Glossary of Terms for Angel Investors

Accredited Investor: An individual or a business entity that is allowed to deal in securities that may not be registered with financial authorities. These investors are considered to be accredited if they meet certain income and net worth criteria.

Example: Jane, having a net worth exceeding $1 million, qualified as an accredited investor, allowing her to participate in specific private investments.

Angel Investor: An individual who provides capital for a business startup, usually in exchange for convertible debt or ownership equity.

Example: Mark invested $50,000 as an angel investor in a tech startup, acquiring a 10% equity stake in the company.

Annual Recurring Revenue: Annual recurring revenue (ARR) refers to all ongoing yearly revenue for a startup.

Example: The founder has produced a financial report detailing a $750,000 ARR.

Anti-Dilution Provision: A clause in an option or convertible security that protects an investor from dilution resulting from later issues of stock at a lower price than the investor originally paid.

Example: To safeguard their interest, investors ensured the inclusion of an anti-dilution provision in the agreement.

Bearer Instrument: A document that entitles the holder to rights of ownership or title to the underlying property, such as stocks or bonds. Bearer instruments are negotiable without the need for proving property rights.

Example: Susan found an old bearer bond in her grandmother's attic, which entitled her to claim the bond's value without needing to prove her ownership.

Blind Pool: A form of limited partnership which doesn't specify what investments it intends to acquire.

Example: Investors placed their money into the blind pool, trusting the fund manager to find lucrative investment opportunities.

Bootstrap: Starting and growing a business without external funding.

Example: Maria bootstrapped her e-commerce website using her savings, avoiding external investors.

Bridge Loan: A short-term loan that provides immediate cash flow when funding is needed but not yet available.

Example: The startup took a bridge loan to cover expenses until the next round of financing was secured.

Burn Rate: The rate at which a company is spending its capital to run day-to-day operations.

Example: With monthly expenses of $50,000 and no revenue, the startup's burn rate was $50,000 per month.

Cap Table: A table that shows the ownership stake of every investor and employee in a company.

Example: The cap table illustrated that after the latest funding round, the founders, angel investors, and venture capitalists owned 40%, 20%, and 40% respectively.

Capital Call: A demand for an installment payment to help fund operations or a new investment.

Example: The venture capital firm issued a capital call to its limited partners to fund a promising new investment.

Capital Stack: The total capital invested in a project, including pure equity, hybrid equity, and pure debt.

Example: The real estate project had a capital stack comprising both equity from investors and a significant loan from a bank.

Carve-Out: the allocation of a specific portion of equity, rights, or assets within a company, reserved for particular investors or purposes. This can be done to ensure that certain stakeholders, like early employees, founders, or angel investors, receive a predetermined share of the proceeds from an investment or acquisition

Example: The Pre-Seed investors requested a carve-out provision in the term sheet document

Carried Interest: The share of any profits that the general partners of private equity and hedge funds receive as compensation, despite not contributing any initial funds.

Example: As part of their compensation, the fund managers received a carried interest of 20% on the profits generated.

Clawback Provision: A term used in private equity to refer to the right of the limited partners to reclaim money, under certain conditions, from the general partner.

Example: If the fund did not meet specified benchmarks, the clawback provision allowed investors to reclaim some of the management fees.

Co-Investment: An arrangement where an investor invests alongside a private equity fund in a deal.

Example: The angel investor decided on a co-investment with a known venture capital firm to invest in a biotech startup.

Convertible Debt: A type of debt that can be converted into equity, or shares, of the issuing company, typically at the discretion of the debt-holder (see also Convertible Note).
Example: The startup issued convertible debt to its early investors, allowing them the option to convert the debt into equity during the next funding round.

Convertible Note: A form of short-term debt that converts into equity in conjunction with a future financing round.

Example: The startup issued a convertible note worth $100,000, which would convert into equity during the next funding round.

Covenant: A promise in an indenture, or any other formal debt agreement, that certain activities will or will not be carried out.

Example: The loan had a covenant that restricted the company from taking on additional debt.

Cram-Down: a financing round where new investors acquire a significant portion of the company's equity at a valuation much lower than in previous funding rounds. This typically occurs when the company is in need of capital but is not performing well enough to justify a higher valuation. Angel investors may see their ownership stake significantly diluted in a cram down round.

Example: The initial angel investors were subjected to a lesser valuation during a cram-down financing phase.

Cumulative Average Growth Rate (CAGR): The Cumulative Average Growth Rate (CAGR) is a measure used to represent the mean annual growth rate of an investment over a specified time period longer than one year. It represents one of the most accurate ways to calculate and determine returns for anything that can rise or fall in value over time. Investors can compare the CAGR of two alternatives in order to evaluate how well one investment performed against other investments in a similar period.

Example: The Cumulative Average Growth Rate (CAGR) of the tech company's stock was an impressive 12% over the last decade, indicating a consistent and robust growth in its market value.

Deal Flow: The rate at which new investment proposals are presented to financiers.

Example: As a well-known angel investor, John's deal flow consisted of 10 pitches per week from various startups.

Debenture: A type of debt instrument that is not secured by physical assets or collateral.
Example: The company issued debentures to raise funds, promising to repay the debt without offering any collateral.

Dilution: A reduction in the ownership percentage due to the issuance of new shares.

Example: After the second round of funding, the founder's original 60% stake was diluted to 40%.

Down Round: A round of funding where shares are sold at a lower valuation than in the previous round.

