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GLOSSARY OF TERMS

A

"A" Round
A form of financing in which venture capitalists invest in a company previously financed by the founders or angels, so called because it is usually "Series A Preferred Stock" being sold.

Accredited Investor
Defined in Rule 501 of Regulation D, an individual "accredited investor" is either 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 OR 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.

Adventure Capital
A speculative investment, more risky than venture capital.

Advisory Board
A panel of advisors to a company, generally from outside the company. Generally an Advisory Board is not as formal as a Board of Directors, and is not a statutory requirement.

Affiliates
Business organizations or individuals that control each other or are controlled by a third party (i.e., a parent company). Affiliates may share such things as management staff, employees, facilities, and/or equipment.

Angel Financing
The raising of funds (seed financing) for a startup company from independently wealthy investors.

Angel Groups
Networks and other organizations specifically formed to facilitate angel investments in start-up companies.

Angel Investor
A generally independently wealthy investor who provides funds (generally seed financing) to startup companies.

Antidilution provisions
Methods for allowing earlier investors to keep a constant percentage of a company's equity following later sales of stock or other securities. See Full Ratchet and Weighted Average for the most common antidilution provisions.

Assets
All real or intellectual property owned by the enterprise that has a positive financial value. On a Balance Sheet, a summary list of the property and things owned.

B

"B" Round
A form of financing following the "A" Round where venture capitalists or other investors contribute additional financing, generally through the purchase of Series B Preferred Stock, indicating that they are sufficiently interested in a company to continue financing. Subsequent rounds are usually called "C", "D", &c.

Balance Sheet
A summary statement of assets, liabilities, and owner's equity used to assess the financial condition of a business. Also referred to as the statement of financial condition.

Bank Reconciliation
The process of making sure your bank statement, checkbook, and books (ledger, journal, etc.) all agree. Usually performed at the end of each month.

Barriers to Competition (Barriers to Entry)
Any condition or circumstance that makes it difficult for a new business to enter an industry, such as exclusive ownership of a unique resource, economies of scale, patents, licenses, trademarks, copyrights, dedicated distribution channels, and high initial investment requirements.

Barter
Merchandise or services exchanged for other merchandise or services without the use of money.

Blue Sky Laws
Generic term for state laws designed to protect against securities fraud.

Board Of Directors
Individuals elected by stockholders to establish corporate management policies and make decisions, such as if and when dividends will be paid to stockholders.

Bootstrapping
Means of financing a startup company using nontraditional methods, or without selling equity to investors or taking out a bank loan.

Bridge Financing
A small or limited amount of short-term debt financing (or possibly equity financing), generally raised 6-18 months before an anticipated public offering or private placement; meant to serve as a "bridge" for the company to the next financing round.

Break-Even Point
The point at which revenues are equal to expenses.

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Broad-Based Weighted Average Ratchet
An anti-dilution provision. A weighted average ratchet adjusts downward the price per share of the preferred stock of a prior investor due to the issuance of new preferred shares to a later investor at a price lower than the price the prior investor received. The prior investor's preferred stock is consequentially repriced to a weighted average of his price and the later investor's price. A broad-based ratchet uses all common stock outstanding on a fully diluted basis (including all convertible securities, warrants, and options) in the denominator of the formula for determining the new weighted average price.

Budget
A detailed schedule of planned financial activity.

C

Capital
Money or property owned or used in business by a sole proprietor or corporation, to produce wealth. In a start-up business, capital is the amount of money required to initiate and/or operate a business before borrowing from others.

Capitalization Table (or Cap Table)
A table that shows the total amount of all securities issued by a company, usually showing the securities distributed for investment obtained as well as conversion ratios.

Cash Flow
The transfer of money into and out of an enterprise. In accounting terms, it is the amount of cash generated by a business after expenses (including interest) and principal repayment on financing are paid.

Co-Sale Provisions or Rights
A contractual right that permits investors to sell their shares of stock in the same proportions and for the same terms as the founders or other investors in the company, should any of those parties receive an offer.

Collateral Assets that can be pledged to guarantee a loan. If the borrower fails to repay the loan according to the terms, the lender has the legal right to seize the collateral and sell it to repay the loan.

