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THE TRADEMARK TRAP

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Introduction

Article Nine of the Uniform Commercial Code (UCC) “provides a comprehensive scheme for the regulation [including perfection\(^1\)] of security interests in personal property.”\(^2\) Trademarks, as one of the principal forms of federal intellectual property, fall within the UCC definition of personal property. Thus they are governed by the UCC. But simultaneously, trademarks are regulated by the Lanham Act. The Lanham act provides comprehensive regulation for the protection of federal trademarks and registration of transactions affecting rights in federal trademarks.\(^3\) Each of the two acts, the UCC and the Lanham act, creates a separate filing system. Each system records transactions affecting the legal status of trademarks. Consequently we have two filing systems collecting information about one type of personal property, namely trademarks. Such a state of affairs runs counter to the desired standard described by Judge Kozinski in In re Peregrine Entertainment, Ltd.\(^4\) Judge Kozinski states that “[a] recordation scheme best serves its purpose where interested parties can obtain notice of all encumbrances by referring to a single, precisely defined recordation system.”\(^5\) The trademark filing system unfortunately lacks clarity and precision in its filing requirements making it far

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\(^1\) Perfection is the process by which a secured party's security interest in a debtor's collateral is protected against competing claims to the collateral by third parties. For an overview of how a secured party perfects its security interest in a debtor's collateral under the UCC system, see Douglas G. Baird, Thomas H. Jackson, Security Interests in Personal Property 66-76 2d ed. (1987). Perfection of a security interest is essential because if it is not perfected, the secured party may lose its claim to the secured property as against judgment lien creditors, the trustee in a bankruptcy proceeding, or other third party creditors claiming an interest in such property. See id. at 67-68.


\(^3\) See The Trademark (or "Lanham") Act, 15 U.S.C. §§ 1051-1127, allowing federal registration of trademarks arising under state law when they are used in interstate or international commerce and providing federal protection of a right to use trademarks so registered.

\(^4\) In re Peregrine Entertainment, Ltd. 116 B.R. 194, (C.D.Cal.,1990)

\(^5\) See In re Peregrine Entertainment, Ltd. 116 B.R. 194, 201 (C.D.Cal.,1990)
from a “precisely defined recordation scheme.” This challenging system poses a trap for the creditors attempting to secure their right to trademark collateral. Additionally, it diminishes the value of trademarks as collateral by increasing the cost of financing transactions when a trademark is used as collateral. In this paper, I will present evidence showing that the system is failing its users. The evidence will be in form of an empirical study showing that 15% of filers fell into the trap produced by the currently existing multiple filing systems. In light of those findings, it will be apparent that legislative change, aimed at streamlining the filing process through the creation of a single federal filing system, is much needed.

Part I of this paper describes the multiple filing systems for security interests in trademarks. It will also describe the existing practice of filing security interests in two systems and the reasons behind the development of such a practice. Part II describes the problems which the multiple filing systems cause. Part III presents the empirical study of security interests in trademarks, its methodology and findings. The study suggests that the currently existing multiple filing system is harder to master then one could have thought, because plenty of creditors have failed to master it. Part IV describes my proposal for the legislative reform of trademark law. The proposal is aimed at an elimination of the system based on dual filing. It suggests that the federal office should handle the recording of all encumbrances.

I. Multiple filing systems for trademarks

A. Two bodies of law create two filing systems

Each of the two bodies of law which regulate trademarks, the UCC and the Lanham act, creates a separate filing system designed for the recordation of transactions governed by each
body. The filing system created by the UCC is the state UCC system maintained by each state which adopted the UCC. The filing system created by the Lanham act is the Trademark Office of the United States Patent and Trademark Office (PTO). Each system is appropriate for recordation of different transactions in trademarks. Therefore, there are two systems that collect information about one type of property, namely trademarks. The UCC system is appropriate for perfecting security interests in trademarks and the PTO is appropriate place for recordation of assignments of trademarks. Such a division is the result of judicial differentiation between the term “assignment” as used in the Lanham Act and term “security interests” as used in the UCC. The court in *In re Roman Cleanser*, the leading case pertaining to security interests in trademarks, held that an assignment is an absolute transfer of entire right, title and interest to the trademark, and distinguished it from an agreement to assign a trademark in case of a default. The latter is a functional equivalent of a security interest, “a device to secure indebtedness”. This differentiation was not apparent solely from the reading of the statutes. The court had to decide first what the Congress meant by the term “assignment”, as used in the Lanham Act. But the Lanham act does not contain a definition of the term assignment, which casts doubt on whether the term “assignment of a trademark” encompasses the grant of a security interest. This doubt

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6. See 35 U.S.C. § 1 and § 2. (§1 establishes The Patent and Trademark Office ("PTO"). The PTO oversees the application for, and registration of, U.S. patents and trademarks on behalf of the Commissioner of Patents and Trademarks. It is the locus for patents and federally registered trademarks. The PTO shall be also responsible for disseminating information about U.S. patents and registered trademarks to the public.)


was not unfounded, because the term “assignment” is repeatedly used in the UCC to mean a security interest. The courts nevertheless did not reach for guidance to the UCC, instead they resolved the doubt by examining the use of the term assignment at the time the Lanham act was enacted. Back then the grant of a security interest was achieved mainly by the grant of a mortgage not an assignment. That led to the conclusion that assignments and security interests in trademarks are two different transactions and should be recorded in two different systems. Accordingly, the Lanham Act section 1060, which provides for recordation of assignments in the PTO, is limited to regulating the recordation of transfers of the trademarks’ ownership in the form of an assignment, but does not provide for a perfection of security interests in trademarks. Consequently, the UCC became the proper location for the perfection of security interests in trademarks. Thus security interests recorded in the PTO are not perfected. Such a filing does

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11 See UCC sections dealing with accounts as collateral where an assignment of an account is equated with the granting of a security interest in the account, e.g. 9-409(a)(“A term in a letter of credit […] which prohibits […] assignment or creation of security of interest in a letter of credit[…] is ineffective[…]”).


13 Id.

14 See 15 U.S.C. 1060(4). (“An assignment shall be void against any subsequent purchaser for valuable consideration without notice, unless the prescribed information reporting the assignment is recorded in the United States Patent and Trademark Office within three months after the date of the assignment or prior to the subsequent purchase.”).


16 See UCC 9-109(c)(1) and cmt. 8. (9-109(c)(1) (2000) (“recognizes explicitly that this Article [Nine] defers to the federal law only when and to the extent that it must – i.e. when federal law preempts it.”).

not have the force of a constructive notice and therefore does not constitute perfection.\textsuperscript{18} But the Lanham act provides for recordation of assignments, thus the recording of trademark assignments in the PTO is effective. Such a filing constitutes constructive notice about the transfer of the trademark ownership and is valid against everyone.\textsuperscript{19} The different effect of these filings is apparent from the relevant language of the Trademark Manual of Examining Procedures.\textsuperscript{20} It clearly differentiates between mandatory recordings of the assignments and optional recordings of other documents affecting the title to the trademark.\textsuperscript{21}

\textbf{B. Creditors file security interests in trademarks in both systems}

\textbf{1. Legal uncertainty}

Judicial opinions addressing security interests in trademarks (“trademark case law”) remain uniform in holding that perfection of security interests in trademarks is governed by the

\textsuperscript{18} See Trademark Manual of Examining Procedure\$ 503.02 discussing 37 C.F.R. \$3.11(a). (Some instruments that relate to registered marks […] \textit{may} be recorded, even though they do not convey the \textit{entire title} […] Typically, these instruments are license agreements, \textit{security agreements} […] These instruments are recorded to give third parties notification of \textit{equitable interests} or other matters relevant to the ownership of a mark.) The text of the manual is available on the PTO’s website as of March 26, 2008 at http://tess2.uspto.gov/tmdb/tmep/0500.htm#_T503.

\textsuperscript{19} \textit{See} 15 U.S.C. \$1060(a) (“[…]when the prescribed information reporting the assignment is recorded in the United States Patent and Trademark Office, the record shall be prima facie evidence of execution.”

\textsuperscript{20} The text of the manual is available on the PTO’s website as of March 26, 2008 at http://tess2.uspto.gov/tmdb/tmep/0500.htm#_T

\textsuperscript{21} \textit{See} Trademark Manual of Examining Procedure \$503.02 discussing 37 C.F.R. \$3.11(a). (The USPTO \textit{records} assignments. [It] also records [other] documents that affect title to a trademark. Some instruments that relate to registered marks […] \textit{may} be recorded, even though they do not convey the \textit{entire title} […] Typically, these instruments are license agreements, \textit{security agreements} […] These instruments are recorded to give third parties notification of equitable interests or other matters relevant to the ownership of a mark.) The text of the manual is available on the PTO’s website as of March 26, 2008 at http://tess2.uspto.gov/tmdb/tmep/0500.htm#_T503.
UCC and is achieved by filing in the state UCC records. Thus not much uncertainty comes from the case law pertaining to security interests in trademarks. Moreover, it is unlikely that this long standing position will be overruled. Nevertheless, uncertainty remains about which system is the single proper place to perfect security interests in trademarks, and what pushes creditors to make filings of security interests in two systems. The source of the uncertainty lies in case law dealing with security interests in patents (“patent case law”). First I will describe how the courts allocated the filing of security interests in patents between the UCC and the PTO. Then I will address why patent case law has influenced the practice of the perfection of security interests in trademarks. Finally I will describe how patent case law influences the practice of trademark security interest filings.

Patent case law is in harmony in holding that the filing of a security interest in patents made in the state UCC system is effective as against the bankruptcy trustee when asserting lien creditor status under section 544(a)(1) of the Bankruptcy Code. The courts arrived at this conclusion after explaining the meaning of the term “assignment, grant or conveyance” used in section 261 of the Patent act. The court in *Cybernetic Services* held that assignment is a transfer of all or part of a party’s interest, right and title in a patent, and that a security interest is not an assignment, grant or conveyance of a patent. Accordingly, the Patent act does not govern

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23 *See In re Transportation, Design &Tech., Inc.*, 48 B.R. 635, 641 (C.D. Cal 1985) (UCC filing of a security interest in a patent was effective as against a bankruptcy trustee); *City Bank and Trust Co. v. Otto Fabric, Inc.*, 83 B.R. 780 (D. Kan. 1988) (a security interest in a patent was perfected against an imaginary lien creditor from the time it was recorded with the state UCC records); *In re Cybernetic Servs.*, 252 F.3d 1039, 1052 et seq. (article 9 perfection of patent collateral is sufficient against a lien creditor.).

