U.S. House of Representatives Committee on the Judiciary

Subcommittee on Immigration Policy and Enforcement

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"Hearing on the Investor Visa Program: Key to Creating American Jobs"

Testimony of:

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Introduction

Chairman Gallegly, Ranking Member Lofgren and members of the subcommittee, my name is Jason Mendelson and I am a co-founder and managing director of Foundry Group, a venture capital firm comprised of four partners based in Boulder, Colorado. Foundry Group is focused on making investments in early-stage information technology, Internet, and software startups. Collectively, we have more than five decades of experience in venture capital investing during which time we have invested in over 300 companies as institutional investors and more than 75 companies as angel investors. Additionally, we have over three decades of entrepreneurial experience in founding and working in senior operating roles inside technology startups.

Our passion is working alongside entrepreneurs to give birth to new technologies and to build those technologies into industry-leading companies. We're centrally located in Boulder, Colorado, but we invest in companies across the United States. Our current venture fund of $225 million was launched in October 2010. As true early-stage investors, we are comfortable making small seed investments -- as little as $250,000 -- to help promising entrepreneurs get their ideas off the ground. Often at the time of our investment, the company does not have a product or revenue, just an exciting idea, a nascent technology, and a compelling entrepreneurial team that holds tremendous promise for growth.

As part of our commitment to launching companies, in 2006, my firm co-founded TechStars, a mentorship-based, seed stage investment program in which startup entrepreneurial teams from around the world participate in an intensive three month program which takes them through the development of their business plan, and through their product launch. Each startup receives a small amount of seed capital with the hopes of obtaining additional financing at the end of that time. Now established in four cities, Boston, Boulder, Seattle and New York, TechStars has launched 90 companies in the last five years. During this time, over 70 percent of the participants have received additional funding from angel and venture investors. Nearly 80 percent of the companies are viable and growing entities today.

In addition to my responsibilities as a venture investor, I am also a member of the Board of Directors of the National Venture Capital Association (NVCA) based in Arlington, Virginia. The NVCA represents the interests of nearly 400 venture capital firms in the United States, which comprise more than 90 percent of the venture industry's capital under management.

It is my privilege to be here today to share with you, on behalf of the venture capital industry and the startup companies in which we invest our perspective on the critical role that immigrant entrepreneurs play in job creation, innovation and economic growth in the United States. I would like to thank the Chairman for holding this hearing and his recognition that this issue is a critical one to our country's future. I would also like to thank Ranking Member Lofgren and Boulder's own Representative Jared Polis for their leadership and support of the StartUp Visa legislation that seeks to smooth the path for the best and brightest foreign-born entrepreneurs to build their companies here in the United States. Passing this bill will send a signal to the world that our country is not only "open for business" but also very eager to welcome those startup teams to America. The criteria included in the legislation that the entrepreneur visa candidates receive legitimate venture capital funding will ensure proper vetting takes place, and the subsequent requirement for proof of job creation or additional growth will allow government to monitor results.

At a time when we are in serious need of both fiscal responsibility and economic stimulus, the StartUp Visa legislation is an example of smart policy that will create American jobs and cost nothing in terms of additional government spending. Each day that passes, another company builder is being turned away. Our economy cannot wait for comprehensive immigration reform. On behalf of the venture capital and startup communities, I urge Congress to do the right thing for the U.S. and pass the StartUp Visa legislation on its own merits without further delay.

The Startup Economy and Immigrant Entrepreneurs: A Powerful Combination

The StartUp Visa legislation recognizes two elements that have been critical in driving U.S. economic growth and job creation – venture-backed companies and immigration. Separately, these elements have helped to differentiate our country from all others. When harnessed together, they will be instrumental in maintaining our global leadership.

According to a 2011 IHS Global Insight report, companies that were founded as small startups with venture capital accounted for 12 million jobs and $3.1 trillion in revenue in the United States in 2010. That equates to 11 percent of U.S. private employment and 21 percent of our country's GDP. Venture-backed companies are responsible for the creation of entire industry sectors here including semiconductors, biotechnology, Internet content and software. Today, we are creating the companies that will serve as the cornerstones for the clean energy and social media sectors. Companies founded with venture capital as small startups that are now household names include Apple, Genentech, Starbucks, Facebook, Home Depot and FedEx. With more than 6000 companies receiving first-time venture funding over the last six years, the next generation of innovative companies are poised to follow in their footsteps.

