# THE IMPERFECT STATE OF PATENT PERFECTION

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* Law student at the University of Akron, School of Law. I wish to thank Professor Willa E. Gibson for believing in my article. I am also grateful to Professor Tracy A. Thomas for her helpful comments and insights. I thank the editors of the Akron Law Review for their hard work. And finally, I thank my husband, Jason, and daughter, Meilee, for their love, encouragement, and patience.

## I. INTRODUCTION

Over the past few decades, intellectual property has played an increasingly important role in the global economy.[1] Many of this country's leading companies have more value in their intangible assets, in the form of patents, copyrights, trademarks, etc. than their tangible assets. Furthermore, business-bankruptcy filings are up thirty-eight percent in 2009 from the previous year.[2] Businesses that wish to protect their assets in the event of a bankruptcy are concerned about what happens to intellectual property rights that have been assigned, licensed, or sold prior to, or during bankruptcy proceedings.[3] The rise in business bankruptcies coupled with the increased role of intellectual property in business portfolios makes it paramount that the legal community clearly define the rights and duties of creditors and debtors.[4]

Many recent bankruptcy cases dealing with patent rights have highlighted the need for clarity regarding competing patent interests, particularly in light of complex modern-day business dealings such as secured transactions.[5] In a recent case, *In re Cybernetic Services, Inc.,* a high technology company entered into bankruptcy.[6] Their most valuable asset was a patent relating to the detection of data embedded in a video signal (e.g., television), which had a high potential for generating revenue, especially in light of the convergence of video and data technologies.[7] Both the trustee and creditor were vying for their rights in the patent, and the deciding factor for who possessed priority lay in

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1. Peter S. Menell, *Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis*, 22 BERKELEY TECH L.J. 733, 735 (2007). The article cites a study which found that the ratio of tangible assets to intangible assets among major industrial companies of the world switched from 62%/38% in 1982 to 38%/62% one decade later. *Id*.

2. Eric Morath, *Automated Access to Court Electronic Records, Economic Crisis Sends 2009 Business-Bankruptcy Filings Up 38%* (2010), http://www.aacer.com. Experts predict business-bankruptcy filings will stay at such high levels in 2010. *Id.*

3. *See* Peter J. Toren et al., *The Intersection of Intellectual Property and Bankruptcy Law*, 78 PAT. TRADEMARK & COPYRIGHT J. (BNA) 201, 201 (2009).

4. LANNING BREYER & MELVIN SEMINSKY, INTELLECTUAL PROPERTY ASSETS IN MERGERS AND ACQUISITIONS 4-6 (2001). The authors proclaim that using intellectual property assets to obtain financing is one of the hot topics of IP management today. *See* MELVIN SIMENSKY & LANNING G. BRYER, THE NEW ROLE OF INTELLECTUAL PROPERTY IN COMMERCIAL TRANSACTIONS § 8.4(a), 300 (J. Wiley & Sons 1994).

5. *See, e.g.*, Moldo v. Matsco, Inc. (*In re* Cybernetic Servs., Inc.), 252 F.3d 1039, 1045 (9th Cir. 2001), *cert. denied*, 534 U.S. 1130 (2002); City Bank and Trust Co. v. Otto Fabric, Inc., 83 B.R. 780, 780 (D. Kan. 1988); *In re* Transp. Design & Tech., Inc., 48 B.R. 635, 637 (Bankr. S.D. Cal. 1985).

6. *Cybernetic Servs.*, 252 F.3d at 1039.

7. Steven C. Sereboff & Michael Kogan, RECORDATION OF SECURITY INTERESTS IN IP RIGHTS 1, www.socalip.com/RecordationArticle.pdf (last visited July 3, 2010).

the issue presented in this article, namely, whether perfection of a security interest is governed by federal or state law.[8]

A security interest must be perfected in accordance with the law, usually through registration of the security interest in the appropriate register or office.[9] The date that a security interest is perfected can be critical; for example, in the event that a lender must collect against the security interest, i.e., the lendee goes into bankruptcy, the perfection date is vital in securing a lender's priority over other subsequent claims.[10] As between two competing creditors, the creditor that possesses the earlier perfection date has priority and will, therefore, be awarded the ownership rights to the disputed bankruptcy property.[11]

The Patent Act establishes a federal scheme for regulating property rights associated with patents, and the duties that patent holders have to secure those property rights.[12] Section 261 of the Patent Act ("Section 261") sets forth the rule that in order to protect an "assignment, grant or conveyance" against "subsequent purchasers and mortgagees," the transaction must be recorded with the United States Patent and Trademark Office ("PTO").[13] This system of federal regulation of the transfer of property rights in patents provides constructive notice to potential subsequent purchasers and mortgagees.[14]

On its face, the statute seems to clearly regulate all property rights associated with patents.[15] However, an "assignment, grant, or conveyance" does not expressly refer to property rights in terms of security interests.[16] Courts have argued that this statutory language suggests that section 261 of the Patent Act concerns itself with only ownership rights, as opposed to lesser rights such as liens or licenses.[17] These courts argue that assignments, grants, and conveyances deal only with transfers of title.[18] However, security interests are not transfers of

8. *Cybernetic Servs.*, 252 F.3d at 1045.

9. LANNING BREYER & MELVIN SEMINSKY, INTELLECTUAL PROPERTY ASSETS IN MERGERS AND ACQUISITIONS 11-27 (2001).

10. *Id*. According to the Senate in 1836, the federal scheme was developed in part because the states "within their narrow limits, could give very little encouragement to inventors by grants of exclusive privileges." *Id*. Non-uniform laws of the states gave rise to confusion, increasing litigation that burdened the courts, and opened the door to fraudulent and worthless patents. *Id*.

11. *Id*.

12. *See In re* Transp. Design & Tech., Inc., 48 B.R. 635, 638 (Bankr. S.D. Cal. 1985).

13. *Id.*

14. *Id.*

15. *See id.*

16. *See id.*

17. *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1052 (9th Cir. 2001).

18. *Id.* at 1049.

title, but rather give the lender a lien on the patent property as collateral for a loan.[19] The issue is whether section 261 covers the perfection of security interests in patents, or whether Article 9 of the Uniform Commercial Code ("Article 9"), as adopted by individual states, governs.

Under Article 9, filing with the state is required to perfect a security interest.[20] Accordingly, the Ninth Circuit declared that, as between two lien holders, all that is required to perfect a security interest is the filing requirement under the Uniform Commercial Code ("UCC") and that registering with the PTO under the federal Patent Act is not required.[21]

On the other hand, proponents of a federal registration scheme have argued that because federal law preempts state law, the Patent Act governs, and, therefore, registration with the PTO under section 261 is required to perfect a security interest in a patent.[22] Although section 261 does not expressly provide for federal preemption, courts may imply preemption either through congressional intent,[23] or by declaring that the federal regulatory scheme for patents is so pervasive as to "occupy the field" in this area of law.[24] The Constitution of the United States entrusts Congress with the promotion "of Progress of Science and useful Arts," which gave Congress the power to create the PTO and prompted Congress to enact the Copyright Act and the Patent Act.[25] It seems hard to imagine what could be more persuasive as to the pervasiveness of an area of law than a constitutional mandate to provide for said area of law. Nevertheless, courts have found some textual interpretation and legislative history to support the proponent that Congress did not intend for the federal registration system to include liens on patents as collateral for security interests.[26]

Although an analysis of modern-day congressional intent favors state law to govern perfection of security interests in patents,[27] both statute[28] and policy considerations[29] demand that Congress update

19. *See* Alice Haemmerli, *Insecurity Interests: Where Intellectual Property and Commercial Law Collide*, 96 COLUM. L. REV. 1645, 1657 (1996).

20. U.C.C. § 9-303(1) (2000).

21. *Cybernetic Servs.*, 252 F.3d at 1059.

22. *Id.* at 1046.

23. *Id.* at 1045-46.

24. Gade v. Nat'l Solid Wastes Mgmt. Ass'n, 505 U.S. 88, 98 (1992).

25. U.S. CONST. art. I, § 8, cl. 8.

26. *Cybernetic Servs.*, 252 F.3d at 1048-50.

27. *Infra* Part III.1.C.

28. *Infra* Part III.1.A-B (textual analysis of Section 261) and Part III.2.B (discussion of Article 9 step-back provisions).

29. *Infra* Part III.3 (discussion of policy considerations supporting federal filing).

section 261 to provide for a federal registration system of security interests in patents, in order to be consistent with the modern-day economic landscape and the intent of the Framers under the original constitutional mandate under Article I.

The state of the law regarding perfection of security interests in patents is uncertain.[30] Attorneys advise their clients to record with both the state and the federal registration systems in order to perfect their security interests.[31] Moreover, the Supreme Court missed its opportunity to clarify the ambiguity when it denied certiorari to *Cybernetic Services*.[32] This comment will attempt to make sense of this area of the law and formulate an opinion as to what the law should be. Part II of this comment will interpret Section 261 through textual analysis, canons of construction, and legislative history. Part III will explore federal preemption law in the context of perfection of security interests in patents. Part III will also examine the hodgepodge that is the case law regarding perfection of security interests and patent law. Finally, Part IV will look at some policy considerations for resolving the matter.

## II. THE EVOLUTION OF PATENT LAW AND SECURITY INTERESTS IN INTANGIBLES

### *A. Evolution of the Patent Act*

The American patent system has its origins in English patent law, in particular, from the system established by the Statute of Monopolies of 1624.[33] The English Parliament passed this statute to restrict the government's right to grant monopolies to inventors to fourteen years.[34]

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30. *See* Haemmerli, *supra* note 19, at 1659-60. Although it common practice to file security interests in patents with both the state and federal filing system, it is unclear whether a federal filing would actually put subsequent purchasers and mortgagees on notice. Pauline Stevens, *Security Interests in Patents and Patent Applications*, 6 U. PITT. J. TECH. L. & POL'Y 3, § 7 (2005). In fact the Code of Federal Regulations states that filing such documents with the PTO does not constitute an acknowledgement that the document has any effect. *Id*. If Section 261 is interpreted as not encompassing the filing of security interests in patents, actual or inquiry notice will need to be proved for secured creditors to protect themselves against the claims of subsequent purchasers and mortgagees, even if the secured creditors filed with the PTO. *See id*.

31. James J. Paige, *Taking Security Interests in Intellectual Property*, MARTINDALE.COM (May 13, 2004), http://www.martindale.com/intellectual-property-law/article_Fredrikson-Byron-P.A._2856.htm.

32. Pauline Stevens, *Security Interests in Patents and Patent Applications*, 6 U. PITT. J. TECH. L. & POL'Y 32, 42 (2005).

33. JAN FAGERBERG & DAVID C. MOWERY, THE OXFORD HANDBOOK OF INNOVATION 269 (2005).

34. *Id.*

The statute attempted to prevent the monarchy from arbitrarily granting monopolies to inventors for indeterminate amounts of time, as royal favors on such everyday items as vinegar, starch, and playing cards.[35] Before American independence, many States adopted their own patent laws, although only South Carolina gave its inventors a monopoly on their new inventions for a limited period of fourteen years under the "Act for the Encouragement of the Arts and Science" of 1784.[36]

Prior to the first Patent Act, Thomas Jefferson expressed concerns about the dangers of granting monopolies on inventions and was unconvinced that it was necessary for the advancement of innovation.[37] On the other hand, James Madison was one of the major proponents for a federal patent system.[38] In The Federalist No. 43, Madison declared that "the States cannot separately make effectual provision" for the protection of innovation, thus responsibility for providing such protection should be entrusted to the Congress of the United States.[39] Subsequently, in 1789, the Constitution of the United States was enacted, giving Congress the power to promote the "[p]rogress of the . . . useful [a]rts" by giving inventors a monopoly on the making, using and selling of their inventions for a limited time, in exchange for disclosure of the invention to the general public.[40] In the words of Justice Story, without a central system for regulating patents, inventors would be "subjected to the varying laws and systems of the different states on this subject, which would impair, and might even destroy the value of their rights."[41]

The first federal patent statute was passed in 1790, giving jurisdiction to issue patents to a board consisting of the Attorney General, Secretary of War, and the Secretary of State.[42] Just a few years later, Congress passed the Patent Act of 1793, making patent-granting an administrative function, because the board could not devote much time to granting patents due to other duties and responsibilities of their high

35. TOSHIKO TAKENAK, PATENT LAW AND THEORY: A HANDBOOK OF CONTEMPORARY RESEARCH 360 (2008).

36. ROBERT C. KAHRL, PATENT CLAIM CONSTRUCTION § 2.03[C], at 2-17 (2001).

37. *Id.* at § 2.03[D], 2-19.

38. *Id.*

39. The Federalist No. 43 (James Madison).

40. U.S. CONST. art. I, § 8, cl. 8.

41. JOSEPH STORY, COMMENTARIES ON THE CONSTITUTION OF THE UNITED STATES § 502, at 402 (R. Rotunda & J. Nowak eds., 1987).

