Easing Transfer and Security Interest Transactions in Intellectual Property: An Agenda for Reform

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Easing Transfer and Security Interest Transactions in Intellectual Property: An Agenda for Reform

By HAROLD R. WEINBERG* AND WILLIAM J WOODWARD, JR.**

Table of Contents

I. INTRODUCTION ................................................................. 63

II. CONCEPTUAL AND STATUTORY DISSONANCE .................................. 70

A. Intellectual Property Rights and Terminology .................. 70
   1. Patents ........................................................................ 70
   2. Trademarks .................................................................. 71
   3. Implications for Personal Property Security Law .............. 72

B. The Conceptual and Systemic Gulf .................................. 72
   1. Filing Systems ........................................................... 74
   2. Priority Rules ............................................................. 77
   3. Reprise .................................................................... 79

III. ALTERNATIVE REFORM SOLUTIONS .................................. 79

A. Empirical Assumptions Underlying Reform Proposals .............. 79

B. Federal-Only Filing Under the Current Federal System .......... 85
   1. Transaction Filing versus Notice Filing ............... 85

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I. INTRODUCTION

Uncertainty and confusion probably always have existed about the employment of intellectual property as collateral for a loan. Since the drafting of Article 9 of the Uniform Commercial Code, an uneasy coexistence of state and federal law has developed. Both
state and federal law now arguably apply when a debtor attempts to use a patent\(^1\) or trademark\(^2\) to secure a loan.\(^3\) The extent to


\(^2\) "Trademark" refers to all registered marks and all marks for which applications to register have been filed subject to the Trademark Act of 1946 as amended (the "Lanham Act"), 15 U.S.C.A. §§ 1051-1127 (West 1976 & Supp. 1989). As employed by the authors, the term trademark encompasses service or other marks that technically are not trademarks but that serve functions similar to trademarks. See 1 J. Gilson, TRADEMARK PROTECTION AND PRACTICE § 1.0211 (1989). This Article refers to nonfederally registered state law trademark rights as "state trademarks." See generally id. § 1.04[3].

\(^3\) To illustrate the uncertainty that results from this state of affairs, consider security interests in patents. An attorney may pursue a chain of reasoning and reach conclusions similar to the following:

- b. Patent regulations provide that other instruments affecting title to patents may be recorded. See 37 C.F.R. §§ 1.331 - 1.334 (1989). The Patent and Trademark Office is willing to accept filings of financing statements or other documents relating to security interests. See Patent and Trademark Office, Helpful Hints for Filing Assignments (on file in the Kentucky Law Journal Office). However, the recording of such instruments may not provide constructive notice.
- c. U.C.C. Article 9, which requires state filings to perfect security interests in patents or trademarks, applies except to the extent that it is inconsistent with the Patent Act.
- d. Given the above, one way to obtain protection might be (a) to structure the secured transaction as an assignment and record it in the Patent and Trademark Office to obtain the benefits of recordation under 35 U.S.C. § 261; and (b) to file properly completed U.C.C. financing statements in the proper state office or offices as required by Article 9. The right to use the patented invention can be licensed back to the assignor.
- e. If the transaction is formalized as a security agreement granting a security interest to a creditor as opposed to an assignment transferring title to the creditor, then the security agreement or a financing statement might be filed in the Patent and Trademark Office in the hope that filing will provide actual notice of the transaction to any searchers who may encounter it even if it is insufficient to provide constructive notice.

Similarly, ambiguity confronts an attorney seeking to take a security interest in a trademark. Additionally, the attorney must recognize that a present trademark assignment that does not include good will of the assignor's business can destroy rights in the mark. See infra text accompanying notes 346-50. Therefore, it may be necessary to structure the transaction as an assignment to take place in the future.

The assignment document employed in the case of patents, which creates a present assignment, sometimes is called a "collateral assignment," a label that is adopted in this Article. The Article refers to the document often employed in the case of security interests in trademarks as a "conditional assignment," recognizing however, that these interests also are formalized as present assignments by many practitioners. Forms employed also may incorporate both security agreement and assignment terminology, or may be structured as
which each body of law is applicable and the interaction between
the two systems was left unclear by the drafters of Article 9 and
has not been clarified by Congress. The radical differences between
the state and federal systems, both conceptually and as imple-
mented, further complicate the uncertainty in the law.

This Article proposes reforms for both the federal and state
systems, specifically, the Patent and Lanham Acts and state se-
mortgages.

This footnote's description of legal practices relating to the use of patents and trade-
marks as collateral is derived from many sources. See generally 1 J. McCarthy, Trade-
marks and Unfair Competition § 18:1 (2d ed. 1987); Bramson, Intellectual Property as Co-
llateral—Patents, Trade Secrets, Trademarks and Copyrights, 36 Bus. Law. 1567, 1585-
88, 1590-93 (1981); Mesrobian & Schaefer, Secured Transactions Based on Intellectual
Property, 72 J. Pat. & Trademark Office Soc. 827, 834, 850 (1990); Nimmer & Krauthaus,
Secured Financing and Information Property Rights, 2 High Tech. L.J. 195, 208 (1988);
letter from Terry L. Clark to Prof. Harold Weinberg (February 7, 1990) (discussing Easing
Transfer and Security Interest Transactions in Intellectual Property: An Agenda for Reform)
(on file in the offices of the Kentucky Law Journal); letter from Anne S. Jordan to Prof.
William Woodward and Prof. Harold Weinberg (September 4, 1990) (discussing Easing
Transfer and Security Interest Transactions in Intellectual Property: An Agenda for Reform)
(on file in the offices of the Kentucky Law Journal); letter from John B. Pegram to Prof.
William Woodward and Prof. Harold Weinberg (August 17, 1990) (discussing Easing
Transfer and Security Interest Transactions in Intellectual Property: An Agenda for Reform)
(on file in the offices of the Kentucky Law Journal).

Copyrights, a third important example of "federal intellectual property," are sub-
1990). Copyrights are not considered in this article because assignments of copyrights are
recordable in the Copyright Office rather than in the Patent and Trademark Office, pursuant
to a statute that has received more recent Congressional attention than the Patent and
Transfers of Copyrights for Security Under the New Copyright Act, 88 Yale L.J. 125
(1978). This article also does not consider security interests in copyrights because the cases
originally giving rise to the current heightened concern over security interests in federal
intellectual property involved patents and trademarks. See infra text accompanying notes
23-31. However, one should not infer that all is well for the employment of copyrights as
2046 (C.D. Calif. 1990) (filing in the Copyright Office is required to protect a security
interest in copyrights from a trustee in bankruptcy challenging it as a lien creditor under
11 U.S.C. § 544(a) (1978)).

"Maskworks" fixed in semiconductor chips are a fourth type of federal intellectual
property. See 17 U.S.C. §§ 901-914. They are not considered for the same reason that
copyrights are not considered.

It might be desirable for security interests in all types of federal intellectual property
to be subject to the same rules. Indeed, perhaps the ideal legal regime would encompass
both security interests in nonfederal assets such as trade secrets and state trademarks as
well as federal intellectual property. However, this Article assumes that state law will
continue to control security interests in state intellectual property. The discussion in Part V
gives some consideration to state intellectual property, but does not attempt to develop in
any comprehensive way Article 9's shortcomings in this field.

secured transactions law contained in Article 9 of the Uniform Commercial Code. Although the primary focus is on the methods for using patents and trademarks as collateral and the devices for giving third parties notice of the lender's interest, this Article also addresses priority issues encountered when different parties make claims to the patent or trademark.

To understand the magnitude of the problems secured lenders face in lending on patents and federally registered trademarks, the two systems now in place must be considered. Under the federal system, the traditional method for taking a security interest in a patent has been to take a collateral assignment of the patent and record that transfer with the Patent and Trademark Office. Formally, this method transferred the patent's title to the lender with the understanding that the debtor would reacquire title once the debtor repaid the debt. One method for taking a security interest in a trademark has been to take a conditional assignment and record it in the Patent and Trademark Office. Under this device, the debtor is obligated to assign the trademark in the event of default. Previously, attorneys could feel comfortable relying on these traditional federal methods and ignoring state personal property security law. However, this era ended with the arrival of Article 9.

Article 9 of the U.C.C. embodies a new approach. Patents and trademarks are personal property and their use in financing is governed by Article 9. The basic ideas of personal property security embodied in Article 9 differ fundamentally from those of federal intellectual property law. Although pre-U.C.C. law was in some respects similar to the traditional methods for employing patents and trademarks as collateral, Article 9 changed the very vocabulary of secured lending. For example, no longer would one get security

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9 This Article uses the term "priority" in the commercial law sense of the determination necessary when there are competing property claims to personality such as security interests or judgment liens, and not in the intellectual property law sense of the determination necessary when there are competing claims to the status of first inventor of an invention or first user of a trademark. Compare U.C.C. Article 9, Part 3 with 15 U.S.C.A. § 1057(c) (West 1976 & Supp. 1989); 35 U.S.C.A. § 102(g) (West 1984 & Supp. 1990).

10 See supra note 3.

11 In Waterman v. Mackenzie, 138 U.S. 252 (1890), the Supreme Court extended the title paradigm and concluded that exclusive rights to prosecute infringements were vested in the lender.

12 See supra note 3.
from a "chattel mortgage" or "conditional sale", "security interest" became the term to embrace all forms of secured lending on personal property. Under Article 9, form has little influence on substance, and the location of title is immaterial. Article 9 generally requires a secured party to file to perfect a security interest, but what is to be filed and the significance of the filing differ from the traditional methods.

The breadth of Article 9 reform brought state secured financing law into contact with federal intellectual property law. The enactment of Article 9 presented the possibility of much easier use of intangible property as collateral under the catch-all category of "general intangibles." Patents and trademarks are easily included in the broad definition of "general intangibles" under the U.C.C. classification scheme. Unfortunately, the drafters of the U.C.C. did not clearly indicate whether they intended the statute to cover patents and trademarks.

Assuming that patents and trademarks are forms of personal property within the scope of the U.C.C., Article 9 would control how one creates a security interest in the property, where one files to perfect the interest, what priority the interest has against var-

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U.C.C. §§ 9-102(1)(a), 1-201(37).
U.C.C. § 9-102(1).
U.C.C. §§ 9-302, 9-304, 9-305.
U.C.C. § 9-106.
U.C.C. § 9-104(a) limits Article 9's scope. It provides, "[t]his Article does not apply to a security interest subject to any statute of the United States, to the extent that such statute governs the rights of parties to and third parties affected by transactions in particular types of property." U.C.C. § 9-104(a). U.C.C. § 9-302(3)(a) indicates that for secured transactions within Article 9's scope,

[the filing of a financing statement otherwise required by this Article is not necessary or effective to perfect a security interest in property subject to a statute of the United States which provides for a national registration or which specifies a place of filing different from that specified in this Article for filing of the security interest.


A secured party ordinarily "perfection" a security interest by supplying public notice of its existence either by filing in a public file or by taking possession. See U.C.C. §§ 9-302, 9-304, 9-305. See infra note 65. The rights of a perfected secured party vis a vis others
ious third parties, and the rights and obligations of the parties on default. Depending on whether the U.C.C. or federal law controls, the rules governing each of these aspects of financing may differ. Since Congress has left the older federal system intact, which system applies to a given transaction and to what extent is not clear.

This uneasy state of affairs injects uncertainty and substantial transaction costs into financing based on federal intellectual property. For nearly ten years, calls for reform have emanated from many quarters. Two cases decided in the mid-1980's underscored the uneasy situation. City Bank and Trust Co. v. Otto Fabric Inc. and In re Transportation Design and Technology, Inc. both held that a proper U.C.C. filing by itself was sufficient to defeat a bankruptcy trustee from exercising her hypothetical lien creditor power under the Bankruptcy Code.

Apart from illustrating an unsatisfactory status quo, these cases raised concern among intellectual property lawyers that clients could no longer rely on the Patent and Trademark Office files in taking transfers of patents and trademarks. The most troublesome question raised was whether a person effecting a transfer through the federal file also must check state U.C.C. files to be certain the property was unencumbered. Unfortunately, neither Otto Fabric nor Transportation Design directly resolved such a contest between a U.C.C.-perfected secured creditor and a non-lien creditor in the absence of a federal filing. Yet both cases injected enough uncer-

are significantly greater than those of an unperfected secured party. Compare U.C.C. § 9-301 with U.C.C. §§ 9-307 and 9-312.

See supra note 9.

See supra notes 3, 19 and accompanying text.


A bankruptcy trustee exercising the rights of a hypothetical judicial lien creditor will have priority over a security interest that is not properly filed in the state U.C.C. records prior to bankruptcy regardless of whether any creditor actually checked the state records or was misled by the absence of a filing. See 11 U.S.C.A. § 544(a) (West 1979 & Supp. 1990); U.C.C. § 9-301(1)(b).

Neither Otto Fabric nor Transportation Design speak directly about a priority dispute between an Article 9 secured creditor who properly files in the state Article 9 records but does not record notice of its security interest in the Patent and Trademark Office and a person who relies on the absence of Patent and Trademark Office filing but does not check the state records.
tainty into the reliability of the federal file to demand a state search in any sizeable transfer of a patent or trademark.28

The problem that these cases illuminated was recognized early in the history of Article 9.29 In 1987, the American Bar Association Section of Patent, Trademark and Copyright Law proposed enactment of federal legislation that would clearly preempt at least some of Article 9 30 The Permanent Editorial Board of the U.C.C. has embarked on a study of Article 9 that could lead to proposed amendments in many areas including Article 9's treatment of patents and trademarks as collateral.31 The time has come for action.

This Article begins with two premises. The first is that the optimal mesh between the federal Patent and Lanham Acts and Article 9 is one that will maximally reduce uncertainty and legal complexity and thereby will add (or restore) value to intellectual property 32 The second premise is that the optimal interaction between the two systems can be accomplished without compromising important values of federal intellectual property law. These include the encouragement of innovation and the early disclosure of inventions in the case of patents,33 and the assurance that trademarks


29 However, it is evident that intellectual property received much less attention than other forms of collateral. See 1 G. Gilmore, SECURITY INTERESTS IN PERSONAL PROPERTY §§ 13.3, 13.4 (1965).


31 See Minutes of Meeting, Permanent Editorial Board of the Uniform Commercial Code, ¶ 3 (Sept. 23, 1989).

32 Those seeking ownership interests in patents or trademarks and creditors who seek security interests in these assets share a common legal need: clear, easily accessed information from which they can determine the quality of an owner's title to intellectual property. They must be able to determine without undue cost or uncertainty whether the asset is subject to claims of others who have priority over the potential assignee or lender. If assignees or lenders must risk losing priority to others with claims they cannot detect in advance, they will be unwilling to pay or lend as much for an interest in the asset. Similarly, money spent on reducing title uncertainty will be reflected in the price assignees will pay or in the interest rate lenders will charge. In short, uncertainty and complexity diminish the value of intellectual property as assets for sale or as collateral for loans.

33 The United States patent system was established "[t]o promote the Progress of useful Arts, by securing for limited Times to Inventors the exclusive right to their Discoveries." U.S. Consr. art. I, § 8, cl. 8. See Bonito Boats, Inc. v. Thunder Craft Boats, 489 U.S. 141 (1989) (ultimate goal of the federal patent system is to bring new inventions into the public domain through disclosure). A frequently offered justification for providing
designate the manufacturing source or qualities of particular goods. This Article is intended to provoke discussion that will move the law toward a resolution of these problems. Part II compares the fundamentally divergent treatments of personal property security found in federal law and in Article 9. In Part III, several reform proposals that have been advanced are surveyed. In Part IV, this Article considers a solution that the authors have developed and expect will be controversial. The authors ask whether it would be sensible to enact a version of Article 9 at the federal level to cover security interests in patents and trademarks, and at the same time, establish an electronically accessible U.C.C. filing office within or near the Patent and Trademark Office in Washington D.C. For reasons that are set forth below, this solution could substantially reduce the cost of secured lending on these forms of intellectual property without adding appreciably to the costs of either transferring these assets or lending on other kinds of personal property not subject to the federally enacted Article 9.

The authors recognize that all reform proposals to date concerning security interests in patents and trademarks, including this Article's, are based on limited data concerning what is undoubtedly a very diverse universe of financing transactions shaped by the disparate needs of many different creditors and debtors. For this reason Part V is intended to serve two purposes. First, Part V surveys remaining issues that should be considered by policy makers should federal law embrace Article 9 principles in the way contemplated. Second, recognizing that data developed in the future ultimately may point to a solution in which state law controls federal intellectual property financing, Part V suggests ways in which Article 9 may be revised to serve this purpose as a matter of state law. The conclusion in Part VI suggests some additional questions that belong on the reform agenda.

II. CONCEPTUAL AND STATUTORY DISSONANCE

To understand the level of dissonance between state and federal law, one needs some exposure to the terminology employed in both systems.

A. Intellectual Property Rights and Terminology

1. Patents

A patent gives its owner the right to exclude others from "making, using, or selling the invention" as defined in the patent's claims.\(^3\) It is a bundle of personal property rights that may be subdivided in many ways.\(^4\) The owner may choose to exploit the patent grant directly, or may elect to exploit it indirectly by transferring all or some part of the bundle of rights to another person in return for consideration.\(^5\) Indirect exploitation is typically carried out through an "assignment" or a "license."

Assignments are transfers of all or an undivided part of title in a patent.\(^6\) Assignees should receive substantially all of the powers, duties, and privileges possessed by the grantor.\(^7\) This includes the rights to further assign and to sue for infringement.\(^8\)

Unlike assignments, licenses do not represent a transfer of any property interest in the patent.\(^9\) Rather, a license is merely a

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\(^3\) See 3 P. ROSENBERG, supra note 35.


\(^5\) Concerning who may assign and other federal assignment requirements, see 35 U.S.C.A. §§ 117, 261 (West 1984).

\(^6\) The law recognizes as "assignments" only those transfers of 1) an entire patent, 2) an undivided fractional portion of the patent rights, and 3) all rights embraced in a patent to a specified part of the United States. The assignee takes what amounts to an ownership interest. See 3 P. ROSENBERG, supra note 35, § 16.01[1][a]. Ownership of a fractional portion of a patent permits the owner to license whomever he pleases, and the licensee can practice the invention without the consent of the co-owners. See id. The right to the return of the patent upon the happening of a condition subsequent does not destroy the effectiveness of the transaction as an assignment. See S. E. LIPSCOMB, LIPSCOMB'S WALKER ON PATENTS § 19:11 (3d ed. 1986).

\(^7\) See 3 P. ROSENBERG, supra note 35, § 16.01[1][a].

