

Reviewing the Rocky Road to IPO

From: American Banker

Monday, May 19, 2003

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SAN FRANCISCO — When Accredited Home Lenders Holding Co. went public in February, the timing raised some eyebrows.

An impending war in Iraq and signs that American consumers were having a harder time paying their bills were just two cards stacked against a successful stock market debut for the \$2.2 billion-asset subprime lender.

After a rocky start — on its opening day, the stock closed at \$7.25 a share, 75 cents lower than the offering price and almost \$2 less than the target price listed in a preliminary prospectus last summer — it has regained ground and then some. In the four months since the IPO, the San Diego-based lender's stock has risen a whopping 92%.

In an interview Thursday, Ray McKewon, the 1,400-employee company's executive vice president and a co-founder, explained the route it took to becoming one of only six companies to have initial public offerings in the United States this year.

One driving factor was the three venture capital firms that had invested a combined \$5 million in Accredited in the mid-1990s and were looking for a way to cash out of their holdings. Mr. McKewon, a venture capitalist himself before he helped establish the lender in 1990, described the arrangement with the venture capital firms as a "gentleman's contract" to make good on a promise made at the time of their investment that Accredited would go public at some point.

"We probably would not have picked this market to go public in if we were not honoring the promise to the venture capital guys — we would have waited a little longer," he said while in San Francisco for a presentation at the Security Analysts of San Francisco.

The three firms — Crosspoint Ventures Partners of Irvine, Calif., Enterprise Partners Venture Capital of La Jolla, and Ocean Park Ventures, a Santa Monica firm now known as Palomar Ventures — were running out of time. They had made their investments during the fourth year of 10-year funds that were scheduled to end in 2001. By last year they had agreed to extensions but were asking Accredited to consider an IPO, Mr. McKewon said.

They did not have to ask; they held contractual rights called demand registrations that would have allowed them to compel Accredited to go public. Mr. McKewon said they

had told him they would not use this right, even if the IPO got derailed, but Accredited pushed on with it anyway.

With companies shying away from the volatile equity markets, venture capital firms have struggled to recoup their initial investments.

In fact, Accredited was the only firm with venture capital backing to have an IPO in the first quarter.

The venture capital firms have already cashed out some of their holdings. During the offering, they sold 1.8 million shares, worth \$1 each at the time of the investment, and collected a combined profit of about \$12 million.

But the road to the IPO was not smooth. In April 2002, Accredited decided to go public. It hired investment bankers and filed its prospectus in July but did not get a green-light from the Securities and Exchange Commission until October, as regulators took extra care in the aftermath of corporate scandals.

Then, with a prospectus ready to print, Accredited had to deal with a battered equity market. The Dow Jones industrial average dropped to its lowest level since October 1997, so the company sat it out. By mid-February — Valentine's Day, to be exact — Accredited spotted a window and sold 9.65 million shares.