# *From the Practitioner's Corner*

# Everything You Always Wanted to Know about IPOs* *But Were Afraid to Ask

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*Many entrepreneurs want to reach high to the heavens to achieve unlimited success. These hard-working, often underappreciated, venturers often crave fame and fortune as they strive to create their personal business legacy. One strategic path many have wandered down is that of the Initial Public Offering (IPO), whereby shares of the company are sold to the public. The IPO has many strong attractions. Large amounts of capital can be brought into the company. The company's stock can be used as currency to acquire other companies. Early investors realize a good ROI. Employees can perceive real value in their stock options. Customers, banks, vendors, and other stakeholders pay more respect to the company. Is this truly the entrepreneur's nirvana? Or is it a case of "Be careful of what you wish for because it may really come true?" Read on.*

Entrepreneurial graybeards like myself are often asked, "How do you really get an IPO done, from start to finish?" In my typically charming way, I grunt and say, "It's far too complex to address casually in a few minutes!" While the response is accurate, it is also unfulfilling to the questioner. Not totally insensitive to my obligation to share and mentor, I have grappled with how to craft a satisfactory construct to address and communicate important IPO issues.

An initial trigger point occurred recently when I read the obituary (Martin 2004) of Jimmy Ling. Many middle-aged business aficionados will recall Ling as the once-dirt-poor Okie who took public his small electrical contracting firm in the 1950s and proceeded to buy first Temco Electronics and Missiles Company and then Chance Vought, Inc., forming the Ling-Temco-Vought Corporation. Known as LTV, the growing conglomerate gobbled up companies in an acquisition frenzy. I remember that as a first-year MBA student at a well-known Eastern business school in the late 1960s, I attended a guest lecture where Ling explained how he bought Wilson & Company and immediately spun off or "redeployed the assets" of Wilson's meat packing, sporting goods, and pharmaceutical operations. Tested critically by tenured professors of finance, this high school dropout scored debate points at every turn. The Q&A session was dynamic. His description of the Wilson deal as "meatballs, golf balls and goofballs" won over the student body. Over a period of 14 years LTV grew to become the 14th largest company in the United States. All from a $738,000 IPO! While many may not recall Jimmy Ling, most should marvel at the catalytic effect that his miniscule IPO had on his ensuing business dealings. This Ling case study undoubtedly planted the seeds for my interest in IPOs.

Continuing to be held hostage to reminiscences of my youth, I then hit upon a second trigger. I recalled the name David Reuben. In the arena of self-help literature, his 1972 book—titled remarkably similar to this article's, substituting "sex" for "IPO"—sought to represent for sexual education what Dr. Spock's books were for baby care. Addressing a broad and complicated (?) subject area, Reuben employed a Q&A format to transition from topic to topic. If I can borrow from his book's title, then adapting his formatting style cannot be that much more egregious! Further, certain parallels between sex and IPOs are evident. Both subjects involve a degree of self-actualization, hard work, nurturing of relationships, romancing, and performance. If successful, both can be fun and rewarding. Both endeavors can be undermined by deadly sins—lust and greed (it is left to the reader to determine which sin relates to which topic!).

Accordingly, with a series of posed-issues/practical-answers, and with illustrative real-world case examples, I will apply my personal observations from more than a dozen IPO experiences to address the following subtopics:

- *The Big Turn On.* Why would an entrepreneur/CEO consider an IPO?
- *The Wooing Process.* What kind of issues must be considered and relationships developed to reach an IPO go/no go decision?
- *Planning the Big Event.* What's involved in implementing a successful IPO?
- *The Honeymoon Period.* How can the short-term euphoria of an effective IPO be translated into long-term success?
- *Interference from Pesky Third Parties.* How does the newly public company deal with all the regulators?
- *Keeping It All Together.* What challenges to the public company present themselves over the years?

## The Big Turn On
## *Why Does an Entrepreneur Consider an IPO?*

The very mention of "IPO" connotes the big leagues. You can operate quietly as a "very nice" private company in a New England suburb, but if your firm is public, then your distant relatives and old classmates can read about you in the finan-

cial pages. Your barber, priest, and kids may look at you with renewed respect. Anticipation of this opportunity for self-affirmation can be the psychological hook for the entrepreneur to pursue an IPO.

The practical hook is cash. If company cash is low, the need for capital is high. As P. J. O'Rourke (2001) noted, "You can't put your Visa bill on your American Express card." Just before my first IPO, the company's trades payables were at 170 days. A vendor in the lobby opened his briefcase to show off a revolver (not a banking facility, but of the shooting variety!) and all purchases were on a COD basis. The bank was thoughtful enough to send out a "work out" guy to straighten out matters and baby-sit its $1.5 million loan. At 6-foot 4-inches, 280 pounds, Mr. Work-Out looked like and growled like a nose tackle for the New England Patriots. He strongly implied that he liked to hurt people recreationally. Post-IPO, of course, all these folks—now fully paid off—became our "best friends." The IPO provided liquidity and short-term sanity.

Even if you have adequate cash to sustain operations, there's always an appetite for more cash. Virtually every company has a robust wish list of investment opportunities and business development initiatives. Any CEO who sips from the entrepreneurial Kool-Aid cup seeks growth. Growth, however, is not a sure thing. Florian (2004) reports on a Bain & Company study that shows that of the 8,000 companies surveyed, only 9 percent had grown revenues and profits during the past 10 years at a rate of more than 5.5 percent and earned their cost of capital. The abiding hope is, however, that good ideas, good marketing and sales, good execution and cash launch a successful growth initiative. In the IPO prospectus, for example, investors examine the Use of Proceeds section to see how the capital infusion will be allocated and will contribute to the company's growth plan. Investors, brokers, and stock analysts enjoy imputing the upside leverage that the IPO funds will have on the company's performance. Investors analyze the company's current status and make judgments on its presumably rosier future.

## *Are There Noncash Considerations to Pursue an IPO?*

Indeed. Investor liquidity can be key. In one of our most successful IPO deals (current market cap approaching $3 billion), the company's newly appointed CEO did not want to go public. He may have been embarrassed that he had been fired from his two previous VC-backed deals and that this ignominy might be publicized in the prospectus. Some of us, however, viewed being canned by a VC as a badge of honor! Certainly of more importance was the desire of the three MIT Ph.D. founders and their early investors to have available to them an exit position for liquidating their shares. The majority ruled and the IPO went forward. The company prospered beyond all expectations. The need for investor liquidity arguably accelerated the company's sales and profit growth despite management's early resistance.

Another wrinkle to the exit position is the curious phenomenon that the very act of filing for an IPO can attract M&A bidders and enhance the company's value. In just one month last year (Hibbard 2004), the following M&A transactions occurred out of the IPO pipeline:

- AOL bought Advertising.com for $435 million,
- Bob Evans Farms paid $182 million for Mimi's Café, and
- Allied Capital bought Financial Pacific for $94 million.

## *How about Noneconomic Considerations?*

As Kermit the Frog says, "It isn't easy being green." Sensitivity to issues of society and nature is obviously a worthy objective and represents a hot button for many "enlightened" investors—as long as there are adequate economic underpinnings. Consider Tom's of Maine, which seems to have mastered the art of balancing its idealistic values with the realities of mass-market retailing (Donahue 2004). From selling toothpaste in mainstream stores 20 years ago, Tom's now peddles more than 90 all-natural products through a full gamut of distribution channels, including health food stores and big chains. With $40 million in revenues, Tom's pays its employees a 15 percent premium over market and contributes 10 percent of pretax profit to charity. It targets the estimated 13 percent of the population that embraces socially conscious values. If and when Tom's opts for an IPO, it should have a reservoir of highly interested investors.

Banham (2004) reports on the trend that more and more firms are choosing to operate with a corporate scoreboard that tracks not only economic, but also environmental and societal benefits. This is a concept that the people—who coin such terms—dub "sustainability." In response, it is estimated that half the investment houses around the world offer their clients a socially responsible investment option. The amount of socially responsible capital has grown from some $100 billion in the early 1980s to $2.2 trillion in 2004. There's a Dow Jones Sustainability Index that publicizes the top 10 percent of socially conscious companies worldwide. Increasingly, companies strive to be on this Sustainability A-List. Sustainability motivated companies may well benefit from an IPO so that they can participate more fully in this competition to be a good corporate citizen. Good intentions to project a healthy, green, or do-gooder image, however, can regrettably be compromised by ill-considered management behavior. Barker (2004) and Cowan (2005) report that in December 2004 Herbalife, a direct-marketer of dietary supplements to ease stress and anxiety—using ingredients with marvelous names like jujube, ashwagandha and passion-

flower—completed an IPO valuing the company in excess of $1 billion. While the prospectus acknowledged the death of founder Mark Hughes in 2000, it failed to mention that it was a controversial consequence of a four-day binge of alcohol and antidepressants. Not the desired "company image," negative publicity resulted. Alas, he who lives by the sword of sustainability …! It is probably no coincidence, therefore, that the IPO was priced below the low end of the Securities and Exchange Commission (SEC) filing range.

## *Is There a Market for IPOs Anymore?*

The IPO market is undeniably cyclical. Despite Jimmy Ling's impressive IPO-driven success in the 1950s and '60s, during the '70s runaway interest rates and other economic factors mitigated against any serious IPO activity. In contrast, you would have to be in a deep coma not to be blown away by the prolific IPO activity from 1983 to 2000. With the new millennium, the IPO pendulum swung dramatically back to the "drought" setting. The IPO pipeline dried up. We are now five years removed from the bursting of the Internet bubble. Investors are still recovering. Lim (2005) reports that while broader measures like the Standard & Poor 500 blue chip index and the Dow Jones industrials have made up their substantial losses, the NASDAQ is still down 60 percent and 3,000 points from its March 2000 high of 5,048. The problem is that the NASDAQ index is capitalization weighted; big stocks (e.g., Microsoft) have not recovered as much as smaller stocks. This statistical anomaly shrouds the positive trends of the small caps.

