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Personal Property Securities and Intellectual Asset Management – thinking outside the box

Key Points –

- **The provisions of the Personal Property Securities Act 2009 (Cth) differ in significant respects to superseded laws governing the creation, priority and enforcement of security interests.**
- **For instance, registrable security interests can be created by a wider range of transactions (even if the contracting parties do not contemplate this result), and certain kinds of security interests take priority over existing security interests held in the same collateral, regardless of the order of registration.**
- **Before executing an agreement involving intellectual property rights, or goods with associated intellectual property rights, businesses should carefully consider the kinds and priorities of security interests that may be created, and should also conduct routine searches of the PPS Register for any conflicting registered interests.**

The Personal Property Securities Act 2009 (Cth) (PPSA) was introduced to reduce the uncertainties in creating, registering and searching for security interests held over personal property in Australia. To an extent, the PPSA has achieved this purpose by superseding a number of overlapping legal frameworks, and by providing a centralised, public register of security interests.

However, the PPSA can have surprising consequences for intellectual property owners and financiers who may not anticipate when security interests have been created, or the implications of the rules governing priority of security interests in the same assets.

The PPSA in use

The PPSA introduced a central, unified system for registration of security interests in personal property other than land and fixtures in Australia. 'Personal property', which is regarded as collateral under the PPSA, includes intellectual property, as well as intellectual property licences. A transitionary period to record existing security interests on the PPS Register ended in January 2014, and recordals on IP Australia's registers of patents, trade marks, designs and plant breeder's rights no longer have legal priority.

In addition to creating a national register of personal property securities, the PPSA sets out rules regarding the creation, enforcement and priority of securities, which are significantly different to the rules under previous legal frameworks.

Notably, the PPSA has broadened the scope of transactions which will create registrable security interests in personal property well beyond traditional arrangements such as charges and mortgages. As a result, security interests may be created whether or not specifically contemplated by contracting parties, and with potentially serious consequences. In a recent decision, the NSW Supreme Court found that a lessee of goods was able to grant a security interest over the leased goods to a financier which, following registration, took priority over the unregistered interest of the owner.[1]

In the context of an IP licence, unless specifically prohibited by the terms, the licensee may grant security interests over the licence to third parties without the knowledge or consent of the IP owner, or any subsequent assignee.

One of the more unusual provisions of PPSA, section 105, provides that a registered security interest held over goods may extend to associated IP rights if the rights are necessary for the exercise of the security interest. Although section 105 has not yet been considered judicially, it may cover security interests in subject matter such as patent-protected machinery, crops protected by plant breeder's rights, and branded clothing.

Another important consideration under the PPSA is the priority of different security interests in the same personal property. Priority is not simply a question of the time at which a party perfects its security interest. Under the PPSA, some kinds of

– continued on page 2

In this issue:

Personal Property Securities and Intellectual Asset Management – thinking outside the box

– continued from page 1

security interests have 'super priority' over other interests regardless of the order of registration. For instance, upon perfection, a purchase money security interest (PMSI) has super priority over other security interests. So, potentially, a company that finances the prosecution of a patent and registers a security interest takes priority over all other security interests in the patent.[2]

The PPSA also contains special provisions for the priority of certain security interests in crops, the proceeds of crops, and livestock. If perfected, these so-called 'agri-PMIs' take priority over all other security interests, including PMSIs. Hence, an entity that finances the purchase of fertiliser to enable crop production will have a security interest over the crops that, when perfected, would take priority over any other interest in the crops, potentially including the interests of the owner under a growing services agreement (where the farmer is a bailee). If the crops are also protected by plant breeder's rights, depending on the interpretation of section 105, it is possible the financier may be entitled to deal with the crops freely, without infringing registered plant breeder's rights.

Conclusion

The provisions of the PPSA warrant careful consideration of the kinds and priorities of security interests that can be created by a variety of agreements. Ideally, this due diligence should be conducted before any agreements are executed.

Any business contemplating a transaction that will create security interests over intellectual property rights, licences, or goods with associated intellectual property rights should also search the PPS Register for potentially conflicting interests.

For advice and assistance relating to intellectual assets and the PPSA, please contact Watermark Intellectual Property Lawyers.

By Catherine Macneil

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1 Maiden Civil (P & E) Pty Ltd v Queensland Excavation Services Pty Ltd [2013] NSWSC 852. Other transactions not traditionally regarded as giving rise to security interests include sale agreements with retention of title clauses, and certain bailments of personal property.

