

GETTING THOUGHTFUL ABOUT INTELLECTUAL PROPERTY

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Presenters



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The Smith Estate and Testamentary Trusts

Cash	\$5MM
Equities	\$15MM
Fixed	\$10MM
Alternatives	\$5MM
Residences	\$8MM
Closely-helds	\$15MM
Patent LLC	<u>\$?MM*</u>
Total	\$58MM*

* Uncertain ownership, control or value

“This is a great estate”
- Client Advisor

“Surely we should accept this!”
- Market Executive

“Wish that patent thing weren’t there..”
- Trust Executive

“Dad said never let go of the patent”
- oldest son who works for the company

“Bill wanted me to have those!”
- Current (4th) spouse

“Why are we considering this? Haven’t you
read the headlines about #####?”
- Risk Executive

Intellectual Property

- What? Creative idea or tangible expression of an idea
- When? The creative idea becomes securable at filing and secured property when conferred, other than copyright, which becomes effective when created (in fixed media)
- Why? For most IP, until the creative idea is secured, is it just an idea.
- Who? Are the SMEs and Stakeholders?
 - ✓ Experts in specific IP categories
 - ✓ Intellectual Property counsel
 - ✓ Estate Planning counsel
 - ✓ Corporate counsel
 - ✓ Tax Advisors
 - ✓ Co-Owners and beneficiaries

Scope of the Session

Major Types of IP

1. Patents
2. Trademarks
3. Copyright

Other IP Categories

- Trade Secrets
 - tied to a company (internal secret sauce)
- NIL (Name, Image, Likeness)
- Right of Publicity

Not in scope for this presentation

1. Email accounts
 2. Social media content
 3. Online presence
 4. Fruits of life as an influencer
- Not without their own headaches
 - Ownership can be asserted by platforms

Look for the [!] as it signifies a pitfall

Initial Considerations

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1. Registered vs unregistered [!]
 - with proper governmental authority
2. Secured vs unsecured [!]
 - professionally represented or free-for-all
3. Published vs unpublished vs works-in-progress
4. Income-generating vs non-income-generating
 - trajectory of income, future initial income
5. Present value of current & future cash flows
 - Value for estate/gift tax purposes,
 - Value for statement purposes
 - Funding & distributions purposes
6. Reputation of the creator

Key Types of Intellectual Property

Patent: an exclusive right to the benefits of an invention or improvement granted by the U.S. Patent Office, for a specific period of time, on the basis that it is novel (not previously known or described in a publication), "non-obvious" (a form which anyone in the field of expertise could identify), and useful. Three types of patents; a) utility patent b) design patent and c) plant patent.

Trademark: a distinctive design, picture, emblem, logo or wording (or combination) affixed to goods for sale to identify the manufacturer as the source of the product. Words that merely name the maker (but without particular lettering) or a generic name for the product are not trademarks.

Copyright: the exclusive right of the author or creator of a literary or artistic property (such as a book, movie or musical composition) to print, copy, sell, license, distribute, transform to another medium, translate, record or perform or otherwise use (or not use) and to give it to another by will.

Source:  ALM LAW.COM
DICTIONARY

Fiduciary Responsibilities with Intellectual Property

Which are some of the specific fiduciary duties triggered by the presence of IP?

- Duty to make trust property productive*
 - Promoting IP [!]
 - Duty to pursue/defend legal rights & claims
 - Securing/resecuring IP rights
 - Defending/prosecuting IP infringements [!]
 - Defending Claims by third parties for an interest in the IP [!]
 - Duty of impartiality*
 - Dividing property in a way that is fair and equitable [!]
 - Often subject to specific bequests
 - Duty to render proper accounts (valuation, revenue, expenses)
 - Valuation subject to market forces (art vs. technology), may be dependent on litigation
 - Duty to report taxation accurately (consider filing type and jurisdiction)
 - Duty of Obedience – adhering to specific powers/restrictions in governing documents (e.g. international)
- * of specific concern to certain trust types

