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When Worlds Collide: Perfection of Intellectual Property Security Interests and Bankruptcy Law

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I. Introduction

The impact of intellectual property in the increasingly techno-centric global economy runs the gamut from microchips to blockbuster movies. Intellectual property's status as a property interest is flexible and may be summarized as the recognition of the exclusive right to the embodiment of an idea. [FN1] Given the intangible nature of intellectual property, it is unsurprising that it persists as an area of uncertainty for bankruptcy practitioners. A particularly vexing issue in Chapter 11 cases is the dueling mechanisms for perfection of security interests in intellectual property between the state and federal recordation systems.

Pledging intellectual property to secure credit has developed into a staple of asset-based financing. [FN2] The nuances associated with perfecting and preserving security interests in such collateral however remains a source of unease for lenders. [FN3] Intellectual property presents risks both in terms of the stability of valuation and increased monitoring. [FN4] Federal intellectual property recordation systems often impose burdens concerning guarding against infringement of a debtor's title or interference with a lender's priority. [FN5] Further, conflict often arises in terms of whether the federal or state recording system is the proper mechanism for perfection of such security interests. The increased costs of policing collateral and the attendant risk creates uncertainty for lenders extending credit to businesses centered on intellectual property. [FN6]

The risks associated with security interests in intellectual property are more pronounced in the bankruptcy context. The issues over perfection and priority of a senior lender's security interest are critical and can impact the trajectory of an entire Chapter 11 case. The avoiding powers created by sections 544 and 547 of the Bankruptcy Code may provide leverage to debtors in challenging purported security interests in intellectual property. [FN7] Creditors committees and subordinate creditors obviously have a strong interest in “kicking the tires” on existing security interests in an effort to topple a senior lender's priority in intellectual property collateral. Against this backdrop, Chapter 11 can be a veritable minefield for a lender secured by intellectual property who is seeking to avoid being relegated to unsecured status.

This article provides a summary of the rules for perfecting a security interest in intellectual property, more specifically patents, copyrights and trademarks, under both the Uniform Commercial Code (UCC) and the respective federal systems. It then examines bankruptcy cases which have attempted to resolve some of the uncertainty in which system is the proper avenue for perfecting such security interests. The void created by these conflicting regimes suggests collective action among Congress and the states is necessary to mesh the existing systems in order to provide greater predictability to lenders and borrowers in order to foster innovative growth.

II. Article 9 of the Uniform Commercial Code

Article 9 of the UCC is the primary process used to perfect a consensual lien in personal property under state law. [FN8] In a nutshell, perfection under Article 9 requires a UCC-1 financing statement that specifies the subject collateral to be filed under the debtor's name in the designated state recording office. [FN9] Article 9 is intended to provide uniformity, efficiency and predictability for the creation and perfection of security interests among states. [FN10]

Article 9 expressly governs security interests in "personal property," although the statutory text does not provide a definition of personal property that includes patents, copyrights or trademarks. [FN11] Instead, Article 9 employs a residual category of "general intangibles," which is designed to include personal property that does not fit the criteria of other types of specified personal property under the statute. [FN12] The Official Comments to Article 9 do explicitly reference "categories of intellectual property" as being within the scope of general intangibles. [FN13] The scope of Article 9 also generally extends to income streams which are generated by licenses utilizing the underlying intellectual property. [FN14]

The framework of Article 9 provides specific "step-back" provisions that defer to applicable federal law where a conflict would arise with the state recording system. Pursuant to Article 9, an exception to the requirement of the filing a financing statement applies to property "subject to a statute, regulation of treaty as described in Section 9-311(a)." [FN15] Section 9-311, in turn, provides that filing of a financing statement is unnecessary 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)." [FN16]

Furthermore, Article 9 provides a more general step-back provision which makes Article 9 inapplicable where "a statute, regulation or treaty of the United States preempts this Article." [FN17] Although these provisions could be read expansively to displace Article 9 whenever interests involving intellectual property are implicated, the official comments to Article 9 make clear that preemption should only apply in the limited circumstances where it is mandated. [FN18] In reality, these step-back provisions technically are superfluous in that the Supremacy Clause of the U.S. Constitution independently serves to invalidate any state laws that interfere with or are contrary to federal law. [FN19] The crux of the statutory interplay between Article 9 and the relevant federal legislation governing intellectual property is whether the federal legislation supersedes Article 9. [FN20]

III. Federal Recording Systems

Patents, copyrights and trademarks are governed by distinctive and seemingly-comprehensive statutory schemes. The Patent Act, [FN21] the Copyright Act [FN22] and the Lanham Act [FN23] all contain provisions dealing with the transfer and recordation and priority among transferees effectuated by recording. [FN24] The federal regimes for patents, copyrights and trademarks each contain the glaring deficiency of failing to adequately address a process for creation and priority of security interests in the respective intellectual property. [FN25] Furthermore, the Patent Act, the Copyright Act and the Lanham Act each fail to reference or address its relationship to the Article 9 recording scheme. [FN26] These statutory gaps largely have left courts to their own devices in determining whether the federal statutory scheme is preemptive or can be read consistently with Article 9.

