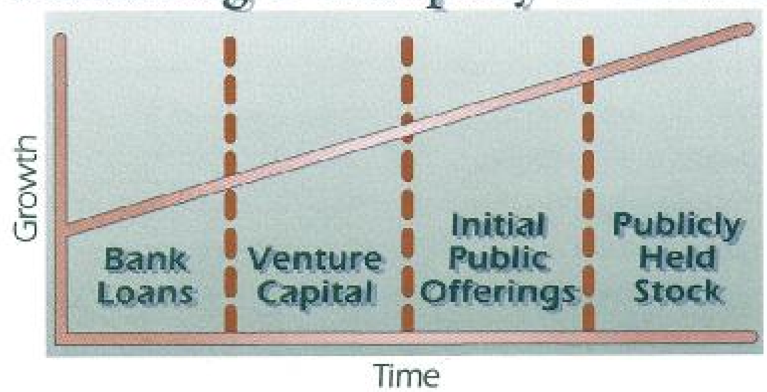
Market Capitalization

Investors typically measure company size by **market capitalization**, an expression of the total market value of outstanding common stock. Capitalization is computed by multiplying the total number of shares by their current market price. Analysts compare a company's capitalization to its actual "book value" to determine investor expectations of the company's future. (Book value is the value of a company's assets a shareholder would theoretically receive if a company were liquidated.)

Capitalization is divided into categories, but investors and analysts tend to define those categories differently. Generally, **large-cap** stocks are those of companies with more than $5 billion in market capitalization. **Mid-cap** usually indicates capitalization between $1 billion and $5 billion, while **small-cap** companies normally have capitalization of less than $1 billion.

Financing a Company's Growth



The Company Life Cycle

To grow, companies require new capital for investments in facilities, materials, and personnel. In the early stages, bank loans are the primary source of capital, but a growing company's needs soon exceed what banks can provide. Many companies then turn to venture capitalists who invest in the company in return for a share of ownership. Financing at this stage is often referred to as mezzanine capital.

Eventually, the company may issue publicly traded stock to raise even more capital. A company's first stock sale is called an Initial Public Offering, or IPO. In addition to providing capital, IPOs allow the initial investors and any venture capitalists to profit from their investments, because their ownership will have a public market value. The price of stocks during and after an IPO generally reflects the market's expectations for the company's performance.

Later, if the stock price climbs to a high level, the directors may choose to **split** it to lower the price making it more affordable to more investors. If a company with 15 million shares, whose stock is trading at $80 per share, undergoes a 2-for-1 split, the number of shares will double to 30 million, but the price of each share will be cut in half to $40. Splits do not affect the company's capitalization. Companies who believe their stock price is too low may institute a **reverse split**, which reduces the number of shares and raises the price. Again, capitalization isn't affected.