PIPE Transactions: Basics and Current Developments

August 15, 2018
Overview

• In recent years, capital markets participants have learned to think about volatility differently. In the past, brief periods of market volatility generally interrupted longer periods of relative market stability. But now, we have begun to think of volatility in the markets as a norm
  – Sources of liquidity are critical in today’s capital markets
  – It is important to prepare for a financing so that when a market “window” opens, an issuer can finance quickly

• As a consequence of these developments, a variety of offering alternatives to fully marketed, traditional underwritten public offerings have become more popular, such as PIPE transactions, registered direct offerings and “pre-marketed” or “confidentially” marketed public offerings

• A PIPE transaction permits an issuer to raise capital quickly and without public disclosure that a deal is imminent
MARKET TRENDS
Market trends

• Trends affecting the market for PIPE transactions include the following:
  – Most follow-on offerings now take the form of shelf takedowns
  – Most shelf takedowns are either pre-marketed (wall-crossed) offerings or marketed on an accelerated basis rather than traditionally marketed underwritten offerings
  – Some shelf takedowns are structured as registered direct offerings
  – PIPE transactions have declined in number, but they remain useful under certain circumstances
## Market trends cont’d

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Deals</th>
<th>Dollars Raised</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 YTD</td>
<td>897</td>
<td>$37.8 billion</td>
</tr>
<tr>
<td>2017</td>
<td>1,445</td>
<td>$44.8 billion</td>
</tr>
<tr>
<td>2016</td>
<td>1,179</td>
<td>$48.9 billion</td>
</tr>
<tr>
<td>2015</td>
<td>1,057</td>
<td>$41.1 billion</td>
</tr>
<tr>
<td>2014</td>
<td>1,169</td>
<td>$34.5 billion</td>
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<tr>
<td>2013</td>
<td>1,098</td>
<td>$23.8 billion</td>
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<tr>
<td>2012</td>
<td>1,114</td>
<td>$36.0 billion</td>
</tr>
<tr>
<td>2011</td>
<td>1,246</td>
<td>$29.5 billion</td>
</tr>
<tr>
<td>2010</td>
<td>1,529</td>
<td>$38.9 billion</td>
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<tr>
<td>2009</td>
<td>1,272</td>
<td>$41.8 billion</td>
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</table>

*Data: FY 2009 – 8/6/2018 – PrivateRaise.com*
PIPEs by the numbers, 2018 YTD

<table>
<thead>
<tr>
<th>Security Type</th>
<th>(# of placements)</th>
<th>($ millions raised)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>633</td>
<td>$22,124</td>
</tr>
<tr>
<td>Preferred stock: Convertible</td>
<td>64</td>
<td>$5,615</td>
</tr>
<tr>
<td>Preferred stock: Non-convertible</td>
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<tr>
<td>Debt: Convertible</td>
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<tr>
<td>Debt: Non-convertible</td>
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<td>$747</td>
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<tr>
<td>Other: Convertible</td>
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<td>$507</td>
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<tr>
<td>Prepaid warrant</td>
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<td>$565</td>
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<tr>
<td>Equity line</td>
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<td>$573</td>
</tr>
<tr>
<td>Unknown</td>
<td>2</td>
<td>$8</td>
</tr>
<tr>
<td>Total</td>
<td>897</td>
<td>$37,828</td>
</tr>
</tbody>
</table>

Data: 1/1/18 – 8/6/18 – PrivateRaise.com
PIPE TRANSACTIONS
PIPEs

• A PIPE (Private Investment in Public Equity) is a private placement of a public issuer’s equity or equity-linked securities to investors, where the sale is conditioned upon a resale registration statement being filed with, and declared effective by, the SEC subsequent to closing (permitting prompt resale).

• Generally, a PIPE is structured to comply with the Section 4(a)(2) exemption and Rule 506(b) of Regulation D to selected accredited investors. Investors irrevocably commit to purchase a fixed number of securities (common stock or fixed rate/price preferred stock) at a fixed price, not subject to market price or fluctuating ratios. The issuer undertakes to file a resale registration statement covering the securities.

• A PIPE allows an issuer to see whether there is a transaction available, who the investors are, and what price they’re prepared to pay before there’s any public knowledge that the company is contemplating a transaction and before undertaking the cost associated with getting the transaction completed.
Who invests in PIPEs?

