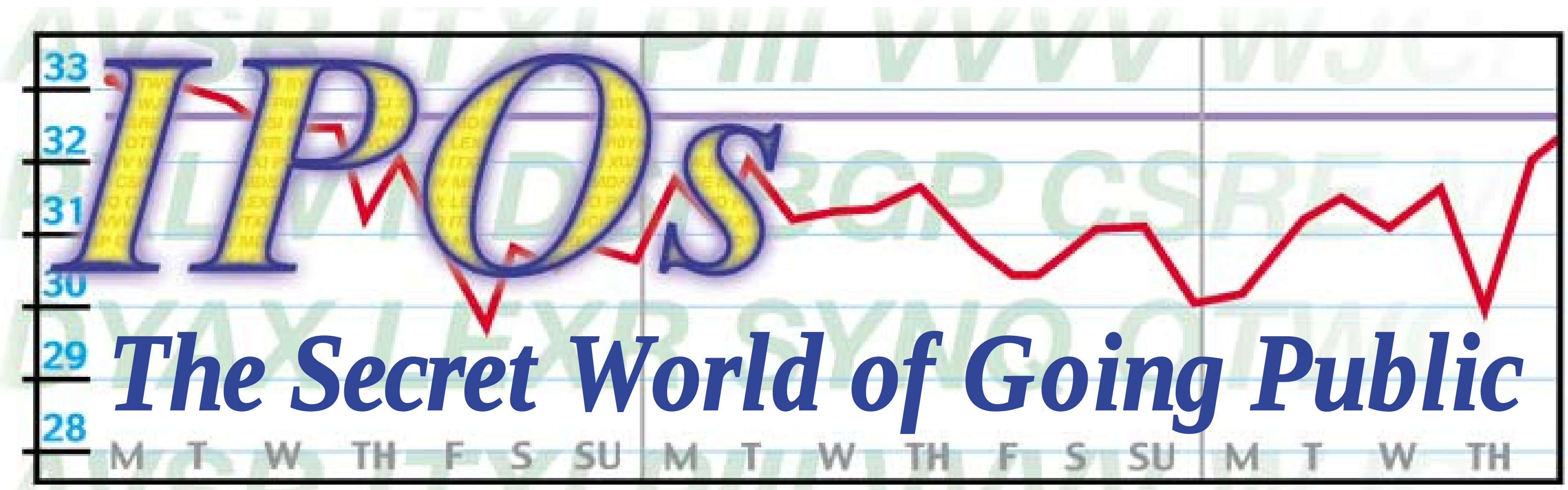

IPOs: The Secret World of Going Public

Ann Arbor companies are catching IPO fever. But the pot of stockholder gold is as volatile as it is huge, and no one guarantees a happy ending.

by Debbie Eisenberg Merion

"It went!" says Mary Campbell, her gold-braceleted hand plunking down a shiny white booklet describing a stock offering for her venture capital company's current darling—a computer chip company called Pixelworks—onto the oak conference table in the company's Main Street office. "We're so excited!" she glows.

Okay, it went. But where did it go?

Pixelworks went to that beautiful land called "public," with iridescent dollar signs twinkling in the sky and a pot of gold waiting right near the end of the rainbow. That's public as in "IPO," short for "initial public offering"—the magic moment when companies first offer their stock for sale on a public market. In general, it's a time when a firm's first backers hope to hit it big, and Campbell is no exception: her venture capital company, EDF Ventures, and its investors are hoping to get a fistful of the proverbial gold doubloons from Pixelworks' IPO. And why shouldn't they? After all, they nurtured the company with a million dollars in funding to keep it afloat while Pixelworks (PXLW on the Nasdaq Stock Market) was just a child of a company learning the art and science of making big money.

