

## CHAPTER 11 COMPANIES

### COMPANIES VOCABULARY

- 1) A company: A voluntary association formed and organized to carry on a business. Types of companies include sole proprietorship, partnership, limited liability, corporation, and public limited company. A company is any entity that engages in business. Companies can be structured in different ways. For example, your company can be a sole proprietorship, a partnership, or a corporation. Depending on which different type of company you're dealing with, it may be owned by one person or a group of people. Liability in most types of company is assumed by the owners, and can either be limited or unlimited depending on the type (**une entreprise, société**)
- 2) A legal body= an association, company, partnership, trust or individual that has legal standing in the eyes of the law; legal person, legal entity (**un organisme juridique**)
- 3) A shareholder: An individual, group, or organization that owns one or more shares in a company, and in whose name the share certificate is issued. It is legal for a company to have only one shareholder; *stockholder* (US). (**un actionnaire**)
- 4) Shares= parts or portions of the equity capital of a company, stocks (**des actions**)
- 5) A promoter= An entity that plans a project or formation of a new firm, and then sells or promotes the plan or idea to others. (**un promoteur**)
- 6) Directors= individuals in a company who generally make strategic decisions and who are responsible by law to the business's customers, employees, suppliers and shareholders. (**des directeurs**)
- 7) the Registrar of Companies= Under the UK corporate law, the registrar responsible for recording and maintaining certain details of the new and existing firms within his or her jurisdiction. He or she also controls the formation of new firms, and renewal of or changes in the existing ones. (**le registraire des sociétés**)
- 8) **authorised capital (capital autorisé)**= The maximum value of securities that a company can legally issue. This number is specified in the memorandum of association (or articles of incorporation in the US) when a company is incorporated, but can be changed later with shareholders' approval.  
Authorized share capital may be divided into (1) Issued capital: par value of the shares actually issued. (2) **Paid up capital: (capital libéré, versé)** money received from the shareholders in exchange for shares. (3) **Uncalled capital (capital non appelé)**: money remaining unpaid by the shareholders for the shares they have bought.
- 9) Issue= put on the market
- 10) Issued share capital(**capital actions émis**): The total of a company's shares that are held by shareholders. A company can, at any time, issue new shares up to the full amount of authorized share capital. Also called subscribed capital, or subscribed share capital.
- 11) A call(**un appel**)= in company affairs: Demand from a firm to its stockholders to pay all or a part of money remaining unpaid on stock (shares) bought by them.
- 12) Paid-up capital : (**capital libéré, versé**) The amount of money that has been received by shareholders who have completely paid for their purchased shares. This would not include any shares that have been bid on, but not yet purchased.
- 13) private companies (**entreprises, sociétés privées**)= Business firms in the private (non-public) sector of an economy, controlled and operated by private individuals (and not by civil servants or government-employees). Used also as an alternative term for private limited company.

14) public companies= business firms whose stock is traded on the stock exchange, public limited companies, public corporations (**société ouverte, publique, entreprise publique**)

15) Family businesses (**entreprise familiale**) = Company owned by one or more family members. In some cases, a family business may be owned by more than one family.

16) The Stock Exchange (**marché boursier**)= Organized and regulated financial market where securities (bonds, notes, shares) are bought and sold at prices governed by the forces of demand and supply. Stock exchanges basically serve as (1) primary markets where corporations, governments, municipalities, and other incorporated bodies can raise capital by channelling savings of the investors into productive ventures; and (2) secondary markets where investors can sell their securities to other investors for cash, thus reducing the risk of investment and maintaining liquidity in the system.

17) a board of directors (**conseil d'administration, comité de direction**)= Governing body (called the board) of an incorporated firm. Its members (directors) are elected normally by the subscribers (stockholders) of the firm (generally at an annual general meeting or AGM) to govern the firm and look after the subscribers' interests. The board has the ultimate decision-making authority and, in general, is empowered to (1) set the company's policy, objectives, and overall direction, (2) adopt bylaws, (3) name members of the advisory, executive, finance, and other committees, (4) hire, monitor, evaluate, and fire the managing director and senior executives, (5) determine and pay the dividend, and (6) issue additional shares.

