

Peter Kiewit Institute  
Business Immersion Initiative  
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**Trademark Law  
and  
Valuation of Intellectual Property**

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# Trademark Law

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**PATENTS** protect **ideas**  
reduced to physical practice

**COPYRIGHTS** protect **expressions** of ideas

**TRADEMARKS** protect **marks** that  
**identify**  
a source of goods or services

**TRADE SECRETS** protect  
**commercially valuable**  
**generally unknown**  
**information**  
for which the owner takes  
**reasonable efforts to protect**

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Any one **may freely use**  
any knowledge that is in **the public domain**.

All **intellectual property law**  
provides **protection that is limited**,  
either  
**in duration**  
(e.g., ® use in commerce)  
and/or  
**in scope**  
(e.g., reasonable likelihood of confusion).

**Unauthorized use**  
of protected intellectual property  
**is an infringement**  
of the property owner's rights.

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Source of **federal** trademark power is  
the **Commerce Clause**.  
USA Constitution, Art. 1, Sec. 8, clause 3:  
"Congress shall have the Power ...  
To regulate Commerce  
**with** foreign Nations, and  
**among** the several States, and  
**with** the Indian Tribes; "

Source of the **States'** trademark power is  
the **Police Power**.  
The **Police Power** is the power of a USA State  
to regulate for the People's  
**health, safety, morals, and general welfare**.

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**Federal protection is national.**

**State protection is limited to area**  
**in the State where the mark has been used.**

A **prior federal** registration of a mark  
**preempts**  
**subsequent State** trademark rights.

**BUT prior State** use or registration of a mark is  
**not preempted**  
**by subsequent federal** registration.

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### Preemption

The U.S.A. Constitution grants the **federal government exclusive authority over patents and copyrights** via Art. I., Sec. 8, clause 8: "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;"

Both Congress and the States **share authority over trademarks** via Congress' Commerce Clause, Art. I, Sec. 8, clause 3: "Congress shall have the Power ... To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes;"

Trade secrets, in stark contrast, are primarily outside Congressional authority since **trade secrets are neither exclusive are not limited in duration.**

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Under the federal **Lanham Act**, federal registration with the Patent and Trademark Office ([www.USPTO.gov](http://www.USPTO.gov)) establishes

**priority and scope of protection:**  
more than one source  
may have the right to use a mark.  
*Acme (fill in type of firm)*

### TRADE MARKS

are exclusive right to use a specific **MARK** on a product or service to **IDENTIFY** a **SOURCE**.

Gain exclusive right by use by **AFFIXING** the mark.

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To obtain **federal protection** the applicant **must use or intend to use**  
(e.g., investment in marketing plan)  
**in interstate commerce.**

Marks are valid as long as they are used.  
Can formally **abandon** a mark,  
either by action or by inaction of required action.

Trademarks are for **products**;  
Service Marks are for **services**.

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### PROTECTABLE MARKS:

identify the source,  
*not the name of the item*

(e.g., Frisbee v. frisbee;  
Genuine Thermos v. thermos; iphone?).

**fanciful words,  
personal or geographic names,  
symbols,  
slogans,  
shapes,  
colors, or  
scents.**

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**DISTINCTIVENESS** of the mark.  
**inherently distinctive**

**fanciful  
arbitrary  
suggestive**

not inherently distinctive = **descriptive**  
descriptive is protectable  
if **secondary meaning**

not distinctive  
**generic**

**LIKELIHOOD OF CONFUSION**  
as to the source is **not permitted**.  
Focus on the **reasonable consumer**.

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In 1999, Congress, following French law, adopted an **anti-dilution** act for **famous** trademarks.

This was done to **thwart cybersquatters**.  
Objectively not a **cybersquatter**  
if **do not offer to sell web address** that is famous,  
only accept a written offer to sell.

Anti-dilution law runs counter to rest of USA law.  
Accordingly, must be **broadly famous**:  
not merely niche famous.  
Also, must prove **actual damages** from dilution.

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Under copyright, both Fair Use and parody are part of the public domain, and thus outside of the legal monopoly granted by a copyright.