A. Patent Act

Patents are uniquely creatures of federal statute and encompass inventions embodying processes, products

and improvements. [FN27] The Patent Act expressly provides that patents "shall have the attributes of personal property" [FN28] and therefore implicates a superficial conflict with Article 9's jurisdiction over security interests in personal property. Section 261 of the Patent Act provides the mechanism by which Congress authorized the transfer of ownership interests in patents. Section 261 of the Patent Act provides:

> Subject to the provisions of this title, patents shall have the attributes of personal property.
>
> 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.
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> 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 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. [FN29]

The recording system established by section 261 of the Patent Act is limited to "assignments, grants or conveyances." [FN30] Applicable regulations promulgated by the U.S. Patent and Trademark Office (the "PTO") provide that "assignments" must be recorded with the PTO, and that "other documents" affecting title to patents will be recorded in the "discretion" of the Commissioner of the PTO. [FN31] As section 261 is limited to "assignments, grants or conveyances," it may be read to deal strictly with regulating the alienability of ownership interests in patents. [FN32] The policy underlying the regulation of ownership interests stems from Congressional intent to protect patent holders and the public in order to avoid "several monopolies [being] made out of one, and divided among different persons... [that] would inevitably lead to fraudulent impositions upon persons who desired to purchase the use of the improvement, and would subject a party who, under a mistake as to his rights, used the invention without authority, to be harassed by a multiplicity of suits instead of one." [FN33]

B. Copyright Act

Copyrights are governed by the Copyright Act of 1976, which generally protects "original works of authorship fixed in any tangible medium of expression." [FN34] Registration under the statute is permissive, although an owner must register in order to enforce certain remedies following infringement. [FN35] The Copyright Act does provide for a more detailed system than the Patent Act in terms of recording transfers of interests and establishing priority and notice among competing parties. [FN36] Furthermore, the Copyright Act defines the term "transfer" to include a "mortgage," or "hypothecation," which has been interpreted to include security interests in copyrighted material. [FN37]

In terms of priority, section 205 of the Copyright Act provides:

> [a]s between two conflicting transfers, the one executed first prevails if it is recorded, in the manner required to give constructive notice... within one month after its execution... or at any time before recordation... of the later transfer. Otherwise the later transfer prevails if recorded first in such manner, and if

taken in good faith, for valuable consideration... and without notice of the earlier transfer. [FN38]

The phrase “constructive notice” refers to another subsection of section 205, which provides that recording is sufficient to establish constructive notice only where:

(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. [FN39]

Therefore, pursuant to section 205 of the Copyright Act, if the copyright has been registered by a document that adequately identifies the subject property against which the security interest is granted, recordation serves as constructive notice of that security interest. The system for recordation of ownership interests established by the Copyright Act is the most extensive regime for federal intellectual property rights. [FN40]

C. Lanham Act

Trademark law, as established by the Lanham Act, protects names, symbols, words, designs, slogans, or combinations thereof, used to identify and distinguish goods or services in the commercial marketplace. [FN41] Unlike patents and copyrights, trademarks may also be regulated in part under state law, although federal law is the most extensive and dominant source of trademark law. The Lanham Act's system of recording assignments of ownership closely parallels the framework employed by the Patent Act. [FN42]

The relevant section of the Lanham Act dealing with transfers of an ownership interest provides:

> 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. [FN43]

Unlike the Copyright Act, the Lanham Act contains no definition of the term “assignment,” and therefore creates uncertainty as to whether this section is intended to include security interests. In light of the underlying purpose of trademark law in protecting the association between a trademark and its commercial source, the assignment of a trademark requires the corresponding transfer of the goodwill associated with the mark. [FN44] Thus, a security interest in a trademark that does not expressly include an assignment of the associated goodwill may be unenforceable. [FN45]

IV. Conflicts Between Federal Statutes and Article 9 in Bankruptcy

Chapter 11 provides a breeding ground for disputes about perfection of a security interest in intellectual property and its priority as to other creditors. A natural conflict exists between the rigorous protections given by intellectual property law to the exclusive use and alienation of an intellectual property asset and the Chapter 11 goal of maximizing value of the estate assets for the benefits of all parties in interest. [FN46] This conflict often may be magnified for bankruptcy courts attempting to resolve whether the relevant intellectual property statute trumps Article 9's filing requirements.

The Bankruptcy Code allows a debtor to assume the role of a hypothetical lien creditor to avoid an unperfected security interest or to set aside a security interest as a preferential transfer. [FN47] A fixture of modern Chapter 11 cases is the scope and investigative powers of an entity, whether it be the debtor, the creditors' com-

mittee, a trustee or some other party in interest, into examining the perfection and priority of a senior lender's security interest. Due to the continued uncertainty involving perfection of intellectual property security interests, these investigations present a greater risk to lenders.

The crux of the conflict between Article 9 and the Patent Act, Copyright Act and Lanham Act is whether the doctrine of preemption applies. As noted above, Article 9 may be preempted by these federal statutes under either the express step-back language of Article 9 or the Supremacy Clause of the U.S. Constitution. Since these statutes do not provide an express grant of authority to supersede Article 9, bankruptcy courts have relied on implied preemption in answering this question.