• “Accredited investors” under Regulation D
• Funds, including hedge funds, mutual funds, pension funds, etc., are frequent PIPE investors
• Sector and institutional buyers
• Venture funds and private equity firms also have expanded their participation in PIPE transactions
  ─ In the case of private equity firms, this is largely a response to the lack of availability of credit for effecting the leveraged transactions that are core to their business
  ─ Venture capital funds have increased their participation in PIPEs because valuations have dropped and issuers have become willing to give them terms that are found in venture capital private transactions
  ─ Venture and private equity funds often seek to negotiate additional covenants in the purchase agreements relating to corporate governance rights and information rights
Why choose a PIPE?

• For many issuers, a PIPE transaction is simply the most cost-effective alternative
  – This is especially true during periods of heightened market volatility

• In a traditional PIPE transaction, the investor bears the price risk from pricing (purchase agreement executed) until closing (funding)
  – The issuer is not obligated to deliver additional securities to the PIPE investors in the event of stock price fluctuations or otherwise

• A PIPE transaction may be commenced without public disclosure
  – Rule 135c press release announcing the PIPE only when definitive purchase agreements have been executed
DOCUMENTATION
Key documents in a PIPE transaction

- Engagement letter between issuer and placement agent
- Trading restrictions/confidentiality agreements with investors
- Private placement memorandum/investor presentation
- Purchase agreement/registration rights agreement
- Legal opinions
- Closing documents
- Comfort letter may be requested by placement agent
- Press release/Form 8-K to announce transaction and file material agreements
- Resale registration statement
Engagement letter

- This is often the only binding agreement between the issuer and the placement agent
- Describes the placement agent's fees
- Expense reimbursement
- Exclusivity period – "tail"
  - Frequent subject of negotiation: As to which investors does the issuer pay the placement agent? What is the duration of the tail?
  - Is there a right of first refusal?
- Indemnification provisions
- Conditions precedent – will placement agent receive a comfort letter? Will the placement agent be the addressee of the legal opinions? Will the issuer’s counsel deliver a negative assurance?
Purchase agreement

• Agreement is between the issuer and the investors
  – Placement agent is not usually a party, unless it is also investing
  – Placement agent’s counsel or a lead investor’s counsel usually prepare
  – Placement agent generally will be a named third-party beneficiary so that it receives the benefit of the representations and warranties

• Issuer representations and warranties
  – Issuer business reps
  – Private placement reps
    • Will the PIPE be undertaken in reliance on Section 4(a)(2) and/or Rule 506(b)?
  – Investor will not have material non-public information (MNPI) once the transaction is announced

• Issuer covenants to promptly make the transaction public

• Investor representations (limited):
  – Private placement reps; "accredited investor“ reps
  – No violation of trading restrictions
Purchase agreement, *cont’d*

- The purchase agreement may, depending on the nature of the investors, contain ongoing covenants relating to corporate governance (board representation or observer rights, blocking rights, etc.) or information requirements (regular deliveries of public filings or other information to investors).

- Before an investor obtains unlegended stock certificates, the investor must deliver to the issuer and the issuer's transfer agent a certificate as to the investor's compliance with the prospectus delivery requirement.

- Closing conditions include: bring down of the issuer and investor reps, no occurrence of any material adverse change between signing and closing, and the delivery of the required legal opinions and closing documents.
Negotiating the registration rights

• Limitation on the length or number of black-out periods?
• Usually no "piggy-back" registration rights
• Will there be a time limit for filing of the resale registration statement following execution of the purchase agreement?
• Length of time given for the issuer to have the resale registration declared effective?
• Penalty payments for failure to file registration statement or to go effective? Cap on the amount of penalty payments?
• Can any other registration statement be declared effective before the registration statement relating to the PIPE?
Resale shelf registration statements

• An issuer generally does not need to be S-3 eligible on a primary basis to complete a PIPE transaction. An issuer may use a Form S-1 or a Form S-3 registration statement as a resale shelf registration statement in connection with a PIPE transaction
  – But, under certain circumstances, the SEC has seen some PIPE transactions as “disguised primaries” and required that the issuer withdraw its resale registration statement and re-file as a primary offering

• However, using a Form S-3 for the resale registration statement is less costly and less time consuming, since the Form S-3 is less burdensome to prepare and may be updated by the periodic filing of Exchange Act reports, without the need to file post-effective amendments. An issuer must be eligible to use Form S-3 on a resale basis

• Key due diligence point for investors and placement agents (as well as a representation in the purchase agreement, and a legal opinion): is the issuer Form S-3 eligible?
Use of an existing registration statement

• Generally, if an issuer has a shelf registration statement on file, it is a primary shelf registration statement for the sale of newly issued securities and, therefore, of no use for an issuer looking to effect a PIPE transaction.

