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Perfecting Security Interests in Intellectual Property: Article 9, Federal IP Statutes, and Foreign Laws

WEDNESDAY, SEPTEMBER 23, 2020

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

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Today's Topics

- I. Overview of Security Interests
- II. Perfecting Security Interests in IP
- III. Applicable Foreign Laws
- IV. Drafting the IP Security Agreement
- V. Conclusions
- VI. Questions



I. Overview of Security Interests

The Importance of Intellectual Property

- Monopoly Power - significant business advantages by allowing, for example, the creation of specialized goods that are capable of generating high profit margins.
- IP is often a significant driving force behind **Mergers and Acquisitions** and other cross-border commercial transactions.
- **International Trademark Licensing** allows companies to extend their global reach through partnerships with local licensees throughout the world.
- Worldwide IP portfolios are now routinely used as a source of funding for **Secured Transactions**.



Types of Intellectual Property – Main forms of IP typically subject to Security Interests

- Patents
- Trademarks
- Copyrights
- Domain Names
- Others

What makes IP Collateral different from other asset types.

- In many countries, despite the nature of most IP rights as creatures of Federal or national law, security interests are generally governed by State or local law.
- US – Article 9 of State Uniform Commercial Code governs creation of security interests in IP.
- Patents/Trademarks/Copyrights – largely governed by federal law.

Three Stages of a Security Interest

- Creation – In the US, governed by Article 9 (State law) and created by contract.
- Perfection - Which in terms of IP is a trap for the unwary - no uniformity between federal and state law...at least not in the United States. **Check local law.**
- Enforcement/Release.

Article 9-109(a)(1)

Article 9 of the Uniform Commercial Code (U.C.C.) explicitly provides that it applies to *any* transaction, regardless of its form, that creates a security interest in *personal property* or fixtures by contract.

- Where is Intellectual Property?
- Look to “General Intangibles”

Section 9-102(42)

Defines “General Intangibles” 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, money and oil, gas, or other minerals before extraction. The term includes payment intangibles and software.

Section 9-102(42)

“General Intangibles” include:

1. Patents
2. Trademarks (registered and common law)
3. Trade secrets
4. Unregistered copyrights
5. Domain names ???

Article 9-203 - How to create a security interest

Article 9-203 states:

“a security interest ***attaches*** to collateral when it becomes ***enforceable against the debtor*** with respect to the collateral....”

What is Attachment?

- “Enforceable against the debtor”
- Value - Has to be some worth provided.
- Debtor Rights in the Collateral.
 - the owner
 - with respect to IP the “owner of record”
- Signed Written Agreement.
- Sufficient Description of Collateral - try and avoid ambiguity or vagueness.

Preemption - How does Federal Law Preempt State Law and why is that Problematic?

- Preemption arises in the context of perfecting security interests.
- “No security in an unperfected security interest.”
 - Relegated to the status of unsecured creditor.
 - Go to the back of the line.
- Federal Law v. State Law - which applies.
- There is **partial preemption** (to be discussed)

Ask: What type of IP is being used as collateral and in what jurisdiction?





II. PERFECTING SECURITY INTERESTS IN INTELLECTUAL PROPERTY



Categories of Protectable Intellectual Property

1. Patents
2. Copyrights (registered and unregistered)
3. Trademarks (registered and unregistered)
4. Trade Secrets
5. Domain Names

Patents

Patents protect:

Machines, processes, compositions of matter, articles of manufacture and any improvements thereto.

A Patent may be obtained by filing an application for patent registration with the United States Patent and Trademark Office.

Patents are governed by Title 35 of the United States Code.

There are **no** common law patents or patent rights.

Copyrights

Copyrights protect:

Written works, musical works, sound recordings, computer software, audiovisual works, architectural designs and three dimensional works.

Copyright protection in works created on or after January 1, 1978 are governed by 17 U.S.C. §§ 101-810.

After January 1, 1978, there is **no** common law copyright protection.

But there are **unregistered copyrights**

Copyright registration is **voluntary**.

Trademarks

Trademark law protects:

Any word, name, symbol, device, or other designation that is distinctive of a person's goods or services and is used in a manner that identifies those goods or services and distinguishes them from the goods or services of others.

