COLLOQUIUM ON SECURITY INTERESTS
IN INTELLECTUAL PROPERTY
Vienna, 18-19 January 2007

SECURITY RIGHTS IN TRADE-MARKS / CREATION OF SECURITY INTERESTS

How are Security Interests in trademarks created?

THILO C. AGTHE[1]
Chair, Security Interests Subcommittee of the Emerging Issues Committee,
International Trademark Association (INTA);
Senior Counsel, Wuersch & Gering LLP
New York, NY, United States

A security interest in trademarks may be created when a trademark owner needs to borrow money but cannot obtain the funds unless some collateral is put up for the loan. Such funds may be needed to obtain machinery for manufacturing goods that bear the mark or for any other business purpose. In such a case, the borrower may grant a lender a security interest in his trademark or marks in order to obtain the necessary money.

In most cases, in order to give a lender a security interest, the borrower will sign a security agreement. Generally speaking (and this is the case under U.S. law), if the collateral is in the possession of the lender under an agreement with the debtor, no written security agreement is required. However, since a trademark is not a movable object, i.e., not personal property in the traditional sense, this will almost never be the case, except in jurisdictions that favor the “collateral assignment” version of security interests in trademarks.

The concept of collateral assignments involves the transfer of record ownership from the debtor to the lender. In other words, the trademarks which are pledged as collateral for a loan are actually assigned to the lender – a change of ownership takes place, which is then revered when the loan is paid off. For the following reasons, the “collateral assignment” approach (which usually involves the granting of a “license back” to the debtor) should be disfavored:

1. In many jurisdictions, only the record owner of a trademark registration is permitted to maintain and renew the registration in the local trademark office.

2. In jurisdictions where the forgoing restriction is not an issue, the lender may still be required to attest to the ongoing use of the mark in commerce. However, the lender may not have such first-hand knowledge and, therefore,

[1] The author wishes to note that the opinions expressed in this paper are entirely his own. Except as noted herein, they should not be imputed to the International Trademark Association.

may not be in a position where it can make the required affidavits or statements under oath.

3. The collateral assignment may put the lender in the position of having to pursue infringers in court or administrative actions. Failure to adequately police trademarks and failure to pursue infringers with adequate vigor may lead to loss of trademark rights

4. Many jurisdictions require that assignments of trademarks must be accompanied by an assignment or transfer of the goodwill associated with the trademark. However, in most collateral assignment situations, no goodwill is transferred. In many jurisdictions, such “naked assignments” may lead to a loss of all trademark rights.

It should be noted that, for the most part, lending institutions are neither equipped nor willing to expend the administrative effort required for the policing, maintenance and renewal of trademarks. These matters are best left to the owner of the mark, who is in the best position to handle these matters. Furthermore, trademarks are not, as is often erroneously believed, product names. Rather, they are source indicators which allow the consumer and/or purchaser of goods or services to determine the source of those goods or services. As such, they can carry significant value and very often, particularly where high-value goods are concerned, a company’s reputation may depend on the public’s perception of the quality associated with a mark. It is, therefore, easy to understand why trademark owners are usually extremely adverse to the idea of transferring ownership of a mark to a lender.

It is not necessary that the security agreement to contain a detailed description of each item of collateral. For example, it is not strictly necessary to include the serial or registration numbers of each trademark in order for the trademark or marks to be subject to the security agreement, though this information will be of great importance when we deal with the issue of perfection and recordation of the trademark security interest. Generally, a description should be valid when it reasonably identifies the collateral. However, overly broad collateral descriptions should also be avoided.

Besides the required terms, the security agreement may have additional terms that deal with the borrower's rights with regard to the disposition, licensing or assignment of the trademarks. Most trademark security agreements provide restrictions on the trademark owner's ability to assign the marks during the pendency of the loan. Some agreements may completely prohibit any assignments and may even restrict the borrower’s ability to license the marks to third parties. Others may allow such assignments and licensing subject to restrictions on how the assignee or licensee is to pay the trademark owner, such as requiring that the lender's name appear on any checks issued in payment for the assignment or license.

Once an agreement has been executed, it is the general practice (where permitted by law) that the security interest is recorded in the local trademark office (the office in which the particular mark is registered). Many jurisdictions, though by no means all, permit and sometimes require the recordal of security interests pursuant to commercial law in order to make such interests effective against third parties. It is, therefore, not unusual for dual recordation to take place, meaning that the security interest is recorded both in the trademark office and in some other governmental office specifically authorized for such purpose. In the United States, just to give an example, security interests in movable goods are recordable in the office of the Secretary of State in the state where the debtor is domiciled. Since these financing statements often also list intellectual property as collateral, it is not unusual that a recordation will exist in two places.

It is primarily in the field of security interests that trademark law and commercial law intersect. In 1989, the Business Law Section of the American Bar Association ("ABA") formed a task force on security interests in intellectual property (the "Task Force"). The ABA Patent Trademark & Copyright Law Section also formed an ad hoc committee to serve as liaisons to the ABA Business Law Section Task Force. The Task Force unanimously recommended adoption of what is known as the "mixed approach", under which security interests would be filed under Article 9 of the Uniform Commercial Code in the applicable state and supplemented by a new notice filing at the federal level (on a debtor's name basis) designed to establish priority over subsequent transferees/assignees. The state filing/filings would create priority against lien creditors, secured creditors and all third parties other than subsequent purchasers for value against whom the federal filing would be required to establish priority. In anticipation of the Task Force's conclusion, INTA's Board of Directors adopted a Resolution endorsing the "mixed approach" to the treatment of security interests on May 6, 1992.

While the practice of dual recordation should not be discouraged, where trademarks are concerned, recordal of security interests in the local trademark office should always be encouraged as "best practice" - even if it leads to a "dual-filing" system. This author would not wish to suggest that recordals such as in a jurisdiction's commercial registry should be done away with in favor of recordals solely in the trademark office. This is particularly important with respect to unregistered marks for which no application is pending in the local trademark office. Because no records will exist in the trademark office with respect to marks for which no applications have been filed, security interests affecting such marks should not be recordable in the trademark office. However, there is no reason why a trademark owner should not be permitted to pledge an unregistered trademark, if the lender agrees.