Journal of Intellectual Property Law

Volume 1 | Issue 1 Article 8

October 1993

Resolving Priority Disputes in Intellectual Property Collateral

Paul Heald
University of Georgia School of Law

RESOLVING PRIORITY DISPUTES IN INTELLECTUAL PROPERTY COLLATERAL

*Paul Heald**

Although a goodly amount of recent commentary[1] provides guidance to practitioners on the pitfalls of perfecting a security interest in intellectual property[2] collateral, and another body of work has undertaken the laudable task of proposing reform in the area,[3] no comprehensive attempt has yet been made to help judges resolve the complex priority disputes that arise under existing law. In light of the increased use of intellectual property as collateral and the concomitant rise in litigation,[4] guidance on the resolution of priority disputes in intellectual property collateral is sorely

---

* Associate Professor of Law, University of Georgia. J.D. 1988, University of Chicago. Thanks to Mark Anderson, Bob Rasmussen, Julian McDonnell, Jim Smith, Richard M. Rosenberg, Paul J. N. Roy, and Barry Adler for their insightful comments on earlier drafts of this article.

[1] *See, e.g.*, Thomas L. Bahrick, *Security Interests in Intellectual Property*, 15 AM. INTELL. PROP. L. ASS'N Q.J. 30 (1987); Andrea M. Bond, *Secured Lenders and Computerized Borrowers: An Introduction to Copyright and Trade Secret Law*, 13 HAMLINE L. REV. 313 (1990); Robert S. Bramson, *Intellectual Property as Collateral—Patents, Trade Secrets, Trademarks and Copyrights*, *in* 1C SECURED TRANSACTIONS UNDER THE UNIFORM COMMERCIAL CODE 25A-1 (Matthew Bender, 1992); Albert M. Fenster, *Security Interests in Intellectual Property and Contractual Rights*, 643 CORP. L. & PRAC. 317 (1989); John L. Mesrobian & Kenneth R. Schaefer, *Secured Transactions Based on Intellectual Property*, 72 J. PAT. & TRADEMARK OFF. SOC'Y 827 (1990). *See also* William W. Chip, *Transfers of Copyrights for Security Under the New Copyright Act*, 88 YALE L.J. 125 (1978).

[2] For the purposes of this paper, the term "intellectual property" will refer to copyrights, patents, and trademarks. Disputes involving trade secrets, publicity rights, and the like will not be discussed.

[3] *See, e.g.*, Jeffrey R. Capwell, *Secured Financing in Intellectual Property: Perfection of Security Interests in Copyrights to Computer Programs*, 39 SYRACUSE L. REV. 1041 (1988); Marci L. Klumb, *Perfection of Security Interests in Intellectual Property: Federal Statutes Preempt Article 9*, 57 GEO. WASH. L. REV. 135 (1988); Scott M. Martin & Peter W. Smith, *The Unconstitutionality of State Motion Picture Lien Laws (Or How Spike Lee Almost Lost It)*, 39 AM. U. L. REV. 59 (1989); Raymond T. Nimmer & Patricia A. Krauthaus, *Secured Financing and Information Property Rights*, 2 HIGH TECH. L.J. 195 (1987); Harold R. Weinberg & William J. Woodward, *Easing Transfer and Security Interest Transactions in Intellectual Property: An Agenda for Reform*, 79 KY. L.J. 61 (1990); Chip, *supra* note 1.

[4] *See* cases cited *infra* at notes 6, 105, 126.

needed.[5] For example, recent cases[6] find Article 9 of the Uniform Commercial Code (U.C.C.) to be broadly preempted by federal intellectual property law and create significant differences between the way copyright and patent priority disputes are addressed,[7] without providing a detailed analysis of the Supreme Court's most recent pronouncement on intellectual property preemption.[8] This Article criticizes these and other cases, provides guidelines for resolving the puzzling priority disputes that arise when intellectual property is taken as collateral, and clearly defines the proper contours of federal preemption.

Part I of the Article will review well-established preemption principles, determine whether federal or state rules of decision apply to familiar patterns of dispute involving copyright collateral, and suggest the appropriate result in each case. The conclusions contradict recent academic and judicial discussion of the preemption issue that suggests an inappropriately broad preemptive scope for federal law. The key is not to examine preemption questions in the abstract, but to identify the precise disputes that federal law settles and leave for state law the disputes for which federal law provides no answer. Part II applies the same method of analysis to priority disputes involving patents as collateral and examines whether the current disparate treatment of patents and copyrights

---

[5] Recent decisions, *see infra* note 6, have resulted in a fifty percent increase in recordation of transfers with the Copyright Office. *Security Interests: Bills Would End National Recordation of Security Interests in Copyrights*, BNA BANKRUPTCY LAW DAILY, March 2, 1993, at 1.

[6] *See* National Peregrine, Inc. v. Capital Fed. Sav. & Loan Ass'n (*In re* Peregrine Entertainment, Ltd.), 116 B.R. 194 (Bankr. C.D. Cal. 1990) (Kozinski, J. sitting by designation) (holding that Copyright Act preempts U.C.C. regarding perfection for security interests in films); Official Unsecured Creditors' Comm. v. Zenith Prods. (*In re* AEG Acquisition Corp.), 127 B.R. 34 (Bankr. C.D. Cal. 1991) (reiterating holding that Copyright Act preempts U.C.C. regarding perfection for security interests in films).

[7] *Compare Peregrine*, 116 B.R. at 207 (holding that bankruptcy trustee may avoid security interests in copyrights not recorded in federal Copyright Office) *with* City Bank & Trust Co. v. Otto Fabric, Inc., 83 B.R. 780 (Bankr. D. Kan. 1988) (holding that bankruptcy trustee may not avoid security interests in patents not recorded in U.S. Patent and Trademark Office).

[8] *See* Bonito Boats v. Thunder Craft Boats, 489 U.S. 141 (1989) (holding that Florida statute prohibiting use of direct molding process to duplicate unpatented boat hulls conflicts with federal policy favoring free competition in unpatentable ideas and thus is preempted). *See also* Paul Heald, *Federal Intellectual Property Law and the Economics of Preemption*, 76 IOWA L. REV. 959 (1991) (applying rationale of *Bonito Boats* to various state unfair competition laws to determine whether they are preempted).

is warranted. To round out the discussion, Part III evaluates the effect of the Lanham Act on disputes over security interests taken in trademarks.

I. PREEMPTION GENERALLY AND PRIORITY DISPUTES IN COPYRIGHT COLLATERAL

When seeking new capital to finance yet another acquisition, Broadcasting Conglomerate might collateralize its debt by granting its lender a security interest in the substantial library of film copyrights obtained from Studio *X* several years earlier. Or young Jean Programmer, short of cash, may want to grant security interests in software that she has already developed (or will develop in the future). Unfortunately, the relatively straightforward granting of a security interest[9] may rapidly become messy as competing claimants appear asserting superior rights to the collateral. Who prevails in a priority dispute between secured lenders, holders of judicial liens, and trustees-in-bankruptcy? In order to begin sorting out the priority of such claims, a court must first determine whether state or federal law governs each dispute. As to copyright collateral, the answer is to be found among the Supreme Court's decisions in *Bonito Boats v. Thunder Craft Boats*,[10] *De Sylva v. Ballentine*,[11] and *United States v. Kimbell Foods*.[12]

A. COPYRIGHT PREEMPTION

Article 9 of the Uniform Commercial Code, enacted in some form in all fifty states,[13] provides general rules for sorting out the winners and losers in priority disputes over collateral, including battles over "general intangibles" (by definition, copyrights, patents

[9] *See* U.C.C. § 9-203 (1990) (stating three basic prerequisites to the existence of a security interest: a written agreement, value given by the secured party, and debtor's rights in the collateral).

[10] 489 U.S. 141 (1989).

[11] 351 U.S. 570 (1956).

[12] 440 U.S. 715 (1979).

[13] 1 RONALD A. ANDERSON, UNIFORM COMMERCIAL CODE xi-xii (1981).

and trademarks).[14] Because Congress has never sought generally to federalize the field of commercial financing,[15] most priority disputes over collateral are governed by Article 9.[16] Congress, however, has addressed some specific priority issues within the context of the Copyright Act, thereby raising the preemption issue.

Congress may override state law in several ways. First, it may expressly preempt state law. For example, section 301 of the Copyright Act expressly preempts "all legal and equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified in section 106."[17] Since section 106[18] grants authors the exclusive right to copy, perform, display, and prepare derivations of their works, state laws that grant similar rights are preempted.[19] Neither section 301 nor section 106, however, says anything about security interests or the rights of lienholders, and no one has ever suggested that section 301 erases all state laws that somehow affect copyrighted works.[20]

Second, Congress can impliedly preempt state law. To illustrate, in *Bonito Boats v. Thunder Craft Boats*,[21] the Supreme Court found that a state law protecting boat hulls from plug mold copying directly conflicted with the federal patent law and was therefore impliedly preempted. The Court held that the goals and operation of the patent statute would be frustrated by state law protection of

---

[14] *See* U.C.C. § 9-106 & cmt. (1990).

