

Rebuilding the IPO On-Ramp

Putting Emerging Companies, Investors and the Job Market
Back on the Road to Growth

October 20, 2011

Agenda

IPO Task Force Members

IPOs In Decline Last 15 Years

IPOs Support Innovation & Create Jobs

Structural & Regulatory Elements Impacting IPOs

Four Simple Steps to Tilt Balance Back

IPO Task Force Members

Venture Capitalists

- Kate Mitchell, Scale Venture Partners, Task Force Chairman
- Mark Gorenberg, Hummer Winblad Partners
- Tom Crotty, Battery Ventures

Public Investors

- Jeff Cardon & Karey Barker, Wasatch Advisors
- Henry Ellenbogen, T. Rowe Price

Entrepreneurs

- Magid Abraham Ph.D., CEO, Comscore
- Josh James, former CEO, Omniture
- Desh Deshpande, former CEO and co-founder Cascade Communications & Sycamore Networks and co-chair of NACIE

Securities Attorneys

- Joel Trotter, Latham & Watkins
- Steve Bochner, Wilson, Sonsini, Goodrich & Rosati

Academicians/Accountants

- Bill Sahlman, Harvard School of Business
- Carol Stacey, S.E.C. Institute
- Chuck Robel, private investor & retired head of PWC Tech Practice

Investment Bankers

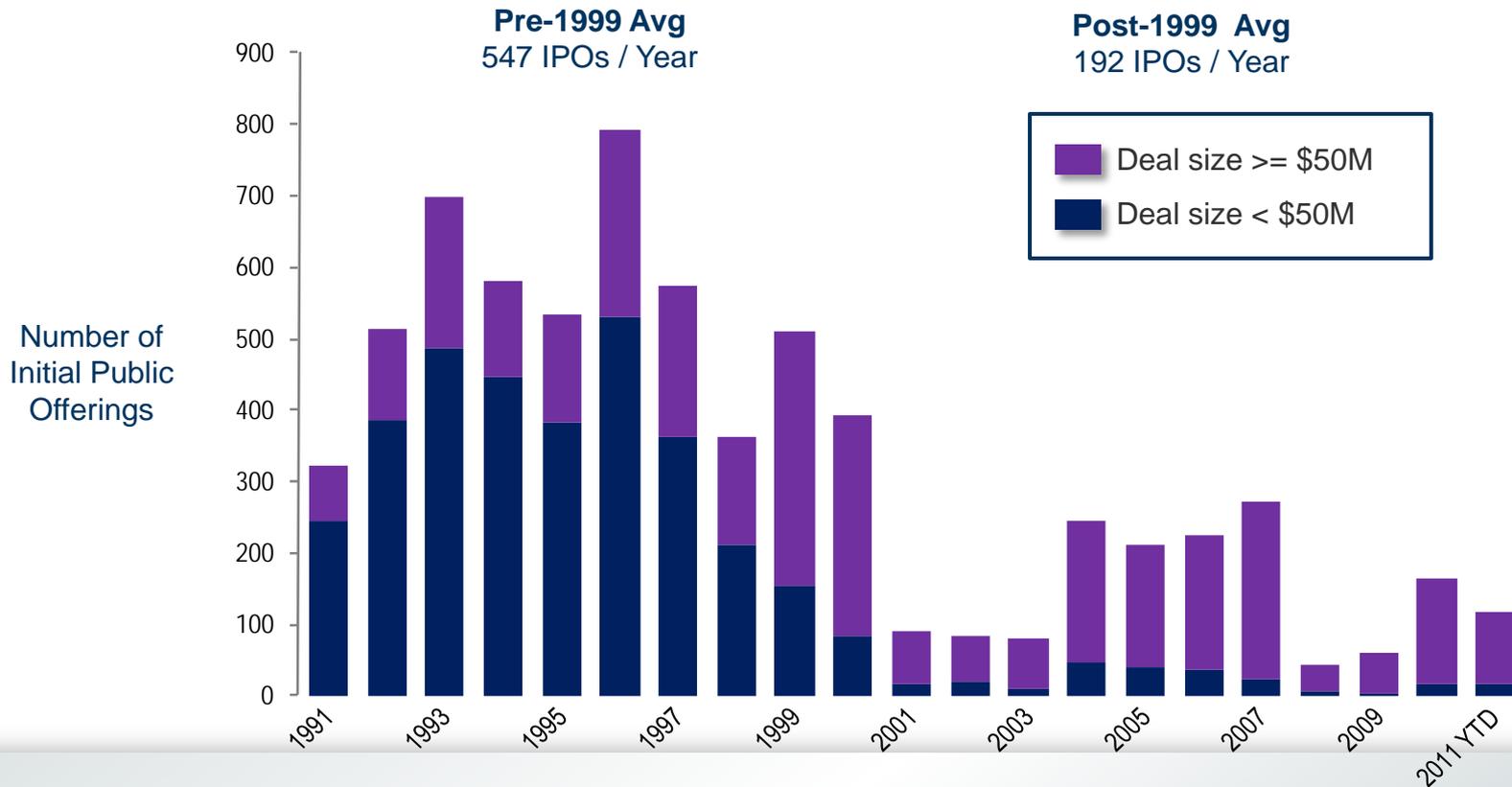
- Paul Deninger, Evercore
- Carter Mack, JMP Securities
- Brent Gledhill & Brett Paschke, William Blair

