PATENT FINANCING, SECURITY INTEREST AND STANDING

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- USING PATENTS AS COLLATERAL IN SECURED FINANCING

- ROBUST IN CHINA
  - The combined patent and trademark pledges in 2020, China reported that financing reached RMB 218 billion, or a 43.9 percent increase from 2019.
  - The total number of patent and trademark pledge projects was 12,093 or a 43.8 percent increase from 2019.

- LOANS WITH BLANKET LIEN
- VENTURE DEBTS

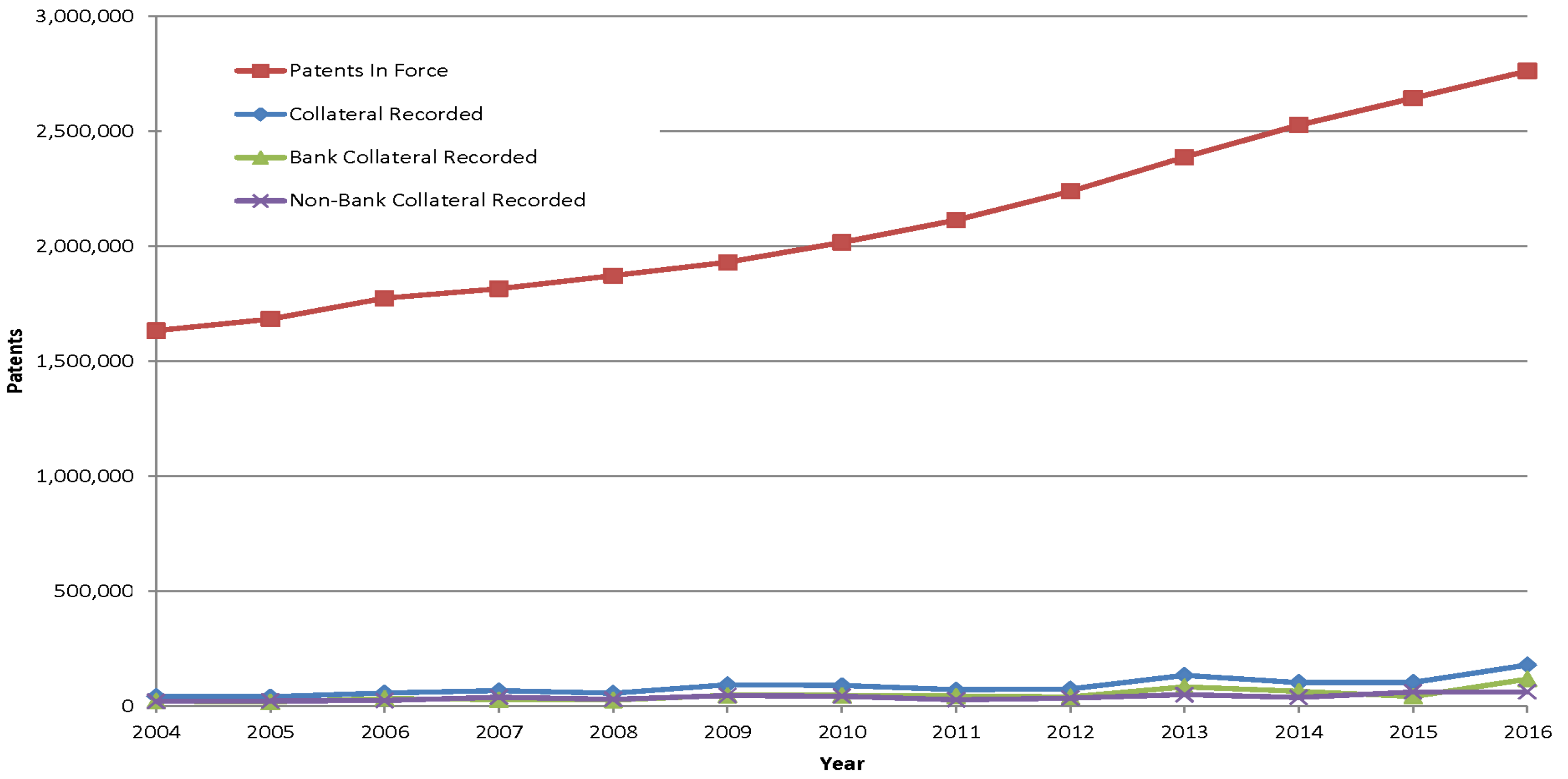


Figure 1
Patents In Force and Collateral Recorded by Banks and Nonbanks
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
Patents
Patents In Force
Collateral Recorded
Bank Collateral Recorded
Non-Bank Collateral Recorded
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Year

Table 2

Total In Force:
Patents versus Collateral for Banks and Non-Banks, 2004-2016

Year	Patents In Force	Collateral In Force*	Ratio	Bank Collateral	Ratio	Non-Bank Collateral	Ratio
2016	2,763,055	593,166	21.5%	347,504	12.6%	245,662	8.9%
2015	2,644,697	486,224	18.4%	274,314	10.4%	211,910	8.0%
2014	2,527,750	472,639	18.7%	278,786	11.0%	193,853	7.7%
2013	2,387,502	462,852	19.4%	260,883	10.9%	201,969	8.5%
2012	2,239,231	384,999	17.2%	203,353	9.1%	181,646	8.1%
2011	2,113,628	377,523	17.9%	192,233	9.1%	185,290	8.8%
2010	2,017,318	362,923	18.0%	180,775	9.0%	182,148	9.0%
2009	1,930,631	313,533	16.2%	152,749	7.9%	160,784	8.3%
2008	1,872,872	263,001	14.0%	127,871	6.8%	135,130	7.2%
2007	1,815,531	255,396	14.1%	128,371	7.1%	127,025	7.0%
2006	1,774,742	233,926	13.2%	127,105	7.2%	106,821	6.0%
2005	1,683,968	207,713	12.3%	111,307	6.6%	96,406	5.7%
2004	1,633,355	192,900	11.8%	107,462	6.6%	85,438	5.2%

