THE TRADEMARK FILING TRAP

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ABSTRACT

The current dual-filing system for the recordation of security interests in trademarks creates legal uncertainty and numerous practical problems for both lenders and trademark owners. Due to uncertainty in the rules of perfection and priority of security interests in trademarks, creditors are compelled to make multiple filings in order to secure the right to be satisfied from a sale of a trademark at foreclosure. In doing so, however, the costs associated with trademark-secured lending rise, along with the complexity of the transactions. Fifteen percent of the creditors studied in an empirical study of the security interests in trademarks failed to fulfill the requirements of the current dual-filing system. As a consequence, these creditors are left in a position of unsecured creditors. Moreover, this system diminishes the value of trademarks as collateral by increasing the cost of financing transactions when a trademark is used as collateral. Therefore, legislative reform is urgently needed in order to simplify the recordation process and priority rules among the various actors involved in trademark-secured lending. This article proposes a wholly federal recordation scheme for trademarks, wherein the U.S. Patent & Trademark Office handles all filings pertaining to trademarks, thus eliminating the majority of current problems in recordation and searching of security interests in trademarks.

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INTRODUCTION

Article 9 of the Uniform Commercial Code ("UCC") "provides a comprehensive scheme for the regulation [including perfection][1] of security interests in personal property."[2] Trademarks are one of the principal forms of federal intellectual property and also fall within the UCC definition of personal property; thus, they are governed by the UCC.[3] However, the Lanham Act provides comprehensive regulation for the protection of federal trademarks and registration of transactions that affect rights in federal trademarks.[4] Both sources of law—the UCC and the Lanham Act—create a separate filing system.[5] Each system records transactions affecting the legal status of trademarks. Consequently, the two filing systems collect information about one type of personal property: trademarks. This state of affairs runs counter to the desired standard described by Judge Kozinski in *In re Peregrine Entertainment, Ltd.*[6] In *Peregrine*, Judge Kozinski stated 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."[7]

Unfortunately, the trademark filing system lacks clarity and precision in its filing requirements, making it far from a "precisely defined recordation"[8] scheme. This challenging system poses a trap for creditors that attempt to secure their right to trademark collateral. Additionally, this system diminishes the

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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 third-party claims to the collateral. 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, CASES, PROBLEMS, & MATERIALS ON 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 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.

2 UCC § 9-101 cmt. 1 (2000) (alteration added).

3 *See id.* § 9-102 cmt. 5d.

4 *See* Lanham Act, 15 U.S.C. §§ 1051–1127 (2006) (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).

5 *See id.* §§ 1051–1127; UCC § 9-501(a)(2); *see also* LYNN M. LOPUCKI & ELIZABETH WARREN, SECURED CREDIT: A SYSTEMS APPROACH 279 (5th ed. 2006) ("All states except Georgia and Louisiana have state U.C.C. filing systems. . . . The federal government maintains yet additional filing systems for patents, trademarks, copyrights . . . .").

6 116 B.R. 194, 201 (C.D. Cal. 1990).

7 *Id.*

8 *Id.*

value of trademarks as collateral by increasing the cost of financing transactions when a trademark is used as collateral.[9]

This article presents empirical evidence that the system is failing its users. Fifteen percent of the filers studied fell into the current dual-filing systems trap. In light of these findings, it is apparent that legislative change, aimed at streamlining the filing process through the creation of a single federal filing system, is greatly needed. Part I of this article describes the two existing filing systems and practices for security interests in trademarks. Part II explains the practical problems caused by the existing dual-filing system. Part III presents the results of an empirical study of security interests in trademarks.[10] Finally, Part IV provides a proposal for a wholly federal recordation scheme using the U.S. Patent and Trademark Office ("PTO") to handle the recording of all assignments and encumbrances.

I. MULTIPLE FILING SYSTEMS FOR TRADEMARKS

A. Two Bodies of Law

Each of the two bodies of law that regulate trademarks—the UCC and the Lanham Act—create a separate filing system designed for the recordation of transactions.[11] The filing system created by the UCC is maintained and adopted by each state.[12] The filing system created by the Lanham Act is regulated by the Trademark Office of the PTO.[13] Each system is appropriate for the recordation of different transactions in trademarks: the UCC system for perfecting security interests in trademarks and the PTO for handling the recordation of assignments of trademarks. This division is the result of judicial distinction in the meaning

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9 *See* Alice Haemmerli, *Insecurity Interests: Where Intellectual Property and Commercial Law Collide*, 96 COLUM. L. REV. 1645, 1649 ("[T]he law that regulates [intellectual property] has become increasingly uncertain, thereby increasing the costs associated with these transactions." (alteration added)).

10 For a detailed review of the methodology behind the empirical study, see *infra* Appendix 1.

11 *See* 15 U.S.C. §§ 1051–1127 (2006); UCC § 9-501(a)(2) (2000); *see also* LOPUCKI & WARREN, *supra* note 5, at 279.

12 *See* LOPUCKI & WARREN, *supra* note 5, at 279.

13 *See* 35 U.S.C. §§ 1–2 (2006). Section 1 of Title 35 establishes the U.S. Patent & 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 is also responsible for disseminating information about U.S. patents and registered trademarks to the public.

of the terms "assignment," as used in the Lanham Act, and the term "security interests," as used in the UCC.[14]

In *In re Roman Cleanser Co.*,[15] the seminal case pertaining to security interests in trademarks, the court held that an assignment is an absolute transfer of the entire right, title and interest to the trademark and distinguished it from an agreement to assign a trademark in case of a default.[16] The latter is a functional equivalent of a security interest: "a device to secure indebtedness."[17] This distinction was not apparent solely from a reading of the statutes. The court had to decide first what Congress meant by the term "assignment" as used in the Lanham Act,[18] which does not contain a definition for the term.[19] This cast some doubt as to whether an "assignment of a trademark" includes the grant of a security interest.[20] This doubt was not unfounded since the term "assignment" is repeatedly used in the UCC to indicate a security interest.[21] Yet the courts have not looked to the UCC for guidance; instead they have resolved any doubt by examining the use of the term "assignment" at the time the Lanham Act was enacted.[22] Back then, the grant of a security interest was achieved mainly by the grant of a mortgage, not an assignment.[23] This led to the conclusion that assignments and security interests in trademarks are two different transactions and

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14 *See* Trimarchi v. Together Dev. Corp., 255 B.R. 606, 611 (D. Mass. 2000); *In re* 199Z, Inc., 137 B.R. 778, 782 (Bankr. C.D. Cal. 1992); *In re* C.C. & Co., 86 B.R. 485, 486–87 (Bankr. E.D. Va. 1988); *In re* Roman Cleanser Co., 43 B.R. 940, 944 (Bankr. E.D. Mich. 1984) (holding that assignments are transfers of title, and security interests only secure repayment of indebtedness).

15 43 B.R. 940 (Bankr. E.D. Mich. 1984).

16 *See id.* at 944.

17 *Id.*

18 *Id.* at 946.

19 *In re* Together Dev. Corp., 227 B.R. 439, 441 (Bankr. D. Mass. 1998).

20 *See id.*

21 *See* UCC § 9-409(a) (2000) ("A term in a letter of credit . . . which prohibits . . . assignment of or creation of a security interest in a letter-of-credit right is ineffective . . . .").

22 *See e.g.*, *Together Dev.*, 227 B.R. at 441; Xuan-Thao Nguyen, *The New Uniform Commercial Code*: *Intellectual Property and Security Interest*, 2007 A.L.I.-A.B.A. CONTINUING LEGAL EDUC. 417, 434 ("Under federal trademark law, there is no definition of assignment, which casts doubt on whether assignment of a trademark is to encompass a grant of security interests. Courts have resolved such doubt by examining the ordinary usage of the term 'assignment' at the time the Lanham Act was passed in 1946, prior to the promulgation of Article 9 of the UCC.").

23 *Together Dev.*, 227 B.R. at 441.

should be recorded in two different systems.[24] Accordingly, 15 U.S.C. § 1060[25] is limited to regulating the recordation of transfers of the trademark's ownership in the form of an assignment.[26] Section 1060, however, does not provide for perfection of security interests. Consequently, the UCC became the proper location for the perfection of security interests in trademarks.[27] Thus, security interests recorded with the PTO are not perfected.[28] Such a filing does not provide constructive notice and, therefore, does not constitute perfection.[29] The Lanham Act, on the other hand, does provide for the recordation of assignments; thus, the recording of trademark assignments in the PTO is effective.[30] Such a filing constitutes constructive notice of the transfer of the trademark ownership and is

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24 *See* Trimarchi v. Together Dev. Corp., 255 B.R. 606, 610 (D. Mass. 2000) ("An analysis of Article 9 of the U.C.C., the Lanham Act, case law and general policy considerations indicates that the Lanham Act does not preempt the U.C.C.'s filing requirements and that the perfection of a security interest in a trademark is governed by Article 9. . . . The Lanham Act does not speak of security interests as such nor does it provide for the filing of notification of such interests. Section 1060 requires the recordation of assignments . . . .").

25 15 U.S.C. § 1060(a)(4) (2006) ("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 3 months after the date of the assignment or prior to the subsequent purchase.").