Example: Due to declining sales, the company's latest funding was a down round, diluting previous investors' shares.

Downside Protection: Strategies or features that shield the investor from a decline in the price of an investment.

Example: Convertible notes provided downside protection, allowing investors to get their money back if the company didn't perform.

Drag-Along Rights: A clause that allows majority shareholders to force minority shareholders to join in the sale of a company.

Example: The drag-along rights ensured that all shareholders sold their shares to the acquiring company.

Due Diligence: Investigation into the details of a potential investment.

Example: Before investing, Sarah performed due diligence, examining the startup's financials, team, and market potential.

Elevator Pitch: A brief, persuasive speech that you can use to spark interest in your startup.

Example: In a 30-second elevator pitch, John explained the unique value proposition of his ed-tech startup.

Equity: The ownership interest in a company of holders of its common and preferred stock.

Example: After the investment, Mike held a 5% equity stake in the tech startup.

Equity Crowdfunding: The process by which a broad group of individuals invest in an early-stage company in exchange for equity.

Example: The innovative kitchen gadget startup raised $2 million through equity crowdfunding, bringing on board hundreds of passionate investors.

Exit Strategy: A plan to liquidate an investor's stake in a business.

Example: The investor's exit strategy involved selling his shares after the company's IPO.

Fiduciary: A person or organization that acts on behalf of another person or persons to manage assets, bound by a duty to act in the best interest of the other person or persons.
Example: As a fiduciary, the financial advisor was legally obligated to act in the best interests of her clients.

First Money In: The initial capital used to start a business, often associated with higher risks.

Example: The founder's own savings were the first money in, which helped the company prototype its product.

First Refusal Right: A contractual right that gives its holder the option to enter a business transaction with the owner of something, according to specified terms, before the owner is entitled to enter into that transaction with a third party.

Example: Before the company could sell its assets to an external party, the investor's first refusal right allowed them to buy those assets under the same terms.

Follow-On Investment: Additional investment made by an investor who has already invested in the company.

Example: Seeing the company's growth, the angel investor made a follow-on investment of an additional $100,000.

Full Ratchet: An anti-dilution provision that, for any shares of common stock sold by the 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.

Example: The full ratchet clause ensured that early investors could maintain their percentage ownership even after multiple funding rounds.

GAAP (Generally Accepted Accounting Principles): A collection of commonly-followed accounting rules and standards for financial reporting.
Example: The company's financial statements were prepared in accordance with GAAP, ensuring consistency and transparency.

Garnter Hype Cycle- A graphical representation of the maturity, adoption, and social application of specific technologies. It describes five key phases of a technology's life cycle: the Innovation Trigger, the Peak of Inflated Expectations, the Trough of

Disillusionment, the Slope of Enlightenment, and the Plateau of Productivity. This model helps organizations understand how technologies evolve over time and make informed decisions about adoption and investment.

Example: The angel investor is concerned that one of its portfolio companies has sadly entered the Trough of Disillusionment.

General Partner (GP): A partner in a partnership whose liability is not limited. In the context of a private equity fund, the GP is typically the manager of the fund and is liable for its debts.

Example: In the private equity firm, the general partner made the investment decisions and had a significant stake in the fund.

Hedge Fund: An investment fund that pools capital from accredited individuals or institutional investors and invests in a variety of assets, often with complex portfolio-construction and risk management techniques.
Example: The hedge fund employed sophisticated strategies to generate returns for its accredited investors.

Hurdle Rate: The minimum rate of return on an investment required by a manager or investor.

Example: The fund had a hurdle rate of 8%, meaning the managers would only get their performance fee if the fund returned more than 8%.

Incubator: An organization designed to help new startups succeed by providing workspace, seed funding, mentoring, and training.

Example: The tech startup benefited from joining an incubator, gaining access to experienced mentors and potential investors.

Information Rights: The rights of investors to receive regular updates about the company's financials and other significant developments.

Example: As part of the investment agreement, angel investors were granted information rights, ensuring transparency.

Initial Public Offering (IPO): The sale or distribution of a stock of a portfolio company 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. During periods of market downturns or corrections, the opposite is true.
Example*:* The startup's IPO was highly anticipated, and the early angel investors saw a substantial return on their investment."

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

Example*:* Institutional investors played a crucial role in providing capital for the company's expansion.

Investment Company Act of 1940: Investment Company Act shall mean the Investment Company Act of 1940, as amended, including the rules and regulations promulgated thereunder.

Example*:* Our investment firm adheres strictly to the regulations outlined in the Investment Company Act of 1940.

Investment Letter: A letter signed by an investor purchasing unregistered long securities under Regulation D, in which the investor attests to the long-term investment nature of the purchase. These securities must be held for a minimum of one year before they can be sold.

Example*:* Before acquiring the unregistered securities, the investor had to sign an investment letter committing to a long-term hold.

IRA Rollover: The reinvestment of assets received as a lump-sum distribution from a qualified tax-deferred retirement plan. Reinvestment may be the entire lump sum or a portion thereof. If reinvestment is done within 60 days, there are no tax consequences.

Example*:* He decided to perform an IRA rollover to reinvest his retirement funds without incurring immediate taxes.

IRR (Internal Rate of Return): A typical measure of how VC Funds measure performance. IRR is technically a discount rate: the rate at which the present value of a series of investments is equal to the present value of the returns on those investments.