24 *See In re Cybernetic Services*, 252 F.3d 1039.
security interests in patents and only transfers of ownership interests need to be recorded with the PTO. Consequently, no filing with the PTO is needed in order for the security interest to be valid against a bankruptcy trustee. Additionally, the patent case law dicta, discusses situations where a priority conflict arises between the secured party and a subsequent bona fide purchaser for value. In which case, a recording and priority rule of section 261 of the Patent act then serves to resolve that conflict. The courts suggest that Article Nine’s priority rule for buyers is preempted by the recording and priority rule of section 261 of the Patent act. The first clear statement of this partial priority preemption was introduced by a court in In re Transportation. There the judge stated that a bona fide purchaser or a mortgagee who recorded his transfer of a title in the PTO will defeat the interests of a secured party who has not filed a notice of its

25 Id. at 1052

26 Id. at 1055. (“The historical meaning of “purchaser or mortgagee” proves that Congress intended for the recording provision to give constructive notice only to subsequent holders of an ownership interest.”).

27 See In re Transportation, Design &Tech., Inc. 48 B.R. 635, 639 (C.D. Cal 1985) (a bona fide purchaser who recorded his transfer of a title in the PTO will defeat the interests of a secured party who did not file a notice of its security interest with the PTO); Chesapeake Fiber Packing Corp. v. Sebro Packing Corp., 143 B.R. 360 (D. Md. 1992), aff’d, 8 F. 3d 817 (4th Cir. 1993) (followed the dicta from In re Transportation); City Bank and Trust Co. v. Otto Fabric, Inc., 83 B.R. 780, 782 (D. Kan. 1988) (the court held that state law apply conclusively but not exclusively to resolve the question of perfection.); National Peregrine, Inc., v. Capital Ed. Sav. & Loan Ass’n, 116 B.R. 194, 203-04 (concluding in dicta that the Patent Act provides a system of “national registration” that is a complete substitute for Article Nine filing.).

28 See UCC 9-317(d) (2000). (“A licensee of a general intangible or a buyer[…] takes [it] free of a security interest if the licensee or a buyer gives value without knowledge of a security interest and before it is perfected.”).

29 See Thomas M. Ward, Perfection and Priority Rules for Security Interests in Copyrights, Patents and Trademarks: The Current Structural Dissonance and Proposed Legislative Cures, 53 Me. L. Rev. 391, 429-437 (2001) (The author describes four cases which suggest in dicta that the Article Nine priority rule for bona fide purchasers and licensees gives way to the recording and priority in section 261 of the Patent Act. A priority rule for a bona fide purchaser for value is purely a federal defense. Consequently a bona fide purchaser who recorded its patent ownership rights in PTO will defeat the interest of a secured creditor who has not filed a notice of its security interest in PTO.).

30 In re Transportation, Design &Tech., Inc. 48 B.R. 635 (C.D. Cal 1985).
security interest with the PTO. Consequently, a secured party who wants to be protected against a bona fide purchaser for value has to file its security agreement with the PTO. Moreover, such a security agreement must be in the form of an assignment which transfers the entire title to a patent, because only then will it fall within the constructive notice rule of section 261 of the Patent act and be effective against a subsequent purchaser for value.

Recently the court in In re Cybernetic Services rejected this partial priority preemption of the UCC and held that the state UCC records are the only proper place for the perfection of security interests in patents. Nevertheless, long standing dicta developed the opposite practice of filing security interests in patents in two filing systems. This practice also influenced where creditors file security interests in trademarks.

There are three main reasons for this influence of patent case law on the practice of filing security interests in trademarks. The first reason is that the pertinent sections of the Patent Act and The Lanham Act are almost identical. These sections define the kind of transactions that the PTO should record. Judicial interpretation of these sections defines the extent to which security

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31 See In re Transportation, Design &Tech., Inc. 48 B.R. 635, 639 (C.D. Cal 1985) (The dicta was based on the old Supreme Court decision in Waterman v. Mackenzie 138 U.S. 252 (1890) and for that reason courts gave it a lot of importance in their subsequent decisions.).

32 Id. at 639-40

33 Id at 639-40 (“If the secured creditor wishes to protect itself against the debtor transferring title of a patent to a bona fide purchaser or mortgagee who properly records, then the secured creditor must bring its security interest (which is not ordinarily a transfer of title) within the provisions of the Patent Act governing transfer of title to patents.”).

34 In re Cybernetic Services 252 F.3d 1039 (9th Cir. 2001).


36 See the Patent Act, 35 U.S.C. §§ 1-376 granting to inventors the exclusive right to make, use, offer for sale and import their inventions for a limited term.
interests in trademarks and patents should be recorded in the PTO. The Patent act section 261 reads as follows:

“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 in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.”  

The Lanham act section 1060(4) reads as follows:

“An assignment shall be void against any subsequent purchaser for valuable consideration without notice, unless the prescribed information reporting the assignment is recorded in the United States Patent and Trademark Office within three months after the date of the assignment or prior to the subsequent purchase.”

The terms used in those sections, namely “assignment”, “grant”, “conveyance” define the type of recordings that the PTO should handle leaving the rest to the state UCC system.

The second reason for the patent case law influence on the practice of filing security interests in trademarks is the parallel administrative structure for patents and trademarks. The Patent and Trademark Office handles recordings pertaining to trademarks as well as patents.

The third reason for the patent case law influence on the practice of filing security interests in trademarks is that the trademark case law only addresses the competition for priority between a secured party holding a security interest in a trademark and a trustee in bankruptcy,

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39 See also Alice Haemmerli, Insecurity Interests: Where Intellectual Property and Commercial Law Collide, 96 Colum. L. Rev. 1645, 1656-57 (“[...] the Patent and Trademark Office has consolidated its regulation of patents and trademarks, and treats assignments of (and other interests in) patents and trademarks identically. Security interests in trademarks are thus susceptible, at least potentially, to the same problems as those in patents.”)
including a debtor in possession, who has the rights of a hypothetical lien creditor. None of the many cases addressing the perfection of security interests in trademarks address situations where a secured party is in competition with a “purchaser for valuable consideration without notice” (“bona fide purchaser for value”). Such an issue was taken up by patent case law and the courts noted in dicta that this could be a situation where a security interest in a patent should be recorded in the UCC to gain priority over a secured creditor or a lien creditor (also a bankruptcy trustee), and in the PTO to gain priority over a bona fide purchaser for value.

The influence of patent case law on the practice of trademark security interest filings seems very logical for the three above described reasons. Commentators suggest that the similarities between trademark and patent regulation and administration schemes will lead the courts to follow patent case law reasoning in trademark cases. That possibility has prompted some commentators to recommend that the financing transactions involving trademarks should

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41 See Thomas M. Ward, Perfection and Priority Rules for Security Interests in Copyrights, Patents and Trademarks: The Current Structural Dissonance and Proposed Legislative Cures, 53 Me. L. Rev. 391, 443 (2001) (“[…] no trademark case to date has actually tested the partial preemption concept that first arose with respect to patents from the dicta in In re Transportation Design and Technology, Inc.”).

42 See In re Transportation, Design & Tech., Inc. 48 B.R. 635, 641 (C.D. Cal 1985) (UCC filing of a security interest in a patent was effective as against a bankruptcy trustee) and see id. at 639 (a bona fide purchaser who recorded his transfer of a title in the PTO will defeat the interests of a secured party who did not file a notice of its security interest with the PTO).

43 See Marci L. Klumb, Perfection of Security Interests in Intellectual Property: Federal Statutes Preempt Article 9, 57 Geo. Wash. L. Rev. 135, 163 (1988). (“[…] the Lanham Act's assignment provision is similar to that of the Patent Act and can accommodate recordation of security interests in trademarks […]”), See also Alice Haemmerli, Insecurity Interests: Where Intellectual Property and Commercial Law Collide, 96 Colum. L. Rev. 1645, 1656 (“The problem with trademarks is that the federal statutory provision controlling their assignment is extremely similar in its wording to the corollary provision in the Patent Act. This makes it possible that a court might extrapolate from the patent arena and create the kind of anomaly that exists with regard to security interests in patents.”).
be structured very carefully. They should consist of a financing statement filed in the state UCC records and an execution of title transferring assignment of trademark collateral to be filed with the PTO. This overcautious approach might appear to not make much sense after the decision in Cybernetic Services clarified that a secured party holding a UCC filing has priority over a bona fide purchaser. But, as one commentator noted, “While [...] Cybernetic Services stands firmly against this notion of the partial preemption, it may not be the last word.” Such a statement seems reasonable especially in light of the fair amount of criticism directed towards court's reasoning in Cybernetic Services.

2. Strategy

In light of the legal uncertainty stemming from the influence of patent case law on trademark practice, practitioners generally advise that a creditor who takes a trademark as a

44 See A. J. Thomas McCarthy, MacCarthy on Trademarks and Unfair Competition §18:1 (4th ed.1997) (“Until either the UCC or the Lanham Act is clarified the courts should treat either federal or state recordation as a conditional security assignments as sufficient to perfect such a security.”); Baila H. Celedonia, Advanced Seminar on Trademark Law 1996: Trademarks as Collateral, 438 PLI/PAT. 479, 482 (1996) (“The recording with the USPTO of the lien against trademark registrations and pending applications is constructive notice to subsequent purchasers for value.”).


