Trademark Valuation Methods

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Procedures for valuing trademarks, trade names fall into three useful categories for analyses

There are several methods and procedures that may be appropriate to the economic analysis and appraisal of trademarks and trade names. When we consider the fundamental similarities and differences of these several methods and procedures, they all logically group into the three general categories of valuation analyses. These three general categories of methods — or fundamental ways of analyzing the economics of trademarks and trade names — are often called the cost approach, the market approach (or the sales comparison approach), and the income approach.

Each method has the same objective — to arrive at a reasonable indication of a defined value for the subject trademarks and trade names. Accordingly, methods that are premised upon the same fundamental economic principles should be grouped together into overall valuation approaches. The three approaches to trademark and trade name value, collectively, encompass a broad spectrum of economic theory and of property investment concepts.

First, we will define the intellectual properties that we will include as "trademarks" for purposes of this discussion. Second, we will explain some of the many reasons to conduct a valuation of trademarks. Third, we will list some of the quantitative and qualitative attributes that are important in the assessment and appraisal of trademarks. Fourth, we will describe the three approaches to trademark valuation — and some of the more common methods within each approach. And, last, we will present a simplified illustrative example of a trademark valuation.

DEFINITION OF TRADEMARKS

For purposes of this valuation discussion, we will use a fairly broad definition of the term "trademarks." The statutory source of Federal trademark law is the Lanham Act of 1947, which is Title 15 of the United States Code. The Lanham Act provides for the registration of trademarks, which are broadly defined to include any "device" used to identify the origin of goods. The Lanham Act also provides for the registration of three other types of marks: (a) service marks, i.e. marks used in the sale or advertising of services; (b) collective marks, i.e marks used to identify the goods or services of members of a group, and (c) certification marks, i.e. marks used to certify the geographic origin or other characteristics of goods and services.

Technically, trade names and commercial names cannot be registered under the Lanham Act. However, for purposes of this valuation discussion, we will include trade names, commercial names, and similar descriptive marks and names in the definition of trademarks.

REASONS TO CONDUCT A TRADEMARK VALUATION

While there are numerous individual reasons for conducting a trademark appraisal, typically all of these individual reasons can be grouped into a few categories of motivations to conduct such an appraisal:

1. Transaction pricing and structuring, for either the sale or license (i.e. transfer pricing) of trademarks. This category of reasons includes estimating the exchange price that a trademark would sell for (either individually or as part of an assemblage of assets), opining on the fairness of a sale price and/or deal structures, and estimating the appropriate trademark license royalty rate for license negotiation, Internal Revenue Code Section 482 transfer pricing, or for interstate and intracompany (e.g. intellectual property holding company) transfer pricing.

2. Financing securitization and collateralization, for both cash flow-based financing and asset-based financing. This category of reasons includes assessing collateral value for initial lending purposes, reviewing collateral value for seasoned loan valuation purposes, and assessing collateral value for refinancing or restructuring purposes.

3. Taxation planning and compliance, with regard to amortization, abandonment, charitable contribution, gifting, intercompany transfer pricing, estimation of built-in gains tax, and other Federal taxation matters. This category of reasons includes establishment of the basis (or purchase price allocation) of purchased trademarks for amortization purposes, and the valuation of trademarks and other intellectual properties for ad valorem property taxation assessments and assessment appeals.

4. Management information and planning, including business value enhancement, estate planning, and other long-range strategic issues. This category of reasons also in-

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cludes business formations (contributions of an established trademark to a new business) and business dissolution s (distributions of an established trademark from a business).

5. Bankruptcy and reorganization analysis, including the value of the estate in bankruptcy, debtor in possession financing, traditional refinancing, restructuring, and assessment of the impact of the value of trademarks on proposed reorganization plans. This category of reasons includes the identification of trademark sale or license opportunities, and the quantification of a secured creditor collateral position (if the trademark serves as collateral).

6. Litigation support and dispute resolution, including infringement, fraud, lender liability, taxation-related controversies, breach of contract matters, and a wide range of deprivation-related reasons (e.g. eminent domain, torts and property damages, expropriation, infringement, etc.)