Example*:* The venture capital fund's success was evident in its impressive IRR over the past five years.

Issued Shares: The amount of common shares that a corporation has sold (issued).

Example*:* The company's issued shares increased following the recent stock offering.

Issuer: Refers to the organization issuing or proposing to issue a security.

Example*:* As an issuer of new bonds, the corporation sought to raise capital for its expansion.

Joint Venture: A business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task.
Example: Two leading firms formed a joint venture to collaborate on a groundbreaking renewable energy project.

J-Curve: A phenomenon where an initial negative return on investment is followed by a gradual recovery that surpasses the break-even point.

Example: Many venture capital funds experience a J-curve, with initial losses due to startup failures, followed by gains from successful exits.

Kentucky Windage: In hunting, the modified aim required to compensate for wind or target movement. Used herein to describe the process by which an investor must increase the percentage he needs today so that he will end up with a desired target percentage ownership in the future, after adjusting for future dilutive financing rounds.

Example*:* To maintain his ownership percentage, the angel investor applied Kentucky windage to his investment strategy.

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

Example*:* The startup's success was largely due to its key employees, who were motivated by equity stakes.

Kicker: "kicker" refers to an additional incentive or bonus feature that is added to an investment deal to make it more attractive to investors. Can be for equity, warrants, convertible notes, dividends, or performance.

Example: A performance-based kicker provision was added to the term sheet.

KYC (Know Your Customer): The process of a business verifying the identity of its clients and assessing their suitability, along with the potential risks of illegal intentions towards the business relationship.
Example: To comply with KYC regulations, the bank thoroughly verified the identity of new clients.

Later Stage: A stage of company growth characterized by viable products, a developed market, significant customers, sustained revenue growth, and both profits and positive cash flow from operations. Later-stage companies would generally be candidates for an IPO. Investments in the C round or after qualify as later stage.

Example: The company was now in its later stage and was considering an IPO as the next step.

Lead Investor: Also known as a bell cow investor. Member of a syndicate of private equity investors holding the largest stake, in charge of arranging the financing and most actively involved in the overall project.

Example*:* As the lead investor, she played a pivotal role in the startup's funding round.

Leverage: The use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment.
Example: The investor used leverage by borrowing funds to amplify his potential returns from the stock market.

Limited Partner (LP): An investor in a limited partnership who has no voice in the management of the partnership. LPs have limited liability and usually have priority over GPs upon liquidation of the partnership.

Example: As a limited partner, he invested in the fund but was not involved in its day-to-day management.

Limited Partnerships: An organization comprised of a general partner, who manages a fund, and limited partners, who invest money but have limited liability and are not involved with the day-to-day management of the fund. In the typical venture capital fund, the general partner receives a management fee and a percentage of the profits (or carried interest). The limited partners receive income, capital gains, and tax benefits.

Example*:* The venture capital firm structured itself as a limited partnership to attract investors and manage the fund effectively.

Liquidation: 1) The process of converting securities into cash. 2) The sale of the assets of a company to one or more acquirers in order to pay off debts. In the event that a corporation is liquidated, the claims of secured and unsecured creditors and owners of bonds and preferred stock take precedence over the claims of those who own common stock.

Example: During the company's liquidation, assets were sold off to repay creditors.

Liquidity Event: An event that allows a VC to realize a gain or loss on an investment. The ending of a private equity provider's involvement in a business venture with a view to realizing an internal return on investment. Most common exit routes include Initial Public Offerings [IPOs], buybacks, trade sales, and secondary buyouts.

Example: The startup's acquisition by a larger company was a liquidity event that allowed the investors to exit profitably.

Letter of Intent (LOI): A document outlining the intentions of both parties to enter into a future agreement, typically for a merger or acquisition.

Example: The two companies signed a LOI indicating their intention to merge in the coming months.

Leveraged Buyout (LBO): The acquisition of a company using a significant amount of borrowed money to meet the cost of acquisition.

Example: The private equity firm conducted an LBO, purchasing the company using primarily debt.

Liquidation Preference: The priority given to certain shareholders for the distribution of assets in the event the company is liquidated.

Example: In the startup's term sheet, preferred shareholders had a 2x liquidation preference, ensuring they received their money back before other shareholders.

Lock-Up Period: A window of time in which investors are not allowed to redeem or sell shares.

Example: After the company's IPO, early investors had a lock-up period of six months before they could sell their shares.

Management Fee: Compensation for the management of a venture fund's activities, paid from the fund to the general partner or investment advisor. This compensation generally includes an annual management fee.

Example: The venture capital firm charged a 2% management fee for overseeing the fund's investments.

Management Team: The persons who oversee the activities of a venture capital fund.

Example: The fund's success was largely attributed to the expertise of its management team.

Market Capitalization: The total dollar value of all outstanding shares. Computed as shares multiplied by the 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. (See also: Pre-Money Valuation.)

Example: The tech giant's market capitalization soared after the successful product launch.

Material Adverse Change (MAC): a legal concept commonly used in contracts, particularly in merger and acquisition (M&A) agreements and investment deals. It refers to any significant negative change in the business, financial condition, or operational results of a company that could impact its value or viability.

Example: The impending lawsuit can be considered a MAC and might stop the M&A deal from going through.

Merger: A combination of two or more corporations in which 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.

Example: The merger between the two leading companies created a formidable entity in the industry.

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

Example*:* The company secured mezzanine financing to bridge the gap before its planned IPO.