46 See F. Scott Griffin, A Malpractice Suit Waiting To happen: The Conflict Between Perfecting Security Interests In Patents and Copyrights (A Note on Peregrine, Cybernetic and Their Progeny), 20 Ga. St. U. L. Rev. 765, 779 (.2004) (“It follows, then, that the court in Cybernetic should have held that the Patent Act requires registration to perfect a security interest[...].”);Thomas M. Ward, Perfection and Priority Rules for Security Interests in Copyrights, Patents and Trademarks: The Current Structural Dissonance and Proposed Legislative Cures, 53 Me. L. Rev. 391, 437 (2001) (The author criticizes the court’s classification of a security interest as a “mere license” and the fact that only transactions transferring ownership title to the patent are protected against unrecorded patent assignments.); Jason A. Kidd, The Ninth Circuit Falls Short While Establishing The Proper Perfection Method For Security Interests in Patents in In Re Cybernetic Services, 36 Creighton L. Rev. 669, 715 (2004)(“While the Ninth Circuit provides an initial template in Cybernetic Services, it did not go far enough.”).
security for repayment of a loan should record his security interest in two systems\(^{47}\), the state UCC records and the PTO. In fact, the advice not to file a security interest in a trademark in both places seems to be bad advice even after the holding in the *Cybernetic Services* and even if the security interest is structured as a transaction that does not transfer outright the ownership of a trademark. The grounds for such a statement are the following: The notice of a security interest filed with the PTO will provide an actual notice of it to all those who search there to discover who holds the ownership of a patent or trademark.\(^{48}\) According to the filing procedures of the PTO, the recording of such a security agreement does not act as constructive notice, but is permitted and is often done for the purpose of providing actual notice.\(^{49}\) Such actual notice will be enough to deprive a purchaser of his bona fide status. This inference derives from the plain reading of the statutes, the UCC and the Lanham act, that could possibly govern the bona fide purchaser defense. If the bona fide purchaser defense was governed by the UCC, as the current


\(^{49}\) See infra. text accompanying note 20. (“Some instruments that relate to registered marks […] may be recorded, even though they do not convey the entire title […]. Typically, these instruments are license agreements, security agreements […]. These instruments are recorded to give third parties notification of equitable interests or other matters relevant to the ownership of a mark.”).
holding in *Cybernetic Services* suggests, section 9-317(d) will be relevant. This section provides that “A [buyer] of a general intangible […] takes free of a security interest if [he] gives value *without knowledge* of the security interest.” The filing, therefore, will deprive the buyer of his defense, because he will gain actual knowledge. If the bona fide purchaser defense was governed by federal law, the reading of the relevant section of the Lanham act\(^\text{50}\) provides the same conclusion. The Lanham act states that “assignment shall be void against any subsequent purchaser for valuable consideration *without notice*, unless [it] is recorded in the PTO”.\(^\text{51}\) It follows that if the subsequent purchaser has notice of a security interest which was recorded in the PTO, he loses his defense. Recent case law comes to the same conclusion.\(^\text{52}\)

The statement that the advice not to file a security interest in the PTO is bad advice is buttressed by the fact that a purchaser of a trademark for value will most likely check the PTO records to determine if the seller has a valid title to a trademark.\(^\text{53}\) If, while doing so, he stumbles upon information about a security interest, he will acquire actual knowledge of the security interest and cease to be a bona fide purchaser for value. Consequently, he will not be able to get the trademark clear of the security interest held by a cautious creditor.\(^\text{54}\)

The caution exercised by the secured parties and their counsel seems to be very well advised because the existence of two systems for recordation of transactions in the same personal


\(^{52}\) See *Snow Machines, Inc. v. South Slope Development Corp.*, 754 N.Y.S.2d 383, 50 U.C.C. Rep. Serv. 2d 613 (3d Dept 2002) (illustrates that an unperfected security interest can obtain priority over a buyer if the buyer took the collateral with actual knowledge of the unperfected security interest).


\(^{54}\) See Lorin Brennan, *Financing Intellectual Property under Federal Law: A National Imperative*, 23 Hastings Comm. & Ent. L.J. 195, 208 (2001) (“A lender who does not determine whether the information held by its debtor is subject to prior encumbrances, royalty obligations or transfer restrictions does not include the real value of the information in the collateral base, only, at best, the represented value. Such a loan is secured by air, not assets.”).
property is very confusing and there are plenty of mistakes made while dealing with it. I will now discuss the problems caused by these multiple filing systems.

II. Problems the multiple filings systems cause

The main problems caused by the multiple filing systems are the uncertainty faced by creditors taking security in trademarks and an increase in expenses they incur in financing transactions involving trademarks. Each problem is addressed separately below.

A. Uncertainty

Patent case law and its influence upon trademark law result in a situation where a creditor has to file his security interest in two different filing offices, because each filing will be effective only as to one category of competitors.\(^{55}\) Filing in the PTO will result in the effectiveness against a subsequent bona fide purchaser for value, and a filing in the UCC records against a lien creditor. Hence the decision about where to record a security interest turns on the determination of the priority that needs to be achieved.\(^{56}\) Typically creditors want to achieve priority over everyone. Priority over only one category of creditors, but not the other is not sufficient to guarantee repayment of a loan. Creditors therefore have to make two filings, and lenders who consider making loans secured by trademarks have to search in two systems. Nevertheless, even making the two separate filings will not guarantee priority to the creditor.\(^{57}\) Such a conclusion

\(^{55}\) See In re Transportation, Design & Tech., Inc. 48 B.R. 635, 641 (C.D. Cal 1985) (UCC filing of a security interest in a patent was effective as against a bankruptcy trustee) and see id. at 639 (a bona fide purchaser who recorded his transfer of a title in the PTO will defeat the interests of a secured party who did not file notice of its security interest with the PTO).

\(^{56}\) Id.

flows from section 1060 of the Lanham act which provides for a three month grace period for filings of assignments of trademarks with the PTO.\textsuperscript{58} Thus a creditor who made an appropriate search in the PTO records to ascertain the ownership rights of his prospective borrower to a trademark can not fully rely on that record. That is because a prior buyer of a trademark can file his assignment with a three month delay and still have a prior right to the creditor.\textsuperscript{59} The creditors then have a choice between waiting three months after the search to make sure that there are no prior purchasers or refuse to make any loans secured by trademarks. Consequently, the creditors are left in a world where statutes do not give them reliable rules on gaining priority over a bona fide purchaser for value. Additionally, there is no reliable judicial guidance. No trademark case law discusses the priority between bona fide purchasers and secured parties (creditors). The patent case law offers some ambiguous guidance as to this competition, but is by no means conclusive. All the creditors can do in such situations is to file and search in as many places as possible and still be in doubt.

\textbf{B. Expense}

The need to file and search in two systems means that twice as much work is required to complete a single financing transaction. Additionally, lenders are extra cautious about relying on intellectual property as collateral owing to the uncertain determination of priorities.\textsuperscript{60} To gain

\begin{flushright}
(2001) (“[… ] a typical secured party will not take priority over a prior assignee who does not record within [the three months period].”).
\end{flushright}

\textsuperscript{58} \textit{See} 15 U.S.C. 1060(4) (“An assignment shall be void against any subsequent purchaser for valuable consideration without notice, unless the prescribed information reporting the assignment is recorded in the United States Patent and Trademark Office within three months after the date of the assignment or prior to the subsequent purchase.”)

\textsuperscript{59} Id.

\textsuperscript{60} \textit{See} Shawn K. Baldwin, \textit{“To Promote the Progress of Science and Useful Arts”: A Role For Federal Regulation of Intellectual Property as Collateral}, 143 U. Pa. L. Rev. 1701, 1701-1702 ( Lenders, trying
some certainty in those transactions, they usually obtain expensive legal advice in the form of opinion letters. These letters detail all steps necessary for the proper perfection of the security interest, and the protection of the lender’s priority over others’ claims to the collateral. Consequently, the dual filing system, coupled with the lenders’ attempts to insulate themselves from the risks associated with taking intellectual property as collateral, considerably increases the costs of financing transactions. The higher costs and loan interest rates are ultimately carried by the borrowing owners. Therefore, the owners cannot get the full benefit of their intellectual property’s value, because its true value can not be easily and efficiently extracted for use as ongoing working capital, either in a startup or acquisition, or for any other business purpose.

The need for filing in two systems also increases the chance that the necessary filing will never occur. One reason is that creditors mistake the PTO filing for perfection. Another could be that creditors and debtors simply do not know about the existence of both systems or how the systems work. It might seem that such a mistake would not happen to banks who know the system and have lawyers to ensure their legal filings compliance; whereas, one might anticipate that small businesses and individuals are at much higher risk of compliance error or oversight.

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61 See Alice Haemmerli, *Insecurity Interests: Where Intellectual Property and Commercial Law Collide*, 96 Colum. L. Rev. 1645, 1649. (“When a client extends a multimillion dollar loan, one of the most important closing documents […] is an opinion from counsel assuring that it that if it takes certain steps, its security interest will be properly perfected and will have priority over others’ claims”). The author notes in a footnote that her opinion letters speak about perfection, “but stop short of opining on priority.”

62 Id. at 1649. (The intellectual property has grown in importance as an asset that can secure a loan needed for a business to grow. But “the law that regulates them has become increasingly uncertain, thereby increasing the costs associated with these transactions.”)

However, my empirical study shows that this is not the case. A great majority of unperfected creditors are banks\textsuperscript{64} (25 out of 37 failures).\textsuperscript{65} They record their security interest with the PTO and fail to file with the state UCC system. Accordingly, perfection does not occur and they are left with an unperfected security interest.

### III. The trademark system produces thousands of double filings a year, and a substantial number of errors.

I conducted an empirical study of security interest filings in trademarks. The main objective of the study was to see how many times creditors filed the security interests with the PTO and how many times they failed to record the security interests with the state UCC system. I found that the creditors made 4,790 filings in PTO and 15\% of them failed to record their security interests with the state UCC system. This means that 15\% of creditors fell into the trap created by the existence of the multiple filing systems.

#### A. Methodology

##### 1. Sample Selection

I conducted the empirical study in January 2008 and I studied trademarks first registered with the PTO in 2006. I had two reasons for choosing year 2006 for the study. The first reason is that a study of trademarks recorded in years preceding 2006 would have been a study of an old state of affairs. The second one is that a study of trademarks recorded in year 2007 would have caused problems of data unavailability. The data would have been unavailable due to the PTO’s

\textsuperscript{64} I classified a lender as a bank if it had a word “bank” in its name.

