

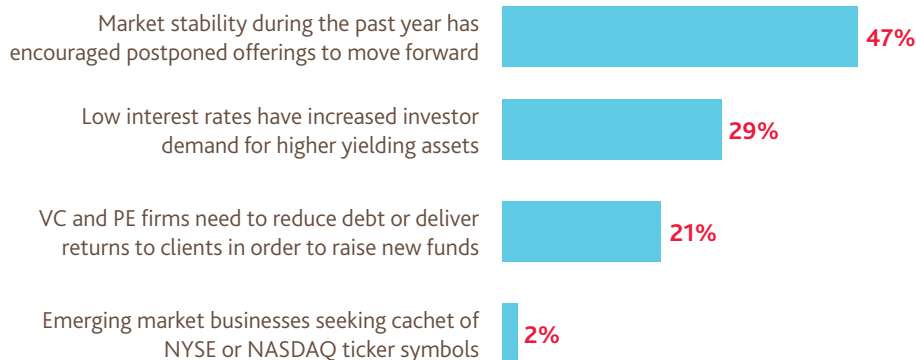
2011 BDO IPO HALFTIME REPORT

EXECUTIVE SUMMARY



In January, the **BDO IPO Outlook Survey** of capital markets executives at leading investment banks forecasted growth in the number and size of U.S. initial public offerings (IPOs) that would yield more than \$45 billion in IPO proceeds on U.S. exchanges, a projected increase of approximately 18 percent from 2010. Through the first six months of 2011, year-over-year growth is exceeding the BDO forecast with U.S. proceeds on pace to exceed \$51 billion.*

What do you feel has been the greatest driver of increased U.S. IPO activity in 2011?



*Renaissance Capital is the source of all historical data related to number and size of U.S. IPOs

BDO USA CAPITAL MARKETS PRACTICE

BDO USA is a valued business advisor to businesses making a public securities offering. The firm works with a wide variety of clients, ranging from multinational Fortune 500 corporations to more entrepreneurial businesses, on a myriad of accounting, tax and other financial issues.

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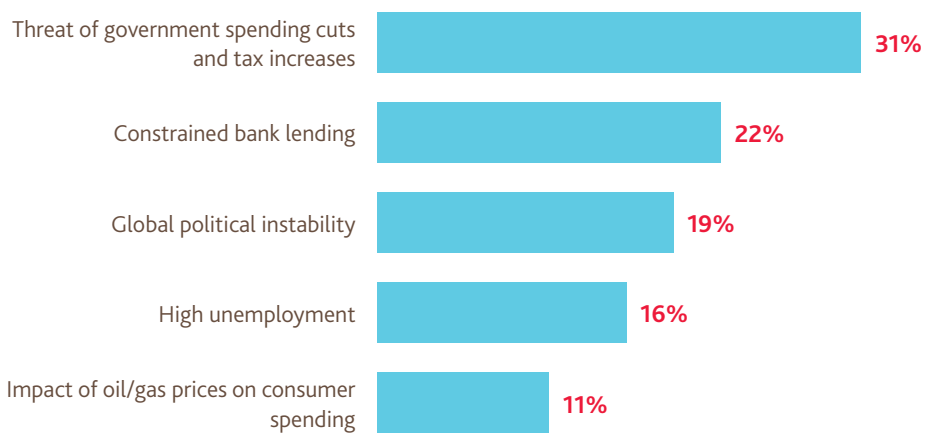
“Given recent history, it isn't surprising that investment bankers are forecasting continued growth in U.S. IPO activity for the second half of the year. Offerings on U.S. exchanges have increased in the latter half of the calendar in seven of the last eight years. The lone exception was 2008 when the financial crisis essentially shut down IPO activity altogether,” said **Wendy Hambleton, a Partner in the Capital Markets practice of BDO USA**. “However, with the performance of recent offerings all over the map and a good deal of uncertainty remaining about the health of the economic recovery, this confidence from the capital markets community is a welcome and positive sign for the health of the economy.”