Implied preemption exists in two forms: (1) field preemption -- where the scheme of federal regulation is so pervasive that it occupies the entire field of law thereby creating the reasonable inference that Congress did not intend for state law to supplement it, and (2) conflict preemption - where preemption is inferred because compliance with both federal and state law would be impossible or adhering to state law would undermine the objective of federal law. [FN48] In applying the doctrine of implied preemption, a general presumption exists when the federal law in question addresses areas traditionally regulated by the states, such as health and safety issues. [FN49] This presumption is inapplicable, however, where the area of state regulation is coupled with a "history of significant federal presence." [FN50]

A. Patents

The Patent Act was enacted long before Article 9 became codified and has resulted in difficultly for courts attempting to reconcile their respective provisions for purposes of implied preemption. [FN51] The leading case addressing the statutory conflict between the Patent Act and Article 9 is the Ninth Circuit's 2001 decision in *In re Cybernetic Services, Inc*. [FN52]

Cybernetic involved a Chapter 7 trustee's efforts to set aside a security interest in a patent relating to a data recorder for video technology. [FN53] The security interest in the subject patent had been perfected by a filing of a financing statement under Article 9, but no record of the security interest had been filed with the PTO. [FN54] After examining both California's version of Article 9 and the Patent Act, the Ninth Circuit unequivocally held that the Patent Act's recording system did not preempt the filing requirements established under state law. [FN55]

The rationale for the Ninth Circuit's decision in *Cybernetic* was that the Patent Act's recordation provisions dealt only with transfers of ownership interests in the patent and did not extend to security interests granted in the patented technology. [FN56] Focusing on the phrase "assignment, grant or conveyance," the Ninth Circuit reviewed relevant Supreme Court precedent relating to patent interests and concluded that a security interest in a patent that does not include a transfer of ownership represents a "mere license" rather than an "assignment, grant or conveyance" within the meaning of section 261. [FN57] Therefore, because section 261 of the Patent Act requires only that an "assignment, grant or conveyance" needs to be recorded in order to be valid against subsequent purchasers and mortgagees, the Ninth Circuit found that Article 9 is not preempted with respect to security interests in patents. [FN58]

The majority of cases follow the rule espoused in *Cybernetic* that a security interest in a patent is not the type of "assignment" that necessitates a filing with the PTO under section 261. [FN59] Therefore, secured creditors relying only on a federal filing with the PTO to perfect and preserve a security interest likely would be viewed by a bankruptcy court as undergoing a futile effort.

B. Copyrights

Given that the Copyright Act provides for the most comprehensive recording and priority system, it has spurred complex questions in terms of implied preemption. [FN60] As discussed above, section 205 of the Copyright Act creates the system for recording transfers of registered copyrights. [FN61] Bankruptcy decisions addressing preemption have focused on the definition of the term "transfer" to include any "assignment, mortgage, alienation or hypothecation" in resolving the apparent conflict between the Copyright Act and Article 9.

The two leading cases to address this issue are a district court decision in *In re Peregrine Entertainment Limited* [FN62] and a decision from the Ninth Circuit Court of Appeals in *In re World Auxiliary Power Company*. [FN63] The critical takeaway from these decisions is the distinction in filing requirements for registered and unregistered copyrights. Generally courts have held that the Copyright Act does not preempt state law with respect to the perfection and priority of security interests in unregistered copyrights, whereas the perfection of security interests in registered copyrights is governed by the federal statute.

In *Peregrine*, the district court reviewed the bankruptcy court's decision involving a debtor's attempt to avoid a security interest in a library of film copyrights pursuant to section 544(a) of the Bankruptcy Code. [FN64] The court examined the structure of the Copyright Act and concluded that it satisfied the criteria for preemption of Article 9 based on the uniform national system established for filing security interests to provide constructive notice to third parties. [FN65] In support of this finding, the court in *Peregrine* cited to the fact that the mechanics for recording registered copyrights under the Copyright Act were almost identical to the system provided by Article 9. [FN66] After concluding that the security interest was unperfected based on the failure to file with the PTO, the bankruptcy court in *Peregrine* applied the strong arm clause of section 544 and held that the creditor's interest was subordinate in priority to the debtor. [FN67]

The decision in *Peregrine* also implicitly addressed the issue of whether copyright receivables arising under registered and unregistered copyrights, i.e., income streams generated by copyrights, are subject to the same rules regarding perfection. The *Peregrine* case suggests that the Copyright Act would also preempt Article 9 with respect to copyright receivables despite the fact that the terms of the Copyright Act itself are silent with respect to the recordation of an interest in proceeds of a copyright. [FN68] The basis for the conclusion reached by Judge Kozinski in *Peregrine* is that a "copyright entitles the holder to receive all income derived from the display of the creative work [under the Copyright Act]." [FN69]

