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NOTE

SECURITY INTERESTS IN INTELLECTUAL PROPERTY: TOWARDS A UNIFIED SYSTEM OF PERFECTION

I. INTRODUCTION

In an ongoing quest to determine the proper method of perfecting1 their security interests2 in intellectual property,3 commercial lenders have found an uneasy resting place in the current state of the law. The Uniform Commercial Code4 ("UCC" or the "Code") and the applicable federal statutes5 both influence the creation of secur-

1. Perfection has been defined as a method which protects a secured party's security interest in a debtor's collateral from third parties claiming an interest in the collateral. . . . If a security interest in collateral is not perfected, a secured party such as a lender may lose its claim to such property as against third parties also claiming an interest in such property [such as] other creditors and/or the [trustee in a] bankruptcy [case]. Marie B. Riehle, Perfection of a Security Interest, in BASIC UCC SKILLS 1990: ARTICLE 5 AND ARTICLE 9, at 269, 271 (PLI Com. L. & Practice Course Handbook Series No. 544, 1990).

2. Perfecting a security interest is generally accomplished by filing a financing statement with the appropriate state agency. See id. at 274-76. However, if intellectual property is involved, federal statutes may provide for national registration and a different place of filing than the Uniform Commercial Code, in which case that federal statute may govern. Id. at 274-75; see also Anthony F. Lo Cicero et al., INTELLECTUAL PROPERTY ISSUES, in ACQUIRING OR SELLING THE PRIVATELY HELD COMPANY 1992, at 125, 155-56 (PLI Corp. L. & Practice Course Handbook Series No. 775, 1992).

3. The term intellectual property includes patents, trademarks, and copyrights.


ity interests in patents, trademarks, and copyrights. The extent to which the UCC or the federal regulations govern a particular security interest depends upon the nature of the intellectual property at issue. Numerous decisions have attempted to set forth a conclusive system of perfection, but many questions still remain unanswered. Creditors seeking to safeguard their security interest in collateral after a borrower has defaulted may find out too late that the protection that they seek is not consistently provided by the current legal system.

Prior to the 1960's, business assets generally consisted of those tangible assets that were listed on a borrower's various financial statements. Beginning in the 1960's, however, the ownership of corporate assets soon expanded to encompass intangible intellectual property as well. In recent years, patents, trademarks, and copyrights have become more important as security interests. Copyright protection extends to "original works of authorship fixed in any tangible medium of expression . . . .," including: (1) literary works; (2) musical works; (3) dramatic works; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audiovisual works; (7) sound recordings; and (8) architectural works. 17 U.S.C. § 102(a) (1988 & Supp. 1992). Copyright protection does not extend to any "idea, procedure, process, system, method of operation, concept, principle, or discovery." § 102(b).

6. A patent may be obtained to protect the inventor or discoverer of "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." 35 U.S.C. § 101 (1988).

7. A trademark "includes any word, name, symbol, or device, or any combination thereof (1) used by a person, or (2) [to be used by a person] in commerce . . . . to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods . . . . ." 15 U.S.C. § 1127 (1988).

8. Copyright protection extends to "original works of authorship fixed in any tangible medium of expression . . . . .", including: (1) literary works; (2) musical works; (3) dramatic works; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audiovisual works; (7) sound recordings; and (8) architectural works. 17 U.S.C. § 102(a) (1988 & Supp. 1992). Copyright protection does not extend to any "idea, procedure, process, system, method of operation, concept, principle, or discovery." § 102(b).

9. See infra part II.A-C.


11. "Prior to the 50's . . . assets were more or less indicated on the financial statements. Identification came from reviewing the appropriate accounting journals. Verification [was] achieved by physically viewing the assets, testing the accounts receivable and payable and reviewing any instruments of indebtedness, security agreements, title documentation and UCC filings." Lo Cicero et al., supra note 2, at 127.

12. Starting in the late 60's . . . knowledge of processes and technology began changing the physical characteristics of business assets. Even when tangible assets are involved they invariably have an intangible component. When a large portion of a business' assets are intangible intellectual property, achieving the necessary level of confidence about the status and value of a prospective acquisition is more complex.
Copyrights have become important assets for a business, and pivotal sources of collateral for secured lenders. As the nature of commercial lending has changed, lenders have endeavored to maintain certainty in loan transactions. However, such certainty is elusive.

Given the nature of intangible assets, possession does not necessarily imply ownership, as is generally the case with tangible assets. Hence, it becomes extremely important for creditors to create an unassailable security interest in the borrower's intellectual property. In order to create that security interest the lender and its counsel should:

1. Exercise "due diligence" by searching in the applicable federal and state offices to determine title and ownership of the intellectual property;
2. Negotiate a separate security agreement for the intellectual property serving as the collateral for the loan, and for separate representations and warranties concerning the collateral;
3. Obtain a letter of opinion from the borrower's intellectual property counsel regarding the status of such collateral; and
4. Record the security interest in the applicable federal or state government office.

Id.

"One of the primary assets of a corporation may be its patent portfolio. Patents may cover the key technology of an ongoing concern, or they may be licensed to third parties as a source of revenue." Id. at 130.

"Market goodwill [through use of trademarks] is a very valuable asset. Not only does it favorably impact on-going sales of existing products and services, it provides momentum to new products and services." Id. at 131.

"A copyright grants the owner essentially exclusive rights in its particular expression of an idea by prohibiting others from copying that expression . . . . It grants the owner, among other things, the exclusive right to make and distribute copies of the copyrighted work." Nancy B. May, Belts or Suspenders? Perfecting a Security Interest in a Trademark or Copyright, 27 Ark. Law. 8, 10 (1993).

See Melvin Simensky, The New Role of Intellectual Property in Commercial Transactions, 10 Ent. & Sports Law. 5, 6 (1992) ("Intellectual property may be a borrower's most valuable asset . . . . As such, it constitutes a viable source of collateral for pledge to a lender, which, upon the borrower's default, may be seized, owned, and sold by the lender to repay the loan.").

Thomas F. Smeagal, Jr., Questions Persist on Security Interests, 15 Nat'l L.J., June 28, 1993, at 20, col. 1; see generally Simensky, supra, note 16, at 5-6 (the expansion in use of mergers and acquisitions, the high cost of introducing new brands, and the internationalization of intellectual property via multi-national trade agreements are all factors which have increased the value of intellectual property in commercial transactions).

"The nature of many intangible assets makes possession nearly meaningless as an indicator of ownership since a number of people can possess the same intellectual property and not have an ownership interest. In addition, there are numerous potential interests which can be owned by third parties [such as the interests created by licensing agreements] that greatly diminish the value of the assets . . . ."

Lo Cicero et al., supra note 2, at 127.

Simensky, supra note 16, at 7-8.
The UCC and the federal statutes conflict in the method of creation of a security interest in intellectual property, especially where it comes to perfection. The place for filing and the document required for perfection varies depending upon whether a state or a federal statute controls. Searching the applicable state or federal office in order to determine ownership also differs significantly. Finally, the rights of lenders are further affected by their ability (or inability) to be automatically perfected in a borrower's after-acquired property via a blanket lien filing, dependant upon the relevant statutory scheme which must be followed.

To perfect a security interest in general intangibles, Article Nine of the UCC requires that a financing statement be filed with the applicable state office. However, Article Nine expressly excludes from this requirement federally created security interests in certain types of collateral. On its face, Article Nine appears to exclude patents, trademarks, and copyrights from its provisions. However, despite this deference to the federal statutes in determining the appropriate system for recording security interests, the provisions of the Lanham, Patent, and Copyright Acts still are not determinative. The law is unclear as to whether the federal statutes supersede the UCC. A lender's sole reliance on one method may thus...

21. Whereas the Code provides that a security interest is created by the filing of a UCC financing statement, the federal statutes require different documentation. See infra notes 51, 79, 88, 98 and accompanying text.
22. See infra notes 73-74 and accompanying text.
23. See infra notes 168-72 and accompanying text.
25. The UCC does not apply to "security interest[s] subject to any statute of the United States, to the extent that such statute governs the rights of parties to and third parties affected by transactions in particular types of property." U.C.C. § 9-104(a) (1990); see also U.C.C. § 9-104(a) cmt. 1; infra notes 52-53 and accompanying text.
26. Different methods for the creation and/or perfection of a security interest are required based on the federal statutory scheme or lack thereof, the nature of the property, and, in some cases, on the actions taken or not taken by the Debtor. In general, the extent and nature of the interplay of the federal statutes and the U.C.C. is unclear.