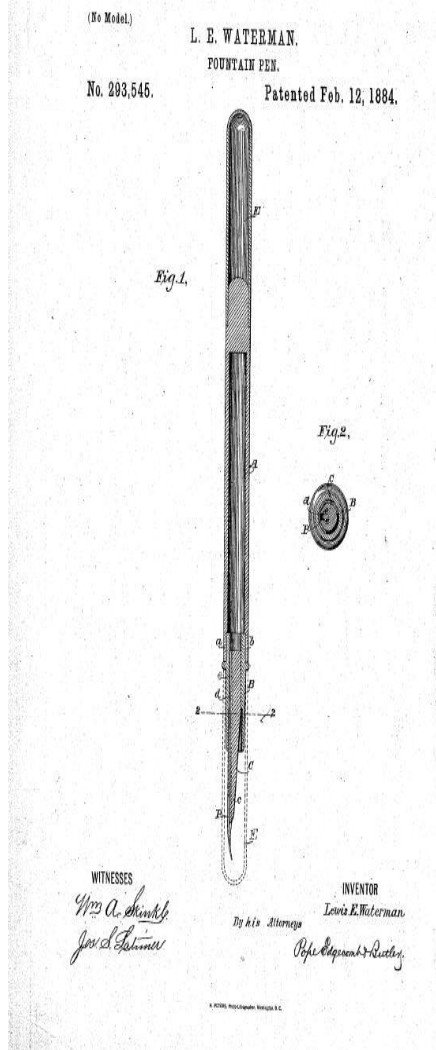
[1] We rely on the data provided by WIPO and USPTO for the total numbers patents in force and collateral assignments each year. 2016 Data was updated based on the release of year end of data year results.
https://www3.wipo.int/ipstats/IpsStatsResultvalue
https://www.uspto.gov/learning-and-resources/electronic-data-products/patent-assignment-dataset
(accessed Nov. 10, 2017).
http://www.wipo.int/ipstats/en/statistics/country_profile/profile.jsp?code=US (accessed January 15, 2018).
* Patent collateral in force estimated utilizing the statutory 5 year expiration of filings.

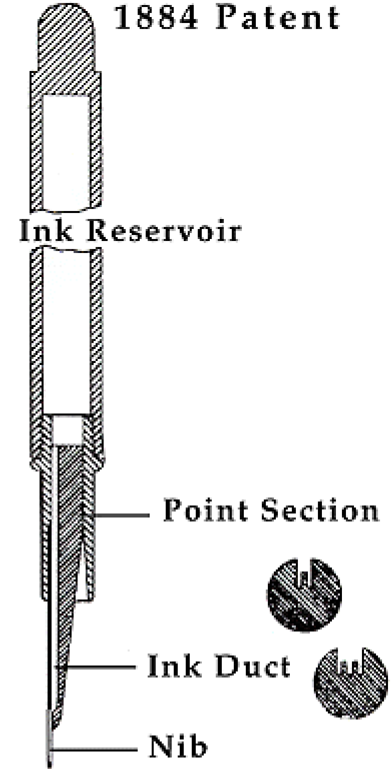
Patent Mortgages – reported in 1845

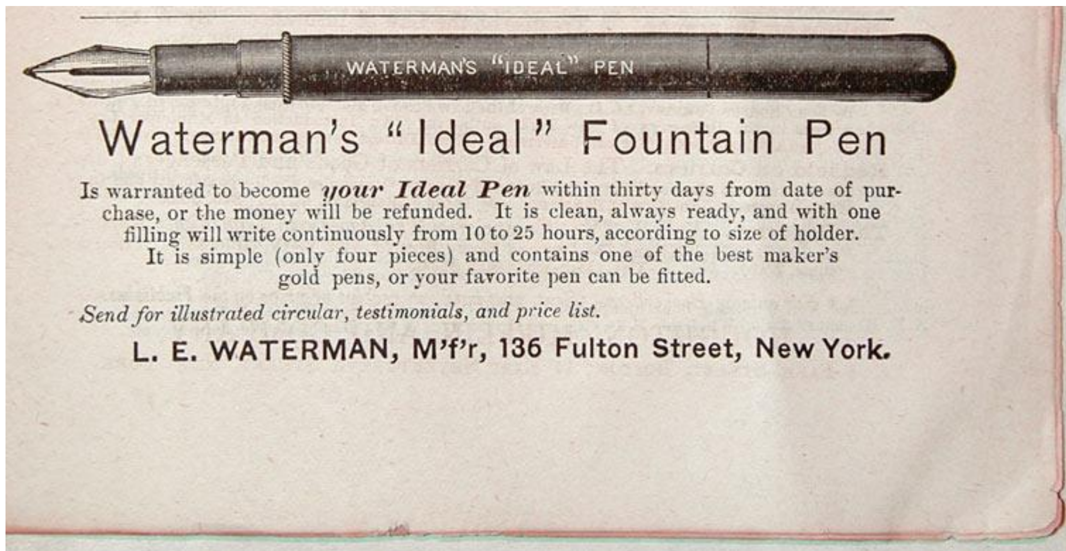
- *Wilson v. Rousseau*, 30 F. Cas. 162, 182 (Cir. Ct. N.D.N.Y. 1845)
- (“a patentee having mortgaged the patent right, continued in the notorious use of it, until he became bankrupt”)

Patent Mortgages –

- Another notable case …*Waterman* reached the U.S. Supreme Court.


(No Model.)
L. E. WATERMAN.
FOUNTAIN PEN.
No. 293,545.
Patented Feb. 12, 1884.
Fig.1.
Fig.2.
WITNESSES
INVENTOR
Lewis E. Waterman
By his Attorneys


WATERMAN
1884 Patent
Ink Reservoir
Point Section
Ink Duct
Nib



WATERMAN'S "IDEAL" PEN
Waterman's "Ideal" Fountain Pen
Is warranted to become your Ideal Pen within thirty days from date of purchase, or the money will be refunded. It is clean, always ready, and with one filling will write continuously from 10 to 25 hours, according to size of holder.
It is simple (only four pieces) and contains one of the best maker's gold pens, or your favorite pen can be fitted.
Send for illustrated circular, testimonials, and price list.
L. E. WATERMAN, M'f'r, 136 Fulton Street, New York.