42. S. Rep. No. 1979, at 2-3 (1952). The first Patent Act was enacted during the second session of Congress. *Id*.

offices.[43] The Patent Act of 1793 indiscriminately granted a patent to anyone who met the formal filing requirements and paid the set fees.[44]

Due to dissatisfaction over the granting of patents indiscriminately without consideration of patent novelty or other matters, the Senate selected a committee, which created a bill that was passed in 1836, laying the foundation for our current patent system.[45] It created the Commissioner of Patents and a system of examiners that could refuse patent applications for various reasons, including lack of novelty.[46]

In 1870, as part of an effort to consolidate and streamline all of the laws of the United States, Congress appointed a Committee on Patents to consolidate the existing provisions in the Patent Act and make amendments affecting some matters of substance.[47] The current version of the Patent Act was enacted in 1952 as part of the codification of Title 35, United States Code, and involves primarily simplification and streamlining of the statutory language and a few substantive changes.[48]

While the Patent Act has been expanded and amended over time, the fundamental goals remain the same: 1) incentives for innovators to create, and 2) the disclosure of new and useful ideas to the public in order to advance science and industry.[49] Over 200 years after James

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43. *Id.* at 3. Various amendments to the Patent Act of 1836 were made, including the addition of designs as patentable subject matter in 1842. *Id.*

44. *Id.* The 24th Congress declared that many "evils" resulted from the Patent Act of 1793 because it granted patents without consideration of novelty or utility. S. Rep. No. 239, at 2 (1836). It listed some of the evils as:

1. A large number of patents were useless and void, as they infringed on one another and the public domain. This was the result of due attention being given to the claims and ignorance of the state of the art in this and other countries.
2. It resulted in a flooding of patent monopolies that encumbered legitimate patents and it was embarrassing because it resulted in patents of even the most common and long-known simple improvements.
3. Courts became flooded with the numerous patent infringement cases that arose.
4. Fraud became an extensive and serious problem. It was not uncommon for a person to copy a patent and then make a slight alteration and apply for a patent of the resulting device. Because patents were granted indiscriminately, without consideration of novelty, such person would receive a patent. That person would then sell the device to members of the public who would later find out that they purchased a device that they had no right to use because it was obtained fraudulently.

*Id.* at 2-3. Because of these evils, the value of patents decreased to the point of having little or no value to genuine patentees. *Id.* at 4.

45. *Id.*

46. *Id.*

47. S. Rep. No. 1979, at 2-3 (1952).

48. *Id.* at 4.

49. Kewanee Oil Co. v. BicronCorp., 416 U.S. 470, 480 (1974). The original source of the patent law is the Constitution, granting Congress the power to "promote the Progress of…useful

Madison urged the Framers to give the national government the duty to regulate patents, rather than leave it to the States,[50] America is again faced with the issue of whether state or federal law is the best way to encourage innovation through the protection of patent rights.[51]

### *B. Evolution of the Text of Section 261 of the Patent Act*

The particular part of the Patent Act that this comment is primarily concerned with is section 261, the recording provision.[52] The recording provision provides for public notice to protect "subsequent purchasers and mortgagees" from unrecorded interests in a patent.[53] Congress enacted the first recording provision of the Patent Act in the 1793 amendment, which required filing with the office of the Secretary of State.[54] The Patent Act of 1836 required recordation with the PTO, an administrative office that was newly created by the same statute.[55] The Patent Act of 1870 added the language that an assignment would be void against a subsequent bona fide purchaser or mortgagee, if it was not recorded with the PTO in the allotted time.[56] This amendment thereby clarified, or limited the protection provided by the recording statute to subsequent bona fide "purchasers" and "mortgagees."[57] The current version of the recording statute is essentially the same as the language in the 1870 version, providing, in part 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

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Arts." U.S. CONST. art. I, § 8, cl. 8; *Kewanee Oil Co.,* 416 U.S. at 480. Patent laws were created to promote this progress by offering inventors incentives in the form of limited-term monopolies to offset the risk of enormous amounts of time and money invested into research and development. *Id.* In exchange for a limited-term monopoly, an inventor is required to disclose his or her invention to the public in such a way that one of ordinary skill in the art would be enabled to reproduce the invention. *Id*. at 480-81. The idea is that once a patent is granted and the disclosure of such patent is circulated throughout the general public, the addition into the general store of knowledge will further stimulate innovation, insight, and creativity, resulting in more advancement in the art. *Id*. The benefit to society would be new, useful, and improved products introduced into the economy to create jobs and a better quality of life for Americans. *Id*.

50. The Federalist No. 43 (James Madison).

51. *Supra* note 5.

52. 35 U.S.C. § 261 (2000).

53. *See id.*

54. Patent Act of 1793, Ch. 11, § 4, 1 Stat. 318-23 (1793).

55. Patent Act of 1836, Ch. 357, § 11, 5 Stat. 117 (1836). Although this amendment added the requirement to record with the PTO, obviously, it is not clear whether security interests are required to be recorded with the PTO. *Id.*

56. Patent Act of 1870, Ch. 230, § 36, 16 Stat. 198-217 (1870).

57. *See id.*

> Office within three months from its date or prior to the date of such subsequent purchase or mortgage.[58]

Although the language has not changed much since 1870, the economic backdrop of patent interests has significantly evolved.[59] Using intangible personal property, such as patents and patent applications ("patents"), to secure financing is commonplace in today's business world, but it was relatively scarce in the nineteenth century.[60] Use of the federal patent system to secure property rights in inventions has significantly grown since then.[61] Also, the range of interested parties has significantly expanded to include not just inventors, assignees, purchasers and mortgagees, but also licensees, bankruptcy trustees, and bankrupt debtors.[62] This divergent economic and legal backdrop should color the interpretation of the antiquated nineteenth-century language of section 261 of the Patent Act.

### *C. Secured Transactions: Progeny of the Industrial Revolution*

State law normally governs the use of personal property to back security interests.[63] Section 261 of the Patent Act declares that patents are personal property.[64] Today, it is typical for personal property assets such as stocks and bonds, art, antiques, and jewelry to be used as collateral to support a loan from a secured creditor.[65] It is also widely accepted that both title and possession of such personal property assets remain in the debtor during the loan period.[66] Normally, title and possession are only transferred to a secured creditor upon default of a loan obligation.[67] This was not always the case in American financing law.[68]

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58. 35 U.S.C. § 261 (2000).

59. *See infra* pp. 11-20.

60. *See* GRANT GILMORE, SECURITY INTERESTS IN PERSONAL PROPERTY 438 (5th ed. 2007).

61. *See* U.S. PATENT AND TRADEMARK OFFICE, TABLE OF ANNUAL U.S. PATENT ACTIVITY SINCE 1790, http://www.uspto.gov/web/offices/ac/ido/oeip/taf/h_counts.pdf (last visited Nov. 4, 2009). Ten years after the first Patent Act, forty-one patent applications were filed. *Id.* In 2008, almost 500,000 patent applications were filed with the PTO. *Id.*

62. FAGERBERG & MOWERY, *supra* note 33, at 201.

63. U.C.C. § 9-109 (1995).

64. *Id.*

65. *See* JOHN E. ADAMSON, LAW FOR BUSINESS AND PERSONAL USE 557-58 (17th ed. 2006).

66. *Id.*

67. *Id.*

68. RICHARD F. DUNCAN & WILLIAM H. LYONS, THE LAW AND PRACTICE OF SECURED TRANSACTIONS: WORKING WITH ARTICLE 9, at 1-4 (19th ed. 2004).

Until the early 1800s, using personal property as collateral required the debtor to relinquish possession of the collateral to the secured creditor until repayment of the loan obligation, while legal title remained in the debtor.[69] This type of financing transaction was called a "pledge," and it was the only way to legally use personal property, as opposed to real property, as collateral.[70] If possession was not transferred to the secured creditor, the law considered the transaction a fraud.[71] The issue was that there would be no public notice of the secured creditor's interest in the debtor's property as collateral if the creditor did not physically possess the property.[72] Courts feared that without public notice, a debtor could sell the property to an innocent purchaser, or use the property as collateral from yet another creditor who innocently believed that the property was free of other lien interests.[73]

The Industrial Revolution changed the landscape for security interests.[74] It created an abundant need for credit in order to finance the rapid rate of growth of industrial facilities.[75] It also created an economy in which wealth existed not just in land, but also in personal property such as factory equipment and stock-in-trade.[76] Thus, creditors were forced to find collateral in personal property as well as real property to secure their loans.[77] Pledges did not work because business owners needed their factory equipment or stock-in-trade to run their businesses

69. *Id.*
70. *Id.*
71. *Id.*
72. *See* GILMORE, *supra* note 60, at 438.
73. *See* GILMORE, *supra* note 60, at 438.
74. *See* GILMORE, *supra* note 60, at 25. *See infra* text accompanying note 75.
75. *See* GILMORE, *supra* note 60, at 25. During the Industrial Revolution, there was an unprecedented growth of industrial facilities and an equally rapid growth of the need for credit to support this rapid expansion. *See* GILMORE, *supra* note 60, at 25. Banks demanded security for their loans. *See* GILMORE, *supra* note 60, at 25. Unfortunately, the existing methods of security were inadequate. *See* GILMORE, *supra* note 60, at 25. Using a mortgage on real property was not enough to support the industrialist's insatiable demand for credit and the bank's demands for security. *See* GILMORE, *supra* note 60, at 25. The pledge was also inadequate to support the demand for credit. *See* GILMORE, *supra* note 60, at 25. One could pledge shares and bonds in the company because a debtor could give the creditor possession of the certificates, however, one could not pledge their factory equipment or railroad stock to support additional credit because the company required possession of such tangibles for the operation of their business (refer to the discussion on p. 13 for why pledges require the creditor to possess the collateral). *See* GILMORE, *supra* note 60, at 25. This created the need for a new method of security by which one could use the physical equipment and supplies within their business to back a loan, but not be required to give up possession of such equipment and supplies. *See* GILMORE, *supra* note 60, at 25. This is the backdrop of the development of the law of security interests in personal property.
76. *See* GILMORE, *supra* note 60, at 25.
77. *See* GILMORE, *supra* note 60, at 25.

in order to repay the loan.[78] Thus, despite the historical mistrust of nonpossessory liens on personal property, the use of personal property as nonpossessory collateral became widely accepted and modern day security interest law was born.[79]

The first nonpossessory security interest in personal property was called a "chattel mortgage."[80] Chattel mortgages were created by statute, so-called "chattel mortgage acts," beginning in the 1820s.[81] The statute made nonpossessory security interests in personal property void against bona fide purchasers and sometimes creditors unless the mortgage was filed with the local recording office.[82] Recording would, thus, provide public notice of nonpossessory interests.[83] Still, it took most of the nineteenth century for nonpossessory security interests in personal property to be accepted by the courts because of the concern of fraudulent conveyances.[84] Even in the 1850s, some courts considered chattel mortgage to be presumptively fraudulent, even if a creditor complied fully with the chattel mortgage act.[85]

### *D. Origins of Intangible Personal Property Financing Law*

The historical background of secured transactions in intangible personal property is key to understanding the context in which the Patent Act's recording provision was enacted because it colors the interpretation of the text and congressional intent at the time the statute was written. There is a caveat within the history of patents in financing law—not only is a patent considered personal property, it is an intangible.[86] Intangible property is property that lacks physical form.[87] By the middle of the nineteenth century, real and personal property

78. *See* GILMORE, *supra* note 60, at 25.

79. *See* GILMORE, *supra* note 60, at 25.

80. *See* GILMORE, *supra* note 60, at 25.

81. *See* GILMORE, *supra* note 60, at 26.

82. Lorin Brennan, *Financing Intellectual Property Under Federal Law: A National Imperative,* 23 HASTINGS COMM. & ENT L.J. 195, 212 (2001).

83. *See* GILMORE, *supra* note 60, at 26.

84. *See* GILMORE, *supra* note 60, at 27.

85. *See* GILMORE, *supra* note 60, at 26-27.

86. Brennan, *supra* note 82, at 216. Intangibles encompass a wide variety of legal interests and assets, including accounts receivables, contract rights, and intellectual property such as patents. Brennan, *supra* note 82, at 216. Certain types of intangibles that were represented by a written document, such as corporate securities, were eventually allowed financing through the pledge upon delivery of possession of the written document to the creditor. Brennan, *supra* note 82, at 216. However, many intangibles, like intellectual property, could not be pledged. Brennan, *supra* note 82, at 216.

87. BLACK'S LAW DICTIONARY 879 (9th ed. 2009).

developed roughly in parallel with respect to recording provisions through real property recording acts and the chattel mortgage acts.[88] But, there was a gap in the law regarding intangible personal property.[89] During the initial adoption of state chattel mortgage acts during the nineteenth century, chattel mortgage acts were limited to only tangible property so the recording provisions of the acts were not available for intangible personal property.[90] Subsequently, liens on certain types of intangibles were gradually allowed to receive protection under the recording scheme set-up by the chattel mortgage act.[91] Still, many intangibles could not be pledged, including patents.[92] Periodically certain intangibles were made the subject of federal recording acts.[93] In this context, Congress enacted the recording provision of the Patent Act to provide a federal notice-filing system for patents—a federally created intangible personal property right.[94]

### *E. Modern Day Secured Transactions: The Uniform Commercial Code to the Rescue*

In the 1930s, in the wake of the stock market crash of 1929, many businessmen and lawyers began complaining that the lack of consistency in state statutory laws regarding security interests in personal property was creating significant problems.[95] In 1944, at the tail end of World War II, the National Conference and the American Law Institute began work on a comprehensive review of state statutory law regarding commercial transactions.[96] In 1952, the first official version of the UCC was released.[97]

Article 9 of the UCC governs the method by which a secured creditor must perfect a security interest.[98] Perfection of a security interest is required to establish a priority date against the claims of other

88. Brennan, *supra* note 82, at 216.

89. Brennan, *supra* note 82, at 216.

90. Brennan, *supra* note 82, at 216.

91. Brennan, *supra* note 82, at 216. Negotiable instruments and corporate securities were eventually given protection under chattel mortgage acts. Brennan, *supra* note 82, at 216.