26 *See Trimarchi*, 255 B.R. at 612 (noting the absence of any federal system for the recordation of security interests in trademarks); *In re* TR-3 Indus., 41 B.R. 128, 131 (Bankr. C.D. Cal. 1984) (stating the Lanham Act as a whole contains no statutory provision for the registration, recording or filing of any instrument or document asserting a security interest in any trademark).

27 *See* UCC § 9-109(c)(1) cmt. 8 (2000) ("[This section] recognizes explicitly that this Article defers to the federal law only when and to the extent that it must—i.e. when federal law preempts it.").

28 *See Trimarchi*, 255 B.R. at 612 (holding that the UCC governs security interests and the Lanham Act governs matters of ownership and transfers of the ownership).

29 *See* U.S. Patent & Trademark Office, Trademark Manual of Examining Procedure § 503.02 (5th ed. 2007) [hereinafter TMEP].

> The USPTO *records* assignments . . . . [It] also records documents that affect title to a trademark. . . . 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.

Id. (emphasis added) (alteration added).

30 15 U.S.C. § 1060(a)(4).

valid against everyone.[31] The varying effect of these filings is apparent from the relevant language provided in the Trademark Manual of Examining Procedures ("TMEP").[32] The TMEP clearly differentiates between mandatory recordings of assignments and optional recordings of other documents affecting title to the trademark.[33] Nevertheless, the current dual-filing system creates legal uncertainty regarding security interests in trademarks.

B. Legal Uncertainty and Strategy for Creditors Who File Security Interests in Trademarks

1. Legal Uncertainty

Judicial opinions addressing security interests in trademarks remain uniform in holding that the UCC governs their perfection, which is achieved by filing in the state UCC records.[34] Thus, no uncertainty comes from the trademark case law pertaining to security interests.[35] It is unlikely that this long-standing position will be overruled. Nevertheless, uncertainty remains and pushes creditors to file in both systems. The source of this uncertainty lies in case law dealing with security interests in patents. Courts have allocated the filing of security interests in patents between the UCC and the PTO.[36] This patent case law has in turn influenced both the practice of the perfection of security interests in trademarks and the practice of trademark security interest filings.

Patent case law has uniformly held that a filing of a security interest in the state UCC system is effective against a bankruptcy trustee when asserting

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31 *See id.* § 1060(a)(3) ("[W]hen 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.").

32 *See* TMEP, *supra* note 29, § 503.02 and accompanying text.

33 *Id.*

34 *See In re* Together Dev. Corp., 227 B.R. 439, 440 (Bankr. D. Mass. 1998) (citing *In re* 199Z, Inc., 137 B.R. 778 (Bankr. C.D. Cal. 1992)) (noting that case law appears to be in agreement as to perfection of security interests in trademarks being governed by the UCC); *In re* Chattanooga Choo-Choo Co., 98 B.R. 792, 796 (Bankr. E.D. Tenn. 1989); *In re* C.C. & Co., 86 B.R. 485, 486 (Bankr. E.D. Va. 1988); *In re* TR-3 Indus., 41 B.R. 128, 131 (Bankr. C.D. Cal. 1984); *In re* Roman Cleanser Co., 43 B.R. 940, 944 (Bankr. E.D. Mich. 1984).

35 *See* cases cited *supra* note 34.

36 *See In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1052, 1058 (9th Cir. 2001) (filing of a security interest in patent in UCC is effective as against bankruptcy trustee); *In re* Transp. Design & Tech., Inc., 48 B.R. 635, 639 (Bankr. C.D. Cal. 1985) (filing of a security interest in PTO is effective as against bona fide purchaser for value).

lien creditor status under § 544(a)(1) of the Bankruptcy Code.[37] In *In re Cybernetic Services, Inc.*,[38] the court held that an 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.[39] Accordingly, the Patent Act[40] does not govern security interests in patents; furthermore, only transfers of ownership interests need to be recorded with the PTO.[41] Consequently, no filing with the PTO is required in order for the security interest to be valid against a bankruptcy trustee.[42] Additionally, dicta in patent case law has discussed the priority conflicts that arise between the secured party and a subsequent bona fide purchaser for value.[43] In this scenario, the recording and priority rule of § 261 of the Patent Act governs.[44] The courts have suggested that the recording and priority rule of § 261 of the Patent Act preempts[45] the priority rule for buy-

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37 *See Cybernetic Servs.*, 252 F.3d at 1058 (stating Article 9 perfection of patent collateral is sufficient against a lien creditor); City Bank & Trust Co. v. Otto Fabric, Inc., 83 B.R. 780, 782 (D. Kan. 1988) (finding a security interest in a patent was perfected against an imaginary lien creditor from the time it was recorded with the state UCC records); *Transp. Design*, 48 B.R. at 641 (Bankr. C.D. Cal. 1985) (filing of a security interest in a patent under the UCC was effective as against a bankruptcy trustee).

38 252 F.3d 1039 (9th Cir. 2001).

39 *See id.* at 1052.

40 *See* 35 U.S.C. § 261 (2006).

41 *Cybernetic Servs.*, 252 F.3d at 1052.

42 *Id.* at 1053 ("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.").

43 See *In re* Transp. Design & Tech., Inc., 48 B.R. 635, 639 (Bankr. C.D. Cal. 1985) (stating a bona fide purchaser who recorded his transfer of 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).

44 *See* Chesapeake Fiber Packing Corp. v. Sebro Packing Corp., 143 B.R. 360, 369 (D. Md. 1992), *aff'd*, 8 F.3d 817 (4th Cir. 1993) (following dicta from *Transp. Design*, 48 B.R. at 638); *In re* Peregrine Entm't, Ltd., 116 B.R. 194, 203–04 (C.D. Cal. 1990) (concluding in dicta that the Patent Act provides a system of "national registration" that is a complete substitute for Article 9 filing); City Bank & Trust Co. v. Otto Fabric, Inc., 83 B.R. 780, 782 (D. Kan. 1988) (holding that state law applies conclusively but not exclusively to resolve the question of perfection); *Transp. Design*, 48 B.R. at 639.

45 *See* UCC § 9-317(d) (2000) ("A licensee of a general intangible or a *buyer* . . . takes free of a security interest if the licensee or buyer gives value without knowledge of a security interest *and before it is perfected*." (emphasis added)); Thomas M. Ward, *The Perfection & Priority Rules for Security Interests in Copyrights, Patents & Trademarks: The Current Structural Dissonance & Proposed Legislative Cures*, 53 ME. L. REV. 391, 429–30 (2001). Ward describes four cases that suggest, in dicta, that the Article 9 priority rule for bona fide purchasers and licensees gives way to the recording and priority rules in § 261 of the Patent Act. *Id.* at 430–37. A priority rule for a bona fide purchaser for value is purely a federal defense. *Id.*

ers under UCC Article 9. The first clear statement of this partial priority preemption was introduced in *In re Transportation Design & Technology, Inc.*[46] In the court's opinion, a bona fide purchaser or a mortgagee who recorded his transfer of title with the PTO will defeat the secured party's interests who has not filed notice of her security interest with the PTO.[47] 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.[48] Moreover, such a security agreement must be in the form of an assignment that transfers the entire title of a patent to the party, because only then will it fall within the constructive notice rule of § 261 and be effective against a subsequent purchaser for value.[49]

Recently, in *Cybernetic Services*, the court 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.[50] Nevertheless, long-standing patent case law dicta has helped to perpetuate the opposite practice of a dual-filing system for filing patent security interests.[51] Consequently, this practice has influenced where creditors file security interests in trademarks.

There are three main reasons why patent case law influences trademark filing practices. The first reason is that the pertinent sections of the Patent Act[52] and the Lanham Act[53] are almost identical. These sections define the kind of transactions that the PTO should record.[54] Judicial interpretation of these sec-

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Consequently, a bona fide purchaser who recorded its patent ownership rights with the PTO will defeat a secured creditor's interest who has not filed a notice of its security interest with the PTO. *Id.*

46 48 B.R. 635, 639 (Bankr. C.D. Cal. 1985).

47 *Id*.

48 *Id*. at 639–40.

49 *Id.* at 640 ("[I]f the secured creditor wishes to protect itself against the debtor transferring title to the 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.").

50 *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1058 (9th Cir. 2001); *see* Ward, *supra* note 45, at 436 ("[The *Cybernetic Services* court] rejects this dicta and removes the Article 9 security interest from *every* ambit of Patent Act recording." (alteration added)).

51 *See* Ward, *supra* note 45, at 430–39 (describing the conflicting statements in the patent case law and concluding that "[p]rudence suggests that when patents are a significant part of the debtor's collateral the secured party file a 'financing statement' under state law and also require that the debtor execute a 'title' document that can be recorded in the Patent Office as either a patent mortgage or a conditional assignment").

52 *See* 35 U.S.C. § 261 (2006).

53 *See* 15 U.S.C. § 1060(a)(4) (2006).

54 *See id.*; 35 U.S.C. § 261.

tions defines the extent in which security interests in trademarks and patents should be recorded in the PTO. The Patent Act reads: "[a]n assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage."[55] Likewise, the Lanham Act reads: "[a]n assignment shall be void against any subsequent purchaser for valuable consideration without notice, unless the prescribed information reporting the assignment is recorded in the [PTO] within three months after the date of the assignment or prior to the subsequent purchase."[56] The terms used in those sections of the Lanham Act—namely "assignment," "grant," and "conveyance"—define the type of recordings that the PTO should handle, leaving the rest to the state UCC system.