27. See Gary D. Samson, Scope of Article 9, in Introduction to Secured Transactions and Letters of Credit: UCC Articles 9 and 5, at 29, 42-43 (PLI Com. L. & Practice Course Handbook Series No. 665, 1993) (explaining the application of the federal laws and advising lenders to avoid risk by complying with both federal laws and the Code
result in an unperfected claim in the collateral.

Even though there seem to be rules under the UCC and the federal statutes regarding perfection, neither body of law specifically displaces the other.\(^{28}\) The lack of a definitive mechanism for resolution of the conflict between the UCC and the federal statutes has led the courts to determine the applicable rules on a case-by-case basis and to apply them as the courts believe just. As a result, secured parties do not have the consistency and stability of the law that they need in order to ensure that their security interest is sufficiently protected.\(^{29}\)

In recognition of the problem relating to perfection of security interests in intellectual property, the Patent, Trademark and Copyright Section of the American Bar Association (the “ABA”) established an Ad Hoc Committee on Security Interests (the “Committee”)\(^{30}\) to study the problem and suggest possible solutions. The ABA’s Section of Business Law also followed by organizing a Task Force on Security Interests in Intellectual Property (the “Task Force”).\(^{31}\) Both the Committee and the Task Force agreed that the current state of the law was in need of revision.\(^{32}\) The Committee and the Task Force also convened with officials from the Patent and Trademark Office and from the Copyright Office to consider the practicality of the suggested proposals.\(^{33}\)

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28. See Michael J. Dunne & Elizabeth A. Barba, Securing an Interest in Intangibles, 131 N.J. L.J. 1274 (1992) (“Since the inception of the code, there has been no definitive answer to whether the federal copyright, patent, and trademark laws pre-empt the UCC with regard to the perfection or priority of security interests in such property.”).

29. Prior to In re Peregrine, supra note 10, security interests in patents were believed perfected when filed according to the provisions of the UCC. Thus, the only requirement was that a UCC financing statement be recorded with the state authorities. See In re Transportation Design & Tech., Inc., 48 B.R. 635 (Bankr. S.D. Cal. 1985) (holding that UCC filings are sufficient to give notice of a security interest in patents); accord City Bank & Trust Co. v. Otto Fabric, Inc., 83 B.R. 780 (D. Kan. 1988).


As a result of this discourse, the Committee adopted several resolutions\(^\text{34}\) in the hope of clarifying and simplifying the federal and state laws.\(^\text{35}\) Subsequently, the Task Force submitted its proposal to change our current system of laws regarding security interests (the "Proposal").\(^\text{36}\) This Proposal provided the impetus for this Note.

The Task Force's Proposal was intended to provide uniformity in the system of perfecting liens on intellectual property. The Proposal also sought to define an approach to resolving the uncertainties in the current law.\(^\text{37}\) Specifically, the Task Force considered the type of property that should be protected, the process and place of filing, the prioritization of such filings, and the determination of what constitutes adequate notice of a security interest.\(^\text{38}\)

Any recommendation offered by the Task Force is further complicated because both federal and state laws will impact upon the resulting system of perfection.\(^\text{39}\) Accordingly, the Task Force endeavored to design a system that would: (a) facilitate the determination of ownership interest, license interest,\(^\text{40}\) or security interest in intellectual property, (b) allow for perfected security interests to survive as those rights are transformed from common law or state law to federal law rights, and (c) authorize a secured party to encumber any products and proceeds that result from the subsequent licensing or sale of the collateral in a third party transaction, all based upon

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\(^{34}\) Those resolutions related to the recordation of security interests, recommending that: (1) a "mixed approach" of recording security interests be implemented in both the relevant federal agency (to establish priority for bona fide purchasers/assignees for value) and the relevant state agency (to establish priority against all other persons, such as lien creditors, secured creditors and other third parties); (2) each federal and state agency accept the same form of notice filing without requiring specific identification of the property; (3) the federal agencies allow "after-acquired property" to be secured via the initial filing of the security interest; and (4) the federal agencies reduce the grace periods applicable to recorded filings to no more than ten days. *Committee Report, supra note* 30, at 5-12; *see also Proposal, supra note* 31, at 14.

\(^{35}\) *Committee Report, supra note* 30, at 1.

\(^{36}\) *See generally Proposal, supra note* 31.

\(^{37}\) *Id.* at 1.

\(^{38}\) *Id.*

\(^{39}\) *Id.*

\(^{40}\) *See Stephen I. Willis, Managing Intellectual Property in Debtor-Creditor Relationships, 12 AM. BANKR. INST. J. 13 (1993). Licensing allows an owner to create income based upon a "renting" of the intellectual property to a licensee. *Id.* at 20. This exposes the copyright, patent, or trademark to new markets without diluting its share in the primary market. *Id.* The risk of loss remains with the licensee, and a licensor generates profit without utilizing the intellectual property in its own manufacturing and marketing efforts. *Id.* A licensor who lacks the capital or human resources necessary to exploit its property, may be willing to license it to others through a joint venture. *Id.*
the initial filing of the security interest.\textsuperscript{41}

Section I of this Note provides background information about the state and federal statutes and the court decisions that precipitated the ABA Proposal. Section II outlines the ABA Proposal and discusses the anticipated effects of such legislation, if enacted, along with the benefits and drawbacks of such a system when compared with the current system of laws. Section III reviews the Proposal in terms of its suitability for the field of commercial loans and whether the suggested changes will lay to rest all of the concerns which are produced under our current structure. This Note concludes that the Proposal should be enacted by Congress to provide a stable process whereby commercial lenders have access to a unified system of perfection for liens on intellectual property.

\section*{II. \textsc{The Current State of the Law}}

To perfect a security interest in copyrights, patents, or trademarks and give adequate notice to subsequent security holders, a creditor must comply with the requirements of the Copyright Act,\textsuperscript{42} the Patent Act,\textsuperscript{43} or the Lanham Act,\textsuperscript{44} respectively, as well as with the requirements of Article Nine of the UCC.\textsuperscript{45} Careful lenders are forced to search and file at both the state and federal levels because of the uncertain interplay between the federal statutes and the state-driven UCC.\textsuperscript{46} The Proposal by the Task Force was motivated by this costly and often duplicative effort that is mandated by the current laws, compounding the uncertainty that already exists in the realm of intellectual property law.\textsuperscript{47}

\subsection*{A. The Uniform Commercial Code}

Article Nine of the UCC sets forth the mechanism for perfecting security interests.\textsuperscript{48} It provides that security interests in general

\begin{itemize}
\item \textsuperscript{41} Proposal, supra note 31, at 5-6.
\item \textsuperscript{43} 35 U.S.C. § 261 (1988).
\item \textsuperscript{44} 15 U.S.C. § 1060 (1988).
\item \textsuperscript{45} U.C.C. §§ 9-107 through 9-507 (1990).
\item \textsuperscript{47} Proposal, supra note 31, at 1 n.1.
\item \textsuperscript{48} See Rosinus, supra note 20, at 73.
\end{itemize}
intangibles, which include copyrights, patents, and trademarks, are perfected by the filing of a financing statement with the proper state authorities. However, the Code does not apply where a security interest is the subject of a federal statute governing the rights of any affected party nor where such statute provides for a national system of registration that specifies a place for filing that is different from that designated by Article Nine.

By recognizing that certain federal statutes preempt the provisions of the Code, the UCC paves the way for federal regulation of security interests in intellectual property. Courts, however, have typically assumed that the Code's drafters only contemplated that such preemption applies to security interests for copyrights and patents, relegating trademarks to the ambit of state regulation. Since the

with, third parties claiming an interest in that collateral. These third parties would be other secured and unsecured creditors of the debtor, or a debtor-in-possession or trustee in the debtor's bankruptcy. Until a secured party's security interest is perfected, a subsequent creditor of the debtor may obtain a security interest or judicial lien of greater priority by perfecting its security interest or levying its lien first. Moreover, the failure to perfect a security interest may result in the security interest being avoided by a bankruptcy trustee or debtor-in-possession.

