GLOSSARY

Absolute Priority of Claims Rule — The rule in bankruptcy law that each class of liability claims is repaid in full before the next highest priority category can receive even a partial payment.

Accelerate — To demand immediate repayment of debt in default, exercising thereby a right specified in the loan contract.

Accounting Principles Board (APB) — Formerly a rule-making body of the American Institute of Certified Public Accountants. (Please see *Predecessor of the Financial Accounting Standards Board*)

Accrued Interest — The pro rata interest obligation on a bond or other debt instrument that has accumulated since the last payment date. Most bonds trade at a price that reflects their net market prices plus accrued interest. Defaulted and certain other bonds, however, trade "flat." See also *Flat*.

Adequate Protection — Not specifically defined in the Bankruptcy Code, but generally refers to the concept of protecting a creditor's methods for providing adequate protection for creditors are specified including periodic cash payments to a lien creditor equal to a decrease in the value of the creditor's interest in the collateral. Another example would be an additional lien or substitute lien on other property to protect against a decline in value. An additional concept would be providing a secured creditor with the "indubitable equivalent" of its bargain with the debtor.

Administrative Claim — Debt incurred by the debtor, with court approval, after the bankruptcy filing including necessary costs of preserving the estate, wages, salaries, court costs, lawyers' fees, accountants' fees, trustee's expenses, etc.

Adversary Proceeding— Litigation within a bankruptcy proceeding instituted by the filing of a complaint.

Affiliate— Includes an entity that directly or indirectly owns control or holds power to vote 20% or more of the debtor for an entity that operates the business or substantially all the property of the debtor under a lease agreement.

After-tax Cash Flow — The difference in the actual cash income and outgo for an investment project after taking account of the tax impact.

Allowed Claim — A claim of a creditor (or an equity interest) that is approved by the court for satisfaction under the plan of reorganization.

Amortization — The process of writing off the value of an asset or liability, particularly a paper asset or liability.

Annuity — An asset that usually promises to pay a fixed amount periodically for a predetermined period, although some pay a sum for an individual's lifetime certain annuities' values are variable depending on the issuer's investment experience. Most are sold by insurance companies.

Anti-Dilution Clause — A provision in a convertible bond or other security indenture restricting new share issues.

APB (Accounting Principles Board) — Formerly a rule-making body of the American Institute of Certified Public Accountants. (Please see *Predecessor of the Financial Accounting Standards Board*).

Appreciation — Increase in the value of an investment over time.

Arbitrage (pure) — Simultaneously buying in one market and selling equivalent assets in another for a certain, if modest, profit.

Arbitrage Pricing Theory (APT) — A competitor to the capital asset pricing model that introduces more than one index in place of (or in addition to) CAPM's market index.

Arrangement — May refer to a variety of formal or informal agreements worked out concerning the conditions under which a bankrupt company may operate; often, it refers to an extension of time in which debt can be paid off. This was the term used under old Chapter XI.

Automatic Stay — The suspension of actions, such as debt collection of foreclosure, against the company in bankruptcy; occurs automatically when the bankruptcy petition is filed. This action protects the debtor from creditors seeking to seize its assets. It protects some creditors in that it prevents one creditor from obtaining an excessive share of the assets of the bankrupt to the exclusion of the other creditors.

Avoidance Power — The power of the court to invalidate certain obligations or transactions undertaken by a debtor prior to filing bankruptcy. It is generally intended to reverse transfers of property that favor one creditor over another.

Balance Sheet — A financial statement providing an instant picture of a firm's or individual's financial position; lists assets, liabilities and net worth.

Balloon Payment — A final large principal payment on a debt instrument whose interim payments either incompletely amortized or did not amortize the initial principal at all.

Bankruptcy Code — The name given to the statutory body of bankruptcy laws after the Bankruptcy Reform Act of 1978.

Bankruptcy Court — The federal tribunal where causes under the Bankruptcy Code are litigated.

Bankruptcy Estate — Generally, the property of the debtor that is subject to the jurisdiction of the bankruptcy court.

Bankruptcy Petition — The document filed with the court to initiate a bankruptcy proceeding.

Bankruptcy Reform Act of 1994 — Most comprehensive piece of bankruptcy legislation since the Bankruptcy Reform Act of 1978; signed into law on October 22, 1994 with most provisions effective immediately; included in the 1994 Act are: provisions to expedite bankruptcy proceedings; provisions to standardize fees; provisions to encourage individual debtors to use Chapter 13 to reschedule their debts rather than use Chapter 7 to liquidate; provisions to aid creditors in recovering claims against bankrupt estates; creation of a National Bankruptcy Commission to investigate further changes in bankruptcy law; etc.