92. Brennan, *supra* note 82, at 216.

93. Brennan, *supra* note 82, at 216. For example, the trust receipt, an intangible, was made the subject of the Uniform Trust Receipt Act in the early Twentieth century, providing a notice-filing system for financiers who used trust receipts to secure their loans. Brennan, *supra* note 82, at 216.

94. Brennan, *supra* note 82, at 216.

95. DUNCAN & LYONS, *supra* note 68, at 1-4.

96. DUNCAN & LYONS, *supra* note 68, at 1-5.

97. DUNCAN & LYONS, *supra* note 68, at 1-5.

98. *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1046 (9th Cir. 2001).

creditors.[99] Article 9 was created for two purposes: (1) to provide public notification of the encumbered collateral to subsequent purchasers and creditors, and (2) to establish priority in the event that the encumbered collateral becomes part of a bankrupt estate in a bankruptcy proceeding.[100] All states have adopted the UCC in one form or another. In order to perfect a security interest under the UCC, a creditor must file a financing statement with the state of the debtor.[101]

### *F. After-acquired Property Interests: Now Owned or Hereafter Acquired*

Another caveat that developed in modern-day security interest law is the after-acquired property interest.[102] Under Article 9, section 204, a debtor and secured creditor may enter into an agreement that collateral for a loan includes not only properties currently owned by the debtor, but also certain properties acquired after the date of the security agreement.[103] For example, in a typical scenario, inventor A, owner of patent 1, and lender B enter into a security agreement in which collateral includes "all the debtor's general intangibles now owned or hereafter acquired."[104] Subsequently, inventor A uses the loan from lender B to finance the development of a new medical technology. Inventor A then files for a patent application for this new medical technology, patent 2. Lender B now owns a security interest in both patent 1 and patent 2, without having to file another security agreement.[105] This type of security interest is called a "floating lien," because it "floats" over the

99. Haemmerli, *supra* note 19, at 1657; U.C.C. § 9-204 (1995).

100. Thomas M. Ward, *The Perfection and Priority Rules for Security Interests in Copyrights, Patents, and Trademarks: The Current Structural Dissonance and Proposed Legislative Cures*, 53 ME. L. REV. 391, 396-97 (2001).

101. Stevens, *supra* note 32, at 6-7. The financing statement required under the UCC is fairly simple, requiring only a general description of the covered collateral, while the federal system requires a separate filing for each patent. *Intellectual Property Security Registration and the Report of the U.S. Copyright Office on Copyright and Digital Distance Education: Hearing Before the Subcomm. on Courts and Intellectual Property of the H. Comm. on the Judiciary*, 106th Cong. 144 (1999) [hereinafter *Hearings*] (statement of Susan Barbieri Montgomery, attorney at law, Foley, Hoag & Eliot, LLP, and G. Larry Engel, on behalf of the American Bar Association). This is cumbersome because a secured transaction agreement often uses as collateral "all general intangibles," which includes all existing intangibles owned by a company and any future intangibles thereafter created or acquired by said company. *Id.*

102. DUNCAN & LYONS, *supra* note 68, at 2-39.

103. DUNCAN & LYONS, *supra* note 68, at 2-39.

104. *See* DUNCAN & LYONS, *supra* note 68, at 2-39.

105. *See generally supra* text accompanying note 101 (discussing the UCC filing system that requires only a general description of the collateral, which can encompass all existing intangibles currently owned as well as any future intangibles acquired by a debtor).

debtor's current and future assets.[106] Although floating liens are recognized by the UCC, the PTO does not recognize floating liens as a security interest in a patent.[107] Even if the PTO recognized floating liens, it would be practically difficult because filing in the PTO requires a patent number.[108] Therefore, a secured creditor would need to monitor a debtor's inventions and file with the PTO for each after-acquired patent interest.[109]

### *G. Article 9 and Section 261, Meet Bankruptcy Law*

The answer to whether federal or state filings are required to perfect security interests in patents can be critical to bankruptcy proceedings.[110] Of particular importance is what rights secured creditors have against bankruptcy trustees.[111] Upon filing for bankruptcy, an insolvent corporation appoints a bankruptcy trustee, a fiduciary whose duty is to settle the affairs of the bankrupt estate, including settling creditor claims.[112] Federal bankruptcy law gives the trustee status as a "hypothetical lien creditor" in order to gain priority status so as to avoid certain security interests.[113] Bankruptcy law further provides that a trustee, on behalf of the bankrupt estate, may avoid any of the corporation's transfers of property interest made by the corporation on or within 90 days before the filing of the bankruptcy petition.[114] Because security interests generally become effective on the date of perfection, the legal date of perfection in a security interest can be very critical to determining whether a security interest transaction falls within the ninety-day preferential period, and thereby can be avoided by a

106. GILMORE, *supra* note 60, at 359. A floating lien may change on a daily basis, for example, when existing inventory is sold and new inventory acquired. Kathleen Payne, *Drafting Pointers for Success*, MICH. BAR J., at 28 (2005). The lien is "floating" because the collateral may change according to what is sold and/or newly acquired. *See* GILMORE, *supra* note 60, at 359.

107. *Hearings*, *supra* note 101, at 144 (statement of Susan Barbieri Montgomery).

108. *Hearings*, *supra* note 101, at 144. The PTO requires that filing of security interests in patents be tied to the specific patent and patent application numbers by the cover sheet under which the filing is made. Stevens, *supra* note 32, at § 7. Therefore, filing a general description of the "floating" collateral with the PTO would not be helpful because the PTO requires that each patent be individually identified. *See id*.; *infra* Part III.A.3 (discussing legislative history).

109. *Hearings*, *supra* note 101, at 144.

110. *See supra* p. 1.

111. *See* Toren et al., *supra* note 3, at 201.

112. Carlos J. Cuevas, *Bankruptcy Code Section 544 (A) and Constructive Trusts: The Trustee's Strong Arm Powers Should Prevail*, 21 SETON HALL L. REV. 678, 731 (1991).

113. *Id.*

114. 11 U.S.C.A. § 547(b)(4) (West 2007).

trustee.[115] In fact, in the past few decades there have been an increasing number of bankruptcy cases dealing with the issue of whether filing under the PTO or the UCC constitutes perfection in a patent in order to defeat a bankruptcy trustee's claim.[116]

## III. PATENT PERFECTION: PATENT ACT OR UNIFORM COMMERCIAL CODE?

### *A. Statutory Interpretation*

#### 1. Historical Textual Analysis of Section 261: An Uneasy Task

To find the meaning and scope of section 261 of the Patent Act, a court must first look to the text of the statute.[117] Before analyzing the text, a court must determine what historical context the language was written in.[118] This is not always an easy task, especially when there have been multiples amendments, as is the case of section 261.[119] The first recording provision for the Patent Act was enacted in section four of the Patent Act of 1793.[120] It included the idea that an inventor could "assign" his interest in a patent and subsequently the assignee was required to record with the office in order "to stand in the place of the original inventor."[121] Thus, the statute's recording provision and "assignment" language was first enacted in 1793.[122] However, the Patent Act of 1836 added the language that "grants" and "conveyances" of exclusive rights to a patent shall also be recorded.[123] It could be argued that the word "assignment" should be analyzed according to its meaning in the eighteenth century and that words "grant" and "conveyance" should be analyzed according to the mid-nineteenth century meaning.

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115. *See*, *e.g.*, Braunstein v. Gateway Mgmt. Servs. (*In re* Coldwave Sys., LLC), 368 B.R. 91, 92-94 (Bankr. D. Mass. 2007).

116. *See*, *e.g.*, *Coldwave Sys.*, 368 B.R. at 92; *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1039 (9th Cir. 2001); City Bank and Trust Co. v. Otto Fabric, Inc., 83 B.R. 780, 780 (D. Kan. 1988); *In re* Transp. Design & Tech., Inc., 48 B.R. 635, 637 (Bankr. S.D. Cal. 1985).

117. *See* Robert H. Jackson, *The Meaning of Statutes: What Congress Says or What the Court Says*, 34 A.B.A. 535, 537-38 (1948). If ambiguities arise, it may be helpful to determine congressional intent behind the provision through legislative history. *Id.*

118. *See Cybernetic Servs.*, 252 F.3d at 1049.

119. See *supra* pp. 9-10.

120. Patent Act of 1793, Ch. 11, § 4, 1 Stat. 318-323 (1793).

121. *Id.*

122. *See id.*

123. Patent Act of 1836, Ch. 357, § 11, 5 Stat. 117 (1836).

On the other hand, some view the year 1870 as the relevant historical context because it was the year the current language of section 261 was enacted.[124] It was also the year in which Congress added the idea that assignments, grants, and conveyances were "void as against any subsequent purchaser or mortgagee" unless recorded in the PTO.[125] Because key words of the statute were added by different congresses over the span of 100 years, identifying a narrow time period in which to focus the textual analysis is difficult, if not impossible.[126] This is especially troublesome, given that the 100-year span encompassed great change in American economic and legal history with the advent of the Industrial Revolution.[127]

In *Cybernetic Services,* the Ninth Circuit declared that the words of the statute must be given their meaning in 1870.[128] Accordingly, to support the idea that section 261 deals only with transfers of title, the Ninth Circuit cited various nineteenth-century and early twentieth-century cases.[129] The court cited cases and secondary sources from 1883 to 1929 to support the proposition that an "assignment" was a transfer of the patent's title.[130] The court cited an 1868 case explaining that a "grant" must convey all exclusive rights to a patent within a specified

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124. *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1048 (9th Cir. 2001).

125. Patent Act of 1870, ch. 230, § 36, 16 Stat. 203 (1870).

126. The Patent Act of 1793 stated, in relevant part, that it an inventor can "*assign* the title and interest in the said invention…and the assignee having recorded said assignment…shall thereafter stand in the place of the original inventor, both as to right and responsibility." Patent Act of 1793, Ch. 11, § 4, 1 Stat. 318-23 (1793) (emphasis added). In 1836, the language was amended such that any "*assignment*, and also every *grant* and *conveyance* of the exclusive right under any patent…shall be recorded in the Patent Office." Patent Act of 1836, Ch. 357, § 11, 5 Stat. 117 (1836) (emphasis added). In 1870 the language was further amended, stating that "every patent shall be *assignable*…and the patentee or his assign may…*grant and convey* an exclusive right under his patent…and said assignment, grant, or conveyance shall be void as against any *subsequent purchaser or mortgagee*." Patent Act of 1870, Ch. 230, § 36, 16 Stat. 198-217 (1870) (emphasis added). The word "assignment" was first written into the statute in 1793. Patent Act of 1793, Ch. 11, § 4, 1 Stat. 318-23 (1793). The words "grant" and "conveyance" were added approximately forty years later. Patent Act of 1836, Ch. 357, § 11, 5 Stat. 117 (1836). And the words "purchaser" and "mortgagee" were added thirty years later. Patent Act of 1870, Ch. 230, § 36, 16 Stat. 198-217 (1870). Should we analyze each word according to its legal meaning at the time of its insertion into the Patent Act?

127. *See* GILMORE, *supra* note 60, at 438; *supra* Part II (summarizing the history of the Patent Act and the law of security interests in personal property).

128. *Cybernetic Servs.*, 252 F.3d at 1049. Section 261 is derived from the Patent Act of 1870, ch. 230, § 36, 16 Stat. 203.

129. *Id.* at 1049-50.

130. *Id.* (citing Oliver v. Rumford Chem. Works, 109 U.S. 75, 82-83 (1883); Waterman v. Mackenzie, 138 U.S. 252, 255 (1891); WILLIAM C. ROBINSON, THE LAW OF PATENTS § 762, at 517 (1890); 48 C.J. *Patents* § 390, at 253 (1929)).

geographic area,[131] coupled with a 1949 case, which stated that grants and assignments differ only in that grants pertain to a limited geographic area.[132] Thus, grants are title transfers limited to rights within a specific geographic area.[133] The Ninth Circuit admitted that the word "conveyance" historically had varied meanings, but cited to an 1860 case that gave it the meaning of title transfer from one person to another.[134] The court seemed to portray the definitions of the aforementioned words with unwarranted confidence as unambiguous; however, the meanings of the words are far from plain, particularly in such complex contexts as security interests in intangible personal property and in light of the rapid evolution of the law in this area during the evolving enactment of section 261.[135]

In the early 1800s, the only security interests that existed were mortgages for real property and pledges for personal property.[136] After chattel mortgage acts were enacted by state legislatures, beginning in the 1820s, pledges were gradually considered valid, even without delivery of possession to the creditor, as long as notice was provided by recording the creditor's interest with the state recording office.[137] At early common law the law of assignments governed intangibles.[138]

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131. *Id.* (citing Moore v. Marsh, 74 U.S. 515, 521 (1868)).

132. *Id.* (citing Houdry Process Corp. v. Universal Oil Prods. Co., 87 F. Supp. 547, 552 (D. Del. 1949)).

133. *Id.* (citing *Houdry Process Corp.*, 87 F. Supp. at 552).

134. *Id.* (citing Abendroth v. Town of Greenwich, 29 Conn. 356 (1860); Frame v. Bivens, 189 F. 785, 789 (C.C.E.D. Okla. 1909); I BOUVIER'S LAW DICTIONARY 361 (14th ed. 1874); BLACK'S LAW DICTIONARY (3rd ed. 1933)). However, each of these sources uses "conveyance" in a real property setting, not with respect to personal property or intangible property. *Abendroth*, 29 Conn. at 356 (stating that conveyance is a transfer of title from one person to another, but involving real estate claims); *Frame*, 189 F. at 789 (stating that "conveyance" is the transfer of title of *land* from one person to another) (emphasis added); I BOUVIER'S LAW DICTIONARY 361 (defining "conveyance" as the transfer of title of *land* from one person to another); BLACK'S LAW DICTIONARY ("In a strict legal sense, a transfer of legal title to *land*.").The court admitted that the term "conveyance" was not typically used in the context of intangible property and that "its historic meaning tended to vary," but did not state what other variations upon the meaning of the word "conveyance" there were, historically. *Cybernetic Servs.*, 252 F.3d at 1050.