Common Stock
A unit of ownership of a corporation. Common stock offers no performance guarantees, and if the corporation is liquidated, the claims of secured and unsecured creditors, the owners of bonds, and holders of preferred stock all take precedence over the claims of holders of common stock.

Conversion Ratio
The rate at which a convertible security may be converted into common stock.

Conversion Rights
The rights by which preferred stock may convert into common stock. Generally this is possible any time after the preferred stock is issued; sometimes companies have rights to force a conversion upon an IPO, upon achieving of certain sales or earnings' targets, or with a majority or super-majority vote of the preferred stock. Conversion rights may carry with them anti-dilution protections.

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Convertible Security
A bond, debenture, or preferred stock that is exchangeable for another type of security (usually common stock) at a pre-stated price. Convertible securities are appropriate for investors who want higher income, or liquidation preference protection, than is available from common stock, together with greater appreciation potential than regular bonds offer.

Corporate Charter
The document that brings a corporation or other legal entity into being and sets out the relative rights and obligations of its various classes of equity securities.

Corporation
A legal entity chartered by a state or the federal government. Ownership of a corporation is held by the stockholders. A corporation is generally a taxable entity.

Cost of Sales
The cost of goods sold plus any expenses incurred in the selling and delivery of the product or service.

Cumulative Dividends
Dividends that accrue at a fixed rate until paid, made with respect to preferred stock. Generally, holders of preferred stock are contractually entitled to receive dividends prior to holders of common stock. The use of Cumulative Dividends is customary with the result that the liquidation preference increases by an amount equal to the cumulative dividends. Cumulative dividends are often waived if preferred stock converts to common stock prior to an IPO but may be included in the aggregate value of preferred stock applied to the conversion ratio for other purposes. Dividends that are not cumulative are generally called “when, as and if declared dividends.”

Cumulative Preferred Stock
A stock having a provision that if one or more dividend payments are omitted, the omitted dividends (arrearage) must be paid before dividends may be paid on the company’s common stock.

Cumulative Voting Rights
When shareholders have the right to pool their votes to concentrate them on an election of one or more directors rather than apply their votes to the election of all directors.

Current Assets
Assets that can be converted quickly to cash, usually within a year, through sale or exchange, such as cash, inventory, and accounts receivable. Also called liquid assets.

Current Liabilities
Debts, loans, trade credit or other obligations due for payment within one calendar year.

Customer Base
The total list of customers for a business, as well as the total number of potential customers with specific classification or buying characteristics.

Customer Profile
A precise description of the characteristics of buyers for a specific product or service.

D

Debt Financing
The payment, in whole or in part, for a capital investment with borrowed funds.

Debt Service
The amount of money required for the payment of current interest and principal on a long-term debt.

Depreciation
The expense deduction on an income statement allowing for gradual wear-out of a fixed asset.

Demand Rights
A contractual right that allows preferred stockholders to compel the company to initiate and pursue the registration of a public offering including, although not necessarily limited to, the shares proffered by the requesting shareholder(s).

Dilution
A reduction in a shareholder's percentage ownership in a company due to the issuance of new shares.

Dilution Protection
A standard provision that applies to convertible securities; the conversion ratio changes when a stock dividend or extraordinary distribution is made to avoid dilution of a holder of the convertible securities.

Director
Person elected by shareholders to serve on the board of directors; focused on the company's "big picture." This includes appointing the executive officers and deciding when dividends should be paid.

Dividend
Payments designated by the Board of Directors to be distributed pro-rata among the company's outstanding shares. Generally a fixed amount for preferred stock, and generally varies with the fortune of the company and the amount of cash on hand for common stock. Dividends can be paid either in cash or in kind, i.e., additional shares of stock.

Cumulative – Missed dividend payments that continue to accrue.

Non-cumulative – Missed dividend payments that do not accrue.

Participating – Dividends which share (participate) with common stock.

Non-participating – Dividends which do not share with common stock.

Down Round
Issuance of shares at a later date and a lower price than previous investment rounds.

Drag-Along Rights
A contractual right of the majority shareholders', obligating other security holders to sell their shares into an offer the majority wishes to execute.

Due Diligence
Research done by potential investors to analyze and assess the desirability, value, and potential of an investment opportunity.

