

THE STARTUP MOVEMENT

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

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Questions for the Record:

None.

Answers for the Record:

None.

Additional Material for the Record:

None.

THE STARTUP MOVEMENT

WEDNESDAY, NOVEMBER 20, 2013

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,

Washington, DC.

The Committee met, pursuant to call, at 1:00 p.m., in Room 2360, Rayburn House Office Building. Hon. Sam Graves [chairman of the Committee] presiding.

Present: Representatives Graves, Luetkemeyer, Hanna, Schweikert, Collins, Velázquez, Clarke, Schrader, Payne and Barber.

Chairman GRAVES. Good morning, everybody. I want to thank all of our witnesses for being here today.

Today's hearing, we will examine a growing trend across America, which is the rise of startups and what that means for the United States. The term "startup" is often synonymous with high growth and innovation. While certain areas such as Austin or Boston, New York, and the Silicon Valley traditionally have been hubs for startup firms, in the past few years we are seeing the startup trend expand to much less obvious communities, such as Kansas City, which is obviously my backyard.

On this Committee, we frequently highlight the benefits of small businesses to the American economy, and we know that small firms create the bulk of net new jobs in this country, but interestingly enough, research has shown that, in fact, it is a particular subset of small firms which are startups that are actually leading the way in terms of job creation. Further, a report by the Pacific Research Institute estimates that in a given year each net job created by startup firms increases a state's gross product by almost \$1.2 million, shedding light on the significant benefits growing startups can have on our local economy.

The terms startup and small businesses are sometimes used interchangeably. However, startups frequently have unique characteristics that distinguish them from the vast majority of traditional small businesses. Given this, the Committee is going to examine how startups operate and whether the differences between startups and small firms are, in fact, substantial enough to necessitate different policies.

Today, we are fortunate enough to have a panel of witnesses from all across the country, including areas traditionally not viewed as startup hotbeds where the trend is rapidly expanding. I want to thank all of our witnesses again for taking the time away from your jobs and making the trip here to Washington for this

very important hearing, and I very much look forward to your testimony.

Now, I will turn to Ranking Member Velázquez.

Ms. VELAZQUEZ. Thank you, Chairman Graves. Please bear with me. I am recovering from a bad cold.

When we think of a startup business, the early days of Apple or Google usually come to mind. The stories are familiar. Hard-working entrepreneurs who took extraordinary risks to beat the odds. Like these companies, most successful startups have three things in common—a new product or service, extreme risk-taking due to uncertainty of the marketplace, and leadership that can navigate the complexities of today's economy. Getting these three factors to align is the hardest part. On average, only one in three startups makes it to the tenth year, but when they do, high growth firms create new markets, increased competition, and attract other enterprises to provide support. As a result, startups have a disproportionate positive impact on job creation. According to the Census Bureau, they create jobs at nearly twice the rate of the nation's annual net job growth rate. By starting new endeavors and developing cutting edge products, entire industries, as well as the overall economy, are renewed and energized.

During today's hearing, we will have an opportunity to examine the unique role that entrepreneurs and startups have played in the current economic recovery. One of the biggest obstacles facing startups is the lack of financing. According to the most recent Wells Fargo Gallup Small Business Index, 30 percent of small business owners still feel credit is difficult to obtain. Capital is the life blood of small businesses, but particularly for startups and high growth businesses that do not yet have positive cash flow. Traditional bank lending via loans is ill-suited to the high-risk nature of startups. Fortunately, there are still a multitude of funding sources for new firms to choose from, including the SBA's SBIC program, angel investors, private equity, venture capital, and crowdfunding.

Another area critical to the success of a business is technical assistance. SBA programs assist entrepreneurs by providing tailored education on everything from marketing to procurement to international trade. For a startup, this expertise can often make the difference between failure and long-term growth. These initiatives, like the Small Business Development Centers, have proven to be effective in delivering counseling and assistance to millions of entrepreneurs across the country. While the SBDC network is the SBA's largest entrepreneurial assistance program, it nevertheless faces challenges. With lower budgets and increased levels of demand, it is between a rock and a hard place. The burden of further budget cuts should not be placed on the backs of job creators who rely on these resources to succeed. Bringing new products to unproven markets is inherently risky. As a result, startups face a number of unique challenges—obtaining financing, managing operational processes, and addressing human capital issues.

Today we will hear from experts on the cutting edge of the startup movement who can provide the best ways to support the innovative spirit of America.

In advance of the testimony, I want to thank all the witnesses who traveled here today for both your participation and insight into this important topic. Again, thank you, and I yield back.

Chairman GRAVES. Thank you very much.

We will introduce the witnesses. We are going to have a series of votes unfortunately, probably in the neighborhood of 1:15 to 1:30, somewhere right in there, which we will recess and then we will come back. But I apologize for that. The vote schedule is a little bit different all the time, unfortunately.

Our first witness is Adam Arredondo. Mr. Arredondo is the co-founder of the Kansas City Startup Village. The Kansas City Startup Village is led by local entrepreneurs to strengthen and invigorate growth throughout the Kansas City Startup community. In addition to his role at the Kansas City Startup Village, Mr. Arredondo is also the CEO and founder of Hoopla.io, which was recognized by Turnstone as one of the “15 Best Young Companies to Work For.” Thanks for being here, and I look forward to your testimony.

STATEMENTS OF ADAM ARREDONDO, CO-LEADER, KANSAS CITY STARTUP VILLAGE; ALLISON LAMI SAWYER, CEO AND FOUNDER, REBELLION PHOTONICS; JEFF REID, FOUNDING DIRECTOR OF THE GEORGETOWN ENTREPRENEURSHIP INITIATIVE, MCDONOUGH SCHOOL OF BUSINESS, GEORGETOWN UNIVERSITY; ANTON GELMAN, CEO, CONT3NT

STATEMENT OF ADAM ARREDONDO

Mr. ARREDONDO. Thank you very much. I think it is very fitting that this week is Global Entrepreneurship Week. So Happy Global Entrepreneurship Week to everybody.

But, yeah, outside of running my two companies—I have two Internet startups—I am also one of the co-leaders at Kansas City Startup Village. Kansas City Startup Village is an entrepreneur web effort that ended up starting September of last year with five startups and three properties within half a block of each other in the first neighborhood in the world to get Google Fiber. Not planned. There is no blueprint for what we are doing. But fast forward 14 months, and there is now 13 properties, 25 startups. We have had people visit and investigate what is happening there from over 45 different countries. We have also had people move there from 12 different states, and we have created over 70 jobs. All of that with zero outside funding.

And so there are a few takeaways that are big. One is that it is entrepreneur-led. One of the things that is critical to really building sustainable startup communities is that entrepreneurs are at the forefront of it. Government corporations and universities are absolutely critical to that but their role is to support the entrepreneurial-led efforts. And me being here today is a perfect example of that. I could not afford the travel as an entrepreneur and my company could not either, so I reached out to some of the supporters in the community, and actually, the Wyandotte County Economic Development Council helped me get here so we could tell our story. And that is a small example, but an example of how all these pieces need to work together.

Another key part of what we have built in the village is what we call startup density. And we talk about serendipitous collisions all the time. So many good ideas and collaborations come from entrepreneurs, like-minded, innovative people being close together in physical proximity leads to more of those collisions, and those have played a huge part of the success of the village.

And one other thing about the village is that although Google Fiber is something that is unique to Kansas City—it is the only city in the world with it—it is the community that we have built that keeps people there. A good example of that is a 22-year-old entrepreneur that moved from Boston actually to Kansas City, he came because he wanted Google Fiber and there was a program there that offered him three months of free rent. And he was coming to mooch a little Google Fiber and leave, but he decided to stay because he said it is such an awesome community and he wanted to be a part of it.

So like I said, we have had a lot of people come from around the world to see what we are doing, and we get asked the question all the time about small businesses versus startups. And one of the key things, and I am sure you have heard it, is a startup does not desire and does not look to become a small business. They want to become a large scaling company, an innovative company, a game changing company. And so that is one of the differences. And with that come different needs. And so one of the big needs as everyone knows is financing, and all of the traditional loans and SBA loans are all asset-based. As of yet, patents, mobile apps, algorithms cannot be converted for a loan. So honestly, I do not even spend any time trying to get any of those because I do not qualify.

But I have been lucky to find a couple of grants through local organizations that we have been able to take advantage of. One was an H-1B grant through Workforce Partnership in the state of Kansas. We have a relationship with them, and it is for IT on-the-job training. And we have been able to use that to hire six employees. The Village has used it to hire 23. Another one is an i6 grant that UMKC got. And through a program called Digital Sandbox, they have been able to fund over 20 different startups. Again, the key takeaway here is that I engage with the local organizations focused on entrepreneurship and they have relationships with us and know what we need. All of these different communities are different around the country. And so what I would recommend to you guys is to focus how do you get more resources into the hands of the organizations that interact with us on a daily basis so they can find the most appropriate ways to allocate and distribute that funding.

So thank you very much for listening, and I look forward to questions.

Chairman GRAVES. Thank you very much.

Our next witness is Allison Lami Sawyer. Ms. Lami Sawyer is the founder and CEO of Rebellion Photonics located in Houston, Texas. Rebellion Photonics looks to promote safety by building cameras that can spot poisonous and explosive gas leaks on oil rigs and refineries. And in 2012, Mrs. Sawyer was named by INC Magazine as one of the 30 Under 30 and most recently, just a couple of weeks

ago, as a matter of fact, Rebellion Photonics won the first annual Wall Street Journal "Startup of the Year" competition.

So welcome to the Committee. Thank you for being here.

STATEMENT OF ALLISON LAMI SAWYER

Mrs. SAWYER. Thank you for having me.

So again, I am Allison Lami Sawyer, CEO and cofounder of Rebellion Photonics. We are an optics startup spun out of Rice University in Houston, Texas. And what we do is solve some of the world's largest problems using optics. And how I would differentiate startups versus small businesses and really compared to all other businesses is startups are truly the powerhouses for engineering innovation. Once upon a time, most innovation happened in the labs of IBM, GE, the Halliburtons. That is not how it is anymore. Now, most large companies have moved their R&D budget and made it an M&A budget, mergers and acquisitions, especially in hardware. So your heavy industry or oil and gas safety, like us. So hardware startups like us or heavy tech like us, we are truly the ones pushing forward engineering and innovation in some of these really difficult problems the world faces.

So Rebellion Photonics, our main product right now is for oil and gas safety. It is called the Gas Cloud Imaging camera. And what we are trying to solve is imaging explosive gas leaks on oil leaks, like Macondo, or refineries before they explode. Current technology is abysmal. It is point detectors that alarm up to 10 times a day. That is why they are ignored. For example, Macondo, they muted the alarms for two days. To be fair, if you got 10 alarms a day you would mute it, too.

So seven guys and myself down in Houston, this is the problem we are facing and that we are trying to solve. And we were successful. So we started launching our first full scale installations January of this year. BP was our first customer. We have also signed on Chevron, and we are looking to get all Big 5 oil companies. For seven people, Houston, Texas, tiny, barely cash flow positive. We are doing a \$10 million raise right now hoping to close soon, but this just gives you an idea that it is really not the big companies of the world that are changing these massive problems. It is the small startups all across the country. So that is how I would define startup.

Two things I would like to add are one way you could help us is with IP, and then there is Bill 3309 in your Judiciary Committee today, actually. Great bill, but there is a Section 18 in the bill that really waters it down. So I am always afraid larger companies or patent trolls are going to sue me, even if they know they will lose, and they know they will lose because our IP is very strong. But they will sue me just to put me out of business so they can get a cheaper acquisition price. It happens all the time. So that is where I am coming from. It literally keeps me up at night. Even though we have worked so hard, it could all be taken away from me because of a lousy trick like that.