Most Favored Nation- The Most Favored Nation (MFN) clause in angel investing ensures that early investors receive the best terms given to any subsequent investors in the same funding round. This means that if a later investor negotiates better terms, the MFN clause allows the earlier investors to adopt these more favorable terms retroactively. It protects early investors by guaranteeing they benefit from the most advantageous deal terms offered.

Example: During the term sheet negotiations with the founder, the angel investors will seek to include a Most Favored Nation clause.

Mutual Fund: A mutual fund, or an open-end fund, sells as many shares as investor demand requires. As money flows in, the fund grows. If money flows out of the fund, the number of the fund's outstanding shares drops. Open-end funds are sometimes closed to new investors, but existing investors can still continue to invest money in the fund. In order to sell shares, an investor usually sells the shares back to the fund. If an investor wishes to buy additional shares in a mutual fund, the investor must buy newly issued shares directly from the fund.

Example: He diversified his portfolio by investing in a range of mutual funds.

Market Capitalization: The total value of all a company's shares of stock.

Example: The startup reached a market capitalization of $500 million after its successful IPO.

Moore's Law: Moore's Law is the observation made by Gordon Moore in 1965 that the number of transistors on a microchip doubles approximately every two years, leading to a corresponding increase in computing power. This prediction has guided the semiconductor industry, driving exponential growth in processing power and miniaturization of electronic devices. While physical and economic challenges have slowed this pace in recent years, Moore's Law has profoundly influenced technological advancement and innovation.

Example: When investing in hard tech/deep tech startups, angel investors should consider if Moore's law is still in effect.

NASD: The National Association of Securities Dealers. A mandatory association of brokers and dealers in the over-the-counter securities business. Created by the Maloney Act of 1938, an amendment to the Securities Act of 1934.

Example*:* The brokerage firm was a member of the NASD, adhering to its regulations and standards.

NASDAQ: An automated information network that provides brokers and dealers with price quotations on securities traded over the counter.

Example: Many tech companies choose to list their stocks on NASDAQ due to its tech-friendly reputation.

Net Asset Value (NAV): NAV is calculated by adding the value of all of the investments in the fund and dividing by the number of shares of the fund that are outstanding. NAV calculations are required for all mutual funds (or open-end funds) and closed-end funds. The price per share of a closed-end fund will trade at either a premium or a discount to the NAV of that fund, based on market demand. Closed-end funds generally trade at a discount to NAV.

Example*:* The mutual fund's net asset value fluctuated based on the performance of its underlying assets.

Net Financing Cost: Also called the cost of carry or, simply, carry, the difference between the cost of financing the purchase of an asset and the asset's cash yield. Positive carry means that the yield earned is greater than the financing cost; negative carry means that the financing cost exceeds the yield earned.

Example: The company's investment had a positive net financing cost, indicating a profitable venture.

Net Income: The net earnings of a corporation after deducting all costs of selling, depreciation, interest expense, and taxes.

Example: Despite increased revenue, the company's net income declined due to higher operational costs.

Net Present Value: An approach used in capital budgeting where the present value of cash inflow is subtracted from the present value of cash outflows. NPV compares the value of a dollar today versus the value of that same dollar in the future after taking inflation and return into account.

Example: The project's net present value was positive, indicating it was a worthwhile investment.

New Issue: A stock or bond offered to the public for the first time. New issues may be initial public offerings by previously private companies or additional stock or bond issues by companies already public. New public offerings are registered with the Securities and Exchange Commission. (See Securities and Exchange Commission and Registration.)

Example: Investors were excited about the new issue, which was the company's first foray into the public market.

Newco: The typical label for any newly organized company, particularly in the context of a leveraged buyout.

Example: The leveraged buyout resulted in the creation of Newco, a new entity to manage the acquired assets.

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.

Example*:* The term sheet included a no-shop clause, ensuring the investor exclusive negotiating rights for a month.

Non-Disclosure Agreement (NDA): A legal contract between two or more parties that signifies a confidential relationship exists between them.

Example: Before sharing the business plan with potential investors, the startup requested they sign an NDA.

Nonaccredited: An investor not considered accredited for a Regulation D offering. (See "Accredited Investor.")
Example: As a nonaccredited investor, Mark was limited in his ability to participate in certain high-risk investment opportunities.

Offering Documents: Documents evidencing a private-placement transaction.
Example: The offering documents provided detailed information about the private placement, including risks and potential returns.

Pari Passu: At an equal rate or pace, without preference.
Example: In the agreement, all creditors were treated pari passu, ensuring equal and fair treatment in the distribution of assets.

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.
Example: The participating preferred shares entitled investors to receive not only their fixed dividends but also additional earnings alongside common shareholders.

Pivot: A structured course correction designed to test a new fundamental hypothesis about a product, business model, or engine of growth.

Example: Initially a chat app for businesses, the startup pivoted to become a leading enterprise collaboration platform.

Placement Agent: An intermediary who raises capital for investment funds.

Example: The hedge fund hired a placement agent to connect them with potential high-net-worth investors.

Portfolio: A collection of investments owned by an individual or organization.

Example: Rachel's angel investment portfolio consisted of 10 diverse startups.

Portfolio Company: A company or entity in which a venture capital firm or buyout firm invests.

Example: The venture capital firm had ten portfolio companies, ranging from tech startups to mature software companies.

Post-Money Valuation: The valuation of a company after an investment.