Additional Support From:

- Investors, CEOs, NYSE, NASDAQ, NVCA

Emerging Company IPOs Have Dropped Dramatically

IPOs Are Down...Particularly Smaller IPOs



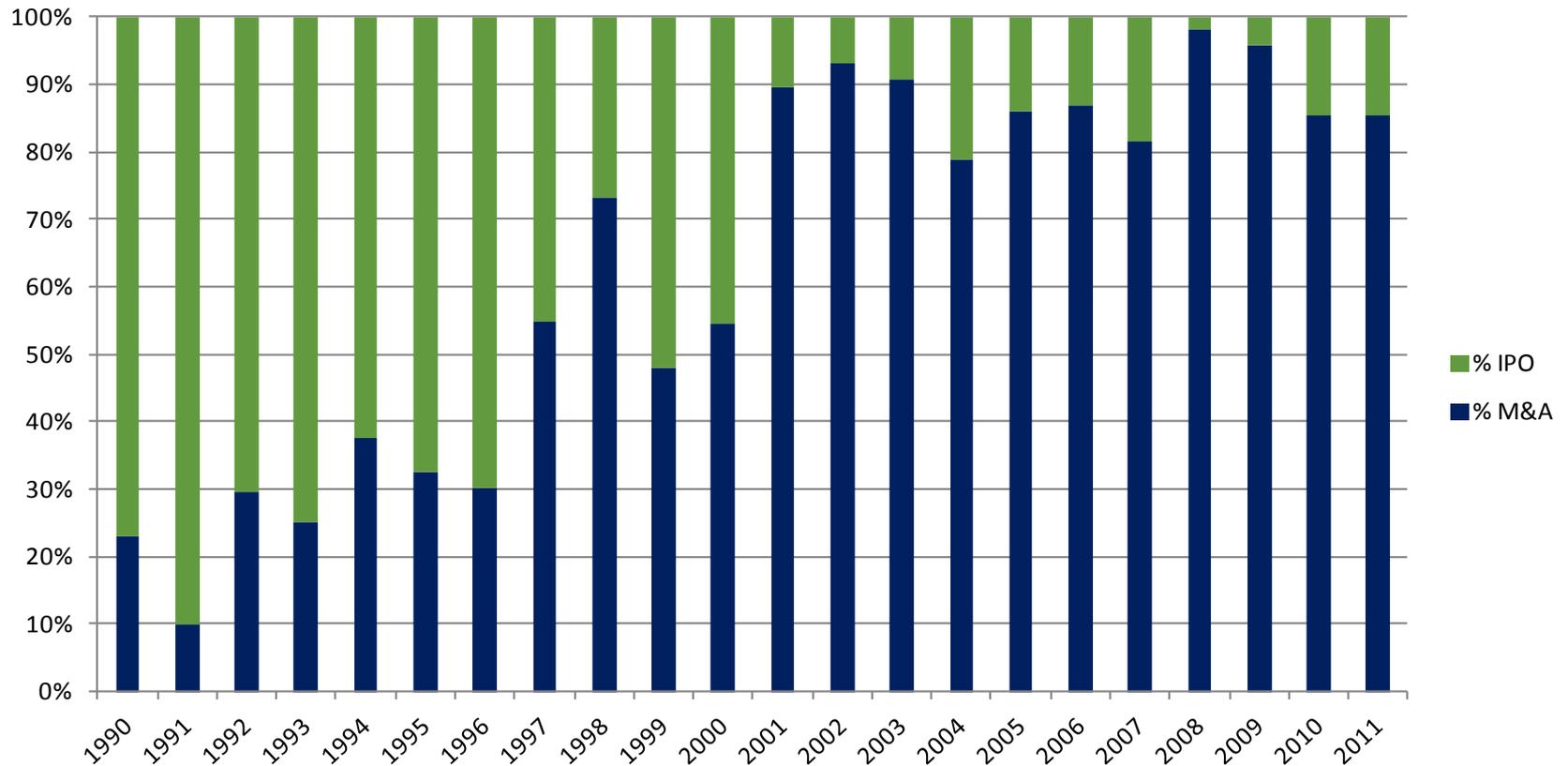
- Pre-1999, Majority of IPOs Were Done for Emerging Growth Companies
- Sub \$50M Deal-Sizes Were More Common than Larger Deals
- Shift to Larger Deals Impacts IPO Ecosystem: Issuers, Small IBs, Institutional Buyers