And then a second thing is procurement. So we are focused on oil and gas. We do do a little with defense, mainly Air Force. So our cameras could also be used in drones. We could make an amazing drone camera. So our cameras do not just see colors; they actu-

ally see chemicals. Basically, they know what they are looking at. Bad guy gets into a 1957 Chevy. I can track him forever. So fewer mistakes with the drone attacks, et cetera. So this could really affect world affairs on a minor level, but we are not going to be doing that product, even though it could be such a special product because defense procurement is so complex and the infrastructure that I would require to do that product is not worth it.

So when you are thinking of definitions and why you are changing a definition, especially if you are going to overhaul procurement or do anything with procurement, keep in mind we have so much to offer, especially defense, and we could do it faster, better, cheaper, but right now with procurement I cannot give you that product. And I want to. So it is something to keep in mind.

Anyway, thank you for your time.

Ms. VELAZQUEZ. Yes. It is my great pleasure to introduce Jeff Reid. He is an adjunct professor of Entrepreneurship at Georgetown University. Mr. Reid is an expert in the arenas of entrepreneurship, venture capital, startups, technology, and economic development. In 2009, Mr. Reid launched the Georgetown Entrepreneurship Initiative to capitalize on entrepreneurial thinking and launch new companies. Mr. Reid previously held leadership roles at the University of North Carolina at Chapel Hill, where he grew the Entrepreneurship Initiative to a number one national ranking and was chosen by his peers as one of the top directors in the United States. Mr. Reid earned a Bachelor of Science in Business Administration from Appalachian State University and an MBA from the University of North Carolina at Chapel Hill. Welcome.

STATEMENT OF JEFF REID

Mr. REID. Thank you very much for inviting me here. I am excited to be here because I am passionate about helping entrepreneurs. It is what I get up in the morning just raring to go every day, and I am also to say Happy Global Entrepreneurship Week. This week around the world there are tens of thousands of events in over 140 countries to celebrate entrepreneurship. So it is great to be here, particularly during this week.

I do feel like I have the best job in the world. I get to work with students at Georgetown University, these young people who want to change the world through entrepreneurial pursuits. And I also get to work with experienced entrepreneurs who have already been there and done that and who want to help out our students.

The first main point I would like to make today is that we all are and can be entrepreneurs. I had the great pleasure of hosting Professor Muhammad Yunnus, Nobel Prize winner, at Georgetown University, and one of the things he is famous for saying is that all humans are entrepreneurs. The point he is making is that going back in human history, if you were not entrepreneurial, you just did not survive. It is only in recent centuries that society has grown in ways that suppressed that entrepreneurial nature that is within all of us.

Now, the wonderful thing is in recent years the world is changing in ways that make it so much easier for that entrepreneurial spirit to come out, and so we are seeing that across the United States and around the world, more and more startups, more and

more entrepreneurs are doing the things that they are great at doing. And that is awesome because entrepreneurs and the startups they create are among the most powerful drivers of positive change in our society. Entrepreneurs solve problems, they create jobs, they provide value for their customers, they create wealth, and they lift up the communities around them. And I know that is why we are here to celebrate and learn more about entrepreneurs.

But as has already been mentioned, people have a wrong impression of entrepreneurs. You know, when you ask, and I do this on the first day of my class, I say what do you think of when you think of entrepreneurs? And the common answer is just what you would expect. It is Bill Gates, Steve Jobs, it is these tech businesses, these folks that have become billionaires. But entrepreneurs are not just the techies in Silicon Valley. You have seen some good examples here already today, and there are so many more all around our country. They come in all shapes and sizes. They are in every one of your districts. And we need more of them.

So being an entrepreneur is just as much about a mindset, in my opinion, as it is a career choice. You can work in a startup that somebody else founded and be entrepreneurial. You can work in a large company and be entrepreneurial. You can work in a non-profit, maybe even for the government, and be entrepreneurial. But what does that mean? If you are not the founder of a startup, how do you be entrepreneurial? What it means is embracing change, understanding risk, living with ambiguity, evaluating and seizing opportunities, solving problems, finding creative solutions, and being relentless in the pursuit of your goals. Those are all qualities that anyone can bring to their life and career. And it turns out those are skills and mindsets that can be taught.

And that leads me to my next major point, is that entrepreneurship can be taught. Education matters. It is not true that every entrepreneur just wakes up in the morning and is struck by lightning, has a brilliant idea, and the next thing you know they become a millionaire and raise money and all that is good. It turns out there are so many things that you can learn in a university or other educational environment about how to be a great entrepreneur. And colleges and universities like Georgetown and so many others across this great country have been doing this for a long time and are getting better and better at it. And it is of critical importance because our education system has traditionally taught people how to be part of a large organization. And that is one of the things that we should really look at is are we teaching people how to be entrepreneurial or are we teaching them how to be just a small cog in a big hierarchical machine?

So what can Congress do to help? First and foremost, help us celebrate entrepreneurs. Let us celebrate startups. Let us recognize as we have started to do here today, that startups are not the same as small businesses. There are huge differences. And the ways they just consider themselves are so different. We would love to invite you to elevate the stories about entrepreneurs in your own districts, attend a startup weekend, just really get to know these folks. Immerse yourself in the process. Support the educational efforts in your communities around entrepreneurship. If you do not

know who in your community is leading entrepreneurial education efforts, I will help you find them. And be relentless in finding the solutions to the problems you face. Be entrepreneurial yourselves. It is an amazing thing that we have this entrepreneurial revolution in a country that is really known as one of the best—as the best in the world for entrepreneurship. Let us keep growing that. And thank you very much.

Chairman GRAVES. With that we are going to have to recess for a short time. I apologize, Mr. Gelman. We are going to have to recess for a series of votes. It is going to be a little bit longer than normal but we will immediately reconvene. And my staff will be here to answer any questions if you are curious about when we will be back or where the bathrooms are and that sort of thing.

But with that, we will recess until after this vote series.

[Recess]

Mr. LUETKEMEYER. Let us gavel this back in order. I apologize for the delay, Mr. Gelman.

Our final witness, Mr. Gelman, is the CEO of Cont3nt located in Dulles, Virginia. Cont3nt is a real-time market for photo and video journalism. Since Cont3nt's founding approximately one year ago, Mr. Gelman's company has received numerous honors, including winning "Distilled Intelligence 2.0" and Startup America's "TechBuzz Challenge 2012." Most recently, Mr. Gelman was named to Tech Biz Now, a list of 30 Under 40. Thank you for taking time to be with us, and you may begin.

STATEMENT OF ANTON GELMAN

Mr. GELMAN. Thank you very much. It is wonderful to be here today. Hello, Congressmen and Congresswoman.

So again, my name is Anton Gelman. I am the CEO of a company called Cont3nt.com. We are a real-time market for breaking news. We enable media companies and freelancers in places like Egypt and Syria and here in the U.S. to take that amazing photo or video that they shoot and in real-time sell it to the likes of CBS or NBC or the local paper, get paid for it in real-time, have it on the air in a half-hour. We are building an eBay for breaking news. Or to put it a different way, we are trying to create a global free market for free press.

Since we launched a little bit over a year ago, we now have 24,000 journalists in our system, over 2,000 media companies, in 25 countries. By the end of this year, we are going to be in 60 countries, and by the end of next year, if all goes well, we will be in every country in the world.

I am responsible for creating five jobs, including my own in the U.S., as well as an additional four jobs abroad. And we are expanding rapidly and really kind of are in the growth stage of startup. We are not a lifestyle business. We are a growth company. And actually, this right here, this is three-fifths of all of our assets, of all of the physical infrastructure that we have. The other two fifths, the other two laptops, are currently in use at our office. We own no office space. We have no furniture. We lease it from the startup accelerator where we live. All of our assets are in intellectual property, they are online, they are in the cloud, and they are based in

the customers and the relationships that we have built. And this is very different from the traditional definition of a small business.

We are not a small business. We are a big business in the making. We think, and companies like ours, think like GE, not like the ma and pop shop across the street. Actually, I have been on both sides of the border. I have done a number of small businesses. My family actually immigrated here from the Soviet Union in search of the American dream. And I have run small businesses since I was like 12, and I have a tremendous amount of respect for people that do it. But the startup that I run right now is a very different thing. We act very differently, and we think very differently, and we require very different resources.

So basically, a startup is not a storefront. It is a rocket ship. And I say this with complete seriousness. A startup is defined by its growth and its pace. And the big trick is that when a company grows from one person to 100 people in 12 months or in two years, that is something that the pace of that has not been met with policy or legislation that is appropriate to how it scales.

So basically, one of the things that I would urge everyone in Congress to think about is to find ways to address these incredibly fast-paced companies with legislation that allows government programs to act much faster, to be able to enable a pace that is synonymous with what America has kind of been known for—for its leadership and entrepreneurship. For its leadership around the world with companies like Google and Facebook and LinkedIn and almost every other major company based in the U.S.

Aside from a very rare exception, like for example, SBIR, which is at least somewhat palatable to a startup, most other programs, like even the wonderful SBA loans, they are impossible. I mean, this is our collateral right here. There is no way that we have two years of track records and any kind of credentials that we need in order to actually get those kinds of loans. And yet, it is quite likely that we will have more jobs in 12 months than five businesses of the same size.

With the adoption of the Jobs Act and kind of the beginnings of crowdfunding and immigration reform, this stuff has been hitting its stride, and I love that it is actually coming to the forefront of policymaking. But still, it is pretty much in its infancy right now. I love that it is being done but we are at the very beginning of that process. Basically, it has yet to become very truly useful to the startup economy.

I will give you an example of some of the things that do work, for example. Obviously, the policies in place are working kind of—are getting there. But, for example, in D.C., just down the street, so we work out of a startup accelerator about seven blocks away, and it was funded by \$200,000 of D.C. government money. So \$200,000, as you know, is a very, very small amount of money. That allowed them to set the baseline to seed that investment that they now have a \$2.5 million run rate within four or five months. Two and a half million dollars run rate that they have collected on their own that funds his business. They have 170 companies working out of there. Over 300 jobs have been created off of this tiny, tiny investment. And the reason it was done was because the D.C. government went out and acted very quickly. They allowed the

minimal amount of investment to be signed quickly and to be delivered.

And so I thank you again for being here, and I would just offer that we move faster and we try to put in legislation that targets this incredibly fast-growing pace of companies. Thank you.

Mr. LUETKEMEYER. Thank you.

We will enter the question and answer phase here. Keeping with Chairman Graves's model, I will defer to the end, and with that I yield to Congressman Collins for the first round.

Mr. COLLINS. Thank you, Chairman. And thank you all for coming.

Point of reference, I have spent my life in small business and involved in startups, and through the Center for Entrepreneurial Leadership at the University of Buffalo I have mentored over 200 companies the last 20 years. And I will tell you in true disclosure, I have spent most of my life buying startups after they fail. So I am known as the second owner. So after the startup overestimates sales, underestimates expenses, overestimates margin, and underestimates the difficulty of growth, I step in as the second person and then help them go to the next phase after basically they have had problems with the original investors, et cetera. So really, what I have seen is most companies do just that—overestimate sales, underestimate expenses, overestimate margins. And really, that is what makes them entrepreneurs, their optimism. And the optimism gets in the way. But more than not, they are undercapitalized. They are undercapitalized because they do not want to give up ownership. It is their idea. They want 100 percent and they will give you 1 percent for a lot of money because it is their idea. So typically, they run out of money. And when you are running out of money, that is not the best place to go.

