



***Markets Burning: the Loss of the Revenue Model
Needed to Support Stocks is Destroying Capital Formation***
IPO Market Structural and Regulatory Issues
Government-Business Forum on Small Business Capital Formation

Securities and Exchange Commission

100 F Street NE
Washington, DC
November 17, 2011

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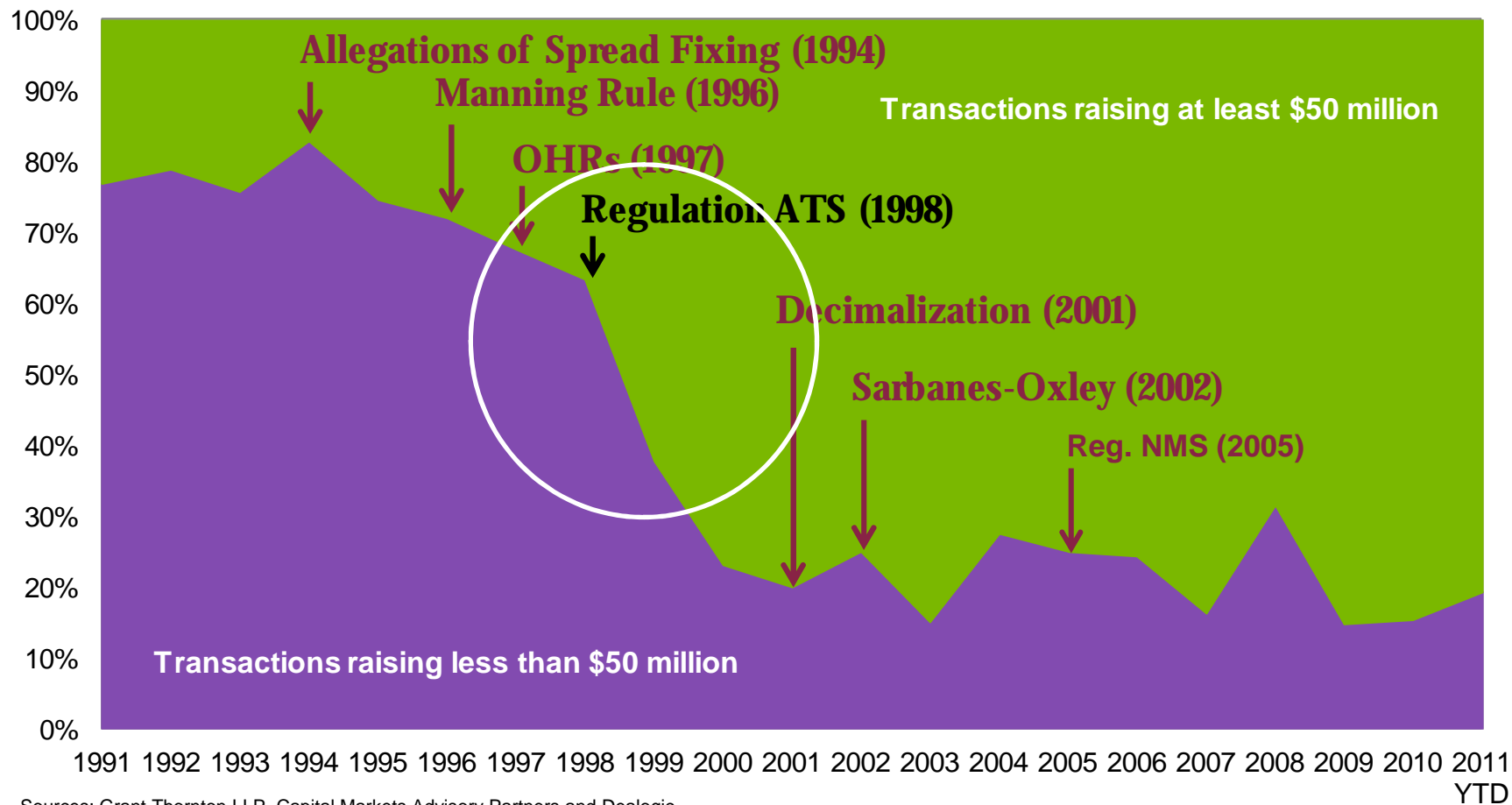
There are numerous bills attacking costs to issuers, but the lack of an aftermarket support model (revenue to dealers) is the key problem that must be addressed!

- H.R. 1070—Passed House: 421-1
 - Enhanced Reg. A bill takes cap from \$5 million to \$50 million
- H.R. 1965—Passed House: 420-2
 - Raises threshold for banks from 500 to 2,000 shareholders before registration is triggered
- H.R. 2940—Passed House: 413-11
 - Repeal of the prohibition against general solicitation in Reg. D offerings
- H.R. 2930—Passed House: 407-17
 - Crowdfunding exemption for up to \$1 million without an audit and \$2 million with an audit

The small IPO market collapsed with the OHRs and Reg. ATS (loss of B/D incentives)

As seen in the study "Market structure is causing the IPO crisis—and more"

Percent of total U.S. IPOs



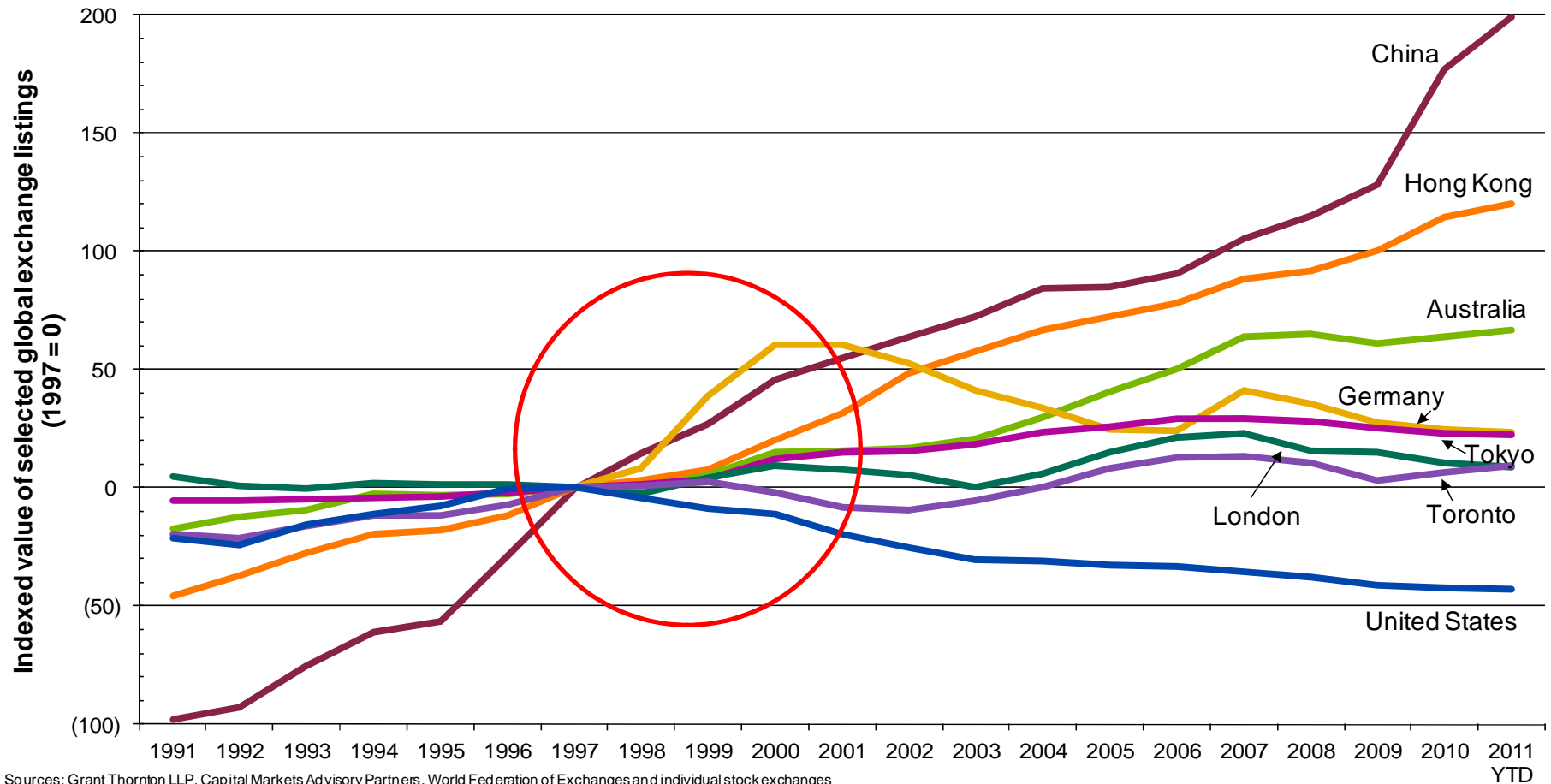
Sources: Grant Thornton LLP, Capital Markets Advisory Partners and Dealogic

Data includes corporate IPOs as of 6/30/11, excluding funds, REITs, SPACs and LPs

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This led to a catastrophic fall in the number of listed companies (45%)

As seen in the study "A wake up call for America"*



Sources: Grant Thornton LLP, Capital Markets Advisory Partners, World Federation of Exchanges and individual stock exchanges

