

INTELLECTUAL PROPERTY ISSUES IN DIVORCE

Lea C. Noelke

NOELKE ENGLISH MAPLES ST. LEGER, LLP
901 Mopac Expressway
Barton Oaks Plaza II, Suite 200
Austin, Texas 78746
512.480.9777 – Telephone
512.480.0074 – Facsimile
lnobelke@nems-law.com
URL: www.nems-law.com

Andrea (Andi) St. Leger

NOELKE ENGLISH MAPLES ST. LEGER, LLP
901 Mopac Expressway
Barton Oaks Plaza II, Suite 200
Austin, Texas 78746
512.480.9777 – Telephone
512.480.0074 – Facsimile
lnobelke@nems-law.com
URL: www.nems-law.com

Jim LaRue

P. O. Box 12042
Jackson, Wyoming 83022
307.733.7350 – Telephone

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I. INTRODUCTION

This article is intended to provide the family law practitioner with a basic overview of how to identify and deal with issues relating to intellectual property in divorce cases. The mechanics of obtaining trademark, patent and copyright protection is beyond the scope of this paper. Various third party agreements associated with these types of property rights can be extremely complex and may affect the ability of the owner spouse(s) to transfer or dispose of their interest. The family lawyer is encouraged to employ the services of an intellectual property attorney to assist in assessing the nature, value and rights involved when faced with an intellectual property asset in a divorce case.

II. IDENTIFYING INTELLECTUAL PROPERTY – WHAT IS IT?

Broadly speaking, intellectual property is the set of legal rights to an expressed idea—it is property that results from the fruits of mental labor. *Alsenz v. Alsenz*, 101 S.W.3d 648, 653 (Tex.App.–Houston [1st Dist.] 2003, pet. denied).

All great works of art, literature and life changing inventions originate in the mind of the author or inventor. Society as a whole pays little attention to the legal effects of such creative matter unless they are directly affected. The same concept holds true for spouses, unless one of them came up with the idea and the marriage ends in death or divorce. Unlike tangible property such as a going concern business, real estate, and securities, intellectual property may be difficult to recognize, identify and value. Very few divorcing spouses are published authors or Grammy Award winners. However, valuable intellectual property ownership and/or rights although not in full bloom, may exist. Borrowing some thoughts from Janice Green in her excellent article *Dividing Intellectual Property*, 29th Advanced Family Law Course, State Bar of Texas (Aug. 2003), ponder the following:

- “A spouse whose “Great American Novel” is still in draft stage on the household computer;
- The computer nerd who after years of tinkering, develops a novel computer game;
- A weekend photographer who, upon friends’ urgings, has printed those wonderful wildlife photos as note cards and distributed them as Christmas gifts;
- The seamstress whose sewing skills, long used on the children’s wardrobes, now are expressed in designs which are sought after by her friends;
- A spouse whose idea for a television documentary finally receives encouragement from a television production company;

- A spouse who brushes off a series of poems, written long before marriage, and re-works their iambic pentameter after marriage;
- The homemaker who decides to use desktop printing to publish her recipes in a cookbook;
- A play written for the neighborhood church pageant’.

All of the above represent potential present or future claims to intellectual property. Failure to explore and address these claims will certainly adversely affect the client, and more importantly, the attorney responsible for the case.

A. Copyrights. The reason for protection of all intellectual property rights is aptly illustrated by the following statement: The general theory underlying intellectual property law is that individuals expend more time, energy, and resources in innovative, creative pursuits if the fruits of their endeavors are likely to lead to financial rewards. Giving creators limited, monopolistic control over their creations is thought to enhance the potential for profitable exploitation. Bartow, A., *Intellectual Property and Domestic Relations: Issues to Consider When There Is an Artist, Author, Inventor, or Celebrity in the Family*, 35 FAMILY LAW QUARTERLY, No.3, p. 383-384 (Fall 2001).

1. Constitutional Authority. Copyrights require no formal type of registration, only the creation of a work. The protection afforded to such creative works is derived from the U.S. Constitution and federal law. “Congress shall have the power to promote the progress of science and useful arts, by securing, for limited times, to authors and inventors the exclusive right to their respective writings and discoveries.” U.S. CONST. ART. I, §8

2. Statutory Authority. Title 17 Section 101 of the U.S.C.A. provides a number of descriptions and definitions relative to the various creative efforts which are afforded copyright protection under federal law. For the purpose of this paper, the following are particularly relevant to such works in the divorce context.

“A work is ‘created’ when it is fixed in a copy or phonorecord for the first time; where a work is prepared over a period of time, the portion of it that has been fixed at any particular time constitutes the work as of that time, and where the work has been prepared in different versions, each version constitutes a separate work. 17 U.S.C.A §101 (2000).

A ‘derivative work’ is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a ‘derivative work’.” *Id.*

"Audiovisual works" are works that consist of a series of related images which are intrinsically intended to be shown by the use of machines, or devices such as projectors, viewers, or electronic equipment, together with accompanying sounds, if any, regardless of the nature of the material objects, such as films or tapes, in which the works are embodied. *Id.*

A "computer program" is a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result. *Id.*

"Pictorial, graphic, and sculptural works" include two-dimensional and three-dimensional works of fine, graphic, and applied art, photographs, prints and art reproductions, maps, globes, charts, diagrams, models, and technical drawings, including architectural plans. Such works shall include works of artistic craftsmanship insofar as their form but not their mechanical or utilitarian aspects are concerned; the design of a useful article, as defined in this section, shall be considered a pictorial, graphic, or sculptural work only if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article. *Id.*

A work is "fixed" in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration. A work consisting of sounds, images, or both, that are being transmitted, is "fixed" for purposes of this title if a fixation of the work is being made simultaneously with its transmission. *Id.*

A "transfer of copyright ownership" is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license. *Id.*

3. Types of Works Covered by the Act. The following types of works are included:

(a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:

- (1) literary works;
- (2) musical works, including any accompanying words;
- (3) dramatic works, including any accompanying music;
- (4) pantomimes and choreographic works;
- (5) pictorial, graphic, and sculptural works;
- (6) motion pictures and other audiovisual works (computer programs);
- (7) sound recordings; and
- (8) architectural works.

(b) In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work. 17 U.S.C.A § 102.

“Copyright protection encompasses the expression of a concept rather than the concept itself. To ascertain what elements of a work are protected, it is necessary to cognitively separate creative expression from the underlying idea that is expressed.” Bartow, *supra* at 394. A photograph of the Eiffel Tower may protected from copyright infringement, but the photographer may not prevent another from taking a completely different photo of the Eiffel Tower, reproducing, marketing and selling that image. The same rationale applies with respect to facts and other public information. An author of a story about the 9/11 tragedy has the exclusive right to that work, but can in no way prevent others from writing a different account of the story using the facts extracted from the original work. The facts are in the public domain and remain unprotected by copyright laws.

4. Joint Work Effort. It is not only possible, but extremely common in the music industry, for two or more individuals to collaborate on a single creative effort, while maintaining separate and distinct protective rights. Such joint efforts are covered by copyright laws. “A ‘joint work’ is a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole.” 17 U.S.C.A. §101.

5. Rights Attributable to Copyrights. The creator of the creative works is considered to be the author of the work. 17 U.S.C.A. §103. The author is also considered to be the “owner of the work. *Id.* Copyright protection exists regardless as to whether or not the work is published. 17 U.S.C.A. § 104(a). The owner of the copyright work has the exclusive rights:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
- (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission. 17 U.S.C.A § 102.