Id. at 73.

49. U.C.C. § 9-103(3) (1990) (perfection of security interests in general intangibles); U.C.C. § 9-106 (1990) ("General intangibles' means any personal property other than goods, accounts, chattel paper, documents, instruments, and money.").

50. U.C.C. § 9-106 cmt. ("[E]xamples [of general intangibles] are copyrights, trademarks and patents, except to the extent that they may be excluded by Section 9-104(a)."); see supra note 25 and accompanying text.

51. Before filing a UCC financing statement, numerous conditions must be fulfilled. See e.g., U.C.C. §§ 9-401 (1990) (the proper place of filing to perfect a security interest) and 9-402 (1990) (formal requirements of financing statement).


Where a federal statute regulates the incidents of security interests in particular types of property, those security interests are of course governed by the federal statute and excluded from this Article. However, even though the Federal Copyright Act contains provisions permitting the mortgage of a copyright and for the recording of an assignment of a copyright such a statute would not seem to contain sufficient provisions regulating the rights of the parties and third parties to exclude security interests in copyrights from the provisions of this Article. Compare also with respect to patents. The filing provisions under these Acts are recognized as the equivalent to filing under this Article.

Id. cmt. 1 (citations omitted) (emphasis added).


54. In re Peregrine, supra note 10, at 203-04; see also Official Unsecured Creditors' Comm. v. Zenith Prods., Ltd. (In re AEG Acquisition Corp.), 127 B.R. 34, 40 (Bankr. C.D. Cal. 1991) (security interests in films, as copyrights, must be perfected only by federal registration of such security interest), aff'd, 161 B.R. 50 (9th Cir. 1993).

55. In re Peregrine, supra note 10, at 204 n.14; see also TR-3 Industries, Inc. v. Capital Bank (In re TR-3 Industries), 41 B.R. 128, 131 (Bankr. C.D. Cal. 1984). "It was not the
Code does not refer to the Trademark Act (in the comment to section 9-104)\(^\text{56}\) it “suggest[s] that the drafters . . . were of the opinion that the reference to 'assignments' in the Lanham Act did not embrace security interests.”\(^\text{57}\) However, this creates a dissimilar treatment of trademarks as compared to copyrights and patents. As explained below, this appears unwarranted given the similarity of trademarks to patents and copyrights.\(^\text{58}\)

The UCC offers benefits to the secured lender that are not found in the federal statutes. Particularly, under the UCC, the creditor may create a security interest in the borrower's general intangibles, along with all of the proceeds therefrom\(^\text{59}\) and any after-acquired property, if provided for in the security agreement.\(^\text{60}\) A security interest in general intangibles is “continuously perfected”\(^\text{61}\) if “the interest in the original collateral was perfected.”\(^\text{62}\) Therefore, the lender is generally assured that once the original financing statement is properly recorded, its perfected security interest applies to the enumerated property as well as extending to the future proceeds and after-acquired property relating to the enumerated property.\(^\text{63}\)

purpose or intent of Congress in enacting the Lanham Act to provide a method for the perfection of security interests in trademarks, tradenames or applications for the registration of the same, or as a method for giving notice of the existence of a claim of a security interest therein.” Id.

56. See supra note 52 and accompanying text.


58. See infra notes 106-08 and accompanying text.

59. U.C.C. § 9-306 (1990) defines proceeds to include “whatever is received upon the sale, exchange, collection or other disposition of collateral or proceeds.” § 9-306(1).

60. U.C.C. § 9-204 (1990) provides that “a security agreement may provide that any or all obligations covered by the security agreement are to be secured by after-acquired collateral.” § 9-204(1). Thus, “the security interest . . . is not merely an 'equitable' interest; no further action by the secured party — such as the taking of a supplemental agreement covering the new collateral — is required.” § 9-204 cmt. 1.

61. A “security interest continues in collateral notwithstanding sale, exchange or other disposition thereof . . . and also continues in any identifiable proceeds including collections received by the debtor.” U.C.C. § 9-306(2).


63. Article 9 provides for easy encumbering of after-acquired property in commercial transactions. In most cases, a security agreement can include after-acquired property by a simple reference to such property. No detailed description is required. A financing statement covers after-acquired property automatically. Even if the agreement does not expressly cover after-acquired property, the U.C.C. gives a creditor rights in all proceeds of its original collateral. This covers any property received on sale or other disposition of the property . . . .

This confers a distinct advantage on a secured lender if a borrower were to file for bankruptcy. Typically, upon filing a petition for bankruptcy, a trustee seeks to avoid preferential transfers in order to maximize the estate to be distributed to all of the creditors. Without the provisions of the UCC, a creditor would have to prove that the intellectual property at issue merely constitutes proceeds of the original property and not new collateral. By permitting a continuing security interest in the proceeds of the original collateral, the Code protects the lender from the risk of avoidance of their lien in a borrower's property when it has attached within the critical ninety day preference period preceding the filing of a bankruptcy petition.

Another advantage found only in the Code involves the first-to-file rule. This rule facilitates the due diligence aspect of the loan transaction because a lender can be assured that, as of the date the search is conducted, there are no other secured parties of record who

64. See U.C.C. § 9-306 cmt. 2(b) (advising that the preference period begins with the date that the original collateral was secured, rather than the date that such party obtained control of the proceeds).


(b) . . . [T]he trustee may avoid any transfer of an interest of the debtor in property—

(1) to or for the benefit of a creditor;
(2) for or on account of an antecedent debt owed by the debtor before such transfer was made;
(3) made while the debtor was insolvent;
(4) made—
   (A) on or within 90 days before the date of the filing of the petition; or
   . . . . .
(5) that enables such creditor to receive more than such creditor would receive if—

   (B) the transfer had not been made . . .

Id. (emphasis added).

67. “A basic policy that underlies the [Bankruptcy] Code is equality of treatment among creditors. In order to achieve equality, the [Bankruptcy] Code gives the trustee the power to avoid a preferential transfer made shortly before bankruptcy that gives one creditor unfair advantage over others.” BENJAMIN WEINTRAUB & ALAN N. RESNICK, BANKRUPTCY LAW MANUAL 7-18 (1992).

68. Dunne & Barba, supra note 28, at 1274. For example, in In re Transportation Design & Tech., Inc., 48 B.R. 635, 641 (Bankr. S.D. Cal. 1985), the court held that a patent obtained after a petition for bankruptcy had been filed was not the proceeds of a patent obtained pre-petition.

69. See generally Dunne & Barba, supra note 28, at 1274; see also supra note 66.
have priority. In addition, once the financing statement is filed, the secured lender is assured to have a priority claim to the borrower’s collateral which cannot be modified unless the creditor consents thereto. By contrast, the federal statutes allow a one month or three month relate-back period during which an assignee is entitled to file its assignment and maintain its priority interest in the assignor’s property.

Furthermore, unlike the federal statutes, the UCC facilitates lien searching because the UCC financing statement is filed according to the name of the debtor and not according to the collateral. In such instances, searches are conducted to determine the existence of other liens against a potential debtor’s collateral merely by searching for the debtor’s name rather than the collateral to which the security interest applies. The federal statutes do not provide for blanket lien searching.

B. The Copyright Act and the Patent Act

The federal acts provide different procedures for the perfection of a security interest in intellectual property. The Patent Act and Copyright Act do not protect a creditor’s security interest to the same extent that the Code does. Therefore, preemption of the provisions of the UCC may diminish a secured lender’s rights in collateralized copyrights and patents.