[15] Even when Congress has established federal title recording systems, *e.g.*, 49 U.S.C. § 1403 (1988) (aircraft) and 49 U.S.C. § 11303 (1988) (railroad rolling stock), it has not created comprehensive schemes for resolving disputes over collateral. *But see* 46 U.S.C. §§ 911-984 (marine vessels).

[16] Bankruptcy laws, especially 11 U.S.C. § 522 (1988 & Supp. III 1991) (listing exemptions to debtor's duties and benefits), and 11 U.S.C. § 544 (1988 & Supp. II 1990) (establishing power and status of trustee), are frequently very relevant in priority disputes; however, the Bankruptcy Code does not set up a competing priority scheme and usually defers to state law for substantive rules of decision.

[17] 17 U.S.C. § 301(a) (1988).

[18] 17 U.S.C. § 106 (1988 & Supp. III 1991).

[19] *See, e.g.*, Donald Frederick Evans & Assocs., Inc. v. Continental Homes, Inc., 785 F.2d 897 (11th Cir. 1986) (holding that state laws basing liability on mere copying of works of authorship are preempted).

[20] *See, e.g.*, Acorn Structures, Inc. v. Swantz, 846 F.2d 923 (4th Cir. 1988) (finding state law contract claim for breach of agreement to purchase copyrighted materials not preempted).

[21] 489 U.S. 141 (1989).

articles of manufacture that did not qualify for a patent.[22] Similarly, section 205 of the Copyright Act seems to evidence a congressional intent to preempt some state laws by establishing a limited scheme for resolving several types of priority disputes over copyright collateral. For example, Congress has determined that a holder of a security interest in copyright collateral who records first in the United States Copyright Office (Copyright Office) without notice of a prior transfer should prevail over a prior transferee.[23] Because a state may not contradict or undermine congressional policy as expressed in a federal statute, a state law requiring a different result is undoubtedly of no effect. For this reason, section 9-312(5) of Article 9,[24] which provides that a subsequent transferee who files its interest with notice of a prior unrecorded security interest still prevails, is clearly preempted as applied to copyright collateral.

Section 205, however, does not cut a broad swath. It provides for the permissive filing[25] of security interests in copyrights and settles two priority disputes between transferees[26] of interests in a copyright: (1) when the first transferee files first in the Copyright Office (first transferee wins);[27] and (2) when a subsequent transferee for value and in good faith files first in the Copyright Office without notice of a prior unrecorded transfer (second transferee wins).[28] If neither transferee records, or if the subsequent transferee is the trustee-in-bankruptcy, or if the copyright at

---

[22] *See id.* at 159-60. *See generally* Paul Heald, *Federal Intellectual Property Law and the Economics of Preemption*, 76 IOWA L. REV. 959 (1991) (evaluating *Bonito Boats* and arguing that the Supreme Court's preemption decisions, from an economic perspective, have been consistent).

[23] *See infra* note 41.

[24] U.C.C. § 9-312(5) (1990).

[25] *See* 17 U.S.C. § 205(a) (1988) (providing that "[a]ny transfer of copyright ownership . . . *may* be recorded in the Copyright Office") (emphasis added).

[26] Section 101 of the Copyright Act defines "transfer of copyright ownership" as any "assignment, mortgage . . . conveyance, alienation, or hypothecation of a copyright." 17 U.S.C. § 101 (1988). The Register of the Copyright Office and most commentators agree that this definition includes garden variety security interests. *See* Nimmer & Krauthaus, *supra* note 3, at 205-06.

[27] 17 U.S.C. § 205(d).

[28] 17 U.S.C. § 205(e)(2).

issue is unregistered,[29] section 205 provides no express answer. A wide variety of scenarios can be imagined where the narrow terms of section 205 provide little guidance.

For this reason, a court would not be justified in holding that in section 205 Congress has impliedly preempted *all* Article 9 priority rules, especially those that do not directly conflict with section 205. The Supreme Court addressed a similar problem in *De Sylva v. Ballentine*,[30] when it considered whether the term "children" in section 24 of the former Copyright Act included illegitimate children.[31] In holding that after the death of the author, illegitimate children maintain a right to renew the author's copyright, the Court recognized that "[t]he scope of a federal right is, of course, a federal question, but that does not mean that its content is not to be determined by state, rather than federal law."[32] In the absence of a conflict with the terms of the former Copyright Act, the Court determined that state law should govern the construction of the term "children."[33] The approach of the Court in *Bonito Boats* is consistent with *De Sylva*: both acknowledge the supremacy of federal intellectual property law, but they suggest that only state laws that actually conflict with congressional intent are preempted. This is consistent with the general proposition that preemption is disfavored.[34]

Outside the intellectual property context, the Supreme Court has hesitated to disrupt existing state priority schemes. In *United States v. Kimbell Foods*,[35] the Court confronted two priority disputes, one between the Small Business Administration (SBA)

---

[29] One of the prerequisites for recordation is the registration of the copyright. 17 U.S.C. § 205(c)(2) (1988). Since a copyright arises at the moment of fixation in a tangible form (not at publication or registration), 17 U.S.C. § 102 (1988 & Supp. III 1991), many, if not most, copyrights are unregistered.

[30] 351 U.S. 570 (1956).

[31] 17 U.S.C. § 24 (1952), *repealed and replaced by* 17 U.S.C. § 304 (1988) ("children of the author . . . shall be entitled to a renewal and extension of the copyright in such work for a further term of twenty-eight years").

[32] *De Sylva*, 351 U.S. at 580.

[33] *Id.* at 580-81.

[34] *See, e.g.*, City of Burbank v. Lockheed Air Terminal, Inc., 411 U.S. 624, 643 (1973) ("[u]nless the requisite preemptive intent is abundantly clear, we should hesitate to invalidate state and local legislation").

[35] 440 U.S. 715 (1979). For a discussion of the case as it relates to copyright, see Capwell *supra* note 3, at 1059-62.

and a grocery wholesaler holding a lien under state law, and another between the Farmers Home Administration (FmHA) and a repairman claiming a lien arising under state law. Although the Court acknowledged that federal law governed the priority of the security interests of the SBA and FmHA, it held that Article 9 should be adopted as the applicable law in the absence of any conflict with federal policy or express congressional directive to the contrary.[36] Since the federal statutes establishing the SBA and FmHA did not provide priority rules to determine the disputes at issue, Article 9 controlled the disposition of the cases.

The opinions in *Bonito Boats*, *De Sylva*, and *Kimbell Foods* all suggest that Article 9 should apply to priority disputes over copyright collateral that are not resolved by section 205 of the Copyright Act. Although a court would have the power to fashion federal common-law rules to supplement the express provisions of the Copyright Act, *De Sylva* and *Kimbell Foods* evidence the Court's preference for adopting non-conflicting state law regimes.[37] This approach as applied in the rest of this article will demonstrate that recent decisions[38] and commentary[39] should not be read as

---

[36] *But see* Clearfield Trust Co. v. United States, 318 U.S. 363 (1943) (holding that federal policy requires implementation of federal common law to govern federal commercial paper); D'Oench, Duhme & Co. v. Federal Deposit Ins. Corp., 315 U.S. 447 (1942) (holding that federal policy requires implementation of federal common law to govern obligations owed to failed federally insured financial institutions).

[37] State law would only become utterly irrelevant if a court found that the Copyright Act "occupied the field" to such a pervasive extent as to void all state regulation of copyrights. *See* Rice v. Santa Fe Elevator Corp., 331 U.S. 218 (1947) (finding preemption in a "scheme of federal regulation . . . so pervasive as to make reasonable the inference that Congress left no room for the states to supplement it"). The Court has previously refused to find such a broad preemptive intent in either the Copyright Act or the Patent Act. *See* Kewanee Oil v. Bicron Corp., 416 U.S. 470 (1974) (refusing to preempt state law regulating trade secrets); Goldstein v. California, 412 U.S. 546 (1973) (refusing to preempt state law regulating copyrighted material). Neither the Copyright Act nor the Patent Act is so comprehensive that occupation of the field can be reasonably inferred. *See* Heald, *supra* note 22, at 988 n.200.

[38] *See* National Peregrine, Inc. v. Capital Fed. Sav. & Loan Ass'n (*In re* Peregrine Entertainment, Ltd.), 116 B.R. 194 (Bankr. C.D. Cal. 1990) (Kozinski, J., sitting by designation) (finding that recordation in U.S. Copyright Office, rather than filing financing statement under Article 9 of U.C.C., is only proper method under federal law for perfecting security interest in copyright); Official Unsecured Creditors' Comm. v. Zenith Prods. (*In re* AEG Acquisition Corp.), 127 B.R. 34 (Bankr. C.D. Cal. 1991) (citing *Peregrine* for proposition that Copyright Act preempts Article 9 of U.C.C. for perfection of security interests in copyrights).

broadly endorsing the position that even nonconflicting state laws are preempted.

