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it's ok to fool around with rich people's money

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Dear Dad,

So here we are in yet another airplane, slogging along in coach class at thirty-five thousand feet, scheduled to get in to Minneapolis at 10:00 tonight so we can check into the hotel and be ready for our 7:00 breakfast with potential investors ("PI's" for short, not to be confused with private investigators, especially since the potential investors seem to do relatively little investigating).

We are exactly halfway through an intriguing ritual called the "Road Show," which in turn is a piece of the larger economic ceremony called "Going Public." Alternatively, it's referred to as an "Initial Public Offering" or "IPO," the first time you try to/are allowed to sell your company's stock to unsuspecting and gullible members of the "public," as opposed to those smart people known as "Sophisticated Investors" who buy your stock when you are still a private company. Note if you will that none of these terms—"public," "private," or "sophisticated"—actually have the real-world meaning you would suspect. Hey, we're in Big Finance Land, so it's a whole new language. As I may have told you, in February we decided it was time to subject ourselves to the tender mercies of the SEC and the harsh impersonality of the stock market, and move from private to public. We had close to 470 shareholders, and at 500 you're forced to be public, like it or not. The SEC administers the laws that force you into this unique state of being, and once you are public, there are many rules to follow that you never had to worry about before. Mostly reporting and disclosure, but now if you goof them up, you get to go to jail, which seems like less fun than Cleveland. I guess it's OK to fool around with rich people's money, but not with the average guy's dough. Sort of an odd ethical break there, and if I ever get to be a rich guy, I guess I'll be glad that this distinction isn't used for such crimes as murder, just for stock fraud.

But back to our story. Having boldly decided to venture forth where none of us had ever gone before, we knew we needed a guide. Thus we called up our favorite investment banks, Donaldson, Lufkin and Jennerette (DLJ), and J. P. Morgan: big, famous institutions that "take you public," and Tommy Unterberg (whose firm, Unterberg Towbin, helped us raise our first million in 1981 and thus earned a place in our hearts as Investment Bank of the Universe), and we started down the path.

And it's an interesting and curious path indeed. One key part of it involves preparing something called the "S-1" or the "Prospectus." Two or three folks from AES get to sit down in a room loaded with lawyers and investment bankers and write a document that is supposed to be, all at once: 1) a confessional of past sins; 2) a cigarette package/Surgeon General-type warning that even if some good things have happened in the past, only a fool would expect them to continue—so watch it, buster, if you plan to buy this stock; and 3) a trumpeting puff piece that says how great the company has been and how much better it will be in the future. Do these sound like conflicting purposes? Does it make the people trying to write the thing act schizophrenic? Does a chicken have lips? I don't really know if a chicken has lips. I guess it depends on whether you count his beak. This has always confused me.

So you go through seven or eight drafts of this pretty long document, trying to think "Marketing!" on the one hand, "Full disclosure so somebody doesn't sue our bottoms off the first time the stock price drops" on the second hand, and "Let's not make this too explicit because all our competitors will surely read this, just like we read theirs" on the third hand—which has remarkably sprouted from the middle of your chest after your sixteenth catered lunch of excessively cute sandwiches. Or is it all the Diet Coke?

The darn thing finally gets done—or more accurately, everybody gets tired of arguing—and off it goes to the SEC as a "draft" on which they are required to comment in thirty days. And despite all the high-priced talent we "hired," guess who really did all the work? Right, us! Maybe I'm beginning to figure this finance stuff out. And I didn't even get to choose the sandwiches.

Then begins the real fun: organizing the slide presentation, because for some unknown reason (unknown to me until now, but don't skip ahead), PI's want you to come make a fancy presentation to them. You ask hesitatingly, "But what will we tell them that isn't already in the prospectus on which we all labored so hard and that has been distributed to all of them?" And the lawyers thunder in chorus, "Don't tell them anything that isn't in the prospectus!" And then you ask why they let people who can't read buy stock for other people, but since you're now being flippant or maybe querulous, you're ignored.

And so the slides are made, and the presentation rehearsed and critiqued again by all the investment bankers and lawyers, while at the same time the Schedule from Hell is being arranged. "Go out, hit a few cities, do a few presentations, have a few one-on-ones, then we'll have the SEC comments back and we can 'go effective'," say the bankers. This last term is Wall Street code for "finally sell the stupid stock and get the money." I wonder to myself about the one-on-ones. Why do we have to play basketball with Potential Investors? I sure hope Michael Jordan isn't interested in the stock.

"OK," we say, "we know about traveling, we're big, just tell us where and when."

"Oh," they say, "for a small issue like this we think only Los Angeles, San Francisco, San Diego, Denver, Kansas City, Houston, Minneapolis, Chicago, Philadelphia, Baltimore, Boston, New York, London, Paris,