With her rimless glasses and brushed-back blond hair, Campbell is a Gloria Steinem lookalike. She is a partner in EDF Ventures, the oldest and one of the largest venture capital companies in Ann Arbor, with $120 million currently raised to invest in early-stage companies. It accepts business plans from companies all over the country but favors proposals from local firms. (Although Pixelworks is an Oregon company, there still was a local connection—its founder once rented space in EDF's office here.)

Campbell exudes a maternal, intelligent, elegant charm. On May 17, though, the day before the Pixelworks IPO, her coolness vanished, to be replaced by excruciating excitement. "I was checking my E-mail every sixty seconds," she recalls. The karma of a world even greater than the almighty Nasdaq seemed to be working against her. Thunderstorms were spearing the country, nearly preventing Pixelworks' CEO from flying to New York for an essential meeting, and the "I love you" virus had racked the computers in Campbell's office.

COURTESY EDF

Why is this venture capitalist smiling? Mary Campbell's firm, EDF Ventures, stands to collect $40 for every $1 it put into Pixelworks.

Campbell was on the road in Chicago when she finally got a phone call telling her that the CEO and the underwriters had met and agreed on the details: Pixelworks would issue 5,750,000 shares of stock, some of which would be offered for sale at the opening bell the next morning at $10 a share. Overnight, the company was worth $57.5 million. As Campbell heard the golden E-mail read to her over her cell phone, the tension finally broke: "I did shriek in the cab line at midnight."

EDF agreed to hold off from distributing any stock to its investors until October 16, exactly six months after the IPO. So far, however, things look good. If the stock price stays steady, Campbell will be paying off her investors this fall at forty times their original investment. "You'd do that, wouldn't you?" asks Campbell. "Give me a dollar so I could give you forty back?"

Campbell and her partners might end up getting rich off of Pixelworks, too. They're hoping that the Pixelworks IPO will, in one fell swoop, pay off all of the investors in one of their two funds. Like a mother who won't eat until her children are full, EDF partners are required to refrain from dipping into the bucket of gold proceeds until all the investors have received their original investment back. Then the EDF partners can get their piece of the pie—which is another reason Campbell is so excited.

A year ago, everyone wanted to get on the IPO railroad and ride it into the land of Oz. Internet stocks, also known as dot-coms, were a wonderfully fun risk. Investors loved IPOs, because some dot-coms had shot up in value, yielding huge profits for early investors. Venture capitalists loved IPOs, because an IPO meant they could pay off their investors and start making their own money. CEOs loved IPOs, because they had the chance to become wealthy overnight. Employees with stock options loved IPOs, because they could end up with a check large enough to go out and pay cash for a new car or boat. In short, having an IPO meant a pretty sure way to get rich.

Then came March 2000. That's when most tech stocks went south faster than a Michigander with snow phobia. In polite terms, it was called "the correction." Even Bill Gates was in danger of no longer being the richest man on earth, as the paper value of his Microsoft shares dove to a paltry $51.75 billion.

As stock prices nose-dived, so did interest in IPOs. By May 2000 the number of IPOs across the country had dropped to under thirty per month, compared to sixty in February. The number of companies withdrawing planned IPOs leaped from five to thirty.

The next question was whether venture capital companies would pull back on the reins, knowing that a return on their investments might be farther off. For Campbell, the answer was no: "We're still funding the same amount," says Campbell, "but now we think more about how much cash is required for a company to be self sustaining, since when they'll be able to go public is hard to predict."

Recently, the IPO market has started to rebound. Though last year's frenzy has faded, visions of IPO cash are again dancing in the heads of local CEOs, and em-

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ployees continue to clutch their stock option certificates close, like security blankets against a cold business world. IPOs in the making are on the books of local venture capital companies like Campbell's, in the dreams of U-M M.B.A.s, and high on the discussion list for the IT Zone, a community effort to develop high-tech business in Ann Arbor.