ATTRIBUTES TO CONSIDER IN THE ASSESSMENT OF TRADEMARKS

There are numerous attributes or factors to consider in the assessment of trademarks. These attributes or factors may be either quantitative or qualitative in nature. It is common for the analyst to perform an overall assessment of the quality and nature of the trademark before conducting the actual valuation analysis. Of course, this assessment may be either implicit or explicit. This assessment will assist the analyst in understanding the use and function of the subject trademark and in identifying the factors (and, ultimately, the methods and procedures that are important in the appraisal of the subject trademark.

Table 1 presents a non-exhaustive list of several of the attributes that are often considered important in the valuation-related assessment of commercial trademarks. The general influences on trademark value are also indicated.

Clearly, not all of these attributes or factors will apply to every trademark. It is noteworthy that each of these attributes do not have an equal influence on the economic value of a trademark. Some attributes are more important in some industries than others — and some are more important for certain products and services than others. Also, it is noteworthy that there is a substantial range (both qualitative and quantitative) of positive to negative influences for each individual attribute.

ATTRIBUTES TO CONSIDER

Item	Attribute	Positive Influence on Value	Negative Influence on Value
1.	Age-absolute	long-established trademark	newly created trademark
2.	Age-relative	older than competing trademarks	newer than competing trademarks
3.	Use-consistency	name used consistently on related products and services	name used inconsistently on unrelated products and services
4.	Use-specificity	name is general and can be used on a broad range of products and services	name is specific and can only be used on a narrow range of products and services
5.	Use-geography	name has wide appeal, e.g. can be used internationally	name has narrow appeal, e.g. can only be used locally
6.	Potential for expansion	unrestricted ability to use name on new or different products and services	restricted ability to use name on new or different products and services
7.	Potential for exploitation	unrestricted ability to license name into new industries and uses	restricted ability to license name into new industries and uses
8.	Associations	name associated with positive person, event, location	name associated with negative person, event, location
9.	Connotations	name has positive connotations and reputation among consumers	name has negative connotations and reputation among consumers
10.	Timeliness	name is perceived as modern	name is perceived as old-fashioned
11.	Quality	name is perceived as respectable	name is perceived as less respectable
12.	Profitability-absolute	profit margin or investment returns on products and services higher than industry average	profit margins or investment returns on products and services lower than industry average
13.	Profitability-relative	profit margins or investment returns on products and services higher than competing names	profit margins or investment returns on products and services lower than competing names
14.	Expense of promoting	low cost of advertising, promotion, deals, or other marketing of name	high cost of advertising, promotion, deals, or other marketing of name
15.	Means of promoting	numerous means available to promote name	few means available to promote name
16.	Market share-absolute	products and services have high market share	products and services have low market share
17.	Market share-relative	products and services have higher market share than competing names	products and services have lower market share than competing names
18.	Market potential-absolute	products and services are in an expanding market	products and services are in a contracting market
19.	Market potential-relative	market for products and services expanding faster than competing names	market for products and services expanding slower than competing names
20.	Name recognition	name has high recognition, e.g., high aided or unaided recall among consumers	name has low recognition, e.g., low aided or unaided recall among consumers

Table 1

INTELLECTUAL PROPERTY VALUATION APPROACHES

The cost approach is based on the economic principle of substitution. This basic economic principle asserts that an investor will pay no more for an investment than the cost to obtain (i.e. either purchase or construct) an investment of equal utility. For purposes of this economic principle, utility can be measured in many ways, including functionality, desirability, etc. The availability (and the cost) of substitute investments is directly affected by shifts in the supply and demand functions with regard to the universe of substitute investments. Unlike fungible tangible assets, often there are not reasonable substitutes for many intellectual properties. Accordingly, in the case of trademarks with unique qualities, the application of the cost approach may have limitations.

