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THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

# Investing in Small & Mid-Cap Companies

**ARNOLD URSANER** started CJS Securities, Inc., in 1997, named after his three children, and it has grown to 10 analysts. Clients of CJS include leading institutional mutual funds, banks and investment advisors. He has over 30 years of brokerage industry experience. Before starting CJS, he worked at Bear Stearns as a Managing Director in Equity Capital Markets, responsible for the marketing and distribution of IPOs and follow-on transactions. Earlier in his career, he was in institutional sales at Smith Barney and then First Boston. CJS Securities has enjoyed growing recognition. Mr. Ursaner received the 2002 Nasdaq-Starmine Analyst Award for Top Stock Picker in commercial services and supplies. In 2003, he received the "Best of Wall Street" award, given out by The Wall Street Journal, for general industrial services. Institutional Investor magazine, arguably the top publication for professionals in the industry, presents its Home Run Hitters Award for analysts who had some of the top performing ideas for the previous year. In 2003, it recognized CJS for having two of the top five small cap ideas of 2002.

**SECTOR – GENERAL INVESTING**

**TWST: Would you start, as you've done before, giving a brief introduction to CJS Securities and what you do there?**

**Mr. Ursaner:** CJS Securities is a sell side research oriented brokerage firm that I founded 13 years ago. We focus on small and mid-cap companies which we believe we can add significant value for our institutional clients and where they have an excellent opportunity to outperform their benchmark index, typically the Russell 2000. Our analysts are generalists; we try to find companies that may be small but clear market leaders in attractive niches, perhaps spun out of another company, may have merged into a SPAC (Special Purpose Acquisition Corp), complex companies with multiple divisions, or for any number of reasons brokerage firms are not doing a good job providing research on a particular company.

**TWST: Tell us about the past year, because when we talked to you this time last year, 2008 had been very disappointing and a challenging year for you. How has it been in 2009?**

**Mr. Ursaner:** 2009 was marked by a major shift in investor sentiment and credit markets that occurred in the middle of the year. In September/October of 2008, at the time when Lehman was shutting down, and other financial institutions were under severe pressure, we went through a period of illiquidity, difficulty in selling commercial paper even for investment grade companies, fear of a global collapse, and political uncertainty. Companies and managements were reading the headlines, watching the news and we had a near panic reaction. We saw a hoarding of corporate cash, aggressive inventory reductions, a complete halt of capital spending including some maintenance, a dramatic reduction in headcount wherever possible, and salary reductions of the employees that were retained. It wasn't unique to the United States, but was happening around the world, and that continued into 2009. Companies that were operationally and financially leveraged were sold aggressively with no regard to valuation. This was true for larger cap financial and industrial companies where irrational fear of an Armageddon scenario overwhelmed investors. At one point you could buy a share of **Citibank** (C) for less than the cost of a Big Mac hamburger. Another factor putting pressure on stocks at the end of 2008 was that a number of hedge funds were shutting down and they were forced to sell due to redemptions.

Around March or April, those trends stabilized and started to reverse. While the economy was still contracting rapidly, the perception changed to a view that we had gotten through the worst, the banks through TARP and other government-oriented programs would survive and that eventually we would recover from the severe and rapid downturn we had just gone through

Since then, aided by the stimulus program, we have seen a modest pickup in economic activity, but much more importantly, a dramatic opening up of capital markets, both debt and equity. While that impacted nearly our entire universe of stocks in 2009, it's interesting to note that the best performing of our coverage list, many of which were up five, six, seven-fold were companies that had fairly high levels of debt, were operationally leveraged; they tended to be the smaller market capitalization names on our list. What we've seen in the last few months of the year was that the higher quality, larger names among our coverage universe has actually been the worst performing stocks as investors have sought greater alpha and risk.

**TWST: Tell us about the impact on small stocks specifically and whether there were opportunities to pick up some great buys later in the year.**

**Mr. Ursaner:** Companies that had some debt that was targeted to be refinanced, sometime in either 2010, 2011, traded as if they were going bankrupt and money managers were unwilling to take risk. They were very defensive in their holdings and there was little or no interest in these names regardless of price.