...And the Time to IPO Has Doubled

Average Age Since Company Inception (in Years) at IPO



Shift to M&A – Resulting in Fewer U.S. Jobs



Source: Thomson Reuters/National Venture Capital Association (Based on number of exits per year; M&A exits are for private company sales only.)

Emerging Growth IPOs Are Critical to The U.S. Economy

Innovative Startups Become Market Leaders

Web

Google

LinkedIn

YAHOO!

MAPQUEST

amazon.com

ebay

PANDORA

OpenTable

High Tech

Sun
ORACLE

hp



salesforce.com
Success. Not Software.

CISCO

intel

Retail / Services

FedEx



STAPLES
that was easy.

GAP

Life Science

Allscripts

Genentech
IN BUSINESS FOR LIFE

athenahealth

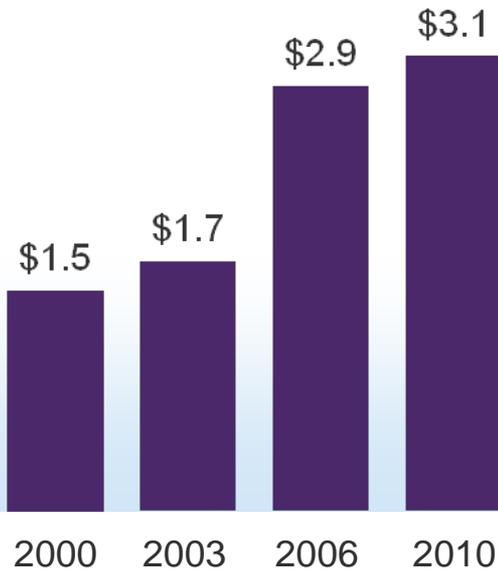
Cleantech



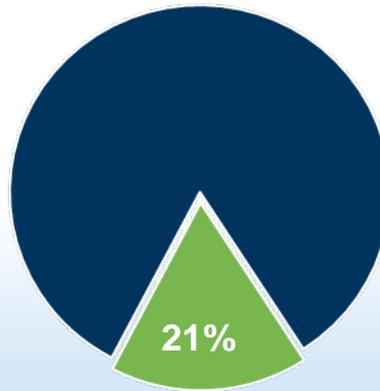
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SYSTEMS

Innovative Companies Create Jobs and Grow Quickly

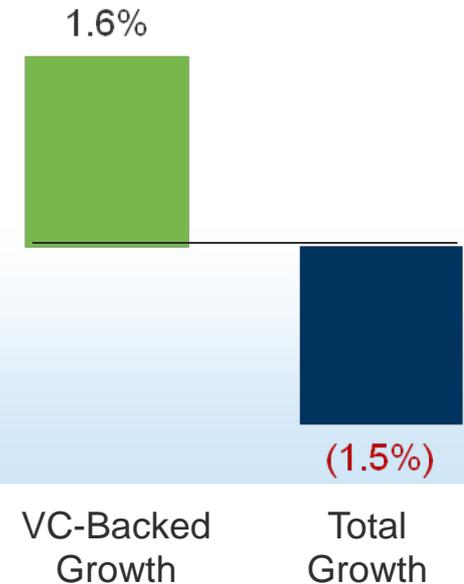
VC-Backed U.S. Revenues (\$T)



