# The Main Street *Growth* Act

The Main Street Growth Act will allow the US Securities and Exchange Commission to regulate the creation of "venture exchanges." These specialized securities exchanges will help small and emerging growth companies gain access to the capital they need to grow and succeed. The Main Street Growth Act was unanimously approved by the House of Representatives and the Senate during the 115th Congress.

Written and Prepared by Dream Exchange

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# *The Problem* Solved by the Main Street Growth Act

The basic problem is that small businesses do not have the ability to participate in a regulated, trustworthy capital market to gain access to qualified investors allowing companies to grow, raise capital or to exit/sell a business so the small business can “graduate” to the major US public stock exchanges. The Main Street Growth Act solves this problem.

A standard, regulated stock market environment to help the small business owner and small business investor gain access to each other no longer exists today. The small Initial Public Offering (IPO) (<$50.0 million) has been hardest hit by this longstanding collapse of the small capital market and the irrefutable data shows that helping the small IPO helps create employment.

### Massive Decline in US Public Company Numbers

One major ramification of this problem is the fact that the US public stock markets favor only high-volume based electronic trading. Existing stock listings are shrinking to dangerously low numbers of public companies for the health of the nation. As the number of public companies decreases, the volatility of invested funds of our nation becomes concentrated in fewer and fewer companies and when markets move downward, fewer listings increases the potential effects of volatility and losses for everyone, large and small investor alike.

Today, compared with twenty five years ago, the nation has lost more than 50% of the once public companies, let alone the number of losses of public companies from forty or fifty years ago.

The “on-ramp” of new companies for the “private to public” ecosystem is broken. We now have fewer than fourteen public companies per million of the US population, down from thirty public companies per million in 1996.

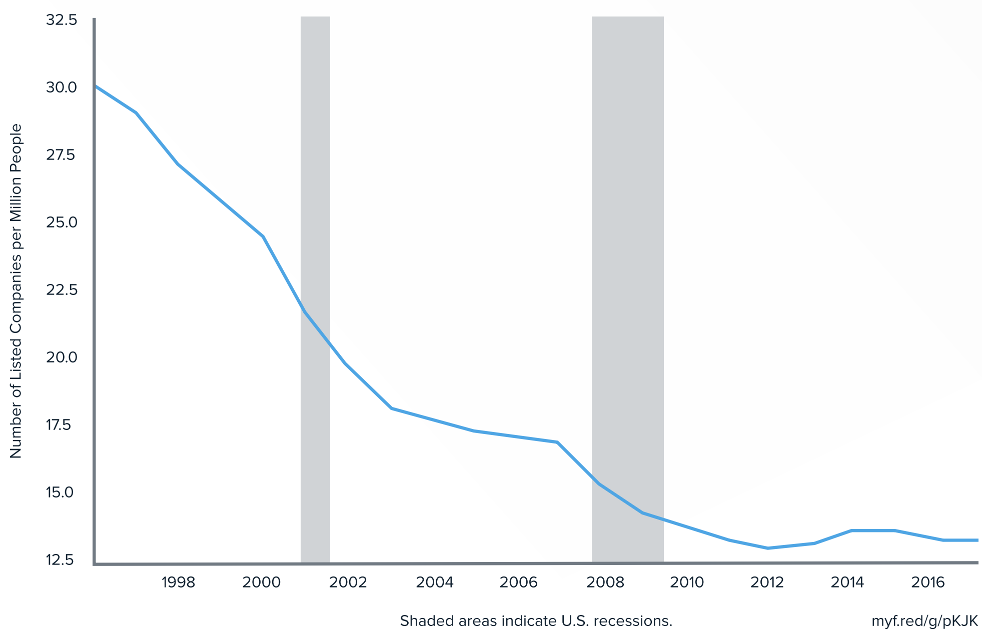
# The 20-year *Absence* of the < $50.0 Million IPO

