send a play in wirelessly that shows on the quarterback's screen, with each position's assignment indicated. This method could also revolutionize how new players learn a team's playbook.

Other ideas include fantasy football scenarios, iPhone applications, and possibly even player reality shows incorporating Flip cameras.

In the meantime, Donohue and Marcus are on the sidelines of the field, a few feet from the Redwoods' kicker practicing field goals. Yes, it would be interesting to watch the kicker's anxiety waves on the big screen.

It would be also interesting to see a map of the bankers' own anxiety as one of their equity auctions winds down. The conversation drifts back to their own 80 percent for 20 percent value proposition—on Wall Street.

The Hambrecht OpenIPO Process

The OpenIPO process idea had been brewing for years in Hambrecht's head, and it was clearly reinforced when Hambrecht & Quist went public in 1998. The general perception is that an IPO is successful if the first-day stock gain is significant—40, 70, or 150 percent. That is money, however, the stock issuer left at the table. When an issue is that underpriced, the underwriter is really taking care of its buy-side customers instead of the issuer. In a traditional IPO, underwriters allocate stock to their best clients: mutual funds and hedge funds. The bankers typically underprice the stock. When it pops the day after pricing, the windfall goes to those lucky clients. An unwritten rule is that a third of that pop gets funneled back to the bank in trading commissions. With the traditional IPO investment, banks can often make more from trading commissions than from underwriting fees. To remind the issuer whose side they represent, the legal documents can contain language such as "The Underwriters owe no fiduciary duties to the [Issuing] Company" and "The Issuer waives any rights it may have against the Underwriters in connection with the offering."

Already in his sixties, Hambrecht could easily have just gone along with the system. Instead its unfairness gnawed at him. So he started the OpenIPO Dutch auction process whose mission statement says, "Bring transparency, fairness and efficiency to the capital formation process by leveling the playing field for issuers and investors."

An example of the model's integrity came when a large institution called on the last day of the auction bidding window and basically said, "Tell your client if they want us in the deal, this is the price they have to agree to," says Marcus. He continues:

We took their bid—it was a large volume—and stacked it with the others. Their price did not meet the clearing price. The next day they *were shocked they did not qualify for a single share. Were they upset? Absolutely. Did it show our strict adherence to the process? Absolutely. Though they were initially upset, they have since bid in all our deals!*

Enter Christensen, who knows a thing or two about disruptive business models. The *New York Times* summarizes:

As soon as Mr. Hambrecht began describing his method of taking companies public, Mr. Christensen said to himself "This is one of those. When conventional investment banks disparaged Bill, I said, 'Of course. It is very predictable. This is the classic pattern.'" Wall Street was pooh-poohing auctions because they were such a threat.[3]

Soon twenty-three companies had chosen to go public via Hambrecht's auction process. But then came the Great IPO Shutdown in 2007 and 2008. And while Wall Street has gone through plenty of review and cleanup since, things do not appear to have not changed much in the IPO process.

Marcus explains:

As the IPO market opened up again in the second quarter of 2009, the online restaurant-reservations system OpenTable popped 60% the first day. That was $40 million in cash they could have used towards their own expansion plans. Rosetta Stone, the guys who do language CDs, likely left over $50 million. It's still difficult to argue that it's better that the bank and its clients got this money rather than the issuer.

Donohue makes his case:

The numbers tell our story convincingly. On day one, our IPOs went up on average 3% compared to 14% for a traditional deal. While the traditional deals are considered more "successful," our issuers, from Morningstar to NetSuite, got more of the IPO money. But here is what is really interesting. Two quarters out from the IPO date, the performance of our deals and those of the broader market are, on average, equal. Once the company is in the public arena, it will trade based on the performance of the company, not the manner in which it went public. But even better, when you compare from IPO date to December 2009, our companies had gone up 40% and the conventional model portfolio actually went down 8%!

Marcus continues:

That is an indicator that the method of IPO, traditional or auction, does not determine the long-term performance of the company. We are also

> *finding the funds that participate in our deals are longer-term investors. The ones that want to flip in the first couple of days don't show up. Six of top 10 buyers in the Morningstar IPO held stock for over two years despite the 230% stock gain.*
>
> *Because anybody who bids at or above the clearing price (or offer price) receives stock on a uniform pro rata basis, the auction provides access to deals for midsized institutions and retail investors, constituencies often passed over in a traditional IPO where the underwriter has discretion over who receives stock. As an example, we received 647 bids from 298 unique institutional accounts for the Interactive Brokerage Group IPO.*
>
> *Investors have also learned to "tier" their bids at multiple price points—so they can have a basket of bids in the auction. It is much more realistic market pricing.*
>
> *The bigger underwriters are just not interested in small IPOs. Their scale does not allow it. And with recent mergers, they are even bigger. We have a far lower threshold, which is so much more relevant for infotech, biotech and cleantech. And there are plenty of funds that are interested. The myth is only the big hedge funds are the investors.*

There are other ways in which Hambrecht is innovating—with technology. The typical IPO road show is a brutal two-week process with plenty of plane flights, presentations, lunches, and the like. Says Donohue, "It is increasingly clear these road shows aren't efficient in bringing in new investors—they are more of an industry tradition."

Hambrecht is experimenting with doing first-level pitches via Web conferencing. Then, if serious investors ask to meet the issuer management team, the team flies out. With telepresence, even that reduced travel may become less necessary.

Donohue elaborates about other technology investments: "We have also helped issuers develop a targeted, SEC [Securities and Exchange Commission]-compliant affinity marketing campaign via e-mails and placement on selected Web sites. With CRM [customer relationship management] technologies evolving rapidly, Wall Street can become so much better with such campaigns."

Add to those growing efficiencies the fact that Hambrecht's fees cost the issuer 4 percent of the higher proceeds versus the 7 percent that large firms charge for the lower proceeds, and Hambrecht gets issuers a more diversified, longer-term investor base.

You see that, pretty soon, the 80 percent for 20 percent statement is not far off.

But why does Hambrecht do it? He is revered in Silicon Valley, and as was clear at the game that evening, he is adored by family and friends, many of whom are very powerful. He is 72 years old—he has nothing left to prove. The UFL lost $30 million it its first year and could likely lose more over the next few years. Likewise, the OpenIPO model, attractive as it is, has to continue to fight the brand and market power of the bigger banks.

Huyghue could have continued in a role somewhere in the NFL. Wu could be a savvy marketing guy at any technology company. Marcus and Donohue could be making plenty with traditional Wall Street firms. Why do they need to tilt at giant windmills like Wall Street and the NFL? As Hambrecht says, "I like to stay in the game." An appropriate pun, given the UFL focus.

Whatever the personal drivers of these men, they represent one-hand clapping. Innovators take their chances on these rebels and the ones we described in Chapter 9. Their 80 percent for 20 percent calculus is just too compelling.

Recap

Bill Hambrecht could have easily retired from a very successful firm, Hambrecht & Quist. Yet, after having taken so many disruptors public in that firm, it is not much of a surprise that he continues to look for disruptive models. Although his targets—Wall Street and the National Football League—are formidable, his mantra of "80% of value at 20% of the price" should be a rallying cry for rebels and disruptors everywhere.

For their ability to apply their concepts to a wide range of industries, Hambrecht and his team have earned the right to be called polymaths when it comes to disruptive business models.