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## Security Interests in Intellectual Property Rights: the Time Has Come for the Enactment of New Laws

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SECURITY INTERESTS IN INTELLECTUAL PROPERTY RIGHTS - THE TIME  
HAS COME FOR THE ENACTMENT OF NEW LAWS

by

ESTEBAN MAZZUCCO

(Under the direction of Professor Julian B. McDonnell)

ABSTRACT

This study deals with all the problematic issues surrounding the use of intellectual property as “collateral,” analyzing two legal systems, and addressing that the time has come for the enactment of laws which regulate how security interest in intellectual property should effect. This study also points out the importance of intellectual property rights as another asset in business transactions and the difficulties that the valuation process presents. The central idea of this work is that if lenders and borrowers can successfully utilize IP assets for collateral, borrowers can tap and additional source of funding, and creditors can finance a broader range of customers, leading to continued economic growth and development when the law is no longer used as an obstacle, but rather as a tool for clarification.

INDEX WORDS: Security interest, intellectual property, valuation of intellectual property; intellectual property rights, enforcement, trademark, patent, copyright, intangible assets, intellectual property in Argentina, intellectual property in The U.S.

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MASTER OF LAWS

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August 2003

**DEDICATION**

To my parents, *Ana María Meres de Mazzucco* and *Alberto P. Mazzucco* for their never ending support and encouragement.

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## CHAPTER I

### INTRODUCTION

A look at the world around us – a world enlivened by books, recordings, films, and theatre; by the science that runs our computers, creates new uses for genes, and spins the strands of the Internet; by colorful presence of brand names products in our homes – instantly reveals that intellectual property (IP) exerts a powerful influence on our lives.<sup>1</sup> Copyright gives the owner of those films, books, and software exclusive rights to their commercial exploitation; patents endow biotechnology innovators with the exclusive right to manufacture and market the products derived from their inventions; and trademarks provide the owner of those brands with the exclusive right to use them in commerce.<sup>2</sup>

As intellectual property has grown in significance, its use as collateral by the corporate entities controlling it has also expanded. However, the practice of using IP as collateral to secure financing is over a century old. In the late 1880's, Thomas Edison used his patent on the incandescent electric light as collateral to borrow money to start his own company.<sup>3</sup> That business would eventually become the General Electric Company.<sup>4</sup>

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<sup>1</sup> Alice Haemmerli, *Insecurity Interests: Where Intellectual Property and Commercial Law Collide*, COLUM. L. REV. 1647 (1996).

<sup>2</sup> *Id.*

<sup>3</sup> ANDRE MILLARD, *EDISON AND THE BUSINESS OF INNOVATION*, 43 - 46 (1990).

<sup>4</sup> *Id.* at 130.

Similarly, the problems associated with trying to obtain financing on the basis of IP are also old ones.

Generally, commercial lenders are reluctant to use IP as collateral due to the confusion surrounding the proper method to perfect it. Lenders may also struggle with determinations of applicable law, and assessment of infringement liability. Finally, even the assignation of a real dollar value to intellectually properties is exceedingly difficult

As more deals include IP, more lawyers (including corporate lawyers, and not just IP specialists), must wrestle with complex and arcane issues in the course of advising their clients.<sup>5</sup> When a client extends a multimillion dollar loan, one of the most important closing documents it requires is an opinion letter from its counsel assuring it that if it takes certain steps, its security interest will be properly perfected and will have priority over other claims.<sup>6</sup>

This study will analyze the issues surrounding the use of IP as “collateral,”<sup>7</sup> through the analysis of two different legal systems, that of the United States and that of Argentina. Part One will point out the importance of intellectual property rights (IPRs) as an asset in business transactions as well as the difficulties that they present in the valuation process.

Part Two will address the legal scheme for protection of IPRs. This section will also tackle two of the most difficult issues in IP, namely the nature of IPRs and its definition as a property. There is also an analysis of the baselines IP laws in Argentina and The United States (U.S.), which reflects the connection of both systems.

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<sup>5</sup> See Alice Haemmerli, *supra* note 1, at 1649.

<sup>6</sup> *Id.*

<sup>7</sup> Collateral is used in the everyday sense to mean property that is offered by a borrower to secure a loan; if the borrower defaults, the lender forecloses on the property.

Part Three deals with a deeper analysis of security interest in both legal system, the Argentinean and the American, focusing on the issues surrounding the proper methods of perfecting these interests. In addition, this will deal with the enforcing of security interest in IPRs. The central idea of this work is that if lenders and borrowers can successfully utilize IP assets for collateral, borrowers can tap an additional source of funding, and creditors can finance a broader range of customers, leading to continued economic growth and development when the law is no longer used as an obstacle, but rather as a tool for clarification.

#### **A. THE ECONOMIC SIGNIFICANCE OF INTELLECTUAL PROPERTY**

Before considering the legal framework for the protection of IPRs, it is important to briefly outline why IPRs have become an important asset in business transactions. Although many authors have attempted to explain the role of IPRs in commercial transactions from varying viewpoints, there are essentially three basic reasons explaining why IPRs have become so important.

First, there is what the New York Times referred to in 1998 as “merger mania.”<sup>8</sup> Merger and Acquisition (M&A) activity has raised awareness of the importance of IP in company valuation and deal financing. IP is fast becoming the most important asset possessed by a corporation.<sup>9</sup>

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<sup>8</sup> Leslie Wayne, *Wave of Mergers is Recasting Face of Business in U.S.*, N.Y. TIMES, Jan. 19, 1998 at A1.

<sup>9</sup> GORDON V. SMITH & RUSSELL L. PARR, VALUATION OF INTELLECTUAL PROPERTY AND INTANGIBLE ASSETS at vii (1989)

The Federal Trade Commission (FTC) estimated in 1998 that M & A would exceed 4,500 in number and \$2 trillion in market value.<sup>10</sup> Among all the transactions in 1998, two of them illustrate the aforementioned importance of IPRs. First, Grand Metropolitan of Great Britain acquired the Pillsbury Company for \$5.7 billion. In obtaining the Pillsbury Company, Grand Metropolitan of Great Britain's primary purpose was to acquire such powerful brands as Burger King, Green Giant, and Haagen-Dazs.<sup>11</sup> Second, Nestle S.A. paid \$ 4.5 billion to obtain the Rowntree Corporation acquiring such brands as Rolls, Kit Kat and After Eight.<sup>12</sup> In the pharmaceutical arena, there was the merger between SmithKline Beecham and Glaxo Wellcome.<sup>13</sup> According to the FTC, this transaction had an estimated market capitalization of \$182 billion, representing annual sales of \$26 billion.<sup>14</sup>

Although we do not have information regarding the exact value of the IPRs in the aforementioned transactions, their value is implicit. Had IP not been taken into account, and the value of companies measured only in tangible goods, the true value of the companies' assets would have been grossly underestimated.

In addition to merger mania, the high cost of introducing new brands into the marketplace, combined with the high failure rate of new brands, has enhanced perceptions about the value of already established trademark franchises. For example, the

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<sup>10</sup> Remarks of Hon. *Robert Pitofsky*, *Chairman FTC, before committee on the Judiciary*, Merger and Corporate Consolidation, United States Senate, June 1998.

<sup>11</sup> Melvin Simensky, *The New Role of Intellectual Property in Commercial Transaction*, 10 ENT. & SPORTS. L. 5,5 (1992).

<sup>12</sup> *The Purest Treasure*, *The Economist*, Sept. 7, 1991, at 67.

<sup>13</sup> David K. Morrow & Laura M. Holson, *Drug Merger Studied, With New Partners*, N.Y. TIMES, Jan, 31, 1998 at D1.

<sup>14</sup> Mitchell J. Katz, *Resolving Competitive Concerns, FTC Agreement Clears \$182 Billion Merger of SmithKline Beecham and Glaxo Wellcome*, December 18, 2000 available at [www.ftc.gov/opa/2000/12/skb.htm](http://www.ftc.gov/opa/2000/12/skb.htm), last visited (April 2, 2003).

domestic launch of a new soap brand is a \$100 million venture, a new cigarette brand a \$300 million gamble.<sup>15</sup> And these estimates do not even include the heavy cost of promoting new brands in the initial years. Ten thousand new products are introduced annually. Of these, 80 percent fail. Fewer than 1 percent will ever obtain annual sales of \$15 million.<sup>16</sup> Consequently, existing brands, especially those with global reputations, are very valuable. Some private reports show the importance of IP.<sup>17</sup> In 1997, the Campbell Soup Company Annual Report emphasized “Brand Power” as the second of its major business precepts driving economic growth.<sup>18</sup> As a consequence the existing patents are also valuable.<sup>19</sup>

The third factor contributing to the rising importance of IPRs may be referred to as economic globalization. Internationalization of trade has forced countries worldwide to enter into trade agreements, forming regional trade blocs.<sup>20</sup> This trend is reflected in the following trade agreements: *Mercado Comun del Sur* (MERCOSUR),<sup>21</sup> *the North America Free Trade Agreement* (NAFTA),<sup>22</sup> and *the Trade-Related Aspects of Intellectual Property Rights* (TRIPS).<sup>23</sup>

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<sup>15</sup> See Melvin Simensky, *supra* note 11, at 5.

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*

<sup>18</sup> Gavin Clarkson, *Avoiding Suboptimal Behavior in Intellectual Asset Transactions: Economic and Organizational Perspectives on the sale of Knowledge*. HARV. J. L. & TECH 712 (2001).

<sup>19</sup> Justin Hughes, *The Philosophy of Intellectual Property*, GEO. L.J. 291 (December 1988).

<sup>20</sup> Lurinda L. Hicks and James R. Holbein, *Convergence of National Intellectual Property Norms in International Trading Agreements*, Am. U.J. INT'L. L. & POL'Y 771 (1997).

<sup>21</sup> Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Asuncion on March 26, 1991, creating MERCOSUR. Today, due to the significant differences among national intellectual property laws, different levels of infrastructure in the individual member nations' governmental bodies charged with the application of such laws, and flagrant macroeconomic differences within the region, the process of harmonization of intellectual property norms within the MERCOSUR is tentative. See Treaty establishing the Common Market between the Argentine Republic, the Federative Republic of Brazil, the Republic of Paraguay and the Eastern Republic of Uruguay, 30 I.L.M. 1041, 1991.

<sup>22</sup> The NAFTA is a free trade Agreement among Canada, Mexico and U.S. The preamble of the NAFTA sets forth a desire to “foster creativity and innovation and promote trade goods and services that are the

As a result of economic integration and technological advance, IPRs are now considered global commodities.<sup>24</sup> Yet despite the importance of intellectual assets transactions<sup>25</sup> it would seem that they remain among the least understood types of economics transactions, and perhaps also the most poorly managed.<sup>26</sup> A closer look at the nature of IP in section I may provide a better understanding of the importance of IPRs in business transactions.

## B. INTELLECTUAL PROPERTY VALUATION

While IP plays an important role in today's business transactions, it remains very difficult to quantify its economic value. It seems strange that IP assets have not been given the same rigorous scrutiny and analysis by the financial community as tangible assets of a deal.<sup>27</sup> Some of the reasons that explain why IP assets are more difficult to evaluate than tangible assets are: (i) the exchange of IP assets is sporadic and only motivated by strategic advantages, rather than real estate. The public trading markets that exist for financial and physical assets do not exist for IP assets;<sup>28</sup> (ii) the terms and conditions of IP transfers vary widely and rarely are two transactions ever the same; (iii)

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subject of IPRs.” See North America Free Trade Agreement, 32 I.L.M. 612 signed Dec. 17, 1992. Preamble at 1.

<sup>23</sup> Agreement on Trade Related Aspects of Intellectual Property Rights, 33 I.L.M. 1197, in General Agreement on Tariffs and Trade: Multilateral Trade Negotiations Final Act Embodying the Results of the Uruguay Round of Trade Negotiations, April 15, 1994, 3 I.L.M. 1125, Annex 1 C.

<sup>24</sup> See Lurinda L. Hicks, *supra* note 20, at 771.

<sup>25</sup> Lesley Ellen Harris, *Digital Property: Currency of the 21<sup>st</sup> Century*, 51 (1998) The author states that in 1998, in the global economy the 20 percent of the world trade (representing \$ 740billion) are exclusive IP transactions.

<sup>26</sup> See Gavin Clarkson, *supra* note 18, at 715.

<sup>27</sup> Edward J Kessler and Robert Greene Sterne, *Intellectual Property Considerations of Corporate Partnering, Patent, Copyright, Trademark and Literary Property Course Book Handbook* (PLI Order No. G4-3836), 128 (March 1989). WL 277 PLI/Pat 107

<sup>28</sup> The online intellectual property exchanges, such as plx.com, yet2.com and Delphion, have not yet developed into broad-based public markets.

IP assets are inherently dissimilar. Patents must be novel and nonobvious compared to prior art<sup>29</sup> copyrights must be original works of authorship<sup>30</sup> and trademarks must be distinctive;<sup>31</sup> and, (iv) the details of IP transfers are rarely made available to the public.<sup>32</sup>

Understanding the valuation of IP is critical because its real value is often underestimated. In actual practice the value is inherently subjective and valuation methods inherently uncertain. Aristotle stated “that it is a sign of an educated mind not to expect more certainty from a subject that it can possibly provide.”<sup>33</sup> Applying this idea, valuation in IP requires an intermediate perspective between certainty and ignorance, and this requires the exercise of skill, experience, and judgment.

