- A -

Accounts Payable: Indebtedness of a company to its suppliers for goods or services purchased that have been purchased and which must be paid for within one year (more typically paid within 30-90 days). This shows as a current liability on the company's balance sheet.

Accounts Receivable: Amounts owed to a company by its customers for goods or services supplied to those customers which must be paid for within one year (more typically collected within 30-90 days). This shows as a current asset on the company's balance sheet.

Accredited Investor: Generally refers to a sophisticated, reasonably wealthy person who can invest in companies without requiring a prospectus from said company. The exact definition will vary among countries and regulators. In Canada and the US it is an individual whose net worth, or joint net worth with a spouse, exceeds $1,000,000 (excluding one's principal residence); or whose individual income exceeds $200,000/yr.

Accretive: This usually refers to earnings that result from an acquisition of a business that add to the earnings per share as opposed to losses that would dilute earnings per share. As a general rule, an accretive merger or acquisition occurs when the P/E ratio of the acquiring firm is greater than that of the target firm. A "dilutive acquisition" is the opposite of an "accretive acquisition".

Accrual Accounting: An accounting method which measures the performance of a company by recognizing financial transactions (purchases and sales) regardless of when the actual cash transactions occur.

Amortization: This refers to the reduction in a liability over time, e.g. "amortizing" a loan by regular monthly payments against that loan.

Angels: Angel investors are successful entrepreneurs who are willing to invest some of their gains in new ventures. They typically also act as mentors to the founding entrepreneurs. What differentiates angels from other investors is that a) they invest their own money (not other peoples' money which they manage) and b) they have been an entrepreneur themselves.

Annual Reports: All companies, public or private, are generally required to produce an annual report for their shareholders. Private companies have more flexibility in this regard and the report requirement may be waived or diminished as deemed by its owners. Public companies are required, by law, to produce annual reports and quarterly reports on their operations AND file these so that they can be accessed by shareholders as well as the general public (among which there may be future shareholders). At a minimum, these reports must contain complete financial statements (Income, Balance Sheet, Cash Flow) and various management discussions. In Canada, all public company documents can be readily accessed on the internet through SEDAR at www.sedar.com. The US equivalent is EDGAR, i.e. www.edgar-online.com.

Anti-dilution right: Such a right gives a shareholder the right to acquire shares in subsequent share offerings such that the shareholder's percentage ownership does not get diluted (i.e. decreased) as a result of the issuance of more shares.

Arbitrage: This entails the buying and selling (of a commodity, stock, derivative, etc) in different markets in order to make a profit as a result of a price differential. For example buying a stock listed on the Toronto Stock Exchange and simultaneously selling the same stock on the NASDAQ if, after taking taking currency exchange into account, the net selling price on NASDAQ is slightly higher than the net buying price on Toronto. Another example occurs when a takeover bid is made for a company and it is trading below the value of the bid. This presents an arbitrage opportunity for speculators.

Audit: Companies' financial statements are sometimes subjected to an **audit** by an independent accounting firm, meaning that the statements are objectively checked and verified to ensure fair and total disclosure to the stockholders. For public companies, an annual audit is mandatory. Quarterly reports are unaudited. Private firms can do what they want and seldom go to the trouble of incurring an audit and the associated audit fees.

- B -

Balance Sheet: This is company's accounting statement that shows its assets and liabilities (and net worth) at one moment in time. It is a snapshot of the financial health of a company. It is governed by the equation ASSETS = LIABILITIES + NET WORTH.

Bank of Canada Rate: This is the central bank's official interest rate. It is like a wholesale rate for commercial banks on the "overnight" loans. The Bank rate is dictated by government policy and will in turn drive the commercial bank rates, e.g. the prime rate.

Bankruptcy Protection: When a company becomes insolvent, i.e. it can't pay its bills and meet its financial obligations, it is said to be bankrupt.

Bankrupt: When a company becomes insolvent, i.e. it can't pay its bills and meet its financial obligations, it is said to be bankrupt. There are two variations on this definition. A company may be technically bankrupt or it may be legally bankrupt. The former means that the company has, at least temporarily, run out of cash to pay its bills and is, at the moment, bankrupt. However, it may recover by raising capital, collecting monies owed to it, or selling off various assets. When a company does not do this on its own, its creditors may, through the courts, put a company officially or legally into bankruptcy.

Bankruptcy Protection: When a company is bankrupt, it may be allowed to continue with its business operations (as opposed to having it liquidated). It essentially gets a reprieve and some time to get its affairs in order. During this time, it is "protected" from being pursued by its creditors so that it can focus on rescuing itself. To do this, a company is said to file for bankruptcy protection. In the USA, this is referred to as "Chapter 11". A **"receiver"** may be appointed by the courts during this period.

Basis Point: A Basis Point refers to one-one hundredth of a unit, such as interest rates or exchange rates.

Bear Market: This is the term used to refer to a weak, sluggish stock market. Prices and share volumes are decreasing in a Bear Market. The opposite to this is a Bull Market.

Blue Chip: This refers to companies with large market capitalizations ($1B+). It has nothing to do with "chips" of any kind. Many people use it simply to refer to top tier, large cap, firms.

Bond - A bond is a debt obligation (often in the form of a negotiable "note") by a borrower - typically a government. For example, the Government of Canada may issue a 10 year bond, paying interest at 6%, in denominations of $100. Corporations sometimes issue bonds, too. These are much riskier than bonds backed by government guarantees and are often referred to as "Junk Bonds" and bear much higher rates of interest. Bonds often trade in the market. When prices drop, it means that the effective interest rate is higher - e.g. if a $100 bond paying $6 per year interest, trades at $95, the effective interest rate is 6/95 percent.

Bond Rating: Government or corporate bonds are rated by companies like the Dominion Bond Rating Service as to risk. A Double-A rating, for example, would give investors an objective assessment as to how capable the issuer is of meeting its repayment obligations. It's a risk assessment.

Book Value: This is the net value, in an accounting sense, of a company based on actual costs and asset values. For example, if you start an internet company by raising $100K which you then spend on equipment and legal fees such that you have $50K left in cash, $30K in equipment, and an expense of $20K in legal bills, then the book value is $80K. However, if investors like what you are doing, the market value of this company will likely be much higher than the book value. Think of book value as the amount of cash you might be able to realize if you simply shut down a company, sold all the assets and paid all the bills.

Bootstrapping: In business, this term refers to the process of financing a business by internally generated cash flow as opposed to "kickstarting" the company with external investment capital. It means keeping salaries and expenses down while generating customer sales to fuel the growth of the venture.

Bottom Line: "Bottom Line" is jargon for the very bottom line on the income statement. The bottom line tells you how much money the business is making after tax, i.e. it is Net Profit after Tax.

Bubble Junkie: Those entrepreneurs that were caught up in the 1999-2000 euphoria surrounding internet stock deals. They got "addicted" to concepts of easy money, high spending, grow big or go home ideas.

Bull Market: This is the term used to refer to a strong, healthy stock market. Prices and share volumes are increasing in a Bull Market. The opposite to this is a Bear Market. It has nothing to do with "Bull" or "BS", although that may be what causes some stocks to increase unreasonably.

Burn Rate: This term is particularly applicable to start up companies or to companies which do not yet have substantial revenues. It refers to the monthly rate of consumption of cash. For example, if total monthly operating costs for rent, salaries, etc are $50K, one would say that the burn rate is

$50K/month. When compared to available cash-on-hand it tells us how much time the company has before it will run into serious cash flow difficulties and "flame-out".

Brain Drain: Brain Drain refers to the flight of professionals out of Canada due to our high taxes and lower salaries. But, is it a true statement? Sure, there is always some mobility in a work force - but is there a net outflow?

- C -

CAGR: Acronym for Compound Annual Growth Rate. The CAGR, measured in percentage points, is the effective annual rate of increase (using compound interest calculations) of an investment over time. It is similar to the IRR - Internal Rate of Return of an investment. These are built in to many time-value-of-money programs, including the financial functions in popular spreadsheets such as 1-2-3 and Excel as well as many calculators and on-line web-based calculators.

CALL: Abbreviated term for "Call Option", e.g. as in "I bought five Nortel $10Calls". See Stock Options.

Capital Pool Company (CPC): A CPC is a public company which has been established (under the rules of the CDNX) for the sole purpose of acquiring an active business enterprise. It allows a group of individuals to create a vehicle which they can then use to finance and build an emerging venture. Unlike a dormant "shell" company, a CPC brings with it a wealth of experience through its directors. A CPC's sole purpose in life is to acquire a business in what is referred to as its "Qualifying Transaction". After the completion thereof, the resulting merged company then trades as a normal venture company on the CDNX.