The Copyright Act provides that a “transfer of copyright own-
ership or other document pertaining to a registered copyright\textsuperscript{75} may
be recorded in the Copyright Office.\textsuperscript{76} A transfer of a copyright
ownership can be effected by an “assignment, mortgage, . . . or any
other conveyance, alienation, or hypothecation”\textsuperscript{77} creating a “pre-
sent, future, or potential”\textsuperscript{78} relationship between the parties to the
agreement. This assignment or mortgage\textsuperscript{79} can be “in whole or in
part by any means of conveyance or by operation of law.”\textsuperscript{80} Such
provisions allow a lender to effect a future transfer of the rights in a
registered copyright by structuring the security interest to adhere
only upon the occurrence of an agreed upon contingency, such as a
default in payments due under a loan agreement.

Unfortunately, the only filing method under the Copyright Act
requires the filing of a document that “specifically identifies the work
to which [such document] pertains.”\textsuperscript{81} Therefore, a search using the
debtor’s name only will not uncover any prior security interests.
Rather, to uncover prior security interests, a search must be con-
ducted with the Copyright Office using the title or registration of the
copyright.\textsuperscript{82} This places creditors at a distinct risk because they must
rely on their borrowers to advise them of each copyright that the
borrowers own in order for the lenders to conduct a proper search.\textsuperscript{83}
In addition, borrowers must notify their lenders if there are any
changes in ownership or of any additional copyrights to be registered
subsequent to the initial filing, so that the lenders can preserve their
rights in such after-acquired collateral by filing an additional

\textsuperscript{75} 17 U.S.C. § 205(c) (1988) provides that only recordation of a document in the
Copyright Office gives constructive notice of a security interest in a registered work. Therefore,
a security interest in an unregistered copyright or soon to be registered work must be in com-
pliance with the UCC, rather than the Copyright Act. “[E]ven if the borrower provides assur-
ances that its unregistered copyrights are soon to be registered, the careful lender will plan to
make a UCC filing unless and until the borrower actually produces evidence that the registra-
tion applications have been filed.” May, \textit{supra} note 15, at 10-11.


\textsuperscript{77} \textit{Id.} § 101.

\textsuperscript{78} 37 C.F.R. § 201.4(a)(2) (1993).

\textsuperscript{79} “Each registered copyright should be described with accuracy in the document filed .
. . by reference to its name and registration number . . . . Should the lender also take a
security interest in a copyright for which a registration application is pending, the application
should be identified by name, type, claimant and filing date.” May, \textit{supra} note 15, at 10.


\textsuperscript{81} \textit{Id.} § 205(c)(1).

\textsuperscript{82} “[L]enders are unable to conduct blanket searches to determine if the assets of a
potential borrower are free of liens, [rather] searches must be done against each copyright[1]
and lenders are dependent upon their borrowers to inform them of each new copyright created

\textsuperscript{83} \textit{Id.}
assignment.84

Another obstacle that secured creditors face under federal law is the provision for priority among conflicting interests. Unlike the first-to-file rule of the UCC,85 the Copyright Act grants a one month grace period after execution of the transfer document within which to record the assignment.86 While this does not affect the perfection of a lender’s assignment, it may affect the lender’s reliance on a search report that describes the ownership of the copyright.87

Similarly, the Patent Act provides an organized mechanism for perfection.88 “Applications for patent, patents, or any interest therein, shall be assignable in law . . . [and such] applicant, patentee, or [any assignee] or legal representatives may . . . grant and convey an exclusive right [thereunder].”89 Such “assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee . . . unless it is recorded in the Patent and Trademark Office” within the appropriate time period.90

84. Because there is no provision for proceeds and after-acquired collateral, as provided by the Code, assignments recorded against certain registered or soon-to-be registered copyrights will protect only those copyrights. For example, in In re Peregrine, supra note 10, the borrower’s collateral consisted of a library of films. The court explained that “as the contents of the film library changes, the lienholder will be required to make a separate filing for each work added to or deleted from the library.” Id. at 202 n.10. In such case, the recording of a security interest “will involve dozens, sometimes hundreds, of individual filings.” Id. In contrast to the Code, which provides for “continuing, floating lien[s] . . . without the need for periodic updates,” the Copyright Act is a “less useful device for perfecting a security interest.” Id.

85. U.C.C. § 9-312 (1990); see supra note 70 and accompanying text.
86. 17 U.S.C. § 205(e) (1988). There is a two-month grace period, if the transfer document was executed outside of the United States. Id.
87. The existing federal intellectual property transfer recordal laws include lengthy look-back or grace periods from the Pony Express era, when coast-to-coast overnight courier services did not exist. The continued existence of such periods obviously defeats the justified expectations of purchasers and lenders that title and security interests relating to intellectual property can be determined on a relatively current basis. Committee Report, supra note 30, at 11.
88. Perfection occurs when a collateral assignment is appropriately filed. That collateral assignment should include:
   (a) an assignment to creditor of all right, title and interest in the patent and of the right to sue for past, present and future infringements; (b) a warranty of debtor as to debtor’s rights in the patent; (c) a grant by creditor to debtor of an exclusive, non-transferable right and license to the use of the invention disclosed and claimed by the patent; (d) a condition subsequent that reassigns to debt or full title to the patent upon satisfaction of the obligations.
Goldstein, supra note 26, at 231.
90. Id.
Problems may arise, however, because conditional assignments—such as those that are to take place solely upon the occurrence of certain acts or events, such as a default—once recorded, are to be considered absolute assignments. In such instances, the rights associated with ownership, including any negative rights, also may be transferred to an unwilling lender. In addition, it is still unclear whether an assignment, as provided in section 261 of the Patent Act, encompasses a security interest. Whereas the Copyright Act specifically provides that a transfer of ownership can include both assignments and mortgages, the Patent Act does not mention mortgages. Regardless of this omission, patent assignments are deemed to encompass security interests for purposes of determining the procedure for perfection.

The Patent Act, parallel to the Copyright Act, authorizes a three-month grace period and also makes no provision for the creation of liens in after-acquired property. Therefore, searching the Patent and Trademark Office’s records for the current ownership of a patent is hindered as it is in the case of copyrights. In addition, because after-acquired property is not automatically included, the

91. 37 C.F.R. § 3.56 (1992) ("Assignments which are made conditional on the performance of certain acts or events, such as the payment of money or other condition subsequent, if recorded in the Office, are regarded as absolute assignments.").

92. For example, once a security interest is perfected in accordance with the Patent Act, the lender may be subjected to liability for infringement suits related to the secured collateral. Boss, supra note 46, at 505. This may, in effect, decrease the value of the collateral to the lender. Whereas, "[u]nder Article 9 secured parties' exposure to ownership risks and responsibilities such as infringement liability [are] greatly reduced because a security interest is not the same as title." Harold R. Weinberg & William J. Woodward, Jr., Easing Transfer and Security Interest Transactions in Intellectual Property: An Agenda for Reform, 79 Ky. L.J. 61, 92 (1990/91) (emphasis added).

93. "The uncertainty centers around whether the reference to 'assignments' and 'grants' in section 261 includes security interests or refers only to conveyances that transfer title to the creditor." Nimmer & Krauthaus, supra note 63, at 207. "[S]ince ambiguity exist[s] as to what constitutes an 'assignment' for purposes of recordation and notice under a filing with the Patent and Trademark Office... [a] debtor should make a collateral assignment of patent to creditor" and file a financing statement in the state offices. Goldstein, supra note 26, at 230.


95. In light of the dicta of In re Peregrine, supra note 10, at 203-04, perfection of security interests in patents is to be determined according to the Patent Act, rather than the UCC. Nevertheless, lenders are still encouraged to record their "security interest in federally registered patents... under the Patent Act and... to perfect that security interest by making appropriate filings under the UCC." Rosinus, supra note 20, at 105; see also Samson, supra note 27, at 42 ("To avoid risk, comply with both federal law and the Code.").

96. "An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration... unless it is recorded... within three months from its date [of creation]....") 35 U.S.C. § 261 (1988); see supra notes 84, 86.
perfection of a security interest in the products of, or changes in, a patent requires the filing of a new assignment. 97

C. The Lanham Act

Unlike the Copyright and Patent Acts, the Lanham Act, at present, does not displace the Code with respect to the method of perfection 98 of security interests in trademarks. 99 Although provision is made in the Lanham Act for the transfer of ownership of a registered trademark to an assignee, 100 the typical creditor does not desire an outright assignment, which includes all rights and liabilities, 101 but rather seeks only a contingent transfer of such rights to occur upon the action, or inaction, of the debtor which creates a default under a loan agreement. 102 For this reason, court decisions typically favor the Code provisions over those of the Lanham Act in determin-

97. "Federal intellectual property laws are less conducive to interests in after-acquired property because they are not designed to govern finance law issues [like the UCC]. Recording under trademark, copyright, and patent law for new developments requires registration for each property." Nimmer & Krauthaus, supra note 63, at 224.