The second reason that patent case law influences the practice of filing security interests in trademarks is the parallel administrative structure for patents and trademarks.[57] The PTO handles recordings pertaining to trademarks as well as patents. As one commentator has noted, "the [PTO] 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."[58]

The third reason that patent law influences trademark practices is that 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, including a debtor in possession, who has the rights of a hypothetical lien creditor.[59] No cases that address the perfection of security interests in trademarks also address situations where a secured party is in competition with a "purchaser for valuable consideration without notice" (bona fide purchaser for value).[60] The equivalent issue, however, was resolved in patent case law.[61]

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55 35 U.S.C. § 261.

56 15 U.S.C. § 1060(a)(4) (alteration added).

57 *See* Haemmerli, *supra* note 9, at 1656–57.

58 *Id.* (alteration added).

59 *See In re* 199Z, Inc., 137 B.R. 778, 782 (Bankr. C.D. Cal. 1992); *In re* Chattanooga Choo-Choo Co., 98 B.R. 792, 796 (Bankr. E.D. Tenn. 1989); *In re* C.C. & Co., Inc., 86 B.R. 485, 487 (Bankr. E.D. Va. 1988); *In re* TR-3 Indus., 41 B.R. 128, 131 (Bankr. C.D. Cal. 1984); *In re* Roman Cleanser Co., 43 B.R. 940, 944 (Bankr. E.D. Mich. 1984), *aff 'd*, 802 F.2d 207 (6th Cir. 1986).

60 *See* Ward, *supra* note 45, at 443 ("[N]o 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 & Technology, Inc*.").

Courts have 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.[62]

Commentators have suggested that courts will begin to follow patent case law reasoning in trademark cases due to the similarities between trademark and patent regulation and administration schemes.[63] The possibility of that occurring has prompted some commentators to recommend that financing transactions involving trademarks should be structured very carefully.[64] These transactions should involve filing a financing statement in the state UCC records and executing a title transferring assignment of trademark collateral with the PTO.[65] This approach, however, might appear overcautious in light of the decision in *Cybernetic Services*, which clarified that a secured party holding a UCC filing has priority over a bona fide purchaser.[66] But as one commentator noted, "[w]hile . . . *Cybernetic Services* stands firmly against this notion of the partial preemption, it may not be the last word."[67] This statement seems reasonable

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61 *See In re* Transp. Design & Tech., Inc., 48 B.R. 635, 639 (Bankr. C.D. Cal. 1985).

62 *See id.* at 641 (filing of a security interest in a patent under the UCC was effective against a bankruptcy trustee); *id.* at 639 (stating 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).

63 *See* Marci Levine Klumb, *Perfection of Security Interests in Intellectual Property: Federal Statutes Preempt Article 9*, 57 GEO. WASH. L. REV. 135, 163 (1988) ("[T]he Lanham Act's assignment provision is similar to that of the Patent Act and can accommodate recordation of security interests in trademarks."); *see also* Haemmerli, *supra* note 9, at 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 (even if unlikely) that a court might extrapolate from the patent arena and create the kind of anomaly that exists with regard to security interests in patents.").

64 Baila H. Celedonia, *Trademarks As Collateral*, 438 PLI/PAT 479, 481 (1996) ("A cautious lender hires special trademark counsel in those instances were [sic] trademarks are essential collateral . . . ."); *id.* at 483 ("If the trademark assets are material, a lender is well advised to always add the USPTO filing 'belt' to its financing statement 'suspenders' with regard to trademarks.").

65 *See id.* at 483 ("[T]he recording with the USPTO of the lien against trademark registrations and pending applications is constructive notice to subsequent purchasers for value.").

66 *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1058 (9th Cir. 2001).

67 *See* Ward, *supra* note 45, at 442. Ward also pointed out that the *Cybernetic Services* court ignored a legitimate role of the Patent Act priority in deciding the issue of whether a subsequent secured party can be protected against an earlier "purchaser or mortgagee" under § 261 of the Patent Act. *Id.* at 437.

when considering the fair amount of criticism directed towards the court's rationale in *Cybernetic Services*.[68]

2. Strategy

Given the legal uncertainty arising from the influence of patent case law on trademark practice, practitioners generally advise that a creditor who takes a trademark as a security for the repayment of a loan should record his security interest in both systems—the state UCC records and the PTO.[69] In fact, given the court's holding in *Cybernetic Services*, it is bad advice not to file a security interest in a trademark with both the PTO and under the UCC, even if a transaction does not transfer outright the ownership of a trademark. The notice of a security interest filed with the PTO will provide actual notice of who rightfully owns the interest in a patent or trademark to everyone who searches the PTO database.[70] According to the PTO filing procedures, the recording of a security

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68 *See* R. Scott Griffin, *A Malpractice Suit Waiting To Happen: The Conflict Between Perfecting Security Interests In Patents & 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 . . . ."); 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 (2003) ("While the Ninth Circuit provides an initial template in *Cybernetic Services*, it did not go far enough."); Ward, *supra* note 45, at 437 (criticizing the court's classification of a security interest as a "mere license" and its reasoning that only transactions transferring ownership of title to the patent are protected against unrecorded patent assignments).

69 *See* 4 JAY DRATLER, JR. & STEPHEN M. MCJOHN, INTELLECTUAL PROPERTY LAW: COMMERCIAL, CREATIVE, & INDUSTRIAL PROPERTY § 11.07[2] (2008) ("[A secured creditor] has the option of filing in the Patent and Trademark Office as well as in the relevant state offices, and there is little reason—other than administrative inconvenience—not to do so." (alteration added)); *see also* 2 LEXIS NEXIS, COMMERCIAL LAW & PRACTICE GUIDE § 28.06(2)(d) (2008); H. BRUCE BERNSTEIN & HUGH M. PATINKIN, *Perfection of Security Interests in Patents, Copyrights, & Trademarks*, *in* PERSONAL PROPERTY SECURITY INTERESTS: UNDER THE REVISED UCC 71, 85 (H. Bruce Bernstein ed., 1978); David M. Posner, *Security Interests in Copyrights: The Ninth Circuit Closes the Loop & Holds that Article 9 Governs Perfection of Unregistered Copyrights*, 120 BANKING L.J. 845, 851 (2003) ("[T]he secured party should nevertheless make dual filings . . . since a security interest in a patent would not grant the secured party priority over subsequent voluntary assignees of title to the patent . . . ."); Lisa M. Vaccaro, *Security Interests in Intellectual Property: Towards a Unified System of Perfection*, 6 HOFSTRA PROP. L.J. 215, 232 (1993) ("In order to avoid any possible negative results, lenders frequently file a document with the Patent and Trademark Office indicating their asserted security interest and also file the required UCC financing statement.").

70 *See* William C. Hillman, *Documenting Secured Transactions*, PLIREF-SECTRN § 3:11.1, at 3-20 (2007) ("The fact remains that any recorded instrument can provide actual notice, if

agreement does not provide constructive notice.[71] Such recording is permitted and provides actual notice.[72] Actual notice will be enough to deprive a purchaser of his bona fide status. This inference is derived from the plain reading of both the UCC and the Lanham Act. If the bona fide purchaser defense was governed by the UCC, as the current holding in *Cybernetic Services* suggests, UCC § 9-317(d) will control.[73] This section provides that "a buyer, other than a secured party, of . . . general intangibles . . . takes free of a security interest if the . . . buyer gives value without knowledge of the security interest."[74] The filing will deprive the buyer of her defense, because she 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 yields the same conclusion.[75] The Lanham Act states that "[a]n assignment shall be void against any subsequent purchaser for valuable consideration without notice, unless [it] is recorded in the United States Patent and Trademark Office."[76] It follows that if the subsequent purchaser has notice of a security interest that was recorded in the PTO, he loses his defense. Recent case law has come to the same conclusion.[77]

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 buttresses the statement that it is bad advice not to file a security interest in the PTO.[78] If, while doing so, she stumbles upon information about a security interest, she will acquire actual knowledge of the security interest and cease to be a

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someone searches the records of the Patent and Trademark Office."); Ward, *supra* note 45, at 433 (filing of an ordinary security agreement with the PTO may provide "inquiry notice" to those who access the database).

71 TMEP, *supra* note 29, §503.02 ("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." (emphasis added)).

72 *See supra* text accompanying note 29.

73 *See* UCC § 9-317(d) (2000).

74 *See id.* (alteration added).

75 *See* 15 U.S.C. § 1060(a)(4) (2006).

76 *See id.* (alteration added).

77 *See* Snow Machs., Inc. v. S. Slope Dev. Corp., 754 N.Y.S.2d 383, 386 (N.Y. App. Div. 2002) (illustrating 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).

78 *See* Celedonia, *supra* note 64, at 483–86 ("In addition to being assured that the borrower actually owns the trademark collateral, a lender wants confirmation that there are no existing liens . . . [t]herefore, a search should be made of the Secretary of State's Offices for those states in which the borrower (or its subsidiaries which own marks) is located.").

bona fide purchaser for value. Consequently, she will not be able to obtain the trademark clear of the security interest held by a cautious creditor.[79]

The caution exercised by the secured parties and their counsel seems to be very well advised given the existence and complexity of two systems for recordation of transactions in the same personal property and the fact that numerous mistakes are made when dealing with recordation.

