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Introduction

Chairman Paredes, Director Cross, Chief Laporte and representatives from the innovation capital organizations, thank you for the opportunity to address this Forum today.

Good morning. My name is Jim Jaffe and I am the President and CEO of the National Association of Seed and Venture Funds, located in Philadelphia, PA. Our association represents over 170 national and international organizations and has over 750 individuals engaged in seed and early-stage innovation capital creation. We are an organization of innovation capital leaders: private, public and non-profit organizations who are committed to building their local, regional and state economies by investing in local entrepreneurs - we are focused on Advancing Innovation Capital.

NASVF began in 1993 as an ad-hoc group of practitioners seeking the best models to encourage capital formation in their states, particularly for new technology ventures. These founders continued to meet each year and in 1997 formally incorporated the group as a not-for-profit named the National Association of State Venture Funds. The name was changed in 2000 to reflect the Association's expanding service to private sector funds and programs.

I want to thank the SEC and this forum for providing me the opportunity to comment at today's forum and the importance of small business capital formation in the U.S. NASVF's membership represents the seed and early-stage capital investment time period. These investments range from $100,000 - $2,500,000. This funding is provided by our members who represent:

- Individual Angel investors
- Angel groups
- Early stage Venture Capital organizations

- Government financed State and regional technology-based economic development organizations
- Federal government programs including Small Business Innovation Research and Small Business Technology Transfer (SBIR/STTR), Partnership Intermediary Agreements (PIAs) and other resources for early-stage companies including Cooperative Research and Development Agreements (CRADAs).
- Incubators, Accelerators, Service Providers, and R & D Companies

My colleagues joining me today: Ms. Hudson from the Angel Capital Association represents the same stage of investment as NASVF while Mr. Heeson's organization represents the mezzanine and later stages of investment. Each of our representative organizations have similar objectives; providing the much needed innovation capital to assist emerging technology-based enterprises in commercializing new technologies; create and retain high wage jobs and making America more competitive.

POSITION AND EXAMPLES OF INNOVATION PROGRAMS

We at NASVF are implementing several new initiatives that I would like to share with this forum, with a focus on activities with the U.S. Department of Agriculture, and the Agricultural Research Service (ARS) – the principal intramural research agency of USDA.

The annual research budget for ARS is over $1.2 billion. Research is conducted by 2,500 scientists in 21 National Programs at 100 locations throughout the U.S. Under the Stevenson-Wydler Act of 1980, and the Federal Technology Transfer Act of 1986, ARS is responsible for determining how best to commercialize the technologies that are developed by these scientists.

In realizing that the early-stage investment continuum was dealing with a shortage of start-up or seed funds, our national organization along with 8 regional technology-based economic development organizations formed the Agricultural Technology Innovation Partnership (ATIP) sponsored by the USDA Agricultural Research Service. The goal of this partnership is to strengthen and enhance opportunities for private sector partnerships with the ARS. This is accomplished through the licensing of ARS technologies, and/or through establishing Cooperative Research and Development Agreements (CRADAs) with companies that can successfully commercialize ARS innovations. The overarching goal of ATIP is to increase the number of private sector firms who invest in ARS technologies and to increase the impact and recognition of ARS research programs.

Membership in ATIP is formalized with a Partnership Intermediary Agreement executed by the Office of Technology Transfer on behalf of ARS. PIAs are specifically authorized by federal statute as a technology transfer instrument. Currently, only the Department of Defense and ARS are utilizing PIAs in a strategic manner.

There are nine economic development partners nationwide (eight have seed, angel, and early-stage investment programs) including NASVF that have chosen to enter into a technology transfer partnership with ARS as part of the Agricultural Technology Innovation Partnership program network. The Partners include:

- Maryland Technology Development Corporation
- Mississippi Technology Alliance
- Wisconsin Security Research Consortium
- National Association of Seed and Venture Funds
- Georgia Research Alliance
- California Association for Local Economic Development
- Kansas Bioscience Authority
- Center for Innovation at Arlington, TX

ATIP provides an effective network for the ARS, with each member serving as a conduit to a greater number of local state, or regional organizations, including venture capitalists and angel investors.

Technically, each of the partners in this network, are referred to as Innovation Intermediaries. The definition of an Innovation Intermediary is “An Organization at the Center of the region’s, state’s or country’s efforts to align local technologies, assets and resources to work together on advancing Innovation.”

The goal of the ATIP Network is to develop a seed fund for the partners to deploy through a 1 to 1 match. While state and regional economic development funding has been reduced by 30%-50% during this economic crisis, we want to attract new investors to this unique and rewarding investment opportunity.

