

## Obtaining a Security Interest in a Trademark: Comparison Under US and UK Practice

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*INTA Bulletin*, Vol. 62, No. 23 – December 15, 2007  
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Obtaining a security interest in property of a borrower enables a creditor to mitigate risk. In both the United States and the United Kingdom, a validly executed security interest may enable a creditor to claim a right to the collateral in the event of a default or bankruptcy. A creditor must both obtain a security interest grant and “perfect” or “record” that interest so as to establish priority over non-secured creditors and other third-party claims to the asset.

In both jurisdictions (the United States and the UK), there is dual, overlapping protection for trademarks—in the United States, this is state and federal law, whereas in the UK, a Community trade mark (CTM) registration and UK registration can both apply. Fortunately, the procedure for obtaining and perfecting a security interest in both the United States and the UK is fairly straightforward. However, it should be borne in mind that obtaining a security interest over a registered UK trade mark may be of limited value if a security interest in a corresponding CTM is not also obtained.

### OBTAINING A SECURITY INTEREST IN THE UNITED STATES

Security interests are generally governed by state law in accordance with Article 9 of the widely adopted Uniform Commercial Code, or “UCC.” The UCC provisions lay out the procedural steps that must be followed depending on the specific type of property pledged as collateral. Intellectual property, including trademarks, is classified under the definition of “general intangibles.”

One obtains a security interest in a trademark by obtaining a written grant of a security interest from the debtor. The grant should cover the trademark itself, the accompanying goodwill, and, ideally, any other assets that embody that goodwill, such as corresponding domain name registrations. The trademark itself should not be assigned, as such an assignment separates the actual or beneficial owner of the mark and the legal owner; such a separation can result in involuntary abandonment of the mark.

In the United States, trademarks may be protected under state statutory, common law and federal law. Prior to clarification by the courts, it was not clear whether the state law governing security interests (the UCC) was preempted by federal law (the Lanham Act). In other words, if one owned both a state trademark registration or common law rights and a federal registration, did one need to make a filing in more than one place (such as a state entity and the U.S. Patent and Trademark Office) and pursuant to more than one procedure in order to perfect one’s security interest?

Fortunately, courts have established that:

1. The Lanham Act does not preempt the UCC. *See, e.g., In re Roman Cleanser*, 225 U.S.P.Q. 140, 142 (Bankr. E.D. Mich. 1984), *aff'd*, 802 F.2d 207 (6th Cir. 1986) (“the manner of perfecting a security interest in trademarks is governed by Article 9 and not by the Lanham Act.”).
2. PTO filings are not required for perfection. *See, e.g., In re TR-3 Industries*, 41 Bankr. 128 (Bankr. C.D. Cal. 1984) (holding that a valid security interest had been established even though no filings were made with the USPTO).
3. PTO filings cannot serve as a replacement to the necessary filings required under the UCC. *See, e.g., In re 199Z, Inc.*, 137 B.R. 778, 782 (Bankr. C. D. Cal. 1992) (rejecting the argument that a filing with the PTO could sufficiently perfect a security interest in a trademark).

In other words, despite the varied means for obtaining trademark rights in the United States, there is a single means for obtaining and securing a security interest in those rights. In order to perfect an interest in a “general intangible,” a creditor is required to file a UCC-1 financing statement in the state where the debtor is located.

#### PRACTICE TIPS

Notwithstanding the lack of a legal obligation to record a security interest at the USPTO, it remains good practice to do so. Recording a grant at the USPTO helps assure that subsequent purchasers (including bona fide purchasers) are on notice of the security interest and assists buyers in due diligence efforts. Typically, one records a short security interest document relating solely to trademarks, as opposed to the UCC-1.

Once a security interest is released, one reverses the steps by filing a termination statement or UCC-3 with the appropriate state entity and, if the grant was recorded at the PTO, filing a release there as well.

#### PERFECTION OF INTEREST IN A UK TRADE MARK

By virtue of the UK Trade Marks Act 1994, a registered UK trade mark is personal property (in Scotland, incorporeal moveable property) and—in contrast to the law in the United States—may be assigned or otherwise dealt with separately from the goodwill of the business. As such, a registered UK trade mark may be assigned by way of security (usually with a license back to the assignor) either with or without goodwill provided the assignment is in writing and signed by or on behalf of the assignor.

These security interests may all be entered upon the UK Register as registrable transactions although there is no obligation for this to be done. A security interest may also be obtained and recorded upon the UK Register in relation to an application for a UK trade mark or in relation to only part of the goods or services or a particular locality. Where an assignment is recorded it will be necessary to provide a copy of the signed transfer document unless both parties can sign the application. Where other security interests are recorded the grantor must sign the application or proof of the security interest granted must accompany the application.

Despite the recognition of UK trade marks as separate property rights, it is still the law in the UK that sale and transfer of the goodwill of a business will transfer the trademarks used by the business to the assignee by implication. *See Shipwright v. Clements* (1871) 19 W.R. 599; *Currie v. Currie* (1898) 15 R.P.C. 339; “*Weston*” [1968] R.P.C. 167 at 183. Therefore, when taking an assignment by way of security it is desirable also to take an assignment of the goodwill. Also, when an assignment by way of security is not recorded, the transaction will be ineffective against any third party (for example, a purchaser of the business) who acquires a conflicting interest in the trademark in ignorance of the transaction.

#### PERFECTION OF INTEREST IN A COMMUNITY TRADE MARK

Because a registered Community trade mark (CTM) extends to the United Kingdom, a creditor should ensure that it has a security interest over both the registered UK trade mark and any corresponding CTM

registration of the debtor company or individual. Articles 17 and 19, Council Regulation (EC) No. 40/94, provide that a CTM may be assigned and may be given as security or be the subject of rights in rem provided that any assignment must be in writing and signed by both parties. By virtue of Article 24, a CTM application may be dealt with in the same manner.

Assignments and security interests may be entered on the Register of Community Trade Marks, although this is not obligatory. Applications for recordal may be made by either party to the transaction and must be accompanied by proof of the transaction.

However, Article 17 provides that a failure to record will prevent a successor in title from invoking any rights arising from registration (for example, the right to take proceedings against third-party infringers). Perhaps more critically for creditors, Article 23 provides that assignments by way of security and other registrable transactions will only have effect vis-à-vis third parties after entry in the Register unless the third party knew of the transaction when it acquired rights.

#### PRACTICE TIPS

Where possible, ensure that a security interest over a UK trade mark also includes the goodwill attached to or represented by the mark. Check whether there are also Community trade marks and try to include these within the ambit of any security interest obtained. Apply to record any assignment by way of security or other security interest upon the register of UK or Community trade marks.

#### CONCLUSION

The law governing security interests is well established both in the United States and United Kingdom but varies in certain key respects. The dual state/federal trademark system in the United States no longer raises questions as to the appropriate means of perfecting one's security interest, but in the United Kingdom, one must consider the dual nature of rights under both the UK and EU systems. While one may obtain an actual grant of rights in a mark (together with goodwill) in the United Kingdom (with a license back), in the United States one must be careful not to assign the mark and goodwill.