B. PRIORITY DISPUTES GOVERNED BY COPYRIGHT LAW

Section 205 of the Copyright Act resolves several important types of priority disputes. After an examination of the content of the federal rule, we can properly assign the untilled ground to state law and examine how those remaining disputes should be settled.

1. First Transferee Files First. As a bedrock principle, if the first transferee of an interest in a copyright files first in accordance with the requirements of section 205(c),[40] it prevails against any competing interest. For example, in January, Bank *A* takes a security interest in Broadcasting Conglomerate copyrights and immediately records; in February, Bank *B* takes a security interest in the same copyrights: Bank *A* prevails in a dispute with Bank *B* over the copyrights whether Bank *B* records or not.

2. Subsequent Transferee Files First. Under section 205(d),[41] an interest arising subsequent to a competing transfer will be superior if it is recorded first under subsection (c) and it is taken in good faith, for value, and without notice. For example, in January, Bank *A* takes a security interest in Broadcasting Conglomerate's copyrights, but does not record; in February, Bank *B* extends credit to Broadcasting Conglomerate, takes a security interest in its copyrights without notice of Bank *A*'s interest, and records: Bank *B* wins. Similarly, if Studio *Y* buys Conglomerate's copyrights without knowledge of Bank *A*'s interest and records first, Studio *Y*

---

[39] *See, e.g.*, Klumb, *supra* note 3, at 156-58; Nimmer & Krauthaus, *supra* note 3, at 205-06. *But see* Capwell, *supra* note 3, at 1059-79 (suggesting the limited preemption approach advocated here).

[40] *See* 17 U.S.C. § 205(c) (1988) (requiring identification and registration of work).

[41] *Id.* § 205(d). Section 205(d) states:

> As between two conflicting transfers, the one executed first prevails if it is recorded, in the manner required to give constructive notice under subsection (c), within one month after its execution in the United States or within two months after its execution outside the United States, or at any time before recordation in such manner of the later transfer. Otherwise the later transfer prevails if recorded first in such manner, and if taken in good faith, for valuable consideration or on the basis of a binding promise to pay royalties, and without notice of the earlier transfer.

would also prevail over Bank *A*.

C. PRIORITY DISPUTES OVER COPYRIGHT COLLATERAL GOVERNED BY STATE LAW

A critical question, directly related to the previous discussion, arises when the second transferee is the trustee-in-bankruptcy.[42] That issue, along with other issues governed by state law, is discussed below.

1. Trustee as Second Transferee. The debtor's trustee-in-bankruptcy is arguably a subsequent "transferee" within the meaning of the Copyright Act. Section 201(d)(1) of the Act provides that "[t]he ownership of a copyright may be transferred . . . by any means of conveyance or by operation of law."[43] The transfer of the debtor's assets to the trustee under the Bankruptcy Code would seem to be a transfer made "by operation of law."[44] This interpretation is supported by language in the legislative history of section 201, a section that defines ownership and mentions transfers. In defining nonconsensual transfers, the House Judiciary Committee excepted "[t]raditional legal actions that may involve the *transfer* of ownership, such as bankruptcy proceedings,"[45] thereby indicating that Congress considered the trustee to be a "transferee."

Finding that the trustee is a transferee does not answer the question, however, as to whether section 205(d) governs a priority dispute between the trustee and a prior unrecorded interest. Section 205(d) is silent as to who prevails between two unrecorded interests.[46] Since section 205(d) does not say who prevails be-

---

[42] Conclusions drawn about the trustee also may be applicable to the debtor-in-possession. Any differences between the two are irrelevant to the following discussion.

[43] 17 U.S.C. § 201(d)(1) (1988).

[44] *See* National Peregrine, Inc. v. Capital Fed. Sav. & Loan Ass'n (*In re* Peregrine Entertainment, Ltd.), 116 B.R. 194, 205-06 (Bankr. C.D. Cal. 1990) (finding that trustee is a section 205(d) transferee).

[45] H.R. REP. NO. 1476, 94th Cong., 2d Sess. 124 (1976) (emphasis added), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5739.

[46] There is one exception: when a subsequent unrecorded transferee takes with knowledge, or in bad faith, or for no consideration, section 205(d) implies negatively that the prior transferee should prevail regardless of its failure to file. *See supra* Part I.B.2. This implication seems irrelevant as applied to the trustee, however, since under 11 U.S.C. § 544(1)(a) (1988), the trustee is deemed to take for value and without notice. (The author does not know how a trustee could fail the good faith requirement.)

tween two unrecorded transfers, a court should apply Article 9 when the trustee seeks to avoid a security interest in a copyright that is unrecorded under section 205(c).

The courts, however, in both *Peregrine*[47] and *AEG*[48] found that section 205(d) governed such priority disputes, holding that the trustee could avoid security interests in copyrights that had been filed with the California Secretary of State instead of the Copyright Office. They found that the disputes did not involve two unrecorded interests—both courts deemed the trustee to have properly recorded its interest as a matter of law at the time of the bankruptcy filing. This conclusion followed from the proposition that "the debtor is assumed to have completed all steps necessary to create the lien as of the date of the filing of the bankruptcy case."[49] Since the trustee as subsequent transferee was deemed to have recorded, both opinions held that section 205(d) governed disputes involving bankruptcy trustees.

The courts' conclusion—that under applicable bankruptcy law the trustee is deemed to have recorded in the Copyright Office—is highly suspect. Under 11 U.S.C. § 544(a)(1),[50] the trustee assumes the status of a judicial lien creditor under state law and is given the power to avoid all interests that are subordinate to such a lien creditor under state law. In general, this allows the trustee to avoid all unperfected security interests and prevents her from

---

[47] 116 B.R. 194 (Bankr. C.D. Cal. 1990).

[48] 127 B.R. 34 (Bankr. C.D. Cal. 1991).

[49] *Id.* at 43 (citing 4 WILLIAM COLLIER, COLLIER ON BANKRUPTCY ¶ 544.02 (Lawrence P. King ed., 15th ed. 1991)). *Accord Peregrine*, 116 B.R. at 207 n.19. The paraphrase of Collier in *AEG* is somewhat incomplete. The treatise states that "if under *state* law a creditor asserting a lien by virtue of legal proceedings must file certain notices thereof, the trustee will be deemed to have complied with such requirements." 4 COLLIER, *supra* ¶ 544.02 (emphasis added).

[50] 11 U.S.C. § 544(a)(1) (1988). Providing that:

> The trustee shall have, as of the commencement of the case, and without regard to any knowledge of the trustee or of any creditor, the rights and powers of, or may avoid any transfer of property of the debtor or any obligation incurred by the debtor that is voidable by—(1) a creditor that extends credit to the debtor at the time of the commencement of the case, and that obtains, at such time and with respect to such credit, a judicial lien on all property on which a creditor on a simple contract could have obtained such a judicial lien, whether or not such a creditor exists . . . .

avoiding perfected interests.[51] In order to place the trustee in the position of a judicial creditor, she will be deemed to have complied with all statutory requirements necessary to perfect her lien under state law.[52] For example, California requires that in order to levy on real property, the lien must be recorded "with the recorder of the county where the real property is located."[53] So, a trustee of a debtor's California real property will be deemed to have recorded its hypothetical lien in the county office.[54]

Therefore, if state law requires that a judicial lien creditor make a filing in the Copyright Office, then the trustee will be deemed to have done so. Both the courts in *AEG* and *Peregrine* fail to note that no such filing is necessary under California law to perfect a lien on intellectual property collateral.[55] In California, as in most states,[56] a lien creditor may execute a lien on a copyright or a

---

[51] *See* U.C.C. § 9-301(1)(b) (1990) ("[A]n unperfected security interest is subordinate to rights of a person who becomes a lien creditor before the security interest is perfected."); U.C.C. § 9-312(5)(a) (1992) (providing that priority between conflicting security interests in the same collateral shall be determined by their "rank[ing] according to priority in time of filing or perfection.").

[52] *See* 4 COLLIER, *supra* note 49, ¶ 544.02.

[53] CAL. CIV. PROC. CODE § 700.015(a) (West 1987).

[54] *See* Sampsell v. Straub, 194 F.2d 228 (9th Cir. 1951), *cert. denied*, 343 U.S. 927 (1952).

[55] *See* CAL. CIV. PROC. CODE § 700.170 (West 1987) (requiring nothing more than personal service by levying officer in case of levy on a general intangible).

[56] *See, e.g.*, GA. CODE ANN. §§ 9-12-81 to -86 (Supp. 1992); ILL. ANN. STAT. ch. 110, ¶¶ 12-166, 12-201 (Smith-Hurd 1992).

