# Going public getting harder / As IPOs become costlier, some CEOs decide to sell

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James Currier, the founder and chief executive of Internet startup Tickle Inc., remembers the exact moment he decided not to take his company public.

It was 2:20 a.m. on April 16 when Currier -- just days away from commencing a financing round that would have been the last financial step before an initial public offering -- awoke suddenly in his home in San Francisco's Presidio Heights neighborhood.

Anxious about how much the IPO process was already distracting him from his duties as chief executive, and alarmed by the rising costs of being a public company, Currier had a change of heart.

He canceled the so-called mezzanine funding round and began eliciting takeover offers instead. Six weeks later, he sold the social networking site to the online employment company Monster.com in a deal that could be worth $100 million if Tickle hits certain performance goals.



Even though he gave up control of his company and passed up a possibly larger payout had he gone the IPO route, Currier said he has no regrets. "It felt like I was dropping into a maelstrom that would chew up the company," Currier said. "Being public wasn't worth that."

He's not the only one in Silicon Valley who thinks so.

A growing number of entrepreneurs, faced with spiraling accounting costs and stiffer corporate governance rules, are choosing to keep their startups private or sell them to a rival rather than take them public.

For young companies, the choice between going public and selling to a rival was once an easy one. That's because an IPO generates a much higher return -- as much as a third higher, according to some studies -- for the company's executives and early investors.

But in the wake of corporate reforms prompted by a series of accounting scandals, the decision is no longer clear-cut.

"The dial has shifted," said Robert Reynolds, head of West Coast investment banking for Adams, Harkness & Hill. "It used to be a slam dunk (that companies would choose an IPO), but things have changed."

They've changed mainly because the costs of being a public company have more than doubled in the last three years, according to securities attorneys, venture capitalists and startup CEOs.

In addition, the IPO process, as Internet-search company Google Inc. recently found out, can be time-consuming, distracting company management from running their businesses.

Instead of hanging out at their casual Mountain View headquarters, dreaming up ways to improve Google's technology, founders Larry Page and Sergey Brin found themselves dressed in suits when they visited New York and San Francisco to pitch their company to IPO investors.

In fact, the IPO process can consume more than a month for a company's chief executive and chief financial officer, according to Scott Harmon, chief executive of Motive Inc., an Austin maker of networking software.

"My CFO and I were out of the office for almost six weeks," said Harmon, whose company went public in June. "That's a huge time commitment" that takes away from other priorities.

Motive's board eventually decided that the distractions were worth it, but only after lengthy discussions among board members, said Harmon.

Such discussions have become more challenging in the last two years as the costs of being public have gone up to between $2 million and $3 million

The bulk of the increase is the higher expenses for auditing and other accounting services required by the Sarbanes-Oxley Act of 2002, which Congress passed after scandals at Enron, WorldCom and other bankrupt firms shook confidence in the public markets.

To make matters worse, the Enron scandal brought down accounting firm Arthur Andersen, which reduced the ranks of large auditing firms. Consolidation of large accounting firms has resulted in higher fees for such services.

"Accounting costs are up significantly," said Jon Feiber, a managing partner with the Menlo Park venture capital firm Mohr, Davidow Ventures.

Accounting expenses -- which include costs to hire accounting compliance workers and fees for outside accountants -- can run as high as $300,000 per year, according to Marc Morgenstern, a securities attorney in the Cleveland office of Kahn Kleinman, which represents public companies.

Liability insurance for corporate board members has increased as more and more company directors are named in shareholder lawsuits.

In some cases, premiums for such insurance -- paid for by the company - - have more than tripled to nearly $500,000 annually, according to Jim Breyer, a partner with the Palo Alto venture firm Accel Partners, who sits on the board of Wal-Mart Corp. and several tech startups.

While a large company, such as Google Inc., can easily absorb a few million in extra costs, smaller firms can't.

"If you make $3 million in pre-tax net income, there goes your profit for the year," said Morgenstern.

"The key question is, 'Is going public in the best long-term interest of the company?' " said Steve Domenik, a partner with the Palo Alto venture firm Sevin Rosen Funds. "Yes, you get more cash. You have currency for acquisitions, and higher visibility with customers and partners. But an IPO is distracting and expensive."

In addition, the New York Stock Exchange and the National Association of Securities Dealers, which runs the Nasdaq market, now require listed companies to have a larger number of outside directors.

Since venture capitalists who sit on company boards often leave the board after an IPO, the CEO of a newly public company may have to replace half the company's board.

"I'm all for better corporate governance," said Tickle's Currier. "But it takes a lot of time to find qualified board members."

A small minority in Silicon Valley say the criticism and hand-wringing over the new corporate governance rules are exaggerated.

"People in many cases are overreacting," said Breyer, whose firm has taken more than 50 companies public. "The new rules have raised the bar for which companies can go public, which is a good thing."

Yet for some entrepreneurs who choose to sell out rather than go public, hindsight tells them that they made the right move.

Finding the right buyer can result in an acquisition that yields as much money as a potential IPO, without the hassle. That was the case for James Joaquin, the founder and former chief executive of Ofoto, who sold his company to Kodak in May 2001.

"Because we were such a strategic fit, we felt we could get as much value from Kodak as from an IPO," said Joaquin.

Joaquin, who sold another of his startups, When.com, to America Online in March 1999, said he decided to sell Ofoto despite an avalanche of advice from investment bankers who offered to take the company public.

"We were fighting the bankers off with a stick," Joaquin said. "But I've never looked back."