UNITED STATES SECURITIES AND EXCHANGE COMMISSION

2006 GOVERNMENT-BUSINESS FORUM

ON SMALL BUSINESS CAPITAL FORMATION

FRIDAY, SEPTEMBER 29, 2006

SEC HEADQUARTERS

WASHINGTON, D.C.

RECORD OF PROCEEDINGS

Diversified Reporting Services, Inc.

(202) 467-9200

C O N T E N T S

Moderated by: John White and Gerald Laporte

Panelists: Greg D. Adams
EDGAR Online, Inc.
Brian R. Balbirnie
My EDGAR Inc.
Deborah Allen Hewitt
Professor, College of William & Mary
James Lucier
Prudential Equity Group, LLC
Malcolm C. Persen
Radyne Corporation
R. Christopher Whalen
Institutional Risk Analytics

P R O C E E D I N G S

CALL TO ORDER

MR. LAPORTE: Good morning. I think we are going to get started, even though it seems that there are some people who are still going through security. We do have people in the virtual world who are listening to this video webcast, so we want to make sure that we consider their needs also.

My name is Gerry Laporte. To those of you who don't know me, I'm the Chief of the Office of Small Business Policy at the SEC, in the Division of Corporation Finance.

Our office organizes this event, the annual SEC Government-Business Forum on Small Business Capital Formation, on behalf of the entire Securities and Exchange Commission.

The Commission conducts this event under the mandate of a 1980 Federal law.

We are very pleased with all the interest that's been shown in today's event, both for those of you present here in Washington, those watching on the video webcast, and those who told us that they would like to be here but, for one reason or another, couldn't make it. It's nice to see so many familiar faces and so many new ones.

So you can follow the proceedings, we have distributed program booklets, which look like this, to all those who are present here in Washington. There's an agenda which appears right after the Table of Contents, after the first tab. The names of all the panelists are in the program booklets, and there are also brief biographies of all the panelists and moderators.

This way, the panelists don't have to spend too much time explaining to us who they are. We could spend half the morning impressing you with the very distinguished backgrounds of these panelists and the panelists that will be here at 11:00, if we had unlimited time.

For those of you who are listening over the web, the agenda and the panelists biographies are available by clicking on the Forum information and agenda links on the SEC webcast page that you had to go through to tune into this webcast.

The federal law under which the SEC conducts this event envisions that the Forum will make recommendations to improve small business capital formation.

Historically, most of the recommendations have been addressed to the SEC, and many of them, by the way, have been implemented.

This year's recommendations, and I think there will be some recommendations, because I'm not naive enough to think that the SEC has done everything according to everyone's liking in the small business community. These recommendations will be developed starting at 2:15 this afternoon in break out groups.

We are asking all the registered Forum participants who want to participate in the breakout groups to reassemble here in the auditorium at 2:15, after lunch, and we will discuss the logistics of the breakout groups at that time.

Greg Yadley, a partner in the Tampa, Florida law firm of Shumaker, Loop & Kendrick, LLP and Chairman of the American Bar Association's Subcommittee on Small Business Issuers, who is sitting over here in the second row, will co-moderate that session at 2:15 with me.

The breakout group sessions won't be webcast, so those not here in Washington won't be able to participate directly, but anyone can make a written submission for the Forum record until October 15th.

If you go to the Small Business page and then the Small Business Forum web page on the SEC website at www.sec.gov, you should be able to make a written submission for the Forum record through the Internet.

The file number is 4-526. If you include that number in the subject line of the submission through the Internet submission form, we should receive it. Again, that number is 4-526.

All submissions received will be considered by the private sector committee, under Greg's leadership, drafting the final version of the Forum recommendations, and registered participants in the breakout groups will be given an opportunity to vote on the final recommendations drafted by the committee some time after the record closes on October 15.

I'm sure you are bored with all these housekeeping details. I know you are all anxious to get to the meat of today's program. For that purpose, I am pleased to introduce John White, Director of the SEC Division of Corporation Finance.

John joined the SEC staff in March of this year, after a very distinguished career as a partner in the prestigious New York-based law firm of Cravath, Swaine & Moore. We are very glad to have him here at the Commission. His short biography is in the program materials. John, the floor is yours.

INTRODUCTORY REMARKS

MR. WHITE: Thank you, Gerry. Good morning. I would also like to welcome all of you to the 25th Annual Small Business Forum.

The discussions that take place in these forums and the recommendations that come from them are always very educational and important to the Commission, and particularly to the Division of Corporation Finance, which Gerry and I are in, and our other moderators this morning are also in.

Thank you all very much for taking the time to be here with us today, and sharing your experience, your insights with us and with the public. I think you are going to have a very interesting day ahead of you, or at least I hope so.

I will shortly have the opportunity and the pleasure of moderating the Forum's first roundtable panel on the important topic of interactive data, but first, I have the distinct privilege and honor to introduce the SEC's Chairman, Christopher Cox, who will be speaking to us today by video transmission, to start off the Forum.

This is my first experience of introducing someone in the virtual world, so we will see how I do at that.

Chris Cox joined the Commission as its 28th Chairman on August 3, 2005. In the 14 months that he has been here, Chairman Cox has taken a number of important and challenging projects, and has already made a significant and lasting contribution to the agency and to the overriding mission of this agency, which is investor protection.

Chairman Cox has been vigorous. I guess to kind of go through what his priorities have been, his first priority has been enforcement of the nation's securities laws. He has also championed our efforts to more closely integrate the U.S. and overseas regulation in the era of global capital markets.

The SEC and the securities laws, particularly from my perspective of corporation finance, I guess I would say are often described as being about disclosure. Chairman Cox has shown his skills and commitments in that area as well, the area that we focus on so much in corporation finance.

He has assumed the leadership of the global effort to provide investors with interactive data about companies and mutual funds, and has reinvigorated the agency's initiative to provide important investor information in plain English.

As he will discuss on the video, or at least I'm told he will discuss on the video, we will hear, and we will certainly hear more about from the panel that follows, interactive data has generated an enormous amount of excitement for many of us, including in the small business community, and we are very much focused on the benefits that we believe it will bring -- both the benefits and the opportunities it will bring to smaller companies.

Those are just kind of a few of the things that Chairman Cox has focused on in his first 14 months. There is even more. Just to mention a few, he has spearheaded the Commission's efforts to improve disclosure in the executive compensation area, and he has led the Commission in its continuing efforts in an area of particular interest to smaller businesses, to implement Section 404 of the Sarbanes-Oxley Act of 2002 in an efficient and effective way for all companies of all sizes.

In these areas, Chairman Cox has shown himself to be a true and devoted friend of small business, and as someone acutely attuned to the special needs as well as the overwhelming contributions of that sector to our capital markets.

I think when you see this video, you will feel that, and as I say, I haven't seen it yet, but I hope you will feel it when we all see it for the first time.

I should also note just some personal information about the Chairman. His commitment to public service goes back much further than his 14 months here at the Commission. He spent 17 years in the U.S. House of Representatives, and before that was Senior Counsel in the White House.

He was also a professor at the Harvard Business School, and I think of particular interest to this group, when you realize the kind of interest and representation you are going to have at the top of the Commission, he spent ten years early in his career specializing in venture capital and corporate finance as a partner at Latham & Watkins in California, working particularly with entrepreneurs and early stage public companies.

He has an M.B.A. from Harvard Business School, a J.D. from Harvard Law School, and a B.A. from the University of

Southern California.

So, it is now my pleasure to turn the podium over to Chris Cox, who will introduce today's festivities. Thank you.

OPENING REMARKS
SEC CHAIRMAN CHRISTOPHER COX

Good morning, and welcome to the SEC's Government and Business Forum on Small Business Capital Formation. This is the 25th annual convening of this Forum, but the first time we've met in the new SEC headquarters on Capitol Hill, right next to the historic Union Station in Washington D.C.

I hope all of you here in person feel welcome in our new home, and to all of you participating via Webcast, we very much appreciate and welcome your virtual presence. This annual Forum is at the heart of the SEC's mission, because our mandate to do this each year comes explicitly from Congress, in statute. Not only does the SEC have the statutory mission to promote capital formation, but very specifically, we are directed to conduct this Forum by the Small Business Capital Formation Act, signed into law 26 years ago.

Today's 25th anniversary event is a significant milestone. For a quarter century, we've been working together to help promote capital formation for small business, and to underscore its importance to our economy. Just how important is small business to America's anything-but-small economy? Well, for starters, there are no fewer than 23.6 million small businesses that represent more than 99.7% of all employers in the United States.

In terms of jobs, small business makes up more than half of the nation's private-sector workforce. Even more astonishing is that small business creates nearly 80% of all new jobs. And as for America's $12 trillion GDP? Not surprisingly, small business creates over half of it.

For the entirety of my professional career, I've taken a very personal interest in small business. As a Member of Congress for 17 years, I saw overwhelming evidence that small business is the lifeblood of our nation's economy. As a securities lawyer in private practice, I had first-hand experience working with venture-backed and early stage public companies.

And as an entrepreneur back in the 1980s, I started a small business with my father, called Context Corporation, that translated the Soviet Union's leading newspaper, Pravda, into English and sold it in 26 countries around the world. I'd like to think that a small business, by giving free people the opportunity to read Communist propaganda designed for the Russians themselves, did its part in hastening the collapse of the Soviet Empire.

All of this experience with small businesses has contributed to my unshakeable conviction that small business is the critical engine of growth in the United States. Small business really does drive innovation. So I can assure you that I and the other SEC Commissioners look forward to the discussions at today's Forum, and to reviewing any recommendations that result.

You'll have two very timely roundtable discussions this morning. The first will focus on smaller public companies' use of interactive data, in SEC filings and elsewhere - and on how this can get small companies better coverage by research analysts, and lower their cost of capital. The second roundtable will spotlight several "hot topics" in small business capital formation.

Since becoming Chairman I have been actively advocating the use of interactive data to file financial information with the SEC. Interactive data is the plain-English way to say XBRL, which stands for Extensible Business Reporting Language. It's a freely available, open source computer language for financial reporting.

Using interactive data can make it easier for companies to analyze their own information, share it with others, and file it with the SEC. It will work across all software formats and technologies. It will permit investors and analysts to download a company's financial information into spreadsheets, personal financial software, or sophisticated corporate analysis software. It will allow data to move more freely and usefully over the Internet.

I am very glad to see this Forum focusing on the benefits that using interactive data can bring to small business, and on how we can help these benefits start to flow. One of the things that's most exciting about the introduction of interactive data for smaller companies is that it can improve their analyst coverage.

By permitting analysts to cover more companies more efficiently, interactive data will help companies with little or no coverage today to improve their overall visibility to investors. Better research analyst coverage, in turn, should help smaller companies raise capital at a lower cost.

Another way that interactive data can help smaller companies is by improving their internal controls, while at the same time reducing their compliance costs. That, in turn, can help attract qualified directors who will be more content with the risk profile of the firm.

All of these areas are tremendous challenges to many smaller companies. In our second roundtable this morning, we'll look at issues such as when and how small companies should go public. Answers to these questions have become more complicated in recent years, with the addition of new regulatory requirements for public companies, most notably the Sarbanes-Oxley Act.

We're very interested in discussing areas where regulations can be reduced or modified without compromising investor protection.

Finally, I want all who are listening to this to know that the Commission is working to implement the important recommendations from the SEC Advisory Committee on Smaller Public Companies last April. In particular, we have adopted the Committee's recommendation on Sarbanes-Oxley Section 404, that unless and until a framework for assessing internal control over financial reporting for smaller companies is developed that recognizes their characteristics and needs, smaller companies will get relief from Section 404.

We're busy, and the PCAOB is busy, working on an extensive rewrite of Auditing Standard 2 that led to such high costs in the initial application of 404 to larger companies. And we've postponed smaller company compliance until that work is done. We're keenly aware that the problems we have experienced with Section 404 arise from the implementation of the second half of this provision: the part that requires an auditor evaluation of management's assessment.

The Advisory Committee's Final Report focused on this as well, and so we're working to fix the process so it can work for smaller companies. The continued health of small business depends upon it.

Since the beginning of our country, small businesses have been the backbone of the American economy. It's a continuing marvel that even today, in the 21st century - in the midst of globalization and globe-straddling technology, small business creates more jobs than anyone else. Daring and inventive startups, often just operating out of a garage, often get their first capital from the investment of a single entrepreneur, or a single family - and that investment often represents everything those people have in the world.

Small businesses pump billions into the economy. They are, in many ways, what makes America great. It's the SEC's job to see to it that small business has better access to cheaper capital on the most competitive terms possible, and we aim to do just that. We're on your side - and we're proud to be your partners. Thanks for all that you do, and best wishes for a great Forum.

MR. WHITE: I will now say thank you, Chairman Cox, for those inspiring remarks.

ROUNDTABLE ON INTERACTIVE DATA AND SMALLER PUBLIC COMPANIES

MR. LAPORTE: We will now move to the first roundtable. What I want to do first is give you a little bit of background on interactive data and the SEC. This is obviously all a new thing for us.

Today, as you know, public companies file a fairly large amount of information with the SEC, including their regular and periodic financial reports. While that information is freely available to the public through the SEC's EDGAR system, it is captured only in static and fairly dense documents.

This is really where interactive data comes in. Instead of forcing the user to wade through those documents and manually identify relevant information, what interactive data does is put the selected information into a format that is machine readable, so that computers can quickly extract the desired data out of the filings.

As the description on the SEC's website says, and I'll just read a sentence or so of it, think of every fact in an annual report, every number in a company's financial statements, as having an unique bar code that tells standard software what the item represents and how it relates to other items in the report.

Interactive data tags all the key facts in these large documents that are filed with the SEC, so that software can instantaneously recognize them and serve them up to the investor.

The Commission's recognition of the vast potential of interactive data, as well as our commitment really to tap that potential on behalf of investors, has been a focus now for a little over two years, and is certainly a key priority of Chairman Cox.

That initiative today, the interactive data initiative, is represented by a test group of two dozen public companies that have signed up on a voluntary basis to submit their annual, quarterly and other reports with interactive data for a period of one year.

The companies in this test group cover a range of some of the largest and best known companies in the world, GE, Microsoft, Ford Motor, Pepsico, Pfizer, and there are many others. I'm not going to go through all 24. It also ranges to smaller companies. We are very fortunate to have three of the smaller companies represented here on the panel today, and I'll introduce them in a few moments.

Beyond the pilot program with this test group, the Commission continues to take a number of other steps to advance the understanding and the progress of interactive data.

As we announced last March, we are holding roundtables that are devoted solely to interactive data. There was one last June, and there is another one scheduled for next Tuesday in this very room.

Earlier this week, in a very significant step forward in this area, Chairman Cox announced on behalf of the

Commission an ambitious and promising program with a significant financial commitment from the SEC to upgrade and update the Commission's filing protocols and software to fully meet the potential that interactive data offers.

This project will retire EDGAR, that we have all been so fond of since 1982, I think, or thereabouts, and transform the agency's public company disclosure system from a form based electronic filing cabinet, as the Chairman has described it, to a dynamic real time search tool with interactive capabilities.

There is actually an audio archive of the Chairman's remarks on this, which I would really encourage you to listen to.

There are a lot of exciting details in this new announcement last Monday, and I think it's fair to say that we are really in a world that in this area is significantly changing right before our very eyes.

As evidenced by these various moving pieces, interactive data is an exciting new resource for public companies and for their investors, and is fully expected to revolutionize financial reporting as we have all come to know it in our years in the area. Interactive data offers unique and promising opportunities for smaller companies.

To get more focus on this and to specifically look at the interaction between interactive data and small business, we are very fortunate today to have with us six panelists, who are to my right, three of whom represent the perspective of smaller companies that are already participating in the Commission's voluntary pilot program that I just described.

Three panelists, who I guess I would say represent the data users or come from the data user perspective, meaning analysts, investors, and people who process and use the data in the ways that we anticipate it will be used.

Let me just briefly tell you who our panelists are today, starting from the far left. Greg Adams, who is the director, as well as the CEO and CFO of EDGAR Online, who is a company participating in our voluntary program of filing data.

Brian Balbirnie. Brian is the Chief Executive Officer at My EDGAR, and he also approaches this topic as a filer of interactive data.

Deborah Allen Hewitt, who is professor of Economics and Finance at the Mason School of Business at the College of William and Mary in Williamsburg, Virginia. Deborah is a member of the Investment Committee of the Virginia Retirement

System.

Deborah, I know you mentioned it when we talked the other day, but it's some really large amount of money that you guys are responsible for investing. It was $57 billion or something?

MS. HEWITT: $50 billion.

MR. LAPORTE: Jim Lucier. Jim is the Senior Vice President and Research Analyst for Prudential Equity Group.