The dicta provided by *Peregrine* with respect to copyright receivables has been subject to disagreement among courts and commentators. [FN70] A subsequent decision from the Arizona bankruptcy court in *In re Avalon Software* expressly adopted the rationale of *Peregrine* and held that the Copyright Act preempted Article 9 with respect to perfection of security interests in the proceeds of copyrights. [FN71] In contrast, the Ninth Circuit's 1997 decision in *Broadcast Music, Inc. v. Hirsch*, [FN72] undercuts the strength of the *Peregrine* decision, suggesting that the Copyright Act preempts Article 9, requiring federal perfection of interests in copyright receivables. The Ninth Circuit in *Broadcast Music* ruled that a filing under the Copyright Act was not required to perfect an interest in an assignment of royalties to a copyright because the assignment of royalties was not a transfer of an interest in the copyright itself. [FN73] The structure created by these decisions is unclear, but the holdings may be interpreted to establish that a security interest in a registered copyright falls under the federal statute while a security interest in copyright receivables may only be subject to Article 9's filing requirements. [FN74]

In *World Auxiliary Power*, the Ninth Circuit addressed the question of whether the Copyright Act preempted

Article 9's recordation system. The court in *World Auxiliary Power* agreed with the holding in *Peregrine* that there was "no question" that the Copyright Act preempted Article 9 with respect to registered copyrights, however, the *World Auxiliary Power* decision rejected an extension of this holding to unregistered copyrights. [FN75] The court in *World Auxiliary Power* reasoned that requiring a federal filing under the Copyright Act would make registration a necessary perquisite to perfecting an interest in a copyright, which would result in unregistered copyrights being "practically useless" as collateral. [FN76] The Ninth Circuit concluded that this inference could not be squared with the text and the purpose of the Copyright Act - which places registered and unregistered copyrights on equal footing. [FN77]

In support of its conclusion, the Ninth Circuit in *World Auxiliary Power* emphasized that the Copyright Act makes registration an explicit requirement to certain infringement remedies and this suggests that Congress knew how to precondition certain events on registration where it deemed it appropriate. [FN78] Furthermore, the court in *World Auxiliary Power* reasoned that preemption of Article 9 with respect to unregistered copyrights is inconsistent with the structure of the Copyright Act. Under the Copyright Act, most copyrights are unregistered in that they technically come into existence at the moment of creation and the statute expressly does not precondition the validity of a copyright on registration. [FN79]

Finally, the court in *World Auxiliary Power* found that mandating recordation of unregistered copyrights under the Copyright Act conflicted with the concept of constructive notice underlying section 205. [FN80] Since a copyrighted work receives a title or registration number upon registration, an unregistered work would not be "revealed by a reasonable search" and would leave a secured creditor no way to preserve its priority. [FN81] After performing its statutory interpretation analysis, the court concluded that Article 9 controls both perfection and priority of security interests in unregistered copyrights. [FN82]

C. Trademarks

Cases addressing the perfection of security interests in trademarks largely are analogous to the law that has developed governing perfection of security interests in patents. [FN83] The Lanham Act maintains a similar structure to that of the Patent Act in that it provides a limited regime for recordation of assignments. [FN84] In analyzing the preemption issue, the key distinction is that unlike the Copyright act, the Lanham Act's recordation provision refers only to assignments and contains no corresponding provision for registration, recordation or filing concerning security interests. [FN85] Since the Lanham Act is limited to assignment of ownership interests, and the attachment of a security interest does not fall within the purview of an assignment, courts routinely have held that the Lanham Act does not displace Article 9's filing requirements. [FN86] Therefore, lenders depending on the recordation of a security interest in a trademark to preserve a security interest are subject to a "trap for the unwary." [FN87]

V. Bridging the Divide Between Article 9 and Federal Statutory Regimes

Although bankruptcy decisions have shed some light on the controlling mechanisms for perfecting and preserving security interests in intellectual property, there remains significant room for disparity in interpreting the interplay between the federal statutes and Article 9. The result has caused a fragmented system to develop which has lead to increased risks of investment and stagnated innovation. [FN88]

The difficulty in applying a cohesive preemption analysis between the federal recording statutes and Article 9 can be attributed to the dichotomy between the title-centric regimes of the Patent Act, the Copyright Act and

the Lanham Act versus the notice-based system of Article 9. [FN89] The conceptual framework for the federal recording statutes focuses on title to the intellectual property, demonstrated by the fact that the systems are designed to monitor transactions affecting the "number" or "name" of the specified intellectual property right. [FN90] In contrast, Article 9 is focused on the theory of constructive notice among parties as to the priority in the subject collateral, typically without any regard to either ownership, equity or use rights. [FN91]

There have been repeated calls for improving the process for perfecting security interests and resolving priority disputes in the area of intellectual property law. The main thrust of these reforms have focused on augmenting and streamlining the recording processes provided by the Patent Act, the Copyright Act and the Lanham Act in order to provide a more comprehensive structural framework to supplant Article 9. [FN92] A recent example of a proposal for reform was the comprehensive Federal Intellectual Property Security Act (FIPSA) that was put forth by the Joint ABA Task Force on Security Interests in Intellectual Property. [FN93] The thrust of FIPSA was to create a new "federal" Article 9 filing system that would have required the filing of federal financing statements with respect to intellectual property rights. [FN94] Proposals such as FIPSA, however, have been unable to gain legislative traction through the years despite acknowledged deficiencies in the current format.

