The Encyclopedia on Investing

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#

1. **4 years with a one-year cliff** represents the typical vesting schedule for stock options or restricted stock (see definition), whether for startup founders' stock (if they raise Venture Capital) or for executives or employees granted Stock Options (see definition). Stock Option recipients will vest their shares over a total period of four years. The one-year cliff means that the recipient will not get vested with regards to any shares until the first anniversary of the founders' stock issuance. Upon the one-year anniversary, the receipt will each vest 25% of their total stock options or shares. Vesting will then occur proportionately on a monthly after the 1-year cliff expires.

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A

1. **Accelerated vesting** is a form of vesting that takes place at a faster rate than the initial vesting schedule in a company's stock option plan. This allows the option holder to receive the monetary benefit from the option much sooner (for example "half of all remaining unvested stock options will vest upon a Change of Control (see definition)". Typically Accelerated Vesting applies in Change of Control situations (such as when a company is acquired or goes public.)

2. An **acceleration clause** is a provision that allows a lender to demand payment of the total outstanding balance or demand additional collateral under certain circumstances, such as failure to make payments, bankruptcy, nonpayment of taxes on mortgaged property, or the breaking of loan covenants. Accredited Investor

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3. An **accredited investor** is an investor who is financially sophisticated and has a reduced need for the protection provided by certain government filings. Most startups or private companies prefer to raise money or from accredited investors because of the vastly reduced paperwork required to be filed with the SEC, and the far fewer disclosures required to be made in writing to the Investor. Accredited investors include:

(1) A bank, insurance company, registered investment company, business development company, or small business investment company;

(2) An employee benefit plan, within the meaning of the Employee Retirement Income Security Act, if a bank, insurance company, or registered investment adviser makes the investment decisions, or if the plan has total assets in excess of $5 million;

(3) A charitable organization, corporation, or partnership with assets exceeding $5 million;

(4) A director, executive officer, or general partner of the company selling the securities;

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(5) A business in which all the equity owners are accredited investors;
(6) A natural person who has individual net worth, or joint net worth with the person's spouse, that exceeds $1 million at the time of the purchase;
(7) A natural person with income exceeding $200,000 in each of the two most recent years or joint income with a spouse exceeding $300,000 for those years and a reasonable expectation of the same income level in the current year;
(8) A trust with assets in excess of $5 million, not formed to acquire the securities offered, whose purchases a sophisticated person makes.

4. An **acquisition** is the processes of taking over a controlling interest (usually 50% or more) in a company. Acquisitions can be either for stock or the assets of the target. Part of the purchase price may also include the Acquirer assuming debt on the company's books.

5. An **add-on /bolt-on** acquisition is when a private equity-backed company acquires another company to enhance the private equity-backed company's value. Business jargon for a product (or company) acquisition that fits naturally within the buyer's existing business lines or strategy.

6. **Alternative assets** are any non-traditional assets with potential economic value not be found in a standard investment portfolio. Due to the unconventional nature, valuation can be difficult. Equities, fixed income and property where exposure is normally achieved via "bought" (long only) positions. Yet, alternative assets may be active or passive.

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7. **Alternative minimum tax (AMT)** is a tax calculation that adds certain tax preference items back into adjusted gross income. Alternative minimum tax (AMT) uses a separate set of rules to calculate taxable income after allowed deductions. AMT is designed to prevent taxpayers from escaping their fair share of tax liability through certain tax breaks, although the structure is rife with controversy as it is not indexed to inflation or tax cuts.

8. **Amended and Restated Articles of Incorporation** are a companies Articles of Incorporation (documents that originally formed the company) that have been later modified by the company.

9. An "**Angel Investment Group**" is a group of wealthy individuals (often a local group, such as Boston or London) who pool their money together to make small investment in early stage private companies. (See PrivCo.com definition: "Angel.")

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10. **An angel investor** is a high net worth individual active in venture financing, typically participating at an early stage of growth.

11. **Anti-dilution protection** is protection from dilution when shares of stock are sold at a price per share less than the price paid by earlier investors. This is known as price-based anti-dilution protection. Anti-dilution protection, along with the liquidation preference, are two of the fundamental features distinguishing preferred stock typically sold to investors from common stock generally held by founders and employees.

12. **Automatic conversion** is an immediate conversion of an investor's priority shares to ordinary shares at the time of a company's underwriting before an offering of its stock on an exchange.

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B

1. **Bankruptcy** is a legal proceeding in which a company's assets are used to repay outstanding debts to creditors.

2. **Blue sky** are state regulations designed to protect investors against securities fraud by requiring sellers of new issues to register their offerings and provide financial details. This allows investors to base their judgments on trustworthy data.

3. **Board seats demanded** is the number of seats on the Board of Directors sought by an investor. Because of the risky nature of early investments, angel and venture capital investors typically demand considerable control of the company in exchange for their investment. This raises questions of loyalty and conflict of interest. VCs seek Board seats in order to protect their interests; but Board members have fiduciary obligations to promote the interests of the company, which may at times be different from the interests of the VCs.

4. **Boilerplate** is the standardization of a legal document's structure and language. This leads to quicker and more efficient practices in terms of the filling out and processing of documents.

5. A **bond** is a debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate.

6. **Book value** is the net asset value of a company, calculated by total assets minus intangible assets (patents, goodwill) and liabilities.

7. **Bootstrapping** is a situation in which an entrepreneur starts a company with little capital. An individual is said to be bootstrapping when he or she attempts to found and build a company from personal finances or from the operating revenues of the new company.

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8. A **break-up fee** (also know as a termination fee) is a common fee used in takeover agreements if the seller backs out of a deal to sell to the purchaser. A breakup fee, or termination fee, is required to compensate the prospective purchaser for the time and resources used to facilitate the deal. Breakup fees are normally 1-3% of the deal's value.

9. **Bridge Financing** is a short-term loan that is used until a person or company secures permanent financing or removes an existing obligation. This type of financing allows the user to meet current obligations by providing immediate cash flow. The loans are short-term (up to one year) with relatively high interest rates and are backed by some form of collateral such as real estate or inventory.

10. **Burn rate** is the rate at which a new company uses up its venture capital to finance overhead before generating positive cash flow from operations. In other words, it's a measure of negative cash flow.

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11. A **business plan** is a written document that describes in detail how a new business is going to achieve its goals. A business plan will lay out a written plan from a marketing, financial and operational viewpoint. Sometimes a business plan is prepared for an established business that is moving in a new direction.

12. A **buy-sell agreement** is a signed agreement between an investor who is seeking to open an options account and his or her brokerage firm. This agreement is used to verify the investor's level of experience and to ensure that the investor clearly understands the various risks involved when trading options.

13. **Bylaws** are rules adopted by an organization in order to regulate its own affairs and the behavior of its members

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C

1. A **call** is an agreement that gives an investor the right (but not the obligation) to buy a stock, bond, or other instrument at a specified price at a specific time.

2. A **capital call** (also known as a draw down) is the legal right of an investment firm or an insurance firm to demand a portion of the money promised to it by an investor.

3. A **capitalization table** (also known as a "cap table") is a table showing the securities and their capitalization ratios. It typically includes common and preferred shares, options, warrants.

4. **Carried interest** is a share of profits that the general partners of private equity and hedge funds receive as compensation, despite not contributing any initial funds. This method of compensation seeks to motivate the general partner to work toward improving the fund's performance.

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5. A **carveout** is a type of group term life insurance designed to replace employer sponsored life insurance coverage. Under a group carve-out plan, the employee retains $50,000 of ordinary group term life insurance coverage, but the rest is provided by a universal life insurance policy. The group carve-out plan replaces the current group life insurance amount over $50,000 on the people the company wishes to carve out.

6. A **C-Corporation** is a legal entity that is separate and distinct from its owners. Corporations enjoy most of the rights and responsibilities, including the right to contract, loan and borrow, sue and be sued, hire employees, own assets and pay taxes.