98. In order to perfect a security interest in a trademark, a collateral assignment must include a "security interest in the goodwill of the trademark assignor and in the assets associated with the production of products under the trademark." Goldstein, supra note 26, at 232.

99. In the dicta from In re Peregrine, supra note 10, at 198-99, 203, the court opined that security interests in patents were to be perfected in the same manner as copyrights, that is, according to the federal statutes. "[I]n light of the similarity of the Lanham Act to the patent laws, it is questionable whether prior case law should be relied upon by secured lenders." Dunne & Barba, supra note 28, at 1307 (emphasis added). Considering the ease with which the In re Peregrine court disposed of the law then in effect regarding perfection of security interests in patents, it is not clear whether the next court will apply that same reasoning to trademarks as well.

100. A registered mark or a mark for which application to register has been filed shall be assignable with the goodwill of the business in which the mark is used . . . .

An assignment shall be void as against any subsequent purchaser . . . . unless it is recorded . . . . within three months after the date thereof . . . .


101. A lender can file the appropriate absolute assignment of the trademark and then execute a license agreement with the borrower. In this manner, the borrower may utilize the trademark for use in the borrower's business. Such assignments, however, may result in the transfer of certain negative incidents of ownership, such as liability for infringement . . . . [In addition,] such an assignment may be deemed void as an "assignment in gross" [where the transfer is made without the accompanying goodwill, and therefore] . . . result in a voiding of the trademark rights because the lender assignee is not in the business associated with the trademark. Dunne & Barba, supra note 28, at 1307.

102. See generally Roman Cleanser Co. v. National Acceptance Co. of Am. (In re Roman Cleanser Co.), 43 B.R. 940, 942 (Bankr. E.D. Mich. 1984), aff'd, 802 F.2d 207 (6th Cir. 1986) (the agreement provided that only in the event of Roman's default thereunder, would the purchaser/lender have exclusive rights to sell products using the debtor's trademarks).
ing ownership of trademarks subsequent to a transfer;\textsuperscript{108} to wit: the only method of securing a contingent interest in a trademark is via the filing of a financing statement pursuant to the Code.\textsuperscript{106}

This result does not correspond to the requirements for perfecting security interests in patents and copyrights. Although comment one to section 9-104 of the Code does not refer to the Lanham Act, as it does the Copyright and Patent Acts,\textsuperscript{108} this reason alone should not warrant the disparate treatment of trademarks. Trademarks, in fact, are functionally similar to copyrights and patents in several respects.\textsuperscript{108} For example, trademarks are accorded protection when they are registered in accordance with the federal statutes.\textsuperscript{107} Also, unlike the Copyright Act, neither the Trademark Act nor the Patent Act provide for mortgages or security interests.\textsuperscript{108} Even though the Patent Act and the Lanham Act only reference assignments, in general, rather than conditional security interests and mortgages, it is only the Patent Act which is deemed to preempt the UCC.

The provisions found within the Copyright Act and the Patent Act appear to mirror those found within the Lanham Act. Therefore, dissimilar treatment of trademarks alone creates an incongruous result. Despite the similarity to copyrights and patents, an assignment of a trademark is to be effected strictly according to state law rather than federal law which guides the assignment of patents and copyrights.

\textsuperscript{103} See TR-3 Industries, Inc. v. Capital Bank \textit{(In re TR-3 Industries)}, 41 B.R. 128 (Bankr. C.D. Cal. 1984) (where lender did not file any agreement with the Patent and Trademark Office but merely recorded a UCC statement indicating a security interest in general intangibles, such security interest was deemed appropriately perfected); see also Joseph v. 1200 Valencia, Inc. \textit{(In re 199Z, Inc.)}, 137 B.R. 778, 780-81 (Bankr. C.D. Cal. 1992) (trademark assets must be perfected under Article 9; thus, if the UCC statement is considered insufficient, the recordation of a Memorandum of Security Agreement with the Patent and Trademark Office will not adequately protect that interest).

\textsuperscript{104} See \textit{supra} note 55 and accompanying text.

\textsuperscript{105} See \textit{supra} notes 52-53 and accompanying text.

\textsuperscript{106} Trademarks, like patents and copyrights, are intangible assets which engender proprietary rights of the owner, such as "rights of exclusivity and control of technology, information, products, or other work." Nimmer & Krauthaus, \textit{supra} note 63, at 200. Furthermore, the "value of such property rights depends on the salable value of the technology or product in which they subsist. Consequently, the value of intellectual property often cannot be determined until or unless it is exploited." \textit{Id.} at 201. Intellectual property has an "ephemeral and ever changing nature . . . [which] makes such property difficult to monitor and possess . . . ." Bos, \textit{supra} note 46, at 499.

\textsuperscript{107} A trademark, like a copyright, need not be federally registered in order to be protected. However, registration affords the owner certain procedural and substantive advantages and acts as a form of notification of ownership. See Lo Cicero et al., \textit{supra} note 2, at 131.

\textsuperscript{108} See \textit{supra} notes 77, 91-95 and accompanying text.
Most frustrating is the fact that no one knows whether a future court will come to a different conclusion and equate the Lanham Act with the other federal statutes. Prudent lenders, therefore, are urged to record their security interests in trademarks under the Lanham Act and under the UCC. Thus, because of the confusion surrounding the application of the state and federal statutes, lenders necessarily must file to perfect their security interests in patents, copyrights, and trademarks in the state and federal offices.

D. The Law and the Courts

Courts have long decided issues relating to security interests in trademarks according to the requirements of Article Nine. Distinguishing between security interests and assignments, the judiciary has determined that an agreement to assign a trademark in the future is not an assignment and, therefore, need not be recorded. By logical extension, the UCC should not defer to the federal statute where the Lanham Act did not provide for the creation of conditional security interests in trademarks but rather only provided for assignments as absolute transfers of ownership. The UCC, rather than the Lanham Act, applies where an interest in a specified trademark would not presently vest, but rather would vest only upon the occurrence of a designated event.

A succession of cases support the unfettered application of the UCC to security interests in trademarks, thus creating a definitive mechanism for allowing creditors to create liens on borrowers' intellectual property. Notwithstanding this seemingly solid legal footing, lenders are still uneasy about future court determinations regarding ownership of a trademark if a debtor were to default or file

109. See Rosinus, supra note 20, at 102.
110. Id.
111. The added expense of filing the necessary document with both the federal and state offices and of searching both offices may deter a lender from taking a security interest in intellectual property as collateral.
a bankruptcy petition.\textsuperscript{117} In order to avoid any possible negative results, lenders frequently file a document with the Patent and Trademark Office indicating their asserted security interest and also file the required UCC financing statement.\textsuperscript{118}

Cases regarding perfection of security interests under the Copyright Act seem similarly decisive.\textsuperscript{119} As long as the copyrighted work is registered in accordance with the Copyright Act, a secured creditor need only file a suitable document\textsuperscript{120} in the Copyright Office in order to give constructive notice to all future parties of the nature of the security interest.\textsuperscript{121}