In fact, the price of the IP is influenced by innumerable factors. Thus, IP lenders must specifically determine the appropriate valuation approach, choosing from among disparate methods such as cost approach,<sup>34</sup> the market approach,<sup>35</sup> the income approach,<sup>36</sup> and the rule of thumb or 25 percent rule.<sup>37</sup> All four approaches represent different valuation methods based upon to different philosophies. The Cost approach determines

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<sup>29</sup> 35 USC §§ 101-103 (2001)

<sup>30</sup> 17 USC § 102(a) (1995)

<sup>31</sup> 17 USC § 1052(f) 1997)

<sup>32</sup> Ted Habelin, *A New Method to Value Intellectual Property*, AIPLA QUARTERLY JOURNAL, 354 (2002).

<sup>33</sup> RICHARD RAZGAITIS, EARLY STAGE TECHNOLOGIES: VALUATION AND PRICING, 7 (1999).

<sup>34</sup> The Cost approach measures the value of an asset by the cost to replace or reproduce it with an identical or equivalent asset. See Ted Habelin, *supra* note 32 at 359 (citing ROBERT C. MEGANTZ, HOW TO LICENSE TECHNOLOGY, 56 (1996).

<sup>35</sup> The Market approach values an asset based upon comparable transactions between unrelated parties. When the market approach is used, an indication of the value of a specific item of IP can be gained from looking at the price paid for comparable property. See Brian M. Daniel, et al, *Financial Aspects of Licensing Agreements; Valuation of and Auditing*, PATENT, COPYRIGHT, TRADEMARK AND LITERARY PROPERTY COURSE BOOK SERIES (PLI Order No. G0-00JR), 94 (March 2001).

<sup>36</sup> The income method values an asset based upon the present value of the net economic benefit (net future income stream) expected to be received over the life of the asset. See GORDON V. SMITH & RUSSELL L. PARR, VALUATION OF INTELLECTUAL PROPERTY AND INTANGIBLE ASSETS 247 (1989).

<sup>37</sup> There are many definitions of this method, but the most accurate is that “the licensor should receive 25 percent of the licensee’s gross profit from the licensed technology.” See RICHARD RAZGAITIS, *supra* note 33 at 370.

the value by way of the historical or present cost of forming the assets; the Market approach determines the value by way of the present transaction price in the market; the Income approach determines the value by way of the future capabilities of obtaining profits, while the 25 Percent rule is the simplest, most flexible and most often referenced valuation method mentioned that can complement the other methods. Although each of these approaches has limitations, together they provide IP lenders with a set of basic useful decision-making tools.

## CHAPTER II

### THE LEGAL SCHEME FOR PROTECTING INTELLECTUAL PROPERTY

*“Ideas, like wild animals,  
are yours while they continue in your possession; but no longer.”*  
(Justice Yates in *Milar v. Taylor*, 1769)<sup>38</sup>

#### A. DEFINITION AND CLASSIFICATION OF INTELLECTUAL PROPERTY RIGHTS: SPECIAL NATURE OF INTELLECTUAL ASSETS

Many texts on IP law begin by saying something about the definition of IP.<sup>39</sup> These definitions may be defined as definition by extension or intention. An extensional definition of IP would list certain traditional core areas such as copyrights, patents, trademarks, design, protection against unfair competition and the protection of trade secret. Intentional definitions of IP are harder to formulate. However, following the line of reasoning of Mr. Peter Dahos in his work *A Philosophy of Intellectual Property*,<sup>40</sup> it can be stated that *“IPRs are rule-governed privileges that regulate the ownership and exploitation of abstract objects in many field of human activity.”*

Three distinct philosophies about the nature of IP and its protection have developed over time:

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<sup>38</sup> Grosheide, F.W., *When Ideas Take the Stage*, EUR. INTELL. PROP. REV. 220 (1994).

<sup>39</sup> PETER DRAHOS, *A PHILOSOPHY OF INTELLECTUAL PROPERTY*, 1 (1996). Noting that It was customary to refer industrial and intellectual property rights. The term “industrial” was used to cover technology-based subject areas like patents and designs. “Intellectual Property was used to refer to copyright and its cultural subject matter.

<sup>40</sup> *Id.* 5

- (i) The *natural rights* view, stemming from some European traditions, assigns ownership of mental creation to their inventors under the precept that failure to do so constitutes theft of the fruits of their effort and inspiration.<sup>41</sup> Creators should have the right to control any reworking of their ideas and expressions. This moral view of IPRs exists independently of any thoughts about the incentive effects or economic cost and benefits of regulation. This approach is evidence today in the strong protection of artistic moral rights in European Law.<sup>42</sup>
- (ii) Under the *public rights* view, it is inappropriate to assign private property rights in intellectual creations. Information belongs in the public domain because free access to information is central to social cohesion and learning. This approach found its strongest application in socialist systems, which did not recognize the notion of private ownership of intellectual assets. The task of generating knowledge fell to the state; the fruits of its invention were provided widely to potential users.<sup>43</sup>
- (iii) There is much room between these extreme positions for recognizing that IPRs may be assigned and regulated for purposes of social and economic policy. Most legal system adopt a *utilitarian* view, in which IPRs strike a balance between the need for invention and creation, on the one hand, and the need for the dissemination of information on the other. Private property rights

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<sup>41</sup> *Id.*

<sup>42</sup> *Id.*

<sup>43</sup> *Id.* at 28

in information bear both benefits and costs, suggesting that they may be designed with incentives and trade-offs.<sup>44</sup>

For the purpose of this study, the utilitarian view will be adopted to define IP as a primary class of *intangible assets*.<sup>45</sup> The first half of this definition, *intangible*, is based on the Roman law, which distinguished between corporeal (tangible) and incorporeal (intangible) property. Classical Roman Law, the Institute of Gaius, divided all law into laws relating to persons, things or actions. The distinction between incorporeal and corporeal occurs in the law of things (*res*). It is stated by Gaius in the following way:

*Further things are divided into corporeal and incorporeal. 13 Corporeal things are tangible things, such as land, a slave, a garment, gold, silver and countless other things. 14. Incorporeal are things that are intangible, such as exist merely in law for example, for example an inheritance, a usufruct, obligation however contracted.*<sup>46</sup>

IPRs are properly classified as incorporeal rights.

The second half of the definition, *assets*, is based on economic principle. Human thought is astonishingly creative in finding solutions to applied technical and scientific problems, in communicating the existence and quality of products and persuading consumers to buy them, and in expressing images and ideas. These intellectual efforts create new technologies, products, and services, describe new ways of doing things, and expand the cultural richness of society.<sup>47</sup> They result in intellectual assets, pieces of

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<sup>44</sup> *Id.*

<sup>45</sup> See Gavin Clarkson, *supra* note 18, at 715

<sup>46</sup> See PETER DRAHOS, *supra* note 39 at 16. (Citing the Institutes of Gaius (F De Zuleta (ed. And tr.) Oxford at the Clarendon Press, 1946), Book II, 12 – 14.

<sup>47</sup> KEITH E. MASKUS, *INTELLECTUAL PROPERTY RIGHTS IN THE GLOBAL ECONOMY*, 27 (2000).

information that may have economic value of put into the market place. These assets are called Intellectual Property.<sup>48</sup> The legal devices that provide such control are called IPRs.

### 1. Characterizing Property

As intangible assets, IPRs protect IP owner's rights to legal benefits including the right to charge rent for use, to receive compensation for loss and collect payment for transfer and sale.<sup>49</sup> IP constructs a scarcity in knowledge where none necessarily exists.<sup>50</sup> IP replaces knowledge's largely non-rival character with a regime of rival property. Generally, it is necessary for a price to be taken and for the benefits of ownership to be obtained.<sup>51</sup> Space precludes a long discussion of how this imposition of scarcity has been justified, but the three narratives that are used in various combinations will be familiar.<sup>52</sup>

The first argument is that effort deserves reward.<sup>53</sup> This draws on a long line of political theory starting with John Locke's argument about property rights in previously common land should be awarded to the diligent cultivator.<sup>54</sup> It has now become a more general argument that not only should effort be rewarded, but that stimulation of useful human activity is vital and necessary. The effort expended to produce any particular knowledge or information should be rewarded by bestowing of property rights in

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<sup>48</sup> *Id.*

<sup>49</sup> CHRISTOPHER MAY, A GLOBAL POLITICAL ECONOMY OF INTELLECTUAL PROPERTY RIGHTS: THE NEW ENCLOSURE? 7 (2000).

<sup>50</sup> Christopher May, *Why IPRS Are a Global Political Issue*, EUR. INTELL. PROP. REV. 2 (2003).

<sup>51</sup> *Id.*

<sup>52</sup> CHRISTOPHER MAY, *supra* note 49, at 5

<sup>53</sup> *See* Christopher May, *supra* note 50, at 2.

<sup>54</sup> PETER DRAHOS, *supra* note 39 at 45.

whatever is produced.<sup>55</sup> This encourages further intellectual activity by establishing a clear benefit to the producer.

Secondly, IPRs also reflect the rights of individuals to own the products of their own efforts, because these efforts reflect the expression of the individual's self-identity. Thus individuals should be allowed to own IP in the product of their mental activity, because it is their mental work that has produced the property.<sup>56</sup> This draws on the Hegelian notion of property as a form of protection from interference by others or the state.<sup>57</sup> In Europe, this conception of property has prompted the recognition of a *moral right* of creators and authors to ensure that their work remains as they intended even after economic right have be transferred.<sup>58</sup>

The third narrative of IP is more closely related to the capitalist character of modern society. The argument here focuses on the benefits of introducing market into any particular area of social existence.<sup>59</sup> Markets promote efficiency of use. Thus, in order to ensure that ideas and knowledge are used efficiently, and to the maximum benefit of society, markets must control the distribution of information and knowledge.<sup>60</sup>

All three narrative constructions support the idea that IP is a form of property and as property must to be protected and therefore commercialized in a secure environment.

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<sup>55</sup> CHRISTOPHER MAY, *supra* note 49, at 7

<sup>56</sup> See Christopher May, *supra* note 50, at 2.

<sup>57</sup> PETER DRAHOS, *supra* note 39 at 45

<sup>58</sup> See Christopher May, *supra* note 36, at 2.

<sup>59</sup> *Id.*

<sup>60</sup> *Id.*

However, it is also clear that property rights exist only to the extent that the legal system<sup>61</sup> is willing to recognize and enforce them.<sup>62</sup>

## **B. INSTRUMENTS OF INTELLECTUAL PROPERTY PROTECTION**

There are various IPR legal devices or instruments. They determine what subject matter is legally protected, the procedure for achieving that protection, the duration of protection, and legal remedies for infringement of IPRs. The main characteristic of these instruments is the exclusive right to exclude others from certain activities.<sup>63</sup>

Before defining the legal devices, it is important to point out that this study assumes that the differences among national legal systems do not represent profound differences in the underlying notions of what IP is all about,<sup>64</sup> especially in the U.S. and Argentinean scenarios. Several well subscribed international treaties create international standards for what constitutes IP. At the level of national laws, even most socialist countries have either recognized roughly similar parameters to IP or have at least averred their subscription to the general idea of legal regimes for copyrights, trademarks, patents. Of course that it does not mean that there is international uniformity in the protection granted to intellectual property, only that there are generally accepted baselines of protection.<sup>65</sup>

Professor Marci A. Hamilton has provided an excellent introduction for anyone, including not only IP attorneys but also corporate and merger and acquisition attorneys.

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<sup>61</sup> “Legal System” here refers not only to the courts, but also to legislators and government regulators as well.

<sup>62</sup> Dana Wagner, *The Keepers of the Gates, Intellectual Property, Antitrust, and The Regulatory Implications of Systems Technology*, HASTINGS L. J. 1078, (2000).

<sup>63</sup> See Lurinda L. Hicks, *supra* note 20, at 772.

<sup>64</sup> *Id.*

<sup>65</sup> See Justin Hughes, *supra* note 19 at 293

He argued that IP law is now international.<sup>66</sup> It is not standardized, it is not harmonized, but it is international. One can rarely be certain today that IP product will not cross any territorial borders and therefore be subject only to domestic IP law.<sup>67</sup>

### 1. Types of Intellectual Property

Different forms of IPRs operate in distinct fashions and it is misleading to group them together.<sup>68</sup> Indeed designing an effective and appropriate system of IPRs is complex for any country.<sup>69</sup> Some broad definitions of IPRs will help establish the terrain over which we will range. This study is focused only on copyright, patent, and trademark and does not address other important forms of IP such as trade secrets, domain names; industrial models.

(i) *Copyrights*: Copyrights protect original works of authorship. Copyrights and related rights protect artistic creativity in many forms, including literature, the authorship or composition of musical and performed (including choreographic) works, architecture, and the graphic (including advertisements, maps, drawings, photographs, and technical drawings), dramatic, cinematic, performing, and plastic arts. The concept has also often been extended as a result of developments in technologies to include such things as software design.<sup>70</sup> Copyright protection typically lasts for the life of the author plus 50 to 70 years.<sup>71</sup> The rights provided by copyright apply to authors but related rights, also

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<sup>66</sup> Marci Hamilton, "The Top Ten Intellectual Property Law Questions That Should Be Asked About Any Merger or Acquisition." U. CIN. L. REV. 1315 (1998).

<sup>67</sup> *Id.*

<sup>68</sup> Keith E. Maskus, *Intellectual Property Rights and Economic Development*, CASE W. RES. J. INT'L L. 474 (2000).