E

Early Stage
Generally, a company that has completed the seed stage and has a founding or core senior management team, has proven its concept or completed its beta test, has minimal revenues, and no positive earnings or cash flows.

Employee Stock Option Plan (ESOP)
A plan established by a company that reserves a pool of shares of common stock for issuance to key employees, either as options, restricted stock, or otherwise. Such shares usually vest over a certain period of time to serve as an incentive for employees to build long term value for the company.

Entrepreneur
One who assumes the financial risk of starting and operating a business venture. Usually carries the connotation of being creative, self-motivated, and visionary.

Entrepreneurial Shock
The psychological realization by an entrepreneur that starting and operating a small business is full of difficult decisions and disappointments. Corporate workers who have not been previously exposed to the complications of running a business are most vulnerable.

Equity
An accounting term used to describe the investment made by the owners or stockholders of a business. On a balance sheet, equity represents assets less liabilities. Same as Net Worth in a business.

Equity Financing
The raising of money in a corporation by issuing and selling shares of common or preferred stock or taking on a partner in a partnership.

Equity Kicker
An option for private equity investors to purchase shares at a discount, usually in connection with mezzanine financings; a small number of shares or warrants are added to what is primarily a debt financing.

Executive Summary
A brief synopsis at the beginning of a business plan or business document that highlights key facts, issues, and conclusions.

Exercise price
The price at which an option or warrant can be exercised.

Exit Strategy
An investor's intended method for liquidating its holdings while achieving the maximum possible return.

Exiting climates
Conditions that influence the viability and attractiveness of various exit strategies.

Exits (AKA divestments or realizations)
The method an investor uses to realize a return on its investment, or founders use to sell the company.

F

First Refusal Rights
A contractual obligation of the company or existing investors to offer shares to the company or other existing investors at fair market value or a previously negotiated price, prior to selling shares to new investors.

Fixed Assets (long term assets)
These are usually non-liquid business assets used in the operation of a business. Tangible fixed assets include real estate, buildings, furniture, fixtures, and equipment, whereas, intangible fixed assets include trademarks, patents, and brand recognition. Fixed assets do not include items normally consumed during business operation or production, such as office stationary or product raw materials.

Fixed Costs
Business expenses that do not change regardless of production increases or decreases, for example, lease expenses, insurance, interest on loans, salaries, utilities, etc. As opposed to variable costs.

Follow-on funding
When a private equity firm invested in a particular company in the past, and then provides additional funding at a later stage.

Founders' Shares
The shares owned by a company's founders when it is created.

Full Ratchet Antidilution
An antidilution provision that reduces the conversion price of the favored investors' convertible preferred stock "to the penny" based on the sale of a single share at a price less than the favored investors paid.

Fully Diluted Outstanding Shares
The largest possible number of shares of common stock that represents total company ownership, taking into account current conversion or exercised value of the preferred shares, options, warrants, and other convertible securities.

G

Generally Accepted Accounting Principles (GAAP)
Conventions, rules and procedures defined by the Financial Accounting Standards Board (FASB) as proper accounting practices.

Goodwill
An intangible but salable asset, such as reputation or location of a business, that engenders the expectation of continued customer or client patronage if the business is sold to a potential buyer.

Gross Income
The gross revenue or sales of a business over a period.

Gross Margin
Gross profit expressed as a percent of net sales.

Gross Profit The profit before overhead (fixed operating expenses) has been deducted.

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Gross Sales
Total sales not reduced by customer discounts, returns, allowances or other adjustments.

Guaranteed Loan
A loan made by a bank upon which a government agency (e.g., the Small Business Administration) has insured partial reimbursement to the bank in the event the borrower defaults.

H

Holding Period
The amount of time an investor has held an investment, used for determining whether a gain or loss is considered short-term or long-term, for capital gains tax purposes.

I

Income Statement (Profit & Loss statement)
A statement of revenues and expenses. It shows the shows the financial progress of a company over a period of time.

Incubator
A facility designed to encourage entrepreneurship and minimize obstacles to new business formation and development, particularly for high technology firms, by housing a number of budding enterprises that share an array of services, such as rent, secretarial services, and business counseling. Incubators may be funded by state or local government as well as private interest groups.

Information Rights
Contractual rights granting major investors access to certain of the company's information, possibly including financial statements, budgets, or executive summaries.

