

August 7, 2006

IDD

CastleOak Securities Inks First Deal

Newly minted i-bank gets investment from Cantor, NASD approval

The \$300 million floating-rate bond issued by GE at the end of July didn't garner many headlines—but it should have. Co-manager on the deal, CastleOak Securities, is one of the Street's newest investment banks, only recently approved for underwriting by NASD, so landing the business from a top issuer like GE was no small feat. Furthermore, CastleOak, a minority-owned business, secured a substantial equity investment from highly visible Cantor Fitzgerald before its first deal was ever underwritten.

Lehman Brothers was lead manager on the deal, with CastleOak as sole co-manager. The deal, General Electric Capital due 8/02/12, was issued as a six-year floating-rate note priced at Libor plus 13. The issue was driven by reverse inquiry, according to members of the syndicate.

David Jones founded CastleOak Securities earlier this year, following his time at Blaylock where he was head of investment banking capital markets.

Jones, who has worked on the Street for 14 years, mostly doing deals for Fortune 500 companies, recruited three partners to help found the new investment bank: Nathaniel Christian, general counsel; Philip Ippolito, chief financial officer; and Harrison Sapru, head of financial advisory.

Then he put an intriguing proposition before market powerhouse Cantor Fitzgerald—an interesting proposition—invest in a minority-owned business with its own direct activities in the capital markets. Such businesses are still a rarity on the Street.



CastleOak's Jones: 'Being a small company out there is very tough.'

financial services sector, which we wanted more of. But we wanted to deal with a strong partner," says Laurence Rose, a senior managing director at Cantor. "Dave Jones brings excellent credentials."

Things happened in quick succession following the Cantor investment. That same month, the new i-bank hired key executives for positions in its New York, Atlanta and Chicago offices. And just two months later, NASD gave the firm its seal of approval to underwrite debt and equity securities.

Rose and Jones say that the two financial firms target different client bases, and

By Colleen Marie O'Connor

"We're a small firm, but we're entrepreneurial, and we bring in new investors," says Jones.

Cantor Fitzgerald moved quickly and, in a deal announced May 16, purchased a 45% equity stake in CastleOak for an undisclosed sum.

"We didn't have a lot of exposure to the

neither anticipates competing for mandates for the same transactions. As a result, there aren't any noncompete clauses tied to the deal, they say. While Jones admits that some clients could get sales calls from both firms, he says it's unlikely the calls would be about the same deals or trading ideas.

Furthermore, each firm maintains its own offices; separation is something NASD looked into, Jones points out. "It wouldn't make sense for them to cannibalize their own investment," he says.

CastleOak offers advisory services and also targets investors with \$12 billion in assets or less.

Jones sees ripe opportunities in the growing hedge fund field, even those with just \$100 million under management.

The Cantor investment includes the sharing of back-office costs, a model Jones is banking on to make CastleOak profitable.

"Being a small company out there is very tough, so we are leveraging our partnership with infrastructure and other back-office capabilities," says Jones.

"Even though it's a very competitive market out there, as a new broker-dealer, we feel we have the best model."