SEARCHING FOR THE COMFORT ZONE: ISSUES RELATED TO THE PERFECTION OF SECURITY INTERESTS IN TRADEMARKS IN INTERNATIONAL COMMERCIAL TRANSACTIONS

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1. INTRODUCTION

Since the beginning of the 1990s, many European companies have been acquired by other European commercial entities, or by businesses in the United States and Japan seeking to enter the European market.[1] As economic borders fall in Europe and the European Union ("EU") moves toward a unified market economy, mergers and acquisitions will continue to play a significant role in the development of Europe's economy. Companies searching for ways to finance these expensive transactions will increasingly use intangible assets to secure the loans necessary to consummate large-scale acquisitions.

Intellectual property rights—trademarks, patents, and copyrights—are valuable and often overlooked assets that lenders can use to collateralize loans.[2] Increasingly, however, lenders and debtors are viewing these assets as personal property in which a lender can take a security interest. Although collateralizing patents and copyrights poses complex questions, this Comment will focus exclusively on security interests in trademarks.[3] International trademark law is poised for change,[4]

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[1] *See, e.g.*, Ian Jay Kaufman et al., *International Laws on Security Interests in Intellectual Property*, 6 J. INT'L BANKING L. 120, 120 (1991) (asserting that the high level of acquisition activity results from both the elimination of national barriers and from the fear of being left out in the cold after 1992).

[2] *See, e.g.*, Melvin Simensky, *The New Role of Intellectual Property in Commercial Transactions*, 10 ENT. & SPORTS LAW., Spring 1992, at 5 [hereinafter Simensky, *The New Role of Intellectual Property*].

[3] For purposes of this Comment, the reader should assume that the trademarks in question are "registered" or will be "registered" in accordance with relevant national trademark laws, and that references to trademarks means "registered trademarks." In almost every large commercial transaction, the trademarks at issue will be registered; much of their value accrues from registration.

[4] *See infra* § 5.

and issues with respect to security interests in trademarks will evolve along with it. Additionally, trademarks have the potential to acquire substantial value; they are high profile assets often recognized on an international level.

The major question that parties to secured transactions involving intellectual property face is how to create an interest in that property which will provide a lender with priority over a borrower's creditors and certain other parties. Creation of this property interest is achieved through a process known as perfection. The question of perfection is particularly complex when the transaction involved is international in scope. Typically, a lender will want to take a security interest in a borrower's worldwide trademark rights. In such a case, the commercial and trademark laws of several nations may be implicated. At the present time, however, the complexity and uncertainty surrounding the creation and perfection of security interests in trademarks hinders their use as collateral in the United States and in Europe. A U.S. bank or other lender seeking to take a security interest in a multinational corporation's worldwide trademark rights will confront complex legal issues, which the lender will need to resolve definitively before it can confidently assert that its interest is perfected.

This Comment is intended to serve as a starting point for lenders and borrowers who are considering taking or giving a security interest in trademarks enforceable worldwide. Specifically, this Comment will compare the way in which trademarks are collateralized in the United States, France, and the United Kingdom in order to identify the critical issues that a lender or borrower will face. Section 2 of this Comment will discuss the value of trademarks in international commercial transactions. Section 3 will address the concept of a security interest as well as the ambiguities in the law which hinder efforts to perfect security interests in intellectual property. Section 4 will compare the methods of perfecting security interests in trademarks registered in different jurisdictions. Section 5 will discuss the proposed changes and potential innovations in this emerging and increasingly complex area of commercial law. Section 6 will present two brief hypothetical scenarios illustrating the complexity of perfecting security interests in worldwide trademark rights. This Comment will conclude that, although perfecting security interests in trademarks is not a simple undertaking, and consistency in the law is elusive, parties with an understanding of the relevant issues will be able to take advantage of a highly valuable property right in international commercial lending transactions.[5]

2. THE VALUE OF TRADEMARKS IN INTERNATIONAL COMMERCIAL TRANSACTIONS

A trademark is a "word, name, symbol or device, or any combination thereof" used to indicate the source of goods or services.[6] Often, a trademark exists in the form of a brand.[7] For example, "Coca-Cola" identifies a particular brand of soft drink, and "Nike" identifies the manufacturer of an article of athletic footwear or clothing. In addition to the words, symbols, and designs which constitute the trademark itself, a trademark is comprised of a second element known as goodwill, which is inseparable from the trademark.[8] Goodwill is the positive perception that the particular trademark conveys to a consumer.[9] The consumer knows that the product identified by the trademark has been manufactured or distributed by a particular source and that the goods will meet a standard of quality that the consumer has come to expect from goods bearing the particular

[5] Although this Comment will not provide a detailed road map of the various schemes which must be navigated in order to perfect security interests in trademarks, it will provide interested parties with an understanding of the major issues they will face in securing and perfecting interests in trademarks as well as some of the currently anticipated changes in the relevant laws.

[6] 15 U.S.C. § 1127 (1988 & Supp. IV 1992).

[7] It is important to note that the terms "brand" and "trademark" do not have identical meanings. "Many species of trade mark, such as the logo[,] the name of the trade mark proprietor and a shape as applied to the entire external surface of the goods, are not generally regarded as 'brands'. . . ." Jeremy Phillips, *Do National Brands Have a Future in the European Market?*, 6 EUR. INTELL. PROP. REV. 191, 191 (1991). Most of the references made to "trademarks" in this Comment will be with respect to brands because brand names are recognizable trademarks and lend themselves to the examples necessary to illustrate a complex area of law. At the same time, the reader should not assume that the issues regarding the perfection of security interests in trademarks raised by this Comment are only relevant to brands.

[8] 1 J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 2:6, at 8 (2d ed. 1984). Attorneys should realize that a present assignment of a trademark without an assignment of the assignor's goodwill can destroy rights in the trademark. *See* 15 U.S.C. § 1060 (1988). *See generally* MCCARTHY, *supra*, § 18:1, at 793 (indicating that goodwill and its trademark symbol are inseparable).

[9] 1 MCCARTHY, *supra* note 8, § 2:8, at 73.

trademark.[10] Purchasers of "Coca-Cola" know that they are buying the "real thing." A brand acquires much of its value when it has become so established in the marketplace that consumers recognize and purchase the product associated with the brand on the basis of the brand name alone. An illustration of this "brand power" is the "Marlboro" cigarette. One in every four cigarettes sold in the United States is a "Marlboro" cigarette, and the "Marlboro" trademark has been valued at $40 billion worldwide.[11]

Surprisingly, lenders often overlook the value of trademarks. Recently, however, the international business community has begun to discover the value of trademarks.[12] One reason for this phenomenon is that "the merger and acquisition activity [during the 1980s] raised the [business community's] awareness of the importance of intellectual property in valuing companies."[13] In addition, the cost of introducing new brands is substantial, and in light of the likelihood that a new brand will fail, established brands with global reputations are extremely valuable.[14] Finally, free trade agreements, such as the North American Free Trade Agreement and those among EU member nations, have "result[ed] in the increased internationalization of . . . trademarks."[15] As the value of trademarks is recognized, trademarks should take their place as one of a potential borrower's most valuable assets, becoming prime sources of collateral for lenders in commercial loan transactions.

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[10] *See id.*

[11] *See* Simensky, *The New Role of Intellectual Property*, *supra* note 2, at 5. A brand may represent as much as eighty percent of a company's value. *See id.* (citation omitted).

[12] *See id.*

[13] *Id.* at 4. The author notes that "when Grand Metropolitan of Great Britain acquired the Pillsbury Company for $5.7 billion, it did so to acquire such powerful brands as BURGER KING, GREEN GIANT, and HAAGEN-DAZS." *Id.*

[14] *Id.*

[15] *Id.* ("Global trademarks are a by-product of increased trade between countries, as goods and services bearing such marks flow more freely across national borders as a result of new trade pacts."); *see also* Phillips, *supra* note 7, at 192-94 (discussing the internationalization of brands).

3. PROBLEMS INHERENT IN SECURITY INTERESTS IN TRADEMARKS

A security interest is the vehicle used by a lender to collateralize its loan to a debtor.[16] Article 9 of the Uniform Commercial Code ("U.C.C.") governs the creation,[17] perfection,[18] and enforcement upon default[19] of security interests in personal property throughout most of the United States.[20] Although the U.C.C. is only applicable to security interests in the United States, it illustrates the concept of a security interest and is discussed in this Section for that purpose.

Article 9 provides a legal framework for allowing a debtor to retain title to the property securing the debt,[21] at least until such debtor defaults on the loan. However, upon default, the lender's security interest may ripen into a possessory interest for the purpose of satisfying the debt owed.[22]

The U.C.C. provides for the collateralization of trademarks by allowing security interests to be created in general intangibles.[23] In order to create a security interest in general intangibles[24] (to secure trademarks as collateral between the lender and debtor), there must be a security agreement signed

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[16] *See* U.C.C. § 1-201(37) (1991) (" 'Security interest' means an interest in personal property or fixtures which secures payment or performance of an obligation.").

[17] *See* U.C.C. § 9-203.

[18] *See* U.C.C. § 9-303; *see also* U.C.C. §§ 9-302, 9-304 to 9-306.

[19] *See* U.C.C. § 9-501.

[20] *See* U.C.C. § 9-102(1) ("Except as otherwise provided . . . this Article applies . . . to any transaction (regardless of its form) which is intended to create a security interest in personal property or fixtures including goods, documents, instruments, general intangibles, chattel paper or accounts . . . .").

[21] *See* U.C.C. § 9-101 cmt. ("This Article does not determine whether 'title' to collateral is in the secured party or in the debtor, and adopts neither a 'title theory,' nor a 'lien theory' of security interests. Rights, obligations and remedies under the Article do not depend on the location of title (Section 9-202).").

[22] *See* U.C.C. § 9-501 & cmt., illus. 2, 3.

[23] *See* U.C.C. § 9-106 & cmt. ("The term 'general intangibles' brings under this Article miscellaneous types of contractual rights and other personal property which are used or may become customarily used as commercial security. . . . Other examples are copyrights, trademarks and patents, except to the extent that they may be excluded by Section 9-104(a).").

[24] *See* U.C.C. § 9-106 (" 'General intangibles' means any personal property (including things in action) other than goods, accounts, chattel paper, documents, instruments, and money.").

by the debtor describing the collateral as trademarks (or general intangibles). This agreement will result in attachment.[25] Once the security interest has attached, it is effective between the parties to the security agreement. However, the lender's interest must be perfected[26] in order to withstand challenge by subsequent secured parties, the debtor's creditors,[27] and, if necessary, the debtor's trustee in bankruptcy.[28] Perfecting in intangibles in the United States requires the filing of a financing statement[29] in an appropriate governmental office.[30] In most security arrangements outside of the United States, a contract of security between the parties and a governmental filing are similarly required.

3.1. Issues Related To The Perfection Of Security Interests In Trademarks

In the United States, France, and the United Kingdom, the taking of security interests in trademarks is complicated by uncertainty surrounding perfection.[31] In France and the United

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[25] *See* U.C.C. § 9-203(1); *see also* U.C.C. § 9-203(2) ("A security interest attaches when it becomes enforceable against the debtor with respect to the collateral. Attachment occurs as soon as all of the events specified in subsection (1) [of this section] have taken place unless explicit agreement postpones the time of attaching.").

[26] *See* U.C.C. § 9-303; U.C.C. § 9-302(1) ("A financing statement must be filed to perfect all security interests except the following . . . ."); *see also* U.C.C. §§ 9-304 to 9-306.

[27] *See* U.C.C. § 9-301.

