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PRIVATE EQUITY: GLOSSARY

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144 Stock

(USA) See 'Rule 144 Stock'.

1933 Act (or '33 Act)

(USA) See 'Securities Act of 1933'.

1934 Act (or '34 Act)

(USA) See 'Securities Exchange Act of 1934'.

83(b) Election

(USA) An election by an employee to treat property (usually stock) that is subject to a risk of forfeiture (i.e., unvested stock) as being vested, with the result that the employee is taxed currently on the amount paid for it (often zero or a nominal amount) rather than being taxed on the value when the risk of forfeiture ends. This technique is frequently used when the property is expected to dramatically increase in value by the time the risk of forfeiture ends.

Acceleration Order

(USA) An order by the SEC declaring a registration statement effective (and thereby making sales of securities permissible) before expiration of the statutory 20 day period from the date of filing. The filing of an amendment to a registration statement by the issuing company restarts the 20 day clock. See 'Acceleration Request', 'Effective Date,' and 'Going Effective'.

Acceleration Request

(USA) A letter (or in some cases, oral communication) to the SEC from both the issuer and the managing underwriters of a public offering, requesting that the SEC declare a registration statement effective. The SEC's policy, often waived, is that the acceleration request be received at least two business days prior to the date the registration statement is to become effective.

Accountant's Opinion

A report signed by an independent accountant that describes the scope of the accountant's review and expresses an opinion on the quality of the financial statements presented. Also called accountant's letter. See 'Long Form Report' and 'Short Form Report'.

Accredited Investor

(USA) A term defined in Regulation D under the Securities Act of 1933 to include any of certain financial institutions; certain corporations and trusts; an officer or director of the issuer; a natural person with a net worth (with spouse) of \$1 million or more; or a natural person with individual income in excess of \$200,000 in each of the two most recent years (or \$300,000 jointly with spouse) and an expectation of the same level in the current year.

Accreted Value

The theoretical price a bond would sell at if market interest rates were to remain at current levels.

Accrual Basis

The most commonly used accounting method, which reports income when earned and expenses when incurred, as opposed to cash basis accounting, which reports income when received and expenses when paid. See 'Cash Basis'.

Accrued Expenses

Expenses which are incurred, but for which payment is not yet made, as of a given date.

Accrued Market Discount

An increase in the market price of a discounted bond resulting from an approaching maturity date rather than from declining interest rates.

Accumulated Earnings Tax

An additional tax on earnings that a business retains in an attempt to avoid the higher income taxes the owners would be subject to if the earnings were paid out to them as dividends. Also called "accumulated profits tax."

Accumulated Profits Tax

See 'Accumulated Earnings Tax'.

Acid Test Ratio

See 'Quick Ratio'.

Adjustable Rate Preferred Stock

Preferred stock whose dividend rate changes periodically based upon changes in a reference interest rate.

Admission

The event evidencing commencement of trading of securities on either the Official List of the London Stock Exchange or on AIM.

ADR or ADS (American Depositary Receipts or American Depositary Shares)

The terms ADR and ADS are interchangeable with GDR and GDS, and typically refer to depositary receipt facilities based in the United States. See 'GDR or GDS'.

ADV Form

(USA) The form required to be filed with the SEC in order to register as an investment adviser under the Investment Advisers Act of 1940.

Affiliate

(USA) A person that controls, is controlled by, or is under common control with (directly or indirectly) the entity specified. The SEC takes the position that a corporate officer, director or 10% stockholder is presumed to be an affiliate of the corporation. An individual officer's, director's or 10% stockholder's spouse and children living at home are normally considered affiliates as well.

Aftermarket

The trading activity in a security in the period immediately following its public offer to the public.

All Hands Meeting

A meeting during the public offering process attended by representatives of the issuer, the underwriters, their respective lawyers, and the issuer's accountants. A public offering will typically involve several all hands meetings to conduct due diligence and to draft the registration statement and prospectus.

All-or-None

An offering of securities that provides that unless all the offered securities are sold, the offering is terminated and all funds received by the issuer, underwriter, or escrow agent are returned to the investors. See 'Best Efforts Underwriting' and 'Firm Commitment Underwriting'.

Alternative Investment Market (AIM)

The London Stock Exchange's market for new, fast growing companies. AIM offers the benefit of operating both an electronic quote and order trading facility. Dealings began on AIM in June 1995. Unlike the Official List of the London Stock Exchange, there is no general three year trading history requirement as a precondition of admission on AIM.

AMEX (American Stock Exchange)

(USA) An exchange or a securities market which generally lists securities of small or newer corporations than those listed on the New York Stock Exchange. It has historically been popular for trading of companies involved in the production and sale of natural resources and option trading. It is located in New York. In 1998, Nasdaq and the American Stock Exchange combined into one corporate organisation: The Nasdaq-Amex Market Group.

Analyst

A research analyst, usually employed by an investment bank, who 'follows' a company and issues reports regarding the condition and prospects of the company and the company's securities. The quality and reputation of an investment bank's analyst will often be a key component in selecting an underwriter, since analyst coverage of the company after the public offering helps to generate interest in the company's securities.

Angel

A person or entity that typically provides financing to companies that have progressed beyond the start-up phase but are not yet ready for venture financing. Also known as "business angels."

Angel Network

A typically informal network of Angels that invest together as a group.

Anti-dilution Provisions

Provisions in an option or a convertible security (such as convertible preferred stock, which is the typical form of venture capital or mezzanine investment) which protect the holder's investment from dilution as the result of later issues of stock at a lower price than the investor paid by adjusting the option price or conversion ratio. Allowance is usually made for some degree of dilution as a consequence of issuance of options to employees under share in stock option plans. See 'Anti-dilution, Full Ratchet' and 'Anti-dilution, Weighted Average'.

Anti-dilution, Full Ratchet

(USA) Anti-dilution provisions that apply the lowest sale price for any shares of common stock (or equivalents) sold by the company after the issuing of an option or convertible security with anti-dilution protection as the adjusted option price or conversion ratio. As an example, if a prior round of financing raised capital at \$2.00 per share with investors receiving full ratchet anti-dilution protection, and a subsequent round of financing was completed at \$1.00 per share, the prior round investors would have the right to convert their shares at the \$1.00 price, thereby doubling the number of shares they would receive. See 'Anti-dilution Provisions' and 'Anti-dilution, Weighted Average'. In the UK, 'ratchet' is customarily associated with a mechanism whereby the equity share of a management team may vary depending on achievement of milestones or level of exit valuation. See 'Ratchet'.

Anti-dilution, Weighted Average

Anti-dilution provisions that apply a weighted average formula to adjust the option price or conversion ratio of an early-round investor, based on the sale price and number of common equivalent shares sold by the company after the issuing of the option or convertible security. As an example, if a first round of financing raised \$1 million of capital at \$2.00 per share and the first round investors received weighted average anti-dilution protection, and a second round of financing was consummated for another \$1 million at \$1.00 per share, then the first round investors would have the right to convert their shares at a weighted average adjusted price of \$1.50 per share. See 'Anti-dilution Provisions' and 'Anti-dilution, Full Ratchet'.

Anti-flowback Rules

(USA) SEC rules under Regulation S that apply to offerings initially made outside the USA to prevent subsequent sales into the USA in violation of applicable restrictions or registration requirements. See 'Regulation S'.

Anti-takeover Provisions

(USA) Provisions in a company's organisational documents that are designed to discourage undesired takeover bids. See 'Blank Cheque Preferred Stock', 'Poison Pill', 'Shark Repellent' and 'Staggered Board of Directors'. In the UK, company law combined with the provisions of the Takeover Code, which discourages attempts to frustrate bona fide takeovers, would likely result in such provisions being unenforceable.

B**Antitrust Laws**

(USA) The United States laws regulating competition and monopolies. Although similar in general purpose to the European Union's competition regulations, US rules may differ in details forbidding businesses from monopolising a market or restraining free trade.

APCIMS (Association of Private Client Investment Managers and Stockbrokers)

APCIMS is the rapidly growing trade association of more than 240 firms who, on more than 400 sites, deal in stocks and shares for the UK's 12 million private investors as well as many overseas clients. In March 2002, APCIMS merged with the European Association of Securities Dealers (EASD) to create a pan-European association to address the concerns of investment firms.

Arrearage

Unpaid dividends due to holders of preferred stock. See 'Cumulative Preferred Stock'.

Audit Committee

A committee of the board of directors responsible for selecting and overseeing the work of outside auditors and the conduct of various audit activities, normally composed of independent directors. Public issuers traded on major US markets are now required to appoint an audit committee of not less than three financially knowledgeable independent directors, one of whom must have a background in finance. The definition of an 'independent' director may vary from one market to another. In the EU, audit committee requirements can vary and in some instances may not exist.

Backdoor Listing

A technique used by a private company to become a public company without going through the customary initial public offering process. Such transactions typically involve the private company being merged into a public shell company. Also known as a 'reversing-in' process. In the UK, commonly known as a 'reverse takeover' or 'RTO'. See 'Shell'.

Balloon Note

A form of promissory note requiring repayment of little or no principal until the final payment. See 'Balloon Payment'.

Balloon Payment

The final payment under a balloon note, commonly representing a large portion of the principal. See 'Balloon Note'.

Basis

An investor's total investment in an asset, including purchase price, commissions and other expenses, used to determine capital gains and capital losses for tax purposes. Also called cost basis or tax basis. Also the difference between the cash price and the futures price of a given commodity.

Basis Point

One hundredth of a percent (0.01%). Used to measure changes in or differences between yields or interest rates.

Bearer Securities

Shares of capital stock or bonds evidenced by certificates that are not registered in any name. They are negotiable without endorsement and transferable by delivery. Bearer securities often carry numbered or dated dividend coupons. See 'Registered Securities'.

Beneficial Owner

The person who enjoys the economic benefits of ownership of securities, although the securities may be registered in another name.

Best Efforts Underwriting

(USA) An underwriting arrangement in which an underwriter agrees only to use its best efforts to sell the securities as the issuer's agent. The underwriter does not purchase the securities itself and has no obligation to purchase any amount not purchased by investors. In the UK, such a limited duty of an underwriter would be described as being on a 'reasonable endeavours' basis. See 'All-or-None' and 'Firm Commitment Underwriting'.

Best Execution Requirement

The obligation of market makers, broker/dealers, and others to execute customer orders at the best price currently available, usually with reference to the then-current market price.

Beta

A statistical measure of a security's volatility as compared to the overall market (a beta lower than 1 would indicate less volatility than the general market; a beta of greater than 1 more).

Black-Scholes Formula

(USA) A statistical method of estimating the present value of stock options or warrants based upon the exercise price, fair market value of the underlying security, the length of the exercise period of the option or warrant, and the volatility of the underlying security.

Blank Cheque Preferred Stock

(USA) Authorised preferred stock, the terms of which are left open under the company's organisational documents, allowing the board of directors to fix the terms without stockholder approval. Blank cheque preferred stock may be used as an anti-takeover device. See 'Anti-Takeover Provisions', 'Poison Pill', 'Shark Repellent' and 'Staggered Board of Directors'.

Blue Chip

Generally accepted as referring to stock or shares of a large company with a solid record of stable earnings and/or dividend growth and a reputation for high quality management and/or products. More generally, anything of very high quality.

Blue Sky Law

(USA) State laws regulating the offer and sale of securities and the registration of broker/dealers. All securities issued by a company must be offered and sold in compliance with or under an exemption from blue sky laws and regulations of each state in which securities are sold. The name 'blue sky' comes from the preamble to an early Wisconsin law designed to prevent companies from selling pieces of the blue sky to unsuspecting investors.

Board Minutes

Minutes of the meetings of the board of directors that record actions taken, typically written after a board meeting and approved at the subsequent meeting.

Bond

A debt obligation, often secured by a mortgage on some property or asset of the issuer.

