

Modern Law for Global Commerce

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SECURITY INTERESTS IN INTELLECTUAL PROPERTY

Oscar L. Alcantara, Attorney at Law
Goldberg, Kohn -- Chicago, Illinois

I. INTRODUCTION

A. *The Basic Transaction*

- The Owner of, or a party in the process of, developing intellectual property seeks funding, and offers its intellectual property as collateral in connection with a loan.
- Many manifestations and variations, e.g.:
 - Lender is financing the acquisition of a company's entire assets, including IP assets;
 - Lender is financing the borrower's ongoing operations and takes a lien interest in all of the borrower's assets, including IP assets;
 - Borrower's intellectual property assets are central to its core business, e.g. software developer;
 - Borrower's intellectual property assets are many, but are ancillary to its core business;
 - Borrower regularly licenses out its intellectual property, and its earnings include royalty payments;
 - One of Borrower's valuable assets is a contract right constituting an in-bound license of intellectual property;
 - Borrower seeks financing for the creation of a single intellectual property asset, as in film financing;
 - Borrower owns intellectual properties in many jurisdictions.

B. *Development and Unification Efforts*

- Despite the increasing value of intellectual property assets in financing transactions, uncertainty in the law, in particular in transactions with cross-border implications, is widespread.
- UNCITRAL has been leading efforts to unify and develop the laws that lie at intersection of intellectual property law and the law of finance.
- Although progress is sometimes slowed because of competing interests, two very different legal cultures and two sets of legal language professionals from both the intellectual property bars and the finance bars appear to be dedicated to working together on "future work".
- Today's Congress is an opportunity to comment on the "forest" before planting, climbing and chopping down the "trees".

II. “INTELLECTUAL PROPERTY” IS PROPERTY: QUESTIONS ON THE SCOPE OF A MODERN SECURED FINANCING LAW

A. *“Should a secured transactions regime cover intellectual property assets?”*

B. *Lenders, Borrowers, and their Counsel all want coverage*

- In financing transactions, Intellectual property owners want to access the value that their intellectual property assets represent.
- Lender’s want to be sure that they can execute upon valuable intellectual property assets in the event of default.

C. *Excluding Intellectual Property is not an option*

- Excluding intellectual property is not practical from a business standpoint.
- Excluding intellectual property is not possible from a drafting standpoint.

III. LIENING AND THE TOWER OF BABEL

- Discussions between finance professionals and intellectual property professionals frequently stall early because the participants speak different languages.
- Getting past faux amis: “assignment”; “publicity”; “registration”.
- Cultural differences: misunderstandings between the various constituencies in these discussions arise not only from simple conflicts in the meaning of words, but from differences in business/legal cultures.
- Success will depend upon “cultural exchange” and bilingualism.

IV. SECURITY AND INSECURITY: RECOGNITION OF A TRUE “SECURITY INTEREST” WILL BE PARAMOUNT TO FUTURE WORK

A. *One Tree in the Forest: Title and maintenance requirements:*

Many treatments of the issues surrounding intellectual property and secured lending make at least some mention of the uncertainties that may arise in identifying title to a piece of intellectual property, and meeting the requirements for renewing or otherwise maintaining a registration.

B. *Recognizing a true security interest*

Recognition of a true security interest – not an assignment used to approximate a security interest – will resolve such issues.

V. “BETWEEN YOU AND ME”: BALANCING THE RIGHTS OF THIRD PARTIES

A. *Another Tree in the Forest: How to Give Notice To Third Parties*

One controversy that has drawn, and will continue to draw, significant attention is the question of where to file notice of a security interest in order to make it effective against a third party: a commercial registry; a domestic intellectual property office; a specialized international office. How should we deal with unregistered intellectual property rights? Which state’s laws shall apply to which transactions and/or interests in properties?

B. Is the source of the controversy the fact that intellectual property assets are frequently the subject of specialized filing offices that make them unique among commercial assets?

C. The controversies that arise when discussing the issues of notice and the rights of third parties in intellectual property are an indication of a more deeply seeded conflict. Specifically, in some jurisdictions, a security interest becomes effective against third parties at the time of the creation of the obligation between grantor and grantee, while in other jurisdictions, a separate notification to third parties becomes necessary.

D. Building widespread, ground level buy-in on the underlying issue of “effectiveness” in secured transactions generally will lead to accord on the more detailed issues of notice filings, intellectual property offices and conflicts of laws.

VI. DIVERTING A ROYALTY STREAM

A. A controversy has arisen regarding the priorities over streams of royalty payments that arise from the licensing and use of intellectual property. Finance attorneys are accustomed to dealing with a wide array of different types of payment streams, and how a lender can be assured of receiving those funds in the event that its borrower defaults on its loan obligations.

B. But intellectual properties are in many ways unique among other commercial assets, and intellectual property attorneys often assert that the owner of an intellectual property enjoys the absolute right to receive such royalty payments, even if such payment streams have been offered as collateral in a financing transaction.

C. However, the law, even in the most developed countries, is far from certain, and in fact there authority on both sides of this argument. Currently, the fact that a royalty or account flows from the use of intellectual property does not necessarily give the intellectual property owner some sort of super-priority right to payment on that account.

D. Intellectual property owners and their counsel should recognize that one of the goals of a modern secured transactions regime is to create certainty over such issues as the priorities among conflicting interests in a stream of payments. Intellectual property owners will ultimately be able to take advantage of the certainties created by current efforts.

VII. CONCLUDING REMARKS:

The United Nations’ ethos and expertise in transcending barriers of language and culture will be significant in any progress to be made in harmonizing the laws of intellectual property and secured finance.