135. *See* GILMORE, *supra* note 60, at § 2.8, 58-60. Mr. Gilmore noted that many of the late nineteenth century and earlier twentieth century cases dealing with mortgages of intangible property used language "that wobble[d] from mortgage to pledge to assignment." GILMORE, *supra* note 60, at § 2.8, 58-60. Yet, the debtor of a pledge transaction retained title to the collateral, unlike a traditional mortgage. *Supra* pp. 14-15.

136. GILMORE, *supra* note 60, at 24. A pledge required delivery of the collateral to the creditor, otherwise the transaction was considered fraudulent. *Supra* p. 12.

137. *See* GILMORE, *supra* note 60, at § 2.8, 58-60.

138. Brennan, *supra* note 82, at 216.

Perhaps for that reason, courts often confused, and interchangeably used, the words "assignment" and "pledge."[139]

In 1849, the New York Court of Appeals stated that "debts and [intangibles] are capable, by written *assignment*, of being *conveyed* in *pledge*."[140] Because a pledge is essentially a lien without title transfer, the court's statement suggests that security interests in intangibles, such as patents, can by "assigned" and/or "conveyed," under the legal meaning of the words. Therefore, the Patent Act's requirement that "assignments" and "conveyances" of patents must be recorded could very well be interpreted as including the assignment and conveyance of security interests.[141] Conjointly, because at early common law, intangibles were governed by the law of assignments,[142] a court could envision why Congress used the word "assignment" to indicate a transfer of patent rights in the Patent Act of 1793—a reason that did not necessarily intend to limit recordation to title transfers, but rather express recordation in accordance with the law of intangibles, i.e. the law of assignments.[143]

In fact, as assignments of intangibles came to be recognized, they were accorded the name "collateral assignments."[144] The basic difference between so-called collateral assignments and true assignments was that collateral assignments gave the debtor the right of redemption, whereas, true assignments did not give the debtor this right of redemption.[145] Thus, the term "assignments" does not necessarily preclude secured transactions.

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139. *See* GILMORE, *supra* note 60, at 10; Wilson v. Little, 2 N.Y. 443, 446 (1849).

140. *Wilson*, 2 N.Y. at 446 (emphasis added).

141. In other words, section 261 of the Patent Act states that "[a]pplications for patents, patents, and *any interest* therein, shall be assignable." 35 U.S.C. § 261 (2000). Security interests in patents qualify under the plain meaning of "any interest therein." *Id*. A legal right to patent title upon failure to repay a debt is certainly an interest in a patent. Section 261 goes on to state that "assignments, grants, and conveyances" must be recorded with the PTO in order to provide notice. 35 U.S.C. § 261 (2000). It follows that an assignment, grant or conveyance of a security interest is covered by section 261. *See id*. And we know that during the mid-nineteenth century a "debt and [intangibles]," such as intellectual property security interests, could be assigned and conveyed. *See* GILMORE, *supra* note 60, at 10; *Wilson*, 2 N.Y. at 446. Thus, section 261 does not exclude security interests in patents from its protection. *See generally id*.

142. Brennan, *supra* note 82, at 216. *See also* GILMORE, *supra* note 60, at 55-56.

143. In other words, Congress may have used the word "assignment" because the common law of assignments governed intangibles, such as patent interests. Thus, use of the word "assignment" may not have been intended to limit recording to title transfers, but to indicate the law of assignments in governing patent rights.

144. *See* GILMORE, *supra* note 60, at 200-10.

145. Brennan, *supra* note 82, at 216. The right of redemption gives a mortgagee the right to retain the mortgaged property by paying off the defaulted mortgage. BLACK'S LAW DICTIONARY 1390 (9th ed. 2009).

Furthermore, many courts used language that "wobble[d] from mortgage to pledge to assignment," when discussing security interests in intangibles.[146] Other courts treated security transfers of intangibles as mortgages, not subject to the chattel mortgage act, but rather subject to the right of redemption according to the title or lien theory under relevant state law.[147] Clearly, during the nineteenth-century enactment of the recording provision of the Patent Act, clear lines were not drawn between the terms "assignment", "pledge", "conveyance", and "mortgage with respect to intangible personal property." Thus, it is difficult to conclude wholeheartedly, like the Ninth Circuit did in *Cybernetic Services*, that there is a plain meaning to the words "assignment," "grant," and "conveyance" within section 261 of the Patent Act.

The Ninth Circuit argued that because Congress did not use the word "pledge," it did not intend the recording provision of the Patent Act to include security interests because the pledge was a common method of using patents as collateral.[148] However, as mentioned above,[149] there is authority declaring that pledges were not used for intangibles, but rather the law of assignments was used for security interests in intangibles.[150]

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146. GILMORE, *supra* note 60, at 58-60 (citing Tuttle v. Blow, 75 S.W. 697 (Ky. Ct. App. 1903); Dearman v. Cottrell, 261 Ala. 502 (1954); Webster v. Indus. Acceptance Corp., 28 S.W.2d 959 (1930)). In *Tuttle*, the Missouri court upheld a security transfer of a trademark and a secret formula for the trademarked product. GILMORE, *supra* note 60, at 58-60. In *Dearman*, the Alabama court upheld a "mortgage" on a partnership interest. GILMORE, *supra* note 60, at 58-60. The question was whether a transferee's interest could be foreclosed against the partnership assets. GILMORE, *supra* note 60, at 58-60. In *Webster*, a "mortgage" of an heir's interest in his father's estate was recorded and held valid against a creditor whether the transaction was considered an "assignment" or a "mortgage," a point not decided by the court. GILMORE, *supra* note 60, at 58-60.

147. Brennan, *supra* note 82, at 216 (citing GILMORE, *supra* note 60, at 58-60 (citing Gilmore v. Morris, 60 Am. Rep. 85 (1885), Livermore Falls Trust & Banking Co. v. Richmond Mfg. Co., 79 Atl. 844 (1911))). In *Gilmore v. Morris*, the debtor of a secured transaction sold the intangible collateral, stocks, on default and the creditor sued for conversion. GILMORE, *supra* note 60, at 58 n.11. If the transaction was a pledge Alabama law allowed a lifetime to redeem, however, if the transaction was a mortgage a six-year statute of limitations applied. GILMORE, *supra* note 60, at 58 n.11. The court declined to determine whether the secured transaction of the intangible collateral was a pledge or mortgage. GILMORE, *supra* note 60, at 58 n.11. Instead, the court held that the claim was barred by the statute of limitations if it was a mortgage; by laches if it was a pledge. GILMORE, *supra* note 60, at 58 n.11. In *Livermore Falls Trust & Banking Co.*, a creditor possessed a mortgage of the plant, tools, inventory, and receivables of a manufacturing company. GILMORE, *supra* note 60, at 58 n.12. The court would only apply the chattel mortgage act to the chattel; and the intangibles, i.e. account receivables, would fall under the law of pledges or equitable assignments. GILMORE, *supra* note 60, at 58 n.12.

148. *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1053 (9th Cir. 2001).

149. *See supra* p. 26.

150. Brennan, *supra* note 82, at 216.

The Ninth Circuit also looked at the historical meaning of the words "purchaser" and "mortgagee" in order to determine what parties section 261 protected.[151] The court used early twentieth-century sources to find that a mortgagee was one who obtained title to property in order to secure a debt and a purchaser, i.e. a bona fide purchaser, took title without notice for value.[152] Nevertheless, a court could find that section 261 also protects secured creditors upon further examination of the historical use of the words "mortgagee" and "purchaser." There are numerous cases that support the validity of the "lien patent mortgage," which does not transfer title to the mortgagee, but rather leaves title of the patent in the mortgagor.[153]

For example, in 1904 in the case of *Ormsby v. Conners*, a patent owner made a security transfer in a patent, timely recorded with the PTO.[154] The patent owner retained the exclusive rights to use, sell, and make the invention, i.e. title.[155] The circuit said that the patent owner "transferred the patent as *collateral security*, or as in the way of a *mortgage*; it makes no difference which."[156] Clearly, the court viewed the security transfer of the patent as a mortgage, even if the transaction did not transfer title.[157] The court recognized a secured transaction in which title was retained in the mortgagor and not transferred to the mortgagee.[158] Thus, early twentieth-century case law supports the proposition that security interests in patents that did not transfer title were also considered mortgages.[159] It follows that the Patent Act's use of the word "mortgagee" does not exclude secured creditors from the list of those protected by recordation with the PTO under section 261.

2. Canons of Construction to Clarify Legislative Intent

The Ninth Circuit argued that the heading of section 261, "ownership; assignments," suggests that the provision only applies to

151. *Cybernetic Servs.*, 252 F.3d at 1052-53.

152. *Id.*

153. Brennan, *supra* note 82, at 232-37 (summarizing several lien patent mortgage cases decided in the early 1900s). *See, e.g.*, Ormsby v. Conners, 133 F. 548 (Cir. Mass. 1904); Transducer Patents Co. v. Renegotiation Bd., 492 F.2d 247 (9th Cir. 1974); Westmoreland Specialty Co. v. Hogan, 167 F. 327 (3d Cir. 1909).

154. *Ormsby*, 133 F. at 548.

155. *Id.*

156. *Id.* at 549.

157. *See id*.

158. *Id.* at 550.

159. *Id.* at 549.

ownership rights in patents and assignments of ownership rights.[160] However, the court does so without any explanation or reasoning as to this textual interpretation.[161] Compare the Ninth Circuit's assumptions regarding the heading with a 1952 Senate Committee hearing report, which summarizes section 261 as "relat[ing] to assignments *and* ownership."[162] This wording used by the Senate Committee suggests that the use of a semi-colon in the heading, between ownership and assignment, is not meant to limit "assignments" to only assignments of ownership. The Senate report's use of the conjunction "and," in addition to the placement of the word "assignment" before the word "ownership," suggests that the 82nd Congress regarded assignments and ownerships as two separate and independent categories, both under section 261, and not a hierarchy in which the overriding category is ownership, and assignments, a mere subcategory.[163] Moreover, semicolons are properly used to join two independent clauses, not to indicate a dependent clause following an independent clause.[164] There is no support from the heading that section 261 is limited to only ownership rights, as the Ninth Circuit suggests.

It is a basic canon of statutory construction that courts should not interpret the text so as to render the statute meaningless or absurd.[165] The Ninth Circuit declared that section 261 governed only transfers of title.[166] However, if a security interest can be a transfer of title then the Ninth Circuit's declaration that section 261 does not apply to security interests[167] does not follow reason. Admittedly, security transfers are often considered liens, but this is not exclusively the case. A security interest may be either a lien or a title transfer.[168] In fact, Article 9 covers any transaction intending to create a security interest, regardless of whether there is a title transfer or not.[169] Thus, to void an absurd result, it follows that the scope of section 261 should not exclude security interests.

Another well-known canon of construction states that a statute must be construed so as to give meaning and effect to the statute's underlying

160. *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1051 (9th Cir. 2001).
161. *See id.*
162. S. Rep. No. 1979, at 8 (1952).
163. The 82nd Congress wrote the 1952 senate committee hearing report. *Id.* at 1.
164. WILLIAM STRUNK JR. & E.B. WHITE, THE ELEMENTS OF STYLE 5-6 (4th ed. 2000).
165. Reiter v. Sonotone Corp., 442 U.S. 330, 339 (1979).
166. *Cybernetic Servs.*, 252 F.3d at 1059.
167. *Id.*
168. Haemmerli, *supra* note 19, at 1752 n.7.
169. Haemmerli, *supra* note 19, at 1752 n.7.

purpose.[170] Indeed, this requires that a court "ascertain the [l]egislature's intent so as to effectuate the purpose of the statute." [171] One of the primary purposes of the Patent Act's recording provision is to prevent fraud by providing public notice of property interests in a patent.[172] With the current state of ambiguity over whether recordation with the PTO only protects "subsequent purchasers or mortgagees" without notice, or whether federal filing also protects lienholders, fraud is much more likely.[173] The ambiguity leaves secured creditors in a very unsecure position, caught between state and federal law.[174] Decisions falling in line with the dicta of *In re Transportation Design and Technology, Inc.*[175]make it impossible for a secured creditor to protect itself against a subsequent purchaser.[176] Creditors cannot protect their interests in a patent against subsequent purchasers under the UCC because the UCC governs rights as between creditors, not against owners.[177] And creditors cannot protect their security interests against subsequent purchasers under federal law, because, following cases like *In re Transportation Design and Technology, Inc.* and *Cybernetic Services,* federal registration only protects titleholders who record in the PTO, not lienholders.[178] Thus, if section 261 is interpreted to protect only titleholders, creditors are left without recourse and such a gap would provide an avenue for fraudulent opportunists. Section 261 should be interpreted to give meaning and effect to the purpose underlying the statute—to protect good faith actors against fraudulent conveyances.[179]

### 3. Legislative History: Industry in Favor of the UCC's Streamlined System

On June 24, 1999, a hearing was held before the Subcommittee on Courts and Intellectual Property regarding registration of secured

170. FRANK B. CROSS, THE THEORY AND PRACTICE OF STATUTORY INTERPRETATION 21 (2009).

171. Smith v. Super. Ct., 39 Cal. 4th 77, 83 (2006).

172. Brennan, *supra* note 82, at 236.

173. *See* Haemmerli, *supra* note 19, at 1655.