<sup>69</sup> KETITH MARKUS, *supra* note 47, at 28.

<sup>70</sup> G. GREGORY LETTERMAN, BASIC OF INTERNATIONAL INTELLECTUAL PROPERTY LAW, 256 (2001)

<sup>71</sup> *Id.*

known as neighboring rights, concern other categories of owners of rights.<sup>72</sup> Related rights differ from copyrights in that they belong to owners regarded as intermediaries in the production, recording, or diffusion of works.<sup>73</sup>

(ii) *Patent*: A patent is an exclusive right granted for an invention that is a product or a process providing a new way of doing something or offering a new technological solution to a problem.<sup>74</sup> For patents the knowledge which is to be registered and thus made property must be (i) “new,” and thus not already in the public domain or the subject of a previous patent;<sup>75</sup> (ii) “not obvious,” or not common sense to any accomplished practitioner in the field when asked to solve a particular practical problem (i.e. it should not be a self evident solution using available skills or technologies);<sup>76</sup> and (iii) “useful, or applicable in industry.” The knowledge must have a stated function, a practical use and the ability to be immediately manufactured to fulfill this function.<sup>77</sup> If all three conditions are met, then the knowledge can be patented, becoming intellectual property.

(iii) *Trademarks*: Traditionally, trademarks are understood to identify not only the origin of a product but also to provide a guarantee of reliability and quality.<sup>78</sup> With the increasing use of advertising and the growth of a consumer society, trademarks have gradually come to be understood as marks that aid consumer with products differentiation, evaluation of product quality, and brand identification.<sup>79</sup> A trademark can

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<sup>72</sup> *Id.* at 256. (i.e. performers, the producers of phonograms, and broadcasting organizations).

<sup>73</sup> *Id.* at 257.

<sup>74</sup> MARGARET BARRET, INTELLECTUAL PORPERTY CASES MATERIALS, 189 (2<sup>ND</sup> EDITION).

<sup>75</sup> *Id.*

<sup>76</sup> *Id.*

<sup>77</sup> *Id.*

<sup>78</sup> Timothy W. Blakely, *Beyond the International Harmonization of Trademark Law: The Community Trademark as a model of Unitary Transnational Trademark Protection*, U. PA. L. REV. 309 (November 2000).

<sup>79</sup> *Id.*

be made up of one or more distinctive words, letters, numbers, drawings or pictures, emblems or other graphic representations.<sup>80</sup> In some jurisdictions the outward manifestation of packaging may also be allowed trademark status provided that it is not a form dictated by function (the most international famous case being the “Coca Cola bottle” in the United Kingdom).<sup>81</sup> Trademarks need to be also registered at the local trademark office of each country or trade-community.

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<sup>80</sup> CHRISTOPHER MAY, *supra* note 49, at 9.

<sup>81</sup> GRAEME B. DINWOODIE et al, INTERNATIONAL INTELLECTUAL PROPERTY LAW AND POLICY, 308 (2001), (citing re Coca Cola Co.’s applications (1986) 2 All E.R. 274, 275-276 (U.K. H.L.). The Shape of the Coca Cola bottle has been registered as a trademark under the new U.K. Law implementing the EU Trademark Directive. See Registration No. 2,000,548 (Sept. 1, 1995).

**CHAPTER III**  
**CREATING AND OBTAINING SECURITY INTEREST IN INTELLECTUAL PROPERTY RIGHTS**  
**IN ARGENTINA AND THE U.S.**

Nowadays, there are many commercial transactions involving IP, in which it will be sold, purchased, licensed, joint ventured, carried from country to country by multinational companies, and used as collateral.<sup>82</sup>

Just as land was historically the principal measure of a business value, the industrial revolution made capital goods the principal measure of value.<sup>83</sup> Now, as steel mills and factories decrease in value due to foreign competition, the centerpiece of the world economy has gradually become patents, copyrights and trademarks. This is the IP revolution.<sup>84</sup> Mr. George Gilder argued that wealth is no longer derived from possessing physical resources. “Wealth and power came mainly to the possessor of material things or to the ruler of military forces capable of conquering the physical means of production; land, labor and capital... Today, the ascendant nations and corporations are masters not of land and material resources but of ideas and technologies.”<sup>85</sup>

There are at least three significant types of commercial transactions, particularly in the U.S. and Argentina, in which IP can play an important role: *licensing*: in contrast to

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<sup>82</sup> Gordon V. Smith, *The importance of the Valuation of Intellectual Property Assets. Valuation Mechanisms*, 1 (November 25, 1998) available at [www.wipo.org](http://www.wipo.org) (last visited, March 23 2003).

<sup>83</sup> Lee G. Meyer et al, *Intellectual Property in Today Financial Market*, AM. BANKR INST. J. 20 (March 2000).

<sup>84</sup> *Id.*

<sup>85</sup> GORDON V. SMITH & RUSSELL L. PARR, VALUATION OF INTELLECTUAL PROPERTY AND INTANGIBLE ASSETS 229 (1989).

an assignment, which transfers all rights in the IP, an owner of IP can license some or all of its rights subject to specific limitations.<sup>86</sup> IP licenses combine IP law and contract law,<sup>87</sup> as mentioned in the introduction, in *M&A*, as the target assets; and in *financing*, as collateral supporting loans. Set forth below is a discussion of two different systems, American and Argentinean, to create and obtain a security interest in IP.

As mentioned above, the procedure to create and obtain security interest in IPRs is not new. In addition to Thomas Edison's use of his incandescent electric light patent as collateral, Galileo Galilei also used a customary Italian law to obtain royalties on various optical devices that he invented and then permitted others to manufacture.<sup>88</sup>

Uncertainty and confusion have always accompanied the employment of IPRs as collateral. Lenders, seeking to minimize their exposure to risk, have historically been hesitant to lend money on the security of IP, instead preferring more traditional tangible collateral such as land, buildings and equipment.<sup>89</sup>

#### **A. METHOD OF PERFECTION UNDER THE U.S. SYSTEM**

This section mainly discusses the intersection of U.S. federal and state law with respect to the creation of a security interest in IP. Copyrights, patents, and trademarks are

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<sup>86</sup> William J. Murphy, *A Proposal for a Centralized an Integrated Registry for Security Interest in Intellectual Property*, IDEA 662 (2002). Noting that a patent owner can license the right to make, use, and sell the patented invention or only the right to use the patent invention. A trademark owner can license another to use the mark in connection with the associated good and services. A copyright owner can license the right to make and distribute copies of the work, or the right to perform a play song.

<sup>87</sup> *Id.*

<sup>88</sup> Daniel J. Gervais, *The Internationalization of Intellectual Property: New Challenges from the very Old and the very New*, FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 933 (2002).

<sup>89</sup> Shawn K. Baldwin, *To Promote the Progress of Science and Useful Arts: A Role for Federal Regulation of Intellectual Property as Collateral*, U. PA. L. REV. 1701 (May 1995).

all subject of federal statutes, and all present federalism problems in the commercial law context.<sup>90</sup> Since each area of IP has its own statutory and case law, each must be examined separately to determine the correct method for taking a valid and perfected security interest. In each case, the question is whether and to what extent federal law preempts state law under the Supremacy Clause of the U.S. Constitution.<sup>91</sup>

As a prelude to addressing the copyright and patent federalism issues, it is worth noting that the constitutional basis for federal regulation of copyrights and patents, which grants to Congress the “*power to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings Discoveries,*”<sup>92</sup> is not exclusive; state law may operate where Congress has not preempted it.<sup>93</sup> Nevertheless, both patents and copyrights are now considered exclusively federal in nature.<sup>94</sup> In trademarks the situation is different. Trademark may be governed by state law, although they may be registered under the federal trademark statute, the Lanham Act, if they are used in interstate commerce.<sup>95</sup>

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<sup>90</sup> Lois R. Lupica, *Circumvention of the Bankruptcy Process: The Statutory Institutionalization of Securitization*, CONN. L. REV 199, 202-03 (2000) (discussing common law and state statutes that governed pre-UCC secured transactions); *See also* Shubba Ghosh, *The Morphing of Property Rules and Liability Rules: Intellectual Property Optimist Examines Article 9 and Bankruptcy*, FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 99, 110 (1997) (noting that article 9 of UCC is primary source of state law governing secured credit).

<sup>91</sup> U.S. CONST. Art. VI s2. *The Supremacy Clause*: “State Laws are invalid if they interfere with, or are contrary to the laws of Congress, made in pursuance of the Constitution.” *See also* Cover v. Hydramatic Packing Co., 83 F.3d 1390, 1392 (Fed. Cir) cert. denied, 65 U.S.L.W. 3246 (1996) (Citing *Gibson v. Ogden*, 22 U.S. (9 Wheat.) 1, 211 (1825)).

<sup>92</sup> *See* Alice Haemmerli, *supra* note 1, at 1653. (Citing *Goldstein v. California*, 412 U.S. 546, 553 (1973). The Clause of the Constitution granting to the Congress the power to issue copyright does not provide that such power shall vest exclusively in the Federal government. Nor does the Constitution expressly provide that such power shall not be exercised by the States.”).

<sup>93</sup> U.S. CONST. art I, s8, cl.8

<sup>94</sup> *See* Alice Haemmerli, *supra* note 1, at 1653 (noting that “under the new Copyright Act (effective January 1, 1978), there is no more common law copyright. Patent Act has a long history

<sup>95</sup> LANHAM ACT § 1 states that “the owner of a trade-mark used in commerce may apply to register his or her trademark under this chapter.” 15 U.S.C. § 1051(a) (1994) “Commerce is defined by the statute as all commerce which may lawfully be regulated by Congress.” 15 U.S.C. § 1127 (1994).

Prior to the enactment of the Uniform Commercial Code (UCC), different legal devices were created to make it possible for a creditor to look to specific property to satisfy a debt owed.<sup>96</sup> For example, prior to the UCC, chattel mortgages, equipment trusts, conditional sales, and trust receipts were each governed by a separate set of rules and were limited in their application to only particular types of transactions.<sup>97</sup>

The original version of Article 9 of the UCC replaced the pre-UCC devices mentioned in the former paragraph.<sup>98</sup> This article went through its first revision in 1972, and was most recently revised in 1999, with the changes becoming effective on July 1, 2001.<sup>99</sup>

Generally, Article 9 governs transactions in which a debtor, in order to obtain a loan, uses his or her property as collateral for the debt. In this transaction, the creditor takes a "security interest" in the collateral that allows her to take the collateral in the event that the debtor defaults on the loan.<sup>100</sup> Even if the debtor files for bankruptcy, a secured creditor under Article 9 will be guaranteed payment by taking the collateral.

Article 9 divides collateral into different categories such as goods, quasi-tangible property, and intangible property. It further subdivides goods into consumer goods,

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<sup>96</sup> UCC § 9-101 (1972) Stating that “[t]his Article sets out a comprehensive scheme for the registration of security interest in personal property and fixtures. It supersedes prior legislation dealing with such security devices as chattle mortgages, conditional sales, trust receipts, factor’s liens and assignments of accounts receivable.” *See also* In re Cybernetic Servs., Inc. 239 B.R. 917, 920 (B.A.P. 9<sup>th</sup> Cir. 1999) (noting the [b]efore the adoption of the UCC, a variety of personal property security devices were used, including chattel mortgages, that placed title in the mortgagee).

<sup>97</sup> William A. Dornbos, *Structuring, Financing, and Preserving Security Interest in Intellectual Property*, BANKING L. J. VOLUME 113, NUMBER 7, 663 (1996).

<sup>98</sup> *See* UCC § 9-101 (1972) *supra* note 96 describing security devices replaced by Article 9 of UCC.

<sup>99</sup> UCC § 9-101 cmt. (2001) (explaining historical background of Article 9); *See also* Robert Scott, *The Politics of Article 9*, 80 VA. L. REV. 1783, 1784-87 (1994) (Discussing “connections between the institutional framework of the UCC and the substantive provisions of Article 9 that facilitated the development of such Article).

<sup>100</sup> UCC § 9-109 (a) (1) (2001)

equipment, farm product, and inventory.<sup>101</sup> Quasi-tangible property is subdivided into instruments, investment property, documents, and chattel paper. Intangible property is subdivided into accounts, deposit accounts, general intangibles, health care receivables, and payment intangibles.<sup>102</sup> The classification of collateral is important because, as mentioned below, Article 9 requires different technical steps to perfect<sup>103</sup> security interest for different types of collateral.<sup>104</sup>

Regarding IPRs, Article 9 defined such rights as “*any personal property*” other than goods, accounts, chattel paper, documents, instruments and money.<sup>105</sup> Thus, IPRs fall in the category of general intangibles.

However, as mentioned, to take full advantage of the benefits of the UCC, Article 9 requires that the creditor receiving the security interest “perfect” its security interest by filing a financing statement with the appropriate state government official<sup>106</sup> or by taking

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<sup>101</sup> UCC § 9-102 cmt. 4a (2001) (listing the four mutually exclusive “types” of collateral that consist of goods: consumer goods, equipment, farm products, and inventory).

<sup>102</sup> UCC § 9-102 (2001) (providing definitions and classification of collateral) *See also* Xuan-Thao N. Nguyen, *Commercial Law Collides with Cyberspace: The Trouble with Perfection – Insecurity Interest in the New Corporate Asset*, WASH. & LEE L. REV. 37 (2002).