CCAA: The *Companies' Creditors Arrangement Act* (often referred to as the "CCAA" or the "CC, double A"). This is a Federal Act (Canadian) that allows financially troubled corporations the opportunity to restructure their affairs, e.g. through a formal Plan of Arrangement. The CCAA allows a company to avoid bankruptcy and allows the creditors to receive some form of payment for amounts owing to them. The CCAA is restricted to larger corporations with amounts owing to creditors in excess of $5 million. Corporations that do not reach this $5 million figure can utilize the Division I Proposal under the*Bankruptcy and Insolvency Act*. The CCAA also allows a company, if it so chooses, to address its shareholders in addition to its creditors. When the shareholders of a company are impacted by the Plan of Arrangement, they are often given the opportunity to vote on the Plan.

CCPC (Canadian Controlled Private Company): This is a special kind of company (i.e. it has certain tax ramifications). It is a private company that does not list its shares for trading on a recognized stock exchange and the company is not controlled (by shareholders or by agreement) in any way by non-Canadians. Note that a very large company can be a CCPC.

CDNX - Canadian Venture Exchange: The CDNX was formed in late 1999 through the merging of the junior exchanges in Canada, i.e. the Vancouver Stock Exchange, the Alberta Stock

Exchange, and various "parts" of the other, more senior exchanges (the Toronto Stock Exchange and the Montreal Stock Exchange) as well as the CDN, Canadian Dealing Network (which really isn't a stock exchange but is more like the OTC-BB in the USA, i.e. a market for "unlisted" stocks). The vision for the CDNX was to be *the* exchange for venture (i.e. young, emerging) companies. The CDNX listed (in 3 different categories) smaller, emerging companies such as junior technology ventures. In early 2002, the Toronto Stock Exchange (TSX) acquired the CDNX and renamed it the TSX-V, for TSX-Venture Exchange, with its head office in Toronto.

CEO: Chief Executive Officer - the title often given to the top ranking management official in a company, one step from being the Board Chairman. Cynically, some have come to call this the Chief Embezzlement Officer, in the wake of various top level corporate scandals!

Class Action Suit: Class Action Lawsuits are law suits launched by lawyers on behalf of a "class" of litigants - i.e. a group which is adversely affected. Lawyers generally do this by charging exorbitant contingency fees (like 30-50% of any settlements) and they only need one legitimate complainant to proceed. Now you know why they are so popular!

Collar: This is a term used to describe an options strategy in which both Call Options and Put Options are used to put a "collar" around an investment position. For example, by simultaneously writing near-the-money calls and buying near-the-money puts, one can lock in a share price range (until the options expire) regardless of the market's vagaries.

Common Share: A common share is the standard for of ownership in an incorporated company. Common shares allow the holder to vote his/her shares. Each share gets one vote at a meeting of shareholders. Each share entitles the holder to participate, pro-rata, in profits of the company. Hence, Common shares are usually voting, participating shares.

Compound Interest: This is interest on interest. For example, if a loan accumulates interest that is not paid, then interest is charged on the original principal plus accumulated interest. Compounding can result in a geometric growth in the value of a investment or loan. The future value of an investment is calculated by the formula FV=PV(1+i)**n which shows that growth is non-linear.

Contributed Surplus: That portion of shareholders' equity which originates from sources other than earnings, such as the initial sale of stock above par value. Another source is due to the accounting for compensation expenses due to the granting of stock options.

Control: This generally refers to the "voting control" which a shareholder can exert. If a shareholder owns more than 51% of the common shares of a company, he has unequivocal voting control, i.e. she cannot be out-voted by anyone. This is true for public and for private companies (except that, in public companies there may be certain matters which require a "majority of the minority" vote to prevent control persons from taking undue advantage of minority shareholders). In the case of public companies, a person can obtain control by owning a relatively small percentage of shares, even 10% or less. For example, if a company is widely held (i.e. it has many shareholders) it is unlikely that many shareholders will vote and those that do, usually send in their proxies allowing management to vote their shares. Hence, if only 20% of a companies shareholders decide to vote, it is possible for one shareholder to control a majority of this 20% vote.

Control Block: A control block occurs when a shareholder holds a significant (not necessarily a majority) of the shares in the company. It often refers to the largest shareholder(s) or shareholdings. It is called a control block because the holder of this block of stock can effectively control decision making within the company. Often, it is the founder or CEO of a company (e.g. Bill Gates obviously holds a control block in Microsoft).

Convertible Note: also convertible debt - this is a debt owing to a lender under which the lender has the right, under negotiated terms and conditions, to convert the debt into shares in the company at his call.

Convertible Preferreds: Preferred shares which carry the right for the holder to convert the shares into regular common shares under pre-negotiated terms and conditions.

Corporate Governance: A company is governed by its Board of Directors. Governance refers to the discipline by which a company is supervised at the highest level with respect to its obligations to its various stakeholders - investors, customers, the public, and government (taxes, environment, etc). It is the job of a corporate Board to ensure that the enterprise is properly managed. Due to many corporate scandals and corporate malfeasance, governance has become a hot topic and many securities regulators have mandated new standards. For example, in the USA, the SEC (Securities and Exchange Commission) has enacted the **Sarbanes-Oxley Act** (approx 2002) that requires corporations to adopt certain accounting and reporting standards. These can be very onerous and compliance can be very costly.

Correction: see Market Correction.

Co-Sale Right: see Tag Along Right.

Cost of Goods Sold (CoGS): These are the direct costs of producing the product which a company sells including such items as materials and labor that go directly into producing the shipped goods. These costs are usually shown directly under revenues on an income statement as the first costs associated with producing the revenues that are recorded.

Coupon: This refers to the interest paid on a bond's face value regardless of the current trading price of a stock, eg. if the coupon is 10% and the bond's face value is $100, the annual interest (paid on the coupon) is $10.

CPI: Acronym for Consumer Price Index - an economic measure of the increase in the price of a basket of consumer goods. This is useful insofar as it tells consumers how much their purchasing power has declined. For example, it may cost $100 to buy a certain basket of consumer items. If the CPI index increases by 10%, then that same basket of goods would now cost $110.

Cramdown: When investors get heavily diluted by a subsequent round of investment especially when the investment is a down round. Also known as a washout.

Credit: An accounting entry which results in either an decrease in assets or an increase in liabilities or net worth. The opposite of debit.

- D -

Debit: An accounting entry which results in either an increase in assets or a decrease in liabilities or net worth. The opposite of credit.

Debt: An amount that must be repaid is generally referred to as a debt. There are many types of debt - secured (e.g. collateralized by a lien on certain assets) versus unsecured (creditor is at full risk), convertible notes, short term vs long-term, etc. It is a balance sheet item reported under liabilities. For example: Federal Debt - this refers to the total debt that is being carried (i.e. financed) on a government's balance sheet.

Deficit: As in Federal Deficit - this refers to a fiscal year shortfall in annual federal revenues over federal expenditures, somewhat akin to the loss as reported on a profit and loss statement.

Depreciation: Assets lose their value over time. The amount of value reduction in a particular period of time is referred to as depreciation. For example, cars depreciate in value as they age and get used. Most assets are depreciated by given percentages during an accounting period. Companies can set their own depreciation rates but for tax purposes, governments prescribe allowable rates for various asset classes. This prevents companies from depreciating assets too rapidly in order to avoid taxes.

Derivatives are financial instruments which can be traded (e.g. options, warrants, rights, futures contracts, options on futures, etc.) on various markets. They are called derivatives because they are "derived" from some real, underlying item of value (such as a company share or other real, tangible commodity). A derivative is a tradable "contract", created by exchanges and dealers. A warrant or option is the simplest form of derivative. The most common usage relates to the trading of commodity futures and options on futures - where pre-defined contracts relating to a right to buy or sell and underlying commodity or security are traded as opposed to the actual commodity or security itself. They are risky because they are time-fused and can expire worthless. Yet, the rewards are enormous and they are used primarily as HEDGING instruments.

Dilution: Dilution refers to the issuance of more shares from a company's treasury - thereby diluting other shareholders. Hence, companies sometimes report "fully diluted earnings", i.e. the earnings per share AS IF all shares under option had been exercised. This can be very significant. It is also used in the context of a cash-per-share dilution for new investors. For example, when new capital is invested in a company, those investors immediately dilute the cash value of their investment since it is pooled with previous investors. A dilutive acquisition is one that reduces earnings per share.

Direct Cost: This is a cost of producing the product which a company sells. It would include such items as materials and labor that go directly into producing the shipped item. Another term for this is variable cost. These costs are usually shown directly under revenues on an income statement as the first costs associated with producing the revenues that are recorded.

Discount rate: This refers to the interest rate used when calculating the present value of a cash flow, i.e. you are "discounting a cash flow" to its present value. Spreadsheet programs such as 1-2-3 or Microsoft's Excel have very useful built-in functions for the purpose. The challenge is to figure out what value for "i" to use. Interest rates on investments are based on risk. So, when discounting a cash flow use an appropriate rate. For example, if you are discounting interest payments that you receive from a reliable and predictable source, you would use a bank rate of interest. If you are discounting profit cash flows from a business, you would use a rate typical for that business (e.g. real estate income is less risky than a high tech business so you might use 5% for bank income, 10% for real estate or 30% for a high tech concern). You should probably use two or three rates in order to give you a range of values.

