctive. The Trademark Manual of Examining Procedure refers to a continuum of distinctiveness:⁸

← most distinctive				least distinctive →
Fanciful	Arbitrary	Suggestive	Descriptive	Generic
Marks invented for the sole purpose of functioning as a trademark (<i>e.g.</i> , “PEPSI”; “KODAK”).	Words in common usage but which do not suggest or describe a significant characteristic of the goods or services (<i>e.g.</i> , “APPLE” for computers).	Marks that require imagination, thought, or perception to associate to the nature of the goods or services (<i>e.g.</i> , “BOWFLEX” or “SNO-RAKE”). ⁹	Marks that describe a characteristic of the goods or services (<i>e.g.</i> , “PURE” or “ORGANIC”). ¹⁰	Marks that the public understands primarily as the common or class name for the goods or service (<i>e.g.</i> , “SOAP”).

Fanciful, arbitrary, and suggestive marks are registrable on the Principal Register without proof of distinctiveness. Marks that are merely descriptive may not be registered on the Principal Register absent a showing of acquired distinctiveness.¹¹ Generic marks not registrable on either the Principal or the Supplemental Register under any circumstances. A distinctive mark that was once a protected trademark, such as “aspirin” or “escalator,” can become generic, and hence no longer a protected trademark, if the trademark owner does not monitor and prevent other uses of the mark.

⁶ 15 U.S.C. § 1115(a); *Flying Pigs, LLC v. Rraj Franchising, LLC*, 2014 WL 2937089 at *4 (4th Cir. 2014). For this reason, a lawsuit concerning trademark ownership, rather than infringement, does not present a federal question. *Id.*; *Gibraltar, P.R., Inc. v. Otoki Group, Inc.*, 104 F.3d 616 (4th Cir.1997).

⁷ Unregistered trademarks are protected only in the geographic area in which they are used. State registration might or might not extend protection to the entire state.

⁸ The Trademark Manual of Examining Procedure § 1209.01.

⁹ See *Nautilus Group, Inc. v. ICON Health and Fitness, Inc.*, 372 F.3d 1330 (9th Cir. 2004); *In re Shutts*, 217 U.S.P.Q. 363 (Trademark Tr. & App. Bd. 1983). See also *Lahoti v. Vericheck, Inc.*, 636 F.3d 501 (9th Cir. 2011) (district court did not err in concluding that “VERICHECK” mark was not merely descriptive).

¹⁰ See *But cf.* *In re Dayan*, 61 F. App’x 695 (Fed. Cir. 2003) (“BABY GOLF” mark for use on infant clothing was merely descriptive); *In re Application of Quik-Print Copy Shop, Inc.*, 616 F.2d 523 (C.C.P.A. 1980) (“QUIK-PRINT” is merely descriptive).

¹¹ See 15 U.S.C. § 1052(e)(1), (f).

Copyrights

Copyrights arise under the common law when a work of original authorship is fixed in a tangible form. They apply to written works of poetry and prose, motion pictures, musical compositions, sound recordings, paintings, drawings, sculptures, photographs, computer software, radio and television broadcasts, and industrial designs. The author of an original work has the following four, *exclusive* copyrights:

- To reproduce the copyrighted work;
- To prepare derivative works based upon the copyrighted work;
- To distribute copies of the copyrighted work; and
- To display or perform the copyrighted work publicly.¹²

Copyright protects only the expression of an idea, and not the idea itself.¹³ As a result, a character in a book or movie cannot be copyrighted, although unlicensed use of the character by someone other than the holder of the copyright to the work in which the character appeared might be deemed to be an infringing derivative work.¹⁴

Because copyrights attach to a work of authorship when the work has been reduced to tangible form,¹⁵ it is not necessary for the work to be published or registered with the Copyright Office.¹⁶ However, registration serves as prima facie evidence of a valid copyright (if made before or within five years after first publication of the work),¹⁷ and is a prerequisite to an action for infringement.¹⁸

¹² 17 U.S.C. § 106.

¹³ 17 U.S.C. § 102(b) (“In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.”). *See also* 37 C.F.R. § 202.1(b) (“The following are examples of works not subject to copyright . . . : Ideas, plans, methods, systems, or devices, as distinguished from the particular manner in which they are expressed or described in a writing.”).

¹⁴ *See, e.g.,* [Klinger v. Conan Doyle Estate, Ltd.](#), [2013 WL 6824923](#) (N.D. Ill. 2013) (appeal pending) (regarding use of story elements from a series of books, some of which are in the public domain and some of which remain protected by copyright).

¹⁵ 17 U.S.C. § 102(a).

¹⁶ 17 U.S.C. § 408(a).

¹⁷ 17 U.S.C. § 410(c).

¹⁸ 17 U.S.C. § 411(a).

Remedies for infringement of copyright include actual damages,¹⁹ statutory damages,²⁰ attorney's fees,²¹ injunction against infringement,²² and seizure of copies.²³ Willful infringement can also result in criminal sanctions.²⁴ In general, statutory damages and attorney's fees are available only if the infringement occurs after the copyright is registered with the Copyright Office.²⁵

There are three important limitations on copyrights. First, copyright law does not restrict the owner of a copy from reselling a copy of a copyrighted work, provided that the copy was originally produced by or with the permission of the copyright holder.²⁶ This rule is known as the first-sale doctrine.

Second, the fair-use doctrine permits some copying and distribution without permission of the copyright holder or payment of a license fee.²⁷ The Copyright Act does not define "fair use," but lists the following four factors to consider in analyzing whether a use is fair:

- The purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- The nature of the copyrighted work;
- The amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- The effect of the use upon the potential market for or value of the copyrighted work.

Third, copyrights are of limited duration. The length of the term depends on several factors, including when the work was first published or renewed, whether it was a work for hire, and whether

¹⁹ 17 U.S.C. § 504(a). These include both the copyright owner's actual damages plus disgorgement of the infringer's profits.

²⁰ 17 U.S.C. § 504(c).

²¹ 17 U.S.C. § 505.

²² 17 U.S.C. § 502.

²³ 17 U.S.C. § 503.

²⁴ 17 U.S.C. § 506.

²⁵ *See* 17 U.S.C. § 412.

²⁶ 17 U.S.C. § 109. Some countries may have importation restrictions that allow the copyright holder to control the aftermarket. This might mean that a copy that does not infringe on copyright in the country in which it was produced does infringe on copyright in the country into which it is imported for sale. However, in the United States, the first-sale doctrine does apply a copy lawfully made abroad, with the result that an owner of a copy made by a licensee without permission to reproduce or distribute in the United States may import and sell the copy here. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

²⁷ 17 U.S.C. § 107.

it was a joint work.²⁸ For most works created on or after January 1, 1978, the copyright term consists of the life of the author plus 70 years after the author's death.²⁹ Copyrights expire at the end of the calendar year in which their term ends.³⁰

The author of a copyrighted work made on or after January 1, 1978 – other than a work for hire – who has transferred or licensed the copyright has a nonwaivable right to terminate the transfer (*i.e.*, to rescind the transaction) during the five-year period beginning 35 years after the transfer or license.³¹ This means that authors effectively retain a residual interest in their copyrights even if they have sold them and it means that authors may terminate long-term copyright licenses. This could effectively terminate a security interest previously granted by the author or by the author's assignee, even if the security interest is perfected.