Initial Public Offering (IPO)
The sale or distribution of a company's stock to the public for the first time. IPOs are often an opportunity for the existing investors (often venture capitalists) to receive significant returns on their original investment, except during periods of market downturns or corrections.

Institutional Investors
Organizations that professionally invest, including insurance companies, depository institutions, pension funds, investment companies, mutual funds, and endowment funds.

Intangible Assets
Non-physical assets such as trademarks, patents, a customer base, and brand recognition. Sometimes referred to as goodwill.

Intellectual property
A company's legally protectable intangible assets. The major forms of intellectual property are utility patents, design patents, plant patents, copyrights, mask works, trade names, domain names, rights of personality, trade secrets, and trademarks/servicemarks. These rights vary from country to country in both term and scope.

Inventory Turnover
A ratio for evaluating sales effectiveness that is often calculated by dividing annual sales by ending inventory; i.e., how quickly new inventory is purchased and then resold to customers. Startups need to research industry averages to better budget their finances. A low turnover rate is acceptable for high-price goods, but low low-price goods and consumables must generally turnover much more quickly.

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Investment Bankers
Representatives of financial institutions engaged in the issue of new securities, including management and underwriting of issues as well as securities trading and distribution.

ISO
An Incentive Stock Option; an option award where qualifying options are free of tax at the date of grant and the date of exercise. Profits on shares sold after being held at least 2 years from the date of grant or 1 year from the date of exercise are subject to favorable capital gains tax rate.

Issue Price
The price per share deemed to have been paid (though possibly not actually paid) for a series of preferred stock. This number is important because cumulative dividends, any liquidation preference, and the conversion ratios are all based on issue price. Shares may be issued for less than the issu price in connection with conversion of a bridge financing loan.

Issued Shares
The amount of common shares that a corporation has sold or issued.

Issuer
The organization issuing or proposing to issue a security.

J

Journal
In accounting, the record of original entry where financial transactions are initially recorded. In a double-entry accounting system, all transactions are listed in chronological order with added notation of the accounts to which they belong.

Joint Venture
A business association of two or more businesses or persons whereby the teams works together on a single project. A joint venture is usually limited in either scope or duration or both. In international trade, joint ventures are often mandated by national laws to prohibit majority ownership by a foreign company.

K

Key Employees
Professional management recruited by the founder to run the company. Key employees are typically retained with warrants and ownership of the company.

L

Lead Investor
Potential investor holding the largest stake of a proposed round of financing, and so generally in charge of arranging the financing and most actively involved in the overall project.

Licensing Agreement
An agreement between two business enterprises allowing one to sell the other's products or services and to use their name, trademarks, sales literature, etc. in a limited manner to market the product or service.

Liquidation
The sale of the assets of a company to one or more acquirers to pay off debts.

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Liquidation Preference
The amount per share that a holder of a given series of preferred stock will receive prior to distribution of amounts to holders of other series of preferred stock of common stock. This is usually designated as a multiple of the Issue Price, for example 2X or 3X, and there may be multiple layers of Liquidation Preferences as different groups of investors buy shares in different series. For example, holders of Series B Preferred Stock may be entitled to receive 3X their Issue Price, and then if any money is left, holders of Series A Preferred Stock may be entitled to receive 2X their Issue Price and then holders of Common Stock receive whatever is left. The trigger for the payment of the Liquidation Preference is a sale or liquidation of the company, such as a merger or other transaction where the company stockholders end up with less than half of the ownership of the new entity or a liquidation of the company.

Liquidity
The percentage of an enterprise's assets that can be quickly converted into cash.

Lock-up Period
The period of time that certain stockholders have agreed to waive their right to sell their shares of a public company. Investment banks that underwrite initial public offerings generally insist upon lockups of at least 180 days from large shareholders (1% ownership or more) to allow an orderly market to develop in the shares. The shareholders that are subject to lockup usually include the management and directors of the company, strategic partners, and such large investors. These shareholders have typically invested prior to the IPO at a significantly lower price to that offered to the public and therefore stand to gain considerable profits. If a shareholder attempts to sell shares that are subject to lockup during the lockup period, the transfer agent will not permit the sale to be completed.

Long Term Liabilities
All debts that are not current liabilities, that is, debts that are not due until at least one calendar year in the future.