6. Life Span of Copyright Protection.

a. In General. Copyright in a work created on or after January 1, 1978, subsists from its creation and, except as provided by the following subsections, endures for a term consisting of the life of the author and 70 years after the author's death. 17 U.S.C.A § 302(a).

b. Joint Works. In the case of a joint work prepared by two or more authors who did not work for hire, the copyright endures for a term consisting of the life of the last surviving author and 70 years after such last surviving author's death. 17 U.S.C.A § 302(b).

7. Termination-Licenses and Transfers. As mentioned earlier in this paper, the author of a copyrighted work is the owner of that work with all of the rights inuring to an owner including, but not limited to, the right to transfer all or part of his/her rights and the right to license others to utilize the work. In the case of any work other than a work made for hire, the exclusive or nonexclusive grant of a transfer or license of copyright or of any right under a copyright, executed by the author on or after January 1, 1978, otherwise than by will, is subject to termination, if:

- The proper notice and filing of the termination as required by the Register of Copyrights is done within 5 years beginning at the end of thirty-five years from the date of execution of the grant, or, if the grant covers the right of publication of the work, the period begins at the end of thirty-five years from the date of publication of the work under the grant or at the end of forty years from the date of execution of the grant, whichever term ends earlier.
- The author, (or in the case of death) his/her widow/widower, children, grandchildren, or personal representative, has a collective ownership interest of at least one-half of the author's interest.
- In the case of multiple owners of such an interest (estate situations), the termination must be agreed upon by a majority.

17 U.S.C.A § 203(a).

Subject to certain conditions, upon the effective date of termination, all rights under this title that were covered by the terminated grants revert to the author, authors, and other persons owning termination interests. 17 U.S.C.A § 203(b).

B. Common Creative Works Subject to Protection. As stated in the introduction, the following is intended to provide the reader with a very brief overview of how the intellectual property rights in the various creative works are dealt within a particular industry. It is not to be considered or relied upon as an exhaustive treatise in these areas.

1. Music and Songs. The majority of composers and songwriters transfer their copyrights to a music publisher. Some will form their own publishing company. Not all rights are transferred. The musician customarily retains a royalty interest in the revenues received by the publisher. The income stream may be from a number of sources depending upon the licensing agreement negotiated. It goes without saying that there can be many facets of a music piece. Separate licenses can be transferred, or retained, as the case may be, in the music and the lyrics.

a. Music Publishers. The publisher who obtains the copyright from the author for the music composition, subject to the royalties retained by the composer, will then license others to make and distribute the phonocords of the works. This is known as a compulsory license and its terms are governed by 17 U.S.C.A §115. A person may obtain a compulsory license only if his or her primary purpose in making phonorecords is to distribute them to the public for private use, including by means of a digital phonorecord delivery. A person may not obtain a compulsory license for use of the work in the making of phonorecords duplicating a sound recording fixed by another, unless: (i) such sound recording was fixed lawfully; and (ii) the making of the phonorecords was authorized by the owner of copyright in the sound recording. *Id.* The publisher takes on the

obligation to license the right to others to use the composition on recordings via “mechanical license”, or for audio tracks of motion pictures, television productions, television commercials and other audio-visual works, via a “synchronization license”. The publisher also collects revenue generated by sales of recordings embodying the composition. All revenue from licensing musical compositions typically flows through the publisher, except for the revenue generated from air play. Most recording licenses are issued (on behalf of the publisher) by the Harry Fox Agency, which is the licensing arm of the National Music Publishers Association (NMPA). *Equitable Distribution of Copyrights*, Rothenberg, S., New York Family Law Monthly, October, 2002. 4- 6, 17. Publishers buy, sell and manage the catalogs of songs. See, www.copyrightexchange.com.

b. **Commissions and Royalties.** The licensing agency receives a small commission for the licensing services performed. Customarily, the songwriter is paid a 50% royalty by the publisher, after their commission is deducted. When a recording sells, the record company pays the publisher a mechanical licensing fee for each song on the recording. The royalty is the larger of two and three-fourths cents, or one-half of one cent per minute of playing time or fraction thereof. 17 U.S.C.A § 115(c)(2). The fee is currently \$.091 per song. The performer or artist is paid a royalty from the record company. If the performer is not the songwriter, he or she receives no money for air play. Only the composer/publisher receives money from air play. Air play (performance royalties) are paid by one of three U.S. non-dramatic music performance rights organizations: 1) The American Society of Composers, Authors and Publishers (ASCAP); 2) Broadcast Music, Inc. (BMI); and 3) The Society of European Stage Authors and Composers (SESAC). These organizations license non-dramatic music performance rights to radio and television stations, hotels, nightclubs, colleges, theaters and websites, to name some of the major users. Additionally, they collect license fees from bars, restaurants and radio stations. The collected fees are then pooled, apportioned based upon the popularity of all of the songs, and then for each song, fifty percent is paid to the songwriter and fifty percent is paid to the publisher.

2. **Works of Art.** Although works of art are afforded the same type of copyright protection as music, this form of intellectual property must be viewed from a much different aspect. Some of the particulars are set forth below.

a. **Ownership of the Tangible Work.** This is the right of the artist to possess sole ownership rights to the tangible work itself. Unlike a copyright, ownership rights do not terminate after a certain number of years. The artist may choose to sell the piece which transfers ownership of the object, while retaining the copyright to reproduce posters, reprints, etc. In such a case, the purchaser of the object has merely purchased the art with absolutely no right to reproduce it. However, the original purchaser may resell the object to another, subject to the same restriction on reproduction.

This is commonly referred to as the “First Sale” doctrine. 17 U.S.C.A § 109(a). Paintings published before 1923 are considered to be in the copyright public domain and may be copied and reproduced by anyone without the risk of infringement.

b. **Intangible Rights.** In the event the artist reserves his/her copyright for reproduction and distribution of the reproduction, he/she is free to do so. However, if the artist did not retain recorded images of the subject work, and is no longer living, his heirs have no right to obtain the original from the purchaser for the purpose of marketing and distributing such reproductions.

c. **“Works of Visual Art”.** In rare circumstances, certain works, created after 1991, are afforded “moral rights” protection beyond that of statutory copyright laws. Those are referred to as a work of visual art. Such art is defined as: (1) a painting, drawing, print, or sculpture, existing in a single copy, in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author, or, in the case of a sculpture, in multiple cast, carved, or fabricated sculptures of 200 or fewer that are consecutively numbered by the author and bear the signature or other identifying mark of the author; or (2) a still photographic image produced for exhibition purposes only, existing in a single copy that is signed by the author, or in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author. 17 U.S.C.A § 101. The author of the work is entitled to prevent the owner of the work from any intentional distortion, mutilation, or other modification of that work which would be prejudicial to his or her honor or reputation, and any intentional distortion, mutilation, or modification of that work is a violation of that right, and to prevent any destruction of a work of recognized stature, and any intentional or grossly negligent destruction of that work is a violation of that right. 17 U.S.C.A § 106(a)(3). This protection belongs only to the original creator, is not transferable, and exists only for the life of the author. 17 U.S.C.A § 106(d).