There are three types of trademark protection:

1. Trademarks registered with the USPTO
2. State registered trademarks
3. Common law trademarks

Trade Secrets

A trade secret is:

1. Information;
2. Provides value because it is secret;
3. Is not generally known;
4. Is not readily ascertainable by proper means; and
5. Is the subject of reasonable efforts to maintain its secrecy.

Trade secrets are protected by state law.

Trade secrets are also protected by contract law and common law.

Domain Names

Domain names are Internet addresses used to identify a page on the World Wide Web.

Lockheed Martin Corp. v. Network Solutions, Inc., 194 F.3d 980, 981-82 (9th Cir. 1999)

Domain names are registered with a third party domain name registrar.

Is it a **property right**, or a **contractual right to use**?

Perfection of Patent Security Interests

35 U.S.C. § 261

An interest that constitutes an assignment, grant or conveyance shall be void against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded

A security interest is **not** an assignment, grant or conveyance

In re Transportation Design & Tech., Inc., 48 B.R. 635, 639 (Bankr. S.D. Cal. 1985)

The Patent Act does **not preempt** state regulation of security interests

In Re Cybernetic Services, Inc., 239 B.R. 917 (B.A.P. 9th Cir. 1999)

Given the limited focus and skeletal nature of the Patent Act and its lack of reference to the creation and perfection of security interests, **we conclude that the Patent Act does not preempt state regulation of the perfection of security interests in patents.**

Perfection of Patent Security Interests

35 U.S.C. § 261

An interest that constitutes an assignment, grant or conveyance shall be void against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded

The Patent Act does **not** preempt the UCC.

Patents have the attributes of personal property. [35 U.S.C. § 261](#)

Perfection is made by filing a financial statement in accordance with state UCC law.

BUT . . .

Perfection of Patent Security Interests

Security interest should still be recorded with the patent office.

A security interest has **two** purposes:

1. It protects the interest of a secured creditor in collateral **against subsequent or competing lien claimants** of its debtor; and
2. It protects the secured creditor against the **debtor transferring title** to the collateral free of its interest.

The UCC **protects both** of these interests ordinarily.

Perfection of Patent Security Interests

The Patent Act **preempts #2** because it protects a subsequent mortgagee who takes **without notice**.

A secured creditor must record its interest to protect against a debtor's subsequent transfer of the patent.

In re Transportation Design & Tech., Inc., 48 B.R. 635, 639-40 (Bankr. S.D. Cal. 1985)

Perfection of Patent Security Interests

Recordation of patent interest with USPTO must take place:

1. within **three months** from its date of execution;
or
2. **prior** to the date of such subsequent purchase or mortgage.

Perfection of Registered Trademark Security Interests

15 U.S.C. § 1060 (Trademark recordation statute)

An assignment shall be void against any subsequent purchaser for valuable consideration without notice . . .
Unless recorded

The Lanham Act does **not preempt** state regulation of security interests

Roman Cleanser Co., 43 B.R. 940 (Bkrcy. E.D. Mich. 1984)
(holding that a federally registered trademark was a “general intangible” and its perfection was lawfully made by filing a UCC financing statement **even if not recorded with the USPTO**).

Perfection of Registered Trademark Security Interests

Rationale:

A security interest is not an assignment.

A security interest is a conditional assignment. An agreement to assign a mark in the future is not an assignment and does not vest legal title.

See *Gaia Technologies, Inc. v. Reconversion Technologies, Inc.*, 93 F.3d 774 (Fed. Cir. 1996).

Additional Cases:

Trimarchi v. Together Development Corp., 255 B.R. 606 (D. Mass. 2000) (Lanham Act's registration provision does not preempt UCC filing requirements for the perfection of a security interest in a trademark.)

In re 199Z, Inc., 137 B.R. 778 (Bkcy. C.C. Cal. 1992)

In re C.C. & Co., 86 B.R. 485 (Bkcy. E.D. Va. 1998)

Perfection of Registered Trademark Security Interests

Does In re Transportation apply?

