

Suite 1002**GROWTH AND EXPANSION**

Growth and Expansion
Options for Growth
Initial Public Offering (IPOs)
Choosing the Right Market
Preparing to go Public
The Prospectus

Assess your options for growth

All businesses need to find ways to grow. Fast-changing markets mean you can never rely upon a loyal customer base and you should never ignore opportunities to extend market share or develop new lines.

You need to plan growth carefully if it is to succeed. It can be risky, but the right strategy can deliver stability, security and long-term profits. Once you've assessed the current strengths, weaknesses, opportunities and threats to your business and how well it's equipped to handle them, you can move on to the next stage – building a strategy for growth.

1002.01 THE IMPORTANCE OF BUSINESS GROWTH

Your business' focus changes as it moves beyond the start-up phase. Identifying opportunities for growth becomes a priority to ensure the enterprise's sustainability.

You can measure growth by looking at numbers such as:

- Turnover
- Market share
- Profits
- Sales
- Staff numbers

But determining which measure delivers the most accurate picture of your business' performance or stability depends on both your type of business and what stage it has reached.

For example a retail business may have a high sales volume but narrow margins on stock and high overheads. These could mean low profits that undermine the business' viability.

In general, a combination of sales and profits is the preferred way of measuring growth.

Where to begin

Every business should be looking for growth; even if you're happy with your current performance, it's important to keep looking for ways to develop. If you don't, you risk allowing your competitors the room to grow and take market share from you that could seriously weaken your position.

Going for growth may therefore begin with consolidation of your current market.

To devise a successful growth strategy, you need to know exactly what shape your business is in now.

Consolidate your existing performance

Before you pursue any growth strategies, it's essential to make sure that your business is running efficiently.

While you may be spending more time and resource on developing the business, you need to be sure that the core of the business is still performing well. Your existing customers need to be serviced in the same way as before – if not better – to avoid you losing ground to your competition and to keep your cash flow healthy.

Timing is critical to the success of any growth strategy. Answers to the following key questions will help you judge if the time is right:

- Could your business cope with expansion, or is it working at full capacity?
- Do you have the resources and systems in place to carry on your existing business while targeting expansion elsewhere?
- If new initiatives are likely to disrupt existing performance, how will you ensure your customers don't lose out?

You may have to consider including additional staffing, refining production processes and equipment or outsourcing administrative tasks in order to give you the flexibility to pursue a growth strategy.

It's essential that you comprehensively review the present position of your business to make sure that your consolidation efforts will be as effective as possible.

OPTIONS FOR GROWTH

1002.02 INCREASING MARKET SHARE

To increase market share a business has to take customers from its competitors. Achieving this requires having a thorough understanding of both your customer base and rival businesses.

Having the answers to the questions on this checklist will help you build a comprehensive picture of your market and your competitors and put you in a stronger position to win a bigger market share. Ask yourself:

- What are your competitors' strengths? Do you have these too? If not, why not – and should you have them?
- Why do customers buy from your competitors? What advantages do you have over your rivals that may attract their customers? How can you communicate with your competitors' customers to get them to switch and buy from you instead?
- What is your unique selling point?
- Apart from obvious rivals, are there any other ones with customers you may appeal to?
- Are there customers who have stopped buying from you? Do you know why? If not, you may want to ask them.
- Will you need to change pricing, marketing, distribution, service levels? Could those changes upset current customers? Will your employees remain motivated?

If you're looking to increase market share, it's important to make sure your business is in good shape first.

1002.03 DIVERSIFICATION

Many small businesses grow by taking opportunities to diversify, although there are risks because of limited resources on all fronts.

Diversification can take several forms, including:

- New, related products or services to existing customers
- New markets for existing products
- New products for new markets

Deciding how and when to diversify depends on you having:

- Thorough market and customer research for the new product or service
- A clear development strategy – including carrying out pilots and test-runs before totally committing to the new projects.
- Sales, marketing and supply-chain operations that can cope with the added demands.

You'll need to be clear about development costs and what your alternative actions are if any delay occurs in development. Where ever possible, try to control risk by securing orders or commitments up front.

While diversification can pose some risks – such as costly delays and mistakes owing to a lack of knowledge or expertise in the new area you're looking to cover – it can help you limit any negative impact of changes in the market. In simple terms, if you supply one product or service and it falls out of favour with customers, it leaves you very exposed. If you have two or more products or services and the sales of one product or service drop, at least there will be revenue coming into the business through the other.