\(^8\) See id. at 16.01[1][b]. The rules governing license formation, enforcement, and termination are governed by general state contract law and not the patent statute. See R. CHOATE, W. FRANCIS & R. COLLINS, CASES AND MATERIALS ON PATENT LAW 692 (3d ed. 1987) [hereinafter CASES AND MATERIALS].
promise of one having an interest in the patent not to sue one who, but for the license, would be an infringer. In a sense, the license represents a sharing of rights under a patent rather than a transfer.\textsuperscript{42} Licensees generally cannot sue others for infringement. A license is considered a personal right that cannot be transferred absent an express provision authorizing assignment or sublicensing.\textsuperscript{43} If the license agreement does not expressly forbid the licensor to license others, the license is nonexclusive.\textsuperscript{44}

The line between assignments and licenses becomes blurred when a license is exclusive.\textsuperscript{45} Exclusive licenses include a promise by the licensor not to license others to use the invention. Despite the general rule that licensees cannot sue for infringement, an exclusive licensee may be permitted to maintain an action for infringement provided the licensee joins the licensor and any other persons having an interest in the patent.\textsuperscript{46}

2. Trademarks

Trademarks are employed by a manufacturer or merchant to identify her goods and distinguish them from those manufactured by others.\textsuperscript{47} Trademark law also distinguishes between assignees and licensees. An assignment is a sale of all rights in the mark, whereas a license provides a limited permit to use the mark.\textsuperscript{48} The distinction is important in connection with standing to sue for trademark infringement. An owner of a federal trademark registration always has standing to sue for infringement.\textsuperscript{49} An assignee of a validly assigned trademark stands in the shoes of the trademark owner and has the same standing to sue the infringer.\textsuperscript{50} After an assignment, the assignor has divested herself of her trademark rights, and the assignee's title is superior. Licensees, on the other

\textsuperscript{42} See 3 P. Rosenb erg, \textit{supra} note 35, § 16.01[1][c].
\textsuperscript{43} Id.
\textsuperscript{44} Id.
\textsuperscript{45} Id.
\textsuperscript{46} Concerning the need for such joinder, see 5 D. Chisum, \textit{Patents} § 21.03[2] (1990). In general, the foregoing discussion applicable to assignments and licenses under issued patents also is applicable to assignments and licenses under patent applications. See 5 E. Lipscomb, \textit{supra} note 39, § 19:15. Negotiations and agreements relating to assignments and licenses may precede issuance of the patent. See id. at § 19:16.
\textsuperscript{47} See supra note 34 and accompanying text.
\textsuperscript{48} See 1 J. McCarthy, \textit{supra} note 3 at 605-06.
\textsuperscript{49} See 1a J. Gilson, \textit{supra} note 2, § 8.16[1][a].
\textsuperscript{50} Id.
hand, have the right to sue for infringement only when their rights under the license agreement are sufficiently analogous to ownership rights to confer standing.\textsuperscript{51} There is general agreement that a truly exclusive licensee, who may exclude even the licensor from using the mark, has standing to sue for infringement.\textsuperscript{52}

3. Implications for Personal Property Security Law

The patent and trademark laws respectively enable private persons to invest in innovation and to develop positive relationships with customers.\textsuperscript{53} Categorizing a transaction as an assignment, an exclusive license, or a nonexclusive license has legal significance within these intellectual property systems. It does not necessarily follow that these categories also must be important whenever patents or trademarks serve as collateral. As regimes of secured lending are considered, it may become evident that these categories should play a considerably reduced role.

B. The Conceptual and Systemic Gulf

The Patent and Lanham Acts on one hand, and Article 9 on the other, embody highly divergent concepts of personal property security and provide very different legal frameworks for secured financing.\textsuperscript{54} A threshold inquiry for an attorney concerned with formalizing an agreement securing a debt with a patent or trademark is how one transfers these intangible rights. Patent and trademark law approach the problem as one of transferring title to the intellectual property from the debtor to the creditor. A collateral assignment of a patent is thought of as vesting title in the assignee, subject to defeasance through reassignment to the assignor after repayment of the debt.\textsuperscript{55} Security rights in a trademark are created by entering into a conditional assignment that passes title in the event of the assignor-debtor’s default.\textsuperscript{56} By contrast, Article 9 views the problem as one of creating a “security interest,” the incidents of which are the same whether title is

\textsuperscript{51} \textit{Id.} at § 8.16[1][b].

\textsuperscript{52} \textit{Id.}

\textsuperscript{53} See Kitch, \textit{Property Rights in Inventions, Writings, and Marks}, 13 Harv. J. L. \\ & Pub. Pol’y. 119, 123 (1990); see \textit{supra} notes 33-34 and accompanying text.

\textsuperscript{54} See \textit{supra} note 3.

\textsuperscript{55} See \textit{supra} note 3; 5 \textit{E. Lipscomb, supra} note 39, § 19.4; 3 \textit{P. Rosenberg, supra} note 35, § 16.01[1][a].

\textsuperscript{56} See \textit{supra} note 3.
conceptualized as being in the secured creditor or in the debtor. Under the U.C.C. model, the debtor may retain the power to transfer its rights in collateral, although subject to the security interest.

These dissonant concepts are embodied in very different statutory systems of personal property security law. The Patent and Lanham Acts provide minimal statutory machinery, limited for the most part to the validity, recording, and priority of assignments. Article 9, in contrast, sets out a comprehensive statutory scheme for security interests in personalty. The U.C.C., for example, contains provisions regulating the rights of a secured creditor upon the debtor's default and a secured creditor's obligation to provide the debtor with information concerning the transaction.

The two statutory systems also differ substantially in their manner of operation. The framework provided by federal intellectual property law is limited to patents and trademarks. The federal statutes are silent concerning security in related assets such as trade secrets or state trademarks that later might become the subject of federal patent or trademark protection. The framework of Article 9 envelopes most forms of tangible and intangible personal property including patents, all trademarks, trade secrets, and goods.

The conceptual and systemic gulf between federal intellectual property law and Article 9 may be widest in connection with their respective treatments of "perfection" by filing and

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57 See U.C.C. §§ 9-202, 9-203(1)(a). A security interest is "an interest in personal property which secures payment or performance of an obligation." Id. at § 1-201(37).
58 See id. at § 9-311.
62 Id. §§ 9-208, 9-501 to 507.
64 See U.C.C. §§ 9-102, 9-104.
65 The law for more than a century has kept track of interests in intangibles through public filings. The objective when either the asset was intangible (as in intellectual property) or the interest lacked external evidence (as in security interests) was to supply evidence in a file to which inquirers had access. Such systems reduce risk by supplying external evidence of the status of the assets in question. See D. BAIRD & T. JACKSON, SECURITY INTERESTS IN PERSONAL PROPERTY 35-81 (2d ed. 1987). Under both federal intellectual property law and Article 9, filing serves this notice function. Article 9 refers to filing as a means to "perfect" a security interest. See supra note 20. We also will use this term to describe the act of filing under federal intellectual property law to give notice of what actually is a secured transaction. Patents and trademarks consist of intangible rights not reified in a
priority. The major differences between the federal and state perfection and priority rules present the most vexing issues of federal preemption.

1. Filing Systems

Personal property security filing systems provide potential creditors with a means of checking the status of borrowers' assets and provide lenders who have made secured loans with a method of perfecting their security rights. The filing systems of the Patent and Lanham Acts and of Article 9 each perform these functions to some degree. However, the federal statutes' theory and practice are grounded in the older tradition of transaction filing, while the U.C.C.'s are based upon the more recent approach known as notice filing.

Section 261 of the Patent Act provides that,

[a]n 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.

This provision resembles nineteenth century chattel mortgage statutes. These statutes authorized recording as an alternative to the written document comparable to a negotiable instrument. Under both federal intellectual property law and Article 9, they are incapable of being pledged to a secured creditor, and the only practical means of perfection is public filing. See *Waterman v. Mackenzie*, 138 U.S. 252, 260 (1891); *infra* notes 252-55 and accompanying text.

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66 See supra note 9.
67 See 1 *Gilmore*, *supra* note 29 and accompanying text. As used in this Article and by Professor Gilmore, the term "filing statute" includes any statute requiring the deposit, with a public official, of an agreement or other document relating to a personal property secured transaction. *See id.* at § 15.1 n.1.
68 This clearly is intended in the case of Article 9's system. *See U.C.C.* § 9-401 comment 1. However, there is considerable doubt concerning the relevance of the Patent and Lanham Acts' filing provisions to personal property security. *See supra* note 3.
69 See generally 1 *Gilmore*, *supra* note 29, at §§ 15.1-15.3.
71 Chattel mortgage statutes date back to about 1820 and, as suggested by their name, generally applied only to tangible personality. *See 1 Gilmore*, *supra* note 29, at §§ 2.2, 2.8. Article 9 of the U.C.C. repealed the chattel mortgage statutes. U.C.C. §§ 10-102, 10-103. The portion of section 261 of the Patent Act quoted in the text is derived from Act of 1870, ch. 230, § 36, 16-Stat. 203 (1870), which contains similar language. The requirement of recording patent assignments within three months to defeat subsequent purchasers is traceable back to the Patent Act of 1836. *See S. Law, Copyright and Patent Laws of the U.S. 1790 to 1866*, at 131 (New York 1866).
secured party’s taking a pledge of the collateral to preserve the secured party’s interest in the collateral against third parties. Like chattel mortgage statutes, section 261 requires that the transaction document be filed and contemplates individual and discrete filings as additional patent assignments are made. Section 261 does not authorize the filing of a broad “umbrella” document that would give notice of possible future patent assignments in addition to the current one.

The federal law further resembles chattel mortgage legislation in that section 261 provides a filing grace period, apparently on the assumption that there will be an inevitable gap between the execution of the assignment document and the act of filing it. The Patent and Trademark Office maintains a public register, which can be examined to identify the owner of a particular patent or all patents owned by a particular person. A search would disclose the name of a creditor who obtained what is in effect a mortgage on a patent by means of a collateral assignment.

The Lanham Act’s recording provision closely resembles section 261. A creditor wishing to obtain security rights in a trademark may enter into a conditional assignment that can be recorded in the trademark records maintained by the Patent and Trademark Office.

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73 Chattel mortgage statutes were judicially interpreted to cover after-acquired chattels. See 1 Gilmore, supra note 29, at §§ 2.3-2.5. One commentator suggests including in the security assignment recorded pursuant to section 261 language relating to future inventions and improvements similar to an after-acquired property clause. See Bramson, supra note 3, at 1587 n.107. But see 3 P. Rosenberg, supra note 35, § 16.01[1][a].

74 See 1 Gilmore, supra note 29, at § 16.1.

75 The recording system may be searched by assignor or assignee name or by patent or trademark number. A searcher may obtain an “abstract of title” from the Patent and Trademark Office or from a private search firm. The authors are grateful to Barbara Landon Kuebler for her description of the Patent and Trademark Office’s recording system. See also Bramson, supra note 3, at 1574-75.

76 See id. at 1586; supra note 3.

77 The Lanham Act’s recording provision provides in part,

An assignment shall be void as against any subsequent purchaser for a valuable consideration without notice, unless it is recorded in the Patent and Trademark Office within three months after the date thereof or prior to such subsequent purchase. A separate record of assignments submitted for recording hereunder shall be maintained in the Patent and Trademark Office.


78 See Bramson, supra note 3, at 1593; supra note 3.
Underlying the federal system is the notion that one makes public the actual transaction in which the parties transferred an interest in the intellectual property. This system of transaction filing may proceed from the nature of intellectual property and from the multiple functions the federal file serves. The federal filing system functions not only to record who has interests in various intellectual property, but also to document for the owner the scope of the intellectual property and to document that the property itself exists. The federal file's function of keeping track of this intangible property suggests a transactional approach to filing: what is important under the federal scheme is who has an interest in the property, not who might have.

The U.C.C. drafters opted for notice filing, a system very different from the transaction filing system present in the federal intellectual property arena. One essential difference is that under Article 9, filing of the transaction document creating the security rights is permissive rather than mandatory. The common practice authorized by Article 9 is to file a brief "financing statement," which notifies others of the possibility that the named debtor may have entered into a secured transaction or may thereafter do so. Under the U.C.C. system, the files obviously are not determinative of rights in property; rather, they are designed to prompt others to investigate further. For those required to file, the filing burdens are considerably reduced: only a description of the collateral by item or type and other basic information including the debtor's validating signature are required.

The U.C.C. notice filing approach permits innovations that the federal system does not. Because the U.C.C. filing speaks in terms of possible rather than actual secured transactions, a single financing statement can be sufficient to perfect multiple security interests between the same debtor and creditor. Because the actual contract

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79 Given the resemblance the system has to the forms of state secured lending that Article 9 displaced, the federal transaction filing system also may reflect the neglect of policy makers to bring its old-fashioned notions of secured lending up-to-date.

80 For example, a patent defines the "metes and bounds" of the patent owner's monopoly. See 35 U.S.C. §§ 112, 154, 282. A trademark certificate of registration is evidence of the mark's validity, ownership, and the right to use the mark. See 15 U.S.C. § 1057(b), (d).

81 See U.C.C. § 9-402(1).

82 See id. at §§ 9-110, 9-402(1).

83 See 1 Gilmore, supra note 29, § 15.2.

84 See U.C.C. §§ 9-110, 9-402(1).

85 See U.C.C. § 9-402, comment 2.
need not be filed, an extended grace period is not needed; a secured lender may even file before the loan is closed. The single filing also can be sufficient to perfect a security interest in collateral subsequently acquired by the debtor. A file searcher who discovers a financing statement in the debtor's name has the general burden of further investigation to learn whether an actual secured transaction occurred and the specific assets encumbered.

2. Priority Rules

The federal and Article 9 priority rules are also conceptually and statutorily different. The most basic difference is the clarity with which the respective statutes address the various priority contests that might occur in secured lending. The priority rule contained in the Patent Act expressly provides for the priority, against subsequent purchasers or mortgagees, of an assignment, grant or conveyance. The Lanham Act provides that an assignment is void against certain subsequent purchasers. These sketchy rules are adequate only for the most rudimentary priority contests; it is necessary to refer to patent and trademark law apart from the statutes to determine the precise nature of the transactions and persons referred to by these statutes. Even after going to non-statutory law, whether or how the law deals with a lender who took a "security interest" (as distinguished from an "assignment") remains unclear because neither federal statute expressly discusses "security interests." One's instinct is to equate the concept of a secured party holding a security interest to that of a person who

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86 The only exceptions are certain purchase money security interests that are given 10 day grace periods. See U.C.C. §§ 9-107, 9-301(2), 9-312(4).
88 See U.C.C. § 9-208; 1 GILMORE, supra note 29, § 15.2.
91 The collateral and conditional assignment devices were devised for this reason. See supra note 3.
takes by assignment, mortgage, or one of the other transaction
types described in the federal statutes. But this cannot be done
with confidence because a security interest is conceptually very
different from the interests acquired through an assignment or one
of the other federally described transactions.92

Although it has shortcomings for intellectual property financ-
ing,93 Article 9 has its own set of detailed, specific priority rules
applicable to security interests in intangibles such as patents or
trademarks.94 In contrast to the federal statutes, the Article 9 rules
are explicit on numerous recurring contests between perfected and
unperfected secured lenders and other lenders,95 buyers of various
types,96 and lien creditors.97 Article 9 in most respects also explicitly
rejects form as a controlling consideration, thereby permitting more
freedom for the parties to design the transaction as they see fit.98

92 As suggested above in the text accompanying notes 36-52, intellectual property law
distinguishes between assignments and licenses. Transfers of interests in intellectual property
also are categorized. For example, a patent “assignment” transfers the entire interest in a
patented invention or of an undivided portion of such entire interest as to every section of
the United States, whereas a patent “grant” is the same except that it is limited to a portion
of the country. See Preload Enterprises, Inc. v. Pacific Bridge Co., 86 F Supp. 976 (D.
Del. 1949). A patent “mortgage” vests the whole title to a patent in the mortgagee, subject
to defeasance by performance of a condition such as the payment of a debt. See Waterman
v. Shipman, et al., 55 F. 982 (2nd Cir. 1893). “Purchaser” refers to persons taking
by assignment. See 5 E. Lipscomb, supra note 39. None of these transaction types are identical
to a security interest that is an interest securing payment or performance of an obligation.
U.C.C. § 1-201(37); cf. In re Refusal, 8 U.S.P.Q. 2d 1446 (1988) (an attorney’s retaining
lien is not recordable in the Patent and Trademark Office because it does not constitute
sufficient interest in a patent).

An example of the difference between a patent assignment or a mortgage and a security
agreement creating a security interest is suggested by Waterman v. Mackenzie, 138 U.S.
252, 257-58 (1890). There the Court held that the mortgagee was vested with exclusive rights
to prosecute infringement. The conclusion followed from the fact that title was in the
mortgagor. Article 9 might well have yielded the opposite result. Cf. U.C.C. § 9-205.

93 While Article 9 is far more complete for purposes of financing than are the Patent
or Lanham Acts, that statute is also incomplete for intellectual property financing. There
is, indeed, little to suggest that the Article 9 drafters gave much consideration to using
intellectual property—state or federal—as collateral for loans. See supra note 29. While no
attempt has been made to systematically detail Article 9’s shortcomings for intellectual
property financing, some of the issues emerge below in the text accompanying notes 194-
336.

94 In some cases, these rules may generate different results than the federal counter-
part. See infra text accompanying notes 194-336.

95 U.C.C. §§ 9-301, 9-312.


97 U.C.C. § 9-301(1)(b).

98 See generally J. White and R. Summers, Uniform Commercial Code § 22-3 (3d
ed. 1988) (creation of valid and enforceable Article 9 security agreements).
3. **Reprise**

The foregoing discussion briefly describes the conceptual and statutory dissonance between the federal Patent and Lanham Acts and Article 9. The discord does not automatically reveal which system is unwise. While Article 9 addresses security interests regardless of form (including the assignments and mortgages contemplated by the federal statutes),\(^9\) simply applying Article 9 priority rules to security interests in patents and trademarks will not necessarily generate the best results as a matter of policy. Little evidence exists that these forms of property were extensively considered by the drafters during the Article's drafting process,\(^{10}\) and the priority implications of applying Article 9 to federal intellectual property have not been expressly considered by Congress. Perhaps, for example, a secured party who obtains a security interest in a patent or trademark should have a filing grace period, or perhaps not. Perhaps security interests in patents or trademarks should sometimes be perfected automatically without any filing, or perhaps not. Perhaps the knowledge of a competing claimant should be relevant in priority disputes, or perhaps not. The point is that these sorts of questions have never received careful consideration, and which outcomes are optimal is not clear. Many of these issues are discussed below.\(^{11}\)

Both systems have significant omissions. One omission is the proper resolution of a conflict between a licensee and secured lender.\(^{12}\) The federal system did not address this conflict because the federal system was not designed for secured lending. Article 9 did not address the issue because the U.C.C. was not designed to deal with the special problems of federal intellectual property

### III. **ALTERNATIVE REFORM SOLUTIONS**

#### A. **Empirical Assumptions Underlying Reform Proposals**

The most pressing challenge is to address the problem of two conceptually different filing systems with an uncertain interrela-

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\(^9\) Article 9 applies "to any transaction (regardless of its form) which is intended to create a security interest in personal property" U.C.C. § 9-102(1)(a).

\(^{10}\) See supra note 29.

\(^{11}\) See infra notes 194-336 and accompanying text.

\(^{12}\) See infra notes 289-336 and accompanying text.
Reform is needed because the current federal and state systems create uncertainty and high legal costs. The most obvious long-term cure for some of the uncertainty would be to choose one filing system to control the perfection of security interests in patents and trademarks. Ample precedent exists in the Federal Aviation Act for giving the federal filing system preemminence.

While selecting the federal system does not address priority and other knotty problems, at a superficial level, exclusive federal filing would improve certainty and decrease transaction costs. This solution would save the secured party the burden of checking the state U.C.C. files when making a secured loan on a patent or trademark because a state filing would have no effect. To the extent "state" collateral (including "state" intellectual property) is involved, however, the secured party still would have to deal with the state files. What percentage of transactions include only federal intellectual property, or even what is a typical ratio between the value of federal and state intellectual property, is unknown.

Unfortunately, such a "federal only" solution to the filing problem is based on a number of assumptions about secured lending that have little empirical support. The first assumption is that search and compliance costs of the federal and state filing systems are equivalent. The second assumption is about the contours of the typical transaction the solution is designed to reach.

If the costs of searching and filing are not equivalent, choosing a single system could be counterproductive. For example, if a Patent and Trademark Office search and filing is more complicated, technical, and expensive than a U.C.C. search and filing, then selection made on the basis of per-transaction costs would result in the U.C.C. system being selected. If transactions within the federal system were more costly to complete, choosing the federal system without also reforming it might be more expensive than the status quo of uncertainty. Such a choice could impose new costs on those secured parties currently satisfied with the

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103 Simple clarification of the current legal status of federal transferees vis a vis state-protected secured parties would be, in the short run, a vast improvement over the status quo of uncertainty.
106 State collateral could include trade secrets and nonintellectual assets such as inventory or receivables. See infra text accompanying notes 111, 117-18.
limited protection a single U.C.C. filing now provides under the implications of *Otto Fabric*. A well-considered policy resolution will depend on additional factors about the nature of secured lending in this area, such as the relative costs of coping with these two systems of securing loans with federal intellectual property and the numbers of different actors who will work within the systems.