3. **Books and Plays.** The same copyright laws previously discussed apply to authors of books. The major difference being that most successful authors retain the copyright for the original work, including the right to create derivative works from the writing, and merely license others to actually create the derivations. (i.e. TV and movie productions, screenplays, etc.). The licensing agreements in such situations can be an extremely valuable marital asset.

B. Patents. The following is a very general overview of patents, infringement, and defenses and damages for patent infringement. An in depth discussion of patent litigation is beyond the scope of this writing. However, existing or potential litigation of a marital property patent will definitely affect the value of this type of asset.

1. **Generally.**

A patent is a grant of a property right by the government to the inventor to exclude others from making, using, selling, or importing into the U.S. the patented invention. This right to exclude is distinguished from the right of a patent owner to use, make, sell, offer to sell or import the patented invention himself. 35 U.S.C.A. § 101. A patent does not grant the right to make, use or sell the invention but only grants the exclusive nature of those rights.

Patents are granted by the U.S. Patent & Trademark Office, for a term of 20 years (14 years for design patents), which may be extended only by a special act of Congress. After expiration of the term, the patentee loses rights to the invention. 35 U.S.C.A. § 154-156.

A patent is not a mere idea or suggestion. Methods of doing business (except for some methods of doing business on the Internet) and printed matter are not patented. Patented materials must be different in some way from the “prior art” which includes all other relevant patents, publications and products that exist prior to filing a patent application. 35 U.S.C.A. § 261 treats patents as personal property, so they can be sold, in whole or in part, or licensed. Until a patent issues, the inventor has no federal statutory right to exclude others from exploiting the invention. Protection might still exist under state laws governing contracts, of trade secrets or unfair competition, or under trademark and copyright laws.

2. Types of Patents.

a. **Utility Patents.** A utility patent may be granted to anyone who invents or discovers any new and useful process, machine, manufacture, or compositions of matter, or any new and useful improvement thereof. “Process” means a process or method; new industrial or technical processes may be patented. “Manufacture” refers to articles that are made. “Composition of Matter” relates to chemical compositions that may include mixtures of ingredients as well as new chemical compounds. 35 U.S.C.A. § 101. It is quite common for an employer in a scientifically related industry (medicine, chemical, geophysics, etc.) to require the employee, as a condition of employment, to execute an assignment of rights to any patents developed by him or her, during the course of the employment. The agreement usually vests the ownership of any such patents in the employer, with the employee retaining a right to a percentage of the royalties generated from the process or method which is patented. The employer usually will be responsible for any and all development and marketing costs.

b. **Design Patents.** A design patent may be granted to any person who has invented a new, original and ornamental design for an article of manufacture. The appearance of the article is protected. 35 U.S.C.A. § 171.

c. **Plant Patents.** A person who has invented or discovered and asexually reproduced any distinct and new variety of plant, including cultivated spores, mutants, hybrids, and newly found seedlings, other than a tuber propagated plant or a plant found in an uncultivated state, may obtain a plant patent. 35 U.S.C.A. § 161-170.

3. Assignability. Patents are a form of personal property and are freely assignable. 35 U.S.C.A. § 261. In some cases the patent may be purchased by an intellectual property holding company. These companies are sometimes created for the express purpose of attempting to license the patent and sometimes enforce the patent by litigation if licensing to accused users is unsuccessful.

C. Trademarks. Although trademarks are commonly referred to as intellectual property, they are really an intangible commercial asset. The term "trademark" includes any word, name, symbol, or device, or any combination thereof (1) used by a person, or (2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter, to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown. 15 U.S.C.A § 1127. Upon the proper registration and payment of applicable fees, the owner of the trade or service

mark, has the exclusive use and entitlement to the benefits resulting from such registered trademark. Registration of a mark on the principal register shall be constructive notice of the registrant's claim of ownership thereof. 15 U.S.C.A § 1072.

1. Duration. The registration shall be in effect for a period of 10 years, provided all applicable fees and affidavit of current use are properly submitted. 15 U.S.C.A. § 1058(a)(b). At the end of the applicable period the owner may renew the registration of the trademark. 15 U.S.C.A § 1059(a).

2. Assignability. The owner of the trademark or trade name is free to assign the rights to same as part of the goodwill of the business in which the mark is used. 15 U.S.C.A. § 1060.

3. Trademark as Personal Goodwill? While the trademark protects the owner from others exploiting the same use, the primary purpose is to maximize the goodwill associated with the trademark which exists in the minds of the public in connection with the particular product or service. In many divorce cases involving a marital business, the issue of goodwill often becomes an issue when applying appropriate discounts to the personal goodwill aspects of the going concern. A spouse who individually owns a trademark which is so intertwined in the success of the operation, may make the separate value of the trademark itself, indivisible personal goodwill.

III. CHARACTERIZATION OF INTELLECTUAL PROPERTY

In any case involving the dissolution of a marriage, the characterization of the marital assets is usually the first step taken by the practitioner to determine whether it will be a divisible asset. The need to characterize intellectual property is no different, although it may be a bit more complicated. Texas law provides little guidance to the family lawyer when it comes to intellectual property. *Rose v. Hatten*, 417 S.W.2d 456, 458 (Tex. Civ. App.-Houston 1967, no writ) (the trial court held that a patent involving treatment of Hodgkin's Disease was community property, but case upheld on appeal solely on procedural grounds); *Kennard v. McCray*, 648 S.W.2d 743 (Tex. App.—Tyler 1983, writ ref'd n.r.e.) (estate dispute over contractual royalties payment); *Bell v. Moores*, 832 S.W.2d 749 (Tex. App.—Houston [14th Dist.], 1992, writ denied). (ex wives had no standing to intervene in a royalty contract dispute involving their ex husbands). The discussion which follows is an attempt to address the issues indigenous to IP.

A. Federal Preemption? Because federal law governs intellectual property rights, the issue of potential preemption raises its significant head. There isn't a lot of law on the subject, but what there is says or suggests that, in the context of the Texas community property system, preemption does not occur.

1. Rodrique v. Rodrique. *Rodrique v. Rodrique*, 218 F. 3d 432 (5th Cir. 2000) is probably the seminal preemption case. This case involved an artist by the name of George Godfrey Rodrique, Jr. who became famous for a series of paintings that incorporated the image of a blue dog. *Id.* at 433. During the marriage, George obtained copyrights for some of his paintings. After the divorce was final, George filed a lawsuit seeking declaratory relief in regards to the copyrights, asking the court to declare that he is the sole owner of the

all of the intellectual property rights in his paintings, specifically including the “blue dog” paintings. George further requested that the court enjoin Veronica, his ex-wife, from seeking a declaration of co-ownership of the copyrights among other possible relief Veronica could attempt to pursue. Both parties moved for summary judgment, and the trial court granted George’s motion holding that an involuntary transfer of a copyright can only occur through bankruptcy and that the federal Copyrights Act law preempted state marital property law. *Id.* at 541-542. After two motions for reconsideration were filed, Veronica ultimately appealed. George’s argument centered around the Supremacy Clause and the portion of the Copyright Act which states that a “[c]opyright in a work protected under this title *vests initially in the author* or authors of the work.” *Id.* at 435. In turn, Veronica argued that Louisiana community property law should apply to the extent that state law does not conflict with federal law. *Id.* at 54.