7. A **change of control** occurs when the ownership or Board of Directors of the company changes (often a change of more than 50% of a company's ownership is considered a change of control). Usually a change of control of a company occurs as part of an M&A.

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8. **Common stock** is a security that represents ownership in a corporation. Holders of common stock exercise control by electing board of directors and voting on corporate policy. Common stockholders are on the bottom of the ownership structure.

9. **Contingency payment** in a M&A deal, is a portion of the purchase price that depends upon the acquired company's reaching specific performance targets.

10. **Conversion discount** is the difference between the price of convertible stock and the price of the common stock. If the price of the convertible stock is greater than the common stock, there is a conversion discount.

11. **Conversion rights** are rights to convert preferred stock into common stock. Usually, one has this right at any time after making an investment. Company may force a conversion upon an IPO, milestones, a vote of the preferred stock. Conversion rights may carry with them anti-dilution protections.

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12. **Convertible debt** is can be exchanged for a specified amount of another related security, at the option of the issuer and/or the holder. It is also called convertible.

13. A **convertible note** is a debt instrument that can be converted into stock at the option of the holder or the issuer. More specifically, the investor can choose to convert the note into equity when an institutional investor (such as a VC) makes an investment.

14. Most **convertible preferred stock** is exchanged at the request of the shareholder, but sometimes there is a provision that allows the company (or issuer) to force the conversion. The value of convertible common stock is ultimately based on the performance (or lack thereof) of the common stock.

15. **Corporate VC** is money provided by investors to startups with perceived growth potential. This is an important source of funding for startups that do not have access to capital markets.

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16. **Co-sale** is a contractual obligation used to protect a minority shareholder (usually in a venture capital deal). When a majority shareholder sells stake, the minority shareholder has the right to join the transaction to sell.

17. A **covenant** is an indenture that states certain activities will or will not be carried out. The purpose of a covenant is to protect the lender. Covenants can cover everything from minimum dividend payments to working capital level.

18. **A cram down round** (also known as burn-out round or wash-out round) is a common round of financing usually to companies that are not financially stable. When such financing is done, the new issuance serves to dilute drastically the ownership of previous investors and owners. Often, the new investors can take control of the company.

19. A **creditor** is an entity (person or institution) that extends credit to be paid back later.

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20. **Cross-default** is a provision in a bond indenture or loan agreement that puts the borrower in default if the borrower defaults on another obligation.

21. **Cumulative Stock** (usually Cumulative Preferred Stock) is stock that must be paid all past unpaid dividends first, before any dividends can be made to other stockholders such as Common Stockholders).

D

1. **Deal comparables** (or "deal comps") are comparable M&A transactions used to help value a current similar M&A transaction.

2. **Deal flow** is the rate at which new proposals are flowing to the underwriters of an investment bank.

3. **Deal multiples/M&A ratios** measure the value of a merger or acquisition as a multiple of the purchased company's sales, profits, or other metric. Deal multiples are used to produce "Deal Comps" in order to value other similar companies.

4. **Debt** is money borrowed by one party from another, usually to be paid back at a later date with interest. Many corporations/individuals use debt as a method for making large purchases that they could not afford under normal circumstances.

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5. **Debt financing** is when a firm raises money for working capital or capital expenditures by selling bonds, bills, or notes to individual and/or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise that the principal and interest on the debt will be repaid.

6. **Debt refinancing** is the process through which a company reorganizes its debt obligations by replacing or restructuring existing debts. Refinancing may also involve issuing equity to pay off a percentage of debt. Debt is replaced or refunded by a company with money that is raised by issuing or creating other borrowing. In restructuring, a company works with its creditor to change the terms of a loan; these terms can include the reduction of interest rates, the improvement of covenants or the extension of the loan's terms.

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7. **Debtor in possession** (DIP bankruptcy) refers to a company that continues to operate while in the Chapter 11 bankruptcy.

8. **Delisting** is the removal of a listed security from the exchange. Stock is removed from an exchange because the company ,whether voluntarily or involuntarily, is not compliant with the listing requirements of the exchange.

9. A **director** is a member of a company's board of directors who is either an employee or stakeholder.

10. **Distressed securities** are debt of companies or government entities that are in default, under bankruptcy protection, or heading toward such a condition.

11. **Distribution** refers to when trading volume is higher than that of the previous day without any price appreciation.

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12. A **divestiture** (also known as spin-off) is the partial or full disposal of an investment or asset through sale, exchange, closure or bankruptcy.

13. A **dividend** is a distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The dividend is most often quoted in terms of the dollar amount each share receives (dividends per share). It can also be quoted in terms of a percent of the current market price, referred to as dividend yield.

14. A **dividend recapitalization** (or "dividend recap") typically involves the company's borrowing money in order to make a large cash distribution to its shareholders. After the dividend re-cap, the company's capital structure has changed significantly (for example, it may have had no debt prior and now is debt-laden). Investors benefit by receiving a large cash distribution from the company and "taking money off the table“.

15. A **domestic corporation** is a U.S. corporation doing business in the state in which it is incorporated. A domestic corporation is the opposite of foreign corporation.

16. A **double trigger acceleration** is when two events are required to accelerate the vesting schedule of a stock option or restricted stock. Typical triggers include acquisition by another company and termination of employment without cause.

17. A **down round** is a round of financing where investors purchase stock from a company at a lower valuation than that by earlier investors.

18. A **drag along right** is a right that enables a majority shareholder to force a minority shareholder to join in the sale of a company. The majority owner doing the dragging must give the minority shareholder the same price, terms, and conditions as any other seller.

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19. A **drawdown** is the peak-to-trough decline during a specific record period of an investment, fund or commodity. A drawdown is usually quoted as the percentage between the peak and the trough.

20. **Drive-by VC** is a slang term referring to a deal in which a VC invests in a startup with the goal of a quick exit strategy. The VC takes little to no role in the management and monitoring of the start-up.

21. **Dry close** is a type of real estate closing in which the entire closing requirements are fulfilled except the disbursement of funds. In a dry closing all involved parties agree that the closing can still happen, and the funds are transferred as soon as possible following the closing. A real estate closing is the completion of a transaction involving the sale or exchange or real estate. In a traditional closing, the title to the property is transferred to the purchaser and all finances pertaining to the purchase are settled.

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22. **Due diligence** is an investigation or audit of a potential investment. Due diligence serves to confirm all material facts regarding a sale. Generally, due diligence refers to the care a reasonable person should take before entering an agreement or a transaction with another party.

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E

1. **Early stage** is when a company has a product or service in testing or pilot production. In some cases, the product may be commercially available or generating revenues. Early stage companies usually have been in business less than three years.

2. An **earnout** is a portion of the purchase price that is contingent on future performance. It is payable to the seller after certain predefined levels of sales and/or income are achieved in the years after the sale.

3. **EBITDA** is earnings before interest, taxes, depreciation, and amortization.

4. **EIN** is a number obtained from the IRS by filing a form SS-4. If you are a sole proprietorship, your social security number is your EIN. However, a single person LLC should obtain an EIN.

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5. **Elevator pitch** is a concise, carefully planned, and well-practiced description about your company that your mother should be able to understand in the time it would take to ride up an elevator.

6. **Employee stock option plans** (ESOP) are employee stock options (ESOs) that are non-standardized calls that are issued as a private contract between the employer and employee. Over the course of employment, a company generally issues vested ESOs to an employee which can be exercised at a price, generally the company's current stock price. Depending on the vesting schedule and the maturity of the options, the employee may elect to exercise the options at some point, obligating the company to sell the employee its stock at whatever stock price was used as the exercise price.

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7. An **engagement letter** is a letter that documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the entity and the form of any reports.

8. **Equity** is a stock or any other security representing an ownership interest.

9. **Equity financing** raise money by selling common or preferred stock to individual or institutional investors. In return, shareholders receive ownership interests in the corporation.