[28] *See, e.g.*, 11 U.S.C. §§ 544, 547 (1988 & Supp. IV 1992).

[29] *See* U.C.C. § 9-402.

[30] *See* U.C.C. § 9-401. As will be discussed below, both France and the United Kingdom require some form of recordation to "perfect" a security interest in personal property. In the United States, this filing is commonly known as a U.C.C.-1 financing statement.

[31] The perfection of a security interest in trademarks and other intellectual property in the United States is a topic that has received an enormous amount of attention over the past ten years. Much has been written on the conflict between Article 9 of the U.C.C. and the federal recordation systems which record the subsistence, ownership, and validity of interests in intellectual property. For a detailed discussion of the conflict between the U.C.C. and the federal recordation systems (sometimes referred to as the federal tract systems), see generally Robert S. Bramson, *Intellectual Property as Collateral—Patents, Trade Secrets, Trademarks and Copyrights*, 36 BUS. LAW. 1567 (1981); Raymond T. Nimmer & Patricia A. Krauthaus, *Secured Financing and Information Property Rights*, 2 HIGH TECH. L.J. 195 (1988); Harold R. Weinberg & William J. Woodward, Jr., *Easing Transfer and Security Interest Transactions*

Kingdom, this complexity is due to the lack of progressive statutes and to case law that is relatively undeveloped with respect to the creation, perfection, and enforcement of security interests in trademarks.[32] In the United States, the taking of security interests in trademarks is complicated because section 104(a) of Article 9 makes the U.C.C. inapplicable to "security interest[s] subject to any statute of the United States, to the extent that such statute[s] govern[] the rights of parties to and third parties affected by transactions in particular types of property."[33] Related to the above exception is section 9-302(3)(a), which provides that if "a statute or treaty of the United States . . . provides for a national or international registration . . . or . . . specifies a place of filing different from that specified in this Article for [the] filing of the security interest" in particular property, then an Article 9 filing is neither necessary nor effective to perfect a security interest in that property.[34] In light of sections 9-104(a) and 9-302(3)(a), federal law appears to preempt Article 9 with respect to the perfection of a security interest in trademarks.[35]

Resolving the conflict between Article 9 and federal trademark law embodied in the Lanham Act[36] is further complicated by the "conceptual and systemic gulf" existing between these two bodies of law.[37] The Lanham Act is silent regarding security interests

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in Intellectual Property: An Agenda for Reform, 79 KY. L.J. 61 (1990). In France and the United Kingdom, "perfection" of a security interest in trademarks presents a lender with problems similar to those that such a party would find in the United States: uncertainty, ambiguity, and a lack of judicial or scholarly guidance with respect to the issue. *See infra* § 4.

[32] *See* Kaufman, *supra* note 1, at 120-21.

[33] U.C.C. § 9-104(a).

[34] U.C.C. § 9-302(3).

[35] The Lanham Act (15 U.S.C. §§ 1051-1157 (1988 & Supp. IV 1992)) governs the rights of parties to trademarks and provides for a record of assignments to be maintained. *See also* 15 U.S.C.A. § 1060 (1988) ("An assignment [of rights in a trademark] shall be void as against any subsequent purchaser for a valuable consideration without notice, unless it is recorded in the Patent and Trademark Office within three months after the date thereof or prior to such subsequent purchase. A separate record of assignments submitted for recording hereunder shall be maintained in the Patent and Trademark Office.").

[36] 15 U.S.C. §§ 1051 *et seq.* (1988 & Supp. IV 1992).

[37] *See* Weinberg & Woodward, *supra* note 31, at 73. The authors note:

> [T]he . . . Lanham Act[] on [the] one hand, and Article 9 on the other, embody highly divergent concepts of personal property security

in trademarks and does not contain the "statutory machinery" to effectively deal with the rights of parties to such a security interest.[38] Although Article 9 contains the statutory provisions to deal with security interests, it is potentially preempted by federal law with respect to trademarks, as a result of sections 9-104(a) and 9-302(3)(a).[39] The gulf between the Lanham Act and Article 9 is widest when one considers the way these conflicting systems address the perfection of a security interest by filing, and the priority each gives to such a security interest.[40]

Although both federal and Article 9 filings exist to alert subsequent parties to the status of a debtor's personal property, the federal system is grounded in a tradition of transactional filing,[41] while the U.C.C is based on notice filing, which allows a potential lender to discover what property of a particular debtor is encumbered by security interests.[42] The federal system provides for individual filings as assignments are effected between two parties, with the aim of keeping track of the intangible property.[43] On the other hand, the U.C.C. "speaks in terms of possible rather than actual secured transactions."[44] A single U.C.C.-1 financing statement, properly filed, is sufficient to accomplish perfection in multiple security interests between a debtor and a creditor.[45] The federal scheme is concerned with

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> and provide very different legal frameworks for secured financing . . . . Security rights in a trademark are created by entering into a conditional assignment that passes title in the event of the assignor-debtor's default. By contrast, Article 9 views the problem as one of creating a "security interest," the incidents of which are the same whether title is conceptualized as being in the secured creditor or in the debtor.

Id. at 72-73 (citations omitted).

[38] *Id.* at 73.

[39] *See supra* notes 34-36 and accompanying text.

[40] *See* Weinberg & Woodward, *supra* note 31, at 73-74.

[41] *See id.* at 76.

[42] *See generally* 1 GRANT GILMORE, SECURITY INTERESTS IN PERSONAL PROPERTY §§ 15.1-15.3 (1965) (explaining that the official Code was based on a notice filing system signifying that parties are or expect to be involved in a financing transaction).

[43] *See* Weinberg & Woodward, *supra* note 31, at 75-76.

[44] *Id.* at 76.

[45] *Id.* (citing U.C.C. § 9-402 & cmt.). A financing statement may be filed before a security agreement (i.e., before a security interest exists between the parties). However, the financing statement will perfect a security interest only when that interest has attached. *See* U.C.C. §§ 9-203, 9-303.

exactly who has an interest in the intangible property, while Article 9 addresses who might have such an interest.[46]

Federal and Article 9 rules also diverge with respect to priority. Each system addresses with differing degrees of clarity the priority contests that may arise in the course of a transaction involving trademarks.[47] Although the Lanham Act provides that "[a]n assignment shall be void as against any subsequent purchaser for a valuable consideration without notice, unless it is recorded in the Patent and Trademark Office" within three months of the assignment or before the subsequent purchase,[48] the rule is vague and misleading. This ambiguity is especially true where the transaction at issue is a "security interest," rather than an "assignment."[49] It is generally considered unclear whether a security interest in a trademark, which has been held as distinct from an assignment of a trademark,[50] must be filed pursuant to the Lanham Act.[51] Although Article 9 contains a detailed statutory scheme and explicit rules which determine priorities between conflicting secured parties,[52] its coverage of intellectual property financing is clearly deficient.[53] One positive aspect of Article 9, however, is that it emphasizes substance over form,[54] permitting flexibility in the way transactions may be

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[46] *See* Weinberg & Woodward, *supra* note 31, at 76.

[47] *See id.* at 77.

[48] *See* 15 U.S.C. § 1060 (1988).

[49] *See* Weinberg & Woodward, *supra* note 31, at 77; *see also infra* notes 58-70 and accompanying text.

[50] *See, e.g., In re* Matter of Roman Cleanser Co., 43 B.R. 940, 944 (Bankr. E.D. Mich. 1984), *aff'd*, 802 F.2d 207 (6th Cir. 1986).

[51] Recent case law indicates that for purposes of security interests, an Article 9 filing is sufficient to perfect that interest with respect to subsequent secured parties and a debtor's lien creditors. *See, e.g., In re* 199Z, Inc., 137 B.R. 778, 782 (Bankr. C.D. Cal. 1992); *see also infra* notes 71-74 and accompanying text.

[52] *See, e.g.*, U.C.C. §§ 9-301, 9-307, 9-308, 9-312.

[53] *See, e.g.*, Weinberg & Woodward, *supra* note 31, at 78 & n.93. The authors note that "[w]hile Article 9 is far more complete for purposes of financing than . . . the . . . Lanham Act[], that statute is also incomplete for intellectual property financing. There is . . . little to suggest that the Article 9 drafters gave much consideration to using intellectual property . . . as collateral for loans." *Id.* Recently, however, the Article 9 Study Committee of the Permanent Editorial Board for the Uniform Commercial Code has addressed the issue of security interests in intellectual property by making recommendations specifically directed at the perfection of those interests. *See infra* notes 93-94, 110-23 and accompanying text.

[54] *See generally* JAMES J. WHITE & ROBERT S. SUMMERS, UNIFORM COMMERCIAL

structured.[55]

4. A Comparison Of The Perfection Of Security Interests In Trademarks In The United States, France, And The United Kingdom

The law regarding security interests in trademarks is not settled. The systems of perfection compared in this Section vary in clarity, complexity, and progressive development. All contain ambiguities and difficulties which impair the value of trademarks as collateral.

4.1. Perfecting Security Interests In Trademarks Within The United States

Despite the complexity of perfecting a security interest in U.S. trademarks, the procedure may be structured to remove much of the ambiguity surrounding perfection and to avoid preemption by federal law.[56] Courts confronting the issue of federal preemption of security interests in trademarks have held that a security interest in a trademark can be perfected under Article 9, and that a filing in the Patent and Trademark Office ("PTO"), although seemingly required by the Lanham Act,[57] is unnecessary and ineffective to perfect a security interest in a trademark with respect to subsequent secured lenders, lien creditors, and a trustee in bankruptcy.[58] In arriving at this

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CODE § 22-3 (3d ed. 1988) (discussing the requirements for a security agreement under Article 9, and suggesting that a liberalization of such requirements will not hurt the courts' and juries' ability "to differentiate fabricated from genuine claims anyway").

[55] The structure of a transaction involving trademarks may place it within the coverage of Article 9, removing it from the shadow of federal preemption. *See infra* notes 56-70 and accompanying text.

[56] At the same time, allowing an Article 9 (U.C.C.-1) filing to be sufficient to perfect a security interest in trademarks, without requiring a corresponding notation on the Federal Register at the Patent and Trademark Office, creates a serious risk of confusion and misinformation on the part of those interested in the status of a trademark owner's rights in that mark.

[57] *See* 15 U.S.C. § 1060 (1988).

[58] *See In re* 199Z, Inc., 137 B.R. 778, 782 (Bankr. C.D. Cal. 1992) (holding that perfection of a security interest in a federally registered trademark is not covered by the Lanham Act); *In re* Chattanooga Choo-Choo Co., 98 B.R. 792, 796 (Bankr. E.D. Tenn. 1989) (holding that perfection of the mark is governed by the state's version of the U.C.C.); *In re* Roman Cleanser Co., 43 B.R. 940, 944 (Bankr. E.D. Mich. 1984), *aff'd*, 802 F.2d 207 (6th Cir. 1986)

conclusion, U.S. courts have made a distinction between a "security interest" in a trademark and an "assignment" of a trademark.[59] For instance, in *In re Roman Cleanser Co.,* the court wrote that "[a]n 'assignment' of a trademark is an absolute transfer of the entire right, title and interest to the trademark."[60] In distinguishing the granting of security interests in trademarks, the court stated that a security interest is not a transfer in interest, but rather a device to secure an indebtedness,[61] and that the creation of a security interest does not necessarily vest title in the secured party.[62] A security interest in a trademark is merely an agreement to assign the collateral to the lender in the event of default.[63] Since a security interest in a trademark is not the equivalent of an assignment, the filing of such a security interest would not be covered by section 10 of the Lanham Act.[64] Instead, perfecting a security interest in trademarks would appear to be governed by Article 9 of the U.C.C.[65]

(finding that giving a security interest in a federal trademark is not an assignment within the meaning of the Lanham Act).

