COLLOQUIUM ON SECURITY INTERESTS IN INTELLECTUAL PROPERTY

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DEFAULT REMEDIES AND ENFORCEMENT OF A SECURITY RIGHT IN A TRADE MARK

Background

The specific legal and commercial context of trade marks as intangible intellectual property poses particular challenges for a lender enforcing a security right:

- While the trade marks may be valuable as part of a functional business, they may be of little value as an independent asset to a lender.
- A lender will not necessarily wish to take on the burden of maintaining and enforcing a trade mark portfolio.
- The value of a trade mark portfolio may be compromised by an owner's failure to police it or by an allegation that use of the protected sign infringes third party IP.
- The rights in a charged portfolio may be subject to validity challenges.
- Trade marks protect the profile/reputation of a brand – the circumstances giving rise to a requirement by a lender to enforce security (the insolvency of the brand owner, for example) may already have significantly prejudiced the value of the goodwill in that brand and the value of the charged marks.

Remedies open to security right owners in circumstances of default will broadly be determined by the nature of the charge over the trade marks. This outline considers:

1. the importance of a registration process in supporting a security interest;
2. enforcement of equitable charges over registered marks (such as a fixed charge);
3. enforcement of legal mortgage over registered marks;

4. possible enforcement of equitable charges/legal mortgages over unregistered marks.

While the observations and conclusions in this outline originate from English law and practice, they have general application when considering structures for enforcing security holders' rights against trade marks. Specific enforcement practices will vary from jurisdiction to jurisdiction.

Registration process

The existence of and adherence to a process for the registration/recordal on a public register of assignments, licences and security interests in registered trade marks is fundamental to efficient enforcement processes.

Registration of assignments of a registered trade mark (for example to a lender taking a mortgage over those trade marks) will protect the assignee lender against third parties acquiring conflicting rights. Registration of security interests of beneficiaries with equitable charges over registered trade marks enables lenders to take priority by providing notice to subsequent assignees, licensees or parties seeking to take further security interests of the prior interest of the original charge holder.

Enforcement of an equitable charge over registered trade marks

Enforcement remedies available to the beneficiary of an equitable charge may be specified in the charging instrument/document which will also set out the circumstances in which those enforcement rights are triggered. Possible mechanisms include:

(a) express provision that an assignment of the trade marks is activated on the occurrence of a triggering event;

(b) the charging instrument/document may provide for the borrower to provide undated executed assignments to be held in escrow pending the occurrence of a default/triggering event;

(c) the borrower may be obliged to provide a signed power of attorney, also placed in escrow entitling the lender to execute appropriate assignments of the secured registered trade marks in the event of a default/triggering event.

Enforcement of the security may be by way of the appointment of an out-of-court or contractual receiver. The form of the receiver (whether an administrative receiver, a fixed charge receiver, a receiver only, a receiver and manager etc) will depend on the nature of the security package (what sort of charges have been taken and their coverage, for example). Following recent reforms to English insolvency law, administrative receivership is prohibited except in limited circumstances. Enforcement is, therefore, most likely to involve the appointment of a non-administrative receiver, in particular a "fixed charge receiver" where the only security the chargee has is a fixed charge over the trade mark. This fixed charge receiver would be appointed on the occurrence of a default/trigger event and would derive its powers from the charge document. Such powers will include a power to sell the charged assets (i.e. to assign the trade marks). The proceeds of such assignment would then go towards discharging the secured creditor's debt. The trade marks might also be assigned to the lender. However, see below for why selling/assigning trade marks may not be attractive.

The default/triggering events provided for in the charging instrument may comprise either general defaults, of the borrower's obligations to repay the debt for example, or breach of specific obligations to maintain the value of the secured registrations through consistent use, payment of renewal fees and the challenging of infringers.

Of course, a chargee may also seek to have the chargor placed into administration or liquidation. However, administration and liquidation are not, strictly speaking, enforcement remedies – the former is aimed at rescuing the business whereas the latter is aimed at winding up the affairs of the debtor and each is carried out for the benefit of all creditors, not just the secured creditor.

Legal mortgages over registered trade marks

While it is possible to assign registered trade marks to a lender by way of security, it is a commercially unattractive form of security. The borrower will need to use the trade marks in its business to maintain their validity/value. The assignment must therefore be accompanied by a licence back to the borrower supporting such use. It is also important that the borrower has the right to enforce the trade marks in order to maintain the value of the charged assets. Such a licence should also oblige the borrower to maintain and renew the registrations.

In the case of a legal mortgage, the lender will already own the charged registrations – since a mortgage involves the transfer of ownership in an asset, as distinct from an equitable charge which involves no transfer of interest. The default remedies open to it will include the ability to terminate the licence to the borrower thereby terminating the borrower's ongoing right to use the trade marks.

Mortgages/equitable charges over unregistered trade marks

In simple terms, unregistered trade mark rights do not make good security. Unregistered trade mark rights generally depend on common law principles of unfair competition or, in the UK context, the civil tort of passing off and will be intrinsically tied to the goodwill in a company. As a result, it is rarely possible to isolate them from the business and they do not maintain a value in themselves independent of the business as a whole.

Legal mortgages over unregistered trade marks (which require the assignment of those trade marks to the lender) are not generally feasible.

While it may be theoretically possible to take an equitable charge over unregistered trade marks, in practice, such a charge is likely to be indistinguishable from the general charge over the whole business as it will be inextricably linked with the goodwill in the business as described above.

The position of licensees

Often registered trade marks the subject of charges will also be the subject of licences granted by the borrower to third parties. In an enforcement situation, there will be a tension between the interests of the charge holder and any licensees:

(i) the charge holder may wish to acquire or deal in these secured trade marks without them being subject to licences granted by the borrower;

(ii) licensees will not want the enforcement of the charge or the transfer of the trade marks to or by the charge holder to prejudice their entitlement to use the trade marks under licence.

Licensees should consider two possible routes to protect their interests in trade marks licensed to them:

(1) national laws may provide for the registration of licensees' interests on the trade marks register. Registration will be deemed to put third parties on notice of those licensee interests. In an enforcement situation, a charge holder may then be bound to acquire any trade marks subject to those licensee interests;

(2) licensees could seek to include in their licences contractual protections enabling the licensee to acquire the trade marks in the case of default or "trigger" events. Such mechanisms could include:

(a) licensed trade marks being held on trust or in escrow for the benefit of the licensee with the requirement that on insolvency (or imminent insolvency) ownership or access to those rights be transferred to the licensee.

(b) A suspended assignment of trade marks which will be triggered on insolvency or termination events.

(c) A contractual option for the licensee to acquire the trade mark rights on trigger events.

Clearly, these mechanisms may overlap with the interests/objectives of chargors who wish to acquire charged rights free of licensee interests. Receivers or administrators may also be inclined to disclaim such licensee interests in circumstances where the exercise of the rights may detract from the value of the insolvent estate.

Conclusions

Security is most commonly taken over registered trade marks in the context of a "global" debenture. While a mortgage over registered trade marks is possible, the establishment of fixed charges is a more common form of security.

The debenture or other charging instrument will specify the default/trigger events which will activate the lender's defined rights over the charged trade marks.

In practice, the ultimate enforcement right will be for those trade marks to be assigned to the lender or sold to a third party, although this may be an unattractive solution for the lender as the value of the registered trade marks and the business may be prejudiced by the separation of one from the other.

Notwithstanding this, a lender's right to enforce by way of requiring the assignment of the charged registered trade marks will often offer the lender a strong leverage position in any default scenario (whether insolvency or otherwise) to protect its loan to/investment in a company.

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