Discounted Cash Flow: If a series of cash flows is discounted to a present value, based on a certain interest rate, the total present value of that series is referred to as the discounted cash flow.

Dividend: This is an arbitrary payment that companies make to their shareholders based on the Company's after-tax earnings. Companies, such as tech companies, often pay no dividends because they re-invest their profits back into the company to fuel further growth. Generally only profitable and cash-rich companies pay dividends. Dividend payouts are approved by a company's Board of Directors and are declared on a per-share basis (e.g. Company X has declared a dividend of $0.08 per share). In some countries (e.g. Canada), dividends may be taxed at a lower rate than ordinary income.

Dow: The Dow (of the Dow Jones) Industrial Index is a stock index named after its founders. It is the "price" of a collection of 30 blue chip industrials on the New York Stock Exchange calculated throughout the trading day. It provides a measure of how the "blue chip" stock market is performing. (see also "Index")

Down Round: This is an investment round that is done at a valuation substantially below previous ones, often excessively diluting earlier investors.

Drag Along Right: A right that enables a majority shareholder to force a minority shareholder to join in the sale of majority equity position. This is often required if a purchaser wants to by 100% of a company. There may be numerous small shareholders who decide not to sell, either because they are greedy or obstreperous, and such a right allows larger shareholders to effect a sale. In some cases, for example public corporations, if more than 90% of a company's shares are being tendered (offered) to a buyer, then the other 10% get dragged along as well under the same terms (eg price) and conditions.

Due Diligence - This is the process of checking out a company for purposes of making an investment. It involves a thorough check on the people, the technology, the market, and the business opportunity. Think if it like doing some homework and investigating before jumping in. It is a verification and audit type of process. It can be very intense or very superficial, depending on the person interested in making the investment. Some people are content to go on "gut feeling" whereas others may need to be totally convinced by other parties that a deal is worth investing in. Sometimes this is referred to as "DueDili".

- E -

Earnings: This is the "bottom line", or net after-tax profit, reported by a company in its financial statements (monthly, quarterly, or yearly). A company's **earnings** (or losses) are usually reported in total as well as on a per share basis. This allows investors to easily see how the company is performing with respect to their investment.

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization): This measure of profitability is being increasingly used to try to show a company's performance by not counting those items which might be seen as being beyond management's direct control, e.g. taxes and interest. The idea is to show earnings generated from the operations of the company (i.e. its *real* business) without the "excess baggage" imposed by the excluded items. It is also a better measure of cash flow from operations since Depreciation and Amortization are non-cash items. No, it does not mean "Earnings Before I Tricked the Damn Auditor!", which in recent times might not be so far from the truth!

Economic Value Added (EVA): Economic Value Added is a financial performance measure used to evaluate a company's true profit. EVA is actually a trademark of Stern Stewart & Co. There is a website dedicated to so-called EVAnomics at http://www.evanomics.com. EVA is often called Economic Profit (EP) in order to avoid problems caused by trademarking. EP has been defined as total net gains less the interest on invested capital at the current rate, i.e.the idea behind it is that shareholders must earn a return that compensates for the risk taken. Equity capital has to earn at least same return as similarly risky investments in equity markets.

EDGAR: A web site for US corporate filings, similar to SEDAR in Canada. Website: www.edgar.com.

Equity: Equity is the value of your investment in a venture. If you have a 12% equity stake in a company, it means that you own 12% of that company. It is often used synonymously with "shareholding" or "stakeholding". Sometimes it is also used to refer to the value of an asset that you hold free and clear. For example, I have a $500,000 (market value) home. My equity in that home is $200,000 (i.e. I have a mortgage for $300,000 and my real ownership, or equity, is really just $200K, not $500K). The term equity is sometimes used synonymously with "security", i.e. as in equities -meaning shares of companies.

ESOP: An ESOP is an Employee Share Ownership Plan - designed to encourage employee investment in a company.

Employment Standards Act (B.C.): The ESA - Employment Standards Act of B.C. is the provincial legislation which "protects" workers from abuse by employers. The high tech industry recently got some amendments to this act in order to accommodate the unorthodox nature of high tech employees who like to work late nights and weekends, for example - without penalizing the employer.

Engineering Economics: The analysis of various financial alternatives, usually based on time-value-of-money concepts and formulas, to determine the most effective solution from an economical, i.e. lowest cost, perspective. Many larger-scale engineering projects, e.g. power generation, that require large investments in equipment and other assets require this type of analysis in order to ultimately determine how cost-effective they are.

Exchange Traded Index Fund: see Index Fund

Exit Strategy: Refers to the way in which investors and founders can "exit", i.e. leave their company, with a cash return on their investment - e.g. by going public or being acquired or being bought out by other shareholders.

Exemption: this refers to a company obtaining an "exemption" from the requirement to issue a prospectus and meeting registration requirements (to sell securities) when raising capital. Exemptions vary among Securities Regulators. An example of an exemption is the "family, friends and relatives exemption", i.e. it is not necessary to issue a prospectus to a family member when selling shares in ones' company.

- F -

Federal Debt: The Federal (Canada) debt which has accumulated over almost 30 years now (2004) stands at approx $500 Bn. Imagine the interest charges on that. For a view of the budget - showing program spending vs interest costs in relation to total revenue check the Finance Dept's website. The Federal Government's Budget Chartbook contains a useful discussion of economic matters such as those discussed above. Statscan (www.statcan.ca) is another good source.

Federal Reserve Board: The US Central bank that determines fiscal policy and controls policy instruments such as interest rates.

Fiduciary: This term can be used both as an adjective and a noun. It is used in the context of a trust relationship. For example, if one is said to have a fiduciary obligation, it means that one is acting in trust for other parties. A fiduciary is one who is in a position of trust. One can also use the adjective fiducial - for example, one has fiducial dependence on someone else.

Fiscal Year (**FY**): This refers to a company's financial year which may be different from the calendar year. Companies are free to choose their fiscal year-end as they wish (this may have seasonal, tax, or other practical advantages). Companies report their financial results based on their fiscal years (any 12-month period). The term fiscal came from "fiscus" - the purse in which wealthy landlords held their gold. Companies generally report their results on a fiscal quarter basis. So when a company reports on its Q2 performance, it is referring to its fiscal calendar - not the annual calendar. It is a common practice (although not mandated) to use a specific month-end date (e.g. September 30th).

Flame Out: This is the time that a company has before it runs out of cash and flames out. It can be estimated by taking cash on hand and dividing it by the burn rate.

Float: The number of shares in a company which can trade freely in the market, i.e. total shares issued minus any control blocks or escrowed shares.

Fully Diluted Earnings: These are the earnings of a company, usually expressed on a per share basis, where the total number of shares takes into account not only the issued shares but also shares which might be issued in the future if all existing options on shares where to be exercised. Since companies often have, on average, granted share purchase options equal in number to 10% or more of the issued number of shares, fully diluted earnings can be more than 10% less than earnings based only on issued shares. This figure is a more useful or conservative indication of a company's performance.

Future Value: This is the future value of a present amount when taking into account the growth due to interest. The future value of an investment is calculated by the formula FV=PV(1+i)**n where PV is the present value, i is the rate of interest per period, and n is the number of periods.

Futures Contracts: A financial contract entitling, in principle, its holder to buy or sell a given commodity at a given price for a certain period of time. Such contracts are entered into between buyers and sellers in a market and are a zero sum game. They are simply a "paper" game used primarily for hedging (avoiding risk) purposes. For example, Canadian currency futures contracts could be used to lock in a foreign ($US) profit pending collection of that receivable. Futures contracts must always be closed out (i.e. unwound). There is always an equal number of long (bought) contracts and short (sold) contracts.

- G -

GAAP: General Accepted Accounting Principles. The accounting professions in the U.S. and in Canada have established GAAP as guidelines that are used in financial reporting. U.S. and Canadian GAAP are NOT identical. Companies usually state whether they follow U.S. GAAP or Canadian GAAP.

GDP - Gross Domestic Product is a statistical measure which, in essence, tells us what Canada's domestic output is. Think of it as the aggregate "sales" of all companies operating in the country. Technically speaking, the GNP (Gross National Product) and the GDP differ in the way in which imports and exports are accounted for (i.e. take total Canadian spending, add exports, subtract imports, add change in inventories). Usually the percentage changes are tracked and reported (e.g. in Monday's Report on Business) to give us some idea as to how our economy is performing overall - relative to our past performance.

A common equation for GDP is:

GDP = consumption + investment + government expenditures + exports - imports

It is also useful in comparing our productivity to that of other countries. Check out Major Nations Economic Indicators for some comparisons. What is our GDP? How does our National Deficit (i.e.