<sup>103</sup> Perfection is the process by which the creditor’s security interest becomes effective against other creditors, lien holders, and bankruptcy trustees. The most common means of perfecting a security interest is by filing a statement in the appropriate place, such as the office of the secretary state. *See* UCC § 9-310 (2001), requiring that financing statement must be filed to perfect most security interest.

<sup>104</sup> UCC § 9-309 (2001), listing types of security interest that can be perfected by attachment; UCC § 9-310 (2001), requiring filing of financing statement as most common method for perfecting security interest in majority of collateral property, but noting exceptions; UCC § 9-313 (2001), permitting secured party to perfect certain security interest by taking possession of collateral property; UCC § 9-314 (2001), providing perfection of security interest by control of investment property, deposit accounts, letter of credit rights, and electronic chattel paper.

<sup>105</sup> UCC § 9-102(a)(42) & cmt 5d. (2001) Intellectual property rights are included in this provision, according to the Official Comments of these articles that states: “*copyrights, trademarks and patents*” as an example of general intangibles.

<sup>106</sup> *Id.* § 9- 310 (2001)

some other designated perfection step. If the creditor does not file the appropriate financing statement, its interest will be violable in the event of the debtor bankruptcy.<sup>107</sup>

One limitation to the doctrine of perfection by filing is found in § 9-109(c) which states that filing is not required for perfection if “a statute, regulation, or treaty of the U.S. whose requirements for a security interest’s obtaining priority over the rights of a lien creditor with respect to the property preempt § 9-310(a).”<sup>108</sup>

This provision, coupled with the fact that federal laws govern copyrights, patents, and trademark raises the aforementioned question of whether security interest in IP is governed by Article 9, by federal law, or by some combination thereof. Unfortunately, Article 9 does not provide a clear resolution of this issue.<sup>109</sup>

A number of recent judicial decisions address the present issues and to some extent clarify them.<sup>110</sup> However, in order to obtain a better understanding of the methods of perfecting security interest in IPRs, we will explore, in detail, copyright, patent and trademark separately.

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<sup>107</sup> Bankruptcy Code § 544 (a)

<sup>108</sup> UCC §§ 9-109 (c)(1); 9-311(a)

<sup>109</sup> See William A. Dornbos, *supra* note 97, at 664

<sup>110</sup> Official Unsecured Creditors' Comm. v. Zenith Prods., Ltd. (In re AEG Acquisition Corp.), 127 B.R. 34, 41 (Bankr. C.D. Cal. 1991) (finding that a security interest in copyrights to films must be perfected through recordation of such security interest with the U.S. Copyright Office), *aff'd*, 161 B.R. 50 (9th Cir. 1993); National Peregrine, Inc. v. Capitol Fed. Sav. & Loan Ass'n of Denver (In re Peregrine Entertainment, Ltd.) 116 B.R. 194, 199 (Bankr. C.D. Cal. 1990) (finding that perfection of security interests in copyrights is governed by federal registration rules, not the UCC); Creditors' Comm. of TR-3 Indus., Inc. v. Capital Bank (In re TR-3 Industries), 41 B.R. 128, 131 (Bankr. C.D. Cal. 1984) (finding that a security interest in trademarks must be perfected in accordance with Article 9 of the UCC, not the Lanham Act).

## 1. Copyright

This area does not present many problems in the theory but does so in the practice, because when lawyers have to follow all the different provisions, they may encounter some obstacles that complicate the creation of a security interest.

The Copyright Act presently contains the clearest structure regarding perfection of traditional security interest:<sup>111</sup>

*“Any assignment, mortgage, hypothecations,<sup>112</sup> exclusive license or ... other conveyance<sup>113</sup> creating a present, future, or potential relationship between the parties is to be considered a transfer of copyright ownership<sup>114</sup> that may be recorded in the Copyright Office.<sup>115</sup>”*

In view of the constructed definition, we can ascertain that security interest is clearly a form of hypothecation or pledge (with the same treatment as an assignment) that can be perfected only by recording at the U.S. Copyright Office.<sup>116</sup> Moreover, it also makes clear that the recording provisions of the Copyright Act appear to satisfy the Article 9 of UCC.<sup>117</sup>

Unfortunately, when lawyers have to implement a security interest on a copyright, they will face a number of obstacles that came from the cold letter of the Copyright Act.

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<sup>111</sup> See Shawn K. Baldwin, *supra* note 89, at 1712

<sup>112</sup> See *Peregrine Entertainment, Ltd. v. Capital Fed. Sav. & Loan Ass'n*, 116 B.R. 194 (C.D. Cal. 1990)

<sup>113</sup> 17 USC § 101 (1998)

<sup>114</sup> 17 CFR § 201.4(a)(2) (1998)

<sup>115</sup> 17 USC § 205(a) (1998)

<sup>116</sup> See *Peregrine Entertainment, Ltd*, *supra* note 112 at 195. Noting that the Copyright Act provides for national registration and specifies a place of filing different from that specified in Article 9 filing of the security interest as set forth in UCC § 9-302(3)(a).

<sup>117</sup> *Official Unsecured Creditors' Comm. v. Zenith Prods., Ltd. (In re AEG Acquisition Corp.)*, 127 B.R. 34, 41 (Bankr. C.D. Cal. 1991).

The first of these obstacles is that any document, filed with the Copyright Office, must identify the work to which it pertains.<sup>118</sup> In other words, any creditor must file a security interest individually against each copyright. The situation becomes very complicate when lawyers are confronted by copyrights that require frequent changes or updates, such as software development project. Likewise, issues of practicality are raised when the debtor holds a very extensive inventory of copyright.

Under the Copyright Act, a lien can only attach to copyrights which are already registered.<sup>119</sup> Thus, this statute a security interest cannot automatically attach to after-acquired copyrights and, therefore, the lien on the copyright mortgage will not cover any copyright which is subsequently registered, even though representing a development stemming from the original registered copyright.

Therefore, the copyright in computer programs would have to be registered on an ongoing basis as each segment is completed in order to minimize the period during which the security interest is unperfected. This solution would not only be expensive, but it would also bury the Copyright Office with an avalanche of requests to register copyrights and record security interest in them. Additionally, creditors would be reluctant to provide financing if a certain number of their security interests were to remain vulnerable to attack because they must remain unperfected until the program is completed.<sup>120</sup>

This problem does not exist under the UCC, because security agreements and financing statements can take effect over “*after acquired property.*” Under this rule, a

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<sup>118</sup> 17 USC § 205(c)(1) (1998)

<sup>119</sup> 17 USC § 205 (1998)

<sup>120</sup> See William A. Dornbos, *supra* note 97, at 670.

perfected security interest in particular collateral automatically extends to after acquired property of the same sort if the parties have so agreed.<sup>121</sup>

As a preliminary conclusion, it is clear that Article 9 was not preempted by the Copyright Act as it relates to work in progress. Therefore, a prudent creditor who takes a security interest on a copyright (in progress) should register the copyright as soon as the work is completed, at which time the security agreement should be recorded in the Copyright Office. In the interim, a financing statement evidencing the security interest should be filed under the provisions of the UCC in the appropriate state office. Compliance with these procedures, although it is not mandatory, constitutes constructive notice to third parties of the contents of the recording document.<sup>122</sup>

Finally, regarding the priority of competing creditors, it is important to point out that the UCC employs the first-to-file rule to establish priority among creditors,<sup>123</sup> whereas the Copyright Act employs the “look-back” period during which a security interest filed first may lose its priority to a subsequently filed but previously executed security interest, so long as that second security interest is filed within one month after it was executed.<sup>124</sup>

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<sup>121</sup> *Id.*

<sup>122</sup> See William A. Dornbos, *supra* note 97 at 668.

<sup>123</sup> UCC § 9-312(5) (“Priority between conflicting securities interest in the same collateral shall be determined according to ... priority in time of filing or perfection. Priority dates from the time a filing is first made covering the collateral or the time the security is first perfected, whichever is earlier ...”)

<sup>124</sup> 17 USC § 205(d) (1998)

## 2. Patent

Similar unclarity surrounds patents. Although, patent rights are granted and enforced solely under federal law,<sup>125</sup> the fact is that Patent Act contains recordation provision<sup>126</sup> that seems to be a preemption of the UCC. However, there are many court decisions supporting the notion that state law governs the perfection of security interest in Patents.

The Patent Act provides that:

*“application for patent, patents, or any interest therein shall be assignable in law by an instrument in writing<sup>127</sup> ...an assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.”<sup>128</sup>*

The Official Comment to Section 9-104 of Article 9 takes the position that the Patent Act would not seem to contain sufficient provision regulating the rights of the parties and third parties to exclude security interest in patents from the provision of Article 9,<sup>129</sup> but in regard to the recording provisions of the Patent Act, the Official Comment is of the view that those filing provisions are recognized as the equivalent to filing under Article 9. However, the Official Comment to Section 9-302(3) does not include the Patent Act among the examples given of federal statutes that establish a filing system that supersede that of Article 9.<sup>130</sup>

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<sup>125</sup> U.S. Const. Art. I § 8 cl. 8.

<sup>126</sup> However, these provisions do not specified the recordation of a security interest or “mortgage ... or hypothecation” as in the Copyright Act.

<sup>127</sup> 35 USC § 261

<sup>128</sup> *Id.*

<sup>129</sup> *See* William A. Dornbos, *supra* note 97, at 666.

<sup>130</sup> *Id.*

These provisions raise the question whether filing under the Patent Act is sufficient to instrument a security interest that it is not in the form of and assignment. The profound uncertainty about how to instrument security interest on patents is reflected in following cases that arrived at different conclusions:

On one hand, some courts adhere to what seems to be the position that the recording provisions of the Patent Act do not supersede those of Article 9, which remain applicable.<sup>131</sup> These courts ruled that because the trustee in bankruptcy is neither a purchaser nor a mortgagee, the filing of a security interest in a patent was properly perfected when the filing statement was recorded in the appropriate state office but not in the Patent Office.<sup>132</sup>

Reaching the opposite conclusion, the court in *Peregrine Entertainment, Ltd.* held that the conclusion mentioned in the former paragraph misconstrued the language of UCC § 9-104. The court concluded that when a federal statute provides for a national system of recordation or specifies a place of filing different from that in Article 9, the methods of perfection specified in said Article 9, are supplanted by that national system.<sup>133</sup> The court also concluded that compliance with a national system of recordation is equivalent to the filing of a financing statement under article 9 whether or not the federal statute also provides a priority scheme different from that in Article 9.<sup>134</sup>

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<sup>131</sup> Transportation Design & Technology Inc., 48 BR 635 (Bankr. SD Cal. 1985); City Bank & Trust Co. v. Otto Fabrics, Inc. 83 BR 780 (Bankr. D. Kan. 1988), Chesapeake Fiber Packaging Corp. v. Sebro Packaging Corp 143 BR 360 (Bankr. D.Md. 1990), and Cybernetic Services Inc. 252 F3d 1039 (9 Circuit 2001).

<sup>132</sup> See William A. Dornbos, *supra* note 97, at 666.

<sup>133</sup> See *Peregrine Entertainment, Ltd.*, *supra* note 112 at 195.

<sup>134</sup> *Id.*

It also important to point out that the U.S. Patent and Trademark Office (“USPTO”) has, by regulation, created the possibility of federal recordation of security interest in patents.<sup>135</sup> Section 3.56 of 37 C.F.R. provides that:

*Assignments which are made conditional on the performance of certain acts or events, such as the payment of money or other condition subsequent, if recorded in the Office, are regarded as absolute assignments for Office purposes until cancelled with written consent of all parties or by the decree of a court of competent jurisdiction. The Office does not determine whether such conditions have been fulfilled.*<sup>136</sup>

In order to perfect a security interest in patents, a secured party must take what Professor Haemmerli has characterized as a “patchwork” approach.<sup>137</sup> While a secured party may perfect a security interest against other creditors by following the UCC rules – filing a financing statement – one can obtain superior rights against subsequent titleholders only by adhering to the federal scheme – recording a patent mortgage in the USPTO.<sup>138</sup>

In the light of the foregoing, and also considering that pragmatism is an important value in commercial decision making, dual federal and state filing of patents is probably the most prudent practice in most instances.<sup>139</sup>

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<sup>135</sup> Jonathan C. Lipson, *Financing Information Technologies: Fairness and Function*, WIS. L. REV. 1115 (2001).

<sup>136</sup> 37 C.F.R. § 3.56 (2000)

<sup>137</sup> See Alice Haemmerli, *supra* note 1, at 1700.

<sup>138</sup> See Jonathan C. Lipson, *supra* note 135 at 1116.

<sup>139</sup> Paul J.N Roy et. al, *Security Interest in Technology Assests and Related Intellectual Property: Practical and Legal Considerations*, COMPUTER LAWYER 10 (1999). WL 16 No. 8 CLW 3

### 3. Trademark

Trademark can live forever and can be the most valuable asset a business owns.<sup>140</sup>

From an economic point of view, a trademark is different from a patent or a copyright. A patent attaches solely to the underlying invention and a copyright covers only the underlying work. Trademarks, on the other hand may extend beyond a word or a design.

No longer the latest form of corporate assets,<sup>141</sup> trademarks are highly valued,<sup>142</sup> and not surprisingly many, companies utilize them as collateral in commercial financing.<sup>143</sup>

A security interest in a trademark can be perfected by the filing of a financing statement under the UCC.<sup>144</sup> However, considering not only the patent and copyright precedents but also the relatively uncharted legal history of security interest, filing under the state law may suffice for perfection, but most counsel will also file with the US Patent and Trademark Office.<sup>145</sup>

The Lanham Act contains recordation provisions.<sup>146</sup> It provides only for filing of an assignment of trademark, which is not defined to include pledges, mortgages, or

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<sup>140</sup> See William A. Dornbos, *supra* note 97, at 659

<sup>141</sup> Lisa M. Vaccaro, *Security Interest in Intellectual Property: Towards an Unifed System of Perfection*, HOSFSTRA PROP. L.J. 215, 216 (1993).