[59] *See, e.g., In re* Roman Cleanser Co., 43 B.R. at 944 (citations omitted).

[60] *Id.* The court goes on to say that " '[i]n order for a transfer of rights in a trademark to constitute a sale or assignment, thereby vesting title to the trademark in a party, the transfer must be absolute and must relate to the entire rights in the trademark.' " *Id.* (quoting Acme Valve & Fitting Co. v. Wayne, 386 F. Supp. 1162, 1165 (S.D. Tex. 1974)).

[61] *See id.*; *see also In re* 199Z, Inc., 137 B.R. at 782.

[62] *See supra* note 21. Unless otherwise provided, a secured party will not have a possessory interest in the collateral securing the debt until the debtor has defaulted on its obligations under the security agreement. *See* U.C.C. §§ 9-501(1)-(2) & cmt., illus. 2, 3.

[63] *See, e.g.,* Li'l' Red Barn, Inc. v. Red Barn System, Inc., 322 F. Supp. 98, 107 (N.D. Ind. 1970), *aff'd per curiam,* 174 U.S.P.Q. 193 (7th Cir. 1972) ("[T]he rule is well established that a mere agreement for the future assignment of a trademark is not an assignment of either the mark itself or the good will attached to it.").

[64] *Cf.* 15 U.S.C. § 1060 (1988) (indicating that an assignment shall be recorded in the Patent and Trademark Office while making no mention of a security interest). *See also* Weinberg & Woodward, *supra* note 31, at 77-78 (noting that as a result of the Lanham Act's silence with respect to security interests, "[o]ne's instinct is to equate the concept of a secured party holding a security interest to that of a person who takes by assignment, mortgage, or one of the other transaction types described in the federal statutes.").

[65] This proposition is supported by the absence of a reference to the Lanham Act in the official comment to U.C.C. § 9-104, addressing the preemption of Article 9 by federal statutes. The mere omission of the Lanham Act from the text of the official comment should not be taken as an absolute omission of the Lanham Act from the scope of § 9-104(a) itself. At best, it provides an

Recently, in *In re 199Z, Inc.*,[66] the U.S. Bankruptcy Court for the Central District of California strengthened the position taken by the court in *In re Roman Cleanser Co.* The court held that in spite of the defendant's filing of a "Memorandum of Security Agreement" with the PTO, the fact that its Article 9 filing was inadequate resulted in an unperfected security interest in the debtor's trademarks. In reaching its decision, the court took pains to distinguish the Copyright Act[67] from the Lanham Act with respect to their relative preemption of Article 9. The court wrote:

> The Copyright Act provides expressly for the filing of any "mortgage" or "hypothecation" of a copyright, including a pledge of the copyright as security or collateral for a debt. The Lanham Act, however, provides expressly only for the filing of an assignment of a trademark, and the definition of "assignment" does not include pledges, mortgages or hypothecations of trademarks . . . . Had Congress intended that security interests in trademarks be perfected by filing with the Patent [and Trademark] Office, it could have expressly provided for such a filing, as it did in the Copyright Act.[68]

Although noting the absence of reported appellate decisions precisely on point, and the fact that at least one district court addressing security interests in copyrights has reached the opposite conclusion,[69] the court did not find that federal preemption for the purpose of perfecting security interests in copyrights applied equally to the perfection of security interests in trademarks.[70]

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argument for that assertion.

[66] 137 B.R. 778 (Bankr. C.D. Cal. 1992).

[67] 17 U.S.C. §§ 101-810 (1988 & Supp. IV 1992).

[68] *In re* 199Z, Inc., 137 B.R. at 782 (citations omitted).

[69] *See In re* Peregrine Entertainment, Ltd., 116 B.R. 194 (C.D. Cal. 1990).

[70] *See In re* 199Z, Inc., 137 B.R. at 782 n.7 ("This result is not altered by the fact that, as in this case, the Patent [and Trademark] Office *accepts* the filing of documents memorializing the granting of a security interest in a trademark. The Lanham Act gives the Patent [and Trademark] Office the discretion to accept various documents not expressly described in the Act; it does not, however, expressly provide for the filing of documents memorializing pledges of trademarks, as the Copyright Act does for hypothecations of copyrights").

Notwithstanding the decisions discussed above, a cautious lender should file under both Article 9 and in the PTO as provided by the Lanham Act.[71] The state filing will create a perfected security interest under the U.C.C. and provide a secured party with priority over subsequent secured parties, lien creditors, and, consequently, the debtor's trustee in bankruptcy. Filing the security agreement or the financing statement at the federal level in the PTO may protect the "creditor's interest against [subsequent] bona fide purchasers for value without notice."[72] Because the PTO may record documents relating to interests in trademarks that are not expressly addressed by the Lanham Act (e.g., documents memorializing a security agreement),[73] filing such a document may provide subsequent purchasers with actual notice of a secured party's interest in the debtor's trademark.[74]

The uncertainty surrounding perfection of security interests in trademarks leads practitioners occasionally to enter into what is known as a collateral assignment of the trademark. A collateral assignment is generally an "absolute" assignment of the trademark to the creditor which is then licensed-back to the debtor, subject to necessary control by the creditor.[75] Consequently, this structure results in a present assignment of the trademark, thereby making section 10 of the Lanham Act applicable.[76] In addition to recording the assignment in the PTO, the goodwill accompanying the trademark must be assigned to the creditor as well. If the transfer of an interest in a trademark results in an assignment of that trademark without its associated

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[71] *See* John L. Mesrobian & Kenneth R. Schaefer, *Secured Transactions Based on Intellectual Property*, 72 J. PAT. [& TRADEMARK] OFF. SOC'Y 827, 852 (1990).

[72] *Id.*; *see also* 15 U.S.C § 1060 (1988); *infra* note 98 and accompanying text.

[73] *See, e.g., In re* 199Z, Inc., 137 B.R. at 782; *see also* 37 C.F.R. § 3.11 (1993) ("Other documents, accompanied by completed cover sheets as specified in [37 C.F.R.] §§ 3.28 and 3.31, affecting title to applications, patents, or registrations, will be recorded as provided in this part or at the discretion of the Commissioner.").

[74] *See, e.g.*, Weinberg & Woodward, *supra* note 31, at 63 n.3. ("[T]he security agreement . . . might be filed in the Patent and Trademark Office in the hope that filing will provide actual notice of the transaction to any searchers who may encounter it even if it is insufficient to provide [interested parties with] constructive notice.").

[75] Mesrobian & Schaefer, *supra* note 71, at 852-53.

[76] 15 U.S.C. § 1060 (1988).

goodwill, the transfer creates an "assignment in gross."[77] As a result, the transfer may not be a valid conveyance and the trademark itself may be invalidated.[78] Additionally, a lender who takes a present assignment of a trademark acquires certain negative incidents of ownership associated with that trademark, such as the policing of licensees, liability for the actions of licensees, and liability for trademark infringement.[79]

Practitioners also choose to structure security arrangements as conditional assignments. A conditional assignment filed in the PTO ripens into a "true" assignment only (but usually automatically) upon a debtor's default.[80] Such an assignment appears to avoid the problem resulting from an "assignment in gross," at least until the debtor defaults.[81] There are courts and commentators, however, who strongly suggest that conditional assignments are subject to section 10 of the Lanham Act and are treated procedurally as present assignments.[82] As a result,

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[77] Mesrobian & Schaefer, *supra* note 71, at 850. *See also* McCarthy, *supra* note 8, § 18:1.

[78] *See, e.g.*, *In re* Roman Cleanser Co., 43 B.R. 940, 947 (Bankr. E.D. Mich. 1984), *aff'd*, 802 F.2d 207 (6th Cir. 1986) ("To be valid, an assignment of a mark must be accompanied by an assignment of the goodwill of the business."); *see also* MCCARTHY, *supra* note 8, § 2:8. The author writes:

> Good will and its symbol, a trademark, are inseparable. A trademark has no independent significance apart from the good will it symbolizes. If there is no business and no good will, a trademark symbolizes nothing. For this reason, a trademark cannot be sold or assigned apart from the good will it symbolizes.

Id. In addition, the author states:

> [I]f the debtor, upon default, enforces the [security agreement between the parties], it then becomes an operative assignment and good will must pass with the mark to the creditor-assignee. Thus, there should never be a security interest in the bare trademark alone, divorced from good will. If there were, upon enforcement of the [security agreement], the mark will pass without good will and . . . would result in a void [conveyance].

Id. § 18:1G. The rationale prohibiting "assignments in gross" is the avoidance of confusion in the marketplace resulting from the use of a mark by an assignee on a product or for a service that is radically different from that which a consumer has previously associated with that mark. *See id.* § 18:2.

[79] *See, e.g.*, Mesrobian & Schaefer, *supra* note 71, at 853.

[80] *See, e.g.*, WORLDWIDE TRADEMARK TRANSFERS: LAW AND PRACTICE US-15 (Susan B. Montgomery & Richard J. Taylor eds., 1993) [hereinafter WORLDWIDE TRADEMARK TRANSFERS].

[81] *See* Weinberg & Woodward, *supra* note 31, at 136 n.350.

[82] *See* WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at US-15; *see also* Anne S. Jordan, *Handling Trademarks as Collateral*, NAT'L L.J., May

conditional assignments are probably subject to all the requirements of present trademark assignments, including the necessity of assigning goodwill along with the trademark to avoid an "assignment in gross."[83] In addition, because a conditional assignment automatically becomes a present assignment upon the debtor's default, if a creditor/assignee has not provided for the conditional assignment of the trademark's goodwill as well, an "assignment in gross" will result upon the debtor's default. Structuring the lending transaction as a security interest, rather than a collateral or conditional assignment, should avoid the "assignment in gross" problem. The granting of a security interest does not result in the conveyance of title to the trademark, but rather deals with future foreclosure and assignment upon default. As a result, no present transfer of the trademark's goodwill is required. However, problems associated with the assignment of trademarks, most notably "assignments in gross," arise when a lender moves to enforce its security interest and to effect an assignment after a debtor's default.

Upon default, the secured party will want to foreclose on the collateral in order to satisfy the debt it is owed. The U.C.C. provides for the transfer of title in collateral upon default, and in the case of a security interest involving trademarks, that transfer should provide for an assignment of rights in the trademark from the debtor to the creditor. In other words, upon default and foreclosure, the security interest in the trademark essentially effects an assignment of that trademark, and the

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11, 1992, at S5, S6. Additionally, the Trademark Rule dealing with conditional assignments recorded in the Patent and Trademark Office provides:

> Assignments which are made conditional on the performance of certain acts or events, such as the payment of money or other condition subsequent, if recorded in the Office, are regarded as absolute assignments for Office purposes until canceled with the written consent of all parties or by the decree of a court of competent jurisdiction. The Office does not determine whether such conditions have been fulfilled.

