

MONEY & INVESTING

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Tech IPOs Find Launching Pad

New Offerings Tumble Onto Market, Ahead of Google; Investors Ignore Scant Revenue and Big Losses

By PUI-WING TAM

TECHNOLOGY IPOs haven't been waiting for Google.

A few months ago, many investors were hoping that Google Inc., the popular search engine, would reignite interest in initial public offerings. The thinking went that the tech IPO market, which had waned following the dot-com bust, needed a name-brand deal such as Google's to jolt it back from the dead. Google is expected to announce plans to push forward with an IPO this week, but the tech IPO market already has surged back to life without its help.

Eleven U.S. technology companies have gone public this year, up from none in the same period a year ago, according to Thomson Financial. And the rush is just beginning. Since

March 1, 22 tech concerns have filed to go public; that is more than in the preceding four months combined. The 13 tech companies that filed for an IPO in March were the most in one month since October 2000, when there were 23 filings. Among the companies now waiting to go public: online jeweler Blue Nile Inc.; antispyware software maker BrightStall Inc.; online software maker salesforce.com Inc.; and Linux firm Linow Inc. "Compared with a few years ago, there's clearly significant activity in tech IPOs right now, and that should stretch into a really active fall period for IPOs," says Tom Taulli, co-manager of the \$10 million Oceanus Value Fund, who closely tracks new offerings.

Driving the revival are tech companies seeking access to public capital, as well as cash-rich investors looking for new investments. IPOs provide a healthy stream of fees for investment banks. Furthermore, venture capitalists are looking to IPOs again as a way to recover long-held investments in private companies. "There's been a lot of inventory on the venture side [that needs to go public], so many of us have been waiting for the market to awaken," says Steve Domenick, a venture capitalist at Sevin Rosen Funds in Palo Alto, Calif.

With this backdrop, waiting for the Google IPO just didn't make sense, say some tech companies. Some feared Google, which is expected to be one of the hottest IPOs in a decade, would capture the attention—and cash—of investors. James Walker, chief financial officer of educational-device maker AlphaSmart Inc., which listed its stock publicly in March, said his Los Gatos, Calif., company purposely wanted to get into the market before Google did. "We're just a small-cap, and we didn't want to get lost in the shuffle," he says.

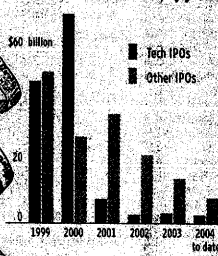
But investors beware: Many of the firms seeking IPOs have scant revenues and big losses, echoing the worst excesses of the tech-IPO boom. Linow, which adapts the free Linux operating system for personal computers, recorded \$2 million in revenue last year but posted a loss of \$4 million. Its auditors recently questioned its ability to continue as a going concern, absent additional investments. Wire

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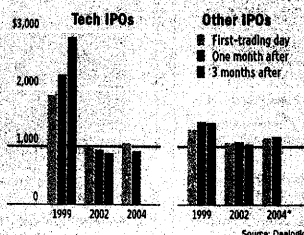
Feeling Lucky... Again

Speculation about an expected initial public offering of Google stock has investors hoping they will be able to party like it's 1999.

Value of IPO deals, by year



Value of \$1,000 invested in the average IPO in 1999, and after the tech bubble burst, in 2002, and so far this year.



Late-Stage Start-Ups Get More Money

By ANN GRIMES

LOOKING TO CAPITALIZE on a more-receptive investment climate, venture capitalists are pouring more dollars into later-stage start-up businesses that have weathered the technology downturn—aiming to position these companies for a public debut or sale.

New figures by the National Venture Capital Association show that venture investing for the first quarter remained steady, with \$4.6 billion being invested in 618 venture-backed companies. A rising proportion, 30% of all venture funding, went into the most-mature companies. That figure is up from 26% for all of 2003, which was the highest percentage of later-stage investing in at least 20 years.

After losing billions of dollars for investors since the technology bubble burst, the share of companies receiving funding at each stage of development during the past two years "has steadily drifted toward later-stage companies," according to the NVCA, which conducts the quarterly MoneyTree survey with Thomson Venture Economics and PricewaterhouseCoopers.

Late-stage companies—such as Google Inc.—typically have a proven product or service, several quarters of revenue and, often, are cash-flow positive.

Meanwhile, funding for the youngest start-up businesses remains essentially flat, "despite anecdotal buzz of a resurgence," the survey said.