M

Mandatory Redemption
A right of an investor to require the company to repurchase some or all of the investor's shares at a stated price at a given time in the future. The purchase price is usually the Issue Price, increased by Cumulative Dividends, if any. Mandatory Redemption may be automatic or may require a vote of the series of Preferred Stock having the redemption right.

Market Capitalization
The total dollar value of all outstanding shares, computed as outstanding shares multiplied by current price per share. Prior to an IPO, market capitalization is arrived at by estimating a company's future growth and by comparing a company with similar public or private corporations.

Market Access
An opportunity for a company to enter a specific market to sell its products or services. A market access analysis considers issues like competitiveness, regulations, and trade restrictions.

Market Segment
A portion of the entire market that your company is targeting.

Market Share
A percentage value calculated by dividing your sales with the total sales of a product or service within a specified market.

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Market Size
The total dollar amount of potential sales to all customers within a given market.

Market Standoff Agreement
Similar to Lock-Up Agreements; prevents selling company stock for a number of predetermined days after a previous stock offering by the company.

Market Value
The price at which buyers in the open marketplace are willing to pay for a product or service.

Merger
Combination of two or more corporations pursuant to statute; greater efficiency is supposed to be achieved by the elimination of duplicate plant, equipment, and staff, and the reallocation of capital assets to increase sales and profits in the enlarged company.

Mezzanine Financing
The stage of venture financing for a company immediately prior to its IPO. Investors entering in this round have lower risk of loss than those investors who have invested in an earlier round. Mezzanine financing can take the structure of preferred stock, convertible bonds, or subordinated debt.

N

Narrow-based weighted average ratchet
A type of anti-dilution mechanism. A weighted average ratchet adjusts downward the price per share of the preferred stock of investor A due to the issuance of new preferred shares to new investor B at a price lower than the price investor A originally received. Investor A's preferred stock is repriced to a weighted average of investor A's price and investor B's price. A narrow-based ratchet uses only common stock outstanding in the denominator of the formula for determining the new weighed average price.

Net Income (or Net Loss)
On an income statement, the sum remaining after all expenses have been deducted from income. Net income is usually specified whether taxes have been deducted or not (Net Income After Taxes) or haven't been deducted (Net Income Before Taxes). Net income after taxes is the amount of most interest to business owners. It is their Net Profit (or Net Loss).

Net Profit
A positive net income after total expenses have been subtracted from total revenues. The opposite of net loss.

Net Sales
An accounting term used to define gross sales less returns, allowances, freight, and cash discounts.

Net Worth
The amount owned by the owners. In accounting terms, the amount by which assets exceed liabilities on the company balance sheet. Also referred to as equity or owner's equity.

Niche Market
The area of a target market where a company or product is particularly strong. This specialization often results in super high quality by the specialist company and elimination of competition because of the uniqueness.

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No Shop, No Solicitation Clauses
A no shop, no solicitation, or exclusivity clause requires the company to negotiate exclusively with the investor, and not solicit an investment proposal from anyone else for a set period of time after the term sheet is signed. The key provision is the length of time set for the exclusivity period.

Non-Compete Clause
An agreement often signed by employees and management whereby they agree not to work for competitor companies or form a new competitor company within a certain time period after termination of employment. Governed by state law.

Note
A written promise to back funds borrowed, stating the amount, the interest rate, the time, the method of payment, and the obligation to repay. A note is usually a short term business loan that may be secured or unsecured by collateral. Also called a promissory note.

Note Payable
A note by a person or business that is due and owing; an obligation or lien that must be repaid and is due.

Note Receivable
An amount loaned to another that is owed and payable to the holder of the note.

O

Option Pool
The number of shares set aside for future issuance to employees and consultants of a private company.

Organization Chart
An illustrative display of the relationships between owners and mangers to supervisors and subordinates.

Outstanding Stock
The amount of common shares of a corporation which are in the hands of investors. It is equal to the amount of issued shares less treasury stock.

P

Pari Passu
At an equal rate or pace, without preference.

Participating Preferred
A preferred stock in which the holder is entitled to the stated dividend, and also to additional dividends on a specified basis upon payment of dividends to the common stockholders. The preferred stock entitles the owner to receive a predetermined sum of cash (usually the original investment plus accrued dividends) if the company is sold or has an IPO. The common stock represents additional continued ownership in the company.