Efforts to develop solutions may be hampered by a tendency to think of two paradigm actors on opposite ends of a spectrum: the lender whose primary focus is the debtor's intellectual property, and the lender for whom the debtor's intellectual property is much less important in the overall lending decision.

The first type of lender might be the lender asked to finance a high-technology company whose principal assets are its patents. This lender probably will involve patent counsel in the lending transaction and expend great effort in assessing the value of the collateral. Risk assessment would directly involve the Patent and Trademark Office. In addition to confirming ownership, the lack of encumbrances, and the expiration date, the prospective lender would want to assess the patent's strength and whether it may infringe. Given the substantial contact with the federal filing system that these activities entail, exclusive federal filing for security interests involving this kind of debtor seems most appropriate and inexpensive; searching or filing in a state U.C.C. file seems cumbersome when viewed from this perspective.

The second type of lender is very different from the first. The second lender is asked to finance based on a debtor's inventory, equipment, and virtually all other personal property, with patents

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107 The authors do not know whether there are secured lenders who intentionally take such risks. The secured party in *Otto Fabric* filed both in the state files and in the federal files. City Bank and Trust Co. v. Otto Fabric, Inc., 83 Bankr. 780 (D. Kan. 1988). The bankruptcy problem for the creditor was that the federal filing was within the 90 day preference period specified in the Bankruptcy Code. 11 U.S.C.A. § 547 (West 1979). Unless the state filing was effective, the security interest was avoidable as a preference. In *Transportation Design*, on the other hand, the secured creditor filed only in the state U.C.C. file. In re Transportation Design & Technology, Inc., 48 Bankr. 635, 637 (Bankr. Calif. 1985); cf. Nat'l Pergrine Inc., 59 U.S.L.W 2046 (the secured creditor filed U.C.C. financing statements in several states but filed nothing in the Copyright Office).


109 Similarly, if the proposed collateral is an important trademark, a lender may undertake a trademark search to gauge the debtor's rights. See Mesrobian & Schaefer, *supra* note 3, at 853.

110 Bramson, *supra* note 3, at 1576-79.
and trademarks being but a small part of the whole.\textsuperscript{111} The value of the mass of collateral would be assessed primarily at the debtor's business location and in state U.C.C. files, not in Washington, D.C. If the values of the patents and trademarks were small relative to the whole, the lender might run the risk that they expired, were invalid, infringed others, were encumbered, or had been transferred by the debtor, and thereby save the expense of more precisely evaluating those components of the collateral in the federal files. For a lender whose transactions tend to be overwhelmingly dominated by "state" collateral but happen to include patents or trademarks, a federal filing and search—particularly a cumbersome federal filing and search—would add significant expense.

Although the answers to the empirical questions—which types of transactions are "typical" and what are the comparative transaction costs of the respective systems—are unknown, some assumptions that move us toward a tentative resolution might be made. First, any system, whether federally-dominated or state-dominated, is unlikely to save most lenders the burden of confronting the other system. Comparatively few lenders may neatly fit into either of the above paradigms and use the federal or the state system exclusively. Instead, more likely a third type of lender exists, the lender who looks to both systems in a transaction involving patents or federally registered trademarks.

Assuming that the third type of lender predominates, no "state" solution can realistically eliminate the need to consult the federal file if patents or federally registered trademarks are important. The Patent and Trademark Office issues patents, registers trademarks, and records ownership interests in both patents and trademarks.\textsuperscript{112} It is an essential source of information for analyzing and valuing

\textsuperscript{111} With respect to both patents and trademarks, this paradigm is oversimplified. Frequently, the debtor's trademarks surely will not be "incidental" to the secured lender taking all the debtor's business assets as collateral for financing. That lender will wish to extract the maximum value from the business on default, and without the trademarks the secured lender probably would not be able to dispose of the business as a going concern. This will have a substantial impact on the value of the other collateral in cases in which the debtor has developed goodwill associated with its trademark.

Similarly, the debtor's patents may enable the debtor to continue making what it sells. In situations where the secured party holds all the debtor's business assets as collateral, a right to the patents enables the secured party to liquidate the property at its going concern value and thereby realize more from the collateral. In such situations, the patents, while valuable in their own right, improve the value of the other collateral as well and would hardly be "incidental" to the state collateral.

legal rights in these intellectual property assets. These functions are unlikely to change. The United States Constitution's grant of federal power over patents,113 the intangible nature of patents and federally registered trademarks, and the national commercial interests in them means that a federal office will continue to serve these functions. Thus, even if a "state-only" system114 for recording security interests in patents and trademarks was chosen and even if such a system made those security interests valid against later absolute transfers (i.e., sales) of patents or trademarks,115 such a system would not eliminate the need to check the federal files for any lender interested in verifying the existence and continued validity of the patent or trademark, the debtor's title, and so forth. Thus even under the strongest "state-only" system, a secured party still would have to check the federal file or risk the possibility that the patent or trademark did not exist or had expired, that the debtor did not own the collateral, or that the property was worth far less than the debtor claimed.116

Unless the Patent and Trademark Office is dismantled or substantially changed, that office will continue to be the repository of very critical information about the debtor's interest in the proposed collateral and the validity and value of the collateral. If a patent or trademark is important to the secured party, that party will have to go to the expense of consulting the federal system to assess risk. Thus, even the best state-only system will eliminate dual-file problems-only for those secured lenders willing to risk the validity of a debtor's claims of ownership, of patent validity, and of non-infringement. What proportion of secured lenders make up this group is not known.117

113 U.S. CONST. art. I, § 8 establishes the federal interest in patents. See supra note 33.

114 This Article considers a range of "state" solutions in more detail infra notes 131-44 and accompanying text.

115 There are significant problems with such a system, which are considered infra notes 131-44 and accompanying text.

116 The need to be involved with the federal system would continue after a security interest is created. For example, the secured party would need to be certain that periodic patent maintenance fees are paid, that trademarks are renewed, and so forth. See Mesrobian & Schaefer, supra note 3, at 838, 855.

117 A very unscientific Lexis search for cases where lenders took patents and trademarks as collateral for secured loans yielded interesting data. All cases from 1975 to the present in all jurisdictions were searched. In only three (3) of the seventeen (17) cases involving such collateral did the lender take a security interest only in intellectual property. The common paradigm was the secured lender who took a broad security interest, which included
Turning from a "state" to a "federal" solution, choosing a federal system is unlikely to relieve many lenders of the burden of consulting the state files. Outside narrow areas of federal involvement, state law generally has dominated secured lending since its inception. In its Article 9 form, this means the dominance of state files for security interests in most personal property including much intangible personal property. Under a "federal only" approach, the state system still will be involved much of the time. Unless the secured lender is taking only federal intellectual property as collateral, the lender will have to consider the state files both to check on the quality of the debtor's interest in the other proposed collateral and to perfect a security interest in it. Federal intellectual property is only a part of the high technology company's intellectual property, which also may include trade secrets, state trademarks, and intellectual property that has not achieved federal protection. Even a high-tech company may have equipment, inventory, accounts, or other assets that have value as collateral and for which perfection must be in the state files. Thus, moving to a federal-only system will only reduce dual-file problems for those transactions whose focus is exclusively on federal intellectual property as collateral. What proportion of secured lenders this represents is unknown, but in all likelihood is a small part.

With the limits of our empirical knowledge in view, some alternatives that might warrant consideration are discussed below.118

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118 The discussion below is brief and is focused on simple variations of the filing systems currently in place. The Article does not discuss the significant substantive omissions from both systems due, in the federal system, to the fact that it was not designed for financing and, in the U.C.C. system, to the fact that it was not designed with intellectual property in the forefront. See supra note 29. The failure of either system to confront
B. Federal-Only Filing Under the Current Federal System

One approach suggested by commentators is to require filing within a federal filing system in order to perfect a security interest in a patent or trademark. This option has little merit unless the federal filing system that would be used for recording security interests were vastly different than the system currently in place. The current system—the product of history and a design intended primarily for other purposes—is burdened with unnecessary constraints that probably add costs to secured financing and thereby dilute the value of patents and trademarks as collateral.

1. Transaction Filing versus Notice Filing

A central problem with the current federal approach to financing is its transactional approach. In contrast to the U.C.C.'s approach in which only one short financing statement is needed for multiple transactions, the federal system contemplates that actual transaction documents be filed and that the actual loan transaction be completed before any filing occurs. Where the debtor needs ongoing financing and periodically acquires new available collateral, the federal approach requires multiple document preparations and multiple filings whereas the U.C.C. requires only one.

Economically significant financing today tends to be ongoing and fluid, not discrete. In ongoing financing, the transactional approach involves considerably more expense than the notice filing approach because the transactional approach involves multiple trips to the filing office, while notice filing requires only one. Such expense ultimately falls on the borrower and decreases the value

priority issues concerning licensees is one such omission. Part V develops some of the matters in its discussion of changes that might be made to Article 9 to better accommodate financing in this area. See infra notes 194-336 and accompanying text.


Nimmer and Krauthaus, supra note 3, recognize that major reform of the federal filing system is necessary to move to a federal-only system.

For a comparison of transaction and notice filing systems, see supra notes 67-88 and accompanying text.

There is an empirical assumption here: that in many cases a debtor will be acquiring patents and trademarks on an ongoing basis. If most debtors do not have a revolving inventory of patents and trademarks, the benefits of the notice approach are less significant. It is obvious that the empirical facts are important on this issue.
of the patents or trademarks for financing purposes. The federal filing system, designed to serve needs other than financing, has accommodated some financing, but transaction filing may not be an optimal solution.

2. Relation-Back Periods

An implication of transaction filing is a grace period after the transaction is consummated to permit the filer to file without exposure to the risk of intervening interests. Relation-back periods constitute another major difference between the current federal system and the Article 9 system. Federal legislation gives a transferee three months following a transfer to record the transfer. If he records the transfer within the three-month period, this legislation protects the transferee against intervening interests.

For a lender looking to intellectual property as collateral, at least a three-month waiting period exists before she can safely advance the money. If, for example, a debtor transferred the asset to a transferee on day one and gave a security interest to a secured creditor on day two, which the secured creditor filed immediately, the secured creditor would lose to the transferee if the transferee subsequently recorded on day ninety. More generally, under the federal system, the earliest the secured party can safely advance funds to the debtor is following a search at the close of business ninety days after her filing which shows that her filing has first priority. The U.C.C. has very few situations during which an unrecorded interest prevails over a later interest. Except where collateral is moving from state to state, the periods are short.

123 See supra text accompanying notes 74, 86.
125 See, e.g., Mesrobian & Schaefer, supra note 3, at 837 (may not be prudent to make loan until after the grace period); Nimmer and Krauthaus, supra note 3, at 216 (to like effect).
126 The general rule under Article 9 is that a financing statement must be filed to perfect all security interests. See U.C.C. § 9-302(1) and comment 1. However, certain security interests are automatically perfected upon their attachment to the collateral or may be perfected when the secured party takes possession of the collateral. Automatic perfection may be temporary. See U.C.C. § 9-302(1). Article 9 also provides some short filing grace periods. See U.C.C. §§ 9-301(2), 9-312(4). See generally J. White and R. Summers, supra note 98, §§ 24-2, 24-5, 22-8.

A major defect in the U.C.C. is the existence of separate filing systems for each state. If a debtor owns tangible collateral in several states, several files are implicated. The choice of law problems have generated a most complex provision of Article 9 designed to point to the correct file. See U.C.C. § 9-103.
Complicating the federal statutory relation-back period is the time it takes for the filing to be entered into the file after submission by the filer. In 1981, a commentator estimated that "a delay of about three months in recording (and thus making available to the public) patent and trademark assignments" existed. If that delay still prevails, a lender cannot have confidence in the file until the relation-back and the office delay periods both pass. In a rapidly moving, competitive economy, a fledgling company seeking to use its intellectual property as collateral could go out of business before a secured creditor confidently could advance a secured loan.

Financing is economically valuable in part to the extent that it can respond quickly to a business's cyclical or emergency shortfalls. Long relation-back periods substantially reduce this value. If a federal-only approach was adopted, the current relation-back period and any delay period within the filing office would need to be reconsidered.

3. The Costs of Change

If those who take federal intellectual property as collateral generally do not use the federal filing system now, a third problem with choosing a federal-only system is the transition cost. The Patent and Trademark Office currently is not equipped to cope with additional finance filings and searches. Similarly, most commercial lawyers are not equipped to cope with the Patent and Trademark Office's procedures. To the extent that the federal office normally does not operate with the speed of U.C.C. filing offices (or would become slower under the stress of increased volume), delay and cost would result.

127 Bramson, supra note 3, at 1574 n. 36.
128 Federal regulations require that assignments be recorded as promptly as possible and specify that the date of record is the date the federal office receives the assignment. 37 C.F.R. §§ 1.12, 1.331-332 (1989). The party filing the document will be protected whether it is promptly accessible to searching or not. The problem is that this secured party will not advance the funds until reasonably certain that an earlier assignee has not filed within the relation-back period. That certainty can come only after the relation-back period and the office delay period have both passed.
129 This assumption is somewhat at odds with the view in this Article that prudent secured creditors, in transactions in which reliance is placed on federal intellectual property, inevitably will consult the federal files. Indeed, some of the reported backlog in the federal system could be the result of increased use of intellectual property as collateral and the resulting use of the federal file for financing purposes. Moving to an exclusive federal system will bring into the federal system additional financing transactions. While some increase in federal activity clearly will occur under such a solution, it could be a small increase. Obviously more empirical facts are needed.
Thus in the short run, costs would result if the Patent and Trademark Office and "strangers" had to learn to communicate "legally" with one another. Until the finance community adjusted, financing would be more difficult and expensive for those needing it. Eventually, secured creditors would adapt to more cumbersome Patent and Trademark Office procedures, but the adjustment process would be costly.

The benefits of federal filing could outweigh the costs if the filing system met more of the needs of secured financiers and their debtors. The proposal developed below suggests implementation of an Article 9 approach, which includes substantial changes in the filing system, to lending on federal intellectual property. Moving to the current federal system, with its transactional approach to filing and large relation-back periods, would impose costs greater than those imposed by the unsatisfactory status quo. Moreover, such a solution would do nothing to reduce non-filing problems that come with applying federal intellectual property law to financing transactions. Moving to a federal filing system also could entail significant transition costs.

C. Alternative Solutions Involving State Filing

Another possible solution would be to give legal effect through Article 9 or a variant of it to an otherwise correct state filing covering patents or trademarks. This solution eliminates the transaction filing problems and relation back periods, and brings intellectual property financing into a system designed for personal property financing generally. However, complications exist.

An immediate problem with a solution involving the state files is that policy makers must unavoidably confront priority issues because the federal system will continue to confer rights on some who file within that system. A proposal that adopts the state system is incomplete unless it addresses various contests that might arise between parties who file only in the state file and parties who file only in the federal file. Any solution that gave priority to a state creditor over a creditor who currently gains rights through filing in the federal file would require federal legislation; solutions giving less effect to the state filing could probably be achieved through U.C.C. changes and Congressional acquiescence.

130 See infra notes 145-92 and accompanying text.
1. **Priority Over All Later Interests**

The strongest state filing system that might be developed would confer priority over all subsequently filed interests, including absolute transferees ("buyers") of patents and trademarks, who obtain their interests through and file in the federal system.\(^{131}\) This would enable the secured party to obtain a relatively "strong" security interest without confronting the federal system.\(^{132}\) Article 9 currently gives a perfected secured creditor priority over most later buyers and, presumably, this is sound secured financing policy. A state law solution that affords such a strong priority seems implausible, at least at first blush.

Currently, a prospective buyer of a patent or trademark can find out much of what she needs to know about the property within the federal system. The federal system contains information to enable the purchaser to assess the value of what she is purchasing and to confirm the seller's ownership. If title is "clear" on the federal record, the purchaser can acquire clear title through assignment without consulting any other files.\(^{133}\) If an earlier state filing was given priority over this buyer, the value of the federal filing system as the repository of information about ownership of the patent or trademark would be seriously diluted. In the process, such a solution would require buyers to consult state files as well as the federal file to determine the quality of the purchase. This solution seems undesirable as well as politically infeasible.

2. **Priority Over Later Security Interests**

A less extreme solution would be to give the state U.C.C. filing priority over later security interests but not over later buyers, and

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\(^{131}\) These parties often take their interests through the legal mechanism of assignment. We use the term buyer to avoid confusion with other kinds of assignees.

\(^{132}\) A secured party under a "strong" state solution will run a great deal of risk by not consulting the federal file. As discussed earlier, this solution will not protect the secured party against the risks that the patent expired, the debtor transferred the property earlier, the debtor did not own it at all, or the debtor has federal intellectual property worth much less than the debtor claims. Obtaining this information requires consulting the federal file. See *supra* notes 112-17 and accompanying text.

\(^{133}\) The assumption here is that neither *City Bank and Trust Co.*, 83 Bankr. 780, nor *In re Transportation Design*, 48 Bankr. 635, establish that a state-perfected security interest prevails over a later federal transferee who has no actual notice of the state filing. Although the courts in both cases held that state filing was adequate to protect a security interest in federal intellectual property against the trustee in bankruptcy, it requires considerable—and probably unwarranted—extension of the cases for the state filing to protect against *bona fide* federal purchasers.
would make a federal filing ineffective to perfect a security interest. This would enable the secured party to get information about loans on the debtor's patents and trademarks from the state file. One implication is that both the collateral assignment and conditional assignment would be eliminated as methods for obtaining a security interest in a patent or trademark. Apart from the transition costs such a change might entail, this solution may decrease protection now available to some secured lenders. Today lenders may be able to obtain priority over all later assignees, including buyers, by taking a collateral assignment through the federal system, and it may not be good policy to eliminate this option. Yet as considered above, a state-only option is unlikely to preserve this measure of priority.

An even less drastic state solution would be to give a state filing priority over all later security interests but to permit federal filing as an alternative to state filing. The problem with this solution is that information in the state file would be incomplete. In order to get complete information about the debtor's secured loans on patents and trademarks, the secured party would have to consult both state and federal files. Additionally, this solution creates a circular priority problem that should be avoided.

134 See supra note 3.
135 The transition costs depend on empirical facts concerning what lenders do now. The authors do not have those facts and no one has attempted to develop them.
136 This is anything but certain. See supra note 3.
137 See supra note 133.
138 Additionally, lenders who take collateral assignments or conditional assignments have or obtain absolute title on the debtor's default. This may give them the equivalent of strict foreclosure—the value of the collateral even when it exceeds the amount of the underlying debt. Although it seems doubtful that a court would sustain such a "forfeiture," the structure of the federal transaction as a transfer of title obscures what may be the debtor's right to the surplus. The extent to which foreclosing secured creditors in fact retain value exceeding the amount of the debtor's obligation is unknown. Finally, this variation would invite creative legal maneuvers to disguise security interests as "assignments" and thereby obtain priority over subsequent buyers or protect against an invalid state filing. The uncertain mesh of Article 9 and federal law, in attempting to sort out the essence of such transactions, would add expense to intellectual property financing. The U.C.C. clearly and unambiguously would limit strict foreclosure in these circumstances. See U.C.C. §§ 9-504(2), 9-505(2).
139 This model finds an analogy in fixture filing, a method by which the holder of an Article 9 security interest in real estate fixtures can gain priority over a conflicting interest in the fixtures held by a mortgagee. See U.C.C. §§ 9-313, 9-401(1). In some instances either a filing in the ordinary goods records or a fixture filing in the real property records is sufficient to perfect an Article 9 security interest in fixtures. However, a perfected secured party will gain priority over a real estate encumbrancer only if she makes a special fixture filing. See U.C.C. §§ 9-313 (4)(b), (d); 9-401(a)(g).
140 Secured party one files in the state file but not in the federal file. Secured party
A final related model would leave state law intact, require a state filing to defeat all persons except a buyer, and additionally require a federal filing if the claimant wanted to defeat a buyer. A secured lender wishing protection only from other secured lenders and lien creditors would file in the state files; if she wanted protection against buyers, she would have to file in the federal file as well. Enabling the secured party to select the level of protection may be good as an economic matter. One problem with this solution is it would probably result in multiple filings in most situations because secured parties would find the extra measure of protection against buyers afforded by a federal filing to be worthwhile and would be visiting the federal office anyway to ascertain validity, value, etc. A solution that, in fact required multiple filings may not be an optimal one.  