In re Transportation Design & Tech., Inc., 48 B.R. 635, 639-40 (Bankr. S.D. Cal. 1985)

Must a secured creditor record its interest to protect against a debtor's subsequent transfer of the trademark?

Perfection of Registered Trademark Security Interests

Recordation of trademark interest with the USPTO must take place:

1. within **three months** from its date of execution;
or
2. **prior** to the date of such subsequent purchase.

Perfection of Copyright Security Interests

17 U.S.C. § 205(d) (Copyright recordation statute)

Perfection of security agreements granting rights in copyrights are to be perfected by recording in the U.S. Copyright Office.

The Copyright Act **preempts** state regulation of security interests

In re Peregrine Entertainment, Ltd., 116 B.R. 194 (C.D. Ca. 1990)
(holding a security interest **not** perfected even though the lender filed UCC financing statements in **three states** but not with the U.S. Copyright Office)

Perfection of Copyright Security Interests

17 U.S.C. § 205(a)

Any transfer of copyright ownership or other document pertaining to a copyright may be recorded in the Copyright Office.

17 U.S.C. § 101

A “transfer of copyright ownership” is an assignment, mortgage, license or any other conveyance, alienation or hypothecation of a copyright . . .

The Copyright Act preempts the UCC.

Perfection of Copyright Security Interests

Unregistered copyrights

17 U.S.C. § 205(c)(2)

Recordation of a security interest in an unregistered work **does not constitute constructive notice.**

Does the lack of constructive notice mean no preemption of UCC laws governing perfection of unregistered copyrights as “General Intangibles”?

Perfection of Copyright Security Interests

Unregistered copyrights

UCC filings necessary to perfect security interests in unregistered copyrights

In re World Auxiliary Power Co., 303 F.3d 1120 (9th Cir. 2002)

State law governed perfection and priority of security interests in debtors' unregistered copyrights.

But see:

In re Avalon Software, Inc., 209 B.R. 517, 523 (Bankr. D. Az. 1997)

Rejected bank's argument that perfection of unregistered copyrights is governed by state law.

Perfection of Copyright Security Interests

Unregistered copyrights

Best Practices:

1. Include the unregistered copyrighted works in a UCC filing
2. Register the copyright in the collateral, and
3. Record the security interest in the copyright with the Copyright Office

Perfection of Copyright Security Interests

Some jurisdictions hold that recordation is necessary to perfect security interests in **copyright revenues**

i.e. accounts & royalties

In re Peregrine Entm't, Ltd., 116 B.R. 194, 199 (C.D. Cal. 1990)

In re AEG Acquisition Corp., 127 B.R. 34 (C. D. Cal. 1991)

But see:

MCEG Sterling, Inc. v. Phillips Nizer Benjamin Krim & Ballon, 646 N.Y.S.2d 778, 780 (Sup. Ct. 1996).

Perfection of Copyright Security Interests

- Within **1 month** after execution of the security interest; or
- Within **2 months** after execution outside the United States; or
- **At any time** before recordation of a later transfer.

Copyright Act provides a **1 month grace period** to perfect the security interest

Perfection of Unregistered Intellectual Property

Not all intellectual property rights require registration:

1. Trade secrets
2. Common law trademarks
3. Domain names
4. unregistered copyrights

Perfection of Unregistered Intellectual Property

Separate security documents are not always necessary:

Trade secrets and unregistered trademarks fall within the definition of “General Intangibles”

any personal property (including things in action)
The term includes software. UCC § 9-102

A general security agreement covering general intangibles should suffice.

Domain Names

Domain names are a **contract right**

Network Solutions, Inc. v. Umbro Int'l, Inc., 529 S.E. 2d 80 (Va. 2013)

- A domain name is **a right to use a service rather than a property right** and therefore immune to transfer by a judgment creditor.

• Domain names are a **property right**

Office Depot Inc. v. Zuccarini, 596 F.3d 696 (9th Cir. 2010)

- Domain names **are intangible property** subject to a writ of execution.
- A creditor may take a security interest against a domain name in the district where the domain name registry is located.
 - VeriSign is the registry for the .com and .net domain names and is headquartered in Mountain View, California, in the Northern District of California
- In rem jurisdiction over the domain name is proper

Web Content

- While domain names may or may not be personal property, **web content is protected by copyright law.**
- A security interest in web content should be perfected as a copyrighted work or an unregistered copyrighted work.