174. Haemmerli, *supra* note 19, at 1655.

175. *Infra* note 191 (giving examples of cases in which the court held that only state filing is required to perfect a security interest in a patent as between two lienholders).

176. Haemmerli, *supra* note 19, at 1655.

177. Haemmerli, *supra* note 19, at 1655.

178. *See* Haemmerli, *supra* note 19, at 1655.

179. *See* CROSS, *supra* note 170, at 21.

transactions of intellectual property.[180] A representative spoke on behalf of the American Bar Association (ABA), urging Congress to allow UCC filings with the state to perfect security interests in intellectual property as between secured lenders and debtors, while limiting the scope of federal filings to establish priorities as compared to subsequent transfers of ownership interests.[181] The ABA listed several reasons for its recommendation.[182] The first reason listed was that federal filings do not allow for floating liens, making it necessary to file separately for each current and subsequent piece of intellectual property.[183] On the other hand, state filings under the UCC can be done by general descriptions of the covered collateral, much less burdensome on the lending community.[184] The ABA exclaimed that "[a]fter decades of encouragement from commercial users, the UCC filings and search reporting systems are comparatively quick and cost effective to use" as compared with the federal filing system.[185]

The ABA noted that because financiers calculate the amount of credit they could extend to a particular borrower against the reliable value of their perfected collateral, ambiguity about intellectual property collateral unnecessarily reduces the amount of financing available for intellectual property owners.[186] In November 1999 and again in 2002, both Houses passed and the President signed amendments to the Patent Act, yet none of the amendments included any changes to the language of section 261.[187] It is obvious that Congress was both aware of this issue and knew how to correct it, as evidenced by the subcommittee

180. *Hearings*, *supra* note 101, at 1.

181. *Hearings*, *supra* note 101, at 144 (statement of Susan Barbieri Montgomery).

182. *Hearings*, *supra* note 101, at 144.

183. *Hearings*, *supra* note 101, at 144. *See supra* p. 20.

184. *Hearings*, *supra* note 101, at 144. Additionally, the UCC only requires filing in one state, not every state that the debtor does business. *Hearings*, *supra* note 101, at 143.

185. *Hearings*, *supra* note 101, at 143. Another issue of concern is the sluggish nature of the current patent system. Stevens, *supra* note 32, at n.156 (2005). Financial transactions are often very time-sensitive. Stevens, *supra* note 32, at n.156. However, the PTO's database of patent and patent application filings is "badly outdated." Stevens, *supra* note 32, at n.156. A related issue is that even if a bank searched the PTO records for a filing of interests against a patent, the bank may not find all of the effective transfers because section 261 permits unrecorded transfers to be effective, as long as they are filed within three months. Stevens, *supra* note 32, at n.156. In the financial world three months is a long time to validate a single piece of collateral, thereby increasing transaction costs and decreasing the value of patents. *See* Stevens, *supra* note 32, at n.156*; Hearings, supra* note 101, at 143, 146 (noting the importance of prompt and efficient determination of title in intellectual property).

186. *Hearings, supra* note 2101, at 143, 146.

187. American Inventor's Protection Act of 1999, Pub. L. No. 106-113; Intellectual Property and High Technology Technical Amendments Act of 2002, Pub. L. No. 107-273, 116 Stat. 1757-1922.

meeting discussed above and by the fact that Congress amended the Copyright Act in 1976 to require federal filing of security interests in copyrighted works.[188] Why, then, did Congress not choose to do the same for the Patent Act?

Most of the federal bankruptcy cases and the Ninth Circuit agree that only state registration is required for perfection of security interests in patents as between two lienholders.[189] By its inaction, Congress may be either deferring to the courts to decide the issue, or intending to maintain the status quo.[190] Either way, congressional silence swings the pendulum towards state filings because it appears to be the current state of the law according to the federal bankruptcy courts and the Ninth Circuit.[191]

In summary, because the law regarding security interests in intangible personal property, like patents, was evolving during the enactment and amendments of the Patent Act's recording provision, the plain meaning of the text is subject to multiple interpretations. Such ambiguity gives rise to the use of canons of construction as intrinsic guides as to the legislature's intent.[192] The canons of construction mentioned in this comment, as articulated above, point to the idea that secured transactions should be included in the federal registration system and creditors should be protected under the same. Nevertheless, analysis of modern-day legislative intent suggests that Congress is deferring to the current state of the law, which leans firmly towards allowing perfection of security interests in patents by state registration.

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188. R. Scott Griffin, *A Malpractice Suit Waiting to Happen: The Conflict between Perfecting Security Interests in Patents and Copyrights (a Note on Peregrine, Cybernetic, and Their Progeny)*, 20 GA. ST. U. L. REV. 765, 781 (2004). The Copyright Act was revised in 1976 to explicitly provide for federal registration of security interests as liens in order to perfect security interests in copyrights. *See* Haemmerli, *supra* note 19, at 1665-66. The Copyright Act was created under the same constitutional provision as the Patent Act. U.S. CONST. art. I, § 8, cl. 8. Therefore, Congress was familiar with the idea of explicitly providing for the federal registration of security interests in intellectual property statutes, however, it has yet to do so for patents. *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1056 (9th Cir. 2001).

189. *See, e.g.*, *In re* Transp. Design & Tech., Inc. 48 B.R. 635, 638 (Bankr. S.D. Cal. 1985); *Cybernetic Servs.*, 252 F.3d at 1059; City Bank and Trust Co. v. Otto Fabric, Inc., 83 B.R. 780, 784 (D. Kan. 1988).

190. It is clear that Congress knows both how to update the recording provision language and that security interests in intellectual property are at issue. *Supra* pp. 34-35. Therefore, Congress must be either deferring or is satisfied with the current state of the law. *Supra* pp. 34-35.

191. *See, e.g.*, *Transp. Design & Tech.,* 48 B.R. at 638; *Cybernetic Servs.*, 252 F.3d at 1059; *City Bank and Trust Co.,* 83 B.R. at 784.

192. Ki Se Lee v. Ashcroft, 368 F.3d 218, 222 (3d Cir. 2004).

4. Proper Role of the Courts: Law, Not Policy

With such conflicting sources of persuasion, what is a court to do? Justice Holmes once stated that the judiciary's job is not "to inquire what the *legislature* means, we only ask what the *statute* means."[193] In other words, it is the language of the text that is approved by both Houses and the President, not legislative intent.[194] In any case, there is arguably no such a thing as a single unified "legislative intent," as congressional intent changes vastly over time and members of Congress have different reasons for passing a statute, some of which may have nothing to do with the statute itself.[195]

Although the concerns of the ABA and industry provide great policy arguments for state filings,[196] the courts must honor the text of the statute.[197] The judiciary must only ask "what the statute means," not "what the legislature means."[198] Under textual analysis and use of cannons of construction, the language of the text supports a federal registration system for security interests in patents.[199]

## *B. Federal Preemption or Coexistence?*

1. Coexistence Promotes the Progress of Industry

If a court finds that a federal statute preempts a state statute, then, under the Constitution's Supremacy Clause, federal law controls.[200] Preemption of state law by federal law may occur by: (1) express preemption, (2) conflict preemption, and (3) field preemption.[201] Express preemption occurs when the federal statute explicitly provides that state law is preempted.[202] If there is no express provision in the statute itself, preemption may be implied through conflict or field

193. Robert H. Jackson, *The Meaning of Statutes: What Congress Says or What the Court Says?*, 34 A.B.A 535, 538 (1948) (addressing the American Law Institute on the continual conflict on congressional intent based on the text of the statute versus what the Supreme Court says the legislature meant or should've meant).

194. *Id.* at 535.

195. *See* Max Radin, *Statutory Interpretation*, 43 HARV. L. REV. 863, 870-71 (1930).

196. *Supra* pp. 33-34 (Part III.A.3, analyzing legislative history).

197. Jackson, *supra* note 193, at 535.

198. Jackson, *supra* note 193, at 535.

199. *Supra* pp. 22-33 (Part III.A.1-2, analyzing the text using historical meaning and analyzing the text using cannons of construction).

200. U.S. CONST. art. VI, § 2.

201. Gade v. Nat'l Solid Wastes Mgmt. Ass'n, 505 U.S. 88, 98 (1992).

202. *See* Hillsborough Cnty. v. Automated Med. Labs., Inc., 471 U.S. 701, 713 (1985).

preemption by inferring congressional intent.[203] Conflict preemption can be found if there is either an (1) actual conflict, or (2) an obstacle.[204] An actual conflict occurs when complying with state law would make it impossible to comply with federal law.[205] Even if there is no actual conflict, a court will find conflict preemption if complying with state law would be an obstacle to the full purposes and objectives of Congress in passing the federal law.[206] Finally, even without express or conflict preemption, a court may find field preemption if the scheme of federal regulation is "so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it."[207]

There is nothing in the Patent Act that explicitly provides for federal preemption, so express preemption is not an issue here.[208] There is no actual conflict, as evidenced by the fact that practitioners are advised to file with both the state and the federal registration system to perfect their security interests in patents.[209] There is no field preemption because the Supreme Court has explicitly stated that state and federal law can co-exist in the field of patent law, to the extent that state law does not clash with the balance struck by Congress between inventor incentives and public availability of inventive resources.[210] The Supreme Court has analyzed federal preemption with respect to patents under conflict preemption via an obstacle.[211] The Court, attempting to maintain the balance struck by Congress between inventor incentives and free competition, has struck down some state laws while upholding others.[212]

In *Sears*[213] and *Compco*,[214] both decided in 1964, the Supreme Court struck down a state unfair competition law because it was an

203. Mass. Ass'n of HMO's v. Ruthardt, 194 F.3d 176, 179 (1st Cir. 1999).

204. *Gade*, 505 U.S. at 98.

205. Fla. Lime & Avocado Growers, Inc. v. Paul, 373 U.S. 132, 142-43 (1963).

206. Crosby v. Nat'l Foreign Trade Council, 530 U.S. 363, 372-73 (2000).

207. Rice v. Santa Fe Elevator Corp., 331 U.S. 234, 237 (1964); *Gade*, 505 U.S. at 98.

208. *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1045 (9th Cir. 2001).

209. Paige, *supra* note 31.

210. Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 152-55 (1989).

211. *See*, *e.g.*, Kewanee Oil Co. v. BicronCorp., 416 U.S. 470, 479 (1974); Aronson v. Quick Point Pencil Co., 440 U.S. 257, 262 (1979); Hines v. Davidowitz, 312 U.S. 52, 67 (1941); *Bonito Boats, Inc.*, 489 U.S. at 152-55.

212. *Kewanee Oil Co.*, 416 U.S. at 479; *Aronson*, 440 U.S. at 262; *Hines*, 312 U.S. at 67; *Bonito Boats, Inc.*, 489 U.S. at 152-55.

213. Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 230-32 (1964). Stiffel Co. was a lamp manufacturer that had created a "pole lamp." *Id*. at 225-26. Soon after Stiffel Co. put the pole lamp on the market Sears put a substantially identical lamp on the market. *Id*. at 226. Stiffel Co. sued Sears for causing confusion in the trade as to the source of the lamps and thereby engaging in unfair trade competition. *Id*. The district court enjoined Sears from making the lamps because Sears

obstacle to the federal patent policies of free competition, no unlimited monopolies in inventions, and preserving for the public inventions already in the public domain. The policy behind the state law was to prevent public confusion as to the source of a product.[215] Accordingly, the lower courts enjoined the copying of an article, not protected under a valid federal patent, because the copied article was similar enough in appearance to the original maker's product so as to create a likelihood of consumer confusion.[216] Notwithstanding, both times, the Supreme Court reversed the injunction in favor of free exploitation of publicly available innovations not protected by the federal patent system.[217] Subsequent decisions have proved much more deferential to state law.[218]

In *Kewanee Oil Co.*, the Court looked at whether state trade secret law was an obstacle to the federal patent regime.[219] The Court found it

competed unfairly with Stiffel Co. by making their lamps confusingly similar to Stiffel Co.'s. *Id*. The Supreme Court reversed, holding that the lamp was already in the public domain and unpatented, therefore Sears had a right to copy Stiffel Co.'s unprotected design under federal law. *Id*. at 230-33. The Court suggests that if Stiffel Co. wanted a monopoly over their pole lamp they were free to obtain a valid patent. *Id*. at 231. Federal patent policy is to promote invention while at the same time preserving free competition. *Id*. at 230-31.

214. Compco Corp. v. Day-Brite Lighting Corp., 376 U.S. 234, 237-38. Day-Brite and Compco were both fluorescent lighting fixtures manufacturers. *Id*. at 234-35. Day-Brite sued Compco for unfair competition alleging that Compo copied Day-Brite's design for a particular lighting fixture that Day-Brite created, thereby creating confusion in the industry as to the source of the lighting fixture design. *Id*. at 235. The district court held that there was unfair competition and enjoined Compco from copying Day-Brite's design. *Id*. However, the Supreme Court reversed citing *Sears v. Stiffel Co.* and declaring that under federal law copying a design unprotected by patent law is consistent with federal policy. *Id*. at 238-39.

215. *Sears*, 376 U.S. at 232-33; *Compco*, 376 U.S. at 237-38. Traditionally, a state has the right to impose liability on a company who, knowing that another company has a reputation for quality products, deceives the public by making confusingly similar products and not labeling them so that the source of the products are readily identifiable. *Compco*, 376 U.S. at 238.