18) managing director= person with the ultimate responsibility in the UK for a firm's overall operations and performance, *CEO (Chief Executive Officer)*, *CO (Chief Officer)* (**directeur général**)

19) Unlimited liability businesses (**entreprises à responsabilité illimitée**) = Private firm (such as a sole proprietorship or general partnership) whose owner(s), partners, or stockholders accept personal and unlimited liability for its debts and obligations in return for avoiding double taxation of a limited company. Unlimited liability firms are exempt from filing their annual accounts with a public authority (such as Registrar Of Companies) unless they are subsidiaries of limited liability holding companies. Also called unlimited company.

20) Limited liability businesses /company (**entreprises à responsabilité limitée**) = Relatively recent type of US business structure that combines the limited personal liability feature of a corporation with the single taxation feature of a partnership or sole-proprietorship firm. Its profits and tax benefits are split any way the stockholders/ shareholders (whether individuals or other firms) choose. Tax return for a LLC is filed with the taxation authorities only for the purpose of information, and each shareholder files own tax return separately. Also called company limited by share. See also limited company.

21) full quotation= official registration of a company with the stock market enabling it to sell shares directly to the public at large, full listing (**cotation complète**)

22) dealers= traders of securities (stocks and bonds) who buy and sell for their own account rather than as agents for someone else's account (**trader**)

23) control= the ownership of 50% of a company's share plus one, although this can be achieved with less if one person or group owns a significant proportion of the voting shares, controlling interest (**contrôle**)

24) A takeover bid (**Offre Publique d'Achat, offer publique, offre de rachat**)= The amount a company or group of investors is willing to pay in order to acquire a company. The bid is an offer to the shareholders of the target company. The shareholders will have to approve of

the bid before an acquisition can be made, and can vote to hold out for more money from the acquiring company or to wait for a competing bid.

25) quoted= listed on the stock market (**coté en bourse**)

26) the Stock Exchange Council (**conseil des cotations en bourse**)= a committee which runs the London International Stock Exchange and regulates the way in which its members work

27) go public= when a privately-owned company starts trading its shares on the stock market, often to raise money for its expanding business (**entrer en bourse**)

28) merchant banks= financial institutions which act for and advise companies, and which underwrite new issues of securities, investment banks (**banque d'affaire**)

29) a placing (**un placement**)= the act of finding a single buyer or a group of institutional buyers for a large number of shares in a new company or a company that is going public

30) pension funds= state and private institutions which collect and invest pension contributions to provide for retirement pensions (**fonds de pension, caisse de retraite**)

31) underwritten= guaranteed by a merchant bank (**garanti**)

32) share capital= the value of the assets of a company held as shares, equity capital (**capital en actions, capital social**)

33) advertised= made known to the public through printed or online media (**annoncé, promu grace à la publicité**)

34) A rights issue (**question de droits, emission de droits**)= an arrangement which gives shareholders the Right to buy more shares at a lower price

## TEXT

A **company** is set up to run a business. It has to be registered before it can start to operate, but once all the paperwork is completed and approved the company becomes recognized as a legal body. The owners of the company are its **shareholders**. However, other individuals and businesses do not deal with the shareholders - they deal with 'the company'. Shareholders put funds into the company by buying shares.

The **promoter** or directors of the company can apply to **the Registrar of Companies** for permission to issue new shares. The amount that the Registrar agrees to is called the **authorized capital**. The **issued capital** is the value of the shares that are actually sold to shareholders. The company may choose not to issue the full value of its authorized capital: it may hold back a certain amount for future issue.

Shares can be issued for payment in stages over a period of time. Each stage is then termed a '**call**'. There may be three or four calls before the full price is finally paid. The **paid up capital** is the money that has been received for these partly-paid shares.

**Private companies** tend to be smaller than public ones and are often **family businesses**.

There must be at least two shareholders but there is no maximum number. Shares in private companies cannot be traded on **the Stock Exchange**, and often shares can only be bought with the permission of **the board of directors**.

The board of directors is a committee set up to protect the interests of shareholders. The members of the board choose the managing director, who is responsible for the day-to-day running of the business. The rules of the business set out when shareholders' meetings will take place and the rights of shareholders.

Private companies may find it possible to raise more cash by selling sales than **unlimited-liability businesses**. The shareholders can also have the protection of **limited liability**.