37 C.F.R. § 3.56 (1993). Section 3.56 implies that only the conditional assignee may have the power to renew registration and enforce rights in the trademark. *See* WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at US-15. Further, the "assignee . . . assume[s] the right to grant licenses and the obligation to exercise quality control in order to maintain valid rights in the marks." *Id.*

[83] *See* WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at US-15, US-17 to US-18.

lender's new interest is subject to section 10 of the Lanham Act.[84] In order to avoid an "assignment in gross," the security agreement giving rise to the transaction must provide for a security interest in the trademark's business goodwill,[85] so that upon default and foreclosure those assets will pass to the creditor along with the trademark.[86] To accomplish this transfer, the security agreement must convey a security interest in at least three aspects of a debtor's property: the trademark itself; the goodwill symbolized by the trademark; and enough assets of the business to enable the reproduction of the goods to the extent to which the public has become accustomed under the trademark prior to foreclosure.[87] There have been several proposals to amend the Lanham Act by eliminating the problem of "assignments in gross" upon foreclosure of a security interest so long as the secured party subsequently engages in the business with which the trademark is associated, or holds the trademark for transfer to a party who acquires the associated business goodwill of the debtor. None of these proposals have been enacted.[88] Finally, section 10 of the Lanham Act requires that once a proper assignment has occurred, that assignment must be recorded in the PTO within three months of the transfer in interest in order to give the assignee priority over certain subsequent purchasers.[89]

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[84] *See* 15 U.S.C. § 1060 (1988); *see also* MCCARTHY, *supra* note 8, § 18.1G (enforcement of a security interest in a trademark becomes an operative assignment of that trademark).

[85] *See* U.C.C. § 9-203; *see also* U.C.C. § 9-501 (allowing parties to a secured transaction to provide, in the security agreement, for rights of the parties upon the debtor's default).

[86] MCCARTHY, *supra* note 8, § 18.1(G).

[87] *See* Melvin Simensky, *Enforcing Creditors' Rights Against Trademarks*, 79 TRADEMARK REP. 569, 580 (1989) [hereinafter Simensky, *Enforcing Creditors' Rights*]. The author notes that the third item does not require that a security interest be taken in every asset or item of equipment used in the production of the relevant goods, but rather only those assets necessary to produce the goods at a level enjoyed by the public prior to foreclosure. *Id.*

[88] *See, e.g.*, Weinberg & Woodward, *supra* note 31, at 136 n.350 (citing S. 1883, 100th Cong., 1st Sess. (1987)); THE UNITED STATES TRADEMARK ASSOC., *Trademark Review Commission Report and Recommendations to the U.S.T.A. President and Board of Directors*, 77 TRADEMARK REP. 375, 439, 446 (1987).

[89] "An assignment shall be void as against any subsequent purchaser for a valuable consideration without notice, unless it is recorded in the Patent and Trademark Office within three months after the date thereof or prior to such subsequent purchase." 15 U.S.C. § 1060 (1988). For a brief discussion of the Patent and Trademark Office recordation requirements, see Simensky, *Enforcing Creditors' Rights*, *supra* note 87, at 582-85.

Although there may be a consensus among courts that a security interest in trademarks perfected under Article 9 is sufficient and necessary to give a secured party priority over subsequent secured parties, lien creditors, and trustees in bankruptcy,[90] commentators are dissatisfied with this scheme's unpredictability.[91] This is most likely due to the fact that regardless of a secured party's status under state law, protecting the rights of that secured party with respect to subsequent assignees of a trademark is an uncertain and ambiguous task.

In an attempt to clarify the present situation, the American Bar Association ("ABA") Task Force on Security Interests in Intellectual Property of the Section on Business ("Task Force"), with the help of representatives from the Ad Hoc Committee on Security Interests of the ABA Section on Intellectual Property ("Ad Hoc Committee"), has issued a report ("Task Force Report") proposing a plan of reform for the treatment of security interests in federally regulated intellectual property.[92] Additionally, the Article 9 Study Committee of the Permanent Editorial Board

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[90] *See supra* notes 57-68 and accompanying text.

[91] *See* MCCARTHY, *supra* note 8, § 18.1(G) ("Until either the UCC or the Lanham Act is clarified as to proper recordation, the courts should treat either federal or state recordation of a conditional security assignment as sufficient to perfect such a security interest."); *see also* Simensky, *Enforcing Creditors' Rights*, *supra* note 87, at 577 ("Until the issue is definitively resolved, prudent counselors should advise their clients to record a security agreement in trademarks in the manner required by the [U.C.C.], and permitted by the Lanham Act."). *See generally* Weinberg & Woodward, *supra* note 38, at 92 (indicating that the system, as it exists today, will not be able to satisfy commercial needs in the future).

[92] *Report of the ABA Task Force on Security Interests in Intellectual Property* [hereinafter *Task Force Report*]. The Task Force writes:

> The goal of the Task Force is to recommend a comprehensive legal system governing security interests in intellectual property, likely to be enacted by the relevant legislative bodies, dealing responsibly with the interests of the various parties, that would provide certainty, ease of perfection, modest cost and minimum change.

Id. at 3. The specific goals of the proposed system are to:

> (a) Enable a third-party to determine who has an interest in the property (whether ownership interest or security interest);
> (b) Permit a perfected security interest to survive as rights are transformed from common law or state law to federal rights, and vice versa; and
> (c) Enable a secured party to encumber after-acquired property and proceeds from a license or sale based on the initial filing.

Id.

for the Uniform Commercial Code ("Article 9 Committee") has recently issued a report discussing and making recommendations regarding security interests in intellectual property regulated by federal law.[93] The proposals of the Task Force and the Article 9 Committee address many of the same issues, making the proposals similar in many respects. The Article 9 Committee in fact received much assistance from the Task Force and Ad Hoc Committee. However, as discussed below, the proposals differ with regard to the system for perfection and federal recordation of security interests in intellectual property.

4.1.1. The Task Force Report

The Task Force and the Ad Hoc Committee submitted a joint proposal for reform to the Subcommittee on Intellectual Property and Judicial Administration of the House Committee on the Judiciary in the Spring of 1993.[94] This proposal, now embodied in the Task Force Report, unanimously supports a "mixed perfection" approach that would coordinate federal and state filings.[95] A state filing under Article 9 would allow a secured party to perfect and create a priority security interest in all forms of intellectual property "against lien creditors, [subsequent] secured creditors and all third parties other than subsequent purchasers [or] assignees for value."[96] A secured party could

[93] *Report of the Article 9 Study Committee of the Permanent Editorial Board for the Uniform Commercial Code*, Dec. 1, 1992, 50-55 [hereinafter *Report of the Article 9 Study Committee*]. The Committee received much assistance from the Task Force on Security Interests in Intellectual Property of the American Bar Association Section of Business Law.

[94] The proposal was submitted in response to two identical bills, H.R. 897, 103d Cong., 1st Sess. (1993) and S. 373, 103d Cong., 1st Sess. (1993), known as the "Copyright Reform Act of 1993." *See generally* Thomas F. Smegal, Jr., *Questions Persist on Security Interests*, NAT'L L.J., June 28, 1993, at 20. The bills were introduced on February 16, 1993, and proposed several changes to the current Copyright Act, including changes that would have affected the perfection of security interests in copyrights. *See id.* However, the version that was passed in the House of Representatives on November 20, 1993, and subsequently sent to the Senate, did not mention security interests in copyrights. *See supra* H.R. 897.

[95] *See Task Force Report*, *supra* note 92, at 13. The Task Force reviewed three approaches to the issue of perfection and filing, discussing the advantages and disadvantages of each. These approaches included a purely state filing and perfection system, a wholly federal filing system, and the subsequently endorsed "mixed approach." *See id.* at 7-10.

[96] *Id.* at 9.

gain priority over subsequent purchasers and assignees for value by recording with the PTO, on a debtor's-name basis, "a copy of the U.C.C.-1 filed [under state law] with an appropriate cover sheet" and in accordance with the procedure of the PTO (or, if necessary, in the Copyright Office).[97] The Article 9 filing, rather than the federal filing, will perfect the security interest.[98] As a result, a secured party's failure to file the U.C.C.-1 with the PTO after an effective state filing will not prevent perfection.[99] However, such a failure may subject the secured party to having its rights cut off by a subsequent sale or assignment of the mark.[100] The Task Force Report notes that the Task Force's unanimous recommendation of the mixed perfection approach relied on certain assumptions:

> (a) [T]hat notice filing registries indexed by debtor name (preferably only one registry, though it could be more) be established by the PTO and the Copyright Office; (b) [T]hat the various "look-back" periods will be eliminated or substantially reduced;[101] (c) [T]hat secured parties will be given the ability to file prior to federal registration and prior to imposition of the security interest; and (d) [T]hat a filing would apply to after-acquired property and proceeds.[102]

Based on its discussions with the appropriate federal offices, the Task Force believes that the prerequisites it assumes are

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[97] *Id.* The PTO is permitted to record documents effecting title to registered trademarks. 37 C.F.R. § 3.11 (1993). A U.C.C.-1 (or financing statement) is such a document. For the procedural regulations controlling such recordation, see 37 C.F.R. §§ 3.28, 3.31 (1993).

[98] *Task Force Report*, *supra* note 92, at 13.

[99] *See id.*

[100] *Task Force Report*, *supra* note 92, at 13.

[101] Section 10 of the Lanham Act provides that a trademark assignment will be void as against any subsequent assignee for value without notice, unless the assignment is recorded in the PTO within three months after the date of the assignment or prior to the subsequent purchase. 15 U.S.C. § 1060 (1988). This effectively gives an assignee or purchaser a three-month grace period in which to record its interests. The Patent and Copyright Acts provide for similar "look-back" periods. *Task Force Report*, *supra* note 92, at 10. The Task Force felt that "[a]ny of these extensive look-back/grace periods obviously defeats the justified expectations of purchasers or lenders that title and security interests can be determined on a relatively current basis." *Id.* at 11.

[102] *Task Force Report*, *supra* note 92, at 14.

attainable.

The mixed perfection approach would allow a secured party involved in a "transaction in which intellectual property is, or may become, a significant portion of the collateral" to file at both the state and federal levels, obtaining perfection against all third parties.[103] Further, the notice filing of the U.C.C.-1 in the PTO, because it will be indexed on a debtor-name basis, "would not require the lender specifically to identify the collateral."[104] This will allow after-acquired, federally regulated intellectual property to be included as collateral and perfected at the federal level, just as it had been perfected at the state level.[105]

The ABA proposal, if adopted, would settle the question of perfecting security interests in trademarks and would help to resolve the issue of protecting those interests at the federal level. However, perhaps in the hope of insuring a "comprehensive [legal] system [providing for] security interests in intellectual property,"[106] the Task Force recommends "that Article 9 be amended to clarify its application to foreclosure of security interests in intellectual property, and the procedure to be followed."[107] Also, it recommends "that federal law or practice be revised to provide that the creation of a security interest automatically gives the secured party the right to file a document transferring record title [to the property] after it exercises post-default remedies."[108]

As indicated in Section 3, *supra*, and in the Task Force Report, an Article 9 filing is necessary for a secured party to be perfected against subsequent secured parties, lien creditors, and trustees in bankruptcy.[109] The Task Force proposal would provide the means for a secured lender to protect its rights in a trademark against assignees and other purchasers at the federal level. Assuring lenders that security interests in trademarks will be adequately protected on both the state and the federal level will increase their value, permitting greater exploitation of trademarks

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[103] *See* Smegal, *supra* note 94, at 22.

[104] *Id.*

[105] *See id.*

[106] *Task Force Report*, *supra* note 92, at 6.

[107] *Id.* at 11.

[108] *Id.*

[109] *See supra* notes 16-30 and accompanying text; *see also supra* notes 96-100 and accompanying text.

as collateral.