In recent weeks IPO performance has been all over the map and this reflects an uncertainty about the health of the economy itself as the U.S. continues to struggle through an uneven recovery.

Given this uncertainty, the Capital Markets practice of BDO USA decided to conduct a mid-year survey of the investment banking community to determine their expectations for the second half of the year. And the forecast remains bullish.

The ***BDO IPO Halftime Report*** reveals an underlying confidence among the capital markets industry for U.S. IPOs. A majority (59%) believe U.S. IPO activity will increase in the second half of the year, with almost a fifth (18%) describing the increase as substantial. Only 13 percent of the survey participants expect a decline in IPOs in the second half of 2011, while more than a quarter (28%) forecast that activity will be unchanged from the first half of the year. Overall, bankers predict a 9.5 percent increase in the number of U.S. IPOs in the latter half of 2011. They anticipate these offerings will average \$368 million, which projects to more than \$57 billion in total IPO proceeds on U.S. exchanges in 2011 (an increase of almost 50%).

What do you consider to be the greatest threat to a healthy U.S. IPO market during the remainder of 2011?



When asked to identify the key drivers in the growth of IPO activity on U.S. exchanges in 2011, investment bankers cited the general market stability encouraging previously postponed offerings to move forward (47%), low interest rates increasing investor demand for higher yielding assets (29%) and private equity (PE) and venture capital (VC) firms needing to reduce debt and deliver returns to clients (21%).

The size of the average IPO in 2011 is running considerably larger than 2010 and capital markets executives identified several contributing factors for this trend. The most frequently cited

factor in driving these larger deals are more offerings from PE-backed business (43%). The other main reasons cited for the larger deal size are that the IPOs are from more mature companies (33%) and the offering companies have more stable financials (24%).

When asked what will be the greatest source of IPOs in the second half of the year, two-thirds (67%) of capital market executives cite either private equity (39%) or venture capital (28%) portfolios. Owner-managed, privately held businesses (17%) and spinoffs and divestitures (16%) are the other sources identified by the bankers.

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The bankers cited multiple potential threats that could dampen their favorable second-half forecast. The potential for government spending cuts and tax increases (31%) was the most often cited threat, followed by constrained bank lending (22%) and global political instability (19%). Continued high unemployment (16%) and the impact of oil and gas prices on consumer spending (11%) were also seen as factors that could adversely impact U.S. IPOs in the latter half of 2011.

▶ TECH IS KING

Thus far in 2011, the technology sector has led all industries in U.S. IPOs and almost three-quarters (74%) of investment bankers predict even more tech offerings during the second half of the year. More than two-thirds (69%) see the numbers of IPOs from the energy vertical increasing as well. By comparison, there is more modest support for the likelihood of growth in IPOs for the healthcare and biotech industries.

▶ U.S. EXCHANGES REGAIN GLOBAL MARKET SHARE

As predicted in the [2011 BDO IPO Outlook Survey](#) at the start of this year, U.S. exchanges have reversed the trend of their declining role in the global IPO marketplace. In the last six months, U.S. IPO proceeds represent approximately 27 percent of total global proceeds. In 2010, the U.S. exchanges accounted for less than 17 percent of the global pie.*

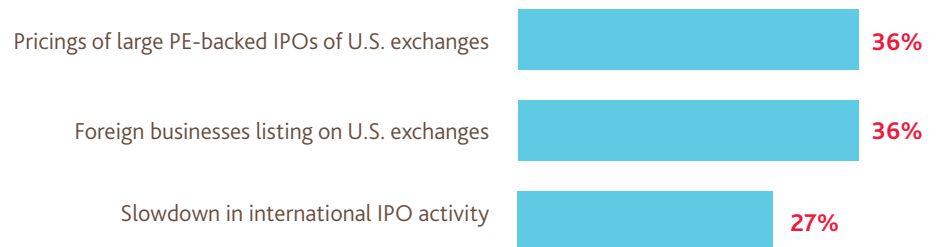
When asked to identify the main reason for the sharp increase in the U.S. share of global IPO proceeds, the bankers cited three contributing factors – foreign businesses listing on U.S. exchanges