Canada's total indebtedness) compare to GDP? What percentage of GDP is paid in taxes? The BC Government has a good explanation for GDP and other terms on its website athttp://www.bcstats.gov.bc.ca/DATA/BUS_STAT/bcea/bcea_faq.htm#Q2.

GERD - Gross Expenditures on R&D. It is usually expressed as a percentage of GDP. R&D Expenditures in Canada for 1997 are estimated at $13Bn, 64% of it coming from Business. Universities account for 21% of this and the federal government for 11%. The GERD/GDP ratio for Canada is 1.64% (Our competitors' ratios are: USA: 2.54, Germany: 2.26). As for provinces, the GERD/GDP ratio winner is Quebec at 1.94.

GNP - Gross National Product. Similar to GDP, but it's not only what is produced domestically but also what a countries nationals produce abroad. Hence, it's not the best indicator for what's happening within an economy.

General Ledger - A record of entries summarizing all of a company's financial transactions, through offsetting debit and credit accounts.

Goodwill - This is a balance sheet item found under assets. It is the "intangible" value of an asset (for example, a business that is acquired, intellectual property, etc). For example, a patent may be acquired for $1million but has no intrinsic hard value. In this case, it may show up as goodwill on the balance sheet. A prudent company will avoid showing too much goodwill by writing down the value of such items. Investors take note - goodwill may make a balance sheet look much rosier than it really is.

Goodwill Impairment - An asset reported mainly as goodwill on the balance sheet may be worth much less than the value reported. In this case the good will is impaired and the company will likely have to take a write-down on this asset. This often happens when intellectual property such as software is acquired and a premium price is paid for it. Subsequently, if the software is not commercialized, the goodwill associated with it must be reduced - often to zero.

Google: A popular internet search engine. To "google" means to look up on the web using the Google (TM) search engine.

Governance: As in board governance - refers to the practice of overseeing a company on behalf of its stakeholders. The board of directors of a company or organization is its governing body - the soul and conscience of the enterprise. Many regulators now prescribe certain governance practices to try to prevent fraudulent practices and malfeasance.

Gross Margin: With respect to financial reporting, this term refers to a company's performance with respect to it's profitability before taking into account overhead or operating costs. For example, if a company sells goods for total proceeds of $100K and the direct cost of producing (or acquiring) those goods is $60K, then the gross margin is $40K, usually expressed as a percentage, i.e. 40% G.M. After subtracting fixed (i.e. overhead) expenses such as salaries and rent, from the Gross Margin, the result is Net Profit (before tax).

Guidance: refers to a public company's comments regarding its up-coming financial results. It forewarns investors about upcoming earnings reports - to avoid surprises, i.e. it is giving some "guidance" to investors as to what they can expect to see with respect to corporate performance. It is like a preliminary estimate of results.

- H -

Hedge Funds: These are high return, relatively high risk funds in which the risks are hedged through diversification or offsetting investments. Hedge funds attempt to preserve capital while achieving high returns for their investors. The name comes from the fact that they may be used as a "hedge" (i.e. safeguard) against risk. These funds can take long or short positions, invest in commodities, futures, bonds or stocks, buy and sell options, invest in private companies - almost anything where impressive gains could be realized. For example, to protect against a downturn in the market, a fund that holds a basket of stocks could short SP500 futures contracts. To hedge against other risks, for example weather-dependent crop shortfalls, a fund could sell Orange Juice futures as a hedge against inclement weather.

Hedging: The use of financial instruments such as futures contracts to mitigate risk in a commodity market. E.g. if a company expects to receive a large payment in US$ 6 months in the future, it can buy C$ contracts in the futures market to offset a potential decrease in C$ value when the US$ are received and converted into C$.

Hostile Takeover: A corporate takeover attempt that is strongly resisted by the target firm. This often leads to low morale among employees. Usually such an attempt is made b y a competitor that thinks he can acquire a company at a bargain price and/or to eliminate competition. This often happens when market conditions are poor and valuation multiples are lower making acquisition targets more appealing.

Hubris: Though not a financial or business term per se, it's included here because it is often used in reference to a characteristic displayed by some entrepreneurs. It's a noun meaning exaggerated pride or self-confidence. The opposite of humble.

Hurdle Rate: The minimum rate of investment that is acceptable to an investor. It is also used in the context of achieving a certain rate before other events can take place. For example, a fund manager has to achieve a certain hurdle rate for his investors before he is paid a bonus.

Hyperinflation: This refers to very rapid, out-of-control inflation. There is no exact definition of what constitutes hyperinflation. In 1922 this occurred in Germany when the country printed banknotes so liberally that consumers had to take bags full of currency to make purchases. Inflation has been over 100% for many countries at various times in their history. Since inflation for stable economies is in the low single-digits, it is generally understood that inflation above 10% would constitute hyperinflation.

Hypothecation: This is the act of pledging a mortgage or lien as collateral against a loan. It refers to the right a lender has to liquidate an asset if necessary to pay a debt. A borrower is said to hypothecate the mortgage.

- I -

Income Statement: This is company's accounting statement that shows its Income, Expenses, and Profit (or Loss) over a period of time. It is a picture of the financial performance of a company. It is sometimes referred to as a Profit & Loss (P&L) Statement. It allows a compay (or others) to compare its performance to that of other similar businesses. It tells shareholders how well their company is doing with respect to generating profits and earnings per share.

Income Trusts: These are a Canadian invention conceived in the mid-80's as a tax-efficient way for companies to distribute revenues to investors in so-called "income trusts". By setting up a legal trust, companies can expense payments to a trust and the trust can then flow these to the trust's investors. In this manner, income is effectively taxed only once, not twice, as is the case when companies distribute after-tax earnings as dividends to their investors who are taxed on said dividends.

Incorporation is the process of creating a legal, tax-paying entity. Businesses or companies can be incorporated or unincorporated. If unincorporated, the owner(s) of the business personally take on the assets and liabilities of the business and are personally responsible for all taxes. When incorporating, which is simply a legal registration process, a new, tax-payer is, in essence, created. Incorporating a business is a straightforward process. Lawyers and other agencies usually provide this service. There is even a company which allows you to incorporate in any State in the USA for a reasonable cost (check out www.incorporate.com). By incorporating a business, the owners of the business are personally shielded from most liabilities which that business may incur - this does not apply, however, to the directors of the company who may still be liable for certain actions. In Canada, companies do not need to use any specific identification such as "Inc" or "Limited" or "Corp" to identify themselves as legally incorporated businesses, although these descriptions are commonly used. For more on starting a company and incorporating, click here.

Index: An index, e.g. a stock index like the DOW, is a collection of stocks that represent a certain grouping, e.g. a tech group, blue chips, a broad market (many stocks like SP500), narrow market (high caps), or an entire exchange (e.g. VSE index). A Stock **Index**, like the **DOW**, **TSE300**, or our very own **T-Net20** measure the performance of a "basket" of shares usually representing a "market". e.g. the DOW represents the best of corporate America, the TSE300 represents the broader Toronto market, whereas the T-Net20 represents the Top BC tech companies. Indexes give you a "sense" of how any given market is performing. The T-Net, which was pegged at 1000 in Jan'98 is now (Sep99) in the 2900+ range. Some indexes are price weighted and some are value weighted. The T-Net, a market cap weighted index, gives a true representation of what would happen to an investment in that market. In other words, $1000 invested in Jan'98 would return $2900 today. You can also think of a Stock Index like a Mutual Fund (in fact mutual funds are often compared to an index)

Index Fund: or Exchange Traded Index Fund (**ETIF**) - these are like mutual funds that mirror the composition of an Index. e.g. a very popular one is called the **Nasdaq100** (ticker symbol QQQ)

ETIF in which you can effectively buy and sell the underlying Index on a stock exchange (look it up!).

Inflation: This is the amount (in %) by which a basket of goods increases in price in one year. One statistical measure of this is the consumer price index (CPI). Too high a rate of inflation (>2%) can lead to economic instability and generally results in a government raising interest rates in an attempt to keep inflation down.

Insider Trading: Insider trading is the trading (buying or selling) of shares in a company by an insider - i.e. a senior manager, director, or person who owns more than 10% of the shares of a company. Insider trading is not illegal. But, if insiders trade on material privileged information - before it becomes known to the general public - that is a problem! This is perfectly legal *except* when trading takes place using privileged information which has not yet been released to the public. We often hear of insiders selling stock if they know that a weak earnings report is about to be issued. All insiders must report their trading regularly to the appropriate securities commission. This information is available on-line to the public. If you are about to invest in a company, you might want to find out if insiders are buying or selling. It may give you an indication of their own confidence level in the company.

Insiders: Those people who are directors or senior officers or individuals who hold more than a 10% voting interest in the company. If these people buy or sell shares (publicly or privately) in their company, they are doing what is referred to as Insider Trading.

Insolvent: When a business cannot meet its financial obligations (ie pay its bills and debts), it is said to be insolvent.