Specific Hazards with Intellectual Property

Hazards

- Distributions provisions (prescriptive & unspecified are easy, hazard is in the middle) [!]
 - Prescriptive – Grantor/Decedent specifies precisely who gets what by name
 - Unspecified – Put all the IP into an LLC and distribute LLC proportionately
 - Hazard – Attempting to equitably distribute IP of different type to different recipients
- Direction vs authorization to spend funds to pursue, promote & defend [!]
- Documents that are silent
- Conflicting provisions in legal documents (trust powers vs duties imposed by LLC or LP documents)
- Obtaining instruction from the court vs. consent of qualified beneficiaries
- Consider NDAs with beneficiaries to protect confidential information about assets
 - Always thorny when balanced with the duty to furnish information
- Accepting the asset but not having the people, process, or tools necessary to manage these types of assets.
 - There is a choice on solving this internally or externally, but there isn't a choice on whether to do it. [!]

Patents

- Application required to be filed with the Patent and Trademark Office (PTO)
- Duration of protections depends on the nature of the patent
- Can be assigned during life or at death, but important to register transfer with PTO
 - Note: assignment can affect duration of protection
- Importance of keeping registration current with timely renewal [!]
 - And updating patent filings if the technology has been improved or adapted [!]
- Valuation of the technology

Trademarks

- Protects words, names, logos and the like
- Can be trademark, service mark and trade dress
 - Can also include “appearance of product & packaging”
- Transfers should be registered with the PTO [!]
- Potential infinite duration with appropriate renewal of registration
- Can be assigned during life or at death

Copyright

- Owned by the author of the original work
- There can be co-authors of the work
- Works made for hire – the copyright owner is the employing sponsor
- For works created after 1977, the copyright lasts for the life of the creator plus 70 years
 - Always good to verify with competent counsel
- The copyright begins once the work is “fixed in a tangible form”.
 - But there are material benefits to registering the work
- Need to understand the use or the copyright symbol - © [!]
- Transfers can be very thorny as a transfer can affect rights and protections available to the creator
 - Carefully understand the effects of documented and automatic transfers as some protections can terminate
- Use of images for auction and exhibit catalogues; use of music at an event or political rally – do you need permission, and if so, from whom?

Applies to books, manuscripts, plays, music, art, sculpture, movies, sound recordings, architecture, photography, computer software, among many other forms.

Name/Image/Likeness and the Right of Publicity

- Athletes
- Actors
- Politicians
- Musicians
- People who believe themselves to be “influencers”
- Notable people who are incapacitated
- Key question: Is the likeness used for commercial gain without consent?
- If related copyrighted material exists, a separate claim may be present

Valuation of IP Interests

- Consider the nature of the asset
 - technology may become obsolete
 - art that is in vogue currently may fall out of favor
 - art that doesn't seem to have current value may suddenly become valuable
- Consider historical cash flow and prior sales, if any
- There are specialists who handle valuation of intellectual property, they will need:
 - official records from the appropriate authority on the registration of the IP
 - historical cash flows attributed to the IP
 - any agreements in place with third parties regarding licensed use of the IP

When (not if) you're asked to handle IP... ...what are the best practices?

- Identify the category(ies) of IP and become familiar with handling them
 - Do we have the people, process and tools to handle these assets?
 - Are appropriate advisors available and does the document allow us to hire them?
 - Are the IP Assets secured?
 - Are the IP Assets income producing or non-income producing
 - Are the IP Assets subject to any agreements with third parties (licensing, transfer, etc.)
- Look for any notable news on the intellectual property
 - Are past or present infringement issues present?
- What is the disposition plan of the IP?
 - Who are the beneficiaries or heirs at law?
 - Is the distribution plan specific or is it discretionary? [!]
- Remember that IP can be embedded in closely-held assets

Top 5 questions to ask around IP

- Is ownership clear?
- Any specific bequests?
- Tied to ongoing business with contractual obligations?
- How are we set to promote & defend?
- Who is advising us on the IP?

IP is nothing anyone would want to moonlight at, but unfortunately those who live at the bottom of the fiduciary funnel have to deal with what falls in their laps.

Q&A