II. PROBLEMS CREATED BY DUAL-FILING SYSTEMS

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

A. Creditor Uncertainty

Patent case law, and its influence on trademark law, has created a situation where a creditor has to file his security interest in two different filing offices, because each filing will be effective only against one category of competitors.[80] Filing with the PTO will affect a subsequent bona fide purchaser for value, while filing with the UCC records office will affect a lien creditor.[81] Hence, the decision of where to record a security interest turns on the determination of the priority that needs to be achieved.[82] Typically, creditors want to achieve priority over everyone. Priority over only one category of competitors, but not the other, is not sufficient to guarantee repayment of a loan. Therefore, creditors must make two filings, and, subsequently, lenders who consider making loans secured by trademarks must search in two systems.

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79 *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.").

80 *See In re* Transp. Design & Tech., Inc., 48 B.R. 635, 641 (Bankr. C.D. Cal 1985) (filing of a security interest in a patent under the UCC was effective as against a bankruptcy trustee); *id.* at 639 (stating 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).

81 *Id.* at 639, 641.

82 *Id.* at 640.

Nevertheless, even two separate filings will not guarantee a creditor priority.[83] This conclusion flows from 15 U.S.C. § 1060, which provides for a three-month grace period for the filing of trademark assignments with the PTO.[84] Therefore, a creditor who searches in the PTO records to ascertain the trademark ownership rights of his prospective borrower cannot fully rely on that record. A prior buyer of a trademark can file his assignment with a three-month delay and still have a prior right to creditors.[85] The creditors then have the choice between waiting three months after the search to ensure that there are no prior purchasers or refusing to make any loans secured by trademarks. Consequently, these creditors have no reliable way of gaining priority over a bona fide purchaser for value. Moreover, there is no clear or reliable judicial guidance, because no trademark cases have discussed the priority between bona fide purchasers and secured parties (creditors). Patent case law offers some ambiguous guidance as to this competition, but it is by no means conclusive. In these situations, creditors are left with only one option: to file and search in both systems. Yet, even after all possible searches are completed, creditors are still likely to be in doubt.

B. Creditor Expense

Searching and filing in two systems requires twice as much work to complete a single financing transaction. Because of the resulting uncertainty surrounding the priority of competing security interests, lenders are wary of relying on intellectual property as collateral.[86] To gain some certainty on those transactions, lenders usually obtain expensive legal advice through opinion letters. These opinion letters detail all of the necessary steps to properly perfect the security interest in order to protect the lender's priority over all other claims to the collateral.[87] Consequently, the dual-filing system, coupled with lenders'

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83 *See* Ward, *supra* note 45, at 437 ("[A] typical secured party would not take priority over a prior assignee who does not record within the three [month period]." (alteration added)).

84 *See* 15 U.S.C. § 1060(a)(4) (2006).

85 *Id.*

86 *See* Shawn K. Baldwin, *"To Promote the Progress of Science & Useful Arts": A Role for Federal Regulation of Intellectual Property as Collateral*, 143 U. PA. L. REV. 1701, 1701–02 (1995) (discussing how lenders, trying to minimize their risk, have historically been hesitant to lend money on a security in the form of intellectual property, and how uncertainty in the law surrounding the perfection of security interests further deters such lending).

87 *See* Haemmerli, *supra* note 9, at 1649 ("When a client extends a multimillion dollar loan, one of the most important closing documents . . . is an opinion letter from counsel assuring it that if it takes certain steps, its security interest will be properly perfected, and will have priority

attempts to insulate themselves from the risks associated with taking intellectual property as collateral, considerably increases the costs of financing transactions.[88] Inevitably, the borrowing owners bear the brunt of the higher costs and loan interest rates. Therefore, owners cannot maximize the value of their intellectual property, because the actual value is not easily and efficiently determined for use as ongoing working capital in a start-up, in an acquisition or for any other business purpose.

The need to file in a dual-filing system also increases the chance that the necessary filing will never occur. One reason might be that creditors mistakenly believe that filing with the PTO is enough to perfect a security interest. Another is that many creditors and debtors simply do not know that both systems exist or are not familiar with how the systems work.[89] It may seem that banks would not fall prey to such a mistake, since they are presumably familiar with the system and have lawyers to ensure their legal filings are in compliance. Similarly, one might anticipate that small businesses and individuals are at a much higher risk of compliance error or oversight.[90] However, an examination of the statistics on filings shows that neither presumption holds true. A large majority of unperfected creditors are banks,[91] which accounted for twenty-five out of thirty-seven failures to perfect a security interest in 2006.[92] These failures occurred when banks recorded their security interests with the PTO but failed to file in the state UCC system. Accordingly, these banks were left with an unperfected security interest.

III. AN EMPIRICAL STUDY OF TRADEMARK FILINGS

This article summarizes an empirical study conducted to examine security interest filings in trademarks.[93] The main objective of the study was to demonstrate how often creditors who filed security interests with the PTO failed

over others' claims."). Furthermore, the author noted that "many opinion letters address perfection, but stop short of opining on priority." *Id.* at n.11.

88 *Id.* at 1649 ("[T]he law that regulates [intellectual property assets] has become increasingly uncertain, thereby increasing the costs associated with [related] transactions." (alteration added)).

89 LOPUCKI & WARREN, *supra* note 5, at 277.

90 *See infra* Appendix 1.

91 A lender was classified as a bank if it had the word "bank" in its name.

92 *See infra* Appendix 2 (containing a list of banks that filed security interests with the PTO in 2006, but failed to file that interest in a state UCC system).

93 For a description of the empirical study methodology used in this study, see *infra* Appendix 1.

to record their security interests with the state UCC system. This study discovered that out of 4,790 security interest filings made by creditors in the PTO in 2006, 15% of those security interests were not recorded with the state UCC system.[94] These 15% of trademark-secured creditors fell into the filing trap created by the existence of the multiple filing systems.

A. 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.[95] Four thousand twenty-four of those filings had corresponding financing statements filed with state UCC systems. Thus, over 4,000 creditors made dual filings in 2006, incurring double the cost of a single filing system. Beyond paying multiple filing fees, those dual filers were required to perform expensive and time-consuming searches.[96] Additionally, higher costs were incurred by retaining expensive counsel to draft opinion letters evaluating the priorities of filings made in two different systems and to investigate the form that a debt financing transaction should take.

B. 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 PTO records reveals thirty-seven instances in which a security interest in a trademark, though recorded with the PTO, was not perfected by the filing of a financing statement in a state UCC system. Extrapolating this data to the entire population, one would expect that approximately 709 security interests, or 15% of the population, were unperfected.

A probability theory was applied to determine the upper- and lower-bounds of the above estimate and to establish a level of confidence in the estimate. One can be at best 95% confident that the percentage of security interests filed with the PTO, but not filed with a state UCC system, would be between 10.4% and 19.2%. Accordingly, the number of trademarks having security in-

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94 *See infra* Appendix 1.

95 *See infra* text accompanying note 181.

96 Neil S. Hirshman & Rashmi Chandra, *Intellectual Property Due Diligence Methodology*, *in* 2 ACQUIRING OR SELLING THE PRIVATELY HELD COMPANY 18 (David W. Pollak & John F. Seegal eds., 2003).

terests not filed with the state UCC system would be between 498 and 920.[97] Table 1 provides a summary of the empirical data.[98]

Table 1: Trademark Security Interest Filings

PTO Filings (2006 Data)					
	With security interests	With security interests also in UCC	With security interest not filed with UCC	Percent not filed in UCC	UCC data unavailable-trademark owner outside United States
All Trade-marks	4,790	4,024	709	15%	57
Random sample	250	210	37	15%	3
Percent sampled	5%	N/A	N/A	N/A	N/A

Surprisingly, there are many banks[99] among those creditors who failed to perfect security interests by filing in a state UCC system. This finding undermines the seemingly reasonable assumption that the accumulated experience and resources of banks would allow them to master even the most complicated

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97 The size of the entire population was 4,790 trademarks and the testing sample contained 250 randomly selected trademarks. The number of trademarks for which a security interest was not filed with the UCC was thirty-seven. Therefore, the proportion of the security interests not filed with a state UCC system is 14.8%. The following formula was used to calculate the confidence interval of the proportion: $0.148 +/- (1.96*\sqrt{(p*(1-p)/n)})$. In this equation, 1.96 is the z-score for a 95% confidence interval; "p" is the proportion of the security interests not filed in the state UCC system to the ones that were filed, giving a value for "p" of .148; "n" is the sample size, which is 250. This yields a value of $1.96*\sqrt{((.148*.852)/250)} = .044$, meaning that the confidence interval of the proportion is +/- 4.4%. Thus, the proportion of the security interests not filed with a state UCC system is 14.8% +/- 4.4%, corresponding to a value between 10.4% and 19.2%. Extrapolating to the entire population of 4,790 trademarks, the estimated number of security interests not filed with state UCC systems can be calculated by 4,790*.104 and 4,790*.192. This allows one to say, with up to 95% confidence, that the number of security interests not filed with a state UCC system is between 498 and 920.

98 Figures for "All Trademarks" in Table 1, other than PTO filings with security interests, are calculated from the random sample with 95% confidence such that the margin of error is not more than +/- 4.4%. For an explanation of how this data was derived, see *supra* note 97 and accompanying text.