And generally speaking, diversifying with similar products or services and selling them to a familiar customer base is less risky than creating a product for a completely new market.

1002.04 PARTNERSHIPS, JOINT VENTURES, MERGERS AND ACQUISITIONS

You can also expand your business by joining forces with another business. While it creates more shared decision-making and possible management and staff issues to resolve, there can be clear advantages.

Successful co-operation can deliver:

- More resources
- Sharing of the managerial load
- Larger skills and talent base
- Bigger pool of contacts
- Increase in markets
- Diversification and organic growth using increased resource

Partnerships and Joint ventures

Partnership and joint ventures can offer both partners significant benefits, including shared experience, skills, people, equipment and customer bases. Through a partnership or joint-venture arrangement with a complementary, non-competitive business, you may be able to open new markets or improve your offer to existing ones.

But it's important to be very careful who you link up with. An agreement defining the terms of the partnership or joint venture is essential and further legal protection is advisable.

Teaming up must be a win-win situation for both parties. Businesses involved with complementary activities or skills are usually the most appropriate candidates.

For example a group of sole traders – a carpenter, builder and gas installer/electrician – could form a company, increase their credibility in the construction trade and bid for larger contracts. A group like this also represents greater consumer appeal, as it's a one-stop shop.

Mergers and Acquisitions

This is when two companies formally merge or one takes over another. Mergers and acquisitions are more suited to established enterprises and transactions involve commercial lawyers and considerable legal work.

Access which growth option best suits your business.

To make the best choice of growth strategy, you'll need to have analysed your business' current performance.

Once you've carried out the review, isolate the option that looks the most logical. Next, make sure that the most logical option is also the most practical.

Playing to your strengths

A stationery supplier might find the following growth options:

- Increase market share by starting a mail-order operation
- Diversify by adding computer-printer consumables to its range
- Enter into a joint venture with an educational book publisher to sell books and stationery to schools.

All of these options reinforce what the business already does – providing products that enable written communications. A strategy that doesn't fit so well – for instance, selling interactive CD-Roms – would be more difficult and more likely to fail.

Check the strategy against any SWOT (strengths, weaknesses, opportunities, threats) analysis in your business review. How does it address the issues the analysis found? For example, if the stationery business recognises a declining Market for typewriters, would adding computer-printer consumables address all the points raised by the SWOT analysis?

You'll need to assess whether you have resources and capacity to make the strategy work.

The practicalities of growth.

Your business will need to count on more resources than simply finance when putting a growth plan into action.

You should also think about:

- Staffing – will you take on more people to make the strategy work? How many? What skills will be required? Are those readily available?
- Training – will further training of existing staff be necessary or help?
- Premises – are they big enough for extra stock and/or, a new production line. Will there be sufficient space for staff and will you still meet health and safety regulations?
- Technology - will your systems cope? Would new software or equipment ease pressures?
- Customer-service systems – would a more sophisticated one help the strategy to succeed and ease pressures in other areas?

To find answers to these questions, you'll need to have assessed your business' current performance and capabilities.

1002.05 **MARKETING**

Marketing and sales are fundamental to the strategy. The right sales people can accelerate growth and profits. Have you got the right and sufficiently comprehensive marketing plan for the new market and/or product? Getting the right people in good time is essential, but keep in mind, it's the growth strategy that comes first – that determines who you choose to recruit.

Planning your growth – and measuring your progress – are also important issues. You'll need to update your business plan and work with it as the business develops.

Getting a return on your investment for growth

Going for growth is a must – but detailing all the costs incurred in getting your growth option underway and comparing them against the profits generated is essential.

Return on investment

One of the most popular ways of calculating if your figures are on target is to test them using the Return on Investment (ROI) formula. This will tell you what percentage of return you will get over a specified time. Three years is a good guide.

ROI is determined by taking the total investment sum, working out the increased sales it will generate each year and the net profit from that, then calculating that as a percentage of the investment.

For example, if a business wants to add a new product line that it predicts will cost an investment totalling \$200,000 in development costs, plant, marketing and promotion. It estimates the new line will generate \$400,000 in sales and \$40,000 in net profit each year.

It's a good idea to test the ROI with a number of different sales figures. While you may think additional sales could reach \$400,000 a year, a number of factors - such as development problems, delays or sales and marketing issues – may result in lower sales in the early stages.

You can find out more about calculating the ROI on the entrepreneur.com website.

1002.04 FINANCING YOUR GROWTH STRATEGY

Sound financial planning is the foundation of any growth strategy.