Proportions of capital markets executives expecting IPO activity to increase, remain stable or decrease in specific industries during remainder of 2011:

Industry	Increase	Flat	Decrease
Technology	74%	21%	4%
Energy/Natural Resources	69%	20%	11%
Healthcare	54%	39%	7%
Biotech	52%	39%	9%
Media/Telecom	47%	34%	19%
Real Estate	39%	38%	22%
Financial	32%	44%	24%
Industrial/Manufacturing	23%	55%	22%
Consumer/Retail	22%	41%	36%

DRIVING U.S. PROCEEDS

What has had the greatest impact on increasing the proportion of total global IPO proceeds in 2011 represented by U.S. IPOs?



(36%), pricings of large private equity-backed offerings on U.S. exchanges (36%) and a decrease in international IPO activity (27%).

Although 44 percent of the investment banking community sees U.S. exchanges continuing to increase their percentage of global IPO proceeds during the remainder of the year, a majority (55%) believe the U.S. share will remain steady (34%) or decline (21%) in the second half of 2011.

A reason for this more cautious forecast could be that the growth of foreign listings on U.S. exchanges may be limited during the remainder of 2011. Almost half (47%) of the capital

markets community see the percentage of foreign listings remaining flat during the second half of the year and 15 percent are forecasting a reduction. Only a little more than a third (37%) predict a continued increase.

Despite spotty performance from some recent Chinese offerings, Asia (55%) was still seen as the dominant region of origin for foreign-based IPOs during the second half of 2011. Latin America (19%) finished a distant second.

In terms of IPOs taking place on foreign exchanges, Asia will continue to be the most popular region. Hong Kong (28%) narrowly defeated Shanghai (21%) as the most popular exchange

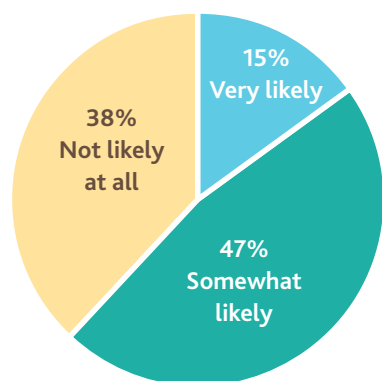
*Renaissance Capital is the source of all historical data related to number and size of U.S. IPOs

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“Given the recent success of the LinkedIn IPO and the high valuations associated with other social media businesses expected to seek public offerings within the next year, it is understandable that the capital markets community feels private, pre-IPO marketplaces are a positive influence on the U.S. IPO market,” said **Lee Duran, a Partner in the Capital Markets practice at BDO USA**. “However, looking beyond the offering transaction, the bankers clearly feel the limited volume of shares in the private market is inflating valuations of these businesses to the point that they have concerns that a bubble may be developing.”

INTERNET BUBBLE?

Given the hype surrounding Internet IPOs, especially social media companies, do you feel the chances of a second dot-com bubble, similar to the one in the late 1990s, are...



for foreign IPOs for the rest of year according to the bankers. London (13%) and Euronext (12%) finished third and fourth.

▶ I-BANKERS CONFLICTED ON PRE-IPO MARKETPLACES

As previously covered, the technology industry has been the main sector spawning IPOs in 2011 and that trend is expected to continue in the latter half of the year. However, it is a sub-sector of tech – Internet and social media businesses – that are generating both eye-popping valuations and serious concerns about a new dot-com bubble.