216. *Sears*, 376 U.S. at 226; *Compco*, 376 U.S. at 235-36.

217. *Sears*, 376 U.S. at 232-33; *Compco*, 376 U.S. at 238-39. *See* text accompanying note 213 and note 214 (summarizing *Sears* and *Compco,* respectively). The Court cited to a 1938 case for its support that free exploitation of publicly available goods supports the public good and the American ideals of free competition. *Sears*, 376 U.S. at 232-33. 'Sharing in the good will of an article unprotected by patent or trade-mark is the exercise of a right possessed by all – and in the free exercise of which the consuming public is deeply interested in.' Kellogg Co. v. Nat'l Biscuit Co., 305 U.S. 111, 122 (1938).

218. *See*, *e.g.*, Kewanee Oil Co. v. BicronCorp., 416 U.S. 470, 491 (1974); Aronson v. Quick Point Pencil Co., 440 U.S. 257, 262 (1979); Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 152-55 (1989).

219. 416 U.S. at 472. Kewanee Oil spent over $1 million in research to develop a synthetic crystal. *Id*. at 470. Bicron obtained confidential information, i.e. trade secret information, regarding the crystal-making process from a former Kewanee Oil employee who had breached his confidentiality agreement with Kewanee Oil. *Id*. Kewanee Oil did not have a patent on the synthetic crystal, but chose to protect the information through their own protective measures and employee confidentiality agreements, consistent with trade secret law. *Id*. Kewanee Oil sued

helpful to first identify the distinct objectives behind both patent law and trade secret law.[220] The Court identified three objectives of federal patent law: 1) offering inventor incentives through limited monopolies, 2) promoting public disclosure of inventions, and 3) prohibiting the removal of inventions already in the public domain.[221] The Court identified two broad trade secret objectives: 1) maintaining standards for commercial ethics and 2) encouraging innovation.[222] Next, the Court examined the interaction of trade secret and patent law to determine if the federal objectives were thwarted.[223]

The Court determined that the only federal objective in danger of encroachment by trade secret law was public disclosure.[224] Ultimately, the Court decided that any encouragement, if any, that trade secret law had towards keeping innovation a secret, rather than allowing public disclosure, was greatly outweighed by the positive effects of trade secret law on industry and innovation.[225] More importantly, trade secret law did not divert inventors from seeking federal patent protection because patent protection is much more superior to trade secret protection.[226]

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Bicron for misappropriation of a trade secret. *Id*. The court of appeals found that Ohio's trade secret law conflicted with federal patent law. *Id*. However, the Supreme Court reversed, holding that the trade secret law was not an obstacle to federal patent law. *Id*. at 493.

220. *Kewanee Oil, Co.*, 416 U.S. at 480-82.

221. *Id*. The Court stated that the federal policy of encouraging invention through incentives is not disturbed by the existence of another form of incentive, i.e. trade secret law. *Id*. at 484. The Court stated that there is no risk of removing inventions from the public domain because a trade secret by definition is not in the public domain. *Id*.

222. *Id*.

223. *Id*. at 482.

224. *Id*. at 484. The Court identified three categories of trade secrets: (1) the trade secret believed by its owner to be validly patentable; (2) the trade secret known to its owner not to be patentable; and (3) the trade secret whose patent validity is doubtful to the owner. *Id*. In category (2) an owner wouldn't disclose the secret to the PTO via a patent application because the owner knows that it is not patentable so there is no conflict with the patent policy of disclosure. *Id*. In categories (1) and (3) the owner could try to keep the invention a trade secret or try to patent it, but the court decided that because patent protection is much stronger more likely than not an owner would choose to patent the invention. *Id.* at 486-88. Finally, the Court noted that even if the invention were not disclosed to the public there is a high probability that someone else will invent it independently. *Id*. at 491.

225. *Id*. at 485-87. The Court noted trade secret law has coexisting with patent law for over 100 years. *Id.* at 493. It noted that Congress, by its silence over the many years of that coexistence, has seen the wisdom of allowing the states to enforce trade secret law without interference from the federal government. *Id*. The Court stated that it would not disturb the balance between trade secret and patent law unless Congress created a law requiring them to do so. *Id*.

226. *Id*. at 487-88. The Court noted that trade secret is a weaker protection than patent protection because it does not protect against independent creation or reverse engineering. *Id*. at 489-90. In other words, if a competitor was able to reverse engineer a chemical formula protected under trade secret law the original inventor would have no cause of action because trade secret only protects against obtaining secrets through improper means (reverse engineering is not deemed an

The Court also emphasized that patent law and trade secret law have co-existed harmoniously for over 100 years and that it would not disturb that balance unless Congress mandated as much through legislation.[227]

Similarly, in *Aronson*,[228] the Supreme Court declared that federal patent law did not preempt state law. The Court enforced a licensing agreement for the exclusive right to manufacture and sell a keyholder design that was commercially successful, but rejected by the PTO as unpatentable.[229] Commercial agreements are traditionally under state law dominion.[230] Furthermore, the Court could not find anything in the precedent to justify not enforcing the contract.[231] Instead, the Court found that licensing agreements positively affected industry and innovation by encouraging inventions in areas not reached by patent law and allowing the public access to inventions that are useful, even if not patentable.[232]

Despite several Supreme Court cases upholding state law, federal preemption by the Patent Act is still a viable possibility.[233] In the most recent Supreme Court case dealing with this issue, *Bonita Boats*, the Court held that a Florida statute prohibiting the use of a direct molding process to copy hull designs was preempted by federal patent law.[234] The state statute was an obstacle to federal objectives because it provided patent-like protection without requiring the invention to

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improper means under trade secret law). *See id*. at 476. On the other hand, patent law protects any copying of the invention, regardless of the means used to obtain the protected invention. *Id.*. at 489-90.

227. *Id*. at 493.

228. Aronson v. Quick Point Pencil Co., 440 U.S. 257, 266 (1979).

229. *Id*. at 259-62.

230. *Id.* at 262.

231. *Id.* at 264. During negotiations for the licensing agreement, Quick Point knew that Mrs. Aronson applied for a patent; it was later rejected by the PTO, after the agreement. *Id*. at 259-60. The Court found it persuasive that Quick Point knew that the patent might fail because such a contingency was put into the contract; yet, after the patent application failed Quick Point wanted to argue that it shouldn't have to pay any royalties on an unpatented device, looking to federal law to free it of its contractual obligations. *See id*. at 261-62.

232. *Id*. at 266. Quick Point argued that enforcing the licensing agreement, which required Quick Point to pay royalties to Mrs. Aronson for use of the keyholder idea, was against federal patent policy of keeping ideas in the public domain. *Id*. at 263. The court argued that enforcing the agreement wasn't taking anything out of the public domain because Quick Point would still continue to sell the keyholders; Quick Point would just have to pay Mrs. Aronson royalties from those sales, which Quick Point agreed to. *Id*.

233. *See*, *e.g.*, Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 152-55 (1989).

234. *Id.* Bonito Boats developed a hull design for a fiberglass recreational boat. *Id.* at 141. Six years after the design was available to the public, Florida Legislature enacted a statute prohibiting use of a direct molding process to duplicate any manufactured vessel hull without written permission of the original vessel hull manufacturer. *Id*.

undergo the vigorous patent application process, without limiting the monopoly given to the inventor, and without demanding eventual free use within the public domain.[235] Overall, the body of Supreme Court decisions regarding preemption of state laws by federal patent law appears to be an attempt to maintain the delicate balance between the congressional mission of providing inventor incentives to enlarge innovation within the public domain, and states' attempts to promote their own valid local interests.

The purpose of the Patent Act is to provide inventor incentives and public disclosure in order to promote industry.[236] At first glance, this is not inconsistent with the general goal of the UCC to introduce uniformity into state laws affecting business and commerce, ultimately promoting business and industry.[237] In fact, it was the business community that urged lawmakers to create a set of uniform rules in the mid-nineteenth century.[238] In this century, the legal and business community expressed preference for the UCC's filing system because it is more streamlined and efficient than the current federal filing system for security interests.[239] The UCC's goal of creating uniform laws to promote industry seems consistent with the Patent Act because ultimately the goal of the Patent Act is to promote the progress of industry.[240] Both the Patent Act and the UCC seem to have the same general goal; they just have different means of doing so, one through providing limited monopolies to inventors and the other through

235. *Id.* at 156-57. Technically the public could still copy hull designs; under the Florida statute the public was merely prohibited from copying the hull designs in the particular manner prohibited by the statute. *Id.* at 157. Nevertheless, the Court found that the statute substantially impeded public use. *Id*.

236. Kewanee Oil Co. v. BicronCorp., 416 U.S. 470, 480-82 (1974).

237. *See* DUNCAN & LYONS, *supra* note 68, at 1-5.

238. *Id.*

239. *See supra* pp. 33-35. The financing community has also expressed preference of state, rather than federal filing. *Hearings, supra* note 101, at 147. The Vice President of the Commercial Finance Association (CFA), a trade group for the asset-based financing services industry, stated that because of the state of federal law regarding copyrights both lenders and borrowers have incurred significant costs, delay, administrative burdens, and, in some cases, to forego otherwise attractive financing opportunities. *Hearings, supra* note 101, at 147. The CFA recognized the need for a reworking of the federal system, but for now, the CFA advocated UCC filings to perfect security interests. *Hearings, supra* note 101, at 147. The Vice President noted that the federal system impeded efficient and cost-effective commercial financing. *Hearings, supra* note 101, at 155. If the current federal filing system impedes financing, it follows that the increased risks and costs of investment into development decreases incentives to invent, a result directly contrary to the underlying purpose of the Patent Act.

240. *See* Integra Lifescis. I, LTD. v. Merck KGaA, 331 F.3d 860, 873 (2003) (Newman, J., dissenting, noting that the purpose of the Patent Act is to "provide a financial incentives to create new knowledge and bring it to public benefit through new products.").

uniformity of law.[241] There appears to be no substantial issue that state law would be an obstacle to the federal system.

2. State Law Steps Back

On the other hand, sections of Article 9 strongly suggest that the UCC itself requires federal filing, thus federal preemption is not necessary to require federal filing. Drafters of Article 9 included so-called "step-back" provisions in the statute, recognizing that there may be federal statutes that trump state registration of certain types of personal properties.[242] Section 9-104(a), a step-back provision of the UCC, declares that Article 9 does not apply to security interests subject to any federal statute, "to the extent that such statute governs the rights of parties to or third parties affected by transactions in particular types of property."[243] Further, section 9-302(a), another step-back provision, provides that filing a financing statement with the state is actually not effective perfection, if there is a federal statute or treaty that provides for a national or international registration system, or the federal statute or treaty specifies a recording system different than the one dictated by the UCC.[244]

Interestingly enough, Professor Grant Gilmore, cited frequently as one of the foremost commercial law experts and co-drafter of the UCC,[245] declared that effective security transfers of patents could only be made under the federal Patent Act.[246] Section 9-302 of the UCC states in relevant part:

> (3) 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) a statute or treaty of the United States which provides for a national or international registration or a national or international certificate of title or which specifies a place of filing

241. The Supreme Court stated that the federal policy of encouraging invention through incentives is not disturbed by the existence of another form of incentive, i.e. trade secret law. *Kewanee Oil Co.,* 416 U.S. at 484.

242. Haemmerli, *supra* note 19, at 1660-61.

243. U.C.C. § 9-104(a) (1995).

244. U.C.C. § 9-302(3)(a) (1995).

245. Dennis J. Hutchinson, *Remembering Grant Gilmore*, 6 GREEN BAG 2D 67, 67-69 (2002) (honoring Prof. Gilmore's contribution to the legal community).

246. GILMORE, *supra* note 60, at 544-45. Professor Gilmore stated that little would be served and much confusion would result if it were in the power of the state to require state filing of security interests in patents. *Id*. Professor Gilmore is the principle draftsman of Article 9. DUNCAN & LYONS, *supra* note 68, 1-5 n.6.

> different from that specified in this Article for filing of the security interest…[247]

On its face, this statute seems to defer registration of security interests to federal laws that provide for a national registration system.[248] However, this will depend upon the effect of the phrases "national or international registration system" and "for filing of the security interest," both of which are separated by several conjunctions.[249] It is not clear whether "for filing of security interests" modifies the entire list, including "national . . . registration system," or just the final element in the list.[250] Accordingly, the statute could be interpreted to exclude perfection under state law if a federal statute provides for a national registration system.[251] Or, the statute could be interpreted to exclude perfection under state law only if a federal statute provides for a national registration system *for security interests*.[252] Therefore, if the judiciary finds that the Patent Act is silent on the issue of registration of security interests, the UCC does not defer registration of security interests to the federal scheme because there is no federal scheme for the filing of security interests in patents.[253] Nonetheless, if the Patent Act provides for the national registration of security interests in patents, which textual analysis suggests,[254] Article 9's step-back provisions would effectively require federal filing.[255]

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247. *Id.*

248. *See id.*

249. *See* Haemmerli, *supra* note 19, at 1661-62.

250. Haemmerli, *supra* note 19, at 1661-62. The last antecedent rule of statutory construction suggests that the qualifying phrase "for filing of security interests" only refers to the last antecedent, i.e. the antecedent immediately preceding the qualifying phrase, rather than all antecedents. *See* WILLIAM N. ESKRIDGE, JR. ET AL., CASES AND MATERIALS ON LEGISLATION STATUTES AND THE CREATION OF PUBLIC POLICY 857 (4th ed. 1995). The last antecedent rule is that qualifying words or phrases refer only to the last antecedent, not to all preceding antecedents, unless contrary to legislative intent. *Id*.