2 Despite the terminology used, PMSIs are not limited to interests created by financing the purchase of collateral, and may include the interest of a bailor of goods (see section 14(1)(c) of the PPSA).

IAM: Watermark

Watermark is proud to announce and wishes to congratulate:

Carla Cher

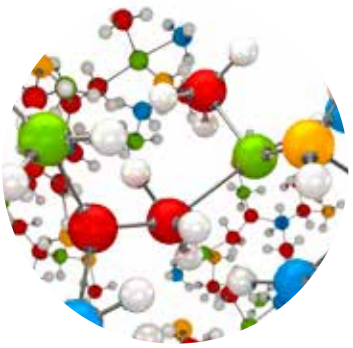
Carla was recently elected a Fellow of the Institute of Engineers Australia.

Raj (Shriraj) Takle

Jeremy Robinson

Raj (Shriraj) Takle and Jeremy Robinson have both now received their registration papers and are officially Registered Patent and Trade Marks Attorneys.

Claiming the wrong chemical structure: A patentee's worst nightmare



Key Points –

- **Oncoceutics has claimed the wrong chemical structure in its granted patent, US 8,673,932. The drug candidate has since entered Phase I/II clinical trials.**
- **The Scripps Research Institute has recently identified the correct structure, which it has gone on to license to Sorrento Therapeutics.**
- **Sorrento Therapeutics has subsequently filed a US patent application for the correct structure.**

The Mistake

TIC10 and its synthesis were first reported in a 1973 Boehringer-Ingelheim German patent (2150062). At some stage, the National Cancer Institute (NCI) incorporated TIC10 into one of its publicly accessible databases, and listed the chemical structure according to that shown in the Boehringer-Ingelheim patent (Figure 1).

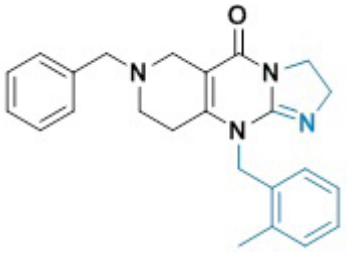


Figure 1: Linear structural isomer as shown in the 1973 Boehringer-Ingelheim patent, The NIC database, and the Oncoceutics patent (US 8,673,932 B2).

In 2013, Wafik S. El-Deiry's laboratory at Pennsylvania State University reported that TIC10 demonstrated potential anticancer activity, and patented this use on 18 March 2014 (US patent no. 8,673,932 B2). The patent was licensed to Oncoceutics, which synthesised TIC10 following the method disclosed in the Boehringer-Ingelheim patent. The drug candidate is currently in Phase I/II clinical trials as ONC201, a potential anticancer agent.

The Competition

Professor Kim D. Janda's research group at The Scripps Research Institute commenced studies on TIC10, synthesising the compound via its own method, finding TIC10 to be inactive against cancer. In its subsequent analysis, Janda's group confirmed that the angular structural isomer (Figure 2) is the correct structure of NIC's TIC10, and the active compound against cancer. It seems that Oncoceutics has patented the wrong chemical structure.

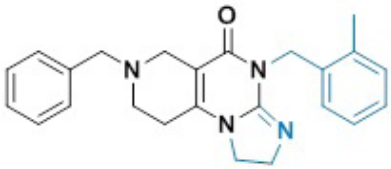


Figure 2: Angular structural isomer identified and published by Janda's group in Angewandte Chemie, and as shown in the Sorrento patent application.

An Intellectual Property Perspective

The drug discovery blunder raises two key questions:

1. Is the Oncoceutics patent valid?

2. Will the Sorrento application be granted, regardless of whether the Oncoceutics patent is valid?

Several US patent attorneys have weighed in on the debate with varying opinions. Some believe that the mistake may not be fatal for Oncoceutics. Others believe that Oncoceutics' patent may prevent Sorrento's application from being allowed, as the identification of the correct chemical structure may have been within the skill of a person working in the field.

Under Australian patent law, the Oncoceutics patent may have significant problems that would probably render it invalid. A clerical error would probably not be a viable basis for amendment. El-Deiry's group didn't know the angular structure existed, and it could only be a clerical error had they known of the alternate structure. In addition, the structure is depicted several times in the patent as the linear isomer. The Australian Patents Act 1990 requires that a patent specification must disclose the invention in a manner that enables a person skilled in the art to perform the invention, and that the subject matter of the claims must fulfil the promise of the invention ('sufficiency' and 'fair basis', s 40(2) and s 40(3)). Quite simply, if a person skilled in the art were to attempt to perform the invention according to Oncoceutics' disclosure, they would not arrive at a chemical compound capable of reproducing the biological activity disclosed in the 72 Figures of the granted patent. On this basis alone, the patent should be held invalid.