The first three things to establish are:

- How much investment is required to fund the venture
- When will it be needed
- When will it be available

A detailed cash flow forecast is essential, not least because outgoings are going to rise sooner and faster than revenues. Enough money must be in the pot to keep the core business running. It's a good idea to build in some surplus too, as most projects always take longer to bear fruit than originally predicted.

Detailed forecasts regarding sales, working capital and sources of seed, and even second-round funding, need to be drawn up.

Businesses looking for capital investment have three main avenues – equity (their own or others), venture capital and business angels. You can also see if any development or enterprise grants or loans are available in your area.

- **Equity** – money invested in a business that is not directly repayable.
- **Your own money** – most likely through re-mortgaging a property – or
- **Money from others** taking a share in the ownership of the business.
- **Venture capital** – investment by a fund in a business in early-stage development. The deal will very often include a right to management involvement.
- **Business Angels** – private investors taking a minority stake in a business, often contributing valuable business experience in the form of advice and contacts.

Download a guide about reviewing and growing your business from the Chartered Institute of Marketing website (PDF)

http://www.dim.co.uk/mediastore/Growth_Strategies-Overview-Approaches_toBusiness_Growth.pdf

Download a guide about researching your competitors on the Chartered Institute of Marketing website (PDF)

http://www.cim.co.uk/mediastore/10_min-get_to_grips_with_competitors.pdf

Find out about calculating ROI on the entrepreneur.com website

<http://www.entrepreneur.com/article/0,4621,301024,00.html>

INITIAL PUBLIC OFFERINGS (IPOS)

1002.05 FLOTATIONS, LISTINGS AND INTITIAL PUBLIC OFFERINGS

A stock market flotation (or Public Offering) involves selling a percentage of your business in the form of shares on one of the stock markets. Floating your company can provide you with access to capital, an opportunity to cash in on your investment and a possible rise in your business' profile.

Many businesses don't have the solid profitability and growth potential required for a float and even those that do may not want to take on the costs, possible loss of management control and added regulatory burden that floating a company can bring.

Corporations sell stock to the public as one way to raise capital.

In the United States; all offerings of stock and other securities are subject to the federal securities laws, as well as to the securities laws of any state where the securities are being offered or sold. Unless there is an exemption that applies to a given situation, these laws generally require that an offering go through a difficult securities registration process.

There are two federal laws that apply when a company wants to offer and sell its securities to the public:

- The Securities Act of 1933 requires a company to give investors “full disclosure” of all “material facts” relating to the investment, including anything that investors would find important in making an investment decision. This law also requires a company to file a registration statement with the Securities and Exchange Commission (“SEC”) that includes information for investors.
- The Exchange Act of 1934 requires publicly held companies to continually disclose information about business operations, financial conditions and management. These reporting requirements are rigorous and continuing. They may apply not only to a company itself, but also to officers, directors and significant shareholders.

Each state has laws that apply to stock offerings and issuing securities. These are sometimes called “blue sky” laws, because they’re designed to protect the public against offerings that might be trying to sell nothing more than the “wild blue yonder.” These laws usually parallel the federal securities laws to some degree, but state laws vary.

Therefore, an IPO may involve following not only federal securities laws, but also the laws of all 40 states (and the laws of other countries if the offering is extended that far).

Before it can issue new stock, a corporation must (in the United States –file registration statements with the Securities and Exchange Commission (SEC) www.sec.gov. A twenty-day wait is required before it can sell the stocks).

1002.08 IS YOUR BUSINESS SUITABLE FOR FLOTATION?

Stock market flotation’s are unlikely to be suitable for most businesses due to the criteria required and risks involved. Before you even consider a flotation, you need to determine whether your business is a suitable candidate.

A public offering can be a hugely complicated affair. It is usually something that is not undertaken by a company until:

- The company has had a chance to prove itself and has a profitable business model that will scale to much larger operation on a regional, nationwide or even international levels
- The company must also have a strong business plan in place with clear objectives on why it wants to go public. These objectives may include raising millions in capital to fund an expansion and growth of a very profitable business model.

This involves understanding the criteria on which potential investors base their decisions on whether to invest in a business.

Investors will only be interested in your business if it has secure earning streams and strong growth prospects. They want a good rate of return on any investment. Investors will look for a higher rate of return from an unproven, smaller business than from a large established company to compensate for the greater risks involved.