Malcolm Persen, who is the Chief Financial Officer of Radyne Corporation, the third of our 24 participants in the SEC voluntary program that is with us.

Richard Christopher Whalen. Chris is the Senior Vice President and Managing Director of Institutional Risk Analytics.

MR. WHITE: Before we get started with the panel, let me tell you how we are going to conduct this. First, I'm going ask each panelist to make a short opening remark, basically laying out how they came to be involved with XBRL and interactive data.

Then we are going to break the discussion up into three segments. The first will be filers' actual experience with filing under XBRL in the SEC's pilot program.

The second topic will be the role of interactive data in analyst coverage, a topic that the Chairman referred to, and then third, a very important topic, and that is the role of interactive data for investors, and how it is useful and what it means for investors, and then we will close with asking each panelist to make a brief remark hopefully of any recommendations or ideas that they would like us here at the SEC to consider with regard to interactive data and the voluntary filer program.

With that, Greg, we will start with your two minute statement on how you got involved in all this.

MR. ADAMS: Thank you, John. EDGAR Online has been involved in the XBRL Consortium since the founding of it in 1999, and back then, it was comprised of the accounting software vendors, the accounting profession themselves, our friends at Microsoft and business information providers like ourselves.

It naturally made sense for EDGAR Online to join the Consortium because our business has been taking a direct feed from the SEC and using technology, primarily XML technology, to extract and parse, and more or less make business information interactive.

What we did see in the industry, we also saw it as an opportunity, was that the method of collecting financial data and in particular, normalizing financial data, was highly, highly ineffective. It was not accurate. It was not timely.

The information that you get normalized today primarily gets sent offshore, to India or Indonesia, and someone over there makes judgments and decisions to normalize financial statements into a neat little 125 data points. That, obviously, is one, very, very prone to error, but two, doesn't necessarily provide a real picture of a company's well being, a company's performance, and third, it doesn't make it machine readable.

Based on today's technology, XBRL will make the information machine readable, so you can find, particularly for a small public company, like ourselves, you can find those little jewels that have great financial ratios in conjunction or compared to their peers.

Today, if you try to do that, try to compare a small public company in the oil and gas industry, over to about 20 peers. What do you do today? You go grab down 20 EDGAR filings, you put them into a spreadsheet, and two days later, you might have some results.

With interactive data, it is very exciting, and it will help small public companies, like ourselves, to be recognized and get our message out to investors a lot faster.

MR. WHITE: Brian?

MR. BALBIRNIE: Thank you, John and SEC staff. As some of you know, my name is Brian Balbirnie. I'm with My EDGAR. My EDGAR is one of the first of the 24 companies that took part in the SEC test program for interactive data.

As an EDGAR compliance specialist, our main focus is to simplify the reporting processes for filers. We are not just really EDGARizers. Our group focuses on bringing tools and systems and the processes to companies that want to improve their internal controls and transparencies.

During the filing process, interactive data can accelerate the standardization of issuers' reporting. My EDGAR is embracing the ways that that adoption can result in more efficient internal controls and greater exposure to the financial marketplace.

Our experience with the test program has been nothing but positive. I encourage the Commission and the panel to find ways to expand on the test companies and the information available to filers with these panelists and the SEC staff contacts to assist companies in this process.

I look forward to being a part of the trend change with the Commission. Thank you.

MR. WHITE: Deborah? An investor's perspective?

MS. HEWITT: Thank you. Actually, my perspective comes from both my role as a professor at the Mason School of Business and as an institutional investor, and if I may go for a moment into both of those.

As a professor and long time practitioner myself, in the field of data analysis, I see interactive data as just the inevitable next step in a long line of technological progress that has brought us over my working lifetime from the real dark ages of manually inputting data from publications that arrived by mail and overnight computer turnarounds up to the current technology that allows real time streaming data to be analyzed on a hand held computer.

So, I see this as absolutely an inevitable step in a lot of applications, and I'm really looking forward to it developing across the board.

As an institutional investor perspective, I'm particularly excited about the opportunity to see this used in the field of financial reporting, and particularly for small companies.

When a large fund like the Virginia Retirement System, starts thinking about investing in small cap companies, we face a number of issues, even hurdles. We can discuss some of those later.

The opportunity to receive not just faster data, but more and better data offers a tremendous opportunity for us to take a better and harder look at small cap companies.

So, I think it's a very exciting opportunity, and I'd like to see it really move forward post haste.

Thank you.

MR. WHITE: Jim?

MR. LUCIER: Good morning. My name is James Lucier. I'm an analyst at the Prudential Equity Group. We are the largest independent brokerage, which means we are in the business of providing independent, objective, unbiased securities research to many clients, including a number of state retirement funds.

I come from the research industry, so I have a perception and some perspective on how that industry is working, how it's changing right now, and I think in the course of our discussion, I'd like to talk about how the research industry is changing somewhat.

My own background is in e-commerce, industries, and transition, and how major technological changes can actually change the way the markets operate.

Finally, I'd like to say that I work every day with live human analysts. I'm literally on the phone or in an airplane going to visit analysts 24 hours a day, it seems. I've been across the country today in meetings.

What I do in these meetings is help people understand our models, build their own models, decide how to model different markets they are looking at, and find data for those models.

So, while we are talking about friction free electronic commerce here and the importance of machine readable data, it is still the human analysts who will be working with this, and I think the human analysts will benefit greatly from XBRL.

MR. WHITE: Malcolm?

MR. PERSEN: Good morning. My name is Malcolm Persen. I'm the Chief Financial Officer for Radyne Corporation in Phoenix, Arizona. Radyne is a supplier of capital goods to the satellite ground equipment business and the high definition t.v. industry.

I think I'm the only guy up here who is neither an investor nor somebody who is involved in the filing business. We are just a plain old simple small registrant, albeit, we are an accelerated filer.

We chose to get into the XBRL filing business for a couple of reasons. One, and probably foremost in our view, was that we are a technology company, and we pride ourselves in our culture as such. We felt that XBRL not only was consistent with what we do internally at the company but also would burnish our image as such.

We are excited about the potential that XBRL has for the investment community, but obviously, like many, we are wondering when we are going to see that. We obviously, to the extent we can, would like to take advantage of the incentives available.

We believe that filing XBRL has tremendous potential in the ability to analyze, evaluate and compare interactive data, as some of the panelists before me have spoken to.

From the company's standpoint, we would hope that by making our data available in this format, it would be easier for the analysts to evaluate our company, and we also believe that it will make it easier for us to evaluate competition, potential acquisitions, and as Chairman Cox alluded to earlier, by learning how to handle XBRL, we are interested to see whether or not it will impact our internal processes.

I think that the challenges that we see in front of XBRL right at the moment are attaining critical mass sufficient to make it useful for the broader investor and operating community, and then also getting XBRL to the point where the costs associated with it become less significant in the overall framework of our compliance and filing expenses.

MR. WHITE: Chris, I guess you are actually back. You were here in June. Welcome to the second roundtable.

MR. WHALEN: Thank you. My name is Christopher Whalen. IRA comes to the subject of interactive data actually with a fairly long perspective on it. We are builders and designers of analytical systems. Most of our clients are in the audit sector or risk management sectors, and also increasingly, in the bank regulatory area.

The notion of structured machine readable data is something we have lived with for a long time, in part because if you look at the way Wall Street has evolved, it is in those areas where we have had machine readable data that tools have been built.

What kind of data? Price data. If you look at the way people do analytics on Wall Street today, a large portion of it is driven by automated price feeds, stock prices, bond prices, that sort of thing.

The tool sets that people use to do the work of managing risk, taking risks, have evolved from those sources. It is in fact the financial segment data of public companies, for example, whether they are equity filers or bond issuers, that has been the last to become machine readable, and therefore, fully transparent, fully accessible to investors.

We are actually very excited by the Commission's announcement earlier this week with respect to XBRL. We have been active in the XBRL Consortium for a couple of years now.

We really as I said come to this discussion with a deep appreciation of how much interactive data has already done to automate and improve processes for investors and for companies. We are very excited to see this being extended to financial statement data.

MR. WHITE: Thank you. I'd like to turn to our first segment of our discussion, which is looking at interactive data from the filer's perspective, the filer's experience.

I guess Greg and Malcolm, I'd like to direct this question first to you and to Brian.

What is it like to be a voluntary filer of XBRL, using XBRL, and to be in the SEC's program? I would just like you to give the audience, this small business audience, what it means to be one of that group.

We will start with you, Greg.

MR. ADAMS: Sure. First, we have made about six XBRL filings, mostly 10-Qs and two 10-Ks.

The experience for us actually has been developing over the last four years, as we have built software to automatically tag each line item on financial statements and map it to an XBRL tag.

The frustrating part of it has been that the standard itself, the XBRL taxonomy itself, is not yet mature enough to make that process as easy as it should be.

The announcement made earlier this week about funding $5.5 million to build out the taxonomies will help tremendously. When I say it is not mature, I mean, for example, the broker-dealer industry may have 1,000 approved tags, but really, in our experience, you need about 4,000 approved tags. One, for more transparency to describe the business, but two, to make things easier to tag.

Our experience then was a little different than most in that we were able to leverage our own software and tag these filings instantaneously and identify which tags we want to be extensible. That's the difficult part, which tags don't fit into the standard directly and to be extensible, so that helped.

We are at a point now that it takes less than ten minutes to convert our documents to an XBRL document, and then sit down with our financial printer and make sure all the validation tools check and attach it to an 8-K and file it. It is very seamless, and it costs us literally almost nil for the XBRL conversion. Maybe a couple of hundred dollars, and then a little bit more money just to make an 8-K filing with the XBRL documents.

We have also partnered with R.R. Donnolly to help their customers leverage this software and R.R. Donnolly has what is called the EASYSTAR program, that they have taken the costs out of the equation. They are giving people free opportunities to convert their financials to XBRL and file them into the SEC's EDGAR database, which the feedback has been tremendous because that's where companies learn, particularly being available to small public companies who may not have as big of a budget to allocate 200 man hours to try to learn this and build it and use the inexpensive software tools out there.

Our experience is a little bit different in that we already have software to tag things automatically, but as far as the cost equation goes, it's minimum for our company, but for all the other filers that may want to jump into the XBRL filing program.

MR. WHITE: Malcolm, your perspective, since you are unique among the filers up here?

MR. PERSEN: We use Greg's software. For us, like many things in life, getting into XBRL, the intimidation and the anxiety were greatest just before we took the plunge. We have now filed two quarters using XBRL. We anticipate in our next quarter, we will actually file simultaneously with our regular 10-Q filing.

As far as the cost and time, obviously, again, there has been a learning curve. We took that on because we wanted to learn.

From a cost point of view, in an absolute sense, it's not a big thing. We think right now it is going to run a little over $500 a quarter, but if you take it in the relevant sense compared to our overall filing expense, it represents about 20 percent of our total costs of filing.

We do think that for small business to truly embrace this, that remains an issue.

Beyond that, the process has become pretty painless. I have no problem commending anyone, and certainly would be willing to speak to anyone who wants to about the process and how we do it.

We in fact do work with EDGAR Online and R.R. Donnolly. They have been very helpful to us. They actually currently pick our file up subsequent to our regular EDGAR filing and convert it. Then KPMG, our external auditors, review it. Obviously, we review it in between. Then it is filed.

As I say, in the next iteration, in about six weeks, we will file it simultaneously by providing an advanced copy to Donnolly who will turn it over to EDGAR Online, and we will have it back. As I say, we anticipate that we will file altogether, which is our goal and aspiration.

MR. WHITE: Brian, would you like to give us your reaction to the experience?

MR. BALBIRNIE: I agree both with Malcolm and Greg, the jumping index, XBRL, and interactive data is generally a learning curve at the beginning, working with company auditors externally to try and figure out what tags and libraries work.

Once that experience is said and done, the reporting costs and the internal costs to management of that process is very seamless.

Teaching small businesses about that initial process, it always takes a little bit longer than it does after it's implemented. Interactive data is essentially that.

MR. WHITE: So, I take it from this that there is some up front costs and expenses the first time through, but you get through the learning curve relatively quickly?

MR. PERSEN: I guess the comment I would make to that is yes, there is, but I don't think that's insurmountable. I think the challenge for us and I think for all companies of our size is to find more off the shelf tools that integrate as seamlessly as possible with our existing management reporting systems and our existing operating systems. There, we think, is where the leverage is from an internal point of view.

Right now, it's a bolt on, if you will, to our existing processes.

I know you are going to talk in a few minutes about investors, so I will hold my comments on that. From an internal point of view, if we are to get the leverage we think is available to us here, we need to see more of those tools, and we clearly are not a large enough enterprise that we are going to go out and develop them.

MR. WHITE: I think the message that I hope the audience gets from this first round of questions and comments is that we hope that many more small businesses will give this a try. We think it's workable and we are looking forward to that.

I guess the second kind of related question I'd like to turn to, and the Chairman alluded to it a little bit in his remarks, and I guess I would refer this to some of the additional internal benefits that may be there, whether it's in helping you manage your business, recognizing how your internal controls work, improve the reliability of information internally.

Some of the other -- we have heard various statements that those are potential benefits from using the XBRL format, and I guess I'm curious, first from the three filers, do you feel like you have had any of those benefits yet in this early stage?

MR. ADAMS: I guess I'll start off. First, as an opening statement, as a small business, a micro-cap public company, I spend approximately 40 percent of my time out speaking with potential investors or other individual institutional or analysts, which is probably highly inefficient.

One huge benefit, obviously, with interactive data is the analysts quickly don't have to ask me to send them financials or send our key highlights or how we calculate free cash flow, for example. All that can be available immediately and pulled down on-line.

But, the other big opportunity or benefit, I should say, internally, is what ROI I get from doing our internal benchmarking or particularly providing our Board of Directors and audit committee metrics on how we are doing against our industry and being able to calculate those with an interactive Excel spreadsheet, basically by just changing ticker symbols and doing it almost instantaneously and then linking that obviously to a Powerpoint, it makes CFOs look a little bit smart, in that they can quickly get that out to their board.

The other big benefit, and Malcolm touched on this earlier, is internally, there is tremendous benefits that I don't think companies recognize yet, as far as being able to measure business units against their peers and against their industry, and also for the compliance with Sarbanes-Oxley, to be able to link back and drill down to where that document came from.

I think what will be instrumental there and what we are working on today is the accounting software providers. I know companies, for example, like Hyperion or FRX are working on XBRL type of modules, which will help internally.

The biggest benefit is yes, with investors, obviously getting our story out and having potentially more analysts cover us, but also just the benefit of working around the organization internally and being able to find problems sooner rather than much later.

MR. WHITE: Malcolm?

MR. PERSEN: John, Radyne Corporation was lucky enough to just squeak over the line on 404 two years ago. That is to say we were just barely big enough to be an accelerated filer.

MR. WHITE: How lucky you were.

MR. PERSEN: So, we have the dubious pleasure of being one of the tiniest businesses that got to comply. The reason I tell that story is now that we are in our third year, I think we are just beginning to finally get enough of a handle on it and not view it as a year end panic.

I think where we see the potential of XBRL in that. Obviously, in general, we are looking more and more at how can we automate controls. How can they be made to run faster, smoother, more efficiently, yet maintain our control environment.

Obviously, as Greg just said, from an internal management point of view, XBRL has potential. We also think it has potential from a point of view of maintaining controls and being able to evaluate data, evaluate flows of information and transactions through our business.

But, again, for us, it's a new thing. While we see that potential, and again, we don't have time today for me to get into a great deal of detail, we are starving for the tools to get there.

That is why I keep saying and maybe why I'm advocating for XBRL today, is if I can get more of you guys to do it, there is going to be more core critical mass and I will have better tools. That's probably why I'm up here, thumping my fists so much.

MR. WHITE: One final question before we move onto our second topic, and I guess I'll address this either to Chris or Deborah or both of you.

From your perspective, do you see internal benefits at the companies that are going this route, from your investor perspective?

MR. WHALEN: Indeed, I think one of the largest benefits to small and large companies is to eventually see the proprietary accounting systems that they all use today migrated over to XBRL. In fact, I think one of the biggest benefits overall for interactive data is internal for companies not only with respect to Sarbanes-Oxley, but for mapping the XBRL tags back to the COSO framework for enterprise risk management, things like enhanced business reporting also come to mind.

It's part of a much larger discussion, because if you are an enterprise and you are going to tag your financials in XBRL, it begs the question as to whether or not the entire enterprise ought to be tagged that way as well, with GL level data that will never be publicly disclosed, which can add enormous transparency and accountability to a company's internal systems.

MR. WHITE: Deborah?