251. *Id.*

252. *Id.*

253. *Id.*

254. *See supra* Part III.1.A-B (textual analysis of Section 261).

255. *See supra* Part III.1.A-B. On the other hand, it has been argued that even if security interests were brought under the Patent Act, Article 9 would only be replaced "to the extent that [the federal] statute governs the rights of parties to and third parties affected by transactions in particular types of property…" U.C.C. § 9-104(a) (1995); Haemmerli, *supra* note 19, at 1672. This would still leave states to govern in areas where the federal regime does not, i.e. with respect to claimants other than assignees. U.C.C. § 9-104(a) (1995); Haemmerli, *supra* note 19, at 1672.

## *C. Case Law*

### 1. The Current State of Case Law

The seminal Supreme Court case on patent recording and patents as collateral, *Waterman v. Mackenzie,*[256] was decided over 100 years ago, at the tail end of the nineteenth century.[257] In *Waterman*, the original patent owner, Lewis E. Waterman ("Lewis"), assigned his rights to his wife, Sarah E. Waterman ("Sarah").[258] Sarah granted Lewis a license to manufacture and sell the invention.[259] Subsequently, Sarah assigned her rights in the whole patent to the firm of Asa L. Shipman's Sons ("Asa Firm") as collateral for a loan, subject to defeasance upon payment of the loan obligation.[260] Asa Firm assigned its' rights to Mr. Asa L. Shipman.[261] Sarah then assigned her rights back to Lewis.[262] All of the transfers were recorded with the PTO, except the license to Lewis.[263] The issue was whether the plaintiff, Lewis, had standing to sue.[264]

The Court defined the scope of a "whole patent" to be the exclusive right to make, use, and sell an invention.[265] Furthermore, whether an interest in a patent is a license or assignment does not depend on the label it is given, but rather on its' legal effect.[266] Thus, the grant of a whole patent-right within a certain district is an assignment, because it excludes everyone, even the patentee, from making, using, or selling the invention within that district.[267] On the other hand, the grant of an exclusive right to make and sell within a district, but reserving for the grantor the right to make within the district and sell outside the district is a license because it is not a grant of title in the whole patent-right within the district.[268]

The Court interpreted the recording provision of the Patent Act of 1870 to authorize a patentee to assign, grant, or convey either: (1) the

256. Waterman v. Mackenzie, 138 U.S. 252, 252 (1891).

257. *See id.*

258. *Id.*

259. *Id.*

260. *Id.* Sarah's assignment to Asa Firm is an example of a collateral assignment, which was discussed earlier in the comment. *See supra* p. 26 (explaining collateral assignments).

261. *Waterman*, 138 U.S. at 252.

262. *Id.*

263. *Id.*

264. *Id.*

265. *Id.* at 255.

266. *Id.* Whether the transaction was an assignment or license is key because an assignee had standing to sue, however, a mere licensee did not. Haemmerli, *supra* note 19, at 1698.

267. *Waterman*, 138 U.S. at 255.

268. *Id.*

whole patent-right throughout the United States, (2) an undivided share of the exclusive rights under the patent, or (3) the exclusive rights under the patent within a specified part of the United States.[269] The Court further declared that each of these is a transfer of the whole patent-right, i.e. the title to the patent, and anything less is a "mere license."[270] Because of lack of this title in the patent, the licensee did not have standing to sue for infringement.[271]

The Court analogizes a mortgage in a patent, intangible personal property, to mortgage law in real property.[272] In real property mortgage law, the mortgagee is the only entity with standing if the mortgagee has received both delivery of possession and legal title, because the mortgagor would no longer have legal rights to the real property.[273] If the mortgagor retained possession, however, the mortgagor may still have standing to sue because the mortgagor still has some legal rights in the real property, despite legal title in the mortgagee.[274] The Supreme Court also recognized that, by common law and statute, more and more states were considering mortgages as liens, not transfers of title.[275] Notwithstanding, the Court dismissed the relevance of the lien theory to the analogy of the patent mortgage to land mortgage because the laws varied from state to state and it was more commonplace, at the time, to consider a mortgage a transfer of title.[276]

The Court declared that recording a patent was equivalent to delivery of possession because it is intangible property, which cannot actually be delivered.[277] Because the assignment to Asa firm was recorded with the PTO, i.e. delivered to Asa firm, and legal title was assigned to Asa firm under the loan agreement, only Asa firm had standing to sue.[278] Thus, the Court in *Waterman* held that a secured

269. *Id*. This interpretation of the scope of what a patentee can assign is one of the fundamental rules of contemporary patent law with respect to ownership. Haemmerli, *supra* note 19, at 1697.

270. *Waterman*, 138 U.S. at 255.

271. *Id.* at 258-60. It is interesting to note that today the federal courts have held that some exclusive licensees may have standing to sue in certain circumstances. Textile Prods., Inc. v. Mead Corp., 134 F.3d 1481, 1484 (Fed. Cir. 1998).

272. *Waterman*, 138 U.S. at 255.

273. *Id.*

274. *Id.*

275. *Id.* at 258.

276. *Id*. The Court's dismissal of the lien theory of real property mortgage law was premature and not supported by the facts. *See* 11 C.J.S *Chattel Mortgage* § 1 n.3[c] (noting that by 1917 the states were mostly lien theory—17 states were title theory and 23 states were lien theory).

277. *Waterman*, 138 U.S. at 260.

278. *Id.* at 260-61.

creditor with legal title, who properly recorded with the PTO, has standing to sue, while a licensee does not.[279] Although *Waterman* dealt with the issue of standing, the analysis used by the Supreme Court regarding the scope of patent assignments, mortgages, and licenses is still used today.[280]

A more recent case involved a dispute between the secured creditor and a bankruptcy trustee.[281] In *In re Transportation Design and Technology, Inc*.,[282] a former employee of Transportation Design and Technology (TDT) assigned various patents for wheelchair lifts to TDT.[283] In April 1983, Mitsui gave TDT a loan, backed by a security interest in after-acquired property, including all "general intangibles," such as patents.[284] Mitsui recorded its security interest under the UCC, but not with the PTO.[285] On January 1984, TDT filed for bankruptcy.[286] During the bankruptcy proceedings, Mitsui claimed an interest in TDT's patents.[287] The issue was whether Mitsui was required to file with the PTO in order to perfect its security interest in the patent.[288] The court held that Mitsui was not required to file with the PTO in order to perfect its security interest to defeat the bankruptcy trustee's claim.[289] The court revisited *Waterman*, declaring that it stood for the proposition that a bona fide purchaser that recorded its ownership interest in a patent or patent mortgage with the PTO will defeat the interests of a secured creditor of the patent's grantor or mortgagor who did not record his security interest in the PTO.[290] The court set forth a partial preemption system, whereby state registration is required to protect interests a lienholder possesses as against other lienholders.[291] On the other hand, a lienholder must federally register its security interests in order to protect against transfers of title free of their interest as against bona fide

279. *Id. See generally supra* note 271 for modern-day rule regarding patent licensee standing.

280. *See*, *e.g.*, *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1046 (9th Cir. 2001); Refac Int'l v. Visa USA, Inc., 16 U.S.P.Q.2d (BNA) 2004, 2027 (N.D. Cal. 1990).

281. *In re* Transp. Design & Tech., Inc., 48 B.R. 635, 637 (Bankr. S.D. Cal. 1985).

282. *Id.*

283. *Id.*

284. *Id.*

285. *Id.*

286. *Id.*

287. *Id.*

288. *Id.*

289. *Id.* at 638.

290. *Id.* at 639. But the interests that were defeated in *Waterman* were not those of a secured creditor, but rather a licensee. *See supra* pp. 52-53 (discussing the holding in *Waterman*). In fact, the Court stated that the secured creditor, Asa Firm, had standing because the secured transaction, i.e. the patent mortgage, was recorded in the PTO. *Transp. Design & Tech.*, 48 B.R. at 639.

291. *Transp. Design & Tech.*, 48 B.R. at 639-40.

purchasers and mortgagees.[292] Under this partial preemption system, the federal regime would preempt state law to protect secured creditors against parties with ownership rights; however, state law would continue to govern the interests of lien creditors against other lien creditors with respect to patents.[293]

Recently, the Ninth Circuit addressed the issue of UCC versus PTO filing to perfect a security interest.[294] Like *In re Transportation Design and Technology, Inc*.,[295] the Ninth Circuit case dealt with a secured creditor and a bankruptcy trustee vying for rights to a patent.[296] In *Cybernetic Services*, Matsco, Inc. and Matsco Financial Corporation ("Matsco") had a security interest in a patent developed by Cybernetic Services, Inc. ("Cybernetic").[297] Matsco timely and properly filed with the state, but not with the PTO.[298] Subsequently, Cybernetic filed for bankruptcy.[299] Cybernetic's trustee argued that the security interest was not properly perfected because Matsco did not register with the PTO as required by section 261 of the federal Patent Act.[300] The trustee supported his argument with federal preemption law.

In addressing the preemption issue, the court acknowledged that there is no express preemption in the Patent Act; however, precedent has made clear that conflict preemption will occur if state law upsets the balance struck by Congress between innovation incentives and free competition.[301] In order to determine if the balance was upset, the court tried to determine the meaning and scope of section 261.[302] The Ninth Circuit declared that the current version of section 261 was enacted under the Patent Act of 1870, thus, it was important to determine the meaning and scope in the historical context of the nineteenth century.[303]

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292. *Id.*

293. *Id.* This partial preemption scheme seems inefficient and redundant because in order to protect a creditor's interests against lienholders as well as subsequent purchasers, the creditor would have to search the state database for competing lienholder interests and then turn around and search the federal database for any encumbrances from subsequent purchasers or mortgagees. It would seem more efficient in terms of time, costs, and clarity to only search in one database.

294. *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1044 (9th Cir. 2001).

295. 48 B.R. at 637.

296. *Cybernetic Servs.*, 252 F.3d at 1044.

297. *Id.*

298. *Id.*

299. *Id.*

300. *Id.*

301. *In re* Transp. Design & Tech., Inc., 48 B.R. 635, 638 (Bankr. S.D. Cal. 1985). *See generally supra* Part III.B (discussing federal preemption in patent law).

302. *Cybernetic Servs.*, 252 F.3d at 1048.

303. *Id.* It is questionable whether 1870 is the relevant historical context for textual analysis. *See supra* Part III.A.1. (analyzing the text of Section 261).

The court admitted that security interests have changed much since the nineteenth century.[304] Nonetheless, the court decided to strictly construe the language of section 261 such that the trustee could only prevail if the transaction between the parties was an "assignment, grant, or conveyance," within the meaning of section 261.[305]

The Ninth Circuit decided that an "assignment, grant, or conveyance" referred only to transfers of ownership, i.e. title.[306] To do so, the court cited nineteenth and twentieth-century cases that seemed to suggest as much.[307] The court's interpretation of those cited cases led to its conclusion that an assignment and a conveyance were considered transfers of title.[308]

The Ninth Circuit also looked at the Supreme Court case of *Waterman*[309] decided in 1890. The Ninth Circuit reasoned that section 261 only concerned itself with transactions affecting title because *Waterman* held that only a person with title had standing to sue for patent infringement.[310] Thus, the court declared that only transfers of ownership interests, as opposed to lien-type interests, must be registered federally under section 261 of the Patent Act.[311] Consequently, Matsco was not required to register with the PTO under section 261, as the trustee argued.[312]

The Ninth Circuit argued that the trustee's argument also failed because a trustee was not a "subsequent purchaser or mortgagee" and section 261 only protects federally registered interests as against subsequent purchasers or mortgagees.[313] The trustee, however, was considered a hypothetical lien creditor under bankruptcy law.[314] The Ninth Circuit found early twentieth-century sources defining a

304. *Cybernetic Servs.*, 252 F.3d at 1048. Prior to the creation of Article 9 in the 1960s, there were several ways a party could use personal property as collateral to secure financing: pledge, chattel mortgage, assignment, trust deed, factor's lien, conditional sale, etc. *Id.*

305. *Id.* at 1049.

306. *Id.* A grant was considered a transfer of title, but only as to a specific geographic area. *Id*.

307. *Id.*

308. *Id*. The UCC drafters regarded discussions of title as "the law of the horse," which was subterfuge obscuring real substantive issues. *See* K.N. Llewellyn, *The First Struggle to Unhorse Sales,* 52 HARV. L. REV. 873 (1939); K.N. Llewellyn, *Across Sales on Horseback,* 52 HARV. L. REV. 723 (1939). The UCC drafters made sure that Article 9 did not make that mistake; Article 9 "applies whether title to collateral is in the secured party or the debtor." U.C.C. § 9-202 (2000).

309. Waterman v. Mackenzie, 138 U.S. 252, 252 (1891).

310. *Cybernetic Servs.*, 252 F.3d at 1051.

311. *Id.* at 1052.

312. *Id.*

313. *Id.* at 1052-53.

314. *Id.* at 1055.