The catch is that an IPO is a one-hit high. It's winning the lottery, getting a gold medal in the Olympics, and a company's fifteen seconds of fame all rolled into one. After the exciting opening day on the stock market, it's suddenly back to the mundane business of making money. Only this time the company is walking the stock price tightrope in a packed circus tent, as the world watches on yahoo.com.

Centromine: Riding the roller coaster

At Centromine I got to see the effects of the IPO roller coaster firsthand. The first time I visited the company, headquartered in a low-rent metal building off State Street behind Chi-Chi's, the atmosphere was casual and upbeat. There was no receptionist on hand in the tiny entrance hallway, but a cute, fat tan dog with short legs waddled over to where I was sitting, put her paw on my leg, looked soulfully up at me, and sniffed in my briefcase. Minutes later her owner strolled by to greet me too—Ted Dacko, CEO of the company, whose ash-blond hair was a little lighter than his dog Gracie's. By Dacko's side was Donna Gent, the company's vice-president for corporate strategy and marketing. A brunette in her early thirties, Gent was accompanied by her fluffy black dog, Spoofie.

Centromine itself wasn't dogging it. Taking off like a sports car with Internet fuel in its tank, it had gone from no employees in September 1998 to 120 by the time I met Dacko and Gent in late May of this year. Customers from the mental health community use Centromine software over the web to make appointments, keep notes on patients, and receive payment for services.

The company currently had forty customers, Dacko told me, but its prospects were unlimited. "Our market potential is sixty thousand organizations. No one has the market share. No one needs a market share. The market is one hundred percent untapped at this time."

Mary Campbell knows Centromine well. EDF and partners have invested more than $10 million in the company in the past year, and Campbell sits on Centromine's board of directors. Last November the board looked at the then hot IPO market and turned up the heat on Centromine.

Saying that Centromine's business plan wasn't aggressive enough, the board asked the company to go for an IPO sooner than it had planned. In May Ted Dacko explained the change by drawing a picture on his white board. "I was trying to manage a company this big"—he drew a circle the size of a baseball—"but my investors wanted to go after a company this big"—he drew another circle the size of a trash-can lid.

Donna Gent said the board's challenge to rev up for the IPO was fun, in a masochistic way: "We have people here at six a.m., people who stay till ten p.m. I don't know any employees who are working a standard forty-hour week. . . . We have a lot of people who started here with a full head of black hair and now they're gray—or bald."

At the time the board increased the pressure, Centromine had tentatively planned for an IPO this fall. But when "the correction" hit, investors suddenly wanted to pay less for the same slice of the company. Management slammed on the brakes. "We haven't killed any programs, but I will say we've slowed down hiring," Dacko told me in May. Meanwhile he was looking for more venture capital to tide them over.

That's how I got to be sitting in a conference room with Dacko and Gent, keeping my mouth shut while they gave their company spiel over a speakerphone to a possible venture capital investor in Ohio. At times the alphabet soup got thick. "We're your classic B2B ASP," explained Ted. (Translation: "B2B," or "business to business," means the company's customers are businesses, and an "ASP" is an "application service provider," which means that instead of buying Centromine's software, customers pay to use it over the Internet.)

"The financing we're doing now will keep us positive in cash forever," Dacko assured me. "I don't think it's required that we have an IPO to be a major factor in the marketplace."

He may well be right. Monica Oss, a behavioral health industry consultant based in Gettysburg, Pennsylvania, thinks that Centromine has an advantage in its industry, because it is the only company currently offering the ASP model. But if and when Centromine finally has its IPO, Ted Dacko won't be there to celebrate. In June, Jody Glancy, Centromine's corporate communications manager, called to tell me, "Ted is no longer with the company. He left to pursue career objectives." What did that actually mean? Glancy wasn't telling. Neither would Mary Campbell. She suggested, "Ask Ted."

