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BY MIKE FREEMAN

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Will the market return for small company IPOs?

So far this year, [initial public offerings](#) in the U.S. have increased 85 percent from the same period last year, a sign that long dormant investor appetites are awakening for new [public company](#) stocks.

But one group of companies could be left out as the IPO market heats up — small firms proposing IPOs of \$50 million or less.

These companies face structural hurdles that make it difficult for them to go public, said [Bill Hambrecht](#), a longtime [Silicon Valley](#) investment [banker](#) who took Apple, Genentech and Above public in the 1980s and Google public in 2004.

Hambrecht has come up with a formula that he thinks would help smaller firms clear the roadblocks. “What we have been trying to do is develop a process that allows you to go public for \$20 million or \$30 million, like so many of the really good technology companies used to do,” he said. “The market is not a major impediment to small company IPOs. I think it’s more of a structural imbalance.”

What Hambrecht proposes is technical and would require the U.S. [Securities & Exchange Commission](#) to change some of its rules. But the proposal has gotten some traction among members of Congress, Hambrecht said. A House financial services committee recommended the idea to the SEC and suggested the agency had the authority to make the changes without approval of Congress.

Hambrecht spoke Thursday to a full house at a San Diego [Venture Capital](#) Group breakfast. “The major (investment banking) firms are very aggressive about going out and underwriting companies if the size of the deal is say, \$100 million or bigger,” he said. “But there has been such concentration in the securities business and such a buildup of scale, for somebody who wants to raise \$20 million or \$30 million, it doesn’t create enough income to make it worth it for the big bulge (investment banking) firms.”

What Hambrecht proposes is raising the limit on Regulation A securities offerings from the current \$5 million limit to \$30 million, which would be big enough to get a stock listing in many cases.

Regulation A is a stock offering that has less strict requirements than the full-blown IPO process with its prospectus, legal costs, road shows to investors and other expenses. A Regulation A filing doesn’t require a prospectus, for example, but an offering circular.

While skeptics say that investors are mostly interested in big brand name IPOs such as Skype, LinkedIn and Pandora, Hambrecht believes there are plenty of investors interested in these small company deals as well.

“There are probably 6,000 small hedge funds out there that are effectively stock pickers,” he said. “They’re the traditional [small cap](#) buyers. So I think there is plenty of money and buyers. The key is how to reach them in a cost effective way.”

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Hambrecht was joined by David Weild, who oversees accounting firm [Grant Thornton](#)'s capital markets group. Twenty years ago, 80 percent of all IPOs were less than \$50 million, Weild said. By 2000, that number had fallen to 20 percent. One reason is consolidation in the investment banking industry and the size of the IPO needed to make money.

Many venture-backed companies have been operating as private firms for years longer than expected because the IPO market was weak. Weild believes the return of small IPOs would benefit California in particular by giving venture capital investors liquidity — the ability to sell stock — without forcing them to push for the sale of the company, which often leads to job losses.

“If we bring back the small IPO, it’s like an employment act for California,” he said.