

## APPENDIX C

### Glossary of Additional Terms

**Assumptions and Limiting Conditions.** Parameters and boundaries under which a valuation is performed, as agreed upon by the valuation analyst and the client or as acknowledged or understood by the valuation analyst and the client as being due to existing circumstances. An example is the acceptance, without further verification, by the valuation analyst from the client of the client's financial statements and related information.

**Business Ownership Interest.** A designated share in the ownership of a business (business enterprise).

**Calculated Value.** An estimate as to the value of a business, business ownership interest, security, or intangible asset, arrived at by applying valuation procedures agreed upon with the client and using professional judgment as to the value or range of values based on those procedures.

**Calculation Engagement.** An engagement to estimate value wherein the valuation analyst and the client agree on the specific valuation approaches and valuation methods that the valuation analyst will use and the extent of valuation procedures the valuation analyst will perform to estimate the value of a subject interest. A calculation engagement generally does not include all of the valuation procedures required for a valuation engagement. If a valuation engagement had been performed, the results might have been different. The valuation analyst expresses the results of the calculation engagement as a calculated value, which may be either a single amount or a range.

**Capital or Contributory Asset Charge.** A fair return on an entity's *contributory assets*, which are tangible and intangible assets used in the production of income or cash flow associated with an intangible asset being valued. In this context, *income or cash flow* refers to an applicable measure of income or cash flow, such as net income, or operating cash flow before taxes and capital expenditures. A capital charge may be expressed as a percentage return on an economic rent associated with, or a profit split related to, the contributory assets.

**Capitalization of Benefits Method.** A method within the income approach whereby expected future benefits (for example, earnings or

cash flow) for a representative single period are converted to value through division by a capitalization rate.

**Comparable Profits Method.** A method of determining the value of intangible assets by comparing the profits of the subject entity with those of similar uncontrolled companies that have the same or similar complement of intangible assets as the subject company.

**Comparable Uncontrolled Transaction Method.** A method of determining the value of intangible assets by comparing the subject transaction to similar transactions in the market place made between independent (uncontrolled) parties.

**Conclusion of Value.** An estimate of the value of a business, business ownership interest, security, or intangible asset, arrived at by applying the valuation procedures appropriate for a valuation engagement and using professional judgment as to the value or range of values based on those procedures.

**Control Adjustment.** A valuation adjustment to financial statements to reflect the effect of a controlling interest in a business. An example would be an adjustment to owners' compensation that is in excess of market compensation.

**Engagement to Estimate Value.** An engagement, or any part of an engagement (for example, a tax, litigation, or acquisition-related engagement), that involves determining the value of a business, business ownership interest, security, or intangible asset. Also known as *valuation service*.

**Excess Operating Assets.** Operating assets in excess of those needed for the normal operation of a business.

**Fair Value.** In valuation applications, there are two commonly used definitions for fair value:

- (1) For financial reporting purposes only, the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. *Source:* Financial Accounting Standards Board definition in Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, as used in the context of Generally Accepted Accounting Principles (GAAP) (Effective 2008).

- (2) For state legal matters only, some states have laws that use the term *fair value* in shareholder and partner matters. For state legal matters only, therefore, the term may be defined by statute or case law in the particular jurisdiction.

**Guideline Company Transactions Method.** A method within the market approach whereby market multiples are derived from the sales of entire companies engaged in the same or similar lines of business.

**Hypothetical Condition.** That which is or may be contrary to what exists, but is supposed for the purpose of analysis.

**Incremental Income.** Additional income or cash flow attributable to an entity's ownership or operation of an intangible asset being valued, as determined by a comparison of the entity's income or cash flow with the intangible asset to the entity's income or cash flow without the intangible asset. In this context, *income or cash flow* refers to an applicable measure of income or cash flow, such as license royalty income or operating cash flow before taxes and capital expenditures.

**Normalization.** See *Normalized Earnings* in Appendix B, "International Glossary of Business Valuation Terms."

**Pre-adjustment Value.** The value arrived at prior to the application, if appropriate, of valuation discounts or premiums.

**Profit Split Income.** With respect to the valuation of an intangible asset of an entity, a percentage allocation of the entity's income or cash flow whereby (1) a split (or percentage) is allocated to the subject intangible and (2) the remainder is allocated to all of the entity's tangible and other intangible assets. In this context, *income or cash flow* refers to an applicable measure of income or cash flow, such as net income or operating cash flow before taxes and capital expenditures.

**Relief from Royalty Method.** A valuation method used to value certain intangible assets (for example, trademarks and trade names) based on the premise that the only value that a purchaser of the assets receives is the exemption from paying a royalty for its use. Application of this method usually involves estimating the fair market value of an intangible asset by quantifying the present value of

the stream of market-derived royalty payments that the owner of the intangible asset is exempted from or “relieved” from paying.

**Residual Income.** For an entity that owns or operates an intangible asset being valued, the portion of the entity’s income or cash flow remaining after subtracting a capital charge on all of the entity’s tangible and other intangible assets. *Income or cash flows* can refer to any appropriate measure of income or cash flow, such as net income or operating cash flow before taxes and capital expenditures.

**Security.** A certificate evidencing ownership or the rights to ownership in a business enterprise that (1) is represented by an instrument or by a book record or contractual agreement, (2) is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment, and (3) either one of a class or series or, by its terms, is divisible into a class or series of shares, participations, interests, rights, or interest-bearing obligations.

**Subject Interest.** A business, business ownership interest, security, or intangible asset that is the subject of a valuation engagement.

**Subsequent Event.** An event that occurs subsequent to the valuation date.

**Valuation Analyst.** For purposes of this Statement, an AICPA member who performs an engagement to estimate value that culminates in the expression of a conclusion of value or a calculated value.

**Valuation Assumptions.** Statements or inputs utilized in the performance of an engagement to estimate value that serve as a basis for the application of particular valuation methods.

**Valuation Engagement.** An engagement to estimate value in which a valuation analyst determines an estimate of the value of a subject interest by performing appropriate valuation procedures, as outlined in the AICPA Statement on Standards for Valuation Services, and is free to apply the valuation approaches and methods he or she deems appropriate in the circumstances. The valuation analyst expresses the results of the valuation engagement as a conclusion of value, which may be either a single amount or a range.

**Valuation Service.** See **Engagement to Estimate Value.**