

Seattle Conference Sparks Dialog Between Innovators, Public Sector

by Rebecca Krafft, Editor

The Office of Advocacy’s September 19 conference brought together representatives of government and research institutions and outstanding entrepreneurs and innovators whose vision promises to shape the near and distant future.

There is no one kind of innovator—that was one of the day’s lessons. Innovators come in every shape and size, and the support they need is equally varied. Whether software developer, biotech expert, or neo-urban farmer—their needs are different. But they share some key distinguishing marks—vast quantities of know-how and energy, plus an optimistic outlook that is always on high alert for the next big opportunity.

“Small Business and Government: Maximizing Entrepreneurship, Driving Innovation” is part of the Advocacy Innovation Initiative. Through it, Advocacy is reaching out to innovative sectors that face unique challenges because their new technologies, business models, and practices are not yet addressed by federal regulations, or they may be unable to benefit from programs meant to encourage innovation.

The conference was just one of the many events occurring in the

Seattle area commemorating the 1962 World’s Fair, which was the gateway to the future of its era. Seattle’s “Next 50” celebration is an opportunity to look back at the achievements of the past 50 years and in a way that focuses the energy of this creative commitment on the boundless horizons that lie ahead for the next 50.

The conference was a continuation of efforts by Northwest Regional Advocate **Jenn Clark** and the rest of Advocacy’s field team to incorporate the input of cutting-edge entrepreneurs into Advocacy’s work on small business policies and regulations.

Viewers at over 100 different locations tuned in to the live conference webcast. They were able to participate in a chat-based interface that allowed for fluid conversation or to submit standard questions. They also submitted questions and comments via Twitter using the hashtag #SBGSeattle.

Clark commented, “Everyone I spoke to afterward thought it was terrific and assumed it was an annual event. They kept asking about next year. This is compelling evidence of the need for more such conferences and get-togethers.”

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Leadership Interview and Keynote

Jonathan Sposato, chairman of Geekwire.com, a top online provider of technology news, moderated a leadership chat and the first two panels. Sposato is notable as the only person to sell two startup companies to Google.

In an interview with Advocacy's leadership, Chief Counsel **Winslow Sargeant** and Deputy Chief Counsel **Claudia Rodgers**, Sposato quizzed Sargeant about his experi-

ence developing and selling a successful technology firm. Rodgers provided insight into Advocacy's mission and the Innovation Initiative, and she highlighted the success of just a few of the office's efforts to move the needle forward for entrepreneurs.

Following the interview, Sposato welcomed University of Washington President **Michael K. Young** who gave the keynote address. Young's remarks focused on the role public institutions play in fostering innovation, and of even greater impor-

tance, in commercializing new research. Young described the challenges entrepreneurs and partnering public institutions face in bringing innovation to the marketplace. He highlighted the efforts of the UW Center for Commercialization, which aims to double the number of startups founded on university research over the next three years. Young also fielded questions from entrepreneurs and academics in the audience.

—*Jamie Belcore, Assistant Chief Counsel*

Recognition and Takeaways

The Office of Advocacy was honored to participate in Seattle's Next 50 celebration.

The conference moderators, **Jonathan Sposato** and **Rebecca Lovell**, both of Geekwire.com, deserve a special shout out. Each brilliantly steered the conversation to help people understand the issues and to get excited about sharing their ideas with government. Many challenging concepts were addressed and yet the conversation remained accessible and even, at times, entertaining! They made government—and especially the Office of Advocacy—seem cool! The conversational style of the

panels put people at ease and helped those with differing viewpoints see another side to the story.

A few points really stood out:

- Innovators move quickly, so the more government can keep up, the better!
- Sharing your ideas for accelerating innovation with the government will have an impact.
- Communication is key—innovators and government should be able to readily connect and share information.
- Innovators are very optimistic—entrepreneurs are out there making the future happen! Their energy and enthusiasm is truly contagious.

—*Jenn Clark, Region X Advocate*

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Claudia Rodgers, Jonathan Sposato, Michael K. Young, and Winslow Sargeant.



