

Financial Terms Glossary

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This glossary is intended to help you better understand the specialized language, terms and phrases used in the world of finance.

- 52 Week High - The highest price the stock reached during trading over the last 52 weeks.
- 52 Week Low - The lowest price the stock reached during trading over the last 52 weeks.
- Accredited Investor - Knowledgeable and sophisticated person or institutions who qualify to purchase securities in transactions exempt from registration under the Securities Act of 1933.
- Acquired Corporation - A corporation which has been the target of a successful acquisition attempt.
- Acquiring Corporation - The corporation seeking to acquire the target corporation.
- All Hands Meeting - A meeting encompassing all parties involved (company executives, business advisors, auditors, attorneys and underwriters) in the preparation of the registration statement.
- Assets - Total current assets plus total non-current assets as indicated on the latest 10K or 10Q. Total assets is a balance sheet item.
- Average Daily Volume - The arithmetic average of the last four weeks of daily trading volume.
- Best Efforts Underwriting - A type of underwriter agreement where the underwriter agrees to use their best efforts to sell shares of the issuers stock.
- Blind Pool Offering - Selling stock in a company that has not decided what business it wants to pursue. These offerings are very risky because there is no basis to evaluate the earnings potential of the business or industry.
- Blue Chip Stock - The common stock of a company known for the quality and wide acceptance of its products or services, and for its ability to generate consistent profits and pay dividends.
- Blue Sky Law - A popular name given to state statutes regulating the sales of corporate securities through investment companies, imposed to prevent the sale of securities of fraudulent enterprises.
- Board of Directors - A group elected by shareholders to set company policy and appoint the chief executives and operating officers.
- Book Value - Refers to corporations, the worth of the assets minus the cost of the liabilities.
- Bridge Financing - Short-term financing (less than 2 years) used until permanent financing can be arranged.
- Bring Down Letter - An update to the comfort letter issued as a condition of closing and IPO offering.
- Broker - A person who brings parties (a buyer and a seller) together and may assist in contract negotiations between the parties.
- Capitalization - The company's debt and equity structure.
- Cash Flow - Cash flow is a critical financial indicator, "Cash is King". Positive cash flow indicates the business is receiving (Collections) more money than the business is spending (Disbursements). Negative cash flow indicates the business is spending more money that the business is receiving. A simple example of the cash flow formula: $Cash\ Flow = Total\ Collections - Total\ Disbursements$. A cash flow number that is positive is good and a cash flow number that is negative is not good.

Financial Terms Glossary (continued)

- Closing Meeting - Meeting to exchange company securities for the proceeds of the offering.
- Comfort Letter - A letter provided by the company's independent audit firm for the comfort of the underwriters.
- Comment Letter - A letter from the SEC noting deficiencies in the company's registration statement.
- Consent - The approval from the certified public accounting firm to use the company's audit report on prior years financial statements in the registration statement.
- Debt to Equity Ratio - The D/E ratio is the long term debt to the common equity figure taken from the latest 10K or 10Q. Both long term debt and common equity are balance sheet items.
- Debt to Equity versus Industry - The latest D/E ratio from the company divided by the latest D/E ratio calculated on the industry, expressed as a percentage. The industry D/E ratio is a market value weighted D/E that uses all the component companies that are in a particular Dow Jones Industry Group.
- De-listing - Removal of an issue from authorized trading when the issuer fails to maintain the minimal requirements.
- Derivatives – Are financial instruments whose value is derived from the underlying on which the derivatives are based. Derivatives are assets and can be based on commodities, equities, residential mortgages, commercial real estate, loans; or an index such as interest rates, exchange rates, stock market indices, consumer price index. The main types of derivatives are forwards, futures, options and swaps.
- Dilution - The effect of a drop in earnings per share or book value per share, caused by the potential conversion of securities.
- Dividend - Profits or earnings appropriated for distribution among stockholders. The cash dividends paid per share as indicated on the 10K or 10Q.
- Dividend Yield - The latest dividend rate divided by the latest closing price of the stock.
- Due Diligence - An investigation of the company in order to provide a reasonable belief that the statements in the registration statement have not omitted any material facts.
- Earnings Per Share - Earnings per share (EPS) are earnings gained per share of common stock from the total operations and are indicated in the 10K and 10Q.
- Earnings Before Interest, Tax, Depreciation and Amortization. EBITDA is a standard unit of financial measure when discussing a company's financial performance.
- Effective Date - The date the company's registration becomes effective and the sale of securities can begin.
- Employee Stock Ownership Plan - A plan designed to provide an ownership stake in the company for the employee.
- Financial Instruments Are evidence of an ownership interest in an entity or a contractual right. Financial instruments are categorized by type: securities, cash, exchange derivatives or over the counter derivatives. Financial instruments also are subdivided into asset class: long-term debt, short-term debt, equity or foreign exchange.
- Finder's Fee - A fee or commission paid to an individual or organization for finding what a party needs or desires. In merger activities, the finder locates the buyer and/or seller. In a consolidation initiative, the finder locates consolidation candidates.