MS. HEWITT: I would add to that by saying investors certainly look for consistency and comparability across company data, because obviously what investors are doing is making decisions about which company or set of companies to be most interested in and to spend the time getting to know more about and to follow.

The more that this technology encourages a common set of definitions and a common accounting framework, the easier it will be for investors of all sizes to make informed investment decisions.

MR. WHITE: Any other comments from the internal perspective before we go to what I will call the external perspective?

Let's go onto our second general topic. Analysts' coverage has always been a concern among smaller businesses, wanting analyst coverage and being concerned in many cases that they are not getting it.

As the chairman alluded to and as I think we have heard much comment on, how does XBRL fit into that. Does that increase the likelihood of analyst coverage? Can we see that as an opportunity?

Jim, I guess you are the obvious person to ask. I'll start with you.

MR. LUCIER: Increasing availability and transparency of data and reducing the amount of labor involved, repetitive labor, in packaging that data for analysis is obviously going to help tremendously in providing analyst coverage for smaller companies.

I think you have to look at both the challenge and an opportunity in the area of interactive data. The data is machine readable. That is really the challenge. We have seen the financial services industry evolutionized by PCs, by spreadsheets, by data feeds of all kinds, as Chris Whalen just pointed out.

Today, we have unprecedented amounts of computational power, going through oceans and oceans of data, both public and proprietary, looking for patterns and investing on that basis.

That is where the global financial markets are going. Obviously, smaller companies, especially smaller public companies, need to be able to join the market where it is going.

Because the data is machine readable, you have to worry about too much reliance on machines, so I think there will still be a big role for human analysts who will be adjusting financial statements, because after all, adjusting numbers, looking at them, tweaking them, is what financial analysts do for a living. Having this power tool at their disposal probably will help them.

Also, with the basic problem of analyst coverage for smaller companies, we are thinking in a mindset where there are companies, there are analysts, and there are only small numbers of analysts available.

The way the world is going now, more and more investment managers are bringing their analyst capabilities in house. In fact, they are beefing up on the amount of research they do in house. It's not simply a question of finding public analysts who can comment on the smaller companies or regional companies. It's helping new investment vehicles, new investment funds, hedge funds and other entities who are beefing up on their internal capabilities to go after this new asset class of smaller companies, which hither to have been unavailable and not transparent to them.

MR. WHITE: I was assuming, Chris, you wanted to talk next? I was looking at the transcript from June, when you said interactive data may help small cap's achieve a greater degree of visibility for investors, auditors, and regulators.

MR. WHALEN: Yes. I would reiterate those comments, but having worked as a banker and also as a research analyst, I would caution the Commission about the assumption that you can revive the old sell side analyst model.

The frank truth is that broker-dealers covered smaller companies, not because they were immediately profitable. It was most often a loss leader if you assigned a human being to cover a small cap. It was because they were hoping there was an investment banking transaction somewhere down the road.

Now under current law and regulation, that model has been precluded, and I would tell you that if you took the investment banking world entirely out of the equation, you would see analyst coverage cut in half again from where it is today for all companies.

I think we have to think about some new models, new business models, for providing coverage to companies. At the end of the day, stocks are sold. They are not bought. Human beings sell stocks. We can't teach computers how to do this.

Yes, Jim alluded to the hedge fund world and the buy side world. They are definitely increasing their analyst capabilities because there is no coverage out there covering from the broker-dealers for small cap's. It is just non-existent.

To me, one of the exciting possibilities is as interactive data matures, as the Commission sets some guidelines and some really hard verifiable standards for filings, so that they are uniform, so they are valid with respect to the various types of tagging that are used with

XBRL, we may see media companies, we may even see the filers themselves start to directly tell their story to buy side investors, to hedge funds, et cetera.

But, that's a new business model.

MR. WHITE: Deborah?

MS. HEWITT: Again, I'd like to second that because I guess the Virginia Retirement System does operate on the buy side, and we do do a lot of our own analysis.

Just as companies seek a competitive edge, a way to do a bit better than your competition, so do fund managers. The small cap area is one that is believed to offer potential for doing better if you can get to know more small cap names, but it's just very labor intensive and time intensive, as has been discussed.

With the advent of this new system, the Virginia Retirement System at least would look forward to being able to have more analysts on staff get to know more small cap names, because it would be easier and less time consuming to do, as a means of us achieving a competitive edge.

We are also in competition. We not only have to serve our pension recipients well and the Commonwealth well, but we are always being compared to other funds and to benchmarks. That's another issue we might want to get to later, about the benchmarking issue.

Certainly, this offers the potential that the buy side analysts can become much more familiar with a lot more small cap names.

MR. WHITE: Any more comments on the analyst perspective before we move on to the investor perspective?

Jim?

MR. LUCIER: I would just like to build on what Chris and Deborah have been saying. We are thinking of a problem. The problem seems to be too few analysts for too many small cap companies. The reality is that in the future, everyone will become an analyst to some degree. I would say that the sell side analyst is alive and well but focused probably on the larger cap companies, but there is an entire ecosystem of new business models that could come in as people that interpret, work with, and otherwise do some value added processing for the XBRL tagged data that would be of great assistance, both to the sell side and to the buy side analysts.

This is something that could really make financial data more pervasive and thus give smaller cap companies a much wider audience of people who are following them.

MR. WHITE: Malcolm?

MR. PERSEN: If I could just tangibilitate a little bit of the conversation from the perspective of the company.

I think Greg hit it very nicely a few minutes ago when he said it's pretty inefficient for us to go out and visit 7,000 hedge funds. I would do nothing else and I wouldn't get all 7,000 if I took that on as a mission during the year, and with forgiveness from the Commission, I want to cite a few statistics, which I think are about right. You guys know these numbers better than I do.

I think there are roughly 18,000, between 18,000 and 20,000 publicly traded companies in America; 3,000 of those are in the Russell 3,000, we happen to be in the Russell 3000 just barely, so that means there are 15,000 other companies that are in some fashion or another smaller than we are.

I think where XBRL shows a tremendous amount of potential is helping us tell our story statistically in that universe of the 15,000. I think that is where the real potential for Radyne Corporation is, that we believe we have a story to tell. I can't make 7,000 phone calls as much as I'd like to.

My hope is that these guys on either side of me will get better and more transparent and more believable data about our company, and when they go through what they do already, the inevitable sifts of that data to identify people who they would like to talk to, then of course, I am going to believe my company, but the other 14,999 will also have their perspective, that my company will rise to the list of people they want to speak to.

That's where we think the real potential is.

MR. WHITE: Deborah?

MS. HEWITT: I think it's important in that regard. You don't want to be out there in the pack with the other, what was it, 13,000 and some. To that extent, there is a real benefit to being an early adopter, because as firms are looking, as investment firms are looking for a new set of small cap companies to cover, clearly, those that are early adopters and get onto this system quickly will be the first group that has the potential to be looked at. That's an encouragement to move rapidly.

MR. WHITE: I realize this is kind of bleeding into our third and final topic, so why don't we move in that direction.

Putting aside the analyst perspective, really thinking of this as an opportunity for smaller public companies to have direct access to investors, the large investors.

Deborah, I guess I would probably like to start with you. In our planning call for this session, you had a very interesting perspective of the way you were organized at the Virginia System and so on. Maybe you could start.

MS. HEWITT: I'll try to briefly describe the process that we go through in making broad investment decisions. What I mean by that is asset allocation, how many of our assets will be put into equities, how many into debt securities, international securities, real estate, et cetera.

Basically, the point is that's a policy decision. That's decided based on long run studies and a lot of consideration of future market conditions and current market conditions, forward looking conditions, to decide how much we want to allocate into those various pockets.

That is something that would be somewhat slow moving. Small cap companies are certainly a part of that. Right now, we hold approximately eight percent of our total assets in small cap companies.

It would be nice to see that move forward. There are some hurdles there, as I alluded to earlier. When a large investor, like the Virginia Retirement System -- and I call us large, $50 billion is a lot of money, but let me just say we are a very medium sized state pension fund. There are a lot that have a lot more money to place than we do.

When we start looking at investing in small cap companies, size itself is a problem. There is a mismatch there. For an investment to make any difference at all in our ultimate performance, it has to be fairly sizeable. Several million, tens of millions. We really don't like to look at anything less than the 25 to $50 million investment.

You can see that would be imprudent for us to place that kind of money in some very small companies. There is a problem there that this data system does not address.

What can be addressed is those long run policy issues that I was talking about, where small cap's are perceived as somewhat riskier. The risk return profile stands in the way of a larger allocation.

There are various aspects of risk. One is just volatility and lack of liquidity. That could be improved by adoption of this system. More trading, more liquidity shows us that we could get in and out when we want to instead of having to make a lot of small little trades, which is costly.

Secondly, the risk that I'm really interested in is the risk of not understanding the company, and that is what can really be helped by this type of immediate availability. Here, I want to stress it's not really the speed or the cost to large investors, the cost of third party data is not that significant that it would make a difference to us.

Being able to get better data, more detailed data, and not just data, but qualitative information about the companies would make a huge difference.

Ultimately, that could increase the allocation to small cap companies, and even beyond that, the staff, of course, has some maneuverability within the target ranges that are set by the Board. Even in the short run, if staff becomes more familiar and more comfortable with companies, they could increase the allocation to that area.

MR. WHITE: Chris, I know you have comments in this area.

MR. WHALEN: Let me give you an example of real world usage of data and how XBRL might help smaller companies.

Most companies that are attuned to the needs of investors have their annual reports and other information available on a website, and many of them, if they are really with it, will put their financial statement data in Excel spreadsheets that you can download on your desktop and do work with, or they will e-mail them to the analysts that either are following the company or may write about them.

Once you have XBRL, instead of the analysts having to manually manipulate and check and line up each spreadsheet they get from each company, because they are all different, suddenly you have an encompassing consistent dictionary for revenue, income, cash flow statements, so that you as the analyst can set up your model and every quarter you know I'm going to get the financials from the companies I care about. They are going to come in in a machine readable format, and then as the other speakers alluded to, you can make accounting adjustments.

In fact, you can set up those adjustments ahead of time, so that as the data comes in, you say Company X, they have a slightly different way of recognizing revenue from the rest of this industry group I follow. Therefore, I have to make this adjustment.

By automating all of those steps in the data collection and the data processing pipeline, if you will, you can really allow the analysts to get to what's important here, which is making an investment decision.

It is that functionality, that automation of the data collection and data analysis process that I think is really going to help smaller companies, not just today, but as we slowly begin to change the way people consume and manipulate financial data.

Because, remember, the way we do things today is a function of the poor quality of the data. The most important thing on Wall Street is what? Timeliness. That's why Wall Street will tolerate a four or five percent error rate in vended data feeds, because all they care about is getting the data in a timely fashion. They look at it, and then they go onto the next thing.

It's like most analysts never look at EDGAR filings. They will get a press release from the company. That is most often how they receive the data that is useful to them. Then they will get a vended data source, Bloomberg, Reuters, whomever. Maybe their analysts will go look at the EDGAR filing, if they are doing an evaluation or if they are doing, for example, banking type work.

At the end of the day, it's a very fast paced world, and being able to give them accurate machine readable data at the same time they get the press release is really, I think, the objective.

MR. WHITE: I'd like to go in a moment to our three filers and ask them to share with us if there have been any changes, if they have any examples in changing investor interest in them, and in the way they communicate with investors, but I will let the three of you think about that for just a second.

Let's go back just for a second to Jim, and make sure that Jim doesn't think he's getting put out of business here, as this is all happening. Then we will go to the three filers.

MR. LUCIER: Well, as I said, the more people involved in analytical work, the more of a market and the more of an opportunity there is for analysts who specialize in working with other analysts. We all raise each other to higher levels.

From a small business perspective, you have to look at what the financial markets do. We look for areas where assets are mispriced. We look for inefficient marketplaces. When we find them, we rush right in.

From a small cap perspective, in America, the idea of a more transparent, more liquid, more accurate market for smaller cap stocks that could help remove some of the valuation differential between smaller caps who are less well covered and larger cap stocks who are very well covered is a tremendous opportunity, that Chairman Cox opened his comments this morning talking about the size of small business in the U.S economy, even looking at smaller cap stocks. There is still a huge share of the economy that is under studied and probably under allocated from an asset allocation point of view.

The sooner we can see critical mass achieved here, I think the sooner American smaller businesses can start getting an edge on their competitors worldwide.

MR. ADAMS: Also, just to build on it, Deborah mentioned before that once challenge or one criteria she looks at with respect to small companies is liquidity. Obviously, if a company is only trading 10,000 shares a day, that's not going to be very high on the list to jump in on that company.

We are already seeing the benefits of XBRL and liquidity, we provide feeds to QUANT funds. We have gone through and we have tagged all public companies and XBRL filings going back eight years and 32 quarters.

Our first customers, most of our first customers, the majority are QUANT funds, because they need that timeliness. They need that speed to make those trades. They are actually trading on numbers, numerical information. That then does lead to more liquidity, and thus, more volume. It does open up your company to funds like the Virginia State Fund. QUANT funds are also a very big benefit of interactive data.

MR. LUCIER: It won't be just QUANT funds looking at company data. They will be looking at all types of data. If they can find something that suggests the regional economy is doing very well, they will cross reference that, or they will regress it and compare it with the company data there, and use that as a signal that maybe companies in this very quickly growing, very prosperous region of the country should be a good opportunity for them.

Or they will look at weather data, as it pertains to agricultural industries or local energy industries. They will be able to take company data and compare it with information about almost anything else that is happening in the local economy. Again, that makes for more efficient pricing decisions, and it encourages investors to come and look for opportunities because now the financial data can be correlated with everything else they know about.

MR. WHITE: Greg, I think you may have in part answered my question already, but let's just go through it with the three filers, whether you have concrete kind of specific experiences of your investors changing their relationship and their communications with you since this.

MR. ADAMS: I think the biggest thing is that we are able to quickly highlight where our company stands in performance above our peers. In our case, it's the business information industry.

I don't need to send that data out constantly because we have it already prepared in XBRL in Excel templates basically. Excel templates to actually link back to the SEC filings themselves.

For us, it has benefitted in that our volume of over a year ago was about 20,000 shares a day. Now, our volume is 135,000 or something. It has opened up more funds, and actually, it has resulted in our stock price increasing.

The liquidity issue is somewhat removed because we are able to tell our story much faster and much better. Timeliness, again, is very, very critical. That's the big benefit of interactive data.

What companies are receiving now from whether it's a Bloomberg or Compustat, especially during peak filing season, is about two weeks old. That's too late, two weeks old. They have to have that information immediately.

And the Holy Grail for most, whether it is analysts or individual investors, is when that earnings release can be tagged with XBRL tags and their models can be populated and updated before that conference call with the company. Then they can ask the tough questions.

Huge benefits already.

MR. WHITE: Brian?

MR. BALBIRNIE: I think from our perspective, we were actually the EDGAR filing agent for one of the test companies. We did notice and track very close the company's responsiveness to what they experienced. I believe they actually did raise some funds during the period after which they filed XBRL as well as probably notably some increased stock buying, as Greg had said, quarter over quarter, comparing what they had done in the past.

MR. WHITE: Malcolm? Your phone has been ringing more?

MR. PERSEN: Well, I will tell you that like some of the other guys, our average daily volume has increased. Our stock has done well. I'm not quite sure that XBRL is the driving force behind it.

MR. WHITE: Unfortunately, I was going to say the last take away I got was your volume goes up by 75 percent. That could be the headline for today.

MR. PERSEN: You can do a lot of things with statistics. Help yourself.

We haven't seen a whole lot of response from the investment community with the fact that we are filing. Ironically, the one investor group that has called us with regard to it is one that invests in Greg's company as well, and that is probably because we had the common link and bond in that regard more than anything.

One thing I would bring up, if I can wedge in one other advantage, sort of a little bit of a take off on your question, which we haven't talked about, is the audience might be interested to know there are a number of other agencies and a number of other stakeholders around the world who are moving to an XBRL standard.

XBRL, although obviously is going to have a great deal of benefit for the reasons we have spoken to, is going to be required increasingly in the future by taxing authorities, both inside and outside the United States, and other government agencies.

There is also an incentive there to get on board and learn how to handle it, because the last thing you want to be doing is trying to figure out how to do this the night before the filing is due.

I believe the U.K. has said that in 2010, all filings will have to be in XBRL. There is another advantage.

MR. ADAMS: Just to build on the global aspect, unfortunately, the U.S. is way behind, for the most part.

Obviously, it is different in most countries where the authorities there can just mandate something quickly. They are not as friendly as the SEC is. Also, their financial statements are not as complex. They are more like a chart of accounts, where we have a poetic license to describe our business more fully.