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CONCORDESITE.FR

- Lewis Waterman
  - Invented capillary feed fountain pen
    - solved the problem of vapor lock by successfully replacing ink in the barrel with air so the pen would keep on writing
  - Founder of the Waterman pen company

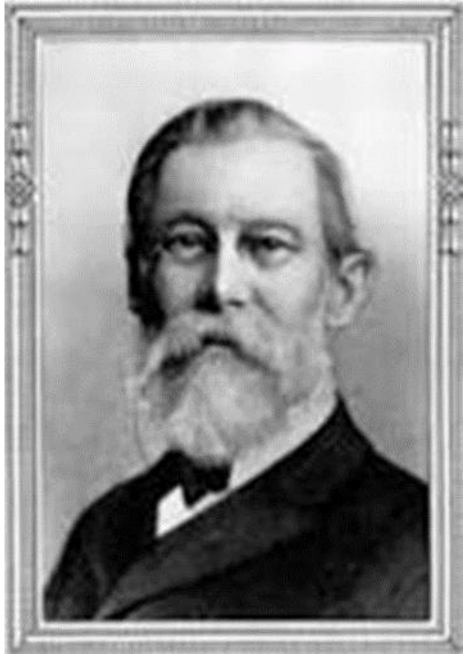
Waterman v. MacKenzie, 138 U.S. 252 (1891)

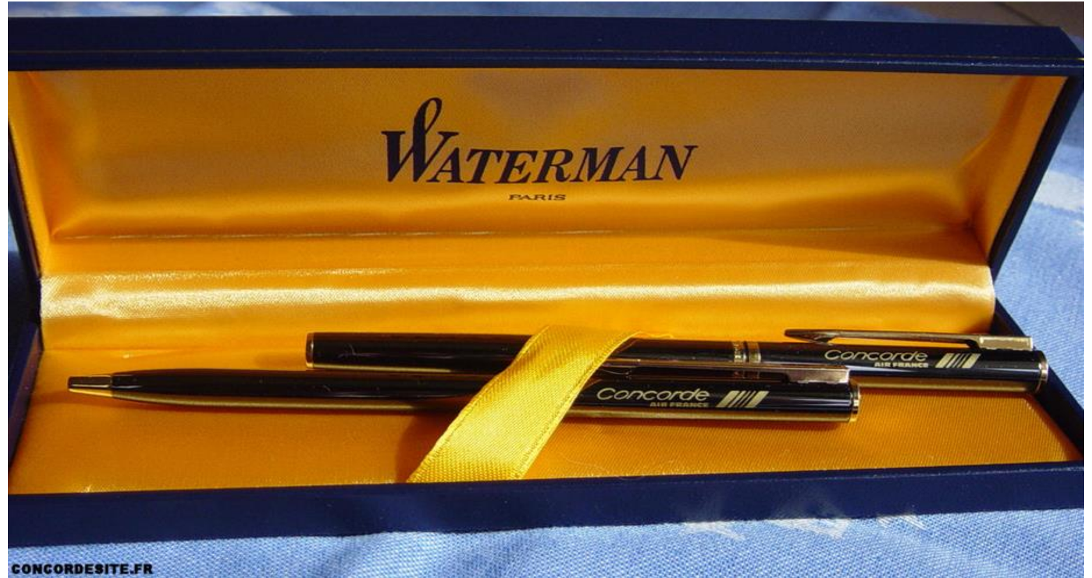
- Mr. Lewis Waterman: Inventor
- The story of Mr. and Mrs. Waterman
- He assigned the patent to his wife (2/13/1884)
- She licensed it back to him (11/20/1884)
- She borrowed $6,500 from a creditor/Shipman (11/25/1884)
  - Executed a conditional assignment (assignment will be null and void if payment obligations were timely paid)

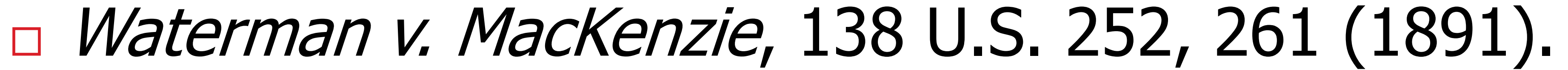
Waterman v. MacKenzie, 138 U.S. 252 (1891)

- Supreme Court observed:
  - Conditional Assignment = Patent Mortgage (recorded with the Patent Office)
- "both at law and in equity, the whole title—equitable title and legal title– is transferred to the mortgagee"
  - to be defeated only by what is described in the mortgage instrument
- Significant decision?
  - Paving the path for patent financing

Waterman v. MacKenzie, 138 U.S. 252 (1891)

