Inc.

The Magazine for Growing Compa

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IF THE AVERAGE VOLT DRIVER GOES 900 MILES BETWEEN FILL-UPS[1], HOW FAR DOES THE ABOVE-AVERAGE DRIVER GO?

Try 4,000 miles. No, that's not a typo. That's how far Noble from Alexandria, Virginia, recently went between fill-ups thanks to his Volt, which can go 38 miles[1] gas-free. And when you want to get away from it all, it has an onboard gas generator to help with that too. It's electric when you want it, gas when you need it. And if that wasn't enough, the 2012 Chevrolet Volt was recognized by J.D. Power and Associates as the "Highest Ranked Vehicle Appeal among Compact Cars, Two Years in a Row" in the APEAL Study[2] — a study based on factors like styling, comfort, and convenience among others. Learn more at chevy.com/volt.

1 Based on EPA-estimated 98 MPGe (electric); 35 MPG city/40 highway (gas). Actual mileage may vary. 2 The Chevrolet Volt received the highest numerical score among compact cars in the proprietary J.D. Power and Associates 2011 and 2012 Automotive Performance, Execution and Layout (APEAL) Study.SM Study based on responses from 74,759 new-vehicle owners, measuring 233 models and measures opinions after 90 days of ownership. Proprietary study results are based on experiences and perceptions of owners surveyed February–May 2012. Your experiences may vary. Visit jdpower.com.

2013 Chevrolet Volt. **Chevy Runs Deep**


Once upon a time
We all saved for a rainy day
But today's climate makes it harder to save
So financial protection benefits from Unum are a clear way to weather tough times

PHOTOGRAPH BY CHRISTOPHER STURMAN

COVER: GROOMING: MANAMI ISHIKAWA FOR ATELIER MANAGEMENT; STYLING: CAROLINE GROSSO

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ON THE COVER RICHARD BRANSON, FOUNDER AND CHAIRMAN OF THE VIRGIN GROUP, PHOTOGRAPHED IN NEW YORK CITY BY PETER HAPAK

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Put It On
The Ekso wearable robot, by Ekso Bionics. With it, paraplegics can get back on their feet.

COURTESY EKSO BIONICS

NETWORK FOR TEACHING ENTREPRENEURSHIP

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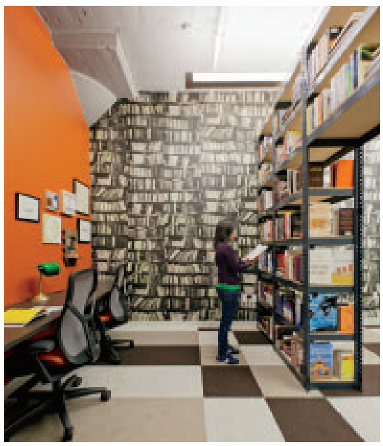

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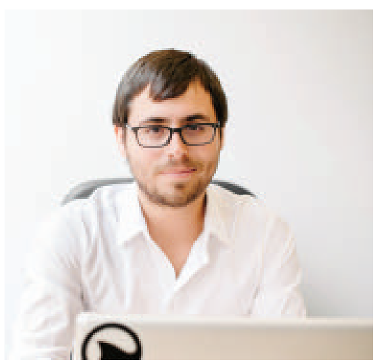

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FROM TOP: CHARLES SYKES/AP; COURTESY COMPANY; JASPER SANIDAD/COURTESY QUID; JESSE LASH/COURTESY GROOVESHARK

INC.COM/PERSONAL-PRODUCTIVITY

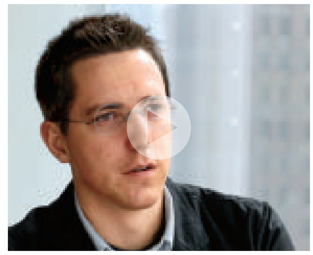
The Right Way to Introduce Yourself

When you meet someone new, do you prop yourself up with fancy titles and accomplishments? Bad idea, says Inc.com columnist Jeff Haden. Below, he shares some tips for starting a relationship on the right foot.

MORE BIG IDEAS

Head to Inc.com for expanded coverage of this month's special report (page 56) on the ideas that inspire today's most ambitious entrepreneurs. You'll find more big ideas in action, plus inspiration from thinkers such as Jim Collins and Peter Diamandis. Visit www.inc.com/big-ideas.

Top Videos on Inc.com



INC.COM/HOWIDIDIT

DAVE MORIN
Co-founder of the social network start-up Path, on getting the product just right

"The success we had with Path happened after we simplified it so that most people in the world could use it. But that process takes a long time. You have to stay true to your vision and values."

INC.COM/HOWIDIDIT

CINDY GALLOP
Founder of MakeLoveNotPorn, on the difficulties of pitching an adult website to VCs

"I had not anticipated that the shutters would come down quite so quickly the moment the word *sex* was mentioned."

ISTOCK (2)

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The Hope of Audacity

Every year, we ask the CEOs of the Inc. 500 to name the entrepreneur they admire most. Every year, their answers are notably devoid of daily-deals-site magnates, photo-app artistes, and the like. Don't get me wrong. It's great to build something cool and fill a niche—and

thanks to the massively scalable, networked world we operate in, such a business might even make you rich. But it won't get you into the pantheon defined by our CEOs. That's reserved for those who pursued big, world-changing ideas and caught them.

The idea chaser they admire most is Richard Branson, who, not coincidentally, graces our cover and, on page 72, talks to *Inc.* editor-at-large Leigh Buchanan about audacious entrepreneurship, the only kind he knows. After Branson, the Inc. 500 CEOs tagged Bill Gates, Jeff Bezos, and Elon Musk, a diverse group united mainly by having dreamed and delivered on impossible goals: a computer on every desk, say, or online megastores and private space travel. "The day before something is a breakthrough, it's a crazy idea," explains Peter H. Diamandis, founder of the X Prize Foundation and, as such, a willing accessory to entrepreneurial lunacy. "If it wasn't, it would be just an incremental improvement."

So think of this month's cover story, "Why the World Needs Big Ideas," as a plea for a bit more audacity and a bit less incrementalism. The five companies profiled in our cover story show what a few entrepreneurs in the thrall of a big idea can accomplish. It's pretty mind-blowing.

Let's not forget that chasing such ideas may actually be good business, as leadership guru Jim Collins explained to Buchanan. An audacious goal requires you to focus relentlessly, inspires your team, and forces you to do a lot of things right. In Collins's words, "You can't pull it off if, in the process, you don't build a great company."

As someone who signed on for the terrors and transcendence of entrepreneurship, you already have the DNA for the job. "Starting from zero with the idea of building a great company is a Big Hairy Audacious Goal in and of itself," Collins allows. *Inc.* has always believed that entrepreneurs are the people who get things done in this world. So aim high: There are a lot of big things out there that need doing.

Eric Schurenberg | erics@inc.com

ANDY RYAN


IT'S TIME
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ONLINE HEALTH SEMINARS
FOR HEALTHIER OUTLOOKS

BEHIND THE SCENES | Entrepreneurs at the Heart of Everyday Life

PHOTOGRAPH BY **FLOTO + WARNER** | REPORTED BY **JUDITH OHIKUARE**

Fringe Fest Artists at the Macy's studio assemble a float for Sprout, the preschool cable channel set to make its Thanksgiving Day parade debut this year.

All the Trimmings

This month, millions of spectators will line the streets of New York City to watch the 86th annual Macy's Thanksgiving Day Parade. Here are four companies that keep the festivities marching along.

DECORATIVE NOVELTY

Dressing up the parade (with fringe)

Macy's opened its first parade studio in a defunct Tootsie Roll factory in Hoboken, New Jersey, in 1968. In 2011, the studio was moved to a 72,000-square-foot facility in Moonachie, New Jersey, where a team of 25 artists, carpenters, painters, designers, woodworkers, and metalworkers toils year round, assembling floats, props, and other elements of the Thanksgiving Day parade. Pictured here at the studio are three artists applying fringe supplied by Decorative Novelty of Brooklyn, New York, to the Sprout float, one of 29 in the parade this year. Decorative Novelty has provided the parade's float fringe for more than two decades, cutting strips from large rolls of raw vinyl and topping them with a cotton border. Monte Seewald founded the business in 1936 and sold it to current CEO Robert Notine and president Leonard Feldman in 1978. Today, the $1 million company has 15 full-time employees, in addition to seasonal workers, and manufactures artificial

He Can Fly Yacht-braid rope helps prevent the Buzz Lightyear balloon from going to infinity and beyond.

décor, including wreaths, garlands, and Christmas trees, for use as in-store decorations by retailers in the U.S. and Canada. It also produces a variety of wholesale party supplies, including ribbon, confetti, and oversize martini glasses.

SOUND ASSOCIATES

Cue the music!

Producing loud and clear sound along the two-mile parade route—which winds from Central Park West and 77th Street to Macy's flagship Herald Square store on 34th Street and Broadway—is no easy feat. Macy's entrusts the task to Sound Associates of Yonkers, New York. The day before the parade, the company sets up nearly 100 speakers at the parade's starting and ending points, along with microphones used for public announcements, live performances, and live feeds to and from the NBC television broadcast. On the big day, the company handles all aspects of the parade's sound production as two employees in golf carts drive along the route, turning on, testing, troubleshooting, and repairing equipment. Vaudeville stagehand Thomas Fitzgerald founded Sound Associates in 1946. He went on to create one of the first electronic mixing boards to incorporate sliding faders for controlling stage lights. His sons, T. Richard and Peter, now run the $20 million business, which has 75 employees and has provided sound systems to the 1996 Summer Olympics in Atlanta, Mercedes-Benz Fashion Week, and more than 30 current theatrical productions, including *The Lion King* and *Jersey Boys*.

BAND HALL

So the Macy's marching band looks as good as it sounds

Since 2006, Macy's has selected roughly 250 high school students from around the country to perform in its Great American Marching Band on Thanksgiving Day. Band Hall of Nashville outfits the musicians and flag bearers in woven polyester jackets and pants, as well as coordinating shoes, gloves, and plumed hats called shakos (pictured above). The company also supplies the band's auxiliary dancers with Lycra costumes, flags, and banners. Former high school band director Keith Hall founded Band Hall in 1997 to offer a one-stop shop for uniforms and accessories. Today, it manufactures custom uniforms, flags, and banners for high schools and universities in the United States, England, the Netherlands, and Japan. It also distributes a variety of accessories made by other companies, including shoes, gloves, headgear, and decorative sabers.

LOCKWOOD BOAT WORKS

Keeping giant balloons in check

This year's parade is set to feature 47 balloons, many of which are light enough to be controlled solely by groups of volunteers holding ropes. The parade's 15 giant fliers, including Kermit the Frog and Buzz Lightyear, are also anchored by utility vehicles. In 2003, Macy's hired Lockwood Boat Works of South Amboy, New Jersey, to create a pulley system—consisting of yacht-braid rope and winches anchored in the vehicles—that allows balloons to be raised and lowered safely. Lockwood continues to supply the winches and rope, the latter of which is ideal for balloon wrangling because of its durability and lack of stretch. William Lockwood Sr. and his wife, Mary, founded Lockwood Boat Works in 1946, initially selling boats, motors, and trailers. Today, the company operates a 28-acre, full-service marina, where it has a boat-supply shop and repairs and stores as many as 300 boats in the winter months. William Lockwood Jr. owns and runs the 35-person company with his nine siblings.

FROM LEFT: KELLY KOLLAR; CHARLES SYKES/AP


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Crowd Control

Crowdfunding start-ups hit speed bumps

Entrepreneurs who have been waiting to take advantage of the Jumpstart Our Business Startups (or JOBS) Act may have to wait a little longer. The Securities and Exchange Commission continues to drag its heels on implementing the new law, which allows start-ups to find investors online via crowdfunding.

When Congress, in an almost unheard-of display of bipartisanship, passed the JOBS Act in April, crowdfunding seemed poised to boom. In 2011 alone, crowdfunding platforms helped raise about $1.5 billion for start-ups and other projects, according to Massolution, a research firm covering the space. Currently, the money raised on sites such as Kickstarter and Indiegogo is characterized as donations (for which donors are often offered rewards and opportunities to preorder products). The JOBS Act allows start-ups to potentially raise a lot more money online by using crowdfunding to sell equity in their companies.

Many crowdfunding sites have been cropping up to cash in on the new law. Once the JOBS Act rules are in place, at least 100 crowdfunding companies are expected to launch, says Kevin Berg Grell, who runs an accreditation program for the professional association Crowdsourcing.org. By the end of 2013, that number could double, he says. But these new companies have found themselves running headlong into a regulatory thicket.

Of course, the JOBS Act was supposed to do away with regulations—namely, those that were preventing entrepreneurs from offering shares in their companies via crowdfunding. For example, the SEC has long banned private companies from publicly soliciting

GETTY

investors, including on the Internet. There are also SEC rules that limit how many investors a private company may have before it is forced to register with the SEC, as a public company would.

But the SEC has been slow to indicate how it will implement the law. After it missed its original July 4 deadline, the commission finally issued some proposed guidelines in late August. Many details remain sketchy, however, and the SEC may not finalize its rules until the end of the year or early 2013.

One of the gray areas is the part of the JOBS Act that allows start-ups—which now must mainly limit their pitches to wealthy "accredited" investors—to cast a much wider net online. According to the act, investors making less than $100,000 a year will be able to invest up to 5 percent of their income in start-ups, and those making $100,000 or more will be allowed to invest up to 10 percent of their income. But will the SEC require crowdfunding sites to take steps to verify the income of these investors? It's still unclear.

Even with the act's regulations in place, there will probably be lingering questions about whether crowdfunding sites are serving merely as information portals or as securities broker-dealers that must register with federal regulators.

To put this in practical terms, Mike Norman, co-founder of Wefunder.com, a Boston-based start-up, asks what would happen if a crowdfunding portal highlighted "featured companies" on its homepage. Unless rules governing narrow situations like this one are clearly spelled out, it would be hard to determine whether a company was simply conveying information or giving investment advice, in which case it would have to register as a broker-dealer.

Because of this confusion, some crowdfunding sites are avoiding the new regulations altogether, at least for now. Kickstarter has said it won't change its business model to take advantage of the JOBS Act. And TheFundersClub.com, which lets people make small investments in some Y Combinator companies, is limiting its users to the wealthy accredited investors who were able to invest before the JOBS Act passed.

"A lot of people thought crowdfunding would be more like eBay than Merrill Lynch."

Crowdfunder, a Los Angeles–based start-up, took a similar tack in August, when it announced that it had formed a strategic alliance with GATE Global Impact, a registered broker-dealer, to allow accredited investors to make investments in companies registered on the Crowdfunder site.

Despite the uncertainty, most crowdfunding start-ups are pressing on. Wefunder has already registered more than 8,000 investors, and Crowdfunder has about 9,000. Still, D.J. Paul, co-founder of Crowdfunder, thinks there will be some cooling of the initial crowdfunding enthusiasm once companies fully understand the regulatory requirements involved: "A lot of people thought crowdfunding would be more like eBay than Merrill Lynch." Increasingly, Paul says, they are discovering that that's not the case. —*Ryan Underwood*

Clean Fun Eric Ryan and his team celebrated Method's sale with Belgian brews and trivia.

COURTESY COMPANY

Close-up: Eric Ryan

Method sells out with style

For 12 years, Eric Ryan and Adam Lowry, the co-founders of Method, have nurtured their soap company's quirky culture. So when Ecover, a Belgium-based maker of green cleaning products, acquired Method in September, Ryan and Lowry celebrated in their own way. At Method's San Francisco headquarters, Ecover execs got a pep-rally-style welcome, complete with music and a high-five tunnel. That was followed by a Belgian-beer tasting party and Belgium trivia. "The first goal was to find Belgium on a map," Ryan jokes. "I've at least got that covered."

The combined company will have 300 employees and more than $200 million in annual sales. Ryan insists Method won't change much: He will keep managing product design, Lowry will focus on environmental sustainability, and Drew Fraser will continue to be Method's CEO. The major difference is that Method will now help distribute Ecover products in the United States and vice versa. "Now we know how to start a company and how to sell a company," Ryan says. "We're just learning how to merge a company. Hopefully, we'll get it right and become a case study for the right way to do it someday." —*Issie Lapowsky*

INC.5000 PROFILE | Peering Over the Fiscal Cliff

A government contractor explains how she is preparing for possible budget cuts

If Congress and the White House cannot resolve the deadlock on the federal deficit by year's end, government contractors will be among those who feel the pain. Under a provision called sequestration, $1.2 trillion in cuts over the next nine years would be triggered in January, with roughly half of those cuts coming from defense spending. That's bad news for companies like AM Pierce & Associates, which provides engineering services to the military. With $4.2 million in sales last year, the Lexington Park, Maryland–based company landed at No. 203 on the 2012 Inc. 5000. To prepare for sequestration, CEO Adelle Pierce is shifting her focus to new markets within the federal government. Below, she discusses her strategy for broadening the company's horizons. —April Joyner

We've been tracking sequestration for some time. If it happens, it will have some far-reaching consequences, because there's no rationale to how the cuts will be spread across programs. It's just an across-the-board cut to every single line item. There will be less work to go around for contractors.

Moving Target Possible budget cuts have AM Pierce & Associates looking for federal clients beyond the Department of Defense.

A lot of small businesses, including us, play a role as subcontractors to large prime contractors. When the amount of work declines, those prime contractors are going to be inclined to keep the work themselves and less inclined to pass it through to small businesses.

One critical part of our business strategy right now is staying active in industry associations. I'm the industry co-chair for the Naval Aviation Small Business Roundtable, which is a partnership between government and industry to foster the success of small businesses. That position helps me stay in dialogue with my government customers as they're making decisions. Many companies don't have the resources to spend time being engaged at that level.

The second thing, which we've put most of our focus on, is diversifying our customer base. About 98 percent of our work is currently with the Department of Defense. Because defense would see the most significant impact from sequestration, it's important for us to find ways to branch out into other federal markets.

I knew when I started the company that federal IT, especially in the health care space, was a potential market for us. I had some relationships in that area, and my contacts encouraged me to look at entering the market. But at the time, I wasn't prepared. I wanted to build a good, strong infrastructure for my company and to develop a strong footing within the defense space. Once we had established that, then we could see about entering new markets.

In the spring of 2011, we developed a strategic plan to expand into the federal IT market. If we weren't facing sequestration, we might have waited until next year to begin expanding in that area. But now, that plan has become much more critical. We've sped up our timeline by about six to 12 months.

We've focused a lot of attention on business development. Given the potential impact of sequestration, honing our internal processes is really important. In September, I hired a vice president to lead that area. She's very connected in the federal IT space, so she is a great complement to my defense network. We've just gotten our first assignment from the Department of Health and Human Services, and I'm delighted about that opportunity.

As I talk to other business owners in our space, some are very focused on the practical, day-to-day impacts of sequestration. But I like to take the long-term view. There are significant opportunities if we position ourselves appropriately.

FROM TOP: COURTESY SUBJECT; JAMES KROGMAN/COURTESY U.S. NAVY

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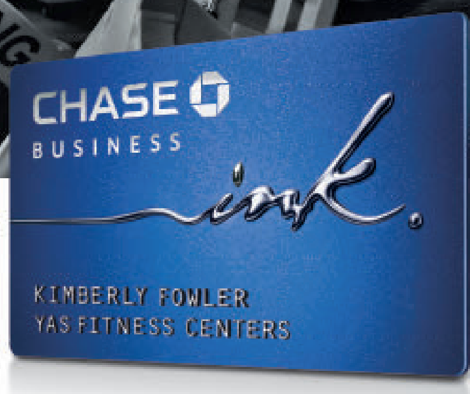

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You're the boss. Why don't you make more? According to a 2011 survey of 575 tech start-ups in North America, entrepreneurs often take home smaller paychecks than some of their employees. They also get paid less—as much as $77,000 a year less—than start-up executives who are not founders.

Founders who are CEOs are rarely the highest-paid individuals at their companies.

17% THE FOUNDER GETS THE HIGHEST PAY.

59% AT LEAST ONE EMPLOYEE GETS PAID MORE THAN THE FOUNDER.

24% THE FOUNDER AND AT LEAST ONE EMPLOYEE ARE TIED FOR HIGHEST PAY.

Entrepreneurs usually own larger equity stakes than outside hires do...

Founders

CEO **25%**

COO **10%**

CFO **10%**

CTO **9%**

Hired Executives

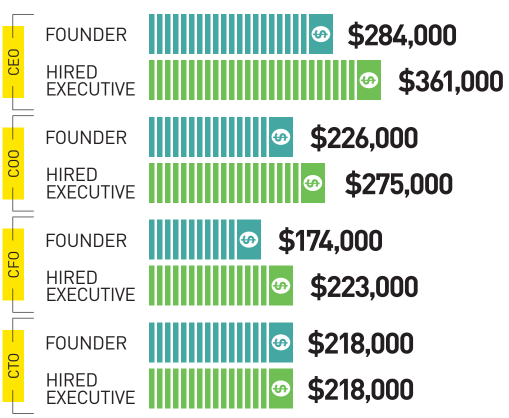
CEO **5%**

COO **2%**

CFO **1%**

CTO **1%**

...but when it comes to salaries and bonuses, entrepreneurs typically earn a lot less than other start-up executives with the same titles.



SOURCES: COMPSTUDY, NOAM WASSERMAN, FURQAN NAZEERI

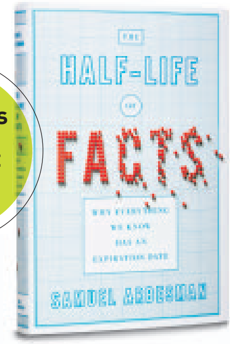
This so-called founder discount exists because entrepreneurs often give up compensation for the sake of their companies. Plus, founders may have less leverage in salary negotiations:

"A founder couldn't credibly threaten to leave his start-up if his board didn't give him a raise, because they know that he wouldn't quit over a $50,000 shortfall. In contrast, a nonfounder's similar threat would be a lot more credible."

NOAM WASSERMAN
HARVARD BUSINESS SCHOOL PROFESSOR AND AUTHOR OF *THE FOUNDER'S DILEMMAS*

—*Compiled by Maeghan Ouimet*

A skimmer's guide to the latest business books



The book: *The Half-Life of Facts: Why Everything We Know Has an Expiration Date*, by Samuel Arbesman; Current.

The big idea: Much of what we consider fact—because we learned it in school or read it in a book—is no longer true. Science advances, and measurement techniques improve.

The backstory: Arbesman is a senior scholar at the Kauffman Foundation and a fellow at Harvard's Institute for Quantitative Social Science, which creates analytical tools for researchers.

If you read nothing else: Chapter Seven explains how breakthrough discoveries, though they seem to spring from nowhere, can be anticipated by monitoring smaller, regular changes. Chapter Eight recounts how the refinement of measurement has led to an awareness of errors and changing facts. (Who knew the location and height of Mount Everest are constantly shifting?)

We hold these truths: Though facts refuse to sit still, decision makers can stay fresh by reading omnivorously and questioning long-held assumptions. Arbesman disputes the popular argument that, by rendering information easily retrievable, the Internet is making us dumb. Would you rather consult your dusty memory vaults or online data baked fresh daily?

