

## Pump It Up

*Topic:* Obligations to Shareholders (investment banking)

*Characters:* Henrietta Bluefish, investment banker at Tremper and Co.

Henrietta Bluefish has been an investment banker with Tremper and Co. for four years. Since Henrietta had an undergraduate degree in biomechanical engineering and an M.B.A. degree, she was the ideal candidate to assist medical supplies companies going public for the first time. Through her contacts with her father and brother, both medical doctors, she met John Peoples, Chief Executive Officer of Pump It Up, a manufacturer of infusion pumps. Impressed by Henrietta, Mr. Peoples confided in her that he was looking for an investment banker to take his company public.

Pump It Up eventually chose Tremper as its investment banker, and the company was scheduled to go public on June 13. The initial prospectus, the “red herring,” had been released to the public. Mr. Peoples, the chief financial officer, and the head of research and development for Pump It Up had just completed a series of meetings (“dog and pony shows”) in late May with security analysts from the underwriting group.

Pump It Up is a major supplier of infusion pumps to hospitals and outpatient clinics. Its new line of infusion pumps, Vision Pump, can monitor up to 20 pumps via a computer terminal located at a nurses’ station. The FDA had approved the clinical trials of Vision Pump 60 days earlier. Vision Pump will eventually replace the company’s current line of infusion pumps, and management expects that this product will substantially increase its share of the market.

On the night of June 11, Henrietta attended a dinner party at a friend’s house. She overheard a doctor, in the course of a casual conversation, complaining about his stressful life, in particular the past month. Two of his patients died quite unexpectedly in early May and both patients had been hooked up to Pump It Up’s Vision Pump system. The hospital’s medical staff investigated the cause of death in both cases and concluded “it was possible” that Vision Pump could have caused the deaths. Of course, the medical staff had notified Pump It Up in mid-May of the findings, and the company had assured the hospital that it would do its own investigation of the matter. Henrietta was surprised that Pump It Up had never mentioned this investigation to her firm or to any of the members of the underwriting group. After some reflection, she realized that, to protect himself, the doctor may have fabricated or distorted the incident.

On the morning of June 12, Henrietta called Pump It Up to confirm the doctor’s story. Sure enough, the company said that these incidents had occurred. Pump It Up had investigated the matter and concluded that the doctor had used the pumps incorrectly. No other deaths had occurred, and the FDA had allowed the trials to continue. Henrietta, concerned about the initial public offering scheduled for the next day, was puzzled about what course of action she should take.

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