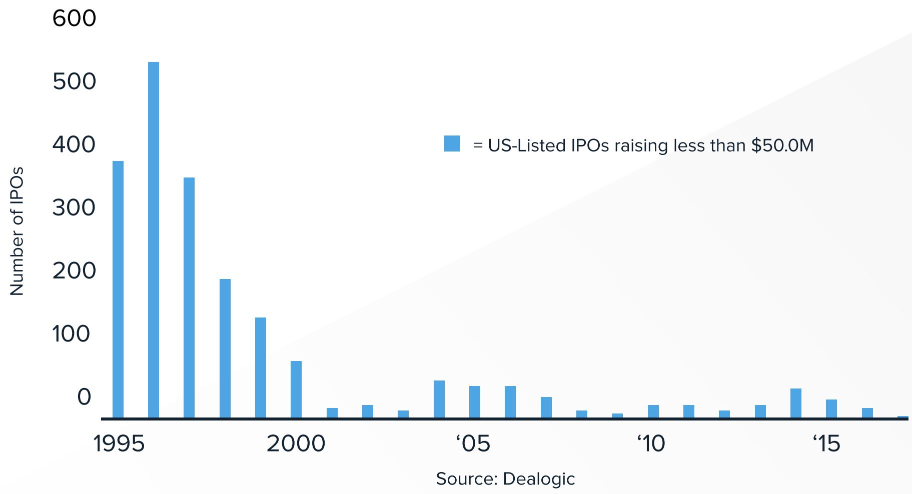
Historically, the favored capital expansion and exit solution for many emerging organizations has been an IPO, which often resulted in substantial cash harvesting for investors, entrepreneurs and mature businesses alike. Even when a small company did not embark upon an IPO, the mere possibility of such an event often was a catalyst for stimulating investment capital for smaller enterprises because investors and business owners could both agree upon an exit plan that included the possibility of widespread public sales of stock. Liquidity is critical to small private companies but access to liquidity is costly, time consuming and dependent on subjective factors. Small private companies find it easier to raise capital when prospective investors understand that some degree of liquidity will be available to the investor in the future. The public markets have historically supported widespread investing and capital flows to small companies with great ingenuity and imagination.

**Recently, the trend away from small capital public transactions (defined herein as $50.0 million and under) correlates to a slow-down in public investing activity in emerging enterprises and America's creative manufacturing base. While certain sectors of the investment ecosystem remain viable, the emerging and small company opportunity for lower gradient public market support has diminished to nearly nonexistent levels.**

### The Decline in Listed Companies

Number of listed companies per million people in the United States. Data gathered from World Bank.






**The Retreat of the Small IPO**

The number of companies completing relatively small initial public offerings has dropped off since the late 1990s.

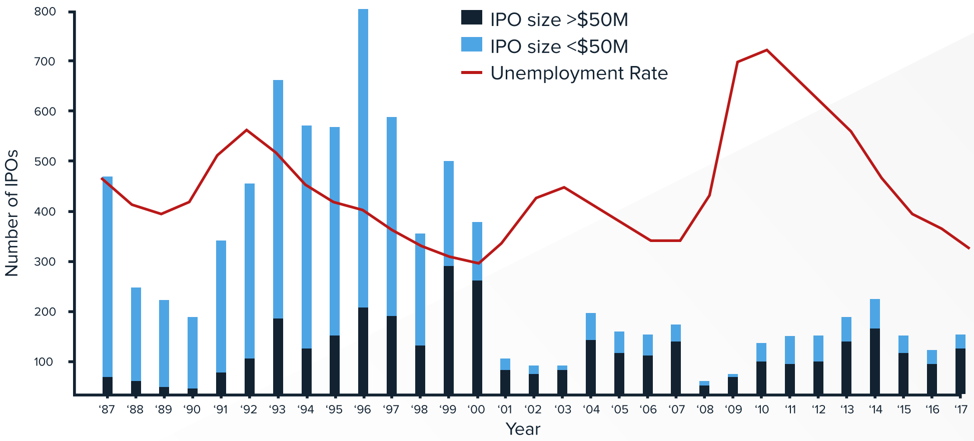
The absence of the small IPO is not only destructive to capital markets, its absence keeps living wage jobs from expanding in the small business sector. The following data compiled by David Wield, and supplemented by Dream Exchange, asserts that the inability of emerging companies to obtain stock market capital has an adverse impact on employment rates.* With the current financial downturn, the importance of job creation from this market cannot be understated. Examining the data of all IPOs conducted in the US from 1970 to 2010 reveals that 92% of job growth in a company occurs post-IPO.** Specifically, in the case of small capital IPOs, the going-public decision contributes towards job creation and firm survivability. Further, recent studies demonstrate that employment growth increases after going public due to the fact that capital investment is not temporary but persistent over time. Certain scholars have concluded that a likely channel to increasing employment rates is to allow firms to access both equity and debt markets for expanded investment in human capital. As such, the Main Street Growth Act presents a solution to expansion of liquidity in the capital markets creating a positive impact on employment.