In a detailed decision, the court in \textit{In re Peregrine}, held that the "comprehensive scope of the federal Copyright Act's recording provisions, along with the unique federal interests they implicate, support the view that federal law preempts state methods of perfecting security interests in copyrights and related accounts receivable."\textsuperscript{122} The policy concerns which led the court to its decision, centered around the "lack of an identifiable situs"\textsuperscript{123} of a copyright and the need for a uniform system of prioritizing claims.\textsuperscript{124} Particularly important to the court was the requirement that a recording system

\begin{itemize}
\item \textsuperscript{117} See supra notes 109-11 and accompanying text.
\item \textsuperscript{118} 37 C.F.R. § 2.185 (1992) provides that "[o]ther instruments which may relate" to registered trademarks, are recordable at the discretion of the Commissioner of the Patent and Trademark Office. The Lanham Act gives the Patent and Trademark Office the discretion to record documents not expressly provided for under the act, but does not "expressly provide for filing of documents memorializing pledges of trademarks, as the Copyright Act does for hypothecations of copyrights." \textit{In re 199Z, Inc.}, 137 B.R. at 782 n.7. This creates the uncertain conditions within which lenders must now operate. Even though it appears that the UCC is the sole method of determining priority of security interests in trademarks, lenders cautiously file at the federal level, since the possibility exists that the law may change. Searching for assignments, in addition to UCC statements, may also be advisable because of the provision for the recordation of other documents by the Patent and Trademark Office. See Dunne & Barba, supra note 28, at 1307.
\item \textsuperscript{119} See \textit{In re Peregrine}, supra note 10; Official Unsecured Creditors' Comm. v. Zenith Prods., Ltd. (\textit{In re AEG Acquisition Corp.}), 127 B.R. 34 (Bankr. C.D. Cal. 1991), aff'd, 161 B.R. 50 (9th Cir. 1993).
\item \textsuperscript{120} See 37 C.F.R. § 201.4 (1993) (regarding the requirements for recordation of transfer and other documents relating to copyrights).
\item \textsuperscript{121} \textit{In re Peregrine}, supra note 10, at 200.
\item \textsuperscript{122} Id. at 199.
\item \textsuperscript{123} Id. at 201. Copyrights are not like tangible property which can be found to exist at some physical location. This "lack of an identifiable situs militates against individual state filings and in favor of a single, national registration scheme." Id.
\item \textsuperscript{124} "The Copyright Act clearly ... establish[es] a national system for recording transfers of copyright interests, and it specifies a place of filing different from that provided in Article Nine. Recording in the Copyright Office gives nationwide, constructive notice to third parties of the recorded encumbrance" similar to the system provided by the Code. Id. at 202.
\end{itemize}
afford “interested parties” a “specific place to look in order to discover with certainty whether a particular interest has been transferred or encumbered.” This line of reasoning was then expanded, in dicta, to include patents, thereby rejecting a seemingly established rule of law which previously provided for perfection only in accordance with Article Nine. Oddly, the court would not extend this reasoning to trademarks, despite the fact that the same policy concerns relate to security interests in trademarks. The current state of flux requires the creation of a comprehensive system for perfecting security interests for all types of intellectual property.

Prior cases have analyzed the state and federal methods of perfection and have determined that state rules could be used to the exclusion of the federal rules. Nevertheless, the court in In re Peregrine dismissed this view and held that the UCC was to be preempted by the provisions of the Patent Act, thereby disrupting the

125. Id. at 200.

To the extent there are competing recordation schemes, this lessens the utility of each; when records are scattered in several filing units, potential creditors must conduct several searches before they can be sure that the property is not encumbered. No useful purposes would be served if creditors were permitted to perfect security interests by filing with either the Copyright Office or state offices. Id. (emphasis added).

126. Id. at 203-04. The court, in determining whether the UCC or the Copyright Act would be applied to the security interest at issue, specifically rejected two prior cases dealing with patents. In In re Transportation Design & Tech., Inc. 48 B.R. 635, 638 (Bankr. S.D. Cal. 1985), the filing of a UCC statement identifying a security interest in debtor’s general intangibles was held to be sufficient to defeat the interest of the trustee in that patent. City Bank & Trust Co. v. Otto Fabric, Inc., 83 B.R. 780 (D. Kan. 1988) similarly held that it was unnecessary to file an assignment with the Patent Office in the absence of a specific provision in the Patent Act to the contrary. Holding that Article Nine should defer to a federal statute which “governs the rights of the parties,” the In re Peregrine court also changed the law regarding security interests in patents. Id. at 204.

127. “[T]he Lanham Act’s recordation provision refers only to ‘assignments’ and contains no provision for the registration, recordation or filing of instruments establishing security interests in trademarks . . . . The Copyright Act, [however,] authorizes the recordation of ‘transfers’ . . . and defines transfers as including ‘mortgages,’ ‘hypothecations’ and, thus, security interests in copyrights.” Id. at 204 n.14. This reasoning appears convincing when comparing the applicable provisions of the Copyright Act and Lanham Act. However, neither the Patent Act nor the Lanham Act, explicitly provide for security interests or mortgages, like the Copyright Act, yet the Patent Act is deemed to supplant Article Nine regarding perfection of security interests in patents.

128. “[A]though requiring a federal filing for perfection of a security interest in patents would produce a single system of filing, . . . it is [not] necessarily more rational, convenient or consistent with the purposes of the UCC.” City Bank & Trust Co., 83 B.R. at 783.

129. In re Peregrine, supra note 10, at 204 (“These cases misconstrue the plain language of the UCC section 9-104, which provides for the voluntary step back of Article Nine’s provisions ‘to the extent federal law governs the rights of the parties.’”).
recognized system previously followed by creditors. In an ideal situation, this ruling would produce a simplified procedure for determining the existence of security interests in copyrights and patents. However, in reality, confusion and disorder still leave a cloud on the system which will not be lifted until legislation is finally enacted.

The current system of law provides for a national registration of a lender’s security interest in copyrights and patents, yet it fails to institute a similar scheme for registering trademarks. Even more disturbing is the notion that, given the decision in *In re Peregrine*, lenders can not be assured that the next court will not change the law again.\(^{130}\)

Predictability, certainty, uniformity, ease of inquiry as to prior interests, protection of rights, convenience and consistency are overriding concerns for any system of perfection,\(^ {131}\) yet they continue to prove to be elusive. Whereas these same overriding concerns are present with regard to the perfection of trademarks, there is little merit in not according them the same statutory treatment.\(^ {132}\) Recognizing the flaw in our current method of perfection and the desire for an improved system, the Task Force has proposed a reform.

### III. The Proposal

The Task Force had several objectives in mind while developing the Proposal. Some were conceptually based, such as the effort to design a comprehensive legal system regulating security interests in intellectual property which Congress would likely enact and which considered the responsibilities of the various parties.\(^ {133}\) Others were procedurally based, such as yielding “certainty, ease of perfection, modest cost and minimum change.”\(^ {134}\) The resulting proposal suggests a method for perfecting security interests that unifies the fed-

\(^{130}\) “[In re] Peregrine merely added more fuel to the fire of confusion . . . [F]iling solely at the federal level is not a satisfactory solution for lenders.” Dunne & Barba, *supra* note 28, at 1274.

\(^{131}\) *See In re Peregrine, supra* note 10, at 199; *see also City Bank & Trust Co.*, 83 B.R. at 783 (advocating the consideration of rationality, convenience, and consistency when determining which registration rules should apply).

\(^{132}\) “[M]any of the characteristics of copyright supporting federal preemption of state law . . . are equally applicable to trademarks (such as a unique federal interest in the subject matter as shown through comprehensive federal legislation, promotion of uniformity, and lack of situs of the personal property because of its incorporeal nature).” Joseph v. 1200 Valencia, Inc. (*In re 199Z, Inc.*), 137 B.R. 778, 782 (Bankr. C.D. Cal. 1992).

\(^{133}\) *Proposal, supra* note 31, at 5.

\(^{134}\) *Id.*
eral systems with the state (UCC) filing system. Contrary to the decision in *In re Peregrine*, the Task Force did not find policy interests sufficiently strong to support federal supremacy in this area of law. Although matters of title are correctly reserved to the federal government, the resolution of all other issues is relegated to state law.

