

**STATEMENT OF
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**On Behalf of the
Frontier Angel Fund, LLC
Montana Angel Network
Innovate Montana
Northfork Strategies, LLC**

**Before the
United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
SUBCOMMITTEE ON ECONOMIC POLICY**

July 20, 2011

Mr. Chairman, Distinguished Members of the Subcommittee, my name is Liz Conner- Marchi and I am the Coordinator of the Frontier Angel Fund, Montana's first angel investment fund, a former economic development executive for Flathead County, the Coordinator for Innovate Montana and a business consultant with Northfork Strategies. I live on a working cattle ranch in the Mission Valley of Northwest Montana near Glacier National Park.

I am honored to have the opportunity to speak before you today with a voice informed by 10 years of economic and business development work in Montana. I want to thank my fellow Montanan, Senator Jon Tester for extending this privilege to me. Prior to moving to Montana, I worked in economic development in North Carolina where I was a constituent of Senator Hagan.

The most interesting people I have ever met live in rural America. Most of them are innovators and entrepreneurs, because they have had to be to survive. As my business partner at Northfork Strategies, Diane Smith, author of TheNewRural.Com says, "When I worked in Washington, D.C. I knew plenty of patent lawyers but not a single inventor. Within months of moving to Montana, I knew dozens of inventors but only one patent lawyer". This speaks volumes about the challenges and opportunities we face in America to retool an economy deeply impacted by globalization and technology.

I want to speak to three issues that merit your attention if new jobs are to be created:

- Financial capital must be made available to entrepreneurs
- Innovation and discovery is everywhere
- Telecommunications infrastructure and regulatory policy [are critical to this effort](#)

Today's capital environment is very difficult for entrepreneurs. Before the recession, many entrepreneurs bootstrapped startups with personal credit cards. Banks once would just ask you to mortgage your house for a business loan. This, frankly, was a significant obstacle to entrepreneurship when the economy was good. In today's climate, it's hard to know what a house is worth, so lending on an existing asset is rare. Most bankers will tell you they are working for regulators today, not customers. Bank lending today is driven by cash flow. Most startups have no cash flow, and some don't have many liquid assets. -Banks look at history. As

a result, bank debt is a very unlikely source of capital for entrepreneurial ventures which rely on a forward looking opportunity.

Angel investors look forward at the opportunity. In 2005, we ~~began-initiated~~ a conversation with a number of high net worth individuals who were living in Montana. In addition to investment capital, they had deep skills sets in starting and building successful businesses. In 2006, the Frontier Angel Fund, LLC closed with 33 investors who put in \$50,000 each to invest in early stage businesses located in the region. What is an angel investor? An “Accredited Investor” that is the first “professional” money in a business after family, friends and fools. I want to thank all of you responsible for the compromise on the Accredited Investor definition in the Dodd-Frank bill. ~~W-~~without the compromise, more than two thirds of potential angel investors in Montana could no longer be “accredited.” Angel investors differ from Venture Capitalists ~~Capital~~ in that they are investing their own money, not other people’s money. Most angels have a double bottom line: they want to make money but they also want to see their community or region prosper. Many angels are successful entrepreneurs and they share a real affinity for mentoring and coaching others. The estimated size of the angel and VC markets are roughly the same, \$20 -\$30 billion annually. In 2009 Venture Capital money went to 3,800 companies in the United States while angels invested in almost 56,000 companies. Two thirds of all VC investments were in California, Boston and New York and half of all states had only one or no VC deals. Angel investments happen in every state in American. ~~1*~~

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The Frontier Fund is easy to find ~~-~~ we have an online application process, we screen deal submissions every other month, and ~~we~~ meet in person every other month. We have looked at over 300 companies since inception and have investments in 10 regional startups, most ~~of which~~ have a proprietary product or service. Frontier Fund ~~does-conducts~~ a monthly call with 18 other groups in the inland Pacific Northwest to share investment opportunities and to learn from each other. Angels are very important, and we need more of them. In that regard, I would encourage your support of a federal angel tax credit. And as you consider capital gains, think about the importance of that capital for angel investing.

Included in my submission today is a map of angel groups in the U.S. provided by the Angel Capital Association of which the Frontier Angel Fund is a founding member. ~~-~~ They are now in every state in the union. Compare that to Venture Capital which is concentrated on the east and west coasts. I would encourage your focus on ways to support the growth of angel networks and funds.

Government policy and investment plays a critical role in enabling the kind of telecommunications infrastructure required for businesses to operate today. In last mile locations like Livingston, Montana (population 7,300) where entrepreneurs like Andrew Field with Printing for Less.com ~~has-have~~ developed sophisticated businesses printing platforms serving a global market, ~~telecommunication infrastructure is critical.~~ For his company, bandwidth and speed are lifelines. And in the case of PrintingforLess, which employs 160 highly trained workers, initial funding came from a Montana based early stage seed fund, Glacier Venture Fund, and other local angels. Debt sources allowed the business to grow, but equity got it off the ground.

Bandwidth supports scores of new enterprises throughout rural America. TeleTech, a customer contact center, located in Northwest Montana employs 900 people. Bandwidth and a trainable workforce attracted this company. Profitability keeps it in Montana. You can build and scale a technology based enterprise from anywhere if you have the right business model, employees and pipes. Avail TVN, the largest provider of digital media services in North America, was born in Kalispell, Montana in 2005. A team of technologists, guided by an experienced former corporate executive, built a company that last year had \$150 million in revenue, employs over 100 with 20 in Kalispell. As an employee of Avail-TVN, a former University of Montana student from Belt, Montana (population 589) has a real chance at becoming wealthy through stock options if the company is sold or goes public. The initial seed funding for Avail came from local angels and a local rural telco. The local talent is as good as it gets, they just need the teaching and sophistication that comes from experience.

Many of the programs designed here in Washington, D.C. are built for clusters of industries. This doesn't translate well to rural innovators. A team in Montana is likely to include someone using open source software in Estonia working with software developers in Bozeman, Bigfork and Arlee. It's a virtual community of interest, not necessarily a geographic one. We often get a one size fits all approach, and it often doesn't fit for rural areas.

Innovation and discovery are everywhere. But we must find better ways to connect capital to ideas and to entrepreneurs. This is the recipe for new jobs in all of America. Innovate Montana is a new initiative to not only tell our growing number of entrepreneurial success stories, but to build a virtual community of interest around businesses in IT, Cleantech and Life Science. It's a low overhead collaboration led by CEO's in the private sector, Governor Schweitzer's Office of Economic Development, Tech Link and the Tech Transfer offices of our Montana universities. Too much money, time and energy is spent trying to create jobs without a business perspective in the mix.

We need federal policy that does all it can to minimize regulations, provide essential telecommunications infrastructure, encourage angels, provide real world business education and strategy to entrepreneurs and doesn't ~~lose-lose~~ site of the incredible talent and ambition that you find in rural America. Federal policy is often made in Washington, DC where you have 11,000 residents per square mile. It doesn't always translate effectively to a place like Montana where we have 6.8 people per square mile.

I have never regretted bringing my children to Montana to be educated there in public schools. In addition to a fine education, they have learned values like self-reliance, being thrifty and being innovative - all a ~~thrif and self-reliance that are~~ part of the fabric of life in rural communities. We cherish our landscape and with your continued vigilance, rural America will be an important part of the path to economic prosperity and national renewal.

Thank you.

^{1*}PricewaterhouseCoopers Money Tree Survey, 2006-2009 and Jeffrey Sohl, Center for Venture Research, University of New Hampshire, *The Angel Investor Market in 2007: Mixed Signs of Growth*, 2008