\textsuperscript{65} See Appendix 2. (Contains a list of banks which filed their security interests in the PTO, but did not file in the state UCC records.)
and the UCC’s delays in processing of filings already submitted by creditors. The delays could have been as long as two months for PTO filings. Additionally, trademarks registered in the second half of the 2007 would be too “young” to be already encumbered. The most typical time distance between when a trademark owner registers and borrows against his trademark is between twelve and sixteen months. So the study conducted in January 2008 on trademarks registered in 2007 would not uncover all of the security interests that are typically created.

A search in the Lexis Nexis database returned 4790 trademarks registered in year 2006 in which creditors recorded security interests with the PTO by January 2008. I divided the year into two parts to collect all the relevant records, because the Lexis Nexis database is only capable of retrieving up to three thousand records per search. I found 2970 trademarks with security interests recorded from January 1, 2006 to June 30, 2006 and 1820 trademarks with security interests recorded from July 1, 2006 to December 31, 2006. Thus my search produced two

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66 See Lynn M. LoPucki, Elizabeth Warren, Secured Credit, A System Approach, 277 (5th edition 2006) (“Filing offices traditionally have been one or two weeks behind in indexing new filings and in extreme cases have been more than four months behind.”); for example the Texas Secretary of the State website states that delays should be expected due to an action of removing social security numbers for financing statements. The information is available on the website of the Texas UCC office available as of March 27, 2008 at http://209.85.173.104/search?q=cache:4qp_kQWwD9oJ:https://direct.sos.state.tx.us/+delays+in+ucc+filings&hl=en&ct=clnk&cd=2&gl=us.

67 See William J. Murphy, Proposal for a Centralized and Integrated Registry for Security Interests in Intellectual Property, 41 IDEA: 551, 555 (2002). (“The "office delay" which occurs between receipt of a recordable document and its availability to the searcher may be as much as two months”). According to PTO website at http://www.PTO.gov/web/trademarks/workflow/assign.htm the office accepts filings by fax, by online filing system or mail. Documentation sent by mail would be the main area of concern.

68 See the Appendix 1. (The graph shows that the most security interests in trademarks are created after about twelve to sixteen months from the trademark registration. The number of security interests created in first 6 months after the trademark registration is considerably smaller. Thus all the trademarks registered in second half of year 2007 would have had only less than six months to be encumbered. Consequently the study would not uncover all the security interests typically created.)

69 Section “Federal Trademarks” contains information about federal trademarks recorded by PTO and licensed to Lexis Nexis through CT Corsearch. Each document contains information on trademark name, status, registration, goods and services, current and prior owners, and current and prior assignment records.

70 I used the following search term: ASSIGNMENT (security w/2 interest) and restricted search by date to retrieve only trademarks registered in first part and then second part of 2006.
result lists. The fact that the number of trademarks encumbered with a security interest is considerably larger in the first part of the 2006 is most likely caused by the fact that the typical time between the time of trademarks registration and encumbrance is twelve to sixteen months.\textsuperscript{71} Thus a trademark that was registered for example in January of 2006 was most likely encumbered between January and April of 2007. Since I collected data up to January 2008 I would have discovered such a security interest. But a trademark that was registered in the second part of 2006 would have reached its typical time of encumbrance by the end of year 2007 or in 2008. That coupled with as much as a two month delay\textsuperscript{72} between the filing of a security interest and its availability to the searcher is the most likely the reason for finding a much larger number of security interest recordings in the first half of 2006 than in the second part of the year.

I decided to study approximately 5\% of the universe of trademarks with security interests. This resulted in the study of 250 trademarks. I chose this sample size because it is sufficient to reach the objective of this study, despite the fact that it might seem very small. The study of 250 trademarks allows one to say, with up to 95\% of confidence, that the margin of error in the estimate resulting from the study is not greater than +/- 4.4\%. This is in accordance with the basic principle of statistics that the bigger the sample in relation to the universe the more precise result the study will render.\textsuperscript{73} A study of a smaller group of trademarks would increase the margin of error, but study of 500 trademarks would only lower the margin of error by about 1\%. Such an insignificant improvement in the approximation achieved by doubling the size of a

\textsuperscript{71} \textit{See} text accompanying note 65.

\textsuperscript{72} \textit{See} William J. Murphy, \textit{Proposal for a Centralized and Integrated Registry for Security Interests in Intellectual Property}, 41 IDEA: 551, 555 (2002). (“The "office delay" which occurs between receipt of a recordable document and its availability to the searcher may be as much as two months”).

\textsuperscript{73} Earl Babbie, \textit{The Practice of Social Research}, 189 (5th ed. 1989) (“[…] a large sample produces samples with smaller sampling error than a small sample.”).
sample and considerations of resources available for the study did not warrant the study of a larger sample. A sample size of 250 trademarks was sufficient to reach a desired approximation.

I drew my study sample of 250 out of the universe of 4790 trademarks using an online randomizer.\(^{74}\) The randomizer produced one set of 150 unique numbers for a range of 1 to 2970 and one set of 100 numbers for a range of 1 to 1820. Consequently the sample contained 5% of trademarks with security interests recorded in each part of 2006. I included in the random sample each trademark that was positioned on each of the two Lexis Nexis result lists under each random number.

**TABLE 1.**
Proportional distribution of a random sample among all trademarks with security interests recorded in year 2006

<table>
<thead>
<tr>
<th></th>
<th>Jan 1-June 30, 2006</th>
<th>July 1-Dec 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>All trademarks</td>
<td>2970</td>
<td>1820</td>
</tr>
<tr>
<td>Trademarks in the random sample</td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>Percentage sampled</td>
<td>5.05%</td>
<td>5.49%</td>
</tr>
</tbody>
</table>

Although I studied 250 trademarks, my findings are based on 247 of them. I included the 247 trademarks into my study, because they are owned by entities organized under the state law of one of the fifty U.S. states. The proper place for filing of security interests against those entities are UCC records of a state under the law of which the entity was organized.\(^{75}\) I had easy access to the state UCC records of all fifty states. I excluded three trademarks because they are owned by entities organized outside of the United States. According to the

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\(^{74}\) The randomizer can be found at http://www.randomizer.org/form.htm

\(^{75}\) See UCC § 9-301 in connection with 9-307(e) (2000). (“A registered organization that is organized under the law of a State is located in that state.”)
UCC Article 9 rules, the proper place for the perfection of security interests against non-U.S. entities depends on information unavailable to me about the owner of the trademark and the law of the jurisdiction under which it is organized.\(^7^6\) Depending on factual determinations, the proper place to record a security interest against a non-U.S. entity could be the UCC records of the District of Columbia, foreign records, or the state UCC records of a state in which its chief executive office is located.\(^7^7\) To avoid any mistakes arising out of a lack of information and the application of the complicated rules governing the determination of a proper place for filing in case of non-U.S. entities, I considered that data to be missing for these three trademarks.

2. Research design

The two purposes of the empirical study I conducted were to determine the number of security interest filings in the PTO database and compare security interest filings contained in the PTO and the state UCC records.

I used the Lexis Nexis database to obtain data about security interests in trademarks issued by the PTO. For each trademark, which fell into the random sample, I obtained a

\(^7^6\) See UCC § 9-301 in connection with 9-307(c) (2000). A determination of the proper place for the perfection of security interests, when the debtor is a non-U.S. entity, depends on the character of the filing system for security interests in the jurisdiction under the law of which the entity is organized, or on the determination of the entity’s chief executive office location. I did not have easy access to this information.

\(^7^7\) See UCC § 9-301 in connection with 9-307(c) (2000). (In cases where the debtor is a non-U.S. entity located only in a jurisdiction, which does not maintain a system of perfection of security interests similar to the UCC system, a security interest against such a debtor shall be filed in District of Columbia); See also UCC 9-307(c) and cmt. 3 to UCC 9-307 (2000). (If the foreign debtor’s jurisdiction maintains a system similar in function to the UCC system, a security interest against such a debtor shall be filed in the foreign records); See also UCC 9-307(b), (c) and cmt. 3 to UCC 9-307 (2000) (If a foreign debtor maintains a place of business in the United States, then the UCC records of the state in which its place of business is located is the proper place of recording a security interest against such a debtor.) See also for broader discussion on the topic, Lorin Brennan, Financing Intellectual Property under Revised Article 9: National and International Conflicts, 23 Hastings Comm. & Ent. L.J. 313, 377 et seq. (2001).
document summarizing information (“Summary Document”) about existing security interests in this trademark, listing the name of an assignor (debtor) and an assignee (creditor) and indicating the state under which the trademark’s owner is organized. Then I used the Westlaw database to check if a financing statement is recorded against the same debtor and by the same creditor in the appropriate state UCC system. For that purpose, I searched the UCC records of a state under whose law the trademark’s owner was organized. One of the trademarks I studied is owned by an individual. In this case I searched the UCC records of a state of his/her principal residence.

I searched the UCC records by the debtor’s name, because the debtor’s name has always been and remains the primary way of searching for any claims of security interest on the property owned by that debtor. I did not look for an exact match of lenders’ names. I made the search using a search template which applies Westlaw search logic. I filled the search template with

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78 This database holds Uniform Commercial Code records from 50 states and District of Columbia. The information contained in this database usually includes debtor names and addresses, filing number, date of filing, secured parties and assignees, status and filing location. Selected records may also contain collateral information, filing history and tax liens. This database is typically used to determine whether a business has outstanding indebtedness, identify and/or confirm financial relationships and to determine the type and extent of collateral used to secure the indebtedness. The ultimate sources for this information are the respective Secretary of State or county-level filing offices.

79 See UCC 9-301 (1) in connection with UCC 9-307(e) (2000). (The law of a state in which a debtor is located governs perfection. “A registered organization that is organized under the law of a State is located in that State”).

80 See UCC 9-301 (1) in connection with UCC 9-307(b)(1) (2000). (The law of a state in which a debtor is located governs perfection. “A debtor who is an individual is located at the individual’s principal residence.”).