The market (or sales comparison) approach is based on the related economic principles of competition and equilibrium. These economic principles conclude that, in a free and unrestricted market, supply and demand factors will drive the price of an investment to a point of equilibrium. The principle of substitution also directly influences the market approach. This is because the identification and analysis of equilibrium prices for substitute investments will provide important evidence to the appraiser with regard to the indicated value for the subject investment (i.e. the subject trademark).

The income approach is based on the economic principle of anticipation (sometimes also called the principle of expectation). In this approach, the value of the subject investment (i.e. trademark) is the present value of the expected economic income to be earned from the ownership of the subject trademark. As the name of this economic principle implies, the investor ''anticipates'' the ''expected'' economic income to be earned from the investment. This expectation of prospective economic income is converted to a present worth, i.e. the indicated value of the subject trademark.

There are numerous alternative definitions of economic income. If properly analyzed, many different definitions of economic income can be analyzed to provide a reasonable indication of value for the subject intellectual property. This approach requires the appraiser to estimate the investor's required rate of return on the investment generating the prospective economic income. This required rate of return will be a function of many economic variables, including the risk — or the uncertainty — of the expected economic income.

Analysts typically attempt to appraise trademarks using all three of the basic valuation approaches — in order to obtain a multidimensional perspective on the subject trademark. The final value estimate conclusion is typically based on a synthesis of the value indications derived from various alternative valuation approaches and methodologies. It is noteworthy to mention that appraisers ''estimate'' the value of trademarks. The marketplace ''determines'' the value of trademarks.

MARKET APPROACH VALUATION METHODS

Typically, appraisers attempt to apply the market (sometimes called sales comparison) approach methods first in the valuation process. This is because ''the market'' — i.e. the economic environment where arm's-length transactions between unrelated parties occur — is typically the best indicator of the value of a trademark. Appraisers will analyze ''the market'' for both sale transactions and license (i.e. rental) transactions that may be useful in the analysis of the subject trademark.

There are somewhat fewer individual methods to select from within the market approach, compared to the cost or income valuation approaches. Nonetheless, the practical application of a market approach methodology is a very complex and rigorous analytical process.

There is a general systematic process — or framework — to the application of market approach methods to the valuation of trademarks. The basic steps of this systematic process are summarized as follows:

1. Research the appropriate exchange market to obtain information on sale transactions, listings, and offers to purchase or license ''guideline'' (i.e. generally similar) or ''comparable'' (i.e. essentially identical) trademarks that are similar to the subject names — in terms of characteristics such as trademark type, trademark use, industry in which the trademark functions, date of sale, etc.
2. Verify the information by confirming that the data obtained are factually accurate and that the sale or license exchange transactions reflect arm's-length market considerations. (If the guideline transaction was not at arm's-length market conditions, then adjustments to the transactional data may be necessary.) This verification procedure may also elicit additional information about the current market conditions for the sale or license of the subject trademark.
3. Select relevant units of comparison (e.g. income multipliers or dollars per unit, units such as ''per trademark,'' ''per unit produced,'' or ''per dollar of revenue'') and develop a comparative analysis for each unit of comparision.
4. Compare ''guideline'' trademark sale or license transactions with the subject using the elements of comparision and adjust the sale or license price of each guideline transaction appropriately to the subject property, or eliminate the sale or license transaction as a guideline for future consideration.
5. Reconcile the various value indications produced from the analysis of the guideline transactions into a single value indication or a range of values. In an imprecise market — subject to varying economies — a range of values may sometimes be a better conclusion for the subject trademark than a single value estimate.

There are 10 basic elements of comparision that should be considered when selecting and analyzing ''guideline'' sales or license transactions in the market approach valuation of a trademark:

1. The legal rights of trademark ownership that were conveyed in the guideline transaction.

2. The existence of any special financing terms or arrangements (e.g. between the buyer and the seller).

3. Whether the elements of arm's-length sale conditions existed.

4. The economic conditions that existed in the appropriate secondary market at the time of the sale or license transaction.

5. The industry in which the trademark was — or will be — used.

6. The geographic or territorial characteristics of the guideline sale/license transactions compared to the subject trademarks.