The main disadvantages compared with unlimited-liability businesses are that they have to share of profits among shareholders and they cannot make decisions so quickly. They cost

more to set up.

A **public company** has its shares bought and sold on the Stock Exchange. Companies can go to the expense of having a **'full quotation' on the Stock Exchange** so that share prices appear on the dealers' visual display screens.

The main advantage of selling shares through the Stock Exchange is that large amounts of capital can be raised very quickly. One disadvantage is that control of business can be lost by the original shareholders if large quantities of shares are purchased as part of a **takeover bid**. It is also costly to have shares quoted on the Stock Exchange.

In order to create a public company the directors must apply to the Stock Exchange Council, which will carefully check the accounts. A business wanting to go public will then arrange for one of the merchant banks to handle the paperwork. Selling new shares is quite a risky business. The Stock Exchange has good days (when a lot of people want to buy shares) and bad days (when a lot of people want to sell). If the issue of new shares coincides with a bad day company can find itself in difficulties. For example, if it hopes to sell a million new shares at £1 each and all goes well, it will raise £1 million; but on a bad day it might only be able to sell half its shares at this price.

One way around this problem is to arrange a **'placing'** with a merchant bank. The merchant bank recommends the company's shares to some of the buying institutions with which it deals (pension funds and insurance companies for example) who may then agree to buy, say, one-tenth of the new shares. In this way the merchant bank makes sure that the shares are placed with large investors before the actual date of issue comes around. Then, even if it is a bad day on the Stock Exchange when the shares are issued, the company's money is secure. The shares are therefore **'underwritten'** by the merchant bank.

Another common method by which private companies raise capital is to offer new shares for sale to the general public. The company's shares are advertised in leading newspapers and the public are invited to apply. When a company is up and running, a cheaper way of selling is to contact existing shareholders inviting them to buy new shares. This is a **rights issue**.

**COMPREHENSION EXERCISE: Circle the alternative (a), (b) or (c) that most fully and correctly completes the statements or answers the questions below**

- 1) To set up a company in Britain, the relevant documents have to be sent to  
a) a merchant bank   b) the stock exchange council   **c) the Registrar of Companies.**
- 2) Who in the company handles the paperwork needed for registration?  
**a) the promoter**   b) the registrar   c) the shareholders
- 3) What costs most to set up?  
**a) a private limited company**   b) a family business   c) a public limited company
- 4) Shareholders are safer if they choose to invest in  
**a) a limited liability business**   b) a family business   c) an unlimited liability business
- 5) The managing director, who is the person responsible for the day-to-day running of the business is  
**a) appointed**   b) elected   c) nominated by the board of directors
- 6) As part of a takeover bid, the owners of a company can change if  
a) original shareholders buy a large number of shares at the Stock Exchange.  
**b) original shareholders sell a large number of shares at the Stock Exchange.**  
c) original shareholders maintain their current level of stockholding

- 7) The Stock Exchange is the place where companies can raise
  - a) authorised capital
  - b) issued capital
  - c) **share capital**
- 8) Selling new shares is quite a risky business for companies because
  - a) It is costly to be quoted on the Stock Exchange.
  - b) **There is a lot of uncertainty on the Stock Exchange.**
  - c) There is a lot of paperwork involved.
- 9) Merchant banks underwrite new share issued by placing shares with
  - a) **share-buying institutions**
  - b) small investors
  - c) the general public
- 10) Which of the following is a public company in Britain?
  - a) John Swire and sons
  - b) **Anglo American plc**
  - c) Iceland Ltd

### VOCABULARY EXERCISES

#### **Exercise 1: Use the list of definitions above to select the appropriate term to fit each sentence**

- 1) Dividends can be distributed to ..... if the business is profitable.= **SHAREHOLDERS**
- 2) As a company, you can issue new shares up to the full amount of .....**AUTHORISED CAPITAL**
- 3) Generally speaking, the ..... is lower than the maximum amount of shares allowed for the company.= **ISSUED CAPITAL**
- 4) Conflicts often arise in ..... about the role each member has to play in the firm.= **FAMILY BUSINESSES**
- 5) Investors in British companies purchase shares on the .....= **STOCK EXCHANGE**
- 6) The managing director has been requested by the ..... to coordinate plans for increasing next quarter's profits.= **BOARD OF DIRECTORS**
- 7) Companies would be well advised to be registered as ..... businesses once they have developed.= **LIMITED LIABILITY**
- 8) The issue of new shares by a company cannot be ..... if the merchant bank has no faith in that company.= **UNDERWRITTEN**
- 9) Nowadays, many companies raise capital through share issues ..... online.= **ADVERTISED**
- 10) Investors may take advantage of a ..... to increase their stockholding in a company.= **RIGHTS ISSUE**