Participation
Describes a right of a holder of Preferred Stock to enjoy both the rights associated with the Preferred Stock and also participate in any benefit available to Common Stock, without converting to Common Stock. This may occur with Liquidation Preferences; for example, a series of Preferred Stock may have the right to receive its Liquidation Preference and then also share in whatever money is left to be distributed to the holders of Common Stock. Dividends may also be "Participating" where after a holder of Preferred Stock receives its Cumulative Dividend it also receives any dividend paid on the Common Stock.

Partnership
As defined by The Uniform Partnership Act, a partnership is "an association of two or more persons who carry on a business for profit as co-owners."

Patent
A legal document issued by a federal government that grants exclusive rights for the production, sale and profit from the invention of a product or process for a specific period of time. Patents also grant the right to prevent others from copying the invention.

Pay to Play
A "Pay to Play" provision is a requirement for an existing investor to participate in a subsequent investment round, especially a Down Round. Where Pay to Play provisions exist, an investor's failure to purchase its pro-rata portion of a subsequent investment round will result in conversion of that investor's Preferred Stock into Common Stock or another less valuable series of Preferred Stock.

Piggyback Registration
A situation when a securities underwriter allows existing holdings of shares in a corporation to be sold in combination with an offering of new public shares.

Post-Money Valuation
The valuation of a company immediately after the most recent round of financing. For example, a venture capitalist may invest $3.5 million in a company valued at $2 million "pre-money" (before the investment was made). As a result, the startup will have a post-money valuation of $5.5 million.

Pre-Money Valuation
The valuation of a company prior to a round of investment. This amount is determined by using various calculation models, such as discounted P/E ratios multiplied by periodic earnings or a multiple times a future cash flow discounted to a present cash value and a comparative analysis to comparable public and private companies.

Preemptive Right
A shareholder's right to acquire an amount of shares in a future offering at current prices per share paid by new investors, whereby his/her percentage ownership remains the same as before the offering.

Preference shares
Shares of a firm that encompass preferential rights over ordinary common shares, such as the first right to dividends and any capital payments.

Preferred Dividend
A dividend ordinarily accruing on preferred shares payable where declared and superior in right of payment to common dividends.

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Preferred Stock
A class of capital stock that may pay dividends at a specified rate and that has priority over common stock in the payment of dividends and the liquidation of assets. Many venture capital investments use preferred stock as their investment vehicle. This preferred stock is convertible into common stock at the time of an IPO.

Pro Forma
Financial forms based on future expectations. Frequently used to refer to a Pro Forma Balance Sheet which is based on assumptions of future hypothetical events. A Projected Income Statement is used more often than a pro forma income statement.

Profit Margin
A relation of profit to net sales, most often expressed as a percent of sales or total revenues less total expenses.

Proprietary Technology
Technological innovations or processes that are unique and legally owned by a company.

Q

Quick Ratio
The ratio of current assets minus inventories, accruals, and prepaid items to current liabilities. The acid-test ration is a measure of the liquidity of a business. It helps to answer the question, "If revenues stopped, could the business meet current obligations with assets that are readily convertible into cash?" A quick ratio of 1:1 or better is usually satisfactory. Also called acid-test ratio or current ratio.

R

Ratchet
Ratchets reduce the price at which venture capitalists can convert their debt into preferred stock, which effectively increases their percentage of equity; a type of antidilution provision.

Recapitalization
The reorganization of a company's capital structure. A company may seek to save on taxes by replacing preferred stock with bonds in order to gain interest deductibility. Recapitalization can be an alternative exit strategy for venture capitalists and leveraged buyout sponsors

Receivables
Anything expected to arrive at the business. In accounting, it is a short form of accounts receivable.

Redeemable Preferred Stock
Redeemable preferred stock, also known as exploding preferred, at the holder's option after (typically) five years, which in turn gives the holders (potentially converting to creditors) leverage to induce the company to arrange a liquidity event. The threat of creditor status can move the founders off the dime if a liquidity event is not occurring with sufficient rapidity.

Redemption
The right or obligation of a company to repurchase its own shares.

