

Testimony of Chuck Schwerin
Chief Executive Officer
Sonostics, Inc.

Before the House Committee on Small Business
August 5, 2013
Binghamton, New York

Good morning, Mr. Chairman and Members of the Committee. My name is Chuck Schwerin and I am CEO of Sonostics, a five-year old start-up that spun out of research at Binghamton University's Bioengineering Department.

On the House Committee on Small Business website, Congressman Hanna sums it up: to unlock economic growth in this country, and certainly in the Southern Tier of New York State, it is imperative that we "foster an environment where small businesses can thrive."

Outside of the traditional start-up sweet spots of Silicon Valley, Research Triangle, and Route 128 outside Boston, there historically has been neither the institutional knowledge nor the raw materials for nurturing such an environment. For start-ups like my firm, Sonostics, it is akin to salmon swimming upstream in order to survive, let alone thrive.

Yet companies like Sonostics are exactly what are required to nurture a rebirth of the economic engine necessary to replace the manufacturing institutions that used to dominate this region. Communities like the Tri-Cities cannot expect 25,000 manufacturing jobs to walk through our doors anytime soon. But the good news is that New York State is blessed with numerous institutions of higher learning that have the ability to spawn dozens of innovative companies like Sonostics, providing well-paying jobs that should attract people back to the region and keep those already here.

While there is no shortage of research pursued within the New York State university system, a modest percentage historically could be deemed translational; meaning the purpose of the research was to create commercial utility. The research Sonostics licensed, converting muscle vibration to force to detect imbalance that is typically the cause of 80% of joint pain, can be directly translated to clinical efficacy. Since University faculty may devote only up to 20% of their time to external ventures, the need for entrepreneurs to partner with research faculty to operate new ventures is critical.

If there is inadequate community support for innovative, high tech ventures, attracting individuals such as me, to a place like Binghamton, NY, can be a challenging prospect. I was very intrigued with the technology but also had a spouse teaching at the University, so the move was not so difficult. For this to become a trend, for outside entrepreneurs to seek, or be recruited to, start-up companies in upstate New York, institutional and community support for new ventures will be most important.

Growing a company that leverages University research demands critical steps. To reach a stage where investment becomes interesting to outside investors it is necessary to:

1. validate the technology
2. secure a license from the University
3. build a prototype
4. identify a market
5. recruit a team
6. generate revenue

In order to keep the lights on during the first five steps, a chief executive must also identify sufficient financial backing. Hence, the first years of Sonostics' existence were spent pitching to friends and family, to Angel investors, and translating the research idea to a commercially-viable product or service.

An early step involves negotiating a license with the Technology Transfer office of the University. Tech Transfer offices have two primary choices. They can either identify mature public or private entities to whom they can license the raw technology, or help the researcher/inventor build a team that can create new ventures that focus on commercializing the raw technology.

The former course of action may be simpler for the Tech Transfer officers to pursue, but the latter is a better generator of jobs, of which Sonostics is an example. We negotiated a favorable agreement for developing and marketing vibromyography, the non-invasive modality for detecting muscle imbalance, and worked closely with the University Tech Transfer office and the patent attorneys they selected to protect the intellectual property.

It is fair to say that Sonostics could not have survived without significant assistance from Broome County, the State of New York and the Federal Government. This aid included:

1. State support for the Centers for Advanced Technology – in our case we collaborated with the CAT at Stony Brook, which specialized in sensor technology and built our first prototypes;
2. State support for SPIR grants (Strategic Partnership for Industrial Resurgence), which subsidized our ability to leverage graduate student research using our technology in new ways that would be clinically advantageous for us;
3. QTDP (Qualifying Therapeutic Discovery Project Program), a NIH/IRS collaboration funded via the Affordable Care Act to encourage research and development in companies with fewer than 1000 employees;
4. QETC (Qualified Emerging Technology Company Incentives), a New York State Tax and Finance administered program that also rewarded investment in pure research that translated into commercial products;
5. Broome County Industrial Development Agency loans; and
6. Broome County Incubator space in the Innovation Center.

Continuance, rather than sun-setting, of State and Federal incentives, that either lowers tax burdens for profitable firms or provides grants to not-yet-profitable ones, makes enormous political and economic sense.

Sonostics was not able to take advantage of the SBIR (Small Business Innovation Research) program because we did not have the necessary staff with proper academic credentials who could act as Principal Investigators and devote at least 51% of their time to the company.

The concept of business incubators has also been important to the growth and survival of Sonostics. Broome County supports a small innovation center for start-up businesses, that includes below-market rent, complimentary web access, printing and copying, reception, conference rooms and telephone access – all attributes that impact a young company's overhead.

What the incubator does not possess, state-of-the-art office and lab space for high-tech ventures, will be part of a new downtown incubator that is largely government-funded but under the aegis of Binghamton University. Such brick and mortar extensions of the University, combined with the just-passed Start-up New York tax benefit bill, should enable upstate communities with a university presence to more favorably compete against other states in the drive to attract entrepreneurial talent. Sonostics may well be one of the early tenants.

My recommendations for initiatives to support the growth of new, innovative entities include an over-arching reminder that incentives must recognize the life cycle of these kinds of ventures. Tax abatement policy is great for companies that already have reached a stage of maturity where there are taxes due. This is not the case during the first few years, typically. The benefit of QTDP or QETC, for Sonostics, was the ability to accept tax benefits as grants, not as carry-forward credits against some uncertain future profit picture.

Continued support for Centers of Advanced Technology (and Centers of Excellence) via State and Federal line items, enables small ventures to increase their chance of survival during the early years when resources are so scarce.

Finally, firms like Sonostics do not possess all the skills necessary to navigate the ever-changing regulatory shoals. We do not assume regulations will cease to exist. Rather, we want to be able to call upon professionals in the legal and accounting arenas who can ensure we are taking full advantage of the tools and opportunities that governmental entities provide. Outside of the traditional geographic hotbeds of innovation, these professionals are frankly not well-versed in the opportunities companies like Sonostics need. Continuing education support for legal and accounting professionals specifically in the area of innovation incentives would help grow small companies and improve the chances for success.

I appreciate your attention to this critical aspect of economic growth and thank you for the opportunity to provide you with my thoughts on this subject.

Respectfully,

Chuck Schwerin
CEO, Sonostics, Inc.