Thank you!

Please direct any questions to:

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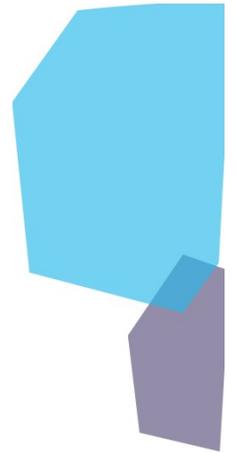
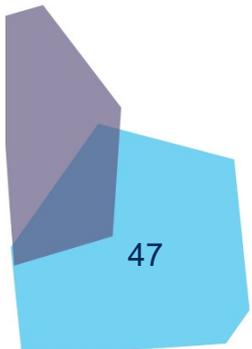
PERFECTING SECURITY
INTERESTS IN
INTELLECTUAL PROPERTY
—
GLOBAL
CONSIDERATIONS

Constance Rhebergen

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COMPARATIVE LAW

- Over 80% of all countries issue patents
- Trends in Patent Security Interest Recordal
 - Common Law Origins
 - Australia
 - UK
 - US
 - Canada
 - Civil Law Systems



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COMMON LAW ORIGINS

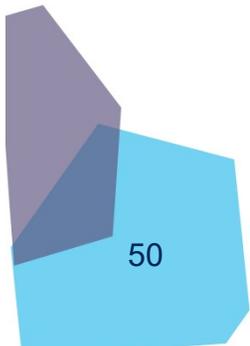
- Perfection typically not achieved by recording at the patent office
- Perfection achieved at recording in a central location
- Best practice is to file in both place
- Caution: certain countries have time limits for filing after which you lose the ability to perfect
- A few countries require signature by both parties, not only the grantor

CIVIL LAW SYSTEMS

- Civil Law Origins typical result in filings being made at the Patent Office or Trademark office for such assets
- Perfection may not be a recognized concept in all countries
- Security Interests may be effective against subsequent holder in due course or second secured party
- Means for foreclosure on asset differs widely

ANATOMY OF A SECURED TRANSACTION

- Security Interest in specific technology for consideration related to the specific technology
- Security Interest taken in technology as a general asset
- Single party transaction
- Multi-party transaction and syndicated loans

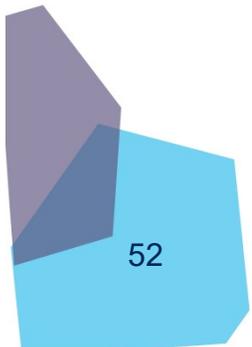
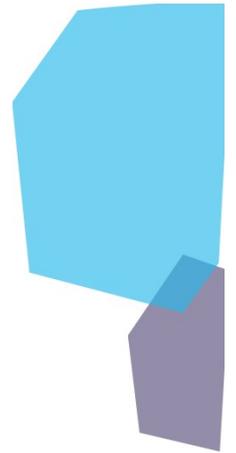


DUE DILIGENCE

- Before a security interest is given, due diligence is often performed
- Global databases used for security interest review of Patent Offices and Trademark Office
- Small set of patent and trademark offices do not participate so foreign associates may be needed
- For local registrations (i.e. UCC filing), countries have unique search processes
- Syndicated loans that are restated multiple times have additional complications on searching given multiple documents
- Certain local searching authorities do not provide searching by mortgagee, others do not provide searching by patent number

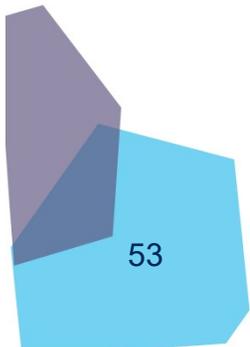
THINGS CHANGE

- Like the US, other countries change rules
- Diligence over an older set of assets or for an older security agreement may involve additional search locations
- Review dates to ensure you use the right resources
- Things will change in the future...stay tuned.