Bankruptcy Reform Act of 1978 — First substantive bankruptcy code revision since the Chandler Act of 1938; took effect on October 1, 1979; some of the major elements of this act were 1) upgrading the jurisdiction of the U.S. bankruptcy courts to deal with cases handled by other courts (subsequently modified); 2) allowing the filing of a single joint petition of bankruptcy by husband and wife; 3) reorganizing the Chapters of bankruptcy; in particular, concerning business reorganization, Chapters X, XI and XII of the old code are replaced by Chapter 11; 4) expanding the number of people eligible and the type of relief available to people in a new Chapter 13, wage-earner reorganization bankruptcy; 5) altering the appellate procedure allowing direct appeal to the U.S. courts of appeal (subsequently modified); and 6) generally, making federal exemption provisions and options for debtors more extensive.

Bankruptcy Trustee — Generally a representative of the estate. The filing of a bankruptcy petition, in a sense, creates an estate consisting of all the property of the debtor at the time of bankruptcy that is not exempt. This is a separate legal entity and the trustee is the representative of this entity. Also called a trustee.

Bar Date — The last date that creditors may file a claim against the debtor

Basis (taxable) — The acquisition cost of an asset less any capital distributions. The difference between the basis and the sale proceeds is the taxable gain.

Beta — A parameter that relates stock performance to market performance; for a z% change in the market, a stock will tend to change by (beta) z%.

Black/Scholes Formula — An option pricing formula based on the assumption that a riskless hedge between an option and it's underlying stock should yield the riskless return; thus, an option's value is a function of the stock price, striking price, stock return volatility, riskless interest rate and length to expiration.

Blue-Sky Laws — State laws designed to protect investors from security fraud.4

Bond — A debt obligation (usually long term) in which the borrower promises to pay a set coupon rate until the issue matures, at which time the principal is repaid; sometimes secured by a mortgage on a specific property, plant or piece of equipment. See also debenture, collateral trust bond and equipment trust certificate.

Book Value (of common shares) — The total assets of an enterprise minus its liabilities, minority interests and preferred stock par, divided by the number of outstanding common shares.

Breakup Value — The sum of the values of a company's individual assets if sold separately.

Bridge Loan — A temporary loan made in the expectation that it will subsequently be repaid with the proceeds of permanent financing.

Business Cycle — Periodic fluctuations in economic growth, employment, and price levels; phases of the classic cycle, in sequence are: peak, recession, trough, and recovery.

CAGR (Compound Annual Growth Rate) — The level, annual rate of increase that results in a stated beginning value rising to a stated terminal value

Capital Asset — Virtually any investment asset. To qualify as a capital asset (and thus be subject to the advantages, if any, of long term capital-gains treatment), an asset must be held as an investment rather than in inventory as an item of trade.

Capital Asset Pricing Model (CAPM) — The theoretical relationship that seeks to explain returns as a function of the risk free rate and market risk.

Capital Intensive — Characterized by a comparatively large proportion of plant and equipment in asset base. The heavy depreciation charges that arise from capital intensity create a high level of fixed costs and volatile earnings.

Capitalizing of Expenses — Placing current business expenses on the balance sheet and writing them off over time.

Capital Market Line — The theoretical relation between an efficiently diversified portfolio's expected return and risk derived from the capital asset pricing model.

CAPM (Capital Asset Pricing Method) — The level, annual rate of increase that results in a stated beginning value rising to a stated terminal value.

Cash Collateral — Cash and cash equivalents held by the debtor in Chapter 11 subject to liens of other parties.

Cash Cow — A company or subsidiary of a company that in the normal course of its operations throws off a substantial cash surplus.

Cash Flow — Reported profits plus depreciation, depletion and authorization.

Chapter 7 Bankruptcy — Contemplates a liquidation under the Bankruptcy Code.

Chapter 11 Reorganization — Contemplates a rehabilitation and restructuring under the Bankruptcy Code.

Chapter 22 — An unofficial term describing a company that has filed for Chapter 11 twice.

Chapter 33 — An unofficial term describing a company that has filed for Chapter 11 three times.

Claims — Rights to repayment made by creditors against a debtor; they may be liquidated, fixed, contingent, matured, unmatured, secured, unsecured, subordinated, legal or equitable.

Class — Each of the different categories of claims against debtor.

Collateral — Asset pledged to assure repayment of debt; the lender may take ownership of the collateral if the loan is not repaid as promised.

Common Stock — Stock that represents proportional ownership of an incorporated enterprise; common stockholders are the residual claimants for earnings and assets after all holders of debt and preferred stock have received their contractual payments.

Compound Annual Growth Rate (CAGR) — The level, annual rate of increase that results in a stated beginning value rising to a stated terminal value.

Confirmation — The final approval by the bankruptcy court of a debtor's plan of reorganization. Confirmation takes place after the plan has been approved by creditors.

Contested Matter — A dispute among the parties to a bankruptcy proceeding, instituted by the filing of a motion of the court.

Contingent Liability — A potential claim against a company or other entity; for example, a lawsuit claiming damages would represent a contingent claim against the defendant.