Rigor rating: 9 (1=*Who Moved My Cheese?*; 10=*Good to Great*). The book claims most scientists cite academic papers in their work without having read them. Arbesman appears to have read a library's worth of papers on a variety of subjects.
—*Leigh Buchanan*

FROM TOP: KELLY KOLLAR; ISTOCK; COURTESY SUBJECT

RESEARCH CORNER | How VCs Think

It's whom you know—and what you've got

When a venture capitalist is deciding whether to invest in a young company, there are many variables at work besides the strength of the business plan. New research examines two of them—who referred the founders to the VC, and what other investors are already on board—and asks, how important are they?

THE FINDINGS

Previous research has shown that social ties between entrepreneurs and venture capitalists play a role in funding decisions. Popular thinking is that VCs use these personal connections to help overcome a paucity of information with which to evaluate a start-up's probability of success. A new study, conducted by Rolf Wüstenhagen and Nina Hampl of the University of St. Gallen in Switzerland and Robert Wuebker of the University of Utah, has found that these personal ties between VCs and founders carry more weight than whether a prestigious VC firm, such as Kleiner Perkins, has decided to invest. The researchers also unearthed other interesting insights into how VCs weigh decisions.

THE METHODOLOGY

In an e-mail survey, 86 venture capitalists responded to a series of scenarios involving a hypothetical early-stage clean-energy company seeking its first round of funding. The survey used conjoint analysis, which asks indirect questions that get respondents to reveal how they weigh or prioritize different variables. Researchers manipulated factors such as product development (sometimes VCs were told the company had a finished product; other times that it was still in the design phase) and founders' backgrounds (sometimes VCs were told the founders had run another start-up; other times that they were just out of grad school). To better understand how a VC's background influenced the choices, the researchers also collected each respondent's location, age, industry experience, and job title.

As one might expect, attributes related to the deal's fundamentals (including the potential return and the company's market readiness) were found to be the most important drivers of venture capitalists' investment decisions. The social network effect was small but significant. Overall, VCs were notably less inclined to fund companies that had sent pitches via random e-mail. Whether these VCs had social connections to the founders accounted for 6.4 percent of the decision to invest, say the researchers. The identity of the lead investor, on the other hand, accounted for only 3.2 percent.

THE TAKEAWAY

Entrepreneurs who want VC funding should spend time networking. "Cold calling Kleiner Perkins is not a very promising route to explore," says Wüstenhagen, a management professor at the University of St. Gallen. "You are more likely to get funded by building your social network." However, it's important to keep these results in perspective. A personal connection may help you get a foot in the door, but when making investment decisions, VCs still give far more weight to the business prospects. *—Daniel McGinn*

What Matters to VCs

In a survey, VCs revealed that social connections influenced their investment decisions, but other factors were more important.

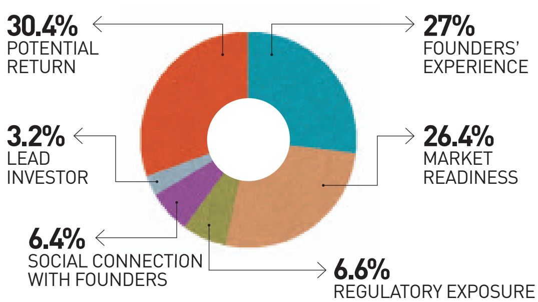


ILLUSTRATION BY DANIEL STOLLE

COMPANIES TO WATCH

SURF AIR

BIG IDEA: An all-you-can-fly airline

Traveling Light Surf Air will have a fleet of these Pilatus planes, which seat eight passengers.

The airline business is a tough one. Most start-ups fail to take off, and even many of the established companies have gone through bankruptcies. But brothers Wade and Dave Eyerly just might have a shot.

Their start-up, Surf Air, is a members-only airline that offers unlimited flights for a flat, monthly rate. Since it was founded in January, the company has raised $4 million from VCs and angel investors. The Eyerlys plan to offer short routes in California before the end of the year, pending approval by the Federal Aviation Administration.

Surf Air, says Wade, the company's CEO, has tackled a few of the challenges new airlines often face, such as high fuel costs, empty seats, and intense competition from major airlines. For starters, Surf Air will fly only between regional airports, so it won't have to compete for gates at major airports, a huge barrier to entry for starter airlines. Second, all flights will be short—about the distance of a three- to six-hour drive. So, Surf Air can use small, eight-passenger planes, which are cheaper and guzzle less fuel than do larger jets. Finally, Surf Air is getting rid of tickets and instead selling unlimited monthly memberships for about $1,000. Selling memberships provides Surf Air with a steady stream of revenue, so it won't have to worry about filling seats. "We don't sell seats for a living," Wade says. "Is Gold's Gym worried if a weight bench is empty? No—they sell access to the gym."

Dave Eyerly got the idea to start his own airline while attending flight school at Utah Valley University in 2007. He enlisted the help of his older brother Wade, then an intelligence officer for the Department of Defense, and the two of them spent the next several years researching the market. The brothers eventually launched a simple website last year, to test the demand for an all-you-can-fly airline. Within six weeks, 12,000 people had signed up to receive more information.

To start, the company is accepting only 500 members and owns just three planes. Surf Air will fly to small airports in or near Palo Alto, Monterey, Santa Barbara, and Los Angeles. There are some 2,800 people on the waitlist. Wade wants to assess how frequently members fly before buying more planes and launching new routes. He has his eye on another 50 or so short-haul routes in the U.S.

Surf Air's sweet spot will be business travelers—specifically business travelers who already shell out around $200 for round-trip flights several times a month. But are there enough of them for Surf Air to be successful? Nima Samadi, an industry analyst with the market research firm IBISWorld, thinks it has promise. "The L.A.-to-San Francisco route is pretty popular right now, so I think it's a good target market," he says. "Surf Air is targeting a very narrow demographic of people who fly a certain route consistently and want a higher-value experience than flying commercial. Because of that, I think it will be more successful than some of the other airline start-ups we've seen."

The challenge will be making sure there are available flights when members want them. "They need a certain number of subscribers to be profitable," says Samadi, "but if there aren't enough flights, they could lose a lot of members."

That's one reason Surf Air is limiting its members. "If you can't get on a plane, you're going to hate us," says Wade. "It's critical for us to make sure customers are happy, because our revenue isn't tied to how often you fly. It's tied to whether, at the end of the month, customers say, 'I'm happy with that experience. I want to do it again.'" —*Issie Lapowsky*

Surf Air at a Glance

Monthly fee:
About $1,000

How often members can fly:
Unlimited

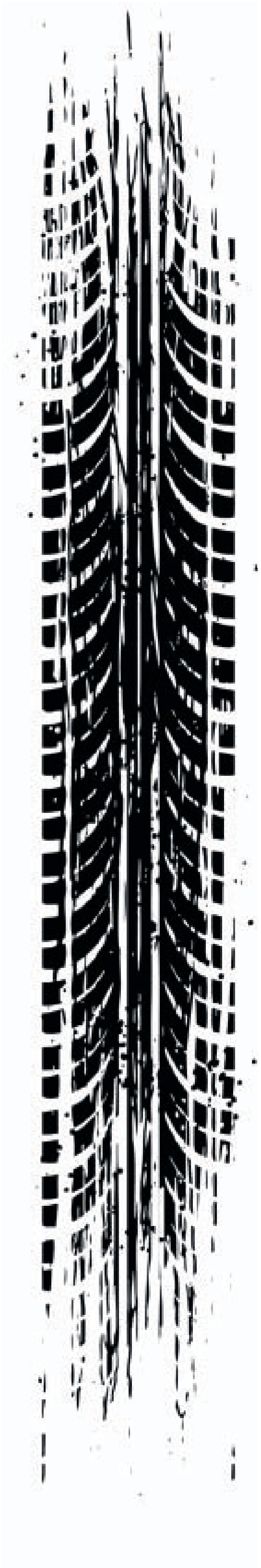
Where it flies:
Palo Alto, Monterey, Santa Barbara, and Los Angeles

Available memberships:
500

On the waiting list:
About 2,800

Funding raised:
$4 million

COURTESY COMPANY



STREET SMARTS
BY NORM BRODSKY

Norm Brodsky is a veteran entrepreneur. He is a job creator—but that's beside the point.

How Fast Is Too Fast?

Determining the right growth rate; what to look for in a No. 2; and the uncomfortable truth about job creators

Dear Norm,
Our telecom company started out in 1994 as a dial-up Internet service provider, but we've evolved into a wholesale supplier of broadband services to other ISPs. It's a low-margin business. Although we compete with a number of larger companies, we've been growing at a rate of 30 percent to 40 percent a year, financing our growth out of cash flow. We don't have many assets we can borrow against, and we don't want to use other people's money. I am concerned about growing beyond our available cash and am thinking of raising prices as a way to slow down our growth. My question is, How do you determine a healthy growth rate for a company like ours?

—BRIAN WORTHEN, PRESIDENT
VISIONARY COMMUNICATIONS, GILLETTE, WYOMING

If you're selling a commoditized product in an ultracompetitive market, raising prices will no doubt slow your growth rate. It could also cripple your business. It's smart to be a premium provider and charge more for great service. But I told Brian Worthen he would probably undermine his company if he set prices more than 5 percent to 10 percent above the going rate.

Instead, I suggested he change the way he views his problem, which is the result of the company's slim gross margins. Accordingly, he might consider trying to boost margins by coming up with new products or services. Beyond that, he needs to ask himself some important questions: "What do I want out of this business? Do I intend to sell it? Do I want faster growth? More income? Do I want a lifestyle business?" Because Brian may not be able to achieve his goals with the company he has. There are limits to what you can do in a business with thin gross margins. I discovered that when I had my delivery business. But then I started an adjunct business in document storage, which had very high margins. That became my main business, and I sold it for more than $100 million. Brian may want to try doing something similar.

As for the question Brian asked at the end of his e-mail, there is a simple answer: You can grow only as fast as your resources allow. If you don't want to raise capital from outside sources, your growth rate will depend on the amount of cash you generate internally. In deciding whether to take on

ISTOCK

new business, you have to be certain that you will still be able to pay your bills even if everything goes wrong. I know of plenty of profitable companies that went belly up because they didn't have enough cash flow to sustain themselves.

Dear Norm,
My wife and I think it might be time to bring in someone to run our ATM installation and maintenance business. We're nervous, because we don't know how to choose the right person or make the transition. Our employees are rather set in their ways, because we haven't managed them closely. At the same time, we're looking for faster growth. There are going to be major changes in our industry soon, and we want to take advantage of the opportunities they will offer. Any advice?
—NAME WITHHELD

Entrepreneurs constantly get new ideas; it's part of the entrepreneurial affliction, and it's generally a good thing. But if you don't have the discipline to focus on one idea at a time, or if you get too far ahead of yourself, your bright notions can wind up doing more harm than good. The writer of this e-mail—I'll call him Hank—was on the verge of making both of those mistakes.

Hank and his wife have been in the ATM business for 16 years. She does the bookkeeping, but he withdrew from day-to-day operations eight years ago to become a currency trader, a business he enjoys in part because he can do it on his own, without having to manage anyone else. As a result, his employees have grown accustomed to working with minimal direct supervision. They apparently enjoy it as well.

Now Hank is thinking about hiring someone to fill the leadership role. He's concerned, however, about alienating his employees. Meanwhile, he can see big changes coming to the ATM business, as smartphones make it possible to access the machines remotely. There's an opportunity, he believes, for his company to become a leader in supplying technology to ATM companies not affiliated with banks. He has been thinking the new person could work in business development while preparing to take over the company. "I'm looking," he said, "for a situation where I can pass the ideas and strategic planning in my head over to someone who can enact them."

I told him it was highly unlikely that he would ever be able to make that happen.

To begin with, it never works to bring in a new leader and insist on remaining in charge behind the scenes. What Hank needs is a manager, preferably one with experience exploiting opportunities like those Hank has identified. But he can make it clear to everyone that the new manager reports to him. The employees will feel comfortable knowing that they will still be able to get to Hank if they need to, and the manager will have time to get established without the burden of immediately taking full responsibility for the company. As for Hank, he can go on having great ideas.

Norm on why job creators don't like creating jobs

I've held my tongue as the debate has raged over the impact government policies have on entrepreneurs and job creation.

But that debate has reached a point at which I feel compelled to weigh in. Let's begin by noting something that has largely gone unnoted: No one operates a company with the goal of creating jobs. OK, maybe a few people do. So let me put it another way: No one operates a company with the goal of maximizing labor costs. When you ask an entrepreneur how business is going, the response is never, "Oh, man, I've got 100 employees this year. Last year, I had only 60." If someone wants to brag, he or she is more likely to say, "We increased sales 25 percent—without adding a single employee!" I'm not saying entrepreneurs aren't proud of their role as job creators. Of course they are. It's just that job creation is a byproduct of what they do, not the goal.

At the moment, for example, I am involved with three start-ups. I can rattle off the key numbers—gross margins, average sale, etc.—for each. But I know that they've collectively created 50 jobs over the past 18 months only because I added them up for this column. I got involved with these start-ups because I enjoy helping people launch companies and because, for me, business is fun. To be sure, the potential to earn a return plays a role as well (although at my current stage of life, it's more about keeping score than adding to my income or net worth). Still, this is business, and I want to make as much money as possible.

But I never think about how many jobs the business will create. I care about whether the business can be viable. I care about its growth prospects and profitability. I care about the amount of debt it has and how well it manages its receivables and payables. I care whether customers are happy with its service. Of course, I care about the morale and well-being of its employees. But the absolute number of them concerns me only as it relates to staffing needs. Indeed, I constantly search for ways to maximize the productivity of the people we have, rather than adding to head count.

That's the paradox of job creation that nobody is talking about. It's as if we're afraid to admit that the creation of jobs is intimately linked to the profit motive. The simple fact is, if we want to create more jobs, we need an environment in which entrepreneurs can make money. The more, the better—because reducing the opportunity for profit is a sure-fire recipe for reducing the number of new jobs we'll have to keep our fellow citizens employed.

Norm wants to help your business. Send your questions to him and his co-author, *Inc.* editor-at-large Bo Burlingham, at *AskNorm@inc.com.* You might also want to read their book: *Street Smarts: An All-Purpose Tool Kit for Entrepreneurs.* Follow them on Twitter at *@normbrodsky* and *@boburlingham.*

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BY JASON FRIED

Jason Fried is co-founder of 37signals, a Chicago-based software company. His gut, as always, is on standby.

Head Versus Heart

Over the years, we've had lots of chances to invest in other businesses. But it never felt right. Until now

Last month, we did something we had never done. We invested in another company. We purchased a small, noncontrolling stake in the Starter League, a Chicago-based business that teaches people with no experience how to program.

Over the years, we've been offered opportunities to invest in other companies or individuals. In some cases, the financial or strategic rationale was easy to see, and we probably could have made good money if we'd pulled the trigger. But we always balked, and I don't regret it.

Because even if those deals were potentially lucrative, the opportunities simply—for lack of a better phrase—didn't feel right. You have to live with your decisions every day. Why live with one you're uneasy with? "Because it'll make you money" is a common reply. But I don't think that's good enough.

What makes the Starter League different? For one thing, we love businesses that have been built to scratch a personal itch. Mike McGee and Neal Sales-Griffin, the company's co-founders, wanted to learn how to program. They bought a ton of books and tried a bunch of online tutorials. Neal and Mike are smart guys, but they couldn't figure it out.

As it happened, one evening the two of them were in the classroom-style theater in our Chicago offices; we'd loaned the space to an instructor for a three-hour course about the programming language Ruby. There was another neophyte student in that class: me. I'm a business guy, not a programmer—though I'd like to learn.

Neal was sitting behind me. After the class, we chatted a bit. Neal told me about how difficult it had been to learn to program. He also told me that he and Mike were thinking of starting the kind of school they wished existed.

Unlike most education start-ups, this would not be an online venture but an old-fashioned classroom setting. And it turned out to be a lot easier than they'd expected. They put up a simple website, posted a class description, and found a teacher, Jeff Cohen, who happens to be one of the best Ruby on Rails programmers around. They set tuition for a three-month class at $6,000, tweeted the news out to the world, and waited to see what would happen.

Soon they had more applications than they had spots. They added another class. With a shade over $200,000 in tuition revenue, they'd managed to bootstrap their school to profitability before the first class had even graduated. A year later, the Starter League has graduated nearly 300 students from 25 states and 12 countries, generated more than $1 million in revenue, and maintained healthy profit margins.

37signals has always had an interest in education. We write books, teach courses, and share what we learn on our company blog, Signal vs. Noise. We consider teaching to be a big part of what we do. So, a few months ago, Neal and I began talking about how we might be able to work together. It seemed like a no-brainer. We were both in Chicago. They were teaching Ruby on Rails, a language developed by my partner, David Heinemeier Hansson. And they were bootstrapped, just like us.

It just felt right.

A few lunches later, we decided to invest in the Starter League. But we're providing more than just cash. Classes will be held in our office two days a week. We've agreed to offer internships to students. We'll help them design a curriculum.

Will we make a fortune? Who knows? This is about investing in a company we love. We're not looking to get out—we're looking to stay in.

Follow Jason Fried on Twitter: *@jasonfried*.

CHRIS STRONG

ILLUSTRATION BY LAURENT CILLUFFO

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BALANCING ACTS
BY MEG CADOUX HIRSHBERG

Meg Cadoux Hirshberg is the author of *For Better or for Work: A Survival Guide for Entrepreneurs and Their Families.*

His and Hers Two spouses. Two companies. Untold issues on which to butt heads

Hollywood loves power couples. Over the years, we've seen movies about married lawyers (*Adam's Rib*), married scientists (*Outbreak*), and married professional killers (*Mr. & Mrs. Smith*). But I can't think of any movies about married entrepreneurs. That's a missed opportunity, because the potential for both drama and comedy is legion.

In real life, entrepreneurs do end up together, for a variety of reasons. Some meet after they've already started their companies—at trade shows or chamber of commerce events or CEO networking groups. Others agree to take turns starting businesses after they marry, the way some spouses take turns attending graduate school. Occasionally, a nonentrepreneur marries an entrepreneur and then wants to try what his spouse is doing, because, man, that looks like fun. But however they get there, two spouses running two companies doubles the chaos. Or more than doubles it: The absence of one adult able to maintain a semblance of normalcy introduces a multiplier effect.

The chief sources of stress are (of course) money and time. Entrepreneurship requires households to put up cash before they start earning it. It's an investment that works best—sometimes only—if one family member shores up the dam with a regular paycheck and health benefits. The schedules of conventionally employed spouses are usually more predictable than those of entrepreneurs, which is critical when there are children in the mix. Employed spouses also get paid vacations. That means one adult is not working a full-court press 52 weeks a year, so a little pressure is being released somewhere.

When one spouse owns a company, that business competes with the family for resources. When both spouses own companies, his business may compete with her business, and both businesses compete with the family. If both spouses' companies go through difficult stretches at the same time, they are like twins in the womb: One may be fed at the expense of the other. With win-win not an option, the couple must negotiate who loses more. Which spouse will skip a paycheck? Which will dip into savings? Who will have to lay off an employee?

Because most marriages are founded on an ideal of parity, spouses may be tempted to share the sacrifice, as they vowed to share pretty much everything in that innocent moment standing before the altar. Or the entrepreneur who is in less dire straits may want to help her flailing spouse, even if she can't really afford to do so. But the mathematics of family survival don't work that way.

So, for practical reasons, many two-entrepreneur families choose which company to favor based on the relative contribution of each to the family's income. That's the understanding in the Flynn household. Lisa Flynn is founder of ChildLight Yoga and Yoga 4 Classrooms, New Hampshire–based companies that teach yoga and mindfulness to children. Her husband, John Flynn, runs Great Works Properties, a property and golf-course management company. John's business brings in most of the cash, so "if push came to shove," said Lisa, "his business would take precedence. But that's tough for me to admit out loud."

The problem with such arrange-

DANIELLE HIRSHBERG

ILLUSTRATION BY ESTHER PEARL WATSON

ments is they tend to perpetuate inequities. How likely is it that two businesses, even with comparable ambitions and resources, will progress along exactly the same trajectories? If a couple's two companies have lopsided revenue, that can force uncomfortable—and sometimes premature—discussions about their respective viability. Such discussions get ugly when one spouse calls into question the other's seriousness, even if it's only in comparison to his own. The leap from "which company is healthier" to "which company is worthier" is both dangerous and easy to make. Suddenly, it's my growth company versus your lifestyle company. Or worse, my business versus your hobby.

The same calculus comes into play with schedules. It's easier to decide which spouse forgoes a sales trip or works the weekend when there is a primary family business and a secondary family business. But when spouses don't agree which is which, bad feelings are inevitable. If there are kids, then the prospect of running two start-ups while raising a family becomes like riding a unicycle on a high wire while juggling lit torches. I know people do it. But if I had to watch them, I'd keep my hands over my eyes and peek through my fingers.

Some dual-company couples don't compete for resources—they just compete. Lisa Landry owns the New Hampshire–based marketing firm Savvy Workshop. Her husband, Joe Landry, is founder of Build Savvy, a construction firm. "At the end of the day, we have to show each other our numbers," said Lisa. "Sometimes, when Joe's business is doing great and mine isn't, I get jealous. I even try to beat him at Monopoly."

Or the entrepreneur whose company is doing better is tempted to offer advice to his struggling spouse. Such counsel may be appreciated or insufferable, depending on the spirit in which it is given. Mason Arnold is founder of Greenling, an organic-food delivery service based in Austin. His wife, Mylie Arnold, owns a large dance studio. Mason described how the couple defanged the tension that arose when they gave each other business advice. "Most of the time, Mylie just wants to be heard, not to have me fix her business problem," he said. "So I just listen." Now, when either spouse wants to make a concrete suggestion, he or she asks for permission and has to be comfortable getting "no, thanks" for an answer.

In the ideal dual-company marriage, relative size and success are unimportant. Adrienne Cornelsen runs Insite Interactive, a Dallas-based company that designs websites and mobile applications. Adrienne's business is much larger than Evolving Texas, the civil-engineering firm owned by her husband, John Cornelsen. But that may change: The Cornelsens expect that at some point, Evolving will surpass Insite in sales. Whichever business is bigger, the spouses respect each other's contributions equally. "We have a 'times-four' rule in our household," Adrienne said. "My company's revenues are four times his, so when he gets a contract for $25,000, we are as thrilled as if I got awarded a $100,000 contract. Entrepreneurs have to celebrate every win."

I was surprised by how many two-company couples I spoke to are as content as the Cornelsens. I had expected to hear more tales of overwhelming stress and exhaustion, compounded by a lack of emotional succor. In my experience, entrepreneurs need someone who is less stressed—or at least differently stressed—to whom they can confide their troubles. I had assumed entrepreneur spouses would be like two overflowing vessels futilely trying to pour their excess anxiety into each other.

What I failed to account for was the deep satisfaction bred by affinity. Simply put, married entrepreneurs get each other. As my husband, Gary, built his business, I often felt as if I were watching a foreign film without subtitles. I had no idea why he did what he did; his thinking was so different from mine, it seemed incomprehensible. By contrast, when a company-owning husband fumes over losing a sale, his company-owning wife understands why he finds the experience so galling. Resentments that can build in families that shelter only one entrepreneur tend to fizzle in dual-entrepreneur families.

