

“We’ve Got a New Line of Business.” The Real-World Disclosure Ramifications

Following up on [my blog](#) about dabbling with a new business line, perhaps your company is trying its hand at something new. Is it a big deal? Or a little deal? Sometimes you want to preserve the reputation of your primary line of business when getting into something new. That's because you don't want your employees, investors, and customers to worry that you're going to forget your bread and butter. Or the new business may be highly uncertain and unproven - like a high growth startup company within a mature company. Or within the same industry, but with a completely different business model and financial profile. So you make a concerted effort to brand the new business as being separate. When doing so, here are a few items to consider:

1. **How to present relative to other disclosures** - Part of that branding is how information related to the new line is presented in earnings releases, SEC filings and other communications.
2. **The art of making projections** - Making projections – ones that are provided publicly – can be the biggest issue you need to tackle. If you're on the wrong side of being wrong about them, it can really ding management's reputation (not to mention bringing potential liability). Forward-looking information is always dicey and you might consider a more tempered approach for a new business or technology than the rest of the business (or no projections at all).
3. **The inevitable risk factors** – Anything forward-looking usually comes paired with some risk factors. Whether the venture is considered a whole new business "segment" or just the beginning of a potentially large innovation, you will want to craft the appropriate risk factors.
4. **Possible voluntary "segment" disclosure** - You may voluntarily report something as a "segment" before it might technically be required. Yeah, that happens.
5. **An 8-K "recast" ahead of raising capital** - If you expect to do a capital markets offering soon after a segment change - and before the next Form 10-K - you may need to file the "recast" on Form 8-K to include periods that would not otherwise be included in your 10-Q filings.
6. **Don't forget your employees** – An important issue to consider is employee morale. If going into a new line of business means that you'll be focusing less on an existing line – perhaps even getting out of it entirely – that may catch some employees working on that line by surprise.

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