81 UCC 9-519(c)(1) (2000) provides that the filing office shall index the initial financing statement according to the name of the debtor; See also Amelia H. Boss, Intellectual Property as Collateral: The Issues, C664 A.L.I.-A.B.A. 497,505 (1991).

82 Margit Livingston, A Rose by Any Other Name Would Smell as Sweet (Or Would It?): Filing and Searching in Article 9’s Public Records, 2007 B.Y.U. L. REV. 111, 118 (2007). (searches in the UCC records are conducted by a debtor’s name.).

83 The Westlaw search logic is the same for all states and does not depend on search logics used by various states’ UCC offices. The UCC records on Westlaw can be searched by a debtor’s name using a search template. Entering the name Acme will return all debtors whose name contains the word Acme. The amount of records retrieved can be limited by use of quotations marks if a debtor’s name consists of two or more words.
the debtor’s name which I knew from my previous search in the PTO records. If the debtor’s
name consisted of more than one word, I used only the most characteristic part of it to retrieve
the most records and exclude any possibility of missing a financing statement. After finding a
UCC financing statement for the same parties as parties listed in the PTO records I applied a
timing rule to determine if the filing was a match.

The timing rule says that a security interest is perfected when a financing statement is
recorded in the state UCC records within six months of signing by the parties of a security
agreement creating the security interest. The date used for this determination is the date of
signing of a security agreement as specified in the PTO records. The purpose of this six months
time frame is to account for the possibility of any time variations in filings caused by two main
factors. The first factor is a creditor’s right to file a financing statement in the UCC records even
“before a security agreement is made or a security interest otherwise attaches.”\(^{84}\) The second is a
three month grace period for filing of assignments provided for in the Lanham Act.\(^ {85}\) According
to the section 1060 of the Lanham Act, an assignment recorded with the PTO within the first
three months is effective from the date of it being made and overcomes a defense of a bona fide
purchaser for value. Some creditors might erroneously interpret that as a grace period that
applies also to the filings of security interests in trademarks with the state UCC system and make
their filing with up to three month delay. Thus I accepted the above timing rule to avoid the

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Use of “Acme Supply” will retrieve only the debtors whose name contains the whole term. One can also use the
typical Westlaw terms and connectors to obtain more precise search results.

\(^{84}\) See UCC 9-502(d) (2000) (“A financing statement may be filed before a security agreement is
made or a security interest otherwise attaches.”).

\(^{85}\) See 15 U.S.C.A. § 1060. (“Assignment shall be void […], unless the prescribed information […]
is recorded in the United States Patent and Trademark Office within three months after the date of the
assignment.”).
possibility of overlooking any financing statements filed before or after the date of signing of a security agreement in which a debtor pleaded his trademark as collateral.

I omitted analysis of collateral description from my study even though the general rule of Article 9 says that a financing statement’s sufficiency depends, among other things, on containing a collateral description. This departure from the general requirements of Article 9 can be explained by the following reasons. First, the search of the state UCC records through the Westlaw database was only a search of the UCC index. I did not retrieve copies of actual financing statements and so I did not see the actual description given by the parties on an original filing. Instead of seeing a copy of a financing statement, I could see a Westlaw search result webpage listing the information about parties, but very often omitting the collateral description. A description of the contents of the Westlaw database confirms this situation by informing one that only selected records contain a description of collateral. So using these data was impractical. Secondly, as I searched specific trademarks I found collateral descriptions that would not satisfy the UCC requirements for a collateral description if placed on a financing statement. Finally it is generally accepted that "[t]he purpose of the financing statement is simply to give notice to the world that designated parties have entered into a secured transaction covering described collateral. The details must be learned from the parties." For all these

86 See UCC 9-502(a)(3) (2000) ("[…] financing statement is sufficient only if it [… ] indicates the collateral covered by the financing statement.").
87 See infra. text accompanying note 75.
88 I found the following descriptions on the Westlaw webpage: “unspecified”, “right title and interest including proceeds and products”, “all fixtures”. Each of these descriptions, if contained on the original documents, would render the financing statement invalid for failure to comply with UCC requirement.
reasons a description of collateral did not play any role in the study of assessing whether the security interest in a trademark was perfected or not.

Approximately 13%\textsuperscript{90} of trademarks I studied had multiple security interests recorded with the PTO. I confined the search of the state UCC records to the security interests which were created by the earliest of the security agreements. But, for the majority of these trademarks with multiple security interests, all security interests were created on the same date. In such cases, I searched the state UCC records for a security interest which appeared first on the PTO summary document.

I considered a security interest in a trademark as not perfected in two situations: (1) Where the search of UCC financing statements through Westlaw returns no records for a party indicated as assignor in the PTO database; (2) Where the search of UCC financing statements through Westlaw returns records filed against a party indicated as assignor in the PTO database, but none of these financing statements were filed within a six months time frame from the signing of a security agreement by a party indicated as an assignee in the PTO database.

\section*{B. Findings}

\subsection*{1. Thousands of double filings of security interests in trademarks.}

The empirical study of all trademarks issued by the PTO in 2006 revealed 4,790 records of security interests in trademarks filed with that office. Most of those filings (4,024) were made in addition to the filing of the financing statements with the state UCC records. Thus over four thousand people made dual filings only in 2006. Each filer incurred twice the cost of a single filing system. The increased expenditure stems not only from payment of filing fees twice, but

\footnote{Among the 250 studied trademarks 33 have multiple security interests recorded. 13\% was calculated as follows: 33/250=0.132}
more importantly, from twice performing very expensive and time consuming searches. In addition, the higher costs result from employing very expensive counsel to give opinion letters about the priorities of filings made in two different systems, and the forms that a debt financing transaction should take.

2. **Substantial number of unperfected security interests in trademarks.**

The study of 250 trademarks randomly selected from the group of 4,790 trademark security interests found in the PTO records reveals that in 37 instances a security interest in a trademark, although recorded with the PTO, was not perfected by the filing of a financing statement with the state UCC records. Projecting to the whole year 2006, there were 709 security interests in trademarks recorded only with the PTO with no corresponding filing in the state UCC records. Consequently 709 security interests were unperfected. In other words, 15% of creditors were and are unsecured.

I used a probability theory to determine the upper- and lower-bounds of the above estimate, and a level of confidence in the estimate. My findings show I can be at best 95% confident that, if I took another sample from the population, the percentage of security interests filed with the PTO and not filed with the state UCC system would be between 10.4% and 19.2%. That means that the number of security interests in trademarks not filed with the state UCC

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92 Number calculated as follows: 15% * 4790 trademarks = 709 trademarks

93 All calculations were made by Joseph W. Doherty, Ph.D., Director of Empirical Research Group at UCLA School of Law.
system would be between 498 and 920. In effect, all those creditors hold only unperfected security interests.

### TABLE 2.
**Proportion of PTO security interest filings not also filed in UCC (2006 data)**

<table>
<thead>
<tr>
<th></th>
<th>PTO filings with security interests</th>
<th>PTO filings with security interests also in UCC</th>
<th>PTO filings with security interest not filed with UCC</th>
<th>Percent not filed in UCC</th>
<th>UCC data unavailable-TM owner outside U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Trademarks*</td>
<td><strong>4,790</strong></td>
<td>4,024</td>
<td>709</td>
<td>15%</td>
<td>57</td>
</tr>
<tr>
<td>Random sample</td>
<td>250</td>
<td>210</td>
<td>37</td>
<td>15%</td>
<td>3</td>
</tr>
<tr>
<td>Percent sampled</td>
<td>5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Figures for “All Trademarks” other than PTO filings with security interests are calculated from the random sample with 95% confidence that the margin of error is not more than +/- 4.4%.

Amazingly, there are many banks among the creditors who failed to perfect. One would think that having a lot of experience and resources they would master even the most complicated system. But the findings undermine this logic. Out of 37 instances where a security interest was

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94 Here is the step-by-step calculation process: The size of a whole population is 4790 trademarks, the sample tested contains 250 randomly selected trademarks. The number of trademarks for which a security interest was not filed with the UCC was 37. That means that the proportion of the security interests not filed with UCC is 14.8% (.148). To find out the confidence interval of the proportion one has to use the following formula of the confidence interval \[.148 +/- 1.96 \times \sqrt{p(1-p)/n}\]. The elements of this formula can be explained by the following: 1.96 is “z-score” for 95% confidence interval, “p” is a proportion of the security interests not filed with the UCC to the ones filed with the UCC and equals .148, “n” is a sample size, here 250. The calculations performed are shown next. \[1.96 \times \sqrt{(.148* .852)/250} = 1.96 \times \sqrt{.126/250} = 1.96 \times \sqrt{.0005} = 1.96 \times .022 = .044\]. The result means that the confidence interval of the proportion is +/- 4.4%. So the proportion of the security interests not filed with the UCC is 14.8% +/- 4.4% that means it is between 10.4% and 19.2%; Extrapolating to the universe, that means to the population size of 4790 trademarks, the estimated number of security interests not filed with UCC can be calculated by the following: 4790*.104 and 4790*.192; Which results in the ability to say, with up to 95% of confidence, that the number of security interests not filed with the UCC would be between 498 and 920.

95 To determine that a specific secured party is a bank I used a list of 50 largest banks and savings institutions in the United States ranked by total deposits in thousands of dollars available online as of April 19, 2008 at http://nyjobsource.com/banks.html. In case I did not find a specific secured party on this list, I considered it a bank if it had the word “bank” in its name.
not perfected, 25 were missed by banks, including some of the largest banks\(^{96}\) in the United States, 9 by non-bank entities and one by an individual.\(^{97}\)

The 15% of creditors who failed to perfect their security interests lost their status as secured creditors. The failure to perfect left creditors unsecured.\(^{98}\) Unsecured creditors cannot collect from collateral. Instead they have to go through a lengthy judicial process in order to have the right to reach any of the debtor’s property and face many limitations on compelling a payment.\(^{99}\) Consequently, they may not be able to collect the debt owing to them. If the system were simpler, they would most likely have perfected their security interests, and accordingly could have relied on the trademark collateral to recover the debt owing.