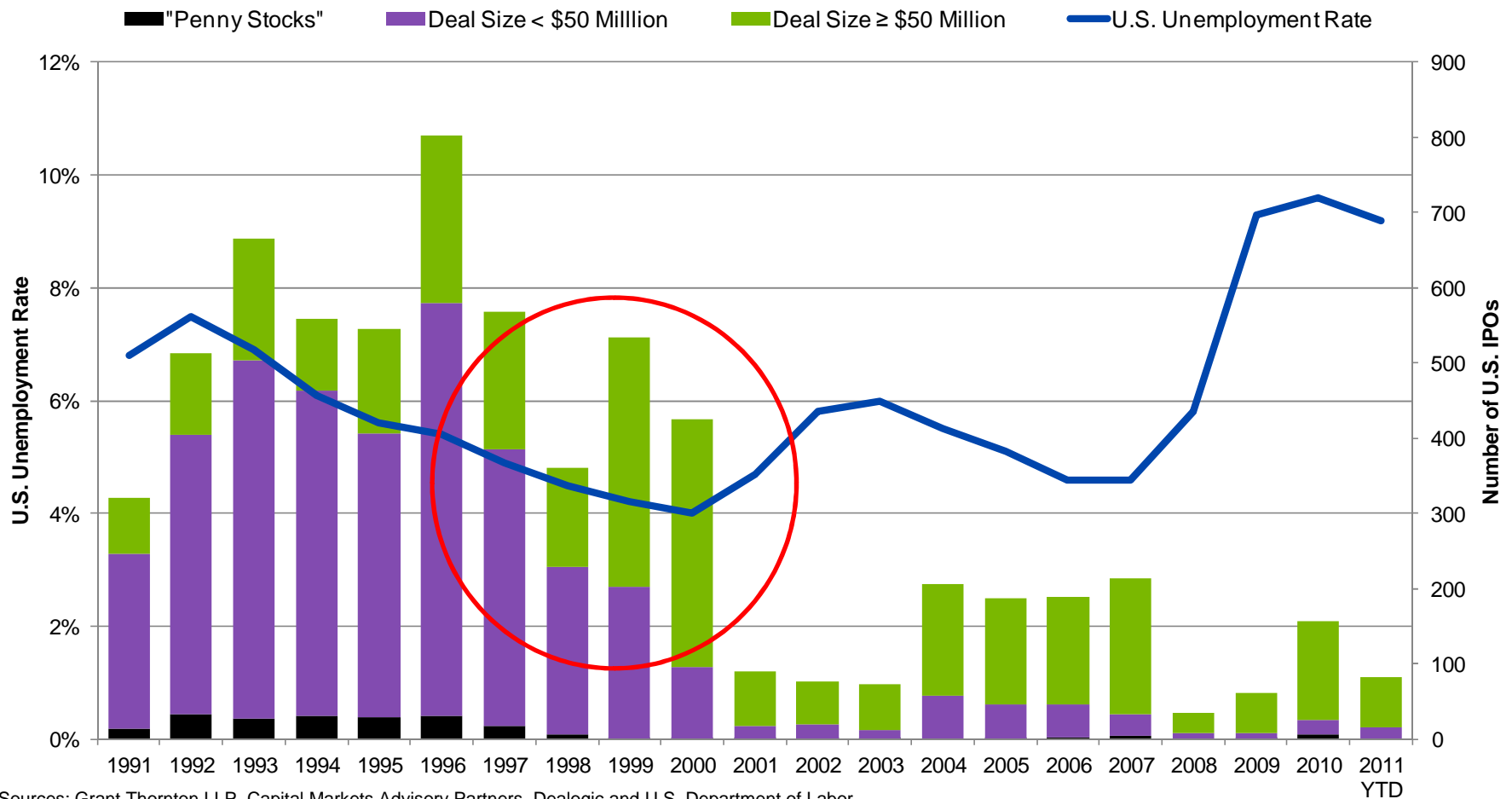
*March 16, 2011; House Financial Services Committee "Hearing on Legislative Proposals to Promote Job Growth, Capital Formation and Market Certainty" statement by David Weild

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We believe the loss of small IPOs is a major contributor to job loss in the United States

As seen in the study "Market structure is causing the IPO crisis—and more"

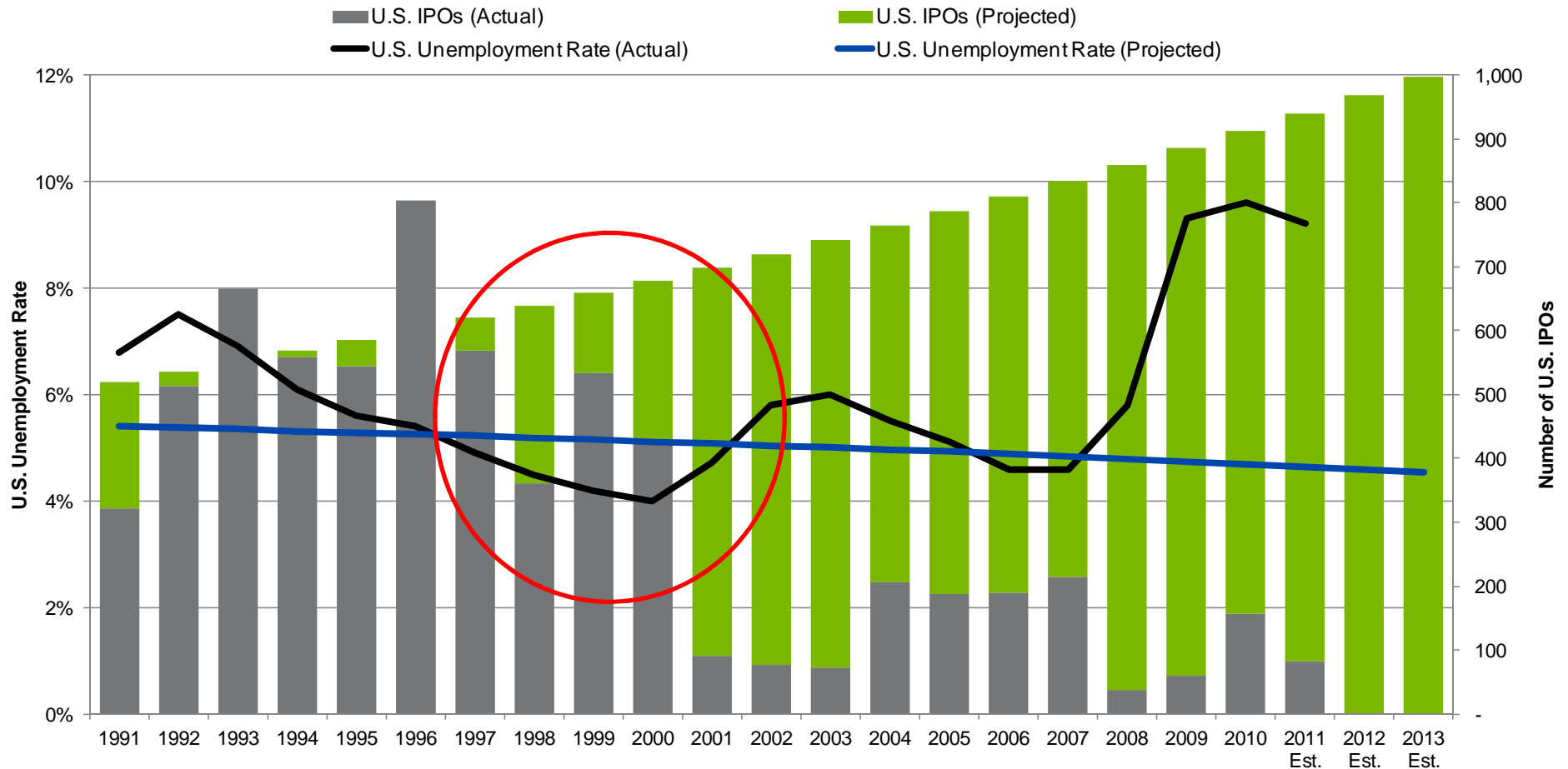


Sources: Grant Thornton LLP, Capital Markets Advisory Partners, Dealogic and U.S. Department of Labor

Data includes corporate IPOs as of 6/30/11, excluding funds, REITs, SPACs and LPs

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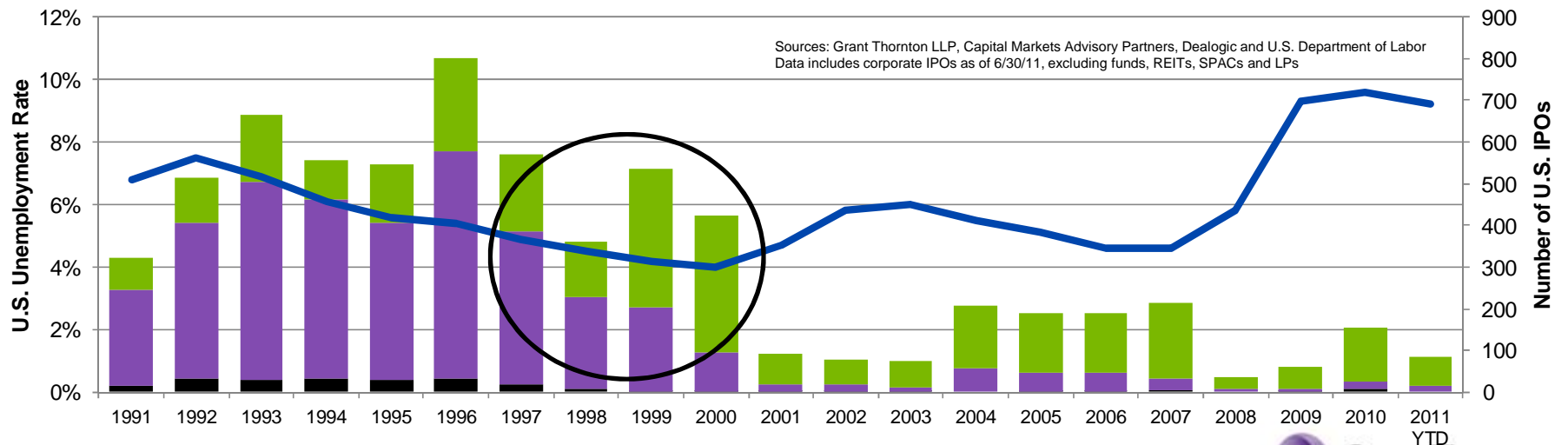
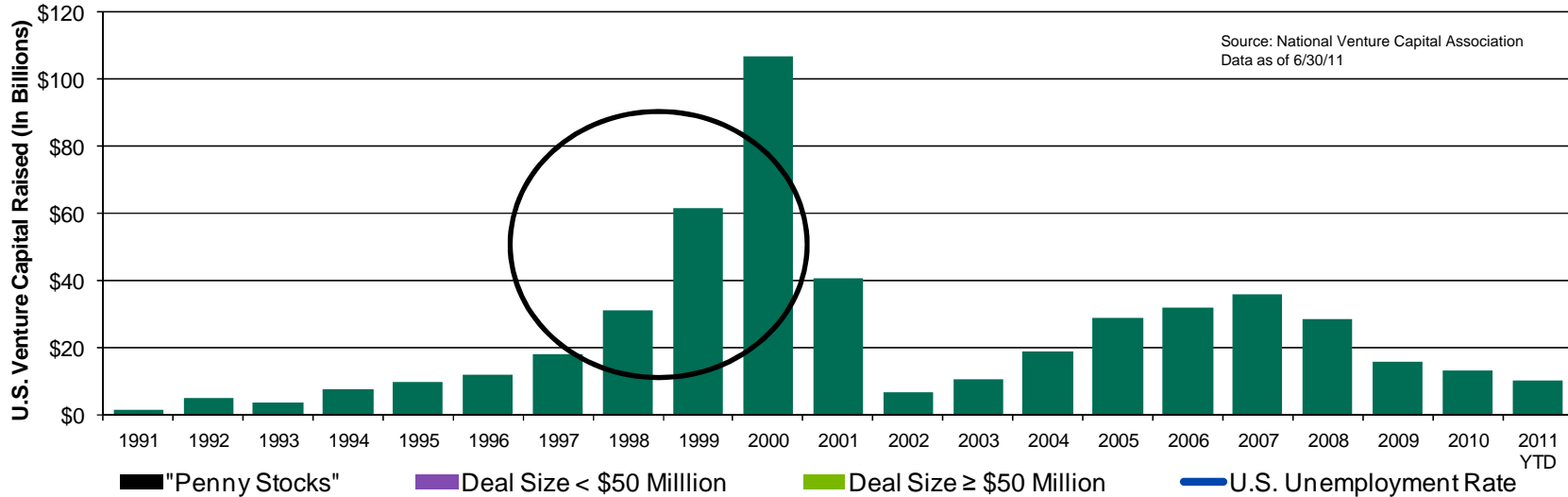
We should be approaching 1,000 IPOs/year and < 5% unemployment