• For a PIPE, the issuer often is required by the terms of the purchase agreement with the PIPE purchasers to file, and have declared effective, a resale registration statement covering the resale by the PIPE purchasers (a selling stockholder shelf registration) from time to time of the securities that were purchased in the PIPE transaction.
  – Exception: WKSIs – may add resale of securities issued in a PIPE to an existing shelf registration statement.
PIPE offering materials: disclosure

- At times, a private placement memorandum is prepared containing, or incorporating by reference, the issuer's Exchange Act documents.
- Investors rarely receive projections or other information that has not been disclosed publicly.
  - Having MNPI would limit their ability to trade in the shares after the closing.
- If there is a reason to provide investors with MNPI, the purchase agreement will often contain a covenant requiring the issuer to disclose such information to the public when the offering is announced or at some other relevant time.
- Sometimes PIPEs are marketed without a disclosure document, such as when the investors are familiar with companies in the issuer's sector. A term sheet with the proposed terms of the offered securities is sometimes the only document circulated.
Liability considerations

• Private placements are subject to:
  – Section 17(a) (the antifraud provision) of the Securities Act
  – Section 10(b) (the antifraud provision) and Section 20(a) (the “control person” provision) of the Exchange Act
  – State securities laws (“blue sky” laws)
  – State common law of fraud and negligent misrepresentation
  – FINRA suitability, advertising and supervisory rules

• Who “made” the misstatement?
  – Under Rule 10b-5, it is unlawful for “any person, directly or indirectly, . . .[t]o make any untrue statement of material fact” in connection with the purchase or sale of a security
Closing a PIPE – physical certificates

• Note: some investors, such as certain mutual funds and other investment funds, must close offerings electronically on a "delivery vs. payment" basis, and may not accept physical stock certificates at closing

• Practice tip: determine early if any investors of this kind will be participating in your offering, and prepare the settlement mechanics and related provisions for the transaction documents accordingly. Share certificates will need to be issued by the transfer agent prior to the closing and held by a "custodian"
SPECIAL SITUATIONS CALL FOR A PIPE
VC/private equity PIPE

- Venture capital or private equity funds will often invest in public companies either to increase their position or as a new investment if valuations make it attractive to do so
- Often a VC or a PE fund will invest in a public company as part of a recapitalization transaction
- Why should these investments be structured as PIPE transactions?
  - Highly customized
  - Usually the investor will want to do its own diligence and is likely to acquire material non-public information that will not be capable of being disclosed by the issuer (so the VC/PE firm will continue to be restricted)
  - The investors will likely want other contractual protections (affirmative/negative covenants, information rights)
  - The investors may want board representation
  - The investors will not be as focused on their resale opportunities, or if they are insiders/control persons, will face other limitations
VC/private equity PIPE, cont’d

• These deals raise a host of issues that usually do not arise in other PIPE transactions:
  – Change of control issues:
    • Company’s agreements
    • Poison pill/rights plan
    • Nasdaq and NYSE or other change of control provisions
  – Dilution for other shareholders and litigation risk
  – Change of control premium issues
  – Fiduciary duty and other governance issues
  – Fairness opinions
PIPE to finance an acquisition

• Why a PIPE?
  – Marketing reasons:
    • It may be important to share with potential purchasers a fair bit of information about the acquisition (all material non-public information) and restrict their ability to trade for an extended period of time
    • Important to assess when this information will be shared broadly and/or when the information will become stale
    • How will investors be cleansed if the PIPE (and the acquisition) do not proceed?
  – Lack of “current information”:
    • Is the acquisition material?
    • Is pro forma information required to be filed?
    • Pro forma information may not be available
    • A comfort letter may not be available that could cover the financial information
  – These considerations may make it impossible to do a registered offering
PIPE to finance an acquisition, cont’d

- Big boy letters:
  - The investors should acknowledge receipt of information on the acquisition target or the fact that they have not received combined financials

- Other considerations:
  - Nasdaq and NYSE or similar shareholder vote provisions may be triggered
  - Issuances that may exceed 20% of the pre-transaction total shares outstanding or voting power if made in connection with the acquisition of stock of another company
    - This applies to both above and below market issuances
PIPE for smaller issuers

