

## Equity Glossary

**Affiliate:** An individual who directly or indirectly, using one or more intermediaries, controls or is controlled by, or is under common control of the issuer. In other words, an affiliate is any officer or director of a public company or is a shareholder with five percent (5%) of the shares of the public at the time the shares were issued. Affiliates are subject to greater reporting requirements, prohibitions against trading on information not known to the public and related regulations whose purpose is to protect the public shareholders.

**Analyst:** An individual, usually employed by a brokerage firm, who evaluates the merits of specific public companies and industry trends for the purpose of advising investors to buy or sell stock or related financial instruments.

**Angel or Accredited Investor:** An American private investor or group of private investors. They meet the net worth and income requirements of the Securities and Exchange Commission. They are willing to invest in business ventures in various stages of maturity. Generally, this definition signifies individuals investing their personal funds and often syndicating the remaining financing amount with other private investors.

**Annual Shareholders Meeting:** a meeting which is required by law. An American or Canadian public company must hold an annual meeting open to all its shareholders. The shareholders must receive ample notice of this meeting and the issues that will be resolved by a vote of the shareholders. The notification of the meeting is usually sent with the Annual Shareholder Report. Common issues resolved at shareholder meetings include the election of Directors, compensation of officers, and issues related to the company's corporate vision. Each shareholder has the right to vote the shares they own. Usually, this means the insiders holding the control block of stock make corporate policy.

**Annual Shareholder Report:** required by law. This report is prepared by the company and must be distributed to all registered shareholders and to those unregistered shareholders who request it. It includes information about management, operations, facilities, corporate vision, and an audited financial statement.

**Authorized Shares:** number of shares that the shareholders have agreed will be the maximum number of shares the company can issue. This number is usual fifty million to one hundred million shares.

**Bailout:** Excessive selling by shareholders due to a loss of confidence in the public company.

**Barrier:** Selling by public shareholders, who purchased their stock at or near the peak of the last upward move of the company's share price. This selling usually results from a major decline in the company's share price followed by a recovery to its previous peak. To avoid barriers, avoid irregular trading patterns, particularly ones with sharp share price declines.

**Bear Market:** Period during which share prices generally fall. Investment interest is limited. There are often economic issues such as high unemployment or declining corporate profits. The 2008 collapse of the shares on the National Stock Exchange led to a bear market.

**Best Efforts:** An underwriting agreement in which the underwriter doesn't guarantee the sale of the shares to be placed. In essence it says, "we think we can sell your shares. We'll do our best to sell your shares. We guarantee nothing."

**Bid & Ask:** The bid is the price the buyer is willing to pay for a stock. It is lower than the ask which is the price the seller wants for the shares. An individual or firm will buy the stock at a price between the bid & ask price. Most national brokerage houses buy their client's stock at the ask price.

**Blind Pool:** A public company which has raised money without a specific purpose. This was a popular method for private companies to "go public" in the 1980's. Usually the merge was done with a reverse split of the shares of the blind pool followed by the issuance of shares to acquire the private company. Because the public investors in the Blind Pool usually lost money, the SEC opposes the creation of Blind Pools.

**Bull Market:** A period when share prices are moving upward. Investment interest is high. The public views the economy as strong.

**Bulletin Board:** Purpose of the Bulletin Board was to trade quality Over-the-Counter shares of Indian "reporting" companies and Indian shares legally trading in India. Unfortunately, it has degenerated into trading many "exempt" securities and fails to inform the investor they are buying shares in companies whose stock can't trade elsewhere.

**Business Incubators:** Business incubators nurture young firms, helping them to survive and grow during the start-up period when they are most vulnerable. Incubators provide hands-on management assistance, access to financing and orchestrated exposure to critical business or technical support services. They also offer entrepreneurial firms shared office services, access to equipment, flexible leases and expandable space--all under one roof.

**Business Plan:** A written document that expresses the corporate vision about the future of the company. To succeed, your vision must be global. To be credible, your business plan must rest upon the success to date of your private company.

**Buyout/Acquisition:** A stage in the maturity of a business, or a situation created by special circumstances, where a product line, business segment, or entire business is purchased by an outside company or perhaps by the existing management of the business. The process involves thorough valuations of the target business, sophisticated structuring and extensive negotiations of the terms of the transaction. A firm may specialize in providing these services and may arrange for the placement with other firms and institutions, which may be required to complete the transaction.