A. The "Mixed" Approach

The Task Force reviewed and rejected those proposed systems that were purely state driven and those that were solely federally based and preempted all state intervention. The Task Force adopted a proposal that would utilize both the state and federal programs. This "mixed" approach requires a lender/secured party to file a financing statement against its borrower/debtor in accordance with all applicable provisions of Article Nine in the state or states where such property may be held or used by the debtor. In addition, it requires that a notice filing be filed at the federal level in

135. Id. at 14.
136. Id. at 15.
137. Id.
138. A "purely state filing and perfection system," where all security interests could only be filed pursuant to Article Nine, would provide the necessary "continuous coverage" for "after-acquired property and proceeds on the initial filing without additional filing." Id. at 11. However, the Task Force rejected such process because (1) it would require Congressional action in order to defer the "federal government's traditional role with respect to uniformity in tracking interest in title in federally registered intellectual property" and (2) the title records in the Patent and Trademark and Copyright Offices would still remain "separate from the security interest records in the states." Id. at 12.
139. A "wholly federal system" displacing all Code-dictated methods of perfection has several advantages. It would operate to "consolidate most intellectual property records at a single location" and "permit a single filing" to register such security interest. Id. In addition, it would incorporate the present UCC systems relating to after acquired property and shortened or eliminated relate-back periods. Id. However, such systems would require a complete revamping of the existing [federal] Office systems, procedures and regulations, in order to provide for floating liens, [and] eliminate[ ] look back provisions . . . . [In addition] state intellectual property would remain subject to Article [Nine] filings . . . [so,] it would not be possible to eliminate the UCC filing to cover the associated state law rights. Id. at 13.
140. Id. at 14.
141. Under the UCC, a financing statement is a permissive, rather than a mandatory, filing. Weinberg & Woodward, *supra* note 92, at 76. This statement provides notice to other parties of the possibility that the debtor may be or soon may become a party to a secured transaction. Id. Unlike the federal systems which are transaction-based, a notice filing is merely designed to "prompt others to investigate further." Id. The UCC system establishes a means whereby a single document (the financing statement) can be used: (1) to describe the collateral and disclose other information; (2) to perfect multiple security interests between the
the appropriate office according to the name of the debtor, rather than according to a description of the affected collateral.\footnote{142}

The state filing would operate to establish a lender's priority interest in intellectual property "against lien creditors, secured creditors and all third-parties other than subsequent purchasers/assignees for value, against whom the federal filing would be required to establish priority."\footnote{143} The federal filing (as an exact duplicate of the recorded UCC financing statement) would evidence the lender's interest in the federally registered intellectual property, thereby creating a system of prioritizing security interests in the Patent and Trademark Office or Copyright Office, as applicable.\footnote{144} This approach, though requiring the filing of two documents in order to effect a security interest in patents, copyrights, and trademarks, is still preferable because it provides one unified procedure and addresses most of the problems in our present system.

\textbf{B. Priority Among Holders of Security Interests}

Currently, the determination of priority between competing claims varies with respect to application of the UCC and the federal statutes. Under Article Nine, "[c]onflicting security interests rank according to priority in time of filing or perfection"\footnote{145} such that "the first [party] to attach [a lien on such collateral] has priority."\footnote{146} This first-to-file rule is not accorded equal measure by any of the federal statutes.\footnote{147}

The Patent Act provides that any "assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee . . . unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent same borrower and lender; and (3) to perfect collateral subsequently acquired by the debtor.\footnote{143} \textit{Id.} Extended grace periods are not necessary because only the financing statement need be filed, not the entire contract. \textit{Id.} at 77. Therefore, with one short easily recordable document, the secured party has given notice of the security interest and places the onus on the searcher to discover what collateral is actually encumbered. \textit{Id.} This easy, efficient system is what the Task Force seeks to implement by way of its Proposal for a unified system of perfection of security interests.

\footnote{142} \textit{Proposal, supra note 31, at 14.}

\footnote{143} \textit{Id.}

\footnote{144} \textit{Id.} However, the Task Force has not yet decided whether a security interest will be deemed perfected by the state UCC filing or the federal assignment filing, or whether both documents will be necessary. The Task Force must also determine what the ultimate effect of a federal filing will be, absent a corresponding UCC filing. \textit{Id.} at n.14.


\footnote{146} U.C.C. § 9-312(5)(b) (1990).

\footnote{147} \textit{See supra} notes 70-72 and accompanying text.
purchase or mortgage." The Lanham Act grants a similar three-month relate-back period during which an assignee can perfect its security interest to the exclusion of subsequent parties who may be unaware of the pre-existing lien.

The Copyright Act, the least lenient of the three federal statutes, affords only a one-month period to register transfers executed in the United States, or two months for those transfers executed outside the United States or at a time prior to federal recordation of a subsequent transfer. However, even a one-month grace period creates problems because a secured party might not be convinced that a part of their debtor’s valuable collateral is free of any previous interest prior to lending the funds and completing the transaction.

The Task Force acknowledged that this difference in application of priority between the state and the federal perfection statutes creates problems in determining rights in patents, trademarks, and copyrights. The Task Force assumes that through its proposal the "various 'look-back' periods will be eliminated or substantially reduced.”

C. Dual Filing and Lien Searches

Under the Proposal, a new system of recording and filing registration statements would be implemented by the Copyright and Patent and Trademark Offices to provide for the recordation of documents that are different from the assignments and collateral mortgages currently accepted. Unfortunately, waste and excessive cost still remain as distinct disadvantages of the dual-filing system. The cost of searching a filing in two offices and perhaps multiple searching at federal offices, may, ultimately, lessen the value of that collateral to the creditor.

151. Concerns may arise even though a search of the appropriate federal agency records is clear. Clear federal agency search reports may only serve to create a false sense of perfection because an assignee has a grace period within which to file. For example, where the relate-back period is three months, would it then be necessary for a lender to keep searching and wait for that period to elapse before lending on those assets? See Boss, supra note 46, at 506.
152. See generally Proposal, supra note 31.
153. Id. at 21. Furthermore, there was a suggestion by the Committee that the grace period be no more than 10 days for recordation of security interests. Committee Report, supra note 30, at 11.
At present, most recorded assignments of security interests are agreements which (1) identify the parties and the collateral; (2) briefly set forth the conditional rights of a secured lender and the ownership rights of the borrower; and (3) specify the time when those rights attach to the lender to grant control of such property. These documents are filed according to the identification or registration number, or the application number of the patent, trademark, or copyright. If the Copyright or Patent and Trademark Offices are to accept a copy of the financing statement filed with the state, new methods must be implemented to file the notice according to debtor name, rather than according to a description of the collateral to be secured.

The system must enable a lender to search the records for notices of security interests, otherwise a lender will still be required to rely on the accuracy and honesty of the borrower in order to uncover the intellectual property currently owned. Whereas notice filing (the UCC approach) highlights those parties that have an interest in the collateral, transaction filing (the federal approach) highlights the extent and ownership of the property. Since assignments are now filed according to the identification number of the collateral, searches are difficult, if not impossible, because the search must be done by registration number rather than by the owner's name. The Task Force has not specifically addressed this problem, but it has speculated that the Patent and Trademark and Copyright Offices will index the notice filing registries by the name of the debtor.

Aside from the relate-back periods which provide a twilight zone of uncertainty for any creditor, the current system still cannot accommodate a search to discover all registrations of, and applica-

155. See Lo Cicero et al., supra note 2, at 154-55.
156. See Boss, supra note 46, at 505-06.
157. The structure of the new federal registries has not been determined. The Task Force has suggested the use of one separate registry for recording all security interests in patents, trademarks, and copyrights, but acknowledges that there could be more. Proposal, supra note 31, at 21.
158. Id. at 15.
159. It is important for a lender to have a complete and accurate list of the current ownership status of all of the borrower's intellectual property; schedules may be incomplete, patents may have expired, trademarks applications may have been canceled or such property may be subject to a prior security interest. Lo Cicero et al., supra note 2, at 146-47.
160. See Boss, supra note 46, at 506.
161. See generally Weinberg & Woodward, supra note 92, at 76.
tions for, intellectual property held by a potential borrower.\textsuperscript{163} The proposed system must allow lenders to perform this task with a level of speed and accuracy akin to that found in the recording offices at the state level. Any other insufficiencies will be, in the eyes of a lender, minor inconveniences.

