

APPENDIX 17 - THE HISTORY OF THE BFP RULE

The current language in section 261 of the Patent Act has roots in the patent legislation of the nineteenth century. The Patent Act of 1870 provided in part: "That every patent or any interest therein shall be assignable in law, by an instrument in writing; and the patentee or his assigns or legal representatives may, in like manner, grant and convey an exclusive right under his patent to the whole or any specified part of the United States, and said assignment, grant, or conveyance shall be void as against any subsequent purchaser or mortgagee for valuable consideration, without notice, unless it is recorded in the patent office within three months from the date thereof."¹

Because patents have always had the attributes of personal property, Courts before and since 1870 have recognized and applied a common law bona fide purchaser for value rule to protect subsequent patents transferees. Under this venerable rule: "when a legal title holder of a patent transfers his or her title to a third party purchaser for value without notice of an outstanding *equitable claim or title*, the purchaser takes the entire ownership of the patent, free of any prior *equitable encumbrance*."²

One example of an "equitable encumbrance" that is cut off under the common law rule would be the prior assignor's right to have the assignment rescinded for fraud, thereby recovering legal title from the assignee.³ The right of a party with a present contract right to compel an assignment, as distinguished from a present assignment, is another judicially recognized example of an equitable encumbrance on a patent.⁴ Even before the first Patent Act provision compelling recording, a bona fide purchaser had the

¹ The Patent Act of 1870, ch. 230, 16 Stat. 198-217 (1870), *amended and now codified at*, 35 U.S.C. § 261 (1994).

² *FilmTec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568, 1573 (Fed. Cir. 1991)(Emphasis added.). *FilmTec* cites to the *Hendrie v. Sayles*, [98 U.S. 546, 549 (1879)] for the proposition that a prior equitable encumbrance is cut off by a bona fide purchaser. 939 F.2d at 1537. The Federal Circuit recently applied the same common law bona fide purchaser rule to protect an exclusive licensee in *Heidelberg Harris, Inc. v. Loebach*, 1998 U.S. App. LEXIS 11490 at *10-11, 46 U.S.P.Q.2d 1948 (Fed. Cir. 1998).

³ 1998 U.S. App. LEXIS 11490 at *10-11.

⁴ A *present agreement to assign* future inventions (as distinguished from a *present assignment* of future inventions) vests equitable, not legal, title in the assignee. *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574, 1580-81 (Fed. Cir. 1991). Contrast *Arachnid* with *FilmTec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568, 1573 (Fed. Cir. 1991)(A *present assignment* of future rights vests legal title as soon as the patent or the application come into existence.).

right to trump these "equitable encumbrances." This common law right existed outside the scope of the first Patent Act recording provision and such right still exists outside the scope of its direct descendent, present section 261.⁵ However, the statutory recording scheme adds another element to the protection afforded bona fide purchasers under the common law BFP rule. Section 261, in the manner of its early predecessor, "goes a step further" because it protects bona fide purchasers against prior *legal* interests that are not properly recorded.⁶ When the forerunner of the present patent recording statute was enacted, and then later amended, the chattel mortgage was viewed as a transfer of legal title.⁷ Historically, the chattel mortgage on personality depended on the movement of title to the mortgagee for its conceptual validity.⁸ Because the chattel mortgage was a title transfer by definition, a bona fide purchaser who sought protection from a prior unrecorded mortgage looked to the recording statute, which extended to unrecorded legal title transfers, for that protection.⁹

⁵ *Hendrie v. Sayles*, 98 U.S. 546, 549 (1879); 939 F.2d at 1573 (prior equitable encumbrance cut off by a bona fide purchaser under separate common law principles).

⁶ 939 F.2d at 1573.

⁷ 1 G. GILMORE, SECURITY INTERESTS IN PERSONAL PROPERTY § 1.1 at 5&8, (1965).

⁸ 1 G. GILMORE, *supra* note 7, § 1.1 at 8 n.11.

⁹ *Waterman v. Mackenzie*, 138 U.S. 252, 256 (1890).