Perhaps a more insightful analysis of the attitudes of investors toward the small caps (Syre 2004) is to examine the Russell 2000 small stock index, which has had a total return of 65 percent since 2000, compared to the large company Russell 1000 index, which has risen only 9 percent. One might argue that this performance sets a favorable climate for IPOs. How has the IPO market responded? Here are a few facts of note (Rivlin 2005):

- In 2004 there were 242 IPOs, nearly equaling the combined total of the previous three years.
- A blended return on investments in all 2004 IPOs would be 21 percent.
- Four out of 10 2004 IPO companies were losing money, compared to 74 percent for IPOs in 1999–2000.
- Forty percent of the 2004 IPO companies had annual sales under $50 million.

There will, of course, be IPO market opportunities in 2005. There is a glimmer of hope for the entrepreneur-CEO. With influences like ego and cash at play, an IPO can be alluring. As an overworked, underpaid entrepreneur, if you want to be seduced, you can always find one or more good reasons to be turned on by the prospects of pursuing an IPO.

## The Wooing Process

### *What Factors Should a Private Company Consider before Taking the Big Step into an IPO?*

Going public is one of the most important events in a company's life. As a method of raising capital, the IPO has served American business remarkably well. Most large U.S. companies and many smaller, vigorous companies with strong growth momentum have chosen to sell shares to the public. Companies can raise considerable capital at attractive valuations.

The IPO decision requires careful consideration. IPO capital raised can be the valuable lubricant for the organizational engine: working capital, plant and equipment, marketing, R&D, debt retirement, and M&A transactions. Going public, however, goes far beyond just raising capital. Even when it is the best option, it is always a mixed blessing. For a start, the company will give up the privacy and autonomy it has previously enjoyed. Management's freedom of action will be curtailed as outside investors hold the company accountable for performance. The company will be required to disclose important information to all the world, including its competitors.

The seductive allure of pursuing an IPO wanes quickly when the company's CEO and CFO perform some rudimentary due diligence. The journey down the IPO trail, they learn, can be a brutally difficult process often exceeding their worst fears. It is not a trip for the lazy, guilty, or incompetent. Even the most seasoned entrepreneur may be stunned by the vicissitudes of the financial marketplace. Due diligence may reveal that many public offerings fall below expectations or even fail for a variety of reasons:

- The offering can run into *bad stock market dynamics.* I once received a "firm commitment" IPO letter from an underwriter on the same day that the Dow lost about 7 percent of its value in three hours—the "firm"-ness of the deal was delayed by 10 months.
- The *auditors* can restructure the company's accounting conventions and reclassify costs to cause a huge negative earnings hiccup that can torpedo the IPO. During my first IPO, I learned this difficult lesson. Thankfully, I was able to negotiate enough offsetting items to keep the offering alive.
- Other companies of which I was aware had *profit downturns* during the IPO pursuit, and irretrievably lost their IPOs.
- Another company I knew had the misfortune to endure a six-month delay because the underwriter wanted the company to reconstitute and upgrade its *Board of Directors.*

The company must clearly weigh all the pluses and minuses to the IPO decision.

## *What Are the Advantages of an IPO to a Small Company?*

The factors influencing a "go" IPO decision are straightforward: money, currency, motivation, prestige, and liquidity.

- *Improved Financial Condition.* The sale of shares to the public brings in capital that does not have to be repaid, thereby immediately improving the company's financial condition. This improvement may allow the company to borrow money at more favorable terms. Moreover, if the initial stock offering is successful and a strong aftermarket develops, the company may be able to raise more capital by selling additional shares - at presumably a higher valuation.
- *Using Stock for Acquisitions.* Once the company is publicly traded, it can issue additional shares. This capacity to mint new currency, despite its potentially dilutive effect, can serve to fuel an active M&A program. Many newly public companies choose to acquire other firms to accelerate their growth plans.
- *Using Stock as an Employee Incentive.* Companies frequently offer stock incentives, such as stock options, stock appreciation rights, or stock bonuses to attract and retain key personnel. While the audit and tax treatments of such incentives are becoming increasingly severe for the company, these arrangements nevertheless tend to instill in employees a healthy sense of ownership and the hope for capital appreciation. .
- *Enhancing Company Prestige.* One of the intangible, but widely recognized, potential benefits of going public is that the company becomes more visible and attains increased prestige. Through press releases and other public disclosures, and through daily (and real-time) listings in the paper and over the Internet, the company becomes better known to the business and financial communities, to investors, to the media, and even to the general public. While both good and bad news must be disseminated to enable investors to make well-informed decisions, the public company that is well run and compiles a record of good performance can gain a first-class reputation. As the company's name and products and services become better known, not only do investors take notice, but so do customers and suppliers who often prefer to do business with well-known companies.
- *Investor Liquidity.* Early investors are concerned about their exit strategy. An IPO helps to resolve this issue.

## *What Are the Disadvantages of an IPO to a Small Company?*

For each and every one of the successful IPOs in which I've been involved, there have been certain well-intentioned cynics who launched warning flares on how truly dumb an idea our IPO pursuit was. Their objections, which our companies weren't bright enough to heed, were nevertheless worth consideration. In the end, we succeeded where others may have failed. Indeed, for certain ill-prepared companies, for some inexperienced management teams, or for some just plain bad deals—such critique may have merit, and be worth heeding. For example:

- *Loss of Privacy.* Of all the transformations a company undergoes when it becomes public, probably the most troublesome is the loss of privacy. When the company shifts from private to public status, it is required to reveal highly sensitive information, such as compensation to key executives, special incentives for management, and many of the plans, strategies, and capital investments that underpin the company's future direction. Such disclosures are required for the IPO Registration Statement and subsequently on a continuing basis with the quarterly (10Q) and annual (10K) reports.
- *Limiting Management's Freedom to Act.* While the management of a privately held company is generally free to act by itself, the management of a public company must obtain the approval of the board of directors on certain major matters. On special issues, the company must even seek the consent of the shareholders. Clearly "going public" translates into diminished management flexibility. Further, shareholders are mostly distant and unsympathetic. These public owners of the company judge management's performance in terms of earnings, share price, and dividends. Public shareholders may exert pressure for the company to increase earnings and pay dividends each quarter. Such pressure may cause management to emphasize short-term considerations over long-term goals.
- *The High Cost of Going Public.* The costs of an IPO are substantial and can be categorized into three classes:
  - *Managed Costs*
    1. *Audit expenses* are a function of how well the company's financial systems and accounting department hold up to third-party scrutiny. With the audit industry shake out and consolidation and with increased regulatory oversight arising from Sarbanes-Oxley (Sarbox), auditing firms are charging increasingly higher fees, and companies are tolerating the scrutiny a lot less. Twenty-eight-year-old senior managers—*not* partners—of a large auditing firm charge as much as $275 per hour! The number of hours to reconstruct unaudited reporting periods and/or to restructure the financials to GAAP standards can be exorbitant. Depending on how adequate the company's financial records are, the IPO auditing bill can be $125,000 to $350,000.

ii. *Legal expenses* are a function of how smoothly the IPO process proceeds and how complex the company's contracts, due diligence list, and intellectual property issues are. Further, the quality and accuracy of company input to the writing of the IPO Registration Statement can help or hinder the process. I had one CEO fight the attorneys every step of the way. The law partner told me that this stubborn behavior doubled the legal tab! With 25-year-old law school grads being hired by Boston law firms at $130,000 (plus a $25,000 bonus), the legal bill can escalate. Plan on at least $200,000 to $450,000 for the IPO.

iii. *Printing costs* are a function of the number of copies of the prospectus (the finalized Registration Statement) distributed to subscribers of the offering. Years ago, dinosaurs like me worried about setup costs (print in molten lead) and expensive last-minute changes. The printing costs are better contained these days with electronic files, but the prospectus tab still can be $50,000.

iv. *Road Show expenses* are determined by how many venues the company presents itself to investor audiences, in how many cities, and with how many company executives supporting the presentations. A highly polished dog-and-pony show is not just nice to have, but an absolute requirement to play IPO Pursuit. Budget $20,000 to $40,000.

v. *Director and Officer (D&O) Insurance* is protection for the BOD and company management regarding potential litigation arising from public representations. The cost of D&O insurance varies, but can range from $100,000 to $750,000 per year.

- *Semi-variable and Variable Costs*

i. Blue Sky fees. These fees are dependent on which states the underwriters want to sell shares in; state-by-state registration ("Blue Sky") fees are incurred. Such fees have increased, on average, about 3 percent over the last five years. Budget $10,000 to $15,000.

ii. SEC filing fees. The SEC needs to pay for its in-house legal and accounting staffs which review the Registration Statement. These fees have stayed relatively stable over the last five years. Budget $10,000 to $15,000.

iii. Underwriter fees. In a combination of cash and warrants, budget 6 to 9 percent of the gross proceeds of the IPO.

- *Disruption Costs.* On a case-by-case basis, the CEO/CFO can impute the lost time associated with key personnel being sidetracked from their normal duties to support the IPO effort. This is an opportunity cost, not an accounting cost, but certainly can have a serious economic impact on the company. Pick a number.

