PROFESSIONAL ENGLISH by M. Belogash

UNIT 8.
INVESTMENT BANKING

8.1 Getting started.

Investment bankers are the elite on Wall Street. They have earned this reputation from the types of financial services they provide. Investment banks are best known as intermediaries that help corporations raise funds. Despite its name, an investment bank is not a bank in the ordinary sense; that is, it is not a financial intermediary that takes in deposits and then lends them out. In addition to underwriting the initial sale of stocks and bonds, investment banks also play a pivotal role as deal makers in the mergers and acquisitions area, as intermediaries in the buying and selling of companies, and as private brokers to the very wealthy. Some well-known investment banking firms are Morgan Stanley, Merill Lynch, Salomon Brothers, First Boston Corporation, and Goldman, Sachs.

One feature of investment banks that distinguishes them from stockbrokers and dealers is that they usually earn their income from fees charged to clients rather than from commissions on stock trades. These fees are often set as a fixed percentage of the dollar size of the deal being worked. Because the deals frequently involve huge sums of money, the fees can be substantial.

Background In the early 1800s, most American securities had to be sold in Europe. As a result, most securities firms developed from merchants who operated a securities business as a sideline to their primary business. For example, to help raise the money to finance railroad expansion, J. P. Morgan's father resided in London and sold Morgan securities to European investors. Over time, the profitability of the securities business became evident and the securities industry expanded. Prior to the Great Depression, many large money center banks in New York sold securities and simultaneously conducted conventional banking activities. During the Depression, about 10,000 banks failed. This led to the passage of the Glass-Steagall Act, which separated commercial banking from investment banking and made it illegal for a commercial bank to buy or sell securities on behalf of its customers. The legal barriers between commercial and investment banks have been decaying rapidly since the 1980s. One significant trend has been the acquisition of investment banks by commercial banks. Subsequent mergers among banks are continuing the consolidation of these two types of banks.

Discuss the following points:

1. Why do you think an investment bank is not a bank in the ordinary sense?
2. What do you think makes the author say that investment banks play a pivotal role in providing financial services?
3. Can you find any evidence in the history of financial markets which proves their importance in the economic development of a country?

8.2 Look through the following vocabulary notes which will help you understand the text and discuss the topic.

investment banking	инвестиционное банковское дело
an investment bank	инвестиционный банк
an intermediary	посредник
underwriting	андерайтинг, гарантирование размещения ценных бумаг
to play a pivotal role	играть ключевую роль
a broker	брокер, биржевой посредник
mergers and acquisitions (M&A)	слияния и поглощения
a dealer	дилер, торговец
a fee	плата, гонорар,
a commission	комиссионные

a security	ценная бумага
conventional	обычный, традиционный
to decay	распадаться, разрушаться
consolidation	объединение, консолидация
debt instrument	долговой инструмент
equity instrument	долевой инструмент
to facilitate	облегчать, способствовать
a stock/bond issue	выпуск акций/облигаций
to underwrite an issue	гарантировать размещение выпуска ценных бумаг
predetermined	заранее установленный
giving advice	консультирование
to contemplate	обдумывать, взвешивать
to overprice	переоценить
brokerage houses	брокерские конторы
seasoned issues	зрелые облигации, пользующиеся популярностью среди инвесторов в течение значительного времени
initial public offering (IPO)	первичное публичное предложение ценных бумаг
filing documents	регистрация документов
to assist with smth/doing smth	оказывать помощь в чем-либо
Securities and Exchange Commission (SEC)	Комиссия по ценным бумагам и биржам
a prospective investor	потенциальный инвестор
syn. a potential investor	потенциальный инвестор
to regulate heavily	устанавливать значительные ограничения
a primary market	первичный рынок
a registration statement	заявление о регистрации ценных бумаг
to approve	одобрить

an approval	одобрение
to open smth to a lawsuit	подвергать возможности судебного преследования
to incur losses	понести убытки
inaccuracies	неточности, искажения
criminal charges	уголовные обвинения
prospectus	проспект
to attend to chores	заниматься делами
A credit rating	кредитный рейтинг
to hire a bond counsel	нанять юриста-консультанта по облигационному выпуску
to select a trustee	выбрать доверенное лицо
to certify	свидетельствовать
assessment	оценка
to back up one's opinion	подкрепить свое мнение
a syndicate	группа фирм, синдикат по выпуску ценных бумаг
advertisements (ads)	рекламные объявления
to solicit an offer	упрашивать, домогаться с предложением
fully subscribed	разместить ценные бумаги в соответствии с лимитом подписки
oversubscribed	разместить ценные бумаги с превышением лимита подписки
undersubscribed	разместить ценные бумаги с недобором лимита подписки
to tempt	искушать, испытывать
to alienate	отчуждать, отвращать
a best efforts agreement	соглашение о максимальных усилиях, по которому банк-инвестор предоставляет

	брокерские услуги при реализации займа
a private placement	частное размещение ценных бумаг (без объявления в печати и без участия широких групп подписчиков) непосредственно крупным инвесторам минуя рынок
to screen prospects	оценить перспективы
a letter of intent	письмо о намерении
to rank	ранжировать
a going concern	действующее предприятие
to make a discreet inquiry	неофициально навести справки
a confidential memorandum	конфиденциальная служебная записка (меморандум)
a qualified buyer	достойный покупатель
on smbd's behalf	от чьего-либо имени
due diligence	финансовая экспертиза
to verify the accuracy	проверить точность
findings (pl)	полученные результаты
definitive agreement	окончательное соглашение
a legally binding contract	контракт, имеющий юридическую силу
a multidisciplined team	многопрофильная команда
to capture economies	добиться экономии, выгадать
resisted/hostile takeovers	враждебные захваты
a target firm	целевая (выбранная для поглощения) компания
an acquiring firm	поглощающая компания
to solicit	упрашивать, домогаться
a tender offer	предложение о покупке акций
to ward off	отражать, отвращать
takeover attempts	попытки захвата

expertise	знания и опыт
a junk bond	бросовая облигация (с высокой доходностью и высоким риском не возврата)
to file for bankruptcy	объявлять себя банкротом
default on the portfolio of junk bonds	не погасить весь комплект бросовых облигаций
to plea guilty to smth	признать свою вину по к-л вопросу
securities fraud	мошенничество с ценными бумагами
a revival	оживление
at the height of	в разгар ч-л
to be considered king	считаться чрезвычайно важным
to spur on	торопить, подстегивать
to be perceived	быть воспринятым
confidence	доверие
to hoard	запасать, накапливать
equity sale	продажа бизнеса
corporate division	филиал

8.3 Reading

Underwriting Stocks and Bonds

When a corporation wants to borrow or raise funds, it may decide to issue long-term debt or equity instruments. It then usually hires an investment bank to facilitate the issuance and subsequent sale of securities. The process of underwriting a stock or bond issue requires that the securities firm purchase the entire issue at a predetermined price and then resell it in the market. There are a number of services provided in the process of underwriting.