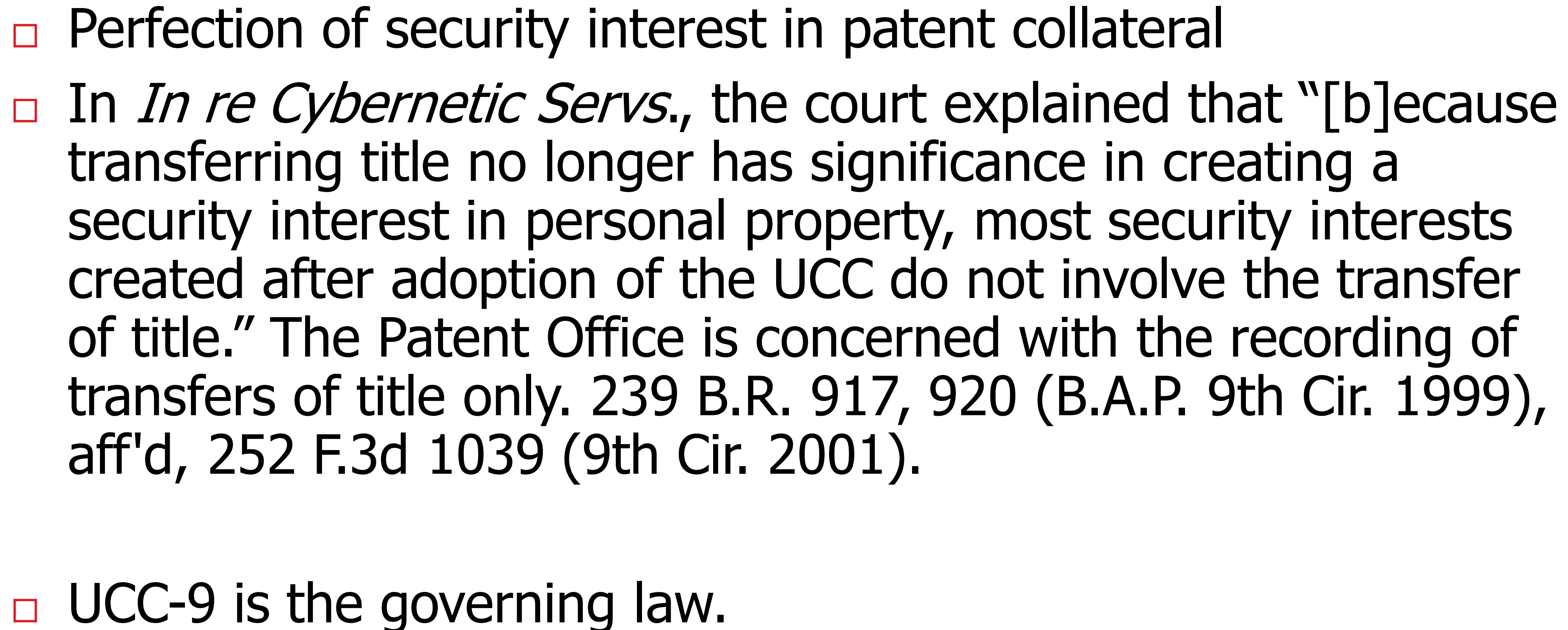






- *Waterman v. MacKenzie*, 138 U.S. 252, 261 (1891).

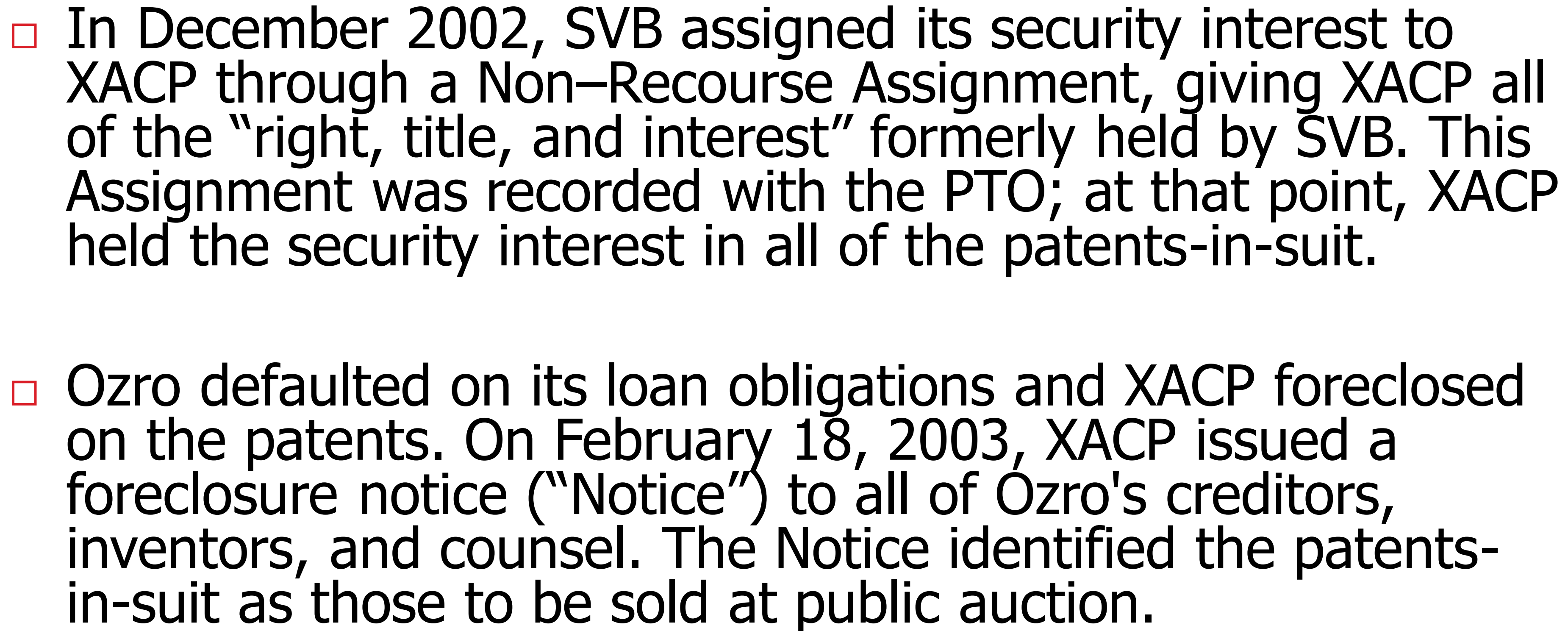
("The necessary conclusion appears to us to be that Shipman, being the present owner of the whole title in the patent under a mortgage duly executed and recorded, was the person, and the only person, entitled to maintain such a bill as this; and that the plea, therefore, was rightly adjudged good.")