In many cases, married entrepreneurs share advice and strategize as equals. They form a CEO networking group of two. But even those who keep each other's companies at arm's length respect their spouses' grit and resilience. Yes, two risk-loving, overworking, superambitious adults in one marriage are a lot. But two optimistic, never-say-die adults are propitious for a happy future. "Our attitude toward our personal lives is the same one we have in business: Don't give in to the challenges," said Adrienne Cornelsen. "We just find the solution—whether our goal is to take an exotic trip or buy a house that right now seems unattainable. Our way of thinking lets us choose an exceptional life."

The leap from "which company is healthier" to "which company is worthier" is easy to make.

Contact Meg Cadoux Hirshberg at *mhirshberg@inc.com*. Follow her on Twitter: *@meghirshberg.*

the EVOLUTION OF BUSINESS TRAVEL
THE PUSHER
THE OVER PACKER
THE HEAVY LUGGER
THE WEAK ROLLER
THE SURVIVOR
ONLY the STRONG SURVIVE
Beauty and Brawn
Don't let the looks fool you. This bag can withstand up to 300lbs of pure solid weight. We're ready for big business!
FAA... Meet ZÜCA
Roll, carry or grip this bad boy with confidence right through airplane aisles without even breaking a sweat.
Org Chart Included
Pack and stack with our 5 color-coded Pouch Packing System. Also includes 1 TSA toiletry bag and sleek travel cover.
THE FLYER
STRUCTURAL LIFETIME WARRANTY
JOIN the ZÜCA REVOLUTION!
Introductory Offer Available at: zuca.com/flyer Enter promo code: 002FLYER at checkout.
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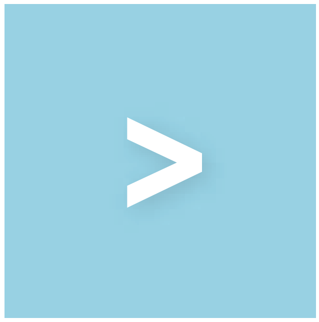
GUEST SPEAKER

BY PHIL LIBIN

Phil Libin is co-founder and CEO of Evernote, a Redwood City, California–based software company. In 2011, Evernote was *Inc.*'s Company of the Year.



The Billion-Dollar Question

Is my company truly worth more than The New York Times?

My company, Evernote, recently raised a round of funding that valued the business at a little more than $1 billion. There's been a lot of talk lately about the valuations of Internet start-ups and whether they're really worth the prices they're commanding. Unfortunately, much of the discussion seems to be confused about the basic facts. So, as someone fortunate enough to be the CEO of a company that's just become a member of the Billion-Dollar Club, I'd like to try to clear things up a bit.

A billion dollars is a big number, so a natural way to think about the valuation is to compare it with that of a well-known public company, such as The New York Times Company. It's a great, famous, and long-lasting company. By many measures, its namesake publication is the most successful and important newspaper in the United States and a world leader in both traditional and electronic media. I've been reading *The New York Times* every day for about 25 years. It's not an exaggeration to say that I love *The New York Times.* Around the time of our financing, in the beginning of May, The New York Times had a market cap of approximately $950 million. Does that mean Evernote is worth more than The New York Times? I was frankly a little shocked when I thought of the question. It feels like there's something wrong with the world to even ask.

Luckily, though this kind of comparison might be natural, it's not very useful. The valuations of mature public companies and quickly growing private start-ups mean very different things. Here's why: The valuation of a public company represents a rough consensus among a large number of supposedly equally well-informed buyers and sellers. When companies are financed privately, however, there is usually only one seller (the company) and one buyer who sets the price (usually the lead investor). That means that a private valuation is not a consensus at all, but rather the highest price to which a single buyer will agree.

So, if a company wants to jack up the valuation, all it has to do is find the craziest investor who's willing to pay much more than anyone else. That might sound good, and a lot of hot start-ups are quick to avail themselves of the multitude of crazy people with fat wallets. However, there's a problem with this that entrepreneurs should consider: If you take money from a crazy person, you'll get a crazy person as your boss. And soon, your boss will be an angry crazy person, when that unjustifiable valuation crumbles under the weight of eventual reality. That's why we never chased the highest possible valuation at Evernote. We've been lucky enough to be able to start with the investors we thought would provide the best long-term strategic value and find the right deal that works for everyone.

Besides finding crazy investors, there are other ways to inflate valuations. Public company valuations are usually determined by common stock. Common shares are shares that anyone can buy or sell, and they're all the same when it comes to price, voting rights, and other privileges. Not so with valuations at start-ups. Most start-up investors buy preferred shares from the company, while founders and employ-

CLOCKWISE FROM TOP: CODY PICKENS; MARTIN SHIELDS/ALAMY; COURTESY EVERNOTE ees get common stock. Comparing common stock valuations with preferred stock valuations is tricky.

Preferred shares are usually better than common shares, because they have some additional benefits, or preferences. For example, one typical preference guarantees that, if the company is ever bought or goes public, the investors get their money back first, before the common shareholders get a return. Sometimes, the preferred shareholders are even guaranteed that they'll get their money back multiple times over before common shareholders get anything.

Other preferences include the right to accrued dividends, guaranteed seats on the board of directors, antidilution protection in the event that the company loses value, and veto power over important business transactions.

These benefits make preferred shares more expensive than common stock. How much more? That depends heavily on the details, but I've seen start-up company common stock discounted as much as 90 percent.

Some simple preferences are fair to both sides. After all, most start-up common shareholders (the founders and employees) will draw salaries for years, even if the company eventually goes bankrupt and the investors get nothing. So, a little protection for the investors makes sense.

However, manipulating preferences gives the start-up entrepreneur another ill-advised tool for maximizing valuation in a private financing. By agreeing to give the investors increasingly generous preferences, you can get them to pay more. Not happy with your valuation? Give the investors a guaranteed way to get more stock for free in the future, and they'll pay more for the stock up front.

This is a temptation that many entrepreneurs feel, but it's a temptation best avoided. Excessive preferences can quickly create a conflict of interest between the founders and the investors if the company stumbles a little. These conflicts rarely end up favoring the entrepreneur. And the start-up world is littered with founders who made nothing when their companies were sold, because they gave too many preferences to early investors.

Evernote is not valued at $1 billion because our current business is worth a billion dollars today but because there is a good chance that it will be worth $100 billion in a few years.

So, if we had looked for crazy investors and given them extreme preferences, Evernote could have had an even higher valuation than the one we have today. But is it still worth more than The New York Times? There's one more thing to consider.

The valuation of any company is an estimate of the present value of all expected future profits, discounted for risk, inflation, and other factors. Thus, the other key difference in how mature public companies and quickly growing start-ups are valued lies in how much emphasis is placed on expectations of future growth.

Most public companies have relatively predictable levels of growth, so their valuations are heavily based on the current values of their businesses. In other words, few investors expect The New York Times's profits to grow tenfold in the next few years. Just as important, if the company does start to grow quickly (as of September, the company's market cap had climbed to about $1.4 billion), investors will be able to buy and sell the stock at any time. So the market tends to wait to see sustained evidence of growth before rewarding the company. That's why public companies that can produce that evidence consistently, like Apple, are worth such astronomical figures—and why public companies that make a mistake in setting expectations, like Facebook, are quickly punished.

A hot private start-up, on the other hand, is in a completely different position. Investors do expect the business to grow by 10 times, or even 100 or 1,000 times. Plus, the opportunities to buy stock in that start-up may be hard to come by. A venture capitalist who likes a company but decides to pass on investing one day may not get another chance. There are prominent investors who passed on Evernote at a valuation of $10 million and couldn't get in four years later at $1 billion. As a CEO and a small investor, I've seen this from both sides several times.

Because of this, start-up investors have to be much more aggressive in identifying and betting on future success. That's very difficult, which is why the average return on VC funds is pretty low. But the small number of people who do it right can literally change the world.

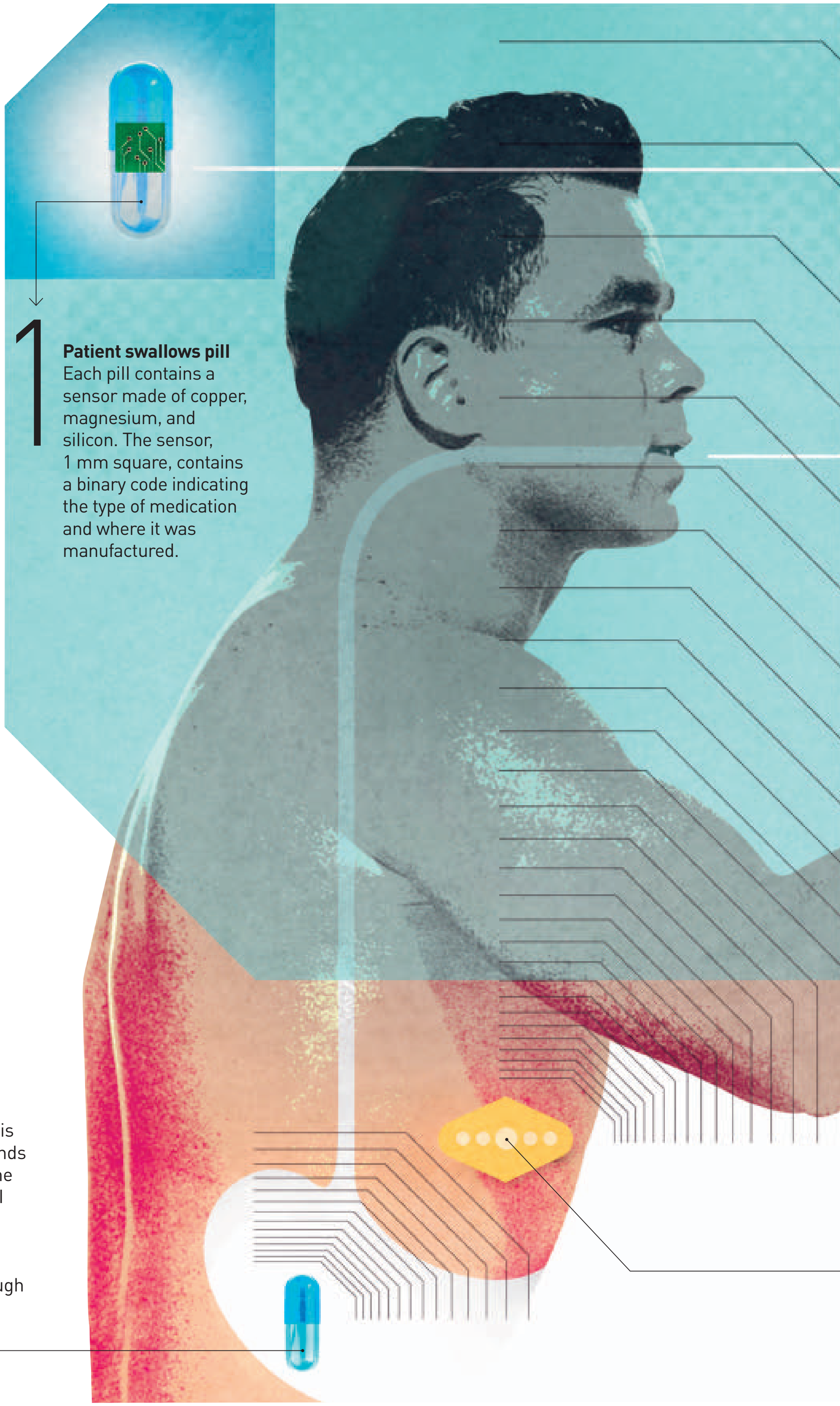
Simply stated: Evernote is not valued at $1 billion because our current business is worth a billion dollars today but because there is a good chance that it will be worth $100 billion in a few years.

So, is Evernote really worth more than The New York Times? It's hard to give a precise answer for all the reasons above, so let me answer personally, and from the heart: not today. But if we work hard, keep making an excellent product that millions of users will fall in love with, and continue to build the business on the same trajectory we've been on for the past four years, I think we will eventually be worth much more. And our investors agree.

Follow Phil Libin on Twitter: *@plibin*.

Medication goes digital

Taking the right amount of medication at the right time is crucial for medical patients. Proteus Digital Health of Redwood City, California, has created a "smart pill" system that helps patients and caregivers monitor dosages. The pill contains a sensor that interacts with stomach fluid and sends a signal to a patch on the torso. The patch transmits information about the type of pill and when it was ingested to a nearby smartphone, along with physiological data, including heart rate and activity level. Patients can access the information on a mobile app and share it with others. Proteus, which has raised more than $125 million in private equity and venture capital financing, plans to introduce the Helius system in the United Kingdom this year, initially pairing prescription pills with sugar pills containing sensors. Now, the roughly 100-employee company is working with pharmaceutical partners to embed the sensors, which recently received approval from the U.S. Food and Drug Administration, directly in prescription pills. It hopes to launch in the U.S. as early as 2013, focusing on patients with diabetes and central nervous system disorders.



1

Patient swallows pill
Each pill contains a sensor made of copper, magnesium, and silicon. The sensor, 1 mm square, contains a binary code indicating the type of medication and where it was manufactured.

2

Stomach fluid activates sensor
Instead of a battery, the sensor is powered by stomach fluid. It sends an electrical signal indicating the time of ingestion and type of pill to a disposable patch worn on a patient's rib cage. The sensor deactivates after five minutes and later passes naturally through the digestive system.

4

Patch sends data to smartphone
Every 30 minutes, data from the patch is transmitted via Bluetooth to a patient's smartphone. Patients can share the information, which is stored on Proteus's website, by text or e-mail.

3

Patch collects data
In addition to tracking information about the pill, the disposable, stick-on patch gathers data about a patient's temperature, heart rate, respiration, and activity level.

ILLUSTRATION BY **STUART BRADFORD** | REPORTED BY **JOHN McDERMOTT**

FAST COMPANY

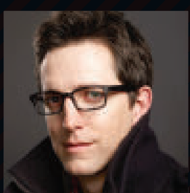
INNOVATION UNCENSORED

SAN FRANCISCO // 11.08.12

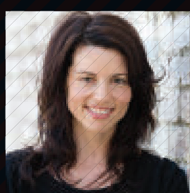
NEW SPEAKERS ANNOUNCED

AGENDA TO INCLUDE: Upending Traditional Business Practices // Leadership in a Digital Age // The Shifting Meaning of Happiness // A Different Kind of Data // The Fast Company Debate

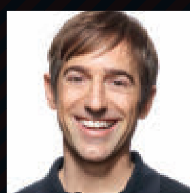
SPEAKERS INCLUDE:



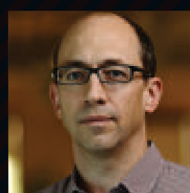
Dave Morin
COFOUNDER & CEO
Path



Gina Bianchini
FOUNDER & CEO
Mightybell



Mark Pincus
FOUNDER & CEO
Zynga



Dick Costolo
CEO
Twitter

Jennifer Aaker
GENERAL ATLANTIC PROFESSOR OF MARKETING
Stanford University

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Touch Laptops, Take Two

A new breed of ultrabooks designed for taps and swipes

The first generation of touchscreen laptops never took off, partly because the Windows 7 operating system powering them treated gestures as an afterthought. This holiday season, manufacturers are rolling out sleek ultrabook laptops that run on Microsoft's new touch-centric Windows 8 platform. Here are four to consider. *–John Brandon*

ACER ASPIRE S7 (13.3 INCH)

This 2.9-pound ultrabook has a 1920- by 1080-pixel touchscreen that tilts back 180 degrees. It also has a backlit keyboard that adjusts automatically to lighting conditions. Like the other laptops here, it is equipped with Bluetooth 4.0 technology. It also comes with a touch-friendly app for holding video chats on the HD webcam. The battery lasts about six hours. **COST:** Starts at $1,399 for an Intel Core i5 processor, 4GB of RAM, and a 128GB solid-state drive

TOSHIBA SATELLITE U925T (12.5 INCH)

This 3.2-pound ultrabook has two cameras, near-field-communication technology for transferring data with a tap, and Intel Wireless Display for streaming your screen to a projector or HDTV. You can slide the Satellite's 1366- by 768-pixel touchscreen down and over the keyboard to switch to tablet mode. It also comes with several touch apps, including an e-book reader. (Battery life was not available at presstime.) **COST:** $1,000 for an Intel Core i5 processor, 4GB of RAM, and a 128GB solid-state drive

HP SPECTREXT TOUCHSMART ULTRABOOK (15.6 INCH)

The 4.8-pound SpectreXT has a 1920- by 1080-pixel touchscreen, an HD webcam, and a Thunderbolt port for connecting external drives at high speeds. It also comes with Intel Wireless Display technology and several touch apps, including one for playing music. (Battery life was not available at presstime.) **COST:** $1,399 for an Intel Core i5 processor, 8GB of RAM, and a 500GB hard drive

LENOVO IDEAPAD YOGA (13.3 INCH)

The Yoga's 1600- by 900-pixel screen folds back 360 degrees for use as a tablet. It has a backlit keyboard that adjusts automatically to lighting conditions and several touch-friendly apps, including one for holding Web chats using the device's HD camera. The battery lasts about eight hours. **COST:** Starts at $1,099 for an Intel Core i3 processor, 4GB of RAM, and a 128GB solid-state drive

COURTESY COMPANY (4)

MUST-HAVES

My favorite tool for analyzing financials

JENNIFER CATTAUI
FOUNDER
BABESTA
NEW YORK CITY

My husband and I own a company that sells children's clothing, gear, and furniture online and in two brick-and-mortar stores in New York City. We were looking for a way to get a quick snapshot of our finances and help our store managers understand how the decisions we make affect the financial health of the company. In April, I read about BodeTree, a visual financial analysis tool, and we started using it right away.

After signing up for an account on the BodeTree site, we entered our QuickBooks credentials and filled out a brief questionnaire. Now, we can log on to our dashboard to check a variety of financial metrics, including cash balance, cash flow, and revenue. Each metric appears on a gauge. If the needle is in the red zone, we know it's an area of concern. If it's in the green zone, we're doing well. We can click on any metric to get more detailed reports. After looking at an inventory turnover report, for instance, we realized we had been sitting on certain pieces of furniture that weren't selling. Now, we're carrying fewer of those pieces and increasing turnover.

During our weekly conference call, we share the dashboard with our managers using Microsoft Lync, pointing out areas that need more focus. We pay $25 a month for BodeTree. It's well worth it. *—As told to Issie Lapowsky*

•|com Have you tried a new product or service that helps you run your business? Head to **www.inc.com/thegoods** and tell us about it. We run the best comments in the magazine every month.

Full Speed Ahead
Tools to keep your website revving

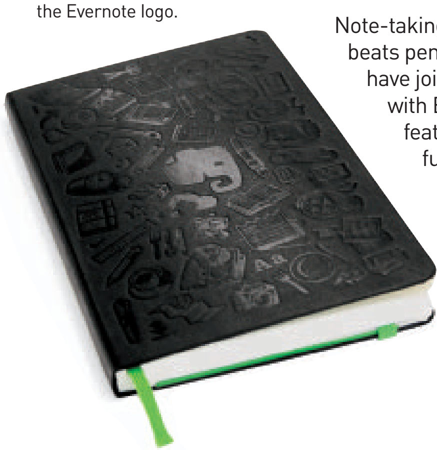
A website slowdown or outage could be disastrous for your business. Site-monitoring tools can't prevent problems, but they can let you know when something goes wrong. We tried out three using a test site—and, as luck would have it, we experienced a crash. *—J.B.*

★ PINGDOM
Like the other tools here, Pingdom monitors websites and servers. To get started, you register on Pingdom.com and enter your site's URL. You can log on to a dashboard to see historical data on uptime and speed and get alerts via text, e-mail, Twitter, or smartphone push notification if your site crashes. Then, you can use diagnostic tools to find and fix problems. During our test, Pingdom detected a slowdown because of heavy traffic but did not register a crash when our host, GoDaddy.com, went down. **COST:** Free for one site and 20 text alerts, then $9.95 a month and up

★★ NEW RELIC
Unlike Pingdom, New Relic can monitor Web applications, including e-commerce platforms, running on a site. As with the other services here, it has a dashboard with historical data on uptime and speed, along with diagnostic tools. It can alert you to crashes and slowdowns via e-mail, text, Twitter, Campfire, and other third-party services. New Relic sent us text alerts when our site dropped below a critical speed and more alerts when it crashed. One gripe: Setup involved adding code to our server. **COST:** Free for a basic version, then $24 a month and up

★★★ ZOHO SITE24X7
Our top pick, this service can monitor database programs and Web apps. Setup was easy: We simply pasted our site's URL into a dialog box on the Zoho site. If your site crashes, you can get alerts via text, Twitter, or push notification. During our test, Zoho detected a slowdown and sent several texts when our site crashed. **COST:** Free for a basic version, then starting at $1 a month per site

Duly Noted Moleskine's hardcover Smart Notebook is embossed with the Evernote logo.



SMART ACCESSORIES

Evernote, meet Moleskine

Note-taking apps may be all the rage. But sometimes, nothing beats pen and paper. With that in mind, Evernote and Moleskine have joined forces to create a Smart Notebook optimized for use with Evernote's note-taking app. Each page of the notebook features tiny dots designed to work with the Page Camera function in Evernote's newest app for iPads and iPhones. When you take a picture of a page with the camera, it automatically improves skew, clarity, and edge detection, and makes handwriting searchable. The notebook also comes with stickers that Evernote's Page Camera turns into searchable tags. **COST:** Starting at $24.95 for a pocket-size journal and three months of Evernote's Premium service *—Adam Baer*

FROM TOP: COURTESY SUBJECT; COURTESY COMPANY

ILLUSTRATIONS BY JACOB THOMAS

YOU ARE A BUSINESS PRO

And business pros rent from National. Because only National lets you choose any car in the Aisle and go.* No trips to the counter. No asking for keys. No hassles. In the Aisle you can choose any car and pay the mid-size price, even if it's a full-size or above. Take control.

Go National. Go Like a Pro.

nationalcar.com

*At participating locations and subject to availability and other restrictions. Requires enrollment in the complimentary Emerald Club.

National® Car Rental

Great New Space-Saving Luggage
Bags that grow and shrink

Whether you're cramming your suitcase into an overhead bin or under your bed, space is at a premium. With that in mind, luggage companies are rolling out innovative space-saving bags. Here's the skinny on three of them. —*Jennifer Alsever*

BIAGGI CONTEMPO FOLDABLE CARRY-ON
This 8.4-pound bag has an expandable main compartment, four wheels for easier handling, and a micro nylon exterior that is both sleek and durable. After unpacking the bag, you can twist an interior dial and collapse the sides for easier storage. During our test, the bag collapsed easily, but the wheels protruded quite a bit. Available in six colors, including purple and turquoise. **DIMENSIONS:** 22 in. H x 14 in. W x 11 in. D **COST:** $229

ROAD WARRIOR LUGGAGE COLLAPSIBLE CARRY-ON
Weighing in at 9.5 pounds, this two-wheeled carry-on has a rugged ballistic nylon exterior and a frame made of airplane-grade aluminum. The bag, which comes with a removable garment sleeve, collapses easily: Simply pull two interior ripcords and press down. Another plus? An included storage sleeve has a built-in hook for hanging it in a closet. Available in black and red. **DIMENSIONS:** 20 in. H x 16 in. W x 9 in. D **COST:** $329

BRIGGS & RILEY BASELINE CX DOMESTIC CARRY-ON EXPANDABLE UPRIGHT
The 8.9-pound Baseline has adjustable sides that you can expand to increase packing capacity 25 percent. Then, you can close the bag and compress it back down to its original size for storage in an overhead bin. The two-wheeled carry-on, which comes with a removable garment bag, has a fiberglass frame and durable nylon exterior. Available in green and black. **DIMENSIONS:** 21 in. H x 14 in. W x 8 in. D **COST:** $449

Tired of paying for hotel Wi-Fi?