Giving Advice Most firms do not issue capital market securities very frequently. Over 80% of all corporate expansion is financed using profits retained from prior-period earnings. As a result, the financial managers at most firms are not familiar with how to proceed with a new security offering. Investment bankers, since they participate in this market daily, can provide advice to firms contemplating a sale. Firms may need advice to know if it should raise capital by selling stocks or bonds. They may need advice as to when securities should be offered: firms want to time the market to sell stock when it will obtain the highest possible price. Possibly the most difficult advice concerns at what price the security should be sold. Here the investment banker and the issuing firm have somewhat differing motives. First, consider that the firm wants to sell the stock for the highest price possible. Investment bankers, however, do not want to overprice the stock because in most underwriting agreements, they will buy the entire issue at the agreed price and then resell it through their brokerage houses. They earn a profit by selling the stock at a slightly higher price than they paid the issuing firm. If the issue is priced too high, the investment bank will not be able to resell, and it will suffer a loss.

Pricing securities is not too hard if the firm has prior issues currently selling in the market, called ***seasoned issues***. When a firm issues stock for the first time, called an ***initial public offering (IPO)***, it is much more difficult to determine the correct price. All of the skill and expertise of the investment banking firm will be used to determine the appropriate price. If the issuing firm and the investment bank can come to agreement on a price, the investment banker can assist with the next stage, filing the required documents.

Filing Documents In addition to advising companies, investment bankers will assist with making the required Securities and Exchange Commission (SEC) filings. SEC, which was created by the Securities and Exchange Acts of 1933 and 1934 to ensure that adequate information reaches prospective investors, heavily regulates the activities of investment banks and the operation of primary markets. Issuers of new securities to the general public must file a ***registration statement*** with the SEC. This statement contains information about the firm's financial condition, management, competition, industry, and experience. The SEC merely approves the required statements. The SEC approval does not mean that that the information is accurate, which opens the issuing firm's management up to lawsuits if it incurs losses. In extreme cases, inaccuracies could result in criminal charges.

A portion of the registration statement is reproduced and made available to investors for review. This widely circulated document is called a ***prospectus***. While the registration document is in the process of being approved, the investment banker has other chores to attend to. For issues of debt, the banker must:
- secure a credit rating from one or more of the credit rating companies;
- hire a bond counsel who will issue a statement attesting to the legality of the issue;
- select a trustee who is responsible for seeing that the issuer fulfills its obligations as stated in the security's contract;
- have the securities printed.

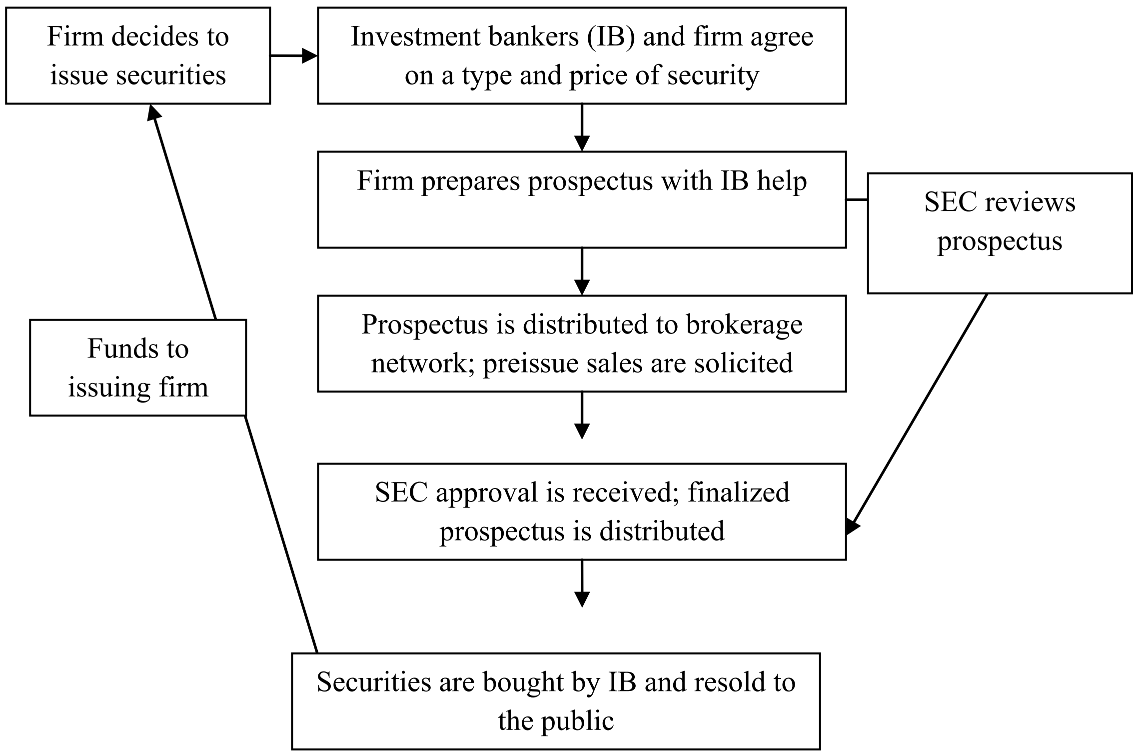
For equity issues, the investment banker may arrange for the securities to appear on one of the stock exchanges. Clearly, the investment banker can be of great assistance to an issuer well before any securities are actually offered for sale.

Underwriting Once all the paperwork has been completed, the investment banker can proceed with the actual underwriting of the issue. At a prespecified time and date, the issuer will sell all of the stock or bond issue to the investment banking firm at an agreed price. The investment banker must now distribute the issue to the public at a greater price to earn its fee. By agreeing to underwrite an issue, the investment banking firm is certifying the quality of the issue to the public. Investors trust the investment bank's assessment, since it is backing up its opinion by actually purchasing securities in the process of underwriting them. The investment banking firm is clearly taking a huge risk at this point. One way that it can reduce the risk is by forming a ***syndicate***, which is a group of investment banking firms, each of which buys a portion of the security issue. Each firm in the syndicate is then responsible for reselling its share of the securities.

Most securities issues are sold by syndicates because it is such an effective way to spread the risk among many different firms.

Investment banks advertise upcoming securities offerings with ads in the Wall Street Journal. The longer the investment banker holds the securities before reselling them to the public, the greater the risk that a negative price change will cause losses. One way to speed the sale of securities is to solicit offers to buy the securities from investors prior to the date the bankers actually take ownership of the securities issue. Then, when the securities are available, the orders are filled and the securities are quickly transferred to the final buyers. The investment bank's goal is to ***fully subscribe*** the issue through brokerage firms and their nationwide sales offices. Securities issues may also be ***undersubscribed*** or ***oversubscribed***. Both situations are to be avoided by the investment banker.