So I am really intrigued, Mrs. Sawyer. Startup company, you raised 1.1 million, and part of what we do at hearings is to send a message out to other small business folks. So I hope I am not asking for anything too confidential, but to raise the 1.1, was that friends and family or was that venture? And how much of the company did you have to give up to get the 1.1 million?

Mrs. SAWYER. You are not going to like my answer. I have given up zero percent because it is debt. I was able to raise convertible debt. And in my next round though, we are doing a \$10 million equity.

Mr. COLLINS. I was going to ask you about that as well.

Mrs. SAWYER. That is a proper equity round, and I cannot disclose that. That will be a minority investor, but they are getting a sizeable chunk with pretty normal negative covenances in the deal. So that will be a more traditional round.

Mr. COLLINS. Well, I am intrigued. You do not consider convertible debt dilution?

Mrs. SAWYER. We were able to buy it back. It did not convert.

Mr. COLLINS. Oh, you had the option to buy it back?

Mrs. SAWYER. Correct.

Mr. COLLINS. They did not have a put?

Mrs. SAWYER. Yeah. I love a good contract negotiation.

Mr. COLLINS. Wow. I guess I am never going to do business with you.

I just wonder if anyone else—now, I was also intrigued somewhat, Mr. Reid. You were saying a startup is not a small business, so I almost find that—I cannot reconcile that. By definition, a startup is one person, five people. That is a small business, and I would think a startup needs capital and they need a business plan and they need a vision, and health insurance, and a phone system. So could you explain why you say they are not?

Mr. REID. Sure. Technically, by definition, yes, you can say if you have a very small number of people, whatever, it is a small business. But as Anton pointed out I think pretty eloquently a few minutes ago, he, in his startup, and most of the startups that I work with, they do not think like a small business. And so that was the main point I was trying to make is that there are small businesses that do important things in our economy and they are happy to remain small businesses. But if you are an entrepreneur who is launching a startup company, then you are thinking more like how is your business going to grow in scale beyond the phase where it is a small business.

Mr. COLLINS. Yeah. Now, I suppose that in what I will call the Internet software world that is probably very true. If you are making widgets, I do not know if it is quite that much. I wonder, Mrs. Sawyer, do you actually make your cameras?

Mrs. SAWYER. Oh, yeah. Right in Texas near Reliant Stadium where they have the rodeo. It is quite fun.

Mr. COLLINS. All right. So let us see. Five years out, where are your sales going to be?

Mrs. SAWYER. Five years out, over \$100 million.

Mr. COLLINS. Wow. Okay. Can I write that down and call you in five years.

Mrs. SAWYER. Of course.

We have had over 2 million in revenue so far, so I bootstrapped the company. So when I cofounded the company I was 25 years old in Texas with a proof of concept, so realistically, no one was going to give me funding. So we had to bootstrap. And one of the ways we were able to do that is (a) we started selling product. Just whatever we had. We do contract work. But we also did get two SBIRs that were very helpful. So they were a huge part of our initial growth. I do not think the SBIR system is perfect. I think it is really great for research. When it comes to actually developing product it is a little slow. For example, we have a contract with the Air Force, and the way the SBIRs are structured, they are very structured. You know, there is phase one, phase two, phase three, then you do a joint with a large developer, eight years minimum. It does not take me eight years to develop a product. It is unnecessarily slow. I mean, the government is my customer. I could do a better job for the customer but they have tied my hands. It is really odd. Really odd.

Mr. COLLINS. Well, thank you. My time is expired. Mr. Chairman, I yield back.

Mr. LUETKEMEYER. Thank you. Thank you. We will yield time next to the ranking member, Ms. Velázquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Reid, according to a recent report on small business formation, half of all startups fail within the first four years due mainly

to the lack of capital. So that is a big challenge. To combat this trend, many market participants have hyped crowdfunding as the future of small business finance. Do you think crowdfunding is going to help more of these businesses survive and become established job creators?

Mr. REID. Yes. Thank you very much for bringing up crowdfunding. It is a big topic in the startup world. And I think it absolutely will help. I do not think it is perfect, but I think it is a wonderful way to bring more capital to the market. I am actually wearing a watch today that I bought from Kickstarter from an entrepreneur that was a Georgetown student. She started a watch company. And this is an important way for her to raise capital, and I think it is great that more and more companies are finding crowd funding as a way to get that early funding that will help them grow.

Ms. VELÁZQUEZ. Do you see any unforeseen risks or concerns?

Mr. REID. Sure. You know, just like any other system, there are potential challenges there, and there absolutely will be problems where someone does something unethical. And I think there will be a lot of people who even do have the best intentions who lose money, either from the entrepreneur's point of view or the crowdfunders. And I think that is the key issue; that people have to understand and expect what the reality is. There is a lot of risk in these businesses and a lot of people will lose money. And those who are investing need to be really careful to know as much as they can about the companies they are putting money into.

So those things are always going to exist. But the great thing about crowdfunding is it does allow people to find those entrepreneurs that they really want to support. So yes, there are some challenges and risks, but in general it is going to be an exciting time to see how that grows.

Ms. VELAZQUEZ. Thank you.

Mr. Arredondo, this is in line with the question that was made before by my colleague, Mr. Collins. A frequent complaint from entrepreneurs receiving venture capital investment is that some control over the company is often sacrificed as a condition of the equity they receive. Do you believe that this is a serious shortcoming with equity investment?

Mr. ARREDONDO. No, I do not. I mean, to me it is part of the game. We got into it knowing if we are going to raise investment capital, we are going to be giving up part of our company. The way I approach it is if I raise a million dollar round, I expect to grow my company several times, if not many more times beyond that; that it will generate far more value. So even if I give up 25 percent of the company, I expect my company to grow in value threefold. So I do not view it as a negative at all, and honestly, I view it if you are in a position where you can actually negotiate with different investors, that it is an opportunity for me to select the one that brings the most value to my company. So I do not view it as a negative in any way.

Ms. VELAZQUEZ. Mrs. Sawyer.

Mr. SAWYER. Well, it is interesting. So the venture capital community, especially coastal, they are a tight knit little club, especially if you look at the demographics where they get investment.

For example, I am in the hardware business, also in oil and gas. I have never even met a female investor in my space. So you do get some interesting problems with that for minorities. I mean, it is strange to call a woman a minority. We are 51 percent of the population, but there you go.

So that is why I am kind of excited to see some of these Kickstarter and different models for investing. Anything that adds a little more competition to a market I think is good. So that is why I want to see more competition on the investment side. We focus a lot on the entrepreneurs, but quite often it takes two. And while I am seeing lots more diversity on the entrepreneur side, I am not seeing much movement on the investment side.

So anyway, on the whole I think it is fine, although for minorities it can be an issue.

Ms. VELAZQUEZ. I would like to discuss the federal procurement marketplace. What are the type of challenges that you have faced? There are some contracting programs that have been established to help women entrepreneurs access the federal marketplace. So if you could share with me the challenges that you have faced?

Mrs. SAWYER. Thank you.

So I have worked with the National Institute of Health, Air Force, and I am beginning to work with ARPA-E. I have talked a little bit with ARPA-E. I do not know what that stands for actually. DARPA Energy. And then we have discussed a little bit with DARPA. And it is kind of interesting because with the big Air Force, Army, those big DoD offices, it is virtually impossible for us to pitch a product. What they make us do is partner up with a large—like Lockheed, for example. But when you go to do a deal with Lockheed, they want to own all the IP, where all we are worth is IP. I mean, it is really, I will say, impossible for me to go directly to Air Force. So one route I have is the SBIR which we discussed. I can do a product in basically a year and a half, sometimes quicker. They will not let me deliver a product in less than eight years, up to 14. What were computers like 14 years ago? It is pretty much the same with cameras. It blows my mind. It blows my mind, and I really kind of find it quite tragic because especially for the Air Force, we have the designs ready to go for a stunning drone camera. So we are in the field of hyperspectral imaging which has been used, for example, when they captured Bin Laden. Hyperspectral was used. But what they have to do is to fly the drone over, take it back to a super computer, process the data in like three days, and then they will have some answers for you. We do that in real-time. The drone actually sees in real-time. So it is a very cool product and could have real consequences.

You will not get it for a decade minimum, and frankly, I am not even going to—this is sad, but I am choosing not to do any focus on defense, and it is tragic because we are tech people. We love to see cool products, and it is really heartbreaking. So on the procurement side, cannot go directly to Air Force. SBIRs take too long.

And so a change I would like to see is right now preference is given to procurement companies that have a long track record. Oh, wait, Lockheed has been around longer than I have been born, times two. I want to see the reverse. Okay? I want to see pref-

erence given to startups because I have the IP. I have it, not them. They do not have the internal R&D houses like they used to.

And by the way, ever since sequestration, these big defense contractors are getting nasty. I mean, it is getting really rough out there. And I feel for them. I do. I am from Huntsville, Alabama, where we have a lot of defense contractors, but they are an example of companies who are suing startups so that we run out of cash, which happens so quickly because we are undercapitalized, like Mr. Collins said, and then they can get a quick acquisition. Buy us cheap and dirty. Oh, it is tragic.

Ms. VELAZQUEZ. Thank you. Thank you, Mr. Chairman.

Mr. LUETKEMEYER. Thank you. Good long questioning.

Congressman Hanna.

Mr. HANNA. I am going to give my time to Mr. Collins. Thank you, Chairman.

Mr. COLLINS. Fellow New Yorker. Thank you very much, Mr. Hanna. He said I was having too much fun. So I am going to have some more fun.

When I mentor folks, everyone should have a vision statement, a vision statement you could deliver in 10 seconds or less. So you are on, Mr. Arredondo. Vision. Vision of your company. Vision statement your employees know, you know, et cetera.

Mr. ARREDONDO. Yeah. So we want to change the local event space entirely. Right now there is—

Mr. COLLINS. You flunk.

Mrs. Sawyer.

Mrs. SAWYER. Rebellion Photonics vision is to change some of the world's largest problems using groundbreaking optics.

Mr. COLLINS. Kind of okay. A little general.

Mrs. SAWYER. I usually do oil and gas.

Mr. COLLINS. Mr. Gelman. I am skipping Mr. Reid because you just help other entrepreneurs.

Mr. GELMAN. We are building a global free market for free press. That is our vision.

Mr. COLLINS. Okay. So now have some more fun. Your 30-second elevator speech that you give to an investor. Who wants to go first? Thirty second elevator speech, go.

Mr. ARREDONDO. Imagine the beer industry without beer distributors. You would not be able to get the beer into the hands of all the places you would buy it from. That is what is happening with local events. All the people organizing events have no one to distribute their events to the places people look. We are a local event distributor that is solving that problem.

Mr. COLLINS. You did not tell me how much money I am going to make or how much money you need. Or who is your competition. Go ahead, Mrs. Sawyer. We are having fun.

Mrs. SAWYER. The oil and gas industry loses a trillion dollars worth of oil and gas into the atmosphere every year. Dozens of Americans are killed on oil rigs and refineries, and it is all because they cannot see the gas leaks before they explode. We are Rebellion Photonics and that is exactly what we do. We are solving a \$2 billion problem with our Gas Cloud Imaging cameras which we designed in-house three years ago. We started our first large-scale in-

stallations January of this year. We are doing a \$10 billion round and we expect to sell for around \$450 million within three years.

Mr. COLLINS. Pretty good. Pretty good. Mr. Gelman.

Ms. VELAZQUEZ. Would you mind, Mr. Collins.

Mr. COLLINS. Go ahead.

Ms. VELAZQUEZ. I am glad that BP is your customer.