Financial Terms Glossary (continued)

- Firm Commitment Underwriting - A type of underwriter agreement where the underwriter agrees to purchase all shares in the offering and then resell them to the public.
- Form 8A - An abbreviated SEC registration form, under the 1934 Securities Act.
- Form 8K - A report required by the SEC when certain material events occurred within the company.
- Form 10K - The company's annual report, filed with the SEC. (Small Businesses use Form-10KSB)
- Form 10Q - The company's quarterly report, filed with the SEC. (Small Businesses use Form-10QSB)
- Form S1 - A comprehensive registration statement filed with the SEC.
- Form S4 - A registration statement used to register securities in connection with transactions involving mergers, consolidations, transfers for assets, exchange offers with another issuer, etc.
- Form SB1 - A registration statement that can be used by small business issuers for initial and secondary offerings.
- Form SR - A report that must be filed with the SEC after an offering. The SR reflects the amount of proceeds from the offering and the intended use of the proceeds.
- Good Faith - A total absence of any intention to seek an unfair advantage or to defraud another party.
- Good Will - A balance sheet asset when a going business is acquired through a purchase transaction in which the price paid exceeds the net asset value.
- Green Shoe Option - An underwriter option that allows them to over-purchase additional shares from the company.
- Growth Stock - The stock of a company which has above average earnings growth and has potential for continued above average future earnings growth.
- Insider Trading - Buying or selling corporate stock by a corporate officer or other insider who profits by their access to information not available to the public.
- Institutional Holdings - A monthly figure reflecting the percentage of common stock held by all reporting institutions such as banks, insurance companies or mutual funds with equity assets over \$100 million.
- Intermediary - A person that searches for targets, pursues candidates that meet merger or acquisition criteria, assembles companies for consolidation or combination, identifies funding sources, coordinates activities, and expedites the process.
- Investment Banker - A broker of stocks who acts as an underwriter of securities.
- Latest Dividend - The latest per share cash dividend that the company has paid.
- Lead/Managing Underwriter - The underwriter that manages the company's securities offering and leads the underwriter syndicate. The lead underwriter is identified on the left side of the prospectus.
- Letter of Intent - An agreement to agree. It reflects specific terms to be contained in the agreement.
- Leverage Buy Out - The acquisition of an existing company using a large amount of debt.
- Long Term Debt - The amount of borrowings due after one year, taken from the latest 10K or 10Q.

Financial Terms Glossary (continued)

- Loss Per Share - Loss per share are earnings lost per share of common stock from the total operations and are indicated in the 10K and 10Q.
- Market Makers - Underwriters that offer to buy or sell shares at a firm price from the public to help sustain financial community interest and provide aftermarket support for the company's shares.
- Market Value - The latest closing price of the stock multiplied by the latest number of common shares outstanding.
- Mezzanine Financing - Financing that typically reflects both debt and equity. For example, a mezzanine financing arrangement could be structured as a subordinate debt instrument with warrants to purchase an equity interest in the company.
- Net Income - Net income is indicated on the 10K and 10Q, it is taken from total operations (continuing operations plus discontinued operations) and is based on after taxes and minority interest and before extraordinary gains and/or losses.
- Oversubscribed - An IPO related situation, where the underwriter has the ability to sell more shares than it has agreed to buy from the issuer. This can result in additional funds for the IPO company.
- Price to Book Value Ratio - The P/B ratio is the latest closing price of the stock divided by the common stock equity figures taken from the latest 10K or 10Q. The common stock equity is a balance sheet item.
- Price to Book versus Industry - The latest P/B ratio from the company divided by the latest P/B ratio calculated on the industry, expressed as a percentage. The industry P/B ratio is a market value weighted P/B that uses all the component companies that are in a particular Dow Jones Industry Group.
- Price to Earnings Ratio - The P/E ratio is the latest closing price of the stock divided by the trailing four quarters of earnings per share (EPS) from total operations. The EPS figures are taken directly from the latest four 10Qs.
- Price to Earnings versus Industry - The latest P/E ratio from the company divided by the latest P/E ratio calculated for its industry, expressed as a percentage. The industry P/E ratio is a market value weighted P/E that uses all the component companies that are in a particular Dow Jones Industry Group.
- Primary Market - The US exchange on which the company's shares trade.
- Private Placement - The sale of securities that do not involve a public offering. Private placement is exempt from SEC registration; however, you should check for state registration requirements.
- Promoter - A person that leads and coordinates activities associated with industry consolidations, business combinations, and initial public offerings. Works with venture capitalist, investment bankers and commercial institutions to secure equity and debt financing. Works with public accounting firms, law firms and underwriters to expedite initial public offerings.
- Prospectus - A document used by the underwriter community to promote the company to prospective investors. The prospectus is also part of the SEC registration statement and discloses significant information about the company.
- Red Herring - The preliminary draft of the IPO prospectus. It provides the underwriting syndicate and prospective investors with information on the company before the effective date is established.
- Registration Statement - The disclosure document that is filed with the SEC. The registration statement contains detailed information about the company.
- Regulation C - The SEC guidelines and procedures required to file a registration statement.