10. **Escrow** is a financial instrument held by a third party on behalf of the other two parties in a transaction. The funds are held by the escrow service until it receives the appropriate written or oral instructions or until obligations have been fulfilled. Securities, funds and other assets can be held in escrow.

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11. An "**evergreen fund**" is an investment fund (usually a venture capital fund) that returns any proceeds from sales of investments or dividends back to the fund rather than making distributions to its investors.

12. An "**exit”** refers to an event that let private investors cash out the value of their investment, ideally at a profit. An exit usually takes the form of either an IPO (during which the investor or owner can sell some or all of his securities) or in an acquision.

13. **Exit strategy** is the method by which a venture capitalist or business owner intends to get out of an investment that he or she has made in the past. In other words, the exit strategy is a way of "cashing out" an investment. Examples include an initial public offering (IPO) or being bought out by a larger player in the industry or a private equity firm etc. Also referred to as a "harvest strategy" or "liquidity event".

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F

1. A **fairness opinion** is a report evaluating the facts of a merger or acquisition. Fairness opinions are compiled by qualified analysts or advisors, usually of an investment bank, for key decision makers. The report examines the fairness of the offered acquisition price.

2. **Financial buyers** are acquirers of companies, usually investment management firms, for the potential financial returns. Financial buyers are the opposite of "strategic buyers", who are in a similar business as the company being acquired for strategic reasons. Financial buyers hope to profit primarily by rearranging the financial and capital structure of the acquired company (such as by taking on debt and leveraging their investment, cutting costs, and as soon as possible re-selling the company for a profit). A strategic buyer will typically incorporate the acquired company into its business operations and hold on to it for the long term, if not indefinitely.

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3. A **financing out clause** allows a potential acquirer to back out of an acquisition without penalty if the potential buyer can’t obtain the financing to close the acquisition.

4. A **Finder** is a (usually licensed) broker who seeks out and brings in investors into a private company. In return, the Finder receives a "Finder's Fee", usually a percentage of the investment he brought in for cash, the company's stock, stock options, or warrants in the private company.

5. A **finder’s fee** is a commission paid to an intermediary or the facilitator of a transaction. The finder's fee is rewarded because the intermediary discovered the deal and brought it forth to interested parties. Depending on the circumstance, the finder's fee can be paid by either the transaction's buyer or seller.

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6. FINRA is a regulatory body created after the merger of the National Association of Securities Dealers and the New York Stock Exchange's regulation committee. The Financial Industry Regulatory Authority is responsible for governing business between brokers, dealers and the investing public. By consolidating these two regulators, FINRA aims to eliminate regulatory overlap and cost inefficiencies.

7. A **first-time fund** is an initial private equity fund raised by a newly established firm. First-time funds are marketed to prospective limited partners using investment team performance figures from prior firm transactions or funds.

8. A **flat round** is a round of financing (usually venture capital financing) where investors purchase stock from a private company at the same valuation as the valuation placed upon the company by earlier investors.

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9. **Follow-on financing** is a subsequent private equity fund established after the investment period of a prior fund.

10. A **foreign qualification** registers a company to transact business in another state or multiple states.

11. A **founder** is a person who initially establishes a new enterprise, venture, or has an idea for one and assumes the greatest amount of accountability for the project.

12. **Founders' Shares** are shares held (or originally held) by the founders of a company. They often have characteristics that distinguish them from ordinary shares, such as golden shares, deferred shares, have other.

13. **Free cash flow** (FCF) yield is a measure of value that investors often look at to determine the potential return on investment.

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14. A **friends and family** round occurs at the start up of a new company. Often the first place they look for seed financing is from friends and family.

15. **Full ratchet** is an anti-dilution provision that, for any shares of common stock sold by a company after the issuing of an option (or convertible security), applies the lowest sale price as being the adjusted option price or conversion ratio for existing shareholders.

16. **Fully-diluted basis** is the total number of shares that would be outstanding if all possible sources of conversion, such as convertible bonds and stock options, were exercised. Companies often release specific financial figures in terms of fully diluted shares outstanding (such as the company’s profits reported on a fully diluted per share basis) to allow investors the ability to properly assess the company's financial situation.

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17. A **fund** is the investment vehicle where limited partners have committed capital.

18. A **fund of funds** is a private equity fund that invests in multiple private equity funds. Fund-of-funds are set-up to diversify investor money across funds with different strategies or operating in different geographies. These funds also leverage relationships and provide access to well-established private equity funds that may otherwise not be open to smaller investors. Fund-of-funds promoters' layer in an additional fee on top of the fees already associated with the funds being invested in.

19. **Funding round/series** is the amount of money needed to fund the ongoing operations or future development of a business or project that is currently provided by cash, equity or debt.

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G

1. **General Partner** is the manager of an investment partnership.

2. A **golden share** is a type of share that gives its shareholder veto power over changes to the company's charter.

3. **Go-shop** is a provision that allows a public company that is being sold to seek out competing offers even after it has already received a firm purchase offer. The original offer then functions as a floor for possible better offers. The duration of a go-shop period is usually about one to two months. Go-shop agreements may give the initial bidder the opportunity to match any better offer the company receives and may pay the initial bidder a termination fee if target companies are purchased by another firm.

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4. **Grants** are the issuance of an award, such as a stock option, to key employees under a stock plan. A stock option grants the employee the right to purchase a certain number of shares of the company's stock at a predetermined price. There is usually a waiting period before an employee can exercise their stock options.

5. **Grossing up** is a practice usually in reference to an employer reimbursing a worker for the taxes paid on some portion of their income, usually from a one-time payment such as relocation expenses. In other words, if an employee is promised $5,000 for relocation expenses, the actual check might be issued for $6,500. This would leave the promised $5,000 after the required taxes had been deducted.

6. The **growth stage** is the third state in a product's life cycle where sales revenue rises rapidly, and the profits reach a peak. Thereafter, the decline stage begins.

H

1. **Haircut** is difference between the market value of a collateralized asset and the amount of loan advanced against it.

2. A **hedge fund** is an investment partnership which employs aggressive leverage to multiply gains (or losses) from fluctuations in the prices of financial instruments (bonds, notes, securities). Hedge funds are restricted under US law to less than 100 investors or to have only qualified investors.

3. A **holding company** is a parent corporation that owns enough voting stock in another corporation to control its board of directors (and, therefore, controls its policies and management).

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4. A **holding period** is the real or expected period during which an investment is attributable to a investor. In a long position, holding period refers to the time between an asset's purchase and its sale. In a short sale, the holding period is the time between when a short seller initially borrows an asset from a brokerage, and when he or she sells it back. In other words, the length of time for which the short position is held.

5. A **hurdle rate** is the minimum amount of return that a person requires before they will make an investment in something.

1. **Incentive Stock Option** (ISO) is a type of employee stock option with a tax benefit, when you exercise, of not having to pay ordinary income tax. Instead, the options are taxed at a capital gains rate.

2. **Incorporation** is the process of legally declaring a corporate entity as separate from its owners.

3. An **incubator** is a firm that fosters early-stage companies through the developmental phases until such time as the company has enough financial, human and physical resources to function on its own.

4. **Indemnification** is the process of securing an agreement between two parties to compensate for any damages or losses.

5. **Indemnity** is a contractual agreement made between different parties to compensate for any damages or losses.

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6. **Information rights** are rights (usually a clause in a venture capital investment agreement) that an investor must demand to receive regular updates from the private company about its financials and operations.

7. An **initial public offering** (IPO) is the first offering of a firms' stock (shares) on the stock market, at the time it 'goes public.' Because a stock market usually values the stock on the expectations of the firm's future growth and income, IPO's are typically an opportunity for the founders and other early investors to make high profits by cashing their stockholdings.

8. **In-kind distribution** is a distribution made in the form of stock rather than cash. This type of distribution occurs when cash is not readily available or allocating stock is the better alternative. An example would be a stock dividend.

