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SECURED TRANSACTIONS

# Introducing MIPSA, the ABA Model IP Security Agreement

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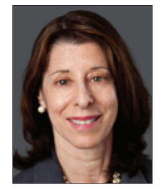

Just as developments in technology have revolutionized modern life, so has intellectual property grown in importance as collateral. But IP collateral can be treacherous territory for finance lawyers. While integral to many businesses, it may be difficult to value, or have little to no value separate and apart from the related business. Moreover, the three primary categories of IP collateral—patents, trademarks and copyrights—are subject to federal regulation and registration. The different regimes have different rules. These two areas of law have developed their own vocabulary and distinct layers of complexity, and accordingly, IP lawyers and UCC lawyers do not speak the same language.

All of this adds up to a challenge for lawyers seeking to place liens on intellectual property. Fortunately a joint task force organized by the ABA Commercial Finance and Uniform Commercial Code Committees has come to their rescue. This past month, the Model Intellectual Property Security Agreement Joint Task Force (Task Force) released a Model Intellectual Property Security Agreement (or MIPSA), along with a detailed Introductory Report and Background Considerations.[1] This agreement and report represent the culmination of efforts stretching as far back as 2009. Today this column briefly discusses the background considerations, context, framework and highlights of the MIPSA.

## Intellectual Property as Collateral

UCC Article 9 governs security interests in most types of personal property, including "general intangibles," a category that encompasses most IP assets. However, IP rights reside within a complex legal landscape. Each of the regimes is governed by separate federal legislation; each has a unique set of requirements. The U.S. Copyright Act[2] regulates copyrights, the U.S. Patent Act[3] governs patents and the Lanham Act[4] applies to trademarks. Trade secrets are covered by the recently enacted federal Defend Trade Secrets Act of 2016[5] and by state law, primarily under the Uniform Trade Secrets Act, and domain names are subject to state common law, as well as the rules of private organizations such as the Internet Corporation for Assigned Names and Numbers, and many domain name registrars. On the other hand, while Article 9 recognizes federal preemption, it defers to it only "when and to the extent it must."[6]

The result is a wavering boundary among the different statutory systems that has been difficult for courts and practitioners alike to discern. Given this challenge, the MIPSA comes as a welcome resource.

## The MIPSA

Unlike certain other model agreements promulgated by ABA groups, the MIPSA does not purport to be a fully negotiated agreement, reflecting

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the interests of both debtor and secured party. Rather than creating a market standard agreement, the Task Force in this case is trying to bridge the gap between UCC and IP lawyers by offering and, more importantly, explaining the provisions lawyers should consider in a security agreement for these types of assets. Compare this to a model agreement such as the ABA model intercreditor (first lien/second lien) agreement, which is intended to be a "middle of the road" form acceptable to both first and second lien holders.[7] The Introductory Report in fact confirms that while some model agreement provisions can be used with only minimal changes, the assets that constitute intellectual property are so varied that a "one-size-fits-all" approach would not work. Accordingly, the MIPSA is presented as a "teaching tool," with over 80 footnotes containing explanatory items and suggesting alternative approaches to commonly negotiated provisions.

Practitioners should note that the provisions of the form itself are clearly lender favorable. The representations, warranties and covenants are presented generally without qualification or limitation. For example, the debtor is obligated under the terms of the model form to represent and warrant that the IP collateral is valid and enforceable. Footnotes, however, emphasize that debtors are not required to preserve IP rights and may object to making unqualified representations (trademarks for example may no longer be in use) without materiality or knowledge qualifiers. Another example is that debtors are required to represent that they have given proper notices in connection with publication of copyrighted works or use of issued patents and registered trademarks, but the agreement then cautions that this representation is controversial and IP marking practices, though desirable, are not required to preserve IP rights.

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## The Task Force Report

The MIPSA is accompanied by an Introductory Report and Background Considerations which is itself a primer on basic concepts and terminology of IP law and Article 9. It contains a summary of the governing law, registration, assignment and transfer and duration provisions for copyrights, patents, trademarks, trade secrets and domain names, followed by a review of basic Article 9 concepts. Finally, the report analyzes the interaction between federal IP law and Article 9.

