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Reform ideas seek to break logjam for startups

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Venture-backed startups are piling up in Silicon Valley, unable to go public and unable or unwilling to get acquired, and venture capitalists have called for a broad array of reforms.

Their proposals range from changing Securities and Exchange Commission regulations to reforming the tax code to creating new ways to get capital to growing companies that can't go public.

"We're not asking for a bailout," said Mark Heesen, president of the National Venture Capital Association at a news conference Wednesday. "We're asking that the entrepreneur be made an integral part of a very important economy."

Public companies that were started with venture capital created more than 12 million jobs and \$2.9 trillion in revenue last year - 21 percent of the U.S. gross domestic product, according to data from Global Insight, an economic forecaster.

But more than 90 percent of job growth occurs after a company goes public, and over the past decade, the median number of years needed for a company to do that has more than doubled to 9.6. Getting acquired also takes longer: The median last year was 6 1/2 years, compared with 3 years in 1998.

"Nobody in their right mind will take a company public now if there's not a lot of visibility and confidence that they can make their numbers the first two or three quarters," said **Dixon Doll, co-founder of DCM in Menlo Park** and the chairman of the National Venture Capital Association board. More initial public offerings will come soon, he said, but they'll be discounted because investors are nervous.

In some companies, early shareholders who had hoped to be wealthy by now are selling their shares, creating a growing market for secondary investors who step in where venture capitalists and the public markets can't.

Last week, Millennium Technology Value Partners in New York announced that it owns shares in six technology companies, including Facebook, the clothing site Zappos, the dating site eHarmony, LiveOps, Fonality and Rearden Commerce.

Neither Millennium nor the companies will reveal details of these investments - who sold what and for how much - and some companies did not return calls for comment. But none of the companies are new, and some would have been public by now if the stock market were receptive, allowing their investors to cash out.

"We're better off hiring additional engineers and sales folks" rather than buying out investors, said Dan Rosenthal, the executive vice president of finance at Fonality, which makes open source corporate phone systems and has raised money from Intel Capital and Draper Fisher Jurvetson in Menlo Park. "We're not seeing a wave of demand from early investors to get out, and that's good."

The National Venture Capital Association is in talks with investment banks and accounting firms and will encourage venture capitalists to give business to boutique firms because many venture-backed deals are too small for the giant investment banks, Doll said.

The association also wants Congress to cut the capital gains tax and has asked the SEC to lift some restrictions on its IPO process, created in the wake of corruption during the dot-com boom, so young companies can go public sooner.

And it is backing new organizations like Inside Venture that match pre-public companies with long-term investors. Doll said new ways of funding venture-backed companies will continue to grow.

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