Many hotels charge $10 a day or more for Wi-Fi access. If your room has a free wired broadband connection, you can use a router to create your own Wi-Fi hot spot for your laptop, tablet, and smartphone. We tested the following routers during a recent trip. —*J.B.*

APPLE AIRPORT EXPRESS
BEST FOR: SPEEDY WI-FI
The palm-size, 8.5-ounce AirPort Express is easy to configure using your iPad or iPhone settings or downloadable software for Macs and PCs. As with the other router we tested, it connects to broadband using an Ethernet cable. The router has a USB port that supports printers, so you can print wirelessly, but there's no port for a thumb drive. It also has an audio port for speakers, so you can stream music from any connected computer. During our test, we copied a 4GB file between two laptops in five and a half minutes. **COST:** $99

D-LINK SHAREPORT MOBILE COMPANION DIR-505
BEST FOR: SHARING FILES
Unlike the AirPort, the palm-size, 3.7-ounce SharePort plugs directly into an outlet, eliminating the need for a bulky power cord. You can configure the router online or use an app for iPhones or iPads to create a mobile network. The router has a USB port for a printer and external storage devices, which means you can access and share files on a thumb drive. Another plus: You can use the router to charge your iPhone or Android phone on the go. On the downside, it took 11 minutes to transfer a 4GB file using the SharePort network. **COST:** $69.99


THE NAME YOUR PRICE TOOL CAN HELP YOU SEIZE CONTROL OF YOUR BUDGET AND MAYBE EVEN...
THE WORLD!
Muahaha
PROGRESSIVE
I ❤ INSURANCE
FLO
PROGRESSIVE
IF YOU ASK ME, YOU SHOULD GET A SAY IN WHAT YOU PAY.
That's why we created the Name Your Price® Tool. We show you a range of options, and you pick the coverage that fits your budget. Putting you in control. Now that's Progressive.
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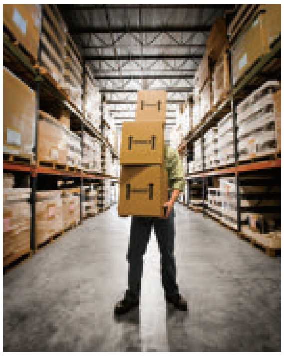

An easier way to handle inventory

Desktop inventory-management programs can cost thousands of dollars. New online platforms let you manage orders and inventory from any Web browser for a low monthly fee. Here are two options to suit different needs. —*J.B.*

STITCH LABS
BEST FOR: ONLINE AND OFFLINE STORES
This service lets you manage orders, contacts, inventory, and packing slips on a colorful online dashboard. A good choice for businesses with both online and offline stores, it works with several major e-commerce platforms, including Shopify and PayPal, as well as Sail by VeriFone, a mobile payment system for iPhones, iPads, and Android devices. When you make a sale, Stitch automatically updates inventory levels in real time. **COST:** Free for one sales channel (an online store, for instance), then $25 a month for unlimited channels

ORDORO
BEST FOR: STREAMLINED SHIPPING
Exclusively for online stores, Ordoro works with several e-commerce platforms, including eBay and Shopify. The service lets you manage inventory and orders using an online dashboard. You can sync it with your FedEx, UPS, and USPS accounts and print shipping labels customized with your logo. It also supports drop shipping from a wholesaler or manufacturer. Unlike Stitch, Ordoro can track one item with multiple components. **COST:** Starting at $19 a month for one store with up to 500 products

TECH TRENDS | JOHN BRANDON

Don't Be a Stranger
Tools for managing contacts

I always thought customer relationship management software was strictly for salespeople. Recently, I've been reading a lot about basic CRM tools that seem to make sense for people looking for a better way to organize their contacts. I road-tested two of them, Contactually and Do.com, to see if they could help me get a handle on the thousands of contacts in my Gmail account and social networks.

Contactually, a Web-based service set to launch an iPhone app this month, is free for a basic account and $19.99 a month for the premium subscription I tested. After registering, I synced the service to my Gmail, Twitter, and Facebook accounts. Instantly, it began to analyze my accounts and scrape contact information from e-mail signatures. Within 15 minutes, Contactually had compiled information on some 15,000 contacts in a single online address book. I was amazed. It found 950 duplicate contacts and merged them into single entries. It also noticed when I was not connected to contacts on Facebook or Twitter. I could click a button on my Contactually dashboard to follow them on Twitter or send Facebook friend requests.

Within 15 minutes, Contactually had compiled information on some 15,000 contacts in a single online address book. I was amazed.

Even better, Contactually zeroed in on my top 50 contacts, given the frequency of our e-mail interactions. I organized them into several "buckets" and set a contact frequency for each one—once a week for editors, once a month for story sources, and so on. When it was time to get in touch, the service reminded me via e-mail and dashboard notifications. As a result, I was doing a better job of following up with important sources and pitching ideas to editors. Another bonus: Contactually lets you share contacts with colleagues and see how many they have followed up with.

Next, I signed up for Do.com, a free Web-based task manager that recently added some basic CRM features. I synced the service, which also has an app for iPhones and Android phones, to my Gmail and Facebook accounts. (Do.com plans to introduce Twitter integration shortly.) In about 20 minutes, it imported the names and e-mail addresses of some 13,000 Gmail contacts and 1,200 Facebook contacts and compiled them into one online address book. It doesn't scrape e-mail signatures or identify top contacts, as Contactually does. But it does have one big advantage for teams: Unlike Contactually, Do.com lets you assign tasks to other people. The service alerts them by e-mail and dashboard notifications. Then, you can log on to see which tasks have been completed.

My recommendation? If you're looking for a more collaborative approach to contact management, Do.com is a good bet. Because I do most of my work solo, Contactually made more sense for me. Now, I'm a much better salesperson for my own brand.

FROM LEFT: STEVE COLE/GETTY; COURTESY SUBJECT; SCOTT MENCHIN

smart quality. smart style. smart price. smart shirts.

satin rope grid, #DHG100B
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WHY

WITH SO MANY BUSINESSES THINKING SMALL (APP SIZE, YOU MIGHT SAY)

THE WORLD NEEDS BIG IDEAS

Meet five companies that definitely pass the audacity test. And, hey, there's always room for more BY LEIGH BUCHANAN ILLUSTRATIONS BY BRETT RYDER

SIXTEEN YEARS AGO, GIGI MANDER founded Outsource Resource International, a one-person business that markets other companies' products overseas. For her second act, she intends to eliminate world poverty.

Mander, who grew up in the Philippines, dreams of buying hundreds of acres of farmland, starting in either Asia or Africa. On that land, she would install irrigation systems that recycle water and erect green modular housing, schools, and clinics. She would then relocate poor peasant farmers to these "sustainable villages," provide them with seeds and modern equipment, and sell their crops through the network of brokers and companies she has cultivated over years of marketing products as diverse as lingerie and coal all over the world.

But the word *dreams* is not strictly accurate. Mander has been pursuing this plan for five years, building a bench of experts from people with whom she does business. She recently completed a business plan and is starting to hit up her network for introductions to potential investors. "I'm an extremely positive person," says Mander, whose company is based in New York City. "I know this sounds big, but to me, it's not intimidating."

Jim Collins famously urges leaders to pursue BHAGs: goals that are big, hairy, and audacious. Mander's goal with this new venture, which she calls Global Farming Industries, is vast, hirsute as a yeti, and arguably quixotic. But you've got to admire the hell out of her for trying. At a time when tens of thousands of entrepreneurial mind-hours are devoted to the invention of apps, and the long tail grows ever longer with increasingly niche products, the return on investment of taking on huge, complex challenges isn't obvious. Why tackle things most folks can barely wrap their brains around when you can make millions pushing the penny?

"I'm determined to try. If you don't dream, nothing happens."

For an interview with Richard Branson, turn to page 72.

PETER HAPAK

The world's most confounding problems are solved in increments and iterations; that is one rationale for entrepreneurship. Still, society needs its visionaries. The past two decades have given us people like Elon Musk, whose company SpaceX is revolutionizing commercial space travel and may someday make it possible to inhabit other planets. Wendy Kopp, who launched Teach for America with the goal of eliminating the academic achievement gap between poor and rich children. Craig Venter, who with Celera set out to sequence the entire human genome and is now developing synthetic life.

The serial aerospace entrepreneur Peter H. Diamandis believes the number of wildly ambitious entrepreneurs is rising because technology lets people think and work on a grander scale. Diamandis is co-founder, with inventor and futurist Ray Kurzweil, of Singularity University, an interdisciplinary institution for graduate and executive-level studies where students are challenged to improve the lives of a billion people within a decade. "We're living at a time where if you build a platform or a great product or a service, you can touch a billion people," says Diamandis. "If you can achieve that, why would you want to do anything less?"

COLLINS OBSERVES that mediocre organizations cannot pull off BHAGs any more than mediocre athletes can win Olympic medals. Ambitious goals force entrepreneurs to strengthen their skills by swimming against the tides of disbelief and discomfort. Their organizations become similarly tough and toned.

More provocatively, Collins suggests that people leading and working in such companies experience time differently from those engaged in less ambitious pursuits. On one hand, horizons stretch "to where you are no longer managing for the quarter, but for the quarter century," he says. At the same time, paradoxically, a sense of urgency prevails. "You look at it and say, Oh, my goodness, if we're going to bring the world into the jet age, if we're going to transform education or put a computer on every desk, then we have got to get to work today with a level of intensity that is unrelenting. Because the only way you can achieve something that big is with an absolutely obsessed, monomaniacal, overwhelming intensity and focus that starts today and goes tomorrow and the next day and the next day and the next day. That's how you do it."

In the following pages, we profile several early-stage, visionary ventures attempting large-scale change in critical sectors. We took a fairly narrow view of what constitutes a Big Idea. So the potential for riches was not a determining factor; building a multibillion-dollar business may be practically but not conceptually ambitious. Innovation was necessary but not sufficient—we passed over breakthrough inventions unsupported by concrete plans for wide-scale deployment. Finally, making a difference had to be part of the plan. Jack Dorsey and his co-founders reportedly envisioned Twitter as enabling "a short burst of inconsequential information." Kudos for facilitating political upheaval in the Middle East. Zero points for intent.

The leaders of the companies profiled here embarked on their quests armed with certain advantages: Experience. Relationships. Track records. Perhaps most important, they found the problems they want to solve endlessly fascinating. They saw a way that everything fit together. They believed themselves uniquely positioned to do the fitting.

More entrepreneurs should aspire to do the same. Audacity underlies every start-up: the belief that from nothing, you will bring forth something that makes someone's life better. So take that audacity and kick it up a notch or a hundred notches. If you fail, it won't be for lack of courage or imagination. And if you succeed, those successes will be felt around the world.

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NO MORE DATA HOARDING

IDEA: MAKE MEDICAL RESEARCH MORE EFFICIENT AND CURE DISEASES FASTER

IT'S STAGGERING how little we know about disease. Pharmaceutical companies sink billions into drugs that attack the wrong targets. Researchers in labs study fragments of the big picture gathered from patients—often just a few hundred—entered in clinical trials. Combining those fragments so that they represent tens of thousands of people would create much fuller models of illness and speed the production of effective drugs. But in a world of competitive grants and publish-or-perish academe, data hoarding is the norm.

Meanwhile, people in pain stay that way longer.

Stephen Friend wants to change the process and culture of biomedical research by liberating that hoarded data, coaxing patients to offer even more information about themselves, and providing virtual collaboration space and heavy-duty analysis tools for scientists to build more complete pictures of disease together. Sage Bionetworks, the Seattle-based foundation Friend co-founded in 2009, is building a vast technology platform called Synapse, on which researchers worldwide can deposit the raw data they collect on patients and take out the data deposited by others. They can then work on that data individually or in groups, performing complex pattern searching and other mathematical operations with the help of Synapse's software and scientific staff. The results of their work then go back into Synapse, for others to build on. In essence, Sage is trying to replace the siloed structures of academe, biotech, and pharmaceuticals—what Friend calls the medical-industrial complex—with an open-source model. "Building these models of disease is going to take decades and multiple groups," says Friend. "Anyone who suggests they're going to get to the truth with a solo effort is just scraping the surface of the data they need."

Friend has been working at the nexus of Big Data and disease since the mid-'90s. That's when he co-founded Rosetta Inpharmatics, a company whose products analyzed torrents

MORE IS MORE

"Anyone who suggests they're going to get to the truth with a solo effort is just scraping the surface."

STEPHEN FRIEND
PRESIDENT OF SAGE BIONETWORKS

CONEYL JAY/GETTY

PORTRAIT ILLUSTRATIONS BY LAUREN TAMAKI

UNDER THE MICROSCOPE
An illustration of the destruction of a cancer cell by a lymphocyte

of genetic data. After selling Rosetta to Merck in 2001, Friend stayed on as head of oncology research and developed two intriguing partnerships. One was with a Florida cancer center that had amassed rich banks of data on patients. The other was with a company in Iceland, where the government maintains genealogical and medical records on every citizen. "I thought, 'Having this much data works really well,'" says Friend. "And having much, much more data would work better."

Friend has raised $30 million from industry, government, and foundations. Partners including Merck, Pfizer, Johns Hopkins University, and groups focused on Alzheimer's and Huntington's disease primed the pump by contributing clinical data.

Another source of data is patients themselves. Many ill people are happy to release the results of their tests if they believe it will hasten new treatments. Some will cheerfully heap the plate with detailed medical histories, environmental factors, even their genome sequences.

The chief obstacle to such patient participation has always been the legal consent forms created to protect privacy. "People who run studies often don't want to have to explain the complicated reality of what might happen if your data is made available," says John Wilbanks, a director at Sage and fellow at the Ewing Marion Kauffman Foundation. "It's easier to get people to agree to very simple consent forms that say we will never share this information with anybody." Wilbanks is developing a new type of form—called Portable Legal Consent, or PLC—that gives patients the authority to donate their own data. For example, 500 patients who share a rare disease could join forces and compel attention from the medical community. "They might say, 'We are going to create a really rich data resource about ourselves and then put up a $50,000 challenge, and the first person to build a model of our disease gets the money,'"

BURN IT IDEA: LET THE MARKETPLACE SOLVE THE SANITATION CRISIS

THE TROUBLE WITH toilets in the developing world is not that there are so few. It's that they fill up, and when they do, most local governments lack the money, the technology, and the incentive to properly manage the waste. Instead, it gets dumped, untreated, into the nearest waterway, leaving the estimated 2.6 billion people in the world who lack access to basic sanitation susceptible to all manner of bacteria, disease, and parasites.

"Building a toilet as a standalone intervention is like putting a Band-Aid on a gushing wound," says Ashley Murray. "Maybe it buys time to get to the hospital, but it's not the solution to the problem."

Murray is the founder of Waste Enterprisers, an Accra, Ghana–based says Wilbanks. In addition to increasing the power of patients, the PLC will reduce the time and money wasted by researchers, who can reuse data and conclusions from other studies rather than constantly generate their own.

The pharmaceutical industry stands to save even more. Drug companies spend $4 billion to $11 billion to bring a new drug to market, much of that squandered on repeated failures. Research and development departments direct drugs at targets—enzymes or receptors—they believe will produce certain results. The work done on Synapse is intended to deliver detailed disease maps with You Are Here arrows pointing at the best targets. For the industry, "the cost of bringing products [to market] has been growing exponentially, while productivity, measured by new drugs on the market, is going the other way," says Thomas Krohn, director of clinical open innovation at Eli Lilly. "Sage is doing some very interesting things that could accelerate the timeline for getting drugs to market."

Sage doesn't raise significant competitive issues for pharmaceutical companies. Things are more complicated in what Friend calls the precompetitive space of basic research. Grants and published articles feed the careers of scientists and researchers, who naturally want to keep their findings under wraps. So Friend is experimenting with incentives to get people to use his information commons. "Until we find new rewards, no one is going to share just because the technology is there," says Friend.

So, for example, Sage enlisted five research organizations, including Mount Sinai Hospital, Columbia University, and Stanford, to spend a year collaborating on projects about aging, cancer, and diabetes. The participants—normally vigorous competitors—made significant progress and jointly produced several papers. Sage is also inviting patient advocacy organizations to deposit data into Synapse and then build disease models on the basis of the aggregated information.

Each spring, Sage hosts a congress attended by users and observers. Friend has capped the number of attendees at 200 and turns away thousands. "People are starting to say this is the way the world is going to be," says Friend. "And I want to be a part of it."

start-up that plans to turn raw human waste, or fecal sludge, into biofuel pellets, a commodity that sells for $200 a ton in some parts of Europe. The for-profit company operates on the premise that human waste is the one truly infinite resource. Find a way to reuse and monetize that resource, and we may be able to stem the global sanitation crisis where it starts.

"The biggest bottleneck in sanitation is the financial model," Murray says. "The money is never around to cover the cost of waste-treatment facilities. I thought, If we're really going to make progress, we have to find a way to integrate a financial incentive to keep these systems going."

Murray has spent more than a decade studying sanitation and has a Ph.D. from the University of California, Berkeley's Energy and Resources Group. She knew that some developed countries were already finding ways to turn sewage sludge, a byproduct of wastewater treatment, into fuel. The same wasn't being done with raw human waste.

"I thought, If we can turn sewage sludge into fuel, why isn't anyone thinking of doing this with the contents of pit latrines and septic tanks?" Murray says. "It seemed so obvious."

In 2009, Murray took a job in Ghana with the International Water Management Institute. A year later, she founded Waste Enterprisers, which now has six employees.

Instead of dumping waste at the beach, as is customary in Accra, cesspit trucks that work with Waste Enterprisers will deliver the waste to the company's factories. There, it will be dried, treated, and transformed into solid fuel pellets. The treatment process, which is compliant with EPA standards, removes pathogens using heat, desiccation, and UV rays, making the fuel completely safe to handle and burn. That fuel can then be sold to power plants and other heavy users of fuel. Initially, Waste Enterprisers will sell the product in Europe, where demand is high thanks to the European Union's plan to derive 20 percent of its energy from renewable resources by 2020. Once Waste Enterprisers expands, Murray hopes to sell locally, too.

PROFIT MOTIVE

"If we're really going to make progress, we have to integrate a financial incentive."

ASHLEY MURRAY
CEO OF WASTE ENTERPRISERS

Murray says the first small-scale factory in Accra will be operating by January, generating 5 tons of fuel daily, which requires 95 tons of raw sewage to produce. That's a small fraction of the 2,000 tons of the stuff the Accra Metropolitan Assembly says is being collected every day. That's why, within a year, Murray plans to open a full-scale factory that will produce 70 tons of fuel a day. That factory will provide waste-management services to about one million people.

That kind of potential hasn't gone unnoticed by financiers. Since it launched, Waste Enterprisers has landed a $1.5 million grant from the Gates Foundation. It received another $78,000 from the European Union. Meanwhile, Murray has been accepted into the Unreasonable Institute, an accelerator for entrepreneurs whose ideas could improve the lives of at least a million people. After meeting with investors there, Murray secured $240,000 of the $300,000 round of funding she's seeking.

"We all think what Ashley's doing is a true revolution, and if she can get it to work in Ghana, she can probably bring it anywhere," says Teju Ravilochan, Unreasonable's CEO. "If this really takes off, it could reach hundreds of millions, maybe even billions, of people."

Murray says Waste Enterprisers will probably expand to Kenya, Uganda, and Senegal next, and that other promising markets, including India, won't be far behind.

"This is a huge environmental crisis," Murray says. "Feeling like I can play a role in mitigating the impact of poor sanitation is really motivating and compelling. We want to roll this out across the continent of Africa, revolutionize sanitation there, and perhaps, beyond." —*Issie Lapowsky*

STOP STORING IT. START USING IT.

IDEA: TURN A TERRIFYING BURDEN INTO A VALUABLE RESOURCE

IMAGE SOURCE COURTESY TERRAPOWER

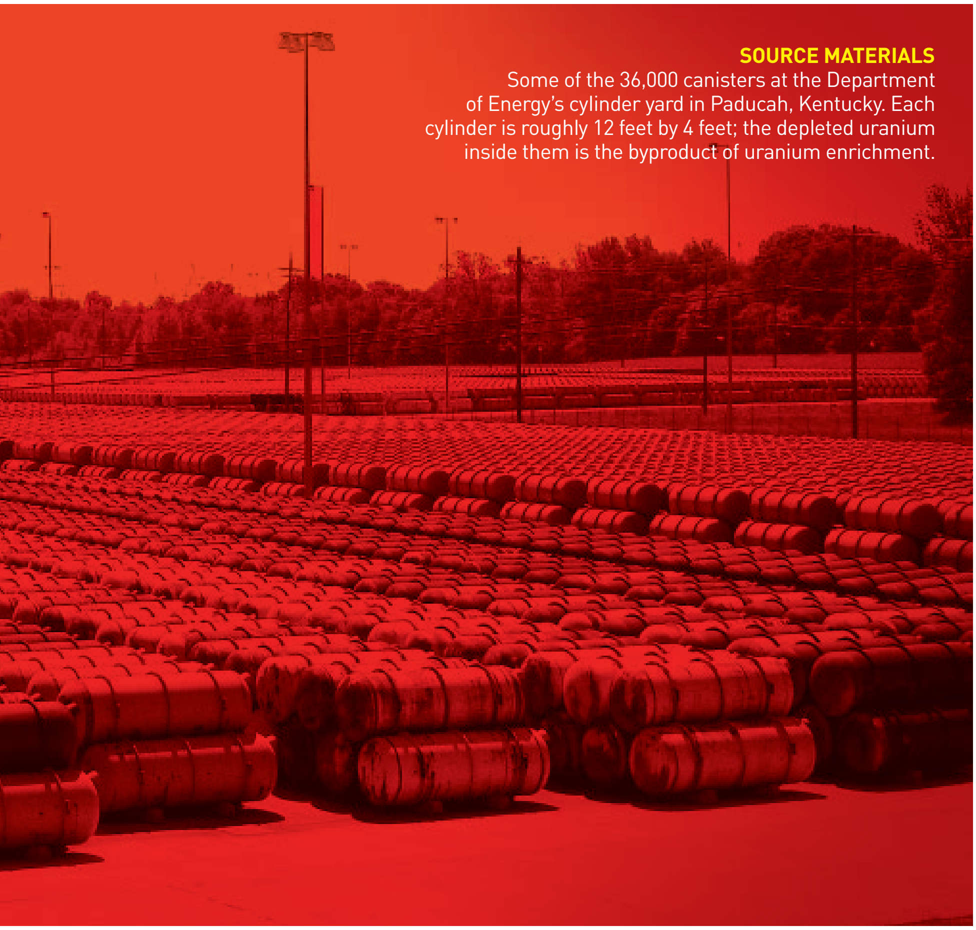
TERRAPOWER IS A bold bet in an industry not known for entrepreneurial gumption. The nuclear-power start-up, based in Bellevue, Washington, is chasing an endless supply of affordable electricity for every person on the globe. That it would also greatly reduce supplies of depleted uranium and potentially eliminate a terrorist threat is fusionable gravy.