<sup>142</sup> JULIUS R. LUNSFORD, JR. GOOD WILL IN TRADE MARKS: COCA COLA AND COKE, THE COCA COLA BOTTLER, 27 (1955).

<sup>143</sup> Russell L. Parr, *The value of Trademark*, C913 A,L.I.-A.B.A. 229, 235 (1994).

<sup>144</sup> *Trimachi v. Together Dev. Corp.*, 255 BR 606, 611-12 (D. Mass 2000)

<sup>145</sup> One advantage of a federal filing is to put any purchaser of the business on notice of the prior security interest of the lender. See also Lee G. Meyer et al. *Intellectual Property in Today's Financing Market*, 19 MAR AM. BANKR. INST. J. 20, 20-21 (Mar. 2000). The perfect security trademark interest should be (1) filed into the PTO reciting the goodwill language described above, (2) filed as a UCC financing statement the appropriate jurisdiction reciting the elements of the business associated with the trademark, and (3) if they exist filed in compliance with any state trademark requirements'); See also Raymond T. Nimmer, *An Update on Financing with Intellectual Property as a Collateral: PART I OF II*, J. PROPRIETARY RTS. Oct 1997, at 2, 10. Noting that a dual filing is the safest route for perfecting security interest in trademarks.

<sup>146</sup> Trademark are governed by both common law and Lanham Act. U.S.C. §§ 1051-1127 (1994). See also Judith L. Church, *Intellectual Property Aspect of Corporate Acquisitions*, SF14 ALI-ABA 323-336 (2000).

hypothecation of trademarks.<sup>147</sup> It is also important to mention that Comment One to section 9-104 of the UCC does not mention the Lanham Act, yet does mention the Copyright and Patent Acts as federal statute that preempt the Code.<sup>148</sup> Therefore, it is generally thought that the only method of perfecting a security interest in a trademark is to file a financing statement with the appropriate state office, pursuant to the UCC provisions.<sup>149</sup>

Judicial opinions remain relatively uniform in the perfection scheme for security interest in trademark.<sup>150</sup> Courts have consistently held that the UCC governs such perfection.<sup>151</sup> As mentioned the Lanham Act controls only the assignment of trademarks and not security interest in trademarks.<sup>152</sup>

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<sup>147</sup> 15 USC § 1060 states that: “a registered mark or a mark for which application to register has been filed shall be assignable with the goodwill of the business in which the mark is used ...”).

<sup>148</sup> *Roman Cleanser Co. v. Nat’l Acceptance Co. of Am. (In re Roman Cleanser Co.)*, 43 B.R. 940, 946 & n.3 (Bankr. E.D. Mich. 1984) The court held that “UCC commentary did not recognize Lanham Act filing provision as equivalent to filing provision of Article 9 of UCC.”

<sup>149</sup> Thomas S. Hemmendinger, *Perfecting Security Interest in Intellectual Property*, 35 R.I.B.J., Nov. 1986, at 8.

<sup>150</sup> *In re Chattanooga Choo-Choo Co.* 98 B.R. 778, 782 (Bankr. C.D. Cal. 1992); *In re C.C. & Co., Inc.*, 86 B.R. 485, 486-487 (Bankr. E.D. Va. 1988); *Roman Cleanser Co. v. Nat’l Acceptance Co. of Am. (In re Roman Cleanser Co.)*, 43 B.R. 940, 946 & n.3 (bankr. E.D. Mich. 1984); *Trimachi v. Together Dev. Corp.*, 255 BR 606 (D. Mass 2000)

<sup>151</sup> *Joseph v. 1200 Valencia Inc. (In re 199Z, Inc)*, 137 B.R. 778, 782 (Bankr. C.D. Cal. 1992). The Court stated that “ruling that compliance with Article 9 of UCC, not Lanham Act under preemption theory, perfects security interests in trademarks); *See also Roman Cleanser Co. v. Nat’l Acceptance Co. of Am. (In re Roman Cleanser Co.)*, 43 B.R. 940, 946 (Bankr. E.D. Mich 1984) The Court stated that “The compliance with Article 9 of UCC perfected security interest in trademark collateral; *See also Creditor’s Comm. of TR-3 Indus., Inc. v Capital Bank (In re TR-3 Indus., Inc.)* 41 B.R. 128, 131 (Bankr. C.D. Cal. 1984) The court hold that “Compliance with Article 9 of UCC perfected security interest in trademark).

<sup>152</sup> *Trimacho v. Together Dev. Corp.*, 255 BR 606, 610-110 (D. Mass 2000). Concluding that recording of assignments required by Lanham Act does not include security interest. In *Official Committee of Unsecured Creditors of America’s Hobby Center, Inc. v. Hudson United Bank (In re America’s Hobby Center, Inc.)*, 223 B.R. 275, 286 (Bankr. S.D.N.Y. 1998), the court stated that:

“[n]one of the Congress, the Supreme Court, the Second Circuit, nor the New York Court of Appeals has spoken definitively on whether a security interest in a trademark is perfected only upon recording it with the trademark office, or whether a filing in accordance with the provisions of the Uniform Commercial Code... is adequate. Whereas the weight of such authority is more in line with a determination that the UCC would control, the matter is hardly free from doubt.... However, case law ... clarify[ies]

A practical issue that rises in this section is that trademark can only be assigned together with the goodwill.<sup>153</sup> Assignments in gross are invalid. Therefore, any agreement granting a security interest in a trademark should expressly grant a security interest on those assets of the debtor that will enable the creditor to provide the goods or services that the public associates with the mark, enforceable on analogous terms. By taking this additional security interest, the creditor ensures that the consumer goodwill that has been built up in the mark will be assigned along with the mark itself in the event of default.

#### 4. Proposal for Reform

In recognition of the problems relating to perfection of security interest in IP, the Patent, Trademark and Copyright Section of the American Bar Association (ABA), established an Ad Hoc Committee on Security Interest (Committee)<sup>154</sup> to study the problem and suggest possible solutions. The ABA's Section of Business Law also followed by organizing a Task Force on Security Interest in IP (Task Force).<sup>155</sup> Both the Committee and the Task Force agreed that the current state of the law was in need of revision.<sup>156</sup> As a result of several meetings, the Committee adopted a series of resolutions

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that for federal law to supersede the UCC “the federal statute itself must provide a method for perfecting the security interest.”

<sup>153</sup> *Acme Valve & Fittings Co. v. Wayne*, 386 F. Supp. 1162, 1165 (S.D. Tex. 1974) The Court hold that “In order for a transfer of rights un a trademark to constitute a sale or assignment, thereby vesting title to the trademark in a party the transfer must be absolute and must relate to the entire rights in the trademark.”); *Li'l Red Barn, Inc. v. Red Barn Sys. Inc.*, 332 F. Supp. 98, 107 (ND. Ind. 1970) (“[T]he rule is well established that a mere agreement for the future assignment of a trademark is not and assignment of wither the mark itself or the goodwill attached to it.”).

<sup>154</sup> Report of the Ad Hoc Committee on Security Interests – Patent, Trademark and Copyright Section, Security Interest in IP: Current Law and Proposals for Reform, 1992 A.B.A. Sec. Bus. L. part. II.

<sup>155</sup> Members of the Task force included representation from the various Business Law Section committees relevant to the issues – Technology and Intellectual Property, Uniform Commercial Code and Commercial Financial Services. *See* Current Law and Proposals for Reform, 1992 A.B.A. Sec. Bus. L. part. I, at 4.

<sup>156</sup> *See* Lisa Vaccaro, *supra* note 141, at 219.

in the hope of clarifying and simplifying the federal and state law.<sup>157</sup> Subsequently, the Task Force submitted its proposal to change the American current system of laws regarding security interest (the Proposal).<sup>158</sup>

The Task Force Proposal was intended to provide uniformity in the system of perfecting liens on IP. The Proposal also sought to define an approach to resolving the uncertainties in the current law.<sup>159</sup> In 1992, the Joint ABA Task Force on Security Interest in IP published its Preliminary Report.<sup>160</sup> Specifically, the Task Force considered the type of property that should be protected, the process and place of filing the prioritization of such filings, and the determination of what constitutes adequate notice of a security interest.<sup>161</sup> The Task Force proposal adopts a “mixed perfection approach” which would coordinate federal and state filings.<sup>162</sup> Under this mixed approach, a lender is required to file a UCC financing statement against its borrower in accordance with all applicable provisions of Article 9 in the state or states where such property may be held or used by the debtor.<sup>163</sup> In addition, it requires that a notice filing be filed at the federal level in the appropriate office according to the name of the debtor. This new system is designed to establish priority over subsequent transferees or assignees. The state filing

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<sup>157</sup> Those resolutions related to the recordation of security interest, recommending that (i) a mixed approach of recording security interest be implemented in both the relevant federal agency (to establish priority for bona fide purchaser/assignees for value) and the relevant state agency (to establishing priority against all other person, such as lien creditors, secured creditors and other third parties); (ii) each federal and state agency accept the same form of notice filing without requiring specific indication of the property; (iii) the federal agencies allow “after acquired property” to be secured via the initial filing of the security interest; and (iv) the federal agencies reduce the grace periods applicable to recorded filings to no more than ten days. Committee Report, *supra* note 155 at 5-12.

<sup>158</sup> See Current Law and Proposals for Reform, *supra* note 155 at 14

<sup>159</sup> See Lisa Vaccaro, *supra* note 141, at 220

<sup>160</sup> *Id.* at 451 (Citing the Preliminary ABA Task Force Report)

<sup>161</sup> See Lisa Vaccaro, *supra* note 141, at 220

<sup>162</sup> *Id.* § 3(d)(c)

<sup>163</sup> *Id.*

would create priority against lien creditors, secured creditors and all third parties other than subsequent purchaser for value, against whom the federal filing would be required to establish priority. The federal filing would evidence the lender's interest in the federally registered IP, thereby creating a system of prioritizing security interest in the USPTO and Copyright Office, as applicable.<sup>164</sup> Thus, even though the apparent advantage of the proposal is that perfection is made by UCC filing, there is still a lack of clarity, because in order to perfect a security interest a dual filing is required.

The Committee of the Task Force set out to draft separate proposed amendments to the Copyright Act,<sup>165</sup> The Patent Act,<sup>166</sup> The Lanham Act,<sup>167</sup> and the Semiconductor Chip.<sup>168</sup> Although the four drafts were formed around the existing language and concepts in the four separate pieces of legislation, they had many common elements.

As on March 1, 1999, the Task Force had consolidated the common elements of its four earlier drafts into one draft statute, the Federal Intellectual Property Security Act

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<sup>164</sup> *Id.*

<sup>165</sup> Thomas M. Ward, *The Perfection and Priority Rules for Security Interest in Copyrights, Patents, Trademarks, : The Current Structural Dissonance and Proposed Legislative Cures*, ME L. REV., 451 (2001) Citing the "Task Force on Security Interest in Intellectual Property, Business Law Section, American Bar Association, Draft Amendments to U.S. Copyright Act Relating to Security Interest in Copyright." (July 1998). *See also* The Intellectual Property Security Interest Coordination Act available at [http://www.idea.piercelaw.edu/articles/41/41\\_3-4/Appendices](http://www.idea.piercelaw.edu/articles/41/41_3-4/Appendices), (last visited May 22, 2003).

<sup>166</sup> *Id.* Citing the "Task Force on Security Interest in Intellectual Property, Business Law Section, American Bar Association, Draft Amendments to U.S. Patent Act Relating to Security Interest in Patent." (July 1998).

<sup>167</sup> *Id.* Citing the "Task Force on Security Interest in Intellectual Property, Business Law Section, American Bar Association, Draft Amendments to Lanham Act Relating to Security Interest in Trademarks, Service Marks and Certification Marks." (July 1998).

<sup>168</sup> Task Force on Security Interest in Intellectual Property, Business Law Section, American Bar Association, Draft Amendments to Semiconductor Chip Act Relating to Security Interest in Mask Works (July 1998).

(FIPSA).<sup>169</sup> FIPSA represent a shorter and more streamlined piece of legislation. This section analyzes the principal provision of such a proposal.

**(i) Priority Among Holders of Security Interest - The Elimination or Drastic  
Reduction of the Tract Recording Grace Periods**

As mentioned before, the determination of priority between competing claims currently varies with respect to application of UCC and the federal statutes. The UCC employ the first-to-file rule to establish priority among creditors.<sup>170</sup> The Copyright Act employs the “look-back” period during which a security interest filed first may lose its priority to a subsequently filed but previously executed security interest, so long as that second security interest is filed within one month after it was executed.<sup>171</sup> The Patent Act provides that *“any assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee ... unless it is recorded in the USPTO within three months from its date or prior to the date of such subsequent purchase or mortgage.”*<sup>172</sup> The Lanham Act grants a similar three month related-back period during which an assignee can perfect its security interest to the exclusion of subsequent parties who may be unaware of the pre-existing lien.

FIPSA, realizing that this difference in application of priority between state and the federal perfection statutes creates problems, assumes that the various “look-back” periods found in federal statutes will be reduced and, in the near future eliminated.

