



National Venture Capital Association

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**NATIONAL VENTURE CAPITAL ASSOCIATION RELEASES  
RECOMMENDATIONS TO RESTORE LIQUIDITY IN THE U.S. VENTURE  
CAPITAL INDUSTRY**

*Four Pillar Plan Balances Public Policy Proposals with Market Recommendations for  
the Venture Capital Industry and Capital Markets Ecosystem*

**April 29, 2009, Boston, MA --** [The National Venture Capital Association \(NVCA\)](#) kicked off its 2009 Annual Meeting today by unveiling a set of recommendations aimed at addressing the capital markets crisis for venture-backed companies in the United States. During the last decade, the number of initial public offerings (IPOs) by venture-backed companies has declined to alarmingly low levels, culminating in the 2008 drought when only six companies entered the public markets. Given the proven contribution of venture-backed companies to America's economic growth, the NVCA sought analysis and recommendations from leaders throughout the capital markets ecosystem over the last several months. The resulting set of proposals looks to the venture capital industry, investment banking, accounting professions, law firms, stock exchanges and the government to enact measures to restore a vibrant IPO environment once the overall economy stabilizes.

The initiative was spearheaded by NVCA chairman and co-founder and general partner at [DCM](#), Dixon Doll, who articulated the important work that has both been completed and has yet to be done:

“On behalf of the NVCA, I want to commend the group of thought leaders who continue to support us in our efforts to assess and address a situation that has become untenable for venture-backed companies and the U.S. economy. The consensus is that the most significant improvement to our capital markets will only be achieved if *both* the private sector and the government address the breakdowns that have occurred within their respective systems. While there are regulatory and legislative avenues to explore, the venture capital industry recognizes that we can affect positive change by adjusting the way we do business and are willing to do so to enact this change,” said Doll.

## **Venture-Backed Public Companies Are Critical to U.S. Economic Growth**

The revitalization of the venture-backed IPO market is critical to U.S. economic recovery and to the ongoing viability of America's competitiveness. In a report to be released in early May, Global Insight estimates that in 2008 public companies that were once venture-backed accounted for more than 12 million U.S. jobs and \$2.9 trillion in revenues, which equates to 21 percent of U.S. GDP. Further, it is estimated that 92 percent of job growth at these companies occurs once the company enters the public markets.

"This capital markets issue is not just a venture capital industry problem; it is a U.S. economic concern," said Mark Heesen, president of the NVCA. "If America wants to maintain its economic leadership and continue to grow and innovate, we must re-invigorate the public markets and strive towards healthier IPO levels similar to that which our country enjoyed in the 1980s and 1990s. Without this activity, we can expect job growth to disappear over time."

## **The NVCA Four Pillar Plan to Restore the Venture-Backed IPO Market**

At the core of the issue is a recognition that today's market environment is challenging with respect to the issuance of small cap IPOs. There are multiple reasons as to why this is the case including the high costs of going public, the constituents involved in the process, and the restrictions placed on potential public companies. The NVCA recommendations, which seek to address these issues, comprise four categories or pillars, two which focus on changing behavior in the venture capital market and two which involve the government exploring policies conducive to venture-backed IPOs.

### ***Pillar I: Ecosystem Partners***

Within the last decade, venture-backed companies have been faced with fewer choices as it relates to investment banks and accounting firms that will assist in the IPO process. While the major investment banks continue to operate, the "four horsemen" boutique investment banks of the 1990's (Alex Brown, Hambrecht & Quist, Montgomery Securities, and Robertson Stephens), which specialized in IPOs of venture-backed companies, no longer exist. Further, the fall of Arthur Andersen and the resulting pressure placed on the Big Four accounting firms has, in many markets, left a void in terms of quality auditing services available for these smaller companies.

Against this backdrop, the NVCA believes that the venture capital industry must do more to promote alternative ecosystem partners while engaging with existing members to identify ways to better serve the needs of emerging growth companies. The Association has begun to engage in talks with boutique and major investment banks as well as the Big Four and other public accounting firms about how they can also better serve the needs of small cap companies. The NVCA also intends to encourage the use of a broader array of service providers such as the "Global Six" including Deloitte LLP, Ernst & Young LLP,

Grant Thornton LLP, KPMG LLP, PricewaterhouseCoopers LLP and BDO Seidman LLP.