Mr. GELMAN. My company, Cont3nt.com is a real-time market for breaking news where we enable media companies and freelancers in places like Egypt and Syria and here in the U.S. to occupy Wall Street and the like to take that amazing photo or video that they shoot and in real-time sell it to the likes of CNN or BBC, get paid for it in real-time, and have it on the air in a half hour. We are like eBay for breaking news. We are actually not raising very much money right now, but we are expanding globally and join us.

Mr. COLLINS. Good. Now, just in fairness, because I am a vision mission core value guy, if you go to my office, the vision statement is published, my six core values. And so when I came to Congress I had to say why am I here. So my vision in every e-mail you get from me or any of my staff, including two of them that are sitting there will say, "The United States of America will reclaim its past glory as the land of opportunity, providing a bright future for our children and grandchildren." That is it. That is the vision. That is what I am doing here. Then you say, and how do we make it happen? And how do we cast votes? Six core values. And again, very succinct. "A firm belief." Nydia, you might not agree with all these. We will see. "Smaller government, personal accountability, local decision-making, fiscal discipline, and a government that serves taxpayers and respects future generations." I try for that to be as bipartisan as possible. So when we cast votes, there you go. So for my employees, same thing in the companies, vision, values. And so those folks that I mentor and help, I just try to simplify things down to succinct sound bites, whether it is talking to an investor, a bank, your employees, your vendors.

Comments? Do you have a value statement as well as a vision statement? Is it published?

Mr. ARREDONDO. No, that is great. I mean, we are moving so quick that in the last three weeks we have completely changed our business model. And that is as good as I can articulate it today, which will be different next week. But the nature of the business.

Mr. COLLINS. Do any of the rest of you have it published, posted? Do the employees know what it is? Is it on your business card?

Mr. GELMAN. We have a sign on our wall that says the beatings will continue until morale improves. That is used to drive much of the internal mission.

Mr. COLLINS. Well, thank you. My time is expired. Thank you, Mr. Hanna, for letting me have some fun. I yield back my last six seconds.

Mr. LUETKEMEYER. Thank you, gentlemen.

Next we have Congresswoman Clarke from New York for five minutes.

Ms. CLARKE. Thank you very much, Mr. Chairman. I thank the ranking member, Ms. Velázquez, and I would like to thank you,

our witnesses, for your insightful testimony here today. It has been really enlightening.

Given the prolonged and protracted economic recovery that we are all experiencing on Main Street, it is vital that we do all we can to foster an environment where our nation's entrepreneurs can thrive, creating the jobs that we so desperately need. You are who we are looking to to make that happen. And as we are all aware, as access to capital remains one of the most daunting barriers on entrepreneurs' face today, and I think you all have articulated that in your unique ways and in your unique space, while some startups have been able to use personal credit as seed capital, traditional avenues remain elusive. I believe that the federal government can and should play a role in filling the gap. Government programs, such as SBIR, have a proven track record of providing the jumpstart needed to power growth and create jobs, but I see that a "one size fits all" model is not what we should be striving for. And I think you have driven that point home today, Mrs. Sawyer.

So let me ask you a question. I got a sense of how vital the SBIR grant was for you, but if you could fashion a derivative of the program that would meet sort of the 21st century technological needs of research and development, how would you fashion that? And what direct impact on your ability to create and maintain jobs would that have?

Mrs. SAWYER. Sure. I really like the SBIR program for crazy research projects, because crazy research projects really do take eight years, especially in the hardware space. But if there could be an addition to the program that is really more product focused, right now the SBIR—every department, NASA has a department, DOE has a department, Army, they all have a department, and every quarter or so they are going to put up a list of what they are looking for, which in theory sounds nice but in actual fact they are not the ones who should be putting the list up because we are the ones who are on the frontier of tech. So sometimes we will see the list and it will ask for people to write in. And it is like a little incremental change in the tech. When we are pulling out our hair, it is like, no, do not ask for a camera that can do a few seconds faster; ask for something, the next thing, which is us, real-time. But they do not even think to ask because it is not possible for them. They are not in that sphere.

So it would be great if they had—I am not saying a huge part of the SBIR program, but a small part where you, the company, the startup can recommend products. That is not possible right now. Now, you can kind of do it if you know the right people, but startups, there are five of us. We do not know the right people. We do not have a lobbyist. So if there was just a very clear way for us to simply recommend and propose a new product, it sounds so simple, and it would be. And they can turn it down if they are not interested, but there is no mechanism for us to propose the next generation. And it would not be that much of a fix to do that. Anyway, a small thing.

Ms. CLARKE. That is a very good proposal, and it takes someone in your space to be able to make that recommendation, and I would want to suggest that perhaps that is something that we could have some conversations with the agency about.

Mr. Reid, as I stated earlier, traditional access to capital remains fairly restricted and startups typically do not have this as an option. Could co-investment from the federal government, if appropriately structured, play a role in increasing traditional financing opportunities for startups?

Mr. REID. I think that is a great question, and it is a unique opportunity for the government. The short answer I would say is be careful, but probably yes. It is difficult because as we probably would agree, government agencies would have a really hard time picking winners and losers. There is a really good reason why venture capitalists who are successful get paid what they do. And we also know that there are a lot of venture capitalists who are not successful. And I have seen people at universities who, you know, people in my position who end up running a venture capital fund. And if they are any good at it they should probably be a venture capitalist instead of a government employee or a university employee, that sort of thing. But if it is structured, as you said, if it is structured carefully in ways that really do leverage the expertise of the private sector, then I think that there is an opportunity there for government funding to really help drive some more innovation.

Ms. CLARKE. Thank you very much, Mr. Chairman. I yield back. Thank you all.

Mr. LUETKEMEYER. I yield five minutes to the Gentleman from Arizona, Mr. Schweikert.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

Share with me how each of you have either capitalized, raised money from your early days and also what you see out there in interest. I will share with you I have a fixation on getting the SEC to actually do pragmatic and rational rulemaking on things like the Jobs Act where they are about crowd funding so bureaucratic and expensive and funding of the trial lawyers with it that the very small companies we intended to help are never going to be able to use it. So share with me first how did you begin? How did you capitalize?

Mr. ARREDONDO. To start it was family and friends. That is how we got through the first two years. We got really scrappy over the last six where I think in my testimony earlier I mentioned there was an i6 grant that UMKC in Kansas City got that we got approved for, got some money there. We found an OJT H-1B grant through Workforce Partnership and hired six employees that way. We landed Sprint as a client. That helps.

Mr. SCHWEIKERT. Now, on something like that when you landed that contract, did that make the value of the income from that contract bankable? Were you able to take that contract and walk into and almost factor the future income of that?

Mr. ARREDONDO. Honestly, it happened so fast and I was able to leverage that to bring on three full-time employees with that and then immediately found these other grants. And honestly, I did not even go that direction because in the past whenever I started the conversation it stopped two seconds later when I have no assets to leverage against it. So maybe if there was more conversation with a more traditional path I could have gone that direction.

Mr. SCHWEIKERT. We will come back and talk about that because I actually think there is a revolution coming in how we capitalize.

Share with us. How did you?

Mrs. SAWYER. Yeah, so I have looked into factoring and getting cash on accounts receivable, and it is virtually impossible if you do not have three years of history.

Mr. SCHWEIKERT. Well, first, share with me, how did you finance the startup? How did you begin?

Mrs. SAWYER. It is a funny story. I was a grad student. So in this country there are a lot of business plan competitions for graduate students and some of them have gotten very big. We are talking about hundreds of thousands of dollars are awarded. And three and a half years ago I did these and we walked away with about \$170,000 worth of cash from these business plans. They are all over. They are in New York, Houston, San Diego. That was our starting capital and then we got two SBIRs, and then we started delivering smaller cameras for research. So we basically sold what we had. We basically sold our prototypes to researchers. And then we also last year were able to get a little bit of debt from the City of Houston. So the City of Houston gave us a little bit of debt to stay in Houston. We have had to look everywhere, every feasible way to bring money in. And I have tried more traditional ways. I was able to get an SBA loan on one piece of equipment because the equipment we were buying, I mean, you could not get it for working capital, but I was able to get an SBA loan for equipment because it had an asset.

Mr. SCHWEIKERT. For an equipment purchase. May I ask a range of how much that was?

Mrs. SAWYER. Yeah, that was \$475,000.

Mr. SCHWEIKERT. Okay.

Mr. Reid, what do you see out there?

Mr. REID. Yeah, there are so many ways companies are now finding that early stage capital. Whether it comes from angel investors, friends and family, traditionally, the first money comes out of your own pocket. Friends and family come next, which can often make those Thanksgiving dinners a little bit awkward. And then there is a growing angel market, organizations and companies like AngelList and lots and lots of angel groups all over the country are now starting to really fill an important—

Mr. SCHWEIKERT. But are you surprised in what you are hearing around you that almost no one actually went—sort of we all went to business school, so personal friends and family, angel, secondary angel, VC, you know, private equity, and the world does not actually work that way and has not worked that way for several years now.

Mr. REID. Yeah. So few companies actually ever raise venture capital. Even the companies that grow huge. Right? Venture capital is not the primary financing solution. And the angel investing in a similar way. You are absolutely right. There are so many other ways to raise money.

Mr. SCHWEIKERT. I am very curious because you have a fascinating business model because in some ways what you are doing

is the future of sort of this distributive type of business model where you are selling a content without large capital expenditures.

Mr. REID. Yes, absolutely. And I also smile at this past conversation because that model of first you work for a company where you conceive the product, where I worked for National Geographic where I conceived the product, realized that the product was taking off but it was not possible within the company. All of my friends bought condos; I bought this. Then I went off and created an actual prototype, launched and got some customers. It is no longer possible to actually get any kind of investment from outside sources without really having a very serious prototype and some customers. We got some friends and family investment. We won a number of regional competitions. So we won Startup America, TechBuzz America, followed by—we got a little bit of money in that. Closed in the angel rounds. And now we are here.

Mr. SCHWEIKERT. Okay, and I know I am way over time, but in many ways your concept would have married up beautifully with crowdfunding?

Mr. REID. For the next round we were actually very much hoping that we could do it, but we cannot yet because of those issues that you are mentioning.

And one day, if any of the other members have an interest in this, we really need to find a way to talk to the SEC because they are about to destroy that capital formation for the truly, truly small sort of egalitarian entrepreneur, and once again, we are going to lose our future in the bureaucracy.

Mr. SCHWEIKERT. Mr. Chairman, I yield back. Thank you for the patience.

Mr. LUETKEMEYER. Good job. The gentleman from New Jersey, Mr. Payne.

Mr. PAYNE. Thank you, Mr. Chairman.

Let us see, Mr. Reid. Earlier you mentioned several issues that really interest me. Specifically, your statement that entrepreneurs come in all shapes and sizes and every person has the ability to be an entrepreneur. I am interested in understanding how we grow more entrepreneurs from disadvantaged backgrounds. I have introduced some legislation earlier this year called the Dream Jobs Act. This has helped to encourage Americans who live in areas below the poverty line to establish or sustain their own green businesses among other things. I recognize that green energy is our future, but startups are as well. Most common efforts focus on supporting businesses that serve the underserved, but how can we increase the number of people from low income backgrounds who actually lose startups?