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9. An **institutional investor** is an organization that trades securities in large quantities or dollar amounts that sometimes come with the benefit of scale. Institutional investors face fewer protective regulations because it is assumed that they are more knowledgeable and better able to protect themselves.

10. **Integration** is when a company expands its business into areas that are at different points of the same production path.

11. **Intellectual Property** (IP) is a set of intangible properties owned and legally protected by a company. It can consist of patents, trade secrets, copyrights and trademarks, or simply ideas. The concept of intellectual property relates to the fact that certain products of human intellect should be afforded the same protective rights that apply to physical property. Most developed economies have legal measures in place to protect both forms of property.

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12. **Internal Rate of Return** (IRR) is the discount rate often used in capital budgeting that makes the net present value of all cash flows from a project equal to zero. The higher a project's internal rate of return, the more desirable it is to undertake the project. As such, IRR can be used to rank several prospective projects a firm is considering. IRR is sometimes referred to as "economic rate of return (ERR)".

13. An **invention assignment** is a legal document that acknowledges all IP developed by an employee is property of the company and not the individual.

14. An **investment advisor** makes investment recommendations or analysis for a fee. An investment advisor who has enough assets to be registered with the SEC is known as a Registered Investment Advisor, or RIA. Investment advisors are prohibited from being deceitful and from acting as a principal on their own accounts by buying and selling securities between themselves and a client without prior written consent.

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12. An **investor rights agreement** details rights a VC typically expects with an investment. It often entails: (1) The right to elect one or more directors to the company's board of directors; (2) The right to receive various reports, financial statements, and information; (3) The right to have its stock registered for sale in a public offering at the company's cost; (4) The right to maintain its percentage share ownership in the company by participating in future stock issuances; (5) The right to participate in the sale of any shares made by the founders of the company (a so-called "co-sale" right which is embodied in a separate agreement).

13. **IPO participation rights** are often sought by pre-IPO venture capitalist investors in order to take advantage of escalating first day trading prices when the company conducts an initial public offering. These participation rights, whether in the form of a firm option or a best efforts undertaking, grant the recipient the right to purchase shares offered in the company's IPO on the same terms as other IPO participants.

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12. **Issued shares** is the number of authorized shares that is sold to and held by the shareholders of a company, regardless of whether they are insiders, institutional investors or the general public.

13. An **issuer** is a legal entity that develops, registers and sells securities for the purpose of financing its operations. Issuers may be domestic or foreign governments, corporations or investment trusts. Issuers are legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions. The most common types of securities issued are common and preferred stocks, bonds, notes, debentures, bills and derivatives.

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J

1. **J-curve** is a type of diagram where the curve falls at the outset and eventually rises to a point higher than the starting point, suggesting the letter J. While a J-curve can apply to data in a variety of fields, such as medicine and political science, the J-curve effect is most notable in both economics and private equity funds; after a certain policy or investment is made, an initial loss is followed by a significant gain.

2. **Junior debt** is debt that is either unsecured or has a lower priority than of another debt claim on the same asset or property. Junior debt is lower in repayment priority than other debts in the event of the issuer's default. Junior debt is usually an unsecured form of debt, meaning there is no collateral behind the debt.

3. A **junk bond** is a bond rated 'BB' or lower because of its high default risk. Also known as a "high-yield bond" or "speculative bond".

L

1. A "**Late Stage**" company is one that has established customers, revenues, and business model.

2. A "**Late Stage Investment**" is an investment in a Late Stage company .

3. **Later stage financing** is the type of financing that is awarded to a start-up company by a venture capital firm when the company's product or service becomes widely available. Financially, the company is generating strong revenues and likely has positive cash flow. It may or may not be profitable. Companies receiving later-stage financing may include spinouts of operating divisions of existing private companies.

PrivCo

4. An **LBO "Love Letter"** refers to a letter sent by a prospective PE buyer offering to enter negotiations to acquire the target company through a leveraged buyout (LBO). LBO Love Letters typically are sent to companies who previously were not actively seeking to sell themselves. Upon the receipt of an LBO Love Letter, a company's Board of Directors may seek advice on the company's strategic options, including a formal M&A process or agreeing to a period of exclusive negotiation with the private equity firm that approached it. In doing so, an LBO Love Letter can put the company "in play" and attract rival suitors and M&A bids.

5. A **lead investor** is a company's principal provider of capital, such as the entity which originates and structures a syndicated deal.

PrivCo

6. A **legal opinion** is a legal opinion published in a case. For example, if a judge sets a precedent, challenges an existing law, or provides a novel interpretation of the law, a legal opinion would be published. Likewise, legal opinions from high courts, in which judges are called upon to interpret very complex legal challenges, are usually published.

7. A **letter of intent** is a letter from one company to another acknowledging a willingness and ability to do business. A letter of intent is most often issued as in a merger between companies or an acquisition is being considered seriously. Sometimes, a letter of intent may also be issued by a mutual fund shareholder to indicate that he/she would like to invest certain amounts of money at certain specified times. In exchange for signing a letter of intent, the shareholder would often qualify for reduced sales charges. A letter of intent is not a contract and cannot be enforced, it is just a document stating serious intent to carry out certain business activities.

PrivCo

8. **Leverage** is the use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment. Leverage is the amount of debt used to finance a firm's assets. A firm with significantly more debt than equity is highly leveraged. Leverage is most used in real estate transactions with mortgages to purchase a home.

9. A **leveraged buyout** (LBO) is the acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition. Often, the assets of the company being acquired are used as collateral for the loans in addition to the assets of the acquiring company. The purpose of leveraged buyouts is to allow companies to make large acquisitions without having to commit a lot of capital.

10. A **license** is a legal document that entitles the holder of its authorization to exercise a specified right or rights.

PrivCo

11. **Lifestyle company** is a lifestyle business in which an entrepreneur often supplies the starting capital, which may include “borrowing” funds from family or a bank. Often a lifestyle business will be a smaller business such as franchise or retail shop, or a service business of some type. Typically the business is owned by the operator or a small partnership and does not have a lot of independent outside investors.

12. A **limited liability company** (LLC) is a form of corporate structure and ownership for a private company in which the private company's shareholders are protected from liability (as with a corporation or an "Inc.") but is taxes like a partnership (also known as "pass through" taxation) where the private company doesn't pay income taxes directly. At the end of each tax year, the LLC send its shareholders a form showing the shareholder's share of the private company and the shareholder’s share of the LLC's profits, losses and equity balance.

PrivCo

13. A **limited liability partnership** (LLP) is two or more partners united to conduct a business jointly, and in which one or more of the partners is liable only to the extent of the amount of money that partner has invested. Limited partners do not receive dividends but enjoy direct access to the flow of income and expenses.

14. In a **limited partnership**, limited partners are those who are passive investors and who don't actively participate in the partnership's decisions, but who receive distributions of dividends and profits from the partnership. A limited partner (aka an "LP") usually refers to an investor in a private equity fund, while the general partner is the private equity firm (that is, the investment management company who decides which companies to acquire and who then oversee management of its "portfolio companies.

PrivCo

15. A **line of credit** is an arrangement between a financial institution, usually a bank, and a customer that establishes a maximum loan balance that the borrower can maintain. The borrower can draw down on the line of credit at any time within the maximum set in the agreement.

16. **Liquidation preference** is used in VC contracts to specify the order and amount each investor get paid in a liquidation event such as a sale. Liquidation preference protects VCs by making sure they get their initial investments back before other parties. If the company is sold at a profit, liquidation preference can also put them first in line to claim the profits. VCs are usually repaid before holders of common stock and before the company's original owners and employees. Often, the liquidation preference can even be a "2x" or "3x" liquidation preference: that is, the VC first must receive 2 or 3x their original investment before all stockholders (including the VCs) in the private company start sharing the proceeds of a sale equally.