• Smaller issuers are subject to the 1/3 cap for primary offerings made pursuant to a Form S-3
• Unfortunately, the cap may not provide sufficient flexibility for the issuer to raise much needed capital
• An alternative for the issuer is to structure a PIPE or a Rule 144A or other exempt offering alongside a takedown off of a shelf (subject to the 1/3 cap) to different investors
• Things to consider:
  – General solicitation issues: an issuer contemplating a PIPE or other exempt offering in close proximity to a public offering should consider whether the public offering may have been a “general solicitation” that renders the offering exemption unavailable for the PIPE
PIPE for smaller issuers, *cont’d*

• Integration issues:
  – Offering only to QIBs and no more than two or three large institutional accredited investors (in reliance on no-action letter guidance), or
  – Offering in reliance on Section 4(a)(2) and Regulation D
    • SEC C&DI Question 139.25 (Nov. 2008) clarified that under appropriate circumstances, there can be a side-by-side private offering under Section 4(a)(2) or Rule 506 with a registered public offering
    • C&DI focuses on how the investors in the private offering are solicited — whether by the registration statement or through some other means that would not otherwise foreclose the availability of the Section 4(a)(2) exemption, such as a pre-existing relationship with the issuer
    • Is this C&DI applicable only in the context of an IPO and a concurrent private placement?
PIPE for smaller issuers, *cont’d*

• In November 2016, the Staff issued a C&DI addressing concurrent private placements and public offerings for baby shelf issuers:
  – Question: An issuer with less than $75 million in public float is eligible to use Form S-3 for a primary offering in reliance on Instruction I.B.6, which permits it to sell no more than one-third of its public float within a 12-month period. May it sell securities to the same investor(s), with a portion coming from a takedown from its shelf registration statement for which it is relying on Instruction I.B.6 and a portion coming from a separate private placement that it concurrently registers for resale on a separate Form S-3 in reliance on Instruction I.B.3, if the aggregate number of shares sold exceeds the Instruction I.B.6 limitation that would be available to the issuer at that time?
Answer: No. Because we believe that this offering structure evades the offering size limitations of Instruction I.B.6, the securities registered for resale on Form S-3 should be counted against the issuer’s available capacity under Instruction I.B.6. Accordingly, an issuer may not rely on Instruction I.B.3 to register the resale of the balance of the securities on Form S-3 unless it has sufficient capacity under Instruction I.B.6 to issue that amount of securities at the time of filing the resale registration statement. If it does not, it would need to either register the resale on Form S-1 or wait until it has sufficient capacity under that instruction to register the resale on Form S-3.
PIPE for selling securityholders

• A significant securityholder or group of securityholders may wish to dispose of their securities

• These securities may be restricted securities or control securities because:
  – They were acquired in an exempt offering, or
  – The securityholders are affiliates of the issuer ("control stock")

• Why should these transactions be structured as PIPE transactions?
  – Permits the securityholders to dispose of their securities in an organized manner without disrupting the market for the issuer’s securities
  – Helps to avoid the downward pressure on the issuer’s stock price as a result of alternative means of disposing of the securities, such as:
    • Dribbling out securities over a period of weeks
    • Dumping the issuer’s stock in a block trade
  – The transaction is not announced until definitive purchase agreements are signed (the issuer’s stock will not suffer the downward pressure associated with an overhang)
PIPE for selling securityholders, *cont’d*

- How is this accomplished?
- By utilizing the Section 4(a)(1½) exemption:
  - Can be used by institutional investors to resell restricted securities purchased in a private placement
  - Can also be used by affiliates for the sale of control securities when Rule 144 is unavailable
- In a Section 4(a)(1½) transaction
  - The seller must sell in a “private” offering to an investor that satisfies the qualifications (for example, sophistication, access to information, etc.) of an investor in a Section 4(a)(2) private offering, and
  - The investor must agree to be subject to the same restrictions imposed on the seller in relation to the securities (for example, securities with a restricted legend)
- Other considerations:
  - Requires the issuer’s cooperation to effect the PIPE transaction
  - Purchase agreement contains both issuer and selling stockholder reps and warranties
FINRA RULE 5123
FINRA Rule 5123

• Rule 5123 provides that a member firm participating in a non-public offering submit to FINRA, or have submitted on its behalf by a designated member, a copy of any private placement memorandum, term sheet or other offering document, including any materially amended versions of those documents, used in connection with the offering within 15 calendar days of the date of first sale or indicate to FINRA that no such documents were used.

