

REDCHIP BOOKS
MICROCAP SUPERSTARS

Dave Gentry has been a consultant to over 400 public and private companies. In 2012, he founded *The RedChip Money Report*[™], a weekly cable TV financial news show broadcasted in over 200 million homes on Fox Business, Bloomberg Europe and Bloomberg Asia. He is the Chief Executive Officer of RedChip Companies Inc., an international investor relations, media and research firm focused on smaller-cap stocks. He has appeared as a guest on CNBC, Fox Business News, and is a nationally recognized thought leader in the microcap sector.

MicroCap Superstars

**INTERVIEWS WITH THE MOVERS AND
SHAKERS IN THE FAST WORLD OF SMALL
STOCKS AND BIG MONEY**

*Plus the best Small-Cap lessons from RedChip Nation,
Top Microcap Stock Picks, and more...*

DAVE GENTRY

REDCHIP BOOKS

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To Clare

Acknowledgements

I want to thank first and foremost my wife Clare for giving me the time and space to write, think, and reflect over the last twelve months as I worked on this book. She has been gracious and supportive in so many ways. Secondly, I want to thank the RedChip team, particularly Thomas Pfister, my Research Director, Paul Kuntz, my Communications Director, and Alan Bracamonte, who spent long hours designing and laying out the book. I would also like to thank all of the Superstars in this book for lending me their time to learn about their remarkable stories.

Praise for *MicroCap Superstars*

“Drawn from his collective experience with business gurus and his firsthand interactions with people who have built great companies and high-growth sectors of the US economy, this book should serve as every entrepreneur’s reference guide. Each chapter elucidates a seminal business figure and helps you to tap into the background, the thinking process, and the economic environment surrounding these hallmark business decisions. You often hear about how business gurus and tycoons find, create or build great companies – but *MicroCap Superstars* takes you there with context and insight.”

— Panna Sharma, *Chief Executive Officer, Cancer Genetics, NASDAQ: CGIX*

“I like this book. It is thoughtful, well-written and interesting for both professional investors and those who want to learn how the pros make millions with small stocks. Excellent work by a man who is one of the top consultants in the microcap space.”

— Cliff Teller, *Head of Investment Banking, Maxim Group*

“Having worked with Dave and the RedChip team, I’m not surprised at the high quality of this book. It’s intelligently written, thoughtful and tells the story of risk from the unique perspective of someone who is a legitimate expert in the microcap space.”

— Semyon Dukach, *Chairman, SMTF, NASDAQ: SMTF*

“I am flattered to be part of a book that so thoroughly covers the microcap industry. Congratulations to Dave Gentry and the RedChip team on a work well done.”

— John Pappajohn, *Horatio Alger recipient, Venture Capitalist, Philanthropist.*

“*MicroCap Superstars* is a compelling look into the volatile and never dull world of microcaps. Dave Gentry is a first rate writer and a class act. Read the book if you want to know who the real players in the industry are.”

— Darrin M. Ocasio Esq., *Senior Partner, Sichenzia, Ross, Friedman, Ference LLP*

“*MicroCap Superstars* is a wonderful read for anyone who wants to learn about the world of small stocks and the people who play in them. I have watched RedChip grow to become one of the top firms in the world serving smaller-cap companies. Praise for Dave Gentry and RedChip.”

— Barry Sloane, *CEO and Chairman*, Newtek Business Services, NASDAQ: NEWT

“If you want a focused read on how to get rich buying smaller-cap stocks, this is the book. Mr. Gentry is at the top of his game. He writes with ease and grace as he describes how the big men got rich in microcaps.”

— Ray Akers, *Executive Chairman*, Akers BioSciences, NASDAQ: AKER

“*MicroCap Superstars* is a fascinating read. It gives a solid account of the psyche, discipline and the value systems of some of today’s most successful microcap investors. This book is a must read for both investors and entrepreneurs who are developing or investing in growth companies.”

— Dhru Desai, *Executive Chairman*, Quadrant 4 System

“*MicroCap Superstars* is the comprehensive guide to navigating the sporty world of smaller-cap investing. You’ll enjoy learning about how men like Byron Roth built an investment banking powerhouse in Southern California finding small companies that later became dominant players in their space.”

— Dan Erdberg, *Chief Operating Officer*, Drone Aviation Corp.

“Gentry has delivered what has never been done until now, providing a detailed picture of the microcap landscape with all its twists and turns, winners and losers. This is a book long overdue. *MicroCap Superstars* is chock full of wisdom from some of the best players in the business. It belongs on the desk of every investor who wants to learn from the pros how to make money investing in microcap stocks.”

— Paul Burgess, *CEO & President*, Lattice, Inc.