Ultimately, the Fifth Circuit agreed with Veronica, and held that state community property is not completely preempted by federal. In disposing of the issue, the court stated:

[T]he Copyright Act, in defining the scope of its own preemptive effect, expressly acknowledges that state law continues to operate unless there is a direct and irreconcilable clash between a state law right and an exclusive right under the Act with which such state law right is equivalent.

...

To repeat, the only ownership rights that the Act grants exclusively to the author are the rights to (1) reproduce, (2) prepare derivative works, (3) distribute copies, (4) perform, and (5) display the work. Among the “bundle” of rights comprising full ownership of property generally, the preemptive effect of federal copyright law extends only to this explicitly enumerated, lesser-included quintet.

...

Notably absent from the Copyright Acts exclusive sub-bundle of five rights is the right to enjoy the earnings and profits of the copyright. Nothing in the copyright law purports to prevent non-preempted rights from being enjoyed by the community during its existence or thereafter by the former spouses in community as co-owners of equal, undivided interests.

...

We discern nothing in the Act’s plain working or legislative history to indicate that Congress-fully aware of the existence of community property laws in a number of states-had any intention of preempting that entire body of non-federal law as well. 218 F.3d at 439-440.

Even though the *Rodrigue* opinion specifically addresses (1) Louisiana community property law and (2) copyright law, it’s safe to assume that the rationale applies to other community property law states and affects the rights in other types of intellectual property. The end result is community property courts will analyze such characterization issues and preserve the integrity of Texas’s community property law by not deviating from the general principles laid out in the Family Code and applicable case law.

2. *Sheshtawny v. Sheshtawny*

In *Sheshtawny v. Sheshtawny*, 150 S.W.3d 772, 774 (Tex.App.–San Antonio 2004 pet. denied), *cert. denied*, 546 U.S. 823 (2005), the trial court awarded the wife a 60% interest in a patent allegedly owned by the husband. The husband and two corporations who claimed ownership of the patent appealed, arguing, among other things, that federal law preempted state law and prohibited the award. *Id.* at 774-775.

On appeal, the San Antonio Court of Appeals noted that both the husband and the corporations relied primarily on *Rodrigue* to contend that federal law preempted Texas community property law in regard to the patent. *Id.* at 775. However, countered the San Antonio appellate court, the Fifth Circuit in *Rodrigue* actually held that federal law did not preempt Louisiana’s community property law in regard to copyrights. *Id.*, *citing, inter alia, Rodrigue*, 218 F.3d at 440 (“[w]e discern nothing in the Act’s plain wording or legislative history to indicate that Congress—fully aware of the existence of community property laws in a number of states—had any intention of preempting that entire body of non-federal law as well”).

Further, added the Fourth Court of Appeals, at least one Texas court had noted that patents taken out during the marriage and the income generated from those patents were community property. *Sheshtawny*, 150 S.W.2d at 775, *citing, inter alia, Alsenz*, 101 S.W.3d at 653. Accordingly, held the San Antonio appellate court, since it had not been provided authority to support the husband’s preemption claim, and indeed had found authority applying Texas’s community property laws to patents, federal law did not preempt Texas community property law in regard to the patent. *Sheshtawny*, 150 S.W.2d at 775.

A couple of points deserve attention. First, *Alsenz*, 101 S.W.3d at 652-654, does not mention preemption. There is no indication in the opinion that the preemption issue was raised. Reliance on *Alsenz* in the context of preemption may be a bit of a push. Thus, second, the rationale of *Sheshtawny*, *i.e.*, (1) no authority supporting preemption and (2) *Alsenz*, may still leave some room for aggressive and competent lawyering. Given *Rodrigue*, of course, it would be an uphill battle, but that’s what lawyers are for.

B. Inception of Title. One must then address the long-standing community property inception of title doctrine. “[i]nception of title occurs when a party first has a right of claim to the property by virtue of which title is finally vested.” *Boyd v. Boyd*, 131 S.W.3d 605, 612 (Tex.App.-Fort Worth, 2004, no. pet.). Because of the unique nature of intellectual property, specific points in time have been identified as when the ‘idea’ or ‘work’ is considered property, resulting in the vesting of rights in the creator.

a. Copyrights. The crucial point in time for copyrights occurs when the idea is reduced to “any tangible medium of expression.” 17 U.S.C.A § 101.

b. Patents. According to the Houston First Court of Appeals, no Texas case has addressed when inception of title to patent rights occurs. *Alsenz*, 101 S.W.3d at 652. Arguably, again according to the Houston appellate court in *Alsenz*, inception may occur at any of three times: (1) when the concept is sufficiently developed to generate a plan to build the invention; (2) when the invention is actually built; or (3) on the effective date of the patent. *Id.*, *citing*, 2 Valuation & Distribution of Marital Property §23.07[2] (Matthew Bender & Co. ed. 1997). In *Alsenz*, however, the First Court of Appeals didn’t have to decide precisely when inception of title occurred for the patents at issue, since all three incepting possibilities happened

before the parties' marriage, and therefore inception of title "clearly occurred before marriage," rendering the patents the separate property of the husband. *Alsenz*, 101 S.W.3d at 652. In other words, it appears that the ultimate resolution of the inception of title issue is not yet resolved.

It has been argued that inception of title does not occur for a patent until the date when the invention is reduced to practice. See, Warren Cole, Michael C. Smith, Brian L. Webb, and David W. Showalter, *Intellectual Property*, NEW FRONTIERS IN MARITAL PROPERTY LAW, Chapter 4, p. 14 (State Bar of Texas 2007). Moreover, add such commentators, an invention may be either *actually* reduced to practice or *constructively* reduced to practice. *Id.* An inventor *actually* reduces an invention to practice by physically constructing the invention, at which point the invention performs the task for which it was intended. *Id.* On the other hand, an inventor *constructively* reduces an invention to practice by effectively describing the invention with sufficient detail that a person knowledgeable in the field could reproduce the work. *Id.*

Actual reduction seems to correspond with *Alsenz's* second incepting possibility (when the invention is actually built), constructive reduction with *Alsenz's* first (when the concept is sufficiently developed to generate a plan to build the invention). In *Alsenz*, 101 S.W.3d at 653, the First Court of Appeals also stated that "[i]t is unquestionable that, had these patents been taken out during the marriage, the patents...would be community property," the fact pattern corresponding to the third of its incepting possibilities (the effective date of the patent).

c. Distinction of Rights Affected. As a prelude to discussing the character of intellectual property, one must understand and fully digest two important distinctions: (1) the distinction between the physical item/creation itself and the intellectual property created in connection with that item/property, and (2) the distinction between the intellectual property, including the rights accompanying that property and the income that the intellectual property may produce. The physical item/creation that was created, for example a painting, is property that will be subject to division at divorce. The intellectual property, which relates to that item/creation, is a completely separate piece of property that will be subjected to division. Likewise, the intellectual property is separate and apart from the income that the property may produce during the marriage or even after the marriage.

d. IP Created Before Marriage. Intellectual property that a spouse creates before marriage, or that "incepts" before marriage, is the least difficult to analyze. The Texas Constitution defines separate property as "[a]ll property, both real and personal, of a spouse *owned or claimed before marriage*, and that acquired afterward by gift, devise or descent, shall be separate property of that spouse." TEX. CONST., art. XVI, §15; TEX. FAM. CODE ANN. §3.001 (Vernon 2006). It follows that a court will characterize the item/creation itself as well as intellectual property itself as separate property.