Despite the continued drumbeat for reform, until changes are adopted lenders need to ensure extra precautions are taken to preserve security interests in intellectual property. Of course, a lender should always "over-paper" a security interest by completing both a federal filing and an Article 9 filing whenever possible to avoid any potential gaps in perfection. In addition, security agreements covering intellectual property rights should be drafted in scope as broadly as possible to encapsulate existing or later-developed ownership rights in the collateral. Furthermore, in addition to the obvious covenants and warranties dealing with the marketability of title, lenders will want to structure security agreements to place the onus of monitoring the intellectual property collateral on the borrower to the greatest degree possible. Irrespective of the level of reporting placed on the debtor, lenders likely still face significant monitoring costs themselves since relying primarily on a debtor to update the status of collateral exposes a lender to an unnecessary, and sometimes fatal, risk to its security interest.

[FN1]. See Ward, Intellectual Property in Commerce, § 2.3, n.1 (rev. ed. 2011) ("Patents, copyrights, and trademarks are legally protected rights to exclusive use.").

[FN2]. Ward, Intellectual Property in Commerce, § 2.3.

[FN3]. Ward, Intellectual Property in Commerce, § 2.3 (noting that the nature of intellectual property makes it seemingly less "secure" than other forms of personal property pledged as collateral).

[FN4]. Ward, Intellectual Property in Commerce, § 2.3 (observing the inherent problem with valuation of intellectual property is based on the varying methods of valuation and the risk of erosion of value, which in turn leads to increased monitoring costs). By way of example, a seemingly valid patent may later be invalidated on the basis of existing prior art that would be difficult for a lender to foresee at the time it extends credit. Ward, Intellectual Property in Commerce, § 2.3 (citing Oak Industries, Inc. v. Zenith Electronics Corp., 726 F. Supp. 1525, 1533, 14 U.S.P.Q.2d 1417 (N.D. Ill. 1989)).

[FN5]. See Ward, Intellectual Property in Commerce, § 2.4.

[FN6]. See Ward, Intellectual Property in Commerce, §§ 2.3 to 2.4. See also Benjzija, et al., Survey: The Treat-

ment of Intellectual Property in Bankruptcy, 4 J. Bankr. L. & Prac. 391, 404 (May/June 1995) (noting the well-documented difficultly with valuating intellectual property and adequately protecting that value in order to maximize the return).

[FN7]. Section 544 of the Bankruptcy Code vests a debtor with the rights and powers of a "hypothetical lien creditor" who secures a judicial lien as of the filing date and thereby takes priority over unperfected liens. 11 U.S.C.A. § 544(a). Section 547(b) vests a debtor with authority to avoid security interests which constitute preferential transfers. See 11 U.S.C.A. § 547(b).

[FN8]. See Menell, Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis, 22 Berkley Tech. L.J. 733, 813 (2007). All references herein are to revised Article 9 which became effective on July 1, 2011.

[FN9]. See U.C.C. § 9-310(a). Certain discrete categories of security interests are perfected upon attachment or upon a secured party's taking possession of the subject collateral. See, e.g., U.C.C. §§ 9-309, 9-315, 9-311(a), 9-312.

[FN10]. See Menell, Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis, 22 Berkley Tech. L.J. at 813-14 (observing that the revised Article 9 has virtually been adopted by every state and is structured to "provide a uniform, inexpensive, reliable and effective process for protecting security interests").

[FN11]. See U.C.C. § 9-102(a). Accord U.C.C. § 9-109(a)(1).

[FN12]. U.C.C. § 9-102(42) (defining "general intangible" 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."). See also In re E-Z Serve Convenience Stores, Inc., 299 B.R. 126, 131, 51 Collier Bankr. Cas. 2d (MB) 28, 51 U.C.C. Rep. Serv. 2d 858 (Bankr. M.D. N.C. 2003), aff'd, 318 B.R. 637 (M.D. N.C. 2004) ("Thus a general intangible is defined through a process of elimination, and is personal property that does not come within any other definition.").

[FN13]. See U.C.C. § 9-102, Official Comment 5.d.

[FN14]. See U.C.C. § 9-102(a)(2); Ward, Intellectual Property in Commerce, § 2.8.

[FN15]. U.C.C. § 9-310(b)(3).

[FN16]. U.C.C. § 9-311(a)(1).

[FN17]. U.C.C. § 9-109(c)(1).

[FN18]. U.C.C. § 9-109, Official Comment 8 (instructing that Article 9 "defers to federal law only when and to the extent that it must--i.e., when federal law preempts it"); see 68A Am. Jur. 2d Secured Transactions § 444 (explaining that the drafters revised the Official Comments to correct the misassumption that Article 9 deferred to federal law which did not preempt it).

[FN19]. See Gibbons v. Ogden, 22 U.S. 1, 211, 6 L. Ed. 23, 1824 WL 2697 (1824); Rine v. Imagitas, Inc., 590 F.3d 1215, 1224 (11th Cir. 2009).

[FN20]. See generally In re Coldwave Systems, LLC, 368 B.R. 91, 96, 48 Bankr. Ct. Dec. (CRR) 71 (Bankr. D. Mass. 2007).

[FN21]. 35 U.S.C.A. §§ 101, et. seq.