The 'U.S. IPOs (Projected)' estimate assumes 520 IPOs per year starting in 1991 with a 3% compound annual growth rate equivalent to the U.S. GDP growth rate. A simple linear regression model was created using historical data to predict the 'U.S. Unemployment Rate (Projected)' based on this number of projected IPOs.

Sources: Grant Thornton LLP, Capital Markets Advisory Partners, Dealogic and U.S. Department of Labor
Data includes corporate IPOs as of 6/30/11, excluding funds, REITs, SPACs and LPs

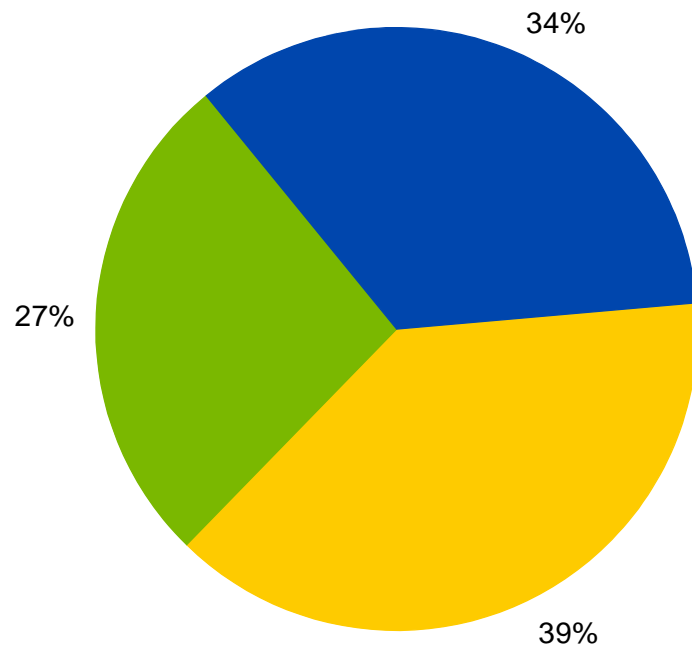
We should have enjoyed a venture-backed post 1990s 'IPO Echo Boom,' but the OHRs and Reg. ATS short-circuited it



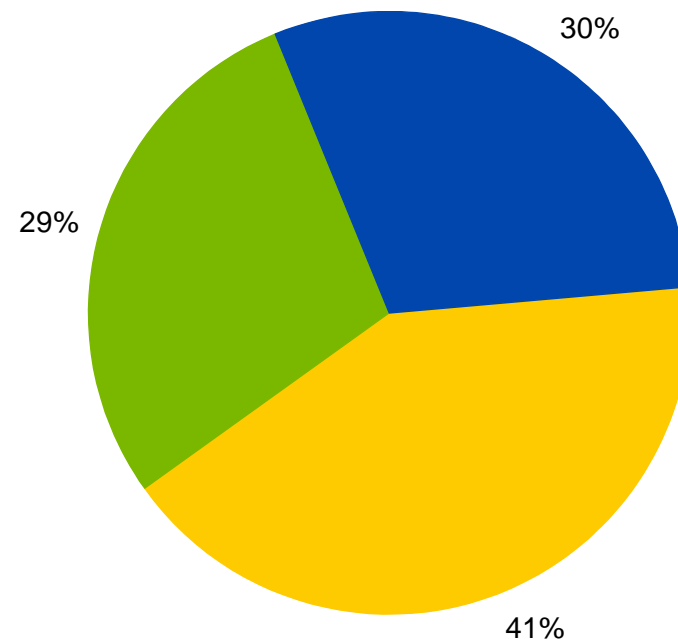
Small IPOs (venture, private equity, other) have disappeared no matter what the source—this is an American problem not confined to venture capital

■ Venture Capital Backed ■ Private Equity Backed ■ Other

IPOs in 1991



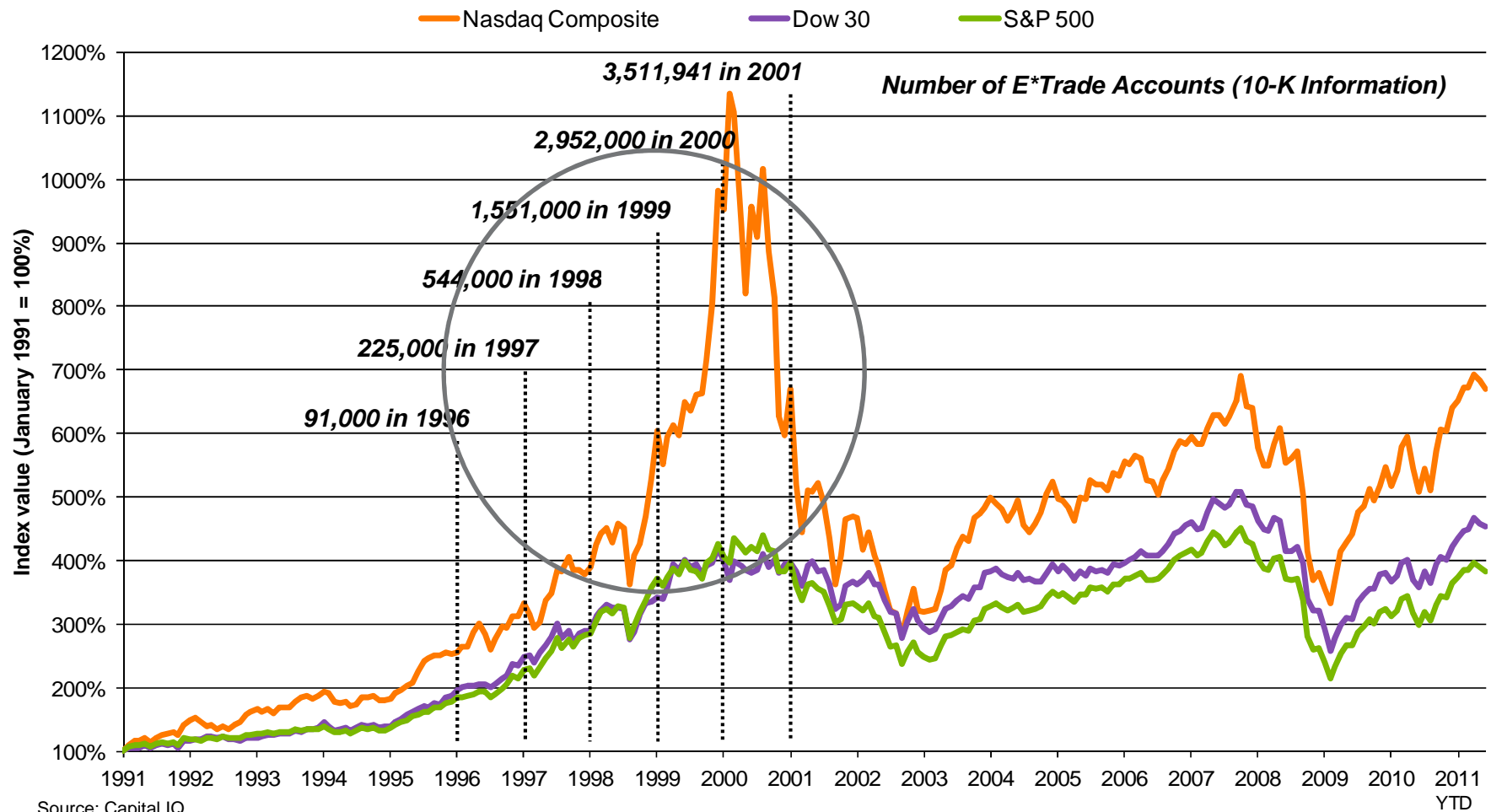
IPOs in 2010



Source: Capital Markets Advisory Partners, Ritter, Jay, "Initial Public Offerings: Tables Updated Through 2010," June 1, 2011
Excludes IPOs below \$5.00 per share, unit offers, ADRs, closed-end funds, LPs, SPACs, REITs, bank and S&Ls