Our country has benefited greatly from the startup ecosystem because venture capitalists understand the key essentials to building companies. Two of the most important elements are 1) the ability to provide early-stage funding, active guidance and mentorship and 2) a healthy appetite for, and understanding of, risk. For companies that are built on innovation, the contribution of venture capital is critical early on. When my partners and I decide to invest in a nascent idea, we don't just write a check. We join the team, offering significant guidance and strategic vision across all aspects of building the business including operations, sales and marketing, human capital and financial planning. Our counsel is based on decades of experience working in similar situations and understanding the drivers for success in a particular sector. That contribution early on in a company's life-cycle has helped to start and grow thousands of entities each year.

Yet our passion for this business is balanced by our appreciation for the risk involved in new technologies and business models. Before investing in a company, venture capitalists go through a substantial due diligence process that often takes months to complete. We vet these candidates across multiple fronts, assessing their management teams, business plans, technology risks, financial plans, competition, and growth trajectories. Of the thousands of business plans we receive each year, my firm funds 10 to 15 companies, with the expectation that 25 to 50 percent will not return our invested capital. Failure is built into our model – but so too, are successes and those companies that have succeeded far outweigh the failures.

While America's startup economy would not be what it is today without venture capital, the same can be said for immigrant entrepreneurs. According to *American Made*, a study conducted by Stuart Anderson and commissioned by the NVCA, approximately 25 percent of U.S. public companies that were venture-financed since 1990 were founded or co-founded by immigrant entrepreneurs. These companies include Intel, Google, Sun Microsystems, eBay, Juniper Networks, WebEx and Watson Pharmaceuticals. Further, a survey of 2006 venture-backed startups revealed nearly half (47 percent) had immigrant founders. These are companies that are hiring American workers, paying taxes and creating value for American shareholders. Anecdotally, I will attest that the same holds true today. I would estimate that a third of the business plans we have reviewed in the last year have had immigrants as part of their founding team. Invariably, about 33 percent of the TechStars teams accepted into the program, (which is highly competitive, even more so than entrance into an Ivy League school), also include foreign-born entrepreneurs.

To offer just one example of the value created from immigrant entrepreneurs, I would like to share my experience with Stratify. Stratify was founded by Ramana Venkata, Ramesh Subramonian and Rakesh Mathur. All three are from India, and are graduates of the Indian Institute of Technology, India's version of MIT. They came to the US in the 1980s on student visas to pursue graduate studies, and in search of better opportunities than they could find in India at that time. Their graduate studies were funded by Research Assistantships generously provided by our universities - Stanford, UC Davis and UT Arlington, respectively for Ramana, Ramesh and Rakesh.

Ramana and Ramesh were working on H-1B visas at Intel Microprocessor Research Laboratory in Silicon Valley and Rakesh at Amazon, when they collectively had the idea for novel ways to analyze and manage unstructured data. They founded Stratify, received venture capital, and pursued and received their green cards in late 1999. The company grew steadily and was sold to Iron Mountain in 2007, with returns of over $150 million to shareholders and employees.

Over the course of the company, Stratify created more than 400 jobs in the U.S. More than half a dozen Stratify alumni – including the three immigrant founders -- have gone on to become founders or early employees of other startups, and more will do so in the near future.

The Stratify story is an example of just one of hundreds of immigrant entrepreneurs applying their passion, intelligence and understanding to building U.S. companies. Yet, despite the strength of this success story, it is our current belief that it would be much more difficult to replicate this series of events today given the immigration policies now in place. These immigrants have been a gift to our country and one that we are dangerously close to forsaking altogether.