Whether the invention of the Sorrento application would be considered obvious to a person skilled in the art in view of Oncoceutics' patent is debatable. Pragmatically, given the mistake has existed since the 1973 Boehringer-Ingelheim patent, it would appear as though Sorrento's invention may not have been obvious to a person skilled in the art. However, it's not that simple. In considering Sorrento's application, it may be found that it would be obvious for a person skilled in the art to try to synthesise the angular structural isomer in the search for the biologically active compound with a reasonable expectation of success. If so, then the claims of Sorrento's application cannot be granted. Conversely, on the basis of the 2009 Australian decision in Lundbeck v Alphapharm ([2009] FCAFC 70) the opposing view that the angular structure would not be obvious in light of the linear structure might be taken. In Lundbeck, it was found that an enantiomer of Citalopram was patentable despite the other enantiomer being prior disclosed.

This decision was founded in the difficulty of synthesis of the second enantiomer, and would support the patenting of Sorrento's invention.

This, here, is the key matter. Will a prior disclosure, albeit an incorrect disclosure, be considered to render the current invention obvious? We will have to wait and see. No doubt many, both scientists and intellectual property experts alike, will be eagerly awaiting the outcome.

By Dr Brittany Howard

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Dr Brittany Howard commenced at Watermark in early 2014 after completing a post doctoral term at the National Institutes of Health in Maryland USA. Brittany's PhD is in medicinal chemistry.

Privacy Law Changes and Intellectual Assets

Key Points –

- **The current 10 'National Privacy Principles' ('NPPs') will be replaced with 13 Australian Privacy Principles ('APPs').**
- **There are expanded obligations and liability where an entity discloses personal information cross-border to overseas recipients.**
- **There are broader powers for the Privacy Commissioner and increased penalties for breaches (up to $340,000 for individuals and $1.7 million for companies).**

Australian Privacy laws have changed, effective 12 March 2014.

To the extent that, for example, databases of customer or supplier details are considered part of the intellectual capital of an organisation, it is important to understand how the changes to Privacy Law will impact management of these assets.

13 new Australian Privacy Principles

There are 13 new Australian Privacy Principles (APPs) which regulate the handling of personal information by Australian businesses with an annual turnover of $3 million or more, some other organisations, such as health service providers and government agencies, or any small businesses that:

- trade in personal information;
- provide services under a Commonwealth contract;
- run a residential tenancy database;
- is related to a larger business;
- is a reporting entity under the Anti-Money Laundering and Counter-Terrorism Financing Act.

What is 'personal information'?

The definition of 'personal information' extends to information or an opinion about an individual who is reasonably identifiable, whether or not the information or opinion is recorded in a material form (this includes information communicated verbally) and regardless of whether that identification or re-identification is practicable from the information itself or in combination with or reference to other information.

Personal information will therefore include information about an individual collected in a business context, regardless of whether that information is in the public domain. Information as simple as a name and email address can be personal information for the purpose of the Privacy Act.

How will this directly affect your business?

You will be affected if your business:

- collects personal information for use in connection with the business;
- handles and processes personal information;
- uses personal information for direct marketing;
- discloses personal information to people overseas.

The Privacy Act changes will also give the Privacy Commissioner the ability to:

- investigate serious breaches (including the right to impose penalties on businesses); and
- assess the privacy performance of businesses.

Significantly, the amendments to the Privacy Act introduce substantial financial penalties for non-compliance with the Act.

Under the new laws, it is no longer sufficient for businesses to simply have a Privacy Policy in place. The new laws require businesses to implement practices, procedures, documentation and systems to ensure and validate compliance. As with any internal compliance program, your privacy regime needs to be visible, actually used and its use recorded.

How can your business respond?

You must ensure that the personal information you collect is accurate, up-to-date and complete. It is also your responsibility to protect personal information from being misused, interfered with and/or lost. You must also protect it from unauthorised access, modification or disclosure and it is mandatory to destroy or de-identify personal information in certain circumstances.

All businesses subject to the Privacy Act need to have a compliant privacy policy and provide training to employees on Privacy Act issues. These should be part of a broader intellectual asset management strategy.

By Sean McGuire

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If you require expert assistance with managing your databases as an intellectual asset, please contact Watermark for a confidential discussion on +613 9819 1664 or mail@watermark.com.au.

A detailed fact sheet is also available on request via email: journal@watermark.com.au.