As a % of Total U.S. GDP in 2008 - 2010

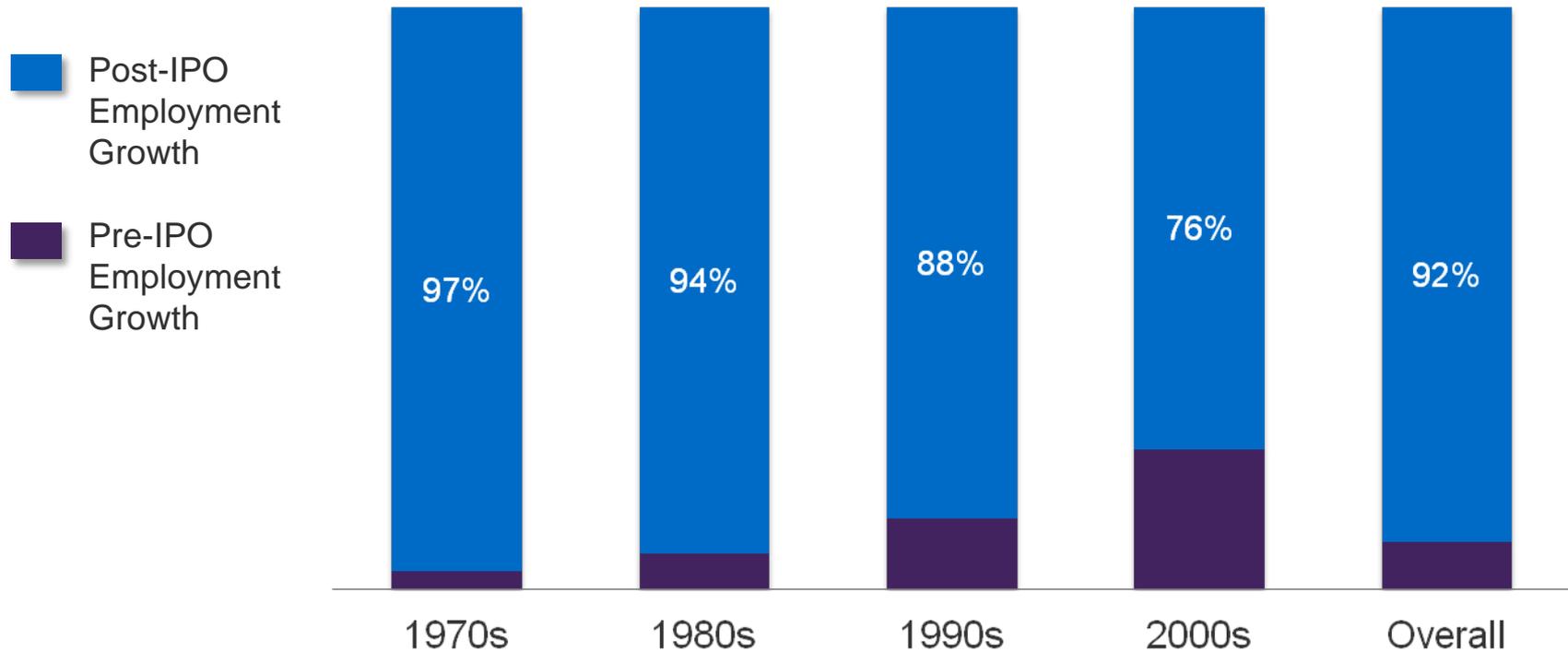


Outpaces 2008-2010 Total U.S. Sales Growth



Former Startups Now Generate 21% of U.S. GDP & Were Able To Grow Even Through The Recent Recession

IPOs Finance Significant Job Creation



92% of Job Growth in a Company Occurs Post-IPO
86% Post-IPO Job Growth Per August 2011 Survey of 2006+ IPOs

Elements of the IPO Problem

Challenges for Emerging Growth Company IPOs

Supply Down

- Increased Regulation Makes IPO More Costly
- Less Likely to “Invest” in IPO in Uncertain Market

Channel Evolution

- Regulations Favor High-Volume, Low-Cost Trades
- Shift In Economics From Investing to Trading

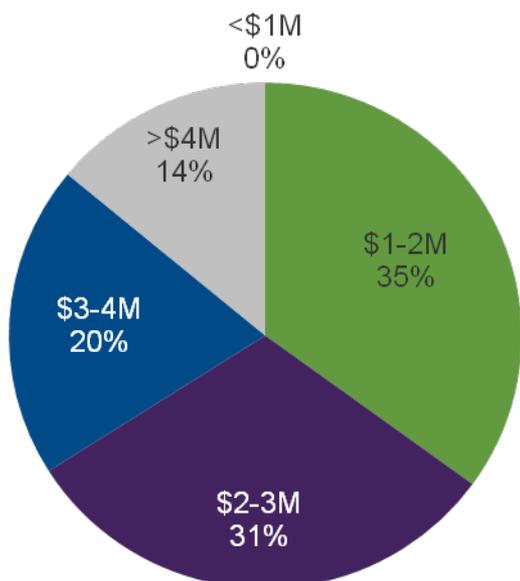
Weak Link To Demand

- IPO Shares Allocated to Traders vs. Investors
- Decrease in Information Available Pre- & Post-IPO