D. Perfection of After-acquired and Pre-registration Property

The ABA Proposal does not specifically address issues regarding perfection of a security interest prior to the federal registration of such property\textsuperscript{164} nor does it address the effect that federal registration might have on a lender's interest in the continuing products and proceeds of the borrower's assets.\textsuperscript{165} However, the Task Force is confident that provisions will be implemented to address both concerns once a change in the whole system is effected.\textsuperscript{166}

Lenders encounter serious problems when they are unable to file a blanket lien allowing for the automatic perfection in after-acquired property.\textsuperscript{167} Whereas the Code provides creditors with the ability to perfect a security interest in products and proceeds of the collateral,\textsuperscript{168} the federal statutes do not.\textsuperscript{169} Any revised system must reflect the need for a method to cover such after-acquired property without the necessity of periodic multiple filings.\textsuperscript{170} For example, if

\begin{itemize}
\item \textsuperscript{163} As discussed above, the federal registration offices file documents according to the identification number of the patent, trademark, or copyright. Searching, thus, presents a greater burden for a potential lender who, without accurate information from the borrower, cannot determine what property is actually owned by such borrower.
\item \textsuperscript{164} For example, unregistered trademarks and copyrights, or applications for copyrights.
\item \textsuperscript{165} \textit{See Proposal, supra} note 31, at 15.
\item \textsuperscript{166} \textit{Id. at} 21.
\item \textsuperscript{167} \textit{See Dunne \\& Barba, supra} note 28, at 1274.
\item \textsuperscript{168} \textit{Id. at} 21.
\item \textsuperscript{169} \textit{Id. at} 21.
\item \textsuperscript{167} See Dunne \\& Barba, \textit{supra} note 28, at 1274. [For example,] if a lender obtains a security interest in a movie after the first shooting or in the first version of a computer program, a lender may find itself unperfected in a final product because either the borrower neglected or intentionally failed to notify the lender of a new copyright in the next version of the movie or computer program. Even if the lender files against the new copyright, the uncertainty of perfection is not resolved . . . [because] a bankruptcy court might void the lender's perfected security interest . . . as a preference.
\item \textsuperscript{168} U.C.C. § 9-306 (1990).
\item \textsuperscript{169} "Collateral assignments ordinarily require that subsequent property be 'conveyed' to the creditor. [Thus t]he debtor must notify the creditor of any new development (e.g., a patent application) and make an assignment of rights in the new technology. These provisions are enforceable but are clearly more cumbersome than . . . [the] U.C.C." Nimmer \\& Krauthaus, \textit{supra} note 63, at 224-25.
\item \textsuperscript{170} "Where the property involves frequent and important changes . . . the creditor is faced with substantial compliance costs and encounters clear risks of incomplete or unat-
the federal rules enable an owner to assign rights in applications for patents\textsuperscript{171} and applications for registration of trademarks,\textsuperscript{172} but do not enable an assignee/lender to retain that interest when such applications ripen to registered patents and trademarks, the value of the law is greatly diminished.

IV. FROM THEORY TO PRACTICE

While the Task Force's proposal for a unified system of perfection is clearly superior to the other approaches offered by the Task Force,\textsuperscript{173} many new problems arise and some old ones remain unanswered. The Task Force recognizes that the current federal registration systems need to be restructured to allow for the filing of documentation according to the name of the debtor, rather than by a description of the collateral to which the security interest applies.\textsuperscript{174} However, no solution has been offered. In addition, the influx of UCC-like statements, including amendment, assignment and termination statements, certainly cannot be recorded, indexed \textit{and} searched by the currently existing staff at these offices. The implementation of such a system will necessitate a larger staff along with new equipment and space to function efficiently and withstand the tremendous inundation of statements that will need to be recorded daily.\textsuperscript{175} The Task Force has recommended the formation of one or more separate registries.\textsuperscript{176}

In addition to the aforementioned duties, the staff will be re-

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173. See supra notes 138-39.
175. "Complicating the federal statutory relation-back period is the time it takes for the filing to be entered into the file after submission by the filer . . . . [With such a delay] a lender cannot have confidence in the file until the relation back \textit{and} the office delay period both pass." Weinberg & Woodward, supra note 92, at 87 (emphasis added). "The [federal offices] are not equipped to cope with additional finance filings and searches . . . . To the extent that the federal office normally does not operate with the speed of U.C.C. filing offices (or would become slower under the stress of increased volume), delay and cost would result. Id. Unless the new federal registry or registries operate with the same efficiency and speed as the state UCC offices, the federal system will be ineffective in protecting a secured party's security interest in intellectual property.
176. See supra note 157.
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sponsible for searching the office records to determine ownership of patents, copyrights, and/or trademarks. A method of parallel-filing should be implemented so that searches of the ownership and registration files yield a cross-referenced listing of the current assignees or conditional assignees of that property. Thus, the initial outlay of time and money for organization and personnel appear to be the only drawbacks.\textsuperscript{177}

Despite these minor initial expenses, this Proposal will clearly be advantageous to commercial lenders. Providing lenders with uniform and reliable access to information assures them that their own filings will adequately notify subsequent parties of their security interest in a borrower’s intellectual property. After proper notification is accomplished, the courts can apply indisputable provisions to determine ownership rights in the event of a default, bankruptcy, or foreclosure.

Lenders currently create their own method of ‘dual filing’ by complying with all applicable state and federal registration methods. Nevertheless, it would be preferable for Congress to enact laws implementing the Proposal so that security interests in intellectual property can be determined with precision and accuracy. Until that time, lenders are at the mercy of the prevailing state of the law and the whim of the judiciary which may at any time modify its position.

V. CONCLUSION

Intellectual property, as an asset, has become a valuable part of business.\textsuperscript{178} Trademarks create brand name recognition facilitating the sale of everything from household items to clothing to computers. Patents provide the method whereby inventions and machinery en-

\textsuperscript{177} At least one commentator, discussing the implementation of a new filing system solely for patents and trademarks, notes that “the easiest costs to consider are the start-up costs in establishing and maintaining [such a] filing system. The cost of establishing a new filing system specifically designed to receive and maintain financing statements . . . would seem relatively modest.” Weinberg & Woodward, \textit{supra} note 92, at 98. Such a system, and its attendant costs, could obviously apply to copyrights as well.

\textsuperscript{178} See Simensky, \textit{supra} note 16, at 22.

The tremendous value that intellectual property has always had, coupled with the recent realization of the magnitude of such value, has cast intellectual property in a new role as a dynamic and dominating factor in commercial transactions. Problems in valuing, measuring, and collateralizing intellectual property may exist, but intellectual property’s newly realized commercial value will inevitably overcome such problems. There is simply too much money at stake to permit continued ambiguity in the use of intellectual property in commercial deals.

\textit{Id.}
gender new technology, products and services. Copyrights protect the rights in artistic, literary, musical, architectural, and other graphic work, to enable a creator to exploit his or her work. Through licensing an owner can further capitalize on such intellectual property by allowing a third-party to use such property, thereby increasing market awareness and generating a fee for the owner.

The time has come for the enactment of laws which definitively decide how security interests in intellectual property should be effected. The proposal, as outlined by the Task Force, is a valuable step towards a unified system of perfection.179

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179. The Task Force has recently proposed changes to Article Nine to provide that security interests in intellectual property be governed by the U.C.C. Lee A. Schott & Harry C. Sigman, Preliminary Discussion Draft of Proposed Changes to Article 9 Relation to Treatment of Security Interests in Intellectual Property, C878 A.L.I.-A.B.A. 415 (1993), available in WESTLAW, TP-ALL Database. In addition, the 1993 Copyright Reform Act, S. 373/H.R. 897, 103rd Cong., 1st Sess. (1993), was introduced to Congress suggesting an amendment of the recordation and registration requirements of the Copyright Act. Responding to problems created pursuant to In re Peregrine, supra note 10, the Copyright Reform Act would provide that the creation of security interests in copyrights would be governed by Article Nine of the UCC and not by the Copyright Act. The enactment of this Act would certainly alleviate the uncertain state of perfection in copyrights. Nevertheless, the Proposal by the Task Force, in conjunction with the proposed changes to the UCC, would still be preferable because they would clarify the law regarding security interests in all types of intellectual property.

180. To my family, for protecting, nurturing, and humoring me during this long, arduous exercise called law school.