Intellectual Property: This terms refers to all assets of a company that have an intellectual nature to them. They are often referred to as "soft" assets such as trademarks, logos, patents, software, trade secrets, brands, industrial designs, music, colors, designs, etc. They usually have intangible value unlike hard assets such as land, buildings, and equipment.

IPO: Initial Public Offering (IPO) is a company's offering of newly issued shares from treasury to the general public. It is generally the first time that a company does so - making the transition from being a closed-door privately operated company (CCPC - Canadian Controlled Private Corp) to being a publicly traded, highly visible, entity. When doing an IPO, an underwriter, i.e. a stockbroker firm, handles the distribution of shares to the public. Effectively, the brokerage firm subscribes (underwrites) for the shares and then sells them to its clients (investors). After the IPO, the shares will then trade on a stock exchange. It is sometime referred to as "going public". Entrepreneurs and VCs (Venture, or "vulture" Capitalists) sometimes call it "cashing in". Up until a company is public (i.e. anyone can buy or sell its shares), it is private and operates away from the limelight. Companies often go public to raise huge amounts of money or to give investors liquidity.

IPO Costs: These vary depending on the size of an IPO offering and the exchange on which it takes place. IPO costs entail legal, accounting, and agency fees. IPO costs also include the selling agents' commissions - but these are generally reported separately because they account for most of the costs of an underwriting - but are in fact contingent on success (they are "just a sales commission"). The "fixed" costs run anywhere from as low as $75,000 on a junior exchange to several $100K's on senior exchanges. If an IPO is very broad (several exchanges or international), costs can run in the millions of dollars, excluding commissions!

IRR: Acronymn for Internal Rate of Return. This is the annualized rate of return (in percent) of an investment using compound interest rate calculations. These are built in to many time-value-of-money programs, including the financial functions in popular spreadsheets such as 1-2-3 and Excel as well as many calculators and on-line web-based calculators (see example). The IRR is calculated at the point when the net present value of cash outflows (the cost of the investment) and cash inflows (returns on the investment) equal zero. This is very useful when one has a number of future cash flows on which an interest rate needs to be calculated.

Issuer: An issuer is any organization (company, government, utility, etc) than can "issue" securities (stocks, bonds, debentures, etc) to the general public in order to raise capital.

- J -

Joint Venture: A business enterprise, usually a corporation, that is formed between two other companies.

Junior Stock Exchange: A stock exchange which lists mainly small, emerging companies with low market capitalizations (e.g. under $100million or even under $10 million). The TSX-V, or TSX Venture Exchange is an example of this. Investors know (or should know!) that companies listed on such an exchange are inherently riskier and more speculative than those listed on a senior exchange.

Junk Bond: A high risk bond, usually issued by a company with a low credit rating (usually BB or lower). It is also known (more favorably) as a high-yield bond.

JCP: Junior Capital Pool company - a small public capital pool company set up under the rules of the former Alberta Stock Exchange. Now called a Capital Pool Corp under the rules of the CDNX.

- K -

K: Often used after dollar amounts to denotes 1000's, e.g. $150K = $150,000.

Key Employee: Any employee that is considered to be critical to the business of the enterprise.

Keyman Insurance: Companies often take out insurance policies on essential (i.e. key) managers or employees to protect them against the loss (accidents, death) of such talent. This is referred to as key man insurance.

Keynesian Economics: The economic theory that active government intervention in the marketplace and monetary policy is the best method of ensuring economic growth and stability.

Kondratiev Wave: Named after Soviet economist Mikhail Kondratiev, the theory that Western capitalist economies are susceptible to high performance volatility. Sometimes called Kondratiev cycles, it refers to stock market cycles which last 50-60 years.

- L -

Lien: When an asset is pledged as security against a loan, the lender is said to take "lien", i.e. a legal security interest, in the asset. Liens are usually registered against assets and recorded in a public office (or on-line). It behooves a buyer of an asset to conduct a search to ensure that there are no liens against an asset. It is conceivable that an asset can be sold to an unsuspecting buyer in which case the lien holder has a priority interest in the asset.

Liquidated: A company may be liquidated or dissolved by selling all of its assets and then using the cash to meet any obligations to creditors. Any remaining cash will then go to the shareholders of the company.

Liquidation Preference: Sometimes, usually by virtue of an agreement, certain shareholders will receive preferential treatment if a company is liquidated. Investors may insist on this so that if a company fails, they are paid out first before any other shareholders receive any payouts.

Liquidity: If a security, such as a stock, does not trade actively, as measured by its trading volume, it means that investors have an illiquid market, i.e. it is difficult to buy or sell stock without a major impact on price. For small cap, and especially micro-cap stocks, liquidity is a very important requirement. It helps ensure an orderly, efficient, and fair market.

Liquidity Event: This refers to the way in which investors in a usually private company can get back their investment - i.e. liquidate their investment - either by having the company go public and getting tradable shares or by having the company merge with another firm thereby getting cash or stock which can be liquidated.

Listing Criteria: Each stock exchange sets its listing standards (or criteria), indicating to investors that companies have to met certain standards in order to have the privilege of a listing. The criteria for listing on the TSE are higher than those for listing on the VSE. That makes sense because the VSE caters to junior companies. Investors know that, in general, a VSE company is likely to be smaller and riskier than a TSE company. Companies may choose to be interlisted in order to gain broader market access (e.g. the USA via NASDAQ). An **OTC** (Over-the-Counter) company does not trade on an exchange, although it does trade on a market maintained by brokers. There are no listing standards for OTC companies and hence they are considered more risky and more volatile (there are fewer rules and regulations). Lots of scams occur on the OTC markets! In the USA, the most common OTC market is the OTC-BB (i.e. OTC Bulletin Board) market (see http://www.otcbb.com) and in Canada it is the CDN (Canadian Dealing Network) market - see the Globe and Mail for prices.

- M -

M&A: Merger and Acquisition. Refers to the buying an selling of businesses by merging them with an existing one or simply having one firm acquiring another firm.

Macroeconomics: Refers to the economics of an entire country or countries. It studies the phenomena of economic growth, unemployment, national income, price levels, production, output, etc.

Majority Shareholder: A shareholder who owns more than 50% of the outstanding shares of a firm.

Margin: This is the portion of total revenue that results in a profit, usually but not always, expressed as a percentage (see also Profit Margin and Gross Margin). Used by itself, it may be ambiguous (unless used in context). It is better to refer to a gross, net, or net after-tax margin. In another context, margin refers to the process of borrowing money against securities held in a brokerage account. For example, on blue chip stocks, a stockbroker may allow a client to buy shares on margin, by putting up only a percentage of the price of the stock.

Margin Call: When shares are purchased on margin, i.e. by putting up only part of the purchase price, there is the risk of a "margin call" in case the price of the shares declines. This means that the broker has insufficient collateral in the security and the client is asked to put up additional cash in order to maintain the required margin.

Market Capitalization: Market Capitalization (or market cap) is a measure of the market value of the company, i.e. it is the current share price times the number of issued shares. If you were to buy 100% of all of the company's shares at current market price, this is what the company would cost you. Of course, you couldn't actually do this. You'd likely have to pay more (know why?)

Market Correction: This is a temporary decrease in a bull, or rising market. A 10% or more decrease in a stock index is the generally accepted definition of a correction. The opposite of this, i.e. a temporary increase in a bear market is called a bear market rally.

Market Mix: This is the description of the four P's of marketing - i.e. Price, Place (Distribution), Product, and Promotion as it applies to a particular commercialization plan.

Microcap Stock: A stock with a relatively small market capitalization. In the USA, this can mean companies with market caps of less than $100 million. In Canada, the cut-off is lower and generally means companies valued well under $50 million.

Microeconomics: The study of the allocation of resources and distribution of income and how they are affected by government policies. It refers to the behavior and decision-making of individuals and firms as opposed to that of countries or governments.

Mortgage: This is a loan secured by an asset such as real estate. When you "mortgage the farm", you are borrowing by using the farm as security and in the event that the loan is not repaid, the lender has the right to sell the property in order to recover the loan.

- N -

NASDAQ: This is the National Association of Securities Dealers Automated Quotation system. It is a major electronic stock exchange in the U.S. which has a large number of technology companies listed on it. The NASDAQ market is highly regulated and there are very strict reporting and compliance regulations that companies must meet. Companies must meet certain financial standards in order to be able to join the Nasdaq "club". If listed companies fail to meet these standards or fail to comply, they risk being de-listed (i.e. kicked out of the club).

NASDAQ100: The is an index of 100 technology stocks that trade on the Nasdaq Stock Exchange.

Net Profit: This is the amount of net profit, before taking into account corporate income taxes, that a company shows on its "bottom line".

NPBT: Net Profit before Tax - i.e. a measure of performance (i.e. net profit) without taking into account taxation. Since taxation is something management has little control over, it is often useful to see how much money a company is earning before having to pay any taxes.