TerraPower is developing an innovative technology called a traveling wave reactor, or TWR, which runs on depleted uranium. The TWR requires only a tiny amount of enriched material to start up. An ensuing wave reaction burns depleted uranium slowly, over decades, with no need to refuel. (Conventional reactors require refueling every 18 months to two years.) Less-frequent refueling gives operators better control of their costs. And opening the reactor fewer times reduces opportunities for theft by terrorists or nuclear blackmailers.

Depleted uranium is one fuel source not in short supply: The Department of Energy estimates there are 686,000 metric tons in the United States alone. "There's a field in Paducah, Kentucky, that has 36,000 canisters of the stuff lying there," says TerraPower's CEO, John Gilleland. "There's enough to run the country for hundreds of years, I think."

Another improvement: The reactors use as a coolant liquid sodium, which is safer than water. And in an event like last year's earthquake and tsunami in Japan, the reactors would automatically shut down and continue to cool. "There's this wheel of desire," says Gilleland. "People say, 'I want energy security. I want safety. I want to reduce weapons.' We all start somewhere on that wheel."

Bill Gates and Nathan Myhrvold, Microsoft's former CTO, set the wheel turning in 2007. They were brainstorming in a lab at Intellectual Ventures, an intellectual-property incubator and licensor co-founded by Myhrvold. With them was renowned astrophysicist Lowell Wood. "We started out looking at energy in general and the huge deficit facing the world in the next century and beyond," Myhrvold recalls. "We knew we had to think about delivering massive amounts of emission-free energy with base-load power—meaning it's avail-



SOURCE MATERIALS
Some of the 36,000 canisters at the Department of Energy's cylinder yard in Paducah, Kentucky. Each cylinder is roughly 12 feet by 4 feet; the depleted uranium inside them is the byproduct of uranium enrichment.

able every hour of every day year round, not something that goes out when the sun or moon passes the horizon or the wind dies down." Those conditions ruled out everything except nuclear, and the three began imagining designs that were technically feasible but not operationally practical. "We took those far-out ideas and dialed them back to something that was still a breakthrough and a remarkable leap forward but would also be licensable within a reasonable commercial life cycle," says Myhrvold.

To run the start-up, the three recruited Gilleland,

LOOK NO FURTHER

"There's enough to run the country for hundreds of years."

JOHN GILLELAND
CEO OF TERRAPOWER

founder of Archimedes Technology Group, a developer of solutions for disposing of nuclear waste. Sophisticated computer modeling proved the concept viable, and then things started happening fast, because TerraPower, unlike most nuclear ventures, required no public funding. The company now has around 60 employees. "The nucleus is getting interesting again," says Gilleland.

Gilleland says the first prototype will be ready for demonstration around 2022, a reasonable timeline given the technological and licensing hurdles. "It was interesting to watch Nathan and Bill when we said we can do this really fast—in eight to 10 years," says Gilleland. "In software, the scale for accomplishment is eight to 10 weeks." The company won't know if it has truly succeeded until the prototype runs for a few years, long enough to measure the resiliency of the materials and the efficiency of the fuel TerraPower is developing. Research and development is expected to cost as much as $5 billion.

Because TerraPower's approach is new, it must develop not only its own technology but also a supply chain for the components of that technology. The company needs sources for its distinctive fuel assemblies, which require nontraditional materials and manufacturing techniques. To develop that chain and conduct additional research, it is working with close to 100 partners, including national labs like Los Alamos ("We are actually feeding the U.S. government money," says Gilleland), schools such as M.I.T. and the University of Michigan, and companies such as Toshiba and Kobe Steel in Japan.

Licensing nuclear reactors is a high hurdle under normal circumstances; it is many times higher when the Nuclear Regulatory Commission, or NRC, lacks the expertise to evaluate what you are doing. TerraPower has talked informally with the NRC for two years but doesn't expect the organization will be ready to review and license the TWR until sometime in the 2020s. That creates a Catch-22: The NRC is unlikely to devote many resources to the TWR until TerraPower has a utility-company customer. But utility companies are unlikely to adopt the new technology unless they know they can get a license from the NRC.

So the company faces the further challenge of persuading another country to host its pilot, with the goal of producing data that can then help inform domestic regulators. TerraPower needed approval from five U.S. cabinet-level agencies before initiating high-level talks with China, India, Russia, South Korea, and a handful of other countries. "It's complicated and time-consuming but entirely appropriate," says TerraPower's senior technical adviser, Roger Reynolds. "It allows everyone to be certain we are not dealing in technology that is weapons related." (The company expects to sign an agreement with a foreign government next year.)

Gilleland says the State Department has encouraged export of the technology, because it will reduce the incentive for other countries to build their own enrichment plants. "We've had the support of the U.S. government to do this, because it makes the whole damn globe better off," says Gilleland.

ON HER FEET
Sarah Anderson hadn't walked in eight years before being given a chance to rehabilitate in an Ekso.

THE WEARABLE ROBOT

IDEA: GET MILLIONS OF PEOPLE OUT OF THEIR WHEELCHAIRS

NEARLY 1.3 MILLION people in this country are paralyzed as a result of spinal cord injury. Around the world, there are millions more. Eythor Bender wants all of them to have a robotic exoskeleton in their homes. When that's done, he wants you to have one, too.

Bender is the CEO of Ekso Bionics, the Richmond, California–based company behind the Ekso, a wearable robot that helps paraplegics walk. Introduced in February, the Ekso is used in 20 rehabilitation centers. It's a true medical breakthrough, but it only hints at the bigger market the Ekso team says is out there. The company envisions people who suffer from strokes, multiple sclerosis, and other debilitating conditions using an Ekso to get back on their feet. It is working on Eksos for carrying heavy loads. It plans to build Eksos for the elderly, Eksos for hikers, Eksos for just about anyone.

"The team here can pretty much build anything," says Bender. "My job is to say, 'What should we focus on over the next three months, six months, and a year? Let's get that done and then move to the next one.'"

It takes a matter of minutes to strap on an Ekso. Initially, users can move the robotic legs using buttons located on two hand-held crutches; once they have gained more experience, they need only shift their weight to make the legs move. Though the Ekso is currently being sold only to rehab centers and to individuals who can afford both the Ekso's $140,000 price tag and the services of a physical therapist, Bender says the company will be rolling out its first at-home product by 2014. The goal is to make this technology as pervasive among paraplegics as prosthetics are among amputees.

"Amputees would never think of leaving their prosthetic leg behind in rehab," Bender says. "They have it as a companion for the rest of their lives."

Originally named Berkeley Bionics, the business was born out of a Department of Defense research project at the University of California, Berkeley. At the time, co-founders Nathan Harding, Homayoon Kazerooni, and Russ Angold were developing exoskeletons to help soldiers carry 200-pound loads. That technology, known as the HULC, or Human Universal Load Carrier, is now licensed to Lockheed Martin. The two companies collaborate on developing the HULC for military purposes, while the rest of Ekso's team focuses on making home-use Eksos.

The company faces substantial hurdles, starting with cost. Even if Ekso can reduce the price by half, as Bender believes it can, it will still need to get insurance companies on board. To do that, Ekso will need to prove that exoskeletons actually make wheelchair-bound people healthier. Recently, the Kessler Foundation released preliminary research that showed just that—specifically, that regular use of the Ekso might improve strength and endurance.

That is what Bender likes to see. "This story won't be complete without the personal device," he says. "If it remains a rehab device, that's all well and good, but our real purpose is to transform people's daily lives. There needs to be something other than just the answer no to the question, 'Can I ever walk again?'" —*Issie Lapowsky*

WALK, THEN RUN

"The team here can pretty much build anything."

EYTHOR BENDER
CEO OF EKSO BIONICS

COURTESY EKSO BIONICS

YOU'RE IN! IDEA: A TRUE ELITE EDUCATION AT HALF THE PRICE. AND FORGET THE WAITLIST

THERE MAY BE NO BRAND more venerable than the Ivy League. Individually and together, its eight members connote the pinnacle of scholarship. No university has emerged to challenge its intellectual supremacy in more than a century. On that timeline, Caltech, founded in 1891, is a start-up.

But now there is the Minerva Project. Ben Nelson, former CEO of the online photo service Snapfish, is building a school he asserts will be more rigorous than Harvard or Yale. "It will be harder to get into Minerva than any other university," says Nelson. "You'll have the same criteria for your grades, essay, and application. But you'll get no brownie points for how good an athlete you are, for how much money your parents can donate, or for what state you were born in." While Nelson is raising the floor established by elite universities in terms of who qualifies for admission, he is also raising the ceiling in terms of how many to admit. Like virtually every other higher-education start-up, Minerva, based in San Francisco, will live online. That means Nelson can swing wide his doors to tens of thousands of top-drawer students, many of them international. "Harvard allows 2,000 students into the admission cycle, of whom 200 are not American," says Nelson. "Clearly, that's not a good rep-

LEARNED BEHAVIOR

"You'll get no brownie points for how good an athlete you are, for how much money your parents can donate."

BEN NELSON, CEO OF THE MINERVA PROJECT

resentation of the smartest people in the world."

The company, a for-profit, expects to admit its first class of several hundred in the fall of 2014 or 2015. Tuition will cost less than $20,000—half the price of the Ivy League. In April, Benchmark Capital invested $25 million, the largest seed round in its history. "The idea of giving kids a world-class, credentialed education is the most ambitious goal we've seen in this space," says Kevin Harvey, a Benchmark general partner.

Minerva isn't Nelson's first stab at transforming education. Twenty years ago, at the University of Pennsylvania, he enrolled in a class about the history of universities. "I studied Penn and Franklin and Hopkins," says Nelson. "Then I looked around and said, 'This is not what it's supposed to be.'" His chief criticism: Schools were training people to be successful but not to become the kind of leaders who could move the world forward. So he joined the student government and spent the next four years loudly advocating for change.

Post-Snapfish, Nelson thought again about education reform. He still wanted to improve elite education, but his more pressing concern was to expand it. Since Nelson's graduation, top schools had adopted needs-blind admission policies, and students around the world increasingly coveted a U.S. education. The result was far more demand from worthy students than the Ivies and their prestigious brethren could handle. "Admissions officers at elite universities will tell you that they could take everyone they've accepted, reject them, then accept the next tier 10 times over and not be able to tell the difference in quality," says Nelson.

Minerva plans to establish dormitory clusters around the world. Students will be strongly encouraged to spend each semester in a different location.

Minerva will be global in more than its student body. Nelson plans to establish dormitory clusters in cities around the world. After their freshman years, students will be strongly encouraged to spend each semester in a different location. Students unable to participate in this movable feast must demonstrate proficiency in three languages to graduate.

Minerva's curricular innovations emerge from a distinction Nelson draws between knowledge dissemination and intellectual development. Knowledge, he maintains, is free and ubiquitous on the Internet, with nonprofits like Khan Academy and schools like Stanford posting thousands of lectures and lessons. So Minerva will offer no introductory classes. Rather, students are expected to master the basics of every subject on their own. During their freshman year, all students will follow the same core curriculum focused on subjects including multimodal communications and complex-systems analysis. That foundation laid, every subsequent course can be taught at a very high level. "If you were to look at sophomore-junior-senior years at Minerva, they will be equivalent to junior-senior-and-master's years at most other elite universities," says Nelson.

He is also upending the pedagogic convention whereby tenured faculty deliver weekly lectures, followed by discussion sections presided over by beleaguered grad students. The school will bestow Minerva Prizes—characterized by Nelson as Nobel awards for teaching—on star academics at top universities. Prizewinners will "curate" classes for Minerva. That will entail creating original course materials; the professors can also invite their respected peers to contribute specialized expertise. Classes will gather online to view and discuss the material, overseen by the full-time faculty—all of whom will be Ph.D.'s or the equivalent and all of whom will receive both salaries and stock options.

Nelson's vision has already resonated at the highest levels of traditional academe. Former Harvard president and Treasury Secretary Larry Summers offered to chair Minerva's advisory board after a single meeting with its founder. Another adviser is Bob Kerrey, a former U.S. senator, Nebraska governor, and president of the New School. "What he's got is one of the best private-education ideas I've ever heard," says Kerrey. "I think he's going to be successful, and as a consequence, university presidents across the country are going to be able to say to their boards and their faculties, 'We have to change.' He's going to have a very, very positive impact on all of higher education in America."

For Nelson, that impact will be measured by how many brilliant students he can endow with what he calls the Minerva brain and establish in roles in which they can make a difference. Toward that end, he is creating a department to help graduates raise money and make connections for new businesses and other projects. The department will also perform many functions of a traditional publicist—promoting the accomplishments of alumni so alumni can concentrate on their actual work. "We want to create an ethos where what's rewarded is doing as opposed to self-promotion," says Nelson. "It's the difference between graduating people who are focused on themselves and graduating people who are focused on moving the world forward."

HOW I **DRIVE SUCCESS**

"...No other vehicle can deliver for us on a practical level the way Sprinter does...It just rides, drives, and handles great."
–John Mahdessian

Fashion ambulance to the rescue

For most people, a fashion emergency amounts to little more than a forgotten accessory at an away-from-home event. For couture design houses like Oscar de la Renta, Louis Vuitton, and Ralph Lauren, however, the stakes are much higher, especially if the mishap occurs at an event like the Mercedes-Benz Fashion Week in New York City. Fortunately for them, there is a 24/7 "fashion ambulance" on call, and it is housed—of course—in a Mercedes-Benz Sprinter.

That 2012 Mercedes-Benz Sprinter Model 2500 High Roof Cargo Van with 170-inch wheelbase is just one of five Sprinters that John Mahdessian, President of Madame Paulette, relies on to keep his unique business model humming along. The high-end cleaning and tailoring firm's private client roster includes A-list celebrities like Carl Icahn, Aretha Franklin, Anna Wintour, Bruce Springsteen, and Chelsea Clinton, and a host of world-class restaurants, hotels, and museums turn to Madame Paulette for cleaning, restoration, and preservation of sometimes priceless fabrics and works of art. For the circles in which Madame Paulette's specialists travel, "Really, the Mercedes-Benz Sprinter is the only vehicle for us," Mahdessian says.

Practicality and versatility meet fashion-forward

Madame Paulette is a fixture on New York's Upper East Side. "Our brand image as a leader and pioneer in our industry for more than half a century comes from the commissions we've received, our accomplishments, and the innovations we've created," Mahdessian says. "That aligns so well with the Mercedes-Benz brand image, but just as importantly, no other vehicle can deliver for us on a practical level the way Sprinter does. We customize our Sprinters for individual uses—like our fashion emergency vehicle and an off-site restoration vehicle—and there is no better vehicle for navigating New York's busy streets to make rush deliveries."

Since he lives closer to Madame Paulette's headquarters than any of his 75 employees, Mahdessian himself is regularly called on to pilot one of the Sprinters to an emergency job. "It just rides, drives, and handles great," he says. "We see Sprinters used as luxury vehicles to move people around New York City all the time, and it's easy to understand why." As the company gets set for an expansion program into the Middle East and several major metros in the U.S., Mahdessian plans to add more Sprinters to his fleet. "I haven't even considered any other vehicle," he says. "Sprinter does it all for Madame Paulette."

To learn more about Madame Paulette and how other entrepreneurs are driving success with the Mercedes-Benz Sprinter, go to **www.inc.com/sprinter.**

No matter what your business needs, Sprinter offers the flexibility and space to match:

- 2 wheelbases, 3 body lengths, 2 cargo area heights,
- 3 Gross Vehicle Weight classes
- Class-leading cargo volume (318 to 547 cu. ft.) in the full-size van class
- Class-leading payload (2,855 to 5,490 lbs.)
- Class-leading cargo area height (up to 78.2 inches)
- Loading length up to 185 inches
- Standard-fit, load-securing D-rings, and optional lashing rails in the floor, sidewalls, and roof frame
- Towing capacity up to 7,500 lbs. and a tongue weight of 750 lbs.

Which Sprinter Works for Your Business?

To create your own Freightliner Sprinter, just go to the "Build and eQuip" tool at ***www.mbsprinterusa.com.***

To connect with a Mercedes-Benz Sprinter dealer near you today, simply click on the "Find a Dealer" link at the site.

SIR AUDACITY

A CONVERSATION WITH THE BIGGEST OF THE BIG THINKERS, RICHARD BRANSON

If you were to create a comic-strip version of Sir Richard Branson, the thought balloon would take up the entire page. The man may never have had a small idea. Perhaps the only person who can say "been there, done that" about both an airline and a railroad, Branson is now working his way through a to-do list that includes ferrying people into space (Virgin Galactic), traveling to the deepest parts of the world's five oceans (Virgin Oceanic), and ridding the atmosphere of 25 gigatons of carbon (the Carbon War Room). Branson sat down in Virgin USA's New York office with *Inc.* editor-at-large Leigh Buchanan to talk about ambitious ventures—his own and others'. This is an abridged version of the conversation; to see a video of the entire talk, please visit Inc.com.

PHOTOGRAPHS BY PETER HAPAK

Can you start out in life pursuing audacious ventures, or do you need to build reputation, relationships, and resources first?
I think everybody who creates something is doing something audacious. Because the most difficult time is when you are starting from scratch with no financial backing—just an idea. So true audaciousness comes about with just those people who have the pluck and the courage to say, "Screw it; let's do it." To answer your question more directly: Can you do something absolutely extraordinary with your first venture? I suppose the answer has to be yes. I am great friends with Larry Page and Sergey Brin from Google. Larry got married on my island, and I was talking to his teacher from college. He said Larry came to him with three ideas when he was thinking of leaving school early. All three were as audacious as they come. But he said to Larry, "I think you should try that Google thing first." That was pretty damn audacious.

To what extent do you pursue very ambitious projects because it is in your interest to do so? And to what extent do you do it because they capture your imagination?
It's mainly because something captures my imagination. I very, very rarely will go into a business because I think I'm going to make money out of it. What I see is a situation where I think we can really make a difference to other people's lives. But there is often more than one reason why people do things. With [Virgin Green Fund], I'd been concerned about the potential damage global warming could do to the world. So we have pledged to spend the profits from our airline business and try to develop clean fuels. And companies we've invested in have developed clean fuels, which one day will power our planes and other people's planes. And I think those companies will do extraordinarily well.

"Dream big by setting yourself seemingly impossible challenges. You then have to catch up with them."

Do you think about risk differently when you approach a particularly ambitious idea?
Take the space program as an example. If you're a government-run space program and you have a disaster, you can afford to most likely get through that disaster and keep going. If you're a private company and you have a disaster in a space program, it could do major damage to the program. NASA loses 3 percent of all the people it puts into space. A private program can't afford to lose anybody.

Which kinds of obstacles do you find most frustrating and difficult to overcome?
Regulatory issues can be painful. It would be lovely if America, for example, was absolutely clear cut about, "let's be oil independent. Let's wean ourselves off dirty fuels. Let's say by 2020." Set the target. Get rid of the subsidies for dirty fuels. Help kick-start the clean-fuel industry. You would get there. And if the governments around the rest of the world behaved like that, we'd get the problem sorted. Equally, though, good regulators can be incredibly helpful. With our space program, you've got regulators who have limited the lawsuits that can take place with private space-flight companies. That's allowed us to take bold steps. If you treated the spaceship industry like the airline industry, we could be killed overnight by one lawsuit. So good regulators can really help.

A few years ago, you launched the Carbon War Room. You also started a war room to grapple with disease in Africa. Talk about the metaphor of the war room.
The name has been heavily debated. I've got people who work with me who think I was absolutely wrong insisting on calling it the Carbon War Room. In my lifetime, we've embarked on three wars—Vietnam, Iraq, and, perhaps to a lesser extent, Afghanistan—that were all dreadful mistakes. But this is exactly what we say it is. It is a war on carbon. It is not a war on people; it is a war that would benefit people.

Have you ever encountered a challenge you dismissed as simply too daunting?
My first book was called *Losing My Virginity.* I nearly called it *Talking Ahead of Yourself.* Because I sometimes think in life you've got to dream big by setting yourself seemingly impossible challenges. You then have to catch up with them. You can make what people believe is impossible possible if you set big enough targets. Flying from New York to Australia in, say, two hours. Can we do it in our lifetimes? I'm determined to try. If you don't dream, nothing happens. And we like to dream big.

Thirty years ago,
a penniless illegal immigrant named Luis Reyes faced a choice: Return to El Salvador and join the guerrilla movement fighting for the country he loved, or claw his way to a better life in the U.S.

He chose to stay.

And learned that an entrepreneur may be the best kind of revolutionary there is.

You Can Go Home Again

BY ALEXANDRA STARR PHOTOGRAPH BY STEPHEN VOSS

LAURIOL PLAZA, IN WASHINGTON, D.C., is one of those restaurants where it's hard to hear your voice over the din by 6 p.m. Salsa music blares. Waiters yell out to one another as they hoist platters of sizzling fajitas over their heads. The bar is packed with revelers armed with table beepers and margaritas the size of small fishbowls.

A few years back, an elegant female patron, infuriated about the long wait for a table, demanded to speak with the owner. Luis Reyes approached and introduced himself.

"I asked to speak with the owner," the woman said.

"How can I help you?" he asked.

The woman gave the moon-faced, mocha-skinned proprietor a once-over and shook her head. "You can't be the owner," she told him.

Lauriol Plaza workers have taken such relish in recounting the anecdote that it's become folklore in D.C.'s Salvadoran community. It's not hard to see why: It demonstrates how little separates them from their boss. Reyes, the co-owner of Lauriol Plaza and a sister restaurant called Cactus Cantina, may be a millionaire whose establishments have served local celebrities such as Al Gore, Bill Clinton, and Michelle Obama. But he started out just like his workers, a poor immigrant washing dishes.

It's a poignant rags-to-riches tale, but it doesn't end there. Not only has Reyes built a successful business in his adopted country; he has become a political kingmaker in his native one. He and a group of Salvadoran expat entrepreneurs played a key role in dislodging the right-wing National Republican Alliance, or ARENA, from power in 2009, ushering in the first progressive government in the country's history. And Reyes, who fled El Salvador's crippling poverty at 16, is now considered potential presidential material himself.

The Entrepreneur

Luis Reyes, on the roof of Lauriol Plaza, one of his Washington restaurants. Some Salvadorans expect him to run for president someday.

Reyes had long sought to upend his nation's political culture. In the early 1980s, he nearly returned to join the guerrilla army waging war against an often-brutal military government. Back then, it seemed that change would come only through force. Instead, he stayed behind and became a successful restaurateur. He couldn't have known it then, but taking that route positioned him to play the influential role he craved.

"It gave me a chance to help in a different way," Reyes tells me with a sly smile. "It turns out I was worth more alive."

REYES LEFT EL SALVADOR in 1977, with $150 sewn into his jeans pocket. The $450 he had paid a coyote to smuggle him into the States proved a bad investment: The man abandoned Reyes and 54 others in the desert outside Piedras Negras, Mexico, near the Texas border. After going without food for five days, Reyes and four others decided to go forward on their own.

He arrived in Washington on New Year's Day, 1978. He moved into a studio apartment, shared with nine roommates, and found work—washing dishes at a steak house and cleaning offices. The bulk of his earnings went straight back home, something else he shares with his current employees. In 2011, these *remisas* totaled $3.6 billion, or 16 percent of El Salvador's GDP, and they are crucial for countless Salvadorans.