- *Loss of Control.* In past articles of the *New England Journal of Entrepreneurship* (Levangie 2003), I have discussed in detail the emotionally laden issue of management's perception of loss of control and dilution of ownership. Owners of private, closely held companies always have a problem with "giving away a piece of their baby." My typical big-picture response to such equity paranoia, read from the Book of Business Clichés, is that a smaller slice of a much bigger pie is generally worth a lot more than a larger slice of a smaller pie—sort of a pizza philosophy! The MBA approach, of course, is to employ a really neat chart. Table 1 depicts in gory detail a simple equity model that portrays a "generic" company from start-up through the IPO. In this illustration, the entrepreneur-CEO's personal equity position starts at 65 percent of the company, with an imputed value of $2.275 million. Growing the company through a series of private capital raise-ups, the CEO can retain a pre-IPO ownership of 34.7 percent, with an imputed value of $6.035 million. Post-IPO, the CEO still owns 27.1 percent (arguably "effective" control" of the company) with an imputed value of $16.747 million.

## *What about Structural Ways to Assure Control after the IPO?*

For incorrigible control freaks, there is available the concept of "dual-listed" companies. These are entities in which regular stockholders own shares that typically entitle them to dividends and other benefits, but with limited voting rights. At the same time, there is generally a small number of shareholders who control the company with supervoting stock. These really "super" shares may have x-to-one voting power, where x can be 10 or more. I was introduced to this concept three decades ago when An Wang (and later his son Fred) controlled Wang Corporation with a dual-listing structure. Serwer (2004) reports that from the 1920s until 1986, the NYSE did not allow dual-listers to be on the Big Board; these entrepreneurial or family-owned firms turned to Amex and NASDAQ. According to the IRRC, a corporate governance research firm, more than 11 percent of the 2,000 companies it presently tracks are dual-listed. Examples: newspaper firms like Dow Jones, the NY Times and the Washington Post; media firms like Comcast, Adelphia and Viacom; and industrial firms like Ford, Coors and Tyson Foods. Google, in its clumsy Dutch-auction

## Table 1. Simple Equity Model

[Co. Valuations in $000s]

| Scenario / Stage | Initial | Angel #1 | Employee Options Plan #1 | VC or Pvt. Placement # 1 | Employee Options Plan #2 | IPO @ $ Valuation |
|---|---|---|---|---|---|---|
| **Without Stock Options Dilution** | | | | | | |
| Pre-Money Value | $3,500 | $6,500 | $8,000 | $12,000 | $15,500 | $45,000 |
| Additional Investment | n/a | $1,500 | n/a | $3,500 | n/a | $15,000 |
| Pre-Money Stock Price | $3.50 | $6.50 | $6.50 | $9.75 | $9.75 | $28.31 |
| New Investment Stock Price | n/a | $6.50 | n/a | $9.75 | n/a | $28.31 |
| Post-Money Blended Stock Price | $3.50 | $6.50 | $6.50 | $9.75 | $9.75 | $28.31 |
| Pre-Money No. of Shares [ I/O ] | 1,000,000 | 1,000,000 | 1,230,769 | 1,230,769 | 1,589,744 | 1,589,744 |
| Additional No. of Shares [ I/O ] | 0 | 230,769 | 0 | 358,974 | 0 | 529,915 |
| Post-Money No. of Shares [ I/O ] | 1,000,000 | 1,230,769 | 1,230,769 | 1,589,744 | 1,589,744 | 2,119,658 |
| Post-Money Value | $3,500 | $8,000 | $8,000 | $15,500 | $15,500 | $60,000 |
| **Accounting for Stock Options Dilution** | | | | | | |
| Issue of Employee Stock Options [ as % of I/O ] | | | 10% | | 10% | |
| No. of Stock Options Issued | | | 123,077 | | 158,974 | |
| Exercise Price [ @ 80% of Pre-money Stock price ] | | | $5.20 | | $7.80 | |
| Fully Diluted No. of Shares | | 1,230,769 | 1,353,846 | 1,712,821 | 1,871,795 | 2,401,709 |
| Fully Diluted Post-Money Value | | $8,000 | $8,640 | $16,140 | $17,380 | $61,880 |
| Fully Diluted Blended Stock Price | | $6.50 | $6.38 | $9.42 | $9.29 | $25.76 |
| **Fully Diluted Holdings: %s, No. of Shares, & Values** | | | | | | |
| CEO F. D. % | 65.0% | 52.8% | 48.0% | 37.9% | 34.7% | 27.1% |
| CEO F. D. # Holding | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 |
| CEO F. D. $ Holding | $2,275 | $4,225 | $4,148 | $6,125 | $6,035 | $16,747 |
| SVP F. D. % | 35.0% | 28.4% | 25.9% | 20.4% | 18.7% | 14.6% |
| SVP F. D. # Holding | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| SVP F. D. $ Holding | $1,225 | $2,275 | $2,234 | $3,298 | $3,250 | $9,018 |
| Angel #1 F. D. % | 0.0% | 18.8% | 17.0% | 13.5% | 12.3% | 9.6% |
| Angel #1 F. D. # Holding | 0 | 230,769 | 230,769 | 230,769 | 230,769 | 230,769 |
| Angel #1 F. D. $ Holding | $0 | $1,500 | $1,473 | $2,175 | $2,143 | $5,946 |
| VC / PP #1 F. D. % | 0.0% | 0.0% | 0.0% | 21.0% | 19.2% | 14.9% |
| VC / PP #1 F. D. # Holding | 0 | 0 | 0 | 358,974 | 358,974 | 358,974 |
| VC / PP #1 F. D. $ Holding | $0 | $0 | $0 | $3,383 | $3,333 | $9,249 |
| Total Employees F. D. % | 0.0% | 0.0% | 9.1% | 7.2% | 15.1% | 11.7% |
| Total Employees F. D. # Holding | 0 | 0 | 123,077 | 123,077 | 282,051 | 282,051 |
| Total Employees F. D. $ Holding | $0 | $0 | $785 | $1,160 | $2,619 | $7,267 |
| Public Investors F. D. % | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 22.1% |
| Public Investors F. D. # Holding | 0 | 0 | 0 | 0 | 0 | 529,915 |
| Public Investors F. D. $ Holding | $0 | $0 | $0 | $0 | $0 | $13,653 |

IPO that Levy (2004) describes as "inspired by Inspector Clouseau" (improper share distribution to employees, confusing explanations of the auction procedure, initial overpricing that scared investors away, and the ill-advised *Playboy* interview that probably violated the SEC's pre-IPO "quiet period") opted for dual-listing. It is not a huge surprise, therefore, that proxy advisor Institutional Shareholder Services recently rated Google's corporate governance worse than any other firm in the S&P 500. A significant governance issue is: "How can a Board of Directors tell management how to act when management's super votes can kick out the BOD?"

### *Who Makes the Company's "Go" Decision on the IPO?*

The decision authority to pursue an IPO ultimately resides with the Board of Directors of the company, on behalf of the company's shareholders. If the CEO-entrepreneur is still the majority shareholder, the IPO decision is, of course, more concentrated in one person. In any case, the rewards v. the costs, the positives v. the negatives and the limelight v. anonymity must all be weighed. Is the business model right? Is there an organizational will to "go to the next level" Is the decision-making balanced? The entrepreneur should not

bravely jump at the IPO opportunity like Evel Knievel. Correspondingly, management cannot proceed with cold feet. Much akin to a couple contemplating matrimony, the company must be willing to embrace with open eyes a sea change of life-altering new relationships and responsibilities.

The practical aspect of the IPO Pursuit is the significant "ante-up" money needed to play the game. A stake on the order of $1 to 2 million is required to pay IPO front-end expenses, including the accountants and lawyers. In several IPOs, I've had occasion to arrange private placements of bridge loans that provide investors with above-market interest rates and warrants. The bridge loan can be exciting. In one IPO, five of us on my residential street provided the entire bridge loan, using our houses as collateral. I shudder to think what would have been the local real estate fallout if the IPO had not been successful!

As one experienced practitioner, I underscore the enormity of the IPO decision. In many cases, the company is betting its entire business. Yet even with failure, some good (merger or consolidation opportunities) might arise. The spirit of the IPO go-forward decision, however, has to be to get the offering done. As Kepner (2004) cites from "Gnomologia" (circa 1732): "All things are difficult before they are easy."

## *Assuming the BOD Agrees to Pursue an IPO, What Relationships Must be Developed?*

The "Wooing Process" requires a coupling of parties. The IPO candidate must find an investment bank that underwrites IPOs and will listen to the company's story. Firms are available to hold the company's hand in IPO matters. For example, Ardour Capital Investments, a young NYC investment firm (on whose board I serve), gives clients advice on such issues. Ardour (Dukes 2005) advises that investment bankers, long deprived of lucrative IPO fees, are preparing for a significant surge in IPO underwriting revenue in 2005. The investor bankers' enthusiasm for IPOs is reinforced by venture capitalists who have portfolios of companies—some of which may be IPO candidates—and who are eager to see the IPO market open up to liquidate some of their investments. The robustness of the IPO market recovery can only be helped by bringing high-quality, seasoned companies to market. It is envisioned that most IPO candidates will be profitable with proven business models. On the heels of this anticipated IPO resurgence, there also may be some IPO candidates that are unprofitable, but which are market-leading companies or those possessing groundbreaking technologies and/or environmentally safe replacements for existing technologies. Companies may be addressing certain sectors which are of interest to particular investment banks— alternate energy, biotech, Internet, etc. Common interests can often reinforce a budding relationship between the underwriter and the company.