Interestingly, most state law procedures that permit execution and levy by the sheriff (typically) on copyright collateral may be void. In Stephens v. Cady, 55 U.S. 528 (1852), the Court suggested in *dicta* that a creditor could only foreclose on a copyright through a creditor's bill in equity compelling the transfer of the copyright in accordance with federal copyright law. *Id.* at 531. The Court noted that federal law required any transfer of an ownership interest in a copyright to be in writing and signed in the presence of two witnesses. *Id.* at 532. Equity could be invoked to compel the transfer. Although federal law at that time provided for recording of transfers of copyright interests, *see* Act of June 30, 1834, ch. 157, 4 Stat. 728 (1834), the court did not hint that recordation would be necessary to effect foreclosure. *Stephens*, 55 U.S. at 531-32. Since an unrecorded transfer is enforceable as between the parties thereto, *see* DeSilva Constr. Corp. v. Herrald, 213 F. Supp. 184 (D. Fla. 1962), it would be odd to require recordation as part of the process of execution and levy. Viewed through the lens of *Stephens*, the trustee would be deemed to have successfully prosecuted a creditor's bill in equity, rather than having taken the legal steps necessary for execution and levy. Without a recordation requirement, however, Article 9 still governs the attempts by the trustee to invoke its status to avoid other unrecorded interests.

patent without making any filing at all.[57] Research reveals no state that requires a judicial lien creditor to file in the Copyright Office in order to foreclose on a copyright.

This is not surprising given that foreclosure on federal intellectual property collateral is wholly a matter of state law.[58] In *Republic Pictures Corp. v. Security-First National Bank*[59] the Second Circuit held that a federal court is without jurisdiction to entertain a foreclosure action on a copyright mortgage, leaving the foreclosure question wholly to state law.[60] Special interests have urged Congress to amend the Copyright Act to regulate copyright foreclosures, but to no avail.[61]

Since the trustee stands in the shoes of a judicial lien creditor, and since such a creditor does not have to record its interest in the Copyright Office in order to perfect its lien under state law, then the trustee should not be deemed to have recorded its interest in the Copyright Office. If the trustee's interest is unrecorded and the interest of the prior transferee is unrecorded, then section 205 is silent as to who prevails. Article 9 properly speaks in the face of such silence.[62] Therefore, the absence of state laws requiring judicial lien creditors to file in the Copyright Office is dispositive of the question whether state or federal law governs a priority dispute between the trustee-in-bankruptcy and a prior unrecorded transfer.

Interestingly, Article 9 priority rules do not mandate a different ultimate result than that found in *AEG* and *Peregrine*. Under

---

[57] In California, an execution lien, requiring no filing, *see* CAL. CIV. PROC. CODE § 700.170 (West 1987), is available to a lien creditor with its eyes on copyright collateral, but a judgment lien, which does require a filing with the California Secretary of State, *see id.* §§ 697.510, 697.590 (Supp. 1993), is not available for intellectual property collateral, *see id.* § 697.530 (West 1987) (listing property subject to judgment lien).

[58] *See* Bramson, *supra* note 1, §§ 25A.05, 25A.40-25A.42.

[59] 197 F.2d 767 (9th Cir. 1952); *see also* Bramson, *supra* note 1, § 25A.05.

[60] For an example of execution on a patent, see Coldren v. American Milling Research & Dev. Inst., 378 N.E.2d 870 (Ind. App. 1978) (holding that patent rights are available to a judgment creditor to satisfy the judgment through proceedings supplementary to execution).

[61] *See* H.R. REP. NO. 1476, 94th Cong., 2d Sess. 123 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5738 ("Representatives of motion picture producers have argued that foreclosures of copyright mortgages should not be left to varying State laws, and that the statute should establish a Federal foreclosure system. However, the benefits of such a system would be of very limited application, and would not justify the complicated statutory and procedural requirements that would have to be established.").

[62] *See supra* text accompanying notes 30-37.

section 9-301(1)(b) of Article 9, a lien creditor has priority over an unperfected security interest.[63] Therefore, the trustee has the power under 11 U.S.C. § 544(1)(a) to avoid any unperfected interests. Were the prior transfers in both *AEG* and *Peregrine* unperfected? Both prior transferees in those cases were secured creditors who filed financing statements in the state office designated for general intangibles,[64] but not in the Copyright Office. Unfortunately for the secured parties, Article 9 specifies the Copyright Office as the proper place to record and perfect an interest in a copyright. Section 9-302(3)(a) provides that the "filing of a financing statement otherwise required by this Article is not necessary or effective to perfect a security interest in property subject to a statute or treaty of the United States . . . which specifies a place of filing different from that specified in this Article."[65] The Official Comment to section 9-302 identifies the former Copyright Act as establishing an alternative filing system for security interests in copyrights.[66] Therefore, filing in an otherwise proper state office is "not necessary *or effective*" to perfect an interest in copyright collateral.[67] Since the secured parties in *AEG* and *Peregrine* failed to file in the only locale permissible under Article 9, their interests were unperfected and avoidable by the trustee-in-bankruptcy.

This conclusion does not moot the discussion of whether federal or state law should provide the rule for deciding cases involving the trustee. If federal law is erroneously held to apply, then state legislatures are handcuffed by the Supremacy Clause.[68] Any attempt by a state to overrule the results in *AEG* and *Peregrine* would be preempted. On the other hand, since Article 9 controls, a state maintains the power to tinker with the priority relationship

---

[63] U.C.C. § 9-301(1)(b) (1990) ("Except as otherwise provided in subsection (2), an unperfected security interest is subordinate to the rights of a person who becomes a lien creditor before the security interest is perfected.").

[64] *See* U.C.C. § 9-106 & cmt. (1990) (defining copyrights, patents, and trademarks as general intangibles).

[65] U.C.C. § 9-302(3)(a) (1990).

[66] U.C.C. § 9-302 & cmt. 8 (1990).

[67] *See* 1 GRANT GILMORE, SECURITY INTERESTS IN PERSONAL PROPERTY § 19:9, at 544-45 (1965) (asserting that federal filing systems are generally assumed to be exclusive).

[68] U.S. CONST. art. VI, § 2, cl. 2 ("the Laws of the United States . . . shall be the supreme Law of the Land").

between lien creditors and those who provide notice of a security interest by filing with the state. While recognizing that a state filing is inadequate to defeat a transfer recorded in the Copyright Office, a state may nonetheless wish to grant priority to someone who files with the state over a judicial lien creditor or other secured parties who make later state filings.[69]

In fact, this is the approach suggested recently in a preliminary report drafted by the American Bar Association Task Force on Security Interests in Intellectual Property (ABA).[70] Under the preliminary ABA proposal, a "mixed approach" is suggested that would require a state filing to establish priority "against lien creditors, secured creditors, and all third-parties other than subsequent purchaser/assignees for value, against whom the federal filing would be required to establish priority."[71] In order to achieve this end, section 9-302 would have to be redrafted to make a state filing "effective" for the purposes suggested above. Without commenting on the wisdom of this approach, it must be noted that a state could not effect the change in the face of a finding that section 205 of the Copyright Act preempts Article 9 with respect to the trustee. This is, of course, the holding of *AEG* and *Peregrine*. The issue of what law controls, therefore, remains critical.

2. Unregistered Copyrights. A security interest in an unregistered copyright cannot be recorded under section 205 of the Copyright Act.[72] All priority disputes between good faith transferees of unregistered copyrights should be governed by Article 9 because, as noted above, section 205 is silent as to disputes between unrecorded transferees. Imagine the following dispute: (1) Bank *A* lends money to an author on January 1 and enters into a security agreement with the author on February 15, taking as collateral the author's unregistered copyright in a videotaped

---

[69] The mere existence of a federal filing system does not impliedly preempt and void a state recording scheme. *See* Allen v. Riley, 203 U.S. 347 (1906) (upholding state regulation requiring recording of sale of patent rights in face of federal patent recording system).

[70] Bamberger, et al., Preliminary Report of the ABA Task Force on Security Interests in Intellectual Property (ABA Business Law Section 1992) (on file with author). The author would like to note that he is not a member of the task force.

[71] *Id.* at 14, 20.

[72] 17 U.S.C. § 205(c)(2) (1988) ("Recordation . . . gives all persons constructive notice . . . only if . . . registration has been made for the work.").

incident. Bank *A* makes both state and federal filings as to the collateral. (2) Bank *B* lends money to the author on January 15 and enters into a security agreement with the author on February 1. Bank *B* makes no filings. (3) Joe Victim, whom the author struck with his car eighteen months earlier, obtains a judgment lien on all the author's copyrights on March 1. (4) TV Station pays $15,000 for the photographs and copyrights on April 1 without knowledge of the banks' security interests or Joe Victim's lien. (5) The author goes bankrupt on July 15, and all her copyright interests are transferred to the trustee of the estate-in-bankruptcy. A dispute erupts over who has superior rights in the collateral.

