

## IPO Pipeline Looked Promising. Then Came Lehman, AIG...

By LYNN COWAN

Just as some hopeful souls started to believe that the IPO market could begin rebuilding, last week's hurricane of bad news swept those dreams aside.

Until last week, some market observers said they were seeing more companies readying to register initial public offerings in the U.S. While no one believed deals were about to pour into the market, even a whiff of future activity seemed promising.

Then came the filing for bankruptcy protection by [Lehman Brothers Holdings](#), the sale of [Merrill Lynch to Bank of America](#) and the government rescue of [American International Group Inc.](#) The U.S. government's announcement late in the week that it was working on a plan to bail out the financial system is at such an early stage that it's impossible to know what effect it may have on IPOs.

Even so, "the landscape of the financial universe

shifted big time," said David Alan Miller, managing partner at law firm Graubard Miller. He had thought that the market for special purpose acquisition companies, or SPACs, was inching back to life. "Now, although there will still be a handful of SPAC IPOs which get done, I really doubt we'll have a big spike in IPO activity for the remainder of the year."

Similarly, more companies backed by private-equity companies had started asking Christopher Loiacono, a partner and co-chair of the tax-advisory services group at Eisner LLP, about spiffing up their GAAP compliance and internal controls with the eventual hope of going public. Because it can take anywhere from 12 to 18 months to ready a company for its IPO registration, Mr. Loiacono knew those deals weren't imminent, but at least they were getting prepared.

But in recent weeks, as hints of more trouble brewed in the financial sector and stocks

spiraled downward, the pace of those inquiries ground to a halt.

There still are some glimmers of hope. Michael Allison, chief executive of International Business Research, says he is still seeing a small pickup in requests for executive background checks at pre-IPO firms, part of the due-diligence process undertaken by Wall Street underwriters. Such queries to his Princeton, N.J., firm usually predate an IPO registration by four to 10 weeks.

Mr. Allison says many of the companies he sees readying themselves have ties to China, and most of the background-check requests are from smaller investment banks, not the major bulge-bracket names that were pummeled last week.

"It's by no means a snowstorm," Mr. Allison said of the pickup in activity. "But we are beginning to see a few snowflakes pass the window."

The current slowdown is ad-

vantageous to small private-equity funds hoping to buy companies that could be flipped to the public markets when the IPO window reopens. Although the market for large leveraged buyouts is frozen, Ron Geffner, an attorney who heads the financial-services group at Sadis & Goldberg LLP, said he is seeing the formation of more first-time private-equity funds that are raising about \$200 million each to take advantage of distressed business prices.

"They are forming with two concepts in place: First, that the capital markets have been battered so much that we're close now to a real low; and secondly, by the time investments are ready to be turned around, the capital markets will have recovered," he said.

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