TMX Equicom

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1 hot issues

Share Consolidations

Share consolidations, also known as stock rollbacks or reverse splits, are all terms to describe when an issuer exchanges several shares outstanding for a smaller number of shares. This reduces the issuer's outstanding share float and hence creates a higher share price.

When a share consolidation is executed, 1 new share is issued for 2, 3 or more (whatever the Board of Directors decides) old shares. However, when the new shares are issued, they are under a new **CUSIP or ISIN number(s)**.

All share certificates must bear a **CUSIP** (Committee for Uniform Securities Identification Procedures) number or an **ISIN** (International Securities Identification Number), which is assigned in each country by a numbering agency of the Association of National Numbering Agencies (the "ANNA"). In Canada, the numbering agency is the Canadian Depository for Securities Limited ("CDS"). All applications for CUSIP or ISIN number changes by Canadian companies must be made through CDS.

In some cases, the company changes its legal name. Often the change is minor, such as Company X Corp. to Company X Inc. or from Company X Corp. to Company 2000 Corp. This is done so that the new shares are not as likely to be confused with old shares. After the Board approves the share consolidation board resolution, it is recommended that the details are discussed with the issuer's Transfer Agent, as they will be handling the share certificate logistics.

Why Issuers might consider a share consolidation?

If an issuer's share price is very low, the company may appear to be a "penny stock". For example, if a stock is trading at $.10 per share, a 1 for 10 consolidation, will give the stock a more respectable dollar appearance. Also, if a smaller, more junior company has 500 million shares outstanding it may be better, for market reasons, to have a tighter "float" (i.e. number of issued shares trading on the market).

In terms of what is appropriate for a float size, here are some numbers to consider: Small public companies (with annual sales below $10 million), could have between 5 and 10 million shares outstanding. Companies (with annual sales in excess of $100 million), might have more than 50 million shares outstanding. Very large corporations with sales in the billions of dollars, will likely have more than 100 million shares or more shares outstanding. Manulife Financial Corp has about 1.6 billion shares outstanding as at March, 2009.

Share Consolidation Pros	Share Consolidation Cons
– "Boasts" the share price – Reduces the number of outstanding shares or float – Can assist in avoiding de-listing if share price falls below stock exchange price threshold – Could assist in attracting future equity financing	– Temporarily "props-up" the share price, as post consolidation the share price increases, but in most cases it returns to its "original" price – Reduced liquidity as fewer shares available for trading – Can be viewed "negatively" by investment community

In summary, because of the stock markets' strong performance over the last several years (prior to September 2008), share consolidations have been a rare occurrence in this past few years. Bespoke Investment Group in the U.S. found 11 instances since 1999 where a member of the Russell 1000 used a reverse split, and only three proved successful — **Laboratory Corp. of America**, **Corrections Group of America**, and **Central European Media Enterprises**. Other well-known companies, such as **Sun Microsystems** and **Ciena Corp.**, saw their stock price continue to slump after the share consolidation.

According to a 2006 paper by professors at New York University, Emory University and the University of Florida, companies that entered into reverse splits between 1962 and 2001 (that's about 1600 occurrences) underperformed the market by about 1.3% on a monthly basis for the next three years.

"They rarely work out," says a principal at Avalon Asset Management Co. in Lexington, Mass. "It's a cosmetic fix. If it is going to work out, I would think it would work out with Citigroup, but 99% of the time, the stock goes right down after that."

Reverse Splits Don't Always Reverse Share Price Declines

What the Rules say:

Guidelines – For TSX Issuers – **TSX Company Manual**, Sec 621 (see link below) outlines the requirements. **Issuer Board approval needed but the TSX does NOT specifically require shareholder approval for a consolidation**, **but it may be a requirement under an issuer's applicable bylaws or corporate law**.

http://tsx.complinet.com/en/display/display_main.html?rbid=2072&element_id=294

Sec. 621. Stock Consolidation

(a) A stock consolidation by a listed issuer requires the prior consent of TSX.

(b) A listed issuer undergoing a stock consolidation must meet, post-consolidation, the continued listing requirements contained in **Part VII** of this Manual (see **Section 712**).

(c) A stock consolidation must be accompanied by a concurrent change in the colour of the security certificates, or if a generic security certificate is used, a copy of such generic certificate, and a new CUSIP number.

(d) The following documents must be filed with TSX on or prior to the day on which the **Letters of Transmittal** are sent to the security holders:

i) one copy of the Letters of Transmittal:

ii) a notarial or certified copy of the Certificate of Amendment, or equivalent document;

iii) opinion of counsel that all the necessary steps have been taken to validly effect the consolidation in accordance with applicable law;

iv) a definitive specimen of the new security certificates:

v) a copy of the written notice from The Canadian Depository for Securities Limited disclosing the new CUSIP number assigned to the securities (see **Section 350**);

vi) a written statement as to the intended mailing date of the Letters of Transmittal; and

vii) the substitutional listing fee (see **Part VIII**).

In addition, the listed issuer may be required to file with TSX a completed form (**Appendix D**) showing the distribution of the securities on a post-consolidation basis.

(e) The securities will normally commence trading on TSX on a consolidated basis at the opening of business two or three trading days after the later of the date upon which all required documents are received by TSX and the date the Letters of Transmittal are mailed to the security holders.

The issuer is required to issue a press release under the TSX Timely Disclosure Policy Section 406 – 410.

