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The Latest Movement to Going Private: An Empirical Study

9 Pages

Posted: 10 Jan 2005

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Abstract

The number of firms going private is increasing at an unprecedented rate in the current decade. The ratio of companies going private to IPOs is in the 20%-30% range. My survey includes 110 of the 236 that went private between January 2001 and July 2003 (a 46.6 percent response rate). The cost of being public is the number one reason for going private by smaller firms. This relates directly to the passage of the Sarbanes-Oxley Act in 2002. A null hypothesis of no relationship between market capitalization and going private because of cost could be rejected at an alpha level of 0.01. Of significance is that a number of smaller firms actually went private under a Form 15 deregistration by reducing their number of shareholders to under 300, but without buying in the other shares outstanding. We now have a number of private companies with public shareholders holding the majority of the shares.

JEL Classification: G32, G18

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