But no one at Centromine could tell me where Dacko had gone. In fact, the receptionist wouldn't even say for a fact that he was no longer with the company, just that he was "not available." She offered to let me talk with Pam O'Hara in human resources. O'Hara, though, was also never available. Thinking perhaps that O'Hara was avoiding me, I had a colleague call to talk with her. The receptionist said she "won't take calls from anyone she doesn't know." I thought maybe Jody Glancy would tell me what was happening, so I asked for her. Finally, I got a definitive response from the receptionist: "Jody Glancy is no longer with the company."

Glancy gave me one piece to the puzzle when I talked with her at home: in early July, two weeks after Dacko left the company, 20 percent of the staff had been laid off.

She was among the casualties. Another piece to the puzzle came from Tom Roth, who in March had been promoted to sales director at Centromine. Just three months later a trade publication described Roth's "abrupt" departure and said that "chief executive Ted Dacko declined to discuss [it]."

Roth filled in the common link between his departure, Dacko's departure, and the layoffs: cash wasn't coming into the company quickly enough. "Centromine has a great idea and has a superior product. I really thought when I first started there that the sales cycle—the time from when you get a prospect till when you close the sale—would be what I was used to: nine months to a year. But Ted had promised the board there would be a sales cycle of sixty to ninety days." Why the discrepancy? "When Ted came on board last summer we were a customization shop [selling software modified to a customer's individual preferences]. When you are a customization shop you can sell anything to anybody. But then Centromine switched to selling a standardized product. When we moved to that scenario, it was harder to sell. The customer base was not increasing quickly enough." Because the cash wasn't flowing in quickly enough from customers, the cash from the IPO was very important, says Roth. "It was a big, big scenario."

The numbers seem to back up Roth's story. In October 1999 the *Detroit News* quoted Dacko as saying the company had forty-three employees and thirty-one customers. This May, Ted told the prospective venture capital investor during my visit that the company had 120 employees and "just under forty customers." Young companies often talk about their "burn rate"—the rate at which the company is burning through its venture company cash. Adding employees faster than you add sales can increase the burn rate alarmingly. According to U-M business school prof Theresa Welbourne, before the March downturn, "the IPOs were bringing in so much money that VCs weren't concerned about the burn rate—but now they are."

According to Roth, "Ted decided mid-June he thought his job was on the line—which it was—so he fired me. Ted was asked to resign at the end of June because he wasn't getting the performance from the entire organization. I don't want to Ted-bash, because I do like the man, but he didn't give us the leadership. The goals were constantly moving because of the pressure he felt from the board."

Michael Mahoney, Centromine's chief financial officer, is running the company while a search firms looks for a new CEO. Ted Dacko, meanwhile, has landed on his feet at another company. He started working in early August as the vice-president for sales and marketing at Health Media, another local start-up selling a health-related software product.

Dacko denies that he was asked to resign from Centromine. "Health Media started recruiting me in early May," he emphasizes. "Centromine is a great company, they have a wonderful business model ahead of them, and I have no ill feelings toward the company, the board, or anyone. I think it will be a huge success story for the health industry and a shining star in Ann Arbor."

Mary Campbell prefers not to comment on the personnel issues at Centromine, but she doesn't dispute Roth's general view of the company's cash-flow issues. "Centromine perceived that it had the opportunity to be the first publicly held company in its area and this was the year to claim it. It staffed up aggressively and got staffed to get things done as quickly as possible rather than as efficiently as possible, but as March came and the stock market fell, it became clear to the board that we needed to move to Plan B: conservation of resources and working to establish the rate at which the sales could be expected, so we can say with high credibility that we know what the sales cycle is and what expected income will be."

If the market hadn't changed and Centromine had been able to have the IPO this fall as planned, could the company have kept on its rapid growth track? "Yes, we definitely could have held on till then," says Campbell. Now, Centromine is looking casually at spring 2001 as a possible IPO date, with the hope that market valuations will be up again by that time.