The Task Force notes that federal IP statutes speak in terms of assignment and transfer of IP assets, without clear recognition of or guidance on the treatment of partial transfers of interests, such as security interests. According to the drafters, most practitioners understand the U.S. Copyright Act to require filing of security interests in registered copyrights, and to thus preempt UCC filing requirements, but that neither the U.S. Patent Act nor the Lanham Act includes such requirements, and therefore neither preempts the UCC.[8] Given the continuing uncertainty as to what law will govern priority of interests in intellectual property, the report emphasizes that most careful finance lawyers should file both UCC financing statements as well as notices of security interests in registered or pending intellectual property in the applicable federal IP filing office.

## Notable Takeaways

A few items in the MIPSA are worth highlighting here.

First, the security interest creation language is simplified, avoiding what the drafters call "ambiguous and unnecessary terms" very often found in these clauses, such as "assign, transfer, pledge, hypothecate." At least in the case of patent or trademark laws, assignment language suggests the secured party may be an owner of the related intellectual property, creating its own set of risks.

Second, the granting language is comprehensive, intended to cover all types of intellectual property. It lists as specific asset types copyrights, patents, trademarks, domain names and "other intellectual property," as well as IP licenses, IP-related rights, "associated property" and proceeds. Interestingly, "associated property" is a catchall term defined as all "accounts, deposit accounts, general intangibles, instruments, investment property or other personal property at any time constituting … Intellectual Property or IP Licenses," the concern being to avoid an inadequate security agreement description by referencing Article 9 "types" of collateral under UCC §9-108(b)(3).

Third, the MIPSA includes (and requires itemization of) foreign intellectual property, but does not provide for the protection or enforcement of that lien under foreign law.

Fourth, the MIPSA contains a "savings" clause, typical in many security agreements, in the case of IP licenses—namely that if there exists law or a contract that prohibits the grant of a security interest in such license (what it refers to as a "Restrictive Provision"), and, importantly, this Restrictive Provision is not overridden by UCC §§9-406 through 9-409, then the grant will not be effective if (but only so long as) such Restrictive Provision is effective and enforceable.[9]

Fifth, the MIPSA contains some concepts and terms likely unfamiliar to many finance lawyers, such as "subsisting" collateral (meaning IP rights that have not lapsed, expired or been abandoned), "licenses-out" (meaning the debtor is licensor) and "licenses-in" (debtor as licensee), and "chain of title" representations (requiring the debtor to represent not just that it is the record owner of such collateral, but that there are no "gaps in the chain of title").

Notwithstanding its broad description of collateral, the MIPSA nevertheless requires the debtor to list separately by schedule each of its "subsisting" copyrights, patents, trademarks, domain names, "licenses-out" (but not "licenses-in") and material non-confidential "Other Intellectual Property" (another broad catchall term). This is in fact consistent with the requirement under some IP statutes to specifically identify collateral in filings. These lists are then to be used with short form security agreements annexed to the MIPSA as exhibits for recording liens in the applicable filing office.

Finally, the MIPSA assumes, and is intended to work with, a separate loan agreement that will contain the more general terms relating to the secured obligations. And although the agreement is presented as a stand-alone security agreement, the drafters discourage the use of a separate security agreement for intellectual property suggesting that the IP-specific provisions from the MIPSA be incorporated into a general security agreement if there is other collateral.

## Conclusion

While the MIPSA is definitely a step in the right direction, there remains an overriding need for reform through federal legislation to resolve the uncertain boundaries between IP law and Article 9. As intellectual property gains in value and importance, this need will only grow.

1. See Task Force Introductory Report and Background Considerations—Model Intellectual Property Security Agreement, 71 Bus. Law. 849-932 (Summer 2016) (the Task Force Report).

2. 17 U.S.C. §§101-1332 (2012).

3. 35 U.S.C. §§1-390 (2012).

4. 15 U.S.C. §§1051-1141 (2012).

5. Pub. L. No: 114-153, 130 Stat. 376 (May 11, 2016).

6. UCC §9-109, cmt 8.

7. See Alan M. Christenfeld & Barbara M. Goodstein, "New ABA Model Intercreditor Agreement Offers Guidance," 244 N.Y.L.J. 25 (2010).

8. See the Task Force Report at 871.

9. See the Task Force Report at 877. Note that although Restrictive Provision as defined in the MIPSA includes Domain Name Contracts as well as IP Licenses, the provision excluding assets subject to Restrictive Provisions from collateral covers only IP Licenses. See §1.2.3 in the Task Force Report at 890.