4.1.2. Recommendations Of The Article 9 Committee

The Article 9 Committee recognized that a clarification of the current state of the law will be achieved only if both Article 9 and federal law are revised to establish "the extent to which each governs the creation, perfection, priority, and enforcement of security interests in federally regulated intellectual property rights."[110] With respect to reforms in the federal system, the Committee suggests that the federal recording systems for intellectual property be amended to provide for a federal notice filing system for security interests in intellectual property to supplement the present federal "tract" recording systems which are indexed according to particular property.[111] The federal notice filing system would be indexed according to the name of the debtor, and would provide means for a single recordation to cover and perfect security interests in after-acquired, federally regulated property.[112] Although filing in the notice filing system would not constitute perfection, it would be "a simple, cost-effective [way for] a secured party who has perfected . . . under Article 9 [to] acquire priority over [those] who record subsequently in the tract index."[113] Additionally, "Article 9 and federal law [would] be revised to provide that a security interest [could] be perfected . . . either in accordance with Article 9[114] or by

[110] *Report of the Article 9 Study Committee*, *supra* note 93, at 50 (Recommendation A). The Committee adds that the "[U.C.C.] Drafting Committee should revise § 9-104(a) or the official comments to state that Article 9 applies to such security interests to the extent permitted by the Constitution and should revise § 9-302(3) and the official comment to clarify the applicability of the subsection." *Id.*

[111] *Id.* (Recommendation B). The "tracts" are "indexed according to particular property." *Id.*

[112] *See id.* at 55.

[113] *Id.* Under this proposal, a person taking a security interest in a trademark who records in the PTO, would not need to check for Article 9 filings; however, that "person would . . . take [his or her] rights subject to security interests . . . perfected earlier under Article 9 if the secured party recorded an appropriate notice in the federal notice-filing system." *Id.*

[114] The Committee concluded that a secured party perfecting under Article 9 would be able to perfect a security interest in both federally and state regulated intellectual property with one filing. *Id.* at 53-54. Because property rights in the two regimes (federal and state) are often related, allowing perfection under Article 9 was expected to reduce . . . costs of taking

recordation in the appropriate federal tract index."[115] The result would be that the priority of claimants who record in the federal system should be determined on the basis of time of recordation in that system:[116]

> [A] purchaser would take subject to an interest (including a perfected security interest) recorded earlier in either the federal tract index or the federal notice-filing system. A purchaser (including a secured party) who records in the federal tract index would take free of (or take priority over) a security interest that was perfected in accordance with Article 9 and not recorded in either federal system.[117]

Under the Committee's recommendations, federal filing is necessary to protect a party perfected under Article 9 from a subsequent purchaser, *including a subsequent secured party*, who records in the federal tract index.[118] Although filing directly in the tract index or under Article 9 will perfect a lender's security interest, to have priority, the lender must also record in the federal notice filing system if the lender is perfecting solely under Article 9.[119]

The Committee also recommends a revision of Article 9 and federal law regarding enforcement of a secured party's rights upon the debtor's default.[120] Under the Committee's proposal, Article 9 would determine the secured parties' rights upon default, while federal law would "determine[] the requirements for making an effective transfer of the collateral [when enforcing the] security

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intellectual property rights as collateral." *Id.* at 53-54. In addition, "a single financing statement filed [pursuant to Article 9] normally would suffice to perfect a security interest in both [a debtor's] existing and after-acquired general intangibles." *Id.* at 54.

[115] *Id.* at 51 (Recommendation C ("Recordation in the federal notice-filing system would not be necessary or sufficient to perfect a security interest.")). The Task Force Report and the Committee Report differ on allowing a second party to perfect through either Article 9 or the federal system. The Task Force Report does not provide for perfection of a security interest through a filing in the federal system.

[116] *Id.* (Recommendation D).

[117] *Id.*

[118] *Id.* at 54. *Cf. Task Force Report*, *supra* note 92, at 9 (providing a secured party who files solely under Article 9 with priority over subsequent secured parties).

[119] *See id.* at 54-55.

[120] *Id.* at 51 (Recommendation E).

interest."[121]

The effect of the Committee recommendations on the perfection of security interests in trademarks, while bridging the "conceptual and systemic gulf" between Article 9 and the Lanham Act,[122] will have little practical significance. First, as the Committee acknowledges, recent cases have held "that a security interest in . . . trademarks may be perfected without recording in the [PTO]."[123] Second, because the Lanham Act mandates that an assignment of a trademark cannot be accomplished without the corresponding assignment of that trademark's goodwill,[124] the Committee's recommendation that federal law should determine the requirements for an effective transfer of the collateral when the security interest is being enforced does not alter the status quo. Presently, upon foreclosure of the security interest and assignment of the trademark, federal law dictates that the transfer of rights in the trademark from the debtor to the secured party will only be effective if the goodwill associated with the trademark is assigned and the other requirements of section 10 of the Lanham Act are met.[125]

The Task Force disagreed with the Committee's recommendation that a secured party should be able to choose between a federal and state filing for purposes of perfection.[126] Additionally, the Task Force stated that it "strongly believe[d] that permitting the preexisting 'tract' systems to have a role in the priority system for security interests [would be] a mistake and a step backward."[127] The Task Force considered employing these preexisting systems, but ultimately determined that "such a . . . system would be confusing and unhelpful."[128] The intellectual property bar agreed with the Task Force's conclusion, and as a result, the dual system proposed by the Task Force was approved by the Section on Intellectual Property of the ABA and

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[121] *Id.*

[122] *See* Weinberg & Woodward, *supra* note 31, at 72.

[123] *Report of the Article 9 Study Committee*, *supra* note 93, at 51 n.2; *see supra* notes 56-70 and accompanying text.

[124] *See* 15 U.S.C. § 1060 (1988).

[125] *See id.*

[126] *See Task Force Report*, *supra* note 92, at 14.

[127] *Id.*

[128] *Id.* at 14.

by the United States Trademark Association.[129] In its report, the Task Force urges the Permanent Editorial Board and the Article 9 Drafting Committee to return to its view as well.[130]

Perfecting security interests in the trademarks of U.S. companies, while mired in conceptual uncertainty, can be accomplished. Currently, a U.C.C.-1 filing under Article 9 is sufficient to perfect a security interest in federally registered trademarks, and a filing of that U.C.C.-1 or another document memorializing the security arrangement at the PTO may arguably put subsequent assignees and purchasers on notice of a secured party's interest in the trademark. However, once the security interest is transformed into an assignment, it becomes subject to section 10 of the Lanham Act,[131] and if the terms of that section are not met, the secured party's rights may be subject to those of certain subsequent purchasers, or entirely void.[132]

Currently, the safest course that a lender seeking to collateralize U.S. trademarks can take is to simultaneously file under both Article 9 and in the PTO, making sure to provide for the assignment of the goodwill associated with the trademark secured as collateral. However, in many large commercial transactions, a financier taking a security interest in a debtor's trademarks will also take a security interest in the debtor company as a going concern.[133] As a result, the goodwill of that business will already be covered by the security agreement (assuming diligent drafting) and the possibility of an "assignment in gross" will be minimized.

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[129] *Id.* at 14-15.

[130] *Id.* at 15.

[131] *See* 15 U.S.C. § 1060 (1988).

[132] *See id.*

[133] *See supra* notes 85-89 and accompanying text.

4.2. *Perfecting Security Interests In French Trademarks*[134]

France specifically recognizes security interests in trademarks.[135] As in the United States, "[a] security interest is not equivalent to an assignment of a trademark because the ownership of the trademark is not transferred."[136] A lender taking a security interest in a borrower's trademark will need to insure that the trademarks in question are recognized by French law, and that they are not already encumbered by a prior interest.[137] French debtors will often secure their obligation on a debt through a pledge of personal property—a security interest.[138] Such a pledge allows the secured party ("pledgee") to satisfy the debt or obligation owed through a lien on the pledged property and entitles the secured party to priority, with respect to that property, over the debtor's ("pledgor's") creditors.[139] A successful pledge will provide a pledgee with protection and priority comparable to that attainable by perfection

[134] For purposes of this Comment, all citations to French laws and provisions are from English translations and commentaries contained in one of the following: SIMEON & ASSOCIES & MOQUET BORDE & ASSOCIES, DOING BUSINESS IN FRANCE, § 17.05, at 17-51 to 17-65 (Supp. 1992) [hereinafter DOING BUSINESS IN FRANCE] (discussing French trademark law); *id.* § 7.03[3][b], at 7-19 to 7-33 (Supp. 1987) (addressing pledges of personal property); GEORGE A. BERMANN ET AL., FRENCH LAW: CONSTITUTION AND SELECTIVE LEGISLATION, 4-177 to 4-179 (1982) (translating Civil Code, arts. 2071-84). For additional information regarding transfers of French Trademarks, see WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at FR-3 to FR-18.

[135] Law No. 91-7 of January 4, 1991, art. 23(1-2), *discussed in* DOING BUSINESS IN FRANCE, *supra* note 134, at 17-59 [hereinafter 1991 Law]; *see also* WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at FR-8.

[136] WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at FR-8.

[137] French trademark law is generally governed by the 1991 Law, *supra* note 135. For a general discussion of French trademark Law (in English), see Simeon, *supra* note 134, at 17-51 to 17-65.

[138] *See* BERMANN, ET AL., *supra* note 134, at 9-177 (citing Civil Code art. 2071) (the security contract is a "natissement"). Article 2072 provides that "[t]he contract of security of a movable thing is called pledge," and "[t]hat of an immovable thing is called antichresis." For purposes of this Comment, a security interest in a French trademark will be referred to as a pledge of that trademark. *Id.* at 4-177 to 4-178. For a discussion of secured transactions in France, see generally Stephan H. Haimo, *A Practical Guide to Secured Transactions in France*, 58 TUL. L. REV. 1163 (1984).

[139] *Id.* at 4-178 (citing art. 2073). To be effective against third parties or in administrative agencies, the pledge of a trademark must be recorded pursuant to French trademark and commercial law. *See infra* note 150 and accompanying text.

under Article 9 in the United States.

Effectuating pledges in French trademarks presents a lender with problems that do not arise when perfecting in tangible forms of personal property. Generally, the pledgee, or a third party agreed upon by the pledgor and pledgee, must take and retain possession of the property pledged in order for the pledge to be valid and enforceable.[140] However, because such a rule would make pledges of intangible property impossible, exceptions have been created. Of particular importance to lenders is the exception for the pledge of a going concern.[141] Where a lender is financing a large transaction and looking to secure its loan with a debtor's property, the debtor's business, or a large part of it, will most likely be collateralized as a whole rather than piece by piece.[142] Any owner of a going concern with power to transfer may pledge that going concern in order to secure performance of an existing or future obligation.[143] Although not all elements of a going concern may be pledged, trademarks (and other intellectual property) are eligible for collateralization.[144]

4.2.1. Formalities

Assuming that the underlying debt is legally enforceable,[145] a pledgee taking a security interest in trademarks must comply with several requirements to perfect the pledge, especially where the security interest in the trademark is taken as part of a going concern.[146] First, there must be a writing ("pledge agreement")

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[140] *See* BERMANN ET AL., *supra* note 134, at 4-178 (citing art. 2076).

[141] *See* Law of March 17, 1909, arts. 8-12, *cited in* DOING BUSINESS IN FRANCE, *supra* note 134, at 7-24 to 7-33 [hereinafter Law of 1909].

[142] Lenders will take a security interest in as much of a debtor's property as is needed to properly secure the loan. In large financial transactions, this will include security interests in not only trademarks, but in other aspects of a debtor's business, such as inventory, equipment, and accounts receivable.

[143] *See* Law of 1909, art. 8(1), *cited in* DOING BUSINESS IN FRANCE, *supra* note 134, at 7-24 to 7-25 & n.44.