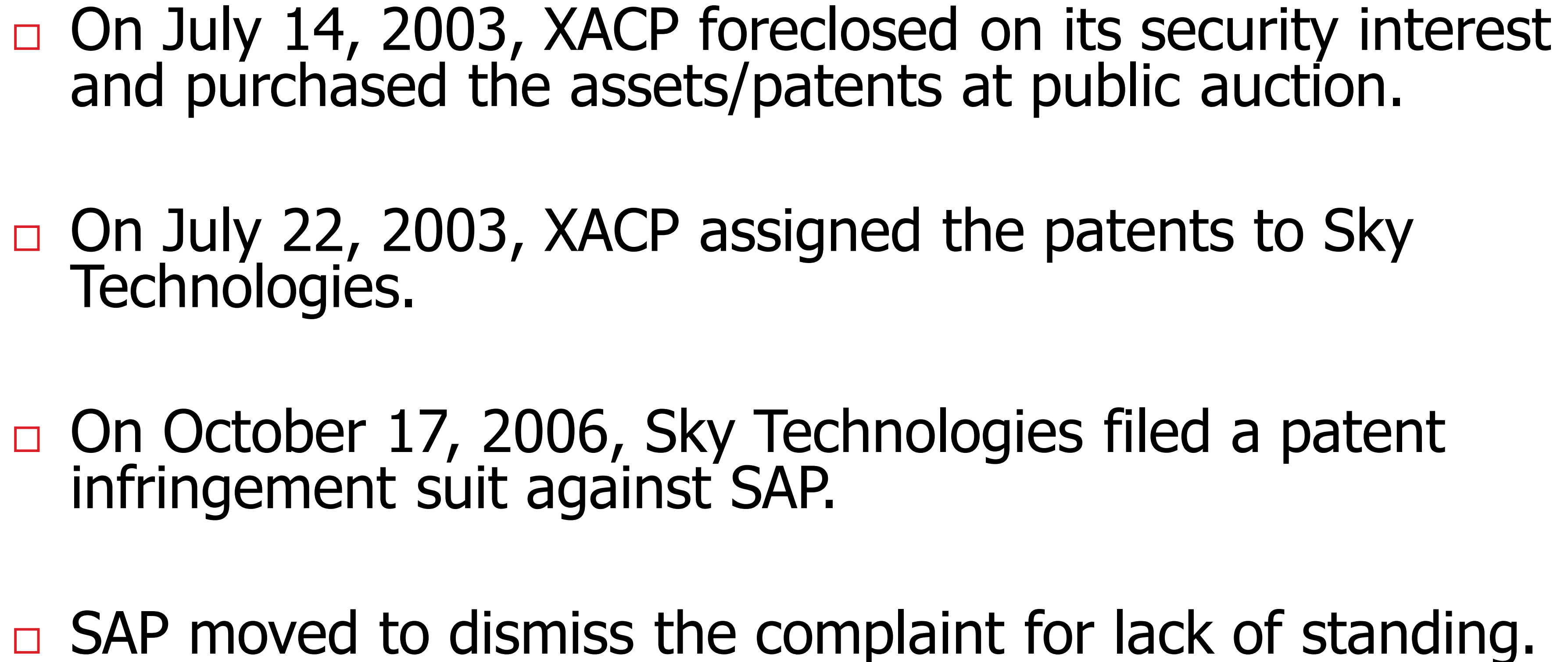

Perfection of security interest in patent collateral
In *In re Cybernetic Servs.*, the court explained that "[b]ecause transferring title no longer has significance in creating a security interest in personal property, most security interests created after adoption of the UCC do not involve the transfer of title." The Patent Office is concerned with the recording of transfers of title only. 239 B.R. 917, 920 (B.A.P. 9th Cir. 1999), aff'd, 252 F.3d 1039 (9th Cir. 2001).
UCC-9 is the governing law.

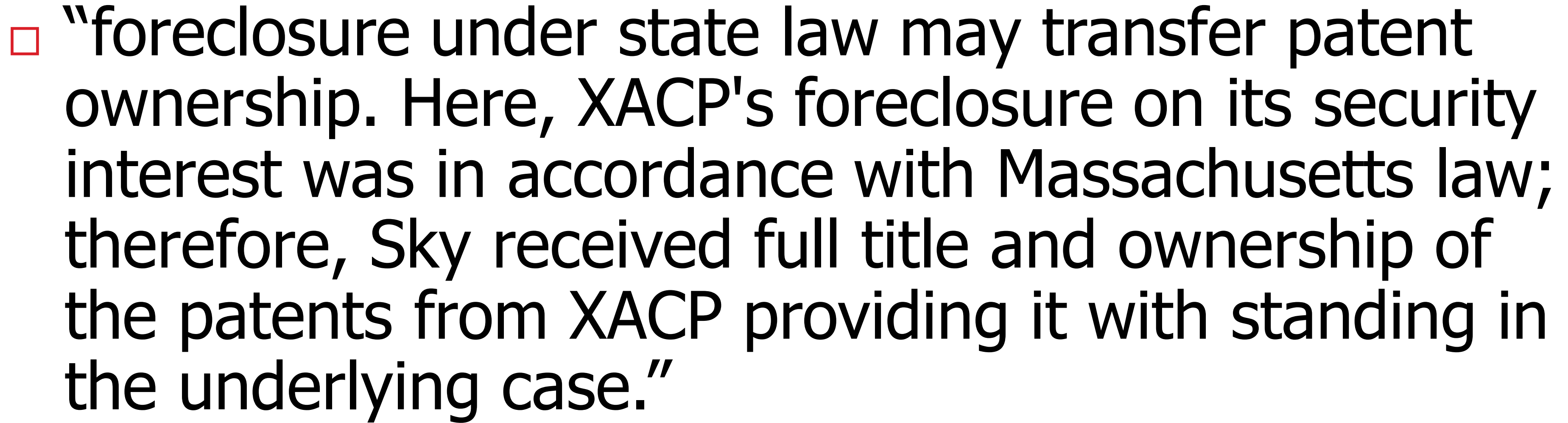
- Ozro, Inc. owned a number of patents.