• Rule 5123 provides exemptions from the filing requirement based on the type of purchaser and the type of offering, which effectively limit application of the rule to non-institutional private placements.

• **Notice Filing Requirement**: Members selling securities issued by non-members in a private placement must file the private placement memorandum, term sheet or other offering documents with FINRA within 15 days of the date of the first sale of securities or indicate that there were no offering documents used.
  
  — The notice filing requirement is for all member firms, not just the lead
FINRA Rule 5123, cont’d

• **Exemptions:** Exemptions for non-convertible debt or preferred; 3(a)(3) exempt securities; 144A/Reg S offerings or offerings solely to QPs/QIB, “institutional accounts” or certain types of institutional accredited investors under Rule 501(a)(1), (2), (3) or (7)
  
  — The principal type of unregistered offering that would be impacted by new Rule 5123 would be a “Regulation D” or “Section 4(2)” offering to individual investors

• To facilitate submission of the required information, FINRA developed the Private Placement Filer Form for the processing of specified private placement filings through FINRA’s Firm Gateway, an abbreviated version of which has been in use since FINRA Rule 5123’s effectiveness on December 3, 2012

• Member firms must complete and submit the Private Placement Form electronically through FINRA’s Firm Gateway
The Private Placement Filer Form requests the following information:

- Identifying and contact information for the member and the issuer
- Disclosure of any affiliate relationship between the member and the issuer or sponsor
- Basic information about the nature of the offering (e.g., type of security, offering size, offering period, underwriting discounts/commission, etc.)

On August 19, 2013, FINRA updated the Private Placement Filer Form to include six additional questions:

- Is the offering a contingency offering?
- Does the issuer have any independently audited financial statements for the issuer’s most recent fiscal year?
– Is the issuer able to use offering proceeds to make or repay loans to, or purchase assets from, any officer, director or executive management of the issuer, sponsor, general partner, manager, advisor or any of the issuer’s affiliates?
– Does the issuer have a board of directors comprised of a majority of independent directors or a general partner that is unaffiliated with the firm?
– Has the issuer engaged, or does the member anticipate that the issuer will engage, in a general solicitation in connection with the offering or sale of the securities?
– Has the issuer, any officer, director or executive management of the issuer, sponsor, general partner, manager, advisor or any of the issuer’s affiliates been the subject of SEC, FINRA or state disciplinary actions or proceedings or criminal complaints within the last 10 years?
• In May 2017, FINRA updated the Private Placement Filer Form again; the amendments:
  – Add additional questions regarding the FINRA member and whether the placement agent is acting on an exclusive basis as well as whether there are any affiliations with the issuer
  – Add many more questions regarding the offering focused on the type of investors, whether the investors are non-accredited, whether there is a minimum purchase amount, whether there is a contingency, etc.
OTHER FINRA CONSIDERATIONS
FINRA communication rules

• If a registered broker-dealer is participating in a private placement, it will want to ensure that:
  – It has identified the group within the bank that will be involved
  – It has undertaken training to make certain that each member understands the requirements under FINRA Rules 2210 and 5123.
    • Under FINRA Rule 2210, most communications likely to be used in connection with general solicitation will be considered “retail communications”
    • Communications must be fair and balanced
    • Communications will be subject to review, filing with FINRA and recordkeeping requirements
  – It has reminded bankers of the firm’s social media policy
FINRA and due diligence

• In the context of a Regulation D offering, FINRA Rule 2310 requires broker-dealers to conduct a suitability analysis when recommending securities to both accredited and non-accredited investors that will take into account the investors’ knowledge and experience.

• FINRA issued Regulatory Notice 10-22 in April 2010, reminding broker-dealers of their diligence obligations in connection with Regulation D offerings.

• In order to ensure that it has fulfilled its suitability responsibilities, a broker-dealer in a Regulation D offering should, at a minimum, conduct a reasonable investigation regarding:
  – The issuer and its management;
  – The business prospects of the issuer;
  – The assets held by or to be acquired by the issuer;
  – The claims being made; and
  – The intended use of proceeds of the offering.
FINRA and due diligence, *cont’d*

- The scope of the broker-dealer’s investigation also will depend upon a number of factors, including the broker-dealer’s affiliation with the issuer, its role in the transaction and other facts and circumstances of the offering, including whether the offerees are retail customers or more sophisticated institutional investors.