According to the *BDO IPO Halftime Report*, capital markets executives at leading investment banks clearly have conflicting opinions of pre-IPO Internet businesses and the private marketplaces where their shares are traded. Private marketplaces, such as SecondMarket and SharesPost, allow owners of shares in private companies – typically employees – to sell their shares to high-net worth individuals or institutions that want to get a piece of the business before an IPO.

Although more than three-quarters (79%) of the investment banking community feel these private

marketplaces are having a positive influence on the U.S. IPO market, a similar percentage (75%) feel the multibillion dollar pre-IPO valuations of many Internet businesses are not justified. Moreover, a majority (62%) feel the chances of a second dot-com bubble, similar to the one in the 1990s, is at least somewhat likely.

More than two-thirds (71%) feel the small volume of trades in the private, pre-IPO marketplace has served to inflate the value of these businesses and a majority (64%) of the capital markets executives are in favor of the SEC easing constraints on the number of shares that can be issued and the amount of capital raised prior to these businesses being forced to go public.

Interestingly, when asked to identify a group that will be most negatively impacted by the easing of shareholder limits in private companies, more than a third (38%) of the I-bankers cited their own industry. Venture capital (23%) and private equity firms (19%) were also identified as being negatively impacted, but a fifth (20%) of the bankers didn't believe any one group would be disproportionately affected.

The small volume of trading in the private marketplace isn't the only factor

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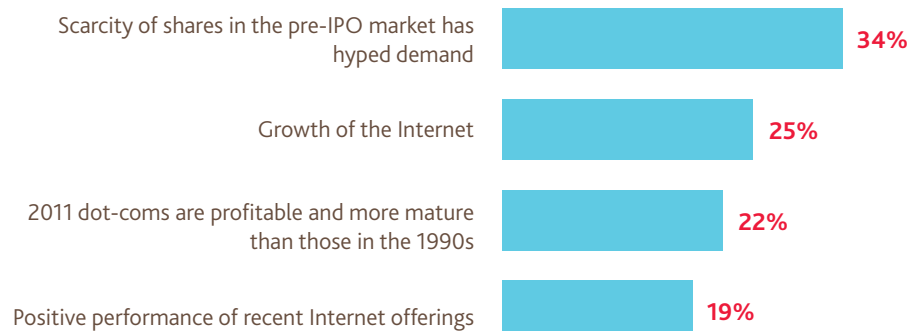
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“When you combine the inflationary effect of the pre-IPO, private marketplace with the common practice of Internet businesses only releasing a small number of shares in initial offerings to drive up demand, it isn’t surprising that the investment banking community believe concerns about a possible Internet bubble are warranted,” said **Jay Duke, a Partner in the Capital Markets practice at BDO USA**. “At the same time, any comparisons between today’s market and the dot-com crash of the late 1990s are simply not accurate. In the Nineties, you had businesses that were little more than a concept going public. For the most part, today’s Internet offerings have sound business models with real customers and real profits. Moreover, they all benefit from the enormous growth of the social and mobile Internet market over the past decade.”

in driving high valuations of pre-IPO Internet businesses. When asked what the chief factor was in driving the high valuations, the I-bankers identified multiple contributors. Approximately one-third (34%) cited the scarcity of shares in pre-IPO markets hyping demand, one-quarter (25%) attributed the valuations to the growth of the Internet itself and a like amount (22%) cited the profitability of the businesses. Approximately one-fifth (19%) of the I-bankers alluded to the positive performance of recent Internet offerings as the primary driver.

CONTRIBUTING FACTORS

What do you feel is the single most important factor in driving the multibillion dollar valuations of Internet and social media businesses?



ABOUT THE SURVEY

The *BDO IPO Outlook Survey* and the *BDO IPO Halftime Report* are national telephone surveys conducted by Market Measurement, Inc., an independent market research consulting firm, whose executive interviewers spoke directly to capital markets executives, using a telephone survey conducted within a scientifically-developed, pure random sample of the nation’s leading investment banks.

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