Fig 1. Using Investment Bankers to Distribute Securities to the Public



It is tempting to assume that the best alternative is for an issue to be oversubscribed, but in fact this will alienate the investment bankers' customers. The customer would feel that the banker had set the price too low and that you had lost money as a result. It is equally serious for an issue to be undersubscribed, since it may be necessary to lower the price below the price the investment banker paid to the issuer in order to sell all of the securities to the public. The investment banking firm stands to lose extremely large amounts of money because of the volume of securities involved.

8.4 Comprehension

8.4.1 Answer the questions using the active vocabulary and Unit 8 Glossary.

1. What is the most common procedure for a corporation which wants to borrow or raise funds?
2. What does the process of underwriting a stock or bond issue require?
3. What services are provided in the process of underwriting?
4. How much of all corporate expansion is financed by capital market securities?
5. What kind of advice can an investment bank provide to firms contemplating a sale?
6. Why are the investment bank and the issuing firm differently motivated in fixing the price of the security issued?
7. Why is overpricing the security as bad as underpricing it?
8. What is the mission of the Securities and Exchange Commission (SEC)?
9. What filings are required by the SEC?
10. What does the SEC ‘approval’ mean?
11. What is ‘prospectus’?
12. What are the investment banker’s other chores to attend to in case of debt issues?
13. Describe the process of actual underwriting of the issue.
14. Why do the investors trust the investment bank’s assessment of the security issue?

15. What is an investment syndicate? Why do investment bankers organize a syndicate?
16. Where are security offerings usually advertised?
17. Why is it important for the investment banker to sell the securities to the public as fast as possible?
18. What is meant by ‘soliciting offers to buy the securities from investors’?
19. What is the difference between full subscription, oversubscription and undersubscription?
20. Why should oversubscription and undersubscription be avoided by the investment banker?

8.4.2 Mark these statements T(true) or F(false) according to the information in the Text and Unit 8 Glossary. If they are false say why.

1. When a corporation wants to borrow or raise funds, it may decide to issue bonds or shares.
2. A commercial bank facilitates the issuance and subsequent sale of securities.
3. Underwriting is the process by which investment bankers raise investment capital from investors on behalf of corporations that are issuing securities (both equity and debt).
4. Over 80% of all corporate expansion is financed by issuing debt and equity instruments.
5. A registration statement is a set of documents, including a prospectus, that a company must file with the U.S. Securities and Exchange Commission before it proceeds with an initial public offering.
6. An investment banker can be of great assistance to an issuer after the securities are actually offered for sale.
7. At a prespecified time and date, the issuer will sell all of the stock or bond issue to the public or to the underwriting firm.
8. Syndicates are used for large loans or underwritings to reduce the risk that each individual firm must take on.

9. IPO is also known as a "seasoned equity offering" (SEO).
10. Most IPOs are of companies going through a transitory growth period, which are subject to additional uncertainty regarding their future values.
11. The prospectus is a part of the registration statement.
12. The longer the investment banker holds the securities before reselling them to the public, the lower the risk that a negative price change will cause losses.
13. The prospectus is distributed to the brokerage network and the preissue sales are solicited.
14. The securities issued are bought by the investment bank and then resold to the public.
15. The investment bank's goal is to oversubscribe the issue through brokerage firms and their nationwide sales offices.
16. Undersubscription is a situation in which the demand for an initial public offering of securities exceeds the number of shares issued.
17. Oversubscription is bad because if there is more demand for a public offering than there is supply, it means a higher price could have been charged and the issuer could have raised more capital.
18. Seasoned shares are types of stocks which have high liquidity within the secondary market.
19. SEC is a government commission created by Congress to regulate the securities markets and protect investors.
20. IPOs cannot be a risky investment.

8.5 Language practice

8.5.1 Match the English terms in the left-hand column with the definition in the right-hand column.

1	Acquisition	A	A service charge assessed by a broker or investment advisor in return for providing investment advice and/or handling the purchase

			or sale of a security.
2	Best efforts agreement	B	An investigation or audit of a potential investment.
3	Bond	C	A situation in which an underwriting firm has successfully sold to investors all of its available issues of a public offering of securities.
4	Broker	D	A legal entity that develops, registers and sells securities for the purpose of financing its operations.
5	Commission	E	The combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.
6	Corporate division	F	A formal legal document, which is required by and filed with the Securities and Exchange Commission, that provides details about an investment offering for sale to the public.
7	Distributing syndicate	G	The current price at which an asset or service can be bought or sold.
8	Due diligence	H	A specific division of banking related to the creation of capital for other companies.
9	Friendly takeover	I	A corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm.
10	Full subscription	J	An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.
11	Going concern	K	A business entity that is a portion of a business that

			operates under a different name.
12	Initial public offering (IPO)	L	A group of investment banks that work to underwrite and sell an initial public offering (IPO) of securities to the market.
13	Investment banking	M	An agreement an underwriter makes to act as an agent between an issuing company and investors. In this agreement, the underwriter agrees to use all efforts to sell as much of an issue as possible to the public.
14	Issuer	N	The first sale of stock by a private company to the public.
15	Market price	O	A term for a company that has the resources needed in order to continue to operate indefinitely.
16	Merger	P	A situation in which a target company's management and board of directors agree to a merger or acquisition by another company.
17	Prospectus	Q	A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate.

8.5.2 Complete the following texts using the suitable words or phrases from the box.

Text 1

A	advantage	E	mispricing
B	sells	F	underwriting
C	investment banker	G	market value
D	efforts agreement	H	issuing firm

Best Efforts

An alternative to ____(1)____ a securities offering is to offer securities under ***a best efforts agreement***. In a best ____(2)____, the investment banker ____(3)____ the securities on a commission basis with no guarantee regarding the price the ____(4)____ will receive. The ____(5)____ to the investment banker of a best efforts transaction is that there is no risk of ____(6)____ the security. There is also no need for the time-consuming task of establishing the ____(7)____ of the security. The ____(8)____ simply markets the security at the price the customer asks. If the security fails to sell, the offering can be canceled.

Text 2

A	satisfied	F	investment bankers
B	large enough	G	limited number
C	issuing firm	H	securities
D	alternative method	I	potential purchasers
E	pension funds	J	private placement

Private Placements

An ____(1)____ of selling securities is called the ***private placement***. In a private placement, securities are sold to a ____(2)____ of investors rather than to the public as a whole. The advantage of the ____(3)____ is that the security does not need to be registered with the SEC as long as certain restrictive requirements are ____(4)____. Investment bankers are also often involved in private placement transactions. While ____(5)____ are not required for a private placement, they often facilitate the transaction by advising the ____(6)____ on the appropriate terms for the issue and by identifying ____(7)____. The buyers of private placements must be ____(8)____ to purchase large amounts of ____(9)____ at one time. This means that the usual buyers are insurance companies, commercial banks, ____(10)____, and mutual funds.