#### **Exercise 2: Match the meanings of the words and expressions in column A as used in the text with those in column B**

1. in stages	a. organize
2. traded	b. hazardous
3. raise cash	c. not all at once
4. go to the expense of	d. arrives
5. arrange for	e. spend money on
6. a risky business	f. bought and sold
7. one way around	g. collect money
8. say	h. well established
9. comes round	i. a means of avoiding
10. up and running	j. for example

1C 2F 3G 4E 5C 6B 7I 8J 9D 10H

## GRAMMAR EXERCISES

### Exercise 3: Tenses : The sentences below describe market trends.

- a) an increase
- b) a significant increase
- c) an increase that follows a decrease
- d) a decrease
- e) a significant decrease

#### A) Choose between the simple past and the present perfect to express these trends.

- 1) The Dow Jones industrial average **rose** 66.04 points to finish at 7,740.03 yesterday.=  
rose
- 2) The Standard & Poor's 500 stock index has gained 6.52 points this quarter.
- 3) The Nasdaq composite **surged** 0.6% and the Russell 2000 **was** up 0.3% last Friday
- 4) The MSCI Emerging market Index **has jumped** 0.8 % since this morning, the first advance in more than a week.
- 5) Intel shares **dropped** 69 cents to \$ 16.01 in the heaviest trading of any stock last Thursday.
- 6) The British pound **has declined** 0.4% to \$ 1.2294 for more than a week now declined
- 7) West Texas Intermediate crude **slid** heavily to \$ 51.47 a barrel last month.
- 8) Copper **fell** to an astonishing \$ 2.9465 a pound, its lowest level ever.
- 9) Gold sales **have been** stagnant lately.
- 10) The euro **has remained** steady at \$ 1.1806 over the last week.

#### B) Make sentences in the correct tense to describe a trend of your own, using the verbs and phrases below. Consult stock market reports to assist you.

*To boost, to be stagnant, to climb, to crash, to decline, to dive, to fall, to deteriorate, to ease back, to edge up, to get better, to get worse, to go down, to go up, to hit bottom, to improve, to rise, to surge, to plunge, to plummet, to rally, to rise, to recover, to reach a peak, to peak, to remain steady, to rocket, to slip back, to slump, to shoot up*

### CASE STUDY: Make a short presentation of a company.

#### IN THE NEWS: Read the article and write answers to the following questions

##### DIGITAL BUSINESS

##### News Corp's MySpace to lay off 400 workers

#### MySpace Set to Lay Off 400 Workers By [TIM ARANGO](#) JUNE 16, 2009

The latest step in Rupert Murdoch's effort to turn around the fortunes of his digital businesses came Tuesday in the form of hefty layoffs at MySpace.

MySpace, the social networking site owned by News Corporation, the media conglomerate controlled by Mr. Murdoch, said it was laying off roughly 400 employees, or nearly 30 percent of its staff. After the layoffs, MySpace will have about 1,000 workers.

The company said the layoffs were an attempt to return to a "start-up culture."

In a statement, Owen Van Natta, a former Facebook executive who became chief executive of MySpace in April, said: "Simply put, our staffing levels were bloated and hindered our ability to be an efficient and nimble team-oriented company. I understand these changes are painful for many. They are also necessary for the long-term health and culture of MySpace. Our intent is to return to an environment of innovation that is centered on our user and our product."

MySpace, which was acquired by News Corporation in 2005 for \$580 million, was once the pre-eminent social networking site. But more recently it has lost some luster to Facebook, and at the same time has come up short of News Corporation's financial projections.

Until recently, MySpace still had an advantage over Facebook in the United States, although Facebook had more users globally. But recently, according to comScore, Facebook has matched MySpace in the United States, with about 70 million members.