The relative strength of the positions of these five claimants can be ranked as follows (with one plausible exception to be discussed momentarily):

i. TV Station
ii. Joe Victim
iii. Trustee
iv. Bank *B*
v. Bank *A*

Under section 9-301(1)(d),[73] TV Station, a good faith transferee for value, prevails over Banks *A* and *B*, who are unperfected secured parties. Even though Bank *A* filed with both the state and the Copyright Office, its interest is arguably unperfected. Its federal recordation is a nullity under 17 U.S.C. § 205(c) because the copyrights were unregistered. Furthermore, its state filing is not "effective to perfect [its] security interest" under section 9-302(3)(a) of Article 9.[74] TV Station prevails over both Joe Victim and the Trustee under the laws of most states which give bona fide purchasers of personal property before levy priority over judicial

[73] U.C.C. § 9-301(1)(d) (1990) ("[A]n unperfected security interest is subordinate to the rights of . . . in the case of accounts and general intangibles, a person who is not a secured party and who is a transferee to the extent that he gives value without knowledge of the security interest and before it is perfected.").

[74] *But see* discussion *supra* pp. 28-29. *See also* discussion of why a state filing as to a registered federal copyright is ineffective, in text accompanying notes 64-67.

lien creditors.[75]

If TV Station dropped out of the picture, Joe Victim would have rights superior to all other claimants. His judicial lien would prime the unperfected interests of the banks under section 9-301(1)(b).[76] In the contest with his fellow lien creditor, the Trustee, Joe prevails as having established his lien first. Note that if Joe's lien arose within the 90-day preference period prior to the bankruptcy filing, his lien would be avoidable by the Trustee under 11 U.S.C. § 547.

If TV Station and Joe are left out of the dispute, the Trustee as judicial lien creditor prevails over the unperfected interests of the banks under section 9-301(1)(b).[77] As between the banks, Bank *B* prevails over Bank *A* even though Bank *A* extended credit first. Under section 9-312(5)(b) of Article 9, "[s]o long as conflicting security interests are unperfected, the first to attach has priority."[78] Attachment cannot occur until the debtor has signed the security agreement.[79] Since Bank *B* was the first to obtain a signed security agreement, its interest attached first and its rights in the collateral are superior to Bank *A*'s.

Interestingly, Bank *A* can make a credible argument that it should be ranked first instead of last. Under section 9-302(3)(a), its state filing is ineffective if "a statute . . . of the United States . . . specifies a place of filing different from that specified in this Article for filing the security interest."[80] The Copyright Act does not specify any place to file against an unregistered copyright, registration being a prerequisite to valid recordation. Therefore, by the terms of Article 9 itself, Bank *A*'s state filing may be effective to perfect its interest. If Bank *A*'s interest is perfected, Bank *A* would

---

[75] *See, e.g.*, N.Y. CIV. PRAC. L. & R. 5202(a) (McKinney 1978) ("[w]here a judgment creditor has delivered an execution to a sheriff . . . [its rights] are superior . . . to the rights of any transferee of the debt or property, except: a transferee who acquired the debt or property for fair consideration before it was levied upon"). *See also* Fleming v. Thompson, 343 A.2d 599 (Del. 1975) (holding that, until levy by sheriff, judgment debtor has power to convey title to good faith purchaser for value) (citing U.C.C. § 2-403 (1990)).

[76] U.C.C. § 9-301(1)(b) (1990) ("[A]n unperfected security interest is subordinate to the rights of . . . a person who becomes a lien creditor before the security interest is perfected.").

[77] *Id.*

[78] U.C.C. § 9-312(5)(b) (1990).

[79] *See* U.C.C. § 9-203 (1990) ("A security interest is not enforceable against the debtor or third parties with respect to the collateral and does not attach unless . . . the debtor has signed a security agreement which contains a description of the collateral.").

[80] U.C.C. § 9-302(3)(a) (1991).

prevail over all other claimants.

3. Rights of Unperfected Secured Parties (Registered Copyrights). If a copyright has been registered, but a dispute arises between two unperfected secured parties, the first analysis above between Bank *A* and Bank *B* applies. The party whose interest attaches first has priority. If a copyright has been registered, but a dispute arises between an unperfected secured party and a lien creditor, the first analysis above between Joe Victim and the banks applies. The lien creditor prevails. In a dispute between the trustee and an unperfected secured party, the trustee prevails.[81]

4. After-Acquired Property. What if Jean Programmer wants to use her fluctuating inventory of computer software as collateral for a business loan? She can certainly grant an interest in software she will create or otherwise obtain in the future,[82] but it will not look very attractive to a lender unless that interest can be perfected. An unperfected interest is subordinate to the interest of a lien creditor, and more importantly, to the trustee of Jean's estate should she go bankrupt.

A consensus[83] exists that a future interest in a copyright cannot be perfected under section 205(c)(1) of the Copyright Act because "[r]ecordation of a document in the Copyright Office gives all persons constructive notice . . . only if . . . it would be revealed by a reasonable search under the title or registration number of the work . . ." ("specific identification requirement").[84] Since the title or registration number of a work is not knowable with certainty until it is created, proper recordation for the purposes of section 205(d) cannot be made in a future work. In other words, the priority accorded a transferee who records first in the Copyright Office is unavailable for future copyrights.

Financiers of copyright inventory need not despair utterly, however. Until the copyright is registered (if ever), a state filing

---

[81] *See supra* Part I.C.1.

[82] *See* U.C.C. § 9-204 (1990) ("[A] security agreement may provide that any or all obligations covered by the security agreement are to be secured by after-acquired collateral.").

[83] *See, e.g.*, Chip, *supra* note 1, at 131.

[84] 17 U.S.C. § 205(c) (1988) (recordation gives constructive notice only if document identifies work such that it can be located by reasonable search).

may be effective perfection. As noted below,[85] Article 9 only requires a federal filing when a place for such a filing is specified by federal statute. The Copyright Act does not specify a place to file against future works; therefore, one could credibly argue that a state filing against future works would be effective, although subject to defeasance by subsequent registration (which is by no means inevitable).

This conclusion is bolstered by the policies underlying section 205 of the Copyright Act. Section 205 was enacted to increase the value of copyrights (thereby enhancing creative incentives) by making them more alienable.[86] A more efficient market for copyrights is created when a purchaser can perfect its claim to title by recording the transfer. Predictability increases and credit becomes more available. Although not comprehensive, section 205 improves the marketability of copyrights by allowing for the recordation of security interests and by making title more certain. Allowing security interests in after-acquired copyright collateral would in no way upset this system and, in fact, would facilitate the financing of the creative enterprise. Without a doubt, a shipbuilder can finance its operations by granting security interests in boats it will build in the future.[87] A moviemaker should be able to finance a film by granting a security interest in the copyright of the as yet unregistered film. To the extent that recognizing security interests in after-acquired property increases wealth, federal intellectual property policies would be advanced rather than hindered by giving effect under Article 9 to the federal filing.[88]

In conclusion, a filing as to after-acquired copyrights should enable the secured party to prime the interests of any judicial

---

[85] *See infra* Part II.C.2.

[86] *See* Charles Shafer, *Creditor's Rights Issues in Copyright Law: Conflict and Resolution*, 11 U. BALT. L. REV. 406 (1982).

[87] *See* U.C.C. § 9-204 (1990) ("[A] security agreement may provide that any or all obligations covered by the security agreement are to be secured by after-acquired collateral.").

[88] *See* Bonito Boats v. Thunder Craft Boats, 489 U.S. 141 (1989) (holding that state regulation of intellectual property is preempted when it clashes with the federal patent statute's balance between public right and private monopoly); Mazer v. Stein, 347 U.S. 201, 219 (1954). For an interesting discussion of whether permitting security interests is wealth maximizing, see DOUGLAS G. BAIRD & THOMAS H. JACKSON, SECURITY INTERESTS IN PERSONAL PROPERTY 31-34 (1987).

lienors, the trustee-in-bankruptcy, and any unperfected secured creditors.

II. PRIORITY DISPUTES IN PATENT COLLATERAL

Like the Copyright Act, federal patent law sets forth a filing system and a rudimentary scheme for resolving priority disputes.[89] Section 261 provides that:

> [a]n assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.[90]

As discussed earlier, federal provisions control whenever an actual conflict between state and federal law is presented.[91] No legislative history or other evidence exists of congressional intent to preempt the entire operation of state law as it affects patents.[92] In fact, in 1906, the Supreme Court held that a state regulation requiring recordation of the sale of a patent right did not violate the predecessor to 35 U.S.C. § 261.[93] Therefore, state law properly has a role as long as it does not conflict with the federal framework.

A. DISPUTES GOVERNED BY FEDERAL LAW

Section 261 of the Patent Act decides a wider range of priority disputes than does its copyright counterpart.