7. The term characteristics of the guideline sale/license transactions compared to the subject trademarks.

8. The use or exploitation characteristics of the guideline sale/license transactions compared to the subject trademarks.

9. The economic characteristics of the guideline sale/license transactions compared to the subject trademarks (i.e. who is responsible for advertising, promotion, or protection of the trademarks).

10. The inclusion of other (non-trademark) assets in the guideline sale/license transactions. This may include the sale of a bundle — or a portfolio — of assets which could include marketing assistance, technology sharing, product development, or other contractual rights.

The reconciliation step is the last phase of any market approach valuation analysis, in which two or more value indications have been derived from guideline market data. In the reconciliation step, the appraiser summarizes and reviews the data and analyses that resulted in each of the value indications. These value indications are then resolved into a range of value or into a single value indication or a point estimate. It is important that the appraiser consider the strengths and weaknesses of each guideline value indication derived, examining the reliability and appropriateness of the market data compiled and the analytical procedures applied.

COST APPROACH VALUATION METHODS

The theoretical underpinnings of the various cost approach methods relate to the following basic economic principles:

1. Substitution — affirms that no prudent buyer would pay more for a trademark than the total cost to "create" one of equal desirability and utility.

2. Supply and Demand — shifts in supply and demand cause costs to increase and decrease and cause changes in the need for supply of different types of trademarks.

3. Externalities — gains or losses from external factors may accrue to trademarks. External conditions may cause a newly "created" trademark to be worth more or less than its cost.

Types of Cost

Within the cost approach category, there are several groups of related methods. Each of these groups of methods use a similar definition of the "type" of cost that is relevant to the analysis. The most common "types" of — or definition of — cost include reproduction cost and replacement cost.

There are subtle but important differences in the definitions of these "types" of cost. Reproduction cost contemplates the construction of an exact duplicate of the subject trademark. Replacement cost contemplates the cost to recreate the functionality or utility of the subject trademark.

Functionality is an engineering concept that means the ability of the subject trademark to perform the task for which it was designed. Utility is an economics concept that means the ability of the subject trademark to provide an equivalent amount of satisfaction.

However, while the replacement trademark "performs" the same task as the subject intellectual property, the replacement asset is often "better" (in terms of consumer recognition, brand loyalty, etc.) than the subject. In that case, the replacement name may yield more satisfaction than the subject name. If this is the case, analysts should be careful to adjust for this factor in the obsolescence estimation of their replacement cost analysis.

There are several other "definitions" of cost encompassed by the cost approach. Some analysts consider a measure of "cost avoidance" as a cost approach methodology. This method quantifies either historical or prospective costs that are voided (i.e. not incurred) by the asset owner due to the ownership of the subject trademark. Some analysts consider "trended historical costs" as an indication of value. In this method, actual historical trademark development costs are identified and quantified and, then, "trended" to the valuation date by an appropriate inflation-based index factor. All cost approach methods typically include a comprehensive and all-inclusive definition of "cost."

It is important to recognize that the "cost" (whether replacement or reproduction) of a trademark includes not only "hard" costs (e.g. legal registration, marketing research, and brand name development) and "soft" costs (e.g. advertising, promotional, and associated overhead) — but also the trademark developer's profit (on both the hard and soft cost investment) and an entrepreneurial incentive (to economically motivate the development process). And, the "cost" of a trademark should be reduced by all relevant forms of obsolescence — including economic obsolescence.

So, while the cost approach is a distinct and different set of valuation analyses than the income approach, there are necessary economic analyses involved in the cost approach. These economic analyses (that may involve some analysis of income) provide indications both of the appropriate levels of entrepreneurial incentive (if any) and of economic obsolescense (if any).

Cost New

The replacement cost of a trademark is the total cost to create, at current prices, a name having equal utility to the trademark subject to appraisal. However, the replacement asset would be created with contemporary marketing research, advertising, and promotional methods. Accordingly, the replacement trademark may have greater utility (in terms of consumer awareness, product recognition, brand loyalty, etc.) than the subject property.