\(^{97}\) See Appendix 2. (The table contains list of secured parties who did not make a filing in the State UCC system.).

\(^{98}\) See Trimarchi v. Together Development Corporation, (In re Trimarchi), 255 B.R. 606 (D. Mass. 2000). (In this case the court held that security interest may not be perfected solely by the filing of a financing statement with PTO and therefore was unperfected. Subsequently, the court ordered the sale of the collateral - trademark.).

\(^{99}\) See Lynn M. LoPucki, Elizabeth Warren, Secured Credit, A System Approach, 13-14 (5th edition 2006). (describing the challenges an unsecured creditor faces while attempting to collect. Some of the described challenges are: difficulty in obtaining information about the location of a debtor and debtor’s assets, inability to use self help repossession of discovered assets, the possibility that a debtor facing a levy from an unsecured creditor will use his assets to pay debts owing to other creditors and therefore dispose of all the assets available for levy, and the existence of state provisions exempting certain property from execution under the writ).
IV. Proposal for eliminating dual filings

It has been long recognized that some legislative change is urgently needed in the law regulating security interests in intellectual property.\(^\text{100}\) The courts fell short of proposing any radical changes resulting in certainty. The judges usually pronounce that it is not for them to change the statute. They only interpret what is already in it and any meaningful change has to come from Congress.\(^\text{101}\)

A. Summary of prior reform proposals

The reform proposals offered so far can be put into two main categories. These are a mixed approach and a wholly federal approach.\(^\text{102}\) The advocates of the mixed approach\(^\text{103}\) propose a system which, in essence, is a refinement of the currently existing double filing system. The most comprehensive reform proposal for the mixed approach offered to date is The

\(^{100}\) See Alice Haemmerli, Insecurity Interests: Where Intellectual Property and Commercial Law Collide, 96 Colum. L. Rev. 1645, 1722; (the article concludes that legislative reform is needed); See also 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, 93-94 (1990-1991) (“For nearly ten years, calls for reform have emanated from many quarters.”); See Shawn K. Baldwin, “To Promote the Progress of Science and Useful Arts”: A Role For Federal Regulation of Intellectual Property as Collateral, 143 U. Pa. L. Rev. 1701, 1737 (“The time has come for enactment of a specific set of federal laws to conclusively determine the rights of parties wishing to employ intellectual property in financing transactions.”).

\(^{101}\) See e.g., In re Cybernetic Services, 252 F.3d 1039, 1055. (“It may be, […] that a national system of filing security interests is more efficient and effective than a state-by-state system. However, there is no statutory hook upon which to hang the […] policy arguments”.)

\(^{102}\) See Shawn K. Baldwin, “To Promote the Progress of Science and Useful Arts”: A Role For Federal Regulation of Intellectual Property as Collateral, 143 U. Pa. L. Rev. 1701, note 102 (1995) (“a wholly state approach based on the UCC might be considered. Such an approach, however, has been uniformly rejected as unpractical […]”).

\(^{103}\) See Permanent Editorial Bd. For the Uniform Commercial Code, Report of The Article 9 Study Committee (1992) (proposes a mixed system with a federal tract and notice system); The Federal Intellectual Property Security Act (FIPSA), (proposes a mixed approach adding a federal notice filing system); Harold R. Weinberg and William J. Woodward, Jr., Easing Transfer and Security Interest Transactions in Intellectual Property: An Agenda for Reform 79 Ky. L.J. 61, 93-94 (1990-1991) (The authors proposed enactment of a new Federal Art 9 and creation of a new federal office with a UCC type filing system and filings indexed by debtor’s name. The new Federal Article 9 would control security interests and filings and The Lanham act would control transfers of title to trademarks.)
Federal Intellectual Property Security Act (FIPSA).\textsuperscript{104} This proposal is representative of all other mixed approach proposals, thus it will be considered in some detail below. Under FIPSA’s mixed approach, financing statements would be filed in the state UCC records.\textsuperscript{105} The UCC should also govern priority, the competition among various creditors, and enforcement.\textsuperscript{106} Such filings would create priority against lien creditors and secured creditors except for subsequent purchasers for value.\textsuperscript{107} To get priority against subsequent purchasers for value, a creditor would have to file a notice of his security interest, in the form of a new “federal financing statement”\textsuperscript{108} in the PTO. The financing statement would be filed and indexed under the debtor’s name rather than according to a description of collateral.\textsuperscript{109} Such a reform would require the creation of a federal notice filing system since currently trademarks are indexed by their unique registration

\textsuperscript{104} The act was prepared by the Task Force on Security Interests in Intellectual Property, Business Law Section, American Bar Association. Text of this proposal is available at http://www.abanet.org/intelprop/106legis/fipsa.html (visited April 25, 2008). The Act proposes a reform for all types of intellectual property rights. I will focus only on the parts that pertain to trademarks.

\textsuperscript{105} See FIPSA Section 3(b)(2)(A) available at http://www.abanet.org/intelprop/106legis/fipsa.html (visited April 25, 2008) (“The creation, attachment, perfection, priority and enforcement of a security interest in a Federal Intellectual Property Right or in the proceeds thereof relative to all competing rights, claims, and interests therein and licenses thereof shall be determined by applicable non-federal law governing security interests in personal property, except as provided in subsection (b)(2)(B).”);

\textsuperscript{106} Id.

\textsuperscript{107} See FIPSA Section 3(b)(2)(A) available at http://www.abanet.org/intelprop/106legis/fipsa.html (visited April 25, 2008) (“A security interest in a Federal Intellectual Property Right is ineffective against a transferee of the Federal Intellectual Property Right or in the proceeds thereof relative to all competing rights, claims, and interests therein and licenses thereof shall be determined by applicable non-federal law governing security interests in personal property, except as provided in subsection (b)(2)(B).”);

\textsuperscript{108} See FIPSA definition of a federal financing statement in Section 3(a) (“A federal financing statement means a notice of a security interest which complies with the requirements of \(3(b)(3)\) of this Act. Unless the context otherwise requires, the term “federal financing statement” includes the original federal financing statement and any filed amendments, continuations and assignments.”).

\textsuperscript{109} See FIPSA section 3(b) (4)(A)(i) “The appropriate Federal office shall index the federal financing statement \textit{according to the name of the debtor} and shall note in the index the file number and the name and address of the debtor and the secured party given in the statement.”
numbers. An idea for how to build such a system was described recently by a commentator who proposed the creation of “a separate federally-managed database.” The database would be accessible to all the states. States would copy the financing statements they receive from creditors and send them to the new system. The same could be achieved by an electronic combination of all state indexes into a national “meta-site” that could be “accessed by key strokes or clicks from within the federal title records”\footnote{See Thomas M. Ward, Perfection and Priority Rules for Security Interests in Copyrights, Patents and Trademarks: The Current Structural Dissonance and Proposed Legislative Cures, 53 Me. L. Rev. 391, 460 (2001)} for intellectual property. The proposed mixed filing system can be criticized on a few levels. The transformation into a federal notice filing system would be a step backwards, from the certainty of identifying trademark collateral by a unique number, towards the highly uncertain and troublesome system of searching and indexing of filings by the debtor’s name.\footnote{Margit Livingston, A Rose by Any Other Name Would Smell as Sweet (Or Would It?): Filing and Searching in Article 9’s Public Records, 2007 B.Y.U. L. REV. 111, 118 (2007). (Searches in the UCC records conducted by a debtor’s name cause countless problems of uncertainty).} Additionally, under this mixed proposal, the perfection of a security interest is accomplished solely by a UCC filing and the filing in the PTO acts as a mere notice of the security interest’s existence.\footnote{See FIPSA Section 3(b)(2)(A). Supra note 104.} The lack of filing in the PTO will not prevent perfection, but a secured party would lose his rights in the collateral as a result of a subsequent sale or assignment of collateral. Thus, this mixed approach does not improve the current system because its’ main problem, that a creditor is required to make two separate filings and is still in danger of losing his rights if he fails to make any of the filings, remains present.

stating that the Lanham act should be amended and the new language should preempt the UCC as to perfection and priority of security interests in trademarks.\textsuperscript{114} Therefore, the filing of a security interest in the PTO would be effective and sufficient to perfect against all prospective competing creditors. This way the biggest problem of double filing systems would be resolved.

The wholly federal system was nevertheless criticized. The main point of criticism was that the federal filing system is a tract system\textsuperscript{115} which denies the ability of searching the PTO records by debtor’s name. Further, the federal system can be criticized for not addressing the troublesome three months grace period for the filing of assignments of trademarks.\textsuperscript{116} Below is a proposal that would eliminate the need for dual filing and address the main point of a criticism directed towards the wholly federal filing system.

\textbf{B. Require filing of registered trademark security interests in trademark office}


\textsuperscript{115} See Shawn K. Baldwin, \textit{“To Promote the Progress of Science and Useful Arts”: A Role For Federal Regulation of Intellectual Property as Collateral}, 143 U. Pa. L. Rev. 1701, 1735 (1995) (“The most substantial obstacle to reform is the current federal tract-filing system.”) The PTO filings are indexed by the registration number of the trademark.

\textsuperscript{116} Lorin Brennan, \textit{Financing Intellectual Property Under Federal Law: A National Imperative}, 23 Hastings Comm/Ent L.J. 195, 309 (2001) (one of the points of the author’s proposal is that the reformed system should “provide that any transfer is valid as against any subsequent transfer, unless it is recorded in the PTO within three months of its date of execution […].”).
1. **Elimination of a dual filing for trademarks**

In order to eliminate the existence of two filing systems, the Lanham act section 1060 should be amended. The amended version of the act should include wording clearly preempting Article 9 rules of perfection and priority. A new rule governing perfection should require that all interests affecting trademarks are to be recorded with the PTO. Additionally, the current three month grace period for the recording of a title transfer in a trademark would have to be considerably shortened, to a ten day period. Currently the Lanham act gives an assignee three months following the assignment to record the transfer. If he records the assignment within the three-month period, he will have a prior right over a security interest creditor. A lender contemplating securing a loan by a trademark has at least a three month waiting period before he can safely advance the money. Thus, the shortening of the current grace period into a ten day grace period would considerably increase certainty and commercial feasibility of trademark secured financing. Such a change would also permit the introduction of clear rules of priority among secured creditors, lien creditors and bona fide purchasers for value. The main priority rule should be: first in time to make a filing in the PTO records equals first in right to satisfaction from collateral. The reform should also employ a provision akin to UCC 9-317 to clarify the

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118 See 15 U.S.C. 1060 (“An assignment shall be void against any subsequent purchaser for valuable consideration without notice, unless the prescribed information reporting the assignment is recorded in the United States Patent and Trademark Office within three months after the date of the assignment or prior to the subsequent purchase.”)