Book Manager

The lead managing underwriter who maintains the Book. See 'Book'.

Book or Syndicate Book

The list of investors who have indicated an interest in purchasing shares in a public offering maintained by the lead managing underwriter during the offering process. See 'Hard Circle'.

Book Value per Share

A company's net worth (assets minus liabilities) divided by the number of shares outstanding. Tangible book value is the company's net tangible worth (tangible assets minus liabilities) divided by the number of shares outstanding. See 'Fully Diluted Earnings Per Share'.

Bookbuilding

Process pursuant to which the lead underwriter(s) in a public offering solicit institutional and retail investors to commit to subscribe to shares prior to the closing of the offering.

Book-Entry Securities

Securities whose ownership is evidenced by an entry on the books of the issuer or the transfer agent and not by physical certificates.

Bookrunner

The underwriter in charge of the bookbuilding process.

Bridge Loan, Bridge Financing, or Bridge Round

A loan or equity investment to provide financing for a relatively short time period until the issuer can complete a longer term financing such as a public offering.

Bring-Along Rights

Contractual rights pursuant to which minority shareholders are required to sell their securities in connection with a sale by the majority shareholders. Such rights typically apply in connection with an acquisition transaction such as a sale of all the shares of stock or a sale of all or substantially all the assets of a company. Also known as "drag-along rights."

Bring-down Letter

A letter confirming, as of a later date (usually the date of a closing), the representations, warranties, or covenants made at an earlier date in a legal document.

Broker

One who acts as an intermediary between the buyer and the seller of securities.

Broker/Dealer

Any individual or firm, other than a bank, which is engaged in the business of buying and selling securities for itself and others. In the USA, broker/dealers must register with the SEC as well as with the states in which they conduct business.

Burn Rate

In venture capital financing, the rate at which a start-up company spends capital to finance operations before generating positive cash flow from operations.

Buy Side or Buy Side Trader

The individual within an institutional investor who affects trades (particularly securities purchases) for the institution.

Buyback

A corporation's repurchase of stock or bonds it has issued. Also the purchase of a long position to offset a short position.

Buying on Margin

See 'Margin'.

C Corporation

(USA) A corporation that is subject to taxation as a separate entity. See 'S Corporation' and 'Limited Liability Company'.

CAC-40 (Compagnie des Agents de Change 40 Index)

An index based on 40 of the largest and most liquid stocks traded on the Paris Stock Exchange. See 'Index'.

Call Option or Call

A contract that gives the holder the right to purchase specified securities at a specified price during a specified period of time. See 'Put Option'.

Capital Stock or Share Capital

Stock that a company may issue evidencing its equity ownership. The capital stock may be either, common stock (USA), ordinary shares (UK), and/or preferred stock or shares. A company's organisational documents usually indicate the amount of authorised capital stock or share capital that a company may issue.

Capitalisation

Generally accepted as referring to the sum of a company's long-term debt, stock and retained earnings. Also called "invested capital." The items comprising 'capitalisation' may vary in different jurisdictions. See also 'Market Capitalisation'.

Capitalisation Rate

The discount rate used to determine the present value of a stream of future earnings. Equals normalised earnings after taxes divided by present value, expressed as a percentage.

Capitalisation Ratios

The percentage of a company's total capitalisation that each capital component (debt, preferred stock, common stock, other equity) contributes.

Capped-Style Option

An option with an established profit cap. A capped-style option is automatically exercised when the underlying security closes at or above the option's cap price for a call, or at or below the option's cap price for a put.

Carried Interest

The percentage of a venture capital fund's profits allocated to the general partner/ sponsors of the fund as compensation for their entrepreneurial efforts in organising and running the fund.

Cash Basis

The accounting practice of recording sales and expenses only when cash is actually received or paid out, as opposed to accrual basis. Generally cash basis accounting is simpler than accrual basis accounting. See 'Accrual Basis'.

Cede & Co

(USA) The nominee of depositary trust company which acts as the record owner of securities held in 'street name' for a large number of major brokerage firms and other financial institutions. See 'Street Name' or 'Nominee Name'. See also 'Depositary Trust Company'.

Cheap Stock

Stock (or rights to acquire stock) issued to employees, consultants, promoters, etc, of the issuer at a price lower than the public offering price, particularly if issued within one year prior to the public offering.

Chinese Wall

The term used for the procedures within a multi-dimensional securities firm or universal bank to separate material non-public information obtained by the corporate finance department from use by the trading desk, lending functions, or analysts.

City Code

The City Code on Takeovers and Mergers is a non-statutory code regulating takeover activity of publicly traded companies in the UK. See 'Takeover Code'.

Class

Classes of securities are securities that share the same terms and benefits. Classes of capital stock are generally alphabetically designated, e.g., 'Class C Common Stock' or 'Class A Preferred Stock'.

Class Action Suit

A lawsuit brought by one person on behalf of a larger group of individuals all having the same legal claim.

Classified Stock

(USA) The separation of a company's capital stock into multiple classes, such as Class A and Class B.

Claw Back Option

The right to require repayment of funds set aside for a specific purpose that have been disbursed in a manner inconsistent with or contrary to the rules or agreements governing the disbursement. In the context of an acquisition, a buyer may have 'claw back rights' with respect to part of the purchase price if the target company fails to meet agreed upon milestones after the acquisition. In the context of a venture capital fund, investors may have claw back rights if interim distributions result in the fund promoters receiving more than the contemplated carried interest.

Clearstream

Clearstream is an international clearing and settlement organisation offering a comprehensive service for bonds and equities – both domestic and cross border. Clearstream was formed in 2000 from the merger of Cedel International and Deutsche Bank Clearing. Clearstream is now a subsidiary of Deutsche Börse. See 'Euroclear'.

Closed Corporation

A corporation in which all of the voting stock is held by a few shareholders, such as management or family members. Also called a private company.

Closely Held

A corporation in which most of the stock is held by a small number of shareholders.

Closing or Completion

The date on which a financing or acquisition closes or is formally completed.

Collateral

Securities or other property pledged by a borrower to secure repayment of a loan.

Combination Stock Option Plan

(USA) A plan under which a company can grant both Incentive Stock Options and Non-Qualified Stock Options. See 'Incentive Stock Options' and 'Non-Qualified Stock Options'.

Comfort Letter or Cold Comfort Letter

A letter delivered by the auditors for an issuer at the time of a registered public offering which typically (a) confirms certain numerical information in the registration statement which can be derived from the issuer's financial records, and (b) provides limited negative assurances concerning changes in the issuer's financial condition since the last audit. See 'Long Form Report' and 'Short Form Report'.

Comment Letter

(USA) A letter prepared by an examiner at the SEC setting forth the SEC's questions and comments with regard to a filing with the SEC, such as a registration statement.

Commercial Paper

An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory. Maturities typically range from 2 to 270 days.

Commission Bancaire et Financière / Commissie voor het Bank en Financiewezen (CBF)

The Belgian Commission of Banking and Finance is the competent authority regulating the securities industry in Belgium. See 'Competent Authority'.

Commission des Opérations de Bourse (COB)

The Commission des Opérations de Bourse, or COB, is the competent authority regulating the securities industry in France. See 'Competent Authority'.

Common Stock

(USA) The basic form of equity ownership in a corporation. Generally equivalent to ordinary shares in the United Kingdom.

Common Stock Equivalents

Debt and/or equity type securities capable of subscription, exchange or conversion into common stock of the corporation. In calculating dilution, earnings per share, etc., the amount of common stock is often adjusted to reflect conversion of common stock equivalents.

Common Stock Ratio

A company's common stock divided by its total capitalisation, expressed as a percentage.

Compensation Committee

A committee of the board of directors responsible for reviewing and setting the compensation of certain executive officers of the company. The compensation committee may also be responsible for the allocation of stock options to employees. A compensation committee is typically comprised of independent (i.e., non-employee) directors of the company. The definition of an 'independent' director may vary from one market to another.

Competent Authority

A term used within directives produced by the European Commission (see 'Investment Services Directive' and 'Prospectus Directive') to describe a body which has been identified by a member state of the European Union as being responsible for specified functions related to the securities market within that member state. Areas of competence include the recognition of firms permitted to offer investment services, the approval of prospectuses for public offerings, the recognition and surveillance of stock markets, etc. A member state may nominate different competent authorities for different areas of responsibility.

Confidentiality and Proprietary Rights Agreement

An agreement by which an employee, customer, or vendor agrees not to disclose the company's trade secrets or other confidential information to any third party or to use such trade secrets or confidential information other than in connection with company business. Also referred to as a Non-disclosure Agreement. If such an agreement is made between a company and its employee, the employee typically also agrees to convey to the company all inventions the employee develops while employed by the company, and represents that the employee is not bound by obligations to a former employer that would restrict the employee's services to the company.

Consolidated Financial Statements

Financial statements for a company and all of its subsidiaries as if a single enterprise rather than for the company on a stand-alone basis.

Conversion

The act of exchanging one form of security for another security of the same company (i.e., preferred stock for common stock, debt securities for equity.)

Conversion Parity

The equal dollar relationship between the price of a convertible security and that of the underlying security into which it can be converted. As an example, if a \$1,000 debt instrument is convertible into 50 shares of common stock, conversion parity occurs when the common stock price is at \$20.00 per share. If the prevailing common stock price is other than \$20.00 per share, conversion parity does not exist.

Conversion Premium

The dollar or percentage amount by which the price of the convertible security exceeds the current market value of the common stock into which it could be converted.

Conversion Ratio

The ratio indicating the number of underlying securities that can be acquired upon exchange of a convertible security.

Convertible Debt

A debt obligation of a company that is convertible into stock.

Convertible Preferred Stock

Preferred stock convertible into common stock.

Cooling-off Period

(USA) A delay imposed informally by the SEC before declaring a registration statement effective in those cases where it believes the issuer has engaged in 'gun-jumping' or other impermissible marketing activities in relation to a public offering. The delay, which can be anywhere from a few days to 30 days or more, is to allow the effect of the promotional activities to dissipate and the market to 'cool off'. This is different from the waiting period and quiet period. The basic concept of a cooling-off period exists in other markets, although its exact meaning may vary from market to market. See 'Gun-Jumping', 'Quiet Period,' and 'Waiting Period'.

Co-sale Agreement

See 'Tag Along Agreement'.

Cost Basis

See 'Basis'.

Covenants

Provisions in a venture capital investment agreement, underwriting agreement or other financing document whereby the investee company agrees to do or not to do something in the future. Covenants may remain in effect as long as the investors hold a stated amount of securities or may terminate on the occurrence of certain events (i.e., completion of a public offering). Affirmative covenants define acts that the company must perform, and may include payment of taxes, maintenance of corporate existence, insurance, property and equipment, environmental and legal compliance, representation of venture capital firm on the board, etc. Negative covenants define acts which the company may not perform, and could include a prohibition on mergers, sale or purchase of assets, amendments to its organisational documents, incurring of indebtedness, the issuing of securities, distributions and redemption of securities, etc.

CREST

The UK's share settlement system, based in London. In July 2002, CREST announced plans to merge with Euroclear. See 'Euroclear'.

Cross-Collateralization

D

When collateral for one loan or obligation is also serving as collateral for other loans or obligations.

Crossover Fund

A mutual fund that invests in both public and private equity.

Cumulative Dividend

A dividend that accumulates if not paid in the period when due and must be paid in full before other dividends are paid on the company's common stock. See 'Arrearage'.

Cumulative Preferred Stock

A form of preferred stock that provides that if one or more dividends is omitted, those dividends accumulate and must be paid in full before other dividends may be paid on the company's common stock. See 'Arrearage'.

Cumulative Voting

A technique permitted by the laws of some states in the USA that is intended to assure minority shareholder representation on the board of directors. A shareholder is allowed to cumulate votes equal to the number of shares owned multiplied by the number of directors to be elected, and vote them all for one nominee.