PrivCo

17. A **liquidity event** (also known as an exit or exit event) is a term that describes several possible events that allow initial investors of a company to cash out a portion or all of their investment. A liquidity event can take place in the form of an IPO or a merger/acquisition with/by another company.

18. A **lock-up period** is a window of time in which investors of a hedge fund or other closely-held investment vehicle are not allowed to redeem or sell shares. The lock-up period helps portfolio managers avoid liquidity problems while capital is put to work in sometimes illiquid investments.

19. **LP Units** is an ownership unit in a publicly traded limited partnership, or master limited partnership (MLP). This trust gives the unit holder a stake in the income generated by the partnership company. A MLP often distributes all available cash flow from operations to unit holders after the deduction of maintenance capital.

PrivCo

M

1. A **management buy-out** (MBO) is when the managers and/or executives of a company purchase controlling interest in a company from existing shareholders.

2. A **management fee** is a charge levied by an investment manager for managing an investment fund. The management fee is intended to compensate the managers for their time and expertise. It can also include other items such as investor relations expenses and the administration costs of the fund.

3. **Management rights** is a range of discretion in managing an organization reserved for its management under most corporate legislation. Management rights comprise of core rights (such as to determine the organization's mission, budget, strategy) and operational rights (such as to assign, direct, hire and fire).

PrivCo

4. **Market capitalization** is an on-going market valuation of a public firm (whose shares are publicly traded) computed by multiplying the number of outstanding shares (held by the shareholders) with the current per share market price. It is, however, not necessarily the price a buyer would pay for the entire firm. Market capitalization is not a realistic estimate of the firm's actual size, because a share's market price is based on trading in only a fraction of the firm's total outstanding shares.

5. A **material adverse change clause** is a contingency legal provision often found in mergers and acquisitions contracts and venture financing agreements that enables the acquirer (or funder) to refuse to complete the acquisition or merger or financing with the party being acquired (often termed, the "target") if the target suffers such a change.

PrivCo

6. A **merger** is the combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.

7. A **merger agreement** is a contract governing the merger of two or more companies.

8. **Mergers and acquisitions** (M&A) is a general term used to refer to the consolidation of companies. A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed.

PrivCo

9. A "**Merger Sub**" is the term given in M&A documents of a new shell company formed by the Acquirer solely to complete its acquisition of a target company. Usually, the Acquirer: (1) creates a new entity such as an LLC (the "Merger Sub") that is a subsidiary of the acquirer; (2) the Merger Sub then enters into a merger agreement with the acquired company; (3) the acquired company is no longer an independent company but is owned by Merger Sub, which in turn is owned by Acquirer. Thus after the transaction, the acquired company is effectively owned by the Acquirer.

10. **Mezzanine financing** is a hybrid of debt and equity financing that is typically used to finance the expansion of existing companies. Mezzanine financing is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to debt provided by senior lenders such as banks and venture capital companies.

PrivCo

11. A **middle-market** firm is a firm with sizeable annual revenues but straddles between the smaller companies and the billion-dollar giants. In the case of professions such as legal, accounting and brokerage, middle market firms are those that are just below the dominant firms (such as the Big Four in accounting) in their respective field.

12. A "**Mid-Stage**" company is one that has established customers, revenues, and business model, but has not yet grown large or mature enough to be considered "late stage“. A Mid-Stage investment is an investment in a Mid-Stage company.

13. **Milestones** is a term used within the framework of project management. A milestone is the end of a stage that marks the completion of a work package or phase, typically marked by a high-level event such as completion, endorsement or signing of a deliverable, document or a high-level review meeting.

PrivCo

N

1. A **narrow-based weighted average** is an anti-dilution provision that protects investors when companies are undergoing additional financing or issuing new shares. A narrow-based weighted average considers only the total number of outstanding preferred shares for determining the new weighted average price for the old shares.

2. **Net income** is a company's total earnings (or profit). Net income is calculated by taking revenues and adjusting for the cost of doing business, depreciation, interest, taxes and other expenses. This number is found on a company's income statement and is an important measure of how profitable the company is over a period. The measure is also used to calculate earnings per share.

PrivCo

3. The term "**NewCo**" is usually put into Merger and Acquisition Documents as a generic name for a new company that the M&A transaction will create. Example: "After the merger, XY Capital Partners will then invest $50 million into NewCo.“

4. The term "**NewSub**" is usually put into Merger and Acquisition Documents as a generic name for a new subsidiary company that the M&A transaction will create, which will become a subsidiary of the acquirer. Example: "After the merger, Microsoft will then invest $50 million into NewSub“.

5. A **non-compete clause** or covenant not to compete (CNC), is a term used in contract law under which one party (usually an employee) agrees not to pursue a similar profession or trade in competition against another party (usually the employer).

PrivCo

6. **Non-cumulative dividends** is a type of preferred stock that does not pay the holder any unpaid or omitted dividends. If the corporation chooses to not pay dividends in a given year, the investor does not have the right to claim any of those forgone dividends.

7. A **non-disclosure agreement** (NDA) is a legal contract between two or more parties that formalizes a confidential relationship. The confidential relationship often will refer to information that is to be shared between the parties but should not be made available to the general public.

8. **Non-participating stock** (usually non-participating preferred stock) is stock that has no right to be paid the company's dividends.

9. **Non-qualified stock option** (NSO) is a type of employee stock option where you pay ordinary income tax on the difference between the grant price and the price at which you exercise the option.

PrivCo

10. **Non-solicitation** is an agreement that restricts an individual (usually a former employee) from soliciting either (a) employees or (b) customers of a business after leaving the business.

11. A **no-shop clause** is a clause preventing the owner of the target company from attempting to sell the business to someone else while the two named parties are negotiating. The no-shop provision is good for a set period, such as 60 days, negotiated between the parties.

O

1. An **officer** is a person who is a position of authority at a company.

2. "**OldCo**" refers to the acquired company in a Merger and Acquisition documents. For example: "As contemplated in this acquisition, Microsoft will form Soft Holdings. After the transaction OldCo will cease to exist as a separate entity."

3. An **option pool** is shares of stock reserved for employees of a private company. The option pool is a way of attracting talented employees to a startup company if the employees help the company do well enough to go public, they will be compensated with stock. Employees who get into the startup early will usually receive a greater percentage of the option pool than employees who arrive later.

PrivCo

4. **Ordinary income tax** is income received that is taxed at the ordinary income rates, usually the highest. Ordinary income is composed mainly of wages, salaries, commissions and interest income. Ordinary income can only be offset with standard tax deductions, while capital gains income can only be offset with capital losses.

5. **Outstanding shares** is the stock currently held by investors, including restricted shares owned by the company's officers and insiders, as well as those held by the public. Shares that have been repurchased by the company are not considered outstanding stock.

6. **Overhang** is a measure of the potential dilution to which a common stock's existing shareholders are exposed due to potential stock-based compensation. It is usually represented in percentage form and is calculated as stock options granted, plus the remaining options that have yet to be granted divided by the total shares outstanding.

PrivCo

7. **Oversubscription** is a privilege provided to existing shareholders in a company when the company issues a rights or warrants offering. This enables shareholders to "subscribe" to purchase extra shares that are not picked up by the remaining shareholders.

8. **Over-the-counter market** (OTC) is a decentralized market of securities not listed on an exchange where market participants trade over the telephone, facsimile or electronic network instead of a physical trading floor. There is no central exchange or meeting place for this market.

9. **Ownership stake** is a share of ownership in a company by its founders.

PrivCo

P

1. **Par value** is the face value of a bond.

2. **Pari passu** is two securities or obligations having equal rights to payment.

3. **Participating dividends** is a type of preferred stock that gives the holder the right to receive dividends (usually specified as a rate and/or based on predetermined conditions). Usually, the additional dividend is structured to be paid only if the dividends to common shareholders exceeds a specified per-share amount.

4. **Participating stock** (or "participating preferred stock") is stock that is entitled to receive dividend payments.