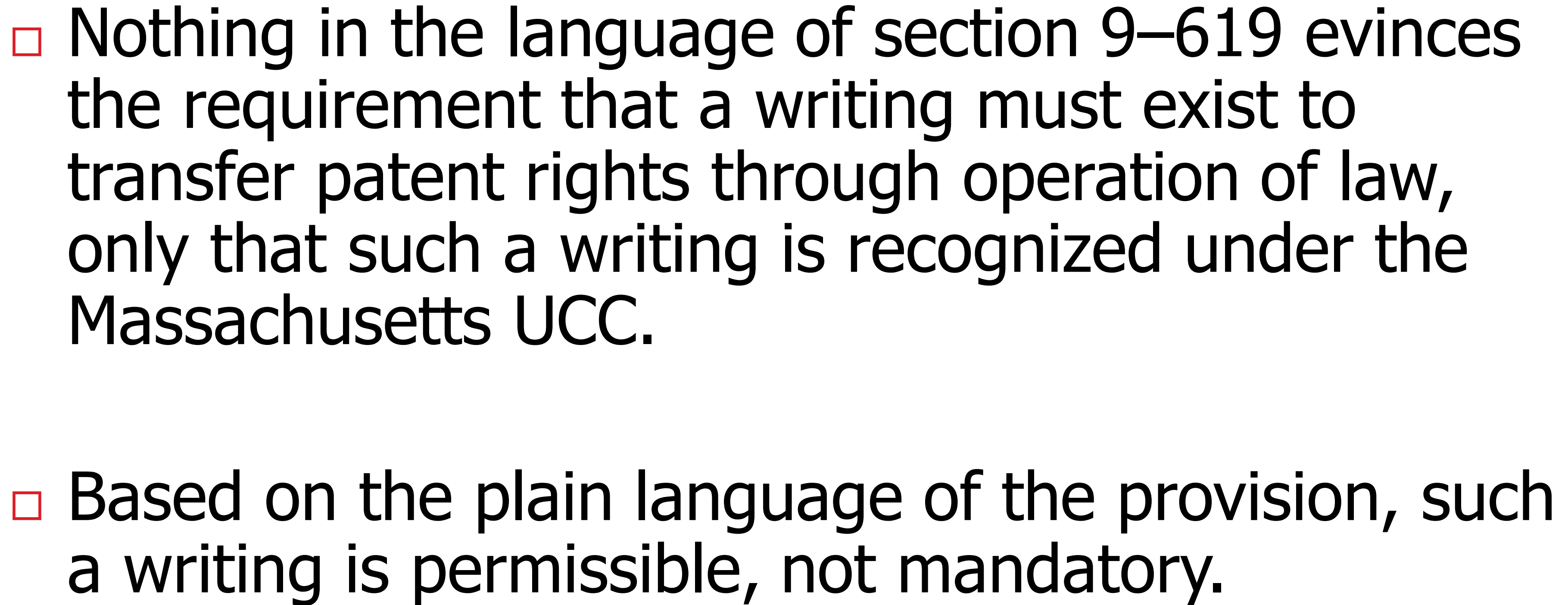
- On April 2, 2001, Ozro executed an Intellectual Property Security Agreement with Silicon Valley Bank ("SVB") ("SVB Agreement"), granting SVB a "security interest in all of Grantor's right, title, and interest, whether presently existing or hereafter acquired in, to and under all of the Collateral." The Collateral included the patents-in-suit. The SVB Agreement was filed with the PTO on April 2, 2001.

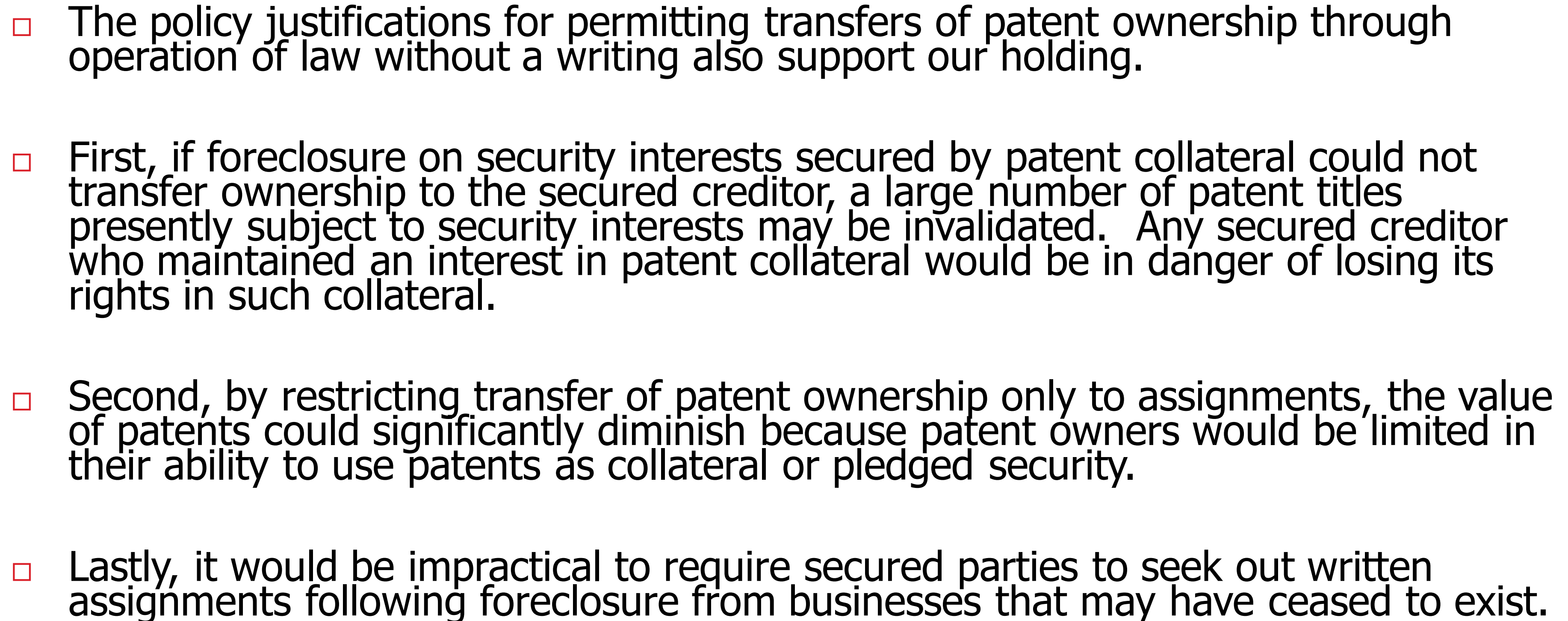
- On April 3, 2001, Ozro executed a similar security agreement with Cross Atlantic Capital Partners, Inc. ("XACP") ("XACP Agreement"), for the benefit of the XACP Entities. The XACP Agreement contained virtually identical language as the SVB Agreement.