Convenience Claims — See *Small Claims*.

Conversion Price — The face value of a convertible bond divided by the number of shares into which it is convertible.

Conversion Ratio — The number of common shares into which a convertible bond or preferred stock may be converted.

Conversion Value — The market price of a stock multiplied by the number of shares for which the convertible may be exchanged.

Convertible — A bond or preferred stock that may be exchanged for a specific number of common shares.

Convertible Debenture — A debenture that may for the bond's life be exchanged for a specific number of shares of the issuing firm's common stock.

Convertible Preferred — A preferred stock that may be exchanged for a specific number of shares of the issuing firm's common stock.

Cost of Capital — The rate of return that investors require for providing capital to a company. A company's cost of capital consists of providing capital for a risk-free borrower, a premium for business risk (the risk of becoming unable to continue to cover operating costs), and a premium for financial risk (the risk of becoming unable to continue covering financial costs, such as interest). The risk-free cost of capital is commonly equated with the prevailing interest rate on U.S. Treasury obligations.

Coupon-Equivalent Yield — Yield on an investment computed to correspond with a bond that pays a semiannual coupon.

Coupon Rate — The stated dollar return of a fixed-income investment.

Covenants — Legally binding pledges between bond issuers and bondholders contained in indentures.

Cram-down — Confirmation of a plan of reorganization over the objections of one or more classes of creditors.

Creditors' Committee — A committee that the United States Trustees is instructed to appoint of the largest unsecured creditors willing to serve. This committee consults with the trustee or debtor in possession and investigates the debtor's acts and financial condition as well as participating in the formulation of the plan.

Crown Jewel Option — Anti-takeover defense in which the most sought after subsidiary of a target firm is spun off.

Cumulative Preferred — A preferred stock for which dividends in arrears must be paid before common dividends can be resumed.

Current Assets — Assets that are expected to be used up or converted to cash within the next year or next operating period, whichever is longer; primarily cash, accounts receivable and inventory.

Current Liabilities — Liabilities that will become due and payable in the next year or the next operating cycle, whichever is longer; includes accounts payable, short-term bank loans, the current portion of long-term debt and taxes payable.

Current Ratio — The ratio of current assets to current liabilities; a measure of short-term liquidity

Current Yield — A bond's coupon rate divided by its current market price or a stock's indicated dividend rate divided by its per share price.

DCF (Discounted Cash-Flow Analysis) — The method of discounting a projected stream of cash flows to its present worth; Similar to interest in reverse. It is the worth of dollars to be received in the future, in terms of their present worth.

Debenture — A long-term debt obligation that unlike a collateralized bond only gives the lender a general claim against the borrower's assets. In default, the debenture holder has no claim against any specific assets.

Debt-Equity Ratio — The ratio of total debt to total security.

Debtor — The entity seeking protection from creditors under the bankruptcy laws.

Debtor-In-Possession — The debtor which remains in control of operations; as opposed to having a trustee operate the company.

Deep-Discount Bond — A bond selling for substantially less than its par value.

Default — The failure of a debt obligor to make a scheduled interest or principal payment on time. A defaulting issuer becomes subject to claims against its assets, possibly including a demand by creditors for full and immediate repayment of original balance.

Defeasance — The process whereby a debtor offsets the impact of a portion of its debt by purchasing high-quality debt instruments (usually governments) whose payments cover the payment obligations of the debt issue.

Defined Benefit Plan — A type of pension plan in which the level of beneficiaries' retirement income is established contractually, generally based on such factors as age, earnings, and years of service. The pension plan sponsor bears the risk of earning a return on investment assets sufficient to meet the contractual payments. (See also cash balance plan, defined contribution plan.)

Defined Contribution Plan — A type of pension plan in which the amounts contributed to the plan by its sponsor are established contractually. The retirement income paid to the beneficiaries is determined by the investment returns on the pension assets. (See also defined benefit plan.)

Depreciation — A noncash expense meant to represent the amount of capital equipment consumed through wear and tear during the period.

Dilution — A reduction in present shareholders' proportional claim on earnings. Dilution can occur through the issuance of new shares in an acquisition if the earnings generated by the acquired assets are insufficient to maintain the level of earnings per share previously recorded by the acquiring company. Existing shareholders' interest is likewise diluted if the company issues new stock at a price below book value. In this circumstance, a dollar invested by a new shareholder purchases a larger percentage of the company than is represented by a dollar of net worth held by an old shareholder.

Discharge (of indebtedness) — The satisfaction of elimination of the debts of the debtor by the bankruptcy court.

Disclosure Statement — A comprehensive disclosure document sent to creditors when they are asked to vote on a plan of reorganization in Chapter 11.

Discount Rate — The interest rate used to equate future value (see) with present value (see). Also referred to as cost of capital (see).

Discounted-Cash-Flow Analysis (DCF) — The method of discounting a projected stream of cash flows to its present worth. Similar to interest in reverse. The worth of dollars to be received in the future in terms of their present worth.

