COLLATERALIZING PATENTS:
Debtor’s and Third Party’s Rights

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Roadmap Topics

- What Constitute the Patent Collateral
- Secured Creditor’s Rights vs. Debtor’s Rights (Creation/Attachment): Category and Definition of Patent Collateral
- Third Party’s Right in the Patent Collateral
What Constitute the *Patent Collateral*?

- Samples of Patent Security Agreement (attached and available at the web site)
- “Patent Collateral” Include:
  - Any claim by Grantor against third parties for past, present or future infringement of any Patent
  - Patent Licenses
  - Any New Patentable Inventions Acquired by Debtor
Future Project on “Patent Collateral”? Category and Definition of Patent Collateral

• Statutory Definition of Patent Collateral
• Avoid the Catch-All “General Intangibles”?
  – Creditor’s Overreaching Security Interest
  – Conflict of Law (Patent Rights vs. Security Interest; No Concept of “After-Acquired” or “Floating Lien” in Patents)
  – Lack of Notice Problem
  – Uncertainty
  – U.S. Case Law on “General Intangibles”
Future Project on “Patent Collateral”?

Category and Definition of Patent Collateral

• Statutory Definition of Patent Collateral
• Avoid the Catch-All “Intellectual Property”?
  – Creditor’s Overreaching Security Interest
  – Conflict of Law (Patent Rights vs. Security Interest)
  – Lack of Notice Problem
  – Uncertainty

- Patent Licensing: Common Practice
- Licensing as Lucrative Business Model
- Companies such as Qualcomm, IBM, TI earn Billions in Patent Licensing Revenue, Not in Sales of Patented Products

• Notice: Patent Licensor (small entity); Patent Licensee (big company with resources to manufacture, distribute, market, sell the licensed, patented products).

• Patent Licensee: Spend Much More $$$ Investment; Not the Patent Licensor

• How does it impact patent licenses as collateral in secured financing?
Third Party’s Right in the Patent Collateral: Patent Licenses—Scenario 1

- Patent Holder as Debtor and Licensor
- Rights of SP in the Patent License: (a) the license and (b) income stream?
- Rights of Non-Debtor Licensee? Can it continue to use the license and pay the fees?
Third Party’s Right in the Patent Collateral – Scenario 1 Continues

- Debtor grants SP security interest in “Patent Collateral” and Debtor licenses the patents to Non-Debtor Licensee. Debtor is in Bankruptcy
- IPLBA: Non-Debtor Licensee Has Statutory Right to Continue Its Rights Under the Patent License (regardless it is an exclusive or non-exclusive license); Debtor Rejects the License
- Can SP foreclose on the Patent License and then assign its rights to Others?
Third Party’s Right in the Patent Collateral – Scenario 2

- Debtor/Licensor is NOT in Bankruptcy; SP forecloses on the Patents
- Non-Debtor Licensee: nonexclusive patent license in the ordinary course of business; continues to use the license (“take free” of SP’s security interest)
- Sublicensee would also “take free”
Third Party’s Right in the Patent Collateral – Scenario 2

- Debtor/Licensor is NOT in Bankruptcy; SP forecloses on the Patents
- Non-Debtor Licensee:
  - exclusive patent license (Comment 2 to Provision 9-331) would not “take free” of SP’s security interest; patent sublicensee also would not “take free”
  - “exclusive” amounts to “assignment” of patents under Patent Law? Conflict of Law? Licensee “owns” the patents? Not subject to SP’s security interest?
Potential Future Project on Third Party’s Right in Patent Collateral

- Provide Illustrative Examples
- Identify Different Scenarios (similar to those in previous slides)
- Discuss and Explain the dynamic of bankruptcy/insolvency law, secured transaction law, and patent law & practices
- Explain possible outcome: Third party’s right, SP’s right in each scenario