5. A **pass-through entity** is a legal entity that passes income to the owners and/or investors. They are a common device used to limit taxation by avoiding double taxation. Only the investors/owners are taxed on revenues, not the entity itself.

PrivCo

6. **Pay to play** is when money is exchanged for services or the privilege to engage (play) in certain activities.

7. **Payment in kind** (PIK) is the use of a good or service as payment, instead of cash. Also known as "paid in-kind."

8. **Piggy-back rights** is a form of registration rights that grants the investor the right to register his or her unregistered stock when either the company or another investor initiates a registration. This type of registration right is seen as inferior to demand registration rights, because this class of right-holders cannot initiate the registration process.

9. A **pitchbook** is a prepared by an investment banking firm or other middle-man that provides an overview to potential investors of a potential investment (such as a proposed M&A deal).

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10. A **placement agent** is an individual or company that assists entrepreneurs or private companies in looking for a private equity investment or new capital via private placement.

11. **Plan of reorganization** is a plan for reorganizing the operations of a company that is in bankruptcy. A plan of reorganization is a proposal to lift the company out of bankruptcy and may be voted on by the creditors of the company.

12. A **portfolio company** is a company in which a venture capital or a private equity firm.

13. **Post-money valuation** is the value of a company directly after an equity investment in the company is made, i.e. pre-money valuation plus the equity investment amount.

PrivCo

14. A **preemptive right** is the right to acquire certain property or securities before any other person. Preemptive right protects existing investors against ownership dilution.

15. **Preferred stock** is a specific class of stock that has a higher claim on assets and earnings than common stock. Preferred shares, depending on the issuing company, have characteristics akin to both debt and equity, having both potential appreciation and fixed payments. Dividends on preferred stock are paid before the dividends on common stock.

16. **Pre-money valuation** is the value of a company just before an equity investment in the company is made. The valuation is agreed upon between investors preparing to participate in a new funding round and the company. It is used to determine the price per share to be paid by investors in the new funding round (subscription price).

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17. A **pre-rumor purchase premium** is the amount paid per-share of a public company being acquired or taken-private that is over the amount the stock had been trading at on the public markets before reports of the acquisition is announced.

18. A **private company** is a company or corporation whose ownership is private. A private company does not have to meet the Securities and Exchange Commission filing requirements of public companies. Private companies issue stock and have shareholders but their shares do not trade on public exchanges and are not issued to the general public. A private company is treated as a single legal entity with rights and liabilities separate from its owners. Owners and other private investors are shareholders in the private company.

PrivCo

19. **Private equity** is an individual or consortium of investors that make investments directly into private companies or initiate buyouts of public companies. Private equity is ownership in private companies that is not listed on public exchanges, hence it is illiquid.

20. A **private offering** is an investment offer into a private company to a select or small group of investors by the company management to raise capital.

21. **Private placement** is a capital raising method that sells securities of a private company to accredited investors. Private placements do not require filing with the Securities and Exchange Commission and detailed financial information is not disclosed. Private placements are offered to a small number of investors and are usually a direct sale of securities between the issuer and the investor. Note that a private placement can also be done by a public company. For example, a public firm may do a private placement to issue new bonds.

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22. A **private placement memorandum** details the type of securities offered, objectives, risks, and terms of the private placement. A typical private placement memorandum includes a detailed business description, financial statements, and management biographies.

23. "**PrivCo**" is a generic name for a private company being acquired (or who is doing the acquiring) as part of the M&A transaction. For example: "Intel Corporation will then acquire PrivCo for total consideration of $10,000,000 in cash and 10,000 shares of Intel Corp." (Of course this is also the trademark for PrivCo.com, the leading financial data provider on private companies.)

24. **Pro rata** (directly defined as proportionately or in proportion) refers to the allocation of materials or resources to multiple holders based on a proportional scale of ownership

PrivCo

25. **Promote** is a marketing/advertising action to encourage sales, the advancement of rank or position and the encouragement of progress or action.

26. **Prospectus** is a formal document detailing an offer to sell securities to the public. A prospectus is filed with the Securities and Exchange Commission and offers information regarding investment objectives, policies, risks, and depending on the product, potential fees and services. Key selected financial data and management profiles are also included in a prospectus.

27. A "**public company**" is a company whose stock (equity) securities are publicly traded on an exchange such as the New York Stock Exchange.

28. A **public offering** is sale of stock by a private company to the public. A public offering is usually done with the help of a syndicate of underwriters and arrangers who distribute the initial shares to their brokers and high net worth clients.

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29. A **purchase agreement** is a contract that obligates the buyer to buy and the seller to sell. A binding legal document that establishes the terms of the agreement, including the sale price, the terms of the sale, and the actual item for sale.

30. The **purchase premium** is the amount paid per-share of a public company being acquired or taken private that is over the amount the stock had been trading at on the public markets before the announcement of the acquisition. For example, if an acquisition of XY Corp. is announced at $24 a share and it had previously been trading at $20 a share, the purchase premium is 20%.

31. A "**put right**" is the right of a stockholder to sell his stock back to the company who sold it to him ('put" it back to the company") at a fixed price.

PrivCo

Q

1. **Qualified financing** is equity financing for a start-up for the purpose of raising funding. Qualified financing provisions are often specified in convertible notes to determine investment thresholds required for the automatic conversion of a note into equity

2. **Quiet period** is regulation by the Securities and Exchange Commission that restricts promotional publicity of a security up to 3 months post its IPO.

PrivCo

R

1. A **rachet** provision provides anti-dilution protection to an investor. When a company raises new equity capital such as venture capital, with a Full Rachet provision an investor has the option to maintain the ownership as the initial investment. For example, an investor who paid $10 per share for a 20% stake in a private company would get more shares in order to maintain that stake if a subsequent round of financing were to come through at $8 per share. The earlier round investor would have the right to convert his shares at the $8 per share price as part of the Down Round, increasing his shares by 25% and maintaining his 20% ownership stake in the private company.

2. **Recapitalization** is the restricting of a company's debt and equity mixture in order to stabilize the corporate capital structure, diversify the debt-to-equity ratio, defend against a hostile takeover, minimize tax obligations, or implement an exit strategy for venture capitalists.

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3. **Redemption** is return of the investor's principal in a fixed income security. A fixed income security can be redeemed at par, at a premium/discount, upon maturity or at a callable date. There may be certain limitations that exist such as minimum holding periods prior to redemption.

4. **Redlining** typically refers to marking up a document during the negotiations of a transaction such as a venture capital deal, merger, acquisition, buyout etc.

5. A **registered agent** is a person or company that is designated to receive all important information and documents on behalf of the corporation. A registered agent must always be available at a designated legal address.

6. **Registrable securities** are shares of common stock issuable to holders of preferred stock upon conversion of the shares.

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7. **Registration** is the process of filing documents with the SEC detailing the specifics of a proposed public offering. Registration includes detailed information on the filing company's assets, operations, company management, and the offered securities. Registration also includes third-party audited financial statements.

8. **Registration rights** is a contractual right allowing holders of restricted stock to petition the issuing company to register the shares with the SEC in order to put the shares up for sale.

9. A **reincorporation merger** is a merger agreement which merges an existing company that is registered in a certain location and under a certain name with a legal entity, which may be registered in a different location and possibly under a different name. The purpose of the merger agreement is to alter the name or the registered location of an existing corporation to benefit from certain rules and business regulations that are not located in the state of original incorporation.

PrivCo

10. A "**reporting company**" is a company that is required to file financial disclosure documents with SEC. These can be public companies or can be private companies who have some securities such as bonds that were sold to the public and remain publicly-traded.

11. **Representations and Warranties** (also referred to as "reps and warranties") are the claims a seller of a company is making to the acquirer (such as "We have no outstanding litigation"; "The attached financial statements are accurate" etc.

12. A **repurchase option** is a right granted to a third party by a vested options holder to repurchase his shares at a nominal price prior to the shares vesting.