1. Recorded Assignments. A recorded "assignment, grant or conveyance" has priority over any subsequent interests and any

---

[89] 35 U.S.C. § 261 (1988).

[90] *Id.*

[91] *See supra* Part I.A.

[92] *See* Lear v. Adkins, 395 U.S. 653 (1969) (holding that patent law does not preempt state law contract rules effecting the patent licenses).

[93] *See* Allen v. Riley, 203 U.S. 347 (1906).

prior unrecorded interests.[94] A traditional security interest qualifies as an "assignment" for the purposes of section 261.[95] In *Waterman v. MacKenzie*,[96] the Supreme Court held that a security interest was an assignment for the purposes of federal patent law, and therefore, a secured party had standing to bring a suit for infringement.[97] No doubt exists that a properly recorded security interest in a patent confers priority to the secured party. This status is available to outright purchasers of patent rights, and probably also to judicial lienors,[98] who record.

2. Unrecorded Assignments. Unlike the Copyright Act, the Patent Act resolves most disputes between parties who have not recorded their interests. Under the last-in-time rule of section 261, an assignee or purchaser without notice and for good consideration primes all previously unrecorded interests.[99] Even if the last assignee has not recorded, all previous unrecorded interests are rendered nullities against it.[100] Conversely, an assignee or

---

[94] 35 U.S.C. § 261 (1988).

[95] *See* CMS Indus. v. L.P.S. Int'l, 643 F.2d 289, 294 (5th Cir. 1981) ("Agreements transferring patent rights must be either assignments or licenses."); 5 EARNEST B. LIPSCOMB III, LIPSCOMB'S WALKER ON PATENTS § 19:32 (3d ed. 1984). *Cf.* 37 C.F.R. § 1.331(b) (1992) (authorizing recording of "mortgage, lien [or] incumbrance").

[96] 138 U.S. 252 (1891).

[97] *Id.* at 258-61 (describing the agreement with the debtor as "a mortgage" and a "conveyance made to secure the payment of a debt, upon condition that it should be avoided by the subsequent payment of that debt at a time fixed").

[98] 37 C.F.R. § 1.133(b) (1992) permits the recording of liens that "affect the title of the patent or invention to which it relates." *But see In re* Refusal of Assignment Branch to Record Attorney's Lien, 8 U.S.P.Q.2d (BNA) 1446 (Dec. Comm'r Pat. 1988) (upholding refusal to record passive attorney's lien that gave attorney mere right to retain client's papers, but not to encumber title). The author has discovered no cases discussing the possibility of recording a judicial lien on a patent.

[99] *See* FilmTec Corp. v. Allied-Signal, Inc., 939 F.2d 1568 (Fed. Cir. 1991) (stating rule that purchaser without notice of equitable claim takes entire patent ownership, unencumbered by the equitable claim), *cert. denied*, 1993 U.S. LEXIS 5092 (U.S. 1993); CMS Indus. v. L.P.S. Int'l, 643 F.2d 289 (5th Cir. 1981) (Markey, J.) (holding that unrecorded agreement transferring patent rights is ineffective against purchaser for value without notice from the record owner).

[100] *FilmTec Corp.*, 939 F.2d at 1573 (holding that section 261 "provides that the bona fide purchaser for value cuts off the rights of a prior assignee who has failed to record"); Thomas v. Tomco Acquisitions, Inc., 776 F. Supp. 431, 435 (E.D. Wisc. 1991) (holding that bona fide purchaser may "enlist § 261 to void otherwise valid, yet unrecorded assignment").

purchaser who takes with knowledge "constructive or actual"[101] of a previous interest takes subject to that interest.[102]

The last-in-time rule and the good-faith-purchaser requirement resolve a wide variety of possible disputes over patent collateral.

B. DISPUTES GOVERNED BY STATE LAW

Application of state law is limited to priority disputes involving unrecorded lienors and a narrow band of other unrecorded security interests.

1. The Trustee and Unrecorded Security Interests. Section 261 provides that an "assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded."[103] A trustee seeking to avoid an unrecorded security interest must claim priority as a subsequent "purchaser or mortgagee."[104] Both courts that have considered the question have held that the trustee is neither a purchaser nor a mortgagee for the purposes of section 261.[105]

---

[101] *See* Magnuson Indus. v. Co-Rect Prods., Inc., 213 U.S.P.Q. (BNA) 652, 657 (D. Minn. 1981) (holding constructive notice will suffice) (citing 4 A. W. DELLER, WALKER ON PATENTS § 341, at 370 (2d ed. 1965)).

[102] *See* Taylor Engines, Inc. v. All Steel Engines, 192 F.2d 171 (9th Cir. 1951) (holding that assignment of patent to purchaser with knowledge of third party's equitable claim on patent does not cut off claims of third party); *Tomco Acquisitions*, 776 F. Supp. at 431 (holding that purchaser with notice of prior unrecorded assignment has no greater rights than original assignee); *Magnuson Indus.*, 213 U.S.P.Q. (BNA) at 652.

[103] 35 U.S.C. § 261 (1988).

[104] For the reason discussed in Part I.C.1., the trustee will not be deemed to have recorded her interest in the Patent Office because state law does not require such a filing in order to perfect a judicial lien. *Cf.* 5 EARNEST B. LIPSCOMB, III, LIPSCOMB'S WALKER ON PATENTS § 19:34 (3d ed. 1984) (providing that state proceeding is valid to transfer complete or equitable title to patent right to satisfy creditor's judgment); McClaskey v. Harbison-Walker Refractories Co., 138 F.2d 493 (3d Cir. 1943) (holding that legal representative of assignee is authorized to assign patent rights to purchaser at sheriff's sale); Coldren v. American Milling Research & Dev. Inst., Inc., 378 N.E.2d 870 (Ind. Ct. App. 1978) (holding that judgment creditor may gain access to patent rights through proceedings supplemental to execution).

[105] *See* City Bank & Trust Co. v. Otto Fabric, Inc., 83 B.R. 780, 782-83 (Bankr. D. Kan. 1988) (finding that it is unnecessary to record security interest to be protected against trustee); *In re* Transportation Design & Tech., Inc., 48 B.R. 635, 639 (Bankr. S.D. Cal. 1985) (holding that trustee is not a bona fide purchaser but a lien creditor who can find relief in the U.C.C.); *Cf.* National Peregrine, Inc. v. Capital Fed. Sav. & Loan Ass'n (*In re* Peregrine Entertainment, Ltd.), 116 B.R. 194, 206 n.17 (Bankr. C.D. Cal. 1990) ("[T]he Patent Act

Legislative history is of no help in construing the term "purchaser or mortgagee,"[106] nor is that term—unlike "transferee" in the Copyright Act—a defined term. Section 261 appears to be silent as to who prevails in a priority dispute between the trustee and an unperfected party. Therefore, whether the trustee can avoid the unrecorded interest of a secured party under 11 U.S.C. § 544(1)(a) is a question for state law.

Under section 9-301(b) of Article 9, the trustee will prevail if the security interest is unperfected. Normally, a security interest in a general intangible, such as a patent,[107] is perfected by a central filing in the state of the debtor's chief executive office.[108] Yet, a state filing is ineffective if a federal statute "specifies a place of filing different from that specified" in Article 9.[109] As noted previously,[110] the Official Comment to section 9-302(3)(a) gives the Copyright Act (along with statutes regulating aircraft and railroad rolling stock) as an example of a federal filing system that must be complied with to perfect a security interest. Interestingly, although patents and copyrights are elsewhere mentioned together in Article 9,[111] a reference to the patent recordation system is conspicuously absent from the Comment to section 9-302(3)(a).

Did the drafters of Article 9 intend for state filings to perfect interests in patents, but federal filings to perfect interests in copyrights? Given the similarities in the two types of collateral and the ability to record interests under both federal acts, a plausible explanation must be offered to justify disparate treatment. One explanation might lie in the different indexing systems used in the Copyright and Patent Offices. Transfers recorded in the Copyright

---

specifically applies only to 'subsequent purchaser[s] [and] mortgagee[s].' 35 U.S.C. § 261. Lien creditors are neither.").

[106] *See* Klumb, *supra* note 3, at 150 (stating that "[t]he legislative history of the Patent Act is silent with respect to whether the Act's assignment provision encompasses security interests").

[107] *See* U.C.C. § 9-106 & cmts. (1990) (providing that " '[g]eneral intangibles' means any personal property (including things in action) other than goods, accounts, chattel paper, documents, instruments, and money").

[108] *Id.* § 9-103(3).

[109] *Id.* § 9-302(3)(a).

[110] *See supra* notes 65-67 and accompanying text.

[111] *See* U.C.C. §§ 9-104, -106 & cmts. (1990) (comparing filing provisions applicable under copyright and patent laws).