MySpace's identity is closely associated with entertainment and music — a place where, for example, an upstart band would go to find a following. But Facebook has become the gathering place for users who want to share photos and connect with long-lost friends.

"Right now, MySpace has been attempting to compete to be the biggest social networking site," said Josh Bernoff, an analyst at Forrester Research. "I don't think that's been successful. If MySpace is about your entertainment life, Facebook is about your whole life."

Financially, MySpace is said to be profitable but has fallen short of expectations at a time when some of News Corporation's other business, like newspapers and local television, have been a drain on the company's earnings.

Last year, Fox Interactive Media, the unit that includes MySpace, fell about 10 percent short of a \$1 billion revenue projection. In the latest quarter the company did not break out revenue for the unit, but did say that revenue at an operating division, of which Fox Interactive Media is a large component, decreased by \$254 million, or 35 percent.

In the previous quarter, the unit had declines in both revenue and operating income.

In addition, News Corporation also cut jobs at the unit. "We are examining the operating structure of Fox Interactive Media and its role as a corporate umbrella for a number of our digital businesses," said Dan Berger, a spokesman for the unit. "In conjunction with the MySpace staff cuts this week, we reduced our corporate F.I.M. staff and also assigned certain positions to specific business units," he added, referring to Fox Interactive Media.

To revamp MySpace, Mr. Murdoch has lately engineered a series of management changes.

In April, News Corporation appointed Jon Miller, the former chief executive of America Online, as the chief digital officer of the company, overseeing MySpace and the company's other Internet businesses — Photobucket, IGN Entertainment and the company's interest in Hulu, the online video partnership with NBC Universal.

Mr. Miller wasted little time in making changes.



Just weeks later he pushed out Chris DeWolfe, one of the founders and then the chief executive of MySpace. Tom Anderson, another founder of the social networking site, has stayed on.

*1) What are the causes of MySpace's economic problems?*

The causes of MySpace's economic problems are both structural and operational. The first is overmanning. MySpace used to be a small company, but it now has more and more staff, a situation that makes it increasingly difficult for the company to be agile, innovative and efficient. The other reason is the loss of the competitive advantage it had over Facebook, especially on the American market. As a matter of fact, Facebook is now doing so well that it has overtaken MySpace in terms of market share both in America and in the world, according to an independent Internet Marketing Research company. For these two reasons MySpace, although still profitable, has failed to achieve both the financial objective and the strategic objective of becoming the world's biggest social networking site, it was assigned.

*2) What steps has Mr. Murdoch taken to redress the company's situation?*

The main step Mr. Murdoch has taken is to restructure both MySpace, and Fox Interactive Media, its umbrella organization. He has decided to cut jobs in both companies, on the one hand and to operate boardroom changes in various units of the corporation as a whole, on the other. The aim is to return to a start-up culture of innovation, centered on the company's user and product.

*3) Are there any examples of corporate poaching in the text? What are they?*

Yes, there are. Mr. Owen Van Natta used to work for Facebook as a director at but has been lured away by MySpace, a direct competitor and promoted as the company's Chief Executive Officer. The second example is about Mr. Jon Miller, who used to be the Chief Executive Officer of America Online, another Internet company. He has been poached by News Corporation and appointed by Mr. Murdoch as the new Chief Digital Officer in charge of supervising the operations of several Internet companies that belong to the corporation. A super CEO, so to speak.

*4) Which relationships can you establish between some of the companies, quoted in the text, which belong to the conglomerate? Please draw a tree diagram, if possible, to illustrate the relationships.*

News Corporation is the parent company. It has several companies or subsidiaries that include newspapers, a local television and Fox Interactive Media, the company that controls all the smaller businesses of the conglomerate, which operate in the Internet sector. These include 3 sister companies quoted in the text: MySpace, Photobucket and IGN Entertainment. There is also an online video business concern based in Hulu, which is owned in conjunction with NBC Universal, a partner of the conglomerate.

*5) What can you say about the other companies also mentioned in the text but which do not belong to the conglomerate?*

Apart from NBC Universal, the partner of the conglomerate mentioned above, 3 other companies are quoted in the text. The first is *Facebook*, MySpace's main competitor. The second is *comScore* and the third is *Forrester Research*. They are both independent Market Research companies.