In December 2002, SVB assigned its security interest to XACP through a Non–Recourse Assignment, giving XACP all of the "right, title, and interest" formerly held by SVB. This Assignment was recorded with the PTO; at that point, XACP held the security interest in all of the patents-in-suit.
Ozro defaulted on its loan obligations and XACP foreclosed on the patents. On February 18, 2003, XACP issued a foreclosure notice ("Notice") to all of Ozro's creditors, inventors, and counsel. The Notice identified the patents-in-suit as those to be sold at public auction.


On July 14, 2003, XACP foreclosed on its security interest and purchased the assets/patents at public auction.
On July 22, 2003, XACP assigned the patents to Sky Technologies.
On October 17, 2006, Sky Technologies filed a patent infringement suit against SAP.
SAP moved to dismiss the complaint for lack of standing.


"foreclosure under state law may transfer patent ownership. Here, XACP's foreclosure on its security interest was in accordance with Massachusetts law; therefore, Sky received full title and ownership of the patents from XACP providing it with standing in the underlying case."


Nothing in the language of section 9–619 evinces the requirement that a writing must exist to transfer patent rights through operation of law, only that such a writing is recognized under the Massachusetts UCC.
Based on the plain language of the provision, such a writing is permissible, not mandatory.


The policy justifications for permitting transfers of patent ownership through operation of law without a writing also support our holding.
First, if foreclosure on security interests secured by patent collateral could not transfer ownership to the secured creditor, a large number of patent titles presently subject to security interests may be invalidated. Any secured creditor who maintained an interest in patent collateral would be in danger of losing its rights in such collateral.
Second, by restricting transfer of patent ownership only to assignments, the value of patents could significantly diminish because patent owners would be limited in their ability to use patents as collateral or pledged security.
Lastly, it would be impractical to require secured parties to seek out written assignments following foreclosure from businesses that may have ceased to exist.

- In the XACP Security Agreement, Ozro gave XACP a security interest in the patents-in-suit as collateral security.
- Upon default, XACP could exercise all rights pursuant to the Massachusetts UCC and "sell, lease, or otherwise dispose" of the Collateral.
- The XACP Agreement also contained a provision dictating the sale of the Collateral, including a clause permitting XACP to purchase the Collateral at a public sale.
- In accordance with the Security Agreement and the Massachusetts UCC, XACP gave Ozro at least seven days' notice of the sale, disposed of the Collateral through a public auction, and purchased the Collateral at the same auction.
- Therefore, consistent with sections 9–610 and 9–617, XACP received all of Ozro's rights in the Collateral, making XACP the title-holder of the patents-in-suit after foreclosure.

- When IT initiated the patent infringement action—IT was in default on a loan from Main Street (creditor in a loan).
- According to the relevant contractual provisions, Main Street received certain rights the moment IT defaulted.
- These included the unfettered right to enforce, "sell, assign, transfer, pledge, encumber or otherwise dispose of" the '247 patent.
-
- The Court concluded that IT had no *exclusionary right* against Zebra at the time IT initiated this Action because Main Street could have licensed Zebra's allegedly infringing conduct on that day.
- Without the exclusionary right in the patent (even though IT has title in the patent), IT had no constitutional (or prudential) standing to bring infringement.