13. **Restricted stock** is shares owned by insiders of a company that are under a sales restriction for a specified period.

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14. A **restricted stock purchase agreement** is a legal document made between the shareholder and the startup company that details the transfer and purchase of stock by the shareholder, its price, amount, and restrictions placed on the sale of the stock through a vesting schedule.

15. **Restructuring** is a modification made to the operations, structure or debt of a company to put in a more favorable business position and remove financial harm such as overbearing debt payments.

16. **Return on investment** is a performance measure used to calculate and compare the efficiency of different investments. Calculation involves finding the difference between the gain on an investment and the cost of the investment as a percentage of the cost of the investment.

PrivCo

17. **Revenue** is the total amount of money a company receives for its sales and services prior to expenses, taxes, amortization and depreciation. Revenue is calculated by multiplying the price at which goods are sold by the amount of goods sold. Revenue figures can differ based on inventory accounting methods such as

18. A **reverse break up fee** is a termination fee an acquiring company pays to the target company in a merger or acquisition transaction if the acquiring company terminates or backs out of the transaction.

19. A **reverse merger** (reverse takeover) is a type of merger transaction used by private companies to become publicly traded without an initial public offering. A reverse merger is initiated when a private company purchases a controlling interest in a public company. The shareholders of the private company then exchange their shares in the private company for shares in the public company and thereby effectively becoming a publicly traded company.

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20. **Reverse vesting** is a vesting schedule offered by pre-IPO companies. Under the agreement, stock options may be exercised immediately after they are granted in exchange for restricted shares in a company that have separate vesting schedules. Reverse vesting is used as a tax-planning technique when used in combination with Section 83(b) of the Internal Revenue Code.

21. **Right of first refusal** is a contractual obligation by an owner of an asset to offer the initial purchase option to the holder of the rights prior to offering the asset for sale to third parties, allowing existing investors to purchase an asset before it is made available for purchase to others.

22. **Rights offering** is an offer for existing shareholders of a company to purchase additional securities at a given price (usually at a discount) for a fixed time-frame.

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23. A "**road show**" is a presentation by an issuing company to market its offered securities to potential buyers or investors.

24. **Rollup** is the exchange of one option position for another with a higher strike price. This often occurs when a venture capital firm forces smaller companies to merge in order to reduce costs.

25. A "**Round**" is an investment made in a private company by one or more investors using a set of terms, usually but not always closing on the same date. There can be one or multiple participants in a round, and all generally have the same price and other terms.

26. **Royalties** are payments made to the owner of an asset for use of that asset.

PrivCo

S

1. An **S-Corporation** is a form of a corporation that allows companies that have less than 100 shareholders to benefit from the liability protection of a corporation and the tax benefits of a partnership. This means that the earnings of the company are only taxed once at the personal income level. A company that meets the requirements to be taxed under the Internal Revenue Code Subchapter S.

2. **Scalability** is the capability of a system, function, or model to maintain and even improve performance under continuously greater operational demands without changing its core infrastructure.

3. **Scale down** is to reduce the size of something in proportion to its other components.

4. **Scale up** is to increase the size of something in proportion to its other components.

PrivCo

5. **Search fund** is a tool used by entrepreneurs to raise funds from investors in making private equity investments.

6. An **SEC filing** is a required formal document submitted to the U.S. Securities and Exchange Commission (SEC), thus making it available to the public through the SEC's online database. The document often includes a financial statement that details the company's financial performance. Publicly traded companies are required to make regular SEC filings.

7. **SEC Form 10-K** is the name of the Securities and Exchange Commission form on which a public company (or private company with publicly traded debt) must file its Annual Report making full disclosure to investors of its financial position, income statement, business operations etc. Any company required to file reports with the SEC (known as a "reporting company") must file a 10-K every fiscal year.

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8. **SEC Form 10-Q** is the name of the Securities and Exchange Commission form on which a public company (or private company with publicly traded debt) must file its Quarterly Report making full disclosure to investors of its financial position, income statement, business operations etc. Any company that is required to file reports with the SEC (known as a "reporting company") must file a 10-Q at the end of each quarter.

9. **SEC Form 8-K** is the name of the Securities and Exchange Commission form on which a public company (or private company with publicly traded debt) must file to disclose any significant change or event to investors. Examples of events that require an 8-K Form to be filed are: a merger or acquisition, bankruptcy, departure of key executive, or notice of delisting. The SEC requires an 8-K be filed within four days of the occurrence of the event.

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10. **SEC Form D** is the name of the Securities and Exchange Commission form that is required to be filed by a private company using an exemption under Regulation D when selling its securities to investors. Under Regulation D, a private company does not have to register its securities and does not have to file reports with the SEC and thus not have to disclose its financial position. The company must file a Form D after they first sell their securities. Form D consists of a brief notice that includes the names and addresses of the company's executive officers and stock promoters, but contains little other information about the company.
11. **SEC Form S-1** is the name of the Securities and Exchange Commission that is required to be filed by a company before an initial public offering (IPO) of securities. The form requires full disclosure to investors of its financial position, income statement, business operations etc., as well as a complete description of the security being offered and terms of the sale.

PrivCo

12. **Second lien debt** is a debt that is subordinate to the rights of other senior debt issued against the same collateral. If a borrower defaults on the debt, second lien debt has a lower claim on payments from the underlying collateral than the higher lien debt.

13. **Second stage funding** is venture capital funding stage at which an idea has most likely been transformed into a product and is now competing with the rest of the market. The goal of second stage funding is to obtain market share and minimize loss as the company tries to reach a break-even point.

14. A **secondary sale** (also known as a secondary buy-out) is a type of leveraged buyout where one private equity firm sells its stake in a company to another private equity firm thereby fully exiting from its investment.

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15. A **section 363 Bankruptcy sale** is a sale of assets in a bankruptcy case, usually in a Chapter 11 reorganization. An expedited auction of a bankrupt company where buyers are able to purchase assets free of any liens. Liens on the underlying assets sold will be reattached to the proceed of the sale and paid accordingly. Section 363 sales do not require shareholder approval.

16. **Secured debt** is debt that is backed or secured by an underlying asset, which is considered collateral. Collateral is used to reduce the risk associated with lending.

17. The **Securities Exchange Act of 1934** is an act passed to form a governing body of laws to regulate securities transactions after they are issued, broker-dealers, and exchanges in order to protect the interests of the investing public. The Securities and Exchange Commission was formed to enforce the laws passed by the act.

PrivCo

18. **Securitization facility** pools various types of existing debt, repackages them, and sells the new debt to investors. This enables the issuer to consolidate debt and pay off all previous debt holders.

19. A **security** is a financial instrument representing value. A security can be debt (such as bonds, bank notes, and debentures) or equity (such as common stock, forwards, futures, options, and swaps).

20. **Security interest** is a legal claim by the borrower of a loan that provides the lender with an interest in certain assets in case the debt obligation is not met.

21. **Seed capital** is the initial capital used to start a business. Seed capital usually comes from the founder's personal assets or friends and family but can also come from outside angel investors. Seed capital is usually in the conceptual stage and is used for research and development and cover basic expenses until the product or services can begin generating revenue.

PrivCo

22. **Seed stage** is the stage at which a business has no customers and has not yet fully developed its business model. During this stage, a company may still need to conduct research and development to further establish commercial operations.

23. **Senior debt** is a bond or other form of debt that holds priority over other debt issued by the borrowing company. In the event of bankruptcy, senior debt must be repaid before any other creditors receive payment.

24. A "**Series**" is an investment Round where all the investors invest on the same set of terms, such as price, dividend and liquidation preference rights etc. Often, investors present their investments at approximately the same time, and the Round "closes" on a fixed date for all investors. The Series letters are just in order of the investment rounds, the first Round being Series A, the second round being Series B, third round being Series C, fourth round being Series D, and so on.

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25. **Series A preferred stock** is stock issued by a company during the seed or other early stage round of financing. A preferred stock is usually convertible into common stock in such cases as an IPO or the sale of a company.