One interesting statistic that was passed by me was that Korea, for example, mandated XBRL, and the amount of investment, outside investment capital that went into Korea went up almost 40 percent because, they believe, of the transparency in reporting.

Obviously, there could be some issues with Sarbanes-Oxley as to the amount of capital, but the Korean Stock Exchange themselves credits XBRL to the benefits that it brought to those markets and that created a lot of liquidity for their listed companies in that country.

MR. WHITE: I realize that none of you -- actually, I'm sure you are all retail investors, but you are not representing retail investors.

I'm just curious. Any comment in terms of retail investors and how all of this impacts their interest in your companies?

MR. WHALEN: As soon as we have widespread adoption of XBRL by filers, large and small, and the Commission addresses the issue of consistency in terms of the usage of XBRL, so that the tags are in fact consistent across the board, I think you are going to see the major portals giving this data away.

You are going to see Google and Yahoo! and everybody else offering a way of getting this, but on the same account, you will be able to just go to the company's website, because when they file their K or Q, the press release is going to go out. It will be available on EDGAR, and it will also be on their corporate website.

In fact, you could almost argue that you should be embracing a broadcast model where you don't have to centralize these documents. I think that's a very exciting possibility, and it's clearly the model that you see around the world, all the major emerging markets recognize that this is an enabler to attract investors to their economies.

MR. WHITE: Obviously, that is part of the announcements of Monday, the steps that the Commission is taking in that direction. We are certainly looking forward to that.

Jim?

MR. LUCIER: Well, if you look at the amount of data that's available to retail investors, often for free, it's truly astounding compared to what was available even to major institutions 10-15 years ago.

You can go to Google Finance. You can go to Yahoo! Finance. You can get access to all kinds of market information instantaneously, and while many investors would prefer to invest in mutual funds or ETF or just trust someone else, there is a very substantial segment of the population that is extremely interested and will basically use whatever power tools are available to them, and in fact, develop the capability to understand and use these tools.

Just in my own travels, I deal with institutions, but the individual people I meet, when they find out what I do, are clearly extremely sophisticated in many, many cases. They have been able to raise their investment I.Q.'s as it were, because of what's available to them. I think XBRL and probably the consumer oriented tools that will be available because of XBRL will raise them to a higher level of consciousness, if you will, also.

MR. WHITE: I guess I'd like to go to we will call it the closing statements. If I'm doing my math right, it comes out to be two and a half minutes each. Since I have always been starting with Greg, maybe I'll start at the other end.

Chris? We will start with you. You can either short change Greg at the other end or not.

MR. WHALEN: Let me say I've been at the end of the alphabet level my whole life.

First, in terms of a VFP program, I think the Commission has almost been too nice. I think it's getting to be time that the Commission started suggesting to the large accelerated filers that they all need to participate, and I would in particular, if you are talking about small businesses, there is a group of companies, banks, who are already filing their financials using XBRL with the major regulators. They are going to be expanding this reporting for shared national credits, which is also probably going to use XBRL.

I think the SEC ought to consider inviting the banks to get into the voluntary program en masse, because they know how to do this. They are very familiar with this technology.

The second point I'd like to make with respect to small companies, I know the Commission is giving the smaller filers relief with respect to Sarbanes-Oxley, but down the road, as XBRL becomes more integrated into accounting systems and enterprise risk management systems, I think it's going to be a boom to smaller companies, when they can completely automate their internal controls, when they can tag every piece of data that is significant to the enterprise and be able to provide it, et cetera. That is going to be an enormous benefit.

Thirdly, in terms of investors, same way. One of the biggest problems we have in terms of serving risk managers and people in the audit sector is looking for restatements.

The Commission just chastised filers, I believe, with respect to hiding restatements and filings. One of the beautiful things about XBRL is you can't hide any more.

If you are a small investor and you are looking for a footnote or a restatement or some other type of data that has heretofore been buried in a 400 to 500 page document, it is going to be completely transparent.

My recommendation just generally, to conclude, is that XBRL ought to be seen as a way of reducing costs and reducing the pain of Sarbanes-Oxley compliance and all of the other corporate governance and risk management rules that all companies have to live with.

The COSO standard is basically a holy writ for banks. I think that's becoming generally spread across all companies, public and private.

We have to accommodate small businesses who may not have the resources to jump into this thing with both feet, but I think it has to be made clear to them that down the road, everybody has to join the party.

MR. WHITE: Thank you. Malcolm?

MR. PERSEN: First, I want to thank the Commission for inviting me to be here today. It's a pleasure to speak to this, and it's also a very positive and ambitious effort that the Commission has taken on, and I want to encourage you guys to continue to push it.

In that regard, I might echo something Chris said.

In the range of things that I deal with on a day to day basis that are in the area of corporate governance reporting and transparency, I have to say that XBRL is a pretty small -- is not a very big hurdle to get over.

I would encourage the Commission to consider ways to be more aggressive in encouraging other companies to take it on.

As I said earlier, there is a lot of anxiety and anticipation, but once you get there, it's not very hard. The overall benefits to society, I think, are huge.

I would also say, and I guess the words you used, they are being too nice, you are being too nice, I'm not sure I will ever say that about the Commission, but I will certainly say I would encourage you to push harder in whatever ways, either through additional incentives or direct outreach that you guys see fit.

The only other comment I would make, besides expressing my appreciation, is to assure Jim sitting next to me that he will never be out of work because of XBRL. There will always be a human analyst on the other end of the phone, and to also echo the sentiment on the retail investor side, retail investors are for a small business even a harder nut to crack because if it's inefficient for us to get to a lot of hedge funds, it is obviously very difficult for us when we have no brand equity in the retail community.

Retail investors have lots of data, as has been pointed out, but what they are severely lacking is tools. You can go to Google and get the data, but then you have to copy it all out into your Excel spreadsheet. If you are an individual investor and you have the choice of that or seeing the latest Gray's Anatomy, guess which one wins.

I think XBRL will go a long way to facilitating that. Thank you.

MR. WHITE: I appreciate that. You realize that you will be able to go back home and tell people that you actually sat in the seat of a commissioner. You are sitting where the commissioners sit normally at their open meetings.

MR. PERSEN: I'm sure that will play real big in Phoenix.

MR. LUCIER: In closing, I'd just like to say that XBRL is a tool but it is a marvelous tool. It has the capability of breaking down barriers and reducing friction in the information marketplace.

I would congratulate the people that have spent so many years developing the technology, but you need to remember that tools are used by people. I'm not just saying this as an analyst. I'm saying this as someone who has looked at the development of technologies across many different industries.

The more people who are involved, the more you raise the collective I.Q. of the industry.

I think you need to start developing the user community more, not just the companies that file with XBRL, but also the people that might be providing analytical services, different types of data, different value add's, with the XBRL feed. I think they will be serving both the sell side analysts, the buy side analysts, increasingly, the general public.

We have to get the user communities out there, and it is time to grow and build the user communities. Ultimately, people will be using this tool.

MR. WHITE: Deborah?

MS. HEWITT: This is a wonderful technology. As I said in the beginning of the session, this is really the inevitable next step in what has been a progression of new technologies. It certainly is not going to be the last one.

It is a wonderful opportunity that could in fact represent a watershed of availability, speed, and depth and breadth of information.

I would really like to see it move forward quickly, be adopted broadly, and that's what will encourage it to be used broadly.

In that sense, my suggestion is to both the SEC and to small company filers, give us something new. Use this opportunity to give investors something new. Don't just wrap the same old type of data and information in a new technology.

Use this as a chance to provide broader data about your company, deeper data. I know business segment information is always somewhat closely held, but that's what investors really want to see, to become more familiar with your company, to be able to break down revenue and earnings.

I would encourage that in the process of setting up the definitions and the tags to enable that type of additional information.

Secondly, we didn't really touch on this today, but I'd also like to encourage the Commission to spend some time in the security area, because this could be costly for each individual company to protect this data once it is available on line.

What I mean by that is because it will be a real time feed, it's really opportune for fictitious feeds. That is a type of security that again takes money to develop. I think that would be appropriate for there to be a general type of software that can help with that.

Thank you.

MR. WHITE: Brian?

MR. BALBIRNIE: I appreciate also being invited to take part in the panel today. I think most of the panelists are saying pretty much the same things in just different jargons.

We are all agreeing that XBRL is the future of financial reporting and interactive data. I believe that the Commission needs to do a little better job with its panelists in the education of XBRL and what interactive data means to small business.

If we increase the test programs from the 24 to 100 to 500 and beyond, over the period of the next year, I believe the education will naturally mature for an adoption for small businesses, as well as, large and small businesses.

My EDGAR is prepared to step up and do some of the filings for companies. We are prepared to help with the education processes, both for small and large business.

Thank you.

MR. WHITE: Greg, we got there and you still have your two and a half minutes. Maybe even three.

MR. ADAMS: With the last name of "A," I used to going first. Sometimes it's fun going last.

I obviously concur with all the previous comments, but just to build, XBRL is here today and a good example is the FDIC, the program that most of you might be aware of.

I think the tremendous success that the FDIC had was due to working with the vendors that prepare call reports for XBRL filings.

I'm vice chairman of Financial Executives

International's Technology Committee. I have been talking about XBRL for the last couple of years to various CFOs around the country.

The consistent theme I heard was yes, I know I'm going to have to do it one day, you know, it's another Sarbanes-Oxley thing, but when I have to do it, my financial printer will take care of it.

I think the SEC probably should maybe reach out to all the financial printers, like My EDGAR, and sort of corral them in and make sure they are driving it to their customers, but more importantly, that they are up to speed with everything and they have the proper tools. I think that might foster adoption a little bit faster.

MR. WHITE: Thank you. On behalf of the Commission, I would like to say how much the Commission and all of us in Corporation Finance and all the rest of us on the SEC staff appreciate your joining us today.

We particularly appreciate your insights. I guess I have been taking notes. There is also a transcript of this, so if I miss some of the suggestions in the end in writing them down, I will be able to go back and look at them.

I very much appreciate the suggestions here at the end.

The plan will be to reconvene at 11:00, and we will then have a more traditional panel that we have had at these forums dealing with capital formation for smaller businesses.

Thank you very much.

(A brief recess was taken.)

ROUNDTABLE ON HOT TOPICS IN SMALL BUSINESS CAPITAL FORMATION

MR. DUNN: If everybody could start to get their seats here, and we will try to get started, and definitely, we will finish on time and get you all to lunch. Give everybody a sec here to get seated and the webcast to kick in.

Is everybody ready up here? You're ready to go?

My name is Marty Dunn. I'm Deputy Director in the Division of Corporation Finance. I've been at a number of these over the last 10 or 15 years. I was lucky enough in 1991, 1992 and 1993 to work a lot with the Office of Small Business Policy, which back then was called the Office of Small Business, I think, on a lot of the small business changes.

I've been involved in a lot of these things since then. It's always very interesting. It is very good for me to learn and figure out what is actually going on so I can do what it is I do, hopefully, with a little better information.

I am here with Marc Morgenstern. The two of us are going to be moderating this. Marc will be doing most of the talking because he's much more moderate than I am. That will hopefully go well.

Before I really get started, I want to do two things. One is I want to thank Commissioner Nazareth for coming to watch us this morning. If you think of any questions, pass them up here and I'll ask him, or if you want to ask him yourself, feel free.

The other thing is I want to provide the disclaimer, which is anything I say is just me talking It's not a view of the commissioner or any other commissioner or the Commission or any other member of the staff, and as anybody here who knows me for very long, it's also probably wrong. Just ignore whatever I say.

I will give that disclaimer except for the wrong part for my boss who spoke earlier, for John, and also for Gerry, when they were here. I'm sure they said everything right, but to the extent anybody wants to hold it against them, please don't.

With that, we are going to start. This is probably going to be a pretty unstructured discussion because the only structure will be trying not to talk over ourselves. With that, I'm going to turn it over to Marc.

MR. MORGENSTERN: Thank you. My other role here this morning is as Marty's body guard. Can you hear me in the back? Do you want to hear me in the back? It's about 50/50. Okay.

For absolutely no reason, as we were talking this morning, I was thinking about one of my favorite jokes, which was it's the 14th Century, and you probably remember that they put people to death by guillotine, but they did have a double jeopardy rule.

There are three guys and they are up on the stand, and they are all getting ready to go, and the first is a priest, and the executioner says, do you want to go face up or face down. The priest says, despite what you think, I am absolutely blameless, I'm going straight to Heaven. I want to go face up. The guillotine comes down, stops two inches from the priest's neck. The executioner says, hey, we have a double jeopardy rule, you're free to go.

Second person up is a lawyer. Which way do you want to go. Hey, I'm a lawyer, I follow precedent. I'm going face up. Guillotine comes down, stops an inch from the lawyer's neck. The executioner says, hey, double jeopardy, you're free to go.

Last guy up was an engineer. He's down in the guillotine. He looks up. He says, oh, I see the problem.

We are here at the small business capital formation forum. Through the years, having had the pleasure doing this many times, we have watched people try to define "small business" and never be able to do it. It's everything from $100,000 to $5 billion. We know that, and it's just a sort of vocabulary gap we deal with.

Some years, we are particularly focused on the pre-public really young companies, doing a Series A or C, and that level of capital formation. This year, for a variety of reasons, we are going to tend to focus more on truly smaller public companies.

You are all aware, obviously, of the Advisory Committee on Smaller Public Companies. There has been tremendous scrutiny over the last year and a half by a very talented bunch of people. You have or can get all the recommendations on the SEC website.

I am going to not review them all for you, other than to point out to you there are a lot of them. If you're wondering if there's a reason why you are here, and I think people do wonder that, a fair number of the recommendations which are in that group originated in this forum, and particularly ones about streamlining the NASD registration process. That has been raised by this forum, to find a way to legitimize finders for at least ten years.

The issues about stock options and how do you prevent companies by inadvertently becoming 12(g) and having to register when the only reason they are that big is they have 1,000 stockholders.

Those and others all came from this forum. You should just know that we have had an impact and you have the opportunity today to have an additional impact.

With that, I'm going to let the panel introduce themselves, I think just from left to right.

MR. HOGOBOOM: My name is Jack Hogoboom. I'm a partner with Lowenstein Sandler, which is a law firm in New Jersey. Most of my practice is concentrated in representing institutional investors who invest in smaller public companies, although we also do represent both issuers and placement agents who are active in this marketplace.

MR. MARCHAL: Philip Marchal. I'm a director in Equity Capital Markets at BMO Capital Markets, which is the securities business of Bank of Montreal.

I work primarily on PIPEs and registered directs with clients of the bank. We focus generally speaking on clients with market capital of a billion and below. Certainly, where I come into play is typically going to be on companies that are $2 to $300 million market cap and below.

MR. PIDGEON: Sounds like our experience is pretty similar. My name is Steve Pidgeon. I'm a co-head of the Business and Finance Group of a law firm called Snell & Wilmer, and I'm in the Phoenix headquarters office most of the time, although I spend a fair amount of time out of our Orange County facility as well.

I represent a lot of public company issuers that range from say $100 million in revenues to $3 billion in revenues. I also represent a lot of financial intermediaries, investment bankers and the like as well.

Hopefully, I can bring some perspective on both sides of the table.

MS. PINEDO: I'm Anna Pinedo. I'm a partner at Morrison & Foerster in the New York office. Our practice is representing both issuers and financial intermediaries, investment banks, who act as just placement agents or underwriters in connection with financing transactions.

Most of our clients on the issuer side are listed companies, NASDAQ, small cap NASDAQ, and NYSE and AMEX, and on the underwriter's side, generally larger or boutique investment banks.

MR. ROTH: I'm Byron Roth. I'm chairman and CEO of Roth Capital Partners. For the last 15 years, we have been kind of the champions of the small and micro cap stocks from a research perspective, institutional distribution and so forth.

In doing that, we have raised about $8.5 billion for the small micro cap public companies in 350 some deals, ranging from IPOs, PIPEs, shells things that we are going to be discussing today.

From a market cap standpoint, I deal with companies in the $25 to $500 million range, with an average market cap being in the $100 to $150 million range.

MR. MORGENSTERN: Thank you. By the way, I apologize if I forgot to introduce myself. I'm Marc Morgenstern. I'm a partner in Sonnenschein, Nath & Rosenthal, a national law firm. I am co-located in the San Francisco office and the Cleveland facility, and for years here, I was sort of known as the Cleveland mid-cap kid. I do everything from start up's, emerging growth, IPO. Pretty much the whole range, and on every side of every transaction.

With that, I think we are just going to start with Philip, on traditional IPOs.