Today, he lives in an elegant brick home in D.C.'s tony Forest Hills neighborhood. Its circular driveway sports a Land Rover and an Audi SUV. Inside, a basement bar features a photograph of Reyes and Salvadoran President

Mauricio Funes, their arms clasped around each other's shoulders. In fact, the president once lounged on the plush sectional leather sofa in the room, along with the future foreign minister and the president of the senate.

The house Reyes grew up in, by contrast, had no indoor plumbing or running water. He didn't own a pair of shoes until he got some cheap loafers at age 7. For weeks, he walked peering over his shoulder to catch sight of the footprints the soles made on dirt roads.

Most Latin American countries have monstrous class systems, but even in that context, El Salvador stood out. A small elite owned 60 percent of the country's arable land and pretty much all of its industry. Elections that didn't go the way the elite wanted were stolen.

By 1980, a left-wing army, the Farabundo Martí National Liberation Front, or FMLN, had thousands of fighters, and it looked as if it might take over the country. The Reagan administration announced that wouldn't happen on its watch, and over the next 12 years the U.S. provided the country with more than $4 billion in aid, much of it going to the Salvadoran military and its death-squad allies.

Reyes had decamped to the States before the official outbreak of the war. He built a new life in Washington, becoming a husband and a father, working his way up to assistant chef at the steak house. But he understood why people were taking up arms, and on Sundays, his sole day off, he often attended raucous meetings in support of the FMLN.

At one of those events, in January 1981, FMLN supporters held a recruitment rally in Dupont Circle. "The fight goes on," one of the recruiters shouted in Spanish through a megaphone, "and we need your help to win it." When the man asked for volunteers to return to El Salvador, Reyes raised his hand.

He didn't end up going. For one thing, he was undocumented, so leaving almost certainly meant exile from his new home. He also suspected it could amount to a suicide mission. "A lot of the men who raised their hands never came back," he says.

Instead, Reyes worked. His employer sponsored him for residency, and by 1983, he had saved $20,000, which he used to co-found Lauriol Plaza. He became a U.S. citizen in 1986, and a few years later, he and his Cuban-born partner, Raul Sanchez, launched Cactus Cantina. His approach to business won't win any award for novelty: Offer a quality product, with good service, at a reasonable price in an agreeable setting. Add to that hard work and sacrifice: For 16 years, he and his partner postponed their paydays and reinvested their profits.

By the mid-'90s, Lauriol Plaza was a D.C. institution. It became a two-hour-wait kind of place when Reyes and Sanchez built an airy, four-story building for their flagship restaurant. On weekend nights, the restaurant serves an average of 2,100 meals.

On Friday nights at Lauriol Plaza's bar, Reyes would often gather with other Salvadoran expats—men like Leonel Flores, who grew up shining shoes on the streets of San Miguel and became a medical researcher at the University of Maryland. It drove them to distraction that the ARENA party had managed to win four successive elections since the end of the civil war in 1992. They mused about all that could be done if the government made no-brainer changes, like providing universal education. The rambling conversations were bittersweet: Anything was possible in their ideal world, but for men accustomed to getting things done, it felt as though they were spinning their wheels.

Rather than complaining about his homeland, Reyes was finally doing something to shake it up.

In 2005, the Lauriol Plaza crew saw a tantalizing opening to finally take on ARENA. Mauricio Funes, a CNN en Español correspondent, stopped by the restaurant one night and told the group that he planned to run as the FMLN candidate in the 2009 election. Reyes and his companions immediately grasped the potential of a Funes candidacy. FMLN candidates still tended to be hoary ex-guerrilla fighters who espoused taking over private enterprises, which lent credence to ARENA's allegations that they were communist throwbacks. Funes, by contrast, was both telegenic and not prone to rants about U.S. imperialism.

To be competitive, Funes needed two things: cash and support from his country's business community. In fact, several Salvadoran business leaders who had soured on ARENA had started a group called Amigos de Mauricio, or Friends of Mauricio. On a long August night in 2007, Reyes and his companions congregated around the bar at Lauriol Plaza and committed to launching a parallel organization in the U.S.

When the men clinked glasses over the new organization, Reyes felt a rush that he likens to the feeling he had when he first opened the doors of Lauriol Plaza. Rather than complaining about his homeland's dysfunctional political culture, he was finally doing something to shake it up.

THE DAYS WHEN U.S. AID amounted to more than $250 million a year are long over, but El Salvador remains heavily dependent on the U.S. because of the dollars Salvadorans send back home. ARENA had long exploited that connection, claiming that an FMLN win would scare off business and alienate the U.S. government. In 2004, for example, the party ran an ad featuring an *abuelita* sobbing over a letter from her grandson: The monthly checks, he had written, were coming to a halt and he was facing deportation, because the FMLN was now in power.

One way to counter that message was to get actual members of the Salvadoran diaspora to encourage voters to support Funes. One of Reyes's comrades—Carlos Zelaya, a Baltimore real estate developer—came up with the idea of distributing 20,000 phone cards at Funes fundraising events across the United States, each with enough for a five-minute phone call home. "We told people, 'Take three, and get in touch with your grandmother, your brother, and your former neighbor,'" Zelaya says.

The Candidate

Mauricio Funes, on the stump in Sensuntepeque

Reyes grows anxious when he is away from Lauriol Plaza for more than a few days. ("In order to make a restaurant work, you really have to be in it," he says.) But in the run-up to the election, he took two 10-day trips to El Salvador. He had hosted a highly successful fundraiser in Washington, and at Funes's behest, he agreed to organize one in San Salvador. He spent weeks making in-person appeals and phone calls, rounding up 40 U.S.-based Salvadoran businessmen to make the trip home and pay $1,000 to attend. They posed before a bank of TV cameras before filing into the stately Hacienda de los Miranda restaurant and gave a press conference afterward. The event sent an important message: Funes was a man business could work with.

When the ballots were tallied on March 15, 2009, Funes had edged out his rival, 51 percent to 49 percent. Since then, many of the ideas Reyes and the Lauriol Plaza clan discussed have become a reality. Basic education is now free. Poor students are provided with uniforms and—in a move with particular resonance for Reyes—shoes. The president muscled through a modest tax-reform program. El Salvador has been riven by gang violence for two decades, but in April the country had its first murder-free day in memory.

To be sure, it's only a start. But none of it could have happened without Reyes and his fellow businessmen, says Michael Allison, an associate professor of political science at the University of Scranton. "The business support was necessary," Allison says. "It brought a credibility and moderation to the party that it badly needed."

NOT LONG AGO, over freshly squeezed orange juice at Lauriol Plaza, I asked Reyes why he had worked so hard to get Funes elected. He talked about how brutal his early life had been. And then he brought up the choice he had made decades back not to join the guerrilla effort. That decision seemed to gnaw at him. "I'd wanted to participate in a direct way," he said, as he looked down at the snowy tablecloth. "Those men were fighting for a just cause." His role in the 2009 election, and the bloodless coup it brought, seems in part to have been a way to atone.

Reyes spread out on the table pictures of him with Funes and the minister of justice, as well as receipts of airline tickets he bought for the then-presidential candidate. "It's not just that they meet with me," he says. "They listen to me."

Like many ambitious people, Reyes seems perpetually driven to build on what he has accomplished. Most days, he works at Lauriol Plaza until midnight or later. He admits that the grueling schedule has strained his marriage, but in the next breath, he talks about opening a third locale.

Will Reyes's business be enough to satisfy his ambitions? Salvador Sanabria, a Salvadoran expatriate who runs El Rescate, an influential nonprofit in Los Angeles, doesn't think so. The ascension of an expat to the presidency of El Salvador is inevitable, Sanabria believes. And no one, he says, has a better narrative to peddle to voters than Reyes. "He'll be president one day," Sanabria says.

When I bring this up with Reyes, he laughs. His role, he insists, is to propose ideas and help fund progressive candidates. And then he flashes one of his impish smiles. "That said," he says, "I'm not ruling anything out."

Alexandra Starr is an Emerson fellow at the New America Foundation, where she writes about immigration and economic competitiveness.

LUIS ROMERO/AP

THE PRINTER

In 2008, David Moyal's bank agreed to provide financing for a $3.8 million state-of-the-art printing press. A year later, after the press had been assembled and shipped, the bank pulled out.

After the worst financial crisis in decades, banks had no choice but to reduce risk. For business owners, the process carried hard lessons about how modern lending really works

After the Squeeze

BY BURT HELM
PHOTOGRAPHS BY GREG MILLER

Joe Bliss thought the worst was over. Revenue at JBC Technologies—a Cleveland-based die cutter that makes products as diverse as materials used in electronics and small components for automobiles—had plunged 40 percent when the recession hit. Bliss had dismissed half of his 96 employees, cut wages across the board, and slashed his own salary to almost nothing.

Now, in the summer of 2010, sales were finally back. Bliss had restored his employees' salaries, repaid lost wages, and begun hiring again. He also resumed planning the expansion he had envisioned for the company—which included 40,000 square feet of additional manufacturing space and new corporate offices.

Then, on August 17, the men from Charter One bank came to visit.

Bliss, who had been banking with Charter One for five years, had $6 million worth of commercial loans outstanding. He says he never missed a payment or, as far as he knew, violated any of the covenants—the financial metrics—that banks mandate to ensure the health of their borrowers. But the Charter One reps told him the bank wanted the 22-year-old company's loans off its balance sheet, part of a retrenchment that would affect billions of dollars' worth of loans in the bank's commercial portfolio.

It didn't matter that JBC's business had recovered; the decision had been made months before. The men recognized the irony. Under different circumstances, "we'd be aggressively pursuing you as a customer," one of them told Bliss. But JBC had been deemed, in the oblique vocabulary of Charter One and its parent companies, Citizens Bank and the Royal Bank of Scotland, *noncore.*

The problem was not Bliss's company but his industry and region—both of which, in an effort to stem future losses, his bank had essentially written off. Charter One, like other banks across the country, was using a sort of predictive math to sever ties with struggling borrowers before they stopped making payments. In the process, banks were abandoning businesses that were recovering, too. "It was a bizarre situation," Bliss says. "We were successful. It was so frustrating."

Charter One's divorce from Joe Bliss was just a tiny part of a precipitous pullback by the banking industry. From 2008 to 2010, the volume of business loans dropped some 22 percent. In cash terms, commercial lending experienced a $325 billion decline over those three years; the volume of small-business loans (generally defined as loans of less than $1 million) fell by $26 billion, and then kept falling: By June 2012, small-business loans were down $56 billion from their June 2008 peak of $336.4 billion.

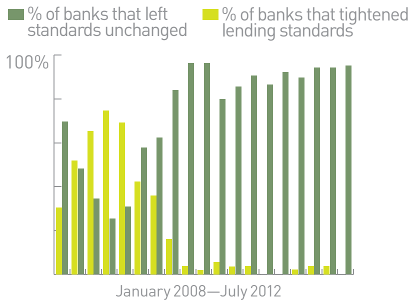
Of course, it helps to remember what banks were going through at the time. Once the financial crisis was in motion, banks faced tremendous pressures. Government regulators introduced capital requirements that compelled banks to reduce their exposure to risk—mandates that often meant shifting more risk onto the borrower in the form of larger down payments, more collateral, and more onerous personal guarantees. Given that banks have watched hundreds of their peers struggle with insolvency, it's not surprising that banks began enforcing their covenants more strictly than they had in years.

Lending is finally beginning to crawl back, though the emphasis should be put on *crawl*—the stats would qualify as bad news if the past few years hadn't been so grim. Most banks are no longer tightening credit standards for small businesses, according to the Federal Reserve. And the volume of small-business loans fell just 1 percent from June 2011 to June 2012, compared with an 8.5 percent drop during the corresponding period 12 months earlier. Part of the reason for the slow recovery is that businesses remain too spooked to borrow. "Demand is down," says Jordan Peterson, senior vice president for business banking at PNC Financial Services Group. "We're seeing small businesses deleveraging, taking cash to pay down debt. But we're anxious to lend money."

The problem was not Bliss's company but his industry and region—both of which, in an effort to stem future losses, his bank had essentially written off.

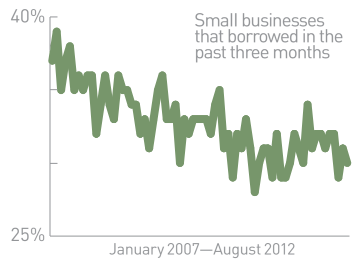
Recovery? What Recovery? Banks are lending again, but not to entrepreneurs. At least, not yet.

Lending standards for small businesses remain tight.



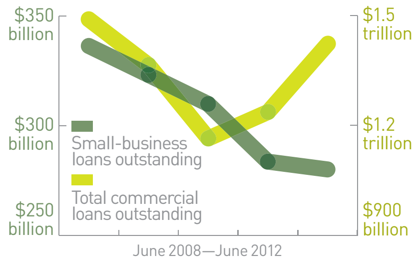
SOURCE: FEDERAL RESERVE SENIOR LOAN OFFICER SURVEY

And fewer small businesses are borrowing regularly.



SOURCE: NFIB SMALL BUSINESS ECONOMIC TRENDS

But banks are once again lending to large corporations.



SOURCE: FDIC

THE DIE CUTTER

For five years, Joe Bliss never missed a loan payment. But after revenue at his business took a hit in 2009, Bliss's bank cut his lines of credit—part of a nationwide retrenchment that affected borrowers deemed *noncore.*

Still, many entrepreneurs remain more than a little traumatized. "We're terrified of what a bank will do now," says Lowell Jaeger, owner of Jaeger Lumber, a Union, New Jersey–based chain of seven lumberyards. In 2011, after the chain posted its first annual loss in more than four decades, PNC abruptly canceled its $4 million line of credit—despite the fact that Jaeger Lumber expected to be back in the black and had banked with PNC for about 20 years. Jaeger managed to get credit from TD Bank. Still, he has been shaken up. In the past, his inclination was to pounce on an economic recovery, acquiring distressed competitors and upgrading facilities. Not this time. "I'm not going to take a chance on expanding and have another bank pull out," he says.

For anyone with a stake in the U.S. economy, that's the last thing you want to hear. Although the financial crisis was (one hopes) a once-in-a-generation disaster, there will always be business downturns. And in a dynamic economy, some industries will inevitably end up on the wrong side of new technology or shifting consumer tastes. But the latest crisis made clear that the era of personal banking is over—indeed, that it had been for years. The scale of modern banking has made the relationship between banks and small businesses more remote, more mathematical, and less personal. In the next downturn, you can't assume that a warm relationship with your loan officer will protect you.

It's also clear that as the economy recovers, entrepreneurs and banks will need one another again. The question business owners should be asking isn't whether the system will go back to the old ways—it won't—but whether they have taken the right steps to protect themselves and borrow prudently in this new world.

To understand how we got to this point, consider how different banking was a mere 30 years ago. Before ATMs sat on every street corner and sports arenas had names like Citi Field and Bank of America Stadium, U.S. banks were far smaller and far more numerous; in fact, there were about 10,000 more of them. They were, on average, a tenth the size of an average bank today. They were prohibited from operating across state lines, and most states capped the number of branches they could have.

Corporate lending worked differently, too. Companies and banks tended to pair off by size. The community banks that did the bulk of small-business lending tended to make subjective judgments, relying on personal knowledge of the local economy and the character of the local business owners. "You'd go to a loan committee, and there'd be six or eight people who knew the market and probably knew you," says William Dunkelberg, chief economist at the National Federation of Independent Business, or NFIB, since 1973.

Even by 1993, 55 percent of small-business loans (in dollar terms) were held by banks with less than $1 billion in assets;

THE MANUFACTURERS

Demand at Stam is finally increasing. In the past, CEO Kent Marvin (right) would have sought to expand. But Stam, which was dropped by its bank in 2009, plans to sit out this recovery. "Heaven forbid there's another recession," says CFO Brendan Anderson (left).

the largest 25 held less than 9 percent of such loans. The merger wave of the 1980s and '90s upended this model. As regulations were scaled back, banks joined forces and expanded nationally, and small banks got gobbled up by bigger and bigger ones. This was bad news for entrepreneurs: From 1989 to 1994, the number of small-business loans fell 34 percent, and many economists worried that big banks might stop troubling with them altogether.

Lending eventually came back—thanks to technology. As more data went online, a bank could access a potential borrower's payment history, compare a company's financials with industry averages and the finances of competitors, and use economic projections to assess prospects. When companies such as Fair Isaac and Dun & Bradstreet began offering business credit-scoring software online, a large bank's credit department no longer needed local experts with local expertise; an analyst with a computer and an Internet connection could make decisions from hundreds of miles away, and small businesses could get cheaper rates and approvals without knowing the local bankers. By 2007, the 25 largest banks were nearly six times larger than they had been in 1993 and held 32 percent of all small-business loans.

> "It's not personal," says one former banker. "Lenders will say, 'These are really nice people. It's really too bad what's happening to them. Move them out of the bank.' "

Then came the financial crisis, which flipped the hard-data model on its head. Banks had used data mainly to identify prospects and turn them into customers. Now Big Data went to work—in a real-life version of the science-fiction film *Minority Report*—identifying which paying customers were riskiest, so banks could quickly turn them into ex-customers.

On February 26, 2009, Stephen Hester, CEO of Royal Bank of Scotland, told analysts how he planned to defuse what he later termed "the biggest balance-sheet time bomb in history." The year before, the Edinburgh-based bank had lost $34.2 billion—the biggest loss in British corporate history—leading to a government bailout and the departure of the bank's then-CEO.

Hester stepped in and within three months identified about $612 billion worth of assets to be sold or dumped altogether. Next, he turned to the assets the bank planned to keep, including its U.S. subsidiaries: Citizens Bank and Charter One. In addition to cutting jobs and closing branches, the bank would look to eliminate individual credit lines, credit cards, and loans. The retreat would begin in the company's backwaters, where Citizens and Charter One lagged the market leaders, he said.

In the greater Cleveland area, where Joe Bliss and JBC Technologies had Charter One loans, the bank ranked fourth.

Cheryl-Ann Madsen, Bliss's relationship manager at Charter One, had worked as a banker in Cleveland for decades, starting at Charter One in 2005, shortly after it was acquired by RBS. When the bank moved underwriting to Pittsburgh in 2007, she had adapted; in fact, she planned to retire at the bank. So in July 2009, when the Cleveland relationship managers were told to prepare their loan portfolios for review by a visiting RBS executive from Michigan, she dutifully complied. The review would determine which loans would go into a new noncore group—assets the bank decided were either "high risk or not a strategic fit," says RBS spokesman Jim Hughes. "In a time in which banks have been forced to make tough choices," says Hughes, "relationships with some customers have had to change."

When the noncore list was announced to staff, Madsen was stunned. A third of the companies in her portfolio were on it—including nearly every auto-parts supplier she had. "They were all people who worked diligently and lived up to their loan agreements," Madsen says. She understood that the bank had to shore up its balance sheet. Still, she says, "it was very difficult to justify it to myself. I felt personally responsible." Madsen asked the head of the Ohio region to reconsider severing the relationship with Joe Bliss. He tried to help but couldn't. She then wrote an e-mail to the CFO of RBS, pleading for JBC specifically. She got no response.

Then, about a month after Bliss's loans had been pulled, Madsen was driving back from a client call with an out-of-state colleague toward Charter One's offices in downtown Cleveland. As they passed by shuttered stores and half-filled parking garages on 12th Street, her co-worker sighed. "Ohio—it's just a black hole," he said. The bank wasn't just writing off her clients now. She felt it was writing off her hometown. That was it, Madsen says. "I knew northeast Ohio would rebound. I have a lot of faith in the Joe Blisses of the world. I didn't see a black hole. I saw a storm we needed to get through together." She resigned a month later.

When banks move to stem problem loans, they follow a standard procedure, says Mitchell D. Weiss, a consultant who ran financing subsidiaries at Webster Bank and SunTrust. Underwriters are always looking for patterns in the numbers. Once they identify a problem group ("You might notice that real estate developers in Florida are having a higher instance of write-offs," Weiss says, by way of example), they put those companies on a watch list. Then, the bank starts looking for red flags: a late payment, a missed financial covenant, or a sudden drop in business.

During normal times, banks can be flexible. After a crisis, however, the stakes are much higher. When banks are under pressure from shareholders and regulators, there is little room for subjective judgments, exceptions, or forgiveness. If a "watched" company's credit agreement is subject to annual renewal, Weiss says, it may not be renewed. "It's not personal," says Weiss. "In these meetings—and I've been in these meetings—lenders will say, 'These are really nice people. It's really too bad what's happening to them. Move them out of the bank.'" During the recession, contractors, lumberyards, printers, and other companies tied to struggling industries came up again and again in these analyses.

When a bank decides to sever ties, a ticking clock starts for the business owner. He or she must find a new bank to refinance the loan or pick up the balance of the credit line, typically within 90 days, at which point the full balance "balloons" and becomes due immediately. Money that might have gone to purchase inventory, pay staff, or keep the lights on must go to cover the principal, or the company will default and go out of business.

When a large bank decides to retreat from an entire industry, it can have seismic effects. On October 24, 2008, the day PNC announced it would acquire National City, becoming the fifth-largest bank in the U.S., CEO James Rohr identified a $20 billion distressed-assets portfolio of bad residential real estate development loans, subprime residential mortgages, and brokered home equity loans. He also went a step further, saying the bank would begin "accelerating efforts to exit their noncore loans." Bank spokeswoman Amy Vargo specifically cited "equine lending" (loans to horse farms), payday lenders, and some mortgage lenders. PNC wound up shrinking its commercial loan portfolio of the newly combined banks by $21 billion, or 21 percent, over the next two years. Loans to manufacturers alone decreased by $3.9 billion—the equivalent of 30 percent of its manufacturing portfolio in 2008.

The moves reverberated among customers, many of them legacy National City clients in its Rust Belt footprint across Michigan, Ohio, and Illinois. In Mentor, Ohio, Brendan Anderson, chief financial officer and co-owner of Stam, got a call from his new PNC loan officer on June 8, 2009. Revenue at Stam, which makes air-intake and exhaust lines for heavy machinery, had fallen steeply. But Anderson had kept up the company's loan payments. Still, the rep told him that PNC now took issue with the way Stam calculated its net worth. As the bank saw it, the company's value had fallen below a mandated level, which put Stam in violation of its loan agreement. Anderson quickly dug up an e-mail from his old National City loan officer spelling out how the two sides agreed to calculate net worth. The dispute continued for weeks. Finally, the PNC rep was blunt: "You've been designated an exit credit. My goal is to get you out of the bank." (PNC declined to comment on specific clients.)

After the PNC breakup, Stam managed to move its equipment loan and revolving line of credit over to Park View Federal Savings, but CEO Kent Marvin says he's no longer interested in expanding. He will keep the 50 employees he has and cap hiring there. "It's just not worth it," he says. Demand is increasing, but the investment required to add another shift wouldn't pay off for at least two to three years, estimates Anderson, the CFO. That's too long, he says, and cash is too tight. "Heaven forbid there's another recession."

Business owners who decide to fight their banks hit a different set of challenges. David Moyal runs one of the last privately held printing operations in New York City, churning out programs and fliers for Broadway shows and the fine print for prescription drugs like Lipitor. Over the years, as demand for paper products declined and larger competitors hammered down prices, Moyal managed to stay competitive by using the latest, fastest presses.