**Clean Shell:** A reporting company. It has its filings current. It doesn't have debt. There are no lawsuits, nor reasonable prospects of a lawsuit against the company. The insiders retain control of 80%-90% of the issued shares. (Also see Public Shell Corporation)

**Comfort Letter:** A letter written by an independent accountant to the underwriter, indicating the results of accounting tests performed on the financial data as requested by the underwriter.

**Convertible Debenture:** Usually refers to loans convertible into equity ownership (shares of the company at a fixed price) or loans collateralized with equity positions.

**Depository Trust Company:** The Company that holds the shares of your company not requested for physical delivery by your shareholders.

**Dilution:** Any increase in the number of shares issued by the company. An increase in the number of shares without an offsetting compensation to the company decreases the value of the previously issued shares. Also, it increases the costs of maintaining a strong share price when the new shares begin to trade. Assuming the company receives good value for its issued shares, it can offset the stock support costs by requiring the issued shares be pooled with the insiders' shares.

**Divestitures:** The distribution of a company's assets or a business segment by sale, liquidation or other acquisition arrangement. It can also mean a corporation's orderly distribution of large blocks of another corporation's stock held for investment.

**Due Diligence:** A legal requirement that stock brokers, underwriters and spin-off sponsors must meet to ensure that the statements made by a spin-off company or public company are accurate and complete. The purpose is to ensure the public has full and accurate information about a public company or a private company about to become a public company.

**Equity:** Ownership interest in a corporation, usually represented by the shares of stock which are held by individuals or corporations. Also, it's the excess of balance-sheet assets over liabilities.

**Equity Offerings:** a means of raising funds by offering ownership in a corporation through the issuing of shares of a corporation's common or preferred stock. (Also see, Initial Public Offering and Private Placement)

**Failure to Disclose:** If you file a report or questionnaire with any State or Federal Securities Agency and it has a material misstatement of fact in it, you commit a felony. (Also see Statement of Material Fact)

**Financial Consultant:** An individual or firm specializing in locating financing. The consultant has the ability to structure a business plan so that it attracts the needed money. Most consultants offer a stable of related services that reflects their basic approach to raising risk capital. They usually charge a retainer. The fee for their services generally comes from a percentage of the amount of financing obtained. It is usually about 1% of the gross proceeds.

**Finder:** someone who arranges an introduction between a business person seeking a service and someone they feel might help that business with that service. Most finders know other finders. The business person ends up in a daisy chain where no one can actually help them. Finders charge a fee for making successful introductions. Usually, the fee is 10% of the value of the service to the business person.

**Firm Commitment:** An underwriting agreement in which the underwriters agree to place the entire underwriting. The underwriting contract has a long list of exceptions that would allow the underwriter to void the agreement. One common clause in many underwriting agreements is the underwriter may withdraw if "market conditions" are no longer suitable for the placement of the shares. It is up to the underwriter to make a subjective determination about "market conditions." For a firm commitment underwriting agreement you should expect to pay the underwriter 1.5% of the gross proceeds, as a non-refundable retainer. This payment is made at the signing of the agreement.

**First Round (or Stage 1) Funding:** typically funding that accommodates growth. The company may have finished R&D. Funding is often in the form of a loan or convertible debenture. This is the stage in the maturity of a business where the initial growth of the product or service is realized. The initial

capitalization money has been spent. The management and operations are in place. The markets initially identified are being penetrated using available resources.

**Initial Public Offering (IPO):** occurs when a company registers its stock with the Securities and Exchange Commission and can sell equity ownership in the company to the public. Access is gained to a source of capital which did not previously exist. There are numerous reporting and compliance issues to deal with from this point forward which could involve a considerable expense. Stock that is publicly traded on an exchange provides the owner with an established price and a market in which to buy or sell.

**Insider:** See Affiliate

**Intermediate/Second Round Funding:** maturing company where a future leveraged buyout, merger or acquisition and/or initial public offering is becoming a viable option. It is a stage in the maturity of a business where the business seeks to expand its product line, expand its facilities, identify and penetrate new markets and continue the growth phase. Further capitalization and credit financing may be required to fund this additional growth.