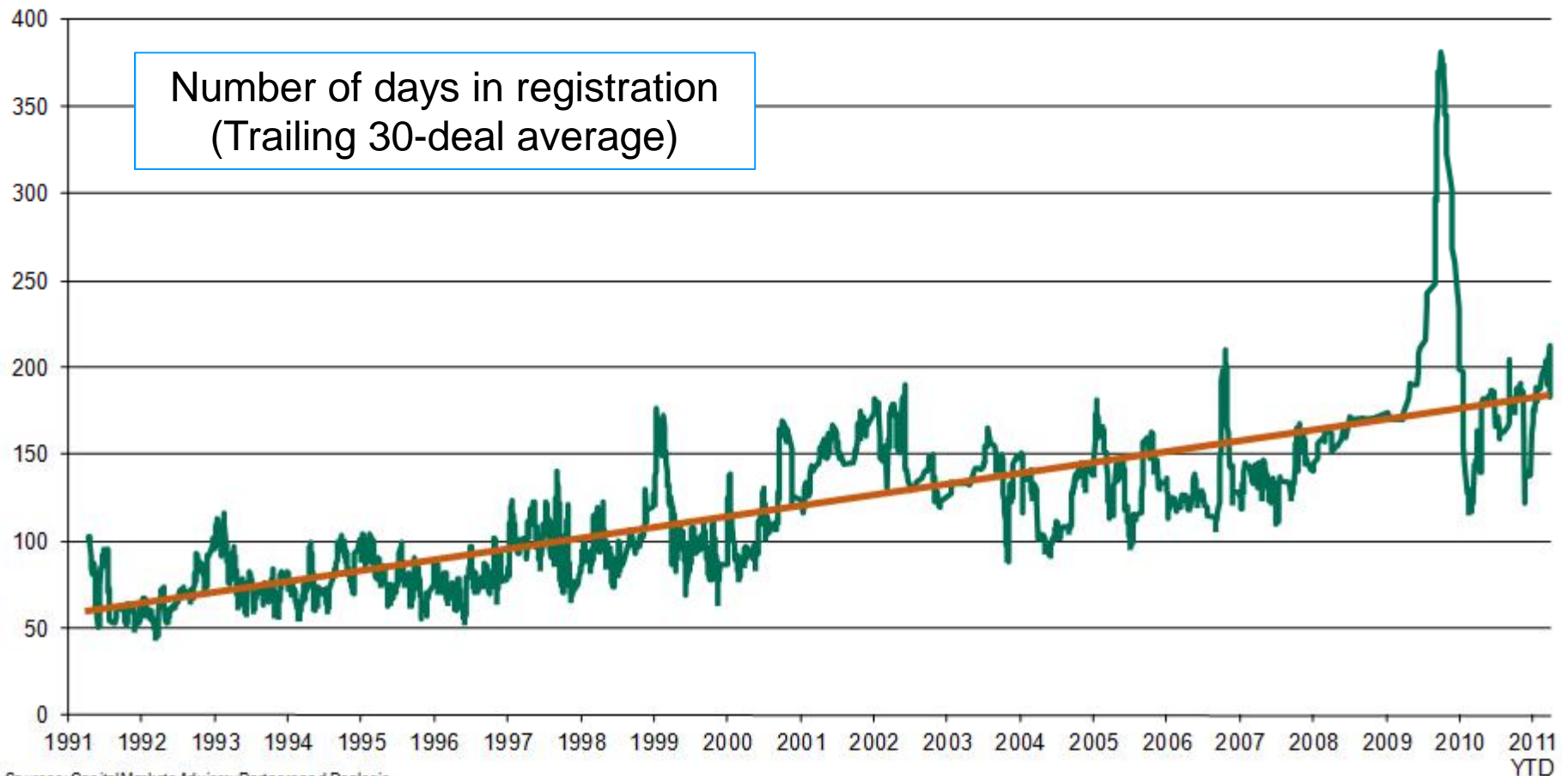
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Online brokerage enabled the Dot Com Bubble—not renegade analysts—the OHRs and Reg. ATS likely enabled the Dot Com Bubble



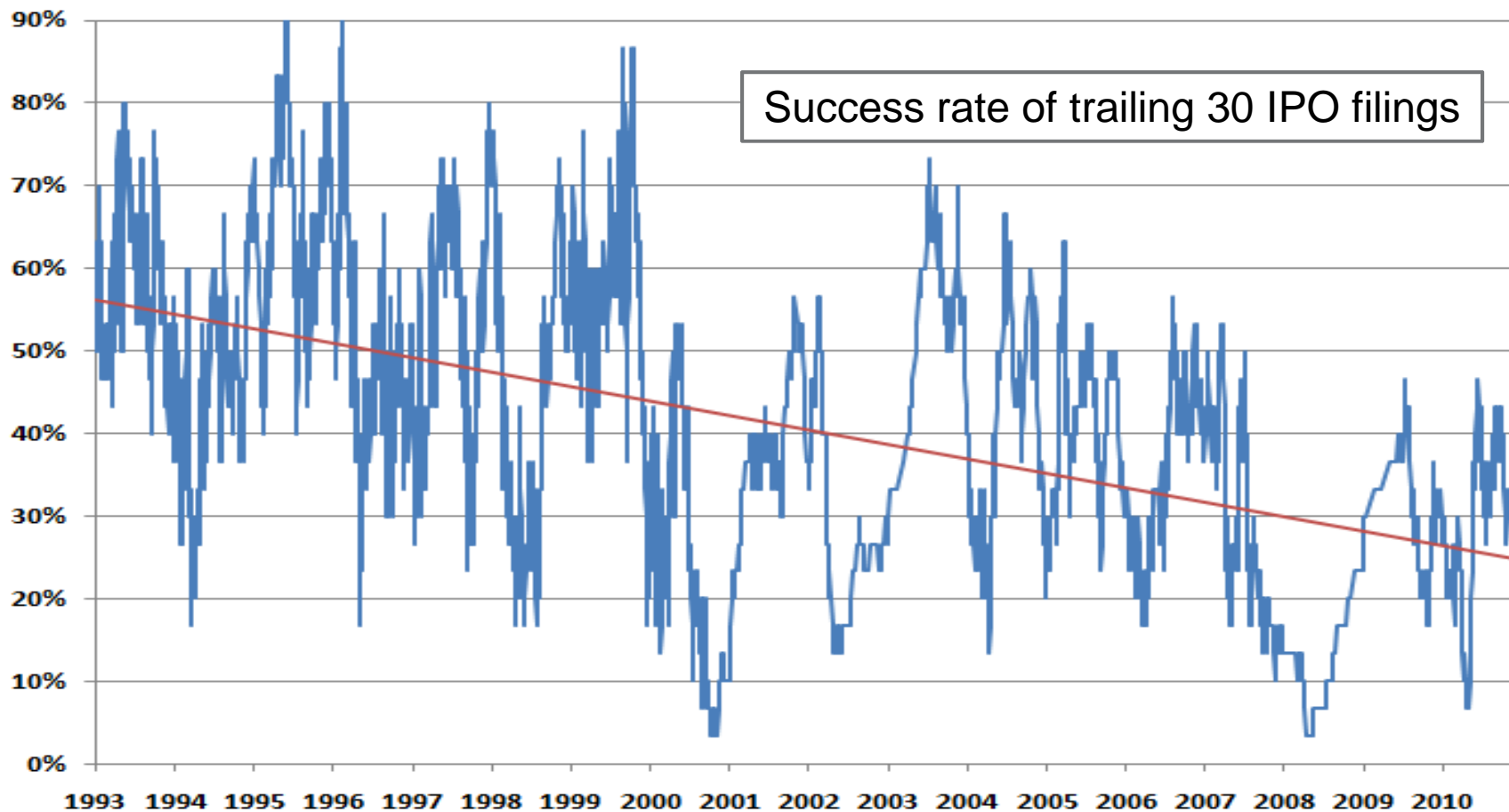
Source: Capital IQ
Data as of 6/30/11

IPOs take > 3 times as long to get through the SEC than they did 20 years ago



Sources: Capital Markets Advisory Partners and Dealogic
Data includes corporate IPOs as of 4/30/11, excluding funds, REITs, SPACs and LPs

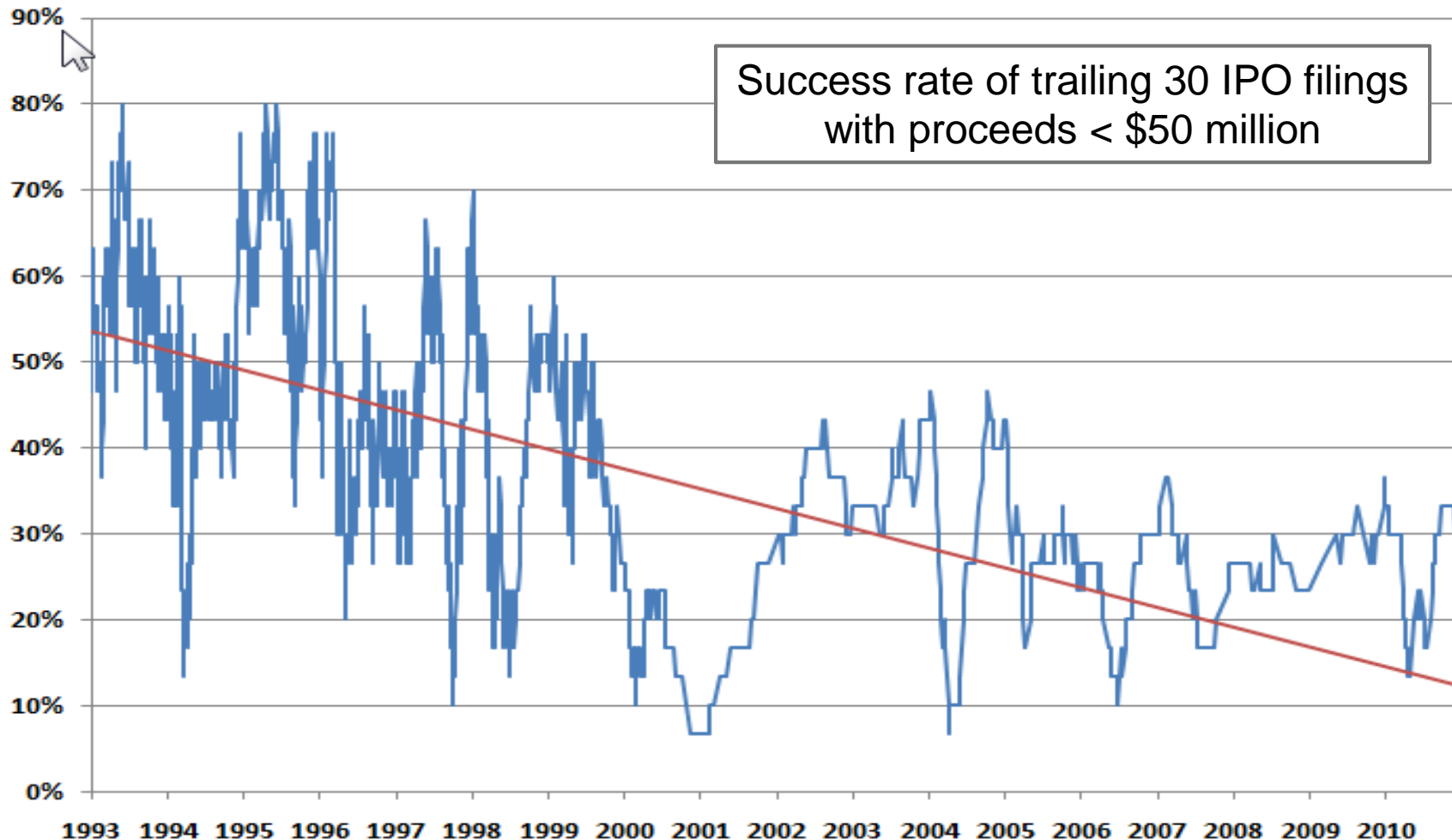
IPO success rates have been in sustained decline for nearly two decades, despite deals that are increasing in average size and maturity