99 A party was classified as a bank if it either had the word "bank" in its name or if it appeared on a recent list of the fifty largest savings institutions in the United States as determined by total deposits.

filing system. In fact, in twenty-five of the thirty-seven instances where a security interest was not perfected, banks, including some of the largest banks in the United States, were the creditors.[100] Non-bank entities, meanwhile, failed to perfect their security interests nine times, while only one individual failed to perfect.[101]

The 15% of creditors who failed to perfect their security interests lost their status as secured creditors. This failure to perfect gave them the status of unsecured creditors, leaving them unable to collect from collateral.[102] Instead, these creditors must go through a lengthy judicial process to gain the right to reach any of the debtor's property, and they face many challenges in compelling payment.[103] Consequently, they may never be able to collect the debt owed to them. If the system were streamlined, creditors would be more likely to perfect their security interests and, accordingly, could more safely rely on trademark collateral to recover debts owed.

IV. A PROPOSAL FOR ELIMINATING DUAL FILINGS

It has long been recognized that legislative change is needed for the laws regulating security interests in intellectual property.[104] The courts have fallen short of proposing any radical changes resulting in certainty.[105] Rather,

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100 The ten largest banks in the United States on June 30, 2007, ranked by total deposits on that date, were Bank of America, JPMorgan Chase Bank, Wachovia Bank, Wells Fargo Bank, Citibank, Washington Mutual Bank, Sun Trust Bank, U.S. Bank, Regions Bank and Branch Banking and Trust Company. The Largest Banks in the U.S.,http://nyjobsource.com/banks.html (last visited Oct. 22, 2008). As a result of the recent turmoil in the financial markets, the list of largest banks has changed. *See* Martin Hutchinson, *The Top 12 U.S. Banks: From Zombies to Hidden Gems*, MONEY MORNING, Feb. 18, 2009, http://www.moneymorning.com/2009/02/18/us-banks (last visited Feb. 23, 2009) (reporting the top twelve largest U.S. banks, by assets, as of Dec. 31, 2008).

101 *See infra* Appendix 3 (containing a list of secured parties who did not make a filing in the State UCC system).

102 *See* Trimarchi v. Together Dev. Corp., 255 B.R. 606, 612 (D. Mass. 2000) (holding that a security interest may not be perfected solely by filing a financing statement with the PTO).

103 LOPUCKI & WARREN, *supra* note 5, at 13–14.

104 Baldwin, *supra* note 86, at 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."); Haemmerli, *supra* note 9, at 1752 (concluding that legislative reform is needed); 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, 67 (1990) ("For nearly ten years, calls for reform have emanated from many quarters.").

105 *See, e.g.*, *In re* Cybernetic Servs., Inc., 252 F.3d 1039, 1056 (9th Cir. 2001).

judges usually pronounce that it is not for them to change the statute.[106] Since judges only interpret the statutes, any meaningful change has to come from Congress.[107]

A. Summary of Prior Reform Proposals

Prior reform proposals fall into two main categories: a mixed approach (state and federal) and a wholly federal approach.[108] The advocates of the mixed approach propose a refinement of the current dual-filing system.[109] The Federal Intellectual Property Security Act ("FIPSA") is a comprehensive reform proposal that adopts a mixed approach.[110] Since the FIPSA proposal is representative of other mixed approach proposals, this paper will consider it in some detail. Under FIPSA's approach, financing statements would be filed in the state UCC records.[111] The UCC would govern priority, the competition among various creditors and enforcement.[112] UCC filings would then create priority against lien creditors and secured creditors but not priority against subsequent purchasers for value.[113] To get priority against subsequent purchasers for value, a creditor would have to file a notice of her security interest at the PTO in the form of a new "federal financing statement."[114] The financing statement would then be

106 *See, e.g.*, *id.*

107 *Id.* at 1055–56 ("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.").

108 *See* Baldwin, *supra* note 86, at 1721 n.102 ("[A] wholly state approach based on the UCC might be considered. Such an approach, however, has been uniformly rejected as unpractical . . . .").

109 *See* Federal Intellectual Property Security Act, § 3(b), http://www.abanet.org/intelprop/106legis/fipsa.html (last visited Oct. 24, 2008) [hereinafter FIPSA] (a proposal for a mixed approach adding a federal notice filing system); PERMANENT EDITORIAL BD. FOR THE UNIF. COMMERCIAL CODE, REPORT OF THE ARTICLE 9 STUDY COMMITTEE 18–19 (1992) (proposing a mixed system with a federal tract and notice system); Weinberg & Woodward, *supra* note 104, at 93–94 (proposing an enactment of a new federal Article 9 to control security interests and filings for patents and trademarks, including the creation of a new federal office with a UCC type filing system and filings indexed by debtor's name).

110 FIPSA was prepared by the Task Force on Security Interests in Intellectual Property, Business Law Section of the American Bar Association. It proposed a broad reform of intellectual property rights. *See generally* FIPSA, *supra* note 109. This article will focus only on the parts that pertain to trademarks.

111 *Id.* § 3(b)(2)(A).

112 *Id.*

113 *Id.* § 3(b)(2)(B).

114 *Id.* § 3(a).

filed and indexed under the debtor's name, as opposed to the current system of filing according to a description of collateral.[115] Such a reform would require the creation of a federal notice filing system, since trademarks are currently indexed by their unique registration numbers.[116] The idea for how to build such a system was recently described by a commentator who proposed the creation of "a separate federally-managed database."[117] The database would be accessible to all the states.[118] 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" for intellectual property.[119]

The proposed mixed filing system can be criticized on several levels. The transformation to a federal notice filing system would be a step backwards, from the certainty of identifying trademark collateral in the PTO by a unique number to the highly uncertain and troublesome system of searching and indexing filings by the debtor's name.[120] Additionally, under this proposal, the perfection of a security interest is accomplished solely by a UCC filing; the filing in the PTO acts as mere notice of the security interest's existence.[121] Thus, a lack of a filing in the PTO will not prevent perfection, but without a second filing in the UCC system a secured party would lose its rights in the collateral as a result of a subsequent sale or assignment of collateral.[122] Thus, this mixed approach does not improve the current system because its main problem remains present. A creditor is still required to make two separate filings and is still in danger of losing her rights if she fails to make any of the filings.

The second category of proposals advocates the creation of a wholly federal system for the perfection of security interests in trademarks.[123] Such

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115 *Id.* § 3(b)(4)(A)(ii); 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 BYU L. REV. 111, 117 (2007).

116 Ward, *supra* note 45, at 460.

117 *Id.*

118 *Id.*

119 *Id.* at 461.

120 Livingston, *supra* note 115, at 145–46 (searches in the UCC records conducted by a debtor's name cause countless problems of uncertainty).

121 FIPSA, *supra* note 109, § 3(b)(2)(A).

122 *Id.*

123 Baldwin, *supra* note 86, at 1732 (criticizing the mixed approach and stating that only a wholly federal system can fulfill the current business needs in the area of intellectual property); Brennan, *supra* note 79, at 309 (the PTO should handle all the filings of security interests in

proposals state that the Lanham Act should be amended and the new language should preempt the UCC in regulating perfection and priority of security interests in trademarks.[124] 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 dual-filing systems would be resolved. This wholly federal system was nevertheless criticized.[125] The main point of criticism was that the federal filing system is a tract system, which denies the ability of searching PTO records by a debtor's name.[126] Furthermore, the federal system does not address the troublesome three-month grace period for filing assignments of trademarks.[127] The following sections provide a proposal that would eliminate the need for dual filing and address the criticism directed towards a wholly federal filing system.

B. Require Filing of Registered Trademark Security Interests in the Trademark Office

1. Eliminate the Dual-Filing System for Trademarks

Section 1060 of the Lanham Act should be amended to eliminate dual filing. The amendment should clearly preempt the UCC Article 9 rules of perfection and priority.[128] Perfection should require that all interests affecting trademarks 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 shortened to a ten-day period. Currently, the Lanham Act gives an assignee three months following the assignment to record the transfer.[129] An assignee who records the assignment within the three-month period will gain priority

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trademarks); Haemmerli, *supra* note 9, at 1732 (proposing an alternative system in which security interests in federally registered trademarks should be governed by the Lanham Act and security interests in common law trademarks should stay under the control of the UCC).

124 *E.g.*, Brennan, *supra* note 79, at 308–09.

125 Baldwin, *supra* note 86, at 1736.

126 The PTO filings are indexed by the registration number of the trademark. *Id.* ("The most substantial obstacle to reform is the current federal tract-filing system.").

127 *See* Brennan, *supra* note 79, at 309 ("[The proposed system should] [p]rovide that any transfer is void as against any subsequent use transfer, unless such is recorded in the PTO within three months of its date of execution . . . ." (alterations added)).

128 *Id.* at 308 ("It would seem appropriate to amend the Lanham Act to allow recording of assignments, exclusive licenses, non-exclusive licenses, 'mortgages' including 'security interests,' and judicial sales in both rights and royalties.").

129 15 U.S.C. § 1060(a)(4) (2006).

over a security interest creditor. Accordingly, a lender who secures a loan by a trademark has at least a three-month waiting period before being able to safely advance the money.[130] Thus, shortening the current grace period to ten days would considerably increase certainty and the commercial feasibility of trademark-secured financing. This change would also permit the introduction of clear rules of priority among secured creditors, lien creditors and bona fide purchasers for value.