[144] *Id.* art. 9(1) at 7-25; *see also* Law No. 67-1253 of December 30, 1967, art. 51(3), *cited in* DOING BUSINESS IN FRANCE, *supra* note 134, at 7-25 [hereinafter 1967 Law].

[145] If the underlying debt is invalid, so is the pledge. DOING BUSINESS IN FRANCE, *supra* note 134, at 7-25 n.47 (citations omitted).

[146] The perfection requirements discussed in this Section apply to cases where a security interest in the trademarks is taken as part of a going concern.

creating the pledge.[147] After the pledge agreement is "executed, and before the other formal requirements are satisfied, the pledge agreement must be registered with the tax authorities."[148] After filing with the tax authorities, "and within fifteen days of the execution of the pledge agreement[, a detailed filing] must be recorded in the registers maintained at the commercial courts of the jurisdictions" where the going concern and each of its branches operates.[149] Additionally, when a trademark of the company is pledged, the pledge must be recorded in the French Trademark Register within fifteen days of filing in the relevant commercial courts.[150] In the case of worldwide transfers of interests in French trademarks, "additional disclosure requirements [may have to be satisfied] if one of the parties . . . has [its] principal office outside France."[151] The pledgee's rights vest upon recordation, and are effective for a period of ten years; these rights can also be renewed.[152]

Priority is based on date of recordation. The first secured party to record its interest has seniority with respect to secured creditors who subsequently record, and over unsecured creditors.[153] A potential pledgee should be aware that prior unsecured creditors who loaned the pledgor money to operate

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[147] DOING BUSINESS IN FRANCE, *supra* note 134, at 7-25 to 7-26 (citations omitted).

[148] *Id.* at 7-26 & n.48 (citing Law of 1909, art. 10(1)). If the agreement is not registered, then it will be void. *Id.*

[149] *Id.* at 7-26 & n.50 (citing Law of 1909, arts. 10(2-3), 11(1), 24(1-2)).

[150] *Id.* at 7-26 & n.53 (citing Law of 1909, art. 24(5)); *see also* 1991 Law, *supra* note 135, art. 29 at 17-59 & n.44. In cases where a security interest in a trademark is not taken in the context of a going concern, recordation of a security agreement or pledge agreement in the trademark register is all that is required for the security interest to be effective with respect to third parties and administrative agencies; such a recordation is not necessary for the security agreement to be effective between the parties. *See* WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at FR-8; *see also* Decree No. 92-100 of January 30, 1992, art. 26, *cited in* DOING BUSINESS IN FRANCE, *supra* note 134, at 17-55 & n.15 (providing that upon request of a party to a pledge of a trademark, the pledge shall be entered in the register).

[151] Decree No. 70-441 of May 26, 1970, *cited in* DOING BUSINESS IN FRANCE, *supra* note 134, at 17-60 & n.45; *see also* WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at FR-9.

[152] Law of 1909, *supra* note 141, art. 28(1).

[153] *Id.* art. 12. An exception to this rule is a seller of a going concern who records a seller's lien within 15 days of the date of the pledge agreement by which the pledgee claims his or her rights; in such a case, the seller has priority. *Id.* art. 2(1).

a going concern may petition a court to accelerate the debt owed to them upon the granting of the pledge.[154]

4.2.2. Pledgee's Rights And Other Considerations

A pledgee has two basic rights: the *droit de preference* and the *droit de suit.* The *droit de preference* allows a pledgee, within eight days after a formal demand for payment has been served on the pledgor, to "file a petition with the commercial court of the jurisdiction in which such going concern is operated for an order mandating the sale of the elements of the going concern covered by the pledge."[155] The *droit de suit* provides that "[w]here the pledgor of the going concern sells the whole going concern to a third party," the pledgee may formally demand payment from the third party, and, "if the latter does not pay [the pledgee may] petition the court within eight days of such demand for an order mandating the seizure of the going concern . . . and the forced sale thereof . . . ."[156]

French law provides for the sale of a trademark without requiring the corresponding transfer of the "business which uses them or causes them to be used."[157] Accordingly, a trademark can be sold without the goodwill associated with it. However, because the pledge of a trademark will often be closely associated with the pledge of a going concern, the practical result should be that disposition of the pledged trademark corresponds to disposition of the pledged going concern, including goodwill. Additionally, because the value of a going concern as a whole is most often greater than the value of the sum of its parts, a lender would be best served by collateralizing and selling trademark rights in conjunction with those elements of a going concern that give the trademark value.

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[154] *Id.* art. 13(4-5).

[155] *Id.* arts. 15(1), 16. For the procedure to be followed by the pledgee to effectuate a proper sale of the going concern, see *id.* art. 17(1-4).

[156] *Id.* art. 22(1).

[157] *See* Code of Intellectual Property, art. L 714-1, *reprinted in* WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at FR-13; *see also* 1991 Law, *supra* note 135, art. 23(1).

4.3. Perfection Of Security Interests In U.K. Trademarks

U.K. trademark law is currently governed by the Trade Marks Act of 1938 ("Act").[158] In the United Kingdom, a security interest in trademarks[159] might be recognized.[160] However, courts and commentators have hardly addressed the process and problems a lender faces when taking a security interest in trademarks.[161] There is no "official" manner of creating such an interest in trademarks,[162] and as a result, the issues surrounding recordation and protection of a security interest are manifold. However, a "conditional assignment" of trademark rights can be accomplished by way of a "charge" over the trademark.[163] A charge "is a species of mortgage, which does not pass the legal estate [of the trademark], but merely gives the chargee certain rights over property as security for a loan."[164] Another approach is to mortgage the trademark with a provision for reassignment on redemption of the debt. U.K.

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[158] The Trade Marks Act of 1938 has been amended by the Trade Marks (Amendment) Act of 1984 and the Patents, Designs and Marks Act of 1986. The Act applies to England, Wales, Scotland, and Northern Ireland. *See* WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at UK-15 to UK-26. For a general discussion of U.K. Trademark Law, see T.A. BLANKO WHITE & ROBIN JACOB, KERLY'S LAW OF TRADE MARKS AND TRADE NAMES (12th ed. 1986). Assignments of trademarks and interests in trademarks in the United Kingdom are governed by sections 22-25 of the Trade Marks Act of 1938 and by Rules 71-80 of the Trade Marks and Service Marks Rules of 1986, as amended. For a general discussion of assignments of trademarks in the United Kingdom, see WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at UK-3 *et seq.* It must be noted that the British government has published a White Paper that proposes reforming U.K. trademark law in order to bring it in line with a European Council directive to harmonize the trademark laws of member nations. In response to the White Paper, Parliament has recently begun consideration of a trademarks bill to replace the Trade Marks Act of 1938. *See infra* notes 197-204 and accompanying text.

[159] Written as "trade marks" in U.K. literature.

[160] *See* Kaufman et al., *supra* note 1, at 121. However, the authors note that "there is little authority to support this conclusion." *Id.*; *see also* WORLDWIDE TRADEMARK TRANSFERS, *supra* note 78, at UK-9.

[161] Michael Henry, *Mortgages of Intellectual Property in the United Kingdom*, 14 EUR. INTELL. PROP. REV. 158 (1992).

[162] *See id.*

[163] *See id.*

[164] *Id.* (citations omitted). "A chargee (or equitable mortgagee) has no legal estate and is unable to take possession or receive rents or profits of the charged property without an order of the court." *Id.* This restriction applies to intellectual property. *Id.*

trademark law, however, makes this a risky and uncertain proposition.[165]

A mortgage of a trademark assigns rights in the trademark.[166] Such an assignment is subject to the provisions of the Trade Marks Act covering assignments.[167] Section 25(1) of the Act provides:

> Where a person becomes entitled by assignment or transmission to a registered trade mark, he shall make an application to the Registrar to register his title, and the Registrar shall, on receipt of the application and on proof of title to his satisfaction, register him as the proprietor of the trade mark in respect of the goods in respect of which the assignment or transmission has effect, and shall cause particulars of the assignment or transmission to be entered on the register.[168]

The most pressing concern for lenders is the restriction against "trafficking" in the trademark ("dealing in the trademark as a commodity in its own right and not primarily for the purpose of identifying or promoting merchandise in which the proprietor of the mark is interested").[169] The Register of Trade Marks is "required to refuse an application for registration as a registered user, if it appears . . . that such registration would facilitate 'trafficking' in the mark."[170] This proposition was affirmed in 1984 by the House of Lords in a decision commonly referred to as the *Holly Hobbie* case.[171] The mortgage or assignment of a trademark to a lender who does not intend to use the trademark, but holds it instead as security for a debt will most likely expose the lender's application for registration to a charge of trafficking.[172]

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[165] *See id.* at 159-60.

[166] *Id.* at 158.

[167] *See* Trade Marks Act §§ 22-25, *cited in* WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, UK-15 to UK-33. *See generally* WHITE & JACOB, *supra* note 152, at 238-60.

[168] Trade Marks Act § 25(1).

[169] Henry, *supra* note 161, at 159; *see also In re* American Greetings Corp's Application, 1 All E.R. 426 (H.L. 1984) [hereinafter Holly Hobbie]; *see generally* WHITE & JACOB, *supra* note 158, § 13-30 at 258.

[170] Henry, *supra* note 161, at 159; *see also* Trade Marks Act § 28(6).

[171] Holly Hobbie, *supra* note 169.

[172] *See* Henry, *supra* note 161, at 159-60.

Notwithstanding the United Kingdom's trafficking prohibition, it is technically possible for a lender to register as the proprietor of a trademark "which had been assigned to the lender pursuant to a security arrangement."[173] However, that registration may subsequently be removed from the Register if the trademark was assigned without a good faith intention that the trademark be used in relation to the underlying goods, and if during the past five years or longer, "no such use has been made by any proprietor of the mark for the period of one month before the date of application for removal."[174] Additionally, an assignment of a trademark that is deceptive or confusing to the public may similarly be removed from the Register.[175] If the trademark is subsequently removed from the Register, the value of the lender's security interest in the trademark would be greatly diminished.[176] Even if the registration stands, and the lender is viewed as the proprietor of the trademark, an attempt to enter into a registered agreement with the debtor ("company") permitting the company to use the trademark (e.g., a license-back) may be invalid.[177] The Registrar might refuse to register the user agreement in light of the *Holly Hobbie* case on the grounds that the parties were trafficking in the mark.[178] For these reasons, some commentators urge parties to avoid assignments of U.K. trademarks in the context of security agreements.[179]

Holly Hobbie and the trafficking restrictions place any attempt to register an assignment of trademark rights for security on shaky ground. Further, the possibility that registrations may subsequently be attacked on grounds of non-use or because the trademark has become deceptive diminishes any benefit afforded by registration of an assignment. Additionally, the lack of scholarly and judicial guidance relating to security interests in intellectual property makes the perfection of security interests in U.K. trademarks an even more uncertain task.

Despite this uncertainty, a lender's security interest can be

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[173] *Id.*

[174] *Id.* *See also* Trade Marks Act § 26(1); WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at UK-9.

[175] WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at UK-9.

[176] *See* Henry, *supra* note 161, at 159.

[177] *Id.*

[178] *Id.* *See also supra* notes 169-72 and accompanying text.

[179] *See, e.g.*, WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at UK-9.

recorded by using the Trade Marks Act provisions which address correction of the Register.[180] The Act permits the Registrar to "enter a disclaimer or memorandum relating to a [trademark on the Register, which in no] way extend[s] the rights given by the existing registration of the [trademark] . . . ."[181] Generally, an advertisement regarding the registration of the memorandum or disclaimer is then published in the *Trade Marks Journal*.[182] Publication may give interested parties notice of a lender's claimed interest, providing a secured party with some degree of comfort in the knowledge that others are aware of its security arrangement and may be less willing to take an interest in the same property.