Asher (2004) points out that the financial services industry is in a sustained state of flux. First, there are the megafirms resulting from industry consolidation. These global firms have downsized their investment banking operations and have not yet determined whether it makes economic sense to service the middle market of emerging growth companies. And if these megabanks do reach out to smaller IPO candidate companies, how do they generate enough fees to cover their overhead?

The large investment banks dominate IPO activity. Gullapalli (2005) reports on some Thomson Financial statistics chronicling 2004 IPO Underwritings:

| Manager | Amount ($B) | 2004 Market Share | # of Issues |
|---|---|---|---|
| Morgan Stanley | 7.3 | 16.3% | 21 |
| Goldman Sachs | 7.1 | 15.8 | 29 |
| Merrill Lynch | 4.5 | 10.1 | 31 |
| JP Morgan | 4.0 | 8.8 | 25 |
| Citigroup | 3.6 | 8.1 | 19 |
| Credit Suisse First Boston | 3.6 | 8.0 | 23 |
| Friedman Billings Ramsay | 3.1 | 7.0 | 19 |
| Lehman Brothers | 2.4 | 5.3 | 20 |
| UBS | 2.3 | 5.1 | 20 |
| Banc of America | 1.5 | 3.3 | 16 |
| **Top Ten Totals** | **39.4** | **87.8%** | **223** |
| **Industry Totals** | **44.8** | **100.0%** | **233** |

In New England, long-time investment banking supporters of the technology sector—Alex. Brown, Donaldson Lufkin Jenrette, Robertson Stephens, and Hambrecht & Quist—have been gobbled up by the global megafirms. Accordingly, entrepreneurs' access to investment bankers (IBs) to discuss IPOs has become that much more restricted. Other IBs include Bear Stearns, SG Cowen, and US Bancorp Piper Jaffray.

Most of the low-end IBs, which typically were production houses for cookie-cutter, smaller value IPOs in the 1988–1999 period, have involuntarily left the industry. A substantial void in the market now exists for IPO offerings of less than $35 to $50 million.

To establish a relationship with an underwriter, an IPO candidate generally needs a referral and often some friendly handholding. I know of dozens of companies that went solo, knocking on investor banking doors, up and down the Street. Much akin to a Fuller Brush salesman, these enthusiastic cold-callers all got the "bum's rush!" Referrals to IBs are critical. Referrals can come from venture capitalists, obviously if the company is in the portfolio or, in some cases, if the company is a friend of the VC firm. Another source of help is the referral that comes by way of regional financial service firms.

The top eight VCs in New England, ranked by investment dollars for the period July1, 2003 to June 30, 2004, as reported by McBride-Bey (2004), are:

1. Polaris Venture Partners
2. Highland Capital Partners
3. Healthcare Ventures LLC
4. Atlas Venture
5. Kodiak Venture Partners
6. Charles River Ventures
7. Battery Ventures
8. Prism Venture Partners

Hand-holding advisors catering to New England companies include:

- Adams Harkness & Hill
- Ardour Capital Investments
- Capstone Partners LLC
- Covington Associates
- Downer & Co.
- O'Conor Wright & Wyman
- Shields & Co.

Referrals for underwriters can also come from lawyers and accountants. More on this below.

## Planning the Big Event

### *Now that There's BOD Approval for an IPO and an Acknowledged Need to Develop Investor Banking Relationships, How Can the Deal be Closed?*

Prayer and spiritual supplication wouldn't be a bad start. The company will need all the help it can muster. The best approach is for senior executives to take adequate time and thought to organize for the Big Event. I firmly believe that every hour of serious planning invested on the front end will help avoid a full day of delay on the back end. Once the pace of the IPO quest accelerates, the company can become a frenetic madhouse. The CEO and CFO must assure that there are systems in place to: absorb the emotion and confusion of a panic-stricken staff; respond to requests for "unavailable" information; and support an almost endless series of forms, contracts, disclosures, and financial analyses.

In short, the IPO game plan follows this outline:

- Assemble the IPO team, including the legal and audit firms.
- Address countless housekeeping items.
- Translate the company's business plan into an IPO "selling document" or brochure on why the company is "so darn good."
- Through the recommendations of advisors and other referrals, develop a contact plan for prospective underwriters.
- Interview underwriters and stimulate IPO interest in the company.
- Select an underwriter (or in many cases, be lucky enough to be selected by an underwriter).
- Execute the writing of the Registration Statement (preliminary prospectus).
- Perform well on the "Road Show."
- Negotiate the pricing of the IPO deal.

### *What IPO Advisor Is Most Important?*

The company's securities attorney is a central player. Teamed with the CEO and CFO, the company's outside counsel helps the company walk the thin line between putting forward the best face of the company throughout the prospectus, while protecting the company's backside against potential litigation. I would seek an attorney with most, if not all, of these traits:

- Is intelligent and a quick study;
- Knows the company's business and people;
- Has extensive IPO and SEC-related experience;
- Is a good, simple and fast writer;
- Listens more than lectures;
- Has a "can-do" attitude;
- Worries problems to death, but in a positive, constructive way;
- Has a sufficiently pleasant personality to establish good chemistry with the underwriter and underwriter's counsel;
- Is essentially unflappable in the face of the inevitable clashes of Type A+ egos, and deflects these battles with *le mot juste* and some self-effacing humor; and
- Is more concerned about IPO success than billable hours.

Where do outstanding candidate lawyers reside? Unfortunately, this is no longer a straightforward issue. The legal landscape of firms servicing the entrepreneurial/corporate community has undergone substantial changes in recent years, no doubt due to the bursting of the Internet (technology) bubble in 2000. In the Boston area, for example, the following old-time firms were impacted (Blanton 2005):

- Warner & Stackpole (est. 1874) merged into Kirkpatrick & Lockhart.
- Peabody & Brown (est. 1854) merged into Nixon Peabody;
- Bingham Dana (1890) merged into Bingham McCutchen;
- Hutchins, Wheeler & Dittmar (est. 1844) merged into Nixon Peabody;
- Hill & Barlow (est. 1895) closed;
- Hale and Dorr (est. 1918) merged into Wilmer Cutler Pickering Hale and Dorr; and in 2005
- Testa Hurwitz & Thibeault (est. 1973) closed.

This turbulent law firm climate has created a series of relationship upheavals involving large numbers of law partners and associates changing firms. This unprecedented turnover complicates the company's decision in selecting outside counsel. In many cases, the company already has an excellent law firm that, with a little jump-starting, can support the IPO effort. The more difficult scenario is when inadequacies in the company's current law firm dictate that a switch to a more

full-service, more SEC-oriented law firm is required. Thankfully, there are many dozens of firms in New England that can do competent IPO work. They range from the megafirms, such as Ropes & Gray and Mintz Levin, Cohn, Ferris, Glovsky & Popeo, to boutiques, like Morse, Barnes-Brown & Pendleton ("The Business Law Firm on Route 128"). The trick is to find the right person inside the law firm. In many cases, this individual may also be an excellent source of investment banking referrals.

## *What about the Auditing Firm?*

The key to the accounting challenge is to find an audit firm which is well versed in the particular nuances of the company's industry, and experienced in IPOs and SEC filings. If the company's books are still being kept by the entrepreneur's brother-in-law, then there's a big problem. There may still be a dicey problem if the company's competent audit firm is wary of a new publicly traded client. In the post-Enron era with the confining regulations of Sarbanes-Oxley, many audit firms are weighing very conservatively their own partnership's risk-reward trade-offs. Rather than be client-oriented, many audit firms have adopted a standoffish stance. As a result, many smaller—and presumably riskier—audit clients are being driven away by escalating fees and inhibiting audit policies, including "qualified going concern" opinions regarding the projected ability of marginally profitable, fast-growing companies to continue operations over a 12-month period.

Audit industry consolidation has exacerbated the accounting dimension of the IPO challenge. What used to be the "Big Eight" is now the "Big Four:"

- PricewaterhouseCoopers
- Ernst & Young
- Deloitte & Touche
- KPMG

Arthur Young, Touche Ross, and Coopers Lybrand have been subsumed into competitors. Arthur Andersen has closed down. Accordingly, the movement of CPAs to other firms has caused major discontinuities in what was previously a stable industry. Audit partners with whom I teamed in past IPOs are now in new firms with different client selection criteria. Some frustrated CPA acquaintances are simply not in the business any more. Nevertheless, there are several good second-tier national and regional firms in New England addressing the middle market including:

- Grant Thornton
- BDO Seidman
- Wolf & Co.
- Brown & Brown

With the right audit firm and the right audit partner, the various accounting tasks associated with the IPO can be almost tolerable. Don't expect much in the way of investment banking referrals from the CPAs these days since their worries of partnership liability outweigh any inclination to help clients with capital raise-ups.