Mr. REID. Great. Well, Mr. Payne, thank you so much for asking that question. Before I worked for a nice university like Georgetown, I ran a nonprofit organization right here in Washington, D.C., and our mission was to go into inner city schools and teach entrepreneurship. And that is the Network for Teaching Entrepreneurship which exists in many other cities around the country. And there are other organizations like BUILD and Junior Achievement that are doing this, and that is where I would say the answer is, is we would talk to the young people, whether it was the teachers we trained or the entrepreneurs that we would bring into these

schools. And you could see the entrepreneurial talent is there, but the students often had no idea. No one had ever told them you can be an entrepreneur. So step one was just exposing them to this idea, this concept, and then giving them the mindset and toolset and helping give them the skills to do it. There is entrepreneurial talent in these underserved populations no matter what you want to define it as, and just allowing those folks to see themselves as entrepreneurs, to have access to training, mentorship, and resources, you will see a lot of amazing things come out. And I had the benefit of seeing that, too. It changes lives just by being exposed to entrepreneurship as an option.

Mr. PAYNE. So do you think that is something that as a government we should foster and support those efforts?

Mr. REID. Absolutely. Absolutely. Other than helping provide funding, I have not thought deeply about the ways government can help but I think those are very, very powerful organizations. The entrepreneurship education at all levels, not just universities, really makes a difference.

Mr. PAYNE. Thank you.

I will yield back at this time. Thank you.

Mr. LUETKEMEYER. Very good. We will give five minutes to the gentleman from Arizona, Mr. Barber.

Mr. BARBER. Thank you, Mr. Chairman. And thank you all for coming. When I hear from people like you I get very excited and enthusiastic because your passion is obvious and you are breaking a lot of barriers. I just wish our government was as nimble as you are because it needs to be. Obviously, we are not, and that is part of the problem.

I want to talk first of all though, Mr. Reid, about the role that universities play. We are very fortunate, I think in Arizona, at least in my community, we have the University of Arizona, which just a year ago initiated Tech Launch Arizona, and has consolidated essentially the launch offices from across the university into a really solid opportunity for helping university professors who are really good at research but not necessarily great at building a business, commercializing their product. In the last year alone, seven new businesses have come out of this and 15 patents were issued. So we are making progress.

I guess I would like to ask you how and what do we need to do to better support our colleges and universities as they grow to begin to build this bridge between the research lab and commercial application?

Mr. REID. I am a little bit familiar with that program at the University of Arizona, and yes, it is an amazing thing. There is another program that I would love to point out that I think helps answer your question you may be familiar with. It is called iCorps, as in iCorps, C-O-R-P-S. And it is about innovation. And it is actually funded by the National Science Foundation. And some of my colleagues at universities where in the Washington, D.C. area have led a nationwide effort. And what it essentially does is it brings the principles of the lean startup movement into university laboratories. And it is amazing to watch the transformation. You mentioned how many scientists are not great at business. That is no surprise to many of us but that is a big surprise when the scientist

learns it. And so through the iCorps program the scientists, the developers of this technology are paired up with business people and mentors, but one of the most important things they do is they actually have to go and talk to customers and that is a transformative experience for a scientist to actually find somebody that is willing to buy whatever it is that they think is the greatest technology in the world. And so they learn a lot and that is an incredibly powerful experience. So that program is relatively new. It has been around maybe just one or two years, but it has been expanding rapidly. Some of the federal labs in this area are beginning to adopt it as well. So the iCorps program is what I would absolutely say is a great example.

Mr. BARBER. Go ahead, please.

Mrs. SAWYER. I did not know if raising your hand is the right thing.

So I have a lot of experience with this surprisingly, and so it is the Office of Technology Transfer. Every university is going to have an Office of Technology Transfer, and their job, their sole purpose is to get technology in the labs out to real products, either through licensing, say license it to GE, or to start a company. Both good. Products get out there. It is fine. But there are some really good Office of Technology transfer, MIT is an example, but most are really bad. Really bad. And the federal government actually does have some bargaining power. Right? Where do they get almost all their money? You all. NIH grants are a big one. A lot of government grants. So what I would like to see is part of—let us bring NIH. National Institute of Health is a huge funder of research, and they fund this research and it creates really cool medical devices that never see the light of day because the universities are not graded on transferring and commercializing this technology. So what I want to see NIH do, for example, is when you submit a grant application, how good is your university at technology transfer? Now, it should just be one little bit of the grading scheme for a grant, but it could have a huge effect, even if it is just licensing. But that is good, too.

Mr. BARBER. That makes a lot of sense to me that you would have some incentive or push to make sure they do that.

I appreciate you working in optics by the way. We have an optics cluster down in Southern Arizona that we are very proud of. And come visit us sometime if you do not already know about it.

Mrs. SAWYER. Oh, I do. Arizona, University of Arizona and Rochester are the two powerhouses in the world for optics. I have hired two people from Arizona for optics. They are great.

Mr. BARBER. Well, graduate students are staying home and they are also going elsewhere. That is good to know.

I know we are close to—I am almost over time but I just want to ask this question of as many of you as quickly as you can answer it. What can we do in Congress to help you get better access to capital? I mean, I think that is one of the biggest stumbling blocks I have heard from your testimony. Just if you could each give a one or two sentence answer to that question I would appreciate it.

Mr. ARREDONDO. Yeah, mine is really simple. I think give resources to the organizations on the ground, in the communities that we are working, because every community is different. You

guys are not likely to create one system that works for everyone, and where I have found the finances so far have been the people that I knew already and then they got hold of a grant that they could actually then turn and give me access to.

Mr. BARBER. Mrs. Sawyer.

Mrs. SAWYER. I would like to see the restrictions on SBA loans loosened. It is even tough to get an SBA loan which is, I think, a bit silly. So we are even slightly profitable and it is almost impossible for us to get an SBA loan. So I do not know who is getting them.

Mr. BARBER. Mr. Reid.

Mr. REID. So there is something I have seen work well in North Carolina that I think the federal government might want to explore. It is a qualified business venture tax credit. And what it essentially does is if you invest as an angel investor or what have you in a qualified business venture, which certain types of startups qualify, then you get tax breaks for that. And that multiples or it leverages the private investment. I think that should be expanded to other states and perhaps the federal tax system as well.

Mr. ARREDONDO. That is, in the state of Kansas, the Kansas Angel Tax Credit, where if you invest up to \$100,000 you get a \$50,000 tax credit against your Kansas income. That is a huge draw, and pretty much anyone in Kansas City that is a high-growth startup moves and becomes a Kansas company because of it.

Mr. BARBER. And finally, Mr. Gelman.

Mr. GELMAN. Yeah. I definitely agree with the things that people have said here. I would add that the tax credits could be a very big thing. Empowering companies on the ground and also giving R&D tax credits, like Canada, for example, does. A lot of companies are moving out of Silicon Valley and moving to Toronto because they actually could write off all the R&D that they can do. And so that is a wonderful thing. Provide great technology. If that is one thing that we could do, that would be a spectacular one.

Mr. BARBER. I think all of us in Congress have a responsibility to break through some of these barriers. We have a new company in Tucson, Strong Watch, that is developing surveillance technology for border security. We have Syncardia to develop the artificial heart. We have got some great inventions all across this country. We need to find government, both getting to help as well as getting out of the way. And I really appreciate what you have done. Keep on doing it and keep pushing us to do better.

Thank you. I yield back.

Mr. LUETKEMEYER. Thank you.

My turn, I guess. Thank all of you for being here today. It seems as though each of you has found a niche, and through your hard work and your willingness to take a risk and sacrifice and stay determined, you have been able to succeed. And I know, Ms. Sawyer, I am wondering why nobody at the federal government is wanting to give your company a chance. For every one of you that succeeds, Mr. Collins buys 20-something that do not. That is the problem we have with startup companies, and I am sure that the government is sitting there trying to sift through these—which ones are going to make it, which ones if we do business with you are going to be

here next week, next month. And as a result, they are a little reluctant sometimes to take that risk.

So what I would think would need to be a way to approach it would be some sort of a private-public partnership where the government would work with you and get together and say we need this. And you could say, well, you can do that but we can do this better if you do that. And by working together I think we could probably come to some sort of agreement. Would you agree?

Mrs. SAWYER. I think it is an interesting idea, but I do find, especially with defense, mainly with defense procurement, oh, my God, I mean, America is so great because of our free-market system. And through the procurement process, the defense department has blocked themselves out of a free market and is the opposite of a free market.

So let us say, you know, 19 out of 20 startups they work with fail. I do not believe that, but let us say—we would still be cheaper than working with one of these behemoth defense contractors, even if 19 out of 20 of us fail. Right now procurement is fascinating because it is not how quick you get the product done or how good the product is; they get paid on how long they draw it out. So especially with Defense, you are not getting a great deal. So if you want to do a cost-benefit analysis of working with startups, I can guarantee we will be cheaper even then. So let there be other reasons not to work with startups, but it cannot be a cost argument.

Mr. LUETKEMEYER. I know that I have got a technology company that works at the Department of Vets a lot and they have the same problems. They are one of the approved vendors that work with them every day. They come to them and say, hey, we need this, and it still takes months, and months, and months to get something done. So yours is not an unusual comment that I hear, so.

Mr. Reid, you had a great idea with regards to the tax credits. Do you have an idea of return on investment of those at all?

Mr. REID. I do not have number statistics. I know it was a program that was renewed each year and there was a huge amount of interest in the community each year when it was at risk of going away. And I was more involved in this years ago when I lived in North Carolina, so I have not followed the details since then.

Mr. LUETKEMEYER. I know my state is Missouri, and we have gone through a process in the last few years of going through all the tax credits. We have got lots and lots of programs with tax credits. And you go through them and some of them you get a great return on investment and other ones you are paying people. That is money out the door.

Mr. REID. I am pretty sure this would be one of the best deals.

Mr. LUETKEMEYER. It sounded like a great idea. I was just kind of curious if you had some numbers on it because that would be very instrumental in being able to promote that and move forward with it.

I guess one of the questions I have got is with regards to what regulation or set of regulations are your biggest hurdle to overcome?

Mr. Gelman, why do you not start?

Mr. GELMAN. It is tricky because when you work on the Internet, I mean, aside from there are some taxation issues and things like that that are happening—

Mr. LUETKEMEYER. My next question is going to be tax policy. If you want to go ahead, that is fine, too.

Mr. GELMAN. I mean, tax policy is tricky. When you are running a web-based company, an online company, any of these growth web-enabled companies, you are not competing against your neighbor or the next state or the next city. You are competing against the entire world. And so when we have major policy decisions, like taxes, like Internet regulation, things like that, net neutrality, these have an effect because they make us less competitive against other countries. And those other countries can just as easily take our business because it is online. It is very simple. And these are things that we have to struggle with.

So I would say probably the biggest thing—I would not say that that is the single biggest thing that is hampering kind of innovation. I think there are other problems that are significantly in excess of that. Number one is just the difficulty in there is so much kind of—theoretically there are so many available programs that are out there. There is so much incentive that is kind of out there, none of which is accessible to businesses like ours. And when you also have problems like crowdfunding is coming out and it is going to be a spectacular thing if it ever makes it out in a way that we can make it, it is going to open up a new capital market.

At the same time, almost half of my team is abroad. The reason it is abroad is because the people we work with are U.S.-educated entrepreneurs that graduated here. They are all U.S.-educated entrepreneurs. They graduated college here. They could not get a visa. They had to go abroad. Now they have 25, 50, 100 person shops in Ukraine, Cambodia, and India. And so now we work with those guys over there. We have to because that is where the minds are. If there is any way to keep those jobs, those people here, it would go a long ways. If you talk to any startup around anywhere, in any region, be it D.C. or Silicon Valley or Kansas, they will tell you there is a huge talent crunch. We can never find enough people, and we cannot keep the people that we have. So I would probably focus on that as the top thing in addition to tax policy.

Mr. LUETKEMEYER. So you are talking about visa problems is a big problem for your particular industry?