Mask Works

The Semiconductor Chip Protection Act of 1984, (SCPA)³² modeled on the Copyright Act, provides protection for “mask works.” A mask work is a series of images representing the three-dimensional pattern – essentially the topography or design – of a semiconductor chip.³³ Although the images comprising a mask work are purely functional features of the chip's design, and thus would fall outside the protection of copyright law, they are nevertheless protected under the SCPA provided that they are original.³⁴ As under copyright law, protection under the SCPA does not extend “to any idea, procedure, process, system, method of operation, concept, principle, or discovery,” associated with a mask work.³⁵ In short, the design is protected, but not the ideas, principles, or concepts underlying the design.

A mask work is eligible for protection under the SCPA if the mask work is first commercially exploited in the United States or, on the date the mask work is registered with the Copyright Office or the date the mask work is first commercially exploited anywhere in the world, whichever occurs first, the owner of the mask work is:

²⁸ See 17 U.S.C. §§ 302–305.

²⁹ 17 U.S.C. § 302(a).

³⁰ 17 U.S.C. § 305.

³¹ 17 U.S.C. § 203(a).

³² Codified at 17 U.S.C. §§ 901–914.

³³ 17 U.S.C. § 901(a)(2).

³⁴ See 17 U.S.C. § 902(b).

³⁵ *Id.*

- A national or domiciliary of the United States; or
- A national, domiciliary or sovereign authority of a foreign nation that is a party with the United States to a treaty affording protection to mask works.³⁶

To secure protection, the owner must register the mask work with the Copyright Office within two years after the date on which the mask work is first commercially exploited.³⁷ Protection commences on the date of registration or the date on which the mask work is first commercially exploited anywhere in the world, whichever occurs first.³⁸ Protection lasts until December 31 of the tenth year after it begins.³⁹

During the term of protection, the owner of a mask work has the exclusive right to:

- Reproduce the mask work;
- Import or distribute a product in which the mask work is embodied; or
- Induce or knowingly to cause another person to do either of the above acts.⁴⁰

The SCPA permits reverse engineering of a mask work for the purposes of teaching, analyzing, or evaluating the concepts or techniques embodied in the mask work or in the circuitry, logic flow, or organization of components used in the mask work.⁴¹ The SCPA also codifies the first-sale doctrine by expressly permitting the purchaser of a non-infringing semiconductor chip product to use, import, or sell the product without the permission of the owner of the mask work embodied in the product.⁴²

Overlapping Protection

The lines between patent, trademark, and copyright are not rigid boundaries. Some intellectual property can simultaneously be protected under more than one of those regimes, as the following illustration shows.

³⁶ 17 U.S.C. § 902(a).

³⁷ 17 U.S.C. § 908(a).

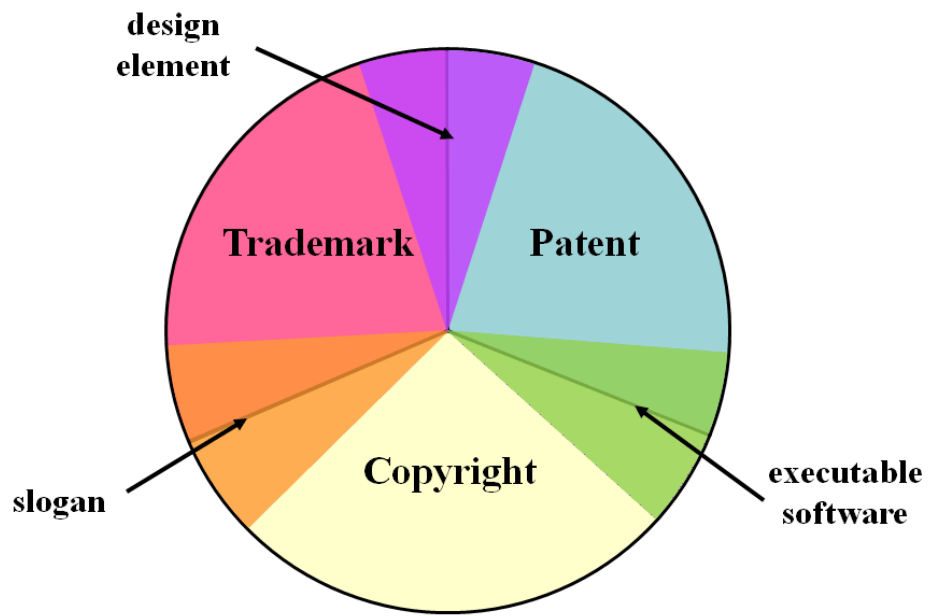
³⁸ 17 U.S.C. § 904(a).

³⁹ 17 U.S.C. § 904(b), (c).

⁴⁰ 17 U.S.C. § 905.

⁴¹ 17 U.S.C. § 906(a).

⁴² 17 U.S.C. § 906(b).



ATTACHMENT OF A SECURITY INTEREST IN IP AND IP-RELATED RIGHTS

Article 9 of the Uniform Commercial Code contains no special rules regarding the attachment of a security interest in intellectual property or in rights related to intellectual property. In fact, the phrase “intellectual property” and the words “patent,” “trademark” and “copyright” are completely absent from the Code and appear in only four official comments.⁴³ Nevertheless, three issues relating to the attachment of a security interest in intellectual property are worth noting.

First, Article 9 applies to most transactions that create a security interest in personal property.⁴⁴ While patents, trademarks, and copyrights themselves undoubtedly qualify as personal property under the modern understanding of that phrase – as does the ownership interest of only one of multiple co-owners – it is less clear that the rights of a licensee of intellectual property, particularly if the license is nonexclusive, qualify as an interest in property. Thus, an argument could be made that Article 9 does not apply to any attempt to create a security interest in a nonexclusive license of intellectual property.

However, the rights of a licensee are, at a minimum, contract rights, and Article 9 undoubtedly treats contract rights as a form of property.⁴⁵ Thus, unless federal law somehow intervenes by both refusing to regard a licensee’s rights as property and preventing state law from treating it as property, there should be no problem with application of Article 9 or attachment of a security interest in a patent, trademark, or copyright license.

Second, under federal law, a registered trademark symbolizes the goodwill of the business to which it relates. Because of this, the owner is permitted to transfer a registered trademark only if it is accompanied by a transfer of the associated goodwill.⁴⁶ While this does not necessarily require the transfer of any physical assets, it does require that the assignee be a successor to the business in which the mark is used and any attempt to transfer the trademark without the associated goodwill is invalid. This rule applies to transfers for security, regardless of whether they purport to be absolute in form⁴⁷ or structured as a security interest.⁴⁸ Moreover, an attempted assignment in gross

⁴³ See U.C.C. §§ 9-102 cmt. 5d; 9-408 cmt. 3; 9-607 cmt. 3; 9-619 cmt. 2.

⁴⁴ See U.C.C. § 9-109(a)(1). See also U.C.C. § 1-201(b)(35) (defining “security interest” as an interest in “personal property or fixtures”).

⁴⁵ See U.C.C. § 9-408 cmt. 3 (suggesting that the debtor’s “property interest” in a nonexclusive license of a software copyright might be limited to its interest in the promises made by the licensor in the license agreement, e.g., a promise not to sue the debtor for using the software).

⁴⁶ 15 U.S.C. § 1060.