Copyright **Fair Use** is statutory, while copyright **parody** springs from constitutional law. Parody is a 1st Amendment comedic mimicking.  
*Pretty Woman*

Copyright parody is a constitutional right. Copyright **parody** springs from the **political free speech** body of law. **Trademark parody is an unlawful infringement.** Trademark parody springs from the **commercial free speech** body of law.

**Trademarks are to aid the consumer, accordingly, parody of a trademark is NOT lawful.**  
*Mutant of Omaha*

Marks that are **disparaging or offensive** may not be registered.

If previously registered, then a mark that now is disparaging may have its registration canceled.

Actually, the statutory phrase is "**immoral, deceptive, or scandalous matter**".

The scope and strength of a trademark is measured by the **reasonable consumer**.

The value of a trademark to a business is measured by the **business usefulness** of the mark.

Damages for trademark infringement focus on the business' loss of access to the reasonable consumer.

But, fundamentally, **the mark owner is a custodian with a duty** to protect the consumer's interest in the mark, not the business' usefulness of the mark.

Failure to protect the consumer can result in loss of the mark.

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## Valuation of Intellectual Property

Intangible assets often are under valued.

Information alters value; especially if asymmetric.

Technological **change** distorts assets and value.

evolution versus revolution

a.k.a.: process versus product

forecasting the turning point

Appraisal is context dependent.

highest and best use = NPV ?

fair market value = future economic benefits

Net Present Value

Rule of 70

$(70 \div i) =$  periods to double or to halve

$$PV = FV / [(1 + \text{rate})^{\text{time}}]$$

probability adjusted

Depreciation

physical deterioration

functional obsolescence

economic obsolescence

economic life

product life cycle: S curve

Investment Risk

purchasing power 3%: -2% through +7%

business risk time frame: cycle

interest rate = + ?

market risk, including psychology and liquidity

Required Rate of Return

risk free rate = long term Treasuries

expected inflation rate = PPI or CPI

risk premium = beta

Band of investment method

capital structure; cost of debt;

cost of equity; tax rate

subjective elements: **uncertainty**

Accountants use objective numbers.

**BUT:** forecast

fuzzy definitions

imprecise methods

transfer pricing

economic useful life

Broadly speaking, accounting standards require

recognize initially at cost only if:

(1) distinguishable from goodwill;

(2) benefits flow; and

(3) reliable cost.

**R&D is expense, not an asset.**

If *may* amortize R&D, then do so

over best estimate of useful life.

rebuttably less than 20 years

Fair Market Value

1. property would exchange

2. willing buyer and seller

3. **knowing**

actual knowledge

receipt of notice

reason to know

4. **voluntary**

fraud

mistake: mutual v. unilateral

duress: physical

v. emotional v. economic

undue influence

5. equity to both

The goal is to find the Fair Market Value.

Three most common methods of finding

Fair Market Value are:

COST

INCOME

MARKET

Recall, valuation is context dependent.

**COST METHOD**  
 historical  
 original  
 book  
 tax basis  
 reproduction  
 replacement  
 less depreciation

When does cost equal value, if ever?  
 asset versatility

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**INCOME METHOD**  
 direct income  
 premium price  
 cost savings  
 indirect income  
 relief from royalty  
 complementary gains  
 disaggregation

reasonable royalty  
 gross profit analysis  
 analytic approach  
 industry's normal profits  
 comprehensive analytic approach  
 complementary assets

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**MARKET METHOD**  
 most direct method, but requires both an  
 active market  
 and a  
 public market  
 price information  
 arms' length

comparability  
 time  
 product

Are all market participants treated equally?  
 Least applicable for valuing new technology?

winner's curse: highest versus mean value

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Efficiency sets the boundary  
 between market and firm.  
 transaction costs  
 competition  
 barriers to entry & exit

Information technology amplifies and alters trends.

management matters:  
 bounded rationality  
 transparency

WARNING: cutting costs cuts both ways.  
 shut down rule:  $ATC_{\text{new tech}} < AVC_{\text{old tech}}$

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Value springs from synchronicity.  
 reciprocal opportunities

products v. projects v. processes  
 competitive advantage: differentiation & cost  
 monopoly: legal v. quasi v. economic  
 economies: scale v. scope v. knowledge

technology: functional v. ceremonial

It's not what you know,  
 it's what you remember.

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