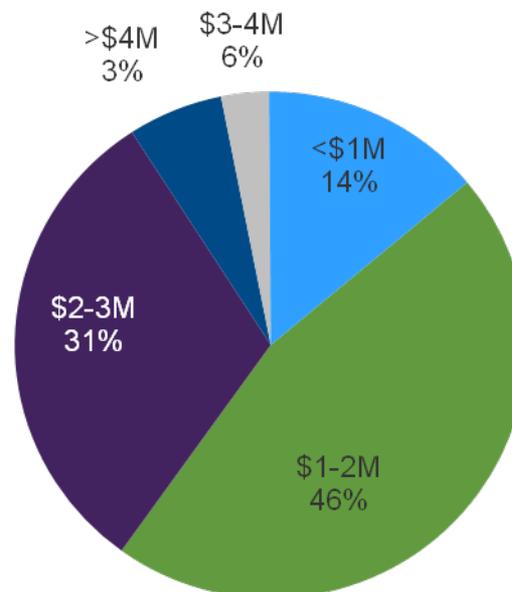
Supply: Post-IPO CEO Survey

Costs of Going and Staying Public Are High

Average Cost \$2.5M to Go Public



Annual Cost \$1.5M to Stay Public

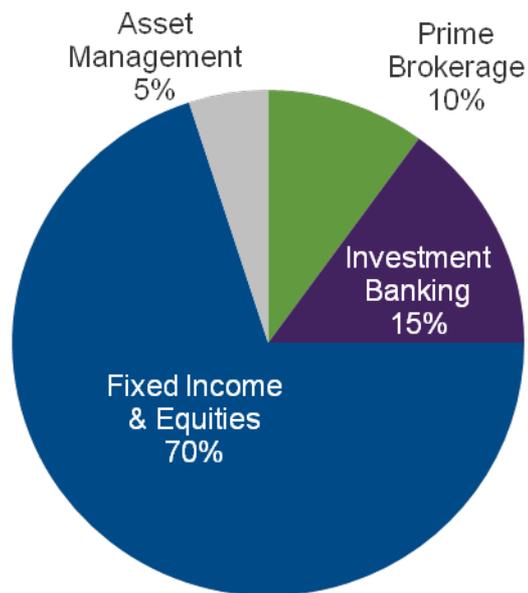


Costs Including SOX, Legal, Accounting

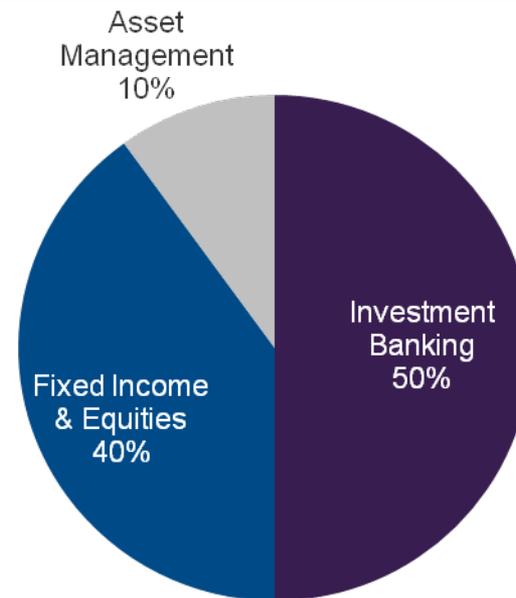
Source: IPO Task Force August 2011 CEO survey of incremental IPO costs from 35 CEOs of companies that went public since 2006; Consistent With Independent Review of Public Filings for 47 2011 IPO's Raising Less Than \$200M (Avg. Cost of \$3M for IPO)

Channel Focus: Trading Drives Revenue For Largest Investment Banks

Typical Large Bank



Typical Boutique Bank



- Large Bank Client Base Dominated by Traders vs. Investors
- High Frequency Trading Up From <25% to 75% of Volume Over Last 5 Years
- Research Focused on Large-Cap Stocks That Drive Revenue

