SAVVY INVESTORS

FUNDAMENTAL ANALYSIS

Float, Dilution & Offerings

Share count, ATMs, S-1/S-3, warrants, and why dilution matters when you short small caps.

FLOAT | S-3 | ATM | WARRANTS | BABY SHELF

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Educational only, not financial advice.

1. Why Dilution Matters If You Short

On a low-float small cap, new shares are not a footnote — they are the supply. An offering, an at-the-market program (ATM), or a pile of warrants can end a squeeze, cap a runner, or slowly grind a stock down. The same filing can also **pump first**: people buy the rumor, then the company sells into strength.

Large caps issue stock too, but a huge float usually absorbs it. This guide is written for traders who short both, with extra weight on the small-cap case, where float and dilution often *are* the trade.

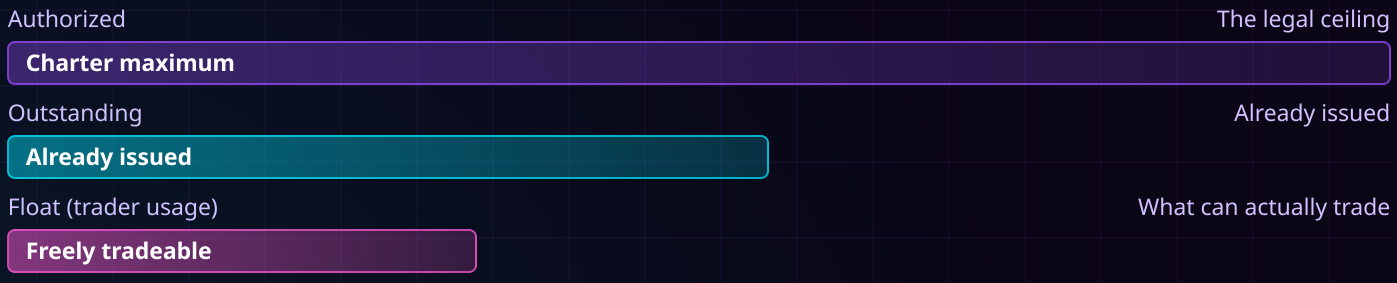
EDUCATIONAL ONLY

Nothing here is financial advice. The worked example later is labeled hypothetical: made-up company, made-up numbers, checked math.

2. Share Count 101

Three numbers get mixed up constantly. Keep them separate:

Term	What it means
Authorized shares	The maximum the company is allowed to issue under its charter (and any later amendment). This is the ceiling, not what is trading today.
Outstanding shares	Shares the company has actually issued. This is the denominator for EPS and for most "ownership %" figures.
Float	In trader usage: the shares that actually trade in the market, after subtracting insider, restricted, or locked-up stock. A smaller float can move faster in both directions.
Public float (SEC)	A regulatory figure: the **market value** of common equity held by non-affiliates. This is what tests like S-3 "baby shelf" eligibility use. It is related to trader "float," but it is a dollar amount, not a share count.



Also watch **fully diluted** shares: outstanding plus shares that could come from options, warrants, convertibles, and remaining ATM or shelf capacity. The outstanding count is the present. The fully diluted count is the risk.

3. How New Shares Show Up

Marketed (or "overnight") offerings

The company (or selling holders) announces a deal, often after the close: size, price or a range, underwriters, and a prospectus. The stock often reprices to the deal. For a short, that reprice can be the exit, the entry, or a squeeze if the deal is smaller than feared — you do not know which until the terms are out.

At-the-market offerings (ATMs)

An ATM lets the company sell shares **into the existing market over time**, usually a little at a time, instead of one large priced deal. ATMs are commonly run off an effective Form S-3 shelf, with a prospectus supplement. They can be quiet: you notice them in a 424B filing, an 8-K, or a slowly rising share count. Death by a thousand shares is still dilution.

Registered resales

Sometimes the company is not selling new shares itself. Investors who already hold stock (PIPEs, convertibles, warrant holders) register those shares so they can sell. The registration does not always mean selling starts that day, but it removes a barrier.