8.5.3 Complete the text. Replace the Russian words and phrases by the English equivalents

Equity Sales

Другой услугой, предлагаемой инвестиционным банком is to help with the sale of companies or corporate divisions. ***Первый шаг*** in any ***продажа бизнеса*** will be the seller's determination of the business's worth. The ***инвестиционный банк*** will provide a ***подробный анализ*** of the ***текущего рынка*** for similar companies and apply ***различные модели*** to establish ***стоимость компании***. Unlike a box of cigarettes or bar of chocolate, a ***действующее предприятие*** has no set price. The ***стоимость компании*** is based on the use the buyer intends to make of it. Investment bankers have developed ***ряд инструментов*** to give ***владельцам бизнеса*** a range of values for their firms.

Investment bankers help to ***навести справки*** to feel out who in the market may be interested. They will prepare a ***конфиденциальный меморандум*** that presents the ***подробную финансовую информацию*** required by ***потенциальные покупатели*** to make an offer for the company. The investment bank will ***оценит перспективы*** to ensure that the information goes only to ***достойный покупатель***. The next step in an equity sale will be the ***заявление о намерениях*** issued by a ***потенциальным покупателем***. The investment banker will negotiate the terms of the sale ***от имени продавца*** and will help to analyze and ***ранжировать*** competing offers. Once the ***заявление о намерениях*** has been accepted by the seller, the ***финансовая экспертиза*** period of 20- to 40-days begins. This time is used by the buyer to ***проверить точность*** of the information ***содержащейся*** in the confidential memorandum. The ***полученные результаты*** shape the terms of the ***окончательное соглашение*** , which converts all the information gathered into a ***договор, имеющий юридическую силу***.

To meet these needs, investment banks send in ***многопрофильную команду*** of experts to work with clients on their projects. These teams include attorneys, ***финансовые аналитики***, ***бухгалтеры***, and industry experts.

8.5.4 Text for discussion.

a. Look up the dictionary or Unit 8 Glossary for the meaning and pronunciation of the following words and word-combinations and use them to discuss the problems outlined in the text.

To acquire ownership; to capture certain economies; resisted takeovers; hostile; a target firm; a board of directors; an acquiring firm; to solicit shareholders to sell their shares; a tender offer; to ward off undesired takeover attempts; to require expertise; a junk bond; to file for bankruptcy; rising default rates on its portfolio of junk bonds; to plea guilty to securities fraud; a revival; to make a huge comeback; to stash away cash; to hoard; the height of the financial crisis; to be considered king; to be spurred on; to be perceived; confidence.

b. Briefly scan the text and outline the list of major points.

c. Read the text more carefully and comment on the following items:

- the advantages and disadvantages of mergers;
- the difference between mergers and takeovers;
- the functions of investment bankers in M&A market;
- Michael R. Milken's "contribution" to the development of M&A market;
- the general reasons for the revival of M&A market in 2010-2011.

Mergers and Acquisitions

Investment banks have been active in the mergers and acquisitions market since the 1960s. A merger occurs when two firms combine to form one new company. Both firms support the merger, and corporate officers are usually selected so that both companies contribute to the new management team. Stockholders turn in their stock for stock in the new firm. In an acquisition, one firm acquires ownership of another by buying its stock. Often this process is friendly, and the firms agree that certain economies can be captured by combining resources. At other times, the firm being purchased may resist. Resisted takeovers are called *hostile*. In these cases, the acquirer attempts to purchase sufficient shares of the target firm to gain a majority of the seats on the board of directors. Board members are then able to vote to merge the target firm with the acquiring firm.

Investment bankers serve both acquirers and target firms. Acquiring firms require help in locating attractive firms to purchase, soliciting shareholders to sell their shares in a process called a tender offer, and raising the required capital to complete the transaction. Target firms may hire investment bankers to help ward off undesired takeover attempts.

The mergers and acquisitions markets require very specialized knowledge and expertise. Investment bankers involved in this market are highly trained and highly paid. The best known investment banker involved in mergers and acquisitions was Michael R. Milken, who worked at Drexel Burnham Lambert, Inc. Milken is credited with inventing the junk bond market. Junk bonds are high-risk, high-return debt securities that were used primarily to finance takeover attempts. By allowing companies to raise large amounts of capital, even small firms could persue and take over large ones. During the 1980s, when Milken was most active in this market, merger and acquisition activity peaked. On February 13, 1990, Drexel Burnham Lambert filed for bankruptcy due to rising default rates on its portfolio of junk bonds. Milken pled guilty to securities fraud and was sent to prison.

As a result of this event, merger and acquisition activity slowed during early 1990s. After a short revival in the mid and late 1990s mergers and acquisitions again slowed during the recession in 2001.

In 2010, corporate (M&A) activity made a huge comeback. Most of the M&A activity involved North American companies, but activity has also increased around the world, and in various market sectors /

industries. Companies have stashed away a record amount of cash, which they have hoarded since the height of the financial crisis (2008-2009) when cash was considered king. Acquiring companies have been spurred on by record low interest and lending rates. Risk in general, has been perceived to be lower than during the financial crisis, and there has been an increase in corporate and investor confidence. Even though stock prices were a lot higher in 2010 than in 2008 or 2009, the market value of companies have still remained relatively low due to a weak global economy.

8.6 Render the passage in English using the English equivalents of the italicised phrases given in Russian. Express the main idea of the passage in one sentence.

Инвестиционные банки – это фирмы, которые *помогают* **(assist)** в *первоначальной продаже* **(initial sale)** ценных бумаг на *первичном* **(primary)** рынке и *в качестве* **(as)** брокеров и дилеров помогают в *купле – продаже* **(trading)** ценных бумаг на *вторичном* **(secondary)** рынке, некоторые из которых организованы *как* **(into)** биржи. Комиссия по ценным бумагам и биржам регулирует финансовые институты на рынках ценных бумаг и *следит за тем, чтобы* **(ensures that)** адекватная информация *доходила до* **(reaches)** потенциальных инвесторов.

Андеррайтинг *предполагает* **(implies)**, что инвестиционные банки *получают право собственности на* **(take ownership of)** *выпуск акций* **(stock issue)**, *выкупив* (by purchasing) все акции эмитента, и, далее, перепродают их на рынке. Выпуски могут иметь достаточную подписку, недостаточную подписку или подписку с превышением лимита в зависимости от того, была ли правильно установлена цена.

Инвестиционные банки *помогают* **(assist)** *выпускающим фирмам* **(issuing firms)**, *оказывая консультирование* **(by providing advice)**, *регистрацию документов* **(filing documents)** и *размещение на рынке выпущенных ценных бумаг* **(marketing**

issues). Инвестиционные банки часто оказывают помощь при слияниях и поглощениях, *а также при частном размещении ценных бумаг* **(and private placements as well)**.

Professional English
Unit 8 Reading Self – Control Test
Underwriting Stocks and Bonds

1. Which of the following is the main idea of the text?
(A) Different types of conventional banking services.
(B) The investment banker's chores to attend to for issues of debt.
(C) The history of investment banking.
(D) Using Investment Bankers to Distribute Securities to the Public.