- In addition, a firm that engages in Regulation D offerings also must have supervisory procedures under NASD Rule 3010 that are reasonably designed to ensure that the firm’s personnel, including its registered representatives:
  - Engage in an inquiry that is sufficiently rigorous to comply with their legal and regulatory requirements;
  - Perform the analysis required by NASD Rule 2310;
  - Qualify their customers as eligible to purchase securities offered pursuant to Regulation D; and
  - Do not violate the antifraud provisions of the federal securities laws or FINRA rules in connection with their preparation or distribution of offering documents or sales literature.
FINRA enforcement

- FINRA enforcement actions suggest that FINRA is actively pursuing its regulatory priorities and indicate the types of violations that are likely to draw FINRA’s attention, including:
  - Disclosing investment objectives that exceed or fail to accurately capture the objectives stated in the offering documents;
  - Making unsubstantiated or exaggerated claims, or statements that promise investment success;
  - Making unwarranted performance projections;
  - Failing to adequately disclose risk;
  - Providing materials with contradictory information;
  - Failing to provide a sound basis for evaluating the provided information; and
  - Violating applicable general solicitation rules.
PIPE enforcement matters

• *In re Janney Montgomery Scott LLC* (SEC Exchange Act) Release No. 64855 (July 11, 2011), the SEC settled charges that a broker-dealer failed to establish and enforce policies and procedures to prevent the misuse of material, nonpublic information.

• Focusing on the period from January 2005 to July 2009, the SEC’s findings include, among other things:
  – There were no relevant written policies until September 2005
  – The policies (the ECM Manual) issued in September 2005 were not revised over time
  – As of July 2009, the ECM Manual was incomplete
  – At least three compliance personnel left during the relevant period
  – Investment bankers and research analysts did not follow the chaperoning procedures in the ECM Manual
  – There was a failure to maintain and enforce the email communication firewall
PIPE enforcement matters, *cont’d*

- Settlement involved an $850,000 penalty for Section 15(g) violations; the broker-dealer must hire a consultant to develop policies and procedures.
- On June 28, 2011, FINRA entered an Order Accepting Offer of Settlement from Midtown Partners & Co, LLC, relating to Midtown Partners’ failure to have reasonable written supervisory procedures or a reasonable system of supervision regarding information barriers, particularly in connection with the firm’s role as placement agent for PIPE transactions, in violation of NASD Rules 3010.10 and 2110.11. As with the SEC Order, FINRA found that, over the relevant period, Midtown Partners:
  - Had no written supervisory procedures regarding creation or distribution of a watch list;
  - Failed to comply with its own existing procedures regarding its restricted list;
PIPE enforcement matters, cont’d

– Did not monitor employee accounts or trading outside the firm; and
– Had no procedures to restrict the flow of material, nonpublic information and, in fact, shared such information with unregistered individuals who were owners of the firm, including the details of investment banking contracts

• FINRA ordered sanctions of a censure and a fine of $30,000
• On September 27, 2012, the staff of OCIE published their Staff Summary Report on Examinations of Information Barriers
• The report specifically cites concerns regarding the handling of unannounced deals, like PIPEs and CMPOs, and the handling of MNPI
NASDAQ PROPOSAL
Nasdaq request for comment

• Over time, Nasdaq has not made significant changes to its shareholder approval rules

• In 2016, Nasdaq published a request for comment. The request for comment addresses various aspects of the shareholder approval rule, including change-of-control provisions, the warrant test, the private placement provisions and the acquisition rule

• Specifically, Nasdaq asked:
  – Whether the 20% threshold (i.e., requiring shareholder approval for issuances of 20% or more of pre-transaction total shares outstanding at a discount) is too restrictive?
  – Whether the percentage should be higher?
  – Whether there are other shareholder protection provisions that are sufficient?
  – Whether the insider interest in acquired assets test is still needed?

• The comment period closed February 15, 2016
Nasdaq second request

• In June 2017, Nasdaq solicited further comments on a narrower set of issues
  – Whether market value should reference the closing bid price
  – Whether a change from a single day’s bid price to an average of closing prices would be appropriate
  – Whether Nasdaq should eliminate book value as part of its rule
• In January 2018, Nasdaq filed a proposed rule change to address these changes
• In May 2018, the SEC requested further comment on the proposed Nasdaq amendments
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