

Proposal for Security Interests in Intellectual Property

PREFACE

As the world economy enters the twenty-first century, job and wealth creation is increasingly based on innovation and creativity that, in turn, can give rise to important intellectual property rights. For many companies and individuals these intellectual property rights may represent their most valuable assets, or in some cases, their only valuable assets. As a result, intellectual property rights increasingly play a critical the role in financing.

Unlocking the job and wealth creating potential of intellectual property assets requires putting these assets into use, and that often requires a capital investment. Unfortunately, many entrepreneurs and innovators lack the capital necessary to develop business and products based on their creativity and innovation and must turn to outside sources for funding. As part of the funding the providers of capital generally require collateral. This poses little problem if the collateral is in the form of real estate or tangible property. When the assets are in the form of intangible property, specifically patents, copyrights and trademarks, the creation and perfection of a security interest in the assets is significantly more uncertain and difficult. As a result of this increased uncertainty and difficulty, the availability and cost of capital for Information Age individuals and organizations is negatively affected.

Pursuant to a cooperative contract between the United States Patent and Trademark Office and the Franklin Pierce Law Center, together with the University of Maine School of Law, the University of New Hampshire Whittemore School of Business and the law firms of Rath, Young & Pignatelli, Devine, Millimet and Branch, and Nixon Peabody, a talented group of individuals was amassed to assess the problem and explore potential solutions. This resulting report analyzes the current situation regarding security interests in intellectual property and proposes action that can greatly reduce the uncertainty surrounding the use of intellectual property as collateral. While an important and necessary first step toward a solution, the proposals in this report will require additional research, legislative, and administrative attention for implementation.

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Every project has a cut-off point. This report was completed in the late spring of 2001 for submission to the United States Patent and Trademark Office. As a consequence, significant later developments are not included. For example, the appellate decision in *In re Cybernetic Services, Inc.* [239 B.R. 917 (9th Cir. B.A.P. 1999, *aff'd*, 252 F.3d 1039 (9th Cir. 2001)] was handed down after the report was completed. In an important and evolving field such as that covered by this report, it is an unfortunate reality that some significant actions will occur after the “books have been closed.”

I would also like to thank each of the following individuals who have kindly assisted in the production of this report especially my co-reporter, Professor Thomas M. Ward of the University of Maine School of Law. I would also like to thank the various institutions and law firms for whom the project members' work for their donation of time and supporting resources. I would particularly like to thank two alumni of Pierce Law for their help in the project, the Project Manager, Maura Weston, a partner at the Concord, New Hampshire law firm of Rath, Young & Pignatelli, for her dedication and managerial talent for bringing the disparate elements of the project into a coherent whole. A special thanks is extended to Bonnie Boulanger, former LLM student and now an attorney with the Salem, New Hampshire law firm of Hatem & Donovan, who provided expert editorial support and a fresh pair of eyes at a critical juncture.

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EDITOR'S NOTES

1. The following proposal was submitted in May of 2001. The proposal is published without revisions by the IDEA editorial staff.
2. Eric Douma, *Fair Use and Misuse: Two Guards at the Intersection of Copyrights and Trade Secret Rights Held in Software and Firmware*, initially scheduled to appear in this issue, will be published in 42 IDEA 37 (2002).

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