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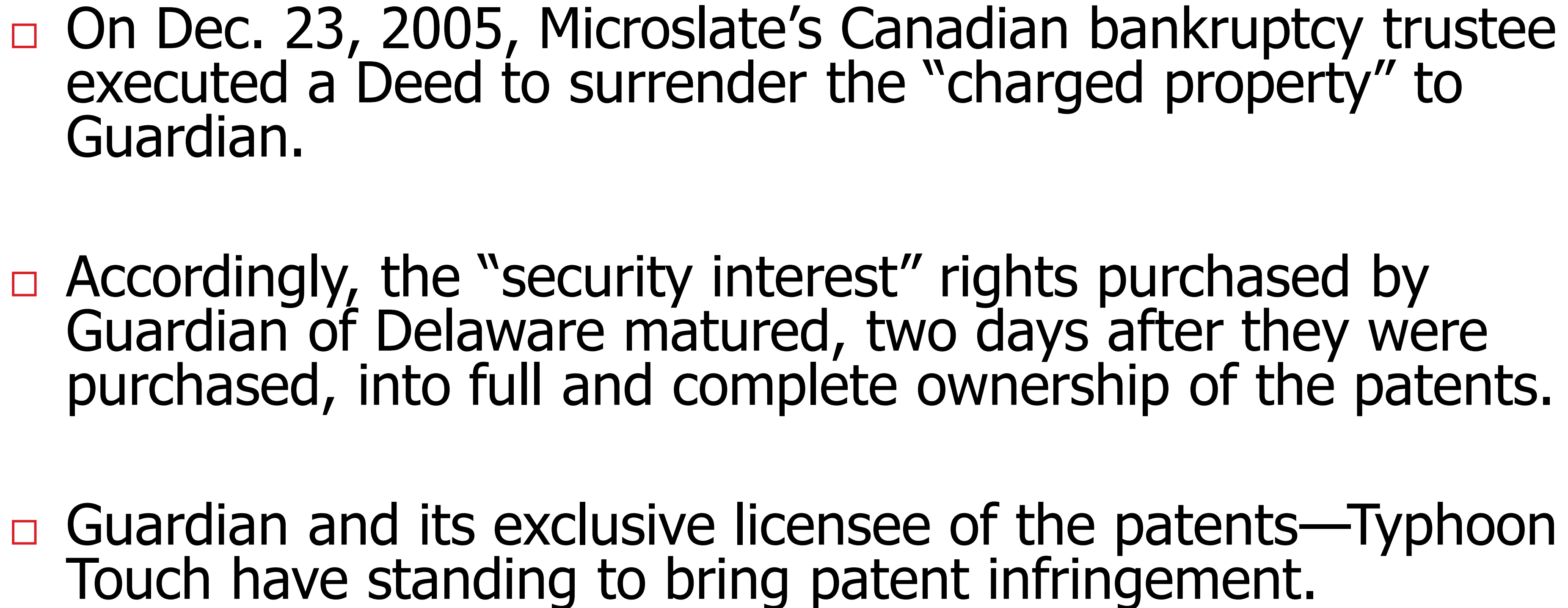
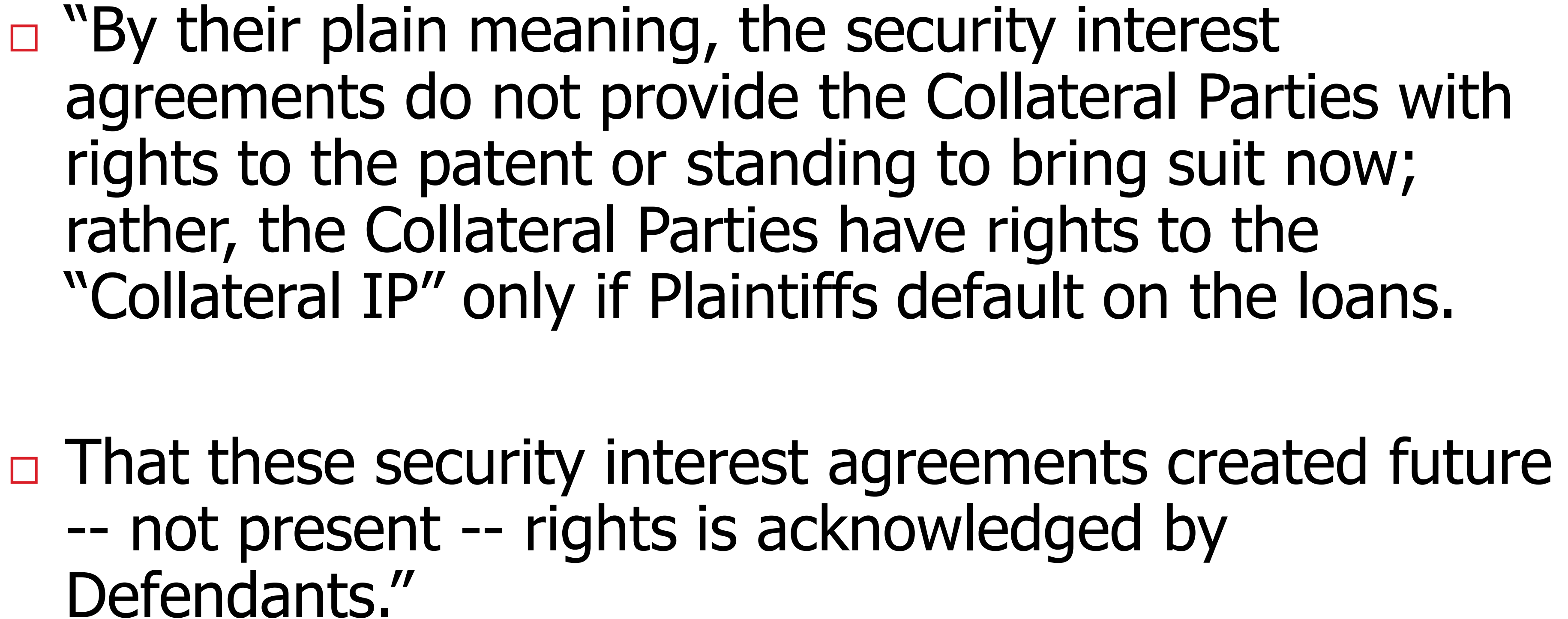
- Ascertaining standing in a patent-infringement case requires an inquiry into both Article III or "constitutional" standing and what has been called "statutory" or "prudential" standing.
  - To have constitutional standing, a plaintiff must have an "exclusionary right." *Morrow v. Microsoft Corp*., 499 F.3d 1332, 1340 (Fed. Cir. 2007). To have statutory standing, a plaintiff must have "all substantial rights" to the asserted patent. *Id.*

- Microslate executed a security agreement with Channel Analytics ("CA") pledging all of its property (including the patents as issue) for a $1.2 million loan. Creditor recorded its security interest in the Quebec Register.

- Subsequent bankruptcy -CA sold the loan agreement and corresponding rights in the collateral to Guardian Technologies of Delaware. Deed of Assignment was executed. That meant Guardian owned a security interest in the patents at issue as of December 21, 2005.


On Dec. 23, 2005, Microslate's Canadian bankruptcy trustee executed a Deed to surrender the "charged property" to Guardian.
Accordingly, the "security interest" rights purchased by Guardian of Delaware matured, two days after they were purchased, into full and complete ownership of the patents.
Guardian and its exclusive licensee of the patents—Typhoon Touch have standing to bring patent infringement.


"By their plain meaning, the security interest agreements do not provide the Collateral Parties with rights to the patent or standing to bring suit now; rather, the Collateral Parties have rights to the "Collateral IP" only if Plaintiffs default on the loans.
That these security interest agreements created future -- not present -- rights is acknowledged by Defendants."