### ***Pillar II: Enhanced Liquidity Paths***

There is consensus among many within the capital markets ecosystem that the distribution system that connects sellers and buyers of venture-backed company new issues is broken. There are many drivers behind this disconnect including mismatched expectations in terms of issue size, the lack of sell side analysts, and the propensity of hedge funds to buy and sell stock quickly. All of these factors contribute to a lack of an adequate distribution channel and considerable post-IPO market volatility.

To offer small venture-backed companies an enhanced distribution system for the sale of initial stock, the NVCA endorses concepts such as Inside Venture which is a private market platform that connects qualified companies that intend to IPO within 18 months with pre-screened cross-over investors. These buyers commit to buy and hold these stocks for the long term. Other providers with similar models include Portal Alliance (NASDAQ), SecondMarket and Xchange. Additionally, the NVCA will help raise awareness about pro-active M&A roll up strategies of smaller portfolio companies to achieve IPO critical mass and global alternatives to the U.S. public markets.

### ***Pillar III: Tax Incentives***

The NVCA has long asserted that the government must support a tax structure that fosters capital formation and rewards long term measured risk taking. To support a more vibrant IPO market, the U.S. must maintain tax policies that have been proven to encourage venture capital investment so that the pipeline of promising IPOs is as robust as possible. Further, Congress should consider adopting new tax incentives which would stimulate IPOs, at least in the short term.

The NVCA will continue to advocate strongly for a capital gains tax rate that is globally competitive and preserves a meaningful differential from the ordinary income rate. The Association asserts that venture capitalists who are successful in building new companies should continue to be taxed at a capital gains rate for any carried interest that is earned over the long term. The Association also intends to explore the possibility of a one time tax incentive for buyers and holders of IPOs as well as increasing the holding rate for capital gains status to two or more years.

### ***Pillar IV: Regulatory Review***

From a regulatory perspective, the last decade has been characterized by a series of broad sweeping regulations aimed at curbing serious abuses within the financial system but fraught with unintended consequences for small pre-public and public companies. From Sarbanes Oxley (SOX) to the Global Settlement to Reg FD, small venture-backed companies have been faced with costly compliance and increasing obstacles to enter the public markets as a result of regulations intended for larger multi-national corporations.

The NVCA strongly supports regulation and protecting investors where necessary but does not support a “one-size-fits-all” regulatory approach.

To wit, the NVCA will advocate for a full systematic review by the Securities and Exchange Commission of recent regulations which impact small cap companies. This review would include interpretations of SOX, pre-IPO financial reporting requirements, the separation of analyst and investment banking functions, and private placement requirements. There are opportunities within existing regulations to tier compliance so as not to overburden emerging growth pre-public and public companies at a time when they need support from the government, their auditors, and the markets.

“We are optimistic that the recommendations included in the Four Pillar Plan will contribute to a more vibrant IPO market for venture-backed companies over the long term,” concluded Doll. “The NVCA remains committed to fostering an environment that fuels significant economic growth and job creation in the United States. The adoption of our recommendations is critical to sustaining our global leadership and bringing high growth, innovative public companies to market.”

To view the NVCA Four Pillar Plan presentation, which will be available after 10:00 a.m. eastern on April 29th, please visit <http://www.slideshare.net/NVCA/nvca-4pillar-plan-to-restore-liquidity-in-the-us-venture-capital-industry-1360905> .

### **About the National Venture Capital Association**

The National Venture Capital Association (NVCA) represents approximately 460 venture capital firms in the United States. NVCA's mission is to foster greater understanding of the importance of venture capital to the U.S. economy and support entrepreneurial activity and innovation. According to a 2009 Global Insight study, venture-backed companies accounted for 12.1 million jobs and \$2.9 trillion in revenue in the United States in 2008. The NVCA represents the public policy interests of the venture capital community, strives to maintain high professional standards, provides reliable industry data, sponsors professional development, and facilitates interaction among its members. For more information about the NVCA, please visit [www.nvca.org](http://www.nvca.org)