DAX

A price-weighted index of the most heavily traded stocks on the Frankfurt Stock Exchange. See 'Index'.

Dealer

Any individual or firm, other than a bank, that is engaged in the buying and selling of securities for itself.

Death Spiral Deal

A convertible security where the conversion price is tied to the market price (frequently at a fixed percentage discount) at the date of conversion. Also known as a 'Toxic Convert'.

Debenture

A note or bond usually backed only by the general credit of a company, and not secured by specific property.

Debenture, Subordinated

See 'Subordinated Debenture'.

Debt

A fixed obligation to pay money at a stated time.

Debt Capital

Capital raised through the issuance of bonds.

Debt Financing

Financing by selling bonds, notes, or other debt instruments.

Debt Ratio

Debt capital divided by total capital.

Debt/Equity Ratio

A measure of a company's leverage, calculated by dividing long-term debt by common shareholders' equity.

Default

Failure to discharge an obligation when due.

Defined Contribution Plan

(USA) A retirement plan in which the employer's obligation is to make a definite contribution into the plan and the employee bears the risk of investment performance by the retirement plan. In the UK, such plans are known as defined contribution pensions or personal pensions. A defined contribution plan is the opposite of a defined benefit plan where the employer's obligation is to make a definite payment to the retired employee and the employer bears the risk of investment performance by the retirement plan. In the UK, this is known as a defined benefit or final salary pension scheme.

Delisting

The removal of a company from listing on a stock exchange, either because the company no longer satisfies certain minimum financial or market capitalisation standards or because the company violated one of the rules or regulations of the exchange.

Demand Registration Rights

(USA) The contractual right of a security holder to require an issuer to file a registration statement to register the holder's securities so that the holder may sell them in the public market without restriction. See 'Piggy-Back Registration Rights' and 'Registration Rights'.

Depository Trust Company (DTC)

(USA) DTC is the world's large

Derivative or Derivative Security

A financial instrument or security whose characteristics and value depends upon the characteristics and value of an underlying instrument or asset, typically a commodity, bond, equity, or currency. Examples include futures, options, and mortgage-backed securities.

Development Stage Capital/Fund

Venture capital financing in connection with a company's start-up phase. This is typically the highest risk phase of venture capital financing from the investor's perspective. A 'development stage fund' is a venture capital fund focusing on development stage financing. See 'Mezzanine Capital/Fund' and 'Pre-IPO Capital/Fund'.

Diluted Earnings Per Share

See 'Fully Diluted Earnings Per Share'.

Dilution

A decrease in the value of securities as the result of the issuing, or potential issuing, of additional securities.

Distribution

The sale of a block of securities to a number of investors. Often this is accomplished through a syndicate of investment banks or stock brokers that buy the securities from the underwriter or underwriters and sell them on to their clients.

Double Dip

Generally refers to participating preferred stock that entitles a holder to a liquidation preference and also to participate in the residual value. See 'Participating Preferred Stock'.

Dow Jones Industrial Average (DJIA)

An index based on 30 major stocks listed on the New York Stock Exchange. The companies included in the DJIA are all major factors in their respective industries, and their stocks are widely held by individuals and institutional investors. The DJIA is one of the oldest and most widely recognised stock indices and has been published daily for more than 100 years.

Down Round

A round of equity financing at a valuation lower than prior rounds of financing. Also referred to as a 'punitive round'.

Drag-Along Rights

See 'Bring-Along Rights'.

DTC

See 'Depository Trust Company'.

Dual Listing or Trading Facility

The listing of a security on more than one exchange. Increasingly, securities are being listed on both a local exchange and an exchange with more widespread coverage. In addition, issuers may list on both a US exchange and a European or Asian exchange.

Due Diligence

An examination of the books and records of an issuer and interviews with officers, partners, etc., to confirm information about the issuer's business as well as legal and accounting affairs. It typically includes a review of such matters as significant customers and suppliers, the background of key employees (to learn of prior employment problems, criminal convictions, disciplinary actions by market regulators, fraudulent résumés), material contracts; facilities; real property owned, subsidiaries, judgments and lawsuits, insurance; patents and other intellectual property rights; licenses and permits, and tax status. The phrase derives from the fact that under USA law certain persons (including the directors, underwriters, and auditors) are personally liable for a misstatement of material fact in a registration statement unless they can demonstrate that after reasonable investigation they had reasonable grounds to believe, and in fact did believe, that the statement was true. Conducting the due diligence examination enables these persons to raise a 'due diligence defence' if sued.

Earnout

An arrangement in which sellers of a business may receive additional future payments for the business based upon economic performance of the sold business or the buyer (including the sold business) after the sale.

EASD (European Association of Securities Dealers)

An association of securities houses, investment banks, venture capital firms, professional advisors, and others formed to promote the development of securities markets in Europe for growth companies. EASD's ambition is to be the most effective organisation to foster the best conditions for seamless European investment and trading. The creation of the EASDAQ stock market (now Nasdaq Europe) was one of its first initiatives. EASD has merged with APCIMS, and now has offices in London and Brussels.

EASDAQ

See 'Nasdaq Europe'.

EBIT

Earnings before interest and taxes – a financial measurement often used in valuing a company.

EBITDA

Earnings before interest, taxes, depreciation and amortisation – a financial measurement used in valuing a company.

EDGAR

See 'Electronic Data Gathering, Analysis, and Retrieval'.

Effective Date

(USA) The date of the SEC order declaring the registration statement for a public offering to be effective, at which time the sale of shares to the public can commence. See 'Acceleration Order', 'Acceleration Request,' and 'Going Effective'.

Effective Par

(USA) The par value for preferred stock that would ordinarily correspond to a given dividend rate.

Electronic Data Gathering, Analysis, and Retrieval (EDGAR)

(USA) The SEC's system required to be used since 1995 by substantially all public companies to file required reports, such as quarterly and annual reports with the SEC, electronically, those enabling electronic retrieval of these filings through the Internet. Until 2002 foreign companies registered as public companies in the USA were not required to file electronically. Starting in November 2002, foreign companies will also be required to file electronically through EDGAR.

Employee Retirement Income Security Act (ERISA)

(USA) The Employee Retirement Income Security Act of 1974, the principal USA law regulating retirement and employee benefit plans.

Employee Stock Purchase Plan

(USA) A plan under which key employees are given the right to purchase shares of the company at a future date on favourable terms. Under the USA Internal Revenue Code, if a plan meets certain requirements, employees can purchase stock at 85% of market price without any USA tax consequence, though the rules in other countries are different.

Employee Stock Repurchase Agreement

(USA) An arrangement in which a corporation sells stock to its employees but reserves the right to repurchase it under certain conditions.

ERISA

See 'Employee Retirement Income Security Act'.

EURIBOR

The interest rate at which Euro denominated interbank term deposits are offered within the Eurozone.

Euroclear

Euroclear is an international clearing organisation based in Brussels, Belgium, specialising in securities clearing, settlement, and custody services. In July 2002, Euroclear announced plans to merge with CREST. See 'CREST'.

EURONEXT

The name of the exchange resulting from the merger of the Amsterdam, Brussels, and Paris stock exchanges in 2001. The Madrid Stock Exchange has since joined and EURONEXT has acquired LIFFE, the London International Financial Futures and Options Exchange.

European Option

See 'European-Style Option'.

European-Style Option

An option that can only be exercised for a short, specified period of time just prior to its expiration, usually a single day. Also called European option.

EVCA (European Venture Capital Association)

An association formed to promote and facilitate European private equity and venture capital. It has over 500 member organisations from across Europe and North America. Headquartered in Brussels.

Exemption or Exempt from Registration

(USA) An exemption from the statutory requirement to register the offer and sale of a security with the SEC under the Securities Act of 1933. Exemptions are provided for certain types of securities (such as government issues and pension plans) and certain types of transactions (such as private placements and offerings to existing security holders). Similar concepts exist in the UK and other jurisdictions but the meanings and applicability may vary widely.

Exercise Price

The price at which shares that are subject to a stock option may be purchased or sold. Also known as the 'strike price'.

Exit Strategy

The method by which an investor anticipates liquidating its investment, such as sale of the business, public offering, etc.

Expense Allowance

An amount paid by the issuer of a security to an underwriter (most common in smaller, higher risk offerings) to reimburse it for expenses incurred in connection with a securities offering. An expense allowance may be accountable (reimbursement against documented out-of-pocket expenses) or non-accountable (typically a percentage of the offering amount without documentation of the expense).

FASB

(USA) The Financial Accounting Standards Board. The quasi-public body primarily responsible for developing rules governing USA generally accepted accounting practices.

Federal Deposit Insurance Corporation (FDIC)

(USA) A US federal agency that insures deposits in member banks and thrift institutions up to \$100,000.

Final Prospectus

The final version of a prospectus that includes the final price, delivery date and the underwriting spread; it is given to all investors who wish to purchase the issue.

Financial Services Authority (FSA)

The Financial Services Authority is an independent non-governmental body in the UK which exercises statutory powers under the Financial Services and Markets Act 2000 (and certain other legislation). The FSA is the competent authority regulating the securities industry in the UK, including banks, brokers, investment houses, and financial advisers. It was created by the merger of functions previously performed by the Securities Investment Board, or SIB, Investment Management Regulatory Organisation, or IMRO, the Bank of England, and other agencies. See 'Competent Authority'.

Firm Commitment Underwriting

An underwriting arrangement in which an underwriter agrees to purchase all of the securities being offered for resale to the public, thereby, in theory, assuming the risk of finding buyers. In practice, this risk is very slight by the time an underwriter becomes legally obligated to purchase the securities from the issuer, as the underwriters will already have 'built a book' of investors who have indicated an interest in buying the securities. See 'All-or-None' and 'Best Efforts Underwriting' for comparison.

First Preferred Stock or Shares

Preferred stock that takes precedence over other preferred and common stock with regard to dividends and assets. Also called 'Senior Preferred Stock or Shares'.

First Refusal

See 'Right of First Refusal'.

Float or Free Float or Public Float

The number of shares not held by corporate insiders that are freely tradable in the public market or markets on which a company's securities are listed.

Flowback

(USA) Term used to describe securities initially offered outside the USA that are subsequently resold to USA residents, which may be in violation of applicable restrictions or registration requirements. This term is also used in Europe in the same context. See 'Anti-Flowback Rules'.

Follow-on Investment

An additional investment by existing investors, which may be provided for in documentation relating to the initial investment.

Forms

See 'Registration Statement' and 'Reporting Company Forms'.

Forward Pricing

(USA) The SEC requirement that open-end investment companies (popularly called mutual funds) set their share price based on net asset value and base all incoming buy and sell orders on the immediately subsequent net asset value.

Founder's Stock

Stock issued to the founders of a company, usually at a low price in comparison to that paid by investors.

Free Float

See 'Float'.

Freezeout

A process whereby a controlling stockholder of a company prevents dividends or other benefits from flowing to minority stockholders, usually as a prelude to buying out their stock at a low price.

FTSE 100

An index based on the stock of the top 100 companies traded on the London Stock Exchange (Official List). See 'Index' and 'Official List'.

Full List

See 'Official List'.

Fully Diluted Earnings Per Share

Common stock earnings per share calculated as if all warrants and stock options were exercised and all convertible bonds and preferred stock (and certain convertible debt) were converted. Fully diluted earnings per share are usually a more accurate reflection of the company's real earning power.

G**Fund of Funds**

An investment fund that invests in other investment funds.

GAAP (Generally Accepted Accounting Principles)

Rules and procedures generally accepted within the accounting profession in a particular jurisdiction (for example, 'US GAAP' or 'UK GAAP'. See 'IAS'.)