Reproduction cost is the total cost at current prices, to create an exact duplicate of the subject trademark. This duplicate would be created using the same marketing research, legal research, advertising, and promotional methods used to create the original trademark.

"Replacement cost new" typically establishes the maximum amount that a prudent investor would pay for a trademark. To the extent that a trademark is less than an ideal replacement for itself, the value of the subject trademark must be adjusted accordingly. The subject trademark's replacement cost new is adjusted for losses in economic value due to functional obsolescence and economic obsolescence (which is often called external obsolescence).

Forms of Obsolescence

Functional obsolescence is the reduction in the value of a trademark due to its inability to perform the marketing function (or yield the periodic utility) for which it was originally designed.

Economic obsolescence (or external obsolescence) is a reduction in the value of the subject trademark due to regulatory, legal, social, or economic events that are external to — and not controlled by — the current use or condition of the trademark. The impact of economic (external) obsolescence is typically beyond the control of the trademark owner.

In estimating the amounts (if any) of functional obsolescence and economic obsolescence related to the subject trademark, the consideration of the subject's actual age — and its expected remaining useful life — is essential to the proper application of the cost approach.

INCOME APPROACH VALUATION METHODS

There are numerous measures of economic income that may be relevant to the various income approach methods. Some include:

1. Gross or net revenues.
2. Gross income (or gross profit).
3. Net operating income.
4. Net income before tax.
5. Net income after tax.
6. Operating cash flow.
7. Net cash flow.
8. Several others (such as incremental income).

Given the different measures of economic income that may be used in the income approach, an essential element in the application of this approach is to ensure that the discount rate or capitalization rate used in the analysis is derived on a basis consistent with the measure of economic income used. There are at least as many income approach valuation methods as there are measures of economic income. However, most of these methodologies may be grouped into several categories of methods. These categories have similar conceptual underpinnings and similar practical applications.

Several categories include:

1. Methods that quantify incremental levels of economic income (i.e. the trademark owner will enjoy a greater level of economic income by owning the name as compared to not owning the name).
2. Methods that quantify decremental levels of economic costs (i.e. the trademark owner will suffer a lower level of economic costs — such as otherwise required investments or operating expenses — by owning the name as compared to not owning the name).
3. Methods that estimate a relief from a hypothetical royalty or rental payment (i.e. the amount of a royalty or rental payment that the trademark owner would be willing to buy) to a third party in order to obtain the use of — and the right to — the subject trademark.
4. Methods that quantify the difference in the value of overall business enterprise — or similar economic unit — as the result of owning the subject trademark (and using it in the business enterprise) — as compared to not owning the subject trademark (and not using it in the business enterprise).
5. Methods that estimate the value of the subject trademark as a residual from the value of an overall business enterprise (or of a similar economic unit), or as a residual from the value of an overall estimation of the total intangible value of a business enterprise (or of a similar economic unit).

All of the various income approach methods may be grouped into those that rely on direct capitalization, and those that rely on yield capitalization.

In a direct capitalization analysis, the analyst estimates the appropriate measure of economic income for one period (i.e. one period future to the valuation date) and divides that measure by an appropriate investment rate of return. The appropriate investment rate of return is called the capitalization rate. The capitalization rate may be derived for a perpetuity period of time — or the capitalization rate may be derived for a specified finite period of time — depending upon the analyst's expectation of the duration of the economic income stream.

In a yield capitalization analysis, the analyst projects the appropriate measure of economic income for several discrete time periods into the future. This projection of prospective economic income is converted into a present value by the use of a present value discount rate. The present value discount rate is the investor's required rate of return — or yield rate — over the expected term of the economic income projection. The duration of the discrete projection period — and whether or not a residual or terminal value should be considered at the conclusion of the discrete projection period — depends on the analyst's expectation of the duration of the economic income stream.

The result of either a direct capitalization analysis or a yield capitalization analysis will provide an indication of the value of the subject trademark, per the income approach.