Staff members of the Office of Advocacy.

Message from the Chief Counsel

Getting It Right—How Can the Public Sector Help the Innovation Sector Thrive?

by Dr. Winslow Sargeant, Chief Counsel for Advocacy

What will the technological breakthroughs of 2062 look like? No one knows. What we do know, however, is that today's innovation and entrepreneurship will be their foundation.

This was one of my takeaways from the Office of Advocacy's symposium marking the 50th anniversary of the Seattle World's Fair of 1962. A close second was a better understanding of the Innovation Sector and the kind of help it needs from government.

Advocacy was pleased to cosponsor this exciting event looking back 50 years to the futuristic 1962 Seattle World's Fair and forward to the "Next 50." Advocacy has a role to play as the independent voice for small business in government. It's our job to amplify the voice of small business before policymakers. And to do this effectively, we wanted to engage entrepreneurs directly on regulatory issues that are of concern to them. Traveling to Seattle to listen to cutting-edge high-tech small businesses was an important part of educating our office. This is key to Advocacy's Innovation Initiative,

which highlights the unique needs of startups and small firms bringing innovative products and services to the marketplace.

The excitement generated by thirsty, risk-taking entrepreneurs in Seattle is a world away from the government bureaucracy of Washington, D.C. So Advocacy's conference was an opportunity to listen and learn. Throughout the day, participants learned about an array of businesses and their varying needs and challenges; we learned about startup accelerators and participated in interactive exercises that have been the catalyst for many startup successes; and we learned about current and cutting-edge ways of financing innovation.

Introducing the day was **Jenn Clark**, the Northwest regional advocate whose dedication to her region's businesses was a driving force in making the conference a reality. Advocacy's 10 regional advocates were all in attendance, looking for ways of multiplying the lessons in play in Seattle. The D.C. office sent its legal expertise, in the form of regulatory attorneys

who work directly with federal agencies.

Our keynote speaker, University of Washington President **Michael K. Young**, described UW's quest to become America's number one research institution through the dual goals of attracting the brightest faculty and students and accelerating the commercialization of UW research. His plan to make UW the best place in the world to do research rests on four principles:

- Researchers and top graduate student candidates in high-demand areas must care about commercialization,
- UW has to provide unparalleled commercialization support,
- The Northwest region needs to be recognized as a hotbed of entrepreneurship and tech transfer, and
- Leadership and policy need to support faculty entrepreneurship.

So far the plan seems to be working. A number of successful companies have spun-out from UW, and a subset of those have had a successful exit through either a merger or acquisition with a larger company.

The interaction of the private and public sectors was the focus of the first panel. It highlighted the role that government has played in the support and the funding of emerging companies. To help entrepreneurs increase their chances of successfully launching and growing companies, government must continue to adapt to the challenges these firms face. One example is the need to re-examine the structure of funding program cycles, to bring them into sync with the needs of small firms. This also means that the response time

Conference Cosponsors

The Office of Advocacy would like to recognize the valuable contributions of the private sector cosponsors of the Seattle conference, "Small Business and Government: Maximizing Entrepreneurship, Driving Innovation":

- Seattle Center/Next 50
- GeekWire.com
- Northwest Entrepreneur Network
- K&L Gates

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Panel 1: Small Business Innovators: The Public/Private Relationship

by Janis Reyes, Assistant Chief Counsel

The first panel, “Small Business Innovators: The Public/Private Relationship,” put entrepreneurs and representatives of government and academia on the same stage. Their exchanges shed light on the specific needs and concerns of high-growth companies and entrepreneurs and how institutions can adapt to better support them and help commercialize their innovative ideas. Moderating this diverse, high-energy group was **Jonathan Sposato**, chairman of the technology news website Geekwire.com.

David Roberts, CEO of the video game company PopCap Games, talked about the growing pains of a startup going from 25 to over 500 employees and its eventual sale to EA Games for \$1.3 billion. His company faced a life-and-death regulatory hurdle as one of its three co-founders was denied entry to the United States at the Canada border.