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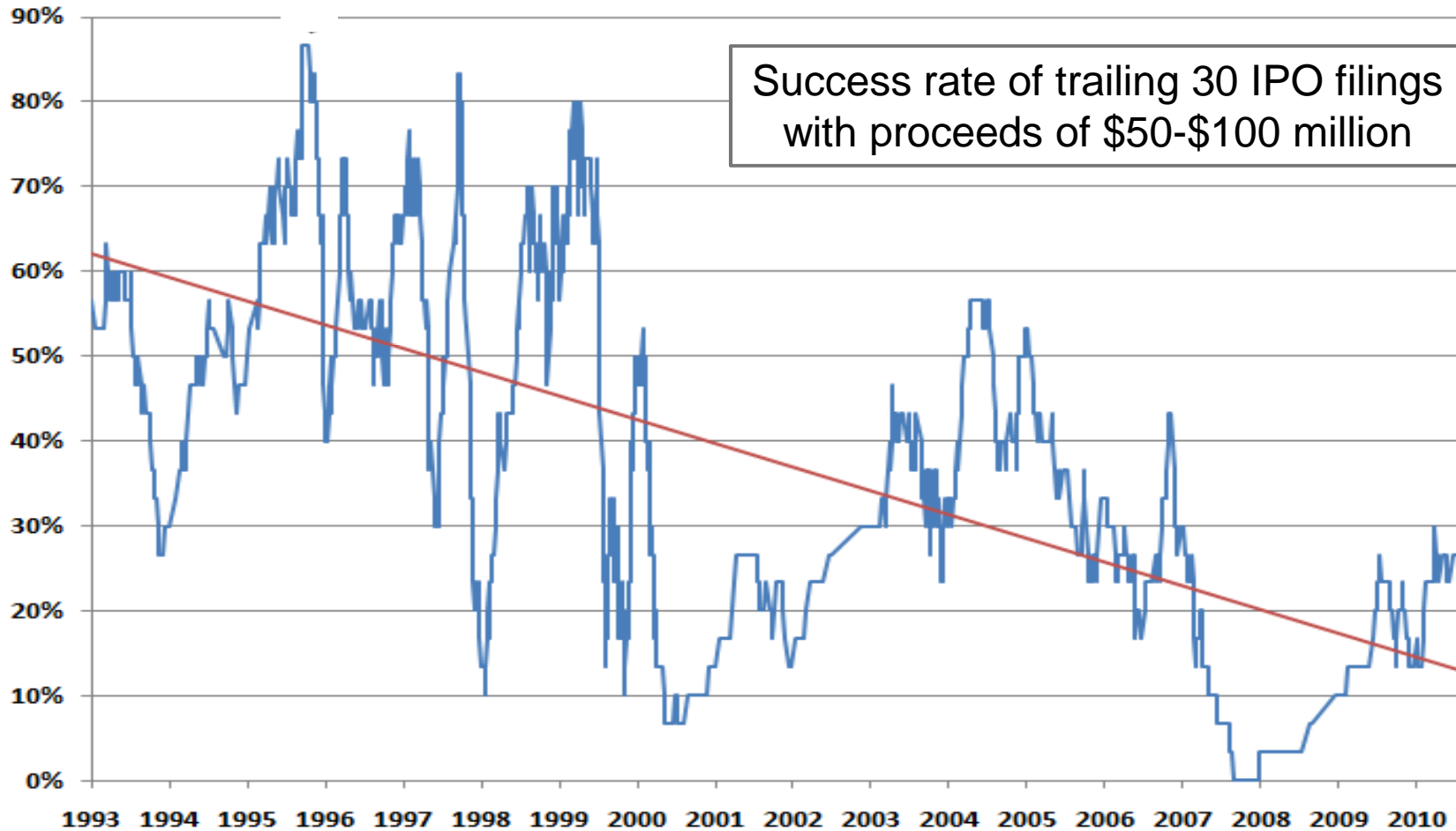
Less than one-third of very small IPOs (< \$50 million) are successful in today's market



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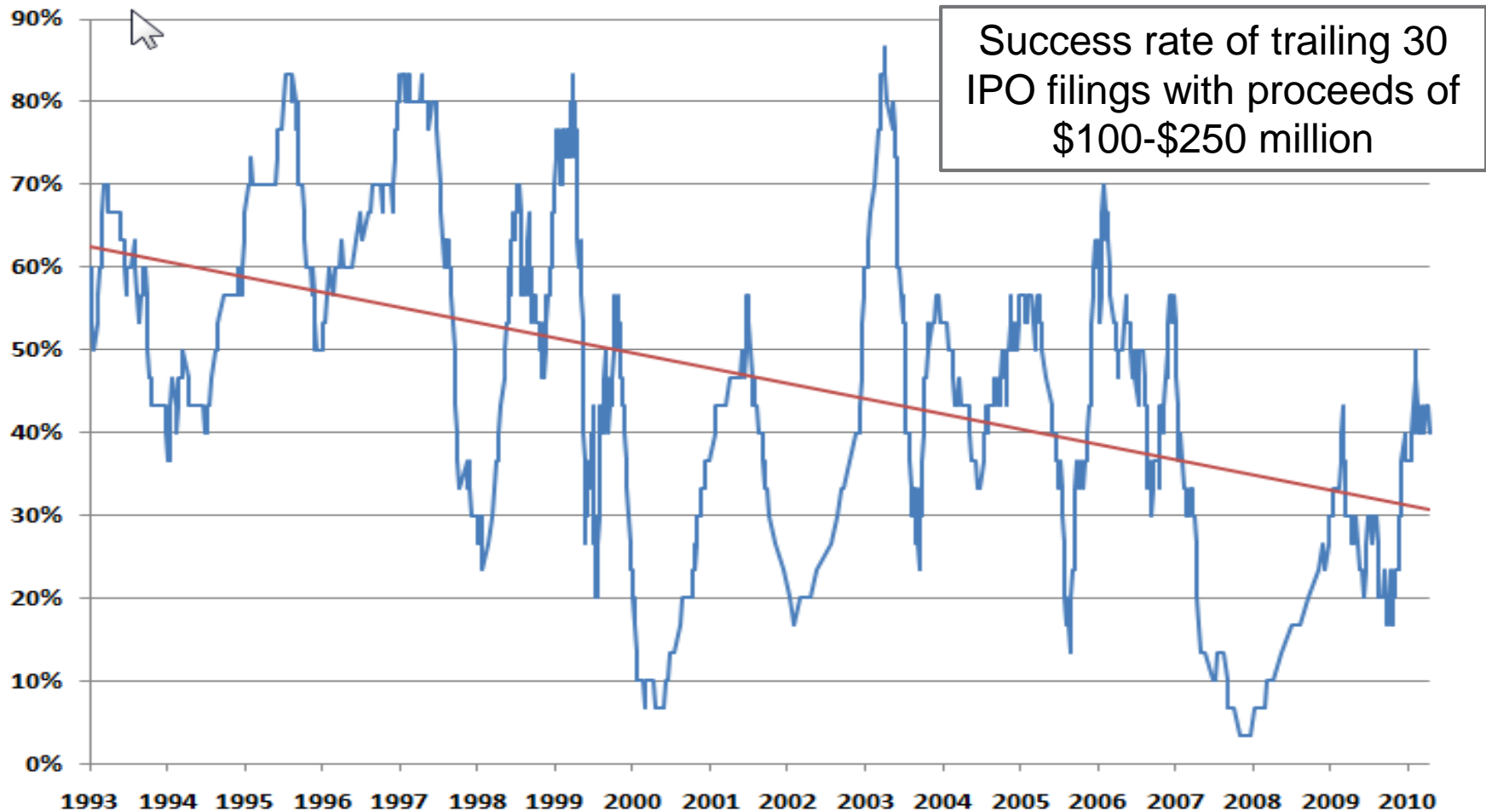
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IPOs that raise \$50-\$100 million