⁴⁷ See *Clorox Co. v. Chem. Bank*, 40 U.S.P.Q.2d 1098 (T.T.A.B. 1996).

⁴⁸ See *Haymaker Sports, Inc. v. Turian*, 581 F.2d 257 (C.C.P.A. 1978).

– that is, without the accompanying goodwill – is not only void, but might also invalidate the mark or application.⁴⁹

Problem 1

Apparel Company, which has a registered and valuable trademark that it embosses on all its products, has applied to Lender for a loan. How should Lender structure the transaction to ensure that Lender acquires an interest in Apparel Company’s trademark? Should it, for example, have Apparel Company authenticate a security agreement that expressly includes both “trademarks” and “goodwill” in the description of the collateral? Should the loan documents instead include: (i) an assignment of the trademark and associated goodwill from Apparel Company to the Lender; and (ii) a license from the Lender to Apparel Company to use the trademark prior to default under the loan agreement? Does it matter whether Lender wants, after default, to be authorized to: (x) sell Apparel Company’s business as a going concern; (y) license the trademark to other manufacturers; or (z) operate Apparel Company’s business? See *Haymaker Sports, Inc. v. Turian*, 581 F.2d 257 (C.C.P.A. 1978); *In re Roman Cleanser Co.*, 43 B.R. 940 (Bankr. E.D. Mich. 1984), *aff’d*, 802 F.2d 207 (6th Cir. 1986).

The third issue relating to attachment concerns authentication of the security agreement. In general, the debtor must authenticate the security agreement.⁵⁰ Courts have occasionally permitted the debtor’s parent company to authenticate the security agreement, either under the rationale that the parent was acting as an agent of the debtor or pursuant to some theory of estoppel based on the debtor’s consent to the parent’s actions.⁵¹ However, even if authentication by the debtor’s parent company satisfies the requirements of Article 9, there is authority suggesting that such a practice does not satisfy the requirements of federal law relating to intellectual property.⁵²

⁴⁹ See *Clorox Co. v. Chem. Bank*, 40 U.S.P.Q.2d 1098 (assignment in gross of an intent-to-use application was not only invalid but the resulting registration for such mark was also rendered void).

⁵⁰ See U.C.C. § 9-203(b)(3)(A).

⁵¹ See, e.g., *In re WL Homes, LLC*, 534 F. App’x 165 (3d Cir. 2013); *In re Terrabon, Inc.*, 2013 WL 6157980 (Bankr. S.D. Tex. 2013).

⁵² See *Mayfair Wireless LLC v. Celico P’ship*, 2013 WL 4657507 (D. Del. 2013) (even if state law permits a parent company to encumber the assets of its subsidiary, the Patent Act requires written evidence of assignment from the patent holder).

PERFECTION OF A SECURITY INTEREST IN IP AND IP-RELATED RIGHTS

Article 9 of the Uniform Commercial Code makes the unsurprising and probably unnecessary statement that it does not apply “to the extent that” a statute of the United States preempts it.⁵³ This general point, which potentially applies to all or any part of Article 9, is reiterated more narrowly with respect to perfection. Specifically, § 9-311 provides that filing a financing statement “is not necessary or effective to perfect a security interest in property” if the federal-law requirements for a security interest’s priority over the rights of a lien creditor preempt.⁵⁴

Patents

The Patent Act, enacted before the adoption of Article 9, makes no express reference to a security interest or to priority over the rights of a lien creditor. It does, however, provide for the registration of an “assignment, grant or conveyance” of a patent with the Patent and Trademark Office (“PTO”).⁵⁵ Official form – [PTO 1595](#) – requests a description of the “Conveyance Type” being recorded and lists “Security Agreement” as an option. Thus, as a practical matter, it is possible to record a security agreement with the PTO. Whether recording with the PTO is necessary or effective to perfect a security interest is another question.

In interpreting an earlier version of the Patent Act, the Supreme Court ruled that a grant of a patent “mortgage,” involving transfer of title to a patent from the mortgagor to the mortgagee, was an assignment subject to recording with the PTO, and made the mortgagee the proper party to bring an action for infringement.⁵⁶ Such a patent mortgage differs from a modern Article 9 security agreement, however, because a security agreement does not transfer title to the collateral to the secured party.⁵⁷

More modern authorities, though few, have universally ruled that recording with the PTO is neither necessary nor effective to perfect a security interest in a patent.⁵⁸

⁵³ U.C.C. § 9-109(c)(1). *See also id.* cmt. 8 (adding that Article 9 defers to federal law “only when and to the extent that it must.”).

⁵⁴ U.C.C. § 9-311(a)(1).

⁵⁵ 35 U.S.C. § 261

⁵⁶ *Waterman v. Mackenzie*, [138 U.S. 252](#) (1891).

⁵⁷ Indeed, if the collateral were goods, an effort by a credit seller to retain title of goods shipped or delivered would be ineffective and instead result in the retention merely of a security interest. U.C.C. § 2-401(1).

⁵⁸ *See, e.g., In re Cybernetic Servs., Inc.*, [252 F.3d 1039](#) (9th Cir. 2001), *cert. denied*, 534 U.S. 1130

Trademarks

The Lanham Act, like the Patent Act, does not expressly address security interests or the rights of lien creditors but it does contain a provision providing for recording an “assignment” of a federally registered trademark with the PTO.⁵⁹ The official form – [PTO 1594](#) – calls for a description of the “Conveyance Type” being recorded and lists “Security Agreement” as an option. Thus, as with patents, it is possible to record a security agreement for a federally registered trademark with the PTO. Nevertheless, as with patents, the few courts to address the issue have uniformly ruled that recording with the PTO is neither necessary nor effective to perfect a security interest in a trademark.⁶⁰

Copyrights

Section 205 of the Copyright Act permits “[a]ny transfer of copyright ownership or other document pertaining to a copyright” to be recorded in the Copyright Office.⁶¹ The Act defines a “transfer of copyright ownership” to be “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.”⁶² Although neither the Act nor the regulations expressly address the rights of lien creditors, the few decisions on point have uniformly concluded that recording with the Copyright

(2002) (U.C.C. filing is effective to perfect); *In re Tower Tech, Inc.*, [67 Fed. Appx. 521](#) (10th Cir. 2003) (filing with PTO is ineffective to perfect); *In re Coldwave Sys. LLC.*, [368 B.R. 91](#) (Bankr. D. Mass. 2007) (same); *In re Pasteurized Eggs Corp.*, [296 B.R. 283](#) (Bankr. D.N.H. 2003) (same); *City Bank & Trust Co. v. Otto Fabric, Inc.*, [83 B.R. 780](#) (D. Kan. 1988) (filing with PTO is unnecessary to perfect); *In re Transportation Design & Tech., Inc.*, [48 B.R. 635](#) (Bankr. S.D. Cal. 1985) (same); *Holt v. United States*, [32 A.F.T.R.2d 73-5744](#) (D.D.C. 1973) (U.C.C. filing is effective to perfect).

⁵⁹ See 15 U.S.C. § 1060.