Mr. GELMAN. Absolutely. Any technology.

Mr. LUETKEMEYER. That is not something we do not hear regularly from technology companies. With the H-1B visas, we have got to reform that.

Mrs. Sawyer, what is your biggest concern with regulations and/or taxation?

Mrs. SAWYER. Regulation-wise, for Rebellion Photonics, because we do do some defense work, we have a huge amount of additional accounting infrastructure that we have to do and it costs a lot of money. And then my engineers, it takes a lot of their time away from real engineering. And this is—we went through an audit. We passed. It is fine, but all of this somewhat ridiculous accounting, ridiculous accounting for a seven-person company because there is

just so much structure that they treat us almost like a Lockheed. This is ridiculous.

And this is, by the way, the reason you do not see many diversified defense companies. There is so much accounting and infrastructure required to be a vendor for the U.S. Government, especially Defense, that that is all you can do.

Mr. LUETKEMEYER. Is it a barrier for you that you cannot overcome?

Mrs. SAWYER. We are thinking about cutting the whole defense portion of our business. When you look at the defense vendors, they only do defense. There is a reason for it.

Mr. LUETKEMEYER. The cost does not outweigh the benefit to doing business with the government. Is that what you are saying?

Mrs. SAWYER. Yes. And then also, as a vendor, as a customer, you do not want your vendors to be you are their only customer. You want your vendors to be diversified. That way when the ebbs and flow of defense contracts is inherent, because of war ebb and flow, they do not have to shed hundreds of thousands of jobs if they were more diversified. But they cannot be because of the really intense procurement infrastructure that is required. I know procurement is not sexy and no one is going to take it up and change it, but if you did, huge cost savings, fewer people would be fired when—we know defense budgets change. And then also, you could get really cool new tech out that you currently do not. And that is why you do not see many startups, really innovative startups doing defense because they would have to give up everything else.

Mr. LUETKEMEYER. Mr. Arredondo.

Mr. ARREDONDO. Honestly, my biggest issue is we have run into the H-1B issue as well. Talent is in incredibly short supply, and you see a lot of people off-shoring tech work. I mean, there is a new company in Kansas City that specializes in tech development, and all of their work is overseas. They only have a few project managers in Kansas City. If there is a way to stem that tide, I think the United States would be able to benefit greatly from it.

Mr. LUETKEMEYER. You talked in your testimony a while ago about collaboration with some local groups to get your company off the ground. What do you mean when you say collaboration? Was that financially or were there other things that you were talking about?

Mr. ARREDONDO. I use the word collaboration a lot, so I am not sure 100 percent which one you are talking about.

So it might have been when I was talking to the two grants that we had access to. One was Workforce Partnership, who has made—they have a person on their team that her job or part of her job is to engage with us directly and go to events and get to know us. And then the grant, the i6 grant through UMKC, likewise, has an outreach arm that reaches out to us to help us understand what it is about. And so again, there is a relationship there. Another example on the collaboration side of a success is Sprint is actually getting really engaged with startups in Kansas City, and the only way they have been able to be successful is they had an individual that spent several months just going to events, talking to us, understanding the actual problem, and then they are equipped then

to make the decisions and allocate funding because they know where the holes are.

So when I talk about collaboration, I mean, those are a couple of the examples to kind of show. And that is why I am a big advocate of finding ways to get the resources to those that are with us on the ground that know those needs and holes in each community individually.

Mr. LUETKEMEYER. That makes a lot of sense.

Mr. Gelman.

Mr. GELMAN. Actually, on that collaboration topic, just to add to what Adam was saying and actually what Jeff was saying earlier, the trick with these growth startups is we move incredibly quickly, and we try to move incredibly quickly. And most of the time kind of the goal was just to get out of the way. However, the big trick with helping is that it has to help in a way that matches our pace. And the trick is most of the time frankly it is just not going to be possible for a government grant to match that pace. And that is fine because the government really has to be very careful about how it does things. But what the government should then do is instead of trying to go direct to us—I mean, often, you know, there are programs that can do that but they always take longer—they should go to the qualified community organizers, essentially the middle men, that are acting either as VCs. You know, we have an investor in our company that is a VC of a state. So the CAT Gap Group of Virginia is an investor in our company. They are a very fast paced, fast moving part of the Virginia government. Whatever their structure is, they essentially act like a venture capital firm. They are given money by the government and then they move very quickly to execute. A lot of the associations, companies, incubators that we work with have benefit some from government funding. In fact, they are much better at getting it than any entrepreneur that is focused on their business. If the government was better at taking this large S and giving it to the people that can distribute it as quickly and effectively as possible, you will see exponentially high returns on that investment and you will be shocked at how little investment is needed to get incredibly high returns. Usually, government thinks in millions of dollars. This is tens of thousands, hundreds of thousands of dollars that will get you millions. Thank you.

Mr. LUETKEMEYER. Very good. I am out of questions.

Ms. Velázquez, would you like to have a second round?

Ms. VELÁZQUEZ. Yes. I just would like to—solicit your comments regarding the issue of more resources invested in the area of education, especially for those new faces in America so that we can prepare a new workforce with the skills that you need in the area of science and technology.

And two, as part of an H-1B visa, we need to pass comprehensive immigration reform. Would you agree with me, Mr. Arredondo?

Mr. ARREDONDO. I do not know if I want to dive into immigration reform. I am not particularly studied up on it.

Ms. VELÁZQUEZ. Well, the students that are here that cannot go on to college because they cannot get full scholarships in order

to be able to attend college because of their immigration status. We are talking about four million students. So does that—

Mr. ARREDONDO. Well, I mean, immigration, I believe, is a part of it, but I mean, I think Estonia is starting to teach programming in grade school. I guarantee that country is going to be a powerhouse in the technology world here soon. And the thing about technology, I know a lot of it focuses on technology, but technology is going to be weaved into every single industry no matter what we do. So it is integral to everything. And I believe one of the things we can do is kind of acknowledge that and find ways to encourage it at a younger age because honestly, right now, the best programmers from the United States that I have found are the ones that started teaching themselves how to code when they were 10 years old, not the ones that went to school for it. So it is all kind of wrapped up in the one.

Mr. REID. Yeah, I would love to jump in on that.

The issue about immigration, I know there are a ton of issues and I am not an expert in all that, but I can say that America, one of the reasons we are such an amazing country for entrepreneurship is because we have welcomed some of the most amazing entrepreneurs as immigrants over the 200 plus years of our country. And whether they are young people who were brought here by their parents and are now being asked to leave or people that graduate from our universities and want to start companies and create jobs and wealth and are also being asked to leave, or the folks who would like to get hired into the fast-growing companies and are not allowed to, those are all things that are self-defeating. They are hurting our country. And it seems like those issues should not have to be tied up with everything else. But yes, I absolutely agree. This is a great entrepreneurial country, and one of the biggest reasons is because we have allowed those amazingly talented immigrants to come here and thrive here and create jobs that help the country overall.

Ms. VELÁZQUEZ. Thank you.

Mrs. Sawyer.

Mrs. SAWYER. Yeah, I would like to add one thing to the visa discussion. Even if we doubled the number of people who come on H-1B visa, I probably still would not be able to get one because Yahoo and Microsoft and Facebook have legal departments who are going to be faster and more money than me to apply for these visas for their employees. So I would really like to see that when hopefully when we do get more visa allowed for tech workers, if some of those could be cornered off for small businesses. It does not even have to be startups. I will just take small businesses. That would be great for us little guys without the legal department because that competition is unfair and they will win every time. So if you could just give me a corner, a little corner I could fight in to get those it would be extremely helpful.

Mr. GELMAN. So, I mean, obviously to your point, Congresswoman, you know, I am an immigrant myself. My family came here from the Soviet Union. You would look around the startup spaces that we work in and you will find 50 percent immigrants that are Americans now. And you will find a lot of people at the same time, as education is getting better in the U.S., teaching these kinds of

things. So I run a hackathon. One of the winners of the last hackathon was a team of 14-year-olds from a magnet school in Maryland over here, and they were spectacular. There were there other teams that were added. There was a father with his son and like two other kids that were doing it. They are building spectacular products. If you can maintain that, if they can get a better education, if they can stay in the country, be it through college or after college with H-1B.

Ms. VELAZQUEZ. After all the investment that has been made through public school.

Mr. GELMAN. Exactly. And they love it here. They love it here and they contribute. And the more of those people that we can keep, the better we will be off.

Ms. VELAZQUEZ. Thank you.

Mr. LUETKEMEYER. Well, thank each of you for being here today. We certainly appreciate your testimony and your hard work and your inspiration to us. I know each one, I see the enthusiasm and the patient in your eyes and in your demeanor and your testimony, and we appreciate that. We thank you very much. We wish you well.

With that, I ask unanimous consent that members have five legislative days to submit statements and supporting materials for the record.

Without objection, so ordered. This hearing is now adjourned. Thank you.

[Whereupon, at 3:50 p.m., the Committee was adjourned.]

APPENDIX

House Small Business Committee Meeting**Wednesday, November 20, 2013**

Written Testimony Submitted by Adam Arredondo

About Me

Thanks so much for having me. I am very excited to be here and I'd first like to start by wishing you all a very happy Global Entrepreneurship Week!

My name is Adam Arredondo. I am an entrepreneur from Kansas City. I am the CEO & Co-founder of Hoopla.io, an internet startup.

As a Kansas City native, it's been incredibly exciting to be in the middle of all the entrepreneurial activity and momentum that has been building over the last several years. Kansas City is unique in that it's currently the only place in the world with Google Fiber, the world's fastest residential internet. However, the entrepreneur and startup community that has developed around it and the principles we have learned about building and nurturing it are applicable to any community across the country.

Kansas City Startup Village

Outside of running my company, I am a co-leader of the Kansas City Startup Village which is an organic, entrepreneur-led effort in the first neighborhood in the world to get Google Fiber. Startups congregate to work, network and live in this neighborhood on State Line Road, where Kansas and Missouri meet. My company is one of those startups.

It is first important to know that Kansas City Startup Village was not planned. We are not following any blueprint.

In late September of 2012, a string of serendipitous events occurred that resulted in three properties and five startup companies settling down half a block for each other in the first Google Fiberhood. One of these houses was purchased by a local startup leader who recruited hackers and entrepreneurs from around the country to live in his Google Fiber enabled house for three months rent-free to build their startups.

In the 14 months since, Kansas City Startup Village has grown to 13 properties and 25 startups within six blocks of each other. Entrepreneurs have moved from 12 different states to live and work in the Village. Delegates and business people from over 45 countries have visited. And, most importantly, the Kansas City Startup Village has created over 70 jobs ... All of this with ZERO outside funding.

There are three main reasons why the village has seen such rapid success and notoriety.

First, the efforts are 100% entrepreneur-led. We volunteer our time because we know that a strong Village makes for a strong Kansas City startup community which is better for every startup in it, including our own. Government, corporations and universities are absolutely critical in the sustainability of vibrant startup communities but those groups must allow the entrepreneurs themselves to take the lead followed by direct engagement to find the support mechanisms.

A great example of this is my being here today. As an entrepreneur, neither my company nor I could afford to pay for this trip so I reached out to supporters around Kansas City and it was Greg Kindle with the Wyandotte County EDC that made sure we were afforded this opportunity to tell our story.

Second, we have created startup density. In the Village, we talk about “serendipitous collisions” all the time; unplanned interactions between fellow entrepreneurs which often lead to new ideas and collaboration. Events are great for creating startup density, but are temporary. Kansas City Startup Village offers startup density on a daily basis.