## *What Corporate Housekeeping Issues Need to be Addressed?*

After the company makes the IPO go-forward decision and brings in the appropriate legal and audit advisors, the CEO and CFO should consider the steps needed to facilitate a crisis-free transition from private company to public company. Certain corporate housekeeping items may need to be cleaned up, and it must be determined whether the necessary information is available to resolve outstanding issues. Among possible housekeeping items are:

- Should the company's capital structure be revised? The company may want to simplify it by exchanging common shares for preferred stock or special classes of common stock.
- Does the company need to authorize additional shares of stock to complete the IPO and for future stock offerings and anticipated M&A activity?
- Should the stock be split in anticipation of a more marketable share price?
- Should affiliated companies and other related entities be consolidated to create a more attractive IPO package for public investors?
- Should the company consider a name change? Certainly if the current name is akin to "Acme Technologies," then perhaps a rebranding is in order. Five years ago companies felt anything was OK—say, StupidInvestment.com! My branding bias is toward names that suggest what the company actually does. Few know that the company formerly known as Arthur Andersen Consulting is Accenture. Company names such as Blockbuster, Palm, and Subway are much more memorable.
- Does the management team need to be pruned and/or upgraded? Can the CEO stand up to a national audience of business critics? Is the CFO just a good accounting manager or can he or she competently "market" the company to the financial community? Does the sales and marketing person really know the customers and distribution channels? How deep is the management bench?
- Does the Board of Directors membership need to be upgraded? In this time of increased regulatory oversight, such a task is nontrivial. Many qualified candidates decide not to join public BODs. While I was on five public boards—simultaneously—10 years ago, I am now on just one public board today. With the need for increased corporate governance, the workload for a director has escalated, and the liability has also risen.
- Does the BOD need to amend the company's articles of incorporation or bylaws? The company may need to clean

up certain voting provisions or set up BOD committees, such as an audit committee.

- Here's one item that unbelievably comes up far too often to even be amusing: Does the company have a complete shareholder record? One really doesn't want a scene out of *The Producers* in which 300 percent of the company's equity has been committed!
- What is the state of BOD and management transactions? Are such dealings appropriate for a public company? Are there any overpaid, flagrantly underqualified relatives on the payroll? Does the company pay for the CEO's cottage at the shore? A sensitive section of the Registration Statement is "Related Party Transactions."
- Have all appropriate material and management contracts been drafted and signed? Is there a stock option plan for employees?
- Does a physical inventory have to be taken? In one of my IPOs, there was—simultaneous with the IPO—a planned acquisition of an old-line company whose extensive product lines had zillions of little parts. The target company had never taken a physical inventory count. Before proceeding with the IPO, we had to commission a "forensic" audit firm to recreate and impute historical inventory levels to develop auditable financial statements.

## *Which of These Housekeeping Items Is Most Important?*

While the failure to accomplish everything on the housekeeping list is a sure ticket to Blown-IPO-ville, I consider the BOD recruitment issue the most difficult. As part of Sarbanes-Oxley's new corporate governance standards, the national securities exchanges have mandated that:

- Audit committees be composed entirely of independent directors.
- Companies must disclose whether their audit committee contains a "financial expert."
- The audit committee have extensive authority to select and oversee the company's independent audit firm.

Issues of BOD independence and financial "literacy" under Sarbox have come into prominence. The challenge for the company's shareholders, for the current BOD, and for management is to identify and recruit qualified BOD candidates. What due diligence is required in this challenge? Pose questions like the following:

- What's the skill set and business experience of the candidate? Is this person complementary to the existing board?
- Does the candidate adhere to the highest ethical standard?
- What about the Sarbox concern for financial literacy?
- How difficult will it be for the candidate to attend scheduled meetings and carry the workload?
- Will new BOD personalities mesh with existing BOD personalities?
- Are there any hidden-agenda motivations at play? Any potential or perceived conflicts of interest? Are board candidates incentivized only by BOD fees or are they geared to tackling challenging strategic issues and making problem-solving contributions to the company's "team?"

BOD members are experiencing more and more constraints. As the old joke goes, "What's the difference between a BOD member and a shopping cart? The shopping cart has more flexibility, and the director holds more food!"

## *What Does the "Selling Brochure" Look Like?*

If the company is truly serious about an IPO, then it should already have a thoughtful, comprehensive business plan. My experience suggests that a short, simple, and alluring one-page summary of the company is necessary to open the door to investment banks. Assume that with busy investor bankers, you have 30 seconds to create interest. Discuss succinctly and brilliantly:

- Why the company is the "best of the best" in its "space."
- How the company's products and service beat out the competition.
- Who their blue chip customers are.
- What industry trends tend to reinforce the company's rosy market projections.
- What the use of proceeds will be, and how additional IPO resources will make a difference.
- What is the company's key intellectual property and how is it protected.
- Who is key management.
- What critical strategic alliances are in place.
- What are other innovative approaches and strategies that make the company interesting to potential public investors.

For meetings with IBs, back up this one-pager with an 8- to 10-slide PowerPoint pitch, with handouts, product literature, photos, and the like. All this preparation will be the basis for the subsequent road show.

## *If You Actually Get to Meet and Talk to an Investment Banker, How Do You Evaluate the Possible Relationship?*

The poster boy for successful IPOs in the late 1990s was CSFB's Frank Quattrone. As the banker who honchoed the Amazon IPO, he allegedly drove his annual remuneration up over $100 million. In time, Quattrone got bitten by his own e-mails which purportedly showed that he was a "spinner" of IPO shares; that is, he used the much-sought-after IPO share allocation as a preferential benefit for targeted clients. Quattrone was the king of power and ego in investment bank-

ing. His criminal prosecution was based on his alleged lying to federal authorities.

In this context, the mantra "Greed is good" is, therefore, not inappropriate for the IPO Quest. Understand well that investment bankers will view the company with a primary objective in mind: How to earn very large amounts of money from fees, stock options, and trading associated with any IPO relationship that may arise. With this sensitivity to the underlying greed impacting the whole IPO process, there are many investment banking evaluation factors issues to assess:

- What role will this particular investment bank play in the offering—lead manager, comanager-middle (of front cover of prospectus), comanager-right—dependent on the economics of the IPO?
- What IPOs has the firm been involved in during the last three years, with what success?
- What is their institutional sales capability?
- What kind of retail brokerage operations do they have?
- What will the research coverage be on the company? Is the company's industry one that the firm already covers? Is the research group respected?
- What kind of investor meetings will the firm sponsor?
- What law firm will the underwriter use as counsel?
- How does the road show schedule map out? How many meetings in how many cities? To what audiences? (Institutional, retail, private clientele, etc.)
- Will there be a European component to the offering?
- What will the underwriting syndication look like? With what kind of share distribution?
- What is their stance on selling shareholders as part of the offering?
- How about "set-aside" IPO shares for company friends and family?
- What is the expectation for the (Greenshoe) overallotment option to be exercised? This can enhance the size of the offering.
- What will the schedule and location of the Registration Statement drafting session be?
- What kind of guidelines does the banker suggest regarding valuation and IPO size?
- Who in the underwriter's organization makes the final IPO decision regarding the company, when, and with what documentation?

## *Assuming that the Company and Its Advisors Have Agreed to Proceed with a Given Investment Bank, What's Left before Scooping up All the IPO Cash?*

Actually, the real work has only just begun. First the company must support the underwriter in a road show to develop investor interest in the offering. To prepare for the series of multicity presentations, there are a few guidelines for a candidate company:

- Think through what company attributes that a prospective investor might find particularly attractive. Integrate two to three key selling points throughout the presentation. Repeat, repeat, repeat. You want the audience to walk away with the message etched in memory.
- Anticipate the five "worst" possible questions the audience might ask and thoroughly brainstorm the best way to craft responses. Be prepared to provide good facts; no BS!
- Suggest what important post-IPO events and milestones can be anticipated that might translate into high-profile press releases to the financial community and to the general public.
- Deal to the presentation strengths of the management team. If the founding technologist is shy and retiring, minimize his or her involvement. Conversely, if the marketing person treats an opportunity to perform in front of a crowd like "open mike night" at the local comedy club, think it through thoroughly and orchestrate accordingly.
- Prepare and rehearse the presentation several times. Get in "the zone." Test thoroughly all audiovisual support equipment well in advance and make sure that there are plenty of spare bulbs, fuses, batteries, and the like. Don't assume that technical support will be available on-site. On an IPO road show in Europe, I once had to buy two computers in London (they did not lease or rent them at that time). As a result, American Express thought that someone had stolen my credit card! Also, in the United Kingdom, the PAL video format (lines per inch) is not compatible with the U.S. format. Plan accordingly.
- Remember the words of Mark Twain: "It usually takes more than three weeks to prepare a good impromptu speech."

Meanwhile, the company also joins with the underwriter and their respective legal counsels to prepare the 100 or so pages of the Registration Statement. There are both lyrics (text) and music (financial data) involved. In short, an enormous workload remains to score this piece. The drafting team must:

- Prepare and present audited financials.
- Describe the underwriting arrangements and the scope of the offering.
- Discuss the risk factors.
- Analyze the use of proceeds.
- Calculate the dilution to public shareholders.
- Discuss selling security holders.
- Describe the company's business.
- Present "Management's Discussion and Analysis of Financial Condition." This section is particularly important since the SEC is really forcing management to take responsibility for intelligently and honestly representing signifi-

cant issues such as revenues, costs, expenses, profitability, working capital, cash flow, investments, and other trends important to the investor.
- Discuss the company's management and BOD.
- Disclose material contracts and related party transactions.
- Provide legal and accounting opinion letters.
- Provide exhibits of backup information deemed important by underwriter's counsel.

Miraculously, the draft Registration Statement eventually does gets completed. But not without some drama. With endless requests by underwriter's counsel for more and more disclosures, in combination with often impossible time pressures, changing market conditions, and the press of ongoing company business—tempers have been known to flare. I have initiated, broken up, and mediated a number of spats. Thankfully, there has been no loss of life.