"mortgagee" as one who obtains title to property in order to secure a loan.[315] Similarly, the Ninth Circuit found that a "purchaser" under section 261 is a "bona fide purchaser," that is, one who takes full title, legal and equitable, without notice of the rights of others in the property.[316] The trustee was merely a lien creditor, with a security interest, but not a title in the property.[317] Consequently, the Ninth Circuit found that the trustee was not protected under a strict interpretation of the language of section 261.[318] Ultimately, the court determined that there was no federal preemption, because registration of lien creditors is outside the scope of registration required by section 261, therefore, state law does not conflict with federal patent law.[319]

The trustee's second major argument was that Article 9's step-back provisions required perfection under the federal registration system.[320] The court countered by asserting that the Patent Act does not provide for federal registration of security interests; it only requires federal registration of interests affecting title.[321] The Ninth Circuit held that federal registration with the PTO was not required to perfect a security interest in the patent. Therefore, Matsco was entitled to the patent under the bankruptcy proceeding as against the trustee.[322]

2. Case Law Needs Reexamination in Modern-day Context

*Cybernetic Services* was decided on shaky grounds.[323] As discussed above, the Ninth Circuit's textual interpretation of section 261 attempts to assert that the language of the statute is clear and plain, but further evidence shows that the language is very ambiguous, especially in light of the historical context required of the interpretation.[324] Moreover, the Ninth Circuit relied on *Waterman* to support its proposition that only titleholders are required to register with the PTO in order to protect their interests.[325] However, *Waterman* is outdated.[326]

315. *Id.* at 1053.
316. *Id.*
317. *Id.* at 1055.
318. *Id.*
319. *Id*. *Compare with supra* Part III.B.1 (discussing federal preemption issues).
320. *Id*. at 1058. *Compare with supra* Part III.B.2 (discussing Article 9's stepback provisions).
321. *Id*. at 1055.
322. *Id*. at 1059.
323. *See* Griffin, *supra* note 188, at 774-80.
324. *Supra* Part III.A.1.
325. *Cybernetic Servs.*, 252 F.3d at 1052.
326. *See infra* pp. 53-54.

The issue in *Waterman* was standing, not registration. Thus, the reasoning used is mere dicta.[327] Moreover, the analogy to real property law used by the Court in *Waterman* is unnecessary today. Perhaps the Court analogized patents to real property mortgage law because it was the closest area of law the Court could find to compare to secured transactions with patent interests because the UCC did not exist[328] and the law of security interests in intangibles was relatively new.[329] Notwithstanding, today we do not need to compare secured transactions with patents to mortgage law because the law of secured transactions is thoroughly developed, separate from real property law.[330]

Additionally, the reasoning the *Waterman* Court used to support its conclusion that, like real property law, patent owners who transfer both title and possession to their lenders do not have standing, does not exist today.[331] The Court recognized the lien theory, in which legal title to real property is not transferred to a lender, but dismissed it by declaring that most states don't follow the lien theory.[332] Nonetheless, today, most states do follow the lien theory.[333] Thus, the Court's own analogy would suggest that patent lienholders possess an ownership interest in the patent, within the scope of section 261.

Furthermore, *Waterman* equated recordation of intangibles like patents to possession to support the proposition that the secured creditor with possession and legal title had standing.[334] The Court in *Waterman* reasoned that in real property law, a mortgagee with both possession and legal title had standing to the exclusion of a mortgagor without possession. Therefore, a secured creditor with both possession, i.e. a recorded interest, and legal title had standing to sue to the exclusion of a mere licensee.[335] However, the Court admitted that in real property law, a mortgagor with possession would have an interest in the real property, and, therefore, standing to sue.[336] However, following that line of

327. Brennan, *supra* note 82, at 233.

328. DUNCAN & LYONS, *supra* note 68, at 1-4.

329. DUNCAN & LYONS, *supra* note 68, at 1-4.

330. *See Hearings*, *supra* note 101, at 144.

331. *Compare* Waterman v. Mackenzie, 138 U.S. 252, 259-60 (1891) (noting that lien theory is merely an emerging concept), *with* STEVEN EMMANUEL, EMMANUEL LAW OUTLINES: PROPERTY 142 (Aspen Publishers 2004) (declaring that most states follow the lien theory of mortgages).

332. *Waterman*, 138 U.S. at 259-60.

333. EMMANUEL, *supra* note 331, at 142.

334. *Waterman*, 138 U.S. at 260-61.

335. *Id.*

336. *Id.* at 258-60.

reasoning, a secured creditor, by recording with the PTO and/or UCC, would have "possession" and, therefore, standing to sue.

The court in *Cybernetic Services* held that the recording provision of the Patent Act is only concerned with patent titleholders.[337] Nevertheless, there is case law to support the proposition that section 261 is not just about protecting titleholders.[338] Lien patent *mortgages* are valid secured transactions that leave legal title and standing to sue with the lender, i.e. mortgagor.[339] Thus, use of the word "mortgagee" does not automatically mean that a lender holds title.[340] In the 1904 case of *Ormsby v. Conners*, a secured transaction left legal title with the mortgagor and the federal circuit declared that the transaction was validly recorded with the PTO.[341] In the 1909 case of *Westmoreland Specialty Co. v. Hogan*, the Third Circuit held that the parties created a patent assignment that was a "temporary pledge" and did not transfer "title."[342] Thus, use of the word "assignment" does not automatically mean that legal title is transferred.[343] The Ninth Circuit's attempt to narrow section 261 so that it only applies to titleholders is not supported by case law or reason. It is imperative that either the Supreme Court reexamine *Waterman* and its progeny in a modern-day context, or Congress provide clear guidance through amendment of the Patent Act.

### *D. Policy Considerations for Providing a Uniform Federal System*

Obtaining financing for businesses and patent owners is essential to the advancement of industry and the progress of technology.[344] Having one unified system of federal registration, of both security interests and ownership interests, would provide much needed clarity and efficiency in the area of patent property interests and financing.[345] Even the UCC,

337. *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1051 (9th Cir. 2001).

338. *See infra* p. 55. Many patent commentators, including Professor Gilmore, have concluded that Waterman merely stands for the proposition that patent security transfers are valid and recordable with the PTO. Brennan, *supra* note 82, at 233. However, the question of title or lien only affects standing—not PTO recording. Brennan, *supra* note 82, at 233.

339. Brennan, *supra* note 82, at 232.

340. *See* Brennan, *supra* note 82, at 232.

341. 133 F. 548 (Cir. Mass. 1904).

342. 167 F. 327 (3rd Cir. 1909).

343. *See id.*

344. *See Hearings*, *supra* note 101, at 140.

345. *See Hearings*, *supra* note 101, at 221-22 (statement of Mr. Michael K. Kirk, Executive Director, American Intellectual Property Law Association (AIPLA)).

as adopted by individual states, cannot provide this, as it will vary somewhat from state to state.[346]

As it stands, the Copyright Act was amended to include federal registration of security interests.[347] Thus, to provide clarity and uniformity of intellectual property registration, the Patent Act, created by the same constitutional clause as the Copyright Act,[348] should logically follow in kind. This will streamline registration for financiers because products will often come with a bundle of intellectual property rights.[349] For example, a laptop will have patents on its hardware and circuitry, but will contain copyrights on the software for the operating system, and a trademark on the identifying name.[350] It will be more efficient for a financier to only have to file with the federal registration system for all federally-created intellectual property rights.[351]

The current dual system, in which practitioners file with both the state and federal system and hope for the best, is redundant and inefficient.[352] Efforts by Congress and industry towards patent reform have continuously emphasized the harmful effects of patent law uncertainty; it creates "duplicative, deal-killing transaction costs."[353] Moreover, the high cost of patent litigation caused by uncertainty and unpredictability in patent law is debilitating to large corporations with many, sometimes hundreds of patents to defend.[354] The result is a

346. *See* Secured Transactions and UCC Law, Justicia.com, http://www.justia.com/business-operations/docs/secured-transactions.html (last visited January 21, 2010).

347. *See* Griffin, *supra* note 188, at 781. The Copyright Act was amended in 1976 to broaden the scope of copyright ownership under its scope to include "an assignment, mortgage, exclusive license, or any other conveyance, alienation or hypothecation of a copyright of any of the exclusive rights comprised in a copyright." 17 U.S.C. § 101. Today, copyright ownership transfer is broader than patent ownership transfer; an odd result given that both statutes originate from the same Constitutional mandate. Brennan, *supra* note 82, at 287; U.S. CONST. art. I, § 8, cl. 8.

348. U.S. CONST. art. VI, § 2.

349. *See Hearings*, *supra* note 101, at 140.

350. *Hearings*, *supra* note 101, at 140.

351. *Hearings*, *supra* note 101, at 224-25 (Mr. Michael K. Kirk, Executive Director of the AIPLA, noting the mixed approach of recordation of intellectual property between federal and state filing as between various branches of intellectual property and exclaiming support for a federal filing system for security interests in intellectual property).

352. *See Hearings*, *supra* note 101, at 144.

353. *Patent Reform Act of 2007: Hearing on H.R. 1908 Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 100th Cong. 65 (2007) (prepared statement of John R. Thomas, Professor of Law, Georgetown University Law Center).

354. *Patent Reform in the 111th Congress: Legislation and Recent Court Decisions: Hearings on S. 515 Before the S. Judiciary Comm*., 111th Cong. (2009) (statements of David J. Kappos, Vice President and Assistant General Counsel, IBM Corp., and Steven R. Appelton, Chairman and Chief Executive Officer of Micron Technology, Inc.), http://judiciary.senate.gov/hearings/hearing.cfm?id=3701 (webcast). Mr. Kappos favored the

decrease in incentives to create, a decrease in research jobs available to the public because companies' research budgets are redirected to defending patent rights in litigation, and a decrease in the amount of financing available to finance inventions.[355] However, before federal filing of security interests can compete with the UCC's streamlined system, Congress must update the federal system to accommodate after-acquired property interests and mirror the simplified filing system outlined by the UCC, as urged by industry.[356]

Federal filing would also provide a nationwide scope for the registration of all intellectual property interests,[357] which are so important to national economic interests.[358] Federal filing would provide nationwide notice to all interested parties, rather than state-centric notice.[359]

## IV. CONCLUSION

Industry has advised the importance of after-acquired patent interests and floating liens and the streamlined recording system provided by the UCC.[360] However, these are arguments for Congress or the Commissioner of the PTO to update the current patent registration system. It is the job of the courts to uphold the letter of the law, not to bend the law in order to make up for legislative or executive inertia.[361]

The Ninth Circuit analyzed the statutory text and concluded that section 261 does not cover secured transactions.[362] Nevertheless, further historical textual analysis suggests that the language of the section does not necessarily exclude secured transactions or non-title transfers.[363] In any case, secured transactions may include title transfers, thus the Ninth

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proposed bill, emphasizing that clarity in the patent system would greatly increase the value of patents in the aggregate. *Id*. Mr. Appelton stated that Micron possessed over 18,000 U.S. patents and pressed upon the senators that 100,000 engineering and research jobs could've been created if patent litigation damages were reduced. *Id*.

355. *Id*. *See Hearings*, *supra* note 101, at 140-44; STORY, *supra* note 41, at 402.

356. *Hearings*, *supra* note 101, at 99.

357. *See Hearings*, *supra* note 101, at 243 (statement of Q. Todd Dickinson, Acting Assistant Secretary of Commerce and Acting Commissioner of Patents and Trademarks).

358. *See* Toren et al., *supra* note 3, at 300 (discussing the increasing importance of the use of intellectual property as collateral for business loans).

359. Toren et al., *supra* note 3, at 300.

360. *See supra* pp. 31-32.

361. *Compare* U.S. CONST. art. I, § 1, *with* U.S. CONST. art. II, § 1, *with* U.S. CONST. art. III, § 1 (separation of powers).

362. *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1051 (9th Cir. 2001).

363. *Supra* pp. 20-38 (Part III.A.1, analyzing the text using historical meaning).

Circuit's interpretation does not itself exclude secured transactions.[364] Furthermore, the case law that the Ninth Circuit used in support of its holding is outdated.[365] The issue of registration to protect security interests in patents must be re-analyzed in a modern-day context.[366] Unfortunately, the Supreme Court missed its opportunity to clarify the issue when it denied certiorari to the *Cybernetic Services*.[367]

Without clear guidance from Congress, the registration system for security interests in patents will continue in its current state of confusion. Given the increasing use of intellectual property assets to secure financing, this is not an acceptable state.[368] Moreover, the unstable state of patent law regarding competing interests in patent rights decreases the value of patents.[369] The end result is increased transaction costs for both law firms and financial institutions, unnecessary and costly litigation, and increased risks associated with investing in innovation.[370] There is currently a strong effort in Congress to pass a patent reform bill.[371] Now would be an ideal time for Congress to update the current federal filing system. Unfortunately, it is uncertain that this particular issue will make its way into the bill.[372]

364. *Supra* pp. 29-30 (explaining that by the Ninth Circuits own rule, i.e. that only title transfers are covered by Section 261, security transfers may be covered by Section 261 because some security transfers may include title transfers).

365. *Supra* Part III.1.C (examining the case law on the issue of registration of security interests in patents).

366. *Supra* Part III.1.C.

367. *Cybernetic Servs,* 252 F.3d at 1045; Stevens, *supra* note 32, at 42.

368. *See* SIMENSKY & BRYER, *supra* note 4, at 300.

369. *See Hearings*, *supra* note 101, at 140-44; STORY, *supra* note 41, at 402.

370. *Patent Reform Act of 2007: Hearing on H.R. 1908 Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 100th Cong. 65 (2007) (prepared statement of John R. Thomas, Professor of Law, Georgetown University Law Center). *See also Hearings*, *supra* note 101, at 144.

371. The Patent Reform Act of 2009, S. 515, 111th Cong. (2009); The Patent Reform Act of 2009, H.R. 1260, 111th Cong. (2009).

372. *See id*. Neither the House nor Senate version of the Patent Reform Act of 2009 includes reforms to the registration of security interests in patents. *Id.*