What is a 424B Prospectus? ATM Programs & Active Offerings Explained

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Learn what 424B3 and 424B5 prospectus supplements mean, how they signal active offerings, and how to estimate dilution.

This is the Most Important Filing for Dilution

If a shelf registration is loading the gun, a 424B prospectus is pulling the trigger. This filing means shares are actively being sold into the market - often without any press release or announcement.

What is a 424B Prospectus Supplement?

A 424B prospectus supplement is a document filed with the SEC under Rule 424(b) of the Securities Act of 1933 that specifies the exact terms of a securities offering being executed under an existing registration statement. The "424B" designation refers to the rule requiring companies to file final prospectuses when actually selling securities to the public.

The filing appears on EDGAR typically within hours of the offering being launched - often before any press release, and sometimes with no press release at all for ATM programs. This makes real-time 424B monitoring one of the most valuable tools available to investors who trade stocks vulnerable to dilution.

The Two-Document Structure: Shelf + Supplement

Most 424B filings work within a two-document framework. The first document is the base prospectus, contained in a shelf registration statement (S-3 or sometimes S-1). The shelf gives the company broad authorization to sell up to a stated dollar amount of securities - equity, debt, warrants, or a combination - over a rolling three-year period. The shelf alone does not sell anything. It simply establishes the legal framework and provides boilerplate disclosure.

The second document is the 424B supplement itself. When the company actually wants to sell securities, it files the supplement referencing the base prospectus and adding the specific details: this many shares, at this price, through this underwriter, with these warrant terms, for this stated use of proceeds. Together, the two documents form the complete offering disclosure.

This structure is why 424B filings can appear with very little warning. The shelf was filed months or years earlier and sits dormant. Management can activate it at any time market conditions are favorable by filing a supplement - sometimes before the market opens, sometimes after hours, sometimes in the middle of a trading day when the stock is showing unusual strength.

Types of 424B Filings

Form

Description

New Shares?

Dilution Risk

424B1

Initial prospectus for an IPO or new offering with no prior shelf

Yes

High - new offering announced

424B2

Pricing supplement - announces the final pricing of a pending offering

Yes

High - offering priced and closing

424B3

Prospectus supplement for resale or non-shelf offerings

Often no

Varies - see 424B3 section below

424B4

Prospectus for a firm commitment underwritten offering after effectiveness

Yes

High - underwritten deal closing

424B5

Prospectus supplement for shelf takedown - includes most ATM programs

Yes

Very high - active dilution

424B3: Secondary Offerings and Resale Prospectuses

The 424B3 is frequently misread as an immediate dilution signal, but it requires more context than other 424B variants. A 424B3 filing is most commonly used to register shares for resale by existing shareholders - insiders, PIPE investors who received shares in a prior private placement, or warrant holders who have exercised their warrants and want to sell freely.

The critical distinction: when existing shareholders sell their shares through a 424B3 resale registration, no new shares are being created. The float increases - more shares become freely tradeable - but the total shares outstanding does not change. The dilution already happened when those shares were originally issued; the 424B3 is simply completing the paperwork that allows those holders to sell.

However, 424B3 filings can still be bearish signals depending on who is selling. When a company files a 424B3 to register shares held by PIPE investors who received stock at a 20-30% discount three months ago, those investors have strong incentive to sell immediately and lock in their discount as profit. This creates selling pressure even without new share creation.

Check Who Is Selling in a 424B3

Look at the "Selling Stockholders" table in any 424B3 filing. If the sellers are named hedge funds or institutional investors who participated in a PIPE at a steep discount, expect selling pressure.

If the sellers are company insiders selling a small percentage of their total holdings as part of a Rule 10b5-1 plan, the impact is usually minimal.

424B5: The High-Risk ATM Filing

The 424B5 is the most consequential of the 424B variants for active traders. It is used for shelf takedowns - offerings made directly against an existing shelf registration - and covers both traditional follow-on offerings and the more insidious ATM programs.

For a traditional follow-on offering filed as 424B5, there will typically be a fixed share count, a named underwriter (the investment bank running the deal), an offering price at a discount to the prevailing market, and a closing date 2-5 business days out. The price impact is immediate and sharp - the discount to market price sets a new anchor.

For an ATM program filed as 424B5, the terms look very different: no fixed share count, no fixed price, a reference to "from time to time" sales "at prevailing market prices" through a named sales agent. This structure means the offering has no definitive end date and no price transparency.

Understanding ATM (At-The-Market) Programs

An at-the-market offering allows a company to sell newly issued shares directly into the secondary market through a broker-dealer acting as sales agent, rather than conducting a formal underwritten offering. The company and agent enter into an equity distribution agreement, which is typically filed as an exhibit to the 424B5 prospectus supplement. The agent then sells shares on the company's behalf in open market transactions at prevailing prices, earning a commission - typically 3% of gross proceeds.

Why ATM Programs Are Different From Traditional Offerings

Traditional follow-on offerings are one-time events: a specific amount of capital raised in a short window, after which the supply pressure ends. ATM programs are continuous and indefinite. The sales agent has standing authorization to sell into the market whenever conditions are favorable - meaning whenever the stock price is high enough relative to the company's capital needs. This creates a structural ceiling on the stock price for the duration of the program.

Small-cap companies with large aggregate ATM programs relative to their market cap often display a characteristic price pattern: steady upward pressure from retail buying meets sustained selling from the ATM agent, resulting in a choppy, range-bound stock that fails every attempted breakout. Identifying this pattern and connecting it to an active ATM program is one of the core use cases of TraderTools's Shelf & ATM Monitor.