3. **Priority Over Later Lien Creditors**

Perhaps the least drastic state solution to the filing problem would recognize the state filing as effective to perfect the security interest against subsequent lien creditors but give all those who subsequently take interests in the collateral and file in the federal system priority over the state-filed security interest. This solution may reflect the legal status quo.  

This solution is probably the least disruptive of all the solutions and saves all parties the costs of changing to a different system. Those who take security interests through the federal system would be permitted to continue using the method they have been using. Those parties would not need to worry about the state system because their federal filings would protect them against all state filings. Similarly, state lenders who now run the risks of unknown problems within the federal file could continue to run those risks and yet achieve perfected status good against lien creditors through state filing.

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101 There are other reasons to question this solution. See infra text beginning at note 175.

142 *Otto Fabric* and *Transportation Design* decided only that a state filing was sufficient to defeat a trustee in bankruptcy utilizing her lien creditor power granted in 11 U.S.C. § 544(a) (1988). They did not decide the priority issues in any contest in which one party properly filed in the state file and the competitor in the federal file. See *supra* notes 23-31 and accompanying text.
The problem is that the consequences of “perfected status” are quite limited. This solution serves only to give the state secured party priority primarily over lien creditors—principally the trustee in bankruptcy. The problem is that apart from improving predictability, this approach supplies a priority far weaker than secured creditors ordinarily get through Article 9. A federal filing in the unsatisfactory federal system would be required under this solution to get the equivalent of Article 9 priority. Thus this solution does little to address fundamental problems of financing based on patents and trademarks. While minimizing disruptive changes in the law may be good, the fact that the current system bumbles along or that lenders have learned to cope with it does not mean that the current system is serving or will continue to serve commercial needs well. The authors’ view is that the current system is in need of fundamental, basic reform.

143 There are other priority consequences because the Article 9 priority system controls as long as there is no federal filing. So, for example, the security interest filed only in the state file would defeat later unperfected security interests, U.C.C. §§ 9-301(1)(a), 9-312, and would defeat secured parties who filed only in the state file but later than the claimant. U.C.C. § 9-312(5)(a). In a regime such as that described in which a federal filing would defeat an earlier state filing, we doubt that many secured lenders would feel confident of their security with only a state filing—such a filing would give them very limited protection.

144 There is also a problem with formulating a priority rule targeted at lien creditors and, specifically, at the bankruptcy trustee who is the principal “lien creditor” and the antagonist a secured creditor may fear the most. It is ordinarily sensible to prefer a perfected secured party over a later lien creditor because in extending credit the secured party relied on the availability of specific assets and the lien creditor did not. The problem here is that the secured party’s actual reliance under this formulation is, by hypothesis, quite low. Of course, we cannot use the secured party’s reliance on the priority rule we are considering to justify the rule itself: the filing itself will not show “reliance” unless we first formulate a rule that tells the secured party that a filing will offer protection. Our secured lender here is the creditor who, by hypothesis, has not made the trip to the Patent and Trademark Office to ascertain title, validity, value, etc. but nonetheless wants priority over lien creditors and the trustee in bankruptcy as to whatever turns up that is of value. State legislatures and Congress must ask why this lender is more deserving than its competitors for the debtor’s assets. Put another way, does this lender have sufficient equity to favor him over creditors with long past due obligations who have struggled to bring the debtor to judgment and, in the bankruptcy situation, over claimants such as trustees and administrators, tort creditors, employees, and other non-reliance creditors served by the bankruptcy process? This reform solution forces state legislatures to confront directly the contest between this secured lender and the person who has struggled through its courts for redress. The alternative forces Congress to address this contest from the perspective of bankruptcy policy and priorities. State legislatures and Congress might well balk at a solution that would so obviously tend to erode the already meager pool of assets otherwise available to judgment creditors and priority claimants in bankruptcy.
IV  AN ALTERNATIVE INVOLVING SUBSTANTIAL FEDERAL SYSTEM CHANGE

The principal impediment to the federal-only approach is the current federal system itself. As currently organized and administered, the federal system cannot cope with secured financing either conceptually or in practice. Because it is a transactional system, it is not equipped for ongoing financing and includes substantial relation-back periods that probably interfere with the financing needs of many debtors. A federal-only solution is plausible only if the federal system itself is changed.

The problem is that the nature of the current federal filing system would need to be changed in fundamental ways to make it optimally serve the interests of secured financing. But it makes little sense to do that to accommodate secured financing because the federal filing system serves many functions, particularly recording ownership for purposes of determining who has the right to sue for infringement. Recording ownership for purposes of secured lending may be secondary to the main purpose the file serves. While the current filing system could be improved, the improvements should be addressed to problems in the system's performance of its primary functions, such as documenting federal intellectual property and recording ownership interests in non-lending transactions. Whether the system could perform those functions as well if it were redesigned to optimally serve the needs of secured financing is questionable.

The fact that the federal filing system cannot serve all needs well does not mean reform is impossible. Rather than tinkering with the current federal system, developing another federal filing system specifically designed to serve the needs of secured lending should be considered.

Congress could establish a U.C.C. filing office either physically within or near the Patent and Trademark Office to be administered by that office, and enact a version of Article 9\textsuperscript{145} to govern security

\textsuperscript{145} See infra note 182 and accompanying text for consideration of a one-part variation: a federal U.C.C. filing office and Congressional deferral to state-enacted Article 9.

As should be obvious to one familiar with Article 9, the whole of the statute need not be enacted to control financing in federal intellectual property. As a statute designed to control the entire range of personal property financing, Article 9 is far broader than it needs be to address this field. In the drafting process, sections that are clearly irrelevant could be excised from the legislation. Some very obvious candidates are the provisions that
interests in patents and trademarks. Such legislation would provide first, that to perfect a security interest in a patent or trademark one must file a document that satisfies Article 9 (a "federal financing statement") within the new federal office and second, that a security interest (as defined in Article 9) in patents and trademarks is subject to the rules of a federal Article 9 (the "federal text"). The files in the new office would be computerized, organized like other U.C.C. files according to the names of debtors, and would be technologically capable of being accessed from other computer locations throughout the United States.

The implications of this two-part proposal are many. The U.C.C. priority rules would become a part of the new system through the federal text, unless those rules are modified by Congress. The current Article 9 rules would yield perfected secured party priority over later transferees and priority dating from the time of filing that extends to patents and trademarks the debtor acquired after the time of the filing. Knowledge of an unfiled security interest would have a greatly reduced bearing on priority. Default and disposition of the collateral would be explicitly controlled by Article 9 rules.

deal with fixtures (U.C.C. § 9-313), multi-state filing choices (U.C.C. § 9-103), and intrastate filing choices (U.C.C. § 9-401). Additionally, some provisions from other U.C.C. Articles would probably be needed: some general provisions from Article 1 such as rules of construction (U.C.C. § 1-102), various definitions such as "creditor" and "security interest" (U.C.C. §§ 1-201(12), 1-201(37)), etc. The extent to which non-Article 9 provisions should be included would depend on the extent to which it would be undesirable to defer to state law on these issues.

Although financing based on federal copyrights is not addressed in this Article, much of what is proposed in this Article would apply as well to copyrights. A federal regime that used the same easily-understood and administered rules for all three varieties of federal intellectual property certainly would be preferable to one that used such rules for only two out of the three.

As will be seen infra in the text accompanying notes 279-80, this proposal would require federal legislation specifying that the existing priority rules in the Patent and Lanham Acts are limited to determining ownership.

Congress will have the opportunity to create a system that avoids many of the difficulties experienced in state U.C.C. filing offices. See generally B. Clark, The Law of Secured Transactions Under the Uniform Commercial Code ¶ 2.18 (2d ed. 1988).


See infra text accompanying notes 338-42.
Before evaluating the suitability of the 1989 Text of Article 9 for federal enactment, the next sections evaluate the perceived benefits and costs of this alternative.

A. Benefits of a System of Streamlined Federal Filing and Article 9 Rules

Article 9 was designed specifically for secured financing, and despite a possible future revision, it serves secured financing far better than the myriad prior systems. By establishing an Article 9 filing office and utilizing a version of Article 9 for patents and trademarks, Congress would establish a time-proven regime to govern financing based on federal intellectual property. The benefits Article 9 brings to secured financing include reduced paperwork, a substantial increase in certainty, more flexible financing, and a comfortable fit with related financing on "state" property.

A direct advantage of moving to Article 9 is paperwork reduction. By eliminating some of the costly paperwork and forms implicit in a current Patent and Trademark Office filing, the costs of making secured loans on patents and trademarks would be reduced. Searches and filings would become simpler, cheaper, and less numerous because of the shift from transaction to notice filing. In a competitive market, the savings could ultimately inure to the benefit of the borrowers.

More subtly, the change would clarify what law controlled various issues, including priority issues. This clarification would reduce the costs of contracting. Moreover, because the priority rules of Article 9 are more certain than those under our current dual system, the predictability of outcome would be improved and the costs of dispute resolution correspondingly reduced. The legal status of secured creditors also would be clarified. Under current practice many lenders take title to intellectual property through...

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152 See Minutes of Meeting, Permanent Editorial Board of the Uniform Commercial Code, September 23, 1989, ¶ 3.

153 Those benefits are the subject of extensive literature. See generally I. G. Gilmore, supra note 29, §§ 9, 10 (discussion of the background and history of Article 9 and the scope and coverage of the Article); J. White & R. Summers, supra note 98, § 21 (scope of Article 9).

154 In general, a decline in costs leads to an increase in output and a fall in price if all other things are held constant. See T. Calvani and J. Siegfried, Economic Analysis and Antitrust Law 36-37 (1979). Thus, a reduction in the transaction costs of intellectual property-based financing would tend to benefit consumers of the financing.
collateral assignments. Under Article 9 secured parties' exposure to ownership risks and responsibilities such as infringement liability should be greatly reduced because a security interest is not the same as title.

Moving from a transactional system to a notice system embracing the priority rules of Article 9 would enable lenders to conduct ongoing financing for those debtors that had a varying collection of intellectual property assets. Financing could be conducted with substantially reduced transaction costs because one federal filing under the new system would probably yield greater protection than multiple uncertain filings under the old system.

Notice filing also would offer continuing, low cost protection to a lender when "state" intellectual property is turned into "federal" intellectual property. For example, if the debtor offered as collateral all her intellectual property, present and to be acquired in the future, but had at the time of the loan only a valuable trade secret that might later develop into a patent, a state U.C.C. filing would perfect the lender's interest in the trade secret. If the lender filed at the same time in the federal file as to "patents," and extended the security interest to interests to be acquired in the future, the lender would be protected as to the patent whenever it issued. Under the present transaction system, a security interest (perhaps taken by collateral assignment) in a patent is not possible until the patent application is made, and once the patent issues the value of the trade secret is eliminated. The monitoring and trans-

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155 See supra note 3.

156 In addition to infringement liability, collateral assignees may have other responsibilities such as policing trademark licensees. See Mesrobian & Schaefer, supra note 3, at 839, 853. Concerning the difference between title and a security interest, see supra notes 55-58 and accompanying text.

157 Although it might be a prudent practice, the U.C.C. does not require the financing statement to state that after-acquired property is covered as long as the description of the collateral by "type" describes the collateral that is eventually claimed by the secured party. See U.C.C. § 9-402, comment 2; James Talcott, Inc. v. Franklin Nat'l Bank of Minneapolis, 194 N.W.2d 775, 783 (Minn. 1972) (Financing statement that referred to "construction equipment, motor vehicles" was sufficient to perfect a security interest in property covered by an extension agreement that gave a security interest in all goods "whether now owned or hereafter acquired."); In re Engle, 73 Bankr. 870, 872-73 (Bankr., E.D. Pa. 1987) (security agreement containing after-acquired property clause and financing statement referring to farm equipment were sufficient to give a security interest in after-acquired farm equipment). See generally 1 G. Gilmore, supra note 29 § 11.6, at 354-59 (discussion of the after-acquired property interest under Article 9); J. White & R. Summers, supra note 98, § 22-6, at 986-87.
action costs under the current system would be reduced by this solution.

Additionally, notice filing makes relation-back periods unnecessary. While the relation-back problem would not be entirely solved by federal adoption of Article 9's notice filing system, the problem would be substantially reduced and would make loans available to debtors sooner. Since Article 9 files are probably easier to maintain, shifting to the U.C.C. system could reduce the delay between filing and indexing. This would improve the reliability of the file, make financing more certain and available sooner, and reduce its costs.

The new federal financing system and the U.C.C. system now in place at the state level would be largely the same. Those lenders who lend on state property, including state intellectual property and federal property, would confront few of the choice of laws issues they now confront. The same or similar documents would be demanded for both the state and federal property, and even though an additional filing would be required for the state property, filing as to both federal and state property would be the same routine act.

The proposed changes unfortunately do not eliminate relation-back periods entirely. For absolute transferees, the current system in the Patent and Trademark Office calls for "assignment" of the patent or trademark and gives a 3 month relation-back period to allow for transaction filing. See supra notes 124-28 and accompanying text. The authors have not addressed this system through which purchasers and other non-financing transferees acquire their interests.

The implications of treating only the financing aspects of the problem are that under this proposal a lender cannot be certain of the debtor's ownership interest until the relation-back period plus any filing delay period within the Patent and Trademark Office have both passed. This will obviously continue to impede prompt financing. Nonetheless, the lending risk is reduced under this proposal because under an Article 9 regime other secured lenders would not have the benefit of a relation-back period. Additionally, only "new" lenders will confront this problem. Once a financing statement is in place, it will (under current U.C.C. rules) defeat later transferees without regard to the relation-back period.

To eliminate a relation-back period entirely might require the adoption of a notice system even for absolute transfers. If the federal file will continue to serve the function of keeping track of owners of intellectual property, some transaction filing system may be necessary. It remains to be seen whether a system can be devised that allows the federal file to continue performing this function while, at the same time, eliminating the relation-back period. It should be obvious that shortening the period and eliminating delay in the Patent and Trademark Office would be helpful.

While we suggest a number of changes to a federal text to better accommodate secured lending on intellectual property, see infra notes 194-336 and accompanying text, the basic structure, vocabulary, and conceptual approach will remain the same. In addition, many of these changes we suggest may be incorporated into a new Article 9 thereby further reducing differences.
B. Costs

The projected benefits suggested above will never be quantifiable with any precision. Some of the costs may be more susceptible to estimation; the question for policy makers will be whether the proposed change costs more than it is worth.

1. Costs for Taxpayers

Perhaps the easiest costs to consider are the start-up costs in establishing and maintaining the new filing system. The cost of establishing a new filing system specifically designed to receive and maintain financing statements covering patents and trademarks would seem relatively modest. Even the modest costs of putting a new system into place should not be viewed in a vacuum. Maintaining U C.C. files of financing statements covering patents and trademarks may be less expensive than maintaining the older Patent and Trademark Office files, some of which the newer files would replace. Any savings could eventually offset whatever startup costs were involved in establishing the new office. Moreover, with the proliferation of computers, the task of keeping track of security interests has become much easier.160 If the new system is fully computerized, much of the expense now implicit in searching, indexing, and maintaining traditional U C.C. files could be reduced.

2. Costs for Lenders and Persons Who Primarily Use the Patent and Trademark Office Files

As suggested earlier,162 it seems unlikely that many lenders deal solely with the federal file. However, potential buyers of intellectual property do work primarily with the federal file. As this proposal

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160 Louisiana adopted Article 9 effective January 1, 1990. 1989 La. ACT 135; 1989 La. SB 879. Among that state's innovations is a computerized statewide filing system. The system allows secured parties to perform searches and file financing statements in any of 64 parish offices without regard to location of the debtor. From any local office, one can find a financing statement that was filed anywhere else. This system, made possible through computerization, has eliminated from secured lending many of the troublesome where-to-file questions and thereby made it less expensive and risky.

161 See supra note 148.

162 See supra notes 111-18 and accompanying text.
affects all those who use the federal system, one, must consider the impact of the proposal on these "outsiders" to financing who will be confronted with the new system.

The proposed new system requires those persons who now search for and acquire information through the Patent and Trademark Office to take an additional step—check with the nearby federal U.C.C. office under the name of the debtor. Although this step adds some expense, it would appear minimal when compared to the expenses a potential transferee or lender normally sustains in assessing risk within the Patent and Trademark Office. As discussed earlier, a prospective purchaser or a lender wishing to rely on a patent or trademark as collateral has to confirm that the debtor has a current interest in it, that it does not infringe another patent or trademark, and that it is otherwise valid. These expenses are endemic to employing federal intellectual property as collateral and continue whether the current secured financing regime is changed or not. Under the new regime, potential transferees and lenders would have to accurately determine the name of the debtor and run a search in the federal U.C.C. office under that name. The costs of an additional U.C.C. search seem negligible.

A change from the transaction system for lending to a notice system arguably could impose other new costs. Because the proposed system is a U.C.C. notice filing system, the U.C.C. files themselves would not reveal whether the patent or trademark actually was subject to a valid security interest. If a financing statement was discovered, the potential transferee would have to inquire further to determine if the debtor had encumbered the property it was now proposing to sell or offer as collateral. For those who conceive of a file's function as definitively establishing ownership

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163 The underlying assumption here is that it is desirable as a policy matter to have a perfected security interest in a patent or trademark defeat a later buyer. That policy choice, although currently part of both federal and state law, is probably sound but should be examined in any large-scale codification of the law governing federal intellectual property financing. For a discussion of some of the issues see infra notes 275-336 and accompanying text.

164 An efficient, well thought-out plan would enable searchers to trigger searches of both files with one search request.

165 See supra notes 111-18 and accompanying text.

166 Indeed, the improvement in certainty that would follow the elimination of the relation-back period for financing searches might well offset the additional effort.

167 U.C.C. § 9-208 requires the secured party to give information about the secured transaction only in response to a request from the debtor. Given a shift from a transaction system to a notice system envisioned by this proposal, policy makers might consider making information from the secured party more readily available.
and the extent of competing interests in property, a notice filing system would be unsettling.

If the change is viewed in its real-world context, it seems less problematic. Even now the single federal file does not definitively determine all the issues important in assessing the value of a patent or trademark. For example, the file does not reveal the amount of debt remaining that once supported a collateral assignment. More importantly, the file does not give conclusions about validity and potential infringement. As is true under the U.C.C. system, a searcher in the current federal system begins with the file; after further risk assessment from investigation outside the file, a lender or purchaser comes to a judgment that is subject to some risk of error. The fact that the two federal files under the proposal seem to contain less actual information than is present in the current federal file is a cost, but when viewed against the substantial gaps in information implicit in the current federal system, the decrease in information seems small.

Similarly, the system as proposed will require those who now take security interests and file in the current federal office to file in a different physical location. During the transition phase, some secured parties would continue to use assignment forms and file them in the old office. Under the proposal, they would be required to file in the “new” office if they wished to obtain priority protection. While filing in a different office might be viewed as a cost, the simplified filing regime easily ought to offset this inconvenience.