[FN22]. 17 U.S.C.A. §§ 101, et. seq.

[FN23]. 15 U.S.C.A. §§ 101, et. seq. The Lanham Act is the name colloquially given to the statute governing federal trademark law.

[FN24]. See Ward, Intellectual Property Collateral Perfection and Proceeds in Bankruptcy, 86 ALI-ABA 379, at *3 (June 12, 2008).

[FN25]. See Ward, Intellectual Property in Commerce, §§ 2.68 to 2.72.

[FN26]. See Ward, Intellectual Property in Commerce, §§ 2.68 to 2.72.

[FN27]. See 35 U.S.C.A. § 101 ("Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."); see also Site Microsurgical Systems, Inc. v. Cooper Companies, Inc., 797 F. Supp. 333, 337, 24 U.S.P.Q.2d 1463 (D. Del. 1992) (noting that patents are unique as creatures of federal statute).

[FN28]. 35 U.S.C.A. § 261.

[FN29]. 35 U.S.C.A. § 261.

[FN30]. 35 U.S.C.A. § 261.

[FN31]. Title 37 C.F.R. § 3.11(a).

[FN32]. See 35 U.S.C.A. § 261.

[FN33]. In re Cybernetic Services, Inc., 252 F.3d 1039, 1055, 59 U.S.P.Q.2d 1097, 44 U.C.C. Rep. Serv. 2d 639 (9th Cir. 2001) (quoting Gayler v. Wilder, 51 U.S. 509, 519-20, 10 How. 509, 13 L. Ed. 517, 1850 WL 6916 (1850)).

[FN34]. 17 U.S.C.A. §§ 101, 102(a) ("Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced or otherwise communicated, either directly or with the aid of a machine or a device."); Dollcraft Industries, Ltd. v. Well-Made Toy Mfg. Co., 479 F. Supp. 1105, 1113, 201 U.S.P.Q. 708 (E.D. N.Y. 1978). A computer program is a work of authorship subject to copyright protection. Tandy Corp. v. Personal Micro Computers, Inc., 524 F. Supp. 171, 173, 214 U.S.P.Q. 178 (N.D. Cal. 1981); TDS Healthcare Systems Corp. v. Humana Hosp. Illinois, Inc., 880 F. Supp. 1572, 1581-82 (N.D. Ga. 1995) (citing CMAX/Cleveland, Inc. v. UCR, Inc., 804 F. Supp. 337, 358, 26 U.S.P.Q.2d 1001 (M.D. Ga. 1992)).

[FN35]. See 17 U.S.C.A. § 408(a) ("[T]he owner of copyright... may obtain registration of the copyright claim. Such registration is not a condition of copyright protection."); 17 U.S.C.A. § 411(a) ("[N]o action for infringement of the copyright in any... work shall be instituted until registration of the copyright claim has been

made."); 17 U.S.C.A. § 412 ("[N]o award of statutory damages or of attorney's fees... shall be made for... any infringement of copyright... before the effective date of its registration.").

[FN36]. See Menell, 22 Berkley Tech. L.J. at 816.

[FN37]. See 17 U.S.C.A. § 101 (defining a "transfer of copyright ownership" as "an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.").

[FN38]. 17 U.S.C.A. § 205(d).

[FN39]. 17 U.S.C.A. § 205(c).

[FN40]. See Menell, 22 Berkley Tech. L.J. at 816 (noting that the Copyright Act provides "a detailed system for recording transfers of copyright ownership and resolving priority disputes").

[FN41]. See Fisons Horticulture, Inc. v. Vigoro Industries, Inc., 30 F.3d 466, 472, 31 U.S.P.Q.2d 1592 (3d Cir. 1994) (noting that trademark is designed to prevent use of marks by a competitor that would be likely to cause confusion among consumers); Freedom Card, Inc. v. JPMorgan Chase & Co., 432 F.3d 463, 470, 77 U.S.P.Q.2d 1515 (3d Cir. 2005).

[FN42]. See Menell, 22 Berkley Tech. L.J. at 820.

[FN43]. 15 U.S.C.A. § 1060(a)(1).

[FN44]. See Menell, 22 Berkley Tech. L.J. at 820.

[FN45]. See Barkley Clark and Barbra Clark, Security Interests in Intellectual Property: Seven Rules, 02-11 Clark's Secured Transactions Monthly 2, at *2 (February 2011) ("Under the federal statute, a secured party who takes a collateral assignment of a trademark also needs to include the related goodwill; otherwise the security interest may be unenforceable.").

[FN46]. See Ward, 86 ALI-ABA 379, at *2 (explaining the contrasting policies between intellectual property law which aims to enhance value for the owner of the asset and bankruptcy law's goals of maximizing the debtor's estate).

[FN47]. See 11 U.S.C.A. §§ 544(a)(1), 547(b).

[FN48]. See Altria Group, Inc. v. Good, 555 U.S. 70, 129 S. Ct. 538, 172 L. Ed. 2d 398, 2008-2 Trade Cas. (CCH) ¶76420 (2008); English v. General Elec. Co., 496 U.S. 72, 79, 110 S. Ct. 2270, 110 L. Ed. 2d 65, 5 I.E.R. Cas. (BNA) 609, 14 O.S.H. Cas. (BNA) 1609, 115 Lab. Cas. (CCH) P 56262, 113 Pub. Util. Rep. 4th (PUR) 97 (1990).

