Practical Considerations for Valuing Intellectual Property Assets in Estate Planning

By Denise S. Rahne and Shira T. Shapiro

Denise S. Rahne is a partner in the Minneapolis, Minnesota, office of Robins Kaplan LLP, where she focuses her practice on disputes involving estates, trusts, fiduciaries, and closely-held corporations. Shira T. Shapiro, an associate in the same office, has experience in intellectual property and business litigation.

An estate's most valuable and enduring assets may not be the family jewels or an oceanfront home. Rather, intellectual property—one's intangible assets—can continue to generate substantial income for many generations if gifted properly and maintained under the relevant laws.

Intellectual property includes copyrights, trademarks, patents, and trade secrets. Because they are intangible assets, intellectual property can be extremely difficult to value for probate purposes. In fact, valuation can be just as challenging for the assets of Facebook, as any IP rights that exist in someone's personal blog. There are various, sometimes conflicting, ways to value intellectual property, and valuations ebb and flow because of changes in the relevant markets. For example, around 38 publishers rejected the *Gone with the Wind* manuscript before one took a chance on its unknown author. What once had mere personal value is now financially limitless. The reverse can also be true. Sentiments aside, interest in the Walkman, a Sony trade name for a portable cassette tape player, had a very different financial outlook in 1985 than it does in 2017.

In addition to valuation, a creator's personal preferences for the ongoing treatment of one's intellectual property are critical in estate planning and disposition. Intellectual property is a highly personal stamp on the world. It outlives a person. But beneficiaries may neglect, sell, dispose of, or otherwise manage intellectual property against the creator's wishes. Intellectual property requires thoughtful planning for both gifts and testamentary dispositions.

Determine the Scope of Intellectual Property Assets

For any intellectual property in an estate, counsel must first take an inventory. Estate planners should consider having IP counsel assess the scope of the intellectual property assets. Key considerations include whether the intellectual property portfolio is substantial in size. Is it unique in any way? Is it varied, containing a combination of patents, copyrights, and trademarks? Even if an estate has a single asset, one patent for example, that one patent may cover an enormously lucrative technology. For any patent assets, counsel should determine whether there are multiple patents in the patent family, such as continuations that increase the scope of the patent protection.

Patents

To seek patent protection under the law, inventors must file a patent application with the U.S. Patent and Trademark Office (PTO). If the PTO determines that the invention is patentable, the inventor will be awarded a U.S. patent, identified by a unique patent number. Most patents are either utility or design patents.

Utility patents cover methods, processes, machines, devices, manufactured items, or chemical compounds that are new and useful or improvements thereto. Patents range from historical inventions that forever changed modern society to the more obscure. The toaster oven was patented in 1921 as U.S. Patent No. 1,394,450, and Velcro was first patented in 1952 as U.S. Patent No. 2,717,437. Fifty-one years later, the PTO granted U.S. Patent No. 6,637,447 to an invention called the Beerbrella, which protects your beer from the sun.

Design patents protect the ornamental design of a functional item. Some famous examples include design patent D11,023, which protected Frédéric Auguste Bartholdi's design for the Statue of Liberty. And design patent D48,160 protected the famous contour-shaped design for the Coca-Cola bottle.

Original patent owners may assign their rights in writing to another person. The assignment should be recorded with the PTO.

Copyrights

The Copyright Act protects original literary works, music, including lyrics, dramatic works, choreography including pantomime, pictures, graphics, sculptures, movies and other audiovisual works, sound recordings, and architecture. 17 U.S.C. §§ 102–103. Copyright is automatic, vesting on creation. The Copyright Act identifies all creators of copyright materials as authors. Although authors need not register their works with the U.S. Copyright Office, registration can strengthen their rights. Testator authors should therefore consider completing any registrations at the same time they plan their estate. For any remaining works created after the estate plan that the testator did not register, the estate plan should explicitly clarify if the beneficiaries should register the assets.