GDR or GDS (Global Depository Receipts or Global Depository Shares)

GDRs are a mechanism used to facilitate the trading of a particular security in more than one market. A GDR is a negotiable receipt that represents an ownership interest in a specified number of securities that have been deposited with the depository by the holder of such securities. A GDR is the physical certificate that evidences Global Depository Shares or GDSs (in much the same way that a stock certificate evidences shares of stock). See 'ADR or ADS'.

General Partner

A partner in a partnership who has unlimited personal liability for the debts and obligations of the partnership and the right to participate in its management.

General Partnership

Form of partnership in which all partners are general partners. See 'Partnership'.

Global Coordinator

The lead underwriter in simultaneous public offerings in several countries or on several exchanges. The Global Coordinator is responsible for coordinating the activities of the several underwriters responsible for their respective offering markets. See 'Lead Manager/Lead Underwriter'.

Going Effective

(USA) The time at which the SEC declares a registration statement effective under the Securities Act of 1933, so that sales (not just offers) of the securities being registered can be made. See 'Acceleration Order', 'Acceleration Request,' and 'Effective Date'. In the UK, the equivalent term is Admission'. See 'Admission'.

Going Private

The transformation of a company from public to private ownership status, usually used in the context where old management remains involved with the company. A company may go private either by repurchasing its publicly traded shares or by having a third party purchase all, or substantially all, of the company's outstanding shares. In the UK, the term P2P (public to private) is also commonly used.

Golden Handcuffs

A method of insuring that key employees remain with the company for a certain period of time by granting the employees' options or restricted shares of stock that vest over a period of time.

Golden Parachute

A contractual arrangement between a key employee and the company that provides for the payment of a large bonus or other payment to the employee upon the occurrence of certain events, such as termination of employment without cause or the merger or sale of the company.

Green Shoe Company

See 'Over-Allotment Option'.

Green Shoe or Shoe

Term for an underwriter's over-allotment option. This name derives from the fact that the over-allotment option technique was first used in a public offering of the securities of the

H

Greenmail

Acquiring a large block of a public company's securities and threatening a takeover, tender offer, proxy fight, or other action for the purpose of inducing the company to repurchase the securities at an above-market price.

Gun-Jumping

(USA) The offering of a security prior to the filing of a registration statement or during the registration process, or the publication of materials deemed to promote the sale of the company's securities, other than through a prospectus filed with the SEC. See 'Cooling-Off Period', 'Quiet Period' and 'Waiting Period'.

Hard Circle

Prospective purchasers of securities in a public offering, listed in the 'book' maintained by the lead managing underwriter, who are considered very likely to actually buy shares in the offering. See 'Book or Syndicate Book'.

Hedge Fund

A private investment fund that invests in a variety of assets, utilising investments and strategies with various long and short exposures and degrees of leverage.

Highly Confident Letter

A letter from an investment bank indicating that it is highly confident that it will be able to raise financing for a transaction, but without legally obligating itself to do so.

Hi-Lo Index

Moving average of the number of stocks that reach new highs and lows each day, used as a technical analysis tool for measuring the strength of the overall market.

Holdback

A contractual condition in which money is withheld until a specified event occurs.

Hot Issue or Hot Stock

A security that quickly rises in price following its initial trading as a result of high market demand.

Hurdle Rate

A rate of return on investment after which economics of the investment are adjusted or capped.

I

IAS (International Accounting Standards)

Accounting rules and procedures developed by the International Accounting Standards Committee and to be administered by the IASB. All EU countries are required to adopt IAS by 2005.

IASB (International Accounting Standards Board)

The quasi-public body established in 2001 to develop a uniform set of international accounting standards (IAS).

Incentive Stock Options or ISOs

(USA) Stock options available only to full time employees that are entitled to special tax treatment under the USA Internal Revenue Code. The employee who exercises the option does not have to pay tax until the employee actually sells the stock. However, the employee may be subject to alternative minimum tax. The company does not get a tax deduction. Similar arrangements exist in other jurisdictions, subject to local and tax and legal requirements. See 'Non-qualified Stock Options' and 'Combination Stock Option Plan' for comparison.

Independent or Outside Director

A member of the board of directors who is not an employee of the company nor affiliated with a controlling stockholder of a company. The definition of 'independent' may be further defined in different jurisdictions or markets.

Index

A benchmark against which financial or economic performance is measured, such as the S&P 500, FTSE 100, etc.

Indication of Interest

(USA) A non-binding expression of interest by a dealer or investor in purchasing securities. In the USA, securities may be offered after a registration statement has been filed, but may not be sold until the statement is declared effective by the SEC. During the period after filing and before effectiveness, underwriters obtain non-binding indications of interest.

Information Rights

The contractual right to obtain information about a company, including, for example, attending board meetings. Typically received by venture capitalists investing in privately held companies.

Initial Public Offering (IPO)

The registered public offering of securities of an issuer to the public for the first time. In the UK, also referred to as a 'flotation'.

Inside Spread or Inside Quote

The difference between the highest bid and lowest ask price being quoted by market makers for a security.

Insider Trading

The term commonly used in reference to the buying and selling of the company's securities based on material information relating to the company that has not been made public. Insider trading according to this definition is against the law in most countries. The term may also be used to refer to the buying and selling of shares of a public company by its officers, directors, and major stockholders. In the USA transactions by officers, directors, and 10% stockholders must be reported monthly to the SEC under Section 16 of the Securities Exchange Act of 1934. Reporting rules for similar trading may also exist in other countries or markets. See 'Tipper and Tipped'.

Insiders

Directors, officers, key employees, and any other persons privy to material non-public information relating to a company. This may be further defined in different countries or markets.

Institutional Investor

An institution such as an investment company, mutual fund, insurance company, pension fund or endowment fund that generally has substantial assets and experience in investments. In many countries, institutional investors are not protected as fully by securities laws because it is assumed that they are more knowledgeable and better able to protect themselves. They account for a majority of overall trading volume in most major securities markets.

Integration

(USA) A concept under the Securities Act of 1933 which requires that nominally separate offerings be 'integrated' and treated as a single offering for the purpose of determining if they are exempt from the registration requirements of that act.

Intellectual Property

Patents, copyrights, trademarks, trade secrets and similar rights in ideas, concepts, etc.

Internal Rate of Return (IRR)

Compounded rate of return on an investment that an investor receives on an investment at the time of sale or other exit.

In-the-Money Option

An option is described as 'in-the-money' when the market price of the underlying security or commodity is higher than the strike price of the option.

Invested Capital

See 'Capitalisation'.

Investment Bank or Banker

A person or firm engaged in the investment banking business, which typically includes activities such as underwriting the sale of securities, valuing businesses, advising on the financial aspects of mergers and acquisitions, etc.

Investment Letter

A written agreement between an investor and a seller of securities in a private placement.

Investment Services Directive (ISD)

A Directive produced by the European Commission regarding the provision of investment services within the member states of the European Union. The Directive has been described as the 'passport to Europe' for securities houses. The key feature of the Directive is that of 'mutual recognition', in that: a) any firm approved to provide investment services within its home state is mutually recognised by all other member states as being allowed to provide the same services within those other member states; and b) any stock market or exchange that is recognised by its Competent Authorities within one member state is mutually recognised in all other member states as being allowed to offer its services (including the installation of trading system computer terminals) within those other member states. A new ISD is currently being negotiated with a focus on establishing a single marketplace for securities covering all member states of the European Union. See 'Competent Authority'.

IPO

See 'Initial Public Offering'.

IPO Participation Rights

Rights sometimes negotiated by investors during periods when public markets are strong, entitling the investors to be allotted a portion of the stock to be sold to the public in an IPO.

IRS

(USA) Internal Revenue Service, the USA federal taxing authority.

Issued and Outstanding Stock

Issued stock of a corporation that is still outstanding and has not subsequently been repurchased by the corporation. See 'Treasury Stock' for comparison.

Issuer

The legal entity offering its securities for sale or subscription, whether it is a corporation, partnership, trust, or other appropriate entity.

L

Lagging Indicator

An economic indicator that changes after the overall economy has changed; examples include labour costs, business spending, the unemployment rate, the prime rate, outstanding bank loans, and inventory book value.

Lead Manager/Lead Underwriter

The single underwriter that assumes leadership and financial responsibility for placing the securities offered in a public offering. On the cover of a prospectus, the Lead Manager/Underwriter is typically listed on the bottom of the page on the left-hand side, with the other underwriters listed to the right of the Lead Manager/Underwriter. See 'Global Coordinator'.

Lehman Formula

A compensation formula initiated by Lehman Brothers for investment banking activities, originally structured as follows: 5% of the first million dollars involved in the transaction; 4% of the second million; 3% of the third million; 2% of the fourth million; and 1% of everything thereafter (i.e., above \$4 million). As a result of inflation, investment bankers today often seek some multiple of the original Lehman formula.

Letter of Intent

A letter from one company to another indicating a general willingness or intention to engage in some type of transaction. It frequently precedes negotiation of complete agreement and is typically intended by the parties not to be legally binding.

Leveraged Buy-out (LBO)

The acquisition of a company by members of management or outside investors with financing from investment bankers or other third parties. The financing is typically secured by the target company's assets with repayment generated from the company's retained or future earnings or sales of certain of its assets. See 'Management Buyout (MBO)'.

Leveraged Buy-out Fund (LBO Fund)

An investment fund or company focusing on financing leveraged buyouts.

Leveraged Recapitalisation

Transaction in which a company borrows a large sum of money and distributes it to its shareholders.

LIBOR

The interest rate that the largest international banks charge each other in the London inter-bank market for loans.

Limited Liability Company or LLC

(USA) A non-incorporated association that resembles a corporation in some ways and a partnership in others. Under USA law, an LLC generally will be taxed as a partnership (meaning it will not pay separate income tax as an entity), but will enjoy the limited liability of a corporation. In other countries (such as the UK), a 'limited company' is generally equivalent to a corporation in the USA. See 'C Corporation' and 'S Corporation'.

Limited Partner

A person having an interest in a limited partnership whose liability is limited to a fixed amount and who does not participate in the management of the partnership.

Limited Partnership

A partnership consisting of one or more general partners and one or more special partners (the 'limited partners') who are not liable for the debts of the partnership beyond their capital contribution. See 'General Partnership'.

Liquidation Preference

A right typically attached to preferred stock under which, upon liquidation, holders of preferred stock receive payment of a specified amount, typically at least equal to the amount at which the preferred stock was originally issued, in priority over payments to other investors. In venture capital financings, the terms of the preferred stock typically will provide that a 'liquidation' is defined to include a trade sale or acquisition, or that the holders of preferred stock have the option to treat a sale as a liquidation. See 'Multiple Preferences'.

Listed Security

A security that has been accepted for trading on an exchange. To become a listed security, the issuer must satisfy the listing requirements of the relevant exchange or regulatory authority.

Listing Requirements

The standards to be satisfied for a security to be admitted to trading on an exchange. Listing requirements vary among exchanges and regulatory authorities but commonly include financial standards and levels of market capitalisation.

Living Dead

A company that performs just well enough to stay in existence but not well enough to generate any return for its investors.

Lock-up Agreement

Agreement between an underwriter and certain stockholders of a company requiring the stockholders to refrain from selling their shares in the public market for a specified period after a public offering. In the USA this period is customarily 180 days after an IPO and 90 days after subsequent offerings, but may range from as little as 30 days to as much as one year or more.

London Stock Exchange

The primary stock exchange in the UK and one of the principal international stock markets. See 'FTSE 100'.

Long Form Report

In the UK, a report jointly commissioned by the issuer and the sponsor that is customarily undertaken by the issuer's accountants/auditors and reports extensively on the accounting, financial, trading, management, and corporate governance aspects of the issuer's business. The report is not reproduced in the prospectus or other offering document but often serves as a principal reference source in preparing the prospectus as well as background due diligence and verification material. See 'Short Form Report'.