119 See Harold R. Weinberg & William J. Woodward, Jr., [*Easing Transfer and Security Interest Transactions in Intellectual Property: An Agenda for Reform*](https://financingintellectualproperty.org/), 79 Ky. L.J. 61, 86 (1990-1991) (“More generally, under the federal system, the earliest the secured party can safely advance funds to the debtor is following a search at the close of business ninety days after her filing which shows that her filing has first priority.”).
possible competition between secured creditors, lien creditors and bona fide purchasers or licensees. According to such a rule, a bona fide purchaser or licensee would take a trademark free of a security interest if he paid value without knowledge of the security interest and before it has been recorded in the PTO. \[^{120}\] Additionally, a person who becomes a lien creditor before a security interest is perfected will have a priority over such a security interest. \[^{121}\] These changes would result in the creation of one filing system which would increase certainty and remove the likelihood of filing in the wrong place. Errors would be less likely because all interests affecting trademarks would be filed and searched in one system and the priority rules among all filings would be subject to one legal framework. Such a system could be considered as fulfilling the Judge Kozinski’s requirements of oneness and precision mentioned at the beginning of this paper. \[^{122}\]

Some additional considerations also suggest that the federal system would be best suited for handling all the filings relating to trademarks. First, the trademark office of the PTO already has capabilities for handling the filings of security interests in trademarks. The best proof of that is the fact that it already accepts them. \[^{123}\] Second, each trademark which is registered in the PTO obtains a unique registration number, by which it can be searched. Searches by the registration number or trademark’s name would eliminate the highly uncertain and troublesome system of searching by the debtor’s name currently existing in the UCC system. In fact, the debtor’s name was adopted as the best way information could be stored and searched for concerning types of

\[^{120}\] Similar to the UCC §9-317(d) (2000).

\[^{121}\] Similar to the UCC §9-317(a)(2)(A) (2000).

\[^{122}\] See In re Peregrine Entertainment, Ltd. 116 B.R. 194, 201 (C.D.Cal.,1990)

\[^{123}\] See cover sheet form available on the United States Patent and Trademark Office’s website as of March 27, 2008 at http://www.uspto.gov/web/forms/pto1594.pdf and at http://etas.uspto.gov/etas/t.jsp. The forms contain terms “security agreement”, “security interest” on a list of conveyances that can be recorded with the PTO.
collateral that do not have a unique identifier.\textsuperscript{124} Trademarks do not fall within that group. Each trademark has a unique number and it should be utilized for purposes of simplifying searches. Additionally, the Trademark Electronic Search System, a search system available on the PTO website accessible to the public and free of charge, is capable of searching the PTO database using the trademark’s name, trademark owner’s name (which is akin to a search by debtor’s name) and many other categories.\textsuperscript{125} Consequently, recording of all the filings in this one office would be not only easier for filers but would also ease the search process for searchers.

2. \textit{Requiring a dual filing for security interest in business plus trademark}

For now, parties who chose to secure a loan with both the trademark and a security interest in the business will have to make two filings. That is due to the Lanham act’s anti assignment in gross rule. The rule prohibits the assignment of trademarks without the underlying goodwill of the business in which it is used.\textsuperscript{126} Such a limitation of assignments of trademarks is based on the principle that a specific trademark is a means of distinguishing the goods of one business from the goods of another in consumers’ eyes. Therefore, the prohibition of separating a trademark and the business associated with it was meant to prevent consumer deception. Such a deception is believed to result from a change in the quality of the goods consumers associate

\textsuperscript{124} See Lynn M. LoPucki, Elizabeth Warren, \textit{Secured Credit, A System Approach}, 290-305 and 410 (5\textsuperscript{th} edition 2006).

\textsuperscript{125} See the Trademark Electronic Search System (TESS) available as of March 27, 2008 at http://tess2.uspto.gov/bin/gate.exe?f=tess&state=kbh2ok.1.1 and click on the Free Form Search (Advanced Search) tab.

\textsuperscript{126} See 15 U.S.C. §1060(1) (“A registered mark or a mark for which an application to register has been filed shall be assignable with the good will of the business in which the mark is used, or with that part of the good will of the business connected with the use of and symbolized by the mark.”).
with that trademark after it is sold. Consequently, many commentators conclude that while the taking of a security interest in a trademark standing alone is possible, it is not advisable, because the transfer of a trademark without a business to the creditor upon the debtor’s default can be invalidated as an assignment in gross.

Accordingly, under the proposed reform, two filings would be needed in case the security interest is in a trademark and in the underlying business. One would be in the PTO for the trademark itself. The second would be in the state UCC to perfect the security interest in the equipment, inventory, accounts and other typical property of a business. Having said that, it appears likely that the assignment in gross prohibition, which causes the need for the two filings, will cease to exist in a near future.

It is worth noting here that the rule prohibiting assignments in gross is viewed by the majority of commentators as an archaic law and overtime it has become a pure formalism with no real application in practice. Thus commentators advocate for an amendment which would

\footnotesize{127 J.T. McCarthy, Trademarks and Unfair Competition §18.01(2), at 18-5.}


\footnotesize{129 See Marshak v. Green, 746 F. 2d 927 (the court held that it is improper for a court to permit the owner of an unsatisfied money judgment to obtain an attachment and sale of a trademark alone and without associated goodwill.)}

\footnotesize{130 See Susan Barbieri Montgomery & Richard J. Taylor, Key Issues, in Worldwide Trademark Transfers: Law and Practice 1, 34,( 5th ed.) (1998). (authors discuss several countries' requirements for trademark transfers and noting that "an ever decreasing minority of countries impose[s] some form of [the goodwill] requirement.") Id at 22(The authors also stated that trademarks should be assignable without any restrictions or formalities); 2 Stephen P. Ladas, Patents, Trademarks and Related Rights: National and International Protection § 617, at 1119 (1975) (stating that “in most of the world today trademarks may be assigned without the goodwill of a business”);}

\footnotesize{131 See 2 McCarthy, supra note 2, § 18:10 (observing that the prohibition of assignment in gross rule could be seen as “degenerating into a sterile formalism which only clumsily and indirectly tries to ensure continuity of the reality symbolized by the assigned mark”).}
allow free transferability of trademarks without goodwill. Such an idea was already adopted within the provisions of the NAFTA treaty affecting intellectual property. The requirements of the treaty to eliminate the prohibition of assignments in gross have not been yet implemented by Congress, but it is not unlikely that they will be, since most countries have already eliminated all restrictions on selling and buying trademarks without the goodwill of the underlying business. Supporters of the elimination of the assignment in gross prohibition argue that allowing naked assignments will encourage economic growth, by allowing businesses whose only asset is a trademark to obtain financing needed for the further growth. Moreover, they point out that even an assignment of the business with the trademark does not guarantee that the new owner will produce the same quality products as the previous owner. Thus, the

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132 See Irene Calboli, “Trademark Assignment 'With Goodwill': A Concept Whose Time Has Gone”. 57 Fla. L. Rev. 771, 833 (2005) (“[…] the most reasonable solution to restore consistency between Section 10 and its application seems to be to allow free trademark alienability by either erasing the wording ‘with goodwill’ from the provision, or by allowing assignment “with or without goodwill.”).

133 North American Free Trade Agreement, 32 I.L.M. 289 (1993) art. 1708:11 (“[a] Party may determine conditions on the […] assignment of trademarks it being understood that […] the owner of a registered trademark shall have the right to assign its trademark with or without the transfer of the business to which the trademark belongs.”)


136 See Allison Sell McDade, Trading in Trademarks- Why the Anti-Assignment in Gross Doctrine Should be Abolished When Trademarks Are Used As Collateral, 77 Tex. L. Rev. 465, 479 - 480 (1998) (the author describes how this ban on naked assignments can be a factor holding back economic growth for businesses that have nothing else than a trademark to secure a needed loan.); Irene Calboli, "Trademark Assignment 'With Goodwill': A Concept Whose Time Has Gone". 57 Fla. L. Rev. 771, 833 (.2005) (“Contrary to the general belief, this amendment [in the form of elimination of the assignment in gross prohibition] will not diminish but rather will foster consumer protection and likely increase competition in the marketplace.”).

137 See 2 Stephen P. Ladas, Patents, Trademarks and Related Rights: National and International Protection § 617, at 1118 (1975) (stating that transferring the goodwill of the business together with the
prohibition is out of touch with reality. Furthermore, the courts have already started moving towards relaxing the prohibition of naked assignments by allowing businesses to license the use of a trademark, which is basically allowing the use of a trademark by a different business than the owner’s and without the use of the owner’s good will. A clear example of this practice was Cherokee, Inc.’s strategy of changing from a company that manufactures goods bearing the Cherokee trademark to a company whose primary business is the marketing and licensing of this trademark to retailers for use on merchandise they sell, including the merchandise type which was previously manufactured by Cherokee, Inc. Another case when a trademark was separated from the goodwill of the business was Sara Lee’s sale of all its manufacturing operations and outsourcing the production of its products. Consequently, Sara Lee became a distributor of products bearing the trademark Sara Lee which were produced by businesses other than the trademark owner. Furthermore, trademarks are routinely sold without accompanying goodwill and courts not only refrain from invalidating such transfers, but order the transfers themselves. A trademark provides no assurance that the assignee will actually use “the trademark on goods having any continuing connection with the former business”).