“We have struggled like a lot of technology companies, figuring out how to get good and talented people here,” said Roberts. “This is not just about an employee—it is the core of the team that will create the next successful company.”

As a small startup, Roberts hired attorneys and consultants to navi-

gate the “massive bureaucracy” of obtaining a visa for his co-founder. He noted that “Now that I’m part of a big company, it is much easier because we have an army of people who can do these.” He added that small businesses in high-growth sectors are disproportionately affected by a variety of regulations, such as tax and financial rules.

Panelist **Chris Bajuk** discussed the challenges of obtaining government funding as he seeks to transform his love of gardening into a new business model. As co-founder and CEO of Urban Harvest, his startup aims to establish hydroponic greenhouse farms on urban rooftops. “Being a for-profit business is not at odds with being green,” said Bajuk.

Bajuk tried to obtain government grants but discovered he didn’t fit the mold because most farming grants are intended for rural or economically depressed areas. Bajuk recommended streamlining Grants.gov in order to provide a comprehensive list of all government grants and simplify the many different application deadlines.

Matthew Silver, founder and CEO of Cambrian Innovation, discussed his innovative green technology which decreases the

energy required to treat wastewater and generates high-quality electricity and biogas as byproducts. “We can solve basic resource problems using advanced biotechnology,” said Silver. “If we are not going to do it—who is?”

Silver noted that biotech and other pioneering scientific innovations have long lead times and are risky investments; this unattractive risk-return calculus for private investors makes government grants all the more critical. Roberts noted that this is a significant difference from software firms that have to move at a lightning pace to get their products on the market; these entrepreneurs rarely seek government funding.

Silver has received multiple government grants; he has also testified before the U.S. Senate Small Business and Entrepreneurship Committee about the key role that the federal Small Business Innovation Research (SBIR) program played in validating his technologies and products at early stages of research and development.

Grace Wang, director of the National Science Foundation’s (NSF) Division of Industrial Innovation and Partnerships, elaborated

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Panel 1: Jonathan Sposato, Grace Wang, Matthew Silver, David Roberts, Linden Rhoads, and Chris Bajuk.



UrbanHarvest owner Chris Bajuk displays his invention that allows him to grown rooftop produce.

Panel 2: Maximizing Entrepreneurship: Showcasing Innovation Accelerators

by Christine Kymn, Regulatory Economist

Marc Nager and Franck Nouyrigat, co-founders of Startup Weekend, believe people learn by doing. The nonprofit's 54-hour-long startup brainstorming events rely on this principle. These Startup Weekend "bootcamps" offer intensive interactive experiences that highlight the importance of execution and building quality teams. For the second panel "Maximizing Entrepreneurship: Showcasing Innovation Accelerators," Startup Weekend led participants in a compressed exercise based on their signature model.

The "innovation accelerator" concept may be unfamiliar to people who aren't immersed in startup culture. Accelerators aim to help

entrepreneurs through the several phases of new business development. Typical accelerator programs provide new entrepreneurs with some combination of mentorship and training on such topics as financing, product development, and launch. Often, the accelerator offers these services in exchange for a small piece of equity, an entry fee, or both.

For the startup exercise, the audience divided into small groups. Each group worked together to generate a business idea based on a spontaneous word pairing. Their energy and intensity was productive and entertaining. For example, one group started with nothing but the words "dogs" and "dates."

They came up with an idea for a web-based matchmaking service, DoggieDates.com, founded on the concept of matching dog owners with each other. Within a short time, the group developed a slogan ("It's a dog-meet-dog world") and a concept to match single dog owners and their pets for everything from pet playdates to friendship to romance. The site would also incorporate social networking and GPS apps to facilitate connections. The group got immediate buy-in for their idea. The exercise energized participants and got them thinking about building a quality team and the next steps in building a startup.

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Four of the teams participating in the compressed bootcamp exercise hosted by Startup Weekend.

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to funding proposals must have consistency and a timely reply.