Example: After raising $500,000, the startup's post-money valuation was $2.5 million.

Pre-Money Valuation: The valuation of a company before an investment or financing.

Example: The startup's pre-money valuation was set at $2 million before the latest funding round.

Preferred Return: A profit distribution method where profits, up to a specified rate of return, are distributed to one class of equity before another.

Example: The investment terms specified a 15% preferred return for the angel investors.

Preferred Stock: A class of ownership in a corporation that has a higher claim on assets and earnings than common stock.

Example: Angel investors often receive preferred stock, giving them priority in terms of dividends and during liquidation.

Pro Rata Rights: The rights of investors to maintain their percentage ownership by buying shares in subsequent rounds.

Example: With pro rata rights, an investor owning 10% could buy additional shares in the next round to maintain their 10% stake.

QPAM: Qualified professional asset manager as defined by ERISA.
Example: As a QPAM, the asset management firm met the stringent criteria set by ERISA for managing pension plan assets.

Ratchet: A provision that allows investors to maintain their percentage of ownership by buying shares at a discounted price after a dilution of their share value.

Example: The anti-dilution ratchet clause ensured that early investors were protected from dilution in later funding rounds.

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. (See also: Exit Strategy and Leveraged Buyout.)

Example: United Holdings used recapitalization to replace their higher payout loans with lower coupon bonds. To further reduce its payout burden, the company underwent recapitalization, converting some of its lower-coupon-bonds into equity, ultimately leading to improved financial health and growth prospects for the company

Red Herring: The common name for a preliminary prospectus, due to the red SEC required legend on the cover. (See also: Prospectus.)

Example**:** The startup's red herring was circulated to potential investors, giving them an overview of the upcoming public offering.

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.

Example**:** The investors opted for redeemable preferred stock, giving them an option to exit if the company did not achieve a liquidity event within the agreed timeframe.

Registered Offering: ["Public Offering"] A transaction in which a Company sells specified securities to the public under a Registration Statement which has been declared effective by the SEC.

Example**:** The biotech firm's registered offering was met with great enthusiasm, raising significant capital from public investors.

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.

Example**:** Before the IPO, the company completed the registration process with the SEC, ensuring full compliance and transparency.

Registration Obligation: The obligation of a company to register the shares issued to an investor in a private offering for resale to the public through a Registration Statement which the SEC has declared effective.

Example**:** The company had a registration obligation to ensure that the shares issued in the private offering were eligible for resale in the public market.

Registration Rights: The right to require that a company register restricted shares. Demand Registered Rights enable the shareholder to request registration at any time, while Piggy Back Registration Rights enable the shareholder to request that the company register his or her shares when the company files a registration statement (for a public offering with the SEC).

Example**:** The investor negotiated for demand registration rights, allowing him to request the registration of his shares at any moment.

Registration Rights Agreement: Separate agreement in which the investor's registration rights are evidenced.

Example: The terms of the registration rights agreement were carefully crafted to balance the interests of both the company and the investors.

Registration Statement: The document filed by a company with the SEC under the Securities Act in order to obtain approval to sell the securities described in the Registration Statement to the public. [S-1, S-2, S-3, S-4, SB-1, SB-2, S-8, etc.] Includes the Prospectus.

Example: The company's registration statement, including its prospectus, provided detailed financial information to potential public investors.

Regulation A: SEC provision for simplified registration for small issues of securities. A Reg. A issue may require a shorter prospectus and carries lesser liability for directors and officers for misleading statements.

Example: The startup opted for a Regulation A offering due to its simplified process and reduced liability for its directors.

Regulation C: The regulation that outlines registration requirements for Securities Act of 1933.

Example: The company's legal team meticulously reviewed Regulation C to ensure compliance with the registration requirements.

Regulation D: Regulation D is the rule (Reg. D is a "regulation" comprising a series of "rules") that allows for the issuance and sale of securities.

Example: The private placement was structured under Regulation D, allowing the company to raise funds without a public offering.

Regulation D Offering: (See Private Placement.)

Example**:** The Regulation D offering was targeted at accredited investors, bypassing the need for a public registration process.

Regulation S: The rules relating to Offers and Sales made outside the US without SEC Registration.

Example: The company utilized Regulation S for its international offering, selling securities to foreign investors without SEC registration.

Regulation S-B: Reg. S-B of the Securities Act of 1933 governs the Integrated Disclosure System for Small Business Issuers.

Example: As a small business issuer, the company followed Regulation S-B for its disclosure requirements.

Regulation S-K: The Standard Instructions for Filing Forms Under Securities Act of 1933, Securities Exchange Act of 1934, and Energy Policy and Conservation Act of 1975.

Example: The company adhered to Regulation S-K when preparing its filings, ensuring all necessary information was accurately presented.

Regulation S-X: The regulation that governs the requirements for financial statements under the Securities Act of 1933 and the Securities Exchange Act of 1934.

Example: In preparing its financial statements, the company complied with Regulation S-X to meet the stringent disclosure standards.

Reporting Company: A company that is registered with the SEC under the Exchange Act.

Example: As a reporting company, the corporation was subject to ongoing disclosure obligations to the SEC and its investors.

Resale Registration: Registration by a company of the investor's sale of the shares purchased by the investor in a private offering.

Example: The resale registration facilitated the investor's ability to sell the privately purchased shares on the public market.

Restricted Securities: Public securities that are not freely tradable due to SEC regulations. (See also: Securities and Exchange Commission.)

