

THE PINK PANTHER

Post-Enron, more firms turn to Pink Sheets

By HILARY KRAMER

The Pink Sheets — traditionally home to companies tiny and troubled — are attracting big business because of corporate governance laws.

The paperwork and cost associated with the Sarbanes-Oxley financial disclosure act has driven more companies to less regulated markets like the Pinks, which traffic in over-the-counter stocks.

This has R. Cromwell Coulson, owner and chairman of the privately held Pink Sheets LLC, seeing green.

“What helped the Pink Sheets? The cost of being public,” Coulson said. “The Pink Sheets are growing with more quality listings because those guys that are financially sound have better uses for their capital.”

The number of companies on the Pinks has grown by 16 percent in the past year to 4,400 exclusively quoted companies and another 3,100 that are dually listed on the OTC Bulletin Board.

One new entry is Ziegler Companies Inc., a Milwaukee-based financial services firm, which delisted from the American Stock Exchange in December and went to the Pink Sheets.

“We wanted to avoid the cost of complying with Sarbanes Oxley — which would have cost us \$750,000, or about 35 percent of our 2003 earnings,” said Hank Hakewill, Ziegler’s senior managing director. “That was not in the best interests of our shareholders, so we pursued a voluntary delisting and we



R. Cromwell Coulson

have been very happy with the result.

“The volume of trading and liquidity has actually improved since our delisting,” Hakewill added. “Most people assumed the opposite would happen.”

Other Pink recruits include Ohio Art, makers of Etch-A-Sketch, and Niagara Corp. The Pinks also attract international companies, including Nestle, Heineken, Nintendo and Volkswagen, because it allows them to trade in the U.S. while avoiding the high and complicated costs of SEC filings.

Cost, however, may be the biggest factor in the Pink Sheets’ growth over the next few years. Industry estimates suggest approximately 300 Amex-listed companies and 800 Nasdaq-listed companies have less than \$70 million in market capitalization, which means that the cost of being public for those companies represents about 1 percent of their entire market cap.

The migration is good news for Coulson, a former trader of distressed stocks who, at only age 30, bought the Pink Sheets in 1997 from a

buyout firm and has worked to reform its archaic image.

Founded in 1904 as the National Quotation Bureau, the company’s name comes from the pink paper used to record trades. Coulson, who turned the Pinks into an electronic trading system, makes an estimated \$10 million a year in revenues by providing an advanced trading system to market makers and by selling real-time data to Bloomberg and Reuters.

Coulson’s hope is that the changes in transparency and efficiency will

continuously transform the image of the Pink Sheets — known to be the receptacle of the Enrons, Adelphias and occasional investor scams.

“Pink Sheets are an open version — like Napster. You get the good with the bad, and investors must be very careful in this area of the market. Just because a stock is traded doesn’t mean it’s a good investment,” Coulson warned. “But the Pink Sheets represent lots of opportunities for those that do their homework and provides a chance for companies to grow.”

Three kinds of companies trade in the pink:



Foreign businesses that want to make it easy for Americans to invest, such as **Nintendo**.

Companies that have gone bankrupt or de-listed from other exchanges, such as **MCI**.



Firms that find it too expensive to conform to new accounting rules, such as **Ohio Art**.

Zack Seckler

CASH-STRAPPED COMPANIES ARE PRETTY IN PINK