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For more information:

Emily Mendell
NVCA
(610) 565-3904
emendell@nvca.org

Michelle Jeffers
Dow Jones VentureOne
(415) 439-6666
Michelle.jeffers@dowjones.com

NATIONAL VENTURE CAPITAL ASSOCIATION AND DOW JONES VENTUREONE RELEASE FIRST EVER STUDY ON DIFFERING PRACTICES AND ATTITUDES AT VENTURE CAPITAL-BACKED COMPANY BOARDS

*Study Reveals Exit Strategies, Financing Rounds and Management Issues Are Top of
Mind Among 700 Venture Capitalists and Company CEOs*

WASHINGTON, DC and SAN FRANCISCO (April 10, 2006)— U.S. venture capitalists and the CEOs of the companies they fund often have different perspectives on board-related issues yet still share common concerns, according to the first ever study on venture capital-backed board activity from the National Venture Capital Association (NVCA) and Dow Jones VentureOne. “A Seat at the Table,” a study of venture-backed company boards, reflects more than 700 responses to surveys sent in early 2006 to venture capitalists and CEOs of venture-backed companies in the U.S.

“The synergy between the venture capitalists and CEO is critical to an effective VC-backed company board,” said Stephen Harmston, director of global research at VentureOne. “This study for the first time examines how these two players look at board participation, value contribution, conflict, challenges, and effectiveness. The results confirm that the venture capitalist / CEO relationship goes far beyond a pure financial transaction.”

“Are venture capitalists from Saturn and CEOs from Neptune? According to the survey, these individuals are thinking about the same issues but their perspectives and priorities often differ,” said Mark Heesen, president of the National Venture Capital Association. “Still, the system works because the VC and CEO interaction brings out the collaborative nature of the entrepreneurial process. The premise that one group is more concerned about money and the other about management demonstrates how different perspectives bring added life to the enterprise.”

Venture Capitalist Board Activity Levels

Overall, venture capitalists are comfortable sitting on more boards than CEOs would prefer. According to the survey, venture capitalists believe the ideal number of board seats is an average of 4.6 for early stage companies and 5.5 for later stage companies. CEOs would prefer their venture capitalists limit their early stage board seats to an average of 4.0 and their later stage board seats to 4.6. However, in actuality, venture

capitalists sat on fewer boards this past year than they identified as ideal—or an average of four board seats in 2005, down from the bubble period of 2000 when the average was five board seats.

Attitudes Toward VC Board Participation -- Early Stage Companies

	Early Stage Companies		Later Stage Companies		All Companies
Respondent	Maximum # of Boards for VC to Sit	Ideal # of Boards for VC to Sit	Maximum # of Boards	Ideal # of Boards	Actual # of Board Seats 2005
Venture Capitalist	6.9	4.6	8.2	5.5	4
CEO	6.3	4.0	7.0	4.6	

VCs at smaller firms (under \$250 million under management) sat on fewer boards than those at larger firms (more than \$1 billion under management) averaging three and five seats respectively in 2005. Geographically, San Francisco Bay area VCs averaged the highest number of board seats at five per VC whereas regions such as Research Triangle, Southern California and Washington state averaged only three seats per VC.

“The survey confirms that an active relationship is valued by both the CEO and the venture capitalist,” said Allan Ferguson, senior partner of global venture capital and private equity firm 3i. “In early stage investing where it is all about business building, we recommend limiting the board seats in order to be effective. In a late stage fund, partners may take on more seats because mature companies tend to have established boards, a complete team, and a proven business model; therefore, the nature of support provided by VCs is different. Overall, large funds, including ourselves, are able to take on more board seats because they tend to have resources that can be leveraged across the portfolio which may not be available within the smaller funds.”

Almost two-thirds of the venture capitalists surveyed expect to increase their board participation in the next two years. A board seat held by the venture capitalist or a co-investor was a pre-requisite for investment for 81% of the VC respondents.

VC-Backed Board Concerns

The survey asked the respondents to rank strategic issues that are of most concern for VC-backed boards. Overall for the full board, the issues of greatest strategic concern (ranked as #1 or #2) are management transitions (64%) and exit strategies (58%), according to the venture capitalists surveyed and financing strategies (48%) and exit strategies (47%) according to the CEOs.