It is harder to guarantee a successful investment in companies new to the market. Smaller companies are more likely to suffer should market or financial conditions change – making investment in them risky.

You have to assess whether your business can deliver that rate of return. Ask yourself:

- Does the business have a strong record of delivering profits and growth?
- Is your sector attractive to investors?
- Does your business plan set out how you will deliver strong growth in earnings in the future?
- Is your management team up to the task of delivering the performance required?

If you feel your business can't deliver the necessary growth and that it's in a relatively unattractive sector for investors, a trade sale might be a more viable option.

Advantage and disadvantage of flotation

Even if your business is suited to flotation, it may not be the right choice for you. There are a number of key advantages and disadvantages to weigh up.

Advantages:

- You get access to new capital to develop the business
- A float makes it easier for you and other investors – including venture capitalists – to realise their investment.
- You can offer employees extra incentives by granting share options
- Being a publicly quoted company can provide customers and suppliers with added reassurance.
- Your company may gain a higher public profile which can be good for business.
- Having your own traded shares gives you greater potential for acquiring other businesses, because you can offer shares as well as cash.

Disadvantages:

- Your business may become vulnerable to market fluctuations which are outside your control. If market conditions change during the flotation process you may have to abandon the float.
- The costs of flotation can be substantial and there are also ongoing costs such as higher professional fees.
- You will have to consider shareholders' interests when running the company – which may differ from your own objectives.

- You may have to give up some management control of the business and ultimately there's a risk the company could be taken over.
- Public companies have to comply with a wide range of additional regulatory requirements and meet accepted standards of corporate governance.
- Managers could be distracted from running the business by the demands of the flotation process, and by dealing with investors afterwards.
- Employees may become de-motivated. If only some employees are given share options and the flotation is successful, those without shares may resent those who have them. In addition, shareholding employees could feel that there is little left to work for if they are sitting on the valuable shares.

CHOOSING THE RIGHT MARKET

1002.09 SECURING THE BEST ADVICE

Getting the right adviser is key to a successful flotation. They are the experts who will guide you through the demanding legal, regulatory, financial and marketing processes.

It's important to take care in choosing the right specialists. Bad advice, or using an adviser with a poor reputation could seriously affect your business' reputation, ability to attract investors and float successfully.

1002.10 SECURING AN UNDERWRITER

For entrepreneurs who want to go public, their first, most important, fundamental task is to find an investment banking firm that will underwrite the offering. Once that task is completed, with a little luck, a strong market and a lot of determination, everything else will fall into place.

To find the right investment banker, you must conduct some research. Specifically, you must discern which firms in the past two years have consistently done initial public offerings similar in size and scope to the one that will fit your needs.

There are three good sources of historical information on initial public offerings:

- www.ipocentral.com
- Going Public: The IPO Reporter, published by IDD Enterprises, LPs in New York City.
- The SEC New Registrations Report, published by CCH Washington Service Bureau in Washington, DC

Going Public: The IPO Reporter is expensive but can be reviewed at any corporate or public library that subscribes. The SEC New Registrations Report, also expensive, can be found in libraries as well. Sometimes the circulation director at these publications will tell you which libraries subscribe to the publication. Barring those two resources, the Web site ipocentral.com is free and can be viewed by anyone with a computer and access to the Internet.

Your corporate lawyer will be responsible for the due diligence process and for verifying statements in the prospectus and other documents. An accountant will be needed to review and audit the company's finances.

For large-scale floats it's worth considering the services of a financial public relations company to reach wider audiences of investors.

PRIMARY MARKETS

In the United States:

Given the complexities of an IPO, many companies going through the process will contract with one or more brokerage houses to "underwrite" the offering. The brokerage house works with the company to place the stock to be issued. Sometimes, this involves the brokerage house essentially guaranteeing the company that a certain amount of capital will be raised, with the expectation that the brokerage house will be able to raise proceeds in excess of the guaranteed amount and pocket the difference.

In **the United States** smaller, emerging companies will probably secure underwriting to: the Nasdaq SmallCap market or the Nasdaq National Market System. Larger companies will seek registration directly through the Securities and Exchange Commission. For more information see *Regulatory Bodies: Suite 802*

In the United Kingdom:

If you're floating on OFEX your adviser will need to be a member of OFEX. Companies opting for an AIM flotation require a nominated adviser who is on the London Stock Exchange register of advisers.

In **the United Kingdom** there are three main marketing options when floating your business – the OFEX market, the Alternative Investment Market (AIM) or a full listing on the Stock Exchange Main Market.