Office are filed under the debtor's name[112] and the title of the work;[113] assignments recorded in the Patent Office are only filed under the patent registration (or application) number.[114] In other words, a creditor can conduct a search under the debtor's name in the Copyright Office, but not in the Patent Office. This makes checking the copyright assets of a debtor much easier. The copyright system looks more like the type of filing system established for other sorts of collateral under Article 9.[115] For this reason, perhaps, the drafters of Article 9 hesitated to employ the Patent Office as the exclusive place to perfect a security interest.

One of the principal drafters, however, states that interests in copyrights and patents should be perfected in the same manner: by a federal filing.[116] Of section 261 of the Patent Act and the predecessor[117] to section 205 of the Copyright Act, Professor Gilmore stated, "[I]t seems to be generally assumed that the federal filing systems are exclusive, and it is surely desirable that they should be."[118] Although he does not note any differences in the indexing systems, his statements provide some guidance on whether the absence of a reference to patents in the Official Comment to section 9-302 is significant. If patents are treated like copyrights, then the trustee can avoid any secured interest not recorded in the Patent Office, whether a filing was made at the state level or not.[119]

Conflicts between secondary sources, however, should not draw attention away from the clear language of section 302(3)(a) of Article 9. Under this section, the Patent Office is the exclusive

---

[112] Confirmed through Copyright Office (telephone interview with Robert Colton, Document Specialist, United States Copyright Office (July 30, 1993)).

[113] The same is true for interests in aircraft and railroad rolling stock which are also mentioned in the Official Comment to § 9-302.

[114] Confirmed through Patent Office (telephone interview with Sedley Pyne, Assignment Branch, United States Patent and Trademark Office (Nov. 12, 1993)).

[115] *See* U.C.C. §§ 9-401, -402 (1990) (Section 401 states that to perfect a security interest, one must file a financing statement in the proper state or county office or both. Section 402 provides for the filing of a financing statement, enumerates formal requisites of the statement, and sets out the sufficient form.).

[116] 1 GRANT GILMORE, SECURITY INTERESTS IN PERSONAL PROPERTY § 19:9, at 542-46 (1965).

[117] *See* 17 U.S.C § 30 (1976), *repealed by* 17 U.S.C. § 101 et seq. (1988).

[118] 1 GILMORE, *supra* note 116, at 544-45.

[119] *See supra* notes 47-67 and accompanying text.

place to perfect a security interest if the Patent Act "specifies a place of filing different from that specified in this Article for filing of the security interest."[120] As long ago as 1891, the Court made it clear that the Patent Act specified a place for the filing of security interests in patents.[121] The language of section 9-302(3)(a) therefore suggests the conclusion that a state filing is ineffective to perfect a security interest in a patent, thereby allowing the trustee to avoid such an unperfected interest under 11 U.S.C. § 544(a). Because the scope of the trustee's power as lien creditor is controlled by state law, a state could overturn this result by amending section 9-302.[122]

For the above reasons, the decisions in *City Bank & Trust Co. v. Otto Fabric, Inc.*[123] and *In re Transportation Design & Tech., Inc.*[124] are quite suspect. Both cases speak in general terms about the scope of section 261 of the Patent Act, conclude that it does not totally preempt state law, and then blithely hold without further discussion against the trustee in favor of the secured party who has only made a state law filing. Although they recognize, and rightly so, that Article 9 is not wholly preempted, they never analyze how the priority dispute should be resolved under state law.[125] As noted earlier in the copyright context, to say that federal law does not apply is not to say that the trustee loses. Since section 9-302 renders a state law filing as to a patent "ineffective," the secured creditors in both *Otto Fabric* and *In re Transportation Design* were unperfected. Therefore, they should have lost to the trustee as judicial lien creditor under section 9-301(1)(b).

Other lienors should be treated the same as the trustee. If a lien arises prior to recordation in the Patent Office of a security interest, it should have priority in the collateral.

---

[120] U.C.C. § 9-302(3)(a) (1990).

[121] Waterman v. Mackenzie, 138 U.S. 252 (1891); *see also supra* notes 95-97 and accompanying text.

[122] It is important to recognize that the priority battle is determined by state law, *see supra* notes 30-39 and accompanying text, in order to maintain the flexibility of response by state legislatures.

[123] 83 B.R. 780 (Bankr. D. Kan. 1988).

[124] 48 B.R. 635 (Bankr. S.D. Cal. 1985).

[125] *See Otto Fabric*, 83 B.R. at 780; *In re Transportation Design & Tech.*, 48 B.R. at 638-40.

2. Multiple Non-Bona-Fide Unperfected Parties. One could imagine another fact situation, albeit unusual, that would fall through the cracks of section 261 of the Patent Act. What if Donee receives a gratuitous assignment of a patent right from Inventor, and then Bank extends credit to Inventor and takes a security interest in the patent *with notice* of the previous assignment, and neither Donee nor Bank records? Under section 261 of the Patent Act, neither an unrecorded donee nor a mortgagee with notice has any express status. Therefore, state law fills the gap. Presumably then, the Bank would prevail under section 9-301(1)(d) which provides that an unperfected security interest in a general intangible is superior to the interest of someone who does not give value. The imaginativeness of this hypothetical demonstrates in the negative the broad variety of disputes that federal law does settle.

3. After-Acquired Property. The discussion of after-acquired-property clauses in the copyright context should be equally applicable to patents. Although the statute might be read broadly to permit filing as to future interests, as a practical matter it cannot be done because there is no indexing by debtor in the Patent Office.

III. PRIORITY DISPUTES IN TRADEMARK COLLATERAL

The extent to which priority disputes in trademark collateral are governed by federal law is difficult to determine. All five courts considering the question have determined that security interests in trademarks are perfected by state filings and priority disputes are governed by Article 9.[126] The opinions, however, are unsatisfactory, particularly in their weak attempts to distinguish trademarks from patents.

Section 1060 of the Lanham Act,[127] which governs the assignment of trademarks, is strikingly similar to section 261 of the

---

[126] Joseph v. 1200 Valencia, Inc. (*In re* 199Z, Inc.), 137 B.R. 778 (Bankr. C.D. Cal. 1992); *In re* Chattanooga Choo-Choo Co., 98 B.R. 792 (Bankr. E.D. Tenn. 1989); *In re* C.C. & Co., Inc., 86 B.R. 485 (Bankr. E.D. Va. 1988); The Creditors' Comm. of TR-3 Indus. v. Capital Bank (*In re* TR-3 Indus.), 41 B.R. 128 (Bankr. C.D. Cal. 1984); Roman Cleanser Co. v. National Acceptance Co. of Am. (*In re* Roman Cleanser Co.), 43 B.R. 940 (Bankr. E.D. Mich. 1984), *aff'd on other grounds*, 802 F.2d 207 (6th Cir. 1986).

[127] 15 U.S.C. § 1060 (1988).

Patent Act:

> A registered mark . . . shall be assignable with the goodwill of the business in which the mark is used. . . . Assignments shall be by instruments in writing duly executed. . . . An assignment shall be void as against any subsequent purchaser for a valuable consideration without notice, unless it is recorded in the Patent and Trademark Office within three months of the date thereof or prior to such subsequent purchase.[128]

Obviously, the critical question is whether an assignment under section 1060 includes the granting of a security interest. In *Waterman v. Mackenzie*,[129] the Court made clear that for the purposes of the Patent Act, the granting of a security interest was an assignment. No appellate cases, however, discuss whether the term "assignment" should be construed in the same way for purposes of the Lanham Act. The term is not defined, and the legislative history is silent on the question.[130]

Since Congress enacted the Lanham Act well after the Court's decision in *Waterman*, a weak inference could be drawn that it intended the term to have the meaning given it in *Waterman*.[131] This inference is strengthened by the fact that Congress created a single office to regulate both patents and trademarks, the Patent and Trademark Office (PTO). The PTO does accept and file documents creating security interests in trademarks.[132] If the grant of a security interest in a trademark is an assignment, then, as under the Patent Act, a wide variety of disputes are governed by federal law.[133]

---

[128] *Id.*

[129] 138 U.S. 252 (1891).

[130] *See* Capwell, *supra* note 3, at 160.

[131] *Id.* at 162.

[132] *See* Joseph v. 1200 Valencia, Inc. (*In re* 199Z, Inc.), 137 B.R. 778, 782 n.7 (Bankr. C.D. Cal. 1992) (holding that although PTO accepts and files documents indicating grant of security interest in copyright, federal trademark law does not preempt U.C.C. provisions for perfection of security interest through filing of financing statement).

[133] *See supra* notes 96-97 and accompanying text (discussing scope of clause in Patent Act governing assignments).