Avalon: Growing the venture-capital tree

With IPO funding less accessible, venture capital cash becomes more important. For local firms, the good news is that there is plenty of hometown cash just waiting to be picked off the Ann Arbor tree. One venture capitalist estimates that half a dozen firms have a total of $430 million to invest. Approximately half of that cash is available right now to be invested in the right project, and approximately half of that will be invested in local companies.

This is a big change for Ann Arbor. Two and a half years ago, half of these funds didn't even exist. Ann Arbor entrepreneurs would bootstrap—borrow from friends and relatives to start a company, according to PR exec Larry Eiler. Without the rocket fuel that venture capital cash brings, the benefit of VC business advice, and, most important, the push to go public, most companies grew relatively slowly.

The upside of this history is that Ann Arbor doesn't have a lot of overhyped long shots and its business community has learned how to build a business from a small amount of funds. The bad news is this culture puts the city at a disadvantage when it competes against the fast pace of high-tech start-ups in Silicon Valley. Do Ann Arbor high-tech companies have what it takes to make it in the national market?

Experience up to now is spotty. To judge strictly by IPOs, Ann Arbor had some big national companies that hit it big for a while—MDSI, Borders, Comshare, Mechanical Dynamics. Michigan as a whole, though, lags far behind other parts of the country in its rate of IPOs. Last year Michigan companies accounted for only four of the 538 IPOs in the nation, against Massachusetts's forty and California's 172.

Until recently Ann Arbor has been slow but steady, with approximately one local business having an IPO each year. But with this year's offerings by Genomic Solutions and Esperion Therapeutics following Pelican Financial's last November, Ann Arbor businesses have accounted for three of the five IPOs in Michigan in the last twelve months.

Ted Dacko, who has worked in Silicon Valley, is optimistic about our chances of competing nationally. "We have everything but the swagger," Dacko says. He's not the only one rooting for our business community. Rick Snyder is committed to bringing to Ann Arbor the "everything" that Dacko talks about—the support systems that local companies need to make it big—plus the "swagger"—a positive, take-no-prisoners attitude.

The former CEO of Gateway Computers, Snyder has $100 million in his Ann Arbor venture capital company, Avalon Investments. Snyder is rich from selling his Gateway stock (in February alone those sales netted him $9 million), but more important, he's so happy you can feel it. At forty, his dark hair and beard are liberally streaked with gray, but he chuckles in the middle of his own sentences with the care-

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Former Gateway CEO Rick Snyder is determined to make Michigan a technology powerhouse. His Avalon Investments has over $100 million in venture capital.

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free anticipation of a high school kid about to go hang out with his friends on a Friday night.

Snyder is a Michigan native and a U-M grad. He returned to Ann Arbor two years ago to attempt to develop his home state into one of the country's leading technology centers. "It hasn't evolved quicker because we didn't have a very strong entrepreneurial community of businesspeople," he says. "We didn't have a very large venture capital community, and our culture was geared to a large institutional orientation"—particularly the auto companies.

Long term, Snyder believes, "we have all the resources we need. Shorter term, [the question is] can we help find or bring back people who can be mentors for CEO types, business entrepreneurial types? I think another half dozen to a dozen of these type of people would be fabulous. The point is if you get those people to come, and they grow a group of people working for them, in five years you might see a half dozen companies come out of that alumni club."

He thinks we're on our way. "Why do you think all the venture capital companies are clustering in Ann Arbor? No one told us to come here! We think it's the right place to be. When I first said that I wanted to make Michigan a center, I viewed it as a two-to-five-year process. We're on the path. We just need to keep plugging."

Avalon is hawking its wares—money—in the IT Zone's Liberty Street meeting space one spring afternoon. Launched last year as a collaborative organization that brings together community and business leaders, the U-M, the Washtenaw Development Council, the city, and the Ann Arbor Area Chamber of Commerce, the IT Zone is dedicated to promoting the city as an information technology center. Today about 100 budding entrepreneurs are looking at Snyder's overhead projections (and, through the picture windows, at the homeless people hanging out in Liberty Square) while they learn how they can become the next Rick Snyder. It's not a very diverse group. As Snyder himself acknowledges, Avalon's clients are "mostly middle-aged white guys, which is kind of sad."

