



HEARING TESTIMONY

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ON BEHALF OF

THE GREATER AUSTIN CHAMBER OF COMMERCE

BEFORE THE

**HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON HEALTHCARE & TECHNOLOGY**

“CREATING JOBS THROUGH SMALL BUSINESS INNOVATION ACT OF 2011”

APRIL 7, 2011

Introduction

Good morning Chairwoman Ellmers and Ranking Member Richmond, Members of the Subcommittee, ladies and gentlemen. It is an honor to appear before your Committee today to testify about the Small Business Innovation Research (SBIR) program. The Members of this Committee are to be commended for your contributions to the growth of our economy, to the creation of new jobs, and to fostering innovation in the United States of America.

My name is Glenn Norem, and I am the Executive Chairman and co-founder of Totus Solutions. I am here representing Totus Solutions and the Austin (Texas) Chamber of Commerce.

Totus Solutions, founded in April 2009, is the manufacturer of intelligent, lighting-based security platforms that are deployed to establish electronic security grids to protect the citizens of our country, at home and abroad, and to strengthen our defenses and improve the response to incidents that occur in our communities.

I am also the founder of eeParts, a global provider of supply-chain services with operations in Texas and in China. Previously, I co-founded another innovative, systems-based company, ViewCast, a provider of streaming media technologies. Prior to ViewCast, I was a general partner of two successful venture capital funds focused primarily on investing in start-up and early-stage companies.

Totus Solutions

Totus Solutions was founded by two “serial” entrepreneurs to engineer, manufacture, and market intelligent, lighting and security platforms, based on energy-saving light emitting diodes (“LED”). Totus’ *Guardian Security Platforms*TM are the integration of secure wireless communications, video surveillance, and sensor monitoring technologies on an intelligent LED lighting platform.

Surveillance and sensor grids enable customers to provide an advanced level of physical security and a superior response to incidents and situations that arise in their jurisdictions.

Totus’ *Guardian Security Platforms*TM provide a highly-reliable, integrated security platform that enables the rapid, affordable deployment of surveillance and sensor grids to monitor pedestrian and vehicular traffic, campus activity, and to provide for perimeter security.

The Greater Austin Chamber of Commerce

The Austin Chamber of Commerce represents a 5-county region in Central Texas and more than 2400 businesses from a wide range of industry sectors and sizes. The Chamber administers Opportunity Austin, an economic development initiative launched in 2004 aimed at fostering job-creating investment in the region that would generate 72,000 new jobs and increase payroll by \$2.9 billion in 5-years. The Austin regional business community committed \$14.4 million to implement the strategy, and today, regional employment growth has far surpassed expectation, adding an estimated 123,400 new jobs to Austin's economy and increasing regional payroll by \$5.6 billion.

Through an agreement with the state, the Austin Chamber also manages the Texas Emerging Technology Fund’s (ETF) Central Texas Regional Center for Innovation Commercialization (RCIC) which covers a 15-county region and facilitates capital formation for technology startups to fund innovation. Additionally under the auspices of the Greater Austin Technology Partnership, the Chamber is executing a new major initiative to harness the expertise of Austin’s technology gazelles and galvanize their stewardship to ensure Austin’s innovative and entrepreneurial communities continue to thrive.

Entrepreneurs, Innovation, and Access to Capital

Certainly not all small businesses require investment capital from third-party sources to be successful; and many successful firms have been built with capital solely from friends and families or from individual investors. However, many emerging-growth firms that require significant investment capital will receive an investment from one or more venture capital funds.

It has been my professional experience that the symbiotic relationship between entrepreneurs and the venture capital professionals that assist small businesses in their investment portfolios (providing both the essential investment capital for growth and their business development expertise) has contributed to the unparalleled success of innovation and jobs for our nation in the last 30 years. The contributions of venture capital in 2009 alone accounted for 21% of the U.S. GDP¹, which is even more surprising when you take into account that most venture capital companies are small businesses with fewer than 12 employees² and much less access to capital than commonly believed.

¹ Venture Impact: The Economic Importance of Venture Backed Companies to the U.S. Economy -A joint study by the National Venture Capital Association and IHS Global Insight Copyright 2009.

²Venture Funding and the NIH SBIR Program. National Research Council (US) Committee for Capitalizing on Science, Technology, and Innovation: An Assessment of the Small Business Innovation Research Program; Wessner CW, editor. Washington (DC): [National Academies Press \(US\)](#); 2009.