3. Costs for Those Who Now Deal Primarily With State Offices

Earlier, a paradigm secured party was constructed, who took a security interest in all the debtor’s personal property including patents and trademarks. That lender operated primarily with “state” collateral and might view a visit to the Patent and Trademark Office to perfect a security interest as a significantly increased transaction cost. But unless the patents and trademarks were a truly insignificant part of the collateral, a visit to the federal office was likely in order to assess the value of the collateral. A federal filing is a relatively small addition for those creditors that had to go to the Patent and Trademark Office anyway.

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168 See 1 Gilmore, supra note 29, § 15.2, at 470.
169 See supra notes 108-17 and accompanying text.
There was an additional omission from the paradigm that is important here. Secured parties in larger transactions often deal with more than one state office. The Article 9 filing rules have enough play in them to prompt cautionary searches and filings by most lenders in any sizeable transactions. The low cost of filing and searching no doubt makes this a cost-effective practice.

In addition, if the collateral for a loan is "mixed," that is, if it consists of tangible and intangible personal property in various U.C.C. categories, multiple searches and filings may be required by Article 9. In any transaction in which tangible collateral is located in more than one state, the U.C.C. usually will require a filing in all states where most forms of that collateral are located and in the state of the debtor's location for intangible property. Even where everything is located in a single state, filings in a central state office, county offices, or both may be required.

As suggested earlier, requiring a secured party under the existing federal system to make a federal filing in the Patent and Trademark Office can entail significant cost because of the different documents and procedures implicated. By contrast, to require a U.C.C.-oriented secured party to make an additional U.C.C. filing under the proposed system adds almost nothing to the costs of the transaction. If the new system permitted filing by distant computer or by mail, the additional costs imposed on secured parties would be trifling.

4. Costs of Change

As persons learn to cope with the new system, transition costs will be sustained. Those with little understanding of Article 9 would have to learn enough to cope with an office using U.C.C. procedures. Yet when compared to the alternative of requiring the financing community to learn to cope with the current Patent and Trademark Office approach, the transition costs will be insubstan-

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111 Mobile goods are, however, treated as intangibles by the U.C.C., and the statute fixes the place for filing as to that collateral at the location of the debtor, not in the states where the goods are located. U.C.C. § 9-103(3).

112 See id.

113 See U.C.C. § 9-401.
tial. Article 9 is not easy to master, but the U.C.C. was designed from the ground up, and little within it is out of harmony with the whole. Moreover, mastery is not required to comply with its filing demands.\textsuperscript{174}

Since one would need to give some effect to filings that existed under the old systems on the day of enactment, transition problems would arise. But this will be a problem with any solution that changes the current legal regime into an exclusive federal system. A transition period is one obvious solution.

C. Federalism, Supremacy, and Uniformity Problems

The tenets of this two-part alternative are establishing a federal filing office for security interests in patents and trademarks and enacting a version of Article 9, as modified by Congress to reflect federal policy,\textsuperscript{175} which will become the federal law applicable to security interests in patents and trademarks. The benefits are a system specifically designed for secured lending and less friction with the system applicable to secured lending not involving patents or trademarks.

One objection to this variation is that this alternative will "federalize" commercial law, and such efforts should be resisted. Although calls for federal enactment of a code of commercial law have been made,\textsuperscript{176} this proposal is not one of them. Rather, this alternative simply suggests application—as federal law—of a system for secured financing that is far superior to the uncertain current law.\textsuperscript{177} Just because state law serves as a model for new federal law in an area that federal law has always played a significant role does not mean that state commercial law is being "federalized."
On the other hand, *Otto Fabric* and *In re Transportation Design* have given some effect to state law in this area, and this alternative would, in effect, reverse those cases in the interests of predictability and ease of application. This implies a shift in the law that controls federal intellectual property towards federal control. However, most obvious state law alternatives suffer from policy objections that render them far less desirable.

Additionally, state control implies state-to-state variation. This aspect of federalism may often be a good thing inasmuch as smaller governments are thought to respond better to different regional problems. But in this area, the lack of commercial law uniformity—the diversity—that helps justify federalism becomes an additional factor in considering whether both parts of a "federal" solution are attractive.

This alternative would use as a benchmark the 1989 Official Text of the U.C.C. because no enacted, uniform U.C.C. exists that the federal law could incorporate in whole or in part. Most states have engrafted non-uniform amendments to the Code, and state courts differ in their interpretation of their Uniform Commercial Codes. For example, nearly 20 years after the 1972 Amendments to Article 9 were unveiled, one state is still working with the 1962 version of Article 9. The federal law governing federal intellectual property, on the other hand, has purported to be uniform national law since its inception. A solution that would result in appreciably less uniformity of the federal law in this area is not to be encouraged.

Perhaps the most serious objection to federal enactment of a version of Article 9 is the complexity that would follow where the federal Article 9 and the state Article 9 differed. It may be fair to assume that federal intellectual property by itself is seldom taken as collateral for a loan. It may be that a secured creditor interested only in intellectual property will take both state and federal intellectual property as collateral. It may also be that many lenders who take security interests in federal intellectual property also concurrently take security interests in non-intellectual personal

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178 See supra notes 23-31 and accompanying text.
179 See supra notes 131-44 and accompanying text.
property. Thus, it seems nearly inevitable that, under a federal Article 9, both state and federal law could apply to different parts of the same transaction. If the applicable law differed, transaction costs to untangle the complexity would follow.

To avoid complexity Congress could establish the federal filing office but defer to Article 9 as state law to control most other questions as it did with the Federal Aviation Act.\(^1\) Deferring to state law on non-filing issues would eliminate conflict when state and federal collateral were involved in the same transaction and reduce complexity and costs. But while the Federal Aviation Act model followed this approach, deference to state law is not well suited to solving the problems implicated here.

Deferring to the current Article 9 as the applicable law for federal intellectual property financing will not of itself be adequate. Although the present Article 9 would be an improvement over the current confusing mix of federal and state law, in many situations Article 9 is difficult to apply to problems that likely will arise with regularity.\(^2\) Additionally, in several places Article 9 dictates different results from the results reached under current federal law applicable to patents and trademarks.\(^3\) Possibly the current Article 9's policy choices are all preferable to the federal law alternatives, but if Congress disagreed, special federal legislation would be passed to override selected parts of the 1989 Text.

The U.C.C.'s Permanent Editorial Board has begun a study of Article 9. The problems of intellectual property financing are being considered and the results of the study could eventually produce an Article 9 that addressed the problems of intellectual property financing—both state and federal—and resolved the current conflicts between federal and state law satisfactorily. This revision process has great promise and makes a deference to state law model more palatable. But the realities of the Uniform Commercial Code revision and enactment process prompt the authors to favor a federal solution despite the conflicts it might cause.


\(^{183}\) See infra notes 290-323 and accompanying text (discussing priority contests among perfected secured creditors and subsequent licensees).

\(^{184}\) For example, the knowledge of a competing claimant can be determinative under the federal scheme, whereas knowledge is irrelevant in determining most priorities under Article 9. See infra note 275-89 and accompanying text.
If an Article 9 can be developed that adequately addresses the issues of intellectual property financing,\(^{185}\) that statute will differ from the current Article and will be a long time coming. U.C.C. reform entails a lengthy process of developing the statute followed by a very time-consuming process of state by state enactment. In the interim, either an inadequate Article 9 would govern everywhere (prior to any adoption of the new statute) or the inadequate statute will govern in some states and an improved statute will govern in others. This lack of textual uniformity is probably inevitable.\(^{186}\) The policy questions are how much state law divergence from federal law is likely under a federal solution, and whether the undesirability of that divergence is outweighed by the gains in intrastate uniformity that a state law solution would yield in those cases where mixed transactions are involved. Although one might tolerate the non-uniform state amendments and judicial interpretations of state law in order to have the same law applied to all parts of the same transaction, the slow, incremental process of making the text of a new Article 9 into state law presents a substantial obstacle to a state-law option. If history is to be any guide, it may be 20 years following promulgation before states are even working with the same text of a new Article 9.

A federal text for federal intellectual property financing solves the problem of interstate variation because the federal text becomes the law in all states at enactment. However, the law to be applied

\(^{185}\) An optimal set of rules for intellectual property financing could conceivably differ from the optimal set of rules one might develop for other kinds of personal property financing. If this turned out to be the case, there would be several alternatives available for reformers. They could choose one set of rules and thereby sacrifice optimal results in one area in the interest of statutory simplicity. They could make a more complex Article 9 by adding special rules for intellectual property collateral. Or, if the differences for intellectual property financing were extensive enough, they could develop a whole new statute to treat only intellectual property financing. The authors think that intellectual property financing generally may require some (perhaps many) special rules; the authors do not know whether federal intellectual property has characteristics that make it unsuitable for treatment with intellectual property generally. If financing based on federal and state intellectual property can be well served by the same rules, a federal text developed solely for federal intellectual property could (in an odd reversal of federalism) serve as a model for state rules to govern non-federal intellectual property generally.

\(^{186}\) Even if the law were exclusively federal, that would not guarantee uniform treatment of security interests in federal intellectual property. A vast array of state law issues could arise in connection with any such financing, and where the law on those issues differed from state to state, so might the intellectual property financing. Major areas such as contract formation and capacity to contract will probably always be governed by state law, and to that extent, practitioners will have to address choice of law questions and look outside the federal law for guidance.
to a "mixed" transaction will be particularly troublesome in those states where an old Article 9 governs part of the transaction and a new federal Article 9 governs the rest. The trade-off seems to be national uniformity in the law governing federal intellectual property versus local uniformity in the law governing a single mixed transaction. How would one choose between the two approaches?  

It may not be enough simply to assert that federal law governing patents and trademarks must be "uniform" and that the state law solution would undercut uniformity. Uniformity, after all, is only a goal and it can be compromised in the interests of higher values. State law governing commercial transactions has a uniformity goal as well, but this goal routinely yields to other values.  

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187 There are other approaches that might be considered. Congress could reduce the intrastate problems of different federal and state law being applied to the same transaction by legislating that the Official Text of the revised Article 9 governs federal intellectual property financing. This might be sensible if a new Article 9 addressed these types of collateral and reformers made revisions to Article 9 that made policy sense to Congress. To the extent that states were to enact the revised Official Text, they would reduce for their citizens the conflict between their state law and the law that would apply to federal intellectual property. At the same time, the same text would apply to federal intellectual property in all jurisdictions. The authors know of no precedent for such a solution, and of course, it resembles the main alternative the authors have been considering in the text to the extent that the Official Text developed by reformers and the federal text developed by Congress resemble one another. A problem with this variation is that the Permanent Editorial Board has only begun a study process; a revised Article 9 (if that is deemed called for) is many years off. Congress also could solve both the interstate non-uniformity problem and a large part of the intrastate non-uniformity problem by legislating a regime to cover all intellectual property financing, both federal and state, and establishing a filing office to receive financing statements covering all forms of intellectual property. If intellectual property financing is an area with discrete problems and issues that call for different answers than other areas, that is, if a separate statute for intellectual property generally is needed, this variant might be worth considering.  

188 Although there should be a reason based in policy for demanding national uniformity in federal intellectual property financing, one has a sense that inertia and rhetoric may play a large role in deciding whether Congress will develop a new federal text to govern federal intellectual property financing or whether, instead, Congress will explicitly defer to state law. As suggested in the text, there may be good reasons for a state law solution to the non-filing issues. But given the U.C.C. enactment process and the virtually certain lack of national uniformity that will accompany a new Article 9 for several years, it could be difficult for Congress to explain legislation directed to patents and trademarks that explicitly deferred to individual state law, the contents of which Congress could not predict in advance. Put another way, if Congress decided to act at all (which the authors believe it must in order to clarify the uncertain relationship between federal and state law), it might find it politically troublesome to specifically defer to state law given the predictable, relatively long-term lack of statutory uniformity such a decision would entail.  

189 See U.C.C. § 1-102(1)(c).  

190 See generally Knappenberg & Woodward, supra note 180.
In the area of federal intellectual property, uniformity may be particularly important owing to the presence of non-lenders who will be affected by the law governing federal intellectual property financing. Under the tentative priority rules of the alternative we have been considering, potential buyers will take their interests subject to earlier perfected security interests as they now do under the Patent and Lanham Acts. Those buyers must therefore confront the law governing federal intellectual property financing.

Such buyers probably need not now consult state law to determine whether a purchase of intellectual property will be subject to a state-filed security interest. Requiring those persons, having found a financing statement in the new federal U.C.C. file, to figure out which state law applies and determine the impact of that particular state's law on their non-financing transaction injects high costs into their transactions. But once again empirical facts could bear on the problem; it may not make sense to decide what is the optimal approach without finding out more about buyers of federal intellectual property. If buyer transactions are not economically significant and would not become so under a different legal regime, we may not want to bottom a policy choice on their interests.

Finally, although federal enactment of a version of Article 9 for financing with federal intellectual property might inject some legal complexity where state and federal texts differ, it could conceivably have a stabilizing effect on state U.C.C. law. Courts would be called upon to decide matters based on federal law that tracked the U.C.C., and those decisions would be available by analogy in addressing similar problems under state law. To the extent a

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191 Buyers of federal intellectual property take subject to preexisting licenses, yet there is no recording system now available to permit those potential buyers to independently determine if the intellectual property they are buying is being conveyed with or without preexisting licenses. The curious apparent ability of buyers to live with the status quo for licenses suggests several possibilities: there might not be much trade in this form of property, trade in this property could be substantially different from trade in other personal property, or the industry might have developed non-governmental means to more accurately ascertain the risks. This surely underscores the need for better understanding of the actual business practices in this field before deciding on the optimal solution.

192 If buyers do not buy federal intellectual property very often, it could simply mean that aspects of the current legal regime are such that it inhibits sales transactions whereas a different legal regime might not.

193 An issue raised by this variation is whether Federal Courts should have jurisdiction over disputes related to federal intellectual property financing. 28 U.S.C. § 1338 (1988) currently gives Federal District Courts original jurisdiction of "any civil action arising under
federal text and a revised Article 9 resembled one another, a federal text also could improve the state enactment process and serve as a constraint on the non-uniform amendment process: an outdated Article 9 and non-uniform amendments would increase the complexity in situations where both federal and state law applied to different parts of the transaction.

V INTELLECTUAL PROPERTY AND ARTICLE 9: TOWARDS A FEDERAL TEXT

The proposal contains two elements. First, security interests in patents and federally registered trademarks would be perfected by filing a federal financing statement in an office associated with the Patent and Trademark Office. Second, the 1989 Official Text of the Uniform Commercial Code, with appropriate amendments, would be federally enacted to provide a comprehensive regulatory scheme for these security interests, which states could not alter. The proposed legislation is referred to as the "Federal Text." This section considers for inclusion in the Federal Text amendments to the 1989 Official Text of the Uniform Commercial Code that may be appropriate to facilitate federal intellectual property financing. Many of the amendments considered also would be appropriate for a revised edition of the Official Text of Article 9 if Congress fails to act or determines that state rather than federal law should control security interests in patents and trademarks.

A. The Floating Lien

The 1989 U.C.C. Text validates the "floating lien," a consensual security interest encumbering present and future assets as any Act of Congress relating to patents, copyrights, and trademarks." This section has received a narrow construction by a leading case in the financing area, Republic Pictures Corp. v. Security-First Nat'l Bank, 197 F.2d 767 (9th Cir. 1952), but surely policy makers would want to address this issue to spare the courts the need to decide the matter. Whether a need for more uniformity or some particular competence possessed by the federal courts justifies federal jurisdiction here as a matter of policy is an issue we leave to others to debate.

The authors propose federal enactment of enough of the 1989 Text to provide a statutory framework for intellectual property financing. Many provisions of Article 9 seem clearly irrelevant for this purpose, and it would make sense to omit them from the legislation. See, e.g., U.C.C. § 9-313 (security interests in fixtures). Many provisions which may be suitable with some modification are discussed in this part. See infra notes 195-336 and accompanying text. No doubt there are others. See, e.g., U.C.C. § 9-318. Additionally, an implication of our proposal is that some sections from other Articles of the Code also would be federally enacted. See, e.g., U.C.C. § 1-201(37) (definition of security interest). This Article concerns broad policy choices implicated in adapting Article 9 to this field; it does not detail which sections of the U.C.C. should or should not be federally enacted.
security for present and future obligations. The lien stands on three legs: an after-acquired property clause, a future advance clause, and a provision permitting the security interest to attach automatically to proceeds received by the debtor on the disposition of original collateral. This section discusses whether there is any reason to limit the availability of the floating lien under the Federal Text and, if not, whether the 1989 Text's floating lien machinery is adequate for federal intellectual property financing.

1. *Future Advance Clauses*

The future advance clause permits a single security agreement to secure a series of loans over time. Advances may be perfected as soon as the secured party commits to them. The priority of each advance may date from a proper filing, which because of notice filing, may occur at any time—even before execution of the security agreement. No apparent reason exists in the context of intellectual property financing to alter the Code's future advance apparatus. A debtor's patents and trademarks can be relatively long-term assets. They should be available as collateral for a series of credit extensions from the secured party without the transaction costs imposed by multiple security agreements, financing statements, and filings.

2. *After-Acquired Property Clauses and "Purchase Money" Lenders*

A valid after-acquired property clause under the Federal Text would permit a security interest to attach automatically to patents or trademarks issued in the future as well as to those owned by the debtor when the security agreement is executed. Assuming the presence of a legally sufficient security agreement and value given to the debtor, the security interest would attach to a future

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195 See U.C.C. § 9-204, comment 2. See generally 1 Gilmore, *supra* note 29, § 11.7, at 359-60 (discussion of Article 9 security interests and the "floating lien").
196 U.C.C. § 9-204(1).
197 Id. § 9-204(3).
198 Id. § 9-203(3).
199 See U.C.C. §§ 1-201(44)(a), 9-105(1)(k), 9-203(1)(b), 9-303(1).
201 An after-acquired property clause might extend to any reissue, division, continuation, renewal, extension, or continuation in part, or improvement of any patent. See Bramson, *supra* note 3, at 1600. Likewise, it might reach all the debtor's right, title and interest in trademarks that the debtor may acquire in the future.
asset at the moment the debtor obtains rights in it.202 Because of notice filing, priority for all present and future collateral may date from a single filing prior to execution of the security agreement.203

No apparent reason peculiar to intellectual property financing exists for limiting the clause's availability, and under current practice, one commentator recommended language similar to an after-acquired property clause for collateral assignments.204 But an unqualified endorsement of inclusion of the 1989 Text's after-acquired property clause machinery in the Federal Text cannot be made without first considering the rights of purchase money financers seeking security in patents or trademarks.

Valid after-acquired property clauses permit a debtor to give first priority in all present and future property to one lender through an all-embracing security interest. At one time, these clauses were viewed skeptically because they enabled a creditor to "monopolize" all the debtor's present and future personalty, making it impossible for the debtor to obtain secured financing from other sources.205 The 1989 Text partially overcomes this problem by providing that a creditor who enables the debtor to acquire new assets may obtain a purchase money security interest in those assets with priority over an earlier perfected security interest encumbering after-acquired property.206 Unfortunately, application of this limited exception to the first lender's monopoly on financing is difficult in the context of intellectual property 207

Suppose that a debtor previously granted a security interest covering all present and future trade secrets and patents to secured

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202 See U.C.C. §§ 1-201(44), 9-110, 9-203(1), 9-303(1). The nature and timing of the debtor's rights in the collateral are defined by non-U.C.C. law and, in this case, may be defined by federal intellectual property law.

203 See U.C.C. § 9-312(5)(a).

204 See Bramson, supra note 3, at 1587. The 1989 Text's only limit on after-acquired property clauses applies when the debtor is a consumer. See U.C.C. §§ 9-109(1), 9-204(2).

205 Critics were skeptical for other reasons as well. For example, it was thought that the clause might harm unsecured creditors by depriving them of a cushion of free assets. See U.C.C. §§ 9-204 comment 2; 9-312 comment 3. See generally 1 GILMORI, supra note 29, § 11.7, at 359 (reasons why this aspect of Article 9 is its most controversial feature).