The Initial Registration Statement is then filed, and the initial regulatory review begins. The SEC and the states have concurrent jurisdiction over the offering of securities. The Registration Statement must be filed with the SEC, with those states in which the shares may be offered, and with the National Association of Securities Dealers (NASD). The SEC's review assesses compliance with its requirements, including the adequacy of the company's disclosures. The SEC does not address the merits of the offering. Some states may consider the merits of the offering under their "blue sky" laws. The NASD reviews the filing to determine if the underwriters' compensation is excessive.

### *So Can Anything Go Wrong Now?*

But of course. Dozens of IPO action items may be outstanding on any given day, dependent upon the several organizations and scores of people involved. Overlay this frenzy of activity with imperfect information, rigorous deadlines, and human frailties and you have a recipe for deal-threatening problems. The short list of my not-ready-for-IPO-time experiences (among several deals) includes:

- Underwriters' counsel heaping profanities on the SEC examiner in a teleconference, requiring my intervention as a diplomat—not a particular strength of mine.
- Sickness in the SEC office causing delays in the SEC review process and resulting in "the numbers going stale"—a condition requiring the auditors' review of another quarter of financial results.
- The CEO firing the VP-Marketing, requiring an organizational scramble.
- The COO suffering a career-ending stroke during the registration period.
- Two IPOs lost in the 1999–2000 Wall Street "bubble burst."
- For an acquisition targeted with the use of proceeds, additional due diligence showing such an acquisition to be a bad decision.
- For another acquisition targeted with the use of proceeds, the acquisition company's CEO dropping dead 45 minutes before closing.
- One of the three principal underwriters in the syndicate being suspended by the SEC.

Regardless of such setbacks, the secret to IPO success is endurance. Retrospectively, it's easy to be romantic about this IPO journey. Frankly, for each IPO that I have experienced, the Registration Statement trek at times has been unadulterated torture. I'm sure I would have remembered if I had had any fun! Like a marathon runner, you must stubbornly persevere. Once the company has reached the SEC review stage, there is hope. The finish line is almost in sight. Some 20–60 days after the initial filing the SEC issues a comment letter indicating those areas in which it believes the filing does not comply. The IPO team subsequently translates these comments into an amended Registration Statement, which is filed. After a series of one or more iterations, all parties become satisfied with the technical and disclosure aspects of the Registration. Next the pricing amendment is filed. The pricing amendment discloses the offering price, the underwriters' commission, and the net proceeds to the company.

Although there is technically a 30-day waiting period for the SEC to review the final Registration Statement, the company can request "acceleration" for the deal to become effective, to which the SEC typically accedes. The final prospectus is printed and distributed to interested investors. The closing occurs 3 to 4 days after "going effective," with the company issuing the securities to the underwriters and receiving the proceeds (net of the underwriters' compensation) from the offering.

By this time, everyone directly involved with the IPO should be thoroughly numb. The company's cash position, thankfully, will be much improved. And the organization should now be poised to be growth-oriented and exciting.

## The Honeymoon Period

### *Is a Little Post-IPO Euphoria Such a Bad Thing?*

Euphoria is one trait that distinguishes homo sapiens from, say, daffodils. It's a good human emotion. Exhausted and cranky, the company's management team—with the successful completion of its IPO marathon—may rightfully achieve an endorphin high. This is alright for a few days, as long as it's not a sustained high!

The CEO driving a fancy new car is to be expected. In contrast, the CEO taking a three-month vacation to Australia (which happened in one IPO I backed)—just months before the BOD fired him—is not expected and is, of course, unacceptable. Monthly management pep talks to the troops—with passing references to the company's stock performance—are generally OK. Daily posting of the share price in the employ-

ees' cafeteria is generally ill-advised. Individual obsession with (paper) net worth from the company's stock performance can only drain the energy from the organization.

Stock-watching can become a distraction, if not a disease. To cite Andrew Carnegie (Forbes 1974): "Nothing tells in the long run like good judgment, and no sound judgment can remain with the man whose mind is disturbed by the mercurial changes of the stock exchange. It places him under an influence akin to intoxication. What is not, he sees, and what he sees, is not."

Intoxication caused by IPO success is tolerable for very short periods. Business life marches on; the company's Road Show "story" needs to be implemented. There is considerable work to accomplish.

## What's the Most Important Task in the IPO Honeymoon Period?

The key post-IPO task may undoubtedly be counterintuitive to many. Despite now having perhaps tens of millions of cash and cash equivalents in the treasury, the company should have as its single most important objective the discipline to conserve cash. An approach that I have developed in response to the newly public company's evaporating cash balances is to break out into concrete subtasks the major areas of expenditure in the Use of Proceeds, as disclosed in the Registration Statement. Each task—be it infrastructure for a larger capacity facility or development projects for enhanced technology or extensive marketing programs—can be budgeted and the cash secured in a virtual escrow account.

Why display such cash paranoia? Many a company emerging from the IPO experience is still populated by senior executives who are also company founders or early employees. Surviving for years on sweat and guile and occasionally smoke and mirrors, these pioneers may now be looking for tangible affirmation of their accomplishments, not gained from their "paper" net worth. Spending some "mad money" can be a psychological outlet. Perhaps an explanation resides in a sampling of some unfortunate IPO honeymoon experiences I've observed.

- A CEO/head researcher who wanted to perform strategically diversionary and expensive ($500,000) R&D improvements upon some lab equipment that was commercially available off-the-shelf ($30,000).
- A CEO who committed to oversized and expensive ($3.5 million over six years) new corporate office space before passing it by the BOD for approval.
- A CEO who requested a new hire wish list from the troops. He found out that if everyone was granted what he or she wanted from Santa, that the company's headcount would have increased by three and a half times and labor costs that would have fattened annual payroll by $12 million.

Over the years I've learned that corporate headquarters—dependent, of course, upon the company structure—can be managed efficiently with a bare bones staff—say a CEO, a small financial and administrative department and perhaps a corporate development guru. In my view, overhead begets more overhead. The company should nip its costly growth in the bud. Further, the operating business units can avoid or minimize Kudzu-like cost build-up with initiatives such as outsourcing. As reported by Thomas (2003), outsourcing has now reached the point that the company can substitute people in Manila for high-priced New York City staff to answer the customer service phone. Computer code can be written in Bangalore as competently as in Sunnyvale, California. Aetna, for example, has much of its data entry for medical claims performed by 1,400 workers in Ghana linked to the United States by a satellite Internet connection. All of this outsourcing activity can save the company plenty of cash.

## How Must the Company be Managed Differently as a Public Entity?

The euphoria and the infusion of cash associated with a successful IPO come with strings attached. In transitioning from private to public company, management discovers that it has gained two new bosses—the public shareholders and the regulatory agencies. How should management respond? In theory, the answer is elegantly simple. The following guidelines need to be followed:

1. Meet or exceed revenue and earnings projections.
2. Report to the SEC quarterly (10K) and annually (10K) on a timely basis.
3. Disclose all material events (8K), including major contracts, business relationships, changes in officers and directors, changes in assets, and changes in control.
4. Communicate well with "the Street" in order for the company to become better known to the financial community and to the public.

The BOD spurs company management to fulfill its performance objectives (guideline 1). The company's lawyers (guideline 2) and auditors (guideline 3) assist the company in its SEC reporting. The task that the company is less prepared to handle is establishing a working communication with Wall Street and the public shareholders (guideline 4).

## Why and How Is the Wall Street Relationship so Important?

Now publicly traded, the company has millions of shares of its stock in the hands of the public. Thousands of shares may be traded every hour. Some share holdings may be in large institutional accounts; others are held in small, individual accounts. The share price—according to Economics 101—is determined

by the marketplace's supply-and-demand impact on the company's shares. If interest in the company heats up, the share price is likely to follow suit. Interest in the company is a function of knowledge and information about the company. How many people know about the business performance and prospects of the company? Are existing IPO shareholders retaining their stakes or selling off? What issues are being discussed in the business press about the company? Is the company's public profile positive and on the rise? Even a casual reflection on these issues will suggest how important it is for the company to nurture informed Wall Street contacts.

### *How Does the Company Best Manage the Public Outreach and Information Dissemination Process?*

Like most business endeavors, an investor relations program to capture the public limelight faces stiff competition. The NASD and the NASDAQ electronic stock market represent a beehive of frenetic activity. Consider the statistics (in part, from the NASD and NASDAQ websites):

- NASD has approximately 5,200 member firms.
- Member firms represent approximately 97,000 branch offices and 660,000 registered reps.
- NASDAQ lists approximately 3,300 companies.
- Registered stock analysts total on the order of 3,200.
- The company's shareholder list can range from two thousand to tens of thousands.

To disseminate the company's "story" to this highly populated and complex network, a competent, charismatic, intelligent, and well-connected senior member of the management team should be sent off to wage the Investor Relations Crusade. Regrettably, an individual with this complete skill set rarely exists. Accordingly, team effort is often required, often with the use of an outside investor relations firm.

Every investor relations campaign, of course, is subject to the guidance and dictates of the company's investment banking sponsors, and must be crafted somewhat in response to the share price trends.

### *What Is the Company's Message to the Street?*

The Street has little time for preliminaries. The concerns of fund managers, account executives and analysts are straightforward:

- Who is the company?
- Why is its story special?
- What are earnings expectations?
- What is the associated risk?
- What confidence is there in the company's management?
- What is the distribution of stock ownership ?
- What is the company's value?

The company must anticipate questions related to these concerns, recognizing that each contact in the financial community has a particular agenda. Some are interested in investing in "a new story"; others are only willing to start a monitoring file on the company .The company would be well advised to start meeting with the lower profile analysts and fund managers, listen to their feedback, fine-tune the company's message, and work the communications campaign up the Wall Street food chain.

