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IPO VIEW-Weisel faces delicate dance in pricing own IPO

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By Scott Malone

NEW YORK, Jan 27 (Reuters) - One of the most delicate steps in any initial public offering is setting the share price. The issuer and underwriter have to find a point high enough to meet the company's need for cash but low enough to allow the first-day gains that many IPO investors expect.

Thomas Weisel Partners Group Inc. next week will be in the position of pricing its own shares as one of the lead underwriters on its IPO deal. That will leave the investment bank's reputation doubly on the line when the shares debut.

"It's risky," said Timothy Pollock, a professor of business at Penn State College in State College, Pennsylvania, of Weisel's decision to act as its own underwriter.

"If it doesn't go well, it's a little bit of a black eye for them," Pollock said. "They may have a very inflated opinion of how good they are or what they're really worth."

The so-called "IPO discount" aims to price shares about 10 percent to 15 percent below their actual value, to allow for appreciation on the first day of trading. In 2005, the average U.S. IPO worth $50 million or more rose 11.5 percent in its debut, according to data provider Dealogic.

A filing with the U.S. Securities and Exchange Commission shows Weisel as a lead underwriter, with Keefe, Bruyette & Woods and Fox-Pitt Kelton rounding out the syndicate. Earlier this month, Goldman Sachs Group Inc. <GS.N> left the group.

Observers said the split most likely resulted from a disagreement over price. A Goldman Sachs spokesman declined to comment.

Weisel aims to sell 5 million shares at $13 to $15 each. The deal is expected to price Wednesday, with the shares due to debut on Nasdaq on Thursday under the symbol "TWPG." <TWPG.O>

The California Public Employees' Retirement System, Weisel's largest outside shareholder, aims to sell 1.2 million shares in the offering, more than half its holdings in the company, according to an SEC filing. None of the company's eight top officers plans to sell shares in the IPO, according to the same filing.

RISKY, BUT NOT UNUSUAL

While San Francisco-based Weisel is taking a risk in pricing its own IPO, it's not breaking new ground. Goldman Sachs, among others, underwrote its own offering.

"It's hardly unusual for there to be tensions between an investment bank and its client," said Kenneth Froewiss, a professor of finance at New York University.

"The investment banker typically spends a fair amount of time courting the IPO client and telling them how wonderful they are, and then once they have the lead, of course the investment bank has to start worrying about the liability in terms of selling these shares," Froewiss continued. "The tone changes, the mood changes ... Things get a little tense."

DEMAND SEEN "LUKEWARM"

With less than a week to go before the offering, demand for Weisel shares appears to "lukewarm at best," in the words of Sal Morreale, an institutional salesman who focuses on IPOs at Cantor Fitzgerald in Los Angeles.

"That deal is just under the radar right now," said Morreale.

He said that investors appeared to have been put off by Goldman's withdrawal from the offering, as well as by recently reported financial results for the first nine months of 2005.

In an SEC filing, Weisel reported a net loss before preferred dividends of $14.2 million for that period, compared with a $9.2 million profit the prior-year period. Revenues were off 15.1 percent to $180.8 million. That followed three straight years of bottom-line improvement and revenue growth.

"While every other bank on the street was setting record numbers in their investment banking fees, their M&A (merger and acquisition) activity and their brokerage activity, these guys were losing money," said Ben Holmes, publisher of Morningnotes.com, an independent research firm based in Boulder, Colorado.

For instance, heavyweight investment banks Goldman Sachs and Lehman Brothers Holdings Inc. <LEH.N> have reported strong earnings growth in recent quarters.

Weisel's loss may have made investors nervous about its prospects, IPO experts said.

"This is going to be a tough sale," said Holmes. "They're going to have to tap into their book of relationships to get this deal done."

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