FOREIGN ASSOCIATES

- Filing of Security Interest in other jurisdictions will require foreign associates
- In some countries, IP prosecution advisors may be unfamiliar with security interest rules
- Corporate lawyers in those same countries may be unfamiliar with specific practice related to IP
- Challenging to assemble a team of foreign associates versed in IP security interests



AUSTRALIA - RECORDAL

- Recordal:
 - Post-2012: registration required on Australian Personal Property Securities Register (PPSR)
 - Pre-2012: Australian IP Database
 - Search both for diligence – no migration between databases
 - Patents and Trademarks have different rules
 - Voluntary/Best Practice: include recordal at Intellectual Property Office of Australia
 - Register within 20 days on PPSR, if no other form of registration
 - Underlying document creating the interest submitted for patents
 - For trademarks, underlying document not submitted; recordal submitted by both parties
- Security Interest Document
 - Must refer to a specific number identifying the patent (i.e. application or patent number)
 - Insufficient to simply include “intangible assets”

AUSTRALIA (CONT.)

- Perfection
 - Security Interest Document signed by the grantor
 - Recorded at the PPSR
 - Recordal is voluntary, but necessary to enforce against holder in due course or later-secured parties
- Security Interest grants
 - Patents, Trademarks, Registered Designs, Copyright
 - IP Agreements
 - Special care required if recording a license – avoid security interest in the underlying asset
 - Agreement terms prevail, so may have minimal value to record for financial lender

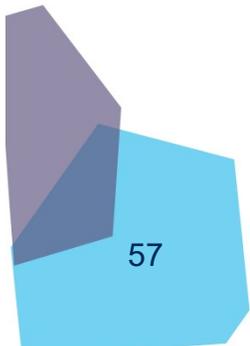
CANADA

- Recordal

- Filed under the Canadian Personal Property Securities Act (PPSA) for securing personal property that is not real estate
 - PPSA filings are on Provincial level (even though patents are federal)
 - Time consuming to search the Personal Property Registry under the PPSA – typically use a searcher
 - (Bank Act Search for very limited types of transactions – not for most loans)
 - Search by party
- Filed with the Canadian Intellectual Property Office (CIPO)
- Case law
 - Unclear as to effect of filing only with CIPO - no case law
 - Best Practice: File under PPSA for perfection and also with CIPO for enhanced notice

UK

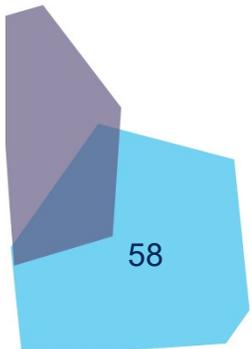
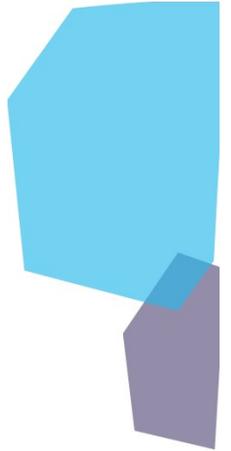
- Recordal
 - Filed at the Companies House
 - File within 21 days to perfect
 - Failure to file makes the security interest void upon insolvency and against other creditors
- UK Intellectual Property Office (UKIPO)
 - Voluntary
 - Best Practice
- Diligence
 - Searching Companies House by Grantor
 - Asset or Grantee search not available search criteria in public database



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EUROPEAN PATENT

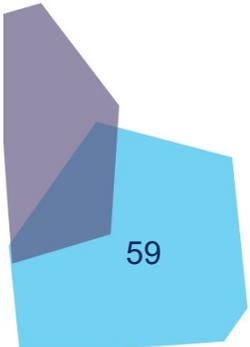
- Recordal at EPO for pending EP applications
No secondary location for EP filing
Recordal for validated patents at national level



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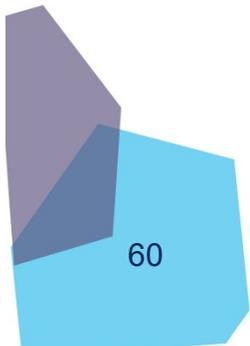
FRANCE