The afternoon was kicked into high gear with a condensed version of Startup Weekend's 54-hour boot camp, which let all in attendance experience the intensity of starting a company. This high-energy exercise helped to reinforce the kind of outside-the-box thinking from which a novel business plan might emerge. Showcasing innovation accelerators such as Startup Weekend and the Northwest Entrepreneur Network introduced entrepreneurs to the different types

of mentors, funders, and managerial talent that are available to help launch a startup.

The symposium ended with a discussion of emerging capital strategies. Representatives of the venture capital, angel, crowd funding, and revenue loan communities offered advice on landing investment, including the importance of forging strong and lasting relationships with investors. When the discussion moved to crowd funding, panelists rolled up their sleeves and shared their opinions on the Securities and Exchange Commission's anticipated rulemaking on crowd funding. Panelists

warned that the easing of securities regulations must be done responsibly, but recognized that crowd funding could increase the number of new startups by freeing up a currently untapped funding source—the general public.

The conference launched Advocacy's Innovation Initiative in a direct and relevant way, educating all present and gathering input to improve public support for innovators. Your ideas and continued feedback are most welcome. Please direct all input to innovation.advocacy@sba.gov. I look forward to hearing from many of you.

Panel 2, from page 5

Following the panel exercise, **Daniel Rossi**, executive director of Northwest Entrepreneur Network (NWN), and **Lindsay Andreotti**, CEO of Brilliance Enterprises and co-chair of Startup Washington, continued the interactive thread by highlighting important milestones for startups to consider farther down the road. Their discussion touched on execution, mentorship, and figuring out how to marry passion and profit.

The panel moderator, **Jonathan Sposato** of Geekwire.com, also brought his own insight as a successful serial entrepreneur to the

discussion. He opened the discussion up to public resources and public-private partnerships. To that end, Chief Counsel for Advocacy **Winslow Sargeant** bridged federal government resources with accelerator resources. He discussed not only available SBA programs and Advocacy's research but also Startup America. This five-pronged White House initiative was launched in January 2011 "to celebrate, inspire, and accelerate high-growth entrepreneurship throughout the nation." In addition, Sargeant illustrated and underscored discussion points with examples from his meetings with entrepreneurs across

the United States and his past experience as an entrepreneur and venture capitalist.

Finally, several panelists, including Advocacy Economist **Christine Kymn**, discussed the value of responsibly gathered data aimed at measuring accelerators' impact on startups. While robust accelerator data sets are not yet available, some pilot projects are underway, such as the Startup Washington–NWN partnership. The panel closed with a lively Q&A session, plus advice and recommendations for startup entrepreneurs.



Panel 2 participants, Jonathan Sposato, Christine Kymn, Daniel Rossi, and Lindsay Andreotti, engage the audience.



Panel 2 participants: Marc Nager, Winslow Sargeant, Christine Kymn, and Daniel Rossi.

Panel 3: Driving Innovation: An Emerging Capital Strategies Discussion

by Sarah Bresolin Silver, Assistant Chief Counsel

The final panel highlighted current and emerging funding options from several segments of the investment community: venture capital (VC), angel, crowd funding, and revenue-based lending. Moderated by **Rebecca Lovell**, chief business officer of Geekwire.com, the panelists offered advice to small businesses, discussed emerging funding arrangements, and provided thought-provoking insight into the future of crowd funding.

Of the advice shared by the panel, the importance of relationship building was a key takeaway. Investment is “high touch and deeply personal” said **Danae Ringelmann**, co-founder of Indiegogo, an open platform for a wide variety of crowd funding campaigns. Executive chairman at Lighter Capital, **Andy Sack**’s pre-investment strategy includes forming long-term relationships with recipients and not usually investing until he has known someone for over a year. **Greg Gottesman**, managing director at Madrona Venture Group, added that the goal of an entrepreneur’s first meeting with a potential investor should be to set up a second meeting, not to close the deal. Entrepreneurs should conduct due diligence, arrive with questions for potential

investors, and highlight their motivation for starting their business.