⁶⁰ See, e.g., *Trimarchi v. Together Dev. Corp.*, [255 B.R. 606](#) (D. Mass. 2000) (U.C.C. filing is needed to perfect a security interest in a trademark; recording with the PTO was ineffective); *In re 199Z, Inc.*, [137 B.R. 778](#) (Bankr. C.D. Cal. 1992) (same); *In re Chattanooga Choo-Choo Co.*, [98 B.R. 792](#) (Bankr. E.D. Tenn. 1989) (U.C.C. filing, not federal registration, is required to perfect a security interest in trademarks); *In re C.C. & Co.*, [86 B.R. 485](#) (Bankr. E.D. Va. 1988) (the filing provisions of the U.C.C. govern the perfection of a security interest in a trade name); *In re Roman Cleanser Co.*, [43 B.R. 940](#) (Bankr. E.D. Mich. 1984), *aff'd*, [802 F.2d 207](#) (6th Cir. 1986) (recording with the PTO is not needed to perfect a security interest in a trademark; U.C.C. filing is sufficient).

⁶¹ 17 U.S.C. § 205(a).

⁶² 17 U.S.C. § 101. The Act also provides that a ownership of a copyright “may be transferred in whole or in part by any means of conveyance.” 17 U.S.C. § 201(d)(1).

Office is necessary to perfect a security interest in a federally registered copyright.⁶³ This is, apparently, also the view of the Copyright Office.⁶⁴

In his somewhat notorious decision in *In re Peregrine Entertainment, Ltd.*, Judge Kozinski, sitting by designation at the district court level, ruled that recordation with the Copyright Office is also needed to perfect a security interest in “receivables generated by a copyright.”⁶⁵ Subsequently, however, the Ninth Circuit has indicated that an assignment of royalties does not involve a transfer of copyright ownership or other document pertaining to a copyright, and thus recording with the Copyright Office is neither necessary nor effective to perfect such a transfer.⁶⁶ It is worth noting, however, that in that case, the assigned royalties were due to a songwriter from the music company that apparently had acquired and still owned the copyright. Whether the court would have ruled similarly if the receivables arose from a license of the copyright and were due to the copyright owner is unclear.

Some lower courts within the Ninth Circuit have extended *Peregrine* to copyrights that are not registered with Copyright Office.⁶⁷ However, the Ninth Circuit has expressly rejected this conclusion and ruled that the Copyright Act does not preempt Article 9 with respect to unregistered copyrights.⁶⁸

Problem 2

Lender has a security interest in Debtor’s general intangibles, perfected by the filing of a proper financing statement in the appropriate office.

- A. Debtor registers a trademark with the PTO. For how long, if at all, does Lender’s security interest in the trademark remain perfected? *See* U.C.C. §§ 9-102(a)(64), 9-315(c), (d).

⁶³ *See* *In re Nacio Systems, Inc.*, 410 B.R. 38 (Bankr. N.D. Cal. 2009); *In re Peregrine Entertainment, Ltd.*, 116 B.R. 194 (C.D. Cal. 1990); *In re Avalon Software, Inc.*, 209 B.R. 517 (Bankr. D. Ariz. 1997); *In re AEG Acquisition Corp.*, 127 B.R. 34 (Bankr. C.D. Cal. 1991), *aff’d*, 161 B.R. 50 (9th Cir. BAP 1993).

⁶⁴ *See* Statement of Marybeth Peters, Register of Copyrights, Before the House of Representatives Committee on the Judiciary, Subcommittee on Courts and Intellectual Property (June 24, 1999).

⁶⁵ 116 B.R. 194, 199 (C.D. Cal. 1990).

⁶⁶ *Broadcast Music, Inc. v. Hirsch*, 104 F.3d 1163, 1166 (9th Cir. 1997) (cited approvingly in *In re World Auxiliary Power*, 303 F.3d 1120, n.66 (9th Cir. 2002)).

⁶⁷ *In re Avalon Software, Inc.*, 209 B.R. 517 (Bankr. D. Ariz. 1997); *In re AEG Acquisition Corp.*, 127 B.R. 34 (Bankr. C.D. Cal. 1991), *aff’d*, 161 B.R. 50 (9th Cir. BAP 1993).

⁶⁸ *In re World Auxiliary Power Co.*, 303 F.3d 1120 (9th Cir. 2002) (U.C.C. filing perfects an interest in property that could be registered as a copyright but has not yet been, rejecting *Avalon Software* and *AEG Acquisition*).

- B. Debtor registers a copyright with the Copyright Office. For how long, if at all, does Lender's security interest in the copyright remain perfected? *See* U.C.C. §§ 9-102(a)(64), 9-311(a)(1), 9-315(c), (d).

Problem 3

Novelist Steven Duke owns the copyright to several dozen books and short stories he has written. Each copyright is registered with the Copyright Office. In 2013, Bank acquired a security interest in all of the copyrights to secure a loan to Duke and registered its interest with the Copyright Office. In 2014, Duke expanded one of the short stories into a new novel. Duke has not yet registered the copyright to the new novel. Does Bank's security interest encumber Duke's copyright in the new novel? *See* U.C.C. §§ 9-102(a)(64), 9-315(a)(2). If so, is the security interest in the copyright to the new novel perfected?

Mask Works

The SCPA allows the owner of a mask work to transfer all or license some or all of the protected rights.⁶⁹ A transfer or license must be in writing and signed by the owner of the rights or by a duly authorized agent of the owner.⁷⁰ The SCPA also provides that “[a]ny document pertaining to a mask work may be recorded in the Copyright Office,” and that “recording of any transfer or license . . . gives all persons constructive notice of the facts stated in the recorded document.”⁷¹ The SCPA does not expressly refer to the rights of lien creditors and there are no cases addressing whether recording with the Copyright Office is necessary or effective to perfect a security interest in a mask work.

⁶⁹ 17 U.S.C. § 903(b).

⁷⁰ *Id.*

⁷¹ 17 U.S.C. § 903(c)(1)

PRIORITY OF A SECURITY INTEREST IN IP AND IP-RELATED RIGHTS

Patents

Although the Patent Act contains no express reference to a security interest, § 261 does provide that an interest constituting

an assignment, grant, or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.⁷²

If a security interest arises from an “assignment, grant, or conveyance” within the meaning of this provision, then the Act would seem to govern the relative priorities of the secured party and a subsequent buyer. If the phrase “purchaser or mortgagee” also includes secured parties,⁷³ then the Act would seem to govern the relative priorities of multiple security interests in the same patent.

However, in *In re Cybernetic Services, Inc.*,⁷⁴ the Ninth Circuit ruled a bankruptcy trustee, as a hypothetical lien creditor, could not avoid a security interest in a patent for which the secured party had filed a financing statement but not recorded in the PTO. In so doing, the court ruled not only that the trustee is not a “subsequent purchaser or mortgagee” within the meaning of § 261, but also that a security interest does not arise from an “assignment, grant, or conveyance” within the meaning of § 261. This second ruling suggests that a subsequent purchaser could never take priority over a secured party under § 261. The court’s analysis relied heavily on some old Supreme Court cases,⁷⁵ which prompted the circuit court to analogize a security interest in a patent to a patent license. The court emphasized repeatedly that purchasers and mortgagees of patents take their title “subject to prior licenses of which the assignee must inform himself as best he can, and at his own risk.” This implies that purchasers and mortgagees of patents will take subject to prior security interests of which they “must inform themselves as best they can, and at their own risk.”⁷⁶

The circuit court’s analysis is not compelling and secured parties might therefore wish to record in the PTO to protect themselves against a subsequent purchaser. Indeed, even if § 261 does not

⁷² 35 U.S.C. § 261.