The following should be the main priority rule: 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 similar to UCC § 9-317 to clarify the priorities among secured creditors, lien creditors and bona fide purchasers or licensees. A bona fide purchaser or a licensee would take a trademark free of a security interest if she paid value without knowledge of the security interest and before it has been recorded in the PTO.[131] Additionally, a person who becomes a lien creditor before a security interest is perfected will have priority over such a security interest.[132] 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 address Judge Kozinski's concerns about the need for both one system and precision in security interest filings.[133]

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 has the capability to handle the filings of security interests in trademarks; it already accepts such filings.[134] Second, each trademark registered in the PTO obtains a unique registration number by which the registered trademark can be searched. Searches by this registration number or by the trademark's name would eliminate the highly uncertain and troublesome system of searching by the debtor's name, which currently exists in the UCC system. In fact, the debtor's name was adopted as the best way information could be stored and searched for collateral that does not have a unique identifi-

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130 Weinberg & Woodward, *supra* note 104, at 86.

131 This proposal is similar to UCC § 9-317(d).

132 This proposal is similar to UCC § 9-317(a)(2)(A).

133 *See In re* Peregrine Entm't, Ltd., 116 B.R. 194, 201 (C.D. Cal. 1990).

134 The PTO uses Form PTO-1594, which contains the term "security agreement" on a list of conveyances that can be recorded with the PTO. U.S. Patent and Trademark Office, Form PTO-1595, http://www.uspto.gov/web/forms/pto1594.pdf (last visited Oct. 26, 2008).

er.[135] Trademarks do not fall within that group. Each trademark has a unique identifier—a number that should also be utilized for purposes of simplifying searches. Additionally, the Trademark Electronic Search System, a search system available on the PTO website, is capable of searching the PTO database using the trademark's name, trademark owner's name (which is similar to a search by debtor's name) and many other categories.[136] Consequently, the recording of all filings in this one office would not only be easier for filers, but would also ease the process for searchers.

2. Require Dual Filings for Security Interests in Both a Business and a Trademark

Currently, parties who choose to secure a loan with both the trademark and a security interest in the underlying business are likely to make two filings. That is due to the Lanham Act's anti-assignment-in-gross rule.[137] This rule prohibits the assignment of trademarks without the underlying goodwill of the business in which it is used.[138] This limitation on 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.[139] There-

135 *See* LOPUCKI & WARREN, *supra* note 5, at 292–93 ("[F]or most kinds of collateral governed by the Article 9 filing system . . . the assignment of identification numbers is impractical. Nor would it be practical to index directly by the description of collateral. . . . Article 9 filing officers index financing statements only by the name of the debtor.").

136 Trademark Electronic Search System, http://www.uspto.gov/main/trademarks.htm (follow "Search" hyperlink, then follow the "Free Form Search (Advanced Search)" hyperlink) (last visited Nov. 13, 2008).

137 *See* 15 U.S.C. § 1060(a)(1) (2006) ("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."); s*ee also* Irene Calboli, *Trademark Assignment "With Goodwill": A Concept Whose Time Has Gone*, 57 FLA. L. REV. 771, 773 (2005) ("[T]he rule 'against assignment in gross,' is currently incorporated in Section 10 of the Trademark Act of 1946 (Lanham Act) and rests on the assumption that trademarks do not exist per se but only as symbols of the goodwill that has been established by businesses while using the marks.").

138 *See* 15 U.S.C. § 1060(a)(1).

139 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:3 (4th ed. 2008) ("Use of the mark by the assignee in connection with a different good will and different product may result in a fraud on the purchasing public, who reasonably assume that the mark signifies the same nature and quality of goods or services, whether used by one person or another. The law's requirement that good will always go with the trademark is a way of insuring that the assignee's use of the mark will not be deceptive, and will not break the continuity of the thing symbolized by the assigned mark. . . . The central purpose of the technical rules regarding the assignment of trademarks is to protect consumers . . . .").

fore, the prohibition of separating a trademark and the business associated with it was meant to prevent consumer deception.[140] Such deception would result from a change in the quality of the goods that consumers associate with a trademark after it is sold.[141] Consequently, many commentators have concluded that, while the taking of a security interest in a trademark standing alone is possible, it is not advisable.[142] Transferring a trademark without the goodwill of the business from a debtor to a creditor in a foreclosure can actually be invalidated as an assignment-in-gross.[143]

Accordingly, under the proposed reform two filings would be needed if the security interest is in both the trademark and the underlying business. One filing would be in the PTO for the trademark itself. The second filing would be in the state UCC record to perfect the security interest in the equipment, inventory, accounts and other typical property of a business.

Nevertheless, it appears likely that the prohibition of assignments-in-gross, which causes the need for double filings, will cease to exist in the near future. It is worth noting here that over time the rule prohibiting assignments-in-gross has become a pure formality with no real application in practice.[144] Additionally this rule has been eliminated in most countries around the world.[145] Thus, commentators have advocated for an amendment in the United States that would allow free transferability of trademarks without goodwill.[146] Such an idea was already adopted within the provisions of the North American Free Trade Agreement affecting intellectual property.[147] Although the treaty's requirement

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140 *Id.*

141 *Id.* § 18:10.

142 *See id.* § 18:7; Ward, *supra* note 45, at 405–06.

143 Marshak v. Green, 746 F.2d 927, 929, 931 (2d Cir. 1984).

144 *See* MCCARTHY, *supra* note 139, § 18:10.

145 *See* 2 STEPHEN P. LADAS, PATENTS, TRADEMARKS AND RELATED RIGHTS: NATIONAL AND INTERNATIONAL PROTECTION § 617 (1975) ("[I]n most of the world today trademarks may be assigned without the goodwill of a business."); Susan Barbieri Montgomery & Richard J. Taylor, *Key Issues*, *in* WORLDWIDE TRADEMARK TRANSFERS: LAW AND PRACTICE 1, 1, 22 (5th ed. 1998) (stating that trademarks should be made assignable without any restrictions or formalities, and indeed "an ever decreasing minority of countries impose some form of [goodwill] requirement" for trademark transfers (alteration added)).

146 *See, e.g.*, Calboli, *supra* note 137, at 833 ("[T]he most reasonable solution to restore consistency between [Lanham Act §] 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.'" (alteration added)).

147 North American Free Trade Agreement, U.S.-Can.-Mex., Dec. 17, 1992, 32 I.L.M. 605, art. 1708:11 (1993) ("A Party may determine conditions on the . . . assignment of trademarks, it

to eliminate the prohibition of assignments-in-gross has not yet been implemented by Congress,[148] the likelihood of an implementation seems great, since most other countries have already eliminated all of the restrictions on selling and buying trademarks without the goodwill of the underlying business.[149] 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 the financing needed for further growth.[150] Moreover, supporters 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.[151] Thus, the prohibition is out of touch with reality.

Furthermore, courts have already started moving towards relaxing the prohibition of naked assignments by allowing businesses to license the use of a trademark, which basically allows the use of a trademark by a different business without the use of the owner's good will.[152] A clear example of this practice is demonstrated by Cherokee, Inc.'s strategy to change from a company that manufactures goods bearing the "Cherokee" trademark to a company whose primary business is the marketing and licensing of the "Cherokee" trademark.[153] Licensed retailers use the trademark "Cherokee" on merchandise even when the merchandise is of a type previously manufactured by Cherokee, Inc.[154] Another

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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.").

148 Ward, *supra* note 45, at 406.

149 *See* Montgomery & Taylor, *supra* note 145, at 1.

150 *See* Calboli, *supra* note 137, at 833; Allison Sell McDade, Note, *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 (1998).

151 *See* LADAS, *supra* note 145, § 617.

152 *See* Lisa H. Johnston, Note, *Drifting Toward Trademark Rights in Gross*, 85 TRADEMARK REP. 19, 19 (1995) (illustrating four examples of how trademark protection has drifted toward allowing trademark rights in gross: "(1) trademark licensing, with particular regard to promotional trademark licensing, (2) protection for trade dress absent a showing of secondary meaning, (3) protection for trademarks with secondary meaning in the making, and (4) dilution protection accorded by state statutes").

153 Cherokee, Inc., Quarterly Report (Form 10-Q), at 12–13 (Aug. 30, 1996), *available at* http://www.sec.gov/Archives/edgar/data/844161/0000944209-96-000280.txt.

154 *Id.* ("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 brand . . . . The Company's current operating strategy emphasizes retail direct licensing whereby the Company grants retailers the li-

example of when a trademark was separated from the goodwill of the business is Sara Lee Corp.'s sale of its manufacturing operations and subsequent outsourcing of its product production.[155] As a result, Sara Lee Corp. became a distributor of products bearing the trademark "Sara Lee" that were produced by other businesses, rather than the trademark owner.[156] Furthermore, since trademarks have been routinely sold without accompanying goodwill, courts have refrained from invalidating such transfers and, instead, have ordered the transfers themselves.[157] In *Trimarchi v. Together Development Corp.*,[158] the court ordered the sale of a trademark because it was one of the debtor's assets.[159] Similarly, a federal bankruptcy court approved the sale of Pan Am's trademarks to Eclipse Holdings, Inc., which made the purchase in order to use the "Pan Am" trademark in its communications business.[160] Accordingly, the situations where a double filing is needed will tend to decrease in number and, after Congress repeals the anti-assignment-in-gross rule, double filing will cease entirely. For now, the parties who chose to secure a loan with both the trademark and the business will likely choose to make two filings, with each filing securing a different part of the collateral. The filing in the UCC will perfect a security interest against the business and the filing in the PTO will only pertain to the trademark. It seems that such a division is more intuitive than the current system since the creditors have

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cense to use the Cherokee trademark on certain categories of merchandise, including those products that the Company previously manufactured.").