**Intrastate Offerings:** A private company may offer its shares under the laws of the State in which it is located.

**Investment:** Transfer of capital or other assets to an enterprise in order to secure a profit for the investor.

**Investment Banking Firm:** acts as underwriter or agent, serving as intermediary between an issuer of securities and the investing public. In addition to new securities offerings, investment bankers handle the distribution of blocks of previously issued securities, either through secondary offerings or through negotiations, maintain markets for securities already distributed, and act as finders in private placements of securities. Many investment banking firms support broker-dealer operations, serving both retail and wholesale clients in brokerage and advisory capacities. In addition to underwriting and brokerage operations, investment banking firms are becoming more involved in other financial services and financing transactions as defined by each individual firm. Some firms become involved in brokerage operations specializing in private placement transactions and other investment strategies similar to venture capital firms. In some instances, a firm's minimum investment figure will relate to private placements rather than public offerings or secondary public offerings. Firms specializing in "pink sheets" will usually become involved in riskier high-growth businesses and have a lower minimum financing requirement. They will, however, expect high returns on their investments and often require that a company become publicly traded if it isn't currently a public company.

**Investor Relations:** to maintain a strong share price, your public company must develop and implement a strong stock support plan. The costs of implementing your stock support plan are among the major disadvantages of being a public company. Because you have a better mousetrap, the world won't beat a path to your door. You must convince investors to buy and hold your stock.

**Issued Shares:** The total number of shares the company has issued. Plus, any shares that the company may have a contractual obligation to issue, such as shares that could be issued as a result of the sale of options and warrants.

**Issuer:** Legal term that usually means the public company.

**Junior Company:** a Canadian term that usually refers to a public company with no or very limited business income. The usual reference is to mineral exploration companies as: "Junior Resource Company."

**Later Stage Funding:** mature company where funds are needed to support major expansion or new product development. Company is profitable or breakeven.

**LBO:** See Leveraged Buyout

**Legend Stock:** Insider stock that has been restricted from sale by American Law. It is subject to Rule 144 and often called 144 Stock. Historically, the stock was restricted for two years. The current restriction is 1 year. Canadian law restricts the sale of insider stock for 1 year.

**Letter of Intent:** Non-binding letter from the underwriter to the issuer, confirming the underwriter's intent to proceed with an offering and the general terms of the underwriting.

**Leveraged Buyout or LBO:** The buyout of a company's existing ownership using borrowed funds. The funds borrowed by the investors purchasing the target company are generally secured by the assets of the target company. (Also see Buyout/Acquisition)

**Limits:** A brokerage term that means instructions in the buying or selling of stock for a client. Usually, the instructions help the client make money in the market.

**Making a Market:** Efforts by a broker-dealer to maintain trading activity in a specific stock.

**Management Buyout or MBO:** MBO is similar to an LBO where management of the target company desires to acquire ownership of the company. ( Also see Leveraged Buyout and Buyout./Acquisition.)

**Market:** a brokerage term for the trading of stock and the industry associated with the trading of stock.

**Market Cap or Market Capitalization:** the value of a public company based upon the multiplication of the company's share price multiplied by the shares issued in the company.

**Market Conditions:** refers to the strength of the market or a market segment, like the interest in computer or airline stocks. Market conditions are good in a bull market. They are bad in a bear market.

**Market Maker:** a broker-dealer who has indicated that they will make a market in the shares of a specific company. The indication does not necessarily mean the broker-dealer will make a market in the company's shares. In theory, a market maker is a wholesaler of the company's shares. You must have at least three market makers to list your shares on the Bulletin Board. You must have at least five market makers to list your shares on NASDAQ.

**Material Fact:** any issue related to a business that would influence an investor in their decision to buy or sell the securities of that business. (Also see Statement of Material Fact.)

**Mergers & Acquisitions (M&A):** you want to buy other companies to expand your asset base. In time, you will want a major company in your industry to buy you. As a public company, you should use your strong share price to buy private companies. When it comes time for you to be bought, your strong share price will ensure a sale price far in excess of your public company's value based upon its balance sheet.

Your business plan should reflect your M&A goals. Merger and acquisition are the combination of two companies by the process of joining or sale. If one company survives it is a merger, if both survive, it's an acquisition.

