## APPENDIX 19 - WATERMAN. V. MACKENZIE

In *Waterman v. Mackenzie*, the inventor/licensee of a fountain pen holder ("Waterman") brought suit to enjoin an alleged infringement. The Supreme Court affirmed the lower Court's decision that the equitable action failed because title to the patent resided in a conditional assignee.[1] The diverting conditional assignment was intended as security for a note signed by Waterman and his wife. Prior to the conditional assignment, Waterman (the then owner of the patent) transferred the patent title to his wife, reserving back an exclusive license. The conditional assignment, executed by Mrs. Waterman to secure the note, was then made subject to patentee's license.[2] The Court affirmed the dismissal of Waterman's bill because a licensee without title cannot sue for infringement.[3] The Court rejected Waterman's argument that the conditional collateral assignment did not pass title to the conditional assignee.

It is unlikely that the Supreme Court's conclusion in *Waterman v. Mackenzie* that the conditional assignee had "title," confirmed by a proper recording, really amounted to a holding that all unrecorded transfers for security are "void" as to subsequent parties under 261 because they must be conceived as "title" transfers as a matter of federal law.[4] Instead of positing a federal title theory for security transfers, the case seems to conclude that the particular conditional assignment fell within the provisions of the Patent Act because *it was, in fact, cast* into a title mold under the then extant state law and state equity practice.[5] In a particularly telling sentence, the Supreme Court concludes the conditional assignee "must be held entitled" to the incidents of title, "*unless otherwise provided in the mortgage*."[6] The clear

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1 Id at 261. After the decision in the Supreme Court the licensee/inventor joined the title holding the conditional assignee as a defendant and successfully asserted his right to sue for infringement. The second time was a charm because an infringement suit can be brought by a nontitle-holding licensee if the title holder is an infringer who cannot sue himself. Waterman v. Shipman, 55 F.2d 982 (2d Cir. 1893).

2 *Id.* at 253.

3 *Id.* at 261.

4 The cases to date have not read *Waterman* to mean that the concept of a title-based chattel mortgage preempts the Article Nine concept of a security interest as a matter of federal law. *See In re* Cybernetic Services, Inc., 239 B.R. 917, 920-21 (9th Cir. B.A.P. 1999); Citibank & Trust Co. v. Otto Fabric, Inc., 83 B.R. 780, 782 (D. Kan. 1988); *In re* Transportation, Design & Technology, Inc., 48 B.R. 635, 639 (Bankr. S.D. Cal. 1985).

5 138 U.S. at 258-59. *See also* 239 B.R. at 920-21.

6 138 U.S. at 260. *See also* Curtiss v. U.S. 13 U.S.P.Q. 400, 411 (Ct. Cl. 1932).

suggestion is that *this* transfer for security (the one before the Court in *Waterman*) presumes title under the existing state law, but another such transfer might effectively reserve most, if not all, of the rights of ownership in the transferor. Title passed to the conditional assignee in *Waterman v. Mackenzie* because of the extant state law conceptualizations about the need to transfer title in a chattel mortgage, not because of any necessary logic derived from the federal Patent Act. When *Waterman v. Mackenzie* was decided, the only security devise recognized for this type of personality was a form of the chattel mortgage. Legal title was the state law "concept" (some might say "fiction") used to define the right of the mortgagee to prevent waste of the asset. Unless this concept of legal title, as then recognized under state law, was somehow converted by the Supreme Court into an exclusive federal common law devise for protecting the mortgagee, the Article Nine security interest that carries no title should not be compelled to record under section 261 of the Patent Act. If a security interest is not "[a]n assignment grant or conveyance" within the meaning of section 261, the secured party properly attached and perfected by filing under state law would prevail over a subsequent assignee of the patent even if the security interest was never recorded in the Patent Office.[7] While this more limited reading of *Waterman v. Mackenzie* has obvious analytical appeal, its application to modern Patent Act practice would no doubt weaken the integrity of the PTO assignment records. Probably for that reason, this restricted view of *Waterman v. Mackenzie* has minimal support in the case law.[8]

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[7] Holt v. U.S., 13 UCC 336, 338-39 (U.S. Dist. Ct. D.C. 1973). Priority would be based on U.C.C. § 9-201 & § 9-301(1)(d). Section 261 of the Patent Act would not trump the U.C.C. priority because the security interest would not be considered "an assignment, grant or conveyance" under the federal priority rule. *See also In re* Cybernetic Services, Inc., 239 B.R. 917, 920-21 (9th Cir. B.A.P. 1999). *Cybernetic Services* finds that section 261 deals only with transfer of title transactions and that a security interest is not title dependent. 239 B.R. at 921. However, the Court also opines that an assignee of a patent would take free of a security interest that was not filed in the Patent Office. 239 B.R. at 920, n.8.

[8] *See* cases cited *supra* at note 4.