There is no limit as to the consolidation ratio, but the company would have to meet continued listing requirements (CLRs) on a post consolidated basis (see section 711 and 712 of the TSX Company Manual).

Sec. 711.

TSX will normally consider the delisting of securities of a listed issuer if, in the opinion of TSX, it appears that the public distribution, price, or trading activity of the securities has been so reduced as to make further dealings in the securities on TSX unwarranted.

Sec. 712.

Specifically, participating securities may be delisted if:

(a) the market value of the listed issuer's issued securities that are listed on TSX is less than $3,000,000 over any period of 30 consecutive trading days; or

(b) the market value of the listed issuer's freely-tradable, publicly held securities is less than $2,000,000 over any period of 30 consecutive trading days; or

(c) the number of freely-tradable, publicly held securities is less than 500,000; or

(d) the number of public security holders, each holding a board lot or more, is less than 150.

Non-participating securities will be subject to (b) above as well as **Section 711**.

Sec. 619. Name or Symbol Changes

(a) A listed issuer proposing to change its name must notify TSX as soon as possible after the decision to change the name has been made. The new name must be acceptable to TSX.

(b) If the proposed change is substantial, it may be appropriate for TSX to assign a new stock symbol to the listed issuer's securities. The listed issuer's choices, if any, in this regard should be communicated to TSX, in order of preference, in advance of the effective date of the name change. The symbol may consist of up to three letters (excluding the letters that differentiate between different classes of securities).

(c) The following documents must be filed with TSX in connection with a name change:

i) a notarial or certified copy of the Certificate of Amendment, or equivalent document;

ii) a definitive specimen of the new or overprinted security certificate;

iii) a copy of the written notice from The Canadian Depository for Securities Limited disclosing the CUSIP number(s) assigned to the issuer's listed securities after giving effect to the name change (see **Section 350**); and

iv) the substitutional listing fee (see **Part VIII**).

(d) The listed issuer's securities will normally commence trading on TSX under the new name at the opening of business two or three trading days after all the documents set out in Subsection 619cc) are received by TSX.

(e) A listed issuer may request a change to the symbol assigned to its listed securities upon payment of the applicable fee (see Part VIII).

Guidelines – For TSX Venture Issuers, the TSX Venture (TSX-V) Company Manual – Policy 5.8 Section 7 and Form 5I apply (see link below). **Issuer Board approval and Shareholder approval needed for the consolidation**. The shareholder approval is typically obtained at the Annual **& Special** General Meeting.

http://www.tsx.com/en/listings/venture_issuer_resources/finance_manual.html

Security Consolidations

7.1 All security consolidations are subject to both Exchange acceptance and Shareholder approval.

7.2 Regardless of an Issuer's classification on the Exchange, a consolidation constitutes Material Information, which must be disclosed in accordance with Policy 3.3 – *Timely Disclosure*.

7.3 A security consolidation must be accompanied by a concurrent change in the colour of the security certificates, where applicable. A new CUSIP or ISIN number is also generally required. CDS may advise the Issuer in response to its application that a new CUSIP or ISIN number is not required.

7.4 The Issuer must amend its constating documents in accordance with the applicable laws, and must provide full disclosure of the consequences in its Information Circular.

7.5 An Issuer undergoing a security consolidation must meet the Tier Maintenance Requirements relating to distribution, on a post-consolidation basis. See Policy 2.5 – *Tier Maintenance Requirements and Inter-Tier Movements*.

7.6 If the proposed consolidation results in a significant portion of the shareholders holding less than a Board Lot, the Exchange may require the Issuer to adopt a small shareholder selling arrangement (see Policy 5.7 – *Small Shareholder Selling and Purchase Arrangements*)

7.7 The effective date of the consolidation and name change (where applicable) should be coordinated with the Exchange to coincide as closely as possible with the documents being accepted by the Corporate Regulator.

Disclosure

7.8 An Issuer proposing a security consolidation must issue a news release disclosing the proposed consolidation not later than the date the Issuer sends its Information Circular and proxy material to its shareholders. The news release and Information Circular should disclose: (a) the proposed consolidation ratio; (b) the number of securities currently outstanding and the number which would be outstanding after the proposed consolidation; (c) the reason(s) for the security consolidation; (d) the date of the shareholders' meeting; (e) the fact that the consolidation is subject to shareholder approval, when applicable, and to Exchange acceptance; (f) whether the Issuer's name will be changed in conjunction with the consolidation and if so, the new name; and (g) any other actual or proposed Material Information.

7.9 Filing Requirements

7.10 The Issuer must file the following in order to obtain Exchange acceptance of a proposed consolidation:

(a) Form 5I – *Consolidation/Split Filing Form*; and

(b) the applicable fee as prescribed by Policy 1.3 – *Schedule of Fees*.

7.11 The securities will normally commence trading on the Exchange on a consolidated basis at the opening of business two or three trading days after Exchange acceptance of the transaction.

securities lingo brain teaser

What is a CUSIP number?

Answer is in this bulletin.

For more information about the contents of this newsletter or for corporate secretarial governance, please contact:

Jo-Anne Archibald
Senior VP, Corporate Secretarial
The Equicom Group Inc.
T: 416-815-0700 x271
T: 1-800-385-5451
jarchibald@equicomgroup.com
www.equicomgroup.com