The remaining issue which will then have to be determined is the characterization of the income that derives from the intellectual property during the marriage. In Texas, income from separate property during the marriage is community property. TEX. FAM. CODE ANN. § 3.003(a) (Vernon 2006). Very few exceptions to this rule exist. An exception that is often used is that of an ownership interest in a mineral estate acquired before marriage, with royalty payments flowing from that mineral interest continuing after marriage. Texas considers the extraction of oil and gas as piecemeal sales of the separate property; therefore the royalty payments that result from the sale are still characterized

as separate property. *Norris v. Vaughn*, 260 S.W.2d 676 (Tex. 1953). In *Alsenz*, the creator spouse argued that the income from intellectual property should be fall under this same exception. 101 S.W.3d at 653. The basis of the argument was rooted in the theory that the value of intellectual property diminishes overtime. *Id.* The court recognized that “the value of a patent stems from the income that can be generated from that right” and that “[l]ike oil and gas royalties, a patent has a finite life.” *Id.* However, after reviewing opinions from other states and examining the Texas definition of community property, the court ultimately held that income generated from Mr. Alsenz’s patents were community property, subject to a just and right division upon divorce. *Id.* at 654.

e. IP Created During Marriage. Intellectual property which ‘incepts’ during marriage is arguably the most difficult to analyze and characterize. In light of the most basic rules of Texas community property law – the community property presumption and the definition of community property – one might believe that the answer to this characterization issue is simple. However, compelling arguments can be made that regardless of when ‘title incepts’ the intellectual property itself should be considered personal and indivisible from the creator spouse. Nevertheless, the community property presumption should be applied to the item/creation itself because should be considered personal property subject to the just and right division. Using the hypothetical example mentioned earlier, an original painting created during marriage is most definitely subject to the just and right division of the property because it is personal property acquired during marriage. A court has the power to award the non-creator spouse the original painting, while awarding the creator spouse the rights that accompany the copyright for the painting, such as the rights to duplicate and distribute copies of the painting.

The stickiest issue may arise when a non-creator spouse seeks to be awarded all or part of the rights that are associated with ownership of the intellectual property. This issue was directly addressed in *Sheshtawy*. In *Sheshtawy*, the trial court awarded the wife, the non-creator spouse, 60% interest in any and all patents existing or applied for during marriage. *Id.* at 774. The husband appealed the ruling on three different grounds, two of which were (1) federal law preempts state law therefore an award to the non- creator spouse is forbidden, and (2) the evidence presented at trial was legally or factually insufficient to support the award. *Id.* at 774-775. The appellate court acknowledged, “at least one other Texas court has noted that patents taken out during the marriage and the income generated from those patents are community property.” *Id.* at 775. The court also relied on the *Rodrigue* case, which is interpreted by many to hold that federal law does not preempt state community property law. *Id.* The *Sheshtawy* court agreed with this position by holding that federal law does not preempt state community property law, and therefore the patents themselves were subject to division. *Id.* The reader should note that the court found in favor of the husband due to the insufficiency of the evidence at trial tending to prove the patents were in fact obtained during the marriage. *Id.* at 776.

While *Sheshtawy* implies that intellectual property created during marriage is subject to division upon divorce, others disagree. See, *Cochran* at 457. Professor Cochran interprets the *Rodrigue* case, *supra*, to hold that the intellectual property created during marriage should be characterized as separate property while the income from that property should be characterized as community. One can see how Professor Cochran arrives at this conclusion because the *Rodrigue* court went into great detail in discussing the managerial powers relating

to the rights that accompany intellectual property and distinguishing those enumerated rights with the right to the income derived from that property. 218 F.2d at 436-442. In fact, the court clearly states that the creator spouse should *exclusively* have the rights listed in the Copyright Act, to reproduce and prepare derivative works, etc., but that the non-creator spouse should have equal rights to the economic benefits flowing from the property. *Id.* at 437.

Should the creator spouse have these *exclusive* rights during the marriage only because the intellectual property should be considered ‘sole management community property’, or should the creator spouse continue to have these *exclusive* rights during marriage as well as after the dissolution of the marriage because the intellectual property is ‘separate property’ from inception? Until the Texas Supreme Court or the Legislature expressly rules on this issue, it’s fair to say an advocate could competently argue either position. Nevertheless, courts and scholars alike seem to agree that the income generated from intellectual property created during marriage should be characterized as community property subject to division upon divorce.

Regardless of what position one takes on the characterization of the intellectual property itself, the question still remains: What about income derived from the intellectual property **post-** divorce? In his article, Professor Cochran advances a very strong argument as to why post- divorce income should never be considered a divisible marital asset. 58 Baylor L. Rev. at 460. He supports his argument with the undeniable fact that future income from patents and copyrights completely depends on the actions of third parties, and therefore the income is speculative at best. *Id.* Consequently, the income is merely an expectancy rather than an existing vested right which the court can divide. *Id.* Professor Cochran acknowledges that Family Code permits the court to “enforce an award of the right to receive installment payments or a lump-sum payment due on the maturation of an existing vested or nonvested right to be paid in the future.” TEX. FAM. CODE ANN. § 9.011(a) (Vernon 2006). However, Cochran again emphasizes that this code section usually only applies to retirement plans and the like, and the section should not extend to possible future income from intellectual property. *Cochran* at 460. He opines that because the purchases of licenses and copyrights are not predictable the royalties generated are mere expectancies and not guaranteed income. *Id.*

f. IP Partially Created After Marriage. What if the creator spouse started developing or putting effort into intellectual property during the course of the marriage that will technically ‘incept’ post-divorce? It has been argued that a reimbursement claim exists similar to that recognized in Texas which allows a spouse to be reimbursed the time, toil, talent, and effort of one spouse during the marriage that causes an increase in the value of that spouse’s separate estate rather than generating income for the community estate. A California court addressed this exact issue in *Zaentz v. Zaentz*, 218 Cal.App. 3rd 154, 267 Cal. Rptr. 31 (Cal. App. 1990). The court reasoned that since the Husband spent over 2 years of the marriage exclusively devoting his time to the production of the movie “Amadeus,” the Wife should be awarded “an equitable portion of the income generated therefrom” even though the intellectual property rights would not vest until after the marriage was dissolved. In Texas, a court is likely to limit such an award, however, because a court will calculate this type of reimbursement claim by evaluating the amount of time and effort spent increasing the value of the separate property, not the potential or actual increase in value of the separate property itself. The claim is based solely on the premise that the community

was inadequately compensated during the marriage for the time and effort spent on that spouse's separate estate.

g. Mixed Characterization of IP. Could a court potentially characterize intellectual property as community and separate? Generally speaking, a piece of property can be characterized as part community and part separate. In *Gleich v. Bongio*, 128 Tex. 606, 610-611, 99 S.W.2d 881 (Comm. of App. 1937), the court stated: "Generally purchases made partly with separate and partly with community funds will be community property to the extent and in the proportion that the consideration is furnished by the community, the spouse supplying the separate funds having a separate interest therein to the amount of his or her investment, the tenure of the whole property in such cases being by way of a sort of tenancy in common between the separate and community estates." 99 S.W.2d at 883. Although *Bongio* dealt with purchase money, one could argue that this theory should apply to characterization of intellectual property as well.