⁷³ Although a secured party is undoubtedly a “purchaser” within the meaning of the U.C.C., *see* U.C.C. § 1-201(b)(29), (30), that has no bearing on whether a secured party qualifies as a “purchaser or mortgagee” within the meaning of the Patent Act.

⁷⁴ [252 F.3d 1039](#) (9th Cir. 2001), *cert. denied*, 534 U.S. 1130 (2002).

⁷⁵ *Waterman v. Mackenzie*, [138 U.S. 252](#) (1891); *Littlefield v. Perry*, [88 U.S. 205](#) (1874).

⁷⁶ *Id.* at 1052 (citations omitted).

govern the priority of a security interest in a patent and recording the security agreement in the PTO does not provide *constructive* notice of the lien, a secured party still might wish to record a patent security agreement to give *actual* notice to any person that actually searches in the PTO and discovers the security agreement. Most purchasers of patents do in fact conduct PTO searches as part of their due diligence (indeed, they would be foolish not to), and therefore are likely to acquire actual notice of a recorded patent security agreement even if its recordation does not constitute constructive notice.

There are, however, some potential drawbacks to recording the assignment with the PTO. First, doing so might impair the ability of the debtor to bring an infringement action without joining the secured party. That is because such an action must be brought by all joint owners to avoid the possibility of subjecting the defendant to duplicative actions.⁷⁷ Second, the debtor would probably need a license back from the secured party. This by itself is not much of a problem but if the patent infringes on the intellectual property rights of a third person, this arrangement might well make the secured party liable for any infringement by the debtor.⁷⁸ While the debtor could contractually promise to indemnify the secured party for any losses suffered because of this, the secured party might not want this risk.

Trademarks

There are no known cases dealing with the priority of a security interest in a trademark. Section 1060(a)(4) of the Lanham Act contains language almost identical to the portion the Patent Act discussed above. Thus, the priority of a security interest in a trademark is subject to the same uncertainty as is the priority of a security interest in a patent.

Copyrights

The Copyright Act expressly governs the priority of competing “transfers” of a copyright.⁷⁹ As noted above in the discussion of perfection, “transfer” is defined broadly and apparently includes the grant of a security interest.

The Copyright Act generally awards priority to the first executed transfer, rather than to the first recorded transfer. However, such priority is subject to a requirement that the first transfer be

⁷⁷ See *McKesson Automation, Inc. v. Swisslog Italia S.P.A.*, 2008 WL 4820506 (D. Del. 2008) (staying infringement action until the plaintiff – who had apparently paid off a secured loan but recorded no reassignment back – could clear up title).

⁷⁸ See SHARON K. SUNDEEN, ED., *INTELLECTUAL PROPERTY DESKBOOK FOR THE BUSINESS LAWYER* 61 (ABA 3d ed. 2013).

⁷⁹ 17 U.S.C. § 205(d).

recorded within one month after execution. If the first transfer is not recorded within that one-month period, the subsequent transfer has priority if: (i) it was recorded first; (ii) it was recorded within one month after execution; and (iii) it was taken in good faith, for valuable consideration and without notice of the earlier transfer.⁸⁰

This priority rule – which essentially grants a one-month grace period to file – presents a challenge for lenders who wish to ensure that they will have a first-priority security interest in a copyright. A search of the Copyright Office might not reveal a recently executed but presently unrecorded transfer, even though the transfer, if later recorded, will have priority. Moreover, because the transfer documents are what is recorded, rather than a notice of the transfer, and the Copyright Office requires that document submitted for recording be complete,⁸¹ there is effectively no way for the searcher to pre-file to preserve its own priority.

This problem is exacerbated by Copyright Office’s backlog in processing documents presented for recording (*i.e.*, indexing the documents by title and registration number). It can also be exacerbated by the logistical problems that can arise if a copyright was registered concurrently or only shortly before the time that a transfer document pertaining to the copyright was recorded, in which case the registration number might not be known or available when the transfer document is submitted.⁸²

Problem 4

In 2013, Bank One obtained a security interest in Debtor’s patent. At that time, Bank One filed in the appropriate office in the jurisdiction where Debtor is located a financing statement identifying the Debtor and the listing patent as collateral. Bank One has not filed anything in the PTO. In which of the following situations, if any, will Bank One’s security interest in the patent have priority over the rights of the other identified person?

- A. In 2014, Bank Two obtained a security interest in the patent and filed a notice of assignment with the PTO. *See* § 9-322(a).
- B. In 2014, Buyer purchased all of Debtor’s rights in the patent and filed a notice of assignment thereof with the PTO. *See* 35 U.S.C. § 261; U.C.C. §§ 9-201(a), 9-317(d); *In re Cybernetic Servs., Inc.*, [252 F.3d 1039](#) (9th Cir. 2001), *cert. denied*, 534 U.S. 1130 (2002).

⁸⁰ *Id.*

⁸¹ *See* 37 C.F.R. § 201.4(c)(2).

⁸² While the Copyright Office does provide expedited processing of documents submitted with a “Special Handling” request, the narrow circumstances for which special handling is authorized do not include the perfection of a security interest. *See* [Circular 10](#).

- C. In 2014, Licensee One acquired for value an exclusive license to manufacture and distribute goods pursuant to Debtor's patent in the western United States. *See* 35 U.S.C. § 261; U.C.C. 9-321(a), (b).
- D. In 2014, Licensee Two acquired for value a nonexclusive license to manufacture and distribute goods pursuant to Debtor's patent in the six New England states. *See* 35 U.S.C. § 261; U.C.C. 9-321(a), (b).

Problem 5

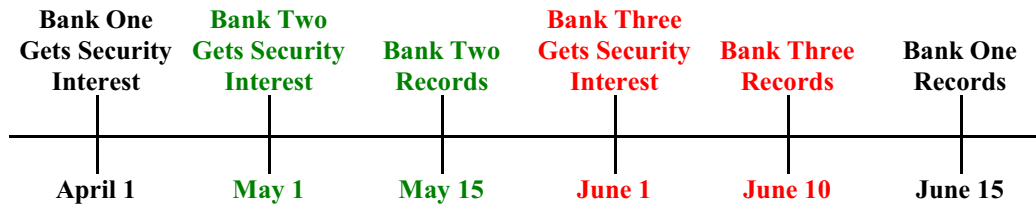
Same facts as in Problem 4(c). In addition, in 2014, Lender obtained and perfected a security interest in Licensee One's existing and after-acquired inventory. Thereafter, Licensee One manufactured goods pursuant to the exclusive license from Debtor. The goods are held as inventory. Does Bank One's security interest extend to the inventory? *See* U.C.C. §§ 9-102(a)(64), 9-315(a)? If so, which security interest has priority?

Problem 6

In 2012, Borrower granted Lender a security interest in a patent. Lender perfected by filing a financing statement but did not record the PTO. In 2013, Borrower sold the patent to Buyer, who recorded in the PTO. In 2014, Borrower defaulted on the secured obligation to Lender, who conducted a disposition of the patent by selling it to Purchaser, who did not have actual knowledge of the sale to Buyer. Lender promptly recorded the transfer to Purchaser with the PTO. What are the relative rights of Buyer and Purchaser to the patent?