MR. MARCHAL: Sure. I think what we want to do is maybe just start out by discussing the various typical techniques that companies have to raise public equity capital, and obviously, the classic approach that has been around for a long time is your IPO, initial public offering, and other underwritten transactions, follow-on's, as we refer to them.

This, of course, is the fully marketed, firm commitment, underwritten offering. The typical process, of course, is that when a company seeks to go public through this method, you file an S-1 registration statement at the Commission.

Upon a series of comments, you have an opportunity to go effective, and then at that point, formally launch a road show, take the management out to meet generally, primarily, with institutional investors, but of course, you can have a retail component as well. On that basis, price a transaction and begin having shares that trade publicly.

There are, of course, subsequent capital raises that are done as follow-on offerings. That's the term that we generally use. By follow-on's, I simply mean a non-IPO. It is not an initial offering.

Both the IPO and the follow-on, of course, consist of either primary or secondary. It's not unusual to see a combination, and in that context, "primary" simply means when the proceeds go back to the company through a primary issuance of securities versus a secondary offering, which is when an existing security holder sells their securities into the market through that registered process.

MR. MORGENSTERN: Is there any confusion about secondary offerings, what it means any place?

MR. MARCHAL: Yes. I think the term does get used loosely, and certainly, a lot of people think when we refer to secondaries as sort of non-IPOs. Once you have an IPO, any subsequent raise is referred to as a secondary, and that actually does bring up some confusion, but again, in order to try to make clear the execution we are talking about, we do try to stick with IPOs and follow-on's, and then primary and secondary as sort of the characteristics of those offerings.

MR. MORGENSTERN: By the way, part of the reason in the forum we go back and forth between the early stages of formation and public is the ability to form capital in the beginning is always distinctly impacted by the liquidity available in the capital marketplaces, the globalness of the capital marketplaces, the ease of exit strategies, and the sort of exit strategy of the day, and all of those things affect ability to get early capital, the pricing of early capital, and the terms of early capital.

That is really what we are trying to bring together for you.

MR. DUNN: One of the things we are trying to do here, and I know for some of you, this will be things you already know, but we want to make sure that the vocabulary is the same as we are going along here.

I think we will go to Anna next to talk about PIPEs.

MR. MORGENSTERN: Before we do, could we have a quick show of hands of three groups of people, lawyers in the audience, put your hands up.

(Show of hands.)

Accountants?

(Show of hands.)

And then investment banker, financing type people?

(Show of hands.)

MR. MORGENSTERN: Okay. Thanks. That's very helpful.

MR. DUNN: Anna, go ahead.

MS. PINEDO: Once a company is already public, another means of accessing the financing market would be a PIPE, private investment in public equity. It has in recent years come to mean lots of different things, which has resulted in some confusion in the marketplace, both on the regulatory side, as well as for issuers that are attempting to sort through different financing options.

The generic term has come to be sort of an umbrella for lots of different kinds of transactions, from what we think about as the traditional or structured type transaction on the one end of the spectrum, to occasionally also being used to encompass equity lines.

Just to refine our terminology a little bit more, what we generally are going to be using PIPE to mean is a private placement conducted sometimes directly by the company, sometimes with a financial intermediary acting as a placement agent, being conducted as a private placement to accredited investors.

Sometimes the standard is set a little higher than an accredited investor, but an accredited investor is the minimum standard.

The securities that can be sold in a PIPE vary from common stock that may be sold at market or at a discount, common stock in warrants, to structured securities, which might be preferred or debentures.

Typically, in two alternative scenarios, investors who purchase the securities in a private placement from an already public company may negotiate for themselves, re-sale registration rights.

An obligation on the part of the company to file and have declared effective a registration statement that's going to cover the re-sale from time to time of the restricted securities that were purchased in a private placement.

That's one alternative. The other alternative format may be that prior to the closing and funding of the transaction, but subsequent to the closing of the private placement element, the issuer may file the re-sale registration statement and have that declared effective or ready to be declared effective prior to the investors actually funding.

There are any number of permutations that we are not going to spend very much time on, in terms of how the securities can be structured, convertible securities, straight securities, whether those securities are going to be sold in multiple traunches, whether the transaction may or may not require stockholder approval.

The only other thing that I did want to cover is that a PIPE is very frequently an alternative for a public company, be it a small business issuer, such as those that are the focus of today's attention, or a very well seasoned, well known seasoned issuer that wants to access the capital markets at a time when either the public markets are not attractive, their stock may be volatile or perhaps they want to use this as an opportunity to test the waters and see what the market is like because since at the outset, this is a private placement, the disclosure around the transaction is somewhat limited, so that preserves the market.

MR. MORGENSTERN: Anna, just because it's still a relatively new term, can you just go over "well known seasoned issuer," to make sure everybody is understanding your distinctions?

MS. PINEDO: Sure. Just basically following 12-1 in securities offering reform, we now have the new elements or terminology, "seasoned issuer," "well known seasoned issuer," "well known seasoned issuer" being the very largest and most sophisticated issuers that are able to access the capital markets with an automatically effective shelf registration.

"Seasoned issuer" would be the next one down, and I think most of our discussion today is going to focus much further down in the food chain to issuers that have $75 million or less by way of market capital.

MR. MORGENSTERN: If you're from the Midwest and you are around my age, you have a real problem with the term "WKSU," because it's pronounced "Wicksi," and when I was growing up, there was the best AM station in the world, WKSU 1260. Everybody in the Midwest, every time you hear that, you go, WKSU 1260, Super Radio. Anna doesn't have that problem. I just want to let you know I have the problem.

MR. DUNN: I think we all now have that problem.

I was going to ask Anna one question before we move on to the next thing. I know there is no such thing as a traditional PIPE. In the PIPEs that you see or any of you, how many investors are there usually? How many are you looking at? Is it a small group? Big group?

MS. PINEDO: It varies greatly, and it usually depends on the size of the issuer, the market cap, and then the relative size of the deals.

You can have a transaction that's going to be placed to a very small number of institution investors. You can have a transaction actually that is pretty broadly placed to a mix of institutions, more sector buyers, as well as financial buyers, like hedge funds, and even smaller accredited investors.

I think it's mostly a function and the bankers can maybe provide some anecdotal data, but I think it's mostly a function of the size of the issuer and the relative size of the offering.

MR. ROTH: Just to put it in where most of them come in, 5 to 15, just to give you some perspective, of the number of investors we typically see.

MR. DUNN: And in the bigger ones, how do you locate them?

MR. ROTH: The larger offerings?

MR. DUNN: The bigger numbers of investors.

MR. ROTH: Again, it's deal size, typical investments are as little as $1 million to as much as ten. That's typically the size. You just do the math from there on the deal size.

MS. PINEDO: In terms of locating the investors, a lot of the investors in PIPE transactions may be existing stockholders of the company that have indicated a desire to own more of the company.

They may be sector buyers that have a predisposed inclination to a particular biotech, life sciences, energy, ` REITs mentioning the sectors where PIPEs are most frequently used, because they are sectors with volatile stocks, sectors where the need to finance is usually pretty continual.

MR. MARCHAL: I would just add to that, I think frequently what you see really is an attempt on the part of the bankers to try to balance the objectives of the company, because frequently, the issuer is going to have divergent objectives. They are going to want to diversify their shareholder base, ideally bring in new institutions. That takes time, however, for a new institution to potentially understand a story, get comfortable, figure out the pricing, and make a decision to invest.

By the same token, of course, the company wants to be in and out of the market as rapidly as possible. They do not want to be incurring excesses of market exposure.

You have these objectives that tend to run against each other, and that frequently plays a significant role in figuring how the syndicate is going to come together.

MR. MORGENSTERN: Steve?

MR. PIDGEON: Thanks. The very cool thing, I think, about PIPEs for small and mid cap companies is they are quick. You are going to do a very quick road show, might not even put together an offering book, might just rely upon your 10-Ks and 10-Qs.

It's just a negotiated transaction between an investor group and a company, and the SEC is sort of out of the process in the sense that the registration statement is filed on the back end. The deal is completed, the company has the money. Might be two weeks from start to finish before they have the money, and they haven't been subjected to any SEC review.

The review comes typically at the back end, when people have registration rights that require that those securities be registered for re-sale. That is kind of what you see today in the PIPE world.

The down side from the issuer's perspective is that because it is restricted stock on the front end, it doesn't become tradeable until the registration statement becomes effective, it's sold at a discount.

Byron, what would you say the range of discounts would be?

MR. ROTH: If I just threw out a number, the number that a lot of the mutual funds and hedge funds use when they put it onto their books is a 15 percent discount, Just to throw a number out there that they use in the holding, that's not a bad number.

MR. PIDGEON: From an issuer's perspective, the PIPE is a great, quick financing vehicle, but it comes with an economic cost in the form of a discount.

The alternative that a lot of companies look at is what people have referred to as a registered direct offering, which is no more than putting up a shelf. Shelves have been around for a long time. Putting up a shelf and then doing take downs off that shelf.

The big difference sort of in a PIPE and a registered direct is the registered direct takes some advance planning. A PIPE really doesn't. A registered direct requires that a company says okay, I'm going to put up a shelf. I'm going to allow myself to take down these types of securities, and I'm assuming we are not a WKSU, so we are kind of a mid cap/small cap company.

We are going to take down these types of securities and go through the SEC process on the front end so that the shelf is ready and waiting for a particular deal to be negotiated at a particular time.

The other big difference is sort of a cork in the existing securities laws, because Form S-3, which is the real skinny offering document that you can incorporate basically all your prior Exchange Act reports, that can be used for pretty much any kind of a PIPE transaction, because it's available very readily on the back end for re-sales.

On the other hand, for primary offerings, if you are going to put up a shelf, you have to meet a float test, which today is $75 million. Your common stock has to trade among non-affiliates at a market cap of $75 million.

The registered direct technique is really kind of limited to folks that are at least that large.

A couple of other differences. The players in these things are all the same. You have a company. Most of the time you will have a placement agent. You will have issuer's counsel. You will have accountants involved at some level.

In doing a PIPE, the placement agent doesn't have underwriting liability. They probably have some duty to their customers, the buyers, although I don't think those principles are very well worn. They are kind of basic common law principles, that there isn't a lot of law on frankly.

Unlike in the registered context, where it's pretty clear that they have responsibilities say for demonstrating their due diligence defense.

In a registered direct deal, at the time of a take down, an underwriter has to do the types of things that underwriters are supposed to do, whether they are a placement agent, in other words, or whether they are just an intermediary between buyer and seller or whether they are doing it on a firm commitment, which means they are taking the risk of being able to re-sale it.

They have to get things like comfort letters, legal opinions that cover 10(b)(5) type language, and they will get typically a full blown placement agency agreement with the panoply of reps and warranties, and they will do diligence, do background checks on officers, call customer accounts, talk to the auditors, do the types of things that they would normally do, a very compressed time frame, but they will still go about that.

Once the shelf is up and running, the two, a PIPE and a registered direct, operate very similarly, very quick, sold to institutional investors, very quickly. There is a little bit of legal accounting stuff that goes on with a registered direct take down, but the big difference from an issuer's perspective, and the reason why they do this is because of the discount.

Again, Byron, you would know better than I would sort of what the market is.

MR. ROTH: Yes. On a registered direct, again, same kind of company that would have maybe a 15 percent discount, if it were doing a PIPE, you would be talking more like a five percent, and actually able to get some of them done right at market with no discount.

Certainly, in the single digits from a discount perspective.

MR. PIDGEON: So, a little bit more work, smaller universe of companies eligible. You have to be at least $75 million in market cap. Another very, very quick technique to access capital.

MR. MORGENSTERN: We all chatted before and we were talking about the rapidity with which the securities markets change, where a security that is popular one day isn't popular the next day, and how certain securities sometimes are perceived as good and sometimes perceived as bad, both by the industry and by the regulators.

One of the words that you are seeing used a lot now are "reverse mergers," which had sort of disappeared from the vocabulary for a while.

Jack, do you have any thoughts on those?

MR. HOGOBOOM: Unfortunately, I drew the short straw on our earlier meeting. With Marty's caveat that I'm probably going to get at least half of this wrong because frankly, I don't do very many of them, a reverse merger is basically a transaction that allows a company that is private to become public without going through the process of a registration or an offering that would be registered with the Securities and Exchange Commission.

Basically what happens in a reverse merger is that a private company finds what is referred to as a public shelf, which fundamentally means a public company that has no operating business but is registered with the Securities and Exchange Commission.

They enter into a merger agreement where the public shell basically issues shares of its capital stock in exchange for shares of the capital stock of the private company with the result being that the shareholders of the previously private company now hold shares in a public company.

There are some fees that get paid, and there obviously may be shareholders of the shell. --

MR. MORGENSTERN: Fees in a securities transaction?

MR. HOGOBOOM: It's an outrage, complete outrage.

These are transactions that for years and years have been looked upon very scant by both the Securities and Exchange Commission and bankers, investors and lawyers.

I think it's fair to say that they are becoming more mainstream as time goes on, as companies look for alternatives to classic underwritten transactions.

We were talking before about the fact that right now in China, there is a huge push forward for quality Chinese companies to list in the United States, and it turns out that the most effective and efficient way for them to do that is through a reverse merger process, and ultimately, what ends up happening here is that you have a publicly traded company. There are some reporting obligations that are required to be complied with at the time the reverse merger occurs, but once those reporting requirements are satisfied, the issuer is in a position where it can now access the capital markets to the extent there is interest in its securities.

For people that are in unique situations or have no other choice, it's a way to access capital that otherwise wouldn't be available to them.

MR. MORGENSTERN: Reverse because the operating assets, which is who you think would be the winner, is the winner only because they move into a public company, not what you would intuitively think of as the merger.

MR. HOGOBOOM: Exactly correct.

MR. MORGENSTERN: The advantages, at least some of them being quick, people are still at disadvantages? Are you doing them, Byron? Are other people doing them?

MR. ROTH: Yes. The analogy is kind of like the PIPE versus the registered offering that Steve was talking about. It's all about who takes the registration risk.

In a PIPE transaction, the company looks at it and says I can get the money up front, albeit at a discount, but I'm going to transfer that registration risk over to the institutional buyer for a price. That price becomes the discount.

On a registered deal, you don't have that. It's registered. There is no trade there.

The same kind of thing on a reverse merger versus an IPO. An IPO, the issuer has taken that registration risk, and when they get to time to sell it, they are selling shares that are registered and free to trade on the day they go public.

On a reverse merger, you have the same kind of thing you have in a PIPE where the buyer is taking that registration rights. They are buying shares in something that is not freely traded, that the registration has to happen post the money coming in.

One of the reasons these happen to be happening quite a bit in China again is that the companies over there tend to like seeing the money, albeit at a discount to what they could probably get if they went through the IPO process, but they get the money in the hand versus taking the risk of going through the whole registration process and getting to the end and not being successful or getting a lower price anyway. It's a bird in the hand. That's why the companies tend to do this.

MR. MORGENSTERN: I think we all see that in the world which is moving faster and faster, the definition of "risk" keeps changing. In a single day, what used to take 30 days to change has changed.

One of the things we started talking about a little bit earlier, and a lot of these are segues which either tie it together for you or don't, but we sort of looked at Section 16(b).

One of the recommendations in the advisory committee you will see is a recommendation that they shorten the integration provisions.

Right now, if you want to make sure that putatively separate offerings are really separate offerings, there has to be a six month window from the date the first offering stops until the next offering begins.

That six months -- I didn't go back and look it up -- I'm assuming that goes all the way back to --

MR. DUNN: Back when the reg was first adopted.

MR. MORGENSTERN: Yes. 1981 or 1982. That followed 146. It's been around a long time.

One of the recommendations is to take the six months to 30 days, sort of on the theory that what happened in six months 35 years ago by way of information exchange and market formation happens today, you know, overnight in anything.

It got some folks to talking about group and group formation and good and bad in six months. Does anybody want to follow on that discussion?

MR. DUNN: If I could add one thing to that. One of the big discussions you always have with integration being six months and things are going faster is everything we talk about here and when you structure a deal, part of it goes into figuring out the exit strategies for folks, as we mentioned before.

The obvious statutory exit strategy is 144. If you look at what the Commission did about a decade ago, it looked at 144 since it had been originally adopted at that point, I think 20 years before, and said the standard used to be you had to hold it two years before you could do anything, and three years before you could do anything, everything.

We looked at that and said two and three years in the late 1970s versus two and three years in the late 1990s is a very different time frame.

The Commission went to one year before you can sell restricted shares, and two years before you can sell them without limitation.

When you start talking about should integration go from 60 days to something less, or should the 16(b) period go from six months to something less, I think one of the fair questions is should 144 go to something less.

I would also throw that out there for anyone to weigh in on on any of those topics.

