

Testimony of  
William G. Klehm III  
Chairman and CEO of Fallbrook Technologies  
on behalf of CONNECT  
Before the  
U.S. House of Representatives  
Committee on Small Business  
Subcommittee on Investigations, Oversight and Regulations  
Hearing on  
JOBS Act Implementation Update  
April 11, 2013

Good Morning Chairman Schweikert and Ranking Member Clarke. It is an honor to appear before the committee today and testify on the challenges those of us raising capital for early stage, innovative new companies face in this financial and regulatory environment. I commend you for calling this hearing to check up on the status of JOBS Act implementation to ensure the goals of the JOBS Act, namely to increase access to capital for America's innovators, get accomplished.

I am Bill Klehm, Chairman and CEO of Fallbrook Technologies. I have served as Fallbrook's CEO since 2004 and have over 20 years of automotive related experience. I have held several positions with management responsibilities in the automotive

business, including finance, marketing, sales, product development, and manufacturing operations.

We are a private technology company based near Austin, Texas and San Diego, California, dedicated to improving products relying on mechanical transmissions. We both manufacture and market proprietary continuously variable transmission products, and support our global partners in the design and development of our proprietary transmission technology.

Fallbrook currently holds over 500 patents and pending applications worldwide.

Our mission is to deliver the best performing, most versatile and most reliable mechanical power transmissions in the world. We believe the next generation of transmissions including our technology will be less expensive and more effective.

We employ 133 people in the U.S., including approximately 25 of the best engineers in the transmission sector.

We have secured major partnerships with global players in the automotive sector to design and develop applications of our transmission technology. We have passed the commercial tests of physics and economics and have partnered with industry leaders like Allison Transmission of Indiana, Dana Holding of Ohio and TEAM Industries of Minnesota. Our proprietary continuously variable transmission technology is potentially applicable to any product that uses a transmission. It replaces conventional transmission technology that uses gears to transform raw power to managed power with a mechanism that seamlessly provides an unlimited number of ratios within its ratio range.

Transmissions are ubiquitous in anything that has a power source, from your bicycle or vacuum to the most obvious example, the motor vehicle. That range of applications should give you a sense of how big an opportunity we have in front of us-- more than \$30 billion in just the markets we are active in today. Our technology allows next-generation transmissions to increase fuel efficiency, reduce emissions, and improve overall vehicle performance.

We've grown from negligible revenue in 2009 to more than \$43 million last year. And that is money that we are investing back into the business to grow. This is a good start, but we have an opportunity to grow faster and to drive innovation faster. *The only thing preventing us from doing this is affordable capital.* Our ability to access capital is one of the MOST significant challenges we face. I spend over 50 percent of my time on it.

We have raised more than \$115 million in capital. Our early investors were angels from California, individuals that recognized the benefits our technology could bring to the mechanical transmission sector. VC investors from California came in next, followed by a VC from Switzerland and more recently corporate investors from Canada, Indiana and Ohio.

The maze through which small innovative companies, like Fallbrook, must navigate to acquire capital is becoming increasingly challenging. Our great country prides itself on entrepreneurship and innovation. Fallbrook is a poster child for those values. From an idea in San Diego in 1998 to the launch of our first commercial

product, right through to the automotive development agreements we signed last summer.

With additional capital we could *expand* our manufacturing base in Texas and *build-out* our engineering and development team which would *create new high technology jobs* to accelerate our product development and partnership opportunities. We also believe there would also be a *significant impact* on new job opportunities within both our suppliers and end user customers, such as automobile manufacturers. This committee should remember that high-tech engineering and manufacturing jobs are the kinds of jobs this economy needs because not only do they enhance America's competitiveness, but they pay above the average salary and wages compared to other sectors. That is why Congress' bipartisan work to pass the JOBS Act was so important and why regulatory hurdles shouldn't slow down the jobs and innovation that will materialize once the JOBS Act is fully implemented.

The changes enacted by the JOBS Act will make acquiring capital less challenging for companies like Fallbrook, specifically the Regulation A change which simply raises the limit on capital a company can currently raise from \$5 million to \$50 million. Regulation A is already law and is already enforced by the SEC. But the \$5 million cap is outdated and unworkable and Congress was absolutely right to modernize the cap for today's innovation climate and to provide more access to capital for America's innovators.

To meet our needs, an incremental \$5 million round is simply *not* sufficient to fund the type of development and growth that we are targeting at Fallbrook. Under the

status quo, to raise more than \$5 million we are required to file a registration statement with the SEC. The opportunity cost of that filing, including the legal and accounting fees and printing costs, is significant for a company of our size, amounting potentially to hundreds of thousands of dollars. Mid and large cap companies that raise public equity benefit from the scale of their transactions relative to the cost of the registration statement. But innovative companies all across the country in various tech sectors that are the size of Fallbrook are robbed of that benefit until the JOBS Act Regulation A rules are implemented. This means that new, well-paying jobs aren't created, new technologies sit dormant, and the public misses out on new products that could change their lives or advance the common good.

The changes in the JOBS Act will increase access to capital for companies like Fallbrook. They will enable us to accelerate our development and commercialization; driving innovation and growth, which creates jobs. New jobs will be created not only local to Fallbrook but also across the nation within the supply and customer chain both upstream and downstream of our proprietary technology. Fallbrook's technology can have a meaningful impact on the mechanical transmission market, using energy more efficiently through the art of simplicity. Fallbrook is not the only company that will benefit from Reg A implementation. I know of several other companies ready to utilize this new option for accessing capital. I encourage the sub-committee to help us in this goal by ensuring the full and speedy implementation of the changes proposed by the JOBS Act. Thank-you Mr. Chairman, Ranking Member and Committee Members.