Dismissal — The termination of a bankruptcy proceeding. The bankruptcy court can dismiss a case if it deems that the debtor or three creditors should not have filed or that a plan can never be formulated.

Diversification — In portfolio management, the technique of reducing risk by dividing one's assets among a number of different securities or types of investments. Applied to corporate strategy, the term refers to participation in several unrelated businesses. The underlying premise is often counter cyclicality, or the stabilization of earnings over time through the tendency of profits in certain business segments to be rising at times when they are falling in others.

Docket — The schedule on which the clerk of the court records all motions, pleadings, memoranda, orders and all other court filings.

Earnings Per common Share (EPS) — The net income of a company, minus any preferred dividend requirements, divided by the number of outstanding common shares; provides the investor or potential investor with information on the stability of dividends and capital gains potential; is considered one of the most important indications of the value of common stock.

EBT — The earnings before deduction of interest expense and income taxes.

EBITDA — The earnings before deduction of interest expense, income taxes, depreciation, and amortization. (Also referred to as EBDIT, an acronym for "Earnings Before depreciation, interest, and taxes")

Economies of Scale — Reductions in per unit cost that arise from large volume production. The reductions result in large measure from the spreading of fixed costs (i.e., those that do not vary directly with production volume) over a larger number of units than is possible for a smaller producer.

Effective Date — The date on which a plan of reorganization is implemented; usually it occurs after all the conditions to a plan of reorganization have been satisfied.

Efficient Frontier — A set of risk-return trade-offs, each of which offers the highest expected return for a given risk.

Efficient Market Hypothesis — The theory that the market correctly prices securities in light of the known relevant information. In its weak form, the hypothesis implies that past price and volume data (technical analysis) cannot be profitably used in stock selection. The semi-strong form implies that superior manipulation of public data is impossible; thus such data cannot be used to improve stock selection over what is possible through random selection. In the strong form of the hypothesis, even inside (nonpublic) information is thought to be reflected accurately in prices.

Efficient Portfolio — Portfolio on the efficient frontier that offers the highest expected return for that risk level.

Employee Retirement Income Security Act (ERISA) — A 1974 federal law that protects workers' pension funds.

Equipment Trust Certificate — A type of bond collateralized by equipment, particularly railroad rolling stocks or airplanes.

Equitable Subordination — The lowering of priority of a claim because the holder of the claim is found to be guilty of some kind of improper conduct.

Equity — Please see *Net Worth*.

ERISA (Employee Retirement Income Security Act) — A 1974 federal law that protects workers' pension funds.

ESOP (Employee Stock Ownership Plan) — A program in which a corporation contributes newly issued company stock worth up to 15% of employee payrolls into what amounts to a tax-sheltered profit-sharing plan.

Estate — A person's total worth as determined by his or her vested interests in property and other assets, exclusive of any liabilities.

Examiner — A professional appointed by the bankruptcy court to investigate and oversee certain aspects of the debtor or the proceedings. (By way of comparison, the role of the trustee is to operate the business of the debtor whereas the role of the examiner is to investigate and report to the court.)

Exchangeable — In reference to a security, subject to mandatory replacement by another type of security, at the issuer's option. (Please see also C*onvertible*.)

Exchange Offer — An offer by an issuer of debt securities to exchange new securities with less onerous provisions for currently outstanding securities. Companies often make exchange offers in an attempt to avoid bankruptcy.

Exclusivity (period of) — A debtor in Chapter 11 has the exclusive right to file a plan of reorganization for the first 120 days of its bankruptcy. Thereafter, unless the period of exclusivity is extended by the court, other parties may file reorganization plans.

Executory Contract — A contract in which some or all of the obligations of each party have not yet been completed. The debtor-in-possession (or trustee) is allowed to reject unilaterally certain executory contracts.

FASB (Financial Accounting Standards Board) — A rule-making body for the accounting profession. Its members are appointed by a foundation, the members of which are selected by the directors of the American Institute of Certified Public Accountants.

FIFO (First In, First Out) — An inventory evaluation method whereby items taken out of inventory are assumed to have cost the amount paid for the earliest unused purchase.

Financial Ratio — A ratio such as the debt-equity or times-interest-earned ratio designed to reflect a firm's long-term financial strength.

Fixed Costs — Costs that do not vary with the volume of production. Examples include, rent, interest expenses, senior management salaries and, unless calculated by the units-of-production method, depreciation (see).

Fixed Income Security — Any security that promises to pay a periodic non-variable sum, such as a bond paying a fixed-coupon amount per period.

Fixed-Rate Debt — A debt obligation on which the interest rate remains at a stated level until the loan has been liquidated. (Compare floating-rate debt.)

Floating-Rate Debt — A debt obligation on which the interest rate fluctuates with changes in market rates of interest, according to a specified formula. (Compare fixed-rate debt.)