Problem 7

Publisher owns the U.S. copyright to the widely successful book *Herbert, the Accidental Dragon*. The copyright is properly registered with the Copyright Office. In March, 2014, Publisher approached three banks for financing. On April 1, Bank One loaned Publisher \$5 million and received in return a security interest in Publisher's copyright. Bank One recorded the security agreement with the Copyright Office on June 15. On May 1, after being informed of Publisher's transaction with Bank One, Bank Two loaned Publisher \$2 million and received in return a security interest in Publisher's copyright. Bank Two recorded the security agreement with the Copyright Office on May 15. On June 1, without knowledge of Publisher's transactions with either Bank One or Bank Two, Bank Three loaned Publisher \$3 million and received in return a security interest in Publisher's copyright. Bank Three recorded the security agreement with the Copyright Office on June 10. These events are depicted on the following time line:



- A. What are the relative priorities of the three security interests in Publisher's copyright? *See* 17 U.S.C. § 205(d).
- B. On July 1, in the ordinary course of its business and in return for periodic royalties, Publisher granted Printer a nonexclusive license to print and distribute copies of *Herbert, the Accidental Dragon*.
 1. What are the relative priorities of the banks' security interests, in any, in Publisher's right to payment from Printer? *See* U.C.C. § 9-322(a).
 2. Of which of the three security interests, if any, did Printer take the license free? *See* 17 U.S.C. § 205(e); U.C.C. § 9-321(b).

Mask Works

The rules relating to mask works are very similar to the rules relating to copyrights. Specifically, the SCPA provides that the transfer first executed is void as against a subsequent transfer which is made for a valuable consideration and without notice of the first transfer, unless the first transfer is recorded in accordance in the Copyright Office within three months after the date on which it is executed.⁸³ However, there is apparently no definition of the term "transfer" for the purposes of this rule.⁸⁴

⁸³ 17 U.S.C. § 903(c)(2).

⁸⁴ *See* 17 U.S.C. § 912(b) (indicating that references in chapters 1 and 2 to "this title" or to "title 17" do not apply to chapter 9).

ENFORCEMENT OF A SECURITY INTEREST IN IP AND IP-RELATED RIGHTS

When the debtor is the owner of a patent, trademark, or copyright to which a security interest has attached, the secured party will typically be able to use any of the normal enforcement rules of Article 9 after default. Thus, the secured party may sell or license the patent, trademark, or copyright,⁸⁵ provided that every aspect of the sale or license is commercially reasonable.⁸⁶ While the requirement of commercial reasonableness cannot be waived,⁸⁷ the security agreement may set the standards by which commercial reasonableness will be measured, provided that the standards are not themselves manifestly unreasonable.⁸⁸

When, however, the debtor is a licensee of intellectual property, any restriction in the license might severely limit the secured party's ability to enforce the security interest. While no language in the license that purports to prohibit or restrict assignment will prevent the security interest from attaching,⁸⁹ or cause attachment of the security interest to be a breach of the license agreement,⁹⁰ the licensor will nevertheless generally be able to ignore the secured party and the security interest. Specifically, as long as other law does not intervene and require otherwise:

- The security interest will not be enforceable against the licensor;
- Attachment of the security interest imposes no duty on the licensor;
- The licensor will have no duty to recognize the security interest, render performance to the secured party, or accept performance by the secured party; and
- The security interest will not entitle the secured party to use or assign the debtor's rights under the license.⁹¹

⁸⁵ U.C.C. § 9-610(a). While merely notifying the debtor of the default does not result in a transfer of the debtor's intellectual property rights, conducting a disposition does. *See Sky Techs. LLC v. SAP AG*, 67 U.C.C. Rep. Serv. 2d 802 (E.D. Tex. 2008). *But see Corsair Special Situations Fund, L.P. v. Engineered Framing Sys., Inc.*, 694 F. Supp. 2d 449 (D. Md. 2010) (because patent security agreement provided that the creditor's interest would "become an absolute assignment" after the debtor defaulted, and debtor had defaulted, the security interest had become an absolute assignment of the patent).

⁸⁶ U.C.C. § 9-610(b).

⁸⁷ U.C.C. § 9-602(7).

⁸⁸ U.C.C. § 9-603(a).

⁸⁹ *See* U.C.C. § 9-408(a)(1). However, other restrictions in the license remain enforceable even if those restrictions have the practical effect of preventing the debtor from using its license rights as collateral. *See* U.C.C. § 9-408 cmt. 6, ex. 3.

⁹⁰ *See* U.C.C. § 9-408(a)(2).

⁹¹ *See* U.C.C. § 9-408(d)(1)-(4), (6). *See also* U.C.C. § 9-408 cmt. 2, ex. 1.

Obviously, therefore, a secured party wishing to have the right to use or enforce the debtor's licenses of intellectual property will need either to make sure that there are no restrictions in the license agreement or to enter into an agreement with the licensor that allows the secured party to enforce the security interest in the manner that the secured party desires.

Problem 8

Apricot Cell Co. manufactures and sells smart phones. The phones use patented technology of Outtel Corp. and copyrighted software of Macro Software Company.

Apricot has a nonexclusive license from Outtel that authorizes Apricot to use Outtel's patents in manufacturing smart phones. Apricot has a separate agreement with Outtel that allows Apricot to use Outtel's trademarked slogan, "Outtel within," on the packaging of the smart phones. Each license agreement prohibits Apricot from assigning any of its rights under the agreement to anyone without Outtel's prior, written consent.

Apricot has a copyright license agreement with Macro Software that allows Apricot to incorporate Macro Software's operating software into the smart phones.

Two years ago, Bank acquired a security interest in all Apricot's existing and after acquired inventory to secure a sizeable loan to Apricot. Apricot has now defaulted and Bank wishes to sell the inventory, consisting principally of smart phones, in bulk to Distributor, who is likely to export them to and resell them in Europe.

- A. May Bank conduct the sale to the distributor without infringing on the patents or trademarks of Outtel?
- B. How, if at all, would the analysis of Part A change if Apricot's license agreement with Outtel authorized Apricot to sell the smart phones only in specified retail stores in the United States?
- C. How, if at all, would the analysis of Part B change if Bank's security agreement with Apricot covered general intangibles as well as inventory? *See* U.C.C. § 9-408.
- D. May Bank conduct the sale to Distributor without infringing on the copyrights of Macro Software? *See Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, [523 U.S. 135](#) (1998); 17 U.S.C. § 109(a).
- E. How, if at all, would the analysis of Part D change if, every time an Apricot smart phone was used, the licensed software embedded in the phone was copied to the phone's random access memory?

Problem 9

Nine months ago, Software Developer wrote and developed inventory control software for Retailer's operations. Software Developer sold the software to Retailer. Pursuant to the terms of the sales agreement, Retailer is to pay \$250,000 per month for five years and Software Developer retained a security interest in the software to secure Retailer's obligation to pay the purchase price.

Last week, following a minor dispute about the operation of the software, Retailer withheld the payment due this month. This constitutes a default under the sales agreement. In response, Software Developer, is considering using a “backdoor” – a secret password that will allow Software Developer to access and operate the software remotely – to shut down the software. May Software Developer do that? *See* U.C.C. § 9-609(a)(2); 18 U.S.C. § 1030(a)(5); Colo. Rev. Stat. § 4-9-609; Conn. Gen. Stat. § 42a-9-609(d); Md. Code, Com. Law § 22-816; Va. Code § 59.1-508.16.

