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Small Firms, Big Options

Some High-Tech Executives Lured to Join Would-Be IPOs

By BEN WORTHEN

A chief executive who boosted his company's stock price more than 50% in two years might be expected to trade up to a larger company as his next career move. Instead, Mark McLaughlin resigned last week from the top job at publicly traded Internet-infrastructure company VeriSign Inc. to join a Silicon Valley start-up.

Mr. McLaughlin has been tapped as CEO of Palo Alto Networks Inc., a closely held security-technology company widely viewed as a candidate for an initial public offering.

"I've had the chance to be the CEO of a great public company," said the 45-year-old executive, whose new job is set to be announced Monday. "Something I haven't done is to take a great private company public."

In a sign of how gold-rush fever has spread throughout Silicon Valley, a wave of top managers like Mr. McLaughlin is leaving the executive suites of publicly held tech companies for the same jobs at smaller, closely held ones.

Banking on a Big IPO

Some high-ranking executives at big tech companies have made lateral moves to start-ups.

EXECUTIVE/ TITLE	OLD COMPANY	ANNUAL REVENUE	NEW COMPANY	FINANCIAL SNAPSHOT
Mark McLaughlin Chief Executive	VeriSign	$681 million	Palo Alto Networks	$200 million in revenue, at latest quarter's pace
Rob Krolik Chief Financial Officer	Move	$198 million	Yelp	Raised $25 million in January 2010
John Schappert Chief Operating Officer	Electronic Arts	$3.6 billion	Zynga	$597 million annual revenue
Erin Nelson Marketing Chief	Dell	$61.5 billion	Bazaarvoice	Company declined to comment

Source: WSJ research

Online review site Yelp Inc. said last week it had hired the chief financial officer of publicly traded Move Inc., and the social-gaming start-up Zynga Inc. in April poached the operations chief of publicly traded Electronic Arts Inc. Last September, start-up Bazaarvoice Inc., which tracks customer sentiment, hired personal-computer giant Dell Inc.'s chief marketing officer.

While executives often take higher-level jobs at smaller companies, the logic of lateral moves isn't so obvious. In each of the recent cases, however, the start-ups are gearing up for an IPO, creating a potentially lucrative payday for executives, who typically hold sizable stakes.

LinkedIn Corp. and Pandora Media Inc., stars of Silicon Valley's current IPO boom, recently made their stock-market debuts, enriching their top executives. Other hot start-ups, such as Zynga, have filed with regulators to go public.

With the IPO window wide open for fast-growing companies, public-to-private company executive jumps "will become more common," said Jim Goetz, a partner at Silicon Valley venture-capital firm Sequoia Capital and a board member at Palo Alto Networks. "All of us are going to make it difficult for these public-company boards to keep top CEOs."

Mr. McLaughlin is leaving VeriSign, which had $681 million in 2010 revenue and a market capitalization of more than $5 billion, for an unprofitable start-up that had $50 million in sales in its latest quarter. As CEO of VeriSign, he made $4.6 million in 2010, including about $3 million in stock awards and options, according to filings.

Start-ups don't pay like that; the main reward for their executives is stock. At Palo Alto Networks, "the upside is on the equity side," Mr. McLaughlin said. The start-up is in a multibillion-dollar industry, and has generated positive cash flow for five straight quarters.

"Clearly everyone is talking about whether there's a bubble," Mr. McLaughlin said. But after talking it over with his wife, he said he determined the start-up was an opportunity he couldn't pass up.

John Schappert, Zynga's new chief operating officer, made more than $10 million during the 2010 fiscal year in the same post at EA, according to a regulatory filing. EA has around $3.6 billion in annual revenue, while Zynga reported annual revenue of $597 million in a pre-IPO regulatory filing. But Zynga is expected to go public with a valuation around $20 billion, nearly three times EA's market capitalization.

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IPO Ahead? Mark McLaughlin is leaving VeriSign for Palo Alto Networks.

Zynga's filing didn't disclose Mr. Schappert's ownership stake or compensation. A spokeswoman for the company declined to comment.

"To get in on the ground floor of something that could be that big is pretty enticing," said Rob Krolik, who made a guaranteed salary of $325,000 a year as Move's CFO before jumping to Yelp. Yelp CEO Jeremy Stoppelman said recently that an IPO was on the table for his San Francisco-based company.

Not every start-up—even the ones that look hot today— will make it big. "You're playing career lottery basically," said Rick Devine, a recruiter at Devine Capital Partners, who has placed many top tech executives. These days, he said, he is often approached by executives looking to leave big public companies for start-ups and tries to talk them out of it. Instead, he refers them to growing public companies, pointing out that the stock prices of companies like Apple Inc. and Salesforce.com Inc. have risen close to 500% in the past few years.

Mr. Krolik, the new Yelp CFO, said he is aware of the risks. "The way I look at it, the worst case is that [the company] doesn't become significantly bigger," he said. "That's OK because the experience that you gain you can take somewhere else."

Financially, "there's no comparison" to the upside potential of a start-up, said Frank Slootman, CEO of ServiceNow, a business software start-up that he said could be "IPO ready" early next year.

Mr. Slootman sold his previous company, DataDomain Inc., to EMC Corp. in 2009 and spent 18 months as an executive vice president at the publicly traded storage-technology company. He said he felt hemmed in at the larger company and missed the rush of working at a smaller one. "Why wouldn't I want to swing for the fences?" he said.

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Corrections & Amplifications
Palo Alto Networks Inc. had $50 million in sales in its latest quarter. An earlier version of this article incorrectly characterized that figure as revenue.

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