Form 10-Q — A detailed quarterly report that must be submitted to the SEC and the listing exchange and may be sent to shareholders who request it.

Form 13-D — A required SEC filing of any individual or group owning 5% or more of any public corporation; the form must disclose a number of matters, including the actual ownership percentage, its cost the intentions of the owner and any relevant agreements of the owner with any other party.

Fraudulent Conveyances — Defined differently by the several uniform state statutes and the Federal Bankruptcy Statues. All have their origin in the statute of 13 Elizabeth enacted in 1570 that provided that "Covinous and fraudulent feoffments, gifts, grants…..devised and contrived of malice, fraud, coven, collusion or guile, to the end, purpose and intent, to delay, hinder or defraud creditors and others ….shall be utterly void…."

Free Cash Flow — As used in this text, the amount of cash flow remaining after funding required levels of capital expenditures.

Fresh Start — Informal term for the new accounting rules applicable to bankrupt companies. For companies that either file for Chapter 11 after January 1991 or emerge from Chapter 11 after June 1991, assets are to be valued at market value rather than at historical cost.

Front Running — An illegal trading strategy in which the trader (usually an employee of a brokerage firm) learns that a large trade is about to take place (usually placed by a substantial customer) and runs ahead of that trade to place an order at the pretrade price. If the large trade causes a major price change, the position can be reversed at a nice profit. In effect, the front-runner is trading on inside information (knowledge of the forthcoming trade).

Fundamental Analysis — The evaluation of firms and their investment-attractiveness based on their financial, competitive, earnings and managerial position or similar evaluation of other investment types.

GAAP (Generally Accepted Accounting Principles) — A set of accounting principles that are supposed to be followed in preparing accounting statements.

GDP (Gross Domestic Product) — The monetary value of all the finished goods and services produced within a country's borders in a specific time period, usually annually; It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Generally Accepted Accounting Principles — Rules that govern the preparation of financial statements, based on pronouncements of authoritative accounting organizations such as the Financial Accounting Standards Board, industry practices, and the accounting literature (including books and articles).

Going Concern Value — A company’s worth if sold as a continuing business, as opposed to its liquidation value.

Golden Parachute — A very generous termination agreement for upper management that takes effect if control of their firm shifts.

Goodwill — A balance sheet item arising from purchase method (see) accounting for a business combination, representing the excess of the purchase price over the acquired company’s tangible asset value.

Graham and Dodd approach — A type of securities analysis that stresses fundamentals. Its originator, Benjamin Graham, coauthored the investment text that dominated the market from the 1930s to the 1950s. Also called the *Graham Approach*.

Gross Margin — The net sales of an enterprise minus its cost of goods sold.

Historical Cost Accounting — An accounting system in which assets are recorded at their original value (less any applicable depreciation or other impairment of value), notwithstanding that the nominal dollar value of the assets may rise through some cause such as inflation or increased scarcity.

Impairment — When a plan of reorganization alters the contractual rights of a class of holders claims, that class is deemed to be impaired. A class that is unimpaired is deemed to automatically accept a plan of reorganization.
Increasing Rate Notes- Bond issues whose interest rate automatically increases by some predetermined amount at predetermined times.

Indenture (Bond) — The statement of promises under the Trust Indenture Act the company makes to its bondholders, including a commitment to pay a stated coupon amount periodically and return the face value (usually $1,000) at the end of a certain period (such as 20 years after issue). A trustee, such as a bank, is charged with overseeing the issuing firm's commitments.

Indenture Trustee — The trustee under an indenture or the benefit of the holders of the debt represented by the indenture. Also called trustee.

Industry Analysis — The evaluation of an industry's position and prospects.

Insider Trading — The buying or selling of securities by traders with access to relevant nonpublic information relating to the company in question.

Insolvency- Another term used to describe a firm that is failing; generally it means that a firm's liabilities exceed its assets or that it is unable to satisfy its obligations as they come due.

Institutional Investor — An organization that invests the pooled assets of others; includes pension funds, mutual funds, bank trust departments, insurance companies and investment companies.

Interests — The equity interests of stockholders are often referred to in bankruptcy documents merely as "interests."

Interest-Rate Risk — The risk that an interest-rate rise will take place, thereby reducing the market value of fixed-income securities.

Internally Generated Funds — Cash obtained through operations, including net income, depreciation, deferred taxes, and reductions in working capital. (See also externally generated funds.)

In-the-Money Option — An option whose striking price is more favorable to option holders than the current market price of the underlying security.

Involuntary Bankruptcy — A bankruptcy petition filed by the creditors of a debtor forcing the commencement of a case under Chapter 11 or 17.

Junk bonds — High-risk bonds usually promising a very high indicated return coupled with a substantial default risk.

Leveraged Buyout (LBO) — The takeover of a company financed largely by debt secured by the acquired firm's own assets.