While true for the broader market, the incremental negative that small caps had to deal with trading illiquidity. Money managers were unwilling to create new sizable positions in these companies concerned that they could never get out if they had to.

Another fundamental factor that affects small cap companies is that many of their customers use bank financing. While a number of our covered companies have very strong cash laden balance sheets and have no bank borrowings, many of their customers were impacted by the inability to raise funds. It wasn't just a cost issue of the debt; it was the lack of availability at any price that caused some of the fundamental weakness. When it became clear that the worst was behind us, it led to one of the best 9-month performance periods for the Russell 2000 index in history, up almost 80% from the lows.

**TWST: Tell us about the process that you use to select potential ideas and some of the theme-oriented research that you do to select these opportunities.**

**Mr. Ursaner:** There's vibrancy and frequent change in the small cap market. Some larger market capitalization companies might have become smaller names due to the market correction and entered our sweet spot, companies may have sold off businesses that have been hampering results, others may have been spending significant development funds creating new opportunities where they have passed an inflection point and the negative can turn quickly positive, there might be significant management changes that can lead to dramatic change. There are always new opportunities out there that we're able to consider.

**TWST: What are some of the companies that you are looking at and doing research on.**

**Mr. Ursaner:** One of our newest ideas indicative of the way we think about additions to coverage is **Kennedy-Wilson** (KWIC). The company is a way to invest in what we think will be a negative trend in commercial real estate over the next one to three years. They are a leading provider of real estate auction services and they also have a fee-based property asset management business. It also has an real estate investment portfolio and will be using the funds raised to expand its portfolio buying distressed properties during the expected downturn. My analyst, Jason Ursaner is the only current research coverage on the name. It was formed by a reverse merger of what had been a public company into a special-purpose acquisition company or SPAC completed in mid-November 2009. We've taken a very conservative approach towards the earnings outlook for this new company, but believe **KWIC** could essentially double its EBITDA for each of the next three years, from 2010 through 2012. We are not factoring in asset sales or earning promotes on exceeding targeted returns on individual properties. **Kennedy-Wilson** can be thought of as a general partner in the real estate area as opposed to a limited partner. The management team has a tremendous historic record. Over the last few years they've shown 32% gains, net of fees on the transactions they have undertaken and because the historic financials do not capture any of the underlying current business of the company, it is not even yet on Wall Street's radar screen, a process we expect to occur early in 2010.

### Highlights

*Arnold Ursaner focuses on small and mid-cap companies, which he believes can add significant value and which have an excellent opportunity to outperform the benchmark index. He identifies companies that might be small but are clear market leaders in attractive niches and which are generally underfollowed by Wall Street analysts. There is vibrancy and frequent change in the small cap market that provide new opportunities. Some larger cap names may have become smaller due to the market correction and entered his sweet spot, companies may have sold off businesses that have been hampering results, others may have been spending significant development funds creating new opportunities where they have passed an inflection point and the negative can turn quickly positive. The companies in his portfolio now have managed through the downturn, taken out costs, have strong balance sheets and are not assuming any kind of meaningful recovery. So, in most cases, he is confident that his companies are very well positioned to perform well in 2010.*

*Companies include: Kennedy-Wilson (KWIC); Neenah Paper (NP); Standard Parking (STAN); Quixote (QUIX).*

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They are a leading provider of real estate auction services. They have a competitive advantage because of that. A good way to think about their underlying business is that there's approximately a trillion dollars of distressed real estate on banks' books that will have to be dealt with, where the debt matures in the next five years. Many of these properties will go through some kind of auction or foreclosure process, and the unique advantage **Kennedy-Wilson** has is their knowledge of the market and they leverage their service relationships to source proprietary off-market deal flow for its investment arm. They have 25+ years of relationships with clients. One of the reasons they reverse merged into the SPAC is it gives them a very sizable war chest to pursue property purchases in the expected downturn. In fact, they have indicated they believe they can add $5 to $8 billion of real estate investment properties to their portfolios over the next three years using the funds that they've raised through both funds raised and a JV partnership.