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<sup>169</sup> Task Force on Security Interest in Intellectual Property, Business Law Section, American Bar Association, Draft, Federal Intellectual Property Security Act (March 1999). THOMAS M. WARD. INTELLECTUAL PROPERTY IN COMMERCE §§ 2:14-2:44 (Rev. ed. 2001).

<sup>170</sup> See UCC § 9-312(5) *supra* note 123.

<sup>171</sup> See 17 USC § 205(d) (1998) *supra* note 124

<sup>172</sup> See 35 USC § 261 *supra* note 127

FIPSA proposes the elimination of the one or two month grace period regarding priority in section 205(d) of the Copyright Act. In its place FIPSA creates a race-notice rule that gives priority to the first “executed” transfer of copyright ownership if recorded in a manner to give constructive notice “before recordation in such manner of the later transfer.”<sup>173</sup> Otherwise, the later transfer prevails if recorded first in such manner and if taken in good faith, for value, and without notice of the earlier transfer.<sup>174</sup>

In relation to trademarks, FIPSA proposes the amendment of section 1060 of the Lanham Act, replacing the three-month period for trademark recording with a straight notice recording priority rule.<sup>175</sup>

FIPSA also propose the amendment of section 261 of the Patent Act, retaining a grace period for recoding a prior assignment, grant or conveyance.<sup>176</sup> However, the proposed language reduces the time period from three months to then days.<sup>177</sup>

## **(ii) Recording and Priority Rules**

After dispensing with the federal recording grace periods, FIPSA removes security interest from the operation of the Copyright Act tract recording provisions<sup>178</sup> and adds a new section 205(f).

A subtle change in the proposed section 205(d) language is the substitution of the phrase “transfer of copyright ownership” for “transfer” in describing the conflict that fall

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<sup>173</sup> See Thomas M. Ward, *supra* note 165 at 452 (Citing Task Force Draft - Federal Intellectual Property Security Act § 4(a)(2)).

<sup>174</sup> *Id.*

<sup>175</sup> *Id.* (Citing Task Force Draft - Federal Intellectual Property Security Act § 4(b)).

<sup>176</sup> *Id.* (Citing Task Force Draft - Federal Intellectual Property Security Act § 4(c)).

<sup>177</sup> *Id.*

<sup>178</sup> 17 USC § 205(d) (1998)

within the tract priority rule in this section.<sup>179</sup> As Professor Ward said, “the change in language is significant because FIPSA also redefines a ‘transfer of copyright ownership’ in Section 101 so as to exclude the Article 9 security interest and its prior common law precursors.”<sup>180</sup> By inserting this new definition in the scope of the center that introduces the 205(d) priority rule, the FIPSA language has undercut one of the holdings in *Peregrine*<sup>181</sup> to the effect that security interest could be a transfer of “copyright ownership” within the federal priority rule in section 205(b).

FIPSA also adds a new subsection 205(f)<sup>182</sup> that excludes all issues concerning the creation, perfection, priority or enforcement of a security interest in copyright collateral from the operation of the Section 205 recording and priority rules, including the subsection (e) priority rule on nonexclusive licensees. This new subsection makes clear that recording a security interest in the section 205 tract file will not give constructive notice of any fact relating to the existence or priority of any security interest.<sup>183</sup>

FIPSA proposes to amend section 261 of the Patent Act by providing that “the rights and obligations of all persons with respect to a security interest in a patent, patent application or the process of either, including matters of creation, attachment, perfection, priority, and enforcement, shall be governed by non-federal law relating to security interest in personal property.”<sup>184</sup>

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<sup>179</sup> See Thomas M. Ward, *supra* note 165 at 452 (Citing Task Force Draft - Federal Intellectual Property Security Act § 4(a)(2)).

<sup>180</sup> *Id.*

<sup>181</sup> See *Peregrine Entertainment, Ltd. supra* note 112.

<sup>182</sup> See Task Force Draft - Federal Intellectual Property Security Act *supra* note 169 § 4(a)(3)

<sup>183</sup> *Id.*

<sup>184</sup> *Id.* § 4(c)

The amendment suggested for the Lanham Act does not completely exclude security interests from the tract recording priority rule.<sup>185</sup> Instead, Section 1060 provides that the assignee of a mark is subject to the right of any secured party who has filed a federal financing statement prior to the date of filing of such assignment.<sup>186</sup> Under the FIPSA Proposal for Section 1060, a secured party's priority against a competing assignment expressly depends, not on purchasing prior to the recording of the assignment or on state law priority, but on the secured party winning the race to the federal file.<sup>187</sup>

This specific inclusion of security interests within the recording priority provision of Section 1060 means that FIPSA actually contains a different federal "race" priority rule for federal marks than it does for copyrights and patents.

### **(iii) New Federal Recording System**

FIPSA in Section 3(b) sets out the mechanical requirements for a federal financing statement and the structure for a federal notice filing system to handle financing statements covering Federal IPRs.<sup>188</sup> This section establishes a set of instructions to each federal agency to coordinate their respective procedures for filings of federal financing statements as to security interest in Federal IPRs.<sup>189</sup> Despite this impressive new structure created by FIPSA, however, federal notice filing for security interest functions only in a very narrow perfection and priority corridor.<sup>190</sup>

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<sup>185</sup> *Id.* § 4(b)

<sup>186</sup> *Id.*

<sup>187</sup> *See* Thomas M. Ward, *supra* note 165 at 454

<sup>188</sup> *See* Task Force Draft - Federal Intellectual Property Security Act *supra* note 169 § 3(b)(3), (4)

<sup>189</sup> *See* Thomas M. Ward, *supra* note 165 at 455

<sup>190</sup> *Id.*

Section 3(b)(2)(A) contains a broad congressional deferral to state law on all matters concerning the creation, perfection, and priority of a security interest in federal IPRs.<sup>191</sup> On the other hand, Section 3(b)(2)(B) contains a very narrow exception from this general reference to Article 9 for priority disputes between secured parties and transferees<sup>192</sup> of Federal IPRs. We agree with professor Ward, who, while explaining this section, argued that: “this singular federal ‘race’ rule renders a security interest in a Federal Intellectual Property Right ‘ineffective’ against transferee of such a right whenever the transferee records in the appropriate federal tract file before the secure party files on of the newly-conceived federal financing statements in the newly-conceived federal notice file under the name of the debtor.”<sup>193</sup>

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<sup>191</sup> See Task Force Draft - Federal Intellectual Property Security Act *supra* note 169 § 3(b)(2)(A) “The creation, attachment, perfection, effect of perfection, priority and enforcement of a security interest in a Federal Intellectual Property Right or in the proceeds thereof relative to all competing rights, claims and interests therein and licenses thereof shall be determined by applicable non-federal law governing security interest in personal property. The creation, attachment, perfection, effect of perfection, priority and enforcement of any right or interest (other than a security interest) in, ownership of, a Federal Intellectual Property Right shall be determined by the applicable federal law governing such Federal Intellectual Property Right.

<sup>192</sup> *Id.* at § 3(b)(2)(B) “A Security Interest in a Federal Intellectual Property Right is subordinate to the rights of an ownership transferee who gives value without knowledge of the security interest, if (i) the document transferring the Federal Intellectual Property Right to the ownership transferee is executed before the posting of a qualified state financing statement that names as a debtor a person that is or was an immediate ownership transferor of such Federal Intellectual Property Right and, (ii) such ownership transferee makes an effective recordation of the transfer document in the manner required under applicable federal law to give priority to such transferee – (a) within 10 days of the execution date of the document of transfer or (b) before the posting of such qualified state financing statement.

<sup>193</sup> *Id.*

**(iv) A Discrete “Race” Priority Rule Governs Conflicts Between Security Interest in “Federal Intellectual Property Rights and Transferees”<sup>194</sup> of These Rights**

The new federal financing statement created by FIPSA is at the core of the only federal priority in this proposal. The Section 3(b)(2)(B) race priority rule is designed to handle conflict between secured parties and transferees.<sup>195</sup> A security interest is made “ineffective” against a transferee who records the document transferring ownership before the secured party files an effective federal financing statement. Note that “ineffectiveness” of a security interest in a federal intellectual property right that results from losing this federal race is not made applicable to the “proceeds” of the security interest in such right.<sup>196</sup> The language of FIPSA refers all disputes involving priority in “proceeds” to applicable non-federal law.<sup>197</sup>

**(v) Treatment of After-Acquired Property and Proceeds**

FIPSA also assumes that secured parties will be given, in the federal offices, the ability to file a security interest in “after acquired property” and proceeds. Although the Proposal does not specifically address how this assumption will be turned into reality, it

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<sup>194</sup> In FIPSA, “transferees” are defined as those who acquire any right or interest in, or ownership of, a Federal Intellectual Property Right. Furthermore, both a “secured party” and a “lien creditor” are expressly excluded from the transferee definition.

<sup>195</sup> See Task Force Draft - Federal Intellectual Property Security Act *supra* note 169 § 3(b)(2)(B) “Transferee are defined as those who acquire any right or interest (other than security interest) in, or ownership of a Federal Intellectual Property Right.

<sup>196</sup> See Task Force Draft - Federal Intellectual Property Security Act *supra* note 169 § 3 (a) The Act does define “proceeds” to include “whatever is received or to be received by the owner or any other party from the transfer, disposition, license (whether or not exclusive, use or other exploitation of Federal Intellectual Property Rights, and includes (but no limited to) the meaning to “proceeds under applicable non federal law.

<sup>197</sup> *Id.* at § 3(b)(2)(A).

most likely would flow directly from allowing a filing of the UCC filing statement in the appropriate federal office.<sup>198</sup>

#### **(vi) Creation of a Single Data Base**

FIPSA includes the creation of the separate federally managed database called Federal Intellectual Property Data Center, and also a uniform form federal financing statement covering copyright, patent and trademarks. A single (either federal or integrated multistate) national database for security interest in IP is very compelling.<sup>199</sup>

This single federal file would be accessible to the states so as to allow financing statements to be filed or referred to in the database.<sup>200</sup> Although this model requires the creation a duplicate federal filing apparatus, it would preserve the basic integrity of the carefully crafted state law based Article 9 perfection and priority scheme.

The integrated national file need not be “federal,” however, if the current state financing statement indexes could be electronically combined in one national meta-site. Then, all financing statements covering “general intangibles” could be accessed by key strokes or clicks from within the federal title records for copyrights patens and trademarks.<sup>201</sup>

Although this proposal will probably be subjected to further reforms, it is a valuable step toward a unified system of perfection, which could reduce waste and excessive cost, which unfortunately remain the main characteristic of using IP as collateral. FIPSA will clearly be advantageous to commercial lenders as providing

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<sup>198</sup> See Shawn K. Baldwin, *supra* note 89, at 1712

<sup>199</sup> See Thomas M. Ward, *supra* note 165 at 460

<sup>200</sup> *Id.*

<sup>201</sup> *Id.*

lenders with uniform and reliable access to information assures them that their own filings will adequately notify subsequent parties of their security interest in a borrower's IP.

## **B. METHOD OF PERFECTION UNDER THE ARGENTINE SYSTEM**

For quite some time, restrictions on business and investment in Argentina made the role of IP in security a secondary issue. Notwithstanding, there had long been a body of opinion making enforceable charges or liens on registered IP based in part on the Law for Registered Pledges.<sup>202</sup>

In the early 1990s, Argentina began to undergo large-scale economic privatization. This process introduced several economic reforms designed to combat the inflation and to reduce the federal deficit. It liberalized the economy, and, of course, privatized the major public companies, such as YPF (Yacimientos Petroliferos Fiscales) and Obras Sanitarias de la Nacion, among others. Also among the steps taken to liberalize trade was Argentina's membership in the World Trade Organization (WTO), along with the subordinate obligation to amend its IP laws in compliance with the minimum standard set forth in the agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).<sup>203</sup> The economic reforms and the diversification of transaction financing have had a strong impact on the value of commercial asset, including that of IP.

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<sup>202</sup> Sergio M Ellmann, *International Laws and Developments on Security Interest in Intangible Assets, in The New Role of Intellectual Property in Commercial Transaction* (Melvin Simensky et. al Cumulative Supplement ) 215 (1998)

<sup>203</sup> Ronald Corbett, *The Judicial of Intellectual Property Rights in Argentina – Is Society Being Served?*, INT'L. TRADE L. J. 4 - 5 (2001).

It is important to point out that in the Argentinean legal lexicon, the terms “security interests” and “secured credits” do not exist. Instead, two types of guaranty (*garantia*) are distinguished, namely personal and real.<sup>204</sup> Personal guaranty is referred to as such because it does not create a real right above any identified assets of the principal debtor. Instead, it gives the creditor a second person to look to for payment if the principal debtor fails to pay as promised.<sup>205</sup> In contrast, real guaranties create a real right above assets owned by the debtor.<sup>206</sup> Within this classification are mortgage or “*Hipoteca*,”<sup>207</sup> which creates collateral on immovable assets (real state), and the pledge or “*Prenda*,”<sup>208</sup> which creates collateral on movable assets.

This section will analyze how to constitute security interest on IP in Argentina. It will specifically focus on the Law of Registered Pledges, which, unlike under the U.S. system, is applicable to all IPRs and does not preempt copyright, patent and trademark Law.