NASVF works with an Innovation Coalition, a group of international organizations committed to promoting, advocating and communicating the benefits of innovation. The Innovation Coalition is a collaborative group of associations that supports each part of the continuum for commercializing university research to create companies that create jobs. The goal is to garner a better understanding of each other's missions and to work collaboratively to leverage resources and activities of these associations to maximize the impact of each and ultimately maximize job creation in America. Members include:

- Angel Capital Association - ACA (who is represented here today)
- National Business Incubator Association - NBIA
- Association of University Research Parks - AURP
- Association of University Technology Managers - AUTM
- State & Science Technology Institute - SSTI
- National Association of Small Business Investment Companies - NASBIC
- Community Development Venture Capital Alliance - CDVCA
- Association of University Research Parks - AURP
- Technology Councils of North America - TECHNA

Besides the lack of early-stage financing, there are several emerging tax credit issues that I would like to address.

ANGEL TAX CREDIT

The National Academies have cautioned that "without high-quality, knowledge-intensive jobs and the innovative enterprises that lead to discovery and new technology, our economy will suffer and our people will face a lower standard of living."

Our trading partners around the globe recognize the long-term value of R&D and have moved aggressively to implement generous and permanent tax policies that attract these vital investments to their shores.

The membership of the NASVF commends thoughtful application of lessons learned in modeling the Angel Investment Tax Credit legislation. Currently, 21 states have enacted legislation to enable Angel investors to take advantage of an innovative method for providing the much-needed capital for early-stage companies. NASVF believes that tax credit for investing in qualified early stage companies is crucial to enhancing the local and regional entrepreneurial business environment. Two examples are from Wisconsin and Minnesota:

- Wisconsin Act 255 provides tax incentives for investors in early stage companies. This has created a healthy angel community, which helps sustain that region's innovative early-stage companies.
- Minnesota's Angel Tax Credits provide incentives to investors or investment funds that finance startup and emerging companies focused on high technology or new proprietary technology. This Angel Tax Credit:
    - Provides a 25-percent individual income tax credit for qualified investors
    - Is refundable. Non-Minnesota residents, including residents of foreign countries, are eligible for the credit
    - Allows a maximum credit of $125,000 per year per individual
    - Allows a maximum credit of $250,000 for those married and filing jointly

NASVF believes that every effort should be made to take advantage of lessons learned in order to build an effective tax policy that helps sustain local and regional economic improvement on a national basis.

We urge a comprehensive legislative initiative regarding angel investor tax credits, with specific attention to the areas of immediate behavioral reward, venture eligibility, and investment eligibility.

IMPACT

Incentives must reward changed behavior, and to benefit our current economy, that behavior should change immediately. An incentive to invest in early stage companies must be one that encourages immediate action. To do that, the incentive must have an expiration date and be of a high enough value to warrant action. We recommend a five-year term on the credit; with a three-year carry forward/ carry back provision. A 25 – 30 percent credit for the total investment would elicit action, and the investment should be held for three years or the tax credit could be recaptured (with the exception of a liquidation of the business). Alternatively, a 10 percent credit awarded every year for the first three years of investment would assure patience in exiting and multiple years of capital investment.

VENTURE ELIGIBILITY

Care should be taken to define the types of ventures that would be eligible for the investor to receive the credit. We recommend qualifying such ventures as per the exclusion 1202 (e) (3) in the IRS code, as well as excluding ventures that are shell companies, real estate or life style businesses.

INVESTMENT ELIGIBILITY

Legislation should also define how the investment funds might be used if they are to qualify for a tax credit. We recommend excluding investments to repurchase or redeem shares, funds invested by family members, and capping investments to $2 million per taxable year and with a maximum in any one venture capped at $1 million.

CLOSING

Supporting and encouraging angel investment will allow local businesses to create high-skill, high-wage jobs, resulting in a positive economic impact in local, regional, states' economic growth. We support proper legislation that rewards immediate investing in qualified early-stage ventures. The ATIP partnership program and the Innovation Coalition are two of many new and innovate initiatives that we at NASVF are engaged in to "move the needle" that will hopefully produce new and additional innovation capital for America's emerging technology-based enterprises. In closing, I strongly support the national Angel Investment Tax Credit legislation, as it is an extremely important component of America's Innovation program portfolio.

I would like to thank you for the opportunity to present my view to this Forum on behalf of the board and membership of NASVF.