[FN49]. See Wyeth v. Levine, 555 U.S. 555, 129 S. Ct. 1187, 1194-95173 L. Ed. 2d 51, Prod. Liab. Rep. (CCH) P 18176 (2009); Farina v. Nokia, 578 F. Supp. 2d 740, 755 (E.D. Pa. 2008), aff'd, 625 F.3d 97 (3d Cir. 2010), cert. denied, 132 S. Ct. 365 (2011).

[FN50]. See U.S. v. Locke, 529 U.S. 89, 108, 120 S. Ct. 1135, 146 L. Ed. 2d 69, 50 Env't. Rep. Cas. (BNA)

1097, 2000 O.S.H. Dec. (CCH) P 32038, 2000 A.M.C. 913, 30 Envtl. L. Rep. 20438, 153 O.G.R. 565 (2000).

[FN51]. The federal recording system for the Patent Act largely has remained unchanged since its creation in the 19th century and therefore forces courts to "apply an antiquated statute in a modern context." See Cybernetics, 252 F.3d at 1044.

[FN52]. Cybernetics, 252 F.3d 1039.

[FN53]. Cybernetic, 252 F.3d at 1044.

[FN54]. Cybernetic, 252 F.3d at 1059.

[FN55]. Cybernetic, 252 F.3d at 1048-49.

[FN56]. Cybernetic, 252 F.3d at 1049-52.

[FN57]. Cybernetic, 252 F.3d at 1050-52.

[FN58]. Cybernetic, 252 F.3d at 1050-52. The Ninth Circuit bolstered its conclusion in *Cybernetic* by relying on the fact that Copyright Act provided for a more expansive definition of the term "transfer" which could encompass a security interest as additional evidence that security interests are outside the scope of the Patent Act. Cybernetic, 252 F.3d at 1056. Furthermore, the Ninth Circuit analyzed the relevant federal regulations promulgated by the PTO, and reasoned that because they provide the Commission of the PTO with "discretion" to accept certain filings affecting ownership interests, such as security interests, that a reading of the regulations mandating a filing with the PTO is inconsistent "as a matter of law and logic." Cybernetic, 252 F.3d at 1056-57.

[FN59]. See, e.g., Coldwave, 368 B.R. at 96-97 (holding that creditor's security interest in patent was not perfected by filing with the PTO based on the rationale of *Cybernetics*); In re Pasteurized Eggs Corp., 296 B.R. 283, 290, 51 U.C.C. Rep. Serv. 2d 274, 2003 BNH 13 (Bankr. D. N.H. 2003) (adopting rationale of *Cybernetics* and holding that filing of a security agreement with the PTO was insufficient to perfect security interest in a patent); Chesapeake Fiber Packaging Corp. v. Sebro Packaging Corp., 143 B.R. 360, 368-69, 23 U.S.P.Q.2d 1522, 19 U.C.C. Rep. Serv. 2d 600 (D. Md. 1992), aff'd, 8 F.3d 817 (4th Cir. 1993); City Bank and Trust Co. v. Otto Fabric, Inc., 83 B.R. 780, 782, 7 U.S.P.Q.2d 1719, 5 U.C.C. Rep. Serv. 2d 1459 (D. Kan. 1988) (finding "that [the secured creditor] was not required to perfect its security interest in the pre-petition patent by filing or recording with the Patent Office in order to defeat the interests of the trustee.").

[FN60]. See Menell, 22 Berkley Tech. L.J. at 816.

[FN61]. 17 U.S.C.A. § 205.

[FN62]. In re Peregrine Entertainment, Ltd., 116 B.R. 194, 16 U.S.P.Q.2d 1017, 11 U.C.C. Rep. Serv. 2d 1025 (C.D. Cal. 1990). The opinion in Peregrine was authored by Judge Alex Kozinski of the Ninth Circuit Court of Appeals sitting by designation.

[FN63]. In re World Auxiliary Power Co., 303 F.3d 1120, 40 Bankr. Ct. Dec. (CRR) 36, 49 Collier Bankr. Cas. 2d (MB) 518, 64 U.S.P.Q.2d 1433, 48 U.C.C. Rep. Serv. 2d 447 (9th Cir. 2002).

[FN64]. Peregrine, 116 B.R. at 198.

[FN65]. Peregrine, 116 B.R. at 200-02.

[FN66]. Peregrine, 116 B.R. at 202-03. The court also noted that the Official Comments to the existing version of Article 9 explicitly noted that the system of filing established by the Copyright Act represented the type of federal statute which would trigger the step-back provisions of Article 9. See Peregrine, 116 B.R. at 202-03.

[FN67]. Peregrine, 116 B.R. at 205-07. See also In re Franchise Pictures LLC, 389 B.R. 131, 142 (Bankr. C.D. Cal. 2008) (A judicial lien in a registered copyright is a "transfer of copyright ownership" that must be recorded under § 205 of the Copyright Act to be effective against third parties.).