Finally, it’s important to know that although Google Fiber may start the conversation and perk initial interest, it’s the welcoming, collaborative community that gets people to stay. A perfect example of this is Mike Demarias, a 22-year old entrepreneur from Boston. Mike said, “I came to Kansas City for Google Fiber and free rent, but I decided to stay for of the awesome community.”

Startup vs Small Business

One of the big questions we get asked all the time is “Is there a difference between a startup and a small business”. The answer is definitely, “Yes”.

Although a startup can be categorized as a small business, very few small businesses can be categorized as a startup.

No startup aspires to only become a small business. Startups want to scale rapidly. Startups want to become the next big thing. Startups want to disrupt the status quo. Startups want to innovate.

Startups also have different needs than small businesses.

Startup Needs

A need of most small businesses is access to capital to get the business off the ground. Startups are no different. However, startups rarely qualify for traditional financing through banks and other financial institutions leaving entrepreneurs to scramble to find other funding options. And unfortunately, those funding options are few and far between.

My company has been lucky enough to find two grants through local organizations.

We were selected to receive funding through the Digital Sandbox which is the result of a \$1M federal i6 grant. Thanks to this grant

the Digital Sandbox has been able to provide startup capital to over 20 startups in the Kansas City area.

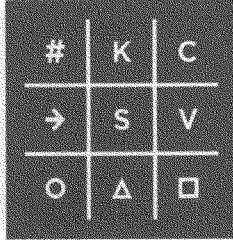
We were also lucky enough to discover a grant through Workforce Partnership funding through the H-1B program. This allowed our company hire six new employees. This has had a huge impact on the progress of my company. In all, over 23 jobs were created in the Kansas City Startup Village alone, thanks to that grant.

The important point here is that I accessed these grants through local organizations that interact with the startups on a regular basis and are best equipped to understand a startup's needs, effectively distributing funds.

My recommendations to you is to provide local EDCs like Wyandotte County EDC, workforce development organizations like Workforce Partnership and startup focused efforts like the Digital Sandbox with the funds they need to continue the good work they do on a daily basis.

No community is the same. Please, focus on providing the resources to those that know their community best and allow them to continue their good work.

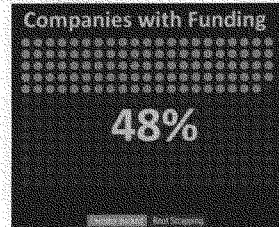
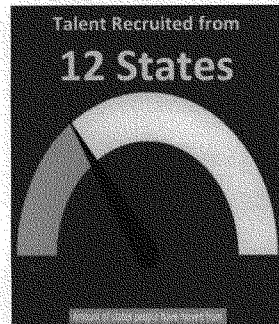
Thanks for listening. Onward and upward!



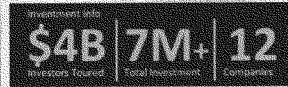
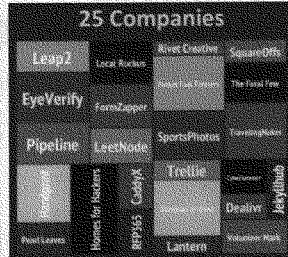
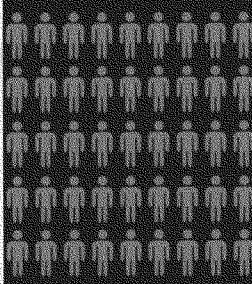
Kansas City Startup Village is an entrepreneur-led, organic initiative helping to bolster the Kansas City startup community by building a dense startup location where community and collaboration can be fostered.

CNN AP
 THE WALL STREET JOURNAL
VentureBeat
FASTCOMPANY
 The Washington Post
 Mashable **Inc.**

KANSAS CITY STARTUP VILLAGE
 - SETTLED 2012 -



70 Jobs & Growing



Industries

Content Distribution
 Search
 Accelerator Company
 web
 Incubator
 Procurement
 Accelerator Company

Visitors

Senator Moran
 Congressman Yoder
 Governor Brownback
 Delegates from 30+ countries
 Media & guests from 15+ countries
 Many student groups

kcsv.org **info@kcsv.org** **@KCSV**

The Entrepreneur Support Ecosystem

Special thanks to the Enterprise Center of Johnson County
for the following research and graphics.

Creating a robust startup community is on the forefront of many people's minds across the country. In order to do so effectively, you've got to address all the pieces of the puzzle in order to create the environment where entrepreneurs thrive.

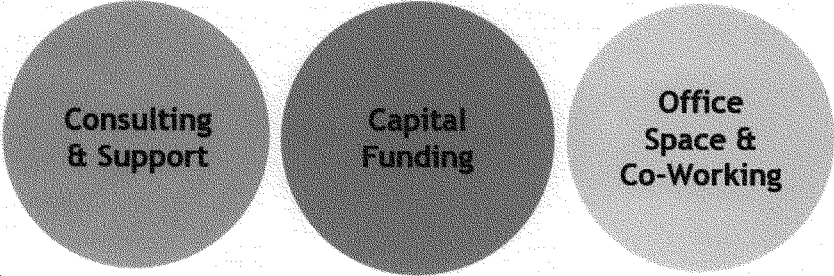
Outside of the startups themselves, the support ecosystem for startups can be broken down into the following buckets:

- Consulting & Support
- Capital Funding
- Office Space & Co-Working

Illustrated by the evolution of the Kansas City entrepreneur support ecosystem, you'll be able to see how Kansas City has begun filling in the gaps, moving toward the nurturing entrepreneurial environment that all cities desire.

Although the progress is impressive, in no way is Kansas City at the finish line.

The Entrepreneur Support Ecosystem



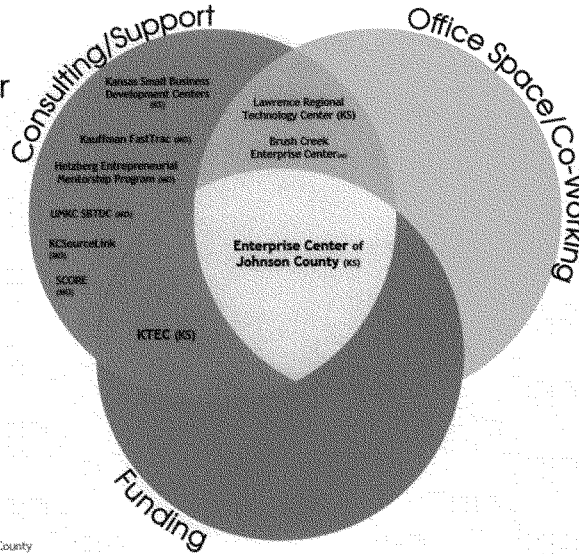
**Consulting
& Support**

**Capital
Funding**

**Office
Space &
Co-Working**

The Entrepreneur Support Ecosystem

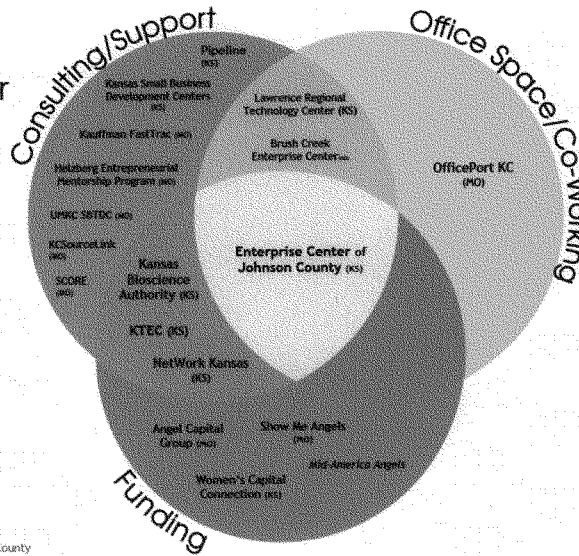
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The Entrepreneur Support Ecosystem

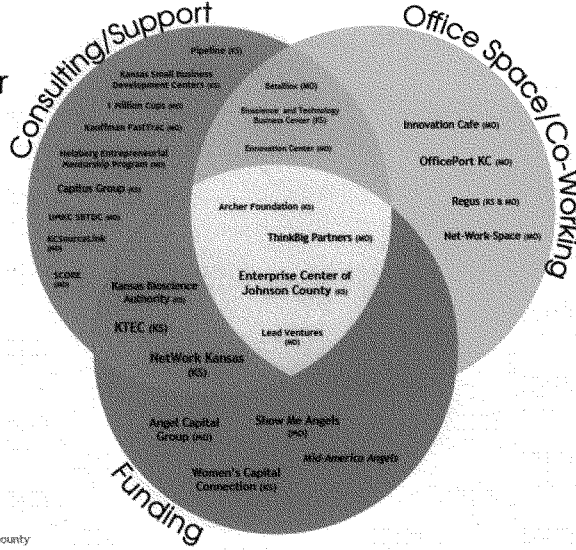
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The Entrepreneur Support Ecosystem

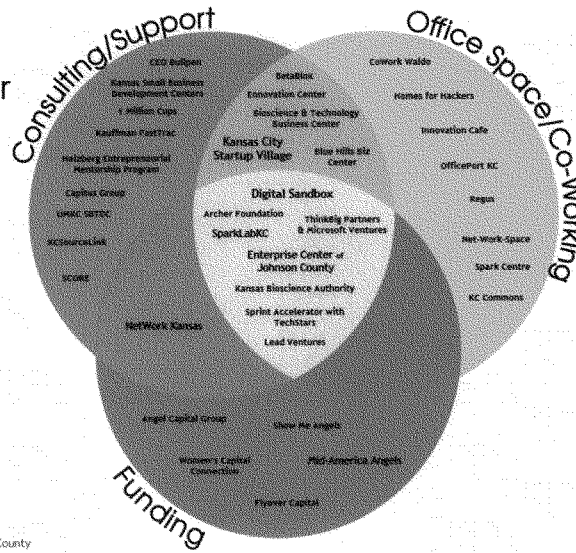
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The Entrepreneur Support Ecosystem

TODAY



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RebellionPhotonics

Allison Lami Sawyer
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STATEMENT FOR THE RECORD

MRS. ALLISON LAMI SAWYER

BEFORE THE HOUSE COMMITTEE ON SMALL BUSINESS

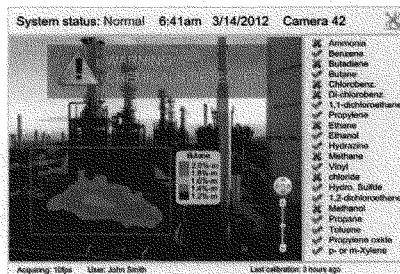
NOVEMBER 20, 2013

Members of the Committee, on behalf of Rebellion Photonics, I want to thank you for the opportunity to speak to you today.

My name is Allison Lami Sawyer and I am the CEO/co-founder of Rebellion Photonics, an optics startup out of Houston Texas. Rebellion Photonics' specialty is, as you would expect, Photonics, which is any engineering concerned with light and Rebellion's mission is to solve some of the world's toughest problems.

Rebellion Photonics was recently named 'Startup of the Year' by Wall Street Journal for our work in Oil and Gas safety.

Explosive gas leaks on oilrigs and refineries are one of the largest problems facing the Energy industry today. Leaks, when not detected early, accumulate into dangerous clouds that can ignite when they reach a certain concentration. Current leak detectors are grossly inadequate. Furthermore, the alarms are too often ignored by the crew, who are desensitized by daily false alarms. In an age where a single explosive accident can cost billions, the leak detection market required an entirely new way to monitor explosive gas leaks.