Demand Exists: Emerging Company IPOs Deliver Returns To Investors

- **Myth:** Small-Cap IPOs Lag in Performance
- **Truth:** Small-Cap Performance Equal or Exceed Large-Cap IPOs

Post-IPO Market Cap		1 Day	1 Month	3 Months	6 Months	1 Year
\$200-\$500	Average	27.5%	34.8%	45.1%	43.9%	33.5%
\$1B or more	Average	35.9%	39.7%	37.7%	32.8%	28.5%

- Investor Interviews Showed:
 - Strong Performance & Demand for IPOs
 - Challenge to Get Allocation of Shares
 - Decline in Availability of Research for IPO Companies

IPO Task Force Draft Recommendations

Four Draft Recommendations to Stimulate IPOs

Increase Supply

- Provide Regulatory “On Ramp” For Emerging Growth Companies

Improve Channel

- Improve Availability of Information for Investors
- Educate Issuers on How to Work With Banks Effectively

Incent Demand

- One-Time IPO Tax Incentive to Buy & Hold IPO Shares

The Solution: Create Regulatory “On Ramp”

Increase Supply

Improve Channel

Incent Demand

→ Create a New Category of Issuer: Emerging Growth Company

- Measurement begins at IPO
- Ends with 10-K for the earliest year in which:
 - Annual Gross Revenue Exceeds \$1 Billion
 - Company Becomes Well-Known Seasoned Issuer
 - Fifth Anniversary of IPO Effective Date
- **Emerging Growth Companies Enter an “On Ramp” that provides scaled regulation (details next slide)**
 - Builds on Existing Scaled Disclosure Rules for Smaller Reporting Companies
- **Status is Temporary & Transitional**
 - Impacts 14% of Companies & 3% of Total Market Capitalization Today
- **Goal:** Reduced Costs For IPO Candidates While Maintaining Investor Protection

The Solution: Scaled Regulation During Regulatory “On Ramp”

Increase Supply

Improve Channel

Incent Demand

“On Ramp” Modifications to Current and Pending Rules:

- Two years of audited financial statements at IPO instead of three
 - Financial statements & selected financial data accumulate until full presentation at Year 3
- Scaled MD&A and executive comp disclosure
- Exemption from:
 - Auditor attestation of ICFR — SOX 404(b)
 - Say-on-pay, say-on-frequency and say-on-parachute votes
 - Conflict minerals disclosure requirements
 - Pay-for-performance disclosure requirements
 - CEO pay ratio requirements
- Modifications and Extended Adoption of New FASB Standards & PCAOB Rules
- **Scaled Regulation to Apply Only During “On Ramp” Transition**

The Solution: Improve Investor Communications

Increase Supply

Improve Channel

Incent Demand

Improve Availability and Flow of Information to Investors for IPO

- Modernize Securities Act Framework
- Many restrictions are vestiges of a paper-based world
- Release No. 33-8591 noted “substantial and unworkable restrictions”
- Opportune time to build on new approaches introduced in 2005
- **Goal:** permit IPO candidates to communicate with investors while maintaining investor protection

The Solution: Improved Investor Communications

Increase Supply

Improve Channel

Incent Demand

Improve Availability and Flow of Information to Investors

- Greater Role for Research During Capital Formation Process
 - Maintain principles & codes of conduct including separation of banking and research
 - Prominent disclosure regarding underwriter relationship
- Modifications to Banking Research
 - Expand existing research safe harbors
 - Permit broker-dealers to initiate coverage without being deemed to have “offered” IPO securities
 - Eliminate unnecessary quiet periods
 - Eliminate unnecessary restrictions on analyst communication
- Modifications to Company Disclosures
 - Permit confidential initial filings & review for U.S. issuers
 - Expand permissible pre-filing communications
 - Broaden “test the waters” provisions
 - Permit broader pre-filing investor communications

The Solution: Educate Issuers On Effective Use of Banking Channel to Build New Investor Base

Increase Supply

Improve Channel

Incent Demand

Educate Issuers About the New Capital Markets Environment

- Industry Participants, Not Policy Makers, Are Responsible For Education
- Help Emerging Growth Companies Become Better Consumers of Investment Banking Services
- Improved Education and Increased Involvement for Management and Board
 - Choice of Balanced Investment Banking Syndicate
 - Increase Issuer's Role in IPO Allocation Process
 - Improve Practice of Investor Communications
- **Goal:** To Reconnect Buyers and Sellers of Small Cap Stocks More Efficiently