2. What is most likely the topic of the passage preceding the text?
(A) Brokerage services.
(B) The history of investment banking.
(C) Brokers and dealers.
(D) Regulation of securities firms.

3. It can be derived from the text that
(A) the longer the investment banker holds the securities before reselling them to the public, the lower the risk that a negative price change will cause losses.
(B) small investment banks can do without distributing syndicates.
(C) most investment bankers are attached to large brokerage houses that have nationwide sales offices which are contacted prior to the issue date with the aim of to fully subscribe the issue.
(D) it is serious for an issue to be oversubscribed, since it may be necessary to lower the price below the price the investment bank paid to the issuer in order to sell all of the securities to the public.

4. It can be inferred from the text that

(A) over 80% of all corporate expansion is financed by issuing debt and equity instruments.

(B) when a corporation wants to borrow or raise funds, it may decide to issue bonds or shares.

(C) an investment banker can be of great assistance to an issuer after the securities are actually offered for sale.

(D) IPO is also known as a "seasoned equity offering" (SEO).

5. Judging by what you have derived from the text, which do you think of the following is the best to define the term 'underwriting'?

(A) An investigation or audit of a potential investment.

(B) The process of careful investigation by an underwriter to ensure that all material information pertinent to a security issue has been disclosed to prospective investors.

(C) A specific division of banking related to the creation of capital for other companies.

(D) The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt).

6. Judging by what you have derived from the text, how do you think 'seasoned issue' can be described?

(A) An instrument representing ownership (stocks), a debt agreement (bonds) or the rights to ownership (derivatives).

(B) An issue of securities from an established company whose existing shares have exhibited stable price movements and substantial trading volume over time, thereby earning a good reputation.

(C) A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings.

(D) Fixed-income securities and are one of the three main asset classes, along with stocks and cash equivalents.

7. It cannot be derived from the text that

(A) a registration statement is a set of documents, including a prospectus, that a company must file with the U.S. Securities and Exchange Commission before it proceeds with an initial public offering.

(B) syndicates are used for large loans or underwritings to reduce the risk that each individual firm must take on.

(C) the prospectus is a part of the registration statement.

(D) the investment bank's goal is to oversubscribe the issue through brokerage firms and their nationwide sales offices.

8. It can be derived from the text that

(A) the prospectus is distributed to the brokerage network and the preissue sales are solicited.

(B) undersubscription is a situation in which the demand for an initial public offering of securities exceeds the number of shares issued.

(C) for equity issues, the banker must secure a credit rating of the issuer from one or more of the credit rating companies.

(D) for equity issues the investment banker must hire a bond counsel who will issue a statement attesting to the legality of the issue.

9. Which of the following statements would the author most probably disagree with?

(A) Investment banks are firms that assist in the initial sale of securities in the secondary market and, as securities brokers and dealers, assist in the trading of securities in the primary markets, some of which are organized into exchanges.

(B) Investment bankers assist issuing firms by providing advice, filing documents, and marketing issues.

(C) Underwriting involves the investment banking firm's taking ownership of the stock issue by purchasing all of the shares from the issuer and then reselling them in the market.

(D) Issues may be oversubscribed, undersubscribed, or fully subscribed, depending on whether the price is set correctly.

10. What is most likely the subject of the extract which is missing from this text?

(A) New securities issues advertisements in *Wall Street Journal*.
(B) Relationship between securities firms and commercial banks.
(C) Venture capital firms.
(D) Startup companies.

Unit 8 Glossary

ACQUISITION: A corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm. Acquisitions are often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations and niche compared to expanding on its own. Acquisitions are often paid in cash, the acquiring company's stock or a combination of both. Acquisitions can be either friendly or hostile. Friendly acquisitions occur when the target firm expresses its agreement to be acquired, whereas hostile acquisitions don't have the same agreement from the target firm and the acquiring firm needs to actively purchase large stakes of the target company in order to have a majority stake. In either case, the acquiring company often offers a premium on the market price of the target company's shares in order to entice shareholders to sell. For example, News Corp.'s bid to acquire Dow Jones was equal to a 65% premium over the stock's market price.

BANKMAIL: An agreement made between a company planning a takeover and a bank, which prevents the bank from financing any other potential acquirer's bid. Bankmail agreements are meant to stop other potential acquirers from receiving similar financing arrangements.

BEAR HUG: An offer made by one company to buy the shares of another for a much higher per-share price than what that company is worth. A bear hug offer is usually made when there is doubt that the target company's management will be willing to sell. The name "bear hug" reflects the persuasiveness of the offering company's overly generous offer to the target company. By offering a price far in excess of the target company's current value, the offering party can usually obtain an agreement. The target company's management is essentially forced to accept such a generous offer because it is legally obligated to look out for the best interests of its shareholders.

BEST EFFORTS AGREEMENT: An agreement an underwriter makes to act as an agent between an issuing company and investors. In a best efforts agreement, the underwriter agrees to use all efforts to sell as much of an issue as possible to the public. The underwriter can purchase only the amount required to fulfill its client's demand or the entire issue. However, if the underwriter is unable to sell all securities, it is not responsible for any unsold inventory. Best effort agreements are used mainly for securities with higher risk, such as unseasoned offerings.

BLACK KNIGHT: A company that makes a hostile takeover offer on a target company. An allusion to the fairytale villains, this term demonstrates how a targeted company sees its adversary. Fairytale black knights are associated with kidnapping princesses, slaying peasants, burning villages, and generally having unpleasant personalities.

BOARD OF DIRECTORS (B of D): A group of individuals that are elected as, or elected to act as, representatives of the stockholders to establish corporate management related policies and to make decisions on major company issues. Such issues include the hiring/firing of executives, dividend policies, options policies and executive compensation. Every public company must have a board of directors.

In general, the board makes decisions on shareholders' behalf. Most importantly, the board of directors should be a fair representation of both management and shareholders' interests; too many insiders serving as directors will mean that the board will tend to make decisions more beneficial to management. On the other hand, possessing too many independent directors may mean management will be left out of the decision-making process and may cause good managers to leave in frustration.

BOND: A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, states and U.S. and foreign governments to finance a variety of projects and activities. Bonds are commonly referred to as fixed-income securities and are one of the three main asset classes, along with stocks and cash equivalents.

BROKER : An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor. Traditionally, only the wealthy could afford a broker and access the stock market. The internet triggered an explosion of discount brokers, which allow investors to trade at a lower cost, but don't provide personalized advice. Because of discount brokers, almost anybody can afford to invest in the market.

BROKERAGE COMPANY: A business whose main responsibility is to be an intermediary that puts buyers and sellers together in order to facilitate a transaction. Brokerage companies are compensated via commission after the transaction has been successfully completed. For example, when a trade order for a stock is carried out, an individual often pays a transaction fee for the brokerage company's efforts to execute the trade. The real estate industry also operates in a brokerage-company format, as it is common for real estate brokers to work together, each representing one party of the transaction, in order to make a sale. In this case, the commission is split between both brokerage companies.

