

BOOK REVIEW

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SECURED TRANSACTIONS IN INTELLECTUAL PROPERTY: SOFTWARE AS COLLATERAL

***Kiriakoula Hatzikiriakos* (Markham, Ontario: LexisNexis Canada Inc, 2006) pp 363 ISBN 0-433-44769-9, £50.00**

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Software copyright is an underexploited source of financing potential for its owners. Despite its considerable economic value, it is a non-traditional intangible asset that is difficult to use as collateral for financial borrowing. As stated by the US Court of Appeals for the Ninth Circuit *In re World Auxilliary Power Company*:¹

“To use just one example of the multi-sensory need to use after-acquired (really after-created) intangible intellectual property as collateral, now that the high-tech boom of the 1990’s has passed, and software companies don’t attract equity financing like tulips in seventeenth century Holland, these companies will have to borrow more capital.”(p3)

Hatzikiriakos is a partner with the prominent Canadian law firm, McMillan Binch Medelsohn, where she practises banking and finance law and has experience in secured transactions, including asset-based financing transactions. She is concerned about the pressing need for the software industry to have better access to finance through the use of their copyright assets in order to grow. Her book examines the conflict between the established legal principles of commercial law, the laws that govern personal property, and the laws relating to copyright in software.

Hatzikiriakos submits that the intersection of modern intellectual property law and long-established secured financing legislative framework ignores the commercial realities and needs of the software industry. This in turn increases the risks and uncertainties for lenders taking software as collateral. She

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¹ 303 F.3d 1120 (9th Circuit, 2002).

suggests that the inadequacy of the current legal framework raises numerous problems at every stage of the software financing transaction.

The book is divided into three chapters: Software as Collateral; Perfection of a Security Interest in Software; and Priority Disputes and Enforcement Involving Software Collateral. While the laws discussed in the text relate to the Canadian and the United States jurisdictions and the author adopts a comparative approach in this regard, the legal issues raised are equally valid in other common law jurisdictions including England and Wales. The appendices provide a useful overview of relevant international laws. The book is therefore of interest to software and other intellectual property owners, lenders and legal advisers who can familiarise themselves with lender's concerns in dealing with intellectual property assets generally.

The book's strength is its coverage of the basic mechanics of a secured transaction from a legal perspective with a detailed discussion of the relevant legislation and case law. The author begins by mapping the current legal framework governing intellectual property secured transactions in Canada as regards software. The process of lending against software copyright (a complex product from an intellectual property law point of view) throws up numerous concerns for lenders which are ably identified by Hatzikiriakos. Briefly, at the preliminary stage of assessment, Hatzikiriakos identifies the initial problem of determining the value of the software for the purpose of lending against it. During the actual creation of the security right problems arise in relation to 'works in development'. At the later stage of perfecting the security, there may be difficulty registering unregistered copyrights in certain jurisdictions. Finally, at the enforcement stage, establishing priority between a licensee and a secured creditor is complex.

Hatzikiriakos proceeds to carry out a thorough examination of the scope of the security interest in software and the secured financing laws applicable to perfection for software. She explains that as copyright is designed to protect an author's work, the law allows for copyright ownership of an existing copyright work to transfer, even though this will impede the lender's perfection of a security interest in all of the debtor's after-acquired copyrights. Hatzikiriakos describes the widely adopted practice of dual and even multiple filings to perfect security, highlighting the glaring inefficiency in terms of both cost and time. Next she considers priority disputes, conflicts of laws, competing secured parties and third parties. This is followed by a discussion of enforcement on the debtor's default, taking possession of the collateral and disposing of the collateral. Finally, the author evaluates the effect of bankruptcy and insolvency on the lender's security interest in the software copyright taking into account Canadian jurisprudence. The few yet relevant US bankruptcy cases that address the question of perfecting security interests in intellectual property are also mentioned. She argues that the US case law

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would be easily transposed to the Canadian legal system and accordingly the text is supported by a detailed comparative Canadian/US law table.

In the final chapter, Hatzikiriakos concludes that a central problem for borrowers and lenders is that no uniform approach exists, so every transaction is a unique and multi-disciplinary exercise leading to uncertainty, unpredictability and wasteful multiple filings. Nevertheless, she does not advocate a distinct regime governing only secured transactions involving software collateral. Rather, she believes that these transactions should be addressed as part of a broader reform of intellectual property will need to be addressed at a federal level in both the US and Canada as well as with regard to the essential features of the information technology industry, in particular to take into account a software developer's licensing activity.

One criticism of the book is the lack of practical aids and case studies highlighting the issues in context (perhaps even from the author's professional experience in practice as hypotheticals). This would have made the material more accessible to non-lawyers and financiers. Nor are there many examples of high profile transactions involving the software industry that have successfully taken place, or indeed the obstacles encountered and overcome. Again, this would have been of great interest to practitioners. Pertinent precedent finance documentation clauses, by way of illustration or in an appendix, may have also added insight to the issues. Checklists for borrowers and lenders summarising the issues for due diligence would have married the academic research with recommendations for practice.

Nevertheless, this is the first book to bridge the gap between finance law and secured transactions specifically in relation to software. It builds on Jacqueline Lipton's more general text entitled *Security Over Intangible Property* published by LBC Information Services in 2000 which covers other forms of intellectual property in addition to copyright. Hatzikiriakos' work adds to interdisciplinary knowledge of finance and copyright law and has paved the way for debate relating to development of secured finance law and software. Indeed, no one interested the tricky question of using software copyright as collateral can afford to ignore this book.