



## Updating Intellectual Property Chain of Title

Despite the ever increasing importance of monetizing creativity, many do not appreciate that a break in the chain of ownership of an intellectual property (“IP”) asset can be just as fatal to its value to a potential new owner as the failure to update the chain of ownership following the sale of real estate. Title searches, remediation, and timely recordation of ownership changes are equally important to both real property and intellectual property.

All organizations own IP, whether it be brand names, innovative products or processes, literary or other copyrightable works, domain name registrations, trade secrets, or the like. In addition, many organizations have obtained trademark registrations, copyright registrations and patent certificates for their intellectual property with the U.S. Patent and Trademark Office, the U.S. Copyright Office, and corresponding intellectual property offices in other jurisdictions around the world, including countries of Europe, Latin America, Asia, and the Middle East. These certificates and registrations are the equivalent of real estate deeds.

When an organization undergoes a name change or a conversion, or is the subject of an asset purchase, a merger or other type of acquisition or transaction, the organization’s IP oftentimes changes ownership. Thereafter, ownership records of the organization’s trademark and copyright registrations and patent certificates in the IP offices of relevant jurisdictions around the world must be updated to reflect the new owner of the IP.

### Pitfalls

Significantly, and often not appreciated by IP owners or third parties seeking to take security interests in transferred IP, this “chain of title” must be updated as soon as possible after the close of the transaction in much the same way that an updated deed to real estate must be timely recorded. Delays in updating the chain could result in loss of rights in the IP or at least prove to be very costly to correct at a later date. As with real property, so-called “breaks” in the chain of title to an IP asset can render it valueless to a new owner if the seller cannot show it has a good title to the asset.

### Loss of Rights

Taking the United States as an example, U.S. law governing the assignment of patent certificates and registered trademarks provides that an assignment of a patent or federal trademark registration is void against a subsequent *bona fide* purchaser of these IP assets, unless the assignment is recorded with the U.S. Patent and Trademark Office within three (3) months after the date of the assignment or prior to the subsequent purchase. The timing is *even less* with respect to the Copyright Office, only giving one (1) month to record an assignment after its execution in the United States or within two months after its execution outside of the United States. Those familiar with real estate transactions often term this requirement a race-notice provision.

The purpose of this U.S. law is to reward the early recordation of assignments and to provide notice of the assignments to subsequent potential good faith purchasers. If a buyer of IP assets does not timely record the related assignment with the U.S. Patent and Trademark Office, a subsequent *bona fide* purchaser will not have notice of the assignment and can therefore acquire the IP assets in good faith to the detriment of buyer. Accordingly, the buyer should record the assignment promptly after the transaction, lest it risk losing its IP rights to a subsequent good faith purchaser.

The same rule applies to security interests taken in patents and trademark registrations. It is not uncommon for a lender to take a security interest in the IP assets of a borrower as security against repayment of the loan. In addition to filing a UCC-1 financing statement at the state level to perfect the security interest, the lender should also record the security agreement with the U.S. Patent and Trademark Office to provide notice to a subsequent *bona fide* purchaser who would therefore purchase the IP assets subject to the security interest. Like assignments, recordation of security interests should be made within three (3) months of the date of the security agreement or prior to the subsequent purchase.

Loss of rights in acquired IP assets can also occur in foreign countries if chain of title following a transaction is not promptly updated. For example, many foreign countries require that powers of attorney be executed by officers of each organization involved in the transaction. It is not uncommon for a transaction to include several steps, e.g., a merger, followed by a name change, followed by an assignment. If the chain is not timely updated, officers of the defunct entities are oftentimes no longer available to sign the required powers. As a result, the chain cannot be updated to the current owner. If the chain is not updated, the current owner will not be in a position to enforce its IP rights against infringers in these foreign jurisdictions. In addition, the current owner may not be able to maintain registered IP when it comes due for renewal, resulting in expiration of the asset and loss of rights.

### Costly

Failure to timely update chain of title following a transaction involving change of ownership of IP assets can prove to be costly even if it is possible to do so. In the above example, where multiple steps in the chain cannot be readily updated, the current owner could very well incur substantial legal costs from both its U.S. and foreign counsel in analyzing the current owner's legal options.

Even if remediation is possible to fix a defective chain of title, some countries charge late fees for each year the chain is not updated. Given that a transaction could involve multiple steps in the chain of title and a large number of patent certificates and trademark registrations in a single country, such late fees aggregate very quickly, significantly increasing overall remediation cost.

### Conclusion

Following a transaction involving change of ownership of IP assets, the ownership records of the assets must be updated with the IP offices of relevant jurisdictions around the world to reflect the new owner of the IP and to remedy any prior deficiencies in the overall chain of title. In many cases, corresponding security interests should also be recorded. Aside from cost, delays in updating the chain can be fatal, resulting in the complete loss of IP rights. 📌

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