Lookback Option

Call or put option whose strike price is not determined until the option is exercised.

Management Buy-In

A transaction in which a manager or management group from outside a company buys in to that company, often with the assistance of venture capital or private equity investors.

Management Buy-Out (MBO)

A transaction in which the current operating managers of an existing company and the investors purchase that company or a business activity or range of products of that company.

Managing Underwriters

The underwriters whose names appear on the cover page of the prospectus, who assist the company in preparation of the prospectus and the road show, and who organise the syndicate of underwriters to sell the securities. See 'Lead Underwriter'.

Manipulation

The purchase or sale of securities designed to provoke a false sense of the trading activity in the security. Market manipulation is illegal in most jurisdictions.

Margin

Using money borrowed from a broker/dealer, bank, or other source to purchase securities; also called buying on margin. Also the amount of equity required for an investment in securities purchased on credit. Also the face value of a loan minus the value of the pledged collateral.

Market Authority

Governing entity of a stock exchange or trading system responsible for market regulation, approval of members, admission to and cancellation of listing, and operation of the trading system.

Market Capitalisation or Market Cap

The number of shares outstanding multiplied by the market price of the stock. Market capitalisation is a common standard for describing the worth of a public company.

Market Maker

Brokerage and securities firms that are required by the rules of a stock market or exchange to both buy and sell securities of a quoted company, for which they act as market maker, at bid and offer prices that they quote.

Market Maker Spread

The difference between the price at which a market maker is willing to buy a security and the price at which it is willing to sell it.

Market Overhang

The depressive effect on the market price of a publicly traded security when the market knows that there are a substantial number of shares that are freely tradable and there is reason to believe the holders may sell in the foreseeable future.

Market Segmentation

A marketing technique that targets a group of customers with specific characteristics.

Market-Share Weighted Index

A stock index in which each stock affects the index in proportion to its number of shares outstanding.

Material Information

Information that a reasonable investor would consider an important part of the total mix of information required when deciding whether to buy or sell a security, to vote for or against a director or merger, or when making some other investment decision.

MD&A (Management Discussion and Analysis)

(USA) A required part of the disclosure in a registration statement under the Securities Act of 1933 or Form 10-K or 10-Q under the Securities Exchange Act of 1934, where management of the issuer explains, in narrative form, the financial results of operations and financial liquidity of a company.

Merchant Bank

(USA) A firm investing its own funds for its own account, often acquiring a controlling interest in a company. This term is used interchangeably with the term 'investment bank' in the UK. See 'Investment Bank or Banker'.

Mezzanine Capital/Fund

Venture capital financing in connection with a company's execution phase as it begins production and marketing following the start-up phase. A 'Mezzanine Fund' is a venture capital fund focusing on mezzanine financing. See 'Development Stage Capital/Fund' and 'Pre-IPO Capital/Fund'.

Mezzanine Financing or Round

A financing round in venture-capital-backed companies occurring after the company has completed its product development and after it is an operating company, but before the company is ready for a public offering or to be acquired.

Missing the Market

Failing to time an offering of securities to take advantage of a period of higher than normal demand for securities. Missing the market often results in an offering being priced lower than if it was effected during the period of higher market demand.

Multiple Preference

N

When an investor receives a multiple of the original investment upon an exit or liquidation, such as a liquidation preference of two or three times the original issue price of the security held by the investor.

NASD (National Association of Securities Dealers)

(USA) The national organisation of the USA securities industry. Through a subsidiary, The Nasdaq Stock Market Inc., it operates stock exchanges.

NASD Regulation

(USA) A self-regulatory organisation that has substantial responsibility for the regulation of broker/dealers, as well as the operation of the Nasdaq markets. Originally part of the NASD but now in the process of being separated.

Nasdaq Bulletin Board

See 'Nasdaq Stock Market' and 'OTC Bulletin Board'.

Nasdaq Europe

Nasdaq Europe (formerly EASDAQ) is a pan-European stock market based in Brussels. Modelled on Nasdaq in the US, Nasdaq Europe is screen-based (it does not have a trading floor) and quote driven. Nasdaq Europe allows for dual listings, providing companies with access to a broader base of international investors than they may be able to access in their domestic market. Nasdaq acquired a majority interest in EASDAQ in 2001, in connection with which the exchange was re-branded as Nasdaq Europe.

Nasdaq National Market (formerly NASDAQ NMS)

The larger and higher quality of the two markets administered by The Nasdaq Stock Market, Inc. The Nasdaq National Market is now the second largest stock market in the world in terms of volume of shares traded.

Nasdaq SmallCap Market

A stock market for smaller companies that cannot satisfy the listing requirements of the Nasdaq National Market.

Nasdaq Stock Market

The Nasdaq Stock Market (based in New York) has two tiers in the USA, the Nasdaq National Market and the Nasdaq SmallCap Market. Each tier has its own set of financial requirements that a company must meet to list its securities. Nasdaq also operates the OTC Bulletin Board, which is scheduled to be replaced by the Bulletin Board Exchange, or BBX, in 2003. The Nasdaq markets are not physical stock exchanges in the traditional sense and do not have an exchange floor, but instead use electronic trading and support systems. In 1998, Nasdaq and the American Stock Exchange combined into one corporate organisation: The Nasdaq-Amex Market Group. Outside the USA, Nasdaq operates the Nasdaq Canada, Nasdaq Europe and Nasdaq Japan exchanges.

Nasdaq-100

An index based on the shares of 100 of the largest companies traded on the Nasdaq National Market. See 'Index' and 'Nasdaq National Market'.

Nasdaq-Amex Market Group

In 1998, Nasdaq and the American Stock Exchange combined into one corporate organisation: The Nasdaq-Amex Market Group.

Net Proceeds

The amount received by an issuer from the offering of securities, after deduction of expenses and underwriting discounts and commissions associated with the offering.

Neuer Markt

The Neuer Markt (based in Frankfurt, Germany) was established in March 1997 and is a trading segment of Deutsche Börse AG dedicated to high growth companies.

New Issue

Securities being offered to the public for the first time. See 'Initial Public Offering'.

No-Action Letter

(USA) A procedure where private parties can write to the SEC staff and request an interpretation of how particular aspects of the securities laws apply to their factual situation. The SEC's response takes the form of a letter indicating that the SEC staff will or will not recommend that the SEC take any enforcement action if the parties proceed as described. This process is not typically formalised in other markets, but it is common for regulatory authorities to be asked for 'clarification'.

Nominated Advisor or NOMAD

The advisor to an issuer on AIM with delegated responsibility for compliance with the AIM rules.

Nominated Broker

The broker to an issuer on AIM, often also filling the role of the Nominated Advisor.

Nominee Name

See 'Street Name'

Non-accountable Expense Allowance

See 'Expense Allowance'.

Non-qualified Stock Options

(USA) Stock options that do not qualify for special tax treatment. Accordingly, there are no limitations on the exercise price, person to whom granted, etc. In the USA, the option holder has no tax at the time of grant, but will have ordinary taxable income at the time of exercise equal to the difference between the exercise price on the date of option exercise and fair market value on that date. The company generally may take a deduction at the same point in an equal amount if the option was issued as compensation. The taxation regime in other countries is often different from this, but non-qualified options are increasingly being used as part of executive remuneration packages. See 'Incentive Stock Options or ISOs' for comparison.

Nouveau Marché

Le Nouveau Marché was established in 1996 by the Paris Bourse and is a market dedicated to innovative companies with high-growth potential. It is managed by Euronext.

Novation

The substitution of a new contract for an old one; or the substitution of one party in a contract with another party. Also, the replacement of an existing debt or obligation with a new one.

Nuovo Mercato

Nuovo Mercato was established in 1999 by the Borsa Italiana in Milan and is a market dedicated to innovative companies with high-growth potential.

NYSE (New York Stock Exchange)

The New York Stock Exchange, located in New York City. It is the world's largest stock market by market capitalisation.

OFEX

OFEX is a market providing a share-trading platform for unlisted and unquoted securities, off-exchange. The OFEX market is operated in the UK by OFEX plc.

Offering Circular

A term frequently used interchangeably for a prospectus or offering memorandum.

Official List

The main market of the London Stock Exchange. Also referred to as the 'Full List'.

Open Offer

In the UK, an offer of securities, not being by way of a rights issue, to existing shareholders of an issuer.

Open Order

An order by a customer to a broker/dealer to buy or sell a security that remains in effect until either executed or cancelled by the customer.

Opening Price

The price at which a security trades at the beginning of a day or, in the case of an initial offering, at the commencement of its first day of trading.

Operating Ratio

A company's operating expenses divided by its operating revenues, or, more generally, any of a number of ratios measuring a company's operating efficiency, such as sales to cost of goods sold, net profits to gross income, operating expenses to operating income, and net profit to net worth.

Option

A contractual right to purchase or sell something (such as stock) at a future time or within a specified period at a specified price.

Optionee

The holder of an option.

Organisational Chart

A graphic representation of how authority and responsibility is distributed within a company or other organisation.

Organisational Meeting

In the public offering process, the first meeting after the underwriter or underwriters have been selected, attended by representatives of the issuer, the underwriters, their respective lawyers and the issuer's accountants. The initial portion of the meeting is typically spent reviewing the timetable for the proposed public offering, with the remainder being used to familiarise the underwriters and their lawyers with the company's business.

OTC Bulletin Board (or Nasdaq Bulletin Board)

A quotation service that displays real-time quotes, last-sale prices, and volume information in the over-the-counter equity securities. The OTC Bulletin Board is operated by the Nasdaq Stock Market, Inc., but at present is not part of the Nasdaq Stock Market. The OTC Bulletin Board is scheduled to be replaced by the Bulletin Board Exchange (or BBX) in 2003 as part of a set of proposals (including qualitative listing standards) to increase the quality of the market. See 'Over-the-Counter'.

Out-of-the-Money Option

An option is out-of-the-money if the strike price of the option is higher than the market price of the underlying security or commodity.

Outside Director

See 'Independent or Outside Director'.

Outstanding Stock

The shares of a corporation's stock that have been issued and are in the hands of the public. Also called 'shares outstanding.'

Over-allotment Option

The option granted to an underwriter in a public offering giving it the option, for a period of anywhere from 15 to 45 days (usually 30 days) after the effective date, to purchase additional securities from the issuer (usually up to 15% of the shares being sold) at the initial price to the public, for the purpose of covering over-subscriptions for the securities. See 'Green Shoe'.

Overhang

A large number of securities that may be released into the market, putting downward pressure on the trading price of the shares. In connection with a stock offering, underwriters try to minimize the amount of overhang to promote confidence in the price at which the shares are initially offered to the market. Also known as 'Market Overhang.'

Over-the-Counter (OTC)

A security that is not traded on an exchange, usually due to an inability to meet listing requirements. For such securities, broker/dealers negotiate directly with one another over computer networks and by phone. Also called 'unlisted.' Also, the computer and phone system through which over-the-counter (as well as listed) securities are traded. See 'OTC Bulletin Board'.

P/E Ratio

Price/earnings ratio.

Par

The nominal amount assigned to a security by the issuer. For an equity security in the USA, par is usually a very small amount that no longer bears any relationship to its market price, except for preferred stock, in which case par may be used to calculate dividend payments. For a debt security, par is the amount repaid to the investor when the bond matures (usually, corporate bonds have a par value of \$1,000, municipal bonds \$5,000, and federal bonds \$10,000); which is also called 'face value' or 'par value.' Referred to in some countries as 'nominal value'.

Par Bond

A bond selling at its face value.

Pari Passu

Equally, rateably, without preference. Generally used in the USA to describe securities that are to be treated as being of equal priority or preference.

Participating Preferred Stock

Preferred stock that entitles the holder not only to its stated dividend and liquidation preference, but also allows the holder to participate in dividends and liquidating distributions declared on common stock.