Snyder thinks that men dominate the entrepreneurial scene because of its high-tech nature, but he points to exceptions: Helene Abrams, CEO of Crystallize, and Cybernet chair Heidi Jacobus. He missed U-M business prof Theresa Welbourne, whose company, eePulse, right now might be Ann Arbor's best-kept business secret.

eePulse: From theory to practice

Welbourne didn't attend Snyder's presentation because she's looking elsewhere for her cash. A fast-talking woman with blond hair, she bubbles with enthusiasm. Her company advises CEOs about how well their employees are motivated, particularly before and after an IPO. "This business is really energizing," Welbourne says. "Normally when you're in academics you write articles no one reads, but I love helping clients."

Her company is well set for now, with its own funding "angel"—a man who set up the company with private funds because he was convinced it provides an essential service to business management. There is no pressure for an IPO—yet. For her next cash injection, Welbourne has short-listed three venture capitalists, one based in New York and California, one in Birmingham, Michigan, and one in Europe. "Everyone and their brother wants to be a venture capitalist today," she jokes. "The challenge for us is to find someone we really like and who shares our vision for the company—it's like getting married."

When IPO fever was at its peak, Welbourne says, she felt "incredible pressure to move my business to California" from potential investors. But "in the last few months with the market changing, VCs are now saying maybe it's okay [that] you're not losing money and that you're in Michigan."

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U-M business prof Theresa Welbourne studied IPOs for years before founding eePulse. She moved here because "Ann Arbor is a great place to have a business."

Like Snyder, Welbourne is relatively new to Ann Arbor, having made a conscious decision to move her business here from Cornell University because "Ann Arbor is a great place to have a business." One thing she likes is that we're not as frantic in our rush to IPO riches as California is. "We want to hire people who want to grow a real business, not just cash out," she says. "We've made a commitment to be a grown-up company—we're not working eighty or ninety hours a week and sleeping on the floor. We have kids. We have lives."

Though Welbourne declines to emulate those frantic start-ups, she, too, would like eventually to take her company public. An IPO would provide the cash to fund her "dream business plan" and allow eePulse to reach beyond corporate clients. "We have a lot of ways to expand," she points out. "We want to be able to take the pulse of high school students."

After fifteen years of researching how IPOs affect start-ups, Welbourne knows better than most that just getting a firm publicly traded doesn't guarantee that everyone will live happily ever after. "There are risks in being in the public eye—how your management process changes. Now you can't change anything with employees unless it's public. Also, the market is fickle—what goes up comes down—but I've never seen anyone who was emotionally prepared for the stock price to go down."

Getting eePulse to that hurdle—and over it—is the challenge for Welbourne. "Now I have to practice what I preach."

Aastrom: The other side of the rainbow

The challenge has been all too real to Doug Armstrong, CEO of Aastrom Biosciences. He's looking spiffy in a gleaming white shirt and a tie when he sticks out his hand to greet me, towering over the beige cubicles in his Domino's Farms office at six feet five. Aastrom went public in 1997, the only Ann Arbor company to make an IPO that year.

According to yahoo.com, Armstrong owns 473,173 shares of his company, and Armstrong reports that all of Aastrom's thirty-five employees have options to acquire at least 1,000 shares. So when the stock went public at $7 a share, valuing the company at $98 million, there were some employees who could exercise their options and end up with enough cash for a brand-new car. At Aastrom, though, stock options are more than a luxury: they serve as the employees' retirement plan.

Aastrom's main product, called the "Replicell System," is a high-tech medical toolbox. Hospitals purchase a base unit the size of a small refrigerator, plus one therapeutic kit per patient treated. Each kit allows a physician to write a prescription for a complicated cell reproduction procedure that previously could be performed only in a laboratory. Aastrom is developing therapy kits that customize these "stem cells" to treat a variety of diseases and conditions, including cancer, leukemia, and osteoporosis.