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Redemption Rights

Rights to force the company to purchase shares (a “put”) and more infrequently the company’s right to force investor to sell their shares (a “call”). A Put allows one to liquidate an investment in the event an IPO or public merger becomes unlikely. One may also negotiate a Put effective when the company defaults or fails to make payments upon a key employee’s death, etc.

Registration

The SEC’s review process of all securities intended to be sold to the public. The SEC requires that a registration statement be filed in conjunction with any public securities offering. This document includes operational and financial information about the company, the management and the purpose of the offering. The registration statement and the prospectus are often referred to interchangeably. Technically, the SEC does not “approve” the disclosures in prospectuses.

Registration Rights

Provisions in the investment agreement that allow investors to sell stock via the public market. Means by which one can transfer shares in compliance with the securities laws subject to Lock-Up and Market Stand-off Agreements.

Long-form Demand – Demand registration before the company becomes public. Usually starts one-three years after making an investment and may involve one or two demands for a percentage of stock. Company will use the SEC’s long-form S-1.

Short-form Demand – Demand made after the company is publicly traded and is eligible to use SEC’s Form S-3.

Piggyback – Company is registering stock either for itself or other stockholders and one can “piggyback” a portion of shares for registration onto the company’s registration. Usually have these rights for up to five years after the company becomes public, but cannot exercise them for mergers or employee offerings.

Reorganization or Corporate Reorganization

Reorganizations are significant changes in the equity base of a company such as converting all outstanding shares to Common Stock, or combining outstanding shares into a smaller number of shares (a reverse split). A Reorganization is frequently done when a company has already had a few rounds of venture financing but has not been able to successfully increase the value of the company and therefore is doing a Down Round that is essentially a restart of the company.

Restricted Securities

Public securities that are not freely tradable due to SEC regulations.

Restricted Shares

Shares acquired in a private placement are considered restricted shares and may not be sold in a public offering absent registration, or after an appropriate holding period has expired. Non-affiliates must wait one year after purchasing the shares, after which time they may sell less than 1% of their outstanding shares each quarter. For affiliates, there is a two-year holding period.

Retained Earnings

Net profits or earnings retained by the company rather than disbursing to the shareholders in the form of dividends. Retained earnings are used to improve the business through development programs, promotion, R&D, etc.

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Return on Investment (ROI)

A financial ratio indicating the degree of profitability of a business. ROI is of particular importance to owners because it can be used to compare with other investments. ROI is calculated by dividing net profit for the period by net worth (total equity). An analysis of ROI for the current period with other periods can reveal positive or negative trends. It also allows you to compare your company with industry values.

Revolving Line of Credit

A credit limit at a specified interest rate that is readily available to a company for immediate borrowing.

Right of First Refusal

The right of first refusal gives the holder the right to meet any other offer before the proposed contract is accepted.

S

S Corporation

A corporation that limits its ownership structure to 100 shareholders and disallows certain types of shareholders (e.g. partnerships cannot hold shares in a S corporation). An S corporation does not pay taxes, rather, similar to a partnership, its owners pay taxes on their proportion of the corporation's profits at their individual tax rates.

Securities Act of 1933

The federal law covering new issues of securities. It provides for full disclosure of pertinent information relating to the new issue and also contains antifraud provisions.

Securities Exchange Act of 1934

The federal law that established the Securities and Exchange Commission. The act outlaws misrepresentation, manipulation, and other abusive practices in the issuance of securities.

Securities and Exchange Commission

The SEC is an independent, nonpartisan, quasi-judicial regulatory agency that is responsible for administering the federal securities laws. These laws protect investors in securities markets and ensure that investors have access to all material information concerning publicly traded securities. Additionally, the SEC regulates firms that trade securities, people who provide investment advice, and investment companies.

Seed Money

The first round of capital for a start-up business. Seed money usually takes the structure of a loan or an investment in preferred stock or convertible bonds, although sometimes it is common stock. Seed money provides startup companies with the capital required for their initial development and growth. Angel investors and early-stage venture capital funds often provide seed money.

Seed Stage Financing

An initial state of a company's growth characterized by a founding management team, business plan development, prototype development, and beta testing.

Series A—first round of institutional investment capital

Series B—second round of institutional investment capital

Series C—third round of institutional investment capital

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Senior Securities
Securities that have a preferential claim over common stock on a company's earnings and in the case of liquidation. Generally, preferred stock and bonds are considered senior securities.