Non-Disclosure Agreement (NDA): An NDA is a confidentiality agreement. It allows an inventor to show his ideas to another party with some assurance that the other party will not steal the idea (at least in theory).

NSF: Not Sufficient Funds. If an account does not have adequate capital to cover cheques written, it will return such cheques market, "NSF". (Engineers may be more familiar with NSF as an acronym for the National Science Foundation in the USA.

- O -

OEM (Original Equipment Manufacturer): Companies which manufacture and market their own products under their own trademarks are often referred to as OEMs by other companies who supply components or systems to these companies.

Offering Memorandum: Similar to a prospectus, but slightly less stringent. It is a financing document (has to meet certain standards as prescribed by securities regulators) that companies can use to raise capital. It is similar to a business plan but generally has fewer forward-looking projections. In general, an offering memorandum - unlike a prospectus - does *not* need to be approved by a securities commission.

OPM: Other People's Money.

Options: See **Stock Options**.

OTC (Over the Counter): Stocks which do not trade on a recognized stock exchange, trade in one of several so-called over-the-counter markets. It is a somewhat less formal, more risky way to trade stocks. There are no "listing" rules. OTC markets can be highly manipulated. But, they do serve a purpose - i.e. allowing investors to trade and get liquidity. In the USA, the common OTC market is called the OTC-BB (BB=bulletin board, see http://www.otcbb.com), and in Canada it is called the CDN. Note the OTC-BB market has nothing to do with the NASDAQ market, although many people incorrectly make that association. The OTC markets are usually on-line electronic markets which investment dealers (brokers) can access for purposes of posting buy or sell orders.

Out of the Money: This term is usually used when referring to an option. An out of the money option is worthless if it were to expire today. It means that the exercise price (for a call option) is more than the current price of the underlying stock.

Outsourcing: This refers to a company buying services from another firm. For example, if company X is outsourcing its e-commerce services, it means that it is relying on another company to do this job rather than doing it internally with its own employees and resources. Many companies, like IBM, outsource much of their production to Taiwanese firms.

Overallotment: More shares (or other instrument) has been allotted to buyers or investors (of an IPO, for example) than what is available.

Overdraft: A deficiency caused by drawing on funds, e.g. in a bank account, causing a default condition. If you write a cheque on your bank account that exceeds the cash in the account, your account will be in an overdraft position if your bank has honored the cheque. Many bank customers have overdraft privileges. Without such privileges, banks will not allow deficit positions and will return the cheques to the payee marked, NSF - Not Sufficient Funds (a nice way of saying that they "bounced" the cheque).

Overhang: Refers to stock options. It is calculated as to stock options granted plus remaining options yet to be granted divided by the total number of shares issued and outstanding. A high percentage implies excessive dilution.

Overhead: An accounting term that refers to all costs not relating to direct labor and materials. Another term for this is "indirect" cost. There can be manufacturing overhead or general overhead. The term is ambiguous unless it is described accordingly.

Oversubscription: An oversubscription of shares on an IPO means that there was much more demand than supply of shares on an initial offering.

- P -

Paid-up Capital (PUC): Conceptually, this refers to the total amount of investment capital actually received by a company for each (and all) classes of shares. Tax definitions for PUC vary depending on jurisdiction and this may be an important factor when determining taxes on stock dispositions (especially in private companies). PUC applies to the company while ACB (adjusted cost base) applies to the investor. If they are different, tax issues may arise (i.e. see a tax expert).

Par Value: The stated face value of a bond or, in the case of stock, an amount assigned by the company and expressed as a dollar amount per share. Par value of common stock usually has no relationship to the current market value and so no par value stock is issued. Par value of preferred stock is significant, however, as it indicates the dollar amount of assets each preferred share would be entitled to in the event of liquidation of the company.

Participatory Right: The right to participate in voting. See also Pre-emptive Right

Piggyback Right: This is similar to a tag-along right except that it usually applies in cases where a company is selling new shares to investors. A piggyback right allows a shareholder to sell a certain number or percentage of her shares to the new investors. Sometimes when a company offers its shares to the public in an IPO (Initial Public Offering), original shareholders may be allowed to sell a certain number of their shares in the same offering under the same terms. This allows new investors to buy additional shares while at the same time providing past shareholders an opportunity for some gains.

Pre-Money Valuation: When a company raises capital from investors, it and the investors generally agree on a so-called "pre-money" valuation, meaning a value for the company prior to receiving any investment. For example, if the pre-money valuation is $900K, and investors put in $100K, then they would end up with 10% of the company. Its post-money valuation is thus $1,000,000.

Preferred Shares: These are shares which are issued by a company with specified rights and privileges. Preferred usually means that the shares are ranked above common shares with respect to payout or dividend rights. They generally also carry an interest rate payment obligation by the company. Because these shares are less risky and more secure, there is usually less upside potential (unless they are convertible into common shares) associated with them.

Present Value (or Present Worth): The value of future cash flows discounted to a present value by using an appropriate interest rate. Can be easily determined using financial functions found on most calculators and computer spreadsheets and financial programs.

Price/Earnings (P/E): This ratio compares the current share price to the trailing 12-months' earnings and is a useful way to compare various companies and industry sectors. For example, a company earning $.50 per share (last year) which is trading at $10.00 per share has a P/E of 20. If you buy a share today, and the performance stays the same, you can expect to earn $.50 on each share you own. High P/E's are common in high tech because of the rapid growth anticipated in future earnings. Technology company P/E's are generally in the 30+ range. Note that tech companies rarely pay **dividends**, i.e. pay a portion of the profits to shareholders. They usually reinvest the cash to make the company more valuable - meaning that the share price will go up. The shareholder still owns the profit (or loss), but doesn't get it in her hands. If there is a loss, shareholders share that loss, too (in terms of value), but they do not, of course, have to personally make up that loss and they are not liable for it. If there are stock options or warrants outstanding, then there will be more shares among which earnings have to be divided. The term **diluted EPS** is used to include such additional shares.

Price-Earnings-Growth (PEG) Ratio: The PEG ratio compares a company's price-to-earnings multiple (see above) to its earnings growth rate. It is calculated by dividing the P/E ratio by the percentage growth rate in earnings. A company with a P/E of 50 and an earnings growth rate of 25% has a PEG of 2 (a lower number is better). This makes it easier to compare similar stocks trading at different levels.

Prime Rate: the best rate of interest charged by the commercial banks to their preferred (i.e. very credit-worthy) customers. In Canada, it has been in the 3-4% range (early 2004), which is very low when compared to recent history. The Bank of Canada rate is normally 1.5% below that and is the rate at which banks can borrow from the central bank. The Prime Rate is a very useful "indicator" to track on a regular basis. It is the single most important factor in predicting business behavior such as raising capital, capital equipment acquisitions, cost of financing assets, etc.

Private Placement: This is when companies raise capital by selling their shares (or other securities) to private investors. It is a private placement in that the shares are not offered to the public at large by way of a prospectus or exchange offering. Companies - public and private - are free to enter into such financing deals as long as they comply with relevant securities regulations.

Point: This refers to the most basic (i.e. smallest) unit of a particular traded stock, commodity, etc. When used in the context of a stock index, it is generally a proxy for currency, e.g. "the Dow is up 21.5 points today".

Poison Pill: A Poison Pill is generally a right (e.g. the right to buy more shares) given to shareholders of a company so that if their company is the subject of a takeover attempt, those attempting the take-over may be faced with having to deal with such rights, making it more attractive to the shareholders and more onerous for the buyers. Poison Pills are often used when one company tries to buy another in a hostile takeover attempt -i.e. one which is not welcomed by the company.

Pre-emptive Right: (sometimes incorrectly called participatory right or subscription right) The right of shareholders to maintain their percentage of ownership of a company by buying that number of shares to achieve this end.

Private Company: In general, a company with a small number of shareholders (less than 50 in some jurisdictions) is considered to be a privately held company and is not required to disclose its business affairs to the public. Note: Government departments - such as the Taxation department (federal) and the Securities Commission (provincial) use different definitions for "private company".

Private Issuer: This is a more precise term used by a Securities Commission to define a private company that has fewer then a specified number of shareholders (eg. 50 in the case of British Columbia). Issuer refers to the issuance of securities which is normally a company.

Profit Margin: With respect to financial reporting, this term refers to a company's performance with respect to it's net profitability after taking into account overhead or operating costs. For example, if a company sells goods for total proceeds of $100K and the direct cost of producing (or acquiring) those goods is $60K, then the gross margin is $40K, usually expressed as a percentage, i.e. 40% G.M. After subtracting fixed (i.e. overhead) expenses such as salaries and rent, from the Gross Margin, the result is Net Profit (before tax) or Profit Margin. In the example, if the expenses and operating costs are $30K, this has to be subtracted from Gross Margin leaving a Profit Margin of $10K (i.e. 10%).

Promotion: Advertising and awareness generation. This is one of the four P's of marketing. Sometimes it is used in a negative sense, as in aggressive stock promotion.