Financial Terms Glossary (continued)

- Restricted Stock - A type of shares issued in a private placement that are restricted from resale.
- Return on Equity - The return on equity (ROE) is the trailing four quarters of net income from total operations divided by the latest common equity figure. The net income figures are taken from the latest four 10Qs, and the common equity figure is a balance sheet item taken from the latest 10Q.
- Return on Equity versus Industry - The latest ROE from the company divided by the latest ROE calculated on the industry, expressed as a percentage. The industry ROE is a market value weighted ROE that uses all the component companies that are in a particular Dow Jones Industrial Group.
- Revenue - Revenue includes all net sales of the corporation plus any other revenues associated with the main operation of the business or those labeled as operating revenues as indicated on the 10K or 10Q. It does not include dividends, interest income or non-operating income.
- Road Show - A series of question and answer meetings, over a brief period of time, aimed at informing the underwriter and the investment community about the company.
- Rule 144A - A safe harbor exemptions from the registration requirements of the Securities Act of 1933.
- Rule 504 - Provides an exemption for the offer and sale of up to \$1,000,000 of securities in a 12-month period.
- Rule 505 - Provides an exemption for offers and sales of securities totaling up to \$5 million in any 12-month period.
- Rule 506 - Provides a "safe harbor" for the private offering exemption. Your company must satisfy the standards within the Section 4-2 exemption.
- Rule 701 - Provides an exemption for the offer and sale of securities to compensate employees.
- Secondary Offering - A public offering of company shares after the IPO.
- Securities Act of 1933 - Requires that a company successfully complete all registration requirements with the SEC before its shares are sold to the public.
- Securities Exchange Act of 1934 - Regulates the various securities exchange markets and requires public companies to file periodic reports with the SEC.
- Securities and Exchange Commission - A US Federal government agency responsible for administering and enforcing the US federal securities laws.
- Shares Outstanding - The number of common shares outstanding as indicated by the company on the 10K or 10Q.
- SOX The Sarbanes-Oxley Act of 2002 establishes new and enhanced standards for all U.S. publicly traded company boards, management executives and public accounting firms. The objective of SOX is to increase transparency and accountability in financial statements and disclosures released by publicly traded companies. SOX requirements do not apply to privately held companies.
- Tender Offer - An offer extended to another company aimed at either gaining control or purchase the company.
- Tombstone - A published notice of the company's offering. It typically includes the company name, the amount to be offered and the underwriters. Examples are reflected in the Wall Street Journal, Section C.

Financial Terms Glossary (continued)

- Transmittal Letter - The transmittal letter accompanies the registration statement and provides insight on any items of importance or resolutions reached with SEC staff in the preparation of the registration.
- Underwriter - The underwriters are the second most important component of your company's IPO. The most important is your company. The underwriter promotes and sells you company's securities.
- Underwriter Agreement - This agreement specifies the terms, conditions and limitations which the underwriter will work to promote and sell your company's securities. See *Best Efforts Underwriting and Firm Commitment Underwriting*.
- Venture Capital - financing for high-risk "venture" opportunities.

Please contact me if you have any questions regarding the terms presented in this document.

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