[FN68]. See Peregrine, 116 B.R. at 199; see Menell, 22 Berkley Tech. L.J. at 817-18 (noting that the Copyright Act does not have any specific provisions addressing recordation of interests in copyright proceeds).

[FN69]. Peregrine, 116 B.R. at 199.

[FN70]. See Menell, 22 Berkley Tech. L.J. at 818 (noting that the holding of *Peregrine* has been criticized as being beyond the reach of the Copyright Act's recordation system).

[FN71]. In re Avalon Software Inc., 209 B.R. 517, 521-22, 33 U.C.C. Rep. Serv. 2d 650 (Bankr. D. Ariz. 1997) (extending this rationale to copyright licenses and proceeds from licenses).

[FN72]. Broadcast Music, Inc. v. Hirsch, 104 F.3d 1163, 1166, 41 U.S.P.Q.2d 1373, 97-1 U.S. Tax Cas. (CCH) P 50209, 79 A.F.T.R.2d 97-551 (9th Cir. 1997).

[FN73]. Broadcast Music, 104 F.3d at 1166.

[FN74]. See Menell, 22 Berkley Tech. L.J. at 818-19.

[FN75]. World Auxiliary Power, 303 F.3d at 1128.

[FN76]. World Auxiliary Power, 303 F.3d at 1130.

[FN77]. World Auxiliary Power, 303 F.3d at 1130.

[FN78]. World Auxiliary Power, 303 F.3d at 1131.

[FN79]. World Auxiliary Power, 303 F.3d at 1131.

[FN80]. World Auxiliary Power, 303 F.3d at 1130-31.

[FN81]. World Auxiliary Power, 303 F.3d at 1130-31.

[FN82]. World Auxiliary Power, 303 F.3d at 1130-31. See generally Barkley Clark and Barbra Clark, 02-11 Clark's Secured Transactions Monthly 2, at *3 (February 2011) (Article 9 filing is required for unregistered copyrights).

[FN83]. See Menell, Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis, 22 Berkley Tech. L.J. at 820.

[FN84]. See Menell, 22 Berkley Tech. L.J. at 820 (noting that the system developed by the Lanham Act mirrors

the Patent Act).

[FN85]. In re Peregrine, 116 B.R. at 204 n. 14; see generally Menell, 22 Berkley Tech. L.J. at 820-21.

[FN86]. See, e.g., In re 199Z, Inc., 137 B.R. 778, 17 U.C.C. Rep. Serv. 2d 598 (Bankr. C.D. Cal. 1992) (finding that a PTO filing was insufficient to perfect a security interest in a trademark since the Lanham Act does not apply to "pledges, mortgages or hypothecations of trademarks"); In re Chattanooga Choo-Choo Co., 98 B.R. 792, 8 U.C.C. Rep. Serv. 2d 795 (Bankr. E.D. Tenn. 1989) (holding that Article 9 applies to security interests in trademarks because the Lanham Act provides no system for notice of interests in trademarks); In re C.C. & Co., Inc., 86 B.R. 485, 6 U.C.C. Rep. Serv. 2d 915 (Bankr. E.D. Va. 1988); Matter of Roman Cleanser Co., 43 B.R. 940, 225 U.S.P.Q. 140, 39 U.C.C. Rep. Serv. 1770 (Bankr. E.D. Mich. 1984); see also Menell, 22 Berkley Tech. L.J. at 820 ("[A] security interest in a trademark must be perfected under state law, and a filing in the Patent and Trademark Office will not substitute for compliance with Article 9.").

[FN87]. See In re Together Development Corp., 227 B.R. 439, 441, 33 Bankr. Ct. Dec. (CRR) 658, 37 U.C.C. Rep. Serv. 2d 227 (Bankr. D. Mass. 1998) (referring to the common practice of recording security interests with the USPTO as a "trap for the unwary.").

[FN88]. See Menell, 22 Berkley Tech. L.J. at 821-22 (citing Task Force on Security Issues in Intellectual Property , Business Law Section, American Bar Association Preliminary Report 1 (1992)).

[FN89]. See Ward, 86 ALI-ABA 379, at *3 (observing that the systems developed under the Patent Act, the Copyright Act and the Lanham Act are all based on indexing the ownership interests which the respective statutes create).

[FN90]. See Ward, 86 ALI-ABA 379, at *3 (noting that the recordation systems under the federal statutes are focused on defining the "metes and bounds" of ownership interests in the rights themselves and function much like a real estate tract recording system).

[FN91]. See Ward, 86 ALI-ABA 379, at *3.

[FN92]. See e.g., Murphy and Ward, Proposal for a Centralized and Integrated Registry for Security Interest in Intellectual Property, USPTO Report of April 1, 2001, reprinted in 41 IDEA 297, 301-309 (2002); Menell, 22 Berkley Tech. L.J. at 821-22 (arguing for reform through creation of centralized federally-integrated filing database).

[FN93]. See Ward, Intellectual Property in Commerce, § 2.4, Appendix 1.

[FN94]. See Ward, Intellectual Property in Commerce, § 2.4; Menell, 22 Berkley Tech. L.J. at 822 (summarizing FIPSA as "creating a centralized federal filing system for all federally created intellectual property rights").

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