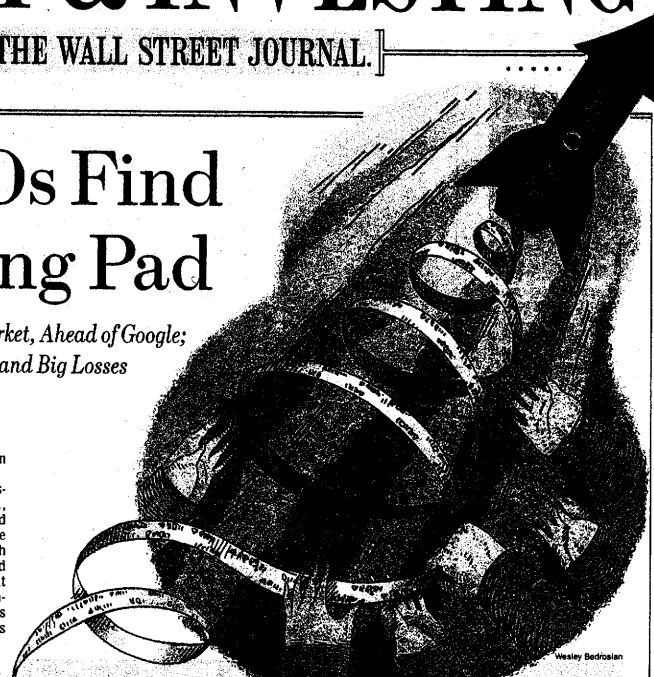
Historically, bets placed on those newest start-up companies pay venture capitalists and their investors the highest returns, but at the greatest risk.

The more-conservative, late-stage strategy is starting to pay off, at least in the short run, as venture firms deploy "larger amounts of capital in operating companies closer to exit events," said Jesse Reyes, a Thomson vice president.

Late-stage investors posted one-year returns of 25.4% for 2003, compared with a negative 7.1% for those who made early-stage investments, NVCA data show. Those positive results, most of which started to occur in the fourth quarter of 2003, helped the venture industry crawl into the black and post a return of 8.1% for 2003, the first positive return since the downturn began in the second quarter of 2000.

Despite the anticipation surrounding the coming initial public offering of Internet search-engine concern Google, venture capitalists

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Tech IPOs Pour Into Market, Ahead of Google

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less-software maker Seven Networks Inc., which filed to go public in late March, lost \$12.9 million in 2003, on revenue of \$6.9 million. And nanotechnology concern Nanosys Inc., which filed to go public last week, had revenue of \$3 million and a loss of \$9.2 million last year.

Officials at Lindows, Seven Networks and Nanosys declined to comment, citing the quiet period before their IPO.

HEARD ON THE STREET

These companies are still more solid than some of

the dot-coms that went public with little more than a business plan in the late 1990s, says David Liu, senior vice president of investment bank Broadview International, a division of Jefferies Group. But he says that companies in "hot" sectors—such as specialty semiconductors, online advertising and Chinese Internet companies—are trying to capitalize on investor interest to go public despite poor financials.

As a result, Mr. Liu believes many of the tech companies that are waiting to go public now won't succeed. "I'm just not sure how many of those will get done," he says.

Chad Keck, co-head of corporate finance at investment bank Needham &

Co., says he has told clients they need to be profitable and have quarterly revenue of \$20 million to go public. But as investor appetite for IPOs has increased this year, that is changing. "More people seem to be accepting the speculative and early stage IPO, which is troubling," he says.

A successful Google IPO could generate a lot of copycat deals from companies that aren't as profitable as Google, says Rich Peterson, chief market strategist at Thomson Financial. "Things like profitability and revenue become secondary in whatever is the hot industry," he says.

Indeed, some unprofitable tech concerns with few prospects for immediate revenue growth have recently managed to go public. In early February, for example, solar-technology firm DayStar Technologies Inc. listed its shares on the Nasdaq Stock Market, raising \$10.5 million. The Grass Valley, Calif., company, which has eight employees, was able to go public even though it had revenue of just \$72,000 in the nine months ended Sept. 30, 2003, and a loss of about \$810,000 during the same period. DayStar's main product, a thin film solar cell, won't be out until mid-2005.

Kelly McCarthy, DayStar's vice president of investor relations, says many investors had asked the company if it was

jumping the gun by going public. But Ms. McCarthy says its listing was "perfect timing," because it was offering investors the chance to "invest in an early stage technology company at the forefront of the renewable-energy industry."

DayStar shares began trading on the Nasdaq Small-Cap Market in late March at around \$2.40. In 4 p.m. trading yesterday on the Nasdaq Stock Market, DayStar shares fell 4.5% to \$3.40 each. The rising share price puts DayStar in the minority among recent IPOs. Six of the 10 tech firms that went public in the first quarter are now trading below their offering price, says Thomson Financial's Mr. Peterson.

Some of the newly listed companies are profitable, including AlphaSmart. In its first quarterly financial results as a public company earlier this month, AlphaSmart posted net income of \$63,000, with revenue of \$8.8 million, up from \$8.3 million in the same period a year ago. AlphaSmart sold shares in February at \$6. In 4 p.m. trading yesterday on the Nasdaq, AlphaSmart shares fell 2.8% to \$5.20.

Meanwhile, SIRF Technology Holdings Inc., a maker of location-based technology, reported first-quarter net income of \$4.1 million, on revenue of \$28.4 million. SIRF started trading Thursday at \$12. By the end of its first day of trading, its shares had jumped 28%.