- Record pledge at appropriate IP office
 - National Trade Marks Authority (Institut National de la Propriete Industrielle)
 - National Patent Registry (Registre National des Brevets)
- No secondary recordal location
- Assets suitable for pledge:
 - Trademarks
 - Patents
 - Copyright
 - Designs
- Registration required in order to be enforceable against third parties
- No specific time limit given



GERMANY

- Record security assignment or pledge at the German Patent and Trademark Office (Deutsches Patent – und Markenamt) (DPMA)
- Recordal non-obligatory; often made at time of enforcement
- No secondary recordal location
- Intellectual Property rights
 - Patents
 - Trademarks (either European community trademark or national trademark)
 - Designs/utility models
- European Trademarks: record with the OHIM to avoid holders in due course (actual knowledge of security assignment also cuts off subsequent transfer)

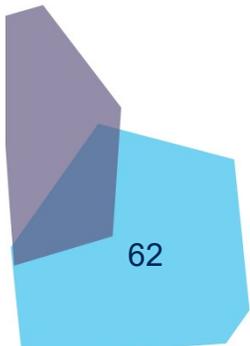


CHINA

- Recordal of Mortgage/ Pledge
 - Before SIPO only
 - Regulations indicate, for a patent, security interest only valid upon registration
 - Registration timing is voluntary, except, it is necessary to:
 - Enforce against a later holder in due course;
 - Enforce against a later-secured party who records; and
 - Necessary to foreclose
 - Recordal is for granted patents only
 - Few recordals made
- Statistics
 - Most recordals for invention patents and utility models; design patents less frequent
 - Most by Chinese banks on assets first-filed in China, not national phase PCT
 - Mostly technology companies

CHINA

- China now enjoys the highest number of patent filings per year of any country in the world
- Since 2008, Chinese government has promoted commercial use of IP
 - Rapid changes in regulations
 - More changes to coming focusing on industry segments or capitalization
- Few recordals, but growing
 - 2009; 657 security registration
 - 2010; 1076 security registrations
 - Today; thousands, but SIPO no longer provides reports
- All Banks in China are state-owned



CHINA

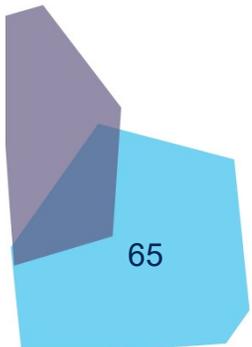
- Contract for patents
 - Can related only to patents, or a main contract that includes mortgage clauses for intellectual property
 - Must include a listing of the patents by number
 - Should include annuity obligations
 - All co-owners of an asset must sign the written agreement
 - Must include time period for repayment
 - Time period must not extend beyond life of patent or will not be recorded
 - Patent must be valid, not expired and not within grace period
- Once a security interest is recorded, SIPO will not record an assignment of the asset without a release of the interest
- SIPO will notify the mortgagee if annuity is not paid

CHINA

- Only one registered security interest at a time allowed
- First-to-file a security interest controls, regardless of execution time
- Result – banks unlikely to give a secondary loan on same assets
 - While this makes sense relative to Chinese banks, which are state-owned, it puts the burden on non-Chinese banks to perform diligence or lose the ability to register/control the pledged assets
 - In spite of this pinch-point in Chinese security interests, few foreign banks register their security interest in China
- Diligence is challenging – patent number search, not mortgagee or mortgagor
- Granting a security interest in something that does not yet exist is not allowed, so need careful drafting regarding patent applications

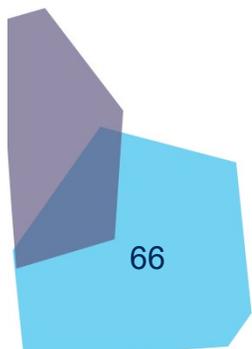
JAPAN

- Recordal exclusively at the Patent office
- Intellectual Property Rights:
 - Patents
 - Trademarks
 - Copyright
- Only issued patents may have security interest recorded
- Uncommon to register security interest
- Security assignments or pledges
- Cannot pledge: the right to obtain a patent, or rights derived from an application for a trademark registration; design registration.