PURPOSE OF REMAINING LIFE ESTIMATION

The following list presents common reasons to estimate the remaining useful life of a trademark:

1. Transaction pricing and structuring for trademark sale and/or

licensing purposes; an estimate of the trademark's remaining useful life is important regardless of which valuation approach is used.

2. Amortization and cost recovery for income tax accounting and/or financial accounting purposes and/or regulatory accounting purposes.

3. Cost accounting for capital recovery purposes in normal business operations, whether as a product expense or as a period expense.

4. Measurement of the value of — or the damages to — a trademark in controversy matters related to infringement, expropriation, breach of contract, ad valorem property taxation, federal income taxation, interstate transfer pricing, and other disputes.

PRIORITY OF ESTIMATING REMAINING LIFE FOR EACH VALUATION APPROACH

As explained below, estimating the remaining useful life of a trademark is an integral part of each of the standard approaches to trademark valuation.

Under the income approach to valuation, a remaining useful life analysis may be performed in order to estimate the prospective period for the economic income projection subject to capitalization (whether the direct capitalization or the yield capitalization method is used).

Under the cost approach to valuation, a remaining useful life analysis may be performed in order to estimate the amounts of obsolescence, if any, that should be deducted from the measures of reproduction, replacement, creation, or recreation cost of the subject trademark.

Under the market, or sales comparison, approach to valuation, a remaining useful life analysis may be performed in order to select or to reject and/or to adjust either the "comparable" or the "guideline" trademark sale and/or license transaction data — so that the adjusted transactional data are more comparative to the subject trademark.

Illustrative Example

Let's consider the valuation of the hypothetical trade name "Brandex" and the associated trademark. The objective of the appraisal assignment is to estimate the fair market value of a fee simple ownership interest in Brandex as of January 31, 1995.

Let's assume that the trade name Brandex is used on a product that is projected to generate $5 million of net revenues next year. And, as a general valuation variable, let's assume that the appropriate effective income tax is 40% and the appropriate market-derived direct capitalization rate (corresponding to after tax net income) is 20%.

Based on our research and analysis, we have concluded that comparable trademarks in the same industry as Brandex have been licensed. An analysis of these comparable license agreements indicate that one market-derived royalty rate appropriate for the license of the Brandex name would range from 3% to 3.5% of net revenues. Accordingly, we have decided to use these empirical, market-derived data in one of the market approach valuation methods.

A simplified example of one market approach method — the relief from royalty method — is presented in Exhibit 1. Based on the market-derived royalty rate range, the indicated values range from $450,000 to $525,000, with a fair market value estimate of $490,000.

MARKET APPROACH — *RELIEF FROM ROYALTY METHOD*

Analysis Variables (in 000's)	**Projected Next Period**	
Projected Brandex Net Revenues	$5,000	$5,000
Market-derived Range of Royalty Rates	3%	3.5%
Projected Annual Royalties	150	175
less: Income Tax Expense	60	70
Projected After Tax Royalties	90	105
divided by: Direct Capitalization Rate	20%	20%
Trademark Value Indication	450	525
Fair Market Value (rounded)	$490	

Exhibit I

We also performed an income approach method — specifically, the profit split method. A simplified example of this method is presented in Exhibit II.

Based on our analysis of the historical results of operations of the Brandex product line, we have projected operating expenses at 40% of net revenues and selling, general, and administrative expenses at 50% of net revenues. We have also analyzed the other (non-trademark) assets that are used or used up in the production of income from the Brandex product line. We have concluded that the appropriate capital charge (or periodic return on) associated with these other assets is $100,000 for the next year.

Also, our analysis of market-derived guideline trademark license agreements indicates that arm's-length licensors and licensees in the same industry as Brandex have agreed — either implicitly or explicitly — to a royalty arrangement equating to a profit split of approximately 50%. Based upon this market-derived profit split, the indicated value of the Brandex trademark is $500,000.