“*MicroCap Superstars* should be mandatory reading for anyone studying business or finance. As a long-time owner of a small-cap investment bank, I was pleased to discover a book that provides a sweeping history of the microcap space. This is a book that every stock broker and every banker in the country could benefit from reading.”

— Richard Rappaport, *Founder & CEO*, WestPark Capital

“Dave Gentry is a rare find in the microcap space. As the CEO of a public company, I found *MicroCap Superstars* an incredibly helpful guide. If you want to know how to make it in this space, this is your book. It’s a great read for novices and professionals.”

— George C. Carpenter IV, *CEO & President*, CNS Response, Inc.

“Dave Gentry has my respect and admiration. As a CEO new to the microcap space, I am quite pleased to know that I am working with a team that knows the ins and outs of smaller-cap stocks. *MicroCap Superstars* is a sizzling look at those who dominate this volatile world. It’s a fascinating read.”

— Andrew Durgee, *CEO*, The Cointree

“*MicroCap Superstars* is a unique and privileged look at the ultra rich in microcaps. This book is a great read on two counts: lots of practical business advice, and it serves as a basic tutorial on how to make millions buying small growth stocks.”

— John Lorenz, *CEO*, Global Recycling Technologies

MicroCap Superstars is a study in how the biggest players in the microcap space became rich but it also provides an historical context for both the Superstars and the companies they invested in, which make the book even more interesting.”

— Richard Kreger, *Senior Managing Director of Investment Banking*, Source Capital Group

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“The market is not simply a digital machine executing trades, reflecting buy and sell orders and recording price movements. The market does not operate as an island unto itself. The market is an extension of the investors who bring it to life every day, investors who breathe into it all their prejudices, presuppositions, knowledge and lack of knowledge, needs, hopes and fears, rational and irrational. Apply this truth to the microcap asset class and we are left with volatility and inefficiencies extraordinaire.”

– Dave Gentry –

Disclosure

The material in this book is for informational purposes only and is not an offer to sell or the solicitation of an offer to buy any stocks mentioned herein. Additionally, the material contained herein is not a personal recommendation for any particular investor or client and does not take into account the financial, investment, or other objectives or needs of, and may not be suitable for, any particular investor or investment. Before buying, investors should consider whether the investment is suitable. RedChip Companies and Dave Gentry personally may hold positions in RedChip client companies and may buy or sell the securities at the same time investors are buying or selling. Microcap stocks are the most volatile asset class and investors must be prepared for the downside and the possibility of losing all of their investment.

MicroCap Superstars

Microcaps Defined

Microcaps Defined by Ask.Com

The term microcap stock (also micro-cap) refers to the stock of public companies in the United States which have a market capitalization of roughly \$50 million to \$300 million. The shares of companies with a market capitalization of less than \$50 million are typically referred to as nano-cap stocks.

Micro-cap and especially nano-cap stocks can sometimes experience volatility. Some of these companies fail to execute their business plans and go out of business. Fraud and market manipulation are not uncommon and the transactions costs in trading can be quite high. Pricing is more likely to be inefficient, since fewer institutional investors and analysts operate in this space, due to the relatively small dollar amounts involved and the lack of liquidity.

Microcaps Defined by Investopedia

A publicly traded company in the United States that has a market capitalization between approximately \$50 million and \$300 million. Micro-cap companies have greater market capitalization than nano caps, and less than small, mid, large and mega-cap Corporations. Companies with larger market capitalization do not automatically have stock prices that are higher than those companies with smaller market capitalizations. Generally, the larger the market capitalization, the less risky the investment and smaller the potential returns. The smaller the market capitalization, the riskier the investment and the greater the potential returns.

Companies with less than \$50 million in market capitalization are frequently referred to as nano caps. Both nano caps and micro caps are known for their volatility and as such, tend to be considered more risky than companies with larger market capitalization. Market capitalization measures the market

value of a company's outstanding shares, calculated by multiplying the stock's price by the total number of shares outstanding.

Small Cap Defined by Investopedia

Refers to stocks with a relatively small market capitalization. The definition of small cap can vary among brokerages, but generally it is a company with a market capitalization of between \$300 million and \$2 billion.

Investopedia Explains Small Cap

One of the biggest advantages of investing in small-cap stocks is the opportunity to beat institutional investors. Because mutual funds have restrictions that limit them from buying large portions of any one issuer's outstanding shares, some mutual funds would not be able to give the small cap a meaningful position in the fund. To overcome these limitations, the fund would usually have to file with the SEC, which means tipping its hand and inflating the previously attractive price.

Keep in mind that classifications such as "large cap" or "small cap" are only approximations that change over time. Also, the exact definition can vary between brokerage houses.

MICROCAPS DEFINED

Quotes from the Experts

“The single most important way we attempt to manage risk, in any environment, is by seeking to buy stocks very cheaply—we never want to pay too much.”