*"Markets Burning: Loss of the Revenue Model Needed to Support Stocks is Destroying Capital Formation IPO Market Structural and Regulatory Issues," S.E.C. Government-Business Forum on Small Business Capital Formation, November 17, 2011.

**Venture Impact 2007, 08, 09 & 2010 by IHS Global Insight; IPO Task Force August 2011 CEO Survey, S.E.C. forum on Rebuilding the IPO On-Ramp, October 20, 2011.

**Small IPO Decline Relative to All IPOs**

Number of listed companies per million people in the United States. Data gathered from World Bank.




# The Primary *Cause of the Death* of <$50.0M IPOs

### Current Exchange Market Structure Favors Only Large IPOs

An investor's desire to make capital investments in valuable enterprises, and a company's desire to achieve the closest approximation of the best price of a security, have parallel factors when contemplating the establishment of a stock exchange for investment in securities. In both instances, the marketplace "hunt" for liquidity and the desire to have the optimal "best price" for a security have long been the greatest challenges faced by sellers and buyers alike, regardless of whether such market is private or public. The introduction of electronic communications and user-friendly computer interfaces to public markets have created unparalleled advances in public market trading, especially over the past two decades.

In the public securities market, the formation of new electronic communications network trading platforms ("ECNs") has grown and revolutionary computer-generated trading has overtaken traditional "open outcry" or floor trading. In fact, Mr. Cecala, the Dream Exchange's founder, was counsel for the creators of one such ECN trading platform in 1996-1998, which became Archipelago Holdings, Inc. ("Archipelago") and eventually NYSE Arca. The creators of Archipelago diligently worked to create one of the first ECNs approved by the Securities Exchange Commission, and to address the computerization of a routing algorithm to search or "hunt" many exchanges simultaneously for the optimal "best price" for the buying or selling shareholder. Both the speed and expanded market reach of the router's algorithm created a "state-of-the-art" trading platform to make thousands of trade executions possible every second. This new trading platform forever changed the traditional market centers of the U.S. public securities exchanges.

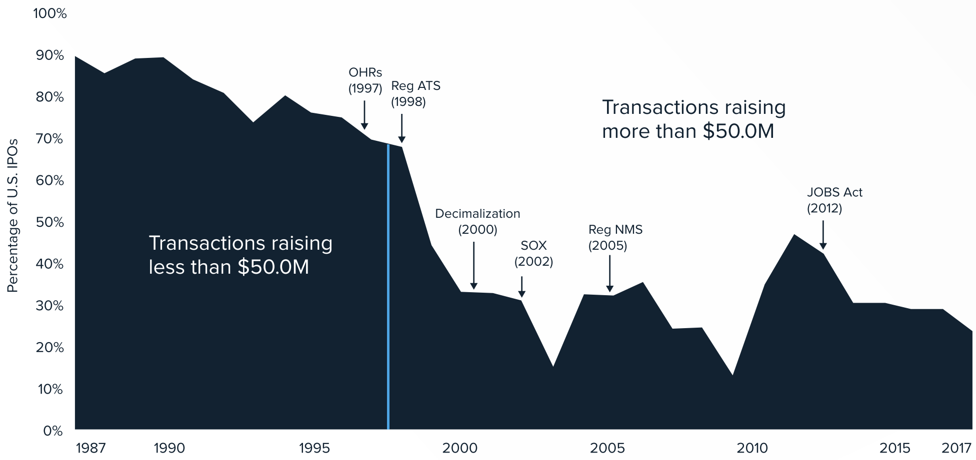
The decline in the <$50.0 million IPO marketplace and the emergence of "high-speed electronic trading" occurs within a narrow coincidental timeframe preceding the decline in IPOs. The <$50.0 million IPO decline reveals itself as a lagging indicator following the birth of the electronic marketplace—perhaps as an unforeseen and unintended "side effect."

The graph below depicts several of the regulatory changes that are commonly attributed to the decline in IPOs overall (Reg ATS, SOX, Reg NMS, etc.). Most significantly, the decline takes place beginning in 1999 and has not recovered to this day. As a lagging indicator of the actual cause in the decline of the small IPO, the white line depicts the approximate introduction to the market of the Archipelago ECN and other high-speed trading venues, in 1998. The expansion of electronic stock trading communication from 1998 forward explains that the case of small company IPOs has declined largely due to the exchange market structure – not regulatory changes or costs. The new electronic market structure incentivizes exchanges, investment banks and intermediary firms who seek only those IPOs that can produce high-volume trading at previously unprecedented speed.