MR. ROTH: I'll jump in on the 144 issue because in PIPE transactions, when I described this registration risk, the investor a lot of times looks at the worse case scenario. The worse case scenario is something goes wrong in the registration and in the post-effective registration.

If that happens, they may have some penalties built in that the company has to pay and so forth. The reality is they never want to see those penalties. That is when something goes wrong. Their outside window to be able to do anything with those shares in the current environment certainly goes to a year, if not more, depending on the particular situation.

If that worse case scenario could come into six months, I think that would certainly help the pricing on PIPE transactions.

MR. DUNN: When they look at a registered re-sale on a PIPE, and Anna probably knows this better than anybody else, how long do they realistically think it's going to take after the PIPE closes within the definitions of when a PIPE closes until the registration statement is filed, assume reviewed, filed, reviewed and effective?

What is the normal mindset of it?

MS. PINEDO: This is one of the most highly negotiated aspects and factors into the pricing and the discount on PIPE transactions. That is these various deadlines.

Some PIPE transactions have a filing deadline. That's a company within a certain number of days after closing the private placement has to have on file with the SEC the re-sale registration statement. That period varies from something very tight, like five days for an issuer that is current but hasn't had any significant events in its life, to something longer along the lines of 15 days, to instances where the company has recently gone through a merger, an acquisition, a disposition, or financial restatements, a much longer period.

The more critical time period is the all in number of days that a company has to get the re-sale registration statement declared effective. That varies from 45 days to 120 days at the other end of the spectrum.

Again, it's really quite a function of the sophistication of the issuer, what kinds of transactions the issuer has been involved with recently, and by and large, most issuers that are current in their public filings can sort of live within that.

If they exceed that time period, then the penalty provisions Byron was describing kick in. Those are essentially liquidated damages provisions that a company has to pay to the purchasers in the PIPE transaction to compensate them for not having the re-sale registration statement effective.

There have been some issues in this area recently, which I'm sure the accountants in the audience are very familiar with, which is with 0019, and companies that have liquidated damages provisions in PIPE transactions and other privates now having to record a charge in relation to those, or having some cap.

There is a variance between 45 days, I would say, at one end, and 120 days at the other.

MR. HOGOBOOM: If I could just comment on that. Most of my investors expect the registration statement to be filed within 30 days and effective within 90.

That's actually from our perspective sort of a generous thing for the issuer, because an issuer that's contemplating a pipe transaction ought to be able to get on file much quicker and even assuming that the staff takes the usual 30 day administrative practice of getting back with comments, you really ought to be able to get effective within 60 days rather than 90.

MR. ROTH: I'm always arguing to make that 120 or 180.

MR. DUNN: If you make it 45, you are basically gambling the staff isn't going to pick it for review. That's a nice roll of the dice.

If I could take one second. This is something that I don't know as much about as I should. Could you give everybody a little bit more insight on the 0019 point? Just to explain what it is.

MS. PINEDO: Sure. My own disclaimer. I'm a lawyer, not an accountant. My understanding is that 0019 has been in existence for quite a long time, and Emerging Issues Taskforce 0019, I guess, is the official name, only in January or February, when the Accounting Division went through its rulemaking or accounting policy issues was this emphasized in the context of convertible or contingent securities.

This applies in a couple -- just to focus on PIPEs -- it applies in a couple of instances where you have a convertible preferred, where you have a warrant, where you have in both instances securities that obligate the issuer to issue at some point in the future additional securities.

It also applies where you have a contractual obligation on the part of the issuer to potentially issue shares in the future.

In that context, in the PIPE scenario, it applies where you have anti-dilution provisions, as well as where you have provisions like the penalty provisions that we have been talking about, which contemplate that the issuer may at some point in the future if it fails to get a registration statement effective, has to issue to the purchasers additional common equity.

What the accounting standard requires is that the issuer on day one be able to quantify that contingent liability.

MR. HOGOBOOM: Marty, at the risk of belaboring this, I'd just like to chime in real quickly because --

MR. MORGENSTERN: You could persevere instead of belabor.

MR. HOGOBOOM: The surprising thing, well, in my view, about a change in the accounting staff's interpretation of the applicability of the EIPF was that they began to apply it to liquidated damages provisions in registration rights agreements, which was surprising to those of us who practice in the area because the liquidated damages provisions are there because we know that there's no way you can go to a judge and prove actual damages for failure to have the registration statement declared effective.

We were very surprised as an industry to find out that something that was there for a legitimate business purpose could be read by the Commission's accounting staff as a structured derivative that needed to be recorded as a liability on the books of the company.

Frankly, that had a chilling effect for a period of time on the marketplace because nobody really knew what to do about the situation or how to resolve whatever issues the accounting staff was raising.

Frankly, I have attended at least five or six conferences since December where that issue has been discussed. I'm not certain that anybody has a clear handle on exactly what the solution to that problem is, but it's something that is affecting the marketplace for PIPEs right now, and it's kind of surprising because again, the only reason for the liquidated damages provisions is because you can't prove actual damages to the satisfaction of a judge.

MR. PIDGEON: In practice though, aren't people just putting caps now on the amount so it accumulates say one to one and a half percent per month up to a fixed number?

MR. HOGOBOOM: My understanding -- part of the problem is it's unclear what it is that you are measuring that percentage against, and it's unclear what the cap is.

I've heard that it's eight percent. I've heard that it's ten percent. I've heard it can be as high as 24 percent.

I've also heard there are other ways to structure around it, and the concern from the perspective at least of my clients trying to structure transactions is that there is no certainty here as to what's going to fly and what's not.

MS. PINEDO: I think the other issue that bears mentioning is that many companies are facing this when they get their registration statement reviewed, and it's potentially not because of the PIPE they did, but because of a prior PIPE, and it is just the staff's opportunity to comment on the incorporated documents, if there are incorporated documents.

It does end up becoming a restatement issue for many sort of small issuers who have done a number of PIPE transactions.

MR. DUNN: Thanks.

MR. MORGENSTERN: At some point here, you know the elephant in the room that we all tiptoe around is Sarbanes-Oxley, after it became effective in December 2005, and a world in which everybody has a lot more choices about what to do with securities. They have more places they can register them. They have more places they can be exempt. Information on money flows almost instantaneously.

Particularly to the underwriters and the bankers on the panel, what has your experience been? What are you seeing happening with companies that could choose to register in the U.S. or choose elsewhere? Are they selling? Are they going public some place else? What's the real world experience and what is driving them to do that, and how could we fix it, if it's a problem?

MR. ROTH: You know, I think the whole 404, it has several deadlines. It keeps moving. Unfortunately, a lot of the small companies looking to go public, even if they don't fall into 404 right now, they consider it to be a matter of time until they do.

One of the things that we are seeing is companies opting to list on an exchange like the AIM.

MR. MORGENSTERN: What is the "AIM," please?

MR. ROTH: The small cap market basically in London. Shows you how much I know about it. I can't even tell you exactly what it stands for. Somebody help me out.

MS. PINEDO: Alternative Investment Market.

MR. ROTH: Thank you. What's happened is some U.S. companies have looked at that and said you know what, I want to go public, I want to raise some capital, but I don't want to deal with the regulatory environment that I either have to face now or think I'm going to have to face in the future.

I actually ran some numbers here just to look at, and this is dollars raised in 2004, for the total year, companies going public on U.S. listed exchanges raised $43 billion versus $4 billion on the AIM; year to date 2006, companies have raised $20 billion in the U.S. versus over $8 billion on the AIM.

It is happening. I can say specifically we have had clients that we have talked with that have chosen the AIM as a way to go public. I will also tell you they get their capital. It is an institutional base of investors.

However, kind of move the clock forward a year or so, and they are trying to figure out how to get back on the NASDAQ or an exchange over here in the U.S.

Certainly, the numbers are powerful.

MR. MORGENSTERN: Is what you are saying there is not liquidity on the AIM Exchange to satisfy the longer term needs, they can go "public" quickly but as they go farther out, they are not public enough?

MR. ROTH: That. There are other reasons. They may want to be on a U.S. listed exchange, you know, dealing with customers and just widening the base of investors, that kind of thing.

MR. MARCHAL: We are seeing very much a similar experience. Certainly, the regulatory regime here, the Sarbanes-Oxley requirements and specifically 404, is definitely an issue as well.

Access to capital is important. I think we are hearing from a number of companies that either there is an ability to raise capital relatively rapidly on AIM, but certainly the regulatory regime here is a factor as well.

The costs of being a public company here are very substantial. We know of a handful of companies that have chosen instead so far to go on AIM.

The numbers are not huge, but I would say that certainly among the U.S. clients that we are talking to, increasingly, there are some of our competitors who have registered as what is known as a nominated advisor at NOMAD, and NOMAD is the institution that will basically sponsor you on the AIM Exchange.

We have specifically seen again a couple of our competitors set themselves up as NOMADs, and they are actually very aggressively going out there and talking to just about every single company we talk to, to talk up benefits of AIM.

It's absolutely out there on the radar screen.

MR. ROTH: Including existing companies that are on U.S. exchanges from a cost standpoint trying to get them over to the AIM. I know that is also being solicited.

MR. PIDGEON: I think there's another elephant in the room, too, and you asked about sales, I think that the net effect of SOX' increased costs and the additional corporate governance regulation that came along with it, that I think we all think 404, 404, 404, which is the accountant's internal controls, but a lot of SOX had to do with opening up the independence on board of directors, opening up the independence on audit committees. Opening up independence on comp. committees. Things which many companies did but frankly many entrepreneurial or founder run companies did not for a period of time.

I think that has really changed the dynamics of going public in the U.S. I think less and less small and mid cap companies even consider that as an option.

The other factor, I think, that's driving that is there is just so much private equity out there today that a lot of companies that have founded and grown excellent businesses can access the private equity markets, not suffer,if you will, the additional costs associated with SOX.

They have their own sort of corporate governance issues because if they don't sell out, they are taking on a partner, if you will.

I think as the SEC considers the regulatory environment today, it probably should understand that in fact, far less eligible companies, I guess I would call them, even consider going public in today's market, and are much more likely to come to an advisor like me and say I want to just sell my company.

MR. HOGOBOOM: If I could just chime in on this issue. There has been an awful lot that has been made about Sarbanes-Oxley and the fact that people view the compliance with Section 404 as being prohibitively expensive, I think it's somewhat of a red herring.

As Chairman Cox indicated in his welcoming remarks, the SEC is aware of the problem. I think that the market has gotten to the point where there is some confidence that reason is going to rule here, and that the SEC and the accounting profession is ultimately going to figure out exactly what the right way is to deal with the situation in a way that is not going to be crippling for the American economy.

I think there is more at work here than just Sarbanes-Oxley. I think that a lot of the changes that were made, some of the director independence issues that Steve alluded to, were actually good changes that have increased confidence in the American stock markets.

I think that there is more going on with the SEC's regulatory regime than Sarbanes-Oxley, and that there are certainly the availability of capital having a significant impact on creating alternatives for raising capital. There is no doubt about that whatsoever.

I don't buy into the notion that this is all some kind of reaction to the adoption of Sarbanes-Oxley. That could just be my viewpoint, but it just doesn't seem to be that much in the forefront of the radar scope of the clients I consult with.

MR. MORGENSTERN: That’s just your viewpoint. Okay, let's deal with the other part of what you said, private equity, hedge fund money, and some things at least that I've been seeing, and I don't know if everyone else is seeing, but pose some very interesting questions.

A company decides to go public, and not really 100 percent committed to going public, but they file a registration statement. What's been increasingly happening is the day they file the registration statement, it's like they put a "for sale" sign on, and private equity companies look at it and say there's some people who want to make some changes, I wonder if they would be willing to make a complete change.

Whereas previously when private equity put money into a company, they tended to be very reluctant to let the founders take money out. In today's world where private equity and the hedge funds have so much money, they have gotten much more flexible on that point, so they will both put money in, let the funders get out, and in many ways, the funders, if they are significant shareholders, end up with more real liquidity than if they took the company public and were sitting holding a 50 or 60 percent block that they get criticized for every time they dribbled out two percent because they didn't have confidence in their companies.

MR. HOGOBOOM: Just to respond to that, it is clearly happening more than it did ten years ago, but you can't lose sight of the fact, Marc, that at the end of the day, those same private equity funds are looking for their own exit strategy.

We all know all kinds of situations where a private equity fund has taken a company private or bought a company that was on the eve of going public and basically turned around and spun it back out to the public at some point in the future, flipped it to another private equity firm.

From my perspective, I don't view that as an alternative to the capital raising process. I view that as the effects of all the money that's out there in the marketplace chasing deals and needing to be put to work to satisfy the investors' concerns for returns. That's really just delaying the inevitable, and there is some ultimate exit here that's going to involve the public marketplace.

MR. MORGENSTERN: I'll ask the question differently. With so much money at the PE late-end stage, is that draining money from venture and angel and early stage investment?

MR. HOGOBOOM: I'll defer to the bankers here. From my firm's perspective, the fastest growing part of our practice is the early stage venture capital investment, and I think that what's happening is there is just such a proliferation of funds out there that have money to be put to work, that these people are chasing deals.

That's why the terms are loosening up, and everybody is competing with each other. In some ways, it's a race to the bottom. What do I have to do to get this deal from a competitor who is willing to offer funds.

That's why, by the way, you will see peaks and valleys in PIPE activity. I know, for instance, my clients have been very quiet in the last three or four months on the PIPE side, mostly because the quality of the deals they are seeing isn't consistent with what their investment objectives have been, so they are sitting on the side lines just waiting for the market to re-balance itself before they put money to work.

MR. MARCHAL: I would just concur and chipping in, we certainly see still a lot of activity of course on the venture side. There is still a lot of capital among the venture funds.

I think one of the outcomes of the bubble really has been that a lot of the companies out there, particularly on the IT side, are a lot more focused on being very efficient with their capital.

You are seeing smaller rounds, generally speaking, and companies that are finding ways to do more with less.

The funds that have been raised in many cases are in fact competing very, very aggressively to get into those deals. You are seeing prices go up, again, on the venture side.

The interesting dynamic is I think certainly there's a view out there among the VCs that the IPO market is not really there for them. Therefore, what we see is venture investors really only making an investment these days to the extent they have a view that they have multiple exit opportunities that they can look at, specifically, a strategic sale.

That tends to be to a strategic as opposed to a flip to other private equity firms, because of course, these tend to be younger companies that are on the front end of their growth projectory. They don't have the cash flow that would enable a leverage transaction in your typical PE model.

The ability to foresee a strategic exit two to three years down the road is absolutely critical in terms of the investment decision making that we see on the part of VCs these days.

MR. DUNN: It seems like the dialogue has changed a little bit over the years when you are talking about private money. The distinction has always been fairly clearly, you know, there are a lot of Reg D panels where you just talk about finding people, like that's the nightmare, where can we find people to invest, and then there has always been the public discussion.

It seems like in the last few years, this is this massive amount of money chasing people, which didn't seem to be the case before, at least not to the same degree.

From what I'm hearing from you, would any of you agree or disagree with the notion that what we are really talking about is the dialogue changing to there is now a middle tier. You can't lump everybody together. You can't lump a $5 million deal together or $2 million deal where people are desperately seeking money with these highly structured, highly put together multiple investor deals.

Is there some notion that we need to take the middle ground and find a different approach to that?

MR. HOGOBOOM: I'd just like to comment on that. It's an interesting distinction that you draw. I think my firm's practice is probably pretty reflective, since we are sort of down in that middle lower tier market, and there is definitely a dichotomy there between the companies that are trying to raise a million or a million and a half dollars and the people that are trying to raise five million and up.

That's a structural problem that I don't think is ever going to get resolved. I mean, it's just hard to find start up capital.

I think it's also fair to say that as compared to when I started practicing 20 years ago, there was a lot of individuals who were investing in private placements, it has gotten to the point now where there is a huge percentage of these types of deals that are getting done completely with institutional investors, QUIBs, whatever you want to call them, and you see very few deals any more where there is a doctor or an accountant or an accountant's clients who are in the deal buying big chunks of companies.

MR. MORGENSTERN: Anna, do you see differences in either vocabulary or approach to deals? You guys practice on both coasts. You are in New York, and you have San Francisco partners.

MS. PINEDO: Sure. I think in terms of the kinds of companies that we see, there are far more venture funded companies, I think, still on the West Coast. When you are talking about private placements, or when I'm talking about a private placement, it is almost invariably for an already public company as an alternative to a registered offering.

Whereas, for my partners, they are usually talking about round A through E for a venture funded company, and thoughts about an IPO or thoughts about private alternatives to offerings are far, far down the line.