**1-Year Daily Chart of Kennedy-Wilson**

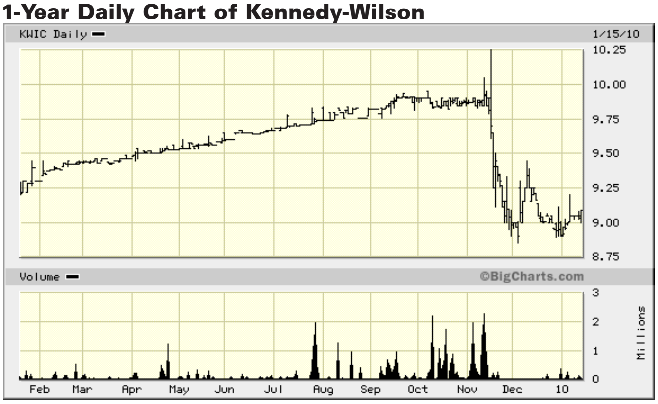


Chart provided by www.BigCharts.com

*"Neenah Paper was spun out of Kimberly-Clark in 2004. Neenah is the #1 supplier of premium printing and writing papers. One of the hidden values in Neenah is they have 500,000 acres of timberlands in Canada, which they have publicly indicated they intend to sell. We conservatively estimate that the sale proceeds could be as much as $70 million."*

**TWST: There are enormous amount of foreclosures and auctions still, moving into 2010.**

**Mr. Ursaner:** That is correct. We think that we will have two to three years in front of us of negative activities in commercial real estate where properties will be forced to be sold and Kennedy Wilson should benefit from this activity.

**TWST: What about another company?**

**Mr. Ursaner:** Another name we recently initiated coverage on is **Neenah Paper** (NP). It was spun out of **Kimberly-Clark** (KMB) in 2004. Frequently when you have a carve-out, the parent company will put substantial debt on the new company, especially if it generates good cash flow. Neenah is the #1 supplier of premium printing and writing papers. These are used when you get fancy invitations to weddings and things like that. It's a much higher quality of paper. Shares have been under pressure since mid-2006. They exited the commodity pulp business and sold some timberland assets while enhancing their specialty paper product offerings through a series of acquisitions. They have been severely impacted by their debt load and the recession. One of the hidden values in Neenah is they have 500,000 acres of timberlands in Canada, which they have publicly indicated they intend to sell. We conservatively estimate that the sale proceeds could be as much as $70 million. The company has a free cash flow yield of almost 15%, which is being used to reduce some of the debt they took on for the acquisitions, so earnings will benefit from deleverage.

While people remain concerned about the economy, the specialty premium type paper they make is used in much different applications. It's not tied to office type white paper, but much more specialty products. They, as have many other companies, have done a great job reducing their cost structure and are poised for strong recovery in results when the economy does show some signs of life. Valuation is compelling. The stock is less than 10-times my analyst Fred Buonocore's 2011 earnings per share estimate, reflecting a lack of research coverage and modest institutional ownership of the name.

**TWST: Is that one of the things that you look for in undercovered companies in niche areas?**

**Mr. Ursaner:** Absolutely. We generally are trying to find companies followed by three or fewer analysts, because they tend to be pretty inefficient stocks and that's what our institutional clients look to us for, to identify and do quality research on these names that for any number of reasons don't fit a natural industry niche. If you think about it, most of the paper industry analysts at brokerage firms want to follow the larger names that affect things like recognition in analyst polls and other things that affect their compensation. A company like **Neenah Paper** wouldn't fit into that mold very well. There is little if any incentive for industry analysts to follow the smaller names in the group unless told to do so for investment banking. Moreover, the other major trend which we've talked about over the last few years is that the larger brokerage firms in this downturn have significantly reduced the number of analysts