Prospectus: A prospectus is a formal, legal document in which a company tells all to the public. It is a formal disclosure document about the past, present, and future plans of the company. It is used when raising maoney from the public to make sure that investors fully understand what they are investing in (securities commissions regulate this to ensure that the public interest is protected). If a company makes misleading statements, investors can seek recourse (through litigation).

Provision: If a company anticipates that it may be faced with certain expenses, it could make a "provision" for this in reporting its financial results. It is similar to a write-off except that it is more of an estimate that a company makes in anticipation of an actual expense that it must report. Conservative companies will make such provisions to avoid overstating their financial performance.

Proxy: A proxy is a "substitution". For example, it allows a shareholder to substitute someone for himself to attend, and vote at, corporate meetings. A proxy form is something shareholders sign in order to be represented at a meeting which they cannot attend. It transfers their voting rights to another party who is able to attend. Shareholders are entitled to appoint anyone as their proxy - not just the persons suggested by management on the pre-printed forms.

Proxy: This is another word for "substitute". It usually refers to a document or a right used by a shareholder to give a designated person, often an officer of the company, the right to vote on behalf of that shareholder. A shareholder could give a person (anyone) their proxy to attend and vote their shares at an AGM (Annual General Meeting) or any duly called meeting of shareholders.

Proxy Fight: sometimes a group(s) of shareholders will attempt to get other shareholders' proxy to vote shares, i.e. in an attempt to get enough votes to swing a decision - such as putting in a new Board of Directors.

Proxy Vote: When a shareholder does not vote his shares directly but allows another person to vote the shares on his behalf.

Public Company: A company is generally considered to be a public company if it has many shareholders. It does not necessarily mean that its shares are listed on a recognized stock exchange. In some jurisdications, a company is deemed to be public if it has more than 50 shareholders. The definition of "public" may vary depending on the jurisdiction. Indeed, different agencies have different definitions. For example, the tax department (CRA in Canada) does not use the same definition as certain secruties regulators (eg the BC Securities Commission)!

PUT: Abbreviated term for "Put Option", e.g. as in "I bought five Nortel $10Puts". See Stock Options.

- Q -

QQQ: This is the ticker symbol for the Nasdaq100 index which is a tradable index (you can buy and sell it just like shares in a company) - much like a mutual fund except that it comprises the companies in the Nasdaq100 (it is possible to get the list and the weightings by going to the Nasdaq website).

Quorum: This is the minimum number of people which can attend a meeting (such as a Board Meeting) in order for the meeting to be official and for business to be properly conducted. For example, a Board of 5 persons may specify that a quorum for a meeting is 3 persons. Hence, if only 2 people show up, the meeting would not continue.

- R -

Ratchet: A provision often found in a terms sheet. A ratchet gives an investor certain rights especially when additional equity capital is raised in a "down-round", i.e. at a lower valuation than before.Examples of these terms include so-called "full ratchet" anti-dilution adjustments, super-multiple participating liquidation preferences and short-time frame mandatory redemption. With respect to anti-dilution protection, investors may require an adjustment to the number of shares they purchased previously in the event the company sells additional shares in the future at a price per share lower than the share price paid by the institutional investor. This can occur through an adjustment to the conversion price of the convertible equity security purchased by the investor, i.e. lowering the conversion price so the investor is entitled to more shares when he converts.

Receivership: When a company is sick (financially speaking) and cannot meet its payment obligations to its creditors it can be placed into "receivership" by the courts. This means that a court-appointed**receiver** (often this will be a well-known accounting firm) will manage the affairs of the company for an interim period of time during which the receiver will consider proposals from various stakeholders to rescue the company. During this period, the company is allowed to continue doing business, albeit with certain restrictions. Some companies will emerge from receivership and prosper while others may simply be **liquidated**.

Reporting Issuer: This is the technical term for a public company that has "issued" securities to the public and is thereby a reporting issuer, meaning that it has to file regular reports on its business affairs with a regulatory body such as a securities commission.

Restricted Stock Unit (RSU): RSUs are sometimes used in place of stock options insofar as they achieve similar purposes, i.e. providing a benefit to the holder in the event of a stock appreciation. An RSU is a grant of company shares, but the shares are not issued at the time of the grant. After an RSU holder meets any vesting (or performance) requirements, the company then issues the shares, or possibly a cash equivalent. Many prefer them to options because of preferred tax treatment and they more closely mirror true ownership of shares. RSU plans vary from company to company.

Retained Earnings: This is a balance sheet item which shows the total, accumulated net profit (or loss) of a company since the date it was founded LESS any profits which might have been paid out by way of dividends. Many startup companies will show negative retained earnings, i.e. accumulated losses since inception.

Right of First Refusal (ROFR): This usually gives a party to an agreement, e.g. a shareholder or investor, the right to buy more shares before shares are offered to other parties.

RRSP (Registered Retirement Savings Plan): A Canadian tax shelter for all taxpayers. An RRSP is simply a special type of investment account held at a bank, brokerage house or financial institution. Cash deposited to an RRSP is tax deductible (within certain limitations) and income and gains realized in an RRSP are NOT taxed until funds are withdrawn. An RRSP is similar to an off-shore holding company that all Canadians can take advantage off (but stupidly, very few do). It allows tax payers to not only plan for retirement but it gives them a vehicle that they can use to manage their investments and income (e.g. they can put money in in good times and take some out in lean times).

RTO (Reverse Take-Over): A way of going public. A public company can take over another company by issuing a large number of shares to the shareholders of the target company. This may result in the new shareholders owning more shares than the original controlling shareholders - hence a change of control. Hence, this is referred to as a reverse takeover. Although the smaller company has technically taken over the larger one, the larger one's owners are now in charge. Example: I have a public company with 1M shares which are trading at $1. You have a private company which you are prepared to sell to me for $3M. I buy your company but the currency I use to pay for your company is shares in my company, i.e. 3M shares (=$3M). So now you own 3M shares in "my" company, i.e. 3/4 of the total. So, it really isn't "my" company anymore. It's yours now because YOU control it. Although my company took yours over, you're really the one in control - hence "reverse" take over.

Rule-of-72: This is a very handy "rule" that lets you mentally calculate how long it takes you to double an investment (i.e. compounding) , given a particular interest rate. You divide 72 by the interest rate in order to get the number of years. For example, a 7% interest rate would require just over 10 years for an investment to double in value. A 15% interest rate would take between 4 and 5 years to double, and so on.

- S -

Sabanes Oxley Act: This is an Act passed in the USA to ensure that corporations meet prescribed accounting and reporting standards. It was legislated as a response to corporate misappropriations and malfeasance. It is supposed to better protect investors although it is doubtful that it will make dishonest people honest. It merely adds to the bureaucratic burden and cost of running a company.

S&P500: The **S&P** (Standard & Poor's) **500** index is a broad market index comprising 500 stocks. As such it is a much broader measure of market activity than is a narrow high end index like the DOW (which is based on 30 blue-chips).

Securities Commission: A regulatory body that oversees corporate affairs with a view to protecting shareholders' interests. For example, the BC Securities Commission or the US Securities and Exchange Commission (SEC). Securities laws are policed and enforced by such agencies. These are usually government agencies.

SEDAR: **S**ystem for **E**lectronic **D**ocument **A**nalysis and **R**etrieval is the Canadian depository for public corporate records. Before the internet, companies had to report regularly to securities commissions across Canada. Now, they all file with SEDAR and SEDAR makes all these filings available to the public via the SEDAR website: www.sedar.com.

Series A: Usually refers to a class of shares subscribed for by venture capitalists. These shares usually carry specified privileges and attributes required by professional venture investors.

Share Classes: A company's ownership can be represented by various share classes, e.g. Class A, B, etc, Preferred shares, Cumulative Preferred, Series A...B..etc, etc. Each class has defined rights and privileges associated with it. This can get complex and many companies are getting away from having too many different classes. Suffice it to say that "common shares" define the ownership and it is these common shares that we generally see traded and listed in the newspapers' stock market lists.

Short Sales: Short Sales entail the sale of shares which one does not own. It is perfectly legal and legitimate for someone to short 1000 shares of Company X. This means that they are selling stock which they don't own because they think the price will go down. When the price does go down, they buy the shares thereby closing out the short position. This may be risky, because if the shares rise in price, they may still have to buy them back at a higher price in which case they lose money. Brokers can handle short sales by "borrowing" shares from their clients' inventories.

S&P/TSX60: This is an index of 60 blue chip companies comprising the Standard and Poors Toronto Stock Exchange Index.

Stagflation: A recently coined term that combinesthe economic effects of "inflation", i.e. escalating prices, and "stagnation", i.e. stagnant, or no economic growth in terms of GDP. Prices as measured by the consumer price index (CPI) may be increasing while the economy is not expanding. When an economy is not growing (stagnant), but prices are increasing, this is not a healthy situation for a country. This occurred in the 1970s when oil prices increased and the economy was slowing down.