In addition, our analysis of the industry in which Brandex competes indicates that the Brandex product line enjoys a substantial advertising expense cost savings (measured as a percent of net revenues) — compared to the industry average. Accordingly, we have performed an advertising cost savings method valuation analysis. Some practitioners consider this type of analysis to be a cost approach method. Other practitioners consider this type of analysis to be an income approach method. In any event, a simplified illustration of this method is presented in Exhibit III.

Based on this advertising cost savings method, the indicated value of the Brandex trademark is $450,000.

It is noteworthy that each method

INCOME APPROACH — *PROFIT SPLIT METHOD*

Analysis Variables (in 000's)	Projected Next Period	
Projected Brandex Net Revenues	$5,000	
Operating Expense (40% of Revenues)	2,000	
Selling and Gen. & Admin. (50% of Revenues)	2,500	
Income Before Taxes	500	
less: Income Tax Expense	200	
After Tax Income	300	
less: Capital Charge	100	
Projected Economic Income	200	
Market-derived "Profit Split" Percentage	Licensor	Licensee
Between Licensor and Licensee	50%	50%
Projected Economic Income After Profit Split	100	100
divided by: Direct Capitalization Rate	20%	
Trademark Value Indication	500	
Fair Market Value (rounded)	$500	

Exhibit II

COST (SAVINGS) APPROACH—*ADVERTISING COST SAVINGS METHOD*

Average advertising expense of Brandex competitors	5% of net revenues
Average advertising expense of Brandex	2% of net revenues
Advertising expense cost savings of Brandex — relative to competitors	3% of net revenues

Analysis Variables (in 000's)	Projected Next Period
Projected Brandex Net Revenues	$5,000
times: Advertising Expense Cost Savings	3%
equals: Incremental Income Before Taxes	150
less: Income Tax Expense	60
equals: Incremental Income After Taxes	90
divided by: Direct Capitalization Rate	20%
Trademark Value Indication	450
Fair Market Value (rounded)	$ 450

Exhibit III

VALUATION SYNTHESIS AND CONCLUSION

Valuation Method (in 000's)	Indicated Value
Relief From Royalty Method	$490
Profit Split Method	500
Advertising Cost Savings Method	450
Fair Market Value Conclusion (rounded)	$480

Exhibit IV

assumes essentially a perpetual remaining useful life for the subject trademark. This assumption may be appropriate if the analyst has concluded that the subject trademark can remain economically viable indefinitely (given reasonable periodic maintenance expenditures for advertising and promotion).

Exhibit IV presents a synthesis of the results of these three valuation methods. We have decided to assign slightly more weight to the first two valuation methods in this particular appraisal. Accordingly, we have reached an overall conclusion for the Brandex trademark and trade name of $480,000.

Of course, these three valuation methods are presented as representative methods. In any particular appraisal, the quantity and quality of available date — and the facts and circumstances of the appraisal — will influence the selection of the appropriate valuation method or methods.

TRADEMARK VALUATION SYNTHESIS AND CONCLUSION

Typically, an appraisal is performed to answer a specific question about a trademark. To answer this question, the analyst follows the valuation process summarized above. When more than one valuation approach is used, each approach usually results in a different value indication for the subject trademark. Even within the same valuation approach, there are often different indications of value. For example, there may be several values indicated for the same trademark by the different income approach methods.

The trademark valuation synthesis is the analysis of alternative indicated valuation conclusions in order to arrive at a final value estimate for the subject trademark.

The trademark final value estimate generally should be a number from within the final range of values indicated by the application of the three valuation approaches. The final value estimate may be one of the numbers indicated by one of the three valuation approaches, or it may be based on the valuation approach relied on most heavily, or it may be based on another number within the indicated range of values.

Generally, it is not appropriate simply to average the indicated values of the various valuation approaches in order to arrive at a final value estimate. A simple arithmetic mean implies that all of the valuation approaches have equal validity and equal weight. This is usually not the case in the typical trademark valuation. The final value opinion with regard to the subject trademark should be derived from the analyst's reasoning and judgment of all of the relevant factors and from the impartial weighing of all of the available market evidence.