**1-Year Daily Chart of Neenah Paper**

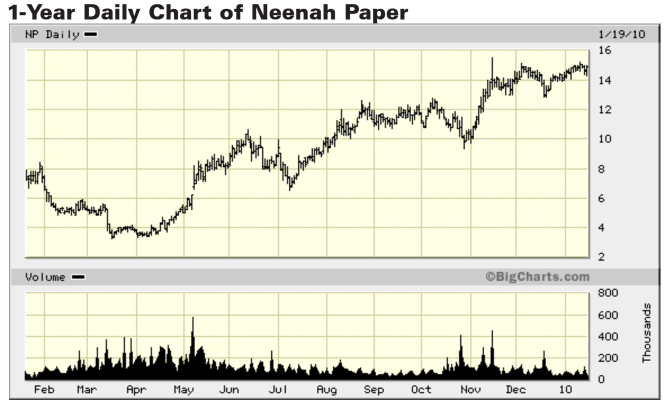


Chart provided by www.BigCharts.com

in total on their staff and specifically have reduced their focus and efforts to provide research on smaller cap names. That gap has been filled by independent firms like our own.

**TWST: You have a strong focus on valuation. The market has become more highly valued since the lows of March. Can you talk about your valuation work and what you specifically look for?**

**Mr. Ursaner:** You're absolutely correct that since March the Russell 2000 has had an enormous rise. We are somewhat concerned about whether stocks have gotten a little ahead of the fundamentals. We've spent a great deal of time with our companies as entered the New Year talking with management's about their thoughts on the budget process and their outlook for the coming year, and we sense noticeable caution among most of our companies. We think that this will be a jobless recovery in 2010, at least for the smaller companies we keep an eye on. Two, three, four years ago, a company would have been much more willing to add costs ahead of current demand with the idea being that if they made a mistake and had a few too many extra people they would grow their way into it.

**1-Year Daily Chart of Standard Parking**

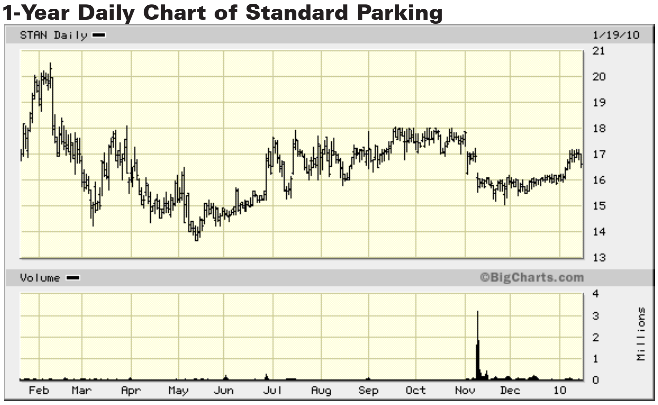


Chart provided by www.BigCharts.com

We see the exact opposite situation developing today. Companies are saying I would rather be under-staffed even if I can't meet all my client deliveries than be over-staffed. We will not add to headcount until we're certain that the demand is sustainable as opposed to some of the spottiness that we've seen in the current environment. I think most companies are saying we're going to remain very cautious in our capital expenditure programs, in our headcount additions.

Another factor impacting profitability, which we have discussed in prior interviews with you, is we've said there would be tremendous leverage on the SG&A line in a recovery. We saw that in 2007-2008 but we're seeing a very different dynamic now. Many companies are saying we've narrowed our headcount so much that we're concerned and want to keep the people we have. You're increasingly seeing companies announce that SG&A is going to rise at more rapid rates than even sales as we restore some compensation takeaways that we had in 2008-2009. These range from 401(k) plan matches being restored as well as pay cuts. Companies are making up for the furloughs they asked people to take in 2008 and 2009. We do think margins can be pressured on the SG&A line as companies restore bonus incentives and compensation that was taken away in the downturn. We saw the impact of this on Brady Corp and Rogers Corp, where earnings estimates were slashed when the management's indicated sizable increases in compensation accruals. Gross margin should show tremendous improvement, as companies have not added capacity and have been operating at low utilization levels. Companies have dramatically lowered their breakeven costs, reduced high cost inventories and work-in process.