I think the structure of the kinds of securities that you see obviously in a venture private are very, very different, the preferred, and the accompanying bundle of rights that you would see in a venture deal are very, very different from the kind of preferred you can expect for an already public company to issue, not only just economic rights, but the whole governance, the component that you rarely have in a PIPE, where if you are issuing a preferred, it almost invariably does not come with board or other governance rights.

So, yes. That's a very clear still East/West difference.

MR. ROTH: However, one of the things that I've seen change is as the PIPE market has become very much institutionalized, the investor being a lot more sophisticated is putting a lot more into the registration right documents and so forth, kind of coming back to maybe what they did in the Silicon Valley, where in the old days, the earlier PIPE investments that we were involved with, we didn't even have liquidated damages and things like that.

It was like give us the money and we will try to get it registered whenever we can. You would see some individual investors. We really don't see that today. We see it some place in between Silicon Valley and Wall Street.

MR. DUNN: We have one question we will ask at the end that gives you a chance to kind of go on for a little bit.

When folks come to you and say okay, we are a smaller company. We are trying to figure out where we are going to go in the next year and half/two years, as far as raising money and eventually going public, is there a preferred approach or is it truly facts and circumstances, or what drives you?

What kind of guidance do you give folks? Where do you try to direct them?

MR. HOGOBOOM: I'd love to take a stab at that one.

I've got a partner whose theme is for the speech: “The 20 reasons why you shouldn't go public.” I think people are under a gross misconception that going public is some ultimate goal to be reached.

As you well know, Marty, there is a lot of down sides for somebody to take their company public and all of a sudden, they are subject to public scrutiny that they may not be used to, among other things.

I'd be interested to hear what Philip says about this, that if I were counseling somebody who had already made the decision I'm going to be public, what's the best way for me to do that, I would focus on a couple of things.

I would focus on time. I would focus on cost, and I would focus on what happens after the ink is dry on the deal.

Frankly, all things being equal, I would try to drive a client towards a decision that said, look, you want to be in the best position to generate a solid institutional following for your stock after the fact. It's great to get your money up front and if you're desperate for it, that's terrific, but there can be so much negativity that comes along with doing things in a particular way, that some companies may never recover from that.

One of the issues that we have seen with reverse mergers, for example, and putting aside the China experience, one reason why we won't be involved is because you end up with a public company that has no institutional following whatsoever.

There is no analyst that is covering the company. There is no large shareholder who is involved in this, who can go out and help you tell the story.

What ends up happening is the company ends up chasing its stock price as it tries to get financing, and these companies are on this kind of projectory where they are just chasing their stock price down, and for every one of those that is successful, there are a hundred of them that are failures.

MR. MORGENSTERN: By the way, the industry joke there is they are public companies who have trading by appointment.

MR. HOGOBOOM: Right. From that perspective, in my personal judgment, that's the worse way to go public.

To answer the question more generically, I think, it's a transaction that leaves the company as healthy as it can possibly be financially, but also establishes a solid base for it to continue to grow and to gain the benefits that it expects to have from being public.

MR. ROTH: One of the things that I've seen recently, actually, it is a little contrary to that. It used to be -- we cover about 175 public companies from a research perspective, and raise capital for another 30 or so transactions a year.

It used to be when we would find an existing public company, often times they would have no institutional investors, and we would be what we call re-IPOing it, taking it to the institutional investor community for the first time.

As we sit here today, it's actually very difficult for us to find a new idea that doesn't have institutional ownership. There are a lot of hedge funds. There is a lot of money out there.

They are going under all the rocks looking for all of the ideas that are undiscovered, and it's a good thing, I think, for our markets, but it's very difficult to find truly undiscovered companies today that don't have an institution that has figured out, you know, that this company exists.

The only ones are the ones where they really can't get any ownership because it is so illiquid, the appointment only kind of trading.

What we found is that the institutions are so many of them. There are a lot of conferences. Companies getting out, with or without research analysts, that are attracting institutional ownership in today's world.

MR. PIDGEON: I think your question originally went to what do you do with the client who walks in the door and says I want to go public in a year, a year and a half.

I honestly think that advisors today are going to be a little bit more like Jack's partner than they were a few years ago. Everybody wanted to do IPOs, and that was the coolest and best thing. You had a client that was sort of a built in annuity.

I think that good advisors today are a little bit more measured in discussing the benefits and then the detriments of going public today.

I think when people come to us about going public in a year and a half or two years, we are probably much more likely to say why don't you set yourself up for an exit strategy of some sort in a year to two years, and not necessarily limit yourself to an IPO. There's a robust equity market out there. There are strategics that are always looking for complimentary products or companies.

What used to be the ultimate goal of entrepreneurs, the IPO, I think now is one of two or three very relevant exit strategies for them.

MR. MARCHAL: I would just chip in. When we come across a company that is contemplating a public offering, you know, the most important factor that we are really going to focus on, obviously, you need to conduct diligence of the entire business, but are they in a position where they can really begin to provide real visibility and guidance to investors.

Obviously, what investors are most focused on is something that they understand, something that's not going to surprise them.

A company, obviously, different companies in different sectors are obviously going to have to think about this in very different ways, biotech, for instance, you are not going to have -- typically, when a lot of the high tech's go public, they are pre-revenue. It's a different metric. It's going to be news about clinical trials and regular news they can deliver to the market to support the stock, and keep institutional investors excited about the story.

Really the key piece on a regulated company is that visibility and confidence that they have the systems, they have a business that is mature enough that allows them to project with some confidence what they are going to be doing quarter to quarter.

If you are not in that situation, then it doesn't really matter how much sponsorship you have out of the gates from Wall Street or institutions, they are going to abandon you, just as soon as you miss.

The markets these days are, of course, very unforgiving. Companies that will miss a quarter or two are suddenly going to find themselves orphans and in a lot of trouble with respect to maintaining sponsorship.

MR. MORGENSTERN: We are going to wrap up here momentarily. I will tell you that when I started taking companies public in the early 1990s, and I refused to let my public companies make quarterly or annual estimates.

The tag line on every one of them said we don't make them and we don't endorse them. Everybody said I was crazy and my companies were crazy.

It's 15 years later now, and it's looking better and better every day, if you really want to have a long term prospective and have committed investors to stay in the game, instead of in's and out's and hedges and activists.

MR. MARCHAL: Yes. Guidance, per se, perhaps is a necessary, but I think the issue is really one of being able to create manageable expectations and being able to deliver on them.

I'm not saying necessarily that a company needs to make their earnings by a penny and if they miss, they are in a world of hurt. There does have to be some ability to communicate what is a reasonable expectation, and then to be able to deliver on it.

MR. MORGENSTERN: We are going to have Marty ask the last question, and then Gerry serve as traffic cop to set up the afternoon.

MR. DUNN: I will say, before I ask the last question, Mickey Beach, anybody here knows Mickey because she is one of the true visionaries and geniuses in this whole area over the last 30/40 years. I never have done a panel or anything with Mickey where the first thing she said is don't go public until you are absolutely ready to.

I couldn't agree with you more. The goal shouldn't be to get public as quickly as you can. It should be to go public when that works for you and when you know what it's going to result in.

I've been here long enough to see where too many companies go public way too early, and then all of a sudden, they can't get out. They are stuck in it. It's a nightmare. It's not a good idea.

I couldn't agree with you more on that point.

Last question, and this is a chance for you all, you have traveled all the way here from wherever you are, your chance to tee some things up for these folks in the afternoon.

We have 14 minutes, so each of you have about two or three. What do you think is the single biggest challenge to small businesses raising capital right now, and is that a regulatory or a market challenge?

To the extent it is a regulatory challenge, given the fact that we have the dual obligations here of considering capital formation and considering protection of investors, what is your suggestion?

We will start with Jack, since he said the wonderful thing that Mickey agreed with earlier.

MR. HOGOBOOM: I think that there are significant challenges for small business companies trying to raise capital. I think they are fundamentally regulatory in nature.

I applaud the SEC for the job it does ensuring the integrity of our corporate finance markets, but I do think that there are some things that the staff does or the rules do that could be streamlined to make the process more efficient.

My favorite bette noir is incorporation by reference. It's hard for me to understand in this day and age why any company that's public and is filing reports with the Commission on EDGAR and which reports are freely available to the public instantaneously upon filing can't rely on those documents as part of its ongoing securities law compliance.

I have a number of clients that I represent who frankly drown, in my view, in the unnecessary expense of having to update registration statements through a laborious task of physically changing numbers literally to things as small as changing the fact that we have hired two new employees in the last quarter, and then file a post-effective amendment and wait to see whether the SEC will review it or not before they can go on with their capital raising opportunities.

The thing that I would most ask for the staff to do is to review those rules and to liberalize them in light of the fact that all this information is publicly available to everybody who wants to get it.

MR. MARCHAL: A couple of themes here that we have been talking about, I think, are coming through pretty consistent, and certainly, you know, you heard Byron reference the typical discounts that are obtained on PIPEs versus registered directs.

Clearly, registration of securities is the biggest issue, and to the extent that we can find ways to facilitate that registration process, particularly for companies -- it's the $75 million market cap companies these days, just to pick a level that is roughly correlated to the shelf eligibility rules.

That is really the threshold. It's companies below that that frankly have real issues to focus on when it comes to how they address registration, and it is certainly very costly from their perspective when they need to raise capital via a PIPE instead of a registered direct.

Again, as Byron had referenced, the same company can reasonably expect a 15 percent discount for a straight common stock issuance on a PIPE versus on the order of five percent for a registered direct.

From a regulatory perspective, I think that is what I would single out.

Just very quickly on the market side, clearly, you know, the other theme you have heard is that earlier stage companies do have difficulty finding that funding that really gets them to the execution risk stage of their business.

I think what we see all the time is an institutional community on the PIPE side that is very happy to take execution risk all day long. That's the kind of risk they are looking for, but pure business risk, that is something that is much more challenging, and that is a tough corner of the market to be trying to raise capital, if a company does not yet have a track record, if they haven't established viability for their product or their service, be it public or private, it's going to be a challenging stage for them to raise capital.

MR. PIDGEON: I actually think the regulators have done a very good job over the last few years in helping the securities markets. The SEC from the plain English initiative, which I always thought made a lot of sense, the exchanges with their corporate governance rules, which again, they are tough on founders and entrepreneurs, but I think overall for the markets, they make sense.

I think all of those things are great. It would be nice if there were maybe a little bit more coordination and cooperation among those agencies, exchanges, and others.

You find definitional differences, and sometimes those create difficulties. There are about five different "independence" definitions now when you talk about directors. There's two different tax code provisions, two different SEC provisions, and it would be nice if we could sort of make that stuff a little bit more consistent.

One area that we run into a lot in the PIPE and registered direct area is that the SEC changed in 1992 the threshold for issuers to utilize Form S-3 to having a non-affiliate float of $75 million. The NASD had a corresponding exemption for underwriters having to file for compensation approval, and they have left it at the 1992 standards for the last 14 years, which is $150 million in market cap, or there's $100 million plus a $3 million float.

We have had this odd dichotomy for 14 years. You can be an S-3 eligible issuer and be able to do a take down immediately, but you have to go make an NASD filing, or the banker does, in order to get that deal done.

It would be wonderful in my view, and the NASD is working on that rule right now, although they haven't changed the 150 and the $100 million provision, it would be wonderful if the SEC as the regulatory agency and the NASD could work together on those things, to make sure the thresholds that they use for certain exemptions are consistent across the board.

MS. PINEDO: I would agree with Steve that the NASD rule, 2710, is a very important one. Likewise, being in favor of some re-examination of the incorporation by reference.

I think, Marc, you had mentioned early on the recommendations, the prior recommendations of the advisory committee. I think there are a number of recommendations there that really make a great deal of sense, allowing reporting companies that have been reporting for a year or two to avail themselves of S-3. It certainly would seem to make a good deal of sense in terms of providing for their access.

An area that really no one has talked about, which is very relevant to PIPE transactions, how they are perceived in the market, how they impact companies, is the whole hedging and shorting of securities.

I think that is an area that the staff has been reluctant to focus on or reluctant to provide much guidance on.

I think in terms of the PIPE area, it's something that we have all avoided mentioning today or simply not mentioned today, but I think it's an area that bears some closer scrutiny.

MR. ROTH: I want to start off by saying I think we have come a long way as well. I've been in this micro cap market for a number of years, 15 years plus, and to be able to want to come to the SEC and talk about words like "micro cap" and "PIPE," even bring out the word "reverse merger," I think is very much a positive.

Beyond agreeing with the S-1/S-3 incorporation by reference, I do think, again, being one of the leading PIPE agents in the country, for me to say I think you should make it easier to do the shelf take downs, I think is saying a lot.

The only people I know that don't want that requirement to go down are actually some of the buyers who would rather buy the same company at a 15 percent discount instead of five. I don't think when Chairman Cox was talking about costs of capital, these are the kinds of things I think he would applaud.

Didn't have it on my note pad coming in, but the

144, potential change of going from a year to six months, I think for the companies that do PIPE transactions, I think that is going to again lower the discount and lower the cost of capital.

I agree as well with the whole shorting subject. I think it needs to be addressed. I think it needs to be a level playing field instead of just being interpreting one fund differently than the next. I think instead of allowing it to be one fund investing in the same company being able to treat it differently than the next, I think it should just be laid out in that this is the way it has to be. I would encourage that as well.

MR. DUNN: I'll wrap up. Before we read something in the paper that says SEC announces it is lowering 144 to six months, I just threw that out there as a discussion topic.

MR. MORGENSTERN: He meant three months. Slip of the tongue.

MR. DUNN: Please, don't go too far with that. It is something to consider, absolutely. I didn't want to over state what I was saying there, because it will be in an article somewhere.

I wanted to thank Marc very much, Bryon, Anna, Steve, Philip, Jack. Thank you very much. We spent hours and hours on the phone planning this, and you guys were wonderful. You were really wonderful, but we didn't spend hours and hours.

This was wonderful for me. I learned a lot. I hope everybody else did. I can't thank you all enough. I really appreciate it. Thanks.

MR. MORGENSTERN: Thanks for the opportunity.

MR. DUNN: With that, I'll turn it over to Gerry, your cruise director.

MR. LAPORTE: Back to the housekeeping details. The next item on the agenda is the lunch, which is scheduled to start at 12:45 p.m. at B. Smith's Restaurant, which is actually just next door to SEC headquarters in Union Station.

If you look in your program booklet after the second tab, there is a map. Most of you may be able to just sort of follow the crowd over there. When you go out of the main exit of the SEC building on F Street, if you just go up the street about maybe 150 feet or so and turn right to the front of Union Station, the restaurant is right there.

We intend to start the lunch at 12:45 p.m. You are supposed to have a reservation for lunch, but if you don't have a reservation, I think there is going to be seats available, on a space available basis, but they are supposed to seat those who have reservations first.

The speaker at the luncheon is Peter Wallison, who was one of the early believers in XBRL and has some more things to tell us on that subject, as well as other topics on small business capital formation.

If you haven't paid any attention to it, in order to attend the lunch, you are supposed to have $35 in your pocket because the SEC can't front the money under our appropriations regulations. This is the way we did it so we could have a nice luncheon program and hear from Peter.

If you don't have $35, there are some ATMs in Union Station that you can stop at before you go to lunch.

After lunch, if everybody could come back here at 2:15 to this room, we will reassemble here, and there will be a workshop on private placement broker-dealers in this room, and people who don't want to attend that workshop will break into break out groups to develop recommendations for the forum.

I hope to see most of you at lunch and most of you back here at 2:15 this afternoon.

L U N C H E O N   S E S S I O N

PRESENTATION BY PETER J. WALLISON

MR. WHITE: Everybody has to be very quiet or you are not going to be able to hear me.

I do want to thank you again for attending the Small Business Forum and especially for coming to lunch.

Before I introduce our luncheon speaker, I wanted to introduce our newest Commissioner, Kathleen Casey, who is here with us today. She joined the Commission in June. I've been trying to figure out words to describe her, and then I decided the right way to describe her is a tireless member of the Commission.

She was apparently on a short trip up to New York yesterday on behalf of the Commission, and on the way back, if I understand it, she was on the 4:30 p.m. shuttle, with a lot of other people from the Commission apparently, but didn't arrive back to her home until 1:30 a.m. last night, with the storm we had.

She is here this morning with us, and we are very pleased to have Kathy here.

MR. WHITE: I actually have a few more things to say about her. Before she joined the Commission, she served for over a decade as a senior staff leader in the Senate's Banking, Housing and Urban Affairs Committee, and she was with Senator Shelby of Alabama, who was most recently the Chairman of that Committee.