In *Matter of Marriage of Monslow* 912 P.2d 735 (Kan. 1996), a Kansas court justified awarding a higher percentage of future royalties from patents to the husband because he partially created the concept (that was the basis for the patents) BEFORE marriage. Couldn't we take this one step further and argue that not only should the creator spouse be awarded a higher percentage of the royalties, but that he or she should be awarded a portion of the intellectual property itself as his or her separate property, then divide the remaining portion that is characterized as community? In essence this situation is extremely similar to *Gleich v. Bongio* – the creator spouse already created a 'portion' of the intellectual property before marriage, but in order for the intellectual property to actually vest, community 'debt' (time, loss of potential income that would be community property, community monies spent on effectuating the intellectual property, etc.) was used to obtain the intellectual property, without which, the intellectual property could have never been acquired. Could such a circumstance be treated in the same fashion as stock options or restricted stock? See, TEX.FAM.CODE ANN. §3.007 (d). Could a similar formula be developed which would pro rate the "grant" time to date of vesting? While seemingly reasonable, the uncertainty of future value may prove difficult to calculate.

As the situation is for all issues surrounding characterization, the task of deciding what percentage should be characterized as separate and what percentage should be characterized as community is quite difficult, and the decision would be primarily based on speculation. However, it may be worth an advocate's time arguing for mixed characterization, rather than just taking a higher percentage of future income. As mentioned before, having the rights associated with owning intellectual property is very different than merely having a right to the income derived from those rights.

h. Gift. Intellectual property can be the subject of a gift. A gift of intellectual property from one spouse to another will mean that the intellectual property will become the separate property of the spouse to whom the gift was made. See, e.g., *Simmons v. Sikes*, 56 S.W.2d 193, 196 (Tex.Civ.App.–Texarkana 1932, no writ) ("[a]ssuming that there was a valid gift of the copyright to the wife, and the same thereby became her separate property..."). Note that if one spouse makes a gift of property to the other spouse, the gift is presumed to include all the income and property that may arise from the property gifted. Texas Family Code §3.005.

An attempted gift of intellectual property to a community estate will result in a gift to the separate estates of each spouse. *See, e.g., Jones v. Jones*, 804 S.W.2d 623, 627 (Tex.App.–Texarkana 1991, no writ) (because a gift by definition constitutes separate property, there can be no gift to the community estate).

IV. VALUATION OF INTELLECTUAL PROPERTY

The following is a general discussion regarding the issues incident to assessing the value or worth of intellectual property in marriage dissolution cases. Valuation can be important, because intellectual property can be very valuable. *See, e.g., Lagenbeck v. Lagenbeck*, No. 05-99-00801-CV, 2001 WL 51075, *4 (Tex.App.–Dallas, Jan. 23, 2001, no pet.) (not designated for publication) (according to both parties, the most substantial community assets of the marriage were the house and the husband’s patents).

Since the nature of intellectual property ownership differs significantly from the tangible assets customary dealt with in divorce situations, the practitioner may have to be a bit more creative in protecting their client’s rights. This applies regardless of whether the subject rights are separate or community property. The main problem for Texas attorneys is that there are no cases which provide guidance for this type of valuation. Most cases dealing with intellectual property are federal cases and primarily address infringement issues and injunctive relief. The damage models used in infringement litigation really don’t fit the marriage dissolution case. Additional valuation problems arise when the creative work is unfinished. How much more personal effort is required to complete the work? Is the creator spouse intentionally “foot dragging” until the divorce is over? How much money will be expended to fully develop and make the IP an income producing asset? Will some of the existing rights need to be assigned or transferred to another after divorce to maximize its earning potential?

A. Initial Questions. Before one can begin the valuation process of an intellectual property right, it is incumbent that the following questions be answered. This by no means should be considered an exhaustive list. These reflect just a few of the author’s thoughts on the basic inquiries which should be considered.

- Who actually owns the copyright, patent or trademark?
 - Individual or entity?
 - If an entity, who controls the rights?
- Does the spouse own 100% of the rights?
- Are there any restrictions on 3rd party (other spouse) involvement in the copyrighted or patented property?
- Are any of the existing rights assignable by the owner?
- Has the intellectual property in question actually been published, patented or registered?
- Are royalties currently being paid?
 - If so, what are the terms of the contract?
 - Will post divorce efforts be required to continue the revenue stream? (i.e. personal appearances, demonstrations, lectures, seminars, etc.)
 - Has there been a lump sum advanced payment, requiring additional work on the part of the author/artist?

- Is the future income stream fixed or variable?
- What are, and how much, are the development costs needed to either complete the intellectual property or to maximize its potential?
- When will the rights terminate or expire?
- If a patent, is there a risk of the patent being declared invalid?
- Have all of the marketing efforts necessary to maximize revenues been completed, started, or planned?
- Has the owner(s) issued any licenses relating to reproduction, distributing, or exhibiting the property?
 - If so, what are the terms and duration of the license?
 - Are there other licenses which are capable of being issued that would generate revenues?
- What is the status of any derivative works emanating from the original work?
- Are any of the existing rights capable of being divided by a divorce court with infringing on any licensing agreements?
- Who is responsible for tracking and reporting the revenues and expenses incident to intellectual property right?

*See, Langenbeck, 2001 WL 51075 at *2, n. 1* (while the husband's valuation expert valued the patent portfolio at \$268,600 in January, 1998, he downgraded the value to \$106,000 in June, 1998, based on lower cash flows, "continued disputes as to actual royalties owed," and "extended delays in payment").

B. The Cost Approach. The cost of replacing the IP is virtually impossible to calculate. How does one value the cost of replacing an individual creative work. Valuing patents, other than resulting royalties that are currently being paid, are subject to so many variables that placing a realistic fair market value is equally difficult.

C. The Market Approach. Market value is based upon the notion of what a willing buyer/willing seller will pay for the asset with neither having an obligation to sell or purchase. Such methodology is customarily based upon the ability to find comparable sales for the same asset. The two major problems with utilizing a market value are: 1) the mere nature of intellectual property makes it so unique, that finding valid comparables is an impossible task; and 2) even if a reasonable comp exists, the sale and transfer of intellectual property rights are seldom public and terms of such sales are not published. Additionally, a valuation expert will have extreme difficulty in securing the needed data from a purchaser, in an unrelated private transaction, because of confidentiality issues and agreements relating to trade secrets and no disclosure.

D. Value to the Owner. It is well settled that an owner is qualified to testify as to the market value of their property. *Porras v. Craig*, 675 S.W.2d 503, 506 (Tex. 1984). This theory is applicable only to chattels and has no place in attempting to arrive at the value of a business. *Id.* In *Beavers v. Beavers*, 675 S.W.2d 296 (Tex.App.-Dallas 1984, no writ) the court held, "While market value is usually the best evidence of the value of the personal property, in the absence of a market value, the actual value of the property to the owner may be shown." *Id.* at 299. The Husband in *Beavers* argued that the business actually had no FMV. However, it nonetheless had a value to him because it was generating income. If there is no other means in which to establish the value of IP, one could make a *Beavers* argument. One

should use caution if taking this approach because of the many variables which will directly affect the value of the asset. See, “Initial Questions”, supra at IV.A.

E. Income Approach. The uncertainty of the length of time the intellectual property will or can be income producing, post divorce efforts needed to continue an income stream, and the legal, functional, and economic life of the IP will undoubtedly impact and skew an accurate valuation. However, keeping these factors in mind when considering utilizing the income approach, the following represent the various methodologies incident to income approach valuation. The practitioner must always be mindful that any of the valuation methods discussed in this paper are ripe for a *Daubert* challenge.