4. S-1, S-3, and the "Baby Shelf"

To sell securities to the public, a company generally has to register them under the Securities Act of 1933, unless an exemption applies.

- **Form S-1** is the full registration statement. Companies use it for IPOs and when they do not qualify for a shorter form. It is heavier disclosure, and the SEC staff may review it. For a small-cap short, an S-1 (or an amendment) is often the first hard evidence that a lot of paper is coming.
- **Form S-3** is the short-form / shelf registration for companies that meet eligibility tests (including a history of Exchange Act reporting and timely filings). An effective S-3 can support delayed or continuous offerings under Rule 415 — the "shelf" the company can pull from when it wants to sell.

S-3 PRIMARY OFFERINGS AND THE BABY SHELF (FORM S-3, INSTRUCTION I.B.1 AND I.B.6)

If the company's public float is **$75 million or more**, it can generally use Form S-3 for primary offerings of an unlimited amount (Instruction I.B.1), subject to the form's other tests.

If public float is **under $75 million**, it may still use S-3 for primary offerings (the "baby shelf," Instruction I.B.6) only if, among other things:

- it meets the general S-3 eligibility conditions;
- it has a class of common equity **listed on a national securities exchange**;
- it has **not sold more than one-third of its public float** in certain primary offerings over the prior 12 calendar months; and
- it is not a shell company and has not been one for at least 12 calendar months.

Public float here is price × non-affiliate shares, using the last sale (or bid/ask average) in the principal market as of a date within 60 days before the sale. The one-third cap can rise if the float rises. This is a legal limit on S-3 baby-shelf use — not a promise the company will not raise money some other way (S-1, private placement, or a later resale registration).

The 424B filing: when a shelf becomes real shares

When a company actually uses a registration — prices a deal, starts an ATM, or updates a resale — it files a prospectus under Securities Act Rule 424(b). EDGAR labels these **424B1, 424B2, 424B3,** and so on, after the paragraph of the rule:

Label	In plain terms (Rule 424(b))
424B1	Final prospectus that fills in information omitted under Rule 430A (often a priced deal). Due no later than the second business day after pricing or first use.
424B2	Prospectus for certain shelf / delayed primary offerings (Rule 415 / Rule 430B). Same two-business-day timing after pricing or first use.
424B3	A prospectus that makes a substantive change or addition not covered by (b)(1) or (b)(2). Due no later than the fifth business day after first use.
424B4 / 424B5	Combinations of the above. **424B5** is the one you will see constantly on ATM and shelf takedown supplements (it combines the shelf prospectus with updated information). Due by the second business day after pricing or first use.
424B7	Identifies selling security holders left out of the base prospectus under Rule 430B. Often a resale. Due by the second business day after sale or first use.
424B8	A prospectus that should have been filed under another paragraph and is being filed late.

You do not need to memorize every letter. You do need to open the filing: size, price or spread, selling stockholders vs. the company, and whether an ATM is being launched or increased.

5. Warrants, Converts, and Other "Almost Shares"

Warrants and convertible notes are promises of future shares. They may not be in the float today, but they are hanging over it.

- **Warrants** give the holder the right to buy shares at a strike price. If the stock is above the strike, expect exercises and more supply. Some warrants have cashless exercise, diluting without bringing in much cash.
- **Convertibles** can turn debt into equity, often at a discount or a floating conversion price. In a stressed small cap, a convertible can become a continuous selling machine.
- **Employee options and RSUs** add shares more slowly, but they still raise the count.

Look for the warrant and convertible tables in the 10-Q/10-K and in the S-1 or S-3. "As-converted" and "assuming cashless exercise" footnotes are where the fully diluted count hides.

6. A Made-Up Dilution Walkthrough

HYPOTHETICAL EXAMPLE — NOT A REAL COMPANY OR REAL PRICES

All figures below are made up for illustration. "TINYCO" is a fake ticker.

- Authorized: **100 million** shares.
- Outstanding: **20 million**.
- Affiliate / restricted: 12 million. Approximate tradeable float: **8 million**.
- Last sale price used for the SEC public-float math: **$7.50**.
- Public float: 8 million × $7.50 = **$60 million** (under $75 million, so the baby-shelf one-third cap applies).
- Baby-shelf maximum over a rolling 12 months: 1/3 × $60 million = **$20 million**.