I should certainly point out one of the things that is certainly very gratifying and pleasing to those of us on the staff, Kathy has worked on so many of the issues that affect the Commission during her time on Capitol Hill, so we are all looking very much forward to having her as our Commissioner, and we thank you very much, Kathy.

Let me now turn to our lunch speaker. He plays a really special role here that I found out as well, but we will get to that in a minute.

It is Peter Wallison. He is with the American Enterprise Institute for Public Policy Research. He is a resident fellow at AEI, and he's also co-director of its program on financial market deregulation.

In looking through his bio, he obviously has a very distinguished career in public service. I picked out a few highlights.

He spent three and a half years as General Counsel in the Treasury Department. He was Special Assistant and Counsel to Nelson Rockefeller while he was Governor of New York and while he was Vice-President of the United States.

Then we get to the third thing that I picked out, which is very interesting for all of us at the SEC. You probably don't realize, those of you from the SEC, how interesting this is.

He was White House Counsel in 1986 and 1987. One of the things that he did while he was White House Counsel in 1986 and 1987 was hire a young lawyer to be an Assistant White House Counsel while he was there, and that young lawyer happened to be named, as you can guess, if you listened carefully to what I said this morning, Christopher Cox.

We have Peter to thank for bringing Chris Cox to Washington and later to the Commission. Pardon?

SPEAKER: Or blame.

MR. WHITE: Or blame. I didn't say that. Well, I don't have a job any more anyway. What's the difference? What am I going to do here?

Peter earned his undergraduate degree from Harvard College and his law degree from Harvard Law School. Prior to joining AEI, he practiced banking, corporate and financial law, at Gibson, Dunn & Crutcher in Washington, D.C. and in New York.

More recently, he has written extensively on XBRL and interactive data, and other matters related to financial reporting and regulation, and he has a keen interest in the special needs and interests of small business.

Peter, we would be delighted to have you take over, as I depart the Commission.

LUNCHEON ADDRESS

By Peter J. Wallison

These remarks will be about financial disclosure and how it can be improved. This is not just an issue for the SEC or the lawyers and accountants who follow its work. It is and should be a matter of concern for all of us. Ultimately, better disclosure improves the allocation of capital, which enhances productivity and economic growth.

A surprising and troubling fact about financial reporting is that sophisticated investors, managers and analysts-the people who know companies best-don't regard financial statements as a particularly valuable source of information. In survey after survey, financial reports rank way down the list of information that company managers and analysts say they want to know in order to determine whether a company-in some cases their own company-is creating or destroying value.

For example, while ordinary investors and the media consider GAAP earnings the most important information to know about a company, managers think that strategic direction is most important and earnings are eighth on their list. Analysts think market growth is most important, and earnings are fifth.

This is one of those facts that is well known in the financial world, but never seems to seep into the Washington mind. So we have Congress, in the Sarbanes-Oxley Act, creating a whole new regulatory structure-the Public Company Accounting Oversight Board-to make rules for the auditing of financial statements that many sophisticated investors, company managers and analysts don't think are worth much attention.

There are many reasons for the low regard in which financial statements are held. Financial statements tell us something about what happened in the past, but little about what will happen to a company in the future; much of the most important data in a financial statement-the collectibility of receivables, the productive lifetime of equipment or a line of products, or the return a company will be able to earn on its pension fund investments-are matters of simple guesswork by management, are easily manipulated to show a steady growth in earnings over time, and can't be effectively audited.

Most important is the fact that the overwhelming majority of the value now generated by American companies is in the form of intangible assets, which cannot be effectively valued by the cost-based system that is imbedded in Generally Accepted Accounting Principles (or GAAP).

This is because we have now entered the so-called knowledge economy, where value is created by such intangible items as intellectual effort or relationships with suppliers or customers rather than the production of material things by physical plant and equipment.

Let me give you an illustration. In the mid-1990s, AOL was a sensational growth stock. Its growth was driven by a unique method of attracting new members. AOL sent out floppy disks, more or less to everyone likely to have a computer, giving people who owned computers an opportunity to try AOL's services and sign up if they liked what they saw.

At one point, before Yahoo and others began to offer free services based on advertising rather than membership fees, AOL had over 20 million members. Clearly, AOL's membership list-its relationship with its customers-was its most important asset. Not only did its customers pay fees, but advertisers would also pay to reach them. However, that asset was not on AOL's balance sheet.

In 1998, the SEC sued AOL for capitalizing the costs of the floppy disks it sent out and required the company to restate several years of financials so that the costs of this promotional effort were written off in the year in which they occurred.

This was strictly in accordance with GAAP, since GAAP-a cost-based system-does not allow the capitalization of speculative expenses such as advertising or promotion.

However, if you looked at AOL's balance sheet after 1998, you might have wondered what assets were generating so much revenue. The answer is that there was an intangible asset lurking in the background-the company's customer list-developed at great expense (those disks) but not recorded on the balance sheet.

Now you may be thinking that the balance sheet isn't really important-that what's important in today's world is earnings per share-but consider this: The whole purpose of GAAP is to bring into the same accounting period both the revenues and the costs associated with generating them.

The principal way this is done is to amortize or depreciate productive assets so that when these costs are subtracted from revenues it is possible to tell whether the company is earning a profit.

If the asset that is generating the revenues is not on the balance sheet, it can't be depreciated and earnings are hopelessly distorted.

Thus in AOL's case, its earnings were understated in the years in which the company had to write off its promotional costs-even though it was creating its most important asset by doing this-and overstated in the subsequent years in which it was reaping the benefits of these revenues without any associated depreciation costs.

This is an example of how GAAP fails adequately to account for intangible assets, and since about 80 percent of the value generated today by the S&P 1000 has been estimated to be in the form of intangible assets-computer programs, pharmaceutical designs, brand names, employee skills, and contractual relationships with customers, co-venturers and suppliers-it's easy to see why investors are wary of financial statements as a means of measuring the value of a company.

In the case of AOL, there is another factor that investors would have liked to have understood a little better-the quality of the company's management. What's clear now is that while AOL had hit upon a genuinely inspired marketing strategy, it didn't have the management resources to respond to the competitive challenge that arose when companies such as Yahoo and Google began to attack its customer base with their very different business models.

Again, financial statements by themselves will never give investors a clear picture of the resourcefulness of the management and the employees of a company. There may be a way to do this, however, and I will get to it later in these remarks.

The accounting profession has known for about 25 years that financial statements were gradually losing their value, but as long as the media kept focusing on earning per share, and Congress and the SEC kept making laws and adding regulations that assumed that the most important thing to do for investors was to improve the accuracy or the auditing of financial statements, most accountants just kept plowing the same furrows.

Meanwhile, the wheels of bureaucracy and our tort system ground on, so that financial accounting has become more detailed and complicated, more expensive to prepare, and an even greater source of liability.

Things have gotten so bad that even people in Washington are noticing, and there are some steps toward reform underway. But as long as the financial press is made up of former English majors, and the SEC and Congress are dominated by lawyers, it will be a long struggle.

The good news is that some of the reforms-when they occur-will do more, proportionately, for small companies than for large ones.

This is true because the most promising changes will make it just as easy for analysts and investors to get useful information about small companies as large ones, and the important aspects of the business of small companies will be more sharply defined in the future.

Because of all this new activity, there are four issues you will be hearing a lot about in the future: complexity, convergence, interactive data and enhanced business reporting. I'll describe all of them, but the first two seem to me to be a good deal less promising-especially for small and mid-cap companies-than the third and fourth.

Complexity has several elements, including the sheer number of releases, rulings, pronouncements, guidelines, bulletins, standards and interpretations that rain upon the public company landscape daily. You all know what I'm talking about, but this statement of the problem focuses only on overburdened issuers.

This is serious enough, but there is another side to the complexity issue that refers to the bewildering detail with which investors are confronted. There are groups now forming, with the tacit or active support of the SEC, AICPA and the FASB, to address a problem that may be stated as follows: there is so much detail in financial statements and footnotes today that it obscures the important things that investors should know about a company.

It would be great if financial statements could be slimmed down, but I don't see this happening until the tort system is fixed, and that won't happen until a consensus forms about how wasteful and arbitrary it is.

It's the private class action system, and the SEC's own enforcement process, that is driving ever more complex financial statements, and I have trouble imagining how financial statements can be made simpler without giving rise to litigation about the things that were left out. I'm happy to see that people are recognizing complexity itself as a problem-it's the first step on a long road-but no one should expect reforms to happen soon.

Convergence refers to an effort to reconcile the differences between GAAP and International Financial Reporting Standards (known as IFRS). This is the accounting system used in the EU.

Why should we try to do this? Because it would be good for investors if they could diversify their investments into good foreign markets, and good for American companies if they could tap the deep capital markets in Europe and Japan.

The conventional view of many at the SEC is that Americans should not be allowed to invest in foreign markets until GAAP and IFRS converge into a single system of financial reporting. Until that occurs, the SEC believes, it will be too risky to allow U.S. investors to buy the securities of companies that issue their financial reports in IFRS. And as long as the SEC takes that view, European and Japanese markets will not make their facilities available to U.S. investors. They may also retaliate by refusing to allow U.S. companies to offer securities in their markets with financial statements in the GAAP format. The timetable for convergence is something like 2009.

I have said enough already to indicate that I don't believe it is worth the time or the intellectual effort to bring about a convergence of IFRS and GAAP.

Both are cost-based systems of financial accounting, and are thus effective forms of disclosure only for companies that create most of their value through the use of tangible assets such as plant and equipment.

Even if the two systems are somehow brought into some sort of conformity, they will soon diverge again under the political pressures that will be brought on them as the economies in which they function continue to evolve.

Instead, we should open up our markets immediately, and let foreign companies that wish to offer their securities here use IFRS rather than GAAP, but disclose that they are doing so. Investors who are uncomfortable about investing in companies that are not using GAAP can stay away; those who think that IFRS is likely to be as good, or better, than GAAP will have alternative investments.

Under such a mutual recognition arrangement, the EU will allow U.S. companies to issue securities in their markets, using GAAP financials and avoiding the expense of converting to IFRS. The fact is that there is just not enough difference between the GAAP and IFRS systems-given their inherent deficiencies-that would justify either serving as an obstacle to a globalized capital market.

As in the case of complexity, despite all the thought being given to the subject, I don't see any major benefits for small and mid-cap companies any time soon.

But Interactive Data is a different kettle of fish altogether, and if it becomes the standard for financial statement disclosure in the United States, it offers some real potential benefits for small and mid-cap companies. Interactive data is SEC Chairman Cox's term for the techie-sounding system called eXtensible Business Reporting Language, or XBRL.

XBRL is basically a set of definitions that in effect converts the different words and concepts used by companies in their financial reports into a common computer-readable language.

You might think of XBRL as like a bar code; it is not readable by human eyes, but it contains information that the computer displays in human-readable language.

Thus, companies can call the top line in their financial reports sales, or revenue, or turnover, but each of these terms is translated into XBRL with the same meaning. If a company's top line is ordinarily stated net of discounts, that also receives a special and slightly different XBRL tag.

By making financial statements machine-readable, XBRL allows the financial statements of multiple companies to be searched in a matter of seconds, and any specified data extracted and displayed in a spreadsheet.

Let me give you an example. If you want to know the EBITDA (earnings before interest, taxes, depreciation or amortization) of all the companies in the pharmaceutical business, you could do this by downloading their financial statements, searching for the components of this number and inputting these elements one by one into a spreadsheet-a hugely time-consuming activity.

However, if you were searching financial statements that were prepared for use in XBRL format, you could search the financial statements of the entire pharma industry and array their EBITDAs in any way you want, in seconds.

It should be obvious, then, that this system is more likely to result in an analyst searching out and finding this number for small and midcap companies.

In the discussion this morning, most of the talk was about the numbers that appear in financial statements, but we shouldn't leave the impression that interactive data is only useful for financial statement numbers.

Interactive data, or XBRL, can also be used for text disclosures, and in the same way. As long as a text disclosure is consistently defined, it can be searched and displayed as easily as a number.

For example, many oil companies disclose their oil and natural gas reserves in their financial reports. This number usually appears in a footnote text discussion of the issue. As long as all companies define reserves and identify the text as a discussion of reserves, XBRL would allow a computer, in seconds, to compare all their reserves.

In the same way, XBRL will also make MD&A discussions in the prospectus more useful to investors by facilitating comparison between companies. For example, if an MD&A contains a discussion of market share, this data will also be searchable in all filings and displayed in seconds in a spread sheet. This will also make things easier for issuers, because the company's data system can be structured to keep track of data on market share or reserves, and plug it in automatically as the 10-K is being prepared.

Finally, there is enhanced business reporting. I would be surprised if many of you have heard much about enhanced business reporting, or EBR, since the idea is still in the germination stage.

It's an effort to make up for the deficiencies of GAAP that I described earlier by identifying the elements that drive increases in company value in each industry, and developing metrics that will measure a company's performance with respect to each of these elements.

The value drivers are called key performance indicators (or KPIs), and once they are in place for an industry it will be possible to compare companies on this basis as well as their financial performance in GAAP terms.

The relationship between XBRL and EBR is very close. XBRL is about format; EBR is about substance. If the substance-the information about companies that goes beyond the financial statements-can be developed effectively, XBRL provides the format through which this information can be quickly and inexpensively searched and used.

Well, what information is missing?

As I noted earlier, GAAP financial statements are losing their usefulness and disclosure value as, increasingly, companies create value through the development and deployment of intangible assets.

I used the example of AOL, but there are many, many others. When a company creates a new software program, it does so through the ingenuity of its employees, but their salaries are written off under GAAP. Even if the salaries were capitalized, they would have only the vaguest relationship to the real value of the software.

This is quite different from the old world of manufacturing, where companies would purchase equipment to produce their products. This equipment had an arms-length cost that was recorded on their balance sheets and was depreciated over time. The depreciated value of the plant and equipment on balance sheets, reduced by liabilities, was a rough estimate of the value of a company.

So, in the 1970s, the market value of companies was roughly equal to their net asset value, a 1-to-1 ratio. By the late 1990s, this ratio was 6-to-1. It has now declined a bit to the 5-to-1 range according to numbers I've seen recently, but the point is that investors now have no clear source of information about the value of companies.

Balance sheets are no longer useful because of the dominance of intangible assets that are not recorded there, and earnings are a volatile indicator that says little about a company's future.

Most financial analysts prefer to discount cash flows-on the theory that cash is less manipulable than earnings-the expression often heard on Wall Street is that earnings are an estimate; cash is a fact-but discounting today's cash flows still involves a prediction about the future.

So, at best, sophisticated investors are guessing about whether companies are really adding value, and this is somewhat troubling when market-to-balance sheet ratios are at 5-to-1.

Surveys of sophisticated investors, corporate managers and analysts indicate that they prize information that financial statements and other disclosure documents do not now provide-information about management skills, employee retention rates, customer turnover rates, product development cycle time, employee and customer acquisition costs, and quality of intellectual capital.

These are important drivers of value for most firms, but their relative importance may vary from industry to industry.

In fact, there are key performance indicators that are unique and vital to understanding particular industries, but not important at all in others.

Productivity in exploratory activity may be important for an extractive industry, but not at all for a software developer. Speed in getting a product to market may be vitally important for a pharmaceutical company, but less so for a shoe manufacturer.

In other words, investors want and need information that is not currently available in company reports. And where it is available, it isn't reported in a consistent way by all companies so that the competing companies can be assessed or compared across these dimensions.

The purpose of EBR is to develop both the key performance indicators and to get them adopted by whole industries, so that these comparisons are possible.

Small and mid-cap companies have a big stake in this effort. As we have seen, when it gets too expensive in time or resources to follow both a small cap and a large cap company, analysts will transfer their efforts to the large cap company.

XBRL, as I noted earlier, makes it possible for analysts and investors generally to compare the information-both numerical and textual-that companies now disclose.

But this information is not sufficient for sophisticated investors and analysts fully to understand which companies are adding value and which are not.

For that, key performance indicators will be necessary, and if they are developed and deployed over time it will be possible for investors to gain a greater understanding of where their capital should be placed. Our markets will become even more efficient in allocating capital, and efficient small and mid-cap firms will get the attention from investors that they now find difficult to acquire.

In other words, technology in the form of XBRL, combined with the difficult intellectual effort of developing key performance indicators for all industries, could in the future level the playing field between large and small firms in the competition for capital.

So, how can this be done? There has been resistance by companies-they may be concerned about liabilities or giving too much information to competitors. These legitimate issues can be addressed. The important thing is to get started. The SEC has a role, consistent with its mission to advance the interests of investors: it should convene industry groups to develop KPIs. XBRL is a start-but it's only a format. The next objective is EBR.

Small and mid-cap companies have a major stake in these developments, and I urge you to follow them closely. Thank you.