COMMISSION: A service charge assessed by a broker or investment advisor in return for providing investment advice and/or handling the purchase or sale of a security. Most major, full-service brokerages derive most of their profits from charging commissions on client transactions. Commissions vary widely from brokerage to brokerage. The brokerage with the lowest commissions is not necessarily the best one. Discount brokerages offer no advice, which can prove to be troublesome for many rookie investors. On the other hand, full-service brokerages offer a more personalized service, but commissions are much higher. However, when commission is charged there is the potential for a conflict of interest to develop between brokerages and their clients. Because commission compensated brokers will not get paid very much if their clients do not conduct many transactions, unethical brokers may encourage clients to conduct more trades than necessary.

CORPORATE DIVISION: A business entity that is a portion of a business that operates under a different name.

CREDIT RATING: An assessment of the credit worthiness of individuals and corporations. It is based upon the history of borrowing and repayment, as well as the availability of assets and extent of liabilities.

DEALER: 1. An individual or firm willing to buy or sell securities for their own account. 2. One who purchases goods or services for resale to consumers. A dealer differs from an agent in that a dealer acts as a principal in a transaction. That is, a dealer takes ownership of assets and is exposed to inventory risk, while an agent only facilitates a transaction on behalf of a client.

DISTRIBUTING SYNDICATE: A group of investment banks that work to underwrite and sell an initial public offering (IPO) of securities to the market. Investment banks often form syndicates when working on large securities offerings to reduce risk and to increase the potential network of contacts through which to sell the securities. This is especially true in the case of firm commitment offerings, where the distributing syndicate may suffer considerable losses if the full offering cannot be sold. Distributing syndicates are of particular importance to small investment banks. Smaller "boutique" banks would be unable to underwrite many IPOs because they lack the capacity to sell large offerings alone. Further, a boutique bank would only be able to work on one or two offerings at a time. Banding together as part of a syndicate allows boutique banks to work on several offerings simultaneously, take on larger offerings and more effectively compete with large investment banks.

DUE DILIGENCE (DD): An investigation or audit of a potential investment. Due diligence serves to confirm all material facts in regards to a sale. Offers to purchase an asset are usually dependent on the results of due diligence analysis. This includes reviewing all financial records plus anything else deemed material to the sale. Sellers could also perform a due diligence analysis on the buyer. Items that may be considered are the buyer's ability to purchase, as well as other items that would affect the purchased entity or the seller after the sale has been completed.

DUE DILIGENCE MEETING: The process of careful investigation by an underwriter to ensure that all material information pertinent to a security issue has been disclosed to prospective investors. Prior to issuing a final prospectus, the underwriter, issuer and other individuals involved (such as accountants, syndicate members and attorneys), will gather to discuss whether the underwriter and issuer have exercised due diligence toward state and federal securities laws.

FEES: Money paid to professionals or for professional advice.

FRIENDLY TAKEOVER : A situation in which a target company's management and board of directors agree to a merger or acquisition by another company. In a friendly takeover, a public offer of stock or cash is made by the acquiring firm, and the board of the target firm will publicly approve the buyout terms, which may yet be subject to shareholder or regulatory approval. This stands in contrast to a hostile takeover, where the company being acquired does not approve of the buyout and fights against the acquisition. In most cases, if the board approves a buyout offer from an acquiring firm, the shareholders will vote to pass it as well. The key determinant in whether the buyout will occur is the price per share being offered. The acquiring company will offer a premium to the current market price, but the size of this premium (given the company's growth prospects) will determine the overall support for the buyout within the target company.

FULL SUBSCRIPTION: A situation in which an underwriting firm has successfully sold to investors all of its available issues of a public offering of securities. When the issue is fully subscribed, the underwriter's risk of being undersubscribed (being unable to sell its allotment of the issue) is completely removed. Also referred to in slang terms as "pot is clean". Typically, the goal of a public offering is to price the security issue at the exact price at which all the issued shares can be sold to investors, so there will be neither a shortage nor a surplus of securities. If there is more demand for a public offering than there is supply (shortage), it means a higher price could have been charged and the issuer could have raised more capital. On the other hand, if the price is too high, not enough investors will subscribe to the issue and the underwriting company will be left with shares it either cannot sell or must sell at a reduced price, incurring a loss. Therefore, getting an issue to be perfectly fully subscribed is a difficult and complex balancing act.

GOING CONCERN: A term for a company that has the resources needed in order to continue to operate indefinitely. If a company is not a going concern, it means the company has gone bankrupt. Also known as "Going Concern Value". In other words, this refers to a company's ability to make enough money to stay afloat or avoid bankruptcy. For example, many dotcoms are no longer going concern companies.

GOLDEN PARACHUTE DEFENSE: Lucrative benefits given to top executives in the event that a company is taken over by another firm, resulting in the loss of their job. Benefits include items such as stock options, bonuses, severance pay, etc. A golden parachute can be used as a measure to discourage an unwanted takeover attempt.

GRAY KNIGHT: A second, unsolicited bidder in a corporate takeover. A gray knight enters the scene in order to take advantage of any problems between the first bidder and the target company. Think of a gray knight as a circling vulture waiting to pick clean the leftovers. In some parts of the world gray is spelled "grey."

GREENMAIL: A situation in which a large block of stock is held by an unfriendly company. This forces the target company to repurchase the stock at a substantial premium to prevent a takeover. It is also known as a "bon voyage bonus" or a "goodbye kiss". Not unlike blackmail, this is a dirty tactic, but it's very effective.

GREENSHOE OPTION: A provision contained in an underwriting agreement that gives the underwriter the right to sell investors more shares than originally planned by the issuer. This would normally be done if the demand for a security issue proves higher than expected. Legally referred to as an over-allotment option. A greenshoe option can provide additional price stability to a security issue because the underwriter has the ability to increase supply and smooth out price fluctuations if demand surges. Greenshoe options typically allow underwriters to sell up to 15% more shares than the original number set by the issuer, if demand conditions warrant such action. However, some issuers prefer not to include greenshoe options in their underwriting agreements under certain circumstances, such as if the issuer wants to fund a specific project with a fixed amount of cost and does not want more capital than it originally sought. The term is derived from the fact that the Green Shoe Company was the first to issue this type of option.

HOSTILE TAKEOVER: The acquisition of one company (called the target company) by another (called the acquirer) that is accomplished not by coming to an agreement with the target company's management, but by going directly to the company's shareholders or fighting to replace management in order to get the acquisition approved. A hostile takeover can be accomplished through either a tender offer or a proxy fight. The key characteristic of a hostile takeover is that the target company's management does not want the deal to go through. Sometimes a company's management will defend against unwanted hostile takeovers by using several controversial strategies including the poison pill, crown-jewel defense, golden parachute, pac-man defense, and others.