OFEX

- Aimed at smaller companies wanting to raise up to £10m.
- Regulated but requirements are not as stringent as those of AIM or the Main Market
- Flotation and ongoing costs are lower than AIM or the Main Market
- Pool of investors somewhat limited. Mainly a vehicle for investment by private investors, although this may change.

AIM

- No prior trading record required
- Higher profile than OFEX, with more interest from the investment community.

- Part of London Stock Exchange, but with more flexible regulatory environment than the Main Market
- AIM – listed companies are attractive to a wide range of investors, including institutional investors.
- No minimum percentage of shares needs to be made available.
- Nominated adviser required at all times.
- If trading for less than two years, existing shareholders can't sell their shares until at least one year after flotation.

Stock Exchange Main Market

- Only suitable for the large companies
- The company needs to have been trading for at least three years.
- Minimum of 25 per cent of the company's equity must be floated
- Widest possible audience of potential investors.
- Professional fees and costs much higher than for flotation's on OFEX or AIM
- Stringent regulatory requirements
- Shareholder approval needed for some transactions.
- Admission documents need to be pre-vetted by the UK Listing Authority.

For **Northern Ireland** – see United Kingdom

For **Ireland**:

<http://www.kpmg.ie/services/cfinance/tech/ipo.html>

For **Canada**:

<http://www.pwc.com/ca/eng/about/svcs/ipo/ipo.html>

For **Australia**:

http://www.rba.gov.au/PublicationsAndResearch/StatementsOnMonetaryPolicy/Bboxes/2004/2004_08_d_box.pdf

For **New Zealand**:

http://www.deloitte.com/dtt/section_nnode/0,1042,sid%253D25020,00.html

PREPARING TO GO PUBLIC

In preparing for a flotation you must ensure your business complies with the legal and regulatory standards required of a public limited (liability) company.

You need to ensure that your annual accounts and reports comply with the generally accepted accounting principles accepted by the Exchange to which you will apply.

It's important that your business complies with all the rules and regulations of the market you are joining, regardless of which market.

Your business also needs to have the right legal structure. Sole traders and partnerships can't float – only companies.

You will also have to make the following key information available:

- Who the directors are and what service contracts they have with the company
- Who the major shareholders are and details of the new and existing shares being offered for sale
- Information on the company's key contracts
- The memorandum and articles of association

1002.11 PRICING YOUR BUSINESS

Deciding on the right price for your business can be one of the most difficult aspects of a flotation, and can be a matter of intense discussion between you and your advisers. Often the decision isn't made until the last minute.

Most companies are valued on a multiple of their historical and expected future earnings. If you set a value more geared to future earnings it's often best to err on the side of caution, because if you fail to achieve those earnings your share price is likely to fall.

A number of factors can influence the pricing decision. If your business is in an exciting, fast-growing sector or is market leader in its field, investors may be willing to pay a premium for the shares.

Sometimes it's best to set a share price at a level lower than you would normally value the business. This may help your share price to rise after flotation – making a good impression on potential future investors.

Many companies often don't find out whether they have got their pricing decision right until a week or so after the flotation has taken place.

1002.12 THE PROCESS OF ISSUING SECURITIES

The issuing company may make their registration statement public with a preliminary prospectus called a red herring that summarizes the registration statement. Basic information about the new offering is also provided, including how many shares are being offered and which brokerage companies will distribute the stock to the public. At the time of issue, a final prospectus is presented. This includes the price of the stock (its offering price).

A typical flotation (public offering) will take at least three months to complete, but could take as long as a year. For this reason, it is important to ensure that you do not let the flotation (public offering) distract you from the day-to-day business of running and growing the company.

1002.13 THE BASICS OF UNDERWRITING

A Corporation going public hires an investment banker (or Securities Brokerage Firm - SBF) to help it sell its stock. This process is called underwriting. The investment banker (or SBF) functions as an intermediary between the issuing corporation and the public. In most cases, the underwriter (investment banker or SBF) purchases the stocks from the company for resale to the public. To reduce its own risk, the investment banker (or SBF) may form an underwriting syndicate of other investment bankers (and/or SBF's) to co-purchase the shares. The underwriting syndicate forms a selling group to sell specified allotments of the issue. The investment banker and/or SBF's (underwriting syndicate) then marks up the price of the offering. This mark-up represents the fee for the syndicate's service. The difference between the price the underwriter pays and the price the public pays is called the underwriting spread.

