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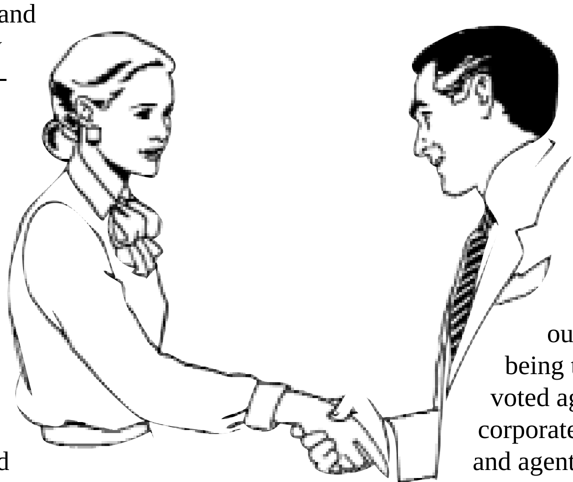
# *My Experience With a Shady IPO*

*by Nino Boezio*

A number of years ago, I was asked by a personal friend to attend a shareholder meeting by proxy for a stock his brother owned. Since I worked in the area where the meeting was to be held anyway, in downtown Toronto (and wanted some experience in attending such meetings), I agreed to devote part of the day to sit in on this forum regarding the company's past performance and find out about any emerging new corporate activities that could turn this company around. Apparently the company had gone to market as an IPO a few years earlier, had performed poorly ever since, and it now was very hard to assess whether this company was a write-off or most nearly so, or whether there was still some life in the organization.



What made matters even more uncertain was the fact that this IPO was no longer traded (at least to my knowledge) for lack of investor interest. I had pored over the financial statements to understand what had been transpiring over the past several years and tried to identify the source of its losses.

The meeting was to be held at the boardroom of the solicitor who had promoted the stock years earlier. I entered the legal offices and boardroom and was quite impressed by the rather glitzy and well-to-do appearance of the surroundings.

It gave me the impression that at least we had the elements of success behind the scenes (i.e. if the place looked run down, I would figure that we were dealing with a shabby fly-by-night operation. I guess I was measuring success by outward appearances). I sat down and waited for other shareholders to appear.

As time passed and the meeting was about to start, I found that very few new people entered the room. Except for a few corporate officers and the legal team, I was only part of a handful of shareholders. The meeting proceeded, and I found that I was generally the only one asking questions.

When various items were being tabled, and I voted against them, the corporate representatives and agents looked at me as though I was a troublemaker (at least that is how I felt). Of course, they soon reviewed how few shares I actually represented, and then quickly judged me to be some sort of clown relative to the other shareholders. Unfortunately, the really big shareholders must have given up on the stock, for they relegated their vote to the officers. I was quickly shot down on any dissensions, even though my adversarial vote was noted in the corporate minutes.

The company was basically going to go where it wanted, and neither I nor anyone else was going to derail its plans. I also certainly realized the great impact peer pressure has on people, since we all like sheep, want to go with the majority — it is hard to fight the tide by dissension when the prevailing direction of the meeting and the company is strong.

After the meeting ended, I asked some simple questions about what the company did and where it intended to go from there. Apparently it had entered into a number of product lines which did not work.

I was also intrigued by the fact that the products they entered into were unrelated. When I asked about future prospects, it was suggested that they were thinking of a new product to push ("any product" in their words), and in the process, they would have to go out for more seed money in order to get any new idea launched. They said they were looking to latch onto any idea that would make them money, but currently had none.

There was no special insight or expertise in this company. The head of the company would not look me straight in the eye, but only out of the window (perhaps he was embarrassed or felt someone might take him to task on the company performance). I was quickly getting the picture. One would be better off going to Vegas — the odds are much better. The company was set up without any real focus in mind, had some product ideas which were rather ill-defined, and perhaps hoped to hit it big with other peoples' money.

If the company was not successful, then no personal loss would be sustained, and in the process the officers of the company would still get paid until the company ran out of cash and folded. If the company failed, then set up a new company with a new name and new set of brochures and prospectus and start the process all over again.

The focus here was to set up a company, then worry about the idea later, not the other way around. This was not the way it was supposed to work.

I began to realize some truth in what my Depression-raised parents always cautioned about getting into stocks — that frequently there are agendas in play that are only intended to make the proponents rich and rarely for the benefit of the little people. Since then, I tend to focus my attention on well-established companies or companies which I thoroughly understand.

The reason I bring up this story is that it should hopefully shed some light on what, in part, happened with the Internet and technology IPOs.

There is always a great desire to get something cheap and the internal hope that we could have the next Microsoft, Cisco or America Online in our pocket (at least when they reached their heyday-perhaps not today). Humanity, at least when dealing with stocks in a booming equity market, is very much inclined to be overly optimistic about corporate prospects and is willing to ignore any negative vibes.

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All a company needs is a reasonably convincing story on what it plans to do and have some promoters buy into the smooth talk (and often the matter is not whether the stock is any good, but whether it can sell on the street).

There is also often too strong a human tendency to believe in the honesty and integrity of the promoters. In the end, some little people win and probably big, but the majority will get hit. Then a generation or so will have to pass (until people have forgotten about the past), and then a whole new breed of unsuspecting investors will rise up all over again.

I had heard about internet IPO promotions where the public response was astronomical, which made me sure that there were plums ripe for the plucking, if the promoters and corporate strategists were willing to take advantage of it (and I am sure there were those that did).

It often boils down in many instances to a simple case of supply and demand, and if there is insufficient good supply, we will bring in the second or third string issues to meet the demand.

It would not surprise me at all, if those I mentioned above that peddled that shady IPO selling faulty products, eventually peddled some sort of Internet 'idea' thereafter.

Don't get me wrong — I have some very positive feelings about the Internet and its prospects for companies, technology, and other types of IPOs. But I also know that the success of the early entrants into Internet and technological related services had set up the public to be in a buying mood for almost anything that hits the street.

Some were honest and fair players, while others were just trying to ride the wave and become rich with no sound idea in mind. I know that if I had come up with almost any idea, I could have probably got it launched.

Unfortunately, I had too much of a conscience. And if I thought my idea was quite good, I would be more tempted to borrow the money, rather than use the money of shareholders (unless I really needed a lot of capital), and thereby keep more of the profits for myself.

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