LIFO (Last In, Last Out) — An accounting method that, for income reporting purposes, values items taken out of inventory at the most recent unused invoice cost.

Liquidating Reorganization — An informal term for Chapter 11 proceeding when the company is essentially liquidated through one or more asset sales.

Liquidation — The process of selling all of a firm's assets and distributing the proceeds first to creditors and then any residual to shareholders.

Liquidation Value — The aggregate value of a business if its assets are sold piecemeal.

Liquidity — The ease with which an investment can be converted to cash for approximately its original cost plus its expected accrued interest.

LYON (Liquidity Yield Option Note) — A complicated type of zero-coupon convertible debt security that is both callable and redeemable at prices that escalate through time.

Macroeconomic — Pertains to the economy as a whole or its major subdivisions, e.g., the manufacturing sector, the agricultural sector, the government. (Please see also *Microeconomic*)

Maintenance capital expenditures — The amount a business must spend just to maintain the efficiency and appearance of its plant and equipment. No additions to the plant and equipment are contemplated.

Market Capitalization — The aggregate market value of a company's total outstanding equity and debt securities. Also used loosely to represent the product of a company's share price and the number of shares outstanding. (See also *Total Enterprise Value*.)

Market to Market — Practice of re-computing equity position in a margin account (stock or futures) on a daily basis.

Mature — With respect to a product, firm, or industry at a stage of development at which the rate of sales growth remains positive, but no longer exceeds the general growth rate of the economy.

Me-First Rules — Restrictions in a bond's indenture that limit a firm's ability to take on additional debt with similar standing to that of the bonds in question.

Microeconomic— Pertains to the operations of the components of a national economy, e.g., individual firms, households, and consumers

Modern Portfolio Theory (MPT) — The combination of the capital asset pricing model, efficient market pricing and performance.

Moody's Investor Service — A firm that publishes manuals containing extensive historical data on a large number of publicly traded firms. Moody's also rates bonds.

Multiple — With respect to a common stock, the ratio of the share price to earnings per share, similarly, the price paid in an acquisition can be viewed as a multiple of the acquired company's earnings, cash flow, or EBITDA (see).

Mutual Fund — A pooled investment in which managers buy and sell assets with the income and gains and losses accruing to the owners; may be either load (with sales fee) or no-load (no sales fee); stands ready to buy back its shares at their net asset value.

Net Present Value — The present value (see) of a stream of future cash inflows, less the present value of an associated stream of current or future cash outflows. This calculation is useful for comparing the attractiveness of alternative investments.

NOL (Net Operating Loss) — See *Tax Loss Carry-Forward*

Nominal Dollar — A monetary sum expressed in terms of its currency face amount, unadjusted for changes in purchasing power from a designated base period. (See also real dollar.)

PACER (Public Access to Court Electronic Records) — A service provided by the court system that gives case filing information. PACER requires an IBM-compatible computer equipped with a modem.

Payment in Kind (PIK) Securities — Securities whose yield is at the issuer's option, payable in additional securities of like kind to the existing securities; thus, a preferred stock may choose to pay the dividend in additional preferred shares.
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PE (Price-Earnings Ratio) — The stock price relative to the most recent 12-month earnings per share.

Period of Exclusivity — Please see *Exclusivity*.

Petition — The document that commences a bankruptcy proceeding.

PIKs (Payment in Kind) Securities — Securities whose yield is at the issuer's option, payable in additional securities of like kind to the existing securities; thus, a preferred stock may choose to pay the dividend in additional preferred shares.

Plan of Reorganization — The document setting forth how a bankrupt company plans to satisfy its creditors. The plan of reorganization is the cornerstone of a successful Chapter 11 bankruptcy.

Post-Petition — Occurs after filing of a petition.

Preference — A payment by a debtor made during a specified period (90 days or one year) prior to the filing that favors one creditor over others. Preference payments can usually be recovered and returned to the debtor's estate.

Preferred Stock — Shares whose indicated dividends and liquidation values must be paid before common shareholders receive any dividends or liquidation.

Prepackaged Bankruptcy — A situation where a company and its creditors agree to a plan of reorganization before the company files a bankruptcy petition. In a true prepackaged bankruptcy, a plan of reorganization is circulated and approved by creditors before the petition is filed. The court then confirms the plan and the company emerges from bankruptcy quickly.

Pre-Petition — Occurs before the filing of a bankruptcy petition.

Present Value — The value today of a dollar to be received at some future point, using appropriate discount rates.

Priority Claims — Administrative expenses and salaries, wages, employee benefits, customer deposits and taxes which occurred pre-petition.

Pro Rata — Proportionately

Proof of Claim — Form filed by a creditor setting out its claims against a bankruptcy debtor.

Purchase Accounting — A type of merger accounting in which the net assets of the merged firm are entered on the books of the acquiring firm at amounts that sum to the firm's acquisition price. As opposed to the "pooling of interest" method of accounting for a business combination, the purchase method allows assets to be written up to fair market value. Under the pooling method, assets continue to be carried at their historical basis. Earnings under the purchase method are included only from the date of acquisition, whereas under the pooling method they are restated as far back as necessary.