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**TWST: What about a recent opportunity?**

**Mr. Ursaner:** I'll give you two more. Another company that we're very enthusiastic about is **Standard Parking** (STAN). My analyst, Bob Labick, has followed STAN for several years, but a significant event occurred in the latter part of last year that was exciting. When the company had gone public, half of its shares were owned by its founder and former Chairman and that created a significant illiquidity. Institutions were unable to buy the shares in any size. He was forced to sell his shares to a private equity firm to cover a loan he had. The private equity firm sold 6.6mm shares in a poorly handled secondary transaction putting price pressure on the shares. When that transaction was completed, it doubled the float and dramatically improved the ability of institutions to buy shares. Standard Parking was and remains an excellent business.

**1-Year Daily Chart of CPI**

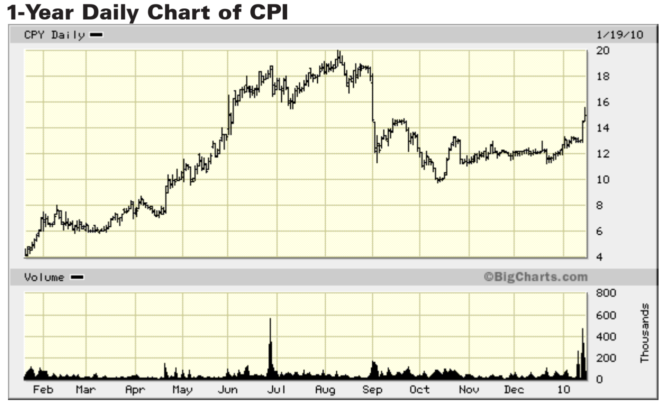


Chart provided by www.BigCharts.com

They are an outsourced provider of parking facility management services, with a recurring revenue model. More than 90% of their contracts have been renewed, 85% of their profits come from cost-plus management contracts. It's an extremely high return on invested capital business because they basically do not own their facilities but manage them. You have what we believe is a FCF growth stock with recurring revenues. Their gross margin per managed location has been very steady over the last few years and is poised to grow. Most of their contracts are not economically sensitive or tied to the price of fuel or consumer demand. Real estate related companies had thought of the garage as a service to their customers. That has changed. You have to not only provide the service, but you have to help the building manager use the garage as a source of profitability.

The other beauty of their business model is it's a negative working capital model, meaning that they get paid by the customer, prior to them having to pay the landlord of the building. There is minimal research coverage, with five analysts on the name. Our target price, which

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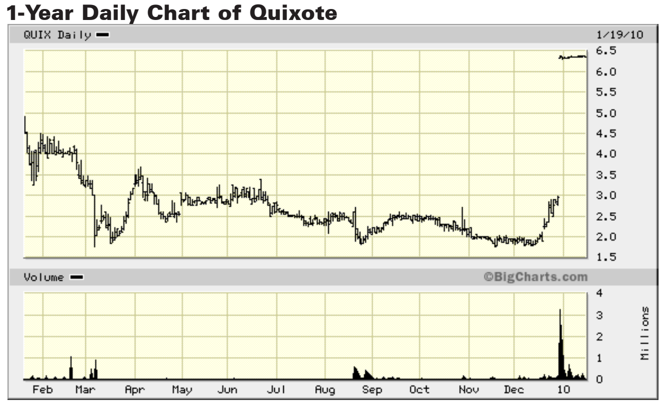
is in the low 20s, is only based on a nine multiple of 2011 EV/EBITDA. The industry has a few leaders and consolidation opportunities are likely from smaller companies.