155 Lynn M. LoPucki, *Virtual Judgment Proofing: A Rejoinder*, 107 YALE L.J. 1413, 1434 (1998).

156 *Id.* ("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.").

157 *See, e.g.*, Trimarchi v. Together Dev. Corp., 255 B.R. 606, 611 (D. Mass. 2000); *Company News; Pan Am's Name and Logo Are Sold for $1.3 Million*, N.Y. TIMES, Dec. 3, 1993, at D3, *available at* http://query.nytimes.com/gst/fullpage.html?res=9F0CEEDA1638F930A35751C1A965958260 (last visited Oct. 25, 2008) [hereinafter *Company News*] ("A Federal Bankruptcy Court judge in Manhattan approved yesterday the sale of Pan Am's name and trademark logo for $1.3 million to Eclipse Holdings Inc. . . . The group . . . [was] assembled specifically to buy the Pan Am trademark . . . ." (alteration added)).

158 255 B.R. 606 (D. Mass. 2000).

159 *Id.* at 607 ("Trimarchi objected to the sale of the Trademark, claiming that it was precluded by the earlier 'assignment.' The Bankruptcy Court overruled the objection . . . .").

160 *Company News*, *supra* note 157, at D3; *see* Pan Am. World Airways, Inc. v. Flight 001, Inc., No. 06 Civ. 14442(CSH), 2007 WL 2040488, at *2 (S.D.N.Y. July 13, 2007) (discussing Pan Am's bankruptcy proceedings).

to deal with a similar division if, for example, the collateral is a business coupled with a personal motor vehicle[161] or an aircraft.[162]

C. Continue Filing of Unregistered Trademarks in UCC

Security interests in trademarks that have not been federally registered with the PTO would still be filed in the state UCC system. The reasoning behind this proposal is similar to the court's reasoning in *In re World Auxiliary Power*,[163] which related to an unregistered copyright.[164] The Lanham Act should continue to govern only federally registered trademarks, just like the Copyright Act governs only registered copyrights.[165] This way the Lanham Act will preempt the UCC entirely for registered trademarks, leaving unregistered trademarks 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 use in commerce and thus protected under the common law.[166] The federal registration of a trademark is voluntary and acts only as an enhancement of the owner's common law rights.[167] In case the Lanham Act was to preempt the UCC for unregistered trademarks, registration would become necessary to perfect a trademark's security interest. The reason for this is that 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 an unregistered trademark's security interest. Consequently, the PTO cannot grant the force of constructive notice for the filing of a security interest in an unregistered trademark; thus, unregistered trademarks would become useless in secured transac-

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161 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; 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. LOPUCKI & WARREN, *supra* note 5, at 354.

162 49 U.S.C. § 44107 (2006).

163 303 F.3d 1120 (9th Cir. 2002).

164 *See id.* at 1131.

165 *Id.*

166 *See* Haemmerli, *supra* note 9, at 1656 (describing the character of trademarks as rights acquired through and enhanced by voluntary federal registration).

167 15 U.S.C. § 1051(a)(1) (2006) ("The owner of a trademark used in commerce may request registration of its trademark . . . ."). Permissive federal registration provides many advantages to the trademark owner, such as nationwide constructive notice of the trademark owner's claim. *Id.* § 1072. Other advantages include "prima facie evidence of the validity of the registered mark and of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark." *Id.* § 1057(b).

tions.[168] Accordingly, because unregistered trademarks exist and have value, registration should not be a prerequisite to the perfection of a security interest in them. Since an unregistered trademark would not have the Lanham Act's unique identification number, perfection for an unregistered trademark would be made by filing a financing statement in the state UCC records under the name of the debtor.

D. Parallels with the Copyright System

The proposed reform of the trademark law would result in a single filing system similar to the copyright system that has existed since the landmark case *In re Peregrine*.[169] Additionally, the proposed system has three advantages over the copyright system. First, legislative reform would bring certainty unlike such practices arising out of judicial interpretation, which, however 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.[170] The *Peregrine* court had to find language in the copyright statute that would also deal with a priority contest between a lien creditor and a secured creditor.[171] With hypothetical statutory construction, the court found a federal priority rule that allowed a trustee (hypothetical lien creditor) to avoid a prior unrecorded transfer of a copyright.[172] This has been referred to by at least one commentator as "the weakest part of the *Peregrine* opinion."[173] The proposed reform, described above, does not suffer from such a weakness, because a rule similar to the UCC would explicitly address the priority rules between secured creditors and lien creditors.[174] Finally, the proposed reform would eliminate the

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168 *See In re* World Auxiliary Power, 303 F.3d 1120, 1132 (9th Cir. 2002) (reasoning that if the federal copyright law preempted the UCC for security interests of both registered and unregistered copyrights, such a step would make the registration of a copyright a necessary prerequisite to perfecting a security interest in copyrights, and would thus make unregistered copyrights practically useless as collateral).

169 *See id.* at 201–03 (stating that the Copyright Act § 205(d) warrants a full preemption of the UCC procedures of perfection and priority rules and, thus, the U.S. Copyright Office is the proper place to perfect security interests in copyrights).

170 *See* 17 U.S.C. § 205(d) (2006); *see also In re* Peregrine Entm't, 116 B.R. 194, 205 (C.D. Cal. 1990) ("Section 205(d) does not expressly address the rights of lien creditors, speaking only in terms of competing transfers of copyright interests.").

171 *Peregrine*, 116 B.R. at 205–06.

172 *Id.*

173 Ward, *supra* note 45, at 416.

174 The proposed rule would adopt a priority canon of UCC § 9-317(a)(2)(A).

three-month grace period for the filing of a trademark transfer. The removal of this lengthy grace period would add to the certainty of the system. The Copyright Act § 205(d) grace periods of one and two months were not eliminated by the *Peregrine* decision,[175] so from this standpoint the proposed trademark system would also introduce more certainty than currently available in the copyright filing system.

CONCLUSION

This article has presented some of the difficulties and inefficiencies of the current system, which requires recording trademark security interests in multiple locations. This article reports findings of an empirical study that confirms 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 to perfect security interests in trademarks were also unsuccessful. Consequently, only legislative change can solve the dilemmas that creditors face when lending against trademarks. The proposed reform could eliminate many of the current problems, which in turn leads to decreased transaction costs and certainty in how to perfect creditors' security interests. This proposal also addresses how creditors can obtain their desired priority over other entities. Most importantly, the proposed use of a single federal filing system for recordation of all transactions involving federal trademarks would introduce certainty in secured transactions involving trademarks as collateral.

175 *See* 17 U.S.C. § 205(d) (2006).

APPENDICES

APPENDIX 1—RESEARCH METHODOLOGY

A. Sample Selection

The sample set of this study consisted of trademarks first registered with the PTO in 2006. The optimal year to study was 2006 since it was the most recent full year for which complete information was available.[176] For example, data for 2007 was unavailable due to delays by both the PTO and the states in processing filings submitted by creditors.[177] Delays of up to two months for PTO filings were probable.[178] Therefore, many trademarks registered in 2007 would not yet be encumbered, since a trademark owner does not typically borrow against a trademark until twelve to sixteen months after registration.[179]

A Lexis-Nexis search[180] located 4,790 trademarks registered in 2006 in which creditors had recorded security interests with the PTO by January 2008.[181]

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176 The empirical study was conducted in early 2008.

177 *See* LOPUCKI & WARREN, *supra* note 5, at 277 ("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."); *see also*, *e.g.*, Texas Secretary of the State, http://direct.sos.state.tx.us (last visited Oct. 22, 2008) (stating that delays in UCC filings should be expected due to an action of removing social security numbers from financial statements).

178 William J. Murphy, *Proposal for a Centralized & Integrated Registry for Security Interests in Intellectual Property*, 41 IDEA 551, 555 (2002). According to the PTO website, the office accepts filings by fax, an online filing system or mail. U.S. Patent & Trademark Office, Change of Owner (Assignments) & Change of Owner Name, http://www.uspto.gov/web/trademarks/workflow/assign.htm (last visited Oct. 22, 2008). Documentation sent by mail would be the main area of concern, considering that the mail is the slowest means of transporting documentation and would take the longest time to process the documentation sent to the UCC office by mail.

179 *See infra* Appendix 2. Most security interests in trademarks are created twelve to sixteen months from the trademark registration, if not later. The number of security interests created in the first six months after the trademark registration is considerably smaller. Thus, trademarks registered in the second half of 2007 would have had less than six months to be encumbered. Consequently, the study would not uncover all of the security interests typically created.

180 The Lexis-Nexis database "Federal Trademarks" contains information about federal trademarks recorded by the PTO and licensed to Lexis-Nexis by CCH Corsearch. Each document contains information on the trademark name, status, registration, the associated goods and services, current and prior owners and current and prior assignment records.

181 The search term "ASSIGNMENT (security w/2 interest)" was used, and the results were restricted by date to retrieve only trademarks registered in 2006.