### **1. The Protection of Intellectual Property Law in Argentina**

Before delving into the method for perfecting a pledge under the Civil and Commercial Law in Argentina scenario, it is necessary to briefly explain the treatment of IP protection in Argentina. The Argentine Constitution states that:

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<sup>204</sup> Guillermo A. Moglia Claps and Julian B. McDonnell, *Secured Credit and Insolvency Law in Argentina and the U.S.: Gaining Insight from a Comparative Perspective*, GEOR. J. INT’L. & COMP. L. 401 (2002) (A personal guaranty in the U.S. is a personal obligation given by a third person to pay the debt of another).

<sup>205</sup> *Id.*

<sup>206</sup> *Id.*

<sup>207</sup> CIVIL CODE Art. 3108, states that “*Mortgage is the real right constituted in security of a credit, over real state, which remain in possession of the debtor.*”

<sup>208</sup> CIVIL CODE Art. 3204. states that “*A pledge shall be created when the debtor, by virtue of an existing or contingent obligation, delivers to the creditor a movable asset or a credit as collateral for debt.*”

*“...every author or inventor is exclusive owner of his work, invention or discovery for the period established by law.”*<sup>209</sup>

Rules governing copyrights are established by Law 11,723.<sup>210</sup> The rights granted by the law pertain to the author for life and to his/her heirs and assignees for 50 years after his/her death.<sup>211</sup> For photographic works, the copyright period runs for 20 years from first publication and for films, 30 years.<sup>212</sup> The copyright on anonymous works by institutes, corporations, or other legal entities lasts for 50 years from the date of their first publication.<sup>213</sup> The Copyright Law also grants protection to unpublished works.<sup>214</sup> This kind of protection is granted for 3 years and can be renewed indefinitely while the work has not been published. Copyrights can be transferred by written assignment.<sup>215</sup> All assignments, including licenses, must be recorded at the "Registro Nacional del Derecho de Autor" (the National Copyright Register or "NCR").<sup>216</sup> Assignments do not require consideration.

Article 13 of the Copyright Law provides protection for foreign works as long as all requirements for protection have been complied with in the country of origin. In order to be granted protection in Argentina, it must be shown that the author of the work is a citizen of a country which protects intellectual works and that such author has fulfilled all necessary requirements to be granted protection in the country in which the publication

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<sup>209</sup> ARG. CONST. Art 17

<sup>210</sup> ARG. COPYRIGHT LAW No. 11.723 of September 28, 1933 as amended.

<sup>211</sup> *Id.* Art. 5

<sup>212</sup> *Id.*

<sup>213</sup> *Id.*

<sup>214</sup> *Id.* Art. 7

<sup>215</sup> *Id.* Art. 53

<sup>216</sup> *Id.*

took place must be submitted.<sup>217</sup> Protection is granted as from the date of the first publication. Alternatively, if the country of the author does not grant protection, the Bern Convention might still apply.

The registration of foreign works in Argentina is not mandatory in order to enjoy copyright protection. Notwithstanding this, local registration is advisable in order to open a file with the NCR in which transfers related to such rights may be recorded and in order to enjoy tax benefits. Also, it may be necessary to include said rights under any security agreement.

Trademark Law 22,362<sup>218</sup> governs matters related to trademarks. The law provides that the ownership of a trademark and the right to its exclusive use are obtained only by registration with the Registry of Trademarks.<sup>219</sup> Accordingly, registration, and not use, confers proprietary rights. The duration is 10 years, renewable indefinitely for periods of ten years if the trademark has been used within five years prior to each renewal and the use was made to market products, render services, or as a trade name.<sup>220</sup> Failure to use the trademark for an uninterrupted period of five years makes it subject to cancellation.<sup>221</sup>

A new Patent Law 24,572<sup>222</sup> governs matters related to patents.<sup>223</sup> The most relevant provisions of the new law are: (i) Patents are granted for a 20 years period as

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<sup>217</sup> *Id.* Art. 13

<sup>218</sup> ARG. TRADEMARK LAW No. 22.362 of December 26, 1980 and its regulation, Decree 558 of March 24, 1981.

<sup>219</sup> *Id.* Art. 4

<sup>220</sup> *Id.* Art. 5

<sup>221</sup> *Id.* Art. 26

<sup>222</sup> ARG. PATENT LAW No. 24.572 of September, 1995.

<sup>223</sup> Until very recently, patents were governed by Law 111 of October 11, 1864, as amended.

from the filing date of the application;<sup>224</sup> (ii) Pharmaceutical products' inventions shall be patentable;<sup>225</sup> (iii) Compulsory licenses may be requested under similar conditions as those provided by the Paris Convention;<sup>226</sup> (iv) Utility models are now regulated by law; and (v) The Patent Law has to be interpreted within the principles of GATT/TRIPS, because Articles 31 and 75.22 of the National Constitution, as well as art. 27 of the Vienna Convention are interpreted to mean that international treaties prevail over national laws in case of conflict between their provisions.

## 2. Pledge under the Argentinean Civil and Commercial Law

Argentina follows the civil law tradition of Spain, France and Italy.<sup>227</sup> Congress has the power to enact Codes in all areas including civil, commercial, and criminal matters. The extensive set of codes are enforceable nationwide and therefore subject to the interpretation and jurisdiction of both federal and state or provincial courts. The Civil Code specifically recognizes as formal sources of law “statutory law and its interpretation by analogy, customs under limited circumstances, and even general principles as expounded by legal doctrine.”<sup>228</sup> As mentioned in Section I of the present study and, considering that one of principal sources of the Argentinean law is Roman Law, the Civil Code embodies two main categories of goods: *immovable thing* or real estate (goods that

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<sup>224</sup> ARG. PATENT LAW No. 24.572 at Art. 35.

<sup>225</sup> *Id.* Art. 100

<sup>226</sup> *Id.* Art. 45

<sup>227</sup> Alfredo Vitolo, *Introduction to the Argentine Legal System and Investment Opportunities*, in *DOING BUSINESS IN ARGENTINA*, 5-13 (Andrew J. Markus & David E. Dubberly eds., 2000).

<sup>228</sup> See Ronald Corbett, *supra* note 203 at 5.

may not be moved) and *movable thing* or chattel (goods that may be moved). Collateral may be created only in movable goods, but not in real estate (i.e. mortgages).<sup>229</sup>

Given these provisions of the Argentinean Civil Law, IP is not a tangible thing,<sup>230</sup> but that it is considered as a registrable immaterial asset according to the definition of goods given by article 2312 of the Civil Code.<sup>231</sup> Because IP cannot be physically delivered, or be considered a tangible asset, it should be kept in mind that special privileges such as pledges, must be strictly construed.

Both civil and commercial pledges regulated by the Civil and Commercial Codes are defined as “*the pledge which may be constituted when the debtor or a third person in his name, on the basis of a present or conditional obligation, hands over to the creditor a movable thing or asset or a credit in guarantee of a debt.*”<sup>232</sup>

The main difference between a civil and commercial pledge is that in the commercial pledge, the creditor is entitled to a private sale (i.e., an out-of-court foreclosure). The Commercial Code states that unless the debtor and the creditor agree upon a special sale proceeding, the pledged asset must be sold by public auction, duly announced in the *Official Gazette*, ten days before such auction takes place.<sup>233</sup>

Although the trademark or patent certificate issued by the local Trademark and Patent Office is a thing or chattel in itself and could be pledged, the immaterial nature of

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<sup>229</sup> See Sergio M. Ellmann, *supra* note 202, at 216.

<sup>230</sup> CIVIL CODE Art. 2311 states that “*Material objects which are capable of having value are called chattels.*”

<sup>231</sup> CIVIL CODE Art. 2312 states that “*Immaterial objects which are capable of having value, as well as chattels, are called assets.*”

<sup>232</sup> COMMERCIAL CODE Arts. 580-588; Civil Code Art. 3204.

<sup>233</sup> See Sergio M. Ellmann, *supra* note 202, at 216

IPRs does not fit the sort of tangible thing that may be pledged based on civil or commercial law.<sup>234</sup>

The Argentine system has imposed great burdens on both creditor and debtor. The formalities required to perfect a pledge were almost impossible to achieve. The long time it took to obtain the legal protection, the inability of the debtor to develop business, and the diminution in value of the merchandise were just some of the obstacles that characterized the Argentinean system. The civil and commercial pledge had not provided a workable or acceptable system for the business community.

### 3. Registered Pledges

In 1946, the government issued the Decree-Law 15.848/46,<sup>235</sup> which provided for the creation of pledges where the asset pledged may remain in the possession of the pledgor (“Law for Registered Pledges”).<sup>236</sup>

The Law for Registered Pledges establishes two types of pledges: the *fixed pledge* over specific goods and the *floating pledge* over merchandise and raw material of a commercial or industrial establishment, which allows the debtor to sell such goods according to the business which is part of its commercial undertaking, and also to include future goods that do not presently exist.<sup>237</sup>

Article 10 of the Law for Registered Pledges states:

*“...all valuable things or chattels or assets may be object of a pledge.”*<sup>238</sup>

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<sup>234</sup> *Id.*

<sup>235</sup> Decree Law 15.848/46, ratified by Law 12.962 and as further amended by Decree 897/95.

<sup>236</sup> See Sergio M. Ellmann, *supra* note 202, at 217

<sup>237</sup> *Id.*

<sup>238</sup> See Decree Law 15.848/46 *supra* note 235 at Art. 10.

This would include the production of those goods which have not yet been collected, such as goodwill, future things, and industrial property.<sup>239</sup>

But it was not until the amendment of the Law for Registered Pledges, by Decree-Law 897/95, that for the first time it addressed the possibility of perfecting a pledge on IPRs. Article 11 of such law states that:

*“all movable or semi movables asset may be pledged and that a pledge of the goodwill of an enterprise (Fondo de Comercio) would not include the merchandise thereof, but would include installations, rental agreements on the location of the commercial enterprise, trademarks, patents, designs and industrial models.”*<sup>240</sup>

Note that the definition above allows different kind of obligations to be the subject of a pledge. Indeed, obligations that do not yet even exist, but which may later come into existence, may also be secured.<sup>241</sup>

Unlike under American Law, the Argentinean system does not present a conflict of interest between Federal and State law with respect to the creation of a security interest in IP. To make a pledge effective it is necessary to register it with the *Registro de Creditos Prendarios de la Nacion* (“RCPN” or “Registry of Pledges”).<sup>242</sup> This will then be forwarded to the Patent and Trademark Office (INPI) or Copyright Office (DNDA) for recordation against each and every trademark, patent or copyright application or registration included in the security agreement.<sup>243</sup> The registration is effective vis-à-vis third parties (constructive notice) as from the date of filing before the RCPN, or as from

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<sup>239</sup> See Sergio M Ellmann, *supra* note 202, at 217

<sup>240</sup> See Decree 897/95 *supra* note 235 at Art 11.

<sup>241</sup> See Sergio M Ellmann, *supra* note 202, at 217

<sup>242</sup> See Decree-Law 897/95 *supra* note 235 at Art. 17 states that “Recordal of security agreements will be effected at the registrar for pledges, which shall function in the national, provincial or municipal offices, which will be determined by the Executive Power in accordance with regulations which such power will determine, procedures before the registrar pledges will be subject to a fee fixed by the Executive Power

<sup>243</sup> As an additional safeguard and considering a eventual delay by the RCPN a separate brief, just for information purposes, should be filed at the INPI or DNDA in respect of each trademark, patent or copyright.

the time the agreement is signed if recordation is effected within twenty four (24) hours of execution.<sup>244</sup>

The term of the pledge registration is five years from the date of the recordation.<sup>245</sup> It can be renewed for an equal term, so long as the originating security agreement has not been canceled, on request by the creditor addressed to the Registrar before the expiration of the pledge.<sup>246</sup> The registration term is not interrupted by the initiation of foreclosure procedures or by decisions handed down by the court; therefore, renewal must still be requested within the five-year term.<sup>247</sup> If a foreclosure procedure is initiated before the end of the term, the plaintiff may have the court order renewal for the subsequent five years, or as long as it deems necessary.<sup>248</sup> If, for any reason, the term expires and registration is not renewed, the creditor loses the right to summary foreclosure proceedings.<sup>249</sup>

Registered pledges do not require a public deed. They should be established through an authenticated private instrument, using the forms provided by the RCPN. This form must be filed in Spanish, signed by duly authorized officers of each of the parties, with signatures attested to by a Notary Public. Together with this form, the full security agreement may be filed to the extent that its stipulations are enforceable under Argentine law. It is generally not convenient to file the full Security Agreement. For instance, it

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<sup>244</sup> See Decree-Law 897/95 *supra* note 235 at Art. 19 states that “*within the 24 hours of having received the agreement for recordal, the Registrar will record the agreement and communicate in a similar term by certified letter to the privileged creditors referred to in article 11 sub-paragraph e; the agreement must specified those liens that may already exist upon creation of the pledge.*”

<sup>245</sup> *Id* at Art. 23

<sup>246</sup> See Sergio M Ellmann, *supra* note 202, at 218

<sup>247</sup> *Id.* (citing Commercial Court in City of La Plata, Chamber II, February, 23 1978 (Digesto Juridico 1979 Vol. 2, p. 37).

<sup>248</sup> See Decree 897/95, *supra* note 235 Art. 23.

<sup>249</sup> *Id.* (citing National Commercial Court, Chamber “D” Oct. 30, 1992 in re: “Banco de Italia y Rio de La Plata S.A. v. Castro Alvarez Julio (La Ley, 1994-Vol. “A” p. 475).

may not be advisable to file the full security agreement if: (i) some of the clauses could be considered null and void according to the Argentine Law or (ii) it is only intended to secure a part of the credit with the industrial property registered in Argentina or (iii) the Security Agreement contains confidential information which the client does not want to be made public.