**If higher costs and regulatory changes were, in fact, the cause of the death of the small capital IPO, the decline in IPOs would occur after the implementation of the new regulations – not before.**

## The Cause of the Small IPO Death

IPOs <$50M shown as a percentage of all IPOs in relation to various market structure and regulation changes.



In 1996, the SEC adopted the order handling rules which allowed a number of electronic trading systems to create ECN trading (including the Archipelago ECN, the precursor of NYSE Arca) to emerge and compete with traditional market centers (i.e. NYSE, Pacific Stock Exchange, etc.). These electronic networks included ECNs and other alternative trading systems, which provide an efficient means of access to public market centers. Innovations in technology and telecommunications have increased the speed of communications and the availability of information, facilitated the globalization of commerce, and lowered transaction costs. These new methods enable public company investors to access and participate in the public equity securities The information contained herein, and any attachments are the property of the Dream Exchange, LLC. This information is intended for the sole use of the Dream Exchange, LLC personnel. Any disclosure, copying, forwarding, distribution or any other use of the contents of this document is prohibited. If you have received this document in error, please destroy it immediately. markets more easily, quickly and less expensively. These developments, combined with the implementation of the new order handling rules, have led to significant growth in electronic trading. These changes have made markets better, but the changes have also made small company IPOs less attractive to the public markets. Venture exchanges will help restore a market structure to the small company IPO environment and allow for focused and specialized attention on the small company. The number of smaller companies that enter the public markets will increase, and venture exchanges will expand the number of IPOs and the number of public companies listed on US exchanges.

The US public capital markets continue to consist of several market centers that systematically bring together buyers and sellers for the purpose of buying and selling securities as well as creating new listings from the IPO marketplace. Generally, market centers are segregated by the type of security products listed for trading on the market. Historically, stock markets, like the New York Stock Exchange, operated primarily on a trading floor with all trades in a particular stock taking place in a specific place on the floor under the supervision of a designated dealer known as a specialist. A specialist oversees trading and is required to maintain a fair and orderly market, acting as both a market maker and auctioneer. Many pitfalls existed in the specialist system, especially pertaining to market making advantages available from the market maker’s control of securities inventory and pricing before the “best price” optimization was created through the newly established ECN marketplace. However, for small company public securities, without such vital market-making participation in the market, including helping establish the securities prices, assuring liquidity and maintaining trading rules, a market ceases to exist for small issuers.

The small-company security market suffers from a lack of focused stock exchange market structure that could help maintain orderly trading of small-company stocks. Small company stocks are characterized by a lack of trading volume, large bid/offer spreads and incompatibility with high-speed trading. As such, small-company securities are inhospitable for the market structure of the current fast-paced exchange environment.

## Former Startups Now Generate 21% of US GDP & Were Able to Grow Even *Through the Recession*

Small companies play a crucial role in the growth of the US economy and the creation of new jobs by fostering innovation. However, the absence of an emerging company stock market makes it more difficult for emerging companies to raise the capital to create new jobs and introduce and grow new innovations to the marketplace. This creates a cyclical problem whereby emerging companies cannot hire new staff during periods of expansion to permit the creation of future production needed to support growth from organic revenue production. The small business owner is beholden to the private capital markets for growth and expansion.

The Main Street Growth Act will permit newly formed venture exchanges to open the first-ever auction-style “Venture Exchanges” to serve as a stepping stone to the public markets (NYSE, NASDAQ, CBOE stock markets) and help increase the number of firms making the successful transition to public markets through an IPO. This much-needed market will help the small innovator get the needed capital to expand. Upon passage of the Main Street Growth Act, securities traded on venture exchanges will help small businesses gain liquidity while simultaneously helping their stockholders resell those securities in a secure open stock market, similar to companies listed on larger national stock markets like the New York Stock Exchange. Venture exchanges will become “first-of-their-kind” stock exchanges that aim to help the small business owner and investor alike by creating a market for the free trading of small business stock through a fully licensed and operational stock exchange. Venture exchange trading rulebooks and listing methodologies will create all of the functions of a bona fide stock exchange, except they are customized for smaller emerging businesses that meet stringent eligibility requirements to be listed on venture exchanges under the guidance of the Main Street Growth Act and regulated by the SEC.

# The Main Street *Growth* Act

Please email us at info@dreamex.com or visit our website at www.dreamex.com for more information.

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