138 See Lisa H. Johnston, Drifting Toward Trademark Rights in Gross, 85 Trademark Rep. 19, 25 (1995) (the author illustrates through four examples how trademark protection has drifted toward allowing trademark rights in gross; the four examples are: “(1) trademark licensing, with particular regard to promotional trademark licensing, (2) protection for trade dress absent a showing of secondary meaning, (3) protections for trademarks with secondary meaning in the making, and (4) dilution protection accorded by state statutes”).

139 Cherokee, Inc., Quarterly Report (Form 10-Q), at 12-13 (Aug. 30, 1996) (“Historically, the Company's principal business was manufacturing, importing and wholesaling casual apparel and footwear primarily under the Cherokee brand[…].” In May 1995, the Company set in motion a new strategy which resulted in the Company's principal business being a marketer and licensor of the Cherokee […]”, “current operating strategy emphasizes retail direct licensing whereby the Company grants retailers the license to use the Cherokee trademark on certain categories of merchandise, including those products that the Company previously manufactured.”).

140 See Lynn M. LoPucki, Virtual Judgment Proofing: A Rejoinder, 107 Yale L.J. 1413, 1434 (.1998), (“Sara Lee plans to outsource the manufacturing of its products and become merely a distributor. To accomplish that, the company is selling its manufacturing operations. […] Sara Lee's sole assets would then be the trademarks and contract rights.”).
good depiction of that can be found in the bankruptcy case *Trimarchi*, where the court ordered a sale of the trademark by itself as one of the debtor’s assets. Similarly, the bankruptcy court approved the sale of Pan Am’s trademarks to Eclipse Holdings, Inc. who made the purchase for purposes of using the Pan Am trademark in their communications business. Accordingly, the situations where a double filing is needed will tend to decrease in numbers and, after Congress bans the no assignment in gross rule, it will stop existing. For now, the parties who chose to secure a loan with both the trademark and the business will have to make two filings, but each filing will secure a different part of the collateral. The one in the UCC will perfect a security interest against the business and the one in the PTO will only pertain to the trademark. It seems that such a division is sensible and much more intuitive than the current system since the creditors have to deal with a similar division if, for example, the collateral is a business and a personal motor vehicle or an aircraft.

C. Continue filing of unregistered trademarks in UCC

Security interests in trademarks which have not been registered in the PTO would still be filed in the state UCC system. The reasoning behind this proposal is similar to the reasoning of

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141 *See Trimarchi v. Together Development Corp. (In re Trimarchi), 255 B.R. 606 (D. Mass. 2000).* (“Trimarchi objected to the sale of the Trademark, claiming that it was precluded by the earlier “assignment”. The Bankruptcy Court overruled the objection […]”).

142 *Company News: Pan Am’s name and logo are sold for $1.3 million, N.Y. Times, December 3, at D3.* (“A Federal Bankruptcy Judge in Manhattan approved yesterday a sale of Pan Am’s name and trademark logo for $1.3 million to Eclipse Holdings, Inc.[…]. The group, assembled specifically to buy Pan Am trademark […]”).

143 A security interest in a property that is normally among the assets of a business like equipment, accounts, and inventory will have to be perfected by a filing with the state UCC system: and a security interest in motor vehicles is generally perfected by an application with the DMV to place a lien notation within a state certificate of title system.

144 *See Federal Aviation Act 49 U.S.C. § 1403(a) (“The Secretary of Transportation shall establish and maintain a system for the recording of each and all of the following: (1) any conveyance which affects the title to, or any interest in, any civil aircraft of the United States; (2) Any lease, and any mortgage, equipment trust, contract for conditional sale, or other instrument executed for security purposes […]”).*
the court in a case dealing with unregistered copyright, *In re World Auxiliary Power*.\(^{145}\) The Lanham act should continue to govern only federally registered trademarks, just like the Copyright act governs only registered copyrights.\(^{146}\) This way the Lanham act will preempt the UCC entirely as to registered trademarks, leaving the unregistered ones under the scope of the UCC. The need for such a division can be explained by the fact that a trademark is primarily a common law right acquired through its use in commerce and protected under the common law.\(^{147}\) A federal registration of a trademark is voluntary and acts only as an enhancement of that right by affording it federal protection.\(^{148}\) In case the Lanham act was to preempt the UCC as to unregistered trademarks, registration would become a necessity before such a security interest in a trademark could be perfected. This is because an unregistered trademark does not have a PTO registration number; and therefore, the PTO does not have a “file” in which to place the information about a security in this unregistered trademark. Consequently, the PTO can not grant the force of constructive notice to such a filing of a security interest in an unregistered trademark. Thus, unregistered trademarks would become useless in secured transactions.\(^{149}\) Accordingly, because unregistered trademarks exist and have value regardless of registration, the

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145 *In re World Auxiliary Power*, 303 F. 3d 1120 (9th Cir. 2002).

146 *Id.* at 1132

147 See Alice Haemmerli, *Insecurity Interests: Where Intellectual Property and Commercial Law Collide*, 96 Colum. L. Rev. 1645, 1656 (describing the character of trademarks as rights acquired through and enhanced by voluntary federal registration.)

148 See 15 U.S.C. §1051(a) ("[t]he owner of a trademark used in commerce may apply to register his or her trademark under this chapter.") Permissive federal registration provides many advantages to the trademark owner, such as nationwide constructive notice of its ownership claim. See id. § 1072. Other advantages include prima facie evidence of the validity of the mark, of its registration, the registrant's ownership, and the registrant's exclusive right to use the mark. See id. §1057(b)).

149 This argument is based on the Judge Kleinfeld’s reasoning in *In re World Auxiliary Power* 303 F. 3d 1120 (9th Cir. 2002). (holding that the Copyright act preempts the UCC as to both registered and unregistered copyrights would make the registration of a copyright a necessary prerequisite to perfecting a security interest in copyrights. Such an approach would make unregistered copyrights practically useless as collateral.)
registration should not be prerequisite to the perfection of a security interest in them. Since without registration the trademark will not be governed by the Lanham Act and will not have the unique identification number, perfection should be made by the filing of a financing statement in the state UCC records under the name of the debtor.

D. System would work like copyright system

The proposed reform of the trademark law would result in a single filing system similar to the one which exists for copyrights after the landmark case, *In re Peregrine*. The proposed system though would have three advantages over the copyright system. The first advantage is the certainty created by the fact that the change would come about by legislative reform and not judicial interpretation which, although unlikely, could be overruled in its entirety or at least in part. Second, a plain reading of the Copyright act implies that it only contains rules of priority for bona fide purchasers. The court in *In re Peregrine* had to find some language in the statute that would also deal with a priority contest between a lien creditor and a secured creditor. With some hypothetical construction, the court found a federal priority rule that allowed a trustee (hypothetical lien creditor) to avoid a prior unrecorded transfer of a copyright. This is very often seen as the “weakest part of the Peregrine opinion.” The proposed reform described above does not suffer from such a weakness, because the priority rules between secured creditors and lien creditors would be explicitly addressed by a rule similar to the rule contained in the UCC.

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150 See *In re Peregrine Entertainment, Ltd.* 116 B.R. 194, 201 (C.D. Cal., 1990) (the court held that the language of the section 205(c) of the Copyright act warrants a full preemption of the UCC’s procedures of perfection and priority rules. The Copyright Office became the proper place to perfect security interests in copyrights.)


152 The proposed rule would adopt a priority canon of the UCC 9-317(a)(2)(A).
Finally, the reform would eliminate the three months’ grace period for the filing of a trademark transfer. That would add to the certainty of the system. The Copyright section 205(d) grace periods of one and two months were not eliminated by the decision in In re Peregrine, so from this standpoint, the proposed trademarks system would also introduce more certainty than we currently have in the copyright filing system.

**Conclusion**

This article has attempted to present some of the difficulties and inefficiencies that the currently existing system of multiple filing systems causes. The findings of the empirical study I conducted confirm that the system is failing its users. Creditors and their counsel attempt to minimize their risk by filing and searching in two systems, but even that does not guarantee that their right to a trademark will take priority over all others. Judicial attempts to eliminate such uncertainty and to clarify the rules of perfection of security interests in trademarks were also unsuccessful. Consequently, it seems that only legislative change can solve the dilemmas creditors are facing while lending against trademarks. This paper proposes an idea for a reform which could eliminate many of the currently existing problems of increased transaction costs and eliminate uncertainty as to how creditors’ security interests should be perfected. The proposal also addresses how creditors can obtain desired priorities over other persons. Most importantly, the proposed use of a single federal filing system for recordation of all transactions involving

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153 See 17 U.S.C. 205(d) (“As between two conflicting transfers, the one executed first prevails if it is recorded [...] 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.”).
trademarks would introduce the very much needed certainty in secured transactions involving trademarks as collateral.
Appendices

Appendix 1. Time distance between date of a trademark recordation and a creation of a security interest in that trademark (2006 data)
### Appendix 2. Entities who did not file in the UCC records to perfect their security interest in a trademark (2006 data).

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<th>Name</th>
<th>Number of missed filing</th>
</tr>
</thead>
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<tr>
<td>Bank of America</td>
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</tr>
<tr>
<td>JP Morgan Chase Bank</td>
<td>4</td>
</tr>
<tr>
<td>Wells Fargo Bank</td>
<td>3</td>
</tr>
<tr>
<td>Comerica Bank</td>
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</tr>
<tr>
<td>Bank of Oklahoma</td>
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<tr>
<td>Cole Taylor Bank</td>
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<td>National City Bank</td>
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<td>PNC Bank</td>
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<td>Royal Bank of Canada</td>
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<td>Silicon Valley Bank</td>
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<td>The Governor and Company of the Bank of Scotland</td>
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</tr>
<tr>
<td>Wachovia Bank</td>
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<td>Wells Fargo Foothill</td>
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<td>CIT Group</td>
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<td>Lehman Commercial Paper, Inc.</td>
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<tr>
<td>Madison Capital Funding, LLC</td>
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<td>Merrill Lynch Capital</td>
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**Distribution of missed filings among banks, non-bank entities and individuals.**

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<th>Non-bank entity</th>
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