

**Appendix J**  
**Universe of Publicly-Traded Equity Securities and Their Governance**

To fully understand how and to whom the Committee's recommendations will be applicable, it is important to understand the universe of publicly-traded equity securities. We start with the following:

**Distribution of Publicly Traded Companies, by Listing Venue**  
 March/June 2005\*

Listing Venue	Total Market Capitalization (in billions)	Percent of Companies By Market Capitalization	Average Market Capitalization (in millions)	Median Market Capitalization (in millions)	Number of Companies Listed	Percent of Number of Companies
NYSE	\$13,192	75.2%	\$5,167.2	\$1,041.3	2,553	19.5%
AMEX	370	2.1%	495.6	63.3	747	5.7%
NASDAQ National Market	3,104	17.7%	1,203.0	251.2	2,580	19.7%
NASDAQ Capital Market**	38	0.2%	64.5	34.4	593	4.5%
OTC Bulletin Board	<u>187</u>	1.1%	63.4	9.1	<u>2,955</u>	22.6%
Subtotal	\$16,891				9,428	
Pink Sheets	<u>659</u>	3.8%	179.8	0.05	<u>3,666</u>	28.0%
Total	\$17,550				13,094	

\* Source: Public data includes 13,094 companies from the Center for Research in Securities Prices at the University of Chicago for NYSE and AMEX companies as of March 31, 2005 and from NASDAQ for NASDAQ and OTC Bulletin Board companies and from Datastream Advance for Pink Sheets companies as of June 10, 2005. Includes companies with a total market capitalization of \$17,550 billion listed on the NYSE, AMEX, and NASDAQ, and quoted on the OTC Bulletin Board and Pink Sheets for which market capitalizations are reported through those sources. This table was compiled by members of the staff of the SEC's Office of Economic Analysis and does not necessarily reflect the views of the Commission, the Commissioners, or other members of the Commission staff.

\*\* Formerly NASDAQ Smallcap Market.

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**Explanation of Pink Sheet Data**

The Pink Sheets is currently the only centralized location at which quotes on unregistered over-the-counter securities are published. Because companies quoted on the Pink Sheets are often not required to file reports with the Commission, few public data sources of financial information on these companies exist. Unlike the data on larger companies, data on the market capitalization of Pink Sheet companies were compiled from two sources. Pink Sheets LLC, the operator of the Pink Sheets, provided a list of the 4,796 securities that are quoted uniquely on the Pink Sheets as of February 14, 2006. Approximately 210 preferred stocks, warrants, certificates, limited partnerships and notes were eliminated from the sample. The remaining 4,586 securities were merged with Datastream, a Thomson Financial product, to acquire market capitalization values for Pink Sheets companies. Approximately 838 securities were either not covered in Datastream or had a missing market capitalization. Finally, 82 securities are multiple classes of the same issuer. The market capitalizations of these multiple classes are aggregated. Market capitalization of the final sample of 3,666 securities was collected from Datastream as of June 10, 2005. Datastream uses the most recent trade price to estimate market capitalization.

While the market capitalization is represented to be as of June 10, 2006, the data can be stale for many companies. As is the case with many small companies, including Pink Sheet companies, trading is infrequent, and the last trade may have occurred years earlier. For the Pink Sheets companies in this sample, 44% of the companies had a trade occur on June 10, 2005. The average trade occurred 46 calendar days prior to June 10, 2005, however, and the most out-of-date trade price is from seven years prior. Thus the data for the Pink Sheets sample is stale in comparison to that of the reporting companies. Note that the average market capitalization of Pink Sheets companies is larger than that of both the OTC Bulletin Board and the NASDAQ Capital Market stocks, but the median is significantly lower. The Pink Sheets sample includes 61 ADRs and GDRs (1.7% of all Pink Sheets companies) with an aggregate global market capitalization of \$582 billion (88% of the total market capitalization). Additionally, there are 77 foreign common stock issues (2.1% of the total) with an aggregate global market capitalization of \$12.2 billion (1.9% of the total). Thus a relatively few foreign companies are pushing the average market capitalization higher. The representative company has a market capitalization of only \$50,000. Finally, the Pink Sheets sample includes 278 companies in bankruptcy (7.6% of the total) with an aggregate market capitalization of \$1.16 billion (0.2% of the total).

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The next step in analyzing this data is to understand the regulation of these securities under the federal securities laws and by self-regulatory organizations (“SROs”) established under the federal securities laws. First, to trade on a national securities exchange or on the NASDAQ National Market or NASDAQ Capital Market venues, the issuer must register these securities under Section 12(b) or 12(g) of the Exchange Act. This means that the issuer (and its insiders) are subject to the periodic reporting requirements, the insider trading and recapture provisions and the proxy rules adopted by the SEC under the Exchange Act. Moreover, as a precondition to listing on these exchanges and trading venues, each of the SROs requires that the issuers comply with various governance requirements requiring, among other things, a majority of independent directors and independent audit, compensation and nominating committees.

Companies whose equity securities are traded on the OTC Bulletin Board must also be subject to periodic reporting requirements of the SEC or another financial services industry regulator. If companies listed on the OTCBB become delinquent in their filings of periodic reports, the rules of the OTCBB require delisting.

Companies whose securities are traded only on the Pink Sheets are subject to very little regulation and no governance requirements. They do not have to be current in their SEC filings even if they are subject to SEC filing requirements. Essentially, the only federal regulatory oversight is Rule 15c2-11 under the Exchange Act which requires broker-dealers to have certain information in their possession before they can initiate quotes in the company’s securities. The Committee is recommending that Rule 15c2-11 be amended to provide that the information the broker-dealer has be available to the public, which is not the case now.

The Pink Sheets provide a valuable liquidity venue for shareholders of issuers whose securities have been delisted because, for example, of a bankruptcy or delinquent SEC filings. Without the Pink Sheets, the equity holders in these companies would have nowhere to trade their stock. While Pink Sheets securities are subject to very little government regulation, Pink Sheets LLC encourages the companies that are traded on its venue to provide public information, and it has recently proposed an enhanced disclosure process for companies that wish to take advantage of this process. Information on this proposal is available on the Pink Sheets Web site at [www.pinksheets.com](http://www.pinksheets.com). The Committee was provided with additional information about the Pink Sheets in the testimony of Cromwell Coulson, CEO of the Pink Sheets, at our June 17, 2005 New

York hearings. See Record of Proceedings 106-123 (June 17, 2005). Professor Michael Molitor also provided testimony on the Pink Sheets in our August 9, 2005 hearings in Chicago. See Record of Proceedings 141-158 (Aug. 9, 2005). Moreover, Professor Molitor has submitted to the Committee an article to be published in a forthcoming issue of the Indiana Law Journal, entitled “Will More Sunlight Fade the Pink Sheets,” which is available in the SEC Public Reference Room in File No. 265-23.