When it enacted section 1060, Congress was well aware of the long-standing common-law prohibition against "assignments in gross." Trademark rights have never been transferable apart from the goodwill of the business or product they represent.[134] For example, the sale of a trademark is void unless the assets necessary to maintain the goodwill of the product or business symbolized are sold along with it.[135] If Nabisco sells its "Oreo" trademark, it must transfer the recipes necessary to create the creamy filling and cookie wafers, any trade secrets necessary to create the product, and any unique or otherwise unavailable equipment necessary to the cookie's production. Not all collateral assets need be sold, however. In *In re Roman Cleanser Co.*,[136] the Sixth Circuit held that the sale of a trademark for cleaning products, accompanied by the sale of its formulas and customer lists, but not non-essential equipment and machinery used in making the products, was a valid assignment. The buyer acquired the means to maintain the quality of the goods produced under the transferred trademark. Not surprisingly, a creditor may not levy on a trademark standing by itself.[137] The common-law rule was designed to reduce the likelihood that the sale of a trademark would result in lower quality goods and services than consumers had come to expect.

For this reason, section 1060 forbids any assignment of a trademark apart from its goodwill. The section certainly applies to sales of trademarks, and in that respect merely embodies the common-law rule. Given Congress's adoption of the common-law rule, section 1060 would also impliedly forbid the creation of a security interest in a trademark without the concomitant creation of an interest in other tangibles (*e.g.*, real property, patented machinery, customer lists) and intangibles (formulas, recipes, patents) necessary to maintain the goodwill associated with the

---

[134] *See* 1 J. THOMAS MCCARTHY, TRADEMARKS & UNFAIR COMPETITION § 18.01[2] (3d ed. 1992) (summarizing doctrine that trademark cannot be assigned apart from goodwill it symbolizes).

[135] *Id.* at §§ 18.05[1], 18.09[1]; *see also* Haymaker Sports, Inc. v. Turian, 581 F.2d 257 (C.C.P.A. 1978) (voiding sale of trademark without business by secured party who foreclosed on its interest in the trademark).

[136] 802 F.2d 207 (6th Cir. 1986).

[137] Marshak v. Green, 746 F.2d 927 (2d Cir. 1984).

mark.[138] This does not mean, however, that the PTO is the proper place to record a security interest in a trademark, nor does it mean that the priority provisions of section 1060 should resolve disputes in trademark collateral.

Sometimes, a security interest in a trademark cannot be perfected without perfecting a security interest in (or otherwise acquiring) the sorts of tangibles and intangibles mentioned above.[139] Federal law makes no provision for the perfection of security interests in any of the underlying sorts of collateral[140] that may have to accompany the valid perfection of an interest in some trademarks. Knowing that any number of state law filings as to formulas, trade secrets, machinery, and other underlying collateral might be necessary to perfect a security interest in a related trademark, why would Congress intend to create a federal filing requirement? As things presently stand, one cannot examine the PTO files and determine with certainty whether a security interest in a trademark has been perfected or not. A security agreement may have been filed, but it is of no effect unless state law filings necessary to transfer concomitant interests in the trademark's goodwill have been made. Therefore, a full review of the relevant state files is necessary in order to determine perfection.

Of course, some trademarks may not require any state law filings,[141] yet the ultimate question here is whether the ambiguous term "assignment" in section 1060 should be interpreted to include security interests or just outright sales. Given the inevitability of state law filings because of common-law trademark doctrine, of which Congress was well aware, the term should not be construed to encompass security interests, even though the wordings of section 261 of the Patent Act and section 1060 of the

---

[138] *See In re* Roman Cleanser Co., 802 F.2d 207 (6th Cir. 1986) (holding that "good will" requirement is satisfied by transfer of formulas and customer lists along with trademark).

[139] *See* MCCARTHY, *supra* note 134, § 18.01[7] ("[T]here should never be a security interest in the bare trademark alone, divorced from good will.").

[140] With the exception of patents, copyrights, airplanes, and railroad rolling stock. *See supra* note 15.

[141] For example, a trademark for a paint whose formula is not a trade secret.

Lanham Act are similar.[142] Congress knew that patents and trademarks are different in significant ways. Constructive notice of a security interest in a patent can be given by recording in the PTO; therefore, Congress probably intended for priority disputes in patent collateral to be resolved under the priority scheme set forth in 35 U.S.C. § 261. A security interest in a trademark, however, often cannot be perfected merely by filing in the PTO because of the need to perfect interests in other collateral necessary to maintain the goodwill of the mark. Therefore, it is less likely that Congress intended for priority disputes between secured parties and lien creditors to be decided under the ambiguous terms of 15 U.S.C. 1060.

Although the intent of the drafters of the Uniform Commercial Code is absolutely irrelevant in determining the scope of federal preemption of state law,[143] neither the text of sections 9-104 or 9-302 of Article 9 and accompanying comments, nor Professor Gilmore's treatise,[144] suggests that federal law governs priority disputes in trademarks. The creation of trademark rights has traditionally been governed by state law;[145] Congress probably

---

[142] Interestingly, although, the word "mortgagee" appears in 35 U.S.C. § 261 (1988) (a prior unrecorded assignee loses to a subsequent purchaser or mortgagee), indicating a congressional intent to encompass security interests, the word "mortgagee" does not appear in 15 U.S.C. § 1060 (1988).

[143] Federal preemption is a question of the intent of the U.S. Congress as embodied in a federal statute. The intent of state legislators in passing the U.C.C. is inapposite. Nonetheless, many commentators, *see, e.g.*, Bahrick, *supra* note 1, at 37-39; Capwell, *supra* note 3, at 155; Nimmer & Krauthaus, *supra* note 3, at 205; and even some courts, *see, e.g.*, *In re* Otto Fabric, Inc., 55 B.R. 654 (Bankr. D. Kan. 1985), make the mistake of looking to the U.C.C. and Professor Gilmore's treatise in order to answer questions of federal preemption. Such sources are very helpful in determining the intent of state legislators in passing the U.C.C., but they do not bear on the preliminary question of whether Congress intended federal law to apply.

[144] *See supra* note 67 and accompanying text.

[145] The Lanham Act provides for the federal registration of trademarks used in interstate commerce, 15 U.S.C. § 1051 (1988), remedies for trademark infringement, 15 U.S.C. § 1114 (1988), and federal jurisdiction for trademark disputes; however, the initial question of whether trademark rights exist or not is a question of state law. For example, a federal registration is not a complete defense to an infringement suit brought by the owner of an unregistered mark. *See, e.g.*, Burger King of Florida, Inc. v. Hoots, 403 F.2d 904 (7th Cir. 1968) (allowing user of unregistered mark "Burger King" to prevail over owner of federally registered mark "Burger King" in limited geographic area). Registration carries with it *prima facie* evidence of ownership, but the ultimate question of priority of ownership is determined by state law. *Id.*

intended for the creation of security interests in those rights to be governed by state law also. If "assignment" does not include security interests, then Article 9 filing requirements[146] and priority rules[147] are applicable in all cases.[148] These rules are amply described elsewhere and will not be restated here.[149]

CONCLUSION

Resolving priority disputes over intellectual property collateral is a complex task because none of the relevant federal statutes establishes a complete framework. Answers not provided by federal law are answered by state laws which, in the case of patent and copyright collateral, frequently make reference back to federal filing systems. Although the current state of the law is complex, a careful parsing of the relevant statutes, both state and federal, reveals a satisfactory level of clarity. In other words, answers to most priority disputes over intellectual property collateral can be gleaned with some certainty, although not without effort. Unfortunately, some courts and commentators have muddied these already treacherous waters by suggesting an overly broad preemption of state law, by erroneously augmenting the power of the bankruptcy trustee, and by generally failing to provide adequate reasoning to support what may be a correct result.

Supreme Court precedent suggests that the Copyright Act, Patent Act, and Lanham Act should only preempt state laws when a direct conflict exists. When federal law provides a clear answer to a dispute, a contrary state law is inoperative. On the other hand, when federal law does not resolve a priority contest, state law should provide the rule of decision. Therefore, contrary to recent copyright cases, state law ultimately determines who prevails between an unperfected secured party and a bankruptcy trustee,

---

[146] *See* U.C.C. §§ 9-401, -402 (1990) (filing in proper place and filing sufficient statement is required to perfect security interest).

[147] *See* U.C.C. §§ 9-301, -312 (1990) (generally, unperfected security interest is subordinate to perfected security interest, lien creditor's interest, or to transferee for value without knowledge).

[148] Keeping in mind, of course, the multiple filings that may be necessary to perfect an interest in the trademark and good will.

[149] *See supra* notes 72-79 and accompanying text.

and contrary to recent patent cases, the application of state law results in the trustee's power to avoid an interest not recorded in the PTO. Other recent cases resolving disputes over trademark collateral, although rightly decided, fail to recognize the differences between patents and trademarks that would have led Congress to maintain state law in force. If an acceptable level of predictability is to be attained, a consistent framework for deciding priority disputes in intellectual property collateral, preferably along the lines suggested herein, must be administered by the courts.