Wil Schroter, founder of Fundable.com, and Ringelmann highlighted crowd funding as an increasingly popular alternative capital strategy for startups. Both Schroter and Ringelmann started Internet platforms that source money from the public by way of charitable donations or in return for perks other than equity (a product, recognition, or other benefit). Ringelmann urged the audience not to dismiss the social component of investing and countered the claim that return on investment is the only reason why people invest. “Motivation is complex,” she said. Schroter added that crowd funding opens up additional funding sources by accessing capital that would otherwise be dormant.

Sack introduced revenue-based loans as an alternative funding strategy to startups that may not fit bank, angel, or VC models. Revenue-based loans offer an attractive financing innovation to entrepreneurs, as they don’t dilute ownership, require personal guarantees or management involvement, and they have flexible repayment schedules.

Given the timing of the conference and the upcoming Securities

and Exchange Commission (SEC) rule writing for the recently passed Jumpstart Our Businesses (JOBS) Act, the discussion turned toward the expanded future of crowd funding once the JOBS Act rules are made final. At that time, small investors will be able to purchase equity in private companies.

Catherine Mott, founder and CEO of BlueTree Allied Angels, pointed out that crowd funding a startup may both complicate and hinder follow-up investment from angels and VCs. Mott also warned against lightening up securities regulations without creating the necessary regulatory environment to allow the public to invest safely. Gottesman indicated that crowd funding poses a huge risk, but could also be positive if it encourages more startups.

Small businesses and entrepreneurs in the audience enjoyed engaging with the panelists on the all-important question of raising capital. Advocacy also welcomed the panelists’ opinions and advice on crowd funding. This will assist Advocacy in reviewing the SEC rules. Understanding how such rules may affect small businesses and entrepreneurs is crucial to supporting and improving opportunities for small businesses.



Panel 3 participants Greg Gottesman and Andy Sack.



Rebecca Lovell, Catherine Mott, and Danae Ringelmann.

Panel 1, from page 4

on the agency’s grant programs. NSF has two programs: SBIR, which provides grants for small businesses, and the Small Business Technology Transfer Program, which gives grants to small businesses collaborating with nonprofit research institutions or universities. Wang explained that these programs seek the best entrepreneurs in the country to drive the expansion of our nation’s innovation capacity.

Wang described NSF’s role in helping entrepreneurs and researchers commercialize their ideas, as boiling down to three critical components: to help innovators understand the market need, find qualified collaborators, and provide financial support. Wang encouraged the audience of entrepreneurs to apply for the programs and to

comment on how to improve the grant process.

Linden Rhoads, vice provost of the University of Washington’s Center for Commercialization (C4C), now applies her expertise as a successful serial entrepreneur to foster C4C’s supportive entrepreneurial environment. The center helps commercialize discoveries emerging from UW research; with over \$1.5 billion in research funding, the university now ranks as the nation’s number one federally funded public research facility.

“Entrepreneurship is really hard,” recounted Rhoads. “One of my businesses almost went out of business a million times . . . Raising money is a full time job. [At C4C] we are focused on bringing teams together with different strengths to make a company that is resilient.” For example, the center

provides guidance or recommends potential team members who specialize in protecting or obtaining funding, or getting a market for these innovative ideas.

Advocacy, NSF, and C4C enjoyed engaging with the other panelists and entrepreneurs in the audience on the important topic of how the public and private sector can combine their strengths in a setting for innovation success. We learned that innovative companies are not all the same; regulatory relief is a survival issue for some, while financing is key for others. Understanding such key distinctions is a first step in helping government and public sector institutions be effective partners in innovation.



Above: The conference was webcast live, and offsite participants at over 100 locations interacted via SuperChat and Twitter. Below: Chief Counsel for Advocacy Winslow Sargeant (left). Jonathan Sposato and Jenn Clark, right.