INITIAL PUBLIC OFFERING (IPO): The first sale of stock by a private company to the public. IPOs are often issued by smaller, younger companies seeking the capital to expand, but can also be done by large privately owned companies looking to become publicly traded. In an IPO, the issuer obtains the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), the best offering price and the time to bring it to market. IPOs can be a risky investment. For the individual investor, it is tough to predict what the stock will do on its initial day of trading and in the near future because there is often little historical data with which to analyze the company. Also, most IPOs are of companies going through a transitory growth period, which are subject to additional uncertainty regarding their future values.

INTERMEDIARY: An institution that acts as the middleman between investors and firms raising funds. Often referred to as financial institutions. This can include chartered banks, insurance companies, investment dealers, mutual funds, and pension funds.

INVESTMENT BANK (IB): A financial intermediary that performs a variety of services. This includes underwriting, acting as an intermediary between an issuer of securities and the investing public, facilitating mergers and other corporate reorganizations, and also acting as a broker for institutional clients. The role of the investment bank begins with pre-underwriting counseling and continues after the distribution of securities in the form of advice.

INVESTMENT BANKING: A specific division of banking related to the creation of capital for other companies. Investment banks underwrite new debt and equity securities for all types of corporations. Investment banks also provide guidance to issuers regarding the issue and placement of stock. In addition to the services listed above, investment banks also aid in the sale of securities in some instances. They also help to facilitate mergers and acquisitions, reorganizations and broker trades for both institutions and private investors. They can also trade securities for their own accounts.

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

JUNK BONDS: A bond rated 'BB' or lower because of its high default risk. Also known as a "high-yield bond" or "speculative bond". These are usually purchased for speculative purposes. Junk bonds typically offer interest rates three to four percentage points higher than safer government issues.

KAMIKAZE DEFENSE: A type of takeover defense mechanism sometimes resorted to by a company that is the target of a hostile bid. Kamikaze defense involves reshaping the target company - either by divesting substantial assets or by making unappealing acquisitions - so that its attraction to a corporate raider is greatly reduced. Kamikaze defense mechanisms include such aptly-named strategies as the "scorched earth" tactic, the "sale of crown jewels" strategy and the "fatman" maneuver. Since they can inflict irreparable harm upon the target company, kamikaze defenses can be considered as strategies of last resort to prevent it from falling into hostile hands. The name is derived from the tactics used by Japanese suicide pilots in World War II.

LADY MACBETH STRATEGY: A corporate-takeover strategy with which a third party poses as a white knight to gain trust, but then turns around and joins with unfriendly bidders. Lady Macbeth, one of Shakespeare's most frightful and ambitious characters, devises a cunning plan for her husband, the Scottish general, to kill Duncan, the King of Scotland. The success of Lady Macbeth's scheme lies in her deceptive ability to appear noble and virtuous, and thereby secure Duncan's trust in the Macbeths' false loyalty.

LETTER OF INTENT: 1. An agreement that describes in detail a corporation's intention to execute a corporate action. The letter of intent is created by the corporation with its management and legal council, among others, and outlines the details of the action. 2. A document that can be used by parents to outline the thoughts and hopes that they have regarding their children in the event that the parents die. The courts use the information contained in the letter of intent to determine what happens to the children. 1. Letters of intent are used during the merger and acquisitions process to outlines a firm's plan to buy/take over another company. For example, the letter of intent will disclose the specific terms of the transaction (whether it is a cash or stock deal). 2. Unlike wills, letters of intent are often not legal documents. However, because a letter of intent represents the wishes and desires of the parents, the courts will still often use it as a benchmark in conjunction with other documents to determine what happens to the children.

MACARONI DEFENSE: An approach taken by a company that does not want to be taken over. The company issues a large number of bonds with the condition they must be redeemed at a high price if the company is taken over. Why is it called Macaroni Defense? Because if a company is in danger, the redemption price of the bonds expands like Macaroni in a pot!

MARKET PRICE: The current price at which an asset or service can be bought or sold. Economic theory contends that the market price converges at a point where the forces of supply and demand meet. Shocks to either the supply side and/or demand side can cause the market price for a good or service to be re-evaluated.

MARKET VALUE: 1. The current quoted price at which investors buy or sell a share of common stock or a bond at a given time. Also known as "market price". 2. The market capitalization plus the market value of debt. Sometimes referred to as "total market value". 1. In the context of securities, market value is often different from book value because the market takes into account future growth potential. Most investors who use fundamental analysis to pick stocks look at a company's market value and then determine whether or not the market value is adequate or if it's undervalued in comparison to its book value, net assets or some other measure.

MEGAMERGER: The joining of two large corporations, typically involving billions of dollars in value. The megamerger creates one corporation that may maintain control over a large percentage of market share within its industry. Megamergers occur through the acquisition, merger, consolidation or combination of two existing corporations. Megamergers differ from traditional mergers due to their scale. Megamergers in the recent past have included Pfizer's $68 billion deal for Wyeth (2009), Kraft's nearly $20 billion deal for Cadbury (2010) and the United–Continental merger (2010), which created the world's largest airline. The first megamerger took place in 1901, when Carnegie Steel Corporation combined with its main rivals to form United States Steel.

MERGER: The combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock. Basically, when two companies become one. This decision is usually mutual between both firms.

OFFERING MEMORANDUM: A legal document stating the objectives, risks and terms of investment involved with a private placement. This includes items such as the financial statements, management biographies, detailed description of the business, etc. An offering memorandum serves to provide buyers with information on the offering and to protect the sellers from the liability associated with selling unregistered securities. Also known as a "*private placement memorandum*" (PPM). You can essentially think of the offering memorandum as a fancy business plan. In practice these are a formality to meet the requirements of securities regulators since most sophisticated investors perform their own extensive due diligence. Offering memorandums are for private placements, while prospectuses are for publicly-traded issues.

OVERSUBSCRIPTION: A situation in which the demand for an initial public offering of securities exceeds the number of shares issued. The goal of a public offering usually is to price the security issue at the exact price at which all the issued shares can be sold to investors, so there will be neither a shortage nor a surplus of securities. If there is more demand for a public offering than there is supply (shortage), it means a higher price could have been charged and the issuer could have raised more capital.

POISON PILL: A strategy used by corporations to discourage hostile takeovers. With a poison pill, the target company attempts to make its stock less attractive to the acquirer. There are two types of poison pills: a "flip-in" allows existing shareholders (except the acquirer) to buy more shares at a discount; a "flip-over" allows stockholders to buy the acquirer's shares at a discounted price after the merger. 1. By purchasing more shares cheaply (flip-in), investors get instant profits and, more importantly, they dilute the shares held by the acquirer. This makes the takeover attempt more difficult and more expensive. 2. An example of a flip-over is when shareholders gain the right to purchase the stock of the acquirer on a two-for-one basis in any subsequent merger.

