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Stock Exchanges for Local Businesses

By JOEL MILLMAN

Wolfgang Candy Co. is looking for capital to help the 90-year-old company expand. GreenLine Paper Co. could use a cash infusion to improve its distribution of environmentally friendly office supplies. [York Water Co.](#) wants to sell more shares but is leery about the steep legal and auditing fees.

All three are based in York, Pa., (pop. 43,718) and don't want to become big names on Wall Street, though selling stock through a public offering would help them.

Instead, they are considering an alternative closer to home: the Lancaster Stock Exchange, a stock exchange for Pennsylvania companies that is trying to open in nearby Lancaster, Pa., this year.

"It's like 'slow food' but for finance," says Trexler Proffitt, a business professor at Franklin & Marshall College in Lancaster, referring to diners who favor restaurants that buy ingredients from local gardens, fisheries or ranches.



York Water Company

If the Lancaster Exchange gets off the ground, York Water, which is listed on the NASDAQ Stock Market, might use the new exchange to issue additional shares. Above, York Water employees at work on a pipe.

Prof. Proffitt has been canvassing the area since 2009 in hopes of finding enough money managers, chief executives and \$800,000 in start-up funding to open the Lancaster Stock Exchange, or LanX for short.

Local stock exchanges once were common but faded as face-to-face trading shifted to electronic platforms and the biggest U.S. stock-exchange operators acquired smaller rivals. Among the few remaining exchanges, the former Philadelphia Stock Exchange is now an options exchange owned by [Nasdaq OMX Group Inc.](#)

A minicomeback might be around the corner. In April, Hawaii lawmakers agreed to begin examining the state's securities laws to possibly create a "locally focused, Hawaii-based stock exchange."

David Fisher, an economic development and business consultant involved in the effort, says the electronic-only exchange would help Hawaiian investors keep their money closer to home, while connecting local entrepreneurs with capital. Honolulu's stock exchange shut down in 1976.

In Toronto, organizers of the Social Venture Exchange, or SVX, are expected to launch this summer a specialized exchange to link institutional investors with local companies having a social or environmental impact. The fledgling market is backed by Toronto Stock Exchange owner [TMX Group Inc.](#) Local exchanges are also in the works in Europe, Africa and Asia.

But other efforts at "loca-vesting," as the concept is known, have struggled. Investbx opened in 2007 in the U.K. city of Birmingham to serve small companies in the West Midlands region. Last month, the exchange was sold for a token £1 (\$1.6352) after bringing just three companies to market and absorbing more than £3 million (\$4.9 million) in public subsidies.



Kimberton Whole Foods

Kimberton Whole Foods hopes to be one of the first companies to list on LanX.

SEC rules give some wiggle room to local exchanges. Under U.S. securities laws, companies can avoid registering an offering with the SEC if the company is selling shares only to residents of the same U.S. state in which it is incorporated. The company also must do much of its business in that state.

Ben & Jerry's Homemade Inc. used that intrastate-offering exemption to sell Vermont residents what the ice-cream maker's founders called "a scoop of the action" in 1984, well before the 2000 sale to [Unilever NV](#). Such shareholders usually can get rid of their shares only by selling them back to the company.

Honolulu and Lancaster plan to operate as full-fledged electronic exchanges, with companies paying listing fees. LanX would charge 4% to 6% of the value of shares listed, plus \$5,000 a year. Companies would have to meet auditing standards and other hurdles. LanX backers hope to list the securities of 50 companies within a decade.

Supporters of the local exchanges need clearance from U.S. and state regulators. "We wouldn't do a thing like this without looking long and hard at what the SEC is doing and what the rest of the states are doing," says Michael J. Byrne, chief counsel of the Pennsylvania Securities Commission.



Wolfgang Candy Company

A Wolfgang Candy worker monitors a pretzel machine.

"We don't necessarily need a LanX. We have a healthy relationship with our bank," says Terry Brett, founder of Kimberton Whole Foods, a grocery-store chain in Kimberton, Pa. "But it's such a great idea to have a regional stock exchange that a community controls—and be investing in itself."

Kimberton had sales of \$11 million last year, getting much of its produce from area farms, including many Amish farms.

Mr. Brett, 55 years old, wants to expand into Lancaster, where it would cost about \$600,000 to open a new store near Franklin & Marshall College. He hopes Kimberton will be one of the first companies to list on LanX.

If LanX gets off the ground, York Water might use the new exchange to issue additional shares, says Jeffrey Hines, the utility's president and chief executive.

Now listed on the Nasdaq Stock Market, York Water is too small to have leverage over investment banks despite paying dividends for 195 years in a row. As such, a \$15 million offering would cost about \$1 million in underwriting fees, Mr. Hines says.

An offering on LanX likely would cost far less and push the offering price higher if Pennsylvania investors rush to invest in York Water. "Institutional investors make our price," he says. If York can list its shares locally, "retail investors would take our price."

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