Copyright assets can be transferred under an estate plan. See 17 U.S.C. §§ 201(d)(1), 204(a). The Register of Copyrights must receive a copy of the written transfer, along with a statutory fee. Id. § 708.

Trademarks

Trademark rights protect words, names, symbols, devices, or any combination thereof. 15 U.S.C. § 1127. There are three types of trademarks: trademarks, service marks, and trade dress. Trademarks help consumers differentiate between products in the marketplace from various suppliers, such as the famous Apple logo, the Nike swoosh, or Legos, which became a registered trademark in 1954. Service marks are used to advertise a service or event, rather than a product, such as Amazon.com. Trade dress is the distinctive, identifying features that form a trademark or service mark. For example, trade dress can be the unique store design elements that reoccur in all Starbucks or McDonald's stores.

Trademark owners can either assign their ownership of a mark to another entity during their lifetime in writing or bequeath the rights. Any assignment should be recorded with the PTO.

Trade Secrets

Trade secrets are confidential business information that provide a company a competitive edge. Examples of modern trade secrets are chemical formulas, competitive pricing structures, source code, and customer lists. A trade secret's value is rooted in its secrecy. If disclosed, the trade secrets lose their value. A trade secret owner's remedy for disclosure is litigation to recover some financial losses. The disclosure, however, can never be undone.

If an estate includes trade secrets, testators should consider requiring the beneficiary to sign a confidentiality or nondisclosure agreement before receiving the trade secrets. The estate plan also can make provisions to ensure the continued secrecy of the trade secret and to allow for someone other than the beneficiary to enforce any breach of that secrecy.

Confirm the Ownership of the Assets

Ownership must be confirmed before an inventor or creator considers gifting intellectual property in an estate plan. Often, the original inventor or creator does not singularly own the rights to the invention or creative work. Other joint inventors can be listed on the face of a patent or multiple authors registered as creating copyrighted works. The joint inventors or creators may have reached an agreement regarding what percentage of rights each person owns, which may not be an equal split. If so, the estate plan should clarify the testator's apportioned share. The intellectual property also may have been assigned from the original inventor or creator to another person or entity, transferring all rights. Any intellectual property assignments should be carefully reviewed by the attorneys crafting the estate plan.

An invention or creative work also can belong solely to a person's employer. An engineer who worked in an IBM or an Apple lab for decades, churning out scores of patents, likely has no rights to a single one of those patents. In copyright law, "works-for-hire" are created by employees as part of their job, and the employer is considered the legal author. See 17 U.S.C. § 101. When creating an estate plan, counsel should review any related employment agreements to determine what rights, if any, the testator can pass on to beneficiaries. This is not always clear-cut, as some employers may allow certain rights to stay with the original inventor or creator.

Notably, for trademarks, a testator may not even know that he has certain IP rights. Common law trademark rights vest on the *first use* of a trademark, even if a person has not registered the trademark with the PTO. Common law trademark rights, however, are quite limited. They only cover places where the trademark is used in commerce and prohibit recovery of statutory damages, attorney's fees, and other benefits afforded registered trademarks. When creating an estate plan, the inventory should include all current or potential common law trademark rights, and steps should be taken to register the rights to ensure the best possible protection and enforcement rights for beneficiaries.

Valuing IP Based on the Life of the Assets

No intellectual property rights are guaranteed to be indefinite. The remaining life of the assets is critical for the valuation analysis. Utility patents are granted a 20-year term from the filing date of the earliest application to which priority is claimed. 35 U.S.C. §§ 154(a)(2), 365(c). Design patents will expire 14 years from the date of the patent grant, or 15 years for applications filed on or after May 13, 2015. See 35 U.S.C. § 173 and MPEP § 1505.