206 See U.C.C. §§ 9-107, 9-204 comment 5; 9-312(3)-(4). The purchase money priority also may be explained as a means to reduce transaction and monitoring costs. Jackson & Kronman, Secured Financing and Priorities Among Creditors, 88 YALE L.J. 1143, 1168-69 (1979).

207 The Code's original drafters may have believed that purchase money security interests in general intangibles such as patents or federally registered trademarks were unlikely. See 2 G. GILMORI supra note 29, at § 29.5; Gilmore, The Purchase Money Priority, 76 HARV. L. REV. 1333, 1372 (1962-63) (it is almost impossible to conceive of a situation in which intangible money claims could be made the subject of a purchase money transaction).
party A. The debtor wishes to develop a new patentable technology and secured creditor B is willing to provide all necessary financing provided that it will have priority over A. One source of difficulty is that under the 1989 Text it is necessary for B to obtain "purchase money" status in order to have priority over A. This requires B to show that it gave value "to enable the debtor to acquire rights in or the use of" the new technology and that the value was "in fact so used." How could B show this in the context of a debtor’s developing intellectual property? The enabling and tracing requirements may be difficult to satisfy if the debtor employed resources from any other internal or external source to finance the development of the technology. Tracing may be impossible unless secured party B closely monitors the debtor’s use of the loan proceeds. If the availability of purchase money priority is or could be important in the context of intellectual property financing and the 1989 Text’s enabling and tracing burdens seem unworkable, then reducing these burdens through appropriate amendments incorporated into the Federal Text may be appropriate. Perhaps it should be enough that the loan transaction is closely allied with the debtor’s development of the new intellectual property. The

208 See U.C.C. § 9-312(4).

209 U.C.C. § 9-107(b) ("A security interest is a ‘purchase money security interest’ to the extent that it is taken by a person who by making advances or incurring an obligation gives value to enable the debtor to acquire rights in or the use of collateral if such value is in fact so used."). A person who sells the asset to the debtor must show that the security interest was taken "to secure all or part of its price." Id. § 9-107(a).

210 The same problem also may arise in connection with trade secrets or other state intellectual property. Article 9’s language also poses problems for the financer in a somewhat analogous situation, that in which a buyer finances the encumbered debtor’s production of new goods. See Jackson & Kronman, A Plea for the Financing Buyer, 85 YALE L.J. 1 (1975).

211 Cf. supra notes 191-92 and accompanying text.

212 The enabling and tracing requirements are not always difficult. For example, suppose that a person wishes to borrow funds in order to become the assignee of a patent and gives the financer a security interest in the patent. The creditor might establish both requirements by making the loan check payable to the assignor.

There are at least three methods for a lender to avoid the need for purchase money standing altogether: (1) make a large enough loan to pay off the prior creditor protected by the after-acquired property clause, (2) negotiate a subordination agreement with the prior creditor (see U.C.C. § 9-316), and (3) loan at the unsecured interest rate.

213 The purchase money standing requirements, see supra note 209, have frustrated attempts to claim purchase money priority in intangible assets. See, e.g., MBank Alamo Nat’l. Assoc. v. Raytheon Co., 886 F.2d 1449 (5th Cir. 1989); In re Woodworks Contemporary Furniture, Inc., 44 Bankr. 971, 39 U.C.C. Rep. Serv. 1842 (Bankr. W.D. Wis. 1984).
purchase money concept was not intended to require "rigid adherence to particular formalities and sequences."214

The second difficulty for lenders seeking purchase money priority in intellectual property is the 1989 Text's requirement that the interest be perfected at the time the debtor receives possession of the collateral or within ten days thereafter.215 Patents and trademarks, unlike "pledgeable" intangibles such as negotiable instruments, are not reified. Therefore, they are incapable of being possessed in the Code's intended sense of that term, which requires physical delivery to the debtor.216 For example, when does a debtor "possess" a patent? Is it when the debtor has paid the appropriate fee and met all other requirements for issuance of the patent, when the patent document is delivered by the Patent and Trademark Office, or at some other time?217 Since an ambiguous answer will raise the costs of lending, this may be another area for clarification in the Federal Text. The same problem arises in connection with state intellectual property such as trade secrets and state trademarks, which also are not reified.

If purchase-money priority is unworkable in the context of intellectual property, the question becomes whether an unlimited after-acquired property clause that enables the first lender to monopolize the debtor's secured lending is a good idea, and if not, what limits are appropriate.218 More detailed analysis of these questions is not within the scope of this Article.

214 MBank Alamo, 886 F.2d 1449 (Goldberg, J., dissenting) (quoting 2 G. Gilmore, supra note 29, at 782); see also Jackson & Kronman, supra, note 210 (an analysis and proposal concerning a somewhat analogous problem with the enabling and tracing requirements).

215 One commentator suggests that if a secured party wants a purchase money security interest in intangibles, then the finance transaction should be "documented" in order to satisfy the 10-day rule. B. Clark, supra note 148, ¶ 3.09(2)(b).

216 See, e.g., Gold Medal Prods., Inc. v. Love Enters., Inc., 766 S.W.2d 759, 761 (Mo. Ct. App. 1989) (under Article 9 it is impossible to perfect a security interest in a general intangible such as a patent by possession); see Wellsville Bank v. Nicolay, 33 U.C.C. Rep. Serv. 72 (Kan. Ct. App. 1982) (possession of a document describing nonreified intangible rights such as those under a patent or trademark would not amount to possession of the rights themselves); cf. In re Information Exch., Inc., 98 Bankr. 603, 604-05, 8 U.C.C. Rep. Serv.2d 823, 825 (Bankr. N.D. Ga. 1989) (possession of computer tapes insufficient to perfect a security interest in the program and data base on the tape). See 2 G. Gilmore, supra note 29, § 29.3, at 787, § 29.5, at 799; B. Clark, supra note 148, ¶¶ 3.09(4)(a), (c).


218 For example, Article 9 places partial limits on the after-acquired property clause in the case of consumer goods. See U.C.C. § 9-204(2).
3. Proceeds

The 1989 Text provides that a security interest continues in any identifiable proceeds received by the debtor.²¹⁹ "Proceeds' includes whatever is received upon the sale, exchange, . . . or other disposition of collateral or proceeds."²²⁰ As a general proposition, any personalty that might fall under this definition and be identified (i.e., traced) also can be easily encumbered as original collateral under an after-acquired property clause.²²¹ For example, a creditor might include "all future patents" in a security agreement because the creditor anticipates that the debtor may eventually exchange its existing patent for a different one, and the creditor wishes to have a security interest in the new patent. Even though one can achieve such results by careful drafting, good reasons exist for having a security interest attach automatically to proceeds in addition to permitting a broad after-acquired property clause.

First, the proceeds claim can provide a second "bite at the apple," which may be important if some insufficiency in the after-acquired property clause exists.²²² More importantly, under federal bankruptcy law a secured claim to proceeds might be employed successfully to recover a patent or trademark acquired by the debtor's estate after the filing of a bankruptcy petition, whereas an after-acquired property claim would be ineffective for this purpose.²²³ The Bankruptcy Code provides that if a prepetition security agreement extends to proceeds, the terms of the security agreement and "applicable nonbankruptcy law" such as Article 9 will be enforced against postpetition proceeds.²²⁴ If, as a policy matter, proceeds claims in or out of bankruptcy are important in the context of intellectual property financing, the 1989 Text's definition of proceeds may be insufficient.

The degree of inadequacy of the 1989 Text can be illustrated through some examples where the original collateral is a patent

²¹⁹ U.C.C. § 9-306(2).
²²⁰ Id. § 9-306(1).
²²¹ But see U.C.C. § 9-104.
²²² Intellectual property financers currently include an after-acquired property clause in their assignment documents. See Bramson, supra note 3, at 1599 - 1600 (example of a patent collateral agreement).
²²⁴ The security interest may extend to "proceeds, products, rents, or profits" of prepetition collateral, and a secured party's recovery may be limited by the "equities of the case." Id. § 552(b). See generally 4 COLLIERS On BANKRUPTCY ¶ 552.01-.02 (15th ed. 1990) (general rule of § 552(a) and (b)).
that the debtor exchanges for something else. If the debtor gets a check or cash from an assignee upon assigning the patent, both check and cash seem to fit comfortably within the 1989 Text's definition of proceeds and would be subject to the secured party's security interest. If the debtor licenses the patent to a third party in return for royalty payments, the situation is less clear. The right to receive royalties and the royalty income stream can be viewed as resulting from the debtor's "disposition" of rights from the bundle of rights represented by the patent. Under this view, the debtor's right to receive payment, formalized by the license and satisfied by the royalties, fits the definition of proceeds in the 1989 Text. An analogy is the sale of one good from an inventory of goods securing a loan. The debtor's right to payment may be reflected in a sales agreement, which is analogous to the license, and ultimately results in payment by the purchaser, which is analogous to the royalties.

However, the royalties might be thought of as payments for immunity from patent infringement or for the sharing of patent rights. Intellectual property law may support this approach, which could lead to the conclusion that no "disposition of collateral" has occurred and that the royalties are not proceeds within the definition. Article 9 case law provides analogical support for this view. For example, payments received from users of collateral consisting of commercial video game machines has been held not to constitute proceeds because the payments were for the use of

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225 In the case of cash proceeds such as money or checks, restitutionary or trust tracing principles may be employed to identify proceeds out of bankruptcy. See U.C.C. § 9-306(1)-(2); Universal C.I.T. Credit Corp. v. Farmers Bank of Portageville, 358 F Supp. 317 (E.D. Mo. 1973). In bankruptcy, the secured party's recovery is defined by U.C.C. § 9-306(4). See generally Wemberg, The Malformed Mouse Meets the LIBR: Secured and Restitutionary Claims to Commingled Funds, 8 ANN. REV. BANKING LAW 269 (1989) (analysis of recovery of funds subject to a security interest in or out of bankruptcy).

226 See supra notes 35-53 and accompanying text. The rights disposed of by the debtor may remain subject to the security interest. See U.C.C. § 9-306(2). See generally infra notes 295-96 and accompanying text.

227 The security interest continues in any identifiable proceeds "received" by the debtor. The term "received" should not require the taking of physical possession; rights under the license may be received when the license agreement is executed even though the rights are not reified. See, e.g., PPG Indus., Inc. v. Hartford Fire Ins. Co., 18 U.C.C. Rep. Serv. 569 (2d Cir. 1976); In re Linders Card Shop, Inc., 27 U.C.C. Rep. Serv. 575 (Bankr. S.D.N.Y. 1979). See generally R. HENSON, SECURED TRANSACTIONS UNDER THE UNIFORM COMMERCIAL CODE 196 (2d ed. 1979) (security interest in proceeds).

228 See supra notes 35-46 and accompanying text.
the collateral rather than from its sale. Although the authors think that the royalties ought to be considered "proceeds," the 1989 Text does not resolve this important ambiguity. Perhaps the Federal Text should and, in addition, the group commissioned by the Permanent Editorial Board of the U.C.C. to study Article 9 should consider the issue more broadly in the revision process.

Another proceeds-related problem for intellectual property financing arises when rights under a patent serving as collateral are infringed. Federal law gives the mortgagee of a patent the exclusive right to prosecute a patent infringement, in effect, extending the security interest to the infringement action. Would the cause of action for patent infringement be "proceeds" of the patent under the 1989 Official Text? Possibly not for two reasons. First, causes of action for patent and trademark infringement have been characterized as torts, and Article 9 does not apply to transfers of tort claims. Second, the Article's definition of proceeds has been interpreted to require a voluntary disposition of collateral and, therefore, not to cover assets such as a debtor's claim against a

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230 Under intellectual property law, a license of patent rights may differ from an assignment of patent rights in that only the latter transaction is thought of as involving a transfer of "property" rights. See supra notes 35-46 and accompanying text. In substance, however, the two transaction types are alternate means to exploiting the economic value of a patent. See G. Smith & R. Parr, supra note 37, at 174-76. The value of a patent is established in the market, where it may compete with substitute patented or unpatented goods or processes. See Easterbrook, supra note 33, at 109. Income streams obtained by assignment or license represent a realization of the potential value held by the collateral prior to the transaction, and as such each income stream should constitute proceeds. See generally R. Hillman, J. McDonnell, & S. Nickles, Common Law and Equity Under the Uniform Commercial Code ¶ 22.05(1)(a) (1985) (broad definition of proceeds).

231 This right belongs to the patent's owner. See Waterman v. Mackenzie, 138 U.S. 252 (1890).

232 Carbice Corp. v. American Patents Dev. Corp., 283 U.S. 27, 33 (1931) (patent infringement, "whether direct or contributory, is essentially a tort."). See 2 J. McCarthy, supra note 3, § 25:3 ("Trademark infringement and unfair competition are torts."); Restatement of Torts § 757 (1938) (liability for improper disclosure or use of trade secrets also sounds in tort).

233 U.C.C. § 9-104(k) (Article 9 does not apply "to a transfer in whole or in part of any claim arising out of tort."); see also § 9-104(h) (Article 9 does not apply "to a right represented by a judgment (other than a judgment taken on a right to payment which was collateral)"). Claims for past and future patent infringement are assignable subject to certain limits or qualifications imposed by patent law. See generally E. Lipscomb, supra note 39, § 19:17 (assignment of rights of action for past infringements).
tortfeasor who damages goods subject to a security interest. If infringement actions as "proceeds" are important to intellectual property financiers, then appropriate amendments should be included in the Federal Text. Similarly, since Article 9 treats non-federal intellectual property, revisions to Article 9 itself might be necessary.

The insufficiency of the 1989 Text's definition of proceeds may not be limited to cases in which the concern is with proceeds of patents or trademarks. A creditor might wish to assert a proceeds claim to these patents or trademarks. A lender taking a security interest in a patent application may wish to claim the resulting patent as proceeds. Authority exists that a patent is not proceeds of a patent application, apparently for lack of a "disposition" of the application by the debtor. Other issues include whether improvement or reissue patents would be proceeds of the original patent under the 1989 Text.

See, e.g., In re Boyd, 35 U.C.C. Rep. Serv. 669, 675 (Okla. Sup. Ct. 1983) (amount payable to debtor by insurer in settlement of debtor's claim in tort against the insured was not "proceeds"). In 1972 the Official Text of U.C.C. § 9-306(1) was amended to specify that "insurance payable by reason of loss or damage to the collateral is proceeds except to the extent it is payable to a person other than a party to the security agreement." Permanent Editorial Board of the Uniform Commercial Code, Final Report at 94-95 (1971). This amendment may imply that involuntary dispositions can generate proceeds. See, e.g., In re Stone, 41 U.C.C. Rep. 1465, 1469 (Bankr. W.D. Ky. 1985) (funds generated from tort claim settlement involving property that was collateral for secured debt constituted proceeds); see also Baldwin v. Manna City Properties, Inc., 79 Cal. App.3d 393, 403 (Cal. Ct. App. 1978) (a secured party may have her own tort cause of action for impairment of the security interest). This may be the case given the approach federal law has taken to standing to sue for patent infringement. See supra note 231.

Amendments to the 1989 Text also would be required to bring security interests in infringement actions within the scope of the statute. See supra notes 232-33 and accompanying text.

Similarly, policymakers would want to consider the other implication of the federal approach, viz, that the debtor has no standing to sue for infringement. The 1989 Text would probably reverse this view implicitly. Cf. U.C.C. §§ 9-205, 9-311, 9-317.

The proceeds issue is broader still. Tort claims are presently excluded from Article 9. See U.C.C. § 9-104(k). Yet an action against a third party for conversion of or damage to the collateral might properly be regarded as "proceeds" of the collateral. See id. § 9-306(1); supra note 234 and accompanying text. Revision of the tort claims exclusion might be in order.

See In re Transportation Design & Tech., Inc., 48 Bankr. 635, 641 (Bankr. S.D. Cal. 1983) ("'Proceeds' arise when the collateral is sold or in some way disposed of."). An analysis also might be made of other patent-related assets (e.g., continuations-in-part, extensions, etc.), which are routinely assigned in collateral assignments. See Bramson, supra note 3, at 1599.
A patent covering improvements probably is not proceeds of the original patent because no "disposition" of the original occurs, and patent law requires that the improvement patent be new, useful, and nonobvious in its own right. Even if the term proceeds is defined broadly, the improvement patent is not a substitute for the original patent and thus is not proceeds. Reissue is a procedure to correct an error made without deceptive intent that causes a patent to be wholly or partly invalid or inoperative. The original patent must be surrendered to obtain a reissue patent, the term of the reissue patent is the balance of the term of the original patent, and the reissue patent must be for the same invention as the original. All this suggests that the reissue patent is received upon disposition of the original patent, is a substitute for it, and is proceeds. The reissue patent might enlarge the scope of the original claims, but these are the boundaries that the original would have had absent the error.

Whether or not the outcomes suggested by the 1989 Text are sound from a policy standpoint, the Federal Text could be improved to reduce uncertainty concerning the proceeds issues discussed above. Going even further may be advisable. For example, does a security interest in "trade secrets and proceeds" reach a patent disclosing an invention that was the subject of a trade secret? Under the 1989 Text, arguably it does. To obtain the patent, the debtor exchanges the protection of state trade secret law for federal patent protection that is conditioned upon public disclosure of the invention or process. This exchange is implicitly recognized by the Patent Act, which requires the Patent and Trade-

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244 See generally 4 E. Lipscomb, supra note 39, § 14:15 (No new matter shall be introduced in an application for reissue.).
245 A trade secret may serve as collateral under Article 9 and is characterized as a general intangible. See U.C.C. §§ 9-102(1), 9-106. However, a cause of action for violation of trade secret rights sounds in tort and is excluded from the scope of Article 9. See supra notes 232-33 and accompanying text.
mark Office to keep pending patent applications in confidence. However, on further examination, this argument may not be persuasive. The patent might be viewed as much more than a simple substitute for the trade secret because trade secrets are qualitatively different from patents. Trade secret rights arise merely by creating the trade secret; they give no protection against persons who independently develop the same invention or process, and can expire for lack of sufficient efforts to maintain secrecy. Patents represent a significantly different cluster of rights. They are obtained after a costly prosecution process and afford a statutory monopoly, for a limited period, on the right to make, use, or sell the patented process or invention. The patent seems more a "new development" than "proceeds" as defined by the 1989 Text. Although under a federal text the secured party could file against the debtor's present and future patents, there are bankruptcy implications of categorizing new developments "proceeds" instead of "after-acquired property." Thus, policy makers might consider whether the definition of proceeds should be expanded to cover new developments.

B. Perfection Other Than by Federal Filing

The authors have proposed that filing in the Patent and Trademark Office be the method for perfecting security interests in patents and federally registered trademarks. Should perfection by possession or automatic perfection (i.e., perfection with neither filing nor possession by the secured party) also be available under the Federal Text? Should state filings ever be sufficient to perfect a security interest under the Federal Text?

Perfection by possession or automatic perfection would not become available merely by federally enacting the 1989 Text. The 1989 Text characterizes patents and trademarks as "general intangibles," for which filing is virtually the only available means of

248 See Restatement of Torts § 757 comment a (1938). The Restatement 2d of Torts did not include trade secret law, leaving the original Restatement as the most authoritative statement on trade secret law. The Uniform Trade Secrets Act is generally in accord with the first Restatement of Torts. See Uniform Trade Secrets Act §§ 1-12 (1980). See generally Cases and Materials, supra note 41, at 8 (general discussion).
249 For example, in the case of utility patents the term is 17 years. 35 U.S.C. § 154 (1989).
250 See supra note 223 and accompanying text.
251 See Nimmer & Krauthaus, supra note 3, at 226 (this solution is suggested).
perfection. Under the 1989 Text, perfecting security interests in general intangibles by possession is impossible, which seems entirely appropriate given the nonpledgeable character of patents and trademarks. With a few exceptions, under the 1989 Text obtaining an automatically perfected security interest in general intangibles is impossible, and most of the exceptions would not apply to patents or trademarks.