Both VCs and CEOs cited Sarbanes Oxley compliance and stock option valuation as the top two concerns of audit committees although more venture capitalists than CEOs were

concerned about Sarbanes Oxley than CEOs. In fact, while 65% of VCs stated that Sarbanes Oxley has impact the Board's ability to find outside directors, only 21% of CEOs agreed.

"We believe that most private companies are concerned about being SOX compliant - even though they don't HAVE to be," said Chad Waite, general partner of OVP Venture Partners. "Unlike many start-up CEOs however, most brethren of mine in the VC community have the added perspective of having served on private *and* public company boards. This experience is helpful to private boards when addressing issues like SOX. Our CEOs rely on that expertise to guide them so they can focus on building market leading enterprises."

When it comes to the most common drivers of conflict between the board and CEO, the two groups diverged. Venture capitalists cited personality conflicts, exit strategies, and management changes as the top three issues while CEOs named valuation, burn rates, and exit strategies as being the most common causes for conflict. The most common reasons for changing leadership according to the venture capitalists are to find someone with more sales and marketing expertise (83%) and operational leadership (63%).

Interestingly, 88% of CEOs and 73% of VCs say they do not have specific metrics for measuring board effectiveness. And while 60% of VCs have a policy in place for handling conflict of interest between their fiduciary responsibility to the company and financial obligation to limited partners, only 25% of company CEOs have a similar policy.

The Value of the VC Board Member

Venture capitalists spend an average of 12 hours per month per board while CEOs average 15 hours per month according to the survey. CEOs and VCs both cite the audit and compensation committees as the most common committees on which they sit. While 73% of the CEOs surveyed were comfortable with the amount of time their VCs are spending on board activities, 24% wanted more time. When queried about *additional* experience the ideal VC board member would bring to the table, 45% of CEOs cited more sales strategy and industry sector experience.

As for the primary benefits venture capitalists provide to a company board, both parties agree that VC expertise in raising new rounds of financing is most important followed by the ability to help recruit top talent to the company. Both parties also cited VC counsel on governance issues as beneficial.

"Venture capitalists add value to boards through the rich experience they gain by working with multiple companies and the pattern recognition that comes from this experience," observes Pascal Levensohn, founder and managing director of Levensohn Venture Partners. "VC's can normally see the strategic opportunities and obstacles more readily because they go to numerous board meetings monthly and see hundreds of situations

first-hand every year through their partnerships' portfolios. This depth of exposure makes the context of what is happening more obvious to the VC than to the CEO in many cases. Strong communication between the VC and the CEO can maximize the positive contribution from this complementary relationship," Levensohn added.

Three quarters of VC Board members were not compensated as individuals for Board activities. For those VCs who did receive compensation, nearly all received it in the form of stock.

Venture capitalists typically leave a company board within 18 months of an IPO or acquisition. However, the speed at which they leave varies with the exit. Eighty five percent of VCs are off a company board within six months after an acquisition while only 60% of VCs are off the company board within six months after an IPO.

The survey also explored additional areas of conflict, the use of advisory boards and outside directors, observers and other board practices. For a copy of the complete survey highlights, please contact Emily Mendell (emendell@nvca.org) or Michelle Jeffers (michelle.jeffers@dowjones.com)

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About VentureOne

Dow Jones VentureOne (www.ventureone.com and www.venturecapital.dowjones.com), a unit of Dow Jones Financial Information Services, has been the leading provider of finance and investment data to the venture capital industry for almost 20 years. Dow Jones VentureSource, a sophisticated electronic database on the venture capital industry, is published by VentureOne.

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About NVCA

The **National Venture Capital Association (NVCA)** represents approximately 480 venture capital and private equity firms. NVCA's mission is to foster a greater understanding of the importance of venture capital to the U.S. economy, and support entrepreneurial activity and innovation. According to a 2004 Global Insight study, venture-backed companies accounted for 10.1 million jobs and \$1.8 trillion in revenue in the U.S. in 2003. 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.