Problem 10

For many years, Deliciousness, Inc. produced and sold snack foods and soft drinks. Four years ago, Deliciousness sold its snack foods division to Atlantic Distribution, Inc. In connection with that transaction, Deliciousness granted Atlantic Distribution an exclusive license to use various Deliciousness trademarks in connection with the production, sale, and distribution of foods in North America. Atlantic Distribution is obligated to make quarterly payments to Deliciousness under the license agreement. It also has obligations relating to the quality of the goods to which it attaches any of the trademarks and obligations to protect and enforce the trademarks against infringement. Two years ago, as part of a restructuring, Bank made a sizeable loan to Deliciousness and received a perfected security interest in all of Deliciousness’s existing and after-acquired personal property, including accounts and general intangibles, to secure the debt. Recently, Deliciousness defaulted on the secured obligation and Bank has notified Atlantic Distribution that all future payments under the license agreement must be remitted directly to Bank. Must Atlantic Distribution comply with that instruction? *See* U.C.C. §§ 9-102(a)(3), (61), 9-406(a), 9-408(d). *See also In re Interstate Bakeries Corp.*, 751 F.3d 955 (8th Cir. 2014); *In re Exide Technologies, Inc.*, 340 B.R. 222 (Bankr. D. Del. 2006).

**SELECTED PROVISIONS OF THE PATENT ACT
(35 U.S.C.)**

§ 261. Ownership; assignment.

Subject to the provisions of this title, patents shall have the attributes of personal property. The Patent and Trademark Office shall maintain a register of interests in patents and applications for patents and shall record any document related thereto upon request, and may require a fee therefor.

Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

A certificate of acknowledgment under the hand and official seal of a person authorized to administer oaths within the United States, or, in a foreign country, of a diplomatic or consular officer of the United States or an officer authorized to administer oaths whose authority is proved by a certificate of a diplomatic or consular officer of the United States, or apostille of an official designated by a foreign country which, by treaty or convention, accords like effect to apostilles of designated officials in the United States, shall be *prima facie* evidence of the execution of an assignment, grant, or conveyance of a patent or application for patent.

An interest that constitutes an assignment, grant, or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

**SELECTED PROVISIONS OF THE LANHAM ACT
(15 U.S.C.)**

§ 1060. Assignment.

(a) (1) A registered mark or a mark for which an application to register has been filed shall be assignable with the good will of the business in which the mark is used, or with that part of the good will of the business connected with the use of and symbolized by the mark. * * *

(2) In any assignment authorized by this section, it shall not be necessary to include the good will of the business connected with the use of and symbolized by any other mark used in the business or by the name or style under which the business is conducted.

(3) Assignments shall be by instruments in writing duly executed. Acknowledgment shall be prima facie evidence of the execution of an assignment, and when the prescribed information reporting the assignment is recorded in the United States Patent and Trademark Office, the record shall be prima facie evidence of execution.

(4) An assignment 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 within 3 months after the date of the assignment or prior to the subsequent purchase.

(5) The United States Patent and Trademark Office shall maintain a record of information on assignments, in such form as may be prescribed by the Director.

(b) An assignee not domiciled in the United States may designate by a document filed in the United States Patent and Trademark Office the name and address of a person resident in the United States on whom may be served notices or process in proceedings affecting the mark. Such notices or process may be served upon the person so designated by leaving with that person or mailing to that person a copy thereof at the address specified in the last designation so filed. If the person so designated cannot be found at the address given in the last designation, or if the assignee does not designate by a document filed in the United States Patent and Trademark Office the name and address of a person resident in the United States on whom may be served notices or process in proceedings affecting the mark, such notices or process may be served upon the Director.

**SELECTED PROVISIONS OF THE COPYRIGHT ACT
(17 U.S.C.)**

§ 106. Exclusive rights in copyrighted works

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
- (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

§ 107. Limitations on exclusive rights: Fair use

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

§ 109. Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord

(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. * * *

(b)(1)(A) Notwithstanding the provisions of subsection (a), unless authorized by the owners of copyright in the sound recording or the owner of copyright in a computer program (including any tape, disk, or other medium embodying such program), and in the case of a sound recording in the musical works embodied therein, neither the owner of a particular phonorecord nor any person in possession of a particular copy of a computer program (including any tape, disk, or other medium embodying such program), may, for the purposes of direct or indirect commercial advantage, dispose of, or authorize the disposal of, the possession of that phonorecord or computer program (including any tape, disk, or other medium embodying such program) by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending.

§ 117. Limitations on exclusive rights: Computer programs

(a) Making of additional copy or adaptation by owner of copy.--Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

(1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or

(2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

§ 204. Execution of transfers of copyright ownership

(a) A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.

* * *

§ 205. Recordation of transfers and other documents

(a) Conditions for Recordation. — Any transfer of copyright ownership or other document pertaining to a copyright may be recorded in the Copyright Office if the document filed for recordation bears the actual signature of the person who executed it, or if it is accompanied by a sworn or official certification that it is a true copy of the original, signed document. A sworn or official certification may be submitted to the Copyright Office electronically, pursuant to regulations established by the Register of Copyrights.

(b) Certificate of Recordation. — The Register of Copyrights shall, upon receipt of a document as provided by subsection (a) and of the fee provided by section 708, record the document and return it with a certificate of recordation.

(c) Recordation as Constructive Notice. — Recordation of a document in the Copyright Office gives all persons constructive notice of the facts stated in the recorded document, but only if —

(1) the document, or material attached to it, specifically identifies the work to which it pertains so that, after the document is indexed by the Register of Copyrights, it would be revealed by a reasonable search under the title or registration number of the work; and

(2) registration has been made for the work.

(d) Priority between Conflicting Transfers. — As between two conflicting transfers, the one executed first prevails if it is recorded, in the manner required to give constructive notice under subsection (c), within one month after its execution in the United States or within two months after its execution outside the United States, or at any time before recordation in such manner of the later transfer. Otherwise the later transfer prevails if recorded first in such manner, and if taken in good faith, for valuable consideration or on the basis of a binding promise to pay royalties, and without notice of the earlier transfer.

(e) Priority between Conflicting Transfer of Ownership and Nonexclusive License. — A nonexclusive license, whether recorded or not, prevails over a conflicting transfer of copyright ownership if the license is evidenced by a written instrument signed by the owner of the rights licensed or such owner's duly authorized agent, and if

(1) the license was taken before execution of the transfer; or

(2) the license was taken in good faith before recordation of the transfer and without notice of it.

SECURED TRANSACTIONS CASES INVOLVING INTELLECTUAL PROPERTY 2005 – 2014

Attachment

1. *In re ProvideRx of Grapevine, LLC*,
[498 B.R. 118](#) (Bankr. N.D. Tex. 2013)

Language in security agreement granting a security interest in specified patent applications along with “corresponding rights to patent and all other intellectual property protection of every kind” was limited to IP associated with the patent applications, particularly given that the other portions of the agreement addressed only patent and patent-related rights. However, because the term sheet that preceded the loan stated that the debtor “shall provide the [secured party] with a senior security interest in the IP assets owned” and the note expressly indicated that the loan was made pursuant to the term sheet, the debtor had granted a security interest in all its IP assets. It was immaterial that the security agreement and financing statement did not expressly cover non-patent IP assets. Because “general intangibles” would have been an acceptable term in a security agreement and is broader than the phrase “IP assets,” use of “IP assets” was an effective description of the collateral.