Parties to a security arrangement involving U.K. trademarks may provide that upon default, the party granting the security interest will assign valid rights in the trademark to the secured party.[183] A valid assignment can be effected "even though the secured party is not engaged in the business related to the mark" and can be made "either with or without goodwill . . . ."[184] A trademark is assigned with goodwill if the whole business in the goods for which the trademark is registered is assigned with the trademark.[185] If the goodwill and the business with which the trademark is associated are not assigned together, then the assignment is "without goodwill."[186] Assignments without goodwill must comply with section 22(4) of the Act to be valid.[187] Section 22(7) provides the mechanics for an assignment without goodwill. For the assignment without goodwill to take effect, the assignee must apply to the Trademark Office for instructions regarding the advertisement of the assignment without goodwill within six months of the assignment (or during such extended

[180] Henry, *supra* note 161, at 160. *See also* Trade Marks Act § 34. *But cf.* WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at UK-9 (noting that "[t]here is no provision for recording a security interest in the Trademark Office.").

[181] Henry, *supra* note 161, at 160. *See also* Trade Marks Act § 34(1)(e).

[182] Henry, *supra* note 161, at 160.

[183] WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at UK-11.

[184] *Id.*

[185] *Id.* at UK-9.

[186] *Id.*

[187] *Id.* Section 22(4) exists "to prevent the division of trademark rights in the same or similar marks" in such a way as to cause deception or confusion among the public. *Id.*; *see also* Trade Marks Act § 22(4).

period as the Registrar may allow).[188] The assignee then must advertise the assignment within the period and in the manner that the Registrar directs.[189] Even if the assignment of the trademark upon default (whether with or without goodwill) is valid, the agreement between the parties for the assignment may be unenforceable. This can occur when the right to use the trademark created by the assignment is a use that is likely to confuse or deceive the public.[190] Additionally, although the validity of the assignment "may not be challenged merely because the assignee has no intent to use the mark after assignment,"[191] the registration of the assignment as well as the assignee's registered rights in the trademark "may be subsequently canceled for nonuse or abandonment."[192]

It is abundantly clear that if U.K. trademarks are to serve as collateral, a comprehensive system of perfecting and prioritizing security interests in such property must be devised. Currently, there is no legitimate basis for assuring that a security interest in trademarks would necessarily be recognized.[193] This is attributable to the obsolete Trade Marks Act. Many commentators find the Act inadequate to regulate modern commercial practice.[194] In fact, a United States Trademark Association survey found the United Kingdom to be among the most difficult nations in which to protect and enforce trademark rights.[195] Under the present U.K. system, lenders seeking to collateralize trademarks will encounter more uncertainty and will be less secure in their interests than their counterparts in the United

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[188] WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at UK-9.

[189] Trade Marks Act § 22(7); *see also* WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at UK-9. If the trademark assigned is not in use, "advertisement of the assignment without goodwill is not strictly required"; however, it is "recommended if there is doubt as to whether the mark is in use." *Id.* at UK-9.

[190] *See* Trade Marks Act § 22(4); *see also* WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at UK-11.

[191] WORLDWIDE TRADEMARK TRANSFERS, *supra* note 80, at UK-11.

[192] *Id.* Additionally, "a registered mark which has never been used in the United Kingdom may be validly assigned, but remains open to cancellation for nonuse." *Id.*

[193] *See* Kaufman et al., *supra* note 1, at 121.

[194] *See, e.g.*, Stephen Jones & Robert Smith, *Putting Trade Mark Law in Touch With Commerce*, L. SOC'Y'S GUARDIAN GAZETTE, Mar. 27, 1991, at 23.

[195] *Id.*

States.[196] Although perfection in the United States is confusing and conceptually complex, it can be accomplished, however inefficiently. In the United Kingdom, there appears to be little framework for protection at all.

In a White Paper entitled "Reform of Trade Marks Law,"[197] the United Kingdom proposed to reform its trademark laws in light of a European Council directive calling for more uniform trademark laws among EU member states.[198] The White Paper demonstrates the British government's intention to depart from the Trade Mark Act of 1938.[199] Significantly, the White Paper calls for a repeal of the provision restricting trafficking in trademarks,[200] which at this point is a major obstacle faced by potential secured lenders.

The White Paper is currently being addressed by the Parliament, as it considers a trademarks bill to replace the Trade Marks Act of 1938.[201] The House of Lords passed the bill in mid-March of 1994, and the House of Commons began consideration of the bill the following month.[202] Prior to Parliament's consideration of the bill, one commentator wrote that industry in the United Kingdom "would continue to be deprived, for at least two years and probably more, of the means for the proper protection of its trade marks, which it so urgently needs if it is to play its full part in the EEC and internationally."[203] This commentator also noted that some reforms proposed by the White Paper may not take place until the twenty-first century.[204]

The different approaches taken by the United States, France,

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[196] *See supra* notes 56-80 and accompanying text.

[197] White Paper, "Reform of Trade Marks Law," Cm. 1203, Sept. 1990, issued pursuant to Council Directive of 21 December 1988 (89/104/EEC) [hereinafter White Paper]. For a general discussion of the White Paper, see Christopher Morcom, *Reform of Trade Marks Law: The White Paper of September 1990*, 11 EUR. INTELL. PROP. REV. 391 (1990).

[198] *See infra* notes 213-17 and accompanying text.

[199] *See, e.g.*, Henry, *supra* note 161, at 160.

[200] *See* White Paper, ¶ 4.40; *see also* Henry, *supra* note 161, at 160.

[201] *Trade Marks Bill at Last*, Business Law Brief, Dec. 1993, *available in* LEXIS, World Library, Allwld File.

[202] *UK: Owners to 'Wait and See' on Bill—Brand Lookalikes*, Reuter Textline, Mar. 24, 1994, *available in* LEXIS, World Library, Allwld File.

[203] Christopher Morcom, *Reform of Trade Marks Law*, 14 EUR. INTELL. PROP. REV. 3 (1992).

[204] *See id.*

and the United Kingdom with respect to the perfection of security interests in trademarks create a situation in which the potential value of trademarks as collateral is not being realized or exploited by parties to international lending transactions. Even where parties to a lending transaction have recognized and targeted trademarks as collateral, the uncertainty that lenders face when perfecting their interests may have a negative effect on their confidence in the status of that collateral and the value they place upon it.

5. European Union Proposals For Change

The European Council's recent regulation creating a Community Trade Mark ("CTM")[205] and its directive to harmonize the trademark laws of member nations[206] have the potential to substantially enhance the ease with which lenders take and perfect security interests in trademarks.[207]

A CTM will have effect throughout the entire EU, and as a result, will lessen the burden on a lender who must determine whether a borrower has rights in the trademarks it is purporting to give as security. The lender will need to conduct only one search—in the Community Trade Mark Office ("CTMO") Register—rather than searching in every EU country where a borrower claims to have rights. The CTM will not replace national registration systems.[208] Therefore, a trademark that is not registered with the CTMO, but solely registered on a national level, must still be searched in the particular national system. However, the regulation permits security interests in trademarks, and provides for the security interest and the rights incident to it to be entered on the Community Trade Mark Register at the CTMO.[209] Moreover, the Community Trade Mark Register

[205] Council Regulation 40/94 on Community Trade Mark, 1994 O.J. (L 11), *available in* LEXIS, Europe Library, Legis File [hereinafter CTM Regulation]. For a general discussion of the changes in European trademark law, see James E. Rosini & Christopher C. Roche, *Trademarks in Europe 1992 and Beyond*, 73 J. PAT. [& TRADEMARK] OFF. SOC'Y 938 (1991). The CTM regulation contains over 140 articles and is beyond the scope of this Comment.

[206] First Council Directive of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks, 89/104/EEC, 1989 O.J. (L 40) [hereinafter Harmonization Directive].

[207] *See* Henry, *supra* note 161, at 160.

[208] CTM Regulation, *supra* note 205, pmbl.

[209] *Id.* art. 19; *see also id.* art. 2 (establishing the CTMO). The effect of

will publish details of the security at the request of the parties,[210] and the CTM may be levied in execution upon default.[211] Because the CTM will not replace national trademark rights, the rights granted by the regulation will only apply to those trademarks registered with the CTMO.[212]

In anticipation of a CTM and CTMO, the European Council issued a trademarks Harmonization Directive.[213] The Harmonization Directive has as its objective "more uniform and liberalized trademark systems in each [EU] Member State."[214] The directive does not call for every state to adopt wholesale a common body of trademark law, but rather is intended to make uniform "those national provisions of law which most directly affect the functioning of the internal [European] market."[215] Two commentators have noted that "[t]he individual harmonized trademark law of each member state and the overall CTM system are designed to 'co-exist' . . . ."[216] The Harmonization Directive, however, does not address rules with respect to the transfer or assignment of trademarks, and although Article 8 addresses licensing, the formalities and mechanics of licenses are not covered. Instead, the directive is a general framework intended to bring the trademark laws of EU states into uniformity while allowing those states to maintain a degree of independence and flexibility with respect to the procedural aspects of their trademark laws.[217]

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such a registration is unclear.

[210] *Id.* art. 19(2).

[211] *See id.* art. 20.

[212] The CTMO, to be located in Alicante, Spain, expects to start receiving trademark applications within 18 to 24 months. *Trade Mark Office: Open For Business By Summer 1995*, EUROPEAN REPORT, Jan. 19, 1994, at No. 1918, *available in* LEXIS, World Library, Curnws File. The CTMO will begin operating by the end of 1995. *Id.*

[213] *See* Harmonization Directive, *supra* note 206.

[214] Rosini & Roche, *supra* note 205, at 939.

[215] Harmonization Directive, *supra* note 206.

[216] Rosini & Roche, *supra* note 205, at 939 ("The Harmonization Directive contains provisions that recognize CTM rights. Likewise, trademark rights created by individual Member States are recognized in the draft CTM regulations.").

[217] *See, e.g.*, Charles Gielen, *Harmonization of Trade Mark Law in Europe: The First Trade Mark Harmonization Directive of the European Council*, 14 EUR. INTELL. PROP. REV. 262, 262-64 (1992) ("The Directive mainly covers the following subjects: scope and definition; grounds for refusal and invalidity;

Even though the Harmonization Directive does not address the giving or taking of security interests in trademarks,[218] harmonized trademark laws premised on a desire to improve the functioning of the European Market potentially simplify the collateralization of intellectual property. The laws of the United Kingdom, which provide a secured lender with few assurances that its interest in trademarks will be perfected (or even created), will be harmonized with the laws of nations such as France, which provide for the creation and perfection of security interests in trademarks with relative clarity.[219] Although security interests are not mentioned in the directive, if member states comply with the directive with an eye towards benefiting the European market as a whole and assuring themselves strong economic and commercial positions in the EU, laws providing for the clear collateralization of intellectual property should be drafted as well. The cross-border transactions that will take place among EU nations will require a consistency in the laws applicable to those transactions.

Unfortunately, European nations are delaying implementation of the directive. The initial implementation date was December 28, 1991.[220] That date was extended to December 31, 1992.[221]

In light of the recent creation of a CTM, if EU member states move to liberalize and harmonize their trademark laws in the spirit of the directive, the resulting legal environment should provide for clear and efficient perfection of security interests in all European trademarks. If lenders had assurances that their security interests in trademarks would be recognized and

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rights conferred by a trade mark (infringement, limitations on the rights and exhaustion); waiver of rights on the basis of non-use or acquiescence; licensing; [and] collective marks and geographical indications.").