Partnership

A form of conducting business in which the parties carry on their business for their joint benefit.

Patent

The exclusive right, granted by a government for a limited time period, to exclude others from making, using, or selling the claimed invention.

Patent Pending

(USA) A statement or notice typically found on an article of manufacture or related documentation indicating that a patent has been applied for but not yet granted.

Pay to Play

A provision in venture financing documents that states that if one of the venture investors declines to participate in a later financing round up to its pro rata ownership share of the company, it will forfeit certain of the beneficial terms of its investment, such as anti-dilution protection, pre-emptive rights, etc.

Payment in Kind (PIK)

A feature of a security permitting the issuer to pay dividends or interest in the form of additional securities of the same class.

Penny Stock

(USA) A stock that trades for less than \$1.00 per share. Because they are assumed to be especially volatile, penny stocks are subject to heightened regulation. In the UK, the term 'penny share' refers generally to shares trading with a wide spread and is not limited to shares with low trading values.

Piggy-Back Registration Rights

(USA) Contractual rights granted to security holders, giving them the right to have their holdings included in a registration statement if and when the issuer files a registration statement. See 'Demand Registration Rights' and 'Registration Rights'.

Pink Sheets

(USA) Pinksheets LLC is a privately owned company based in New York that provides broker/dealers, issuers, and investors with electronic and print products and information (including quotes) relating to the over-the-counter securities that are not listed on the OTC or Nasdaq Bulletin Board. The name is derived from the fact that historically the information was printed on pink paper. See 'OTC' or 'Nasdaq Bulletin Board'.

PIPE

A private investment in a publicly traded company (literally, 'private investment public equity').

Pipeline

The aggregate of securities that are in the process of registration and expected to come onto the market. An offering is 'in the pipeline' once the registration process has begun.

Pit

See 'Ring'.

Placement Agent

A person or entity that acts as an agent for the issuer in privately placing securities, typically a broker/dealer.

Placing

A form of issue of securities in the UK, typically with a predetermined number of non-retail investors.

Placing with Clawback

A form of placing of securities in the UK subject to recall of securities to satisfy the entitlements (to the extent exercised or taken up) of existing shareholders to purchase such securities.

Plain English

(USA) The SEC rules requiring issuers to write the cover page, summary, and risk factors section of prospectuses in simple language to make prospectuses more clear, concise, and understandable.

Pledging

Offering assets to a lender as collateral for a loan.

Poison Pill

The most famous anti-takeover device. It normally takes the form of granting existing stockholders (other than stockholders who acquire more than a certain percentage of the company) the option (which can only be exercised upon certain events) to buy more stock on very favourable terms as a way of diluting the position of the person trying to take control. See 'Anti-Takeover Provisions', 'Blank Cheque Preferred Stock', 'Shark Repellent,' and 'Staggered Board of Directors'.

Pooling of Interests Accounting

(USA) A method of accounting for a business combination permitted in the USA prior to July 2001, in which the assets and liabilities of the combining companies were added together at historical cost, and the acquiring company generally was not required to reflect as good will any excess of the amount paid over historical cost of the seller's assets and liabilities.

Power of Attorney

A legal document that enables one person to legally act on behalf of another person.

Pratt's Guide

A directory of USA venture capital firms, the types of investments that they typically make, and the industries in which they specialise.

Pre-emptive Right

The right of an investor to participate in a financing to the extent necessary to ensure that, if exercised, its percentage of ownership of the company's securities will remain the same after the financing as it was before.

Preferred Stock

Stock that has a 'preference' over common stock, including priority in receipt of dividends and upon liquidation. In some cases it also has redemption rights, preferential voting rights, and rights of conversion into common stock. Venture capitalists generally make investments in the form of convertible preferred stock.

Preferred Stock, Cumulative

See 'Cumulative Preferred Stock'.

Pre-IPO Capital/Fund

'Late-round' venture capital financing in connection with a company's expansion phase as it solidifies its market share. A 'Pre-IPO Fund' is a venture capital fund focusing on late-round financing. See 'Development Stage Capital/Fund' and 'Mezzanine Capital/Fund'.

Preliminary Prospectus

The form of prospectus used to solicit indications of interest in an issuer's securities prior to the effectiveness of a registration statement. In the USA it contains a legend printed in red ink (hence, it is sometimes called a 'red herring') indicating its preliminary nature and that it does not contain final pricing information. In the UK, such a document is also referred to as a 'pathfinder' prospectus.

Premium

Shares of a new issue trade at a premium if their market price rises above their initial offering price.

Pre-money or Pre-money Valuation

The valuation of a company immediately before investors put new funding into the company. Used as the basis for calculating the investors' price per share and percentage of the equity for the new investment.

Pricing Call

The discussion between the company and the underwriters of a public offering during which the price of the securities to be sold is determined. This discussion typically occurs after the market close on the evening immediately preceding the date on which the securities are to be publicly sold.

Primary Distribution/Shares

A distribution (i.e., public offering) of securities by the issuer itself, as distinct from a distribution by an existing stockholder. See 'Secondary Distribution/Shares'.

Private Client

A UK regulatory term covering retail investors, charities, and trusts.

Private Company

See 'Closed Corporation'.

Private Letter Ruling

(USA) A letter sent by the Internal Revenue Service in response to a request for clarification or interpretation of a tax law as it applies to a specific question or situation.

Private Offerings, Resale and Trading through Automated Linkages (PORTAL)

A market created by The Nasdaq Stock Market, Inc. for the trading of certain foreign and domestic securities through an automated quotation and communications system that facilitates private offerings, resales, trading, clearance, and settlement of securities offered to Qualified Institutional Buyers under Rule 144A. See 'Qualified Institutional Buyer' and 'Rule 144A'.

Private Placement

The offer and sale of securities not involving a public offering. The definition of public offering varies from country to country. A private placement typically at least implies that the stock will be placed only with a limited number of private investors. In the USA, a private placement is one that is exempt from the registration and prospectus delivery requirements of the Securities Act of 1933. Referred to in the UK as a 'private placing'. See 'Placing' and also 'Public Offering' for comparison.

Private Placement Memorandum (or Private Offering Memorandum, Private Offering Circular, or Offering Circular)

A document used to describe securities being offered on a private basis that are exempt from the registration requirements of national competent authorities, or in the USA exempt from registration under the Securities Act of 1933. It may contain much of the same information that would be included in a prospectus. See 'Prospectus'.

Pro Forma

A Latin term meaning 'for form'. Pro forma financial statements are prepared based upon certain assumptions. For example, if a company is raising funds in an offering in order to acquire another company, it may be required to prepare pro forma financial statements showing the financial position of the combined companies as if the acquisition had been consummated.

Prospectus

A document that must be delivered to recipients of offers to sell securities and to purchasers of securities in a public offering and that contains a detailed description of the issuer's business. In the USA, it is included as part of the registration statement filed with the SEC and with documents required by stock markets, stock exchanges, and national competent authorities.

Prospectus Directive

A directive of the European Commission requiring the implementation into the national law of all member states of the European Union of a set of common standards for securities prospectuses. A key feature of this directive is that of 'mutual recognition', such that a prospectus that has been approved by the appropriate competent authority of one member state is mutually recognised by the competent authorities of all other member states.

Public Float

See 'Float'.

Public Offering

An offering of stock to the general investing public. The definition of a public offering varies from country to country, but typically implies that the offering is being made to more than a very restricted number of private investors; that road shows promoting the offering will be open to more than a very restricted audience; or that the offering is being publicised. For a public offering, registration of prospectus material with a national competent authority is generally compulsory. See 'Private Placement'.

Public Orphan

A company that is publicly held, but where there is so little trading activity or analyst coverage that the company's stock has limited liquidity and the company has limited ability to raise additional capital. A public orphan effectively has all the regulatory burdens of being public but none of the benefits.

Punitive Financing Round

See 'Down Round'.

Purchase Accounting

The normal method of accounting for a business combination, in which the acquiring company treats the acquired company as an investment, adding the acquired company's assets and liabilities to its own balance sheet based upon their fair market value on the date of acquisition. Any excess of the amount paid over the fair market value of net assets is goodwill.

Purchaser Representative

(USA) A person who acts on behalf of a purchaser of securities who otherwise would not be deemed to be an Accredited Investor under Regulation D of the Securities Act of 1933. The Purchaser Representative must be knowledgeable in financial and business matters such that he or she is capable of evaluating the merits and risks of the prospective investment. A Purchaser Representative should be acknowledged in writing by the investor in order to qualify under Regulation D.

Put Option

A contract that gives the holder the right to sell specified securities at a specified price during a specified period of time. See 'Call Option'.

Q

Qualified Institutional Buyer (QIB)

(USA) Generally, entities that in the aggregate own and invest on a discretionary basis at least \$100 million in securities of non-affiliated issuers. Offerings to QIBs under Rule 144A are exempt from registration under the Securities Act of 1933, but are considered as restricted securities subject to Rule 144A. See 'Rule 144A'.

Qualified Opinion

An accountant's opinion on financial statements in which some qualification is expressed, such as the company's inability to continue as a going concern. See 'Unqualified Opinion'.

Quick Ratio

A measure of a company's liquidity, used to evaluate creditworthiness. Equals current assets divided by current liabilities. Also called 'acid-test ratio.'

Quiet Period

R

(USA) The period starting at the time the underwriters and the issuer reach a preliminary understanding and continuing until 25 days after the effective date of the registration statement for IPOs and the effective date for subsequent offerings. During this period there are various restrictions imposed by the SEC on company publicity. See 'Cooling-Off Period', 'Gun Jumping,' and 'Waiting Period'.

Quorum

Minimum number of people who must be present (physically or by proxy) at a meeting in order for a legally valid action to be taken.

Ratchet

A mechanism whereby founders and management are able to recover a portion of their equity diluted by a down round upon the achievement of certain targets on an exit.

Red Herring Prospectus

See 'Preliminary Prospectus'.

Redemption

Repurchase by a company of its securities from an investor. Often required for preferred stock in a venture capital financing.

Registered Secondary Offering

(USA) An offering of securities by a stockholder (often an affiliate) of a company that requires an effective registration statement to be on file with the SEC before distribution may be effected.

Registered Securities

Securities issued in a form allowing the owner's name to be imprinted on the certificate and allowing the issuer to maintain records as to the identity of the owners. Also commonly used in the USA in reference to securities that are registered under the Securities Act of 1933. See 'Bearer Securities'.

Registrar

See 'Transfer Agent/Registrar'.

Registration

The process of filing the necessary documentation with the appropriate authorities for an offering of securities to the public, and having this registration approved or declared effective. In Europe, filing is generally made with the stock market(s) on which the stock is to be traded, as well as with the competent authorities for such filings in the home country of the stock market(s). In the USA, the registration statement is filed with the SEC, which also declares it effective. See 'Registration Statement'.

Registration Rights

(USA) The contractual right of a stockholder to participate in the registration of the issuer's stock for resale in the public market. See 'Demand Registration Rights' and 'Piggy-back Registration Rights'.

Registration Statement

(USA) The document required by the Securities Act of 1933 to be filed with the SEC by the issuer of securities before a public offering can be made. The most frequently used registration statement forms include the following:

Form S-1

The most complete version, required for initial public offerings;

Form S-2

Intermediate version, used for public companies already registered under the Securities Exchange Act of 1934 that are up to date with their filings and with payments to security holders;

Form S-3

Short version, used for public companies already registered under the Securities Exchange Act of 1934 that meet certain additional conditions;

Form S-B2

Similar to Form S-1, but somewhat abbreviated for small business issuers; and

Form U-7

A form of registration at the state level for offerings by small businesses that are exempt at the federal level because they are below \$1 million. Requires somewhat less disclosure.