Although loan documents granted security interest in all the debtor’s “IP assets,” because the filed financing statement covered only specified patent applications along with “corresponding rights to patent and all other intellectual property protection of every kind,” the security interest was perfected only in IP associated with the patent applications. The language used was insufficient to give a reasonable person inquiry notice of a security interest in IP assets, other than the patent applications.

Enforcement

2. *In re Provider Meds, LP*,
[2014 WL 4162870](#) (Bankr. N.D. Tex. 2014)

Secured party with a security interest in the debtor’s IP, including source code, was not entitled to rescind or terminate the debtor’s licenses of the source code even though the licenses were allegedly perpetual, royalty-free, and permitted the licensees to modify the code, thus greatly reducing the code’s value as collateral. The secured party had no claim for fraudulent inducement because the debtor made no false representation to the secured party (the term sheet contained no representations and the separate purchase and sale agreement, which did contain representations, related only to the debtor’s patents and patent-related rights), the debtor’s promise to provide a “senior security interest” was not breached by the license, and in any event a valid fraudulent inducement claim would not warrant rescission of the licenses, at most it might lead to rescission of the secured party’s contracts with the debtor. Even if the license agreements were executed after the security agreement, and backdated to before the date of the security agreement, that does not render them fraudulent or forgeries. The signatories had authority to act and their signatures were authentic. The licensee were not liable for tortious interference with contract because even though the licensees might have known that the secured party’s consent was needed to encumber the source code, the licenses were not an encumbrance.

3. *Merit Homes, LLC v. Joseph Carl Homes, LLC*,
[2014 WL 1568846](#) (9th Cir. 2014)

Because the bank that made a construction loan received from the borrower a collateral assignment of the construction plans for the benefit of itself, as well as for its successors and assigns, and the borrower warranted that it had received from its predecessors an assignment of all rights to the plans, the bank and its assignee had at least an implied license from the apparent copyright owner – a guarantor and partial owner of the debtor – to use the plans to complete construction.

4. *Mayfair Wireless LLC v. Celico Partnership*,
[2013 WL 4657507](#) (D. Del. 2013)

Putative owner of patent could not enforce it because there were two unsubstantiated links in the chain of title. First, there was no bill of sale demonstrating that a secured party purchased the patent application at a public sale, and thus no one taking from that secured party could prove ownership. Second, a subsequent secured party (who also allegedly purchased the patent at a public sale after default) purportedly received its security interest when the parent company of the putative owner authenticated a security agreement, but even if state law permits a parent company to encumber the assets of its subsidiary, the Patent Act requires written evidence of assignment from the patent holder, and there was none.

5. *Jones v. West Plains Bank and Trust Co.*,
[2012 WL 4458154](#) (E.D. Ark. 2012)

Alleged owner of recording equipment and master recordings, which had been in the possession of the debtor, stated cause of action for conversion and copyright infringement against bank that repossessed and sold the equipment and recordings. The debtor was not a necessary party to either cause of action.

6. *Variety Wholesalers, Inc. v. Prime Apparel, LLC*,
[720 S.E.2d 30](#) (N.C. Ct. App. 2011)

Creditor with perfected security interest in clothier's accounts was not entitled to funds due from clothier's customer because the goods sold to the customer violated the trademark rights of another entity, and thus the debtor did not have any right in the account to pass to the secured creditor.

7. *Corsair Special Situations Fund, L.P. v. Engineered Framing Systems, Inc.*,
[694 F. Supp. 2d 449](#) (D. Md. 2010)

Because patent security agreement provided that the creditor's interest would "become an absolute assignment" after debtor defaulted, and debtor had defaulted, the security interest had become an absolute assignment of the patent. *See also* [2010 WL 236739](#) (subsequent decision in the same case).

8. *Bank of North Carolina v. RCR Marketing, LLC*,
[2010 WL 5020502](#) (M.D.N.C. 2010)

Bank with security interest in trademarks was not entitled to preliminary injunction against alleged infringer that thought it had purchased the trademarks from the debtor's subsidiary because the debtor had never used the trademarks, only licensed them to the subsidiary, the alleged infringer was the only entity currently using the trademarks in commerce, and an outright prohibition on use would not protect either the ownership interest claimed in the trademarks or the goodwill of the trademarks in the eyes of the consuming public. The alleged infringer would be required to deposit 4% of its gross sales into escrow while the matter is litigated and the bank and the debtor would be permitted to monitor use of trademarks.

9. *Sky Technologies LLC v. SAP AG*,
[576 F.3d 1374](#) (Fed. Cir. 2009)

Entity that purchased patents from secured party, after secured party acquired them at a foreclosure sale, has standing to bring infringement action. Although an assignment of a patent must be in writing, the foreclosure in compliance with the U.C.C. effected a valid transfer by operation of law.

10. *McKesson Automation, Inc. v. Swisslog Italia S.P.A.*,
[2008 WL 4057306](#) (D. Del. 2008), *report rejected*, [2008 WL 4820506](#) (D. Del. 2008)

Debtor, who had assigned patent as security for a loan had standing to bring infringement action because debtor had repaid loan and security interest was therefore automatically extinguished. Decision later stayed until the debtor could resolve the question of ownership, either through agreement or in a court having proper jurisdiction over the secured party.

**SELECTED BANKRUPTCY CASES INVOLVING INTELLECTUAL PROPERTY
2005 – 2014**

Executory Contracts – § 363

11. *In re Interstate Bakeries Corp.*,
[690 F.3d 1069](#) (8th Cir. 2012)
Prepetition agreement by which the Chapter 11 debtor granted a perpetual, royalty-free, exclusive license to its trademarks in a specified geographic area was an executory contract that the debtor could reject.
[751 F.3d 955](#) (8th Cir. 2014) (en banc)
Prepetition license agreement that was one part of an integrated asset-purchase transaction was not an executory contract subject to assumption or rejection in bankruptcy because the unperformed obligations of the parties were relatively minor and, if not performed, would not result in a material breach.
12. *Sunbeam Products, Inc. v. Chicago Mfg., LLC*,
[686 F.3d 372](#) (7th Cir. 2012)
Rejection of executory contract by which debtor granted a license of its trademarks did not terminate the licensee's right to use the trademarks.
13. *In re Exide Technologies, Inc.*,
[340 B.R. 222](#) (Bankr. D. Del. 2006)
Exclusive trademark license that the debtor granted in connection with sale of its business was an executory contract which the debtor in possession could reject.
14. *In re N.C.P. Marketing Group, Inc.*,
[337 B.R. 230](#) (D. Nev. 2005)
A trademark license cannot be either assumed or assigned by a debtor in possession licensee without the consent of the licensor.
15. *Thompson v. Lil' Joe Records, Inc.*,
[476 F.3d 1294](#) (11th Cir. 2007)
Debtor in possession, which had rejected prepetition contract with musician under which debtor acquired copyright to songs and agreed to pay royalties, was not liable for copyright infringement for postpetition use because copyright did not revert back to musician upon rejection of the contract.

Proceeds of Prepetition Collateral – § 552(b)

16. *In re Barbara K. Enterprises, Inc.*,
[2008 WL 2439649](#) (Bankr. S.D.N.Y. 2008)
Creditor's prepetition security interest in debtor's trademarks extends to royalties from postpetition licenses of the trademarks.