From this set of encumbered trademarks, a sample of 250 trademarks were selected at random (or about 5% of the set). This sample allows one to conclude with 95% confidence that the margin of estimation error in the study is not greater than +/- 4.4%.[182]

A study of a smaller group of trademarks would increase the margin of error, but a study of 500 trademarks would only lower the margin of error by about 1%. An increase in sample size, therefore, was not warranted, given the insignificant improvement in the statistics achieved by doubling the size of a sample and the limited resources available for this study. A sample size of 250 trademarks was sufficient to reach the desired approximation for this study.

Although the study included 250 trademarks, the findings are based on only 247 of them.[183] These 247 trademarks were included because the entities that owned these trademarks were organized under state law. The proper place for filing security interests against those entities is the UCC records of the state under whose law the entity was organized.[184] The state UCC records of all fifty states were easily accessible and made this study easier to conduct. Three of the original 250 trademarks were excluded because their owners were organized outside of the United States. According to UCC Article 9, the proper place for the perfection of security interests against non-U.S. entities depends on information about the owner of the trademark and the law of the jurisdiction under which it is organized, which was unavailable.[185] For example, 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 UCC records for the state where the entity's chief executive office is located.[186]

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182 This is in accordance with the basic principle of statistics that the larger the sample in relation to the universe, the more precise result the study will render. *See* EARL BABBIE, THE PRACTICE OF SOCIAL RESEARCH 189 (5th ed. 1989) ("[A] large sample produces samples with smaller sampling error than a small sample.").

183 Three of these trademarks were excluded because they were owned by entities organized outside of the United States; thus, leaving a sample size of only 247 trademarks.

184 *See* UCC §§ 9-301, 9-307(e) ("A registered organization that is organized under the law of a State is located in that state.").

185 *See id.* §§ 9-301, 9-307(c). According to the UCC, the 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. *Id.* §§ 9-301, 9-307(c).

186 *See id.* § 9-307(c). In cases where the debtor is a non-U.S. entity located only in a jurisdiction that 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 id.*

B. Research Design

The main objective of the study was to see how often creditors who filed security interests with the PTO failed to record those security interests in the state UCC system.

The Lexis-Nexis database was used to obtain data about security interests in trademarks issued by the PTO. The database contained information about the existing security interests in each trademark included in the random sample, including the name of the assignor, the name of the assignee and the state in which the trademark's owner is organized. A Westlaw database was used to determine if a financing statement was recorded against the same debtor by the same creditor in the appropriate state UCC system.[187]

When a UCC financing statement listed a debtor's name that matched the debtor's name listed in the PTO records, a timing rule was applied to determine if the filing was a match. Specifically, a security interest was considered to be perfected if a financing statement was recorded in the state UCC records within six months of the execution of a security agreement between the parties.

Approximately 13% of the trademarks in the sample had multiple security interests recorded with the PTO. The search of the state UCC records was confined to the security interests that were created by the earliest of the security agreements. Yet, for the majority of trademarks with multiple security interests, all of the security interests were created on the same date. For those records, the

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§ 9-307(b),(c) & cmt. 3 for the proposition that 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 and that 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* Lorin Brennan, *Financing Intellectual Property Under Revised Article 9: National and International Conflicts,* 23 HASTINGS COMM. & ENT. L.J. 313, 343–58 (2001) (overview of rules governing the proper filing and search location for security interests based on where the debtor is located).

187 To access this database from the Westlaw Directory, follow the "Public Records" hyperlink, then follow the "State Files" hyperlink, then follow the "Business & Corporate State Files" hyperlink and then follow the "UCC Filings By State" hyperlink. This database holds UCC records from all fifty states and the District of Columbia. The information contained in this database usually includes assignor names and addresses, filing number, date of filing, secured parties, 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, to identify or confirm financial relationships, and to determine the type and extent of collateral used to secure the indebtedness. The ultimate source of this information is the respective Secretary of State or county-level filing offices.

state UCC records were searched for the security interest that appeared first on the PTO summary document.

The collateral description was not considered in this study, even though the general rule of UCC Article 9 notes that a financing statement's sufficiency depends, among other things, on containing a collateral description.[188] This departure from the general requirements of UCC Article 9 was taken for three reasons. First, the Westlaw database search of the state UCC records only used the UCC index. As such, copies of actual financing statements were not retrieved and the parties' actual description on an original filing was unknown. Instead, a Westlaw search result webpage was reviewed, which listed information about the parties but omitted information on the collateral description. Information regarding the Westlaw database shows that only selected records contain a description of collateral. Therefore, using this data was impractical. Second, collateral descriptions for specific trademarks were reviewed, but the information provided would not satisfy the UCC requirements for a collateral description if placed on a financing statement.[189] These descriptions, however, may have been altered by Westlaw. Finally, it is general knowledge that "[t]he purpose of a 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."[190]

A security interest in a trademark was considered unperfected in two situations: (1) where the search of UCC financing statements through Westlaw returned no records for a party indicated as assignor in the PTO database and (2) where the search of UCC financing statements through Westlaw returned a security interest filed against an assignor in the PTO database, but none of these financing statements were filed within six months of the execution of a security agreement by a party indicated as an assignee in the PTO database.

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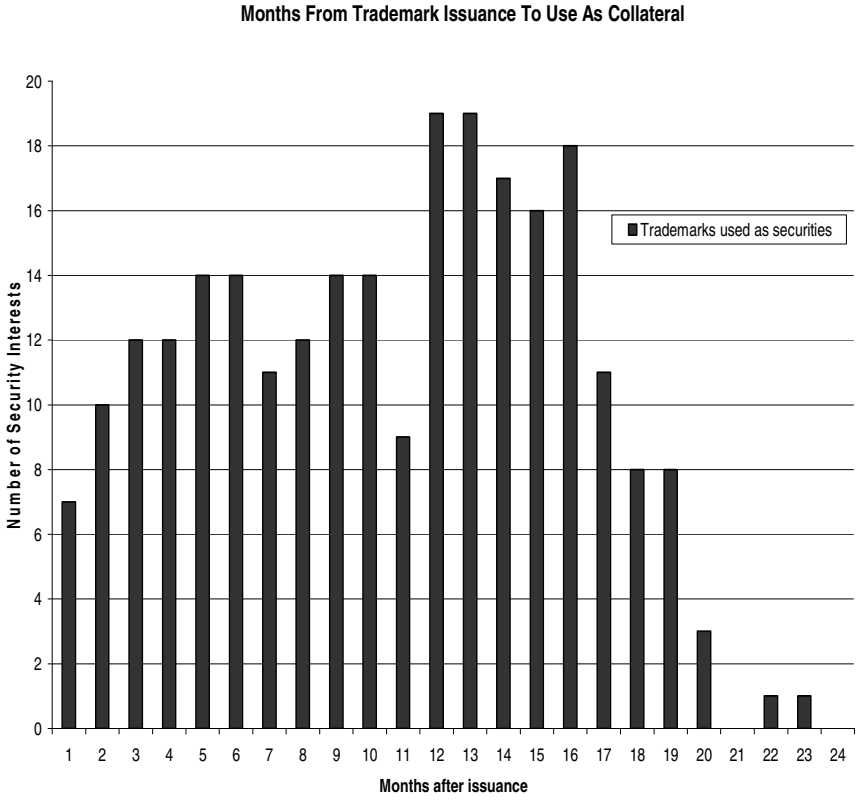
188 *See* UCC § 9-502(a)(3) (2000) ("[A] financing statement is sufficient only if it . . . indicates the collateral covered by the financing statement.").

189 I found the following descriptions on the Westlaw webpage: "unspecified," "right title and interest including proceeds and products" and "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.

190 RAY D. HENSON, SECURED TRANSACTIONS UNDER THE UNIFORM COMMERCIAL CODE 64 (2d ed. 1979). A similar idea was expressed by the court in *Magna First National Bank & Trust Co. v. Bank of Ill.*, 553 N.E.2d 64, 66 (Ill. App. Ct. 1990).

APPENDIX 2—TIME LAPSE BETWEEN DATE OF A TRADEMARK RECORDATION AND CREATION OF A SECURITY INTEREST IN THAT TRADEMARK



APPENDIX 3—ENTITIES WHO DID NOT FILE IN THE UCC RECORDS TO PERFECT THEIR SECURITY INTEREST IN A TRADEMARK

Name	Number of missed filing(s)		
	Bank	Non-bank entity	Individual
Bank of America	5		
JP Morgan Chase Bank	4		
Wells Fargo Bank	3		
Comerica Bank	2		
Bank of Oklahoma	1		
Beal Bank, S.S.B.	1		
Cole Taylor Bank	1		
National City Bank	1		
North Fork Bank	1		
PNC Bank	1		
Royal Bank of Canada	1		
Silicon Valley Bank	1		
The Governor and Company of the Bank of Scotland	1		
Wachovia Bank	1		
Wells Fargo Foothill	1		
MMV Financial, Inc.		1	
Orix Venture Finance, LLC		1	
1903 Onshore SPV/GB Merchant Partners, LLC		1	
Abiomed, Inc.		1	
CIT Group		1	
Columbia Partners		1	
France, John P.			1
General Electric Capital Corp.		1	
Integrated Group Assets, INC.		1	
Lehman Commercial Paper, Inc.		1	
Madison Capital Funding, LLC		1	
Merrill Lynch Capital		1	
Distribution of missed filings among banks, non-bank entities and individuals.	**25**	**11**	**1**