SPAIN

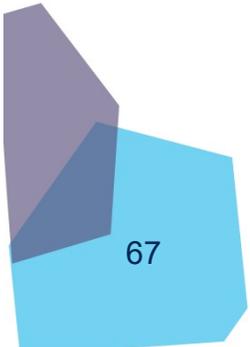
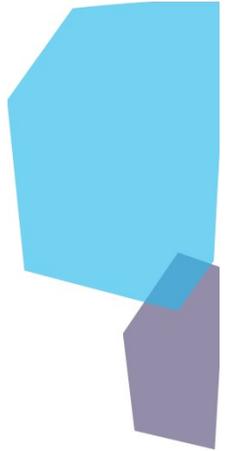
- Industrial Property
 - Patents
 - Utility models
 - Industrial Designs
 - Trademarks
- Recordal at Patent Office possible
- Recordal before the commercial registry mandatory required



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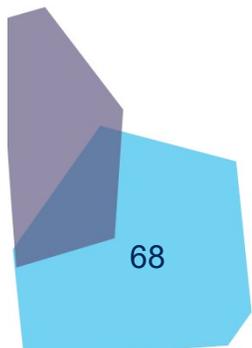
NOW YOU OWN IT.....WHAT NEXT

- Banks are not in the business of commercializing IP portfolios
- Costly to maintain
- Bankruptcy proceedings are only the beginning
 - Foreign associate may control assets and files
 - Foreign associate may have liens



SUMMARY OF ISSUES

- Timing
- Location of Recordal
- Due Diligence
- Agreements
- Registration vs. Application



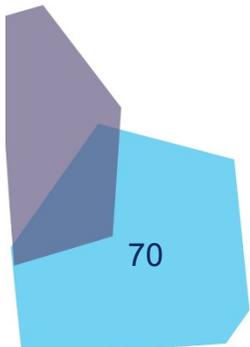
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TIMING

- Time to register recordal
 - Certain countries require recordal within a short time period or forever lose the right to record (i.e. UK);
 - Other countries provide a window for recordal but permit later recordal subject to any interim filings;
 - Some countries provide no time limits requiring recording, but have a first-to-record system (China)
 - Some countries provide no time limits but require recordal in order to enforce

LOCATION

- Certain countries require recordal at the state/provincial/central transactional location
- Some countries require recordal at the respective IP Office
- Most countries with both allow both, with perfection only created at the state/provincial/central transaction location
- Countries change rules – several countries have change their location for filing in the last 20 years, some may change them again



DUE DILIGENCE

- Diligence on patent assets existence can easily be performed for numerous countries
- Diligence on security agreements is not easily performed
- While databases may include security agreement fields, care must be taken to ensure the respective governments provide data to the database
- Country-level searching can be costly
- Country-level searching may be limited to select fields and may not include patent or trademark number, grantor or secured party
- Syndicated loans – administrative agents secures the assets; other banks may perform diligence to ensure recordal

AGREEMENTS

- Signatures
 - Some countries require signature of only the granting party while other countries require both
 - Some countries still require original signatures
- Documentary evidence
 - Most countries require supporting documents specifically identifying assets
 - Short forms can fulfill this documentary evidence requirement
 - Redaction may be allowed
 - Few countries allow a “cover sheet” without evidence, signed by both parties
- Application – “cover sheet”
 - Most countries do not check this for accuracy, which allows mistaken recordal
 - A few countries do check the accuracy and validity of underlying assets

REGISTRATIONS VS APPLICATIONS

- Many countries in the world do not allow pledging related to assets not yet in existence – care must be taken in drafting to recognize this structure while addressing patent applications
- Certain countries do not allow registration of a security interest against an application, patent or trademark
- Many countries do not allow for a pledge of future assets (assets not yet in existence or not yet owned by the security provider), but have specific mechanisms to allow for applications provided there is sufficient clarity



Simply put, it is possible to have convenience if you want to tolerate insecurity, but if you want security, you must be prepared for inconvenience.

- General Benjamin W. Chidlaw

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