

New Hazards regarding Title and Security Interest Opinions



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Recent changes in the workflow and backlog in the USPTO Assignment Division have made it much more difficult to advise a buyer of a patent or trademark and to opine as to whether a security interest has been perfected. These changes affect anyone doing due diligence regarding intellectual property in a transaction.

The “quiet title” period. For many years, US law has set a three-month “quiet title” period for patents:

An assignment, grant, or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.¹

A similar three-month period is set by US law for trademark registrations.² This quiet-title period means that it is not possible to opine, on a particular day, as to who exactly owns a patent or trademark registration as of that day. The reason is simple — an assignment might have been executed two and a half months ago, and could be recorded any time in the next two weeks, in which case it would “trump” any assignment executed thereafter. Likewise it is not possible to opine, on a particular day, as to whether a party has a “first” and “perfected” security interest in the patent or trademark registration. The owner might have granted a security interest to some third party two and a half months ago and you cannot rule out such an event by means of a title search until three months has passed.

Putting this in plain language, if a client asks “please tell me who owns this patent

or trademark as of today?”, the lawyer has no choice but to say “I can let you know the answer in about three months.” A title search is done after the three-month wait and then it is possible for the first time to opine as to title as of the date of interest.

For a lender who wants an opinion of counsel that it possesses a perfected first security interest in a patent or trademark, the same three-month quiet-title period applies. A lender who wants to be sure of having a perfected first security interest before handing over the money will have no choice but to wait until about three months after the closing, at which time a title search permits reaching an opinion as to whether the security interest is a “first” and “perfected” security interest.

How it used to be. Until a couple of years ago, the only way to get an assignment or other title-affecting document recorded was to send it on paper to the USPTO. The Assignment Division would microfilm the document and report the recordation to the filer. The notice of recordation includes the microfilm reel number and frame number. The fact of the recordation was noted in the Assignment Division’s database so that it would be found by anyone performing a title search. All of this took well under three months to happen, and generally took at most about two weeks. This means that the three-month periods mentioned above should really be thought of as about three and a half months. Stated differently, for many years the accepted rule has been that a title search done on a particular date only permits opining as to title and status of security interests as of about three and a half months earlier.

What changed. Starting about two years ago, it has been possible to submit documents for recordation by fax, and starting about a year ago it has been possible to e-file documents for recordation. E-filed documents get recorded within about a day, and are available in the assignment database immediately. Fax-filed documents presently get recorded within a couple of days, and are likewise available in the

assignment database immediately. (The author has been advised, however, that the recordation time for fax-filed documents is likely to increase in the near future.)

But, importantly, paper-filed documents are presently taking about six months to get recorded. Such recordations do not show up in the assignment database until after this recordation. The author is aware, for example, of assignments received by the Assignment Division on paper in June of 2003 that were not recorded until December of 2003.

When the Assignment Division records a document, the recordation is dated “as of” the date the papers were received by the Assignment Division. Thus, in the case of the assignments just mentioned, title searches performed in July, August, September, October, and November of 2003 would not find the assignments filed in June 2003. A title search performed in December of 2003, however, would find the assignment, and would state that the assignment had been recorded in June 2003.

What this means for a lawyer rendering an opinion. The lawyer who is asked by a client to opine as to title or as to whether a security interest has been perfected can no longer respond “I can tell you in about three months.” Instead, the lawyer must add the three-month quiet-title period and the six-month recordation backlog, and must tell the client “I can tell you in about nine months.”

Likewise, a lender that wishes to disburse funds only after it can be assured of having a perfected first security interest must hold onto the funds for at least nine months after the closing.

Any opinion letter relating to title needs to contain qualifying language warning the reader not only of the three-month quiet-title period but also of the recordation backlog for paper-filed documents.

What this means for filers. If you want a title document to be visible right away to third parties who are performing title searches, clearly you should e-file the document. This yields a reel and frame number within a day and the fact of the recordation shows up in the database right away.

On the other hand, it is possible to imagine situations in which a filer might prefer to keep third parties in the dark for as long as possible. Such a filer would wait until

nearly three months after the date of execution of the document, and would then paper-file the document, thus ensuring that it would be missing from the assignment database until some nine months after the date of execution.

Many practitioners are in the habit of filing US patent applications on paper, with a paper assignment enclosed with the application for recordation. It should be appreciated that such an assignment will likely take a minimum of nine months to be recorded — at least three months to get through the Office of Initial Patent Examination and another six months to get through the Assignment Division. If it is desired to get the assignment recorded promptly despite the application being paper-filed, then it is best to omit the assignment from the filed application package and instead to e-file it once the serial number is known. Still better, of course, is to e-file the patent application and to e-file the assignment as part of the e-filing project submission.

Assignment data on the web.

Practitioners should also keep in mind that the USPTO now makes patent and trademark assignment data available free of charge, and updated daily, on the web site of the USPTO. This permits obtaining an abstract of title immediately and at no cost. A lawyer needing to give an opinion as to title or as to the status of a security interest may find that the web-based information suffices as a basis for the opinion. **(IPT)**

ENDNOTES

- 1 35 U.S.C. § 261.
- 2 “An assignment shall be void against any subsequent purchaser for valuable consideration without notice, unless the prescribed information reporting the assignment is recorded in the United States Patent and Trademark Office within 3 months after the date of the assignment or prior to the subsequent purchase.” 15 U.S.C. § 1060(a)(4).

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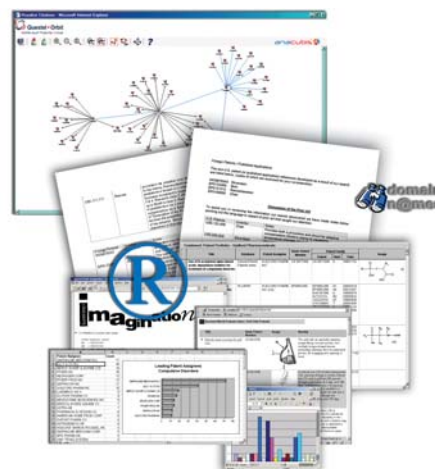
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