Stock Exchange: An organization, usually a non-government corporation, that manages the trading (ie the buying an selling) of shares of companies is called a stock exchange. It provides a market (i.e. the "stock market") place (physical or electronic) where buyers and sellers go to trade shares in corporations. Stock exchanges differentiate themselves by the quality of companies that they list for trading. Some exchanges will only list large, highly valued firms while others, such as junior exchanges, may list fledgling companies looking for speculative investors.

Stock Grant: Somewhat different from a Restricted Stock Unit (**RSU**), a stock grant consists of shares actually issued and delivered to someone as a bonus or payment for service. These grants can either be "non-restricted" or "restricted." A non-restricted stock grant is an outright award of stock. A restricted grant is contains conditions that the holder must satisfy such as vesting over time. time-based vesting, which requires the employee to remain with the company for a certain length of time before full ownership of all of the shares is transferred. Departure prior to fulfilling the required service will result in the forfeiture of the unvested stock back to the company. For stock grants that are *not* restricted, the tax implications are straightforward. The fair market value (FMV) of the stock at the time it is granted is taxed as ordinary income.

Stock Index: Stock Indices like the DOW or the SP500 or the T-Net20 are designed to track a particular, defined market - e.g. top blue chip companies, broad market, or a specific group like the 20 most valuable BC tech companies. Instead of following specific stocks, this let's us see how "the market" is performing - like a weighted price average.

Stock Options: Stock Options give employees of companies the right to buy shares at a certain price (usually the trading price on the date granted) for a certain period of time. If the shares increase, then a handsome profit can be realized at no risk by selling shares at current market prices while at the same time buying shares at below market prices. These are usually called "incentive stock options" and can augment an employees salary considerably. In many corporations, managers earn far more by exercising stock options than they do by means of a pay cheque. There are also trading options. These are created in the marketplace between buyers and sellers. There are both CALL options and PUT options that are based on an underlying stock. **CALL options** allow the holder to buy shares of a company at a particular price for a specified time period. **PUT options** allow the holder to sell shares of a company at a particular price for a specified time period.

Stock Split/Consolidation: A company can split its shares, i.e. issue 2 for 1 or 3 for 1 new shares for each old share. Companies do this when their share prices appear too high for the average investor. It also increases the "float", i.e. number of shares in the market, allowing for more liquidity in the market (less easy to corner or control a market). Sometimes companies also do a reverse split, or consolidation of shares. This is less common. It happens if a company has too high a float and/or too low a price. This may be important to a company if it is trying to raise more capital and does not want to appear to be a "penny" stock.

Sunk Cost: When an investment is made in an asset, there may be an unrecoverable expense associated with it. This is usually referred to as a sunk cost. It is sometimes used to refer to an expense incurred that is unlikely to produce any future payback.

- T -

Tag-Along Right: A shareholder may be granted such a right, usually through a shareholders agreement. This right gives a minority shareholder the right to sell his shares on the same terms under which a majority shareholder is selling her shares. Another word for this is co-sale right.

Tax Breaks: Tax Breaks or "incentives" are advocated by the high tech industry - especially on stock options - as one way to help stem the brain drain. Another form of break is an investment tax credit to encourage investment or an R&D credit to encourage companies to undertake more R&D. It is a means for governments to stimulate growth in certain economic activities.

Terms Sheet: This is a document outlining the investment terms of a particular investment opportunity. It defines the terms and conditions of an investment, usually as dictated by an investor. It is the negotiating document that the parties must jointly agree to before a definitive investment agreement can be drafted.

TSE300: (Also TSE100 and TSE35) - An index for shares trading on the Toronto Stock Exchange, i.e. the TSE300 is a collection of 300 companies and is a measure of how the TSE "market" is performing. (see also "Index"). This index has been replaced by the Standard & Poor's TSX Index.

TSX: Toronto Stock Exchange (formerly known as the TSE).

TSX-V: The TSX Venture Exchange, formerly known as the CDNX which was created by the amalgamation of the Vancouver, Alberta and other junior stock exchanges. It is an exchange for junior, venture companies. Therefore, it is also more speculative.

TSX Index: This is the re-named index tracking the top 60 Toronto Stock Exchange companies. It is managed and promoted by Standard and Poor's. It is generally referred to as the **S&P/TSX60**.

- U -

Underwriter: When doing an IPO, an underwriter, i.e. a stockbroker firm, handles the distribution of shares to the public. Effectively, the brokerage firm subscribes (underwrites) for the shares and then sells them to its clients (investors).

- V -

Valuation: The worth placed on a business. It can be determined in a number of ways. Theoretically, it is what a business is worth in the marketplace to an arms-length buyer. Valuations can be determined from a discounted cash flow analysis, comparative market study, industry multiples or rules of thumb, market capitalizations, and liquidation value, to name a few approaches.

Variable Cost: This is a cost of producing the product which a company sells. It would include such items as materials and labor that go directly into producing the shipped item. Another term for this is direct cost. These costs are usually shown directly under revenues on an income statement as the first costs associated with producing the revenues that are recorded.

VCC: Venture Capital Corporation. In some jurisdictions such as the Province of British Columbia, this term may have a very specific meaning. In B.C. a "VCC" is a specially incorporated investment company in which investors may receive a special investment incentive in the form of a refundable tax credit. For example, an investor in a VCC may receive a 30% refundable - in cash - credit from the provincial government. A VCC invests in so-called "eligible" small businesses that mean certain criteria (e.g. manufacturing, processing, high tech, etc).

VCP: Venture Capital Pool company - a small public capital pool company set up under the rules of the former Vancouver Stock Exchange. Now called a Capital Pool Corp under the rules of the CDNX.

Vesting: Vesting refers to stock or stock options which are earned by the holder over time. For example, a company employee may be given stock options that vest over a three year period. In this case, if the employee quits after one year, only one-third of the options will have been vested and the remainder would be forfeited.

Volumes (trading): Trading volume on an exchange is simply the total number of shares which trade in a given trading session. It is a measure of activity. For any given stock, it is the number of shares which trade. Low volumes mean poor liquidity for investors. This is particularly important for junior stocks (i.e. "small caps").

VSE: Vancouver Stock Exchange. This was one of Canada's junior company stock exchanges. On March 15, 1999, the VSE and the ASE (Alberta Stock Exchange) agreed to merge and form the CDNX - the Canadian Venture Exchange - which will also take on some junior Toronto and Montreal Exchange companies. The VSE got a bad reputation in the 80's due to many unscrupulous scam artists manipulating VSE listed companies. New regulatory controls and surveillance systems which had been implemented on the VSE were transferred to the new CDNX. In 2002, the CDNX became the TSX-V.

- W -

Warrant: Warrants are, in principle, like stock options. They give the holder the right to buy shares at a given price for a specified period of time. Warrants are usually issued by a company as an additional financing bonus. For example, investors buying shares at $5.00, may be given a warrant (or half a warrant) to buy a share at $5.00 (or slightly) higher for a year or two. If the stock performs, then investors get a double benefit.

Washout: When investors get heavily diluted by a susbsequent round of investment especially when the investment is a down round. Also known as a Cramdown.

Write-Down: Companies sometimes carry assets on their balance sheet which are over-valued. In this case, the assets may be written-down (i.e. reduced) in value to more conservatively reflect their value on a financial statement.

Write-Off: Similar to write-down, except that in this case the asset as no value and is being reduced to a zero value. This may be the case if inventory is not usable (e.g. spoiled food) or shareholdings in a bankrupt or defunct company.

- X -

X: A Nasdaq stock symbol specifying that it is a mutual fund or a symbol used in stock transaction tables to indicate that a stock is trading ex-dividends or ex-rights. It is also sometimes used as an abbreviation for Exchange.

Xenocurrency: Xeno means foreign or strange. A Xenocurrency is one that trades outside its domestic boundaries.

- Y -

Yield: A measure of the return on an investment expressed as a percentage. A stock yield is calculated by dividing the annual dividend by the current market price of the stock. E.g., a stock selling at $100 with an annual dividend of $10.00 per share has a yield of 10% (assuming a redemption price of $100). For Bonds, the Yield calculation is a little more complicated because you have to take into account the discounted value of the redemption amount at maturity. So, if a $100 Bond is purchased at $90, with a coupon of 10% (amount paid on the $100 face value), the yield is calculated by taking into account the $10 annual payment and the $10 gain at maturity.

Yield Curve: A graphic chart (of yield vs maturity) that shows interest rates at a specific point for all securities having equal risk, but different maturity dates. For bonds, it typically compares the 2 or 5 year treasury bonds with 30 year bonds.

- Z -

Zero Coupon: Sometimes called strip bonds, these are government bonds in which some or all of the interest "coupons" have been detached. The bond principal and any remaining coupons trade separately from the strip of detached coupons, both at substantial discounts from par.