Another recent addition to coverage at our firm was **CPI Corp** (CPY), the largest operator of mass retail portrait studios in the U.S. It is the sole operator at Sears and Wal-Mart, which combined are 50% of the industry. CPI Corp completed a huge capital spending program over the last few years converting studios to a digital format. Going forward, capex should only equate to 25% of D&A. As a result, Free cash flow is roughly double net income. The largest shareholder, hedge fund Ramius LLC is selling its position creating an overhang depressing the share price. Late last week, shares traded significant volume indicating they may have sharply lowered their holding. Shares rose sharply in price on this expectation. My analyst, Torin Eastburn, has a $21 price target reflecting only a 7X multiple of our $3.00 sustainable FCF/share estimate.

With capital markets opening up, a key message in 2010 will be industry consolidation where many of our companies that have had acquisition opportunities pending will take advantage of this downturn. In these fragmented less efficient industries, typically you are trying to buy a private business directly from the owner who three years ago, probably had stronger results and had been hearing very high valuations from private equity firms. With hindsight, owners of businesses were trying to get a high valuation of what proved to be peak earnings. We are seeing the exact opposite of that right now. We saw a pretty sizable downturn in the economy last year. We've seen a number of the companies that have been in

**1-Year Daily Chart of Quixote**

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**TWST: Tell us more about the management of the companies that you are doing research on. What you would like to see management teams doing? You just mentioned consolidation with Standard Parking. How vital a component of your research is the management performance?**

**Mr. Ursaner:** In small cap, management is the story. These are wonderful niche companies. Management must wear a number of different hats. They must stay on top of their products and manufacturing to make sure they are fully competitive. They've got to be well ahead of any financial issues. Many of our companies have very strong balance sheets and excellent financial flexibility to weather downturns, and that was proven when most of them got through this downturn with minimal if any impact. They have to evaluate acquisition opportunities versus other uses of cash such as debt reduction, dividends, or share repurchases.

negotiations with targets where prices have gotten much more reasonable. They realized in 2009 that even if they were willing to be more reasonable on price last year, there wasn't a market available to make a sale. We think in 2010 we are going to see dramatically more merger and acquisition activity among our companies, where not only can they buy smaller private targets, but we wouldn't be surprised to see some of our companies be acquired by larger entities in the upcoming year.

In the last month or so, we've already seen a number of transactions. I'll give you one specific example. We've been following a company named **Quixote** (QUIX) for a number of years. They provide crash barriers for highways. Near year-end, they received a takeout bid of 110% premium from where the stock was trading when announced. We expect a number of other companies that we follow to be acquisition targets in the upcoming year.

**TWST: You aren't interested in companies whose management is passively waiting for the economy to improve, you're looking for active and more aggressive management?**

**Mr. Ursaner:** Absolutely. The management teams of our companies reacted very quickly to the downturn as it was hitting in 2008 and are fully prepared to take advantage of the opportunities that are evolving this year. One of the other things that we think is essential in a management team is we like to see them have their financial interests aligned with public shareholders, and we look at that in a number of different ways. We would hope that they own enough shares so that they are paying attention to the stock. We want the variable compensation piece to be driven by meeting performance-oriented goals such as earnings growth, return on invested capital, working capital improvements, very specific factors that indicate they are managing their business well. A number of our management teams did not receive bonuses in 2008 and 2009 when they couldn't meet the challenges. The management teams of our companies understand they've got to perform to do well. They are very focused on it.

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The other factor we look for are incentives that are more long-term. We don't want management compensation to be paid on one-year goals, but rather look for companies that are basing executive comp such as restricted shares on three-year achievement of goals so that they make the right investments, not just for enhancing short-term results but more for long-term results.

**TWST: What you like to see management do with free cash flow?**

**Mr. Ursaner:** There are five uses for free cash flow and we want managements to evaluate all five of those. The choices are increased investment in the business, which they should do if they have very high returns on the capital they invest. If they don't have opportunities to reinvest in the business at attractive returns, they should return the cash to shareholders trough share repurchases or dividend increases which is what a mature company should do. They can pay down debt. Another opportunity is to use cash for acquisitions.