Unlike patents, copyright protection for works created in 1978 or after lasts for the author's lifetime, plus 70 years postmortem. See 17 U.S.C. § 302(a). The life of any works created before 1978 depends on when the work was published or copyrighted. Id. § 302. For both patents and copyrights, where the inventor's or creator's death falls on the timeline may decrease or increase the value of the IP rights.

Trademarks and trade secrets differ slightly from patents and copyrights in that they can survive indefinitely based on their commercial use or value. Trademark registration lasts ten years and can be renewed for additional ten-year terms if the trademark continues to be used in connection with the products and services for which it is registered. Trade secrets can receive indefinite protection if the trade secret continues to be of value in the marketplace, if its value stems from its secret nature, and if the owner takes reasonable precautions to maintain its secrecy. The potential long life of these IP assets may increase their value in an estate analysis. At the same time, no one can predict which trends will endure in the marketplace and which will fade away, often rendering valuation a game of estate planning chance.

Other Valuation Considerations for Intellectual Property

Valuations can ebb and flow because of changes in the relevant markets. Despite this unpredictability, there are certain reliable benchmarks. For example, what was the value placed on the intellectual property in any past licensing? If there are past licenses, the estate plan also should consider whether they provide exclusive or non-exclusive rights. Non-exclusive rights will allow beneficiaries to expand any licensing opportunities that would be unknown at the time of the estate plan. Alternatively, exclusive rights will have a fixed value and timeline that can be valued up front. Counsel involved in the estate plan should also review any other valuations for the IP assets, such as for purposes of a sale, taxes, business transaction, or other accounting. Notably, the absence of a valuation also can affect the IP assets. If, for example, a business valuation done as part of a commercial transaction fails even to include the value of existing trademark rights, it may be difficult to independently value those trademark rights in an estate plan at a high premium.

Certain intellectual property assets, like copyrights for literature, are valued based on the potential for future revenue. The estate plan can apply this analysis to various types of intellectual property assets to determine a credible present value. The estate should consider hiring a professional expert or appraiser in the specific field of the intellectual property to help pinpoint the future and present value.

Recent celebrity cases highlight the mercurial nature of valuing certain IP assets in an estate. Remarkably, the Copyright Act allows original copyright owners or their descendants to terminate an assignment of a copyright to another party. See 17 U.S.C. §§ 203, 304(c). With this law, descendants can try to regain equal bargaining power for creative works that had previously been impossible to value because they had not yet been exploited. The Sixth Circuit recently affirmed a termination for the copyright to the famous gospel song "I'll Fly Away" by the songwriter Albert Brumley. After a sibling fight, some of Brumley's descendants sought to enforce the termination of their brother Robert Brumley's exclusive rights to the song's copyright. Because the descendants complied with the Copyright Act to exercise this right, the termination was valid. See *Brumley v. Albert E. Brumley & Sons, Inc.*, 822 F.3d 926 (6th Cir. 2016). Likewise, the copyright to 51 of Ray Charles's most famous songs was being litigated under this same termination provision of the Copyright Act. Ray Charles's last will and testament gifted his rights to his nonprofit organization, the Ray Charles Foundation, which provides financial support in the area of hearing disorders and for education purposes. His children sought to block the attempted terminations of their rights. See *The Ray Charles Foundation v. Raenee Robinson*, No. 2:12-cv-2725 (C.D. Cal.). The parties settled in April 2017.

Patent Valuation Land Mines

Patent valuation for an estate plan is made more complex because of the ever-changing state of patent law. At any time, technologies that once generated, or had the potential to generate, substantial dollars, can take validity hits from the courts. Invalid patents are financially valueless.