**Merit States:** the twelve States that require a public company to register with the State Securities Commission before selling stock in their State. They are called "Merit" because they can reject an applicant public company using "lack of merit" as their justification. Unless the company or the underwriter does business in a Merit State, it isn't worth the cost and effort to meet the filing requirements. The company is better served waiting until it trades on NASDAQ or any American stock exchange. At that time, it can trade in every Merit State without making a separate filing.

**Newsletter Editor:** financial advisory newsletters are a principal source of investors for companies that don't qualify for review by analysts.

**Offshore Private Placement:** an exempt offering of shares, options, warrants, etc; to non-residents of the United States.

**Online Brokerage firm:** an Stock brokerage firm that offers to trade stocks for clients who use the Internet. These firms charge very low commissions. A few may offer clients shares in Initial Public Offerings, but most solely trade stock for their clients.

**Options:** a right to buy stock at a specific share price. The specific share price is called the exercise price. Usually, investors purchase options at a very low price betting the share price will appreciate above the exercise price.

**OTC:** See Over-the-Counter

**Over-the-Counter or OTC:** a security that is not listed and traded on an organized stock exchange. It is also a market in which securities transactions are conducted through a telephone and computer network, connecting dealers in stocks and bonds rather than on the floor of an exchange. Securities traded in this manner do not meet the listing requirements of NASDAQ, the New York or the American Stock Exchanges. Rules for trading over-the-counter stocks are written and enforced mainly by the NASD. The basis for the trading are the published Bid/Ask prices of shares printed by National Quotation Bureau, Inc. of New Jersey on pink paper and called "the Pink Sheets." (Also see Bulletin Board and Pink Sheets)

**Penny Stocks:** shares that do not trade on NASDAQ nor on any stock exchange. The share price is below Rs 5.00. These stocks trade on the pink sheets.

**Pink Sheets:** a daily publication (so named for the color) of the bid and ask prices of thousands of over-the-counter stocks. Companies whose stocks are quoted here are also called "Penny Stocks." They have smaller asset sizes and share prices.

**Player:** a slang term used in the equity finance industry for anyone who is knowledgeable about and participates in the market.

**Pooling Agreement:** An agreement by all the insiders in a public company to place their shares in a central depository for a specific period of time. This agreement ensures that none of the insiders can sell

any of their stock during the period the public company matures to success. The pooling agreement is often longer than the period the insider shares are restricted. (See Legend Stock.)

**Preferred Stock:** a class of capital stock of a corporation sometimes paying dividends at a specified rate and receiving preference over subordinate classes of capital stock, such as common stock, in the payment of dividends or liquidation. Preferred stock ordinarily does not carry voting rights and may have various other features which either restrict its residual rights to corporate profits or enhance the rights.

**Primary Offering:** Canadian term for an Initial Public Offering. Used in the States as an alternative term for an Initial Public Offering.

**Private Investor:** See Angel

**Private Lender:** an institution or an individual who provides funding in the form of debt. The term of the debt will usually be intermediate (5 to 10 years). Many of these sources indicate a preference to being contracted by other financing sources and finance professionals through syndication rather than contracted by the actual companies seeking financing.

**Private Placement:** an exempt offering of securities. In the United States, it usually involves a limited distribution (generally 35 or fewer participants) of restricted stock to accredited private investors (Angels). The investors execute an investment letter stating that the securities are being purchased for investment without a view towards sale.

**Privatization:** the process of converting Government-owned industries into private or publicly owned industries.

**Pro Forma:** the presentation of financial information such as a balance sheet, income statement or forecasted cash flows where the amounts are hypothetical. These are typically presentations of future expected results based on assumptions and actions to be taken.

**Promoter (also called a Stock Promoter):** a sales person who convinces investors to buy the shares of a particular public company. Promoters supply a vital service that can maintain the share price of the public company. Too often these sales persons make claims for the public company that are unjustified.

**Prospectus:** the selling document, reviewed by the SEBI, offering pertinent information to public investors about a public company. It is commonly associated with Initial Public Offerings.

**Public Float (Also called the float):** that portion of the issued stock not held by affiliates (insiders) of the public company.

**Quiet Period:** if you elect to do an Initial Public Offering, you are legally forbidden from seeking any sort of publicity about your company from the time you reach an understanding with your underwriters to ninety days after your shares commence trading.