PRIVATE PLACEMENT: The sale of securities to a relatively small number of select investors as a way of raising capital. Investors involved in private placements are usually large banks, mutual funds, insurance companies and pension funds. Private placement is the opposite of a public issue, in which securities are made available for sale on the open market. Since a private placement is offered to a few, select individuals, the placement does not have to be registered with the Securities and Exchange Commission. In many cases, detailed financial information is not disclosed and a the need for a prospectus is waived. Finally, since the placements are private rather than public, the average investor is only made aware of the placement after it has occurred.

PROSPECTUS: A formal legal document, which is required by and filed with the Securities and Exchange Commission, that provides details about an investment offering for sale to the public. A prospectus should contain the facts that an investor needs to make an informed investment decision. Also known as an "offer document". There are two types of prospectuses for stocks and bonds: preliminary and final. The preliminary prospectus is the first offering document provided by a securities issuer and includes most of the details of the business and transaction in question. Some lettering on the front cover is printed in red, which results in the use of the nickname "red herring" for this document. The final prospectus is printed after the deal has been made effective and can be offered for sale, and supersedes the preliminary prospectus. It contains finalized background information including such details as the exact number of shares/certificates issued and the precise offering price. In the case of mutual funds, which, apart from their initial share offering, continuously offer shares for sale to the public, the prospectus used is a final prospectus. A fund prospectus contains details on its objectives, investment strategies, risks, performance, distribution policy, fees and expenses, and fund management.

QUALIFIED INSTITUTIONAL BUYER: Primarily referring to institutions that manage at least $100 million in securities including banks, savings and loans institutions, insurance companies, investment companies, employee benefit plans, or an entity owned entirely by qualified investors. Also included are registered broker-dealers owning and investing, on a discretionary basis, $10 million in securities of non-affiliates.

REGISTRATION STATEMENT: In the United States, a registration statement is a set of documents, including a prospectus, that a company must file with the U.S. Securities and Exchange Commission before it proceeds with an initial public offering.

SEASONED ISSUE: An issue of securities from an established company whose existing shares have exhibited stable price movements and substantial trading volume over time, thereby earning a good reputation. This is also known as a "seasoned equity offering" (SEO). These types of stocks have high liquidity within the secondary market.

SECURITY: An instrument representing ownership (stocks), a debt agreement (bonds) or the rights to ownership (derivatives). A security is essentially a contract that can be assigned a value and traded. Examples of a security include a note, stock, preferred share, bond, debenture, option, future, swap, right, warrant, or virtually any other financial asset.

SECURITIES AND EXCHANGE COMMISSION (SEC): A government commission created by Congress to regulate the securities markets and protect investors. In addition to regulation and protection, it also monitors the corporate takeovers in the U.S. The SEC is composed of five commissioners appointed by the U.S. President and approved by the Senate. The statutes administered by the SEC are designed to promote full public disclosure and to protect the investing public against fraudulent and manipulative practices in the securities markets. Generally, most issues of securities offered in interstate commerce, through the mail or on the internet must be registered with the SEC. Here's an example of an activity that falls within the SEC's domain: if someone purchases more than 5% of a company's equity, he or she must report to the SEC within 10 days of the purchase because of the takeover threats it may cause.

STOCK: A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. There are two main types of stock: common and preferred. Common stock usually entitles the owner to vote at shareholders' meetings and to receive dividends. Preferred stock generally does not have voting rights, but has a higher claim on assets and earnings than the common shares. For example, owners of preferred stock receive dividends before common shareholders and have priority in the event that a company goes bankrupt and is liquidated. Also known as "shares" or "equity".

SYNDICATE: A group of bankers, insurers, et cetera, who work together on a large project. A syndicate only works together temporarily. They are commonly used for large loans or underwritings to reduce the risk that each individual firm must take on.

TAKEOVER: A corporate action where an acquiring company makes a bid for an acquiree. If the target company is publicly traded, the acquiring company will make an offer for the outstanding shares. A welcome takeover is usually referring to a favorable and friendly takeover. Friendly takeovers generally go smoothly because both companies consider it a positive situation. In contrast, an unwelcome or hostile takeover can get downright nasty!

TAKEOVER BID: A type of corporate action in which an acquiring company makes an offer to the target company's shareholders to buy the target company's shares in order to gain control of the business. Takeover bids can either be friendly or hostile.

TARGET FIRM: A firm that has been targeted by another firm for a takeover. Companies are targeted for a number of reasons. A firm may be attractive because it possesses large cash reserves, undervalued real estate or otherwise huge potential.

TENDER OFFER: An offer to purchase some or all of shareholders' shares in a corporation. The price offered is usually at a premium to the market price. Tender offers may be friendly or unfriendly. Securities and Exchange Commission laws require any corporation or individual acquiring 5% of a company to disclose information to the SEC, the target company and the exchange.

UNDERSUBSCRIPTION: A situation in which the demand for an initial public offering of securities is less than the number of shares issued. Also known as an "underbooking". Typically, the goal of a public offering is to price the security issue at the exact price at which all the issued shares can be sold to investors, so there will be neither a shortage nor a surplus of securities. If there is more demand for a public offering than there is supply (shortage), it means a higher price could have been charged and the issuer could have raised more capital. On the other hand, if the price is too high, not enough investors will subscribe to the issue and the underwriting company will be left with shares it either cannot sell or must sell at a reduced price, incurring a loss. Sometimes, when underwriters can't find enough investors to purchase IPO shares, they are forced to purchase the shares that could not be sold to the public (also known as "eating stock").

UNDERWRITING: 1. The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt). 2. The process of issuing insurance policies. The word "underwriter" is said to have come from the practice of having each risk-taker write his or her name under the total amount of risk that he or she was willing to accept at a specified premium. In a way, this is still true today, as new issues are usually brought to market by an underwriting syndicate in which each firm takes the responsibility (and risk) of selling its specific allotment.

WALL STREET: It refers to the financial district of New York City, named after and centered on the eight-block-long street running from Broadway to South Street on the East River in lower Manhattan. Over time, the term has become a metonym for the financial markets of the United States as a whole, or signifying New York-based financial interests. It is the home of the New York Stock Exchange, the world's largest stock exchange by market capitalization of its listed companies. Several other major exchanges have or had headquarters in the Wall Street area, including NASDAQ, the New York Mercantile Exchange, the New York Board of Trade, and the former American Stock Exchange. Anchored by Wall Street, New York City is one of the world's principal financial centers.

WHITE KNIGHT: A company that makes a friendly takeover offer to a target company that is being faced with a hostile takeover from a separate party. The knight in shining armor gallops to the rescue!

WHITEMAIL: A strategy that a takeover target uses to try and thwart an undesired takeover attempt. The target firm issues a large amount of shares at below-market prices, which the acquiring company will then have to purchase if it wishes to complete the takeover. If the whitemail strategy is successful in discouraging the takeover, then the company can either buy back the issued shares or leave them outstanding.

WORTH: The amount of money for which something will find a buyer.

YELLOW KNIGHT" A company that was once making a takeover attempt but ends up discussing a merger with the target company. The implication is that the company attempting the takeover has chickened out, deciding to discuss things instead of making an aggressive move.