If Aastrom's kits become widely used, the company's revenue could be enormous. But because they are medical de-

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When Aastrom's stock declined, Doug Armstrong says, staff morale fell, too.

vices, each therapy kit must go through expensive and time-consuming FDA approval before it can be sold. Depending on how optimistic investors are feeling about Aastrom's prospects—and about biotechnology in general—the company's stock price has oscillated wildly.

At the end of last year Aastrom's stock dropped to less than $1 a share. It worked its way back up to $8 a share in March and then took a big dive from which it has still not recovered. But Aastrom is not isolated in its doldrums. Armstrong shows me a graph with three squiggly lines representing Nasdaq, the biotech industry, and Aastrom. All three squiggly lines are following exactly the same meandering path, as though Aastrom is held captive by some invisible market magnet.

"As you can see, basically our stock price is completely driven by outside influences," he explains. For a CEO, that's roughly equivalent to trying to drive a car with a "Club" security bar locked on the steering wheel. Armstrong is struggling not only to unlock the Club but also to figure out which way to turn the wheel once he does. "We've learned that things we think will affect the stock price don't, and things we don't think will affect it do." For instance, Aastrom's stock stayed flat after the company reached an important business milestone, yet jumped when investors belatedly noticed some old clinical trial results.

Aastrom's declining market value is actually typical. "In 1996 a thousand companies went public, but sixty percent had negative or zero stock-price growth," says Theresa Welbourne. "Very few do show huge stock-price growth."

But normal or not, a slumping stock price hurts morale. According to Armstrong, "I started noticing a year and a half ago that instead of employees' being high spirited and ready to go to work on Monday, it was almost the worst day of the week for them, because they spent the whole weekend getting barraged by questions from family and friends about 'Jeez, what's happening with your company stock price? I bought shares because you work there, and now they're not doing well.' Everyone's looking at the stock price all the time—how's it doing, how's it doing? And it should really have little bearing on what you ought to be doing each day."

To counteract the problem, Armstrong tries to keep everyone focused via meetings on how well the company is doing in meeting real business goals, such as raising another piece of capital, closing a strategic deal with another company, or completing a phase in an FDA trial of a product.

If Armstrong had the keys to a time machine, would he still go public? For him the answer is yes. In fact, he says, "I would have pushed for an IPO at an earlier stage." Aastrom went public, he explains, at "a time when our industry sector was falling, so it was a battle to get the offering done. We had originally planned to raise thirty-five million dollars and then cut back to twenty-one million, so we were one of the last ones [in the sector to go public]. But the important thing was that we got it done."

The extra cash sure would have helped last December. To slow Aastrom's burn rate of $10 million a year, Armstrong halved the staff, from sixty to thirty. For a while he was also looking for a cash-rich company to merge with. But that pressure subsided, says Armstrong, when "the world changed and capital became available."

After years of indifference, investors were suddenly once again eager to invest in biotech. In early March Aastrom closed on a deal that could mean an influx of $6 million to the company, with a potential for an extra $4 million if warrants are exercised in a year. More recently, the company landed another $6 million in financing.

"Current market conditions are very good to allow us to raise the capital that we need," Armstrong explains. "There have been important transitions in the field of biotech. Prospects have broadened for our product, and access to capital has improved, because the investment market in general became more interested in our area."

Aastrom is now selling prototypes of its Replicell System in Europe, generating revenue of approximately $6,000 for each patient treated. But the company still has to set up an infrastructure to market and manufacture it in large quantities, and the staff cutbacks have delayed its U.S. launch, which can occur only after completion of the ongoing clinical trials and rigorous FDA approval process. After losing a year and a half "because we ran out of cash," Armstrong estimates that FDA approval may still be three years away.