Two States Add Flexibility for Small Businesses in Rulemaking

by Ngozi Bell, Region III Advocate

This summer, Delaware and Pennsylvania added provisions to include small business consideration in their regulatory process. These new measures are similar to the law that exists at the federal level, the Regulatory Flexibility Act (RFA). The RFA directs federal agencies to assess the impact of proposed rules on small businesses and grants them the leeway to consider alternatives that lessen the burden on small entities, while still meeting the rule's purpose. Implementation of the RFA has helped save small businesses billions of dollars in foregone compliance costs. (In fiscal 2011 these savings amounted to \$11.7 billion.)

State-level regulations can also have a significant impact on small firms, so efforts to add flexibility at the state level can also help simplify small business operations.

In Delaware, Governor Jack Markell signed an executive order, "Review and Reform of State Agency Regulations," on June 14. Among other things, the executive order gives small businesses the opportunity to comment on proposed state regulations that will affect them. It also subjects regulations that are more than three years

old to review, helping relieve regulatory clutter. The executive order was the culmination of a bipartisan effort of the Small Business Caucus and the state's small business partners.

In Pennsylvania, Governor Tom Corbett signed H.B. 1349, the "Regulatory Review Act," into law on June 29. The bill requires new regulations to undergo review and analysis to determine the impact on small businesses. The Senate passed the bill in June; it originally passed the House in October 2011.

The overarching requirement of H.B. 1349 is that state agencies must analyze new regulations for their impact on small businesses, as well as on the state, municipalities, individuals and large businesses; and they must identify less intrusive and costly means of achieving the regulatory purpose where possible. The goal of the bill is to ensure that small business has a voice in the regulatory process and participates in compliance in a way that creates a win-win for regulators and citizens.



Delaware Governor Jack Markell signed an executive order, "Review and Reform of State Agency Regulations," on June 14.

Advocacy Welcomes Shawn Fouladi

The Office of Advocacy welcomes Shawn Fouladi, of Fairfax, Virginia, to the staff. Fouladi was Advocacy's undergraduate intern in the summer of 2011, when he monitored and reported on Capitol Hill hearings on regulatory reform and small business issues. Fouladi received his bachelor of arts degree from the University of Virginia in May of 2012, and in fall 2012, he joined Advocacy's permanent staff

as a research assistant for the Office of Economic Research.

Fouladi has firsthand experience of many aspects of running a small business, having worked in his family's small businesses at various times in his life. He can be reached at farshad.fouladi@sba.gov or (202) 205-6947.



Research News

Research Contract Awards Examine Small Business Job Creation, Finance Issues, Veteran-Owned Business, and Sales Tax

by Joseph Johnson, Director of Economic Research

The Office of Advocacy recently awarded seven research contracts using fiscal year 2012 funds. The topics include research into how and why small businesses decide to hire their first employee, the effects of a potential tax on Internet sales on small online retailers, and the benefits to small businesses of various tax expenditure programs in the federal income tax code.

In addition, two studies will be conducted on each of two topics: how the use of credit scores affects small firms' ability to access capital, especially women and minority-owned firms; and longitudinal, time series analysis of veteran-owned businesses with respect to growth, decline, firm survival, and employment.

Office of Advocacy FY 2012 Research Awards

Topic	Contractor	Location
The Effect of Credit Scoring on the Ability of Small Businesses to Borrow	Alicia Robb	San Rafael, Calif.
Crossing the Employer Threshold: Evidence on the Determinants of Firms Hiring their First Employee	Robert Fairlie	Santa Cruz, Calif.
Research on Veteran Businesses	Compendium Federal Technology, LLC	Lexington Park, Md.
Credit Scores and Credit Markets Outcomes: Evidence from the SSBF and KFS	Krahenbuhl Global Consulting	Chicago, Ill.
Internet Sales Taxation and Small Online Retailers	Donald Bruce	Walland, Tenn.
Research on Longitudinal Analysis of Veteran-Owned Businesses and Veteran Business Owners	SAG Corporation	Annandale, Va.
Measuring the Benefits of Tax Expenditures Used by Small Business	Quantria Strategies	Cheverly, Md.

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