

# Trade marks as collateral: a brief introduction

UNCITRAL Second International  
Colloquium on Secured Transactions

Security interests in intellectual property  
rights, Vienna 18 January 2007

Moderator:  
Professor Jeremy Phillips



# About this session

- Introduction to trade mark rights
- Issues concerning trade marks as collateral
- Case study
- Analysis of specific issues by panel of expert speakers

# 5 key features of trade mark law

1. Trade marks are property (so also - usually - are trade mark applications) and may in the domestic laws of many countries be held by a lender as security for a loan



# 5 key features of trade mark law

2. The quality of property in a trade mark may be destroyed in consequence of (i) absence of use accruing to the owner, (ii) adverse third party use that undermines its distinctiveness [examples: THERMOS in the US; WALKMAN in Austria].



# 5 key features of trade mark law

3. Even where a trade mark is validly registered, its commercial value and thus its value as collateral may be reduced or destroyed by factors unrelated to its manner of use [examples: the benzine scare involving PERRIER in the UK; limitations placed on the use of all tobacco brands in the EU and elsewhere; the obsolescence or marginalisation of goods or services for which the mark is registered:

EDISON BELL, NETSCAPE, WANG

and car brands like PANHARD, SIMCA, NSU, STUDEBAKER and almost every English car brand I can think of].



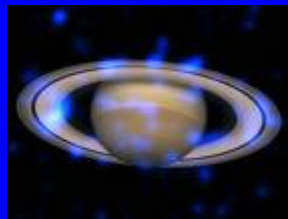


# 5 key features of trade mark law



4. A trade mark has no one objective value: assessment of the value of a trade mark depends upon which of a number of conflicting methodologies is used in order to achieve that objective. Problems are increased by the need to attribute value to a trade mark for one of several different purposes [examples: to inflate its value in order to ward off a prospective purchaser; to fix a transfer pricing value for an intra-company transaction; to find whether it is cheaper to create a new brand or buy an existing one; to calculate the damage caused by third party trade mark dilution].





# 5 key features of trade mark law



5. Trade mark registration is either national or regional in nature, but rights to it may extend to places in which it is (i) not registered at all [example: the protection accorded to famous marks under the Paris Convention] or (ii) not registered by a prospective borrower [for example, where it has been registered by a third party in bad faith]



# 5 key points for lending on trade mark collateral

1. Most trade marks have no ascertainable financial value unless (i) they are in use and (ii), in consequence of that use, they attract a stream of custom [example: SMIRNOFF for vodka, cf. SMIRNOFF for sight testing and the provision of reading glasses and contact lenses]





# 5 key points for lending on trade mark collateral

2. The lender will normally be unable to exploit the secured asset commercially itself and will often be hard pressed to find a single buyer willing to exploit that asset commercially [example, the portfolio of COLOROLL trade mark registrations in the UK]



# 5 key points for lending on trade mark collateral

3. There are typically two types of borrow that seek to raise capital on the collateral of a trade mark:
- (i) those that have no need to do so since they may be well-endowed with other assets and/or cash in hand but have a sound commercial preference for borrowing on the strength of a trade mark [eg businesses like Nike which, employing outsourcing for most of their commercial activities, hold few tangible assets in their own name] and
  - (ii) those that have few credible assets that may be secured [eg, a youth footballer apprenticed to an Italian Serie A football club]



# 5 key points for lending on trade mark collateral

4. The availability of searchable trade mark registers provides a means whereby the lender may ascertain the existence of third parties who have a legal interest in a trade mark - but this is only of assistance where (i) the trade mark has itself been registered, (ii) the third party interest has been registered, and (iii) the register has been updated to include the recordal of that interest.

However, registration requirements differ as between many national and regional systems, and some third party interests may not need to be registered [for example non-exclusive licences] or may be excluded from registrability [for example equitable interests].

# 5 key points for lending on trade mark collateral

5. The value of a trade mark as collateral may be adversely affected by the existence of other intellectual property rights that limit or prevent the use of the trade mark [examples, design rights and design patents in packaging and product shapes; design right and copyright in logos and the artistic content of figurative marks].



# Case study: i-Pen Inc. (1)

i-Pen Inc makes and sells a range of ball-point pens with interactive online capacity. These popular pens enable users to record and send data in electronic form while writing on an ordinary piece of paper, the ball-point serving as a trackball to record, save and send data.



# Case study: i-Pen Inc. (2)

i-Pen Inc. wishes to raise capital for the development and marketing of a second-generation product. It



has few assets other than the word iPen, for which it has registered in the US, the EU and around 30 other countries two trade marks: (i) the word i-Pen and (ii) a figurative mark the most prominent element of which is the word i-Pen.

# Case study: i-Pen Inc. (3)

When i-Pen approaches Moneybank Corp for a loan, Moneybank wishes to protect its interest by taking one or both of the trade marks as security. Since i-Pen needs the money and Moneybank needs the collateral, each of them has to rely upon the other. This requires them to consider many issues, including ...

# Case study: i-Pen Inc. (4)

- i-Pen knows how much the loan is worth, but how can Moneybank know how much the trade mark is worth?
- Does Moneybank need all i-Pen's registered rights as collateral? If not, what are the consequences for both if some trade marks are used as collateral but others are not?
- If trade mark registrations in many countries are securitised, which law governs the loan and in which forum are disputes to be heard?



# Case study: i-Pen Inc. (5)

- What happens if i-Pen becomes a generic term which all can use?
- Who is responsible for renewing the trade mark registrations, for chasing infringers and frightening off applicants for similar marks, and so on?
- What sort of investigations does Moneybank need to make before lending the money, and what warranties should i-Pen have to make in respect of the situation before the loan is (i) advanced and (ii) repaid?

# Case study: i-Pen Inc. (6)

- Can Moneybank protect itself by “trading up”, if a subsequent trade mark or other intellectual property right becomes more valuable?
- How does Moneybank stand vis-à-vis other creditors if i-Pen has insufficient funds to repay them all?

## The answers ...

to these and other questions will determine the utility of trade marks as collateral.

# The speakers

Thilo Agthe, Wuersch & Gering LLP, INTA; Oscar Alcantara, Goldberg Kohn; Michel Deschamps, McCarthy Tetrault; Chris Forsyth, Freshfields Bruckhaus Deringer and Alexander von Mühlendahl, Bardehle Pagenberg

- **Thilo Agthe:** Creation of a security right in a trade mark that is effective as between the parties
- **Oscar Alcantara:** third-party effectiveness and priority of a security right in a trade mark
- **Chris Forsyth:** Default remedies and enforcement (including in the case of insolvency) of a security right in a trade mark; third-party (e.g. licensors and licensees) rights
- **Michel Deschamps:** Law applicable to the creation, third-party effectiveness, priority and enforcement of a security right in a trade mark
- **Alexander von Mühlendahl:** Community trade marks

# The end

Thank you

Dr Jeremy Phillips

Research Director,

Intellectual Property Institute, London



[www.jeremyphillips.eu](http://www.jeremyphillips.eu)

and [www.ipkat.com](http://www.ipkat.com)