In 2005, he expanded to New Jersey, opening a larger facility just on the other side of the Holland Tunnel, using equipment loans from People's Capital and Leasing Corporation, a subsidiary of People's United Bank. On July 24, 2008, Moyal purchased a custom-made, state-of-the-art, $3.8 million Mitsubishi sheet-fed printing press, capable of printing 10,000 two-sided pages an hour. As it had in 2005, People's provided him with a down payment for the new press (in this case, $200,000) and made a written offer to finance the rest. But in January 2009, after the press had been assembled and shipped and was ready for delivery, People's refused to make the loan.

The bank, Moyal learned, was in the midst of a rapid retrenchment. Rather than increasing equipment financing 20 percent in 2009, as it had expected before the crisis, People's CEO Philip Sherringham had told analysts that the bank planned to "put the brakes" on the portfolio. Loans to printers would fall 32 percent.

Moyal called the bank "9, 10, 15 times" to see what could be worked out. Meanwhile, as he was stuck with his old presses and unable to match competitors' prices, sales cratered. When he called People's to see if he could extend his payment schedule, his loan officer told him that the bank had decided not to

How to Manage a Banker

As your business seeks to expand, chances are you will need bank financing to do so. The challenge is to approach your bank with eyes wide open. Here's how.

1. PERFORM YOUR OWN STRESS TEST

Read the fine print on your loan covenants, and then imagine worst-case scenarios. What happens if real estate values plunge, or your sales fall 50 percent? Assume the bank will play hardball. Will you be able to stay in business?

2.

SPREAD THE RISK

Rather than relying on a single line of credit, apply for several smaller credit lines at different banks. If one decides to cancel your line, it won't kill all your working capital.

3.

BE TOO BIG TO FAIL

Consider a community bank. The interest rates could be higher, but small banks have the flexibility to tailor loans to your needs. If you're a more important customer for them, they will be more likely to work with you if business goes south.

4.

STICK WITH WHAT FITS

If you plan to use a piece of equipment for five years, get a five-year loan. The smaller payments of longer-term debt may be tempting, but you never want to be making payments on something you no longer use.

change loan terms for printers unless they were already defaulting.

In September 2011, People's United sued Moyal to get back the $200,000. Moyal, incensed, is now countersuing the bank for breach of contract and fraud. (People's United did not return numerous phone calls for this story.)

Suits like Moyal's face steep odds, says John McFarland, a partner at Houston-based Joyce, McFarland & McFarland who represents banks in lending-litigation cases. Loan contracts often provide outs for lenders, including "material adverse change" clauses that can cover a sudden drop in sales. Even the most bitter breakups between borrowers and lenders rarely end up in court. "There's a lot of gnashing of teeth and some really badly damaged long-term relationships," says Buzz Trafford, a managing partner at Porter Wright in Columbus, Ohio, who has represented both sides on debt issues. "But there's not a lot of litigation."

"It baffles me," says one community banker. "Clients are hypnotized by interest rates even when they're getting pummeled by a baseball bat."

So what should entrepreneurs do? Weiss, who now is a finance professor at the University of Hartford in Connecticut, advises entrepreneurs to seek loans from community banks rather than large institutions, at least when your borrowing needs are relatively small. "Your deal is more important to them, and there's more negotiating room," he says. "It's a better deal." And Ami Kassar, founder of Multifunding, a start-up that helps businesses find financing, pursues only deals in which the business owner can work directly with the people who approve the loan. "At a big bank, the underwriter and the loan officer working on it are often in different states and don't even know each other," Kassar says. "If we're not dealing with the decision makers, we won't go there."

Still, many entrepreneurs are drawn to the wider array of services and more advanced technology offered by big banks. Since 2008, the 25 largest banks' share of small-business loans has grown 5 percentage points. Regardless of the size of the bank, borrowers need to read the terms of their contracts carefully. "It baffles me," says Todd Massas, a manager at Plaza Bank, a community bank in Irvine, California. "Clients are hypnotized by interest rates even when they're getting pummeled by a baseball bat."

It's worth noting that all but one of the entrepreneurs profiled in this story found new banks. Still, the credit squeeze remains fresh in the minds of many business owners. In January 2011, JBC's Joe Bliss moved his equipment loan and credit revolver to FirstMerit Bank, a regional bank in Akron. After sales grew fast enough that he believed he could double his manufacturing capacity, he decided to put the experience behind him and take out a new loan. Banks made offers. Even Charter One. But when JBC heard the bank's presentation, the company's controller, Rick Gucwa, cut the conversation short. "How do I know you're not going to screw me again?" Gucwa asked Charter One's rep.

That's something all banks, as they attempt to rebuild their small-business portfolios, should keep in mind. For entrepreneurs business is, almost by definition, personal. Some will have a harder time than others with accepting the new nature of lending. In April, Moyal laid off all 120 employees at his New Jersey facility. In July, he auctioned off his old presses. Since he retrenched in his smaller Manhattan operation, sales have dwindled from $17 million at their 2007 peak to a projected $9 million in 2012. The Mitsubishi press remains in storage. Moyal sounds as much like a spurned lover as a businessman. "I want to hurt them really bad," he says. "I am dying to know who forgot about all the years of relationships and said, 'You know what? The guy never defaulted on a payment or anything. But too bad.'"

Burt Helm is Inc.*'s senior writer.*

More Meat, Please
Stephen McDonnell failed as a vegetarian.

HOW I DID IT

Stephen McDonnell

Applegate Farms

From the smokehouse to iconic brand

Twenty-five years after Stephen McDonnell started Applegate Farms, the Bridgewater, New Jersey–based meat company is one of the largest natural and organic food brands in the U.S. With almost $200 million in revenue and 80 employees, the company sells its products in a variety of retail outlets, from small specialty food stores to Whole Foods to big chain supermarkets such as Stop & Shop and A&P. McDonnell made his products a household name not only by riding the trend toward healthy eating and organic food, but also by creating a lean company with minimal overhead (there's actually no farm at Applegate Farms), and by cultivating an unusual management style that puts him in the office just one day a week.

AS TOLD TO DONNA FENN / Photograph by Christopher Sturman

I was born in 1955, so I ate a lot of meat and potatoes growing up. It wasn't until I went to Hampshire College that I experimented with the early vegetarian movement. But I was unsuccessful at being a vegetarian. Eventually, I came out and declared my love of meat.

After college, I was a financial analyst at Ford for three years before going back and getting a master's in organizational behavior from Harvard. I went to work for a small consulting firm, a spinoff of Arthur D. Little. It was an early pioneer in process consulting. That's where I got into the psychology of business. But the consulting thing was too theoretical and not hands on enough for me. I started working with my brother-in-law, Simon Pearce, at his glassware and pottery business in Quechee, Vermont. After I helped him accelerate his growth rate, I realized, Holy crap, being an entrepreneur is what I was meant to do.

In 1987, I came across this company, Jugtown Mountain Smokehouse, in Flemington, New Jersey, that was making nitrite-free bacon. That brought me back to the days when I was living in Boston and shopping at Bread & Circus, a natural-food store. I had come across nitrite-free bacon there and realized I could feel good about eating meat if it didn't contain any of the ingredients I knew were bad for me. Jugtown was for sale, so I bought it for $250,000. That's how I got into the meat business.

The place burned down in 1988. About 2,000 pounds of bacon caught on fire. I was like, I'm getting the hell out of this business. But I couldn't walk away. That's when I realized that I was committed to the business in a deeper way than I had thought. Eventually, I had an epiphany: The mission of this brand is to change the way America eats meat. Twenty-five years later, it's still what this company is about.

When we were rebuilding Jugtown, we started sending product to other plants to have it made. It came back better than what we had been producing. That's when I said, "I don't want to be a producer." I realized we didn't have to make anything.

Jugtown wasn't the right name. It sounded like we were distilling booze in western New Jersey. So we came up with Applegate. I started selling to Whole Foods right away. They get a lot of credit, because they led the charge on healthy meat—and healthy food in general. They pushed natural ingredients and asked for antibiotic-free products. So in the early '90s, we started to develop antibiotic-free meat. Organic came several years after that.

We used to sell 2,000 or 3,000 pounds a week; now, we sell 700,000 pounds a week. We work with 18 co-packing companies, 12 slaughterhouses, and 1,000 farms. We're not farmers or processors or cookers or retailers. What we do is create the recipes and manage the very complex variables to ensure that everything is done on time and with the highest quality.

Several years ago, healthy eating was becoming a significant trend. It's now *the* trend. Through all that, the Applegate brand has just been there, patiently waiting for shoppers to reach the inflection point and upgrade the meat they buy. If a mom is on a limited budget, you cannot force the reallocation of that budget. It's a consciousness that happens over time, and you have to patiently wait for it. You have to consistently be there.

Stores like us, because no other brand of meat can fit in more places in the store with different products. We have breakfast sausages and chicken nuggets in the frozen section, as well as hot dogs, dinner sausages, sliced deli meat, and bulk deli meat. When you don't own the manufacturing equipment, your only concern is what the customer wants. And because we source from multiple factories, we are able to create a much wider range of products. Moms want healthy solutions not just for bacon and hot dogs but in every category of meat. Now, instead of getting to know five to six different meat brands, customers can trust one brand.

We will do just shy of $200 million in sales this year. The amazing thing is that if we could ever get to $1 billion, we'd still be less than 1 percent of the market. Meat is frickin' huge! My advice to entrepreneurs is to find the biggest ocean you can get into, because the scaling doesn't stop.

For the past 25 years, I have physically gone to the office only about once a week. Through certain periods, it's been twice a week, but rarely more. I work largely out of my office at home. I think you can observe what's happening so much easier from the outside than when you're inside of it. Your whole outlook changes. You actually become kind of a therapist to your organization. When you're inside it, you're the patient.

I'm letting go of day-to-day management of the company. Going forward, I want my life to be a pie chart broken into three parts: one-third work, one-third pleasure, one-third giving back. I've now handed over finance, IT, sales, and marketing. The only thing I'm still hanging on to is the supply chain, which is a big one. I took a four-week vacation this summer. Before, I'd come back from vacation and no real decisions had been made. This time, it was like all the bills were paid. I have a senior leadership team that I trust.

Three years ago, we sold a minority stake in the business to a private equity group. My wife, Jill, was tired of having all the chips on the table. And I *did* sleep better after the sale. I'm beginning to take seriously the possibility of going public, especially after seeing Annie's go public in March. They raised $95 million. They're like us, but a little bit smaller. But even if we decide not to go public, I've told the leadership team to behave like we are on that path. When you are publicly traded, the analysts grill you to make sure you've thought of everything and that you're squeezing out every ounce of risk in the business. That's a smart thing for any business to figure out.

> "My advice to entrepreneurs is to find the biggest ocean you can get into, because the scaling doesn't stop."

My time frame for going public? I said to the senior leadership team, "Let's hang on for as long as we can." We will know the moment. And that's partly why Jill is on my board now. I told her the one thing she needs to do is confirm the moment, because I'm going to be too emotionally in denial. It's like when your kids come to you—and you never know when that will be—and their wings are ready, and you just have to let them go. I'm hoping to make the decision about going public closer to 2020.

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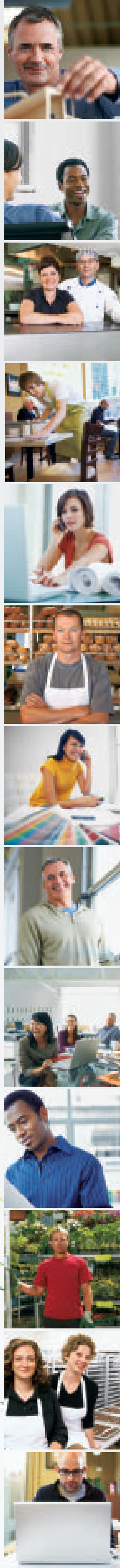

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Quid employees at work in a meeting room made from freezer curtains

MAIN OFFICE SPACE
To make the most of Quid's relatively modest 5,200 square feet, the office is divided into zones—including an open collaboration area and this enclosed meeting space.

JASPER SANIDAD/COURTESY QUID

Design

Smart people, smart office

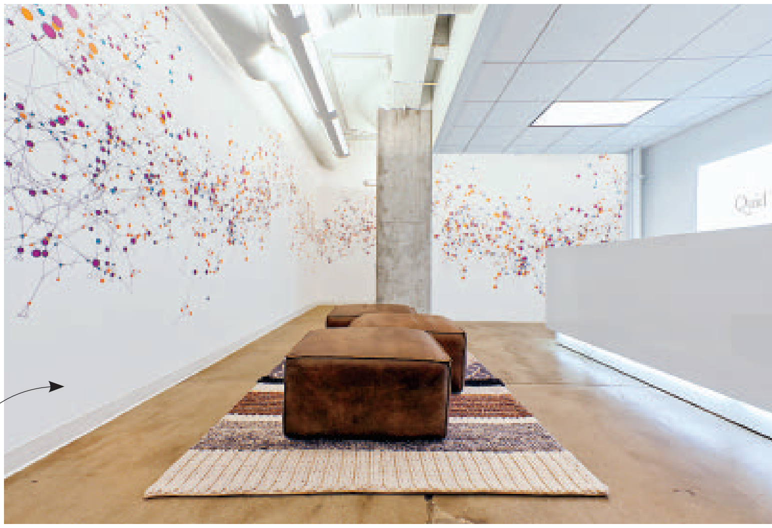
A well-designed space for a team of data scientists—done on the cheap

When Bob Goodson first walked into the San Francisco space that would become the offices of Quid, the text- and data-analytics start-up he co-founded in 2010, he was met with a blank canvas. The walls and floors were concrete. There were no conference rooms and no offices. In fact, the space had never been used as an office—it previously functioned as a Spartan showroom for a neighboring furniture company and had become a makeshift storage space. As a design aficionado, he saw potential. "I was thinking about what it would be like to interact in here, to build things, to solve problems," says Goodson.

Quid has raised $17 million from investors, but it spent surprisingly little of that on the new design. Working with

Studio O+A, a local interior design firm, Goodson set a budget of $25,000 for the 5,200-square-foot space. One way he kept to that budget was by striking a deal with Young Office Solutions, the furniture company next door, to supply a discount on some of Quid's furniture in exchange for letting Young's potential clients view the furniture in action. Likewise, instead of installing plaster walls for a conference room, O+A designed a yurtlike circular meeting space (shown on the previous page) with walls made of industrial-grade freezer curtains—at a cost of less than $2,000. And as the photos below attest, the thoughtful design didn't end there. —*Eric Markowitz*

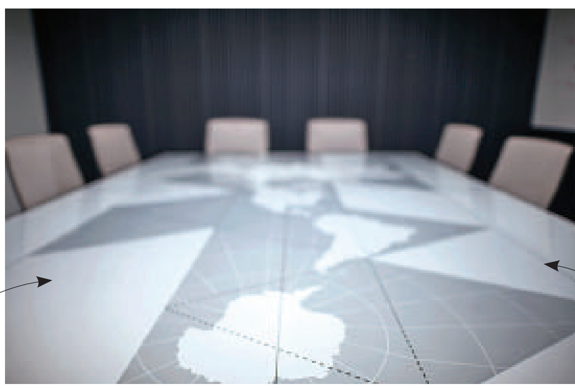
> "There's some very complex and very hard work that has to get done in this space," Goodson says. "And if we're going to be successful as a company, how do we support—by the design of the space—those interactions?"



RECEPTION AREA
Quid's office is accessible only through a narrow, winding passageway. It takes visitors at least three turns and more than 30 paces to arrive at the front desk. Besides looking cool, this flowing mural, based on the infographics Quid's software generates, helps guests navigate the mazelike entrance.

The book wallpaper is particularly relevant to Goodson, who studied medieval English literature at Oxford.

LIBRARY
Many of Quid's 44 employees spent serious time in Ph.D. programs, and Goodson wanted to make them feel at home. "Since we recruit right out of grad school," he says, "we thought it would make a warm and familiar element coming into a corporate environment."



CONFERENCE ROOM
Quid's office is playful, but the company's sole conference room is all business. Everything in the room—from the tables to the carpet to the walls—is either black, white, or gray. The design sets a more serious mood for when clients from the military and large corporations visit.

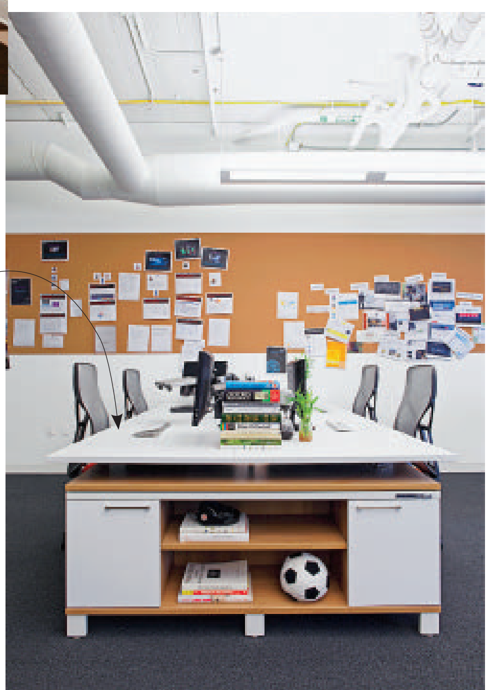
"I felt it was important that that space be very clinical, almost scientific," says Goodson.

SPREAD: JASPER SANIDAD/COURTESY QUID (5)

These monitors display Quid's key metrics and output. "Guests know this is a data company right when they walk in," says Goodson.

COLLABORATIVE AREA
The long, narrow table lets engineers get up from their desks and interact with their colleagues face to face. Goodson wanted employees to feel connected with one another, which is why the table is in the center of the room. Goodson says the table brings teams from different divisions together and occasionally serves as a communal dining table.

"Where we could get it cheap, we got it vintage. We filled a van with furniture from the Alameda flea market."



WORKSTATIONS
Goodson didn't pinch pennies when it came to workstations. "It's really important that people are comfortable," he says. Rather than cubicles, modular desks made by Artopex, based in Toronto, save the company space, which was important, as Quid plans to eventually staff up to more than 60 employees.

Q&A

Meet the Designer: Denise Cherry

In addition to Quid, Studio O+A has created offices for Facebook, Microsoft, Square, PayPal, and Yelp. Denise Cherry, the firm's director of design, shares her thoughts on what makes a successful office space and how entrepreneurs can get the most out of working with a design firm.

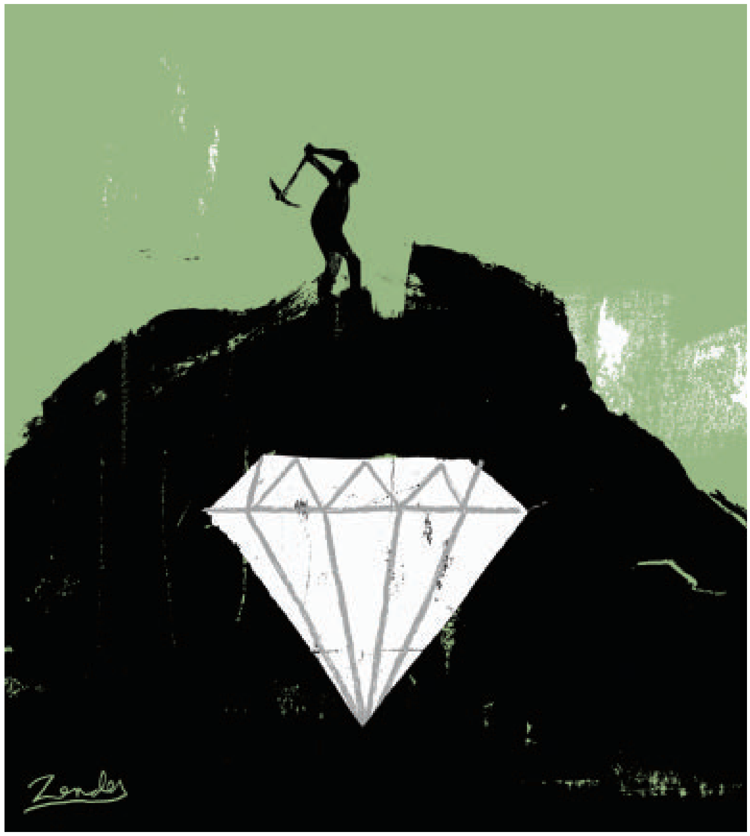
Q: How do you work with an entrepreneur to build an office that fits?
A: What we want to do is create a space that represents that company's culture. But it's essential to look at its existing office, to get a sense of how employees use the space. That always informs the design.

Q: What's a common mistake when it comes to floor plans?
A: A space isn't going to be successful if it doesn't address all the different ways people work. An office that's full of collaborative space but has zero quiet space is just as unsuccessful as one that's full of offices and has no collaborative space. It's also really nice to have a tertiary workspace that's not a conference room that can be a quiet place to get away from your desk and work.

Q: What's the worst type of design you see?
A: There are aesthetic things that we try to avoid. We want a space that represents a company's values without resorting to plastering the company's logo all over the place.

Q: What if the founding team doesn't agree with the designers?
A: There's always a way to find a solution. It doesn't have to be compromise, because that implies people are giving something up. It all comes down to trust. The most successful spaces we've built were those where we were trusted by the founders.

Technology
Big Data within reach
Low-cost tools that help make sense out of all that customer data



When Kobie Fuller was hired as chief marketing officer at Revolve Clothing, in July 2011, one of the major challenges he faced was how to encourage customers to become repeat buyers.

He was sure that the answer lay somewhere in the mass of customer-order data the 160-employee online apparel retailer collects daily. But when he arrived, that data was stored in a difficult-to-navigate database. Pulling sets of data meant asking an IT guy to run a special query. And even figuring out where to start was tricky. Revolve's data reached back to when the company was founded, in 2003. "I wanted ready access to key statistics without begging someone to mine the data for me," says Fuller.

So Fuller turned to Custora, a company that specializes in data analytics. For $1,000 per month, Custora copies data from Revolve's database, crunches it on its servers, then groups Revolve's customers by purchase date and calculates their "lifetime value" down to the dollar. Almost immediately, some major revelations emerged. Custora confirmed that shoppers who made repeat purchases within 90 days of first patronizing Revolve were particularly profitable. Fuller tested retention e-mails at the 30-, 60-, and 90-day marks and found the 90-day messages most effective. He says the e-mails have already generated 30 percent more second-time purchases. "We were able to take the data, trigger action, and see what worked, all within one comprehensive tool," Fuller says.

Thanks to affordable storage rates and intelligent software, companies now have access to a staggering amount of data about their customers, operations, and markets. This information, and the industry that has blossomed around it, has come to be known as Big Data. Even small businesses now have terabytes of information (1 terabyte equals 1,000 gigabytes) at their fingertips, material that includes customer names and transaction histories as well as Facebook likes. The data often contains key insights, but unearthing them can be pricey. Recruiting data scientists and building analytics tools in-house, as some large corporations do, can cost more than $1 million. Hiring a big-name software provider or consultancy can be costly as well.

To fill the gap, a handful of start-ups have emerged that deliver a version of Big Data analytics to small and midsize businesses. Some, like Custora, emphasize customer forecasts. Others focus on data aggregation and reporting (InsightSquared, RJMetrics) or data visualization (SumAll). Not all are recognized as Big Data specialists—the definition of the term is a topic of some dispute—but all help businesses evaluate large amounts of data for less than a few thousand dollars a month.