26. **Series A** is the first round of financing after the seed round which is usually the first time the company opens to external investors. At the point of a Series A round of financing, companies may be generating little or no revenue from operations. Investors are typically venture capital funds and angel investors.

27. **Series AA round** is an angel or seed round of start-up financing that issues a class of preferred stock.

28. **Series B round** is the second round of financing for a business by private equity investors or venture capitalists following the initial seed and series A round. Series B funding is generally taking place after the company has achieved certain milestones in tits business development.

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29. **Shareholder consent** is permission granted by a stockholder in a company for the company to take certain actions (such as raise for capital or enter into an M&A transaction). Private company investors often demand that shareholder consent be obtained for certain major transactions or actions before the private company can make them.

30. The **shareholders agreement** is a document that governs the relationship between the startup company and the shareholders. The agreement details the rights of the shareholder with regards to first refusal, transfer rights, and redemption rights.

31. A **shell corporation** is a corporation that has operations or assets. Shell corporations are usually formed prior to beginning business operations to obtain financing. Historically, shell corporations have been used as a method of tax evasion.

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32. **Single trigger acceleration** is a clause in the vesting agreement that shortens the vesting schedule by a pre-designated time after a single event occurs such as a acquisition by another company.

33. A **small business investment company** (SBIC) is a privately owned and Small Business Administration licensed company that profits on its investments in small firms. SBICs have access to federal funding that matches the available credit for a company based on the size of its investments.

34. "**Sources and Uses of Funds**" is a restriction placed on an investment into a private company by the investor. For example, the investor's contract may demand that the Sources and Uses of Funds are to be to make acquisitions, or only to purchase a piece of real estate such as a factory. Often Sources and Uses of Funds will be very loose and say that the Sources and Uses is "for general corporate purposes".

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35. A **spin-off** is the creation of an independent company by the issuance of new shares by an existing business division of a company. A spin-off is a type of divestiture where a company that wishes to streamline its business will sell less productive or unrelated subsidiaries as spin-offs.

36. A **startup** is a company that is in its first stage of operations, has small or no market-share and is financed by its founders or select investors and venture capital firms.

37. **Stock options** is the benefit a company gives its employees to purchase the company's stock at a discounted or fixed price at some point in the future. Stock options are used as incentives to retain talented employees by offering them performance-based payouts especially of the price the option can be exercised at is considerably lower than the current price of the stock.

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38. A **stock plan** is an agreement that allows employees and executives of companies to own a share of the company via stock options, employee ownership, and restricted stock issuance as a form of compensation.

39. A **stock purchase agreement** is a legal document made between a shareholder and a startup company that details the transfer and sale of the startup's stock to the share holder. The agreement discloses the amount of shares purchased, share price, and payment method.

40. A **stock split** is a corporate action in which a company's existing shares are divided into multiple shares. The total dollar value of the shares does not change because earnings per share remain proportional to pre-split levels. Stock splits do not add any value to shareholder's equity but make share transactions more liquid since the price is more manageable for small investors.

41. **Stockholder's equity** is the section of the balance sheet that lists the capital and the retained earnings of a company.

42. A **stockholders** is any person, company or legal entity that owns a share of another company.

43. **Strategic buyers** are acquirers of companies who are in a similar line of business as the acquired company and are entering into a merger or acquisition (M&A) transaction for strategic reasons, such as expanding into a new geographic market, increasing existing market share, or adding an innovative new technology. Strategic buyers can also benefit from reducing overlapping overhead costs such as Human Resources, Finance, and others and make the combined new entity more profitable. A strategic buyer will typically incorporate the acquired company into its business operations and hold on to it for the long term, if not indefinitely.

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44. A strategic investment is an investment by a corporation or an affiliated firm into a young company that has potential to offer something of value in return or will create synergy with the existing business of the investor.

45. **Subordinated debt** is a security that ranks below other securities when it comes to claim on assets or earnings. In case of bankruptcy, subordinated debt does not get repaid until all senior debt has been settled.

46. **Subscription price** is a price at which shareholders can participate in a follow-on offering conducted by a public company so they may retain their proportional ownership of the business. Subscription price can also be defined as the exercise price for warrant holders in a stock.

47. A **subsidiary** is a company where the controlling interest of voting stock (greater than 50%) is owned by another company, referred to as the parent company.

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48. **Supermajority voting** is a corporate amendment requiring a greater majority (usually 67-90%) of stakeholders to approve important changes.

49. A **surviving corporation** is the company in the merger or acquisition transaction that acquires the targets assets and continues the operations of the preceding company. The surviving company may be a newly organized legal entity or an existing one.

50. **Sweat equity** is ownership interest given in return for contributions of time, labor and other non-capital efforts.

51. A **syndication** is a group of accredited or institutional investors who combine funds to help a company finance the entirety of their project and to delegate the risk of the transaction among all syndicate members.

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T

1. **Tag along right** is a contractual obligation to protect the rights of a minority shareholder in illiquid deals. If the majority stakeholder decides to sell their stake, a minority stake holder is allowed to "tag-along" in the transaction and sell their stake as well. Also referred to as "co-sale rights.“

2. A **take private** is the action of purchasing a public company's outstanding shares and de-listing the company from a publicly traded exchange to take the company under private ownership.

3. A **takeover** is a change in the controlling interest of a company via sale, merger, or buyout. A purchase of a company (labeled Target company) by an acquirer. Usually in reference to an acquisition of public company by a private company.

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4. **Target / deal multiples** is a factor used to multiply a business economic benefit to derive the business value. Multiples are used to evaluate business value using comparable company data.

5. A **target company** is the company to be acquired or that was acquired.

6. A **technology transfer agreement** is a purchasing agreement for the rights to own, utilize, and possibly produce technology that was previously owned by another.

7. A **ten bagger** is an investment term coined by Peter Lynch where the investment is sold for more than ten-times more than its original purchase price.

8. A **term sheet** is a list of specifications and requests outlining the material terms and conditions of a contract. A term sheet may include a time-line.

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4. **Tranche** is a portion of a security offered in a transaction that has distinct risk specifications and maturity dates than the other layers of the multiple-class security.

U

1. **Underwater** is the condition of a call option where the strike price is above the market price and conversely a condition of a put option where the strike price is below the market price. Also known as "out of the money."

2. **Unsecured debt** is a debt that is not guaranteed by an underlying asset or collateral therefore offered by lenders at generally higher interest rates that are based off the credit rating of the borrower.

3. An "**up round**" is a round of financing where investors purchase stock from a company at a higher valuation than the valuation placed upon the company by earlier investors. An "up round" is the opposite of a "down round".

V

1. **Valuation** is a method of determining the current worth of an asset or company; an appraisal of value using various techniques which include analysis of financial statements, management profiles, competitive space, industry, and markets.

2. **Venture capital** is capital provided by investors to small business and start-up firms that have potential high growth opportunities. Venture capital investments have a potential for considerable loss or profit and is generally designated for new and speculative enterprises who seek to generate a return through a potential initial public offering or sale of the company.

3. A **venture capital limited partnership** is a limited partnership of funds and angel investors which is formed to invest in small start-up businesses

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4. A **venture-backed company** is a private company whose investors include a venture capital firm. (See PrivCo.com definition of "Venture Capital".

5. A **vesting schedule** is a schedule detailing the time frame and the extent to which stock options may be exercised or awarded.

6. **Voting rights** is the right of a stockholder to vote on matters of company policy such as stock issuances, corporate actions, operational changes, and mergers. The number of votes a shareholder is entitled to corresponds to the number of shares they own.

W

1. A **warrant** is a derivative security that gives the holder an option to purchase securities from the issuer at a specific price within a designated time frame.

2. **White label** is the act of rebranding a service or product produced by one company. The rebranding company usually overlays their own customized brand name or visual appeal on the product and markets it as their own. The original product is actually owned by the manufacturer.

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