**Rating Service:** see Standard Manual Exemption

**Recapitalization:** an effort to reorganize an existing company and find new sources of capital for that company. It's often associated with a Chapter 11 filing and efforts to turn around the company.

**Register:** an agency, often the transfer agent responsible for the issuance of share certificates, which verifies that cancelled share certificates are in balance with the issued share certificates.

**Registration:** the requirement under Sebi Acts postulating the method for filing information.

**Registration Statement:** the document filed with the SEC containing the information required by Law.

**Restricted Stock:** See Legend stock.

**Reverse Merger:** the acquisition by a reporting company (Public Shell) of a private company by the issuance of a block of stock that gives the private company over fifty percent (50%) control of the public shell. It appears to be an inexpensive method of going public. Any private company that elects this method of going public commits financial suicide. There are two common problems with reverse mergers. The insiders of the public shell retain their shares. They always sell their shares into any attempt by the private company to strengthen its share price. The result is the private company fails as a public company and the past insiders pocket a million dollars for killing the company. Often private company management believes that SCOR failures, Intrastate offerings and a variety of pseudo-public companies are reporting companies. If the company isn't filing 10Ks and 10Qs with the SEC, it isn't a public company.

**Reverse-Split (Also called a rollback):** by vote at a shareholders' meeting, this is a decision to reduce the number of shares issued by the public company. It is always part of a shell buyer's strategy. It will alienate the shell's current public shareholders and the shell's Market Makers. It's essential to allow the shell company to develop into a strong public company. Without a shell sale, the decision to do a reverse split is a guarantee of financial suicide for present management.

**SBIC (Small Business Investment Corporation):** Government leveraged firms investing in established companies for buyouts, funds for IPO's, strategic partnerships or bridge financing. They are privately owned but licensed, regulated and financed by the SBA. They have the ability to leverage privately raised capital with government funds and make capital available to small businesses which meet standard criteria. SBIC's may buy stock in a new venture, or provide capital through debt or convertible debentures. Since SBIC's must service the debt they borrow from the SBA, investments are typically in the form of loans with favored interest rates coupled with the right to buy stock (See Convertible Debenture). This structure gives the SBIC immediate returns to service their debt. This may not be a good source for start-up ventures likely to lose money in their initial years. The investment objectives are similar to those of venture capitalists. (Also see Venture Capitalists) Small businesses that qualify have a net worth less than \$6,000,000, after tax profits of \$2,000,000 or less for two years prior, and cannot be investment companies, lending institutions, or manufacturing companies with over 500 employees (unless meeting the net worth and net profit criteria).

**SCOR (Or Small Corporate Offering Registration also known as ULOR or Uniform Limited Offering Registration):** allows you to raise up to \$1 million by filing a U-7 Form with the State in which your private company is located. To meet Federal exemption requirements, you must file a Reg D questionnaire with the SEC.

**Secondary Public Offering:** refers to a public offering subsequent to an initial public offering. A secondary public offering can be either an issuer offering or an offering by a group that has purchased the issuer's securities in the public markets.

**Security:** legal term for stock or shares

**Second Round Funding:** See Intermediate/Second Round Funding

**Seed Capital:** a source of funding for the early stages of a start up venture where the product, process, or service is in its conceptual or developmental phase. (See Angels, who are the usual source of seed capital.)

**Seed/Startup Funding:** earliest stage of business, typically no operating history. Investment is based on a business plan detailing the management group's backgrounds along with the defined market and financial projections. It is the first stage in the maturity of a business. It encompasses the point of initial concept upon which the business is founded, and typically is considered to span through the point the business has a product or service in place and is beginning to generate revenue from operations. The company is poised to launch into its marketing plan and a capital infusion is required. This phase may be considered to run even as far as the second or third year of operations. Each individual or institution attaches a slightly different ending point for this stage. The usual sources of risk capital are Angels and business incubators.

**Short Sale:** the sale of shares that are not owned by the seller. The shares can be borrowed from a depository trust company or they can be created by a broker. The act of short selling, by adding to the float, makes it harder for the company to maintain a strong share price. The stock market is a war between the short sellers and the public company's supporters. Usually, the short sellers win.

**Specialist:** person who is charged with the responsibility to stabilize shares trading on traditional stock exchanges. The person is employed by a brokerage firm with a seat on the stock exchange. NASD brokers refer to their efforts to create the same effect as "stabilization."