Series A Preferred Stock
The first round of stock offered during the seed or early stage round by a portfolio company to the venture investor or fund. This stock is convertible into common stock in certain cases such as an IPO or the sale of the company. Later rounds of preferred stock in a private company are called Series B, Series C, and so on.

Sinking Fund
A type of savings fund in which deposits are made regularly to be used later for a specific purpose, such as purchasing equipment or buildings.

Sole Proprietorship
An enterprise that is owned by a single individual who earns all the profits and assumes all the losses. As contrasted with corporate or partnership businesses.

Start-up Capital
The amount of money invested in a business by owners at the beginning of operations, as opposed to any amounts borrowed.

Stock Options
1) The right to purchase or sell a stock at a specified price within a stated period. Options are a popular investment medium, offering an opportunity to hedge positions in other securities, to speculate on stocks with relatively little investment, and to capitalize on changes in the market value of options contracts themselves through a variety of options strategies.
2) A widely used form of employee incentive and compensation. The employee is given an option to purchase its shares at a certain price (at or below the market price at the time the option is granted) for a specified period of years.

Strategic Investors
Corporate or individual investors that add value to investments they make through industry and personal ties that can assist companies in raising additional capital as well as provide assistance in the marketing and sales process.

Strategic Relationships
An agreement between two or more companies to conduct a specified business process in a joint manner such as technology development, promotion, or opening new distribution channels.

Subordinated Debt
Debt with inferior liquidation privileges to senior debt in case of a bankruptcy; subordinated debt will carry higher interest rates than senior debt, to which it is subordinated, to compensate for the added risk, and will typically have attached warrants or equity conversion features.

Sweat Equity
Ownership of shares in a company resulting from work rather than investment of capital; founders usually receive "sweat equity".

T

Tag-Along Rights / Rights of Co-Sale
A minority shareholder protection affording the right to include their shares in any sale of control and at the offered price.

Term Sheet
A sheet detailing the proposed terms for an equity offering.

Trademark
A distinctive name, symbol, motto or emblem that identifies a product, service or firm that has been legally registered as the property of the firm. Trademarks grant the owner the right to prevent competitors from using similar marks in selling or advertising.

Treasury Stock
Stock issued by a company but later reacquired. It may be held in the company's treasury indefinitely, reissued to the public, or retired. Treasury stock receives no dividends and does not carry voting power while held by the company.

U

Undercapitalization
Starting a new business without enough money to carry through the start-up phase, especially if the business is likely to initially operate at a loss. Undercapitalization is a frequent cause of new business failure.

V

Venture Capital
A source of business investment associated with a higher-risk opportunity than conventional financial institutions are willing to bear. In return for the higher investment risk, a venture capitalist usually expects some combination of equity ownership in the business.

Voluntary Redemption
The right of a company to repurchase some or all of an investors' outstanding shares at a stated price at a given time in the future. The purchase price is usually the Issue Price, increased by Cumulative Dividends.

Voting Right
The common stockholders' right to vote their stock in the affairs of the company. Preferred stock usually has the right to vote when preferred dividends are in default for a specified amount of time. The right to vote may be delegated by the stockholder to another person.

W

Warrant
A type of security that entitles the holder to buy a proportionate amount of common stock or preferred stock at a specified price for a period of years. Warrants are usually issued together with a loan, a bond or preferred stock, and act as sweeteners, to enhance the marketability of the accompanying securities. They are also known as stock-purchase warrants and subscription warrants.

Wash-Out Round
A financing round whereby previous investors, the founders, and management suffer significant dilution. Usually as a result of a washout round, the new investor gains majority ownership and control of the company. Also known as burn-out or cram-down rounds.

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Weighted Average Antidilution
An antidilution provision that takes into account both a reduced price of shares being sold and how many shares (or rights) are issued in the dilutive financing.

Working Capital
The cash available to an enterprise for day-to-day operations. It allows bills to be paid while awaiting payment of cash for sales. In accounting, it is current assets less current liabilities.

X

Y

Yield
In business or investing, the amount of profit expressed as an annual percentage rate of the amount of capital invested (e.g., the ROI).

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