[218] It is possible that the European Commission will propose harmonization with respect to other aspects of trademark law at a later date. *See id.* at 263.

[219] The White Paper and pending trademarks bill in the United Kingdom, *see supra* notes 197-204 and accompanying text, illustrate the British Government's intention to comply with the Harmonization Directive. However, the lack of attention given by Parliament to actual legislation encompassing the White Paper's proposals indicates a lack of urgency. *See supra* notes 197-204 and accompanying text.

[220] *See* Harmonization Directive, *supra* note 206, art. 16(1).

[221] *Id.* art. 16(2). Thus far, only France, Denmark, Spain, Greece, and Italy have introduced legislation purporting to implement the directive. *See* Dinah Nissen & Ian Karet, *The Trade Marks Directive: Can I Prevail if the States has Failed?*, 15 EUR. INTELL. PROP. REV. 91 (1993).

perfected on a Europe-wide scale, companies seeking to borrow in order to finance large commercial transactions would have more valuable assets to use as collateral. The likely result would be more lending, more transactions, and more commercial activity in Europe.

6. PERFECTION OF SECURITY INTERESTS IN WORLDWIDE TRADEMARK RIGHTS

Perfecting security interests in a borrower's worldwide trademark rights is as ambiguous and uncertain as the laws of the nations involved. However, before a lender can begin to consider how to perfect its interest, it must determine which law applies to the transaction. A lender may need to comply with the commercial and trademark laws of multiple nations in cases where a security interest purports to give worldwide as opposed to domestic trademark rights as collateral. The following hypothetical scenarios illustrate the complexity and inefficiency involved in collateralizing trademark rights on an international level.

6.1. U.S. Lender And French-Based Borrower

A U.S.-based lender, Bank U.S.A., would like to collateralize the worldwide trademark rights of a French borrower, Debtor S.A., a large multinational company, in order to secure a loan to that company. Debtor S.A. has trademark rights subsisting in the United States, France, and other EU nations, and maintains its chief executive office in Paris. Bank U.S.A. wants to perfect its security interest in those rights.

Assuming a valid security agreement between the parties, counsel for Bank U.S.A. should first consult the U.C.C. to decide whether foreign or U.S. law controls how the bank will perfect its security interest.[222] Because the trademarks are general intangibles, U.C.C. section 9-103(3) will determine the applicable laws of the location for defining perfection. Subsection (b) of

[222] *See* U.C.C. § 9-103(3). For the purpose of this hypothetical, it will be assumed that Bank U.S.A., because it is a U.S.-based lender, will use the U.C.C. to determine threshold issues. Additionally, because courts have held that compliance with Article 9 is sufficient to perfect security interests in trademarks, see *supra* notes 56-70 and accompanying text, the U.C.C. is a logical starting point for the bank's inquiry.

that section provides that the law of the place where the debtor is located controls perfection of the security interest.[223] For purposes of U.C.C. section 9-103(3)(b), a debtor is "deemed located at its place of business if it has one, at its chief executive office if it has more than one place of business, otherwise at its residence."[224] Because Debtor S.A. has its chief executive office in Paris, French law will most likely govern perfection of the security interest.[225]

Proceeding under the assumption that Bank U.S.A. has little experience in French law, the bank would be wise to retain French counsel to guide it through the perfection process and apprise the bank of its rights under French commercial and trademark law. As explained in Section 4.2 of this Comment, France recognizes pledges in French trademarks.[226] Bank U.S.A., however, must also know whether perfection of its rights as a pledgee under French law will perfect and/or give notice of its interest in Debtor S.A.'s worldwide (as opposed to simply French) trademark rights. In other words, Bank U.S.A. will want to know whether the perfection of its security interest in France will affect more than Debtor S.A.'s French trademark rights. If Bank U.S.A.'s compliance with French law will only confer priority over the pledged marks with respect to Debtor S.A.'s French trademark rights, the bank will need to perfect according to the local laws of every nation in which it hopes to have a perfected security interest (or local equivalent) in Debtor S.A.'s trademark rights.[227]

Assuming that French law will not allow Bank U.S.A. to perfect in more than Debtor S.A.'s French trademark rights, the bank may be forced to return to the U.C.C. to perfect its security interest in the debtor's U.S. trademark rights. U.C.C. section 9-103(3)(c) allows the location of a foreign debtor's major executive office in the United States to govern perfection when the foreign

[223] U.C.C. § 9-103(3)(b) states that "[t]he law (including the conflict of laws rules) of the jurisdiction in which the debtor is located governs the perfection and the effect of perfection or non-perfection of the security interest."

[224] U.C.C. § 9-103(3)(d).

[225] *See* U.C.C. §§ 9-103(3)(b), (3)(d).

[226] *See supra* notes 135-44 and accompanying text.

[227] This assumes that the particular nations in question recognize some form of a security interest in trademarks and provide means to perfect those interests.

jurisdiction where the debtor is located does not provide for perfection of the security interest.[228] For Bank U.S.A. to avail itself of section 9-103(3)(c), it must decide whether Debtor S.A. has a major executive office in a U.S. jurisdiction. That question will turn on the extent of Debtor S.A.'s U.S. operations, and whether any representatives employed or place of business maintained in the United States constitute an executive office or even an office.[229] Assuming that Debtor S.A. does not maintain a presence in the United States sufficient to be classified as an executive office, the U.C.C. will not assist Bank U.S.A. in perfecting its security interest in Debtor S.A.'s U.S. trademark rights. The best option for the bank at that point would be to file in the U.S. PTO in order to give other parties notice of its security interest in Debtor S.A.'s U.S. trademark rights, as well as its interest in any other foreign trademark rights covered by the security agreement between the parties.[230]

In the event that the perfected status attained in U.S. rights is insufficient to perfect its interest in Debtor S.A.'s non-French EU rights, Bank U.S.A. should attempt to record the security agreement between the parties pursuant to the laws of the individual EU nations where the debtor has subsisting trademark rights that have been given as security. Again, unless Bank U.S.A. has extensive experience with the trademark and commercial laws of the relevant nations, it should retain local counsel.[231] The advice of counsel will be invaluable in determining whether perfection is possible, whether perfection is understood in the foreign jurisdiction to have the same meaning

[228] *See* U.C.C. § 9-103(3)(c). When reading section 9-103(3)(c), the cautious lender should question whether perfection would apply when the foreign jurisdiction provides for the protection of a security interest in trademark rights subsisting in that foreign jurisdiction, but will not perfect in worldwide rights.

[229] Counsel for a lender will need to determine whether the debtor's actual presence is substantial enough for U.C.C. § 9-103(3)(c) to apply.

[230] *See* Simensky, *The New Role of Intellectual Property*, *supra* note 2, at 8, 22. When a debtor lacks an executive office in the United States, a filing with the PTO is the only appropriate U.S. filing that such a debtor might make. *Id.* at 22.

[231] Without the opinion of foreign attorneys, lawyers in the United States will be reluctant to conclude that a security interest is a perfected, first priority security interest. *See* William H. Hagendorn, *Perfection of Security Interests in Accounts and General Intangibles of a Foreign Corporation*, 5 INT'L L. PRACTICUM: INT'L L. & PRAC. SEC., N.Y. ST. B.A. 21 (1988).

as it does in the United States, exactly what procedures need to be followed to perfect, and the extent of the protection and priority a national recordation will afford the bank.[232]

6.2. U.S. Lender And U.K.-Based Borrower

In this hypothetical, assume that Bank U.S.A. has entered into a secured lending agreement with Britco, a U.K.-based borrower with its chief executive office in London, but which also maintains a major sales and distribution office in New York City. Bank U.S.A. has taken a security interest in Britco's worldwide trademark rights and wants to perfect that interest.

U.C.C. sections 9-103(3)(b) and 9-103(3)(d) dictate that the law of the United Kingdom, where the debtor maintains its chief executive office, will govern perfection of Bank U.S.A.'s security interests in Britco's trademark rights covered by the security agreement. However, because U.K. law regarding transfers of interests in trademarks is unclear,[233] obtaining local counsel will be imperative. Further, due to the uncertainty surrounding U.K. recognition of security interests and equivalents in trademarks, Bank U.S.A. should consider other ways to perfect its interest.

One option is U.C.C. section 9-103(3)(c). This section allows perfection of a security interest in general intangibles of a foreign debtor to be governed by the laws of the U.S. jurisdiction where the debtor maintains its major executive office, if the foreign jurisdiction where the debtor is located does not provide for the perfection of the security interest by filing or recording.[234] Assuming that Britco's New York sales and distribution office is considered a major executive office, New York's version of the U.C.C. will govern perfection of the security interest between Bank U.S.A. and Britco. If the security agreement between the parties listed the collateral for the loan as Britco's worldwide trademark rights (among other property), and assuming that its U.C.C.-1 filing is valid, Bank U.S.A.'s security interest would arguably be perfected in those rights; filing under the U.C.C. puts the world on constructive notice of Bank U.S.A.'s interest. Regardless of such a filing's international effect, Bank U.S.A.

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[232] *See id.*

[233] *See supra* § 4.3.

[234] *See* U.C.C. § 9-103(3)(c).

should at least be perfected with respect to subsequent U.S.-based lenders seeking a security interest in Britco's worldwide trademark rights—these lenders are deemed to be on notice of Bank U.S.A.'s U.C.C. filing.

To achieve international priority in Britco's trademark rights, Bank U.S.A. should file pursuant to the laws of every nation where Britco's trademark rights covered by the security agreement subsist. However, as was noted in the Debtor S.A. hypothetical above, Bank U.S.A. will need to retain local counsel to determine proper filing and perfection procedure as well as an appraisal of its rights under the relevant local laws.

The foregoing hypothetical transactions illustrate the inefficient perfection schemes and general uncertainty facing parties to secured transactions involving worldwide trademark rights. Even after multiple filings, a lender may have to take a leap of faith, hoping that the advice of counsel is accurate and that it has adequately complied with all relevant national laws. Such difficulties have been a major impediment to the exploitation of trademarks as collateral on an international scale. Until nations whose corporations engage in substantial commercial activity create or integrate laws to reduce the risks, costs, and uncertainties associated with collateralization of worldwide trademarks, lenders will continue to reject the use of these increasingly valuable property rights.

7. CONCLUSION

In many transactions where security interests are taken in trademarks, the parties intend to collateralize the debtor's worldwide trademark rights. The rights conferred upon secured parties will vary depending on the nations involved and the policies of those nations with respect to the treatment of security interests in trademarks. The comparisons presented in this Comment illustrate that secured transactions involving international trademarks are not for the faint-of-heart, and should be approached only after careful planning and with a clear understanding of the transaction's goals. In light of the confusion surrounding the perfection of security interests in trademarks, a prospective financier would do well to retain local counsel in each nation where it seeks to do business. The major issues a lender will face are whether security interests in trademarks are recognized in a particular country, how such interests can be perfected, what rights and restrictions are conferred by perfection, both nationally and internationally, and what remedies are available upon a debtor's default. With potential changes in U.S. and European trademark law looming, these questions cannot now be answered with much ease or certainty.

While current law regulating the collateralization of international trademark rights fails to account for the significant role that trademarks can play in modern commercial transactions, the commercial value of trademark rights is quickly being recognized by the international business community. Providing commercial lenders with certainty that the security interests they take in debtors' trademarks are perfected will prevent these assets from being undervalued, while maximizing the collateral available to lenders. The result will be larger loans and increased commercial activity. Global economic powers, therefore, would be wise to create and maintain perfection schemes that foster and efficiently regulate security interests in trademarks.