Also note that the Houston First Court of Appeals has opined that, “[l]ike other intellectual property, including copyrights and trademarks, the value of a patent stems from the income that can be generated from that right.” *Alsenz*, 101 S.W.3d at 653.

1. Discrete Intangible Assets Income Approach.

a. **Quantifying Incremental Income Levels.** Means the discrete intangible asset owner will enjoy a greater level of income. by owning the property as compared to not owning the property. AICPA 10.41 at 42.

b. **Quantifying Decremental Income Levels.** Means the discrete intangible asset owner will suffer a lower level of income cost, such as otherwise required investments or operating expenses, by owning the property as compared to not owning the property. *Id.*

c. **Estimation of Relief From Royalty Income.** Means the amount of royalty payments that the discrete intangible asset owner would be willing to pay to a third party in order to obtain the use and the rights to the subject intangible asset. *Id.*

d. **Difference in Value of the Enterprise Without the IP.** This method quantifies the difference in value of the overall business as a result of owning the intangible asset and using it in the business, as compared to not owning the intangible asset and not using it in the business. *Id.* at 43.

e. **Value of IP as a Residual.** This method estimates the value of the intangible asset as a residual from the overall value of the business, or as a residual from the value of an overall estimation of the total value of the intangible asset. *Id.*

2. Reliance on Direct Capitalization Analysis. Utilization of this method in the income approach involves an estimation of appropriate income for a period after the valuation date, and divides that measure by an appropriate rate of return (cap rate). The cap rate may be derived for a perpetual period of time, depending on the estimate duration of the income stream. AICPA 10.43 at 43.

3. Reliance on Yield Capitalization Analysis. This form of analysis projects appropriate income for several discrete time periods into the future. The projected income is converted into present value using a present value discount rate. The PV discount rate is the investor's rate of return (cap rate) over the expected term of the projected income. *Id.*

F. Offers to Purchase IP. While there are no Texas cases approving a valid offer to purchase IP as the true measure of value, at least one other jurisdiction has held such is not an appropriate method for determining value of IP. *In the Marriage of Aud*, 142 Ill. App. 3d 320, 96 Ill Dec. 615. 491 N.E. 2d 894 (5th Dist. 1986).

G. Intellectual Property and the Closely Held Business. This type of scenario may be the least problematic when it comes to valuation. Once the character of the property has been established, the valuation expert should be able place a value on the business, inclusive of the intellectual property aspects based upon the customary methodology used in business valuation. (i.e. market value, earnings, etc.). If one of the spouses is able to establish separate ownership of the intellectual property, the ability to segregate personal and commercial goodwill may prove to be impossible.

V. DIVISION OF INTELLECTUAL PROPERTY

As can be seen from the valuation problems stated above, absent a property settlement agreement, the division of IP can be an extremely difficult task. One must keep in mind that two distinct assets exist. In the case of a copyright work, the work itself is an asset. The other property right is that of the rights associated with the copyright. (i.e. derivative works, licensing agreements, publishing contracts, etc.). The court will most likely be dividing the rights to the IP, as opposed to the IP itself.

A. Potential 3rd Parties. Before embarking on the division of any IP one should be cognizant of any potential third parties who may be affected by the judicial allocation of rights to the property. If a third party holds, owns or manages an IP asset to which a spouse maintains an interest, one may be well advised to join the third-party in the divorce action. In the case of *Rose v. Hatten*, 417 S.W.2d at 457-45 8, the husband claimed that legal title to the patent was in his name but it actually belonged to a third-party. The third-party was joined into the divorce action.

B. In Kind Division-Impractical? Unlike other personal property, an in kind division of IP creates a number of issues which may be irreconcilable. Unless the IP asset is a finished work, never to be altered, modified, subject to derivative works, and paying fixed royalties, the authors submit that such a division is impracticable. Listed below are just a few of the pitfalls.

1. Ownership of the Work or Rights to the Work? As discussed in the preceding sections of this paper, there are several parts of IP. If the non creator spouse is awarded the ownership of the IP, he/she will take subject to any existing contracts and licensing agreement relating to the property. One can assume that any third party licensees or assignees entered into any such agreements based upon exclusive creative ability of the author, artist or inventor. If the non creator spouse does not possess the same creative ability as the creator spouse, the value of the work diminishes drastically, if not completely. Marketing ability and derivative endeavors will be virtually impossible. What would be the value of a book, in need of future revisions, if the original author was not able to make the necessary updates? The same rationale would apply if ownership remained with the creator spouse, but the rights were

awarded to the non creator spouse. How receptive would publisher be to deal with someone other than the artist in developing derivative works? Reality dictates that IP doesn't become a profitable asset until and unless third parties, such as publishers, take action by way of purchasing or obtaining a license to the rights to the creative work.

2. Joint Ownership. Based upon the same rationale stated above, joint ownership of the work and rights is not a viable option. Delineating which spouse has specific rights to develop, market, license, or contract with respect to the IP, or part thereof, would be a fiasco. Divorce lawyers encounter the same issues in awarding spouses joint ownership in a closely held going concern. Usually, one spouse has complete knowledge of the business and familiar with all of the business contacts, the other has no clue and no ability to secure the necessary assistance to make it work. Management and decision making issues would be insurmountable and most probably spell certain failure of the enterprise.

C. Reimbursement or Economic Contribution? If one agrees with the position advanced by Professor Cochran which is "...copyrights and patents in works created before and during marriage are the separate property of the creating spouse", then a possible claim for reimbursement by the non creating spouse may exist. See, *Cochran* at 418, 442-443, 457; TEX. FAM. CODE ANN. §3.408. He argues that the time, toil and talent required to create and develop a creative work goes far beyond the time required to maintain one's separate property. *Jensen v. Jensen*, 665 S.W.2d 107, 109 (Tex. 1984); *Norris v. Vaughan, supra*, at 682-683. The question of valuation of the time, toil and talent is identical to the value of the IP itself. The resulting amount is speculative, at best. However, since granting a claim for reimbursement is equitable in nature, the right set of facts may result in some form of compensatory relief. Can the community effort expended by non creator spouse in the development of the separate IP of creator spouse be considered a capital improvement to the IP, thus creating a claim for economic contribution? See, TEX. FAM. CODE ANN. §3.402. But for the ability to accurately quantify the nature and value of the improvement, there is nothing in the statute prohibiting such a claim.

D. Disproportionate Award. In addition to fault on the part of a creator spouse, the court can certainly award a disproportionate share of the community estate to the non creator spouse under appropriate circumstances. *Loaiza v. Loaiza* 130 S.W.3d 894, 904 (Tex.App.-Fort Worth 2004, no pet.) Even though an exact value of the IP may be impossible, if revenues are being generated at the time of divorce the court can certainly extrapolate some reasonable future income stream which the creator spouse will enjoy after divorce. If one chooses this path, they must be prepared to address all of the criteria discussed above relative to the utility of the creative work, development and marketing costs, life span of the patent or copyright, etc. Such an argument would be the same as that of a spouse who possesses a great deal of income-generating separate property while the "have not" spouse does not. A court can also award the non creator spouse other marital assets to offset the IP property (and rights) to the creator spouse. Conversely, because future efforts are required to continue the success of the creative work, the creator spouse may be entitled to a greater portion of the income stream. See, *In Re: Marriage of Heinze*, 631 N.E.2d 728, 731 (Ill. App. 1994) where a court upheld an award of 75% post divorce royalty payments to the creator wife. Although her book was written and contracts were signed during the marriage, she was required to make appearances and participate in workshops to increase royalties and continue to write more books.

