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$15 million from private investors, including Advanced Technology Ventures, Arch Venture Partners and SigmaPartners.

The company is a success by many e-commerce measures. It has a steady and proven business in addition to its Internet business. Half of its sales come from its two Web sites – BirthdayExpress.com and CelebrateExpress.com – up from just 1 percent at the end of 1998. And the company has won exclusive licenses for characters from the Madeline children's book series, *The Rainbow Fish* and *Pat the Bunny*.

Nor does the company's income statement look as perilous as those at other e-commerce firms. It's on track to post $30 million in annual revenues, up from the $23.4 million it posted in the fiscal year ended May 31. For the first six months of that year, losses were $3 million, compared with $1.1 million for all of fiscal 1999.

And though it has many home-business touches, the Jewells had big plans for the company's IPO. They laid out an extra $5 million to $7 million to build an in-house ISP and hire 50 more customer-service employees. The outlays widened the startup's losses, but the investment, they thought, would be returned once the stock started trading and broadened the company's image.

The Jewells hoped to go public last spring, but they never even got to pitch to investors. Instead, the call came from Roberston Stephens underwriters that investors weren't biting at all. Robertson hadn't tried to sell the company's shares. After the Nasdaq composite tumbled nearly 30 percent in April, dot-coms with millions in losses seemed risky – and a dime a dozen. Robertson cut the valuation of the company from $200 million to $140 million, a move that
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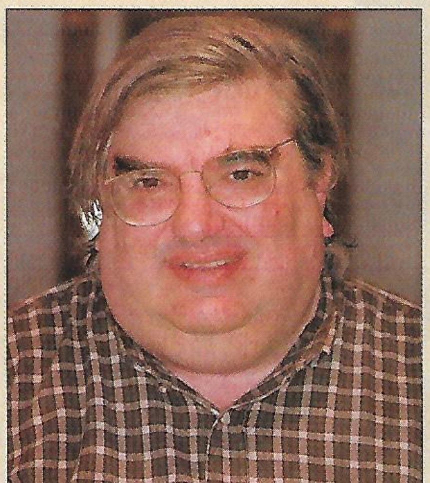
The Last-Chance Market

Months after the Nasdaq was supposed to have shaken out the weaklings, tenuous-looking Internet startups are still biding their time in the IPO pipeline. Why would they bother? One answer comes from an economic theory called adverse selection.

Business-school students know adverse selection as a way to explain why so many lemons sit in used-car lots. Because people hold onto good cars, only those with lemons find it worthwhile to pass them off at the low price of a used car. To an uninformed shopper, these lemons look like a good deal.

To some observers of this year's Internet IPO market, that theory fits. Behind the common notion that stock-market investors can better stomach the risk involved in Net startups lies a simpler, harsher reality: The stock market is the last refuge for lemon companies because that's where investors are least likely to scrutinize a company's worth.

Bruce Greenwald, a rumpled and energetic Columbia University professor who applied adverse selection to financial markets back in the '70s, sees just as many lemon IPOs now as he did then. IPOs, Greenwald says, are a "Ponzi scheme without the Ponzi."



Greenwald: IPOs are for losers.

Companies that turn to the stock market are often the ones that can't raise money elsewhere, Greenwald says. Sure, dozens of them are going public and haven't yet gotten whacked in the open market. But it could well be that the really good ones don't try. They raise debt or equity privately.

To Greenwald, the whole point of the public market is to sell stock to investors less savvy than, say, venture capitalists. Private investors do more due diligence than your average retail investor, so they're less likely to be ripped off. "IPOs are a fraud," he adds. "The only side you want to be on is the sell side."

Greenwald is a respected economist, but his views aren't without controversy. Some of his peers are more supportive of IPOs. Harvard Business School professor Samuel Hayes says investment bankers are a far cry from used-car salesmen. "The investment bankers act as a brake," he says. "They have a reputation to preserve – and while the underwriting fees are very attractive, they nonetheless don't go into an underwriting with the expectation that it's going to fail."

Still, Greenwald's ideas may offer an explanation of why companies like AtRoad or Zefer refiled for IPOs despite earlier rejections. And why – even if all IPO candidates aren't dogs – public investors are so accepting of valuations that would never be tolerated in private financings.

So why have some IPOs this summer soared since going public? It may be another sign the stock market hasn't yet seen its full comeuppance. For more evidence, Greenwald points to the eager swapping of shares in megamergers such as the AOL-Time Warner deal. "The guys with the bad cars want to have a dealership with the guys with the good cars," he says. – *Anya Schiffrin (aschiffrin @thestandard.com)*