Form 20-F

This is an integrated form used both as a registration statement to register securities of qualified foreign private issues under Section 12 and as an annual report under Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

Regulation A (or Reg A)

(USA) A regulation under the Securities Act of 1933 providing for a simplified form of filing with the SEC, used for certain public offerings of not more than \$5,000,000 and exempting such offerings from full registration.

Regulation D (or Reg D)

(USA) A regulation under the Securities Act of 1933 that exempts limited offers and sales of securities from registration if the offering satisfies certain requirements as to the number and nature of investors and the value of the offering. Advertising and resale are restricted. In general, Rule 504 of Reg D is used for offerings of \$1 million or less; Rule 505 of Reg D is used for offerings of \$5 million or less, with no more than 35 purchasers who are not Accredited Investors; and Rule 506 of Reg D is used for offerings over \$5 million, with no more than 35 purchasers who are not Accredited Investors, but who must be either sophisticated or represented by a Purchaser Representative. See 'Accredited Investors' and 'Purchaser Representative'.

Regulation S (or Reg S)

(USA) A regulation under the Securities Act of 1933 that exempts from registration certain offers and sales of securities made outside of the United States by USA or foreign issuers.

Regulation S-K

(USA) An SEC regulation that sets forth in detail the information to be disclosed in registration statements and periodic reports of public companies.

Regulation S-X

(USA) An SEC regulation that sets forth in detail the requirements as to the form and content of financial statements used in registration statements and periodic reports of public companies.

Reporting Company

(USA) An issuer subject to the periodic reporting requirements of the Securities Exchange Act of 1934, such as the requirements to file Form 10-Ks and Form 10-Qs. A prerequisite to listing on the major exchanges in the USA is that the issuer must be a reporting company.

Reporting Company Forms (Periodic Reports)

(USA) The most common forms under the Securities Exchange Act of 1934 include the following:

Forms 3, 4, and 5

Reports to the SEC required to be made under Section 16 of the Securities Act of 1934 by directors, executive officers and certain other insiders of a public company, reporting their trades in securities of that company or its subsidiaries;

Form 6-K

The form filed with the SEC by foreign companies subject to the USA public company reporting rules for the filing of information that

- (a) the company is required to make public under the laws of its jurisdiction of incorporation,
- (b) it files with the securities exchange on which its securities are traded and which was made public by that exchange, or
- (c) it distributes to its stockholders;

Form 8-A

The form filed with the SEC to register a company's class of securities under the Securities Exchange Act of 1934 concurrently with a company's registration of securities under the Securities Act of 1933;

Form 8-K

A form required to be filed with the SEC by any USA public company upon the occurrence of certain events such as a change in control of the company, significant acquisitions or dispositions of assets, bankruptcy or receivership of the company, changes in the company's independent accountants, and certain other matters;

Form 10

A form required to be filed with the SEC to register a company's class of securities under the Securities Exchange Act of 1934 where no other form is prescribed. Generally used when an issuer has more than 500 shareholders in the USA;

**Form 10-K**

A form required to be filed annually with the SEC by any public company with a class of securities registered under the Securities Exchange Act of 1934 that includes a narrative description of the business, audited financial statements, and other information;

Form 10-Q

A form required to be filed quarterly with the SEC by any public company with a class of securities registered under the Securities Exchange Act of 1934 that includes unaudited quarterly financial information and certain other information.

Representations and Warranties

Provisions in a venture capital investment agreement, underwriting agreement, or other financing document in which the company provides assurances as to the status of its business and other matters, such as the company's capitalisation, key personnel, financial information, brokerage, ownership of properties and assets, litigation, and compliance with legal and environmental requirements.

Repurchase Agreement

An agreement in which a holder of shares agrees that the person from whom it purchased the securities may repurchase them in certain events. In venture capital rounds, founders may be required to enter into repurchase agreements in which they agree to resell their shares to the company at a fixed price in the event that they leave the company prior to a given date.

Resolution

An official document representing an action on the part of the board of directors of a corporation. Or more generally, an expression of intent to do something.

Restricted Security

(USA) A security that has not been registered under the Securities Act of 1933 and may only be resold in certain ways.

Retail Investor

A non-institutional investor who purchases securities for his or her own account.

Reverse Split or Reverse Stock Split

A decrease in the number of a company's outstanding shares such that the proportionate equity of each shareholder remains the same. The market price per share theoretically should increase proportionately. Usually done prior to an IPO so that the offering price is consistent with similar new issues or to make a stock with a very low per-share price appear more valuable. Requires approval from the board of directors and shareholders.

Right of First Refusal

A contractual right, frequently granted to venture capitalists, to purchase shares held by other shareholders before such shares may be sold to a third party.

Right of Rescission

The right of a person to cancel or nullify a contract without penalty under certain legally prescribed circumstances.

Rights (or Rights Offering)

Usually used to refer to an option granted for a short period of time to existing stockholders to purchase additional securities on a prorata basis to their holdings. The options granted in a 'Poison Pill' are also referred to as rights. See 'Warrants', which are the longer term equivalent.

Rights Issue

In the UK, an issue on a pre-emptive basis to existing shareholders of the right to subscribe for securities in a publicly traded company at a discount to prevailing market price.

Ring

Location on the floor of an exchange where trades are executed. The circular arrangement where traders can make bid and offer prices is also called a 'pit', particularly when commodities are traded.

Road Show

The process during a public offering in which the management of an issuing company and the underwriters



meet with groups of prospective investors to stimulate interest in an issuer. Road shows are conducted during the 'waiting period' shortly before the registration statement becomes effective. Road shows may take place in multiple cities and countries.

S

Rounds

Stages of financing of a company. A first round of financing is the initial raising of outside capital. Successive rounds may attract different types of investors as companies mature.

Rule 144

(USA) An SEC rule specifying the conditions under which a holder of unregistered securities may publicly sell them without filing a registration statement. See 'Rule 144 Stock' and 'Registration Statement'.

Rule 144 Stock

(USA) Rule 144 stock or shares are those shares of a publicly traded company that cannot be resold freely for one of two reasons: (1) the shares were acquired directly or indirectly from the issuer or an affiliate of the issuer in one or more transactions that were not registered under the Securities Act of 1933, or (2) the shares are owned by an affiliate. Rule 144 stock generally can be resold in the public markets only by complying with the requirements of Rule 144, which include certain holding periods and volume limitations. See 'Rule 144'.

Rule 144A

(USA) An SEC rule that permits the private placement of securities to institutional investors that are qualified Institutional buyers through an underwriter or placement agent. Rule 144A securities are typically eligible for trading on PORTAL. See 'Qualified Institutional Buyer' and 'PORTAL'.

Rules of Fair Practice

(USA) Rules established by NASD to protect the best interests of the securities investor.

Russell Indexes

A series of indices developed jointly by the Frank Russell Company and the New York Futures Exchange (NYFE) to represent investment-grade equities in the USA, which include the Russell 1000 Index, 2000 Index, and 3000 Index. The Russell 3000 Index tracks the 3,000 most actively traded stocks in the USA and is divided into the Russell 1000 and Russell 2000 sub-indexes. The Russell 1000 Index represents the largest companies in the USA domestic equity market, based on market capitalisation. The Russell 2000 Index represents the second tier of USA equities, or companies with market values between approximately \$20 million and \$300 million. See 'Index'.

S Corporation (or Sub-chapter S Corporation)

(USA) A small business corporation permitted to be taxed substantially, as if it were a partnership or individual proprietorship (no corporate tax; corporate losses can be claimed by the shareholders and corporate profits are taxed directly to the shareholders). See 'C Corporation' and 'Limited Liability Company'.

Schedule 13D

(USA) A form required to be filed with the SEC by any person or entity that acquires a 5% or greater ownership interest in a public company, setting forth identifying information about the investor, the source of funds used to purchase the securities and, most importantly, the investor's intent with respect to attempting to take control of the issuer.

Schedule 13G

(USA) A shorter form than Schedule 13-D that some 5% owners who do not intend to assert any control can file in lieu of filing a Schedule 13D. Also used for persons who acquired their 5% interest prior to an issuer's IPO.

SEC

See 'Securities and Exchange Commission'.

Second Preferred Stock or Shares

Preferred stock that has rights subordinate to those of other preferred stock on dividend and assets. Also referred to as 'Subordinate Preferred Stock or Shares'.

Secondary Distribution (or Secondary Offering)

A public offering of a security by a selling holder of securities. The term secondary offering is also sometimes used more generally in reference to any public offering other than an IPO. See 'Primary Distribution/Shares' for comparison and 'IPO'.

Secondary Market

A market or exchange in which securities are bought and sold following their initial sale. Investors in the primary market, by contrast, purchase shares directly from the issuer.

Section 16

(USA) A provision under the Securities Exchange Act of 1934 regulating trading by corporate insiders. It provides that any profit realised by an insider from any purchase and sale or sale and purchase of stock of such company within any period of less than six months shall be deemed to belong to and to be recoverable by the company. Section 16 provides for strict liability, and the intentions of the insider will not be considered in any action by the company to recover profits. Section 16 also requires insiders to report all trades in a company's securities. See 'Short Swing Profits' and 'Reporting Company Forms/Forms 3, 4, and 5'.

Secured Obligation

A debt obligation that is secured by the pledge of assets.

Securities Act of 1933 (also '1933 Act' or '33 Act')

(USA) A federal law regulating the offer and sale of securities by the issuer or its affiliates. It generally requires issuers seeking to raise funds from the public to provide investors with extensive information. Its liability provisions, particularly for incorrect registration statements, create a liability rule of 'caveat vendor' or 'let the seller beware'.

Securities and Exchange Commission (SEC)

(USA) The primary USA federal regulatory agency for the securities industry, whose responsibility is to promote full disclosure and to protect investors against fraudulent and manipulative practices in the securities markets. The SEC enforces, among other acts, the Securities Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act of 1939, the Investment Company Act of 1940, and the Investment Advisers Act. The supervision of dealers is largely delegated to the self-regulatory bodies of the exchanges.

Securities Exchange Act of 1934 (also '1934 Act' or '34 Act')

(USA) A federal law that regulates stock markets, trading in stock markets, and on-going disclosure by public companies traded on those stock markets.

Seed Capital

Initial capital for a start-up venture, usually provided by the founders, friends, or relatives, but that also may be provided by seed venture capital firms. Typically seed capital is provided in order to develop a business concept before a company is started.

Self-Regulatory Organisation (SRO)

Non-government organisation that has statutory responsibility to regulate its own members through the adoption and enforcement of rules of conduct for fair, ethical, and efficient practices. Examples include NASD and the national securities and commodities exchanges.

Senior Debt

A debt instrument that expressly has a higher priority for repayment than that of general unsecured creditors. Typically used for long-term financing for low-risk companies or for later-stage financing. See 'Subordinated Debt'.

Share Capital

See 'Capital Stock'.

Shares Outstanding

See 'Outstanding Stock'.

Shark Repellent

Defence mechanisms or tactics designed to discourage undesired takeover bids. See 'Anti-Takeover Provisions', 'Blank Cheque Preferred Stock', 'Poison Pill,' and 'Staggered Board of Directors'.

Shelf Registration

(USA) A registration statement that covers securities that are not to be sold in a single offering immediately upon effectiveness, but rather are proposed to be sold over a period of time or on a continuous basis. A similar concept is included in the prospectus directive. See 'Prospectus Directive'.

Shell

The term 'shell' typically refers to a corporation that has been duly organized and is currently in existence, but that currently has no business operations.

Shoe

See 'Green Shoe or Shoe'.

Short Form Report

In the UK, the report on the accounting and financial history and position of an issuer by its auditors, normally based on its last three years' published financial statements and reproduced in a prospectus or other offering document. See 'Long Form Report'.

Short Sale

Borrowing a security (or commodity futures contract) from a broker and selling it, with the understanding that it must later be bought back (hopefully at a lower price) and returned to the broker. SEC and NASD rules limit when investors can sell short.