For example, *Alice Corp. Pty. Ltd. v. CLS Bank International*, 134 S. Ct. 2347 (2014), drastically changed the value of software patents. In *Alice*, the Supreme Court characterized the software patent at issue as failing to transform an "abstract" idea into a patent-eligible invention. Id. at 2352. Although the Supreme Court did not strike down all software patents as patent-ineligible, *Alice* was a huge blow to the software patent industry, unforeseen by many in today's computer-driven society. And the fact that the Federal Circuit has recently once again found *certain* software claims as patent-eligible only underscores the law's unpredictability. In *McRO, Inc. v. Bandai Namco Games America, Inc.*, 837 F.3d 1299 (Fed. Cir. 2016), the Federal Circuit found the software claims at issue to be patentable because they covered a *new* method to produce realistic computer animation, incorporating rules for changing a character's facial expression. In light of this volatile landscape, experts in patent law should participate when valuing patents in an estate plan.

Estate plans must also consider other land mines that can kill or invalidate patents. For example, at any time during the life of the patent, someone can petition the Patent Trial and Appeal Board (PTAB) to review the patentability of one or more claims in an issued patent. With this mechanism, called *inter partes* review (IPR), the PTAB can investigate two potentially fatal questions, by looking at patents or printed publications that pre-date the patent at issue. First, is the patent novel under 35 U.S.C. § 102? Second, when originally filed, was the patent obvious to someone having ordinary skill in the art under 35 U.S.C. § 103? If the PTAB rules that the patent is either obvious or not novel, the patent is invalid and will lose its monetary value. Significantly, according to the PTAB's most recently published statistics dated December 31, 2016, 83% of completed IPR trials invalidated some or all instituted claims. Estate plans must consider the possibility of an IPR, and beneficiaries of patent rights must be aware of this powerful tool to try to devalue a patent.

Competitor companies that may have the means and motive to try to invalidate the invention through IPR should be considered in a patent valuation for an estate plan. This may decrease the patent's value. Conversely, it may be that a patent or patent portfolio is a significant IPR target because it covers extremely popular or valuable technology. This would increase the patent's value for estate purposes. If warranted by the patent and the size and means of the estate, counsel should consider seeking the advice of IP counsel to assess the risk of invalidation for the patent assets before their expiration.

Maintaining and Enforcing Intellectual Property Rights in Estate Plans

To preserve the value of intellectual property assets in an estate plan, the testator must ensure that the beneficiary or a third party maintain and continue the intellectual property as necessary under the relevant laws. Patent owners must pay regular maintenance and renewal fees. Otherwise, protection of the patent invention will lapse and the patent rights will be no longer enforceable. Because maintenance fees cannot be paid early, a testator cannot pay ahead to ensure the continued protection of one's patent rights if he dies during the patent term. The PTO does not calculate the expiration dates for patents or provide reminders for upcoming maintenance fee payment dates. The PTO will send maintenance fee reminders to the "fee address" or "correspondence address" listed in the patent's file history, but only within a certain window after missed payments. A careful estate plan for IP will therefore lay out the proper deadlines, with strict instructions on payment deadlines. The estate plan also should confirm that the PTO has a reliable address, such as the testator's or estate's attorney, for any notification from the PTO. Maintenance fees are not required for design patents.

Beneficiaries who inherit patent rights must confirm if anything further needs to be done with the PTO other than regular maintenance fees. For certain patent applications that have not yet been granted a U.S. patent number, beneficiaries may need to take action to guarantee the patent rights. If the original inventor filed a provisional application within the previous year, that application contained only a description of the invention. Inventors rely on nonprovisional applications to secure a filing date and cut off any other inventions that are filed afterwards. If the patent owner filed only a provisional application, the beneficiaries must file a nonprovisional application within one year of the provisional application's filing date. A nonprovisional application is a complete application that includes oaths, drawings, and claims. Regardless of whether a U.S. patent is granted or is expected to be granted, testators should state whether they want their beneficiaries to file continuation patent applications. A continuation can expand the scope of patent protection in a portfolio, which can increase its value during licensing or a sale.