Will Aastrom make it in a national market? That depends both on the company's technical success and on its ability to stay afloat financially until winning FDA approval. So far, the indications look good. The company now has enough funding lined up, Armstrong says, to begin full-scale production for the European market, launch U.S. clinical trials, and expand into new treatment areas.

Aastrom has already outlasted its initial competitors. Several companies that went public before Aastrom either are no longer in business or are no longer focusing on stem-cell expansion, according to Samuel Silver, an associate professor in the U-M's internal medicine department. "Aastrom is the only company that has gotten approval in the European market to sell their product," he notes. "No one has even gotten close to doing anything like that."

BlueGill: Another way to get rich

On a May evening, huge white party tents fluttered on the front lawn of BlueGill Technologies on the south side of Ann Arbor. Jazz and rock music blared as 150 BlueGill employees and friends mingled to eat sushi and celebrate the news that BlueGill had been hooked. Their firm had just been acquired by a larger company, CheckFree, which was paying for the acquisition with five million shares of its own stock—stock valued at a hugely impressive $250 million.

Like an IPO, getting acquired is a "liquidity event." BlueGill was able to pay off all of its investors with shares of CheckFree stock that they could quickly sell on the open market. While employees in an acquired company ordinarily might worry that they would be forced to move or, even worse, be laid off, CheckFree gave assurances that this wouldn't happen, says BlueGill cofounder Vinay Gupta.

True to its word, the firm is now hiring two new employees in Ann Arbor every day. Outside the window of Hal Davis, the other cofounder, a hard-hat construction crew is busily putting up the shell of a new building to hold an additional 150 employees at what is now known as "CheckFree i-Solutions."

BlueGill's acquisition by CheckFree is a modern-day version of the king of England marrying the queen of Spain. The combined company is stronger because the BlueGill and CheckFree products are complementary: BlueGill software allows businesses to bill their customers electronically, and CheckFree's allows customers to pay their bills electronically. "They've pretty much tied up the market," says Ken Kerr, an analyst with the Gartner Group in Boston. "There are other players, but the BlueGill acquisition strengthened CheckFree's dominance."

For former BlueGill CEO Hal Davis, the only problem with the acquisition is that it almost didn't happen. He says that CheckFree's and BlueGill's "dozen three-hundred-dollar-an-hour attorneys" couldn't get a "fifty-thousand-dollar government functionary" at the Securities and Exchange Commission to expedite a required antitrust review. The SEC finally gave its blessing to the deal just three nail-chewing days before the acquisition agreement was scheduled to expire.

Handsome and fit looking, dressed in new jeans and a black shirt, the gray-haired entrepreneur has come a long way from his U-M student days, when he peddled fruit from his "Afghanistan Banana-stand" at the corner of State and North University. Later, Davis worked as a professional musician. "I'm not good with numbers," he says. "I'm the idea guy. Too many companies think too small by building the business around a product. It's got to get even bigger than that—you have to change the industry."

How do you that? "Call everyone on the phone and say 'I have an idea,'" Davis answers. "If you gather and analyze all the information from those conversations and have more and better information, you'll win."

Gupta said both he and Davis made a "substantial amount" from the sale. That's one way to put it. Davis walked away with options for 181,000 shares of CheckFree that he could immediately cash out for over $7 million. Gupta got options on 315,000 shares worth over $15 million.

Right now Davis is "on sabbatical" from CheckFree. Gupta is wrapping up his work at the company and will leave soon. With over $22 million between them, they could easily start their own venture capital company, and Davis says he does want to help some young entrepreneurs. Right now, though, it's not clear exactly what they're cooking up, or whether they'll even be partners again.

Gupta is already sure about one aspect of his next venture, however: it will be "bigger than BlueGill." ■

J. ADRIAN WYLIE

BlueGill cofounder Vinay Gupta. The company sold for stock worth $250 million.