E. Division of Future Income and Rights. Notwithstanding the argument that royalties are the separate property of the creator spouse, the creator spouse could be awarded the ownership of the IP asset and, a portion of the current royalties payments awarded to each. This would have to be limited to the royalties being paid for the IP in existence at the time of divorce. It becomes a bit more difficult to accomplish such a division for future derivatives works or for works for which there are not yet any contracts or assignments. However, assuming that the obstacles of post divorce efforts and third party contract obligations can be resolved and the court allocates future income between the parties, it is incumbent that the decree provides adequate protection for all concerned.

1. Provisions Must Be Specific. Because of the complex nature of IP rights, the decree drafter must be specific as to who is getting what rights and how those rights will be enforced. Although there are no Texas cases dealing with post divorce IP nightmares, this problem has been address by courts in other jurisdictions. The decree of divorce in *Curtis v. Curtis*, 208 Cal.App.3d 387, 256 Cal. Rptr. 76 (Ct. App., 2nd Dist., Div. 4, 1989) awarded wife “one-half of the community property residuals from the writings or performances of Mr. Curtis.” 208 Cal.App.3d at 390. However, none of the referenced “writings or performances” were specifically listed in the decree. Mr. Curtis stopped paying his ex wife residuals because of liabilities incurred by him when he was sued by the book publisher over a cash advance made to him for a book he failed to write. *Id.* Ex-wife sought enforcement, Mr. Curtis sought to modify the terms of the interlocutory decree which had already been approved and entered by the court. 208 Cal.App.3d at 391. The court held “Since the trial court did not expressly reserve jurisdiction to alter its division of community property, the property division contained in the interlocutory judgment became final. The trial court was, therefore, without jurisdiction to alter the property division to take into account Mr. Curtis's debt to Doubleday.” *Id.* Had the order included a contingency to offset the residual payments to ex wife with any liabilities associated with the rights awarded to her, the dispute would not have arisen.

Another lesson regarding the need for specificity is illustrated by holding in *Rodenberry v. Roddenberry*, 51 Cal. Rpt. 907 (Ct. App. 2d Dist., Div. 2, 1996). Prior to the “trekkie” (Star Trek) popularity, Mr. Roddenberry and wife divorce. He was awarded the Norway production company. This entity held the contractual payment and profit participation rights in Star Trek One and the copyright interest. Wife was awarded one-half in all future profit participation income from Star Trek. Husband remarries W#2 who helped promote Star Trek (Star Trek Two and Three) resulting in among other items, merchandise, music and syndication. After the production company recouped its production costs, the “profit participation payments” were to commence. Wife felt she was short changed and sued ex husband and the production Norway production company alleging she was entitled to “profit participation payments” from Star Trek One, Two and Three. The court held that ex wife was entitled only to such payments arising from the Norway contract with the Star Trek One production company and that she “bargained away all but the “profit participation rights”. *Id.* at 916, 920. The opinion includes a very interesting discussion on the “continuation theory”. *Id.* at 921. This theory advances the argument that Star Trek 2 and 3 were actually a continuation of Star Trek One and had she been successful, she would have been entitled to share in those profits.

It is obvious that poor draftsmanship can cost not only the client, but perhaps the attorney. As previously suggested, it will be well worth it for the client to engage the assistance of an expert in the particular field to assure that anticipated future development and future projects are properly identified and addressed in the decree.

2. Accountability. Assuming that the specific IP and its associated rights have been identified, specifics need to be included to insure that the owner does not pay more than is required and that the recipient does not get paid more than they are entitled. This can be an onerous task. Historically, third parties are extremely reluctant to “get involved” in marital wrangling. Publishers and licensees responsible to the artist for payments of their royalties or licensing payments will probably not be willing to undertake more bookwork to assure that a non-creator ex spouse receives his/her share of such payments. The practitioner must do everything possible to make sure that the decree provides the best protection possible to insure that his or her client can enforce the award. Counsel must be mindful that, like a third party creditor, a payor’s rights will not be affected by a decree of divorce unless they were a party to the divorce.

a. Direct Transfer/Assignment. The best way to assure that the client receives his or her fair share is by direct transfer or assignment from the creator spouse to the non creator spouse of the rights affecting the payments. Similar assignments are customarily used in divorce actions to transfer limited partnership interests. If permissible, the payor deals directly with the recipient and contact between exes is minimized. Depending upon the arrangement, the payee would receive the same revenue reporting information as the creator. Any dispute would be addressed between the assignee spouse and the third party payor. The decree or order must contain a provision which orders the transferor to execute the necessary document(s) on a date and time certain.

b. Third Party Recipient. Another, but more cumbersome, arrangement would be to designate an independent third party (CPA, Trustee, etc.) to receive any and all payment contemplated by the award. This does present a number of drafting issues. Provisions dealing with accounting procedures, right to examine accounting fees, contents of reports, covered works, method of distribution of revenues, liability, etc. must be specific and enforceable. Finding such an entity or individual willing to perform such services may be difficult. However, if such an arrangement could be implemented the lack of trust between the parties may be alleviated.

c. Letter of Authorization. If one of the above options is not practical or available, and the non creator ex spouse is left to trust their former spouse, they may consider securing a letter of authorization. The authorization referenced in this section does not require direct payments to the receiving ex spouse. He/she would still have to rely on the creator ex spouse to remit their share of the payments awarded in the decree. This suggestion contemplates a written directive from the creator ex spouse to the payor of the revenues, which authorizes the non creator ex spouse to obtain any and all information from the payor in the same manner and fashion as the artist. If accepted by the payor entity, the recipient, or his/her designee, are only assured that they would be receiving the same numbers and reports as the creator of the work. It must be assumed that any responsibilities the payor has to the assignor (artist or creator) under any existing agreement can not be altered by any such directive. The payor would have no greater obligation to the ex spouse than they have

to the assignor. It is strongly suggested that any authorization letter bear the written acceptance or approval of the payor in order to legally bind them to disseminate the information. Absent such written acceptance, enforceability is doubtful.

d. Constructive Trust. Whenever a divorced spouse is under an obligation to provide post divorce non alimony payments to the other spouse, constructive trust language should be included in the final decree. This is in addition to any other method which addresses their obligation to assure payment. This will provide an alternate form of enforcement in the event that one of the other avenues fails. The constructive trust language must order the amount, method of payment, time for payment and place for payment. Any other contingencies or offsets should also be included.

VI. CONCLUSION.

The difficulty of dealing with IP on divorce will continue to be somewhat of an uncertain maze until the legal community is provided with more definitive guidance. Though most family lawyers shutter at the thought of further federalization of matrimonial practice, congressional intervention may be needed to resolve the characterization issue that varies from state to state. This would obviously necessitate amendments to the Copyright Act and the Patent Act. See *Cochran*, at 462. Since the Texas legislature has never been terribly bashful about making alterations to its community property laws, it may be time to specifically define copyright and patent royalties as either separate, or community. Until such change, the family lawyer will continue to make creative arguments, spend their client's money, and do the best they can to draft an enforceable decree.