Automatic perfection would be available under the Federal Text if Congress specially provided for it. Congress also could give federal effect to proper state filings. Are there good reasons for Congress to do so?

Patents and trademarks are part of a broad spectrum of state and federal intellectual property rights, all of which might serve as collateral for a loan. For example, suppose a secured party takes a security interest in the debtor’s general intangibles including all trade secrets and patents, and files only in the appropriate state office. Unknown to the secured party, the debtor subsequently obtains a patent on technology that had been trade secret collateral. If the Federal Text provides for federal filing as the sole means of perfection, the security interest in the patent would be unperfected because of the lack of a federal filing even though the trade secret rights “metamorphosed” into the patent rights through successful completion of the patent prosecution process. Perhaps the Federal Text should provide a short period of automatic perfection to protect a secured party against the unanticipated emergence of a patent from a trade secret. A short period giving federal effect to the state filing would accomplish the same result.

Some precedent for this protection may be found in the 1989 Official Text’s choice of law rules, which apply to security interests in goods that are properly filed in one jurisdiction but are removed to a new jurisdiction in which there is no filing. The perfected

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252 See U.C.C. §§ 9-106, 9-302(1); see also § 9-103(3)(d) (the correct jurisdiction in which to file is the debtor’s location).


254 See supra notes 215-17 and accompanying text (discussion of possession of general intangibles in connection with the possession requirements of U.C.C. § 9-312(4)).

255 A security interest in patents or trademarks may be temporarily automatically perfected if it is in proceeds. See U.C.C. §§ 9-302(1)(b), 9-306(3); cf. § 9-103(3)(e) (choice of law rule); see also U.C.C. § 9-302(1)(c),(g) (exceptions to the filing requirement permitting automatic perfection of security interests in general intangibles not applicable to patents or trademarks).

256 See generally 1 P. ROSENBERG, supra note 35, § 3.07 (patenting versus maintenance of a trade secret).
status of the security interest continues for four months to allow
the secured party time to discover the removal and file in the new
state. By analogy, when a trade secret arising under state law
metamorphoses into a patent, perfection without a federal filing
might be justified for a short period after issuance of the patent.
The secured party would have the opportunity to learn of the
patent and promptly file in the Patent and Trademark Office within
the short period. Otherwise, a lapse in perfection would occur,
which begins upon extinction of the trade secret rights because of
public disclosure259 and continues until a federal filing against the
patent is made.

A better analogy might be found in the 1989 Text provision
that provides temporary automatic perfection for security interests
in proceeds of collateral. For example, a perfected security in-
terest in inventory is automatically perfected for ten days in the
account receivable created when the debtor sells an item of inven-
tory to a credit buyer. The account receivable is viewed as a
substitute for the inventory and is proceeds even if the inventory
is not beyond reach of the security interest. If the security interest
in the account is not already perfected by filing, the secured party
has ten days to file.

257 U.C.C. § 9-103(1)(d). Technically speaking, this is not a case of automatic perfec-
tion. Rather, the filing in the first state is good for four months in the second state.

The change-of-collateral-location analogy based on this section seems a bit stronger
than a change-of-debtor-location analogy based on U.C.C. § 9-103(3)(e), even though the
former choice of law rule applies to goods whereas the latter is applicable to general
intangibles. However, either rule might analogously support a short period during which a
state filing has federal effect. Article 9's rules relating to certificated goods that move from
one title state to another, which are contained in U.C.C. § 9-103(2)(b), also might provide
an analogy. See The United States Trademark Assoc., Trademark Review Commission
Report and Recommendations to the U.S.T.A. President and Board of Directors, 77

258 Four months may be too long for the Federal Text. There are 50 states to which
collateral might be removed, but only one Patent and Trademark Office.

259 See 1 P. Rosenberg, supra note 35, § 1.09(2)(a)(1) (disclosure would extinguish the
trade secret, leaving the debtor with no trade secret rights to which the security interest
could attach after the patent issues); U.C.C. § 9-203(1)(c). There can be no perfection
without attachment. U.C.C. § 9-303(1).

applicable to general intangibles such as patents and trademarks. However, it is not appro-
priate for the Federal Text "as is" because it does not contemplate the possibility of federal
filing, and it is unclear whether a patent is proceeds of a trade secret. See supra notes 219-
30 and accompanying text.


A patent that results from a trade secret might be analogous to the account that emerges from the sale of inventory, and arguably be "proceeds" subject to the 10 day period supplied by an unamended 1989 Text. Indeed, the argument for temporary automatic perfection in the patent may be even stronger because the trade secret is necessarily extinguished when the patent issues, so the secured party cannot reach the trade secret. If the patent is viewed as proceeds of the trade secret, perhaps the Federal Text should specify that a security interest in a patent is automatically perfected for a short time if the patent covers an invention or process substantially based upon a trade secret in which a security interest was perfected under state law.

Are these arguments for short term perfection without a federal filing persuasive? Perhaps evidence exists that secured financiers need protection against the risk of surprise metamorphosis. Perhaps a secured party who relies on a trade secret as collateral should be aware that the secret might be patented and make a low cost federal filing before the patent's issuance, preferably no later than the time of the state filing. Yet even though a filing in the correct office for accounts receivable can be made by the inventory financer at the outset, Code drafters have supplied the 10 day period specified in U.C.C. § 9-306(3). If a patent is regarded as proceeds of a trade secret, allowing a short period of temporary automatic perfection in the Federal Text may be consistent with the approach of the drafters of Article 9.

C. Priorities

Priority determination is the area of maximum conceptual and systemic discord between the 1989 U.C.C. and the Patent and Lanham Acts. Both systems link priority to some extent to public filing, but the Code's approach is notice filing while the federal approach is transaction filing. The two systems' specific priority rules are no less divergent. This section considers which rules are preferable for the Federal Text, or whether new rules should be formulated.

263 See supra note 259.
264 See supra notes 245-51 and accompanying text.
265 A lender might monitor the collateral and make additional filings as they become appropriate. See Mesrobian & Schaefer, supra note 3, at 829.
266 It is left to others to decide whether ten days or some other period is appropriate.
267 See supra notes 67-88 and accompanying text.
1. Secured Creditors, Assignees, and Licensees

The authors consider three sets of persons who may assert rights in or relating to patents or federally registered trademarks. The first set consists of creditors who have obtained security interests, that is, those who have obtained an "interest in personal property which secures payment or performance of an obligation," whatever the legal form in which they have obtained it. This set would include Article 9 secured creditors as well as persons who structure their transactions as collateral assignments, conditional assignments, or mortgages, even though these forms purport to transfer title to the creditor.269

The term "assignees" describes the second set of persons who may assert rights in or relating to patents or trademarks. Assignees include persons who obtain some sort of ownership rights in these intellectual assets. For patents, the hallmarks of ownership are exclusivity, the right to transfer, and the right to sue infringers.270 For trademarks, an assignee stands in the assignor's shoes and has standing to sue for infringement.271 The set of assignees as defined includes persons referred to in intellectual property law as assignees, grantees, purchasers, and conveyees.

The third set consists of "licensees." This term describes persons who do not obtain a property interest in the patent or trademark, but merely acquire a promise by the intellectual property's owner not to sue for infringement.272

The terms "assignee" and "licensee" are used with some trepidation because their use is not intended to import into priority determinations under the Federal Text all of the intellectual property law regarding various types of assignments and licenses. In the authors' view, assignments and licenses have much in common: both are means for exploiting the economic potential residing in patents or trademarks.273 Assignments and licenses do not necessarily require different priority rules, but this Article distinguishes between them only to consider whether different priority rules may

269 U.C.C. § 1-201(37).
269 See U.C.C. §§ 1-201(37), 9-102(1)(a).
270 See supra notes 38-46 and accompanying text.
271 See id.
272 See id.
273 See id.
be appropriate. If different priority rules for assignments and licenses are appropriate, it may be because of differences in the commercial context of assignment and license transactions and not because of doctrinal distinctions founded in intellectual property law.

2. Priorities Among Secured Creditors

The 1989 Text contains a number of priority rules applicable to secured creditors. The most fundamental is that the first secured creditor to file has priority. Under the first-to-file rule, notice is irrelevant. The first filer will have priority even if she learns of another person's perfected security interest before entering into a security agreement with the debtor or before she files. No relation-back period is provided.

By contrast, the Patent and Lanham Acts provide that an assignment (read "security interest") is void against any subsequent security interest for a valuable consideration, without notice, unless the interest is recorded within three months from its date, or prior to any subsequent assignment. Notice of an unfiled security interest subordinates a subsequent creditor even if that creditor files first.

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274 This Article leaves determinations of the dividing line between assignments and licenses to the law of intellectual property. Whether the Federal Text should have any role in defining the boundaries of the two sets for purposes of financing is an issue for further consideration by others.

275 U.C.C. § 9-312(5)(a) provides that "conflicting security interests rank according to priority in time of filing or perfection." Under the 1989 Text, this effectively is a first-to-file rule for security interests in patents or trademarks because other means of perfection are largely unavailable. See supra notes 252-55 and accompanying text. Of course, a filing will be insufficient for priority, even if it is first in time, if the security interest never attaches to the collateral for lack of a security agreement or for some other reason. See U.C.C. § 9-203(1). In the event that conflicting security interests are unperfected, "the first to attach has priority." Id. § 9-312(5)(b). Concerning the 1989 Text's other priority rules applicable to security interests, see infra notes 284-89.

276 But see U.C.C. § 9-401(2), which provides that certain improper but good faith filings are effective with regard to collateral covered by the financing statement against any person who has knowledge of the contents of the financing statement. Actual knowledge of the financing statement's contents is required. See §§ 1-201(25), 9-401 comment 5. Mere knowledge of the existence of a security interest should be insufficient to invoke U.C.C. § 9-401(2). See J. White & R. Summers, supra note 98, § 22-17.

277 See U.C.C. § 9-312 comment 1, example 1.

278 Otherwise, the assignment is good against the world. See Tuman & Sons, Inc. v. Basse, 113 F.2d 928, 928 (2d Cir. 1940) (assignee of patent entitled to sue for patent infringement where the assignment had not been recorded according to the statute). For the precise statutory language, see supra notes 70-77 and accompanying text.
The 1989 Text's first-to-file rule should remain in the Federal Text, and the Patent and Lanham Acts should be amended to indicate that they do not apply to priority disputes between secured creditors. The first-to-file principle can be outcome-determinative under the current federal priority rules, and in those cases, replacing the federal rules with the 1989 Text's would not lead to a change in results. However, eliminating the roles of notice and relation back in ordering security interests by federalizing the 1989 Text's first-to-file rule would be a significant change.

We have already discussed the merits of eliminating the Patent and Lanham Acts' relation back periods which can delay a debtor's access to asset-based financing. Moving to a "pure race" first-to-file rule for competing security interests in patents or trademarks also is sensible because order of filing is an objective and relatively easy-to-apply standard. The presence or absence of notice, by contrast, is far less certain and can raise difficult proof problems. Under the 1989 Text, the creditor filing first can be reasonably confident of priority in the patent or trademark over other secured creditors. Moreover, the first-to-file principle is essential to obtain the advantages of notice filing and to realize the full potential of future advance and after-acquired property clauses.

The 1989 Text also provides important corollary priority rules that may be equally appropriate for the Federal Text. For pur-
poses of applying the first-to-file rule, a date of filing as to collateral is also the date of filing as to proceeds of that collateral. For example, if a secured party files to perfect a security interest in patent A, and patent A subsequently is swapped by the debtor for patent B, patent B would be proceeds, and the relevant filing date would be the time of filing against patent A. Another rule provides that if future advances are made while a security interest is perfected by filing, the security interest has the same priority for purposes of the first-to-file rule with respect to the future advances as it does with respect to the initial advance. This rule also is intended to reinforce the notice filing concept. Finally, the priority of a purchase money security interest in patents or trademarks may carry through to proceeds of those assets.

the rules described infra notes 285-89 will be superior to unperfected security interests. See id. § 9-301(1)(a).

285 U.C.C. § 9-312(6). The original filing, however, must be effective as to the proceeds. See § 9-306(3).

286 See supra notes 219-25 and accompanying text (concerning the definition of "proceeds").

This example suggests the possibility of a priority dispute between the security interest in patent A created by secured creditor Alpha and a security interest in patent B created by secured creditor Beta. Suppose Beta filed against patent B before the swap and before Alpha filed against patent A. Consider the order of priority in Patent B. The first-to-file rule applies only to competing security interests created by the same debtor, so it would not be relevant. See B. Clark, supra note 148, ¶ 3.08(4). Analysis of the priority issue must instead move along the following lines—assuming Beta did not consent to or authorize the swap, its security interest would continue in patent B after the swap. See U.C.C. §§ 9-306(2), 9-316. Alpha's security interest would attach to its debtor's rights in patent B, which would be subject to Beta's security interest. See § 9-203(1)(e). Alpha's security interest can rise no higher than its debtor's rights, so Alpha is subject to Beta's security interest.

287 U.C.C. § 9-312(7). If a commitment to make advances is given before or while the security interest is perfected by filing, the security interest has the same priority with respect to advances made pursuant to the commitment. See §§ 9-105(1)(k), 9-312(7). In all other cases, a perfected security interest has priority from the date of the advance. See id. § 9-312(7).


289 U.C.C. § 9-312(4). U.C.C. § 9-312(4) applies to purchase money security interests in noninventory collateral. It is evident that this provision was intended to apply to collateral that may be characterized as "equipment." See U.C.C. § 9-109(2); Permanent Editorial Board for the Uniform Commercial Code, Final Report of Review Committee for Article 9 224 (1971). However, it is doubtful that much consideration was given to 9-312(4)'s application to the proceeds of general intangibles such as patents or trademarks. It provides that the purchase money priority will carry through to these proceeds only if the security interest in the patent or trademark is perfected when the debtor receives possession of the patent or trademark or within ten days thereafter. U.C.C. § 9-312(4). As we have already discussed, "possession" is problematic in the case of nonreified intangible personality such as patents or trademarks. See supra notes 214-17 and accompanying text. The requirements
3. Priorities Among Secured Creditors and Subsequent Assignees or Licensees

The 1989 Text contains three rules that may apply to priority disputes among secured creditors who obtain security interests in patents or trademarks and persons who enter into assignments or licenses of the collateral with the debtor subsequent to attachment of the security interests. First, if the secured party consents to subsequent transactions in the security agreement or otherwise, that consent might amount to an agreement by the secured party to subordinate any priority over persons who enter into subsequent transactions with the debtor to which it may otherwise be entitled. Such an agreement might be found in usage of trade or course of dealing. Although the person who enters into the subsequent transaction with the debtor is unlikely to be a party to the subordination agreement, she might be a third party beneficiary. The secured party may be estopped from enforcing its security interest if it informs a person contemplating a subsequent transaction with the debtor that a subordination agreement exists, and that person relies on the communication.

The second rule provides that a security interest will not continue in collateral that is sold, exchanged, or disposed of by the debtor if the disposition was authorized by the secured party in the security agreement or otherwise. This rule protects all persons for obtaining purchase money priority are discussed supra notes 205-18 and accompanying text.

For convenience, these assignments and licenses are collectively referred to as "subsequent transactions."

The requirements for attachment are that the debtor sign a security agreement, value be given, and the debtor have rights in the collateral. U.C.C. § 9-203(1). An unattached security interest is unenforceable against the world. Id. Therefore, assignees or licensees would not be subject to an unattached security interest.

U.C.C. § 9-316 provides that "[n]othing in [Article 9] prevents subordination by agreement by any person entitled to priority." Cf. id. § 1-209. An official comment may contemplate that subordination agreements will be entered into by persons who are entitled to priority under one of Article 9's priority rules with persons who would lack priority under that rule absent a subordination agreement. See U.C.C. § 9-316 comment. However, there seems to be no reason to limit subordination agreements to any narrowly defined context given that the rationale for their validation must be freedom of contract.

See U.C.C. §§ 1-201(3), 1-205, 2-208. See B. CLARK, supra note 148, ¶ 3.10 at 3-122.

See U.C.C. § 1-103. Conduct by the secured party also might be construed as a waiver of its security interest.

U.C.C. § 9-306(2). This language effectively creates a priority rule. See id. § 9-306 comment 3; Hedrick Savings Bank v. Myers, 229 N.W.2d 252, 256 (Iowa 1975) (upon proper proof, prior course of dealing may constitute authority to sell collateral pledged in security agreement).
who might obtain rights in collateral from the debtor provided there is an authorized disposition. However, the application of this rule to licensees is problematic. Under intellectual property law, licenses may not create a property interest in the licensee. 296 It might follow that the debtor's agreeing to a license does not amount to a "disposition of collateral" within the meaning of the priority rule and would not create protection for the licensee even if the license were authorized.

The third 1989 Text rule applies to clashes between secured parties and persons who are not secured parties, but who are transferees. 297 Under the priority rule, an unperfected security interest in general intangibles, such as patents or trademarks, is subordinate to a transferee to the extent the transferee gives value without knowledge of the security interest and before the security interest is perfected. 298 Otherwise, the transferee loses. 299 This rule's application to subsequent transactions is unclear. One issue is whether a licensee receives a sufficient proprietary interest to be considered a "transferee." 300

The Patent and Lanham Acts' priority rules described earlier in connection with disputes among secured creditors apply to clashes between secured creditors and assignees of the debtor. However, these statutes do not expressly deal with the priority of licensees. 302

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296 See supra notes 41-46, 51 and accompanying text.
297 "Transferee" is not defined by the 1989 Text, but is usually given meaning by modifying language that accompanies it. Such is the case with U.C.C. § 9-301(1)(d). See generally Felsenfeld, supra note 281, at 257-58; Permanent Editorial Board for the Uniform Commercial Code, Final Report of Review Committee for Article 9 229 (1971).
298 See U.C.C. § 9-301(1)(d).
299 See U.C.C. §§ 9-201, 9-301(1); see also 2 R. ALDERMAN, supra note 281, at 1027-29.
300 See supra notes 41-46, 51 and accompanying text.
301 See supra note 278 and accompanying text. The text statement equates security interests with assignments. See supra notes 268-74 and accompanying text.
302 The Patent and Trademark Office does not investigate the legal effect of documents presented for filing, so patent licenses may be recorded. 3 P ROSENBERG, supra note 35, § 16.01(1)(2), at 16-5. However, 35 U.S.C. § 261 does not apply to licenses. Id. § 16.01(1)(b), at 16-12. 15 U.S.C. § 1060 does not expressly provide for recordation of trademark licenses, but there is authority that licenses may be recorded at the discretion of the Commissioner of Patents and Trademarks. See 1 J. McCARTHY, supra note 3, § 18:3. One commentator recommends that licenses be filed to obtain protection against bona fide purchasers. See Bramson, supra note 3, at 1573. Unlike the Patent and Lanham Acts, which are silent on the recording of licenses or the priority of licensees, federal copyright law permits recording and provides a priority rule governing conflicts between nonexclusive licensees and copyright owners. See 17 U.S.C.A. § 205(e) (West 1977 & Supp. 1990). See generally 1 P GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE § 4.5.3.2 (1989).
The 1989 Text and Patent and Lanham Acts' priority rules are better understood with the help of an example.

Assume Creditor takes a security interest in Debtor's patent or trademark but fails to record its interest before the intellectual property is assigned or licensed by Debtor to Subsequent Taker ("ST"). Creditor properly records one month after Debtor and ST enter into that subsequent transaction.

To apply the 1989 Text's priority rules, it is important to distinguish between any residual interest Debtor has in the intellectual property after the transaction with ST and the rights obtained by ST. Creditor's security interest clearly continues in the residual interest to the extent it was not affected by the transaction between Debtor and ST. The difficulty comes when the Debtor conveys an interest that was encumbered by the security interest. Under the 1989 Text, the security interest continues in and is superior to the rights obtained by ST unless ST is protected by a more specific priority rule. Thus, the importance of the priority rule lies in whether Creditor will be able to extinguish ST's rights through foreclosure procedures taken against the patent or trademark in the event Debtor defaults. An affirmative answer means, for example, that Creditor will be able to employ its post default remedy to sell the intellectual property to a purchaser who takes free and clear of ST's rights.

