



For Immediate Release: Thursday, December 18

80-68

STUDY SHOWS THAT NEW RULE
HELPS SMALL BUSINESSES TO RAISE CAPITAL

A new Commission rule designed to facilitate capital formation by small businesses seems to be having precisely that effect, according to a Commission staff report released today.

The study of offerings of securities under the exemption from registration provided by the Commission's Rule 242, shows that an overwhelming majority of companies taking advantage of the rule would be considered "small businesses." For example, 31 of the 63 companies utilizing the rule to raise capital during the first six months it was available were firms with gross revenues of \$500,000 or less. Only 14 of the companies using the rule had gross revenues of more than \$5 million.

Using another measure of size, the study reports that more than half of the 63 companies had 20 or fewer employees; only five of them had 500 or more employees.

Adopted on January 17, 1980, Rule 242 was intended by the Commission to serve as "an effective means for issuers, particularly small issuers, to raise limited amounts of capital through unregistered offerings to the public consistent with the protection of investors." It allows

corporations to sell up to \$2 million worth of securities during a six-month period without going through the costly and time-consuming process of registering them with the Commission. The securities may be sold to any number of institutional or very large buyers ("accredited persons"), but to no more than 35 other purchasers.

The report released today, which was prepared by the Commission's Directorate of Economic and Policy Analysis, reveals that the 63 companies which took advantage of the rule during its first six months, sought to raise some \$38 million in capital through sale of securities. Intended sales amounts ranged from a low of only \$17,500, to the maximum allowable \$2 million. The average was \$613,850, but half of the sales amounts were \$450,000 or less. Only four issuers reported intended sales of the \$2 million maximum.

Data generated by the study show the advantage of the streamlined offering procedures from the perspective of the small corporation seeking to raise capital. Because Rule 242 offerings are "private placements" and exempt from registration, the issuance and distribution expenses of these offerings averaged only 2.4 percent of intended sales, as opposed to an average of 13.9 percent of offering amount for comparably-sized public offerings subject to registration.

Among other findings of the report are the following:

- Of the \$38.1 million of intended Rule 242 sales reported by issuers, \$30.0 million (79 percent) involved equity securities, \$5.6 million (15 percent) involved convertible securities, and the remaining \$2.4 million (6 percent) involved debt securities.
- Fifty-six issuers reported sales actually completed during the study period totaling \$19.2 million. Of that total, \$15.1 million worth of securities were sold to 157 accredited persons and the remainder -- \$4.1 million -- to 272 non-accredited persons.
- Twenty-two issuers reported they had made sales only to accredited persons, while 12 reported they had made sales only to non-accredited persons, and 22 reported sales to both types of purchasers.
- More than half of the Rule 242 issuers have been incorporated only since 1977, and nearly a third only since 1979.
- Issuers using Rule 242 are as large as, or larger than the issuers of comparably-sized public offerings based on revenues, assets, income, shareholders' equity and number of employees.

The monitoring study was conducted by the Directorate as the first in a series of research studies jointly sponsored by the Commission and the Small Business Administration to examine the role of Securities Act exemptions in the financing

of small businesses. The report is also in response to the Commission's announced intention to monitor actual experience under the rule so as to enhance policy formulation with respect to this and other initiatives designed to encourage capital formation, consistent with investor protection.

Copies of the report are available upon request from the Office of Consumer Affairs and Information Services, U.S. Securities and Exchange Commission, Washington, D.C. 20549.

#