Example: The investor held a significant amount of restricted securities, which could not be immediately sold due to regulatory constraints.

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.

Example: The investor was aware of the limitations on his restricted shares, including the mandatory one-year holding period before any sale could be considered.

Return on Investment (ROI): The profitability of an investment.

Example: An investment of $100,000 that returned $150,000 had a 50% ROI.

REIT (Real Estate Investment Trust): A company that owns, operates, or finances income-producing real estate.
Example: Investing in a REIT allowed Emma to indirectly own a diversified portfolio of income-producing real estate properties.

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.

Example: The company had the right of first refusal on any sale of shares by early investors, ensuring they could control the shareholder composition.

Rights Offering: Issuance of "rights" to current shareholders allowing them to purchase additional shares, usually at a discount to market price. Shareholders who do not exercise these rights are usually diluted by the offering. Rights are often transferable, allowing the holder to sell them on the open market to others who may wish to exercise them. Rights offerings are particularly common to closed-end funds, which cannot otherwise issue additional ordinary shares.

Example: The rights offering gave existing shareholders the opportunity to maintain their ownership percentage by purchasing additional shares at a favorable price.

Risk: The chance of loss on an investment due to many factors, including inflation, interest rates, default, politics, foreign exchange, call provisions, etc. In Private Equity, risks are outlined in the Risk Factors section of the Placement Memorandum.

Example**:** The investor carefully assessed the various risks outlined in the placement memorandum before committing capital to the private equity fund.

Round: A defined period in which startup companies receive investment in exchange for equity.

Example: The biotech startup raised $5 million in its Series A round.

Rule 144: Rule 144 provides for the sale of restricted stock and control stock. Filing with the SEC is required prior to selling restricted and control stock, and the number of shares that may be sold is limited.

Example: "To sell her restricted shares, the investor complied with Rule 144, including filing the necessary paperwork with the SEC."

Rule 144A: A safe-harbor exemption from the registration requirements of Section 5 of the 1933 Act for resales of certain restricted securities to qualified institutional buyers, which are commonly referred to as "QIBs." In particular, Rule 144A affords safe-harbor treatment for reoffers or resales to QIBs — by persons other than issuers — of securities of domestic and foreign issuers that are not listed on a U.S. securities exchange or quoted on a U.S. automated inter-dealer quotation system. Rule 144A provides that reoffers and resales in compliance with the rule are not "distributions" and that the reseller is therefore not an "underwriter" within the meaning of Section 2(a)(11) of the 1933 Act. If the reseller is not the issuer or a dealer, it can rely on the exemption provided by Section 4(1) of the 1933 Act. If the reseller is a dealer, it can rely on the exemption provided by Section 4(3) of the 1933 Act.

Example**:** "The investment firm utilized Rule 144A to resell restricted securities to qualified institutional buyers without the need for public registration."

Rule 144A Exchange Offer: A transaction in which one class of securities that were issued in a private placement are exchanged for another, usually almost identical, class of securities, in a transaction registered with the SEC on a Form S-4 Registration Statement.

Example: "The company conducted a Rule 144A exchange offer, allowing investors to swap their privately placed securities for publicly tradable ones."

Rule 501: Rule 501 of Regulation D defines Accredited Investor, among other s and regulations.

Example: "According to Rule 501, the investor qualified as an accredited investor, meeting the income and net worth thresholds."

Rule 505: Rule 505 of Regulation D is an exemption for limited offers and sales of securities.

Example: "The company utilized Rule 505 for its fundraising, limiting the offer to a select group of investors."

Rule 506: Rule 506 of Regulation D is considered a "safe harbor" for the private-offering exemption of Section 4(2) of the Securities Act of 1933. Companies using the Rule 506 exemption can raise an unlimited amount of money if they meet certain exemptions.

Example**:** "By operating under Rule 506, the startup was able to raise substantial funds from accredited investors without public registration."

Runway: The amount of time before a startup goes out of business, assuming current income and expenses remain constant.

Example: With $500,000 in the bank and a monthly burn rate of $50,000, the startup had a runway of 10 months.

SBIR: Small Business Innovation Research Program. See Small Business Innovation Development Act of 1982.

Example**:** "The tech startup received a grant under the SBIR program, supporting its innovative research and development efforts."

Securities: Includes all types of equity and debt instruments and rights in and to them.

Example: "The investment portfolio was diversified, containing a mix of different securities including stocks and bonds."

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.

Example**:** "Under the Securities Act of 1933, the company provided comprehensive disclosure to investors in its IPO prospectus."

Securities 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.

Example: The Securities Act of 1934 served as a cornerstone in regulating securities markets and protecting investors from fraudulent practices.

Securities and Exchange Commission: The SEC is an independent, nonpartisan, quasi-judicial regulatory agency responsible for administering federal securities laws. These laws protect investors in securities markets and ensure access to material information about publicly traded securities. The SEC also regulates firms trading securities, investment advisers, and investment companies.

Example: The company had to submit its financial reports to the Securities and Exchange Commission for regulatory compliance.

Seed Money: The first round of capital for a start-up business. Seed money often takes the form of a loan or investment in preferred stock or convertible bonds, although sometimes it is common stock. It provides startups with the capital required for initial development and growth.

Example: The entrepreneur secured seed money from angel investors to kickstart her software development company.

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

Example: During its seed stage financing, the tech startup focused on developing a market-ready prototype.