The syndicate manager may bid on the stock in the offering to "stabilize" the price. This bid must be less than or equal to the offering price. By law, the prospectus must make this attempt to stabilize the stock price known to the public.

The SEC also requires the underwriter to investigate the issuing company - particularly any audits, how it uses proceeds, its financial statements and the management team. This process is called due diligence.

When undertaking a flotation, you should:

- Choose the right advisers to guide you through the process.
- Make sure your accounts and legal structure comply with the rules and regulations of the market you're joining.
- Nominate someone in the company – typically the finance director – to take responsibility for the process.
- Decide what type of flotation you want. An introduction is the easiest and cheapest option, and is used if enough of a company is already in public hands – perhaps for a move from AIM to the Main Market, for example. IN a private placement your shares are offered to selected institutional investors. This allows you to raise capital with lower costs – but the reduced shareholder base could mean a reduced market in your shares further down the line. In an initial public offer (IPO) shares are offered to the public and investing institutions. This can help you raise more capital but is the most expensive route to market.
- Prepare a prospectus which will contain the key information about the company and the share offering. Remember that you're legally responsible for the accuracy of any information within this document.

1002.14 UNDERWRITING ARRANGEMENTS

A stock issue can be underwritten by several methods.

The underwriter can act as an agent, in which it tries to sell as much of the issue as it can at market prices. This is a best effort arrangement.

The issuing company can also agree to issue new stock on the condition that all of it is sold. If all of the stock is not sold, then it will withdraw the issue. This is an all-or-none arrangement.

A negotiated underwriting is when the issuer and the corporation negotiate the terms of the issue, the price, the size and other details.

The issue may be subject to competitive bids from investment bankers (or Securities Brokerage Firms). The top bidder underwrites the issue and resells it to the public.

When a public company issues more of its stock, it must first offer that stock to existing shareholders; that is their pre-emptive right. A standby is the public sale of whatever stock the existing shareholders have not yet purchased.

A firm commitment arrangement is when an investment banker buys all of the stock from the corporation and then resells it to the public at a higher price.

A private placement is an offering in which the company sells to private investors and not to the public. Private placements do not have registration fees.

THE PROSPECTUS

A company uses a document called a "prospectus" to disclose all facts about an offering, as required under securities laws. A prospectus can be extremely detailed and lengthy.

Prospectuses are legal documents that explain the financial facts important to an offering. They must precede or accompany the sale of a primary offering. The law requires companies selling primary offerings to send prospectuses to anyone who wants to buy a primary offering. Prospectuses may also be used to solicit order. Clients should read a prospectus carefully before purchasing any primary offering.

Prospectuses include but are not limited to the following:

- Offering price
- Legal opinions about the issue
- Underwriting method
- The history of the company
- Other costs related to investing in the stock
- The management team
- The handling of proceeds

The prospectus must be provided to clients before they complete any transactions. It must also include the SEC's disclaimers that it does not approve or disapprove of the stock being offered, and that it does not judge the prospectus' statement for accuracy.

Ways an Issue May Be Advertised Before it is Sold

A new issue of stock is allowed to be advertised before it is actually sold, although it may not be sold during the actual registration period.

Registered representatives are allowed to accept oral solicitations from clients. They are not allowed to sell any shares of the new stock. Neither are they allowed to affirm any offers of sale.

Registered representatives may send red herrings, or preliminary prospectuses, to clients. Information in these documents will discuss why the stock is being sold and the offering timetable. Red herrings are only issued for information purposes.

Tombstone advertisements are ads that announce the new stock. Their sole purpose is to function as communication. They are not prospectuses. They are called tombstones because they provide prospective buyers with the "bare bones" information: the name of the stock, the issuer and how to obtain a red herring.

Newly Issued Stocks: Getting the Names Straight

Two aspects of IPOs deserve special attention: hot issues and the so-called "when, as, and if-issued" stocks.

A hot issue is a security sold by broker-dealers on the secondary market just after it is first issued.

New stock may not be sold until after the registration period has expired. If the stock has not been issued by that time, it may be sold conditionally as a "When, as, and if-issued" stock. Should it fail to be issued, all buys, sells, earnings and losses will be cancelled.

There can be severe civil and even criminal penalties if you don't follow the securities laws. Investors who are able to prove they were defrauded can collect money from your company. At a minimum, misrepresenting the facts or failing to follow securities laws when making a securities offering may entitle an investor to a full refund, plus interest and attorneys fees.