**TWST: I know you don't have a formal sell discipline, but what are the factors that would make you recommend a sale for your clients?**

**Mr. Ursaner:** The primary factor that should cause an investor to sell shares in a portfolio company is if there is a change in the underlying reason that you bought the stock in the first place. If that changes, you must reassess the stock. If you thought they had an exciting new product with a competitive advantage but find out that has changed, if you thought management was going to sell a business and chose not to for reasons that were not clear, did management take on excessive financial risk, these are all valid reasons one should consider selling a stock.

There are other factors that can affect one's view. If we spoke over the last three years, one of the more exciting areas that we've been focused on for new investment is a build-out of transmission and distribution for electric utilities. We are seeing a fairly rapid change. Towards the end of 2009, a number of utilities chose to slow down or postpone build-outs of transmission and distribution projects. What we don't know is whether that's a three or six-month process or whether that will prove to be a two or three year process and it affects our views on companies in the space such as **Valmont Industries** (VMI), which manufactures highly engineered utility poles; **AZZ Corp**, which provides products used in the back end of transmission and distribution; **Powell**, which is a supplier of arc equipment used in power generation. These are names that we have been quite enthused about over the last few years, but the next six to 12 months could be quite uncertain.

The other place we look for sale candidates is where there is a fairly dramatic negative secular trend change underway. Some examples of this would be the media space where newspapers or radio have gone through such dramatic change that the historic valuations are virtually meaningless.

**TWST: Clearly you recommend avoiding companies that have highly leveraged balance sheets. What other issues that would cause you to avoid companies?**

**Mr. Ursaner:** On highly leveraged companies, as long as there is very strong coverage of the debt on the balance sheet, we are comfortable. There are certain industries that have very stable free cash flow that should support reasonably high debt levels. Again I think the bigger factor would be, if we find a company that makes an acquisition where it moves into a new area, where it may not have expertise, where it may have paid a higher price than we think is reasonable, what we have learned is that over time these acquisitions tend to not work very well. It's not necessarily that we would sell shares in a company, but we would certainly want to be on the sidelines until there was strong evidence that in fact the acquisition did make sense. That would be one area where we would be cautious. Again I think investors should always look for change in the underlying business. If the company has achieved unusually strong margins because of patent protection, where the competitive dynamic may change, that would be another place where we would be extremely cautious.

A key factor in 2009 that is increasing in importance is legislative or government uncertainty, and the obvious place where that became an issue was healthcare reform. Most healthcare stocks did not perform well in the second half of 2009, given the fear and uncertainty of where government regulation would head in the next few years and how that could impact the growth rate of many of these companies.

**TWST: Are there any changes from what you were doing a year ago and looking at companies in different areas?**

**Mr. Ursaner:** No, as always I think we are looking to find change and market inefficiency wherever it is. Our game plan hasn't really changed. One of the things we are grappling with is that at least in the early part of 2009 investors were looking for more defensive names. At the moment there is a clear shift to find more offensive names. We have more clients saying, I think the worst is behind us, I am trying to find names that will show strong leveraged earnings growth in 2011 and 2012. While we are seeing some stretching of valuation, keep in mind that many of our clients manage sizable pools of money and trying to make five-year investment decisions. For them, if they believe the worst is behind us, they are trying to assess where revenue growth may go, where margins may trend on a three to five-year basis. We are trying to identify more names that would fit that theme. If there is a generalization they will tend to be more industrial names. Capital spending has essentially come to an 18 -24 month halt; when that returns we could see quite strong demand. We are seeing less of a look-back on where trends were in 2008, 2009 and much more a guess of where they are likely to head in 2011 and 2012.