For trademarks, testators should expressly identify the registration dates and ensure that beneficiaries take proper steps to renew the registration if warranted every ten years. Also, if a beneficiary fails to use a mark for three or more consecutive years, the trademark will be deemed abandoned under the law on proof of "non-use." 15 U.S.C. § 1127. The estate plan should therefore set forth the expectations and procedures for continued use of the trademark to avoid making it vulnerable to abandonment. Testators also should consider whether beneficiaries or hired counsel should police the marketplace, and send out cease-and-desist letters when necessary, to continue to enforce the trademark rights.

Protect the Creator's Personal Legacy

An estate plan that passes on IP rights should state the original owner's specific wishes for how he wants his rights handled after his death. For example, patent rights must be enforced by whoever owns the patent rights. If a person or company infringes a patent, the patent owner must bring a lawsuit to enforce those rights. Litigation for any IP rights can be extremely costly and take years to resolve. Testators who want their beneficiaries to enforce their rights through litigation should consider setting aside money in the estate for that purpose, at least through the expiration of the asset when applicable. Alternatively, the original IP owners may want their beneficiaries to try to avoid litigation and seek licenses or other business arrangements outside of litigation, either with current or potential business partners. Again, testators may want to set aside funds to hire an agent or legal counsel to negotiate these licenses.

Aside from any financial recovery, litigation for IP assets in one's estate can honor the original creator's legacy. Two years after original Beastie Boys member Adam Yauch died, his wife and executrix of his estate, Dechen Yauch, joined a lawsuit as a co-plaintiff against the beverage company, Monster Energy Co. Yauch's will reportedly included a no advertising clause to prevent advertisers, like Monster, from using his music, likeness, or any art that he created in connection with selling or promoting products. The lawsuit accused Monster of copyright infringement and false endorsement for a YouTube video that Monster promoted shortly after Yauch's death. See *Beastie Boys v. Monster Energy Co*., 66 F. Supp. 3d 424 (S.D.N.Y. 2014). The jury found in the Beastie Boys's favor and the court enjoined Monster from further promotion or use of the infringing video. See *Beastie Boys v. Monster Energy Co*., 87 F. Supp. 3d 672, 674 (S.D.N.Y. 2015). Thus, the litigation helped enforce the personal wishes set forth in Yauch's will.

Another recent case involves the wife and estate representative for the deceased Ronald Dean Banks, a founding member of the legendary R&B group from the 1970s, the Dramatics. Banks's wife found herself in litigation regarding the right to use the service trademark, "The Dramatics," after her husband's sudden death. *Reynolds v. Banks*, No. 12-cv-11664 (E.D. Mich.). Ultimately, the parties settled the litigation out of court in December 2016, and Banks's estate reportedly receives a fee for each concert performed under The Dramatics's name. It is reported that the impetus for the settlement was to preserve Banks's legacy.

Rather than a carefully protected legacy, original creators of works may want posthumous *privacy*. For example, Franz Kafka specified in writing that he wanted all of his works left behind to be "burned unread." Fifty years of legal battles ensued before an Israeli court ultimately awarded the remaining collection of Kafka's manuscripts to the National Library of Israel. Likewise, the writer Willa Cather declared in her will that her letters were never to be published. Yet, after the death of her executor, the copyrights transferred and the publication ban was ultimately lifted. Nearly 566 of her letters have since been released to the public. And despite its enduring literary acclaim, and cult following, you will never be able to download a *Catcher in the Rye* movie from Netflix. Famed author J.D. Salinger left strict instructions banning any movie of the novel from being made. Even if a testator is not a renowned author or artist, these celebrity estates are instructive. For any original author or creator of IP, the estate plan should set forth his or her personal preferences for the works created during the author's lifetime.

Conclusion

An estate plan must ensure proper procedures for the maintenance and continuation of intellectual property under the relevant laws, whether by the beneficiary or a third party. One also must consider and carefully set forth the creator's personal preferences for the ongoing use of his intellectual property. Getting it right can help avoid costly conflict in the administration of the creator's estate and, importantly, honor the legacy of the original creator or inventor.