Put — An option to sell a stock at a specified price over a specified period.

Put Bond — A bond with an indenture provision allowing it to be sold back to the issuer at a pre-specified price.

Rate of Return — A rate that takes into account both dividends and capital appreciation (increases in the price of the security); for example, a 9% rate of return implies that the owner of $100 worth of stock will earn a total of $9 in dividends and capital appreciation over the forthcoming year.

Rating (bond) — A quality or risk evaluation assigned by a rating service such as Standard & Poor's or Moody's.

Ratio Analysis — Balance sheet and income statement analysis that utilizes ratios of financial aggregates.

Receiver — Particularly in foreign proceedings or state court proceedings, a person appointed by the court to take custody of a debtor's property.

Registration Statement — A statement that must be filed with the SEC before a security is offered for sale; must contain all materially relevant information relating to the offering. A similar type of statement is required when a firm's shares are listed. Referred to in the trade as a "*red herring*" because of the disclaimers written in red in on its cover. It describes the terms of the bond issue, the business operations of the company, and other relevant information required by the SEC.

Reinvestment Risk — The risk associated with the reinvesting coupon payments at unknown future interest rates. The yield to maturity generally is computed for the assumption that coupons will be reinvested at the same rates as the bond's current yield to maturity; thus, if interest rates decline prior to the bond's maturity, the coupons will not generate the expected return.

Reorganization — Restructuring of a firm's capital structure and operating facilities in the face of a default, near default or bankruptcy.

Restructuring — A general term applied to an out-of-court attempt to reorganize and satisfy debts. It is similar to *Workout*.

Retained Earnings — On the income statement, annual after-tax profits less dividends paid; on the balance sheet, the sum of annual retained earnings to date.

Return on Assets (ROA) — Profits before interest and taxes as a percentage of total assets. Also called return on investment.

Return on Equity (ROE) — Profits after taxes, interest and preferred dividends as a percentage of common equity.

Return on Investment (ROI) — Profits before interest and taxes as a percentage of total assets. Also called return on assets.

Revolving Credit Facility — Similar to working capital facilities but may be used for other corporate purposes. Similar in nature to credit cards in that they typically provide for some minimum repayment schedule.

ROE (**Return on Equity)** — Profits after taxes, interest and preferred dividends as a percentage of common equity.

ROI (**Return on Investment)** — Profits before interest and taxes as a percentage of total assets. Also called Return on Assets (ROA).

Rule 415 — An SEC rule allowing shelf registration of a security, which then may be sold periodically without separate registrations of each part.

Sale-Leaseback — A transaction in which a company sells an asset and immediately leases it back. The lessee thereby obtains cash while retaining use of the asset. An additional motivation for the transaction may be a difference in the marginal tax rates of the lessee and lessor. The tax shelter provided by depreciation charges on the asset are more valuable to the party paying the higher tax rate.

SEC (Securities and Exchange Commission) — The government agency with direct regulatory authority over the securities industry.

Secondary Distribution — A large public securities offering made outside the usual exchange or OTC market; those making the offering wish to sell a larger quantity of the security than they believe can be easily absorbed by the market's usual channels. A secondary offering spreads out the period for absorption.

Secondary Market — The market for already-issued securities that may take place on the exchanges or OTC.

Secured Creditors — One of two general types of creditors of a company. Secured creditors have a lien on property of the company.

Securitization — The process of turning an asset with poor marketability into a security with the substantially greater acceptability; for example, a security that looks like a standard bond but is derived from real estate mortgage loans, automobile loans and credit-card balances.

Security Agreement — An agreement that creates or provides for a security interest.

Self-Tender — A firm tendering for its own shares; often used as an anti-takeover defense.

Selling Short — The act of selling a security that belongs to someone else and is borrowed; the short sellers covers by buying back equivalent securities and restoring them to the original owner.

Semi-strong Form of the Efficient Market Hypothesis — The view that market prices quickly and accurately reflect all public information; implies that fundamental analysis applied to public data is useless.

Semi-weak Form of the Efficient Market Hypothesis — The view that market prices cannot be successfully forecast with technical market indicators.

Senior Debt — Borrowings that have preference in liquidation over subordinated debt (see). In the event of a bankruptcy, senior lenders' claims must be satisfied before consideration can be given to subordinated lenders or equity investors.

Sensitivity Analysis — The testing of "what-if" scenarios in financial statement analysis. Typically, sensitivity analysis measures the potential impact (on earnings, cash flow, etc.) of a change of a stated amount in another variable (sales, profit margins, etc.). In connection with financial forecasting, sensitivity analysis may be used to gauge the variation in projected figures that will occur if a particular assumption proves either too optimistic or too pessimistic by a given amount.