The Solution: Demand Side Incentives

Increase Supply

Improve Channel

Incent Demand

Incent Buyers To Participate In IPOs

- Lower the Capital Gains Rate for Buyers of Newly Issued Stock if They Hold It for Two Years
- **Goal:** To Incentivize Investors to Participate in Emerging Growth IPOs

Appendix

Size Of Cohort That Qualifies For Regulatory “On Ramp”

“On Ramp” Impacts 15% of Companies and 3% of Total Market Capitalization

For companies that went public in the previous 5 years	6/30/2011	2010	2009	2008	2007
<u>Number of Companies</u>					
Less than \$1B revenue and IPO less than \$700mm	556	558	571	732	777
<i>as % of total public companies</i>	11%	11%	11%	15%	14%
<u>Total Market Capitalization at IPO</u>					
Less than \$1B revenue and IPO less than \$700mm	\$305	\$288	\$279	\$338	\$355
<i>as % of total market capitalization</i>	2%	2%	2%	3%	2%

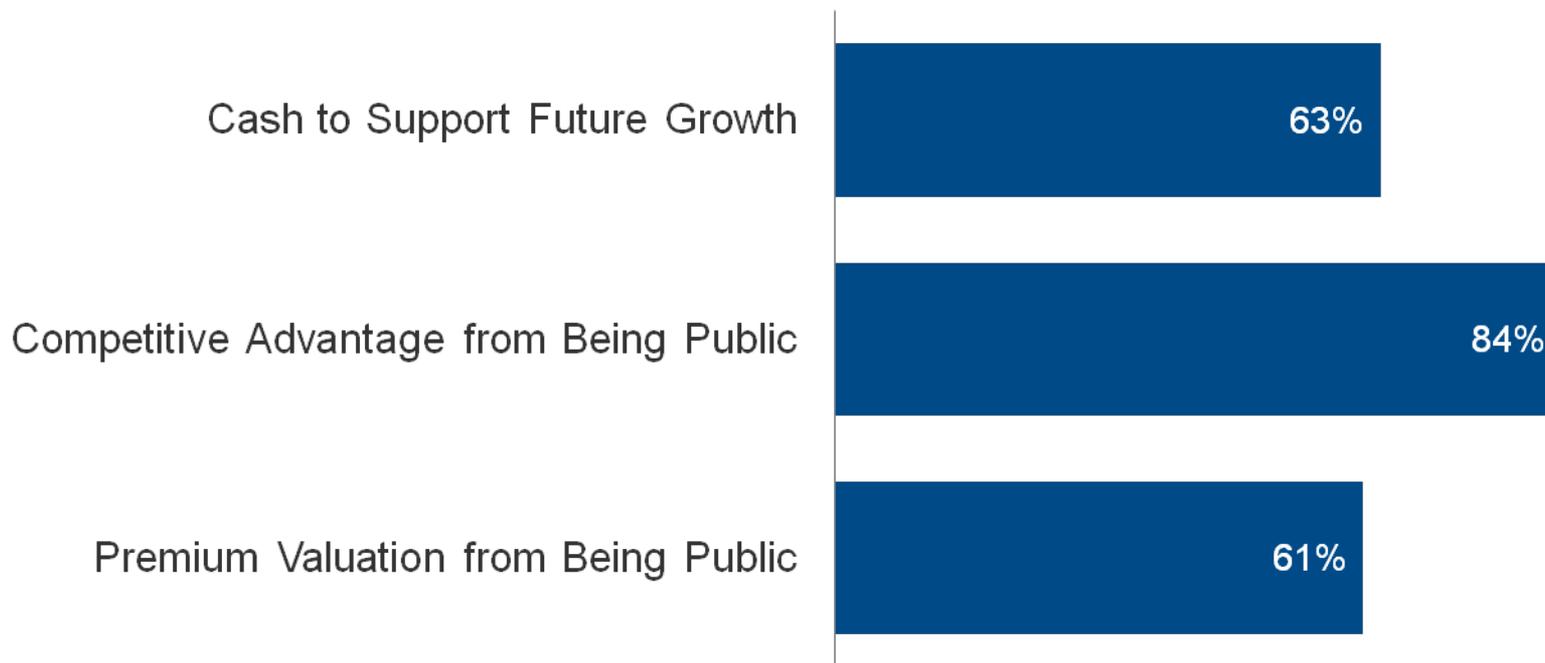
The Regulatory Cascade

1996 - Today	Accounting & Compliance From Policy Makers & Industry
1996	Advent of Electronic Trading
1999	Gramm-Leach-Bliley Overturns Separation Of Commercial & Investment Banking
2001	Decimalization Introduced For all Exchange Traded Shares
2002	Sarbanes-Oxley Act
2002 – Today	Additional Accounting & Compliance from Policy Makers & Industry
2003	Global Analyst Settlement Separates Research & Banking
2009 - Today	Dodd-Frank Act