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

Example: The investor preferred buying senior securities due to their preferential treatment in earnings and liquidation scenarios.

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.

Example: The startup issued Series A preferred stock to venture capitalists as part of its initial fundraising effort.

Serviceable Addressable Market (SAM): A subset of the Total Addressable Market that a product or service can realistically capture.

Example: A founder believes that their new product has a SAM of 10%.

Serviceable Obtainable Market (SOM): The SOM (Serviceable Obtainable Market) is the sub-sector of the market niche (SAM) that you are realistically able to target given the limitations of resources, presence of competition, and level of market awareness.

Example: In the short term, the founder believes that a 30% SOM target is achievable.

Shell Corporation: A corporation with no assets and no business, typically designed for going public and later acquiring existing businesses. Also known as Specified Purpose Acquisition Companies (SPACs).

Example: The shell corporation was set up as a vehicle to facilitate a future acquisition.

Side Letter-An investment side letter is a supplementary agreement between an investor and a company, outlining special terms or conditions not included in the main investment agreement. These terms often address specific rights, privileges, or obligations unique to the individual investor, such as additional reporting requirements, governance rights, or exit strategies. Side letters ensure that certain investors receive tailored benefits or protections that align with their unique investment needs or strategic goals.

Example: The investors have added a side letter to the post-money SAFE document.

Simple Agreement for Future Equity (SAFE): a financial instrument used by startups and investors during early-stage funding rounds. It was created in 2013 by Y Combinator. A SAFE is not a loan, like a convertible note. Instead, it's an agreement that provides the investor the right to receive equity in the company at a later date, under specific conditions.

Example: The start-up founder is seeking to raise outside capital with a SAFE instrument rather than a convertible note.

Small Business Administration (SBA): Provides loans to small-business investment companies (SBICs) that supply venture capital and financing to small businesses.

Example: The small business owner applied for a loan backed by the Small Business Administration to expand her operations.

Small Business Innovation Development Act of 1982: The Small Business Innovation Research (SBIR) program is a set-aside program for domestic small businesses to engage in Research/Research and Development (R/R&D) with potential for commercialization.

Example: Thanks to the Small Business Innovation Development Act of 1982, the company received funding for its innovative clean energy project.

Special Purpose Acquisition Company (SPAC): A special purpose acquisition company (SPAC) is a company without commercial operations and is formed strictly to raise capital through an initial public offering (IPO) for the purpose of acquiring or merging with an existing company.

Example: A number of investors have formed a SPAC in order to acquire a tech company of interest.

Staggered Board: An anti-takeover measure where the election of directors is split in separate periods, so only a percentage of the total number of directors come up for election in a given year.

Example: The company's staggered board was a strategic defense against potential hostile takeovers.

Statutory Voting: A method of voting for members of the Board of Directors of a corporation where a shareholder receives one vote per share and may cast those votes for each of the directorships.

Example: With statutory voting, the major shareholder could cast multiple votes for each director, solidifying their influence on the board.

Stock Options: The right to purchase or sell a stock at a specified price within a stated period. Options are a popular investment medium and also a widely used form of employee incentive and compensation.

Example: The company offered its employees stock options as part of their compensation package.

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

Example: The startup was eager to bring on a strategic investor who could provide not just capital but also industry connections.

Subscription Agreement: The application submitted by an investor wishing to join a limited partnership. All prospective investors must be approved by the General Partner prior to admission as a partner.

Example: After reviewing the subscription agreement, the general partner approved the new investor's entry into the limited partnership.

Subordinated [Note] [Debt]: Debt which, by its terms, has no right to be paid until another debt holder is paid. Also referred to as "junior" debt.

Example: The company issued subordinated debt to raise funds without disturbing its existing debt structure.

Syndicate: Underwriters or broker/dealers who sell a security as a group.

Example: The IPO was managed by a syndicate of investment banks, each responsible for selling a portion of the shares.

Secondary Market: A market where investors buy and sell securities they already own.

Example: Before the company went public, some early investors sold their shares on a secondary market.

Secondary Sale: The sale of private or restricted holdings in a portfolio company to other investors.

Example: The early investor executed a secondary sale, transferring his shares in the portfolio company to a new investor.

Securitization: The process of taking an illiquid asset, or group of assets, and through financial engineering, transforming them into a security.
Example: The bank engaged in securitization by pooling together mortgages and selling them as mortgage-backed securities.

Seed Capital: Initial funding used to start a business.

Example: The founders raised seed capital of $50,000 to develop their product prototype.

Series A, B, C... Funding: Sequential rounds of funding to help grow a business. Each round targets different stages and needs of the business.

Example: After a successful seed round, the company moved on to secure Series A funding to expand its operations.

Startup Ecosystem: The network of interconnected people, businesses, and organizations focused on nurturing and growing new startups.

Example: Silicon Valley is renowned for its vibrant startup ecosystem, filled with investors, mentors, incubators, and other support systems.

Syndicate: A group of investors who pool their resources to invest in larger deals.

Example: Five angel investors formed a syndicate to jointly invest $1 million in a promising startup.

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.

Example: The minority shareholders exercised their tag-along rights during the acquisition, ensuring they could sell their shares on similar terms.

Takedown Schedule: A takedown schedule means the timing and size of the capital contributions from the limited partners of a venture fund.

Example**:** The venture fund's takedown schedule was carefully planned to align with the anticipated capital needs of its investments.