Common ATM Sales Agents and What They Signal

The investment bank named as ATM sales agent is itself a signal. Certain banks specialize in small-cap and micro-cap ATM programs and work with the same serial dilutors repeatedly:

* H.C. Wainwright & Co. - The most active ATM agent in the micro-cap space. A Wainwright-filed ATM is a strong signal the company is in capital-constrained territory.
* Canaccord Genuity - Active across small and mid-cap biotech and technology. Larger aggregate program sizes than Wainwright.
* B. Riley Securities - Active in distressed small-caps and companies with high near-term capital needs.
* Jefferies - Mid to large-cap ATM programs; generally indicates a company with more financial

stability and a larger program size relative to float.

* Craig-Hallum, Roth Capital - Common in smaller biotech and specialty pharma ATM programs.

How to Calculate Dilution from a 424B Filing

The dilution percentage from a new share issuance is calculated as the new shares issued divided by the total shares outstanding after the offering. For a fixed-share offering:

Dilution % = New Shares ÷ (Existing Shares + New Shares)

Example: A company with 40 million shares outstanding files a 424B5 to sell 10 million new shares. Dilution = 10M ÷ (40M + 10M) = 20%. Each existing share now represents a 20% smaller ownership stake than before the offering.

For ATM programs where only a dollar amount is specified, estimate maximum share count: divide the aggregate offering amount by the current share price. A $20 million ATM program at a $4 stock price represents a potential 5 million new shares - but the company may not sell the full amount, and the average price will vary as the stock moves during the program.

Accounting for Warrant Coverage

Many direct offerings include warrant coverage - the right to purchase additional shares at a fixed "exercise price" for a set period. If an offering sells 5 million shares at $2.00 with one warrant per share at $2.50, the immediate dilution is 5 million shares, but the potential future dilution includes another 5 million shares if the stock price ever exceeds $2.50 and warrant holders exercise. Always calculate both immediate dilution (shares issued now) and total potential dilution (shares issued plus all exercisable warrants).

The ATM Aggregate Amount vs. Market Cap Test

Compare the total aggregate offering amount of an ATM program to the company's current market cap. An ATM program sized at 5-10% of market cap suggests measured capital raising. A program sized at 50-100%+ of market cap - common in distressed micro-caps - signals management intends to dramatically dilute the existing share count. TraderTools flags programs where the aggregate ATM amount exceeds 25% of market cap as high-severity dilution risk.

Red Flags and Warning Signs in 424B Filings

Not all 424B filings are equally dangerous. These are the specific elements that indicate maximum dilution risk:

* Aggregate offering amount exceeds 20% of current market cap. This is the single most predictive ratio for severe price impact.

* "General corporate purposes" as the stated use of proceeds. Specific uses (clinical trial funding, equipment purchase, debt repayment) at least indicate a plan. General corporate purposes usually means operational cash burn with no clear path to profitability.

* Multiple prior 424B5 filings in the trailing 12 months. Serial capital raisers have a structural funding problem. Each offering further dilutes existing shareholders who haven't sold.

* Warrant exercise price at or near current market price. Warrants priced near the money are more likely to be exercised quickly, accelerating the total dilution timeline.

* Same underwriter as prior dilutive offerings. Companies often return to the same investment bank for each capital raise, creating a pattern visible in EDGAR's filing history.

* Filing after hours or pre-market. Management times offerings to minimize investor reaction.

After-hours filings are designed to let the stock gap down at the open rather than giving investors time to exit during normal trading hours.

ATM Program Lifecycle: From Launch to Exhaustion

ATM programs have a predictable lifecycle that investors can track through subsequent SEC filings. The program launches with the initial 424B5 and equity distribution agreement. The company then sells shares intermittently - sometimes daily, sometimes in bursts when the stock spikes - and discloses aggregate sales in quarterly reports (10-Q and 10-K filings) under "At-the-Market Offering" disclosures.

The program terminates when one of three things happens: the full aggregate dollar amount has been sold, the shelf registration statement underlying the program expires or is withdrawn, or the company and sales agent mutually terminate the agreement. Termination is disclosed in a Form 8-K or in the next quarterly report. TraderTools flags both the launch and the termination of ATM programs as significant events in a stock's dilution history.

After a large ATM program is fully exhausted - meaning the company has raised all the capital it authorized - the stock often sees a relief rally. The sustained selling pressure from the sales agent disappears, and buyers who had been waiting for the program to end begin accumulating. Tracking ATM program utilization through quarterly disclosures can give investors advance notice of when this supply overhang is nearing its end.

Finding 424B Filings in Real Time

EDGAR publishes new filings within minutes of submission. The most direct way to monitor for new 424B5 filings is through EDGAR's real-time filing feed, filtered by form type. For any specific company, go to the company's EDGAR page, select form type "424B5," and check the most recent filings. Across the entire market, EDGAR's current events feed shows all new filings by type in near-real-time.

The practical challenge is volume: dozens of 424B5 filings hit EDGAR every trading day, spanning thousands of companies. Manual monitoring is not feasible. TraderTools solves this by scanning EDGAR's filing feed continuously and sending email alerts within minutes of any 424B filing for stocks on your watchlist - including the filing type, the named underwriter, and a summary of the key terms pulled from the document.

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