Collateral assignments may contain restrictions on the right to assign or license. See Bramson, supra note 3, at 1583. Under the 1989 Text, Debtor may voluntarily transfer rights in the collateral "notwithstanding a provision in the security agreement prohibiting any transfer" or making it a default. U.C.C. § 9-311.

The hypothetical assumes that there is a clash between the security interest and the subsequent transaction. This would not necessarily be the case. For example, Creditor's security interest might be in all Debtor's rights to make, use, or sell a patented invention in the United States east of the Mississippi, while ST is assigned all rights in the rest of the United States. In that case there would be no conflict.

The analysis of Creditor's priority is somewhat analogous to the analysis of the rights of a secured party holding a security interest in goods that are leased by the debtor. See generally Harris, The Rights of Creditors Under Article 2A, 39 ALA. L. REV. 803 (1988) (a lucid analysis of lease priority issues is provided).

If Debtor enters into a one year nonexclusive license with ST, Debtor retains all other rights in the intellectual property. These include the right to enter into additional licenses and the right to have the property free and clear of ST's license upon the license's termination. If Debtor unconditionally assigns all its rights in the intellectual property to ST, there is no residual interest in Debtor.

Creditor's security interest may attach to payments made by ST as "proceeds" of the original intellectual property collateral. See supra notes 225-51 and accompanying text.

See U.C.C. §§ 9-201, 9-306(2).

See U.C.C. § 9-504(4). The Patent and Lanham Acts do not deal with secured
Applying the 1989 Text's three priority rules to our example, ST takes free of the security interest under the first rule if Creditor consented to the subsequent transaction so as to subordinate itself to ST. ST takes free under the second rule if Creditor authorized the subsequent transaction in the security agreement or otherwise. A third party such as ST may not know whether there was consent or authorization for the subsequent transaction. ST takes free under the third 1989 Text priority rule if it gave value and lacked knowledge of the security interest. Creditor's subsequent filing is of no legal significance. If Creditor had filed prior to the transaction between Debtor and ST, then ST would lose. As a result of these priority rules, third parties such as ST may feel compelled to check for filings before entering into assignment or license transactions.

By contrast, under the Patent or Lanham Acts the contest in the example is viewed as one between two assignees, Creditor and ST. Assuming the assignments conflict, Creditor prevails over ST because it was first-in-time and recorded during the three month period. Absent Creditor's timely recording, ST would prevail so long as it gave valuable consideration and lacked notice. Under the federal priority rules, assignees may feel compelled to check for filings and delay making payments to the assignor.

Federal law cannot embody both the 1989 Text's priority rules and those currently contained in the Patent and Lanham Acts, and policy makers must choose which rules apply. The authors believe the 1989 Text's rules are preferable for clashes between secured creditors and parties to subsequent transactions with the debtor. The authors are not aware of any reason for permitting a secured creditors' rights upon default, and federal courts may lack jurisdiction to foreclose security interests in patents or trademarks. See Republic Pictures Corp. v. Security-First Nat'l Bank, 197 F.2d 767 (9th Cir. 1952). Federal copyright law reflects a decision not to establish a federal foreclosure system for copyright mortgages. See H.R. Rep. No. 1476, 94th Cong., 2d Sess. 123, reprinted in 1976 U.S. Code Cong. & Admin. News 5659, 5738. Article 9 does not provide third parties with a right to inspect security agreements. See U.C.C. § 9-208. However, there is no requirement that consent to subordination or authorization be in writing. See U.C.C. §§ 9-306(2), 9-316.

See U.C.C. §§ 1-201(25), 44 (concerning the meaning of "value" and "knowledge"). Creditor's security interest is equated with an assignment for purposes of analysis. The Patent and Lanham Acts do not expressly deal with priority disputes involving licensees. See supra note 302 and accompanying text. See supra note 303. See supra note 278 and accompanying text. See supra note 126 and accompanying text.
creditor to enjoy a relation-back period if the creditor can make a low-cost notice filing as would be the case if the 1989 Text is enacted into federal law.  

Consideration also should be given to the sufficiency of the 1989 Text's priority rules applicable to secured parties and parties to subsequent transactions with the debtor. The issue is whether assignees or licensees in the ordinary course of business should be protected against properly filed security interests that were perfected prior to the subsequent transaction.

Such a priority rule for ordinary course assignees and licensees might be justified if secured creditors generally are willing to permit debtors to enter into subsequent transactions in the ordinary course. This might be the case if subsequent transactions typically result in cash flows from which secured obligations can be paid. Creditors might be willing to waive their secured rights in assignees' or licensees' interests obtained in the ordinary course in order to encourage subsequent transactions. It might be, similarly, that third parties who enter into subsequent transactions in the ordinary course reasonably expect that secured parties encourage or, at least, condone those transactions. If commercial practice is such that lenders and debtors would normally permit some subsequent takers to have priority over earlier secured parties, statutory priority rules to that effect could reduce the costs of secured lending by making it unnecessary to include such choices in the loan contracts.

A similar range of expectations justifies 1989 Text priorities protecting buyers or lessees of goods in the ordinary course against earlier perfected security interests in those goods, but whether such priority choices are empirically justified in the intellectual property field is unknown. If similar expectations are prevalent in

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314 There also are good reasons for minimizing the role of notice in priority rules. See supra notes 281-83 and accompanying text.

315 Of course, assignments and licenses are very different transactions, and it may be unwise to treat the priority of assignees and licensees as if they were the same. See infra note 322.

316 See Harris, supra note 304, at 812-13. Potential subsequent transferees would not feel compelled to determine whether the patent or trademark to be assigned or licensed is encumbered by a security interest. Nonetheless, a potential subsequent transferee might check the record to determine whether the intellectual property is owned by the potential assignor or licensor.

317 The policy is one of protecting reasonable expectations on the part of the buyer or lessee. See U.C.C. §§ 2A-307, 9-307. See generally Harris, supra note 304, at 813. The authors are uncertain of the reasonable expectations of assignees or licensees of patents or trademarks.
this area of commercial practice, revision of the 1989 Text will be in order because the only means in the 1989 Text for giving weight to these expectations resides in the possibility that the secured creditor agreed to subordinate its priority or authorized the subsequent transaction "in the security agreement or otherwise." This, of course, requires a case-by-case determination of the presence or absence of agreement or authorization—a process that can inject costly uncertainty into loan contracts. A priority rule protecting assignees or licensees in the ordinary course would reduce uncertainty because it would give priority over secured claims even when the secured party did not agree to subordinate, or the subsequent transaction was unauthorized.

The authors propose only that thought be given to the need for a priority rule protecting some subsequent transactions in the ordinary course. Whether the idea has merit, and if so, the rule's scope and operation will depend on the answers to many questions, most of which are based in the actual commercial practice in this area. For example, it may be that commercial practice and expectations are such that the rule is appropriate only for licenses in the ordinary course but not for assignments of any sort. The com-

318 See U.C.C. §§ 9-306(2); 9-316.
319 See Harris, supra note 304, at 813-15.
320 Uncertainty results because neither the secured party nor the person who enters into the subsequent transaction with the debtor can predict who will prevail in the event of a priority dispute. This may cause the secured party to insist on a higher interest rate or additional collateral or cause the assignee or licensee to reduce what it is willing to pay for an assignment or license.
321 One might justify this on the basis of empirically supported expectations of third parties who could be expected to take interests in encumbered federal intellectual property. It is not known what the expectations of subsequent takers are in this field.

The authors think it is unlikely that many owners of intellectual property are in the business of entering into assignment or license transactions in the same way as wholesalers or retailers may be in the business of leasing or selling goods. Thus, it will be important to calibrate the priority rule through a suitable definition of "ordinary course." The definition could look to the good faith and knowledge of the assignee or licensee, the nature of the assignor or licensor, the value paid to the debtor for entering into the subsequent transaction, and so forth. Cf. U.C.C. §§ 1-201(9) (definition of "buyer in the ordinary course of business"), 2A-103(1)(o) (definition of "lessee in ordinary course of business").

Many assignments of patents or patent applications are from the inventors to employers. See generally 2 P Rosenberg, supra note 35, ch. 11 (the inventorship entity and rights of employers and employees). If most assignments are of this type, then a priority rule protecting assignees in the ordinary course may be unwarranted.

322 Many assignment of patents or patent applications are from employees to employers. See generally 2 P Rosenberg, supra note 35, ch. 11 (the inventorship entity and rights of employers and employees). If most assignments are of this type, then a priority rule protecting assignees in the ordinary course may be unwarranted. A rule protecting only
commercial context of those subsequent transactions that do merit priority protection will need to be carefully defined and reflected in the priority rule.\footnote{323}

4. **Priorities Among Secured Creditors and Prior Assignees or Licensees**

A different sort of priority issue arises if a person assigns or licenses a patent or trademark and subsequently grants a security interest in its assignor’s or licensor’s interest to a creditor.\footnote{324} In many cases following an assignment or license, the debtor may retain a property interest in the patent or trademark. For example, if the debtor-patent holder assigned her right to use a patented process “East of the Mississippi,” she would retain her interest in the West. As another example, if she licensed a patent or trademark for a term of years, she might retain a reversion interest once the license expired.

Suppose Debtor enters into a prior assignment or license transaction with PT, and Creditor then obtains a security interest ("assignment" under federal law) of "all the debtor’s interests" in the patent or trademark that had been the subject of the prior transaction. Suppose then that Creditor records immediately and PT records one month later.\footnote{325} What are the relative rights of Creditor and PT?\footnote{326}

If one proceeds under the 1989 Text, the law will provide neither for the recordation of prior transactions nor a priority rule governing clashes between parties to prior transactions and secured creditors.\footnote{327} Resolution of the relative rights of PT and Creditor

\footnote{323}{See supra note 321.}

\footnote{324}{For convenience, these assignments and licenses are collectively referred to as "prior transactions." It is assumed throughout the discussion in this part that the creditor’s security agreement adequately describes the assignor’s or licensor’s interest. Merely referring to the patent or trademark may not be sufficient. See U.C.C. §§ 9-110, 9-203(1)(a).}

\footnote{325}{The Patent and Lanham Acts provide for recordation of assignments. Licenses also may be accepted for recording, but with uncertain results. Neither the Patent nor the Lanham Act expressly provides for the priority of licensees. See supra note 302 and accompanying text.}

would probably turn on reasoning like the following: creditor's
security interest could attach only to Debtor's rights following the
prior transaction, it could not attach to rights previously trans-
ferred by the debtor. Therefore, there would be no conflict, and
PT would be free from Creditor's claim.

Analysis under the Patent and Lanham Acts must proceed in
a very different manner. Unlike the 1989 Text, these statutes pro-
vide for the recording of assignments and make the time of re-
cording an outcome-determinative factor. Assuming the prior
transaction was an assignment and recalling that we must equate
security interests with assignments for purposes of analysis under
these federal statutes, the priority issue simply becomes one
among competing assignees. Creditor lacked notice of the unre-
corded transaction between Debtor and PT, which would be "void"
as against Creditor but for PT's eventual recordation. PT recorded
the transaction during the three month period with the result that
PT has priority over Creditor.

By waiting three months before extending credit, Creditor migh
t have protected itself against the risk that a prior transaction migh
t be recorded after Creditor recorded. Unfortunately, a waiting
period can deprive debtors of needed funds and reduce the value
of their intellectual property as collateral. The authors propose
for the Federal Text an explicit priority rule for contests among
secured creditors and prior assignees that provides a significantly
shortened period for the transmission and recording of assignment
transaction documents. The period's duration is not specified, but
modern means such as telecopiers, overnight deliveries, and com-
puterized filing systems can make it very short indeed.

327 The Code does not displace the common law principle that one cannot transfer
rights greater than one's own. See R. HILMAN, J. MCDONNELL, AND S. NICKLES, supra
note 230, ¶ 18.01(1), (2) (general approach).
328 See U.C.C. § 9-203(1)(c).
1989). If the prior transaction is a license, then this result also might coincide with intellectual
property law. An assignee of a patent takes it subject to prior valid licenses whether or not
the assignee had knowledge of them. See 5 E. LIPSCHITZ, supra note 39, at 459.
330 They do not provide for recording licenses. See supra note 302 and accompanying
text.
331 See supra note 269 and accompanying text.
332 See supra notes 124-28 and accompanying text. As pointed out earlier, to be sure
no prior assignment will have priority, creditor should delay extending funds for the
statutory three-month period plus the time it takes the Patent and Trademark Office to get
the assignment into the file.
333 See supra notes 124-28 and accompanying text.
For prior licensees, the general rule is that assignees take subject to prior valid licenses whether or not the assignee had knowledge of them. This raises additional questions and policy choices. Neither the Patent nor the Lanham Act now provide for recordation of licenses or specify the effect of such recordation, and there may be no relatively certain way to determine if a patent or trademark is subject to a preexisting license. Should federal law be changed to require recordation of some or all licenses in the interests of better information for subsequent assignees and secured parties? Or, as a middle ground, might the time an unrecorded license remains valid against subsequent assignees and licensees be statutorily limited? The authors leave these matters to others to suggest answers grounded in the commercial needs and practices in this field.

VI. CONCLUSION: OTHER ITEMS FOR THE AGENDA

This Article’s agenda is not intended as exhaustive, but rather as one starting point in a reform process that should continue. Many other areas require analysis. For example, all the priority issues were not discussed. Nor have the rights of creditors who obtain and assert judgment liens against patents, trademarks, or related rights and secured creditors been considered. In a related vein, perhaps the reform effort should address not only how secured creditors obtain security interests, but also how judgment creditors obtain their liens as well. This issue is so closely related to financing that it might be covered in a comprehensive statute.

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334 See 5 E. Lipscomb, supra note 39, at 459. When two licenses conflict, the earlier one prevails even if the later one was entered into with no notice of the first. See 3 P Rosenberg, supra note 35, at 16-17.

335 This raises the further question of how one determines whether there is a prior license that calls for insufficient royalties, thereby devaluing the patent.

336 A possible analogous issue—whether lessors should file chattel leases—was present in the development of Article 2A. See Mooney, The Mystery and Myth of “Ostensible Ownership” and Article 9 Filing: A Critique of Proposals to Extend Filing Requirements to Leases, 39 Ala. L. Rev. 683 (1988). The drafters resolved the issue against required filing. See U.C.C. § 2A-301 comment. Federal copyright law does provide for the recording and priority of nonexclusive licenses. See supra note 302.

337 Under the 1989 Text a lien creditor would have priority over a prior security interest that is not perfected by filing. See U.C.C. § 9-301(1)(b). Under general intellectual property and creditors’ rights law the outcome may be analyzed in terms of “title.” See generally 5 E. Lipscomb, supra note 39, § 19:34.
To the extent the rules are clear, the system will become more efficient.\textsuperscript{338}

Another topic meriting study is default. The Uniform Commercial Code exhaustively specifies remedies, notice requirements, and consequences of failure to follow the default rules. Federal statutory law says nothing,\textsuperscript{339} and unintentionally may contradict the U.C.C. The structure of a secured transaction as a collateral assignment suggests the secured party has title\textsuperscript{340} and may keep the collateral if the debtor defaults. A conditional assignment of title suggests that at default the secured party gets title and obtains the collateral free and clear regardless of the size of the remaining obligation or the value of the collateral at default.\textsuperscript{341} In many cases, these results would clearly contradict the rules outlined in the 1989 Text.\textsuperscript{342} If there is a contradiction between the U.C.C. and the federal statutory law, which is better as a matter of policy? Procedures for realizing value from federal intellectual property collateral might be spelled out within the statute.

The structure of the federal transaction also has yielded results that a differently conceptualized secured transaction might not. The assignment-of-title form may vest in the secured party the exclusive right to prosecute infringement\textsuperscript{343} and may expose that secured party (as "owner") to potential infringement liability. Article 9's rules, which minimize the importance of title, would seem to lead to the opposite result in these situations.\textsuperscript{344} Policymakers also ought to consider which approach is the best policy \textsuperscript{345}

\textsuperscript{338} One commentator noted that there was in 1989 no literature or authority to help one resolve the questions a judgment creditor would face in attempting to collect its judgment from a judgment debtor's trademarks. M. Simensky, Enforcing Creditors' Rights Against Trademarks 2 (1989) (unpublished manuscript; copy on file with the Kentucky Law Journal). Secured creditors may exercise the rights of a judgment creditor. U.C.C. § 9-501(1), (5).

\textsuperscript{339} See supra note 307.

\textsuperscript{340} See supra note 3.


\textsuperscript{342} Article 9 generally requires the secured party to sell the collateral and, if it exceeds the debt, to account to the debtor for the surplus. See U.C.C. §§ 9-504(2), 9-505; cf. Warnaco v. Farkas, 872 F.2d 539 (2d Cir. 1989) (termination by the seller of a trademark licensing agreement entered into in connection with the sale of trademarks and other assets must comply with the post-default requirements in Part V of Article 9).


\textsuperscript{344} See U.C.C. §§ 1-201(37), 9-202, 9-317.

\textsuperscript{345} This is not to advocate an opposite rule that would prohibit the secured party from prosecuting an infringement action. As developed earlier in notes 231-37 and accompanying text, it may make sense to allow the secured party to claim an infringement action as proceeds of a patent or trademark. In that event, it also might make sense that the secured party should be able to prosecute the infringement action after the debtor's default.
Finally, trademark law relating to "assignments in gross" creates a special problem for secured creditors that also might be addressed in the reform process. This doctrine of trademark law has long specified that one may not assign a trademark apart from the underlying goodwill of the business. The rationale is one of protecting the public from confusion that would result if, for example, the trademark "Coca Cola" were affixed by an assignee to a line of shoes. Additionally, the doctrine may serve to preserve economic value: goods formerly represented by the trademark would, presumably, become much less valuable without the product identification the trademark provided. As a result of this doctrine, creditors must take security interests in both the trademark and substantial enough business assets, including goodwill, to permit the product and trademark to continue their association. Questions for policymakers include whether appropriate assignment in gross rules are suitable for codification in a comprehensive reform statute dealing with intellectual property financing.

It should be clear that the reform process will be a long one and has scarcely begun. But with an improved system for employ-

347 M. Simensky, supra note 338, at 38. The court in Marshak v. Green put it this way:

Use of the mark by the assignee in connection with a different goodwill and different product would result in a fraud on the purchasing public who reasonably assume that the mark signifies the same thing, whether used by one person or another. Marshak v. Green, 746 F.2d 927, 929 (2d Cir. 1984).
350 Employing a conditional assignment to take place in the future, rather than a present assignment, may avoid the assignment in gross problem prior to the debtor's default. See 1 J. McCarthy, supra note 3, at 796. Formalizing the transaction as a security agreement in a trademark rather than as a conditional assignment also should avoid the problem prior to default because granting a security interest is not the equivalent of conveying title. See supra note 344. However, the problem arises again after the debtor's default, when the secured party seeks to enforce the security interest. It has been proposed that the Lanham Act be amended to state there is no assignment in gross after the debtor's default provided the secured party subsequently engages in the business to which the mark relates or holds the mark for transfer to a person who also acquires the associated business goodwill. See S. 1883, 100th Cong., 1st Sess. (1987). See generally The United States Trademark Assoc., Trademark Review Commission Report and Recommendations to the U.S.T.A. President and Board of Directors, 77 Trademark Rep. 375, 439, 446 (1987). This proposal was not enacted. See Pub. L. No. 667; 100th Cong. (1988).
ing patents and trademarks as collateral, the costs of financing should be reduced. The reform efforts will have been worth it if they reduce uncertainty and legal complexity and thereby add or restore value to federal intellectual property.