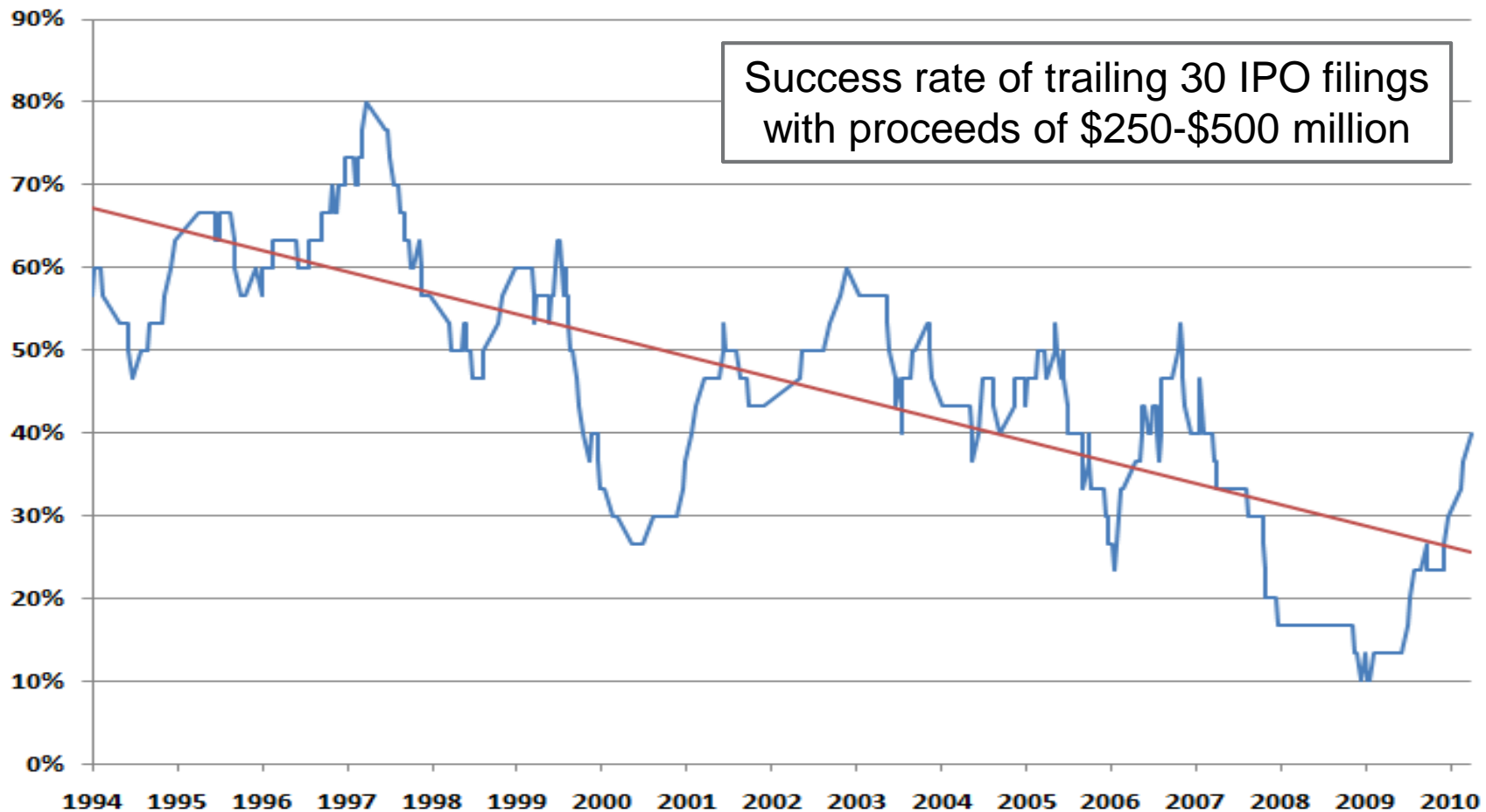
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IPOs that raise \$100-\$250 million



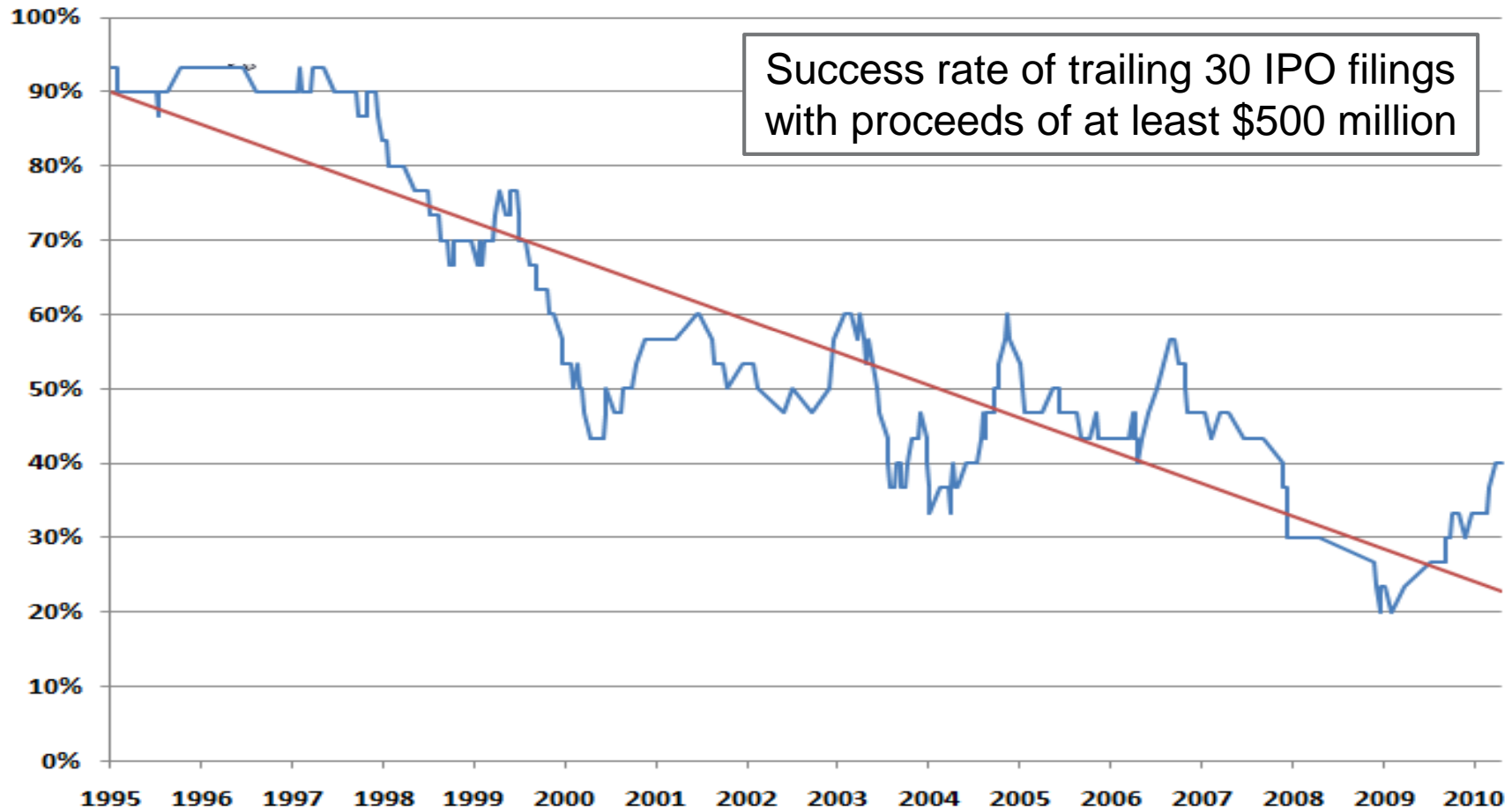
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IPOs that raise \$250-\$500 million



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IPOs > \$500 million have demonstrated the steepest decline of all



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Loss of the Ecosystem: Underwriting Groups

Microsoft's IPO (1986) vs. LinkedIn's IPO (2011)

Microsoft IPO: \$58,695,000 March 13, 1986

Underwriter Table from Final Prospectus **116 Underwriters (p. 1 of 3)**

<u>Underwriter</u>	<u>Number of Shares</u>	<u>Underwriter</u>	<u>Number of Shares</u>
Goldman, Sachs & Co.....	440,500	Kleinwort, Benson Incorporated.....	15,000
Alex. Brown & Sons Incorporated.....	440,500	Ladenburg, Thalmann & Co. Inc.....	15,000
ABD Securities Corporation.....	15,000	Cyrus J. Lawrence Incorporated.....	6,000
Advest, Inc.....	15,000	Lazard Frères & Co.....	42,000
Allen & Company Incorporated.....	15,000	Legg Mason Wood Walker Incorporated.....	15,000
Arnhold and S. Bleichroeder, Inc.....	15,000	McDonald & Company.....	15,000
Robert W. Baird & Co. Incorporated.....	15,000	Merrill Lynch, Pierce, Fenner & Smith Incorporated.....	42,000
Baker, Watts & Co.....	6,000	Montgomery Securities.....	42,000
Banque de Neuflyze, Schlumber, Mallet.....	15,000	Moore & Schley Capital Corporation.....	6,000
Barclays Merchant Bank Limited.....	6,000	Morgan Grenfell & Co. Limited.....	15,000
Bateman Eichler, Hill Richards Incorporated.....	15,000	Morgan Keegan & Company, Inc.....	6,000
Bear, Stearns & Co. Inc.....	42,000	Morgan Stanley & Co. Incorporated.....	42,000
Sanford C. Bernstein & Co., Inc.....	15,000	Moseley, Hallgarten, Estabrook & Weeden Inc.....	15,000
Birr, Wilson & Co., Inc.....	6,000	Needham & Company, Inc.....	6,000
William Blair & Company.....	15,000	Neuberger & Berman.....	6,000
Blunt Ellis & Loewi Incorporated.....	15,000	W. H. Newbold's Son & Co., Inc.....	6,000
Boettcher & Company, Inc.....	15,000	Newhard, Cook & Co. Incorporated.....	6,000
J. C. Bradford & Co., Incorporated.....	15,000	The Nikko Securities Co. International, Inc.....	6,000
Brean Murray, Foster Securities Inc.....	6,000	Nomura Securities International, Inc.....	6,000
Butcher & Singer Inc.....	15,000	The Ohio Company.....	15,000
Cable, Howse & Ragen.....	42,000	Oppenheimer & Co., Inc.....	15,000
Carolina Securities Corporation.....	6,000	PaineWebber Incorporated.....	42,000

Source: Microsoft IPO Final Prospectus

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Microsoft IPO: \$58,695,000 March 13, 1986