Tax-free reorganizations: Types of business combinations in which shareholders do not incur tax liabilities. There are four types — A, B, C, and D reorganizations.

Example: The company underwent a Type B tax-free reorganization to streamline its operations without burdening shareholders with tax liabilities.

Tender offer: An offer to purchase stock made directly to the shareholders, often used in hostile takeovers.

Example: The competitor launched a tender offer in an attempt to acquire control of the company.

Term Sheet: A non-binding document outlining the main issues relevant to a tentative investment between an investor(s) and the startup/founder.

Example: Before finalizing the investment agreement, both investor and founder agreed on a term sheet that laid out key investment areas and associated obligations including detailed equity share, investment amount, and other conditions.

Total Addressable Market (TAM): The total overall market that your product could potentially serve.

Example: The founder has identified the TAM as a 30 million dollar opportunity.

Treasury Stock: Stock that a company has issued and later reacquired. It can be sold at a later date or retired.
Example: The company bought back its shares, classifying them as treasury stock, which could be reissued in the future.

Underwriter: A specialized type of bank that buys the shares from the company preparing an IPO and sells them to investors.
Example: The investment bank acted as the underwriter for the company's IPO, helping it to sell its shares to the public.

Underwriting: The process by which investment bankers raise investment capital from investors on behalf of companies.

Example: The tech startup's IPO was underwritten by a major investment bank, ensuring a minimum amount raised.

Underwritten Offering: Registered offering that is sold through a consortium of investment banks assembled by one or more lead investment banks.

Example: The tech firm's underwritten offering was oversubscribed, reflecting strong investor interest.

Unit Offering: Private or public offering of securities in groups of more than one security. It often includes a share of stock and warrant to purchase shares of stock, but could also include other combinations.

Example: The company's unit offering included a share of common stock and a warrant, providing an attractive package for investors.

Unicorn: A privately-held startup company valued at over $1 billion.

Example: The mobile payment startup became a unicorn after its latest funding round valued it at $1.5 billion.

Valley of Death: A period in the startup lifecycle where the company is facing negative cash flows and struggling to achieve profitability.

Example: After launching its product but before securing significant sales, the startup found itself in the valley of death, relying heavily on its reserves.

Valuation Cap: A maximum company valuation at which a convertible note will convert into equity.

Example: A convertible note with a $5 million valuation cap would convert at that valuation or lower during a qualified funding event.

Value Proposition: A clear statement that explains how a product solves a pain point, delivers specific benefits, and tells the customer why they should buy from this company.

Example: The startup's value proposition was "Secure cloud storage accessible anytime, anywhere."

Venture Capital (VC): Professional groups that manage pooled funds from many investors to invest in startups and small businesses.

Example: The startup secured a $2 million investment from a leading venture capital firm.

Venture Capital Financing: An investment in a startup business perceived to have excellent growth prospects but lacking access to capital markets.

Example**:** The biotech startup secured venture capital financing to fund its groundbreaking research.

Vesting: The process by which an employee or investor earns rights to stock over time.

Example: Jane's stock options vest over a period of 4 years, with 25% vesting each year.

Veto Rights: The rights that allow an investor to stop certain actions taken by the company.

Example: The venture capital firm's veto rights prevented the startup from making major acquisitions without their approval.

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.

Example**:** As a major shareholder, she exercised her voting rights to influence the company's strategic direction.

Warrants: A derivative that confers the right, but not the obligation, to buy or sell a security at a certain price before expiration.

Example: As part of the investment deal, the angel investor received warrants that allowed her to purchase additional shares at a fixed price in the future.

Waterfall Structure: A method of splitting the profits from a venture among the stakeholders which dictates the order in which returns are allocated.

Example: In the event of a company sale, the waterfall structure ensured that senior creditors were paid first, followed by junior creditors, and lastly equity holders.

Whitelist: A list of approved investors who are given the first opportunity to participate in a new funding round or initial coin offering (ICO).

Example: Before the public token sale, the company gave access to a whitelist of early supporters.

Weighted Average Antidilution: The investor's conversion price is reduced, and thus the number of common shares received on conversion is increased, in the case of a down round; it takes into account both the reduced price and how many shares are issued in the dilutive financing.

Example**:** The company's down round triggered the weighted average antidilution clause, adjusting the conversion price for early investors.

Write-up/Write-down: An upward or downward adjustment of the value of an asset for accounting and reporting purposes. These adjustments are estimates and tend to be subjective, although they are usually based on events affecting the investee company or its securities beneficially or detrimentally.

Example: After the successful product launch, the company's investment in the project was subject to a write-up.

X-Efficiency: The degree of efficiency maintained by firms under conditions of imperfect competition.
Example: The firm's x-efficiency was high, indicating effective management and competitive operations despite market imperfections.

Yield: The income generated and realized on an investment over a particular period, expressed as a percentage based on the investment's cost or current market value.

Example: The bond issued by the company offered a yield of 5%, attracting several institutional investors.

Zero-Coupon Bond: A debt security that doesn't pay interest but is traded at a deep discount, rendering profit at maturity when the bond is redeemed for its full face value.
Example: The zero-coupon bond was purchased at a discount and would yield a profit at maturity when redeemed at its full face value.

Zombie Company: A company that is neither failing nor thriving. It's able to pay its bills and survive but is not in a position to succeed or grow.
Example: Despite being in business for over a decade, the software firm hadn't launched any significant new products in years and was considered a zombie company