Article 2 of Decree 897/95 instructs the *Dirección de Tecnología, Calidad y Propiedad Industrial* (presently replaced by INPI) to:

*“...to record pledge agreements created in trademarks, patents, engravings, industrial drawings and models, honorary distinctions and all rights of commercial industrial or artistic nature.”*

Although the purpose of this article is clear, it lacks the desired precision. First, INPI is simply not able to record pledges over assets that are not registered before its office. The only rights against which pledges may therefore be recorded are trademarks, patents, utility models, industrial models and designs. The article cites “*rights*” which are at best of ambiguous and undefined nature (such as engravings, industrial drawings, or honorary distinctions), as well as doubtful commercial value.<sup>250</sup>

It is important to note that after the amendment of 1995, any party may be secured with pledge over goods or assets in accordance with Article 1229 and 1331 of the Civil Code, but does not necessarily need to be the actual debtor. In other words, the pledgor may stand as a third party to the creditor and the debtor by securing the debtor’s loan if the pledgor is the owner of the secured goods.<sup>251</sup>

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<sup>250</sup> *Id.*

<sup>251</sup> COMMERCIAL COURT, CHAMBER B, November 24, 1980 – JA Vol. X p. 10.

### C. ENFORCING SECURITY INTEREST

In these kinds of business transactions, enforcement becomes one of the most important issues. Sometimes, slow and costly procedures deteriorate the real purpose of this legal device. Moreover, if we consider that the assets involved are IPRs in which the value depends on their maintenance and protection, speed in enforcement is a key feature to induce creditors to rely on intellectual property collateral.<sup>252</sup>

Under the American system, since there are no federal laws governing the foreclosure of security interest, such proceedings are governed by state law. State law varies concerning the proper procedure for foreclosure. Some states, rather than permitting conventional foreclosure proceedings, require a creditor's bill in equity (i.e. an action to compel assignment) with respect to incorporeal property such as IP.<sup>253</sup> Other states do, however, allow traditional foreclosure proceedings concerning IP. Therefore, it is advisable to check the laws of the jurisdiction in question.

Article 9 of the UCC provides the rights and remedies of the creditor and debtor.<sup>254</sup> In some cases the security agreement can supplement or vary said rights.<sup>255</sup> Article 9 does not define default. However, as Professors McDonnell and Moglia Claps stated, while arguing on difference enforcement on secured credit in Argentina and the United States, it provides for flexible and rapid enforcement of non-possessory security interest in case of non payment. Upon default the creditors have the power to control all the IPRs involved and may simply apply them to their debts.<sup>256</sup> The creditor is also

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<sup>252</sup> See Guillermo A. Moglia Claps and Julian B. McDonnell, *supra* note 204 at 418.

<sup>253</sup> Thomas L. Bahrick, *Security Interest in Intellectual Property*, AIPLA QUARTERLY J. 48 (1987)

<sup>254</sup> UCC § 9-501 (3)

<sup>255</sup> *Id.*

<sup>256</sup> USC § 9-607 (2001).

entitled to take possession of tangible collateral, and may do so either by judicial process or by self help, provided it does not commit a breach of the peace.<sup>257</sup> These procedures allow the secured creditor to liquidate the collateral much more rapidly.<sup>258</sup>

Once the creditor is in possession of all the IPRs, he is entitled to conduct the sale or other disposition. Such processes can be arranged privately or may be by auction conducted by creditor.<sup>259</sup> Given that the disposition is forced, the sale is not required to yield fair market value.<sup>260</sup> Another provision is “the acceleration clause” that provides under certain circumstances that the creditor may accelerate the maturity of the debt and cause all payment to become immediately due and payable.<sup>261</sup> A variation of on the acceleration clause is an insecurity clause that provides that the creditor may accelerate the maturity of the entire debt whenever the creditor deems itself insecure.<sup>262</sup>

Article 9 rules, on disposition process, are very broad, and therefore give the court a good deal of discretion in policing the disposition process.<sup>263</sup> If the disposition fails to produce net proceeds sufficient to cover the secured debt, the debtor remains personally liable for the deficiency. Although case law has not established precisely what is called for in the sale of intellectual property in order to satisfy the UCC, a good discussion of general factors to be considered in the sale of unique items can be found in *In re Four Star Music Co.*<sup>264</sup> In summary, this case involved a sale of a copyrighted music catalog

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<sup>257</sup> See Guillermo A. Moglia Claps and Julian B. McDonnell, *supra* note 204 at 418

<sup>258</sup> *Id.* (Citing LYNN M. LOPUCKI & ELIZABETH WARREN, SECURED CREDIT: A SYSTEMS APPROACH 48 (2000) (secured creditor able to obtain possession within 2 or three weeks).

<sup>259</sup> *Id.* (citing UCC § 9-610(c) (2000)).

<sup>260</sup> *Id.* (citing UCC § 9627 (2001)).

<sup>261</sup> See William A. Dornbos, *supra* note 97, at 683

<sup>262</sup> *Id.*

<sup>263</sup> See Guillermo A. Moglia Claps and Julian B. McDonnell, *supra* note 204 at 419

<sup>264</sup> 29 U.C.C. Rep. Serv. 343 (Bankr. M.D. Tenn 1979).

that was held not to have been carried out pursuant to commercially reasonable practices based upon the creditor's failure to seek specialized advice, obtain competent appraisal, and make attempts to reach logical purchasers.

The Argentine Law establishes a foreclosure procedure.<sup>265</sup> Claims should be filed, at the option of the creditor, in the jurisdiction where the payment was agreed, where the goods are located, or where the debtor is domiciled.<sup>266</sup> Once the complaint with an attachment of the pledged goods or assets is affected, such complaint will be notified to the registrar for pledges and the corresponding offices where the pledge has been noted.<sup>267</sup> This procedure also confirms the necessity of recordation which was explained above.

The summary foreclosure procedures only allow limited defense by the debtor, and should result in the Court ordering public auction of the relevant goods or assets.<sup>268</sup> After the amendment of 1995, the state, certain decentralized institutions, banks, financial institutions authorized to do banking in Argentina or international financial institutions are able to order the seizure of the corresponding goods or assets to be sold in private auction. The procedure for private auction is regulated by Article 585 of the Commercial Code.<sup>269</sup> Any other way in which the creditor gets possession of the goods or assets

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<sup>265</sup> Decree Law 15.348/46 Arts. 26 to 29. Noting that the pledge certificate grants foreclosure procedure to realize the credit, interest, expenses and court costs. The foreclosure procedure and the sale of the assets shall benefit from short, verbal summary proceedings. Once the complaint has been filed with the certificate, the court shall order attachment and auction of assets as in executory proceedings

<sup>266</sup> *Id.* Art. 28. (Note that in the practice the RCPN do not admit pledges in which if the creditor and the debtor are domiciled abroad).

<sup>267</sup> See Sergio M Ellmann, *supra note* 202, at 220

<sup>268</sup> *Id.*

<sup>269</sup> COMMERCIAL CODE Art. 585 of the: "If the debt remains unpaid after the established term, and if there is no special sale agreed upon by the parties, the creditor may proceed to sell the pledged goods or assets, in auction, which must be previously announced with a 10-day notice.

which is against Law 12.962 or Article 585 will be null and void, and could even incur criminal sanctions.<sup>270</sup>

Finally, Argentina presents a particular scenario regarding the foreclosure procedure. Under the 1994 reform of the Argentine Constitution, international agreements have acquired preeminence over local law.<sup>271</sup> Among such international agreements is the "*Pacto de San Jose de Costa Rica*,"<sup>272</sup> which could be considered to conflict with the special foreclosure procedure given to the state and other institutions according to Article 39 of the Law of the Pledges and Article 585 of the Commercial Code. Article 8 of this international agreement establishes that all persons have a right to be heard, with due guarantees, within a reasonable term by a judge or component court, independent and impartial, which has been established before the law. The private foreclosure procedure created exclusively for certain financial institutions could be conceivably being held to contravene this article. Under the same reasoning, the special foreclosure procedure could also be considered to violate Article 18 of the Argentine Constitution, which contains a similar guarantee of due process.

Of course, that analysis is far from the real meaning of the spirit of the Commercial Law and the Law of the Pledge. However, under certain circumstances the way of thinking could be applicable, especially in cases where the delivery of the pledged assets to the creditor for a private auction may be unconscionable if it generates unjust

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<sup>270</sup> *Id.*

<sup>271</sup> ARG. CONST. ART. 75, § 22, states that: "to approve or reject treaties concluded with other nations and international organizations, and concordats with the Holy See. Treaties and concordats have a higher hierarchy than laws. ... In order to attain constitutional hierarchy, the other treaties and conventions on human rights shall require the vote of two-thirds of all the members of each House, after their approval by Congress

<sup>272</sup> See Convencion Americana Sobre Derechos Humanos "Pacto De San Jose De Costa Rica" November 22, 1969 available at [www.oas.org/juridico/spanish/firmas/b-32.html](http://www.oas.org/juridico/spanish/firmas/b-32.html), last visited June 1, 2003.

enrichment (i.e. the value of pledge assets largely exceeds outstanding debt) and perhaps may be attacked on that basis. It also seems farfetched that an international agreement originally conceived to protect human rights and guarantee minimum standards of justice could be construed to apply to commercial contractual relationships.<sup>273</sup> Moreover, local court decisions consistently have upheld the procedure and even characterized it as beneficial to both parties.<sup>274</sup>

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<sup>273</sup> See Sergio M. Ellmann, *supra* note 202 at 221

<sup>274</sup> Banco de la Nación Argentina v. Telan S.A., Civil and Comercial Federal court, Chamber II, Aug. 14, 1979. The court held that the seizure authorized by Article 39 of Decree law 15.34/46, Law 12.962, which does not imply formal filing of foreclosure proceedings, is in fact a faculty granted to official or banking institutions, with the purpose of facilitating the realization of the pledge avoiding delays and expenses to the benefit of both parties.”

## CHAPTER IV

### CONCLUSION

Intellectual Property Rights (IPRs) have become valuable corporate assets. Trademarks create brand name recognition facilitating the sale of everything from household items to clothing to computers. Patents provide the method whereby inventions and machinery engender new technology, products and services. Copyrights protect the right in artistic, literary, musical, architectural, and other graphic work, to enable a creator to exploit his or her work. As our world is moving fast into the information age, those assets will continue to rapidly increase in value.

In fact, as a consequence of that move, the use of IPRs as collateral has become a common practice in corporate financing schemes. To facilitate such use, perfection of security interest in IPRs should be a simple process. In other words, the time has come for the enactment of laws which definitively decide how security interest in IP should be perfected.

In the United States, until some reform proposal is implemented, commercial transactions that depend on IP collateral will continue to suffer from heightened costs caused by uncertainty as to how creditors' security interest are perfected and obtain priority over other claimants.<sup>275</sup> As mentioned, the statutory and regulatory framework and the relevant case law present anachronism and anomalies that urgently require

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<sup>275</sup> See Alice Haemmerli, *supra* note 1, at 1762

solution. The ABA Task Force approach enjoys considerable support and may well influence the shape of the legislative response.<sup>276</sup>

The Argentinean system appears to be simple and effective, however because of its relatively untested legal history, it is difficult to evaluate more deeply its legal and practical effectiveness. This scenario presents some issues that beg for an improvement. For example, the language of the Law for Registered Pledges and Decrees is very broad regarding the possibility to pledge “all rights to commercial, industrial or artistic nature.” Moreover, it is at best very doubtful whether there is any interest in creating collateral in unregistered intangible rights (i.e. know-how, trade secrets, or trade dress), as they would have little or no practical effect.<sup>277</sup> In today’s legal scheme, such rights may be pledged as forming part of the “*fondo de comercio*,” which under Argentine law may be defined as the “going concern including goodwill and all assets and rights whether tangible or intangible,” but it would be of little practical value to create a separate pledge.<sup>278</sup>

It should be noted that, despite the effort placed into finding the most effective way of creating security interests in IP rights, there is no one correct answer, and it is similarly impractical to say that any one system is more efficient than any other. The reason for both of these statements is that IP law must evolve to meet the needs of a specific nation or jurisdiction, each of which has different ways of doing business and different economic realities to contend with.

In fact, both Argentina and the U.S. have spent a lot of time in recent years finding ways to most effectively allow security interests to be created using IP, and thus

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<sup>276</sup> See Melvin Simensky, *supra* note 11 at 8

<sup>277</sup> See Sergio M Ellmann, *supra* note 202, at 222

<sup>278</sup> *Id.*

allow increased use of this technique to promote economic development and expansion. However, it is highly unlikely that what eventually works in the U.S. or Argentina will be the “right” answer for any other country, as it is a virtual impossibility to say that there could be any universal “right” answer, as the economic and business circumstances vary so widely between every country on the globe.

Therefore, the responsibility to develop an effective and efficient system of using IP to create security interests lies on the shoulders of each country individually. The truth of the matter is that clients in Argentina, the U.S., and every country across the world are waiting, and the importance of creating a solution grows every passing day. As one commentator has noted, “*There is simply too much money at stake to permit continued ambiguity in the use of IP in commercial transactions.*”<sup>279</sup>

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<sup>279</sup> See Melvin Simensky, *supra* note 11 at 7

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- [www.ftc.gov](http://www.ftc.gov)