Our Game to Lose

America is at high risk for squandering the contribution of immigrant entrepreneurs for two reasons. First and foremost, our legal immigration policies have essentially sent a message to these talented people that we do not want them here in the United States. The current path to a green card is fraught with complex requirements, limitations and delays. Today, foreign-born graduate students who earn their advanced degrees here in the U.S. and want to stay and build businesses here are not encouraged to do so – and remarkably they are often forced to return to their native country because of our restrictive policies.

At Foundry, we have first hand experience with this scenario. In the most recent TechStars class in Boston, four of the 12 companies had immigrant founders from Israel, the UK, India, and Estonia. In three cases, the founders had to return to their home countries after the program. Each of the four companies was funded by U.S. firms with between $350,000 and $2,000,000, but in three of the cases, the companies are now located, growing, and creating jobs outside of the United States. We estimate that in the immediate term, 20 high paying jobs were lost to these countries; yet the ultimate loss to the United States over time will be a much greater multiple of that number, as studies show that most of the job growth occurs once a company is large enough to become public. And these are merely four brand new startups created in Boston in a 90 day period – imagine the potential losses occurring throughout the country.

In years past, we have watched as other TechStars teams were forced to go back to countries such as Canada, Israel and England. In Seattle, where the program is currently in session, one company with Israeli founders has launched its product and is now in its ramp-up phase. They anticipate needing to hire 10 people in the next 6 months. However, the threat of being forced out of country is very real for them. Those ten employees will be hired in Seattle or Israel. We should give them every reason to stay. But ironically our policies are showing them the door.

Compounding the fact that the United States is no longer welcoming these entrepreneurs is the reality that we are no longer the only destination for high tech, high growth startup companies. In the last decade, countries such as India and China have not only adopted the American venture capital model, but they have also supersized their ecosystems by offering powerful government incentives for entrepreneurs to build their companies in their home countries. Once a company is started in a specific destination, the economic benefits of that company remain geographically tied to that region. Innovation is established and further developed, jobs are created, and additional products and value are spun out from there. Imagine if Intel was founded in Europe, Yahoo founded in China and Google founded in Russia. While it seems preposterous (and it was back when we welcomed these entrepreneurs and their home countries did not), make no mistake: the next Google or Intel is at high risk for being located on foreign soil if we do not open our doors to the immigrant founders who today are deciding where to call home.

As history has taught us, many of these immigrant company founders will do their preliminary research and business concept work in graduate school here in the U.S. These foreign-born students have earned their degrees at American universities and want to stay here to build companies. The StartUpVisa legislation should apply to these individuals as well. It is both ironic and alarming that students are coming to the U.S. and attending schools that are subsidized by our federal and state money – and then we kick them out of the country, compelling them to create jobs overseas. We are effectively subsidizing, as a country, the world's entrepreneurship.

Furthermore, as we continue to deny entrance to these types of entrepreneurs, the world's venture capital dollars are following suit and beginning to increasingly go to countries like China and India because that is where the companies are being started. The venture money will flow to the best and brightest entrepreneurs regardless of their location, so it is imperative that we make it easy for these job creators to locate in the United States.

Conclusion

Reforming our highly skilled, legal immigration policy should be a Congressional priority. Doing so would support job creation and innovation here in the United States without having to spend a dime of the nation's tax dollars. The StartUp Visa legislation is a thoughtful approach, which grants the world's best and brightest entrepreneurs an opportunity that today does not exist. And it does so in a way that mitigates much of the risk by leveraging the venture capital industry's long established and diligent vetting process.

While we recognize fully the need to address the country's illegal immigration challenges, we assert that if the Congress is not able to pass comprehensive immigration reform this year, the StartUp Visa proposal should stand on its own merits and be considered separately in the interest of time. America needs job creation and economic recovery now. And we must remain competitive with foreign countries that are anxious to usurp our leadership. As we look towards our future we must not forget our past and what has made this country great. We appreciate the bipartisan support that this committee has given to this initiative and we are enthusiastic about its potential. The venture capital industry stands ready to work with government to once again attract highly motivated, highly skilled talent to our shores. In our collective opinion, there is no other option.

Thank you for this opportunity. I am happy to answer questions.