Underwriter Table from Final Prospectus **116 underwriters (p. 2 of 3)**

Cazenove Inc.....	6,000	Parker/Hunter Incorporated.....	6,000
The Chicago Corporation.....	6,000	Pictet & Cie.....	6,000
Cowen & Co.....	15,000	Piper, Jaffray & Hopwood Incorporated.....	15,000
Credit Commercial de France.....	15,000	Prescott, Ball & Turben, Inc.....	15,000
Dain Bosworth Incorporated.....	15,000	Prudential-Bache Securities Inc.....	42,000
Daiwa Securities America Inc.....	6,000	Rauscher Pierce Refsnes, Inc.....	15,000
D.A. Davidson & Co. Incorporated.....	6,000	Raymond, James & Associates, Inc.....	6,000
Deutsche Bank Capital Corporation.....	15,000	Robertson, Colman & Stephens.....	42,000
R. G. Dickinson & Co.....	6,000	The Robinson-Humphrey Company, Inc.....	15,000
Dillon, Read & Co. Inc.....	42,000	Rotan Mosle Inc.....	15,000
Doft & Co., Inc.....	6,000	Rothschild Inc.....	15,000
Donaldson, Lufkin & Jenrette Securities Corporation.....	42,000	L. F. Rothschild, Unterberg, Towbin, Inc.....	42,000
Drexel Burnham Lambert Incorporated.....	42,000	R. Rowland & Co., Incorporated.....	6,000
Eberstadt Fleming Inc.....	15,000	Sal. Oppenheim Jr. & Cie.....	6,000
A. G. Edwards & Sons, Inc.....	15,000	Salomon Brothers Inc.....	42,000
Eppler, Guerin & Turner, Inc.....	15,000	J. Henry Schroder Wagg & Co. Limited.....	15,000
EuroPartners Securities Corporation.....	15,000	Seidler Amdec Securities Inc.....	6,000
First Albany Corporation.....	6,000	Shearson Lehman Brothers Inc.....	42,000
The First Boston Corporation.....	42,000	Sogen Securities Corporation.....	15,000
First Manhattan Co.....	6,000	Stephens Inc.....	15,000
First Southwest Company.....	15,000	Stifel, Nicolaus & Company, Incorporated.....	15,000
Furman Selz Mager Dietz & Birney Incorporated.....	15,000	Sutro & Co. Incorporated.....	15,000

Source: Microsoft IPO Final Prospectus

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Microsoft IPO: \$58,695,000 March 13, 1986

Underwriter Table from Final Prospectus **116 underwriters (p. 3 of 3)**

Furman Selz Mager Dietz & Birney Incorporated.....	15,000	Sutro & Co. Incorporated.....	15,000
Gruntal & Co., Incorporated.....	15,000	Swergold, Chefitz & Sinsabaugh, Inc.....	6,000
Hambrecht & Quist Incorporated.....	42,000	Swiss Bank Corporation International Securities Inc.....	15,000
Hill Samuel & Co. Limited.....	15,000	Thomson McKinnon Securities Inc.....	15,000
J. J. B. Hilliard, W. L. Lyons, Inc.....	6,000	Tucker, Anthony & R. L. Day, Inc.....	15,000
Hoare Govett Limited.....	6,000	UBS Securities Inc.....	15,000
Howard, Weil, Labouisse, Friedrichs Incorporated.....	15,000	Underwood, Neuhaus & Co. Incorporated	15,000
E. F. Hutton & Company Inc.....	42,000	Vereins-und Westbank A.G.....	6,000
Interstate Securities Corporation.....	15,000	Wedbush, Noble, Cooke, Inc.....	6,000
Investment Corporation of Virginia.....	6,000	Wertheim & Co., Inc.....	42,000
Janney Montgomery Scott Inc.....	15,000	Wheat, First Securities, Inc.....	15,000
Johnson, Lane, Space, Smith & Co., Inc.....	6,000	Dean Witter Reynolds Inc.....	42,000
Johnston, Lemon & Co. Incorporated.....	6,000	Yamaichi International (America), Inc.....	6,000
Josephthal & Co. Incorporated.....	15,000	Total.....	<u>2,795,000</u>
Kidder, Peabody & Co. Incorporated.....	42,000		

Source: Microsoft IPO Final Prospectus

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LinkedIn IPO: \$352,800,000 May 18, 2011

Underwriter Table from Final Prospectus **5 underwriters**

	Number of Shares
Morgan Stanley & Co. Incorporated	3,684,800
Merrill Lynch, Pierce, Fenner & Smith Incorporated	1,411,200
J.P. Morgan Securities LLC	1,411,200
Allen & Company LLC	940,800
UBS Securities LLC	392,000
Total:	<u>7,840,000</u>

Source: LinkedIn IPO Final Prospectus

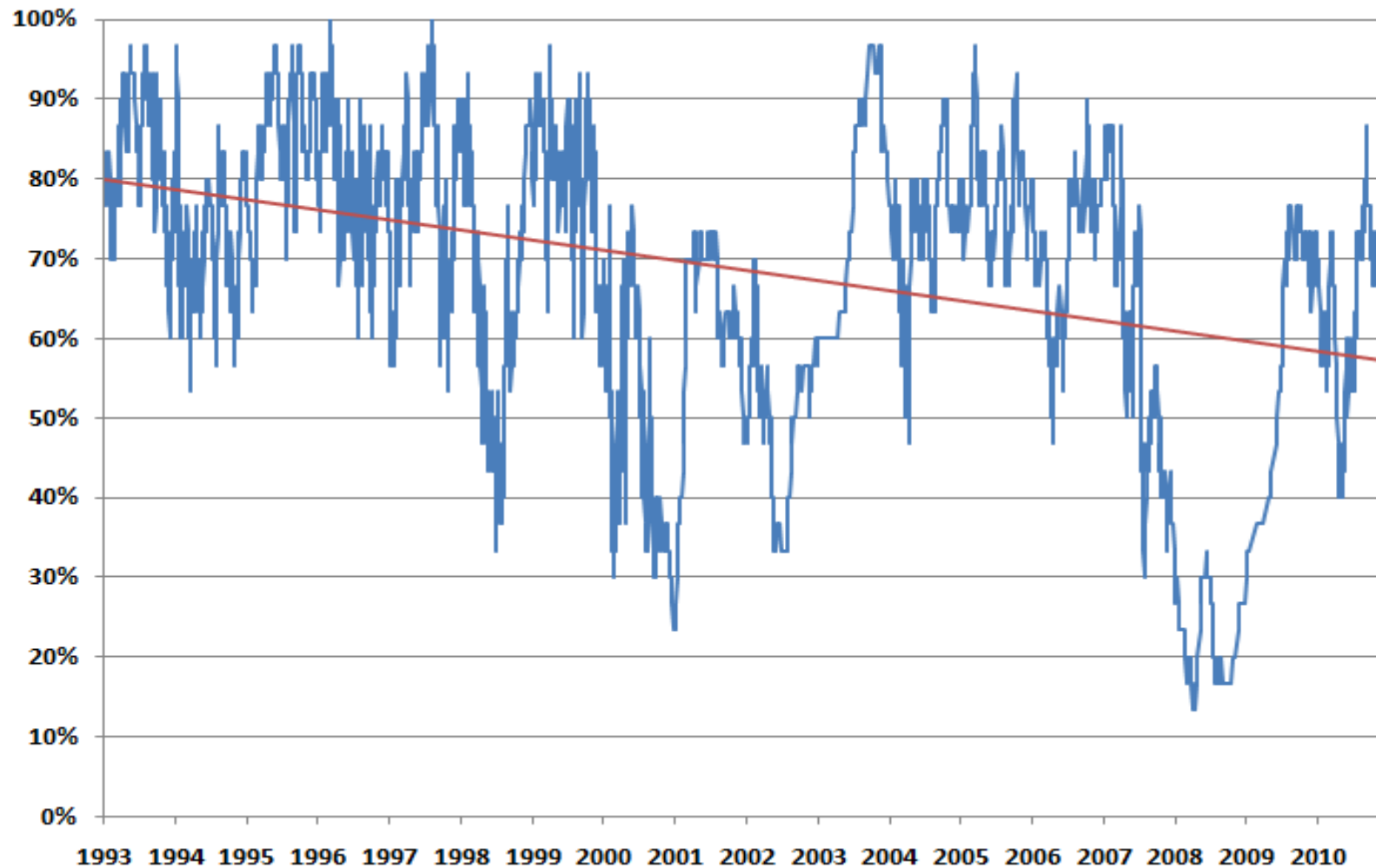
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An Issuer Bill of Rights

- Issuers deserve transparency in the trading of their shares
 - Provide issuers with the names of all investors that have transacted, long and short, in their stock, within 7 days of trading.
 - All funds down to \$10 million in size should report holdings (long and short) at least quarterly. This would ease investor targeting for small cap issuers.
- Issuers deserve choice in how the market in their shares is made and supported
 - Issuer Boards of Directors should be allowed to determine ‘tick size’ which would cost little to implement and provide an important tool to impact support (research, sales and capital) and modulate speculative trading and volatility.
- Issuers should have increased representation within the Division of Trading & Markets
 - There should be strong representation for both small companies and large companies in decisions that impact the trading and support of their shares.
- Issuers (and Americans) deserve a sub-\$2 billion market cap stock market structured to create focus on capital formation and job creation (see Wall Street Journal Op-ed dated October 28, 2011, entitled “*How to Revive Small-Cap IPOs*”)

