

# 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:
- Patents, Patent Applications (Continuing Applications, Divisional Applications, Continue-in-Part Applications)
- 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
  - U.S. Intellectual Property Licenses in Bankruptcy Act of 1988 (IPLBA), “Intellectual Property” definition does not include Patents & Copyright, Not Trademarks

# Third Party's Right in the Patent Collateral: Patent Licenses

- 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

## Third Party's Right in the Patent Collateral: Patent Licenses

- 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