Set-Off — The ability to discharge or reduce a debt by applying a counter claim between the same parties. For example, a bank that has lent money to a debtor may attempt to satisfy some or all of the loan by seizing the debtor's deposits at the bank.

SFAS (Statement of Financial Accounting Standards) — A designation for a numbered series of statements of accounting rules promulgated by the Financial Accounting Standards Board (Please see).

Shelf Registration — An SEC provision allowing preregistration of an amount of a security to be sold over time without specific registration of each sale; permitted by SEC rule 415.

Short position — To have sold an asset that is not owned in the hope of repurchasing it later at a lower price.

Sinking Fund — An indenture provision requiring that a specific portion of a bond issue be redeemed periodically; required by many bond indentures so that all of the debt will not come due simultaneously.

Skeleton Filing — A term used at bankruptcy courts to describe a bankruptcy filing in which not all the necessary forms have been filed. Certain courts allow a case to commence if only certain important forms are filed so long as the balance required forms are forthcoming within a certain period of time.

Small Claims — Under a plan of reorganization or liquidation, claims that are small (e.g. in the hundreds or thousands of dollar range) and numerous are often grouped into a single class and settled for cash for a administrative convenience.

S&P (Standard & Poor's Corporation) — An important firm in the investment area that rates bonds, collects and reports data and computes market indexes.

Split — An exchange of securities whereby each shareholder ends up with a larger number of shares representing the same percentage of the firm's ownership. In a 2-for-1 split, a shareholder with 100 old shares would receive an additional 100 shares.

Stock Split — The division of a company's existing stock into more shares (for example, 2 for 1 or 3 for 1); usually done to reduce the price per share in the hope of improving the shares' marketability.

Straight-debt value — The value of a convertible bond as a straight-debt (nonconvertible) bond.

Striking Price — The amount an option holder has to pay (or will receive) to exercise an option. Also called "*Strike"*.

Strong form of the Efficient Market Hypothesis — The view that market prices quickly and accurately reflect all public and nonpublic information; implies that inside information is useless in security selection.

Subordination Provisions — Bond indenture provisions that give me an issue a lower priority than other issues.

Subordinated Debt — Borrowings that have a lesser preference in liquidation vis-à-vis other, senior, debt (see). In the event of a bankruptcy, subordinated lenders' claims cannot be provided for until senior claims have been satisfied.

Substantive Consolidation — The combination of the estate of one debtor with the estate of one or more other debtors and the application of the combined estate to satisfy their concerned liabilities. Substantive consolidation is often considered (although infrequently applied) in the case of parent/subsidiary debtors and other affiliated entities.

Super-priority Claims — An administrative claim that will be paid ahead of other administrative and priority claims.

Tax-Loss Carry forward — Un-utilized prior-period losses that may be employed to offset subsequent income.

Technical Analysis (Narrow Form) — A method of evaluating securities based on past price and volume behavior; largely debunked by evidence favorable to the efficient market hypothesis.

Total Enterprise Value — The value that a business would fetch if put up for sale, commonly estimated as a multiple of its sales, earnings, or *EBITDA* (Please see above). (See also *Market Capitalization*.)

Trustee — An agent of the court who manages the property of the debtor for the benefit of the creditors. The court appoints a trustee in most Chapter 7 cases and in the Chapter 11 cases when it determines that the debtor's management should not remain in control. This type of trustee should be distinguished from the U.S. Trustee, who plays an administrative role in all bankruptcy cases.

United States Trustee — An employee of the Department of Justice who attends to certain administrative functions in terms of the administration of the bankruptcy case. This is not the same as a bankruptcy trustee who is an individual assigned to manage and run a debtor's estate.

Unsecured Creditor — One of two general types of creditors of a company. The unsecured creditors have no liens on the property of the company.

Variable Costs — Costs that increase as the volume of production rises. Examples include materials, fuel, power, and wages.

Voluntary Bankruptcy — Bankruptcy filed by the debtor itself; data from the U.S. Administrative Office of the Courts subdivides bankruptcies into voluntary and involuntary.

Vulture Fund— Also referred to as *Vulture Capitalists* or *Vulture Investors.* Investment groups that are prominent in the restructuring of financially distressed and bankrupt companies usually by the buying or selling of large pieces of the distressed company's debt and/or equity.

Working Capital (Gross) — The sum of the values of a firm's short-term assets.

Working Capital (Net) — A firm's short-term assets minus its short-term assets

Working Capital Facilities — Those portions of a company's bank credit agreement usually reserved for the acquisition of working capital such as inventory.

Workout — An arrangement, outside of bankruptcy, by a debtor and its creditors for payment or re-scheduling of payment of the debtor's obligations. Usually applies to an informal agreement between a business and its creditors, although it can be a formal agreement and it can apply to consumer debtors also.

Yield (Current) — Current income (dividend, coupon, rent, etc.) divided by the price of the asset.