The seeds of our nations' venture capital industry actually began with the Small Business Administration and its Small Business Investment Companies (SBIC) programs of the 1970's and the many SBIC professionals that later managed venture capital funds.

Venture capital-backed companies generally benefit from both the venture capital investment and the business development expertise of the venture professionals as the entrepreneurs strive to grow their business in today's fast-paced, globally-competitive environment.

The SBIR Program Fosters Innovation and New Job Creation

The SBIR program is important to Totus, and many other small businesses across the country, because it enables us to work closely with the federal agencies such as the Department of Defense and the Department of Homeland Security to create solutions to meet the critical needs of their organizations and their missions to protect our citizens.

As the largest funder of federal research and development in the country, the SBIR Program is a powerful catalyzer for U.S. innovation and a driver of the American economy. SBIR grants have funded many successful projects that sparked the growth of numerous, innovative products when fully commercialized. These new companies have created new jobs, new technologies, and, sometimes, entirely new industries in our country.

As an example, my colleague and co-founder of Totus Solutions, Steven Chen, was previously the founder of 3eTI Corporation, a recipient of Phase I, Phase II, and Phase III SBIR awards which led to the invention and commercialization of the first FIPS-140 secure, wireless (WiFi) communication product for use by the Department of Defense and other U.S. Agencies. As an example, this (FIPS-140) secure, wireless technology has enabled the rapid and economical deployment of mission-critical communications for the U.S. Navy and other federal agencies where wireless communications had been previously prohibited because of the poor security of commercial WiFi systems.

Previously isolated from their command when they penetrated the deepest holds of a foreign ship, today Navy Seals utilize secure wireless communication relay points (dropping them like bread-crumbs along their path) to communicate their activities back to the command center when they are asked to board a foreign vessel at sea. Tomorrow, firefighters will rely on similar technology for command and coordination when they enter a burning building.

The Totus management team firmly believes that the Small Business Innovation Research program will be important to the success of our business – because it keeps us close to the ever-changing needs of our federal, state, and local government customers and the agencies charged with protecting them.

Many entrepreneurs, like the founders of Totus, start new businesses based on innovative product concepts. Historically, our country has benefited greatly from the successes of our entrepreneurs as they grew new, "high tech" businesses with innovative products and services, creating new companies, new industries, and new jobs that have proven to be vital to our economy.

New Company Formation and Access to Capital

To fulfill our ambitious goals, new companies, like Totus, require both talent and investment capital. In the formative stages, the investment needs to be secured before the firm recruits and retains its talent. Unfortunately, for Totus, the current SBIR rules handicap our access to investment capital by prohibiting our participation in the SBIR program if Totus were to accept venture capital investment.

While we have been successful in raising debt and equity capital for Totus from individuals (accredited investors), the highly-visible stock market “crashes” of the last decade have had a negative effect on the individual investors that have historically provided “angel investment” capital.

What this means to Totus, like many other small businesses hindered by the current situation, is that we all spend more executive time and resources raising capital because it is generally secured in smaller amounts from individual investors – which translates to slower growth of our businesses and limits the creation of new jobs.

Conclusion

In conclusion, it’s most confounding that venture capital-supported companies have been barred from participating in the SBIR programs... because the entrepreneurs, the SBIR program and the venture capital firms are solidly aligned in their interests in advancing and commercializing technology, in their missions of spurring innovation, and in growing new commercially, successful businesses. Venture funding seems to be positioned as a liability rather than an asset to entrepreneurs and to a potential SBIR funding recipient.

It is well understood that entrepreneurs and their young companies are dependent on access to capital; and no other single factor more thoroughly determines whether a new business will thrive or fail. The limitation of access to any source of capital seems counter intuitive to the process of fostering innovation and encouraging the growth of small businesses.

I respectfully suggest to the Committee to also be aware of the details in a “compromise solution” on the issue of percentage ownership and venture capital participation or any requirements that will require regular monitoring of the venture-investor’s portfolio of investments beyond the SBIR recipient for program compliance. The “unintended consequences” may add a significant burden to the entrepreneurs, the SBIR recipient company, and the SBIR Program administrator to “police” the rules... thereby stifling both innovation and job creation.

I trust that my comments affirm both the value of the SBIR program and the great need to remove barriers or obstacles to access capital for entrepreneurs as they seek to secure capital from *all* available sources of funding, including venture capital.

Thank you again for the opportunity to appear before this Committee. I look forward to answering your questions.