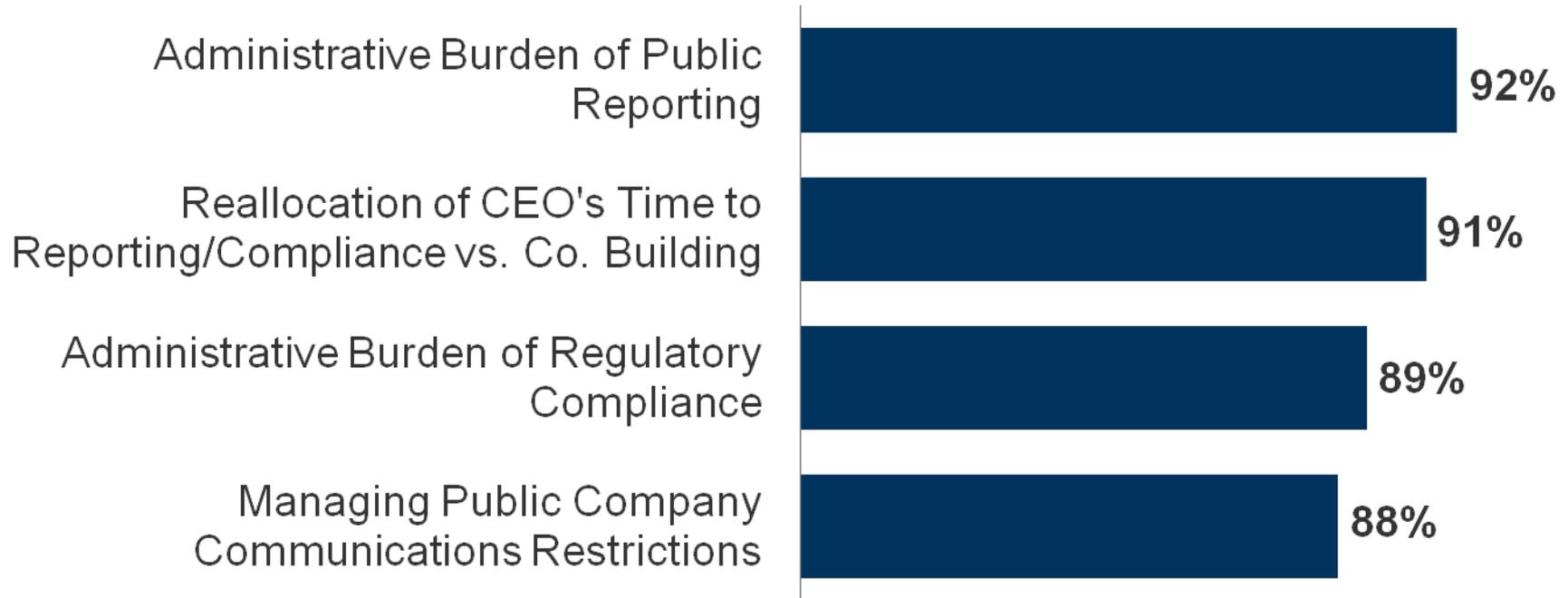
CEO Survey: IPOs Fuel Growth But Are Increasingly Difficult

Pre-IPO CEOs Target IPO To Finance Growth

Motivation for Pre-IPO Companies



Public Company CEO's Most Significant IPO Challenges



Managing IPO Costs and Compliance Was Challenging

Public Company CEOs: IPOs Are Important But Increasingly Difficult

	Agree	Neutral	Disagree
Strong & Accessible IPO Market Is Important to U.S. Economy & Global Competitiveness	100%	0%	0%
U.S. IPO Market Is Accessible for Small Companies	23%	11%	66%
It Is Not as Attractive an Option to Go Public Today as It Was in 1995	86%	3%	12%
Going Public Was a Relatively Painless Experience	17%	14%	69%
Going Public Has Been a Positive Event in My Company's History	83%	14%	3%

Value of IPO: 86% Growth In Employees

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