If TINYCO sells the full $20 million of new shares at a hypothetical $5.00: $20,000,000 ÷ $5.00 = **4 million** new shares.

- New outstanding: 20 + 4 = **24 million** (the share count is up 20%).
- If those 4 million are freely tradeable, float becomes 8 + 4 = **12 million** (the float is up 50%).

That is why a "small" dollar raise can matter so much on a low-float name: the float jumped by half, and every short cover or long exit now has more supply to lean on. It is also why shorts get run before the deal — if buyers know paper is coming, they sometimes squeeze first. Size for that path, not just for the neat dilution math.

7. Psychology and Common Mistakes

- **Shorting the rumor, not the filing.** Wait until you can point to an S-1, S-3, 424B, or 8-K. Rumors are free; locate fees and squeezes are not.

- **Assuming dilution is instant.** An effective shelf is permission, not a market order. ATMs can dribble for months.
- **Ignoring the pump into the deal.** Offerings are often announced after a run. Shorting the run because “they have to dilute” is how accounts blow up.
- **Using large-cap size on a low-float name.** When the float is 8 million, your 20,000-share short is a much bigger piece of the available stock than the same size in a mega-cap.
- **Forgetting warrants.** The offering you see today may be half the paper you get tomorrow.

8. Dilution Checklist

✓	Before you treat dilution as part of the trade
☐	Authorized, outstanding, float, and (if given) fully diluted share counts are written down, with the source and date.
☐	I have searched EDGAR for S-1, S-3, 424B, and 8-K items that mention an offering, ATM, or unregistered sale.
☐	If there is an S-3 and public float is under $75 million, I have estimated the one-third baby-shelf room (and I know they may still use an S-1 or a private deal).
☐	I have looked for warrants, convertibles, and selling stockholders — not just the primary offering size.
☐	I have a plan if the stock **rips into** a suspected offering, not only a plan if it drops on the news.
☐	My size reflects float and locate risk, not just the dollar amount of the raise.

9. Glossary

Term	Meaning
Dilution	Existing shares become a smaller slice of the company because new shares are issued (or will be).
ATM	At-the-market offering: shares sold into the market over time, usually off a shelf.
Shelf	An effective registration (often Form S-3) that can be used for delayed or continuous sales under Rule 415.
Baby shelf	S-3 primary-offering limit for issuers with public float under $75 million: generally one-third of public float over 12 months (Instruction I.B.6).
Prospectus / 424B	The document that actually offers the shares; filed under Rule 424(b) when a registration is used.
Warrant	A right to buy shares at a strike price, which can add supply if exercised.
PIPE	Private investment in public equity — a private sale that is often followed by a resale registration.

Sources

Regulatory sources used for this guide. Always read the primary document; rules can change.

- SEC, “Eligibility of Smaller Companies to Use Form S-3 or F-3 for Primary Securities Offerings” (baby-shelf conditions and public-float formula) — https://www.sec.gov/resources-small-businesses/small-business-compliance-guides/eligibility-smaller-companies-use-form-s-3-or-f-3-primary-securities-offerings
- SEC, Form S-3, General Instructions I.A (registrant requirements), I.B.1 (primary offerings when public float is $75 million or more), and I.B.6 (primary offerings when public float is below $75 million) — https://www.sec.gov/about/forms/forms-3.pdf
- 17 CFR § 230.415 (delayed or continuous offering and sale of securities — the shelf rule) and 17 CFR § 230.424 (filing of prospectuses, including 424(b)(1)–(8) timing) — https://www.ecfr.gov/current/title-17/section-230.415 and https://www.ecfr.gov/current/title-17/section-230.424
- Investor.gov / SEC EDGAR company search, for locating S-1, S-3, and 424B filings — https://www.sec.gov/edgar/search/

This guide is for educational purposes only and is not financial advice. Short selling involves substantial risk, including losses that can exceed your original proceeds. Dilution can work for or against a short. Do your own research and verify filings on EDGAR.

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