**Special Shareholders Meeting:** whenever a public company must make a major change in its corporate policy, it must call a special meeting of its shareholders. Three weeks notice must be given and all shareholders notified.

**Speculative Stocks:** See "Penny Stocks"

**Speculator:** an individual or firm that buys or sells a stock with the intent of making a short term profit on the trade.

**Spin-off:** a public (reporting) company that has over 500 public shareholders and comes to exist because an existing public company has distributed shares of the subsidiary or private company to its 500 plus shareholders.

**Spin-off Sponsor:** a public company with over 500 resident American shareholders who accepts the responsibility for a private company becoming a public company. The legal basis for the practice is found in the 1934 U. S. Securities Act. Thousands of corporate subsidiaries and private companies have used the process. It relies on the filing of a Form 10 with the SEC.

**Spread:** the difference between the bid and ask prices.

**Statement of Material Fact:** a claim made by a public company that would influence the decision of an investor to buy or sell a particular stock. Usually false statements of material fact are felonies under the U. S. and Canadian Provincial Securities Acts. (Also see Material Fact)

**Stock Promoter:** See Promoter

**Stock Support Plan:** Your Company needs a business plan to outline your plans for development. If you are a public company, you need a stock support plan to outline your plan for developing and maintaining a strong share price. Without a strong share price, you can't use your stock to buy assets that will make your company's balance sheet stronger.

**Suitable Investor:** It requires that investors unfamiliar with penny stocks carefully consider buying these stocks. The stock broker is required to make new penny stock buyers suitable investors before selling them penny stocks.

**Syndication:** A group of individuals or companies which has formed a venture to undertake a project that would not be feasible to pursue alone. It usually refers to doing an underwriting or private placement for a public company.

**Third Stage:** The stage in the maturity of a business where the business has established itself strongly in all of its markets with its products and reputation. It is at this time the company usually elects to do an Initial Public Offering.

**Transfer Agent:** a firm that keeps the official records of the names and addresses of the company's registered shareholders and handles the transfer of shares from one person to another. Usually, they are also the company's registrar.

**Turnaround:** the reversal of unfavorable circumstances of a business where an investment opportunity may exist. A firm may work with such a business to restructure the management and finances in order to take the greatest advantage of more favorable circumstances. There are organizations like the Turnaround Management Association that specialize in turning around failing companies.

**Unregistered Shareholders:** Unless the shareholder contacts the company or requests that his broker send the company the shareholder's name and address, the company won't automatically know who owns their stock. These shareholders are the company's unregistered shareholders. In a public company, the majority of the shareholders will be unregistered shareholders. The public company's goal should be to identify their unregistered shareholders in order to communicate with them so as to encourage the stockholder to hold his/her stock.

**Underwriter:** an underwriter is an investment banking firm or broker-dealer that has agreed to raise money for your company to justify the time and costs of doing an Initial Public Offering. Outside the United States, an underwriter is often a fund with a large number of managed accounts.

**Underwriting:** An investment banking firm or broker-dealer acting as underwriter sells securities from the issuing corporation or government entity to the public. A group of firms may form a syndicate to pool the risk and assure successful distribution of the issue. There are two types of underwriting arrangements: best efforts and firm commitment.

**Venture Capital:** the process by which investors fund early stage, more risk oriented business endeavors. A venture capital funding arrangement will typically entail relinquishing fifty percent or more ownership and control of the business. Offsetting the high risk the investor takes is the promise of high return on the investment. The investment is usually in the form of stock or a convertible debenture. As the business matures, an initial public offering may take place, or the business merged or sold, or other sources of capital found. Any of these would occur with the intention of buying out the venture capitalists. Venture capitalists typically expect a 26% annual return on their loan investment at the time they invest in the private company. Venture capitalists typically invest in high growth companies with the potential to generate revenues of Rs 20 million in any one company, but typical investments range from between Rs 500,000 and Rs 5 million. Management experience is a major consideration in evaluating financing prospects.

**Venture Capitalist:** a firm organized for the purpose of investing in private companies. The infusion of capital is expected to take the private company to the point of qualifying to do an Initial Public Offering, Usually; venture capitalists expect at least 60% equity interest in the private companies in which they invest.