Bill Hench

Portfolio Manager, Royce Opportunity Funds-Microcap Superstar

“Small caps outperform not because of market capitalization alone but because the stocks in this category are least efficiently priced.”

James O’Shaughnessy

Author of What Works on Wall Street

“Higher returns, of course, come with more risk...the trade off is, yes, you get long-term outperformance ... but the volatility of returns is greater...That’s the price you pay if you want exposure to a better-performing asset class.”

Samuel Dedio

Manager of the Artio U.S. Microcap Fund (JMCA)

“The hardest part of raising capital for CPI was that we were totally unknown. I was a little Puerto Rican kid in Minneapolis, a land of Midwesterners. I had no previous history in manufacturing or inventing anything. Imagine you go to an investor and say ‘we’re going to make a better pacemaker,’ and they say, ‘Doesn’t Medtronic make a pacemaker?’”

Manny Villafana

Founder of St. Jude Medical, Inc.-Microcap Superstar

“The risk always lies within management, so we’re constantly evaluating through our three-part process. We meet with three to five CEO’s and CFO’s of small companies in our offices every week.”

Michael Corbett

Manager Perritt Capital Management-Microcap Superstar

“We’ve found that the area that we can perform the best is in the microcap space. So it’s a microcap value bent that really differentiates us, and that is because it’s an area of the market where there are enormous inefficiencies and where our hard work pays off, because we can identify opportunities that are significantly underpriced.”

Eric Kuby

Chief Investment Officer of North Star Investment Management

“Investing in small and microcap stocks requires significant time and resources because few investors are focused on the space. The reason that many investors do not pay attention to this space is that as managers’ assets grow, it becomes increasingly difficult and cumbersome to allocate capital to less liquid and under researched companies. With a higher level of assets under management, the contour of their portfolio, at some point, needs to change: either more names need to be included in the portfolio, diluting the impact of any single idea, or larger companies need to be included, forcing the portfolio to drift into a more efficiently priced universe.”

Punch & Associates Investment Management, Inc.

“Be patient when buying. It might take six months to accumulate a position; you should be in for the long-term and remember 20% of microcaps go to 0.”

Buzz Heidkte

Chairman Midsouth Investors-Microcap Superstar

“Work hard, be a long-term thinker, develop tenacity and remember nothing happens without taking calculated risks.”

Phil Sassower

Chairman Phoenix Group-Microcap Superstar

“For me, the fun is to build, not to manage. I look for what’s available, what is possible to do. That’s the overriding consideration. There are a lot of things I would have liked to do, but didn’t have the means.”

Dr. Phil Frost

Chairman OPKO Health-Microcap Superstar

“I’ve made my money by being the first in markets. As a venture capitalist, you have to seek out the cutting-edge companies. You get in as early as possible. That way you make a lot more headway and profits.”

John Pappajohn

Entrepreneur, Philanthropist, Business Leader-Microcap Superstar

“Do your homework, understand companies you invest in forwards and backwards.”

Charles Diker

Diker Management-Microcap Superstar

“Investment advisors generally steer clients away from small stocks because they can be volatile and offer lower returns on average than their larger, more stable counterparts. Microcaps, then, are usually viewed as a trade to take advantage of momentary price movements, rather than as a long-term investment.”

Jeff Cox

Finance Editor, CNBC (June 15, 2013)

“I had grown tired of backing make-believe CEO’s and entrepreneurs, so my partners and I went on the board, took a hands-on approach, built the company and put in a solid management team” (Interclick, sold to Yahoo for \$270 Million).

Barry Honig

Founder GRQ Consultants-Microcap Superstar

“Invest in something you can get your arms around and be very conservative, own enough stock so that you are not putting all your eggs in one basket.”

Dave Maley

Manager of Ariel Microcap Funds-Microcap Superstar

“If you want to invest in the microcap space buy companies not stocks, if you buy stocks, the daily fluctuations and lack of liquidity will drive you crazy.”

Byron Roth

CEO ROTH Capital-Microcap Superstar

“Microcaps are a three card Monty play. If you don’t know how to play, stay away.”

Greg Sichenzia

Founding Partner Sichenzia Ross Friedman Ference LLP-Microcap Superstar

QUOTES FROM THE EXPERTS

SECTION I

**Big Companies
Start Small**

CHAPTER 1

Big Companies Start Small

The men you will meet in this book have spent much of their careers investing in smaller-cap companies. They have endured the test of time, making millions and in some cases hundreds of millions, through hard work, integrity, and a great capacity for risk, and perhaps, most importantly, the smarts to seize opportunities before others see them.