Rebellion Photonics was named Wall Street Journal 'Startup of the Year' because we have created the world's first Gas Cloud Imaging (GCI) camera. The Gas Cloud Imaging (GCI) camera offers full scene coverage at a fraction of the cost of other services and with a display that will not be ignored by the crew. The GCI continuously monitors, quantifies, and displays gas leaks in real-time video with automatic alarms. Rebellion began full-scale installation earlier this year with companies such as, BP.

The Gas Cloud Imaging camera is a game-changing product that showcases how startups are capable of revolutionizing even the stodgiest industry.

Current procurement process hurts startups and the government

Rebellion Photonics is capable of creating a game-changing camera that would revolutionize the drone space while also lowering the costs of the industry.

Currently drones need to be piloted by highly trained (i.e. expensive) professionals that cannot be sure of what they are seeing with regular drone cameras. Using our real-time chemical imaging technology, Rebellion could create drones that actually know what they are looking at. This would mean fewer mistakes, which could help American foreign relations and therefore the world.

For example, a terrorist is identified getting into a vehicle. Rebellion's camera could automatically track that specific vehicle forever, even if the vehicle went under a tunnel or was hidden from view for a time. Rebellion's drones would also be able to tell the difference, automatically, between friendly fire and enemy fire. Essentially we could open up a whole new age of drone applications that would drastically cut down on the current drawbacks to using drones.

We at Rebellion would love to create this product for our country, but unfortunately we cannot for one main reason – a failed procurement process.

America owes much of its success to free market capitalism and yet the U.S. Government has boxed itself out of the free market due to the extremely complex procurement process.

The main problems with the U.S. procurement process are:

- There is little motivation for vendors to finish jobs early. In fact, they are typically paid more when they drag out the contracts.

- The process practically demands that the vendors only work for the U.S. government. This added infrastructure rules out the vast majority of possible suppliers.
- The current potential contracts are not well advertised, so most non-government vendors do not know of the possibility.
- The additional accounting and infrastructure fees that are associated with government contracts are unnecessarily high.
- Government officials are not required to go actively search for the best possible vendor, like a normal company, but passively wait to see who applies.

Everyone would benefit from a drastically streamlined procurement process:

- *Large defense contractors* are currently set up to only do defense because the procurement process basically forces them to be. If they could act like normal companies, then defense contractors would be able to more easily diversify. Therefore they would be able to handle the inevitable swings in the defense budget without massive layoffs that affect hundreds of thousands of U.S. citizens.
- *The government* would be able to cut defense costs without sacrificing quality. Startup and non-defense companies are generally leaner because they do not have the excess infrastructure required by the current procurement procedures. By opening up the playing field, the government would benefit from vendors bidding in a free market setting.
- *Start-ups* would finally be able to sell to the world's largest customers and have the opportunity to fix some of the world's largest problems.

The failed rollout of Obamacare is an excellent example of the flawed procurement process. Dozens of US-based companies could have done a better job, but they did not even apply for the job because the procurement process only allows for government-only vendors.

SBIR research grants are one part of the process that are successful

It is not always obvious what will come of a federal research grant. Would you expect that a federal research grant from the National Institute of Health for "Image Slicing Spectrometer for high resolution sub-cellular microscopy" would eventually revolutionize oilrig and refinery safety? The researchers themselves could not have guessed how far their invention would go, but go it did.

Over three years ago, Robert Kester and I founded Rebellion Photonics around the technology he and his colleagues created using a federal research grant. Within the past two years we have created 7 jobs, raised \$1.1 million in venture funding, become cash flow positive, and created products that truly make the world a safer place.

Rebellion Photonics produces video cameras that can identify and quantify chemicals- essentially our video cameras 'see' chemicals, not just colors. While this type of technology, called hyperspectral imaging, has been around since the 1980s, researchers were forced to wait minutes, even hours to see results. Our cameras take milliseconds and therefore allow the first true real-time chemical imaging video.

The technology was initially invented to see live chemical reactions within cells for medical research. We do sell cameras for researchers, but with the help of grant funding for basic R&D we have been able to expand our product range.

Critically, the company won \$1.6 million in competitive federal grants through the Small Business Innovation Research (SBIR) program, which provides \$2.5 billion in annual seed-stage funding for small businesses meeting national research needs.

Grant funding has allowed our company to do high-risk R&D to create high impact products such as our Gas Cloud Imaging camera for the oil & gas market. Instead of traditional point detectors that are notorious for false alarming, rig and refinery workers will actually be able to see the leaks on their site.

Thank you.

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Testimony of Jeff Reid
Founding Director, Georgetown University
Entrepreneurship Initiative
United States House, Committee on Small Business
“The Startup Movement”
Wednesday, November 20, 2013

Thank you very much for the opportunity to speak here today. I will be brief but hope to make a few points that are helpful for you as you make decisions and policies that affect the entrepreneurs of America.

First of all, we are all entrepreneurs. I had the honor of hosting Nobel Peace Prize winner Muhammad Yunus at Georgetown University a few years ago, and he has famously said that “All human beings are entrepreneurs.” He makes the point that, across the millennia, if humans were not entrepreneurial, they would have never survived. It is only through civilization in recent centuries that the entrepreneurial spirit was suppressed. I agree completely—we are all entrepreneurs, but that entrepreneurial spirit has been suppressed and is now beginning to be unleashed all over the world.

Entrepreneurs are not just those crazy people in Silicon Valley. Entrepreneurs are not just young white males with piercings and tattoos starting tech companies over Mountain Dew and pizza. Entrepreneurs are not superhuman. All too often in our popular culture, those are the stereotypes that we see and hear about, but those images do not tell the whole story. When I begin teaching a new class at Georgetown, I often ask my students, “When you hear the word entrepreneur, what do you think of?” Their answers are predictable: Bill Gates, Mark Zuckerberg, Michael Dell, Richard Branson. They say what so many people would say, and they missed a huge point. Entrepreneurs come in all shapes and sizes, and EVERY PERSON has the ability to be an entrepreneur.

Being an entrepreneur is as much a mindset as it is a career choice. You can work in a startup that somebody else founded and be entrepreneurial. You can work in a large company and be entrepreneurial. You can work in a non-profit, or—heaven forbid even a government agency and be entrepreneurial. There is a great entrepreneurial community growing right here in Washington DC, led by a vibrant community of leaders including the founders of 1776. It can be done anywhere. If Professor Yunus can find thousands upon thousands of successful entrepreneurs—nearly all women, by the way—among the rural communities in Bangladesh—some of the poorest regions on Earth, then we can certainly find—and develop—more entrepreneurs in communities all across America. And, if I can change the culture of a 225-year-old university to be more entrepreneurial, then it can be done anywhere.

That leads me to my second point: Education matters. Yes, you can teach entrepreneurship. Entrepreneurship is not magic. It is not true that you must have a “great idea” to begin your life as an

entrepreneur. It is just not true that entrepreneurs are simply standing in the shower one day and the so-called “great idea” just hits them as if lightning had struck, and then they go off and become millionaires.

Colleges and universities—like Georgetown University and so many others—have been teaching entrepreneurship courses for decades. And now, more and more, community colleges and even K-12 schools are teaching more courses and lessons that instill an entrepreneurial mindset and skillset in America’s younger generation. And with new curricula that emphasize evidence-based entrepreneurship, customer discovery, and lean startup principles, there are tools, processes, and frameworks that can make an entrepreneurial effort much more likely to succeed.

And that is of critical importance. Our education system needs to change from one that teaches young people how to get a job and survive in a hierarchical employment environment to one that teaches them to embrace risk; that change is inevitable and not inherently bad; that they can pursue their passion and make a living doing it.

What can Congress do to help? In short, be more like entrepreneurs. Solve problems. Serve your customers. Stop constant fighting and gridlock. Refuse to stand still. When you hit an obstacle, get creative and find a way to get things done.

Other suggestions:

- Clarify the rules. Minimize uncertainty in regulation.
- Remove red tape.
- Fix the idiotic immigration laws that kick out the brilliant entrepreneurs that want to stay here, build companies, and create jobs.
- Recognize that entrepreneurs are not the same as small business owners.
- Celebrate entrepreneurs.
- Support entrepreneurship education efforts.

In closing, I thank you for this opportunity to speak. I am passionate about growing the entrepreneurial spirit of America. I see young people every day who I am confident are going to change the world in amazingly positive ways through entrepreneurial efforts. I am very optimistic about the power of entrepreneurship in America, and I would be happy to answer any questions you may have, or help in any other way.

Anton Gelman, Small Business vs Startup

My name is Anton Gelman, I am the CEO of Cont2nt.com—a two-year old venture-backed startup based in Washington DC. We are building a market for breaking news that enables freelancers and media companies to sell their photo and video stories to media outlets around the world in realtime. We are eBay for breaking news—or put another way, we are trying to build a global Free Market for a Free Press.

Cont3nt.com officially launched a bit over a year ago and we now have 24,000+ journalists, and 2000+ media companies, in 25 countries around the world. I am responsible for creating 5 jobs in the USA (including my own), 5 internships, and an additional 4 jobs abroad. We are expanding rapidly and intend to have a presence in every country in the world by the end of next year.

I've been involved in entrepreneurship all my life—starting from “Anton Enterprises”—a landscaping company I started when I was 12, to the web development and strategy firm I ran throughout college, and all the way to the company I have right now. I have run small businesses, and I now run a startup. And I can tell you that there is a WORLD of difference between the two.

A “lifestyle business” is an organization that grows linearly and aims to provide an income and independence to the people that run it. I have tremendous respect for lifestyle businesses and the people that create them. However a “growth business” aka “startup” is NOT a lifestyle business and treating them the same (as we have been doing) does not allow us to provide services to this crucial element of the American economy.

A startup is “a temporary organization in search of a repeatable business model” (Definition by Steve Blank). This is a very strange definition for what we think of as a company. But it is very true.

Startups are not a storefront—it is a rocket-ship. I write this with all seriousness. The goal of a startup is to test a hypothesis that should take this idea worldwide and try and dominate a market segment previously un- or under- addressed. Their growth is never linear (if it is, they are dead), it is either exponential or out-of-business. As a consequence they tackle big problems, run on intellectual property, and build jobs faster than is possible in any other industry.

Startups are usually technology-based, run on intellectual property, and (often) venture funding. A company goes from theory to operations in 1–12 months, and can scale from the original founding team to dozens or hundreds of employees within the same period. It is fast growing, fast iterating, and acts much more like IBM than a mom and pop shop. As a consequence—their needs are very different from what has been traditionally thought of as a small business.

Existing legislation is much too slow, based in existing banking-loan infrastructures, and cumbersome application processes. Startups don't have 6+ months to wait for program approvals, we have no physical collateral to back our bank loans, and the tax

breaks given to research businesses usually pass us by. Because of the reliance on the old “lifestyle business” model—almost all previous legislation and programs have been ineffective in targeting startups.

As a consequence, aside from a very rare exception (like SBIR), I do not know any startups that are able to take any advantage of government programs—it is usually impractical to even think about it. This is a shame because for minimal investment startups provide exponential growth & world-changing services, and policy can help increase our competitiveness on the world stage.

With the adoption of the JOBS act, the beginnings of crow-funding, and immigration reform—it is clear that this is becoming a mainstream issue, and we are all the happier for it. However as good as these efforts have been, they are in their infancy, and have yet to become truly useful to help the startup economy.

I would urge policy makers and legislators to quickly implement the changes needed to streamline small business programs and target startup companies with resources like R&D tax credits, access to funding (not reliant on traditional SBA loans), immigration reform, and a network of trusted organizations that could help disperse government offerings faster and in a way that is targeted at growth companies.