Short Swing Profits

A term used in reference to profits realised by insiders from buying and selling a company's securities within a specified period. In the USA this period is six months, and any profits are subject to recovery by the company under Section 16 of the Securities Exchange Act. See 'Section 16'.

Sinking Fund

An annual reserve of capital required by the creditor to be set aside out of a company's current earnings to provide funds for retirement of an outstanding bond issue.

Soft Market

A market for securities in which supply exceeds demand. A dramatic rise in new issues of securities may create a soft market, leading to a general reduction in share prices and difficulty in placing new offerings of securities.

Sole Proprietorship

A business operated directly by an individual, without the use of any legal entity.

Spinoff

The creation of a new independent company from an existing company by the transfer of the assets of one or more business units or product lines of the company to a new corporation and the distribution of stock of that new corporation to stockholders of the old one.

Spinout

The creation of a new independent company by a university or government agency technology transfer unit whose purpose is to commercialise technology developed at such university or government agency.

Split or Stock Split

An increase in the number of outstanding shares of a company's stock, such that the proportionate equity of each shareholder remains the same. The market price per share theoretically should drop proportionately. Usually done to make a stock with a very high per-share price more accessible to small investors. Requires approval from the board of directors and sometimes shareholders.

Sponsor

In the UK, this term refers to the sponsor to an issuer on the Official List of the London Stock Exchange.

Spread

The difference between the current bid and the current ask (in over-the-counter trading) or offered (in exchange trading) of a given security; also called 'bid/ask spread'. More generally, the difference between any two prices. Also, the purchase of one option and the simultaneous sale of a related option, such as two options of the same class having different strike prices and/or expiry dates. See 'Inside Spread'.

SRO

See 'Self-Regulatory Organisation'.

Staggered Board of Directors

A board of directors divided into classes (typically three) elected for multiple-year terms, with classes coming up for re-election on a staggered basis. A staggered board may be used as a form of anti-takeover device. Also known as a Classified Board. See 'Anti-Takeover Provisions', 'Blank Cheque Preferred Stock', 'Poison Pill,' and 'Shark Repellent'.

Standard & Poor's 500 (S&P 500)

A market-value weighted index of the 500 largest stocks in the USA markets that is maintained by Standard & Poor Corporation. Generally considered to be a benchmark of the overall USA stock market. See 'Index'.

Start-up

A company at its initial stages of development – even before set-up – that typically has little or no earnings and revenues. Start-up capital is typically provided for product development and/or initial marketing.

Sticky Deal

An issue of securities that the underwriter or the underwriting syndicate believes will be difficult to sell in the market.

Stock Options, Incentive

See 'Incentive Stock Options'.

Stock Options, Non-qualified

See 'Non-qualified Stock Options'.

Stock Power

A power of attorney enabling a person other than the owner to transfer stock ownership to another party. A stock power is sometimes granted when stock is pledged as collateral for a loan.

Stockholder Agreement

An agreement among stockholders, typically in a private company, to ensure maintenance of stable ownership and management of a company for the life of the investment. Venture capital investors will typically require a

stockholder agreement that may cover, among other things: a right of first refusal in favour of the issuer or other stockholders on a proposed sale by a stockholder of his or her stock, a right to participate in insider sales (i.e. sales by existing shareholders); an agreement to elect certain directors; and provisions as to buyout.

Stop Order

(USA) An order issued by the SEC suspending the order of effectiveness of a registration statement because of misstatements in the registration statement or other improper activities by an issuer or its underwriters. Sales of new securities after issuance of the stop order will violate the Securities Act of 1933.

Street Broker

An over-the-counter broker or 'OTC broker', as opposed to an exchange member.

Street Name

A term used to refer to securities beneficially owned by individual investors, but registered in the name of a nominee of a securities or brokerage firm such as Cede & Co., which are then allocated within that firm to the accounts of individual investors who purchase the securities. See 'Cede & Co'.

Street or 'The Street'

A shorthand reference to Wall Street or to the consensus opinion of the financial community generally. Often in the form 'The Street likes...' or 'The Street doesn't like...'. In the UK, 'The City' is used in the same manner.

Strike Price

The stated price per share for which the underlying security may be purchased (calls) or sold (puts) by the optionee upon the exercise of the optionee.

Strong Market

A securities market in which buyers outnumber sellers and stock prices trend upwards.

Sub-chapter S Corporation

See 'S Corporation'.

Subordinated Debenture

A debenture expressly subordinated to other obligations of the issuer. A subordinated debenture may be subordinated to other debt instruments or even to general creditors. It is frequently convertible into, or accompanied by warrants to purchase, common stock.

Subordinated Debt

Debt that expressly has a lower priority for repayment than other debt, i.e., it may not be repaid until the senior debt has been repaid. See 'Senior Debt'.

Syndicate

The group of underwriters that will become legally obligated to purchase securities in a firm commitment public offering. Also the department within the lead underwriter's firm that compiles the book. See 'Book or Syndicate Book'.

Syndicate Book

See 'Book or Syndicate Book'.

T+3 (Trade Date plus Three)

A term used to define the date for settlement of trades as being within three business days of the date of the trade itself. In the context of a registered US public offering, it would mean that shares are issued and money is received three business days after the effective date of a registration statement. T+3 is the norm for most USA and European securities markets, although there is some movement to an even shorter settlement of T+1.

Tag-Along Agreement

A contractual agreement by management stockholders, typically in connection with a venture capital investment, that they will not sell any of their stock in the company without giving the investors the right to participate in the sale with the management sellers pro rata to their holdings. See 'Bring-Along Rights' for comparison.

Take-Along Right (also called Co-sale or Take-Along Right)

See 'Tag-Along Agreement'.

Takeover

Acquiring control of a corporation by stock purchase or exchange, either hostile or friendly.

Takeover Code

See 'City Code'.

Takeover Panel

The UK regulatory authority responsible for administering the City Code on Takeovers and Mergers. See 'City Code' and 'Takeover Code'.

Tangible Book Value

See 'Book Value per Share'.

Tax Basis

See 'Basis'.

Tender Offer

A formal offer to all or a large group of stockholders to purchase their shares on fixed and substantially non-negotiable terms. The party making the offer customarily reserves the right to accept all, none, or a specific number of the shares presented for acceptance. In the USA, tender offers of public companies are regulated under the Securities Exchange Act of 1934. In the UK, tender offers are regulated by the City Code on Takeovers and Mergers and the Panel on Takeovers and Mergers. See 'Takeover Panel'.

Term Sheet

A short document summarising the principal financial and other terms of a proposed investment. It usually is non-binding, but may impose some legal obligations on the investor and the company. Similar to a letter of intent. See 'Letter of Intent'.

Termination for Cause

Termination of an employee's employment with justification, typically defined in some detail.

Thin Market

A market for securities typified by very few bids to buy or sell. Markets may be thin either because there exists a small float or because of a lack of interest in the stock.

Tippee

(USA) A person who receives from someone else material information that has not been made public about a public company. See 'Tipper'.

Tipper

(USA) A person who informs another person of material information that has not been made public relating to a public company. In the USA, under the Securities Exchange Act of 1934, the tipper is jointly liable with his or her tippee who trades on the basis of the inside information, and is subject to civil penalties of up to the greater of



three times the profit gained or loss avoided or \$1,000,000, and to criminal penalties of up to 10 years in jail. See 'Tippee'.

U

Tombstone

A short printed announcement about a proposed or completed offering of registered securities, usually appearing in the financial section of newspapers or other publications.

Trade Secret

Information, such as a formula, pattern, device, or process that is not known to the public and that gives the person possessing the information a competitive advantage. May sometimes include customer lists, marketing, and/or business plans, and suppliers.

Transfer Agent/Registrar

The agent of a company responsible for the issuing of stock certificates, for the registration of stockholders' names, and re-registration of new holders when a transfer of stock occurs.

Treasury Stock

Stock that has been reacquired by the issuing company and has not been cancelled and returned to the status of authorised but unissued stock, but instead occupies the status of issued but not outstanding stock. Not applicable in the UK.

UCC

See 'Uniform Commercial Code'.

UK Listing Authority

The FSA in its function as competent authority in the UK and regulator of companies whose securities are traded on the Official List of the London Stock Exchange. See 'Financial Services Authority'.

ULOE

See 'Uniform Limited Offering Exemption'.

Underwriter

In a firm commitment offering, a person (typically an investment banking firm) that purchases an entire security issue for resale to the public in a public offering.

Underwriter's Warrants

Warrants sometimes granted to underwriters as a form of additional compensation in a public offering, typically in a smaller, higher risk offering.

Underwriting Agreement

The document pursuant to which the underwriters of a public offering contractually commit to purchase from the issuer the securities that are the subject of the public offering (or, in a best efforts offering, in which they agree to use best efforts to sell the securities). Also called a 'placing agreement' in some countries.

Underwriting Discount or Commission or Spread

The difference between the price at which underwriters buy securities from the issuer in a firm commitment public offering and the public offering price.

Uniform Commercial Code (UCC)

(USA) Set of laws regulating commercial transactions, especially ones involving the sale of goods and secured transactions.

Uniform Limited Offering Exemption (ULOE)

(USA) An exemption provided by many states of the USA from the registration requirements of state blue sky



laws for non-public offerings of securities. It substantially parallels the requirements of Regulation D under the Securities Act of 1933. See 'Blue Sky Law' and 'Regulation D'.

V

Unit

A security consisting of two separate securities bundled together, for example one share of stock plus a warrant.

Unqualified Opinion

An accountant's opinion on financial statements in which no limitation is expressed beyond customary assumptions and conditions. See 'Qualified Opinion'.

Vendor Placing

In the UK, a placing of securities in a publicly traded company that have been issued to the vendors of a company or business that is simultaneously being acquired by the issuer, where the vendors have received the securities as consideration in the acquisition and the placing enables them to receive cash for the securities.

Venture Capital

Originally financing provided for new higher risk ventures such as start-up companies. Over time, the term has expanded to also include investment in management buy-outs and other situations in which venture capitalists invest. Venture capital investments are generally characterised by high risk and an expectation of high return.

Venture Capitalist or VC

An individual or entity that specialises in providing venture capital financing.

Vesting (Stock, Options and Warrants)

The time at which a right to purchase securities becomes unconditional. Over a period of time an employee of a company earns rights to receive benefits (e.g., stock) as a result of that employment, though until the rights are earned the employee may not be able to claim ownership of the related benefits and those potential benefits are forfeitable. Restricted stock or options, or warrants to purchase stock that may not be sold or exercised, or that are subject to risk of forfeiture for a period of time, are 'unvested'. That portion of the stock that is not subject to risk of forfeiture and that may be sold, or the options and warrants that may be exercised, are referred to as 'vested'.

Volatility

The volatility of a stock describes the extent of its variance over time between high and low market prices. High volatility denotes a wide variation and low volatility, a more stable stock. See 'Beta'.

Voting Trust

An agreement whereby a number of shareholders transfer stock and voting rights to one or more persons, called voting trustees, for a specific time period.

W

Waiting Period

(USA) The period of time between the filing of a registration statement with the SEC and the time when it is declared effective. See 'Cooling-off Period', 'Gun-Jumping' and 'Quiet Period'.

Wall Street

A shorthand description for the US financial community, generally. The term comes from a street in lower Manhattan, New York, on which the American and New York Stock Exchanges, together with many financial professionals, are located.

Warrant

Another word for an option to purchase a security. The term is generally used for options that are transferable and are sold to outside investors (as distinct from officers, employees, etc.)

Window

A short period in which an opportunity is available. Often referred to as a 'window of opportunity'.

Y

Yield

The rate of return on a debt instrument if the full amount of interest and principal are paid on schedule. Current yield is the interest rate as a percentage of the initial investment.