A college professor once reminded me that great things often happen in small places. The airplane was not invented at Harvard or MIT; it was invented by two brothers from Milville, Indiana in Kitty Hawk, North Carolina. Starbucks was founded in 1971 in Seattle, Washington as a small store selling roasted whole coffee beans. Apple started in a garage in 1976 selling computer kits, initially funded with a \$10,000 investment. Caremark, the first home healthcare company, was a spin off of a struggling biotech company that was funded by John Pappajohn, the Greek Tycoon and Microcap Superstar.

Interclick, an Internet advertising company, was the brain child of Barry Honig, the most prolific microcap player today. In 2008 it was a \$2.00 stock. A few years later, Yahoo bought the company for \$270 million. Subway started as a small sandwich shop in Bridgeport, Connecticut 49 years ago with a \$1000 investment. Today, Subway has 39,500 franchises and generates \$9.05 billion in annual sales. Phil Frost, the wealthiest Microcap Superstar, purchased a small company struggling to make payroll called Key Pharmaceuticals, in 1972. Fourteen years later he sold it to Schering-Plough for \$800 million. Big companies start small.

Cardiac Pacemakers, founded in January 1972, by MicroCap Superstar, Manny Villafana, went public as a pink-sheet, over-the-counter stock, raising \$450,000, on May 26, 1972. Six years later, Eli Lilly (NYSE: LLY) purchased the company for \$127 million. They later spun it out under the name Guidant, which was purchased by Boston Scientific in 2006 for \$24.6 billion.

Most of the men in this book I have known personally. Those I have not,

I either met for the interview for this book, or learned about them from my own research, or through close friends or colleagues who know them well. This is by no means an exhaustive list of the Superstars in microcaps. There are others who deserve to be on this list who I simply do not know, or whom I have not interviewed, and a few who I know well, but who wish to continue their careers in relative anonymity.

The men you will meet in this book have spent much of their careers investing in smaller-cap companies. They have endured the test of time, making millions, and in some cases hundreds of millions, through hard work, integrity, and a great capacity for risk, and perhaps most importantly, the smarts to seize opportunities before others see them. None of the men in this book have been successful on every deal. Not every stock they have invested in, funded, started or transacted business for has succeeded. In fact, some of the companies they were involved with have been miserable failures.

But they are all experts in the microcap space; all have something to teach us about investing in smaller-cap companies. These men are the *crème de la crème* of Wall Street's small stock community. They can go head-to-head with the best and brightest at the biggest research and investment banking firms on Wall Street. What is interesting about this group of individuals, is they did not necessarily make a conscious decision to build careers in this asset class. It was much more that they found themselves early in their careers and in some cases, as earlier as high school, around mentors who helped endear them to the world of smaller-cap stocks.

Michael Corbett, for example, who manages three funds for Perritt Capital Management, was mentored by Dr. Perritt, who was a professor of finance at DePaul University in the 1980s. He would take classes from him, and after getting his MBA go to work for him as an analyst. He now owns the funds he manages.

Barry Honig, mentored by his father, a successful Wall Street entrepreneur, started reading the *Wall Street Journal* while he was in high school, and after starting his career as a trader realized he could make more money buying and selling and investing in small stocks.

David Maley went to college thinking he would be a doctor or an

engineer, but then he took a class called *Investments*, and then another called *Advanced Investments*, both taught by Sarkis Joseph Khoury, Ph.D., a prominent economist whose focus is international finance, mergers and acquisitions, debt restructuring, and *speculative markets*. Taking these classes changed David's thinking about what he wanted to do with his life. In 1981, while in his junior year at the University of Notre Dame he changed his major to Business.

All of the men in this book I consider self-made, though some enjoyed the benefit and inherent advantage of Ivy League educations, such as Phil Sassower ,Charles Diker and Phil Frost.

Indeed, we can learn a great deal from these men about how to make money investing in microcaps. We can also learn from their application of timeless principles of success: the importance of a strong work ethic, the importance of continuous education, and daily habits that lead to success, like getting up at 4:30 am every morning and reading the financial papers, as John Pappajohn, one of the all-time greats in the microcap space, has done for 55 years.

I want to note that I am not an analyst, nor have I ever been a Stock Broker, Fund-Manager, or Registered Investment Advisor. I am an entrepreneur who has spent the last 15 years working the microcap street, most of it as the president and owner of RedChip Companies, an investor relations, media, and research firm focused on smaller-cap companies. I will be the first to admit that I have made my share of mistakes in this business. There are companies that I believed in with strong conviction that failed; there are many that have yet to live up to my expectations. I have represented over 400 public companies during the last 18 years. I have badly misjudged management teams, grossly overvalued the prospects of companies, and did not see red flags that I should have. I have also been conned a few times by CEO's who were simply disingenuous in their representations of their company. Through it all, I continue to learn and grow.