If the entrepreneur is involved in the communications program with Wall Street, he or she must quell the natural entrepreneurial tendency to paint an overly optimistic picture of the company. Promise only those results that can be delivered. The pressures to perform are difficult enough without self-inflicted damage. In this regard, Sommer (2000) has devised "Ten Commandments" when dealing with the Street:

1. Remember to keep holy thy earnings announcement day.
2. Thou shall not covet thy neighbor's stock options.
3. Honor thy independent accountant and thy SEC.
4. Thou shalt not take the rules of GAAP in vain.
5. I am the SEC. Thou shalt not manipulate financial results before me.
6. Thou shall not commit accounting adultery.
7. Thou shalt not steal revenue from the next quarter.
8. Thou shalt not bear false numbers to the Street.
9. Thou shalt not send thy customers goods to warehouses.
10. Thou shalt not use side letters.

If the Street thinks that the company has violated any of these Ten Commandments and has "sinned," the company will be shunned. One false step can be cataclysmic to the company's reputation and take an enormous effort to repair.

All too often, I've observed a crest-fallen CEO of a newly public company who has experienced the market sentiment turn against the company. The "instant fame" of an IPO is a curious phenomenon. At first, it's like the cute little puppy that you warm up to. But as it gets older, it's becomes like a rabid creature that turns on you and eventually eats you up.

## Interference from Pesky Third Parties

### *What Factors Impact the Company's Relationship with Its Public Shareholders?*

Not unlike having a busy-body mother-in-law (or father-in-law, to be fair) interfering with the newlyweds, the public company must start anticipating when the next (regulatory) hurdle might appear, thus confirming that the honeymoon period is finally over. Going into the IPO process, company management certainly would be aware of the basic reporting requirements of quarterly (10Q) and annual (10K) filings with the SEC. Not so well known perhaps would be the breadth of the compa-

ny's "in-law" population. Regulatory hurdles abound. In addition to the SEC, there are the NASD, the NASDAQ electronic stock market, the Financial Accounting Standards Board (FASB) and, of course, the accounting industry.

The highly publicized Enron scandal brought down the firm of Arthur Andersen, reducing the Big-Five audit industry to a Big-Four. The U.S. Congress became involved and passed the Sarbanes-Oxley Act to tighten the screws on corporate scrutiny. The legislation passed in the Senate by a 97–0 vote, suggesting that the pendulum had really swung radically in the direction of intensified corporate governance, or that no one in the Senate had actually read the bill or that not enough debate occurred to create healthy dissent, or all of the above.

The net effect of Sarbox—ironically—has been to reinvigorate the scandal-weakened accounting profession. Reviled in 2002 as enablers of corporate con artists, the audit firms have made a near-miraculous come-back. The Big-Four of KPMG, PriceWaterhouseCoopers (PWHC), Ernst & Young (E&Y) and Deloitte & Touche had record revenues and profits for 2004 (Jenkins 2005) and hiring has gone "through the roof." As reported by The Economist (2004), the Big-Four audit 97 percent of all U.S. companies with sales over $250 million. These are enormous firms:

| Firm | Fee Income (2003) ($B) | Total Employees |
|---|---|---|
| Deloitte | 15.1 | 119,770 |
| PWHC | 14.7 | 122,820 |
| E & Y | 13.1 | 102,969 |
| KPMG | 12.2 | 98,900 |

Certainly there are arguments for such an oligopoly; it provides the scale necessary to assess broad operations of the multinationals. These firms worry about litigation arising from scandal. And the scandals continue. During 2004, we observed various forms of financial manipulation unearthed at Fannie Mae, at Nortel, and at Italy's Parmalat. Accordingly, the audit industry devotes huge resources (10–20% of revenues) to shield themselves from litigation risks. In the end, of course, clients pay the tab.

## *Big Company Scandals Aside, Don't IPO Companies Enter the Public Playing Field with a Clean Slate?*

Not always. What this increased call for corporate governance means for the smaller newly public company is more than a little troubling. With the current regulatory climate at its peak of intense oversight, and accounting firms flexing their CPA muscles, many new public companies enter this battlefield unprepared. As reported by Moregenson (2005), the IPO Plus Aftermarket Fund (Greenwich Conn.) chronicles the shareholder-friendly practices of IPO companies and finds them lacking. Looking at the use of proceeds, management and BOD compensation, and BOD independence—IPO Plus finds that 51 percent of the companies that went public in 2004 had poor to very poor governance practices. This is even lower than the 37 percent negative governance figure for 1999 when the stock market went crazy.

Newly public companies must learn the ropes in dealing with all these pesky regulators, install all the needed internal control systems, and make all appropriate public disclosures.

## *What Needs to be Disclosed?*

Companies are required to file an 8-K with the SEC documenting "material" events. The dilemma, of course, is defining what "material" means. As reported by Katz (2004), the SEC has stated in a 1999 staff accounting bulletin that an event is material "if there is a substantial likelihood that a reasonable person would consider it important." Most entrepreneurs and CEOs I know are not terribly edified by such mushy guidance! The SEC also reduced the 5 percent of net income rule-of-thumb as to how big an impact there must be before the need to file an 8-K. I had found the 5 percent guideline to be useful. Now the path to determining disclosure is even more fuzzy. Editorial bias aside, here's what Section 409 of Sarbanes-Oxley says has to be put in an 8-K filing:

- An unexpected entry into a material definitive agreement;
- An unexpected exit from a material definitive agreement;
- Creation of a material direct financial obligation, including long-term and short-term debt and capital-lease commitments, or off-balance-sheet arrangements;
- The acceleration or increase of a material direct financial obligation or an obligation under an off-balance-sheet arrangement;
- Material costs incurred during the exit from a business or the disposal of an asset;
- Impairment of assets;
- Notice of a delisting or failure to satisfy a continued delisting rule or standard, transfer of listing, or completed interim review; and
- A decision that the company's previously issued financial statements or audit reports can no longer be relied on.

On August 23, 2004, the SEC issued new regulations requiring companies to file 8-Ks within *just four business days.* The above guidelines might include anything from a big customer win to a significant layoff to a new executive compensation. In all cases, management must make determinations of materiality, and how to disclose and communicate such events "on the fly." As a Wall Street friend suggests, "When in doubt, 8-K it!"

## *What Other Regulatory Responses Need to be Considered?*

There's a shopping list of possible regulatory issues for company management and its BOD to consider. To cite just one exam-

ple, consider Syre's report (2004) of Massachusetts-based Brooks Automation, Inc. In December 2004, the company disclosed that it was accelerating the vesting of 1.3 million *"below water" options.* That it would make worthless options exercisable immediately reflects the anticipation of changing accounting rules in June 2005. Even though options may have no market value, they still may have accounting value and need to be expensed. Not acting preemptively to the rule change deadline would present the company with the worst of both worlds: the expensing of options to depress earnings while being unable to provide financial incentives to company employees since the options would be the equivalent of worthless Confederate dollars.

As Neble reports (2002), M&A activity has been impacted negatively by the *elimination of the pooling-of-interests* method of accounting for acquisitions. FASB rule changes now require the use of the purchase method of accounting. In short, various categories of intangibles must be separated-out from goodwill, valued, and amortized over their respective useful lives. Valuation experts must be used, and various asset impairment tests must be applied.

Another area of concern is addressing and eliminating *"dummy corporations"* or special purpose entities (SPEs) under recently released FASB Interpretation No. 46 (FIN 46). As reported by Reason (2004), these dummy corporations have typically been used to own assets the company doesn't want on its own books, for any number of reasons. In the post-Enron environment, investors frowned at the appearance of impropriety and precipitated the issuance of FIN 46.

Certainly more important is *Section 404 of Sarbanes-Oxley.* As reported by Nyberg (2004), now company management must not only disclose financial control weaknesses, but provide monitoring and documentation of its financial control systems with annual testing by the company. Then—you guessed it—the company must "coordinate" with its auditors to determine what deficiencies are material and require disclosure. When management and the auditors disagree, guess who wins? And if the company's financial systems are found lacking, how can investors trust the company's public information? Consider NYSE-traded Adecco SA which could not convince Ernst & Young to sign off on its financials because of weak internal controls. The announcement whacked the share price 35 percent. Six months and $121 million of fixes later, the share price was still down 20 percent%. A Wall Street wag offered that "Sarbox has done for public companies what the Titanic did for the cruise business."

### *What Other Regulatory Issues Have Wall Street Implications?*

Other than constantly having to answer analyst questions like "How's the company doing on implementing Sarbox-404?" and "How much will it cost the company for compliance?," the other important regulation of recent note (October 2000) is Regulation FD (Financial Disclosure). As reported by Rudman (2001), the regulation requires the company to disclose to *all* shareholders material information that the company shares with securities market professionals and fund managers. In the game of cat-and-mouse between corporate officer (mouse) and analyst (cat), Regulation FD constrains the mouse but not the cat. In their sublimely clever ways, analysts can often extract information before the company representative knows what has happened. But the company has to work with the analysts to receive much-sought-after research coverage.

The key point to remember about this overwhelming set of rules and regulations is that the regulation has been in response to various sins of commission and sins of omission on Wall Street. Perhaps humorist Dave Barry (2002) provides insight:

> **Q:** Why didn't Wall Street realize that Enron was a fraud?
> **A:** Because Wall Street relies on stock analysts. These are people who do research on companies and then, no matter what they find, even if the company has burned to the ground, enthusiastically recommend that investors buy the stock.