Appendix

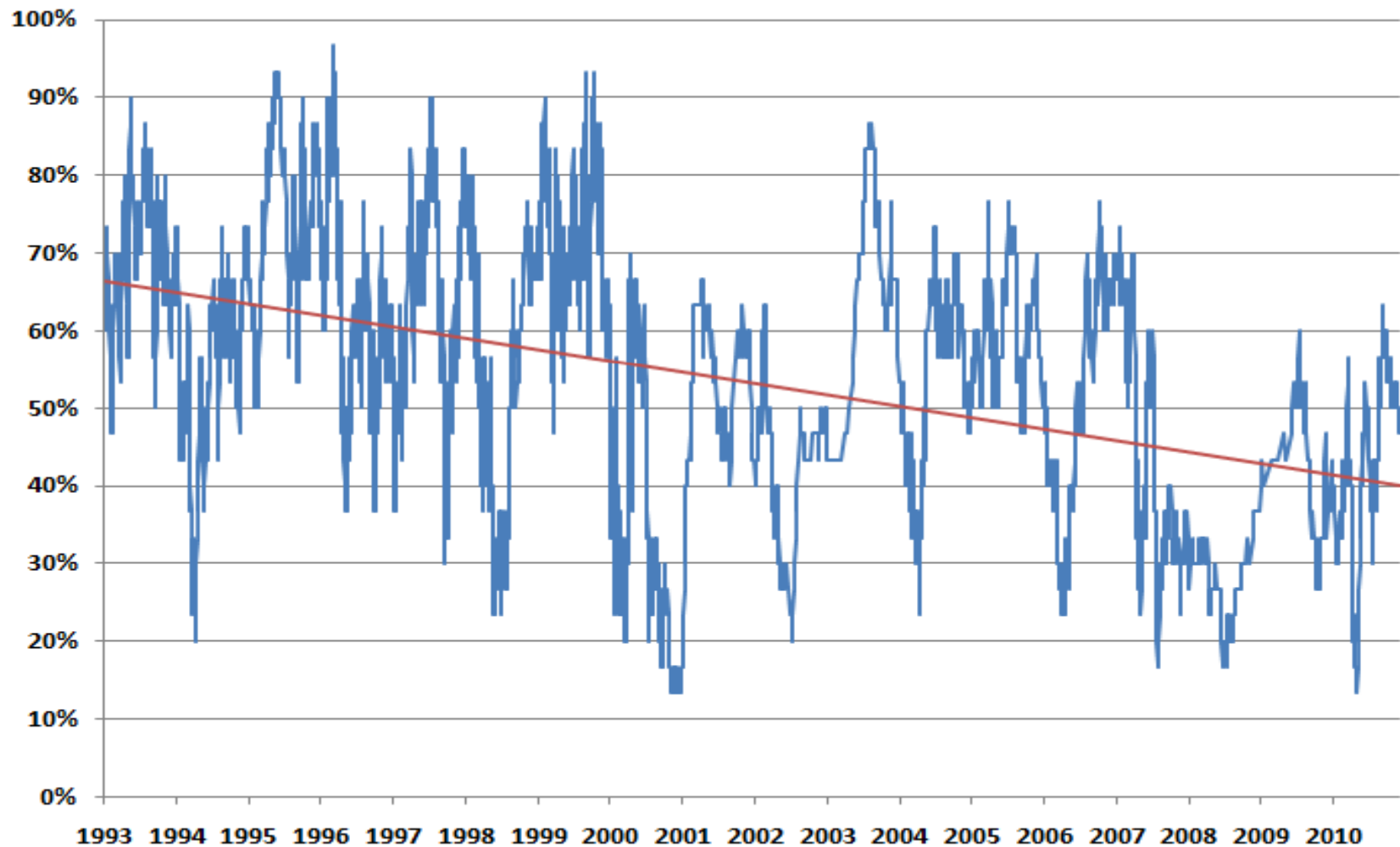
IPOs that have priced within 1 year of filing—trailing 30 filings



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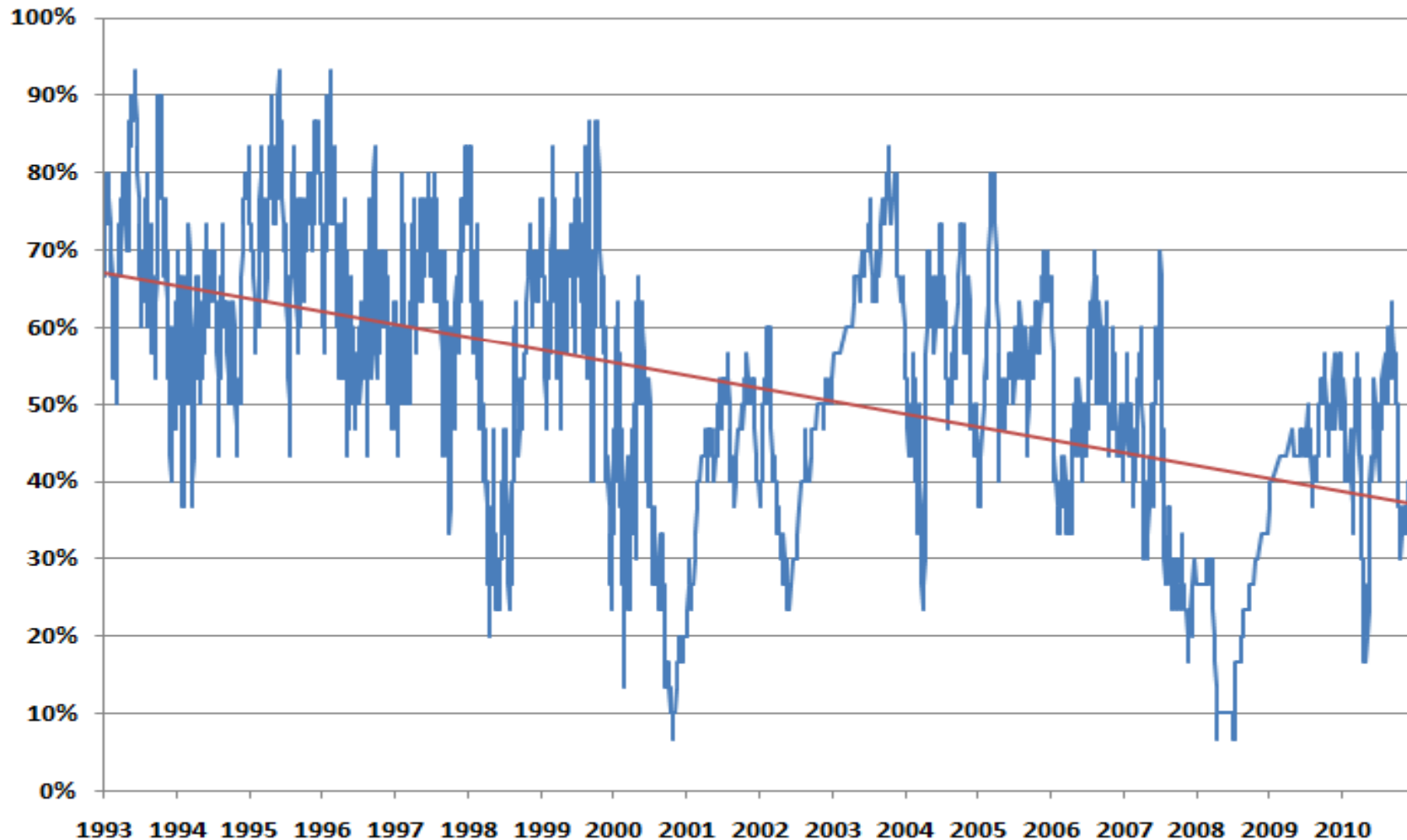
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IPOs that have priced at or above the low end of the range—trailing 30 filings



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IPOs that are trading at or above issue price 30 days after pricing—trailing 30 filings



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Guam	Guatemala	Guyana	Honduras
Hungary	Iceland	India	Indonesia
Iran	Ireland	Isle of Man	Israel
Italy	Jamaica	Japan	Jordan
Kenya	Korea	Kosovo	Kuwait
Latvia	Lebanon	Liechtenstein	Luxembourg
Macedonia	Madagascar	Malaysia	Malta
Mauritius	Mexico	Morocco	Mozambique
Namibia	Netherlands	New Zealand	Nicaragua
Nigeria	Norway	Oman	Pakistan
Panama	Philippines	Poland	Portugal
Puerto Rico	Qatar	Romania	Russia
Rwanda	Saudi Arabia	Serbia	Singapore
Slovak Republic	Slovenia	South Africa	Spain
Sri Lanka	Sweden	Switzerland	Taiwan
Thailand	Tunisia	Turkey	Turks & Caicos Islands
Uganda	Ukraine	United Arab Emirates	United Kingdom
United States	Uruguay	Venezuela	Vietnam
Yemen	Zambia		

Grant Thornton LLP at-a-glance

- the U.S. member firm of Grant Thornton International Ltd, founded in 1924
- 52 offices nationwide
- serving 10,000+ clients

	Grant Thornton International Ltd*	Grant Thornton LLP**
Revenues	US \$3.7 billion	\$1.1 billion
Personnel	29,974	5,094
Partners	2,511	540
Offices	488	52

Statistics as of: Sep. 30, 2010 July 31, 2011

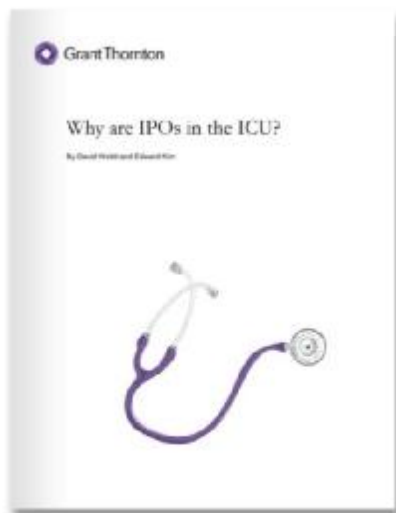
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Grant Thornton LLP at-a-glance

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Studies authored by two of our principals (David Weild and Edward Kim) and supported and published by the major accounting, tax and advisory firm of Grant Thornton have been entered into the Congressional Record and the Federal Register and our principals have participated in or testified in front of:

- The NYSE and National Venture Capital Association's (NVCA) Blue Ribbon Panel to restore liquidity in the US venture capital industry (2009)
- The CFTC-SEC Joint Panel on Emerging Regulatory Issues (2010)
- The House Financial Services Committee's Subcommittee on Capital Markets (2011)
- The U.S. Treasury's Capital Formation Conference (2011)

These studies, supported and published by Grant Thornton, have been cited by Members of Congress and Regulators in the US and

overseas and by leading publications including, The Economist, Forbes, The Financial Times, The New York Times and The Wall Street Journal.

Recently, this work was also cited in:

- The President's Council on Jobs and Competitiveness (Jobs Council) Interim Report led by Jeffrey Immelt of General Electric
- The IPO Task Force Report to the US Treasury, led by Kate Mitchell, past Chairman of the National Venture Capital Association.

Capital Markets Advisory Partners was founded by David Weild, the former vice chairman and head of listed companies and related businesses at NASDAQ and former head of equity capital markets and corporate finance at Prudential Securities. David also serves as Chairman of the Small Business Financing Crisis Task Force of the ISEEE (International Stock Exchange Executives Emeriti).



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