**TWST: CJS Securities has a very distinctive approach to small cap stocks. What do you think you bring to the table that other small cap firms just might not?**

**Mr. Ursaner:** We have very strong competition and I don't want to minimize it at all. To the extent we bring something special to the equation, this is our core business, this is what we do, every single day with total intensity and we'd like to believe that if you've got the right people working very hard, you can be pretty good at it. Many of the competitors in small cap might be regional firms, where it's a part of their business. Many larger firms do work on smaller companies as part of banking-related activity. We're also more willing than many other firms to work on more complex, more challenging names that require a great deal of work. We do quality work on conglomerates and other names where to follow a single company you might have to have some expertise or some knowledge on three or four different industries. Many competitors or analysts won't do those names. They just don't have the skill or more likely they don't want to take the time or make the effort to do them, whereas we do because that is our business.

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**TWST: Tell us about business risk and the risk profile that you look for.**

**Mr. Ursaner:** We try to avoid single product companies or excessive exposure to a single client. Even when this does not impact results, it can impact the multiple investors are willing to pay. I can tell you some of the things we don't do, which may answer your question. There are sectors of the market where one is betting on future events with very little historic evidence to support it. These are industries such as biotechnology or Internet-related companies where you could be a market leader today and a company that we never heard of two years from now could be the dominant player in that space. When we think about businesses, when we look at companies, we are looking to find companies which might have a 100 year history that are providing relatively mundane steady products that have survived decades of change and try to avoid ones where a new product introduction could so dramatically change the environment that the company you think of as stable could be out of business in a short time.

Another area of the market where we as a firm have avoided risk is the financial sector, because we think it requires a very unique expertise. We know we don't have the ability and are not sure others have the ability to really understand the assets and liabilities on firms like banks or insurance companies, and for that reason, we don't do any research in this space. Another place we don't do work is in the retailing space where we think companies tend to be over-followed, but even more importantly there is massive change underway with people buying products differently. The consumer has much better knowledge walking into a store or online about what the right price ought to be. When you educate a consumer, it's much more difficult to earn attractive returns as a manufacturer or a retailer.

**TWST: How do you think small cap stocks are going to do in a recovering but weak economy? Are there any challenges or headwinds that investors should be wary of about the small cap arena going forward?**

**Mr. Ursaner:** We are very enthused about our companies on looking out over the next two to three years. They've managed through the downturn, they've taken costs out, most of them have strong balance sheets and most of them are not assuming that there will be any kind of meaningful recovery. So in most cases, we think our companies are very well positioned to perform well. One of the risks almost every one of our companies has is the inability to drive their customer demand. Our companies cannot force or incent their customers to give them more business since they are dependent on their customers. Most remain very cautious in their outlook. Some are having challenges raising capital, which can affect demand. Our companies can do a lot of things to impact their cost structure and their own company-specific actions, but there is very little they can do to impact their customer demand, which does remain probably the biggest uncertainty in the equation.

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**TWST: Is there anything that you wish to add at this point?**

**Mr. Ursaner:** One of the important changes we saw in the second half of the year, that is disturbing to me relates to our business and is something we spend a great deal of time talking about. Because the large investment banks were not that busy last year, they spent more time focusing on transactions for smaller companies than they have in a number of years. What we saw is a number of companies that we have been involved with providing research to clients for years, do public secondary offerings through some of these larger firms, which I think creates a lot of risk for investors. We talked about **Standard Parking.** When they chose to do an offering, they picked an underwriter who didn't provide research coverage on the name and in our opinion didn't sell the story very well institutionally. We find companies are being persuaded to go to these large investment banks for their offerings, not realizing that for these banks it's a side business. It's something they pay attention to while they are working on a deal as opposed to, as I indicated, it being our lifeblood every single day. To the extent that occurs, it will create a lot more volatility around smaller cap ideas.

The other thing we have talked about previously is ETFs and the impact they are having on the market and it was very clear, in 2009, they did have a sizable impact and created quite a bit of unnecessary volatility. Many industry pundits think that at some point we need to more carefully regulate how some of these ETFs function to try to reduce some of their volatility and impact on the overall market.

**TWST: Thank you. (PS)**

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