## Keeping It All Together

### *How Does the Company Cope with All These Divergent, Powerful Forces Impacting It?*

In a way, the Board of Directors serves as a company marriage counselor, refereeing the disputes between the company and the shareholders and the pesky and often interfering third parties (regulators). The major BOD oversight concerns for the new IPO company are serious:

- How to fulfill the Street's earning estimates for the company;
- How to assess the company's management team to determine if it is holding up under public scrutiny;
- How to stay listed on NASDAQ (or other exchanges); and
- How to raise additional capital, as required.

### *How Should the Company's Management Handle Earnings Estimates with Wall Street?*

The concept is simple: Do the numbers right and communicate with everyone. The challenge, as always, is acceptable execution.

It is no deep secret that public companies appear to "manage earnings." A study by Thomson Financial (Moregenson 2004) examined how many Dow 30 industrials met (or beat by a penny) consensus estimates during each quarter over a five-year period. On average, almost half (46%) accomplished this feat. When one considers all the variables that go into project-

ing earnings, such bull's-eye accuracy of *"beating the analysts' estimates by a penny"* is beyond chance. General Electric in the 1990s, for example, made the front page of the *Wall Street Journal* (Loomis 1999) chronicling the many ways CEO Jack Welch smoothed GE's earnings. GE's tricks of the trade included the careful timing of capital gains and creative use of reserves and restructuring charges. Henry reports (2001) a number of ploys and potential abuses that companies use.

- *The Big Bath.* Takes a large write-off, booking costs now to boost earnings and margins in the future.
- *Vendor Financing.* Lends money to cash-strapped customers so that they can purchase the company's products, boosting sales and profits.
- *Pension Gambit.* Determines that the company pension plan is overfunded and reduces company contributions, hiding the gain in the financial footnotes.
- *Before Its Time.* Treats pending sales as if they're already on the books and logs in sales without netting out agreed-to rebates.
- *Backdoor Bargains.* Motivates a big customer to place orders by buying its stock or granting it cheap warrants.

My strong prejudice is to avoid such ploys. The downside risk of regulatory intervention generally outweighs any short-term upside benefits. The London investment community has a wonderful way of warning against aggressive management behavior: "Don't try to be too clever by half!"

Sometimes the company does many things well and still loses. Swartz (2005) reports, for example, that eBay's 2004 Q4 earnings rose 44 percent, but still disappointed Wall Street, sending the share price down 12 percent overnight. eBay's CFO correctly commented, "My concern is managing the company's performance, not its stock price"

Regulation FD provides the company with some protection in dealing with the Street. As suggested by Graham (2001), there are certain approaches companies employ to keep investors and analysts informed under Regulation FD that should actually rein in the company and prevent it from being *"too clever by half:"*

- Designate a small number of management representatives to discuss company developments with the public.
- Determine in advance how to react rapidly if someone discloses information inappropriately. Have available a SWAT response team, including company legal counsel, to put out the fire.
- Don't respond to rumors, unless requested to do so by a stock exchange.
- Employ webcasts to make earnings conference calls and company presentations available to the public.
- Eliminate selective communication to analysts, making forecasts available to all in press releases.
- Disclose key business trends more often than quarterly. Provide updates at regularly scheduled intervals.

## How Should the Company's BOD Evaluate Management's Performance?

Carefully and often. The half-life of an entrepreneur-CEO in a newly public company is embarrassingly short. Anecdotally I offer several explanations. The entrepreneur-CEO:

- is often untrained for a "big company" environment;
- wants to focus on the business of the company, not the business of Wall Street;
- reacts defensively when experts criticize the company;
- reacts dismissively when other members of management are assigned to investor relations;
- begins to fret when the litany of new constraints (e.g., Regulation FD, Sarbox–404) seems to handcuff management; and
- stops having fun running the company.

What should a BOD do if management performance falls short? The set answer, of course, is to take appropriate corrective action. Easier said than done. Even independent directors have hearts. I've been involved on several occasions in replacing the entrepreneur-CEO. While personal ties on the BOD can be strong, responsibilities to shareholders take precedent. It is never any fun, however, to be known as the "Dr. Kervorkian of the board room!"

Does the Street appreciate dramatic BOD actions? Often the departure of a CEO has a positive impact on the company's share price. Kranz (2005) reports that in addition to the 7 percent one-day up-tick that Hewlett-Packard enjoyed from the ouster of CEO Carly Fiorina in 2005 (Q1), over the years other companies have experienced even better one-day share price jumps:

- Rite Aid—40.8%
- Quest—20.5%
- J. C. Penney—16.0%
- 3M—11.1%

CEO turnover-of-the-uglier-kind involves scandal. Many know of Bernie Ebbers at WorldCom Inc., Dennis Kozlowski of Tyco International Ltd., Richard Scrushy of HealthSouth Corp., and Ken Lay of Enron Corp.—all involved in marquee prosecutions for various forms of fraud and conspiracy. Not the kind of business legacy that the aspiring entrepreneur had in mind in pursuing an IPO. In growing a public company, smarts and hard work are important. The CEO must also have a moral compass.

## What kind of trouble can the new public company encounter regarding continued listing on the NASDAQ stock market?

Certainly no company proceeds with an IPO with the thought of someday becoming delisted. If the company hits some speed bumps in the road to success, however, earnings forecasts can be missed, cash flow can continue negative, and the

public market can turn its back on the company. The following are the listing requirements for the NASDAQ National Market:

- *$1 Share Price.* If a company's shares trade for less than $1 for 30 consecutive days, the company has 90 days to bring up the share price.
- *Public Float.* At least 750,000 shares of the company must be available for public trading.
- *Public Float Value.* The total value of the publicly traded shares must be at least $5 million.
- *Net Tangible Assets.* The company's fixed assets and accounts receivable must be worth at least $4 million.
- *Number of Shareholders.* At least 400 people must hold a minimum of 100 shares of company stock.
- *Market Makers.* There must be at least two market makers willing to buy and sell company shares.
- *Timely Public Filings.* Companies must make all filings.

Each trading day, NASDAQ publishes on its website a list of companies that are noncompliant with its continued listing standards. An analysis of a recent day (February 7, 2005), provides the following profile of 102 companies cited with compliance deficiencies:

- Bid price—38 companies
- Delinquent filings—21 companies
- Audit committee composition—20 companies
- BOD independence—12 companies
- Net tangible assets—5 companies
- Other deficiencies—12 companies

## Can the Company Solve Some of Its Listing Problems by Raising More Capital?

Perhaps. Obviously BOD composition issues and timely SEC filings can be addressed without more capital. Certainly more paid-in capital helps to improve the net tangible assets standard. If a secondary public offering is managed correctly, it is possible to improve the company's bid price. If the bid price is a problem to begin with, it's undoubtedly a particularly bad time to contemplate a secondary public offering.

When the public capital markets are not considered viable, the company may consider turning to the private markets and a hybrid security called a PIPE (for Private Investment in Public Entities). Once viewed as purely bail-out funding, the PIPE instrument has attained increasing respectability as more companies do PIPE deals. Fink (2004) reports that approximately 800 to 1,200 PIPE deals per year have been transacted since 2000. How PIPEs are structured can be illustrated by Evergreen Solar (Marlboro Mass.). In May 2003, Evergreen raised $29.5 million in the form of preferred stock convertible into common shares at a 25 percent discount from the public market price and warrants giving the investor the right to sell the stock at a 125 percent premium over the PIPE offering price after SEC registration. The key to this deal was a fixed conversion rate (no "downward death spirals") and an investor base that was not inclined to short-sell the stock. Evergreen saw its stock climb more than 120 percent (through the end of 2004) since the PIPE.

Despite Evergreen's story, and even with protection against death spirals (variable conversion rates with no floor price), companies may discover that the use of PIPEs put downward pressure on the stock price because of the discount and dilution. The irony is that small capitalization companies generally need the infusion of new capital the most, but investors like to enter into PIPE transactions with larger companies.

## How Does One Assess If "Being Public" Is Working for the Company?

Not unlike a marriage, money problems and stressed relationships are sure indications of problems. How well does the company relate to the distractions of third-party regulators and investors? With increased pressures from auditors and their increasing empowerment from Sarbanes-Oxley, it is appropriate to question whether access to public capital is worth the cost of maintaining a public company. Consider the average incremental compliance costs (over being private):

- Accounting staff—$250K
- Audit—$200K
- Legal—$100K
- Investor relations—$75K
- Director & Officers' insurance—$250K
- SEC filings and annual meeting—$50 K
- Miscellaneous public expenses—$75K

Might the company have a better use for $ 1 million? Perhaps. The option to go private is tortuous, often requiring a large reverse stock split to induce the small shareholders to sell-off. Once the number of shareholders of record is below 300, the company can qualify for delisting. The very contemplation of such a move can cause downward pressure on the share price and market value. The process is difficult but doable. It's like getting the toothpaste back into the tube.

In summary, just as a marriage can result in divorce, an IPO can lead to delisting or a company deciding to "go private." That there is a downside scenario doesn't mean you don't take the big IPO leap. Entrepreneurs understand risk. Every case is unique. Like many marriages, many IPOs are unqualified successes. A typical IPO results in a capital raise-up ($25–$200 million) far in excess of what be available to a private company; and at valuations ($50–$1,500 million) many times larger than otherwise possible. This is the IPO carrot!

Should a company pursue an IPO? The situation is much akin to how one advises a friend contemplating marriage: "How exciting! But have you really thought it over?"

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