A low-cost solution was exactly what Justin Winter, co-

ILLUSTRATION BY DANIEL ZENDER

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founder of Diamond Candles, was looking for. The 13-person online retailer sells scented soy candles with jeweled rings hidden inside. The company has been compiling masses of Web data since its February 2011 launch. Initially, it managed this information in Excel spreadsheets and an application offered through its e-commerce platform, Shopify. As that data piled up, Winter realized he needed a better evaluation method. He balked at the cost of hiring a consultant and soon discovered SumAll's analytics software for online merchants—free because it is still in beta. SumAll imports Diamond Candles's data and feeds it back through a dashboard that tracks customer and sales trends. In particular, Winter has used SumAll to determine the effectiveness of offering daily-deal discounts. By tracking the results of a recent promotion on the daily-deal site LivingSocial, Diamond Candles was able to determine that the promotion increased orders from new customers 14 times compared with its existing sales channels. Given that information, Winter decided to continue using daily-deal sites as a way to broaden his customer base.

"I wanted ready access to key statistics without begging someone to mine the data for me."

"I can visually comprehend things now, instead of just staring at a large data set," says Winter. The company recently spent the modest sum of $50 for a year's premium access to SumAll.

A more heavyweight platform was needed for ThinkNear, a Los Angeles–based company that matches mobile ads with consumers on the basis of their location, activity, and local weather or traffic. Since May, ThinkNear has been reviewing terabytes of this situational data each week through a dashboard from analytics provider Metamarkets. ThinkNear CEO Eli Portnoy pays about $500 a month for the software; he says his ability to quickly evaluate billions of data points has doubled his ads' click-through rates. "It's been a massive help to our business, because we're providing better value to our clients," says Portnoy. "Data ultimately wins in our business. The companies that have the best data and the quickest way to manipulate it succeed." —*Elizabeth Woyke*

Managing
Bridging the generation gap
Building a culture that embraces employees of all ages—from boomers to Millennials

The Great Divide Managing multiple generations in one workplace can be difficult, but it's not impossible.

DARRIN KLIMEK/GETTY

With employees whose ages range from 18 to 55, managers at SceneTap have a pretty complicated job.

The 26-employee company, which sells an application that lets barhoppers scout out the ratio of male to female patrons at local nightspots, has younger employees in the IT department who are keyed in to social media and are always connected by smartphone. Thirtysomethings prefer e-mail, instant messaging, and videoconferencing. Jump to sales and business development, and you will find people in their 50s, whose favored mode of communication is old-fashioned in-person visits or phone calls.

"We actually keep a spreadsheet so everyone has everyone's contact information, including a column with the preferred contact method," says SceneTap co-founder and CEO Cole Harper, who is 28.

Of course, managing multiple generations under one roof often involves challenges that extend far beyond the preferred mode of communication. Older employees naturally have more work experience, but they tend to be steeped in hierarchical mindsets, says Margie Blanchard, a co-founder of the Ken Blanchard Companies, a management consultancy in San Diego. By contrast, younger workers prefer level management structures that let them contribute and give them a voice—a fact that may not sit well with older workers who spent years working their way up the ladder. "We have moved from a hierarchical world to a side-by-side world," says Blanchard. "We need management and leadership that goes along with that."

To accommodate the varying work styles, some companies are migrating toward flatter management structures. Mark Vaughn, senior partner at Navint Partners, a New York City management consultancy, says such setups create situations in which leaders emerge on a project-by-project basis according to their particular strengths and experience. "The benefits are that people enjoy work more when it's structured this way," he says.

That's certainly the case for Andrew Cummins, SceneTap's director of business operations, who joined the company a year and a half ago. Cummins, 29, came from the rigid management confines of Boeing, where at least seven thick layers of management stood between the youngest workers and upper management.

"At Boeing, your role is very much defined," says Cummins. "You are put in a box with your own little portion of the world, and that is what you focus on. You are not really encouraged to go outside of your lane too much."

By contrast, SceneTap employees of all ages collaborate, move around, and try new roles. They are also asked to volunteer solutions and ideas directly to the company's top brass. "We are not organized around seniority," says Cummins. "We are based around who can get the job done most effectively."

Companies that have a hierarchical structure but want to grow flatter can use a hybrid approach. Acquity Group, a Chicago-based consultancy that focuses on e-commerce, branding, and marketing strategies, has about 500 consultants from ages 20 to 60. The company maintains a project-management structure that blends traditional top-down decision making with a more horizontal, collaborative work environment.

Acquity employees all work in a fluid structure, combining into groups for projects that typically last about three months. That means all the consultants are constantly working with a changing cast of characters. "We separate their role on each project versus the experience level they have within the organization," says Jim Newman, Acquity's executive vice president of operations.

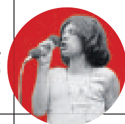
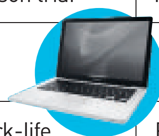
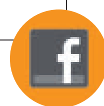
That's not to say the system is perfect. The flexibility of the groups sometimes puts younger consultants at the head of teams, which can cause conflict with older workers, says Newman. The fluidity can also create confusion about career paths for employees who lead in one project but play lesser roles in others.

Acquity addresses the latter problem by trying to keep groups smaller than 10 people, which gives everyone a voice. Younger workers are then exposed to the experience of older workers and encouraged to learn from it.

The company also assigns a career manager to younger consultants to help them set and keep track of goals. In this way, management stays somewhat vertical and pushes employees to advance in the corporation. Both solutions mean these workers are less likely to get lost in the shuffle, get bored, or leave. Ultimately, Newman says, it all comes down to managing consistently, "which means communicating effectively and not being overly controlling or micromanaging." Advice that spans all generations.
—*Jeremy Quittner*

What's in a Name?

Can't tell a Gen-Xer from a Millennial? Here's a quick primer on the traits of the various age groups, as well as some of the influences that helped define them.

	BABY BOOM 1946–1964	GENERATION X 1964–1980	GENERATION Y/MILLENNIALS 1980–2000
BUSINESS ICON	Bill Gates 	Jeff Bezos 	Mark Zuckerberg
MUSICAL INFLUENCES	 The Beatles The Rolling Stones	Madonna Nirvana 	Eminem Lady Gaga 
DEFINING MOMENTS	Vietnam War Watergate 	Fall of the Berlin Wall O.J. Simpson trial	September 11, 2001 Rise of social media
BREAKTHROUGH TECHNOLOGY	Fax machine	Personal computer 	Smartphone
WORKPLACE TRAITS	Hardworking and goal oriented, comfortable in hierarchies	Crave work-life balance, skeptical of authority	Prefer flexible work structures, having direct input in projects
CONTACT METHOD	Call me 	E-mail me 	Hit me up on Facebook
IT'S 9 P.M. I'M...	...in the office	...home with the family	...out with friends but checking e-mail

BABY BOOM: FROM TOP: VADIM GHIRDA/AP; PETER KEMP/AP; ISTOCK (2); GENERATION X: FROM TOP: AP; ISTOCK; GENERATION Y: FROM TOP: PAUL SAKUMA/AP; AP; COURTESY FACEBOOK

Case Study
Don't stop the music
For five years, Grooveshark gleefully upended the music industry. Now it is facing lawsuits, losing users, and bleeding cash. Can the company get its groove back?

The Litigation Blues Sam Tarantino suddenly faces challenges from all sides. Still, he remains optimistic.

THE BACKSTORY
Sam Tarantino was a freshman business student at the University of Florida in 2006 when he co-founded Grooveshark, a music-sharing site that allows users to upload their music and listen to free streams. There were other music-streaming websites, but none that Tarantino much liked. His goal was to make streaming a song as easy as finding and playing a video on YouTube. By his sophomore year, he had dropped out of school to commit himself to the business full time.

From the outset, Tarantino figured he would encounter resistance from the major record labels; his hope was to partner with them. That's what had happened with EMI, which filed a copyright-infringement suit against the company in 2009 but settled late that year, after the parties came to a licensing agreement. Other labels were a tougher sell. "I was 19, 20 years old, with zero credibility, and trying to get deals done," Tarantino says. "It was tough." Still, he had reason to be optimistic. By 2009, the number of monthly active users hit 6.5 million, and the site began earning advertising revenue.

But in January 2010, Universal Music Group sued Grooveshark in New York State court for copyright infringement. The suit argued that songs recorded before 1972 were not covered by the Digital Millennium Copyright Act, a 1998 law that permits websites to host user-uploaded content as long as they grant copyright holders' requests to remove infringing material. If successful, the suit would remove millions of songs from Grooveshark's platform.

MICHAEL McGUIRE
VICE PRESIDENT OF RESEARCH, GARTNER RESEARCH

Find a way to make everybody happy
Going through the courts can be a lengthy and expensive process. One thing that Grooveshark shares with the labels and the publishers and the artists is that all of those parties want to see revenue. I think Grooveshark should build an infrastructure that would allow it to work directly with rights holders in more of a straight-up licensing kind of model. It's a big risk to just play the court card and hope the next judge, or the appeals judge, finds for you.

COURTESY COMPANY

THE PROBLEM

Tarantino was concerned, but the site was growing—it now had 24 million users and revenue of $5 million. Even better, the company broke even in 2010. And so he continued to fill his ranks with University of Florida dropouts. He and his employees were having a blast: There was music blaring and, when new user milestones were reached, kegs flowing to celebrate. The company opened offices in Denver, Los Angeles, and New York City and planned new ones in Buenos Aires and London.

In August 2010, the company was booted from Apple's App Store. Apple cited a "terms of service" violation, but Tarantino thinks it made the move at the behest of Universal. (Google blocked Grooveshark from its Android Market in April 2011. Neither Google nor Apple would comment for this story.) As a result, Grooveshark was essentially locked out of the growing mobile music market. Nonetheless, revenue soon topped $10 million.

Then, in November 2011, Universal sued again, this time in federal court, alleging Grooveshark management was encouraging employees to upload songs onto the platform. Sony and Warner Brothers joined the suit in December. This time, the labels were asking for $150,000 in damages for each of the thousands of songs they claimed violated their copyrights. John Rosenberg, partner at Rosenberg & Giger, the law firm representing Grooveshark, was not surprised. "Part of the strategy of the major labels," he says, "is to burden start-ups that they view as threats with enormous legal fees to try to bring them to their knees."

THE DECISION

With legal fees mounting and a payroll of 150 employees, Tarantino realized that Grooveshark was dangerously low on funds. He hoped the bad news of the lawsuits would be offset by a high-earning first quarter of 2012 and he would be able to use the surplus for the looming deficit. The big first quarter didn't happen.

Tarantino felt he had just one option—layoffs. This was particularly difficult at Grooveshark, as he considered most of his workers to be friends. "But," he says, "there's only room in the lifeboat for so many, or else we're all dead." He broke the news at a weekly Friday town hall meeting in January. Grooveshark's Denver and L.A. offices would be closed, he said, and plans to expand to the U.K. and Argentina scrapped. The sales force would be consolidated in the company's New York City office, and the Web development team moved into a new office in Gainesville, Florida. Seventy employees—almost half the work force—either were laid off or left voluntarily. One of the hardest layoffs came when Tarantino let go a friend of his since high school. "That one was especially tough," he says. "No CEO wants to be put in that situation." But the layoffs were necessary, Tarantino says, and not only for financial reasons. They also put an end to Grooveshark's frat-house atmosphere and shifted focus back to its original goal of delivering the best free music-streaming service on the Web. And for the first time, Grooveshark started a public relations department to address its poor press image.

THE AFTERMATH

The legal woes have not let up. In August, EMI, the only major label to license its music to Grooveshark, sued the company for copyright infringement. Meantime, wary of tough copyright laws, Grooveshark pulled out of the German and Danish markets. And bad press from the lawsuits—as well as tough new rivals, like Spotify—led many U.S. users to jump ship, sending the number of users down by more than half, to 13 million. Still, Tarantino says he expects 2012 revenue to be consistent with what the company took in last year. Over the summer, Grooveshark consolidated three offices into a single space; rather than hiring movers, the remaining employees pitched in, which Tarantino says was a morale-boosting experience.

The most promising development, however, is a New York State judge's ruling that the DMCA applies to songs recorded both before and after 1972; Universal is appealing that ruling. The judge also ruled that Grooveshark could countersue Universal for damages. Tarantino and his legal team are optimistic. "As a matter of litigation momentum, it's a really significant victory," Rosenberg says. The federal suit brought by the three labels remains in the early stage of discovery.

GAURAV MATHUR
PARTNER, SILICON LEGAL STRATEGY

Find a Plan B

Tarantino needs to put an alternate strategy in place. A simple way to move forward would be for Grooveshark to pivot a little bit, change its focus to smaller labels that it can get rights from easily. If they just kind of dig in and continue to do what they have been doing, they're fighting an uphill battle. Pivoting would benefit morale and business.

MITCH STOLTZ
STAFF ATTORNEY, ELECTRONIC FRONTIER FOUNDATION

Retool the company's image

Oddly, these kinds of copyright cases can depend heavily on the public perception of the company. For Grooveshark, it could come down to whether a jury or judge believes the company has made a sincere effort to stop the illegal sharing of copyrighted music. The company should try to alter its image by encouraging users to upload only freely licensed music and Creative Commons licensed music. Meanwhile, it should act like its own record label and look to form licensing deals with unsigned musicians.

BY JOHN McDERMOTT | ILLUSTRATIONS BY JOEL KIMMEL

THE WAY I WORK | Aaron Levie, Box

"I'm obsessed with speed."

Aaron Levie started building websites when he was 13 and was 20 when he co-founded Box, a Los Altos, California–based company that provides online file storage for businesses. While attending the University of Southern California, Levie launched the company out of his dorm room with friend Dylan Smith. Seven years later, Box stores several thousand terabytes of data for more than 100,000 companies. Box, which employs about 600 people, has more than doubled sales every year. After raising $125 million in funding this year, the company is valued at $1.2 billion, according to *The Wall Street Journal.*

Levie, 27, is in constant motion. When staff members need the young CEO, they have to search Box's three-story office building to track him down. They might find him in one of the kitchens, mainlining caffeine. Or maybe running up the stairwell in his bright blue-and-orange sneakers, flashing peace signs at passersby. Or presiding over a meeting, where he flip-flops between roles as the stern principal and as the kid who won't stop whispering to the guy next to him about today being Atari's birthday.

AS TOLD TO RESHMA MEMON YAQUB | PHOTOGRAPHS BY MATTHEW REAMER

Working Together No one at Box has a private office, not even Aaron Levie, the CEO.

My main goals are to innovate and to disrupt. I want to disrupt the marketplace and to disrupt the old model—the way traditional software companies have created and sold their storage products and interacted with customers. Also, I want to avoid being disrupted. I have a lot of paranoia and anxiety about who could attack from where and what we need to do to be more competitive. My paranoia is a mixed blessing. It can come in handy, but it can also be extremely annoying.

My workday begins around 11 a.m., with a cup of black coffee in each hand. If I had more hands, there would be more coffee.

I head straight into the first of half a dozen daily meetings. I have an open calendar system, so anyone can put a meeting on my calendar. I meet frequently with sales, marketing, product design, engineering, recruiting, finance, and customers. And less frequently with investors and the board. That said, my ideal day would have fewer meetings.

I have a lot of faults. I often interrupt in meetings. I talk too loud. I talk too fast. Sometimes, when it comes to making a decision, I don't really communicate all the reasons why we should be doing something, because I have already thought about it so much in my head.

I don't have an assistant. I use a yellow pad of paper to keep track of what I have to do each day. The most important things get written on the back of my hand. I also keep a 70-page PowerPoint full of all the big stuff I'm working on. I don't show it to anyone. I just use PowerPoint because I haven't advanced to anything more modern. It's basically a diary of the entire business. For example, it outlines our international efforts: product launches, rollout strategies, the regions we're going to hire people in, the partners we're going to have, and the new offices we are opening. We just opened a London office in June.

Nobody here has a private office, including me. The 44 rooms that would be offices are all conference rooms. A lot of them are named after Internet icons and early investors, such as Cuban, Jobs, and Moore. The conference rooms' glass walls are meant to be written on, and a lot of the regular walls are painted with IdeaPaint, so you can throw your ideas on the wall.

I'm obsessed with speed. I'm always asking myself, Why can't we do things faster? Why can't it happen more efficiently? Why is this requiring three meetings instead of one? What steps can we cut out of this process to automate it? Speed and efficiency are crucial, because we have about 600 people, and we're competing against companies that have tens of thousands of people.

"Around 8 p.m. every day, I take a nap for 25 minutes. Then, my second day begins."

Our big goals for this year were to more than double our sales, to go international, and to shift from only direct sales to also working with partners to sell our products. We are on track to meet these goals, and we're hoping to overachieve on sales growth.

Probably the biggest value that I add to this company is reminding people to constantly push on the scale of opportunity—to realize that they can do something 10 times bigger, 10 times better, 10 times faster. That's why "10X" is another one of our core values. It's also one of my favorite conference room names.

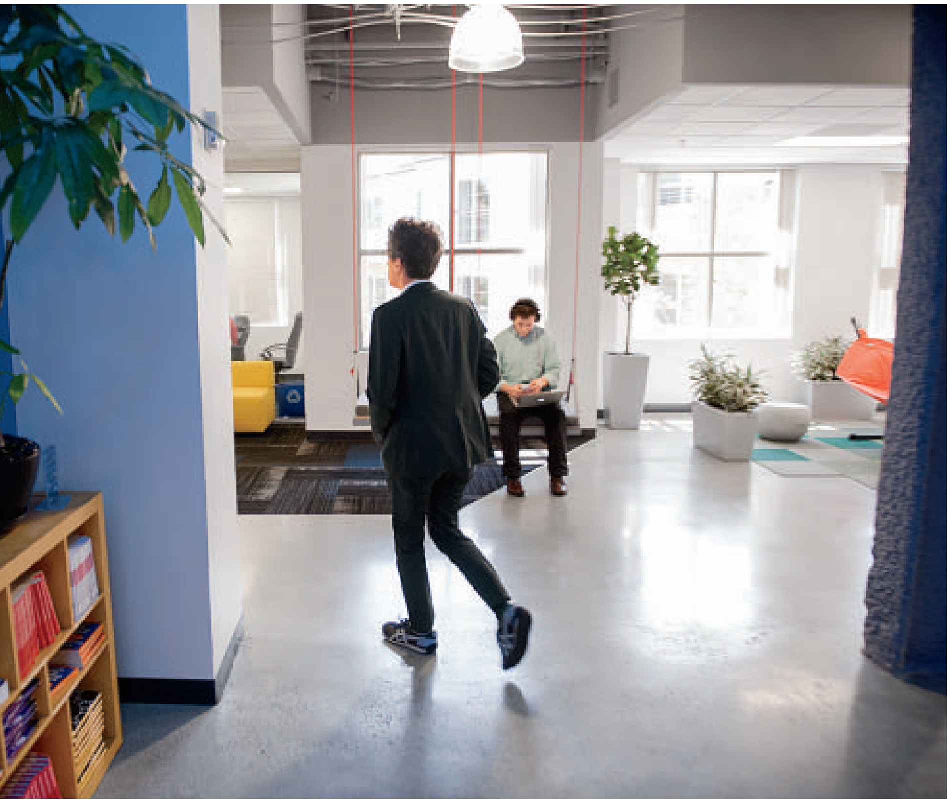
One of the ways we accomplished that early was by switching from a pay-only model to one in which we gave away 5GB of online storage space to individuals. Our user base grew by about 100 times overnight. When enough individuals are privately using our product at work, then a company eventually sees how it makes sense for it to buy in. Recently, I brought in a chief operating officer, which created immense leverage for me personally, in terms of what I can spend my time on now.

I get very involved with product design—anything the customer touches. I spend about five to 10 hours a week on that. I care a lot about micro details. How does the button on the screen look and feel? We want to get as much clutter out of the way as possible, so the customer can use an application without having to look at a complex interface. We want the site to be simple, consistent, and easy to use. And as frictionless as possible.

I've been building websites and taking things apart since I was 13. So I've been doing this for 14 years. That's about as much experience as you can get on the Internet. Also, I grew up in Seattle, very close to Microsoft, and that's why I know all of its weaknesses. I may be young, but the good news is I am getting older.

I'm also very involved in hiring. We have about 15 recruiters, and I talk with them two or three times a day. I personally interview a lot of candidates. We have a lot of employees with amazing skills. Some of them also have special abilities. We have one of the world's best jugglers and one of the country's best baton twirlers. Circus skills are a pretty important quality around here. I can balance a soda can on its edge. But I definitely wouldn't hire someone like myself, because I'm too difficult to manage.

One of our core values is "Get shit done." We have a very execution-oriented culture. It's kind of the opposite of a culture



On the Move Levie walks miles each day—without ever leaving the office.

that has lots of process, lots of bureaucracy, slow decision making. Another one of our values is "Take risks. Fail fast." If we fail fast, we can correct mistakes quickly.

We've focused the culture on velocity and how much we can get done in as little time as possible. People are held accountable for the goals they set, and we set very high goals for everything we do. When you are doubling revenue every year, the amount people have to be able to do—and succeed at doing—is critical. Our culture is motivated to solve whatever problem we're working on. And every employee owns stock or stock options.

Another one of our company's core values is "Make Mom proud. (Unless she's evil.)" My mom is proud of me. But she might not be too happy about the hours I keep or how little I eat. I wake up so late that it would be inappropriate to have breakfast. At most, I will have a snack in the day and dinner. I realize that it's not the healthiest way to live, but it's all I really have time for.

I don't work out. But I do so many loops of our three-story office every day that I probably end up walking a couple of miles. The only time I knowingly spend more time on anything than I have to is taking the stairs instead of the big yellow slide that extends from our second floor to the lobby. I'm paranoid that that thing will break sometime, and I don't want to be on it when it does. I refuse to sign the waiver.

Around 8 p.m. every day, I take a nap for about 25 minutes. Sometimes 18 minutes, sometimes 23. I'm experimenting to find the optimal rest time. I sleep on a big, electric-blue couch, in a quiet conference room called The Rock. I wear earplugs. People usually know to leave me alone during my nap, but cleaning crews have walked in on me twice in the past three months.

I wake to an alarm on my iPhone. Then, my second day begins—five hours for me to get stuff done and strategize. This is when I reply to e-mails and go over the metrics of the day. I also analyze the day's headlines to see what is happening in the competitive landscape. I need to know, What is Facebook doing? Spotify? Pandora? Pinterest? I have to know what happened in the world before I can possibly complete my day.

A huge part of my job is to collect and piece together all the different data points of what's going on in the world and then lay out a strategy to take Box and our technology into the future. The companies that win are the companies that guess the future right and take their vision to the world.

At night, I also read a lot of business books. In the office, I keep a big bookshelf stocked with copies of the few dozen books that I think are most important. Some of my favorites are *The Innovator's Dilemma, Crossing the Chasm,* and *Blue Ocean Strategy.* They're free for anyone to read and keep.

I usually leave the office around 2 a.m. There's almost always someone still there.

There's no such thing as being caught up. There's lots of stuff to do, and you just keep doing it forever. I haven't taken a vacation day—the *V*-word—in the seven years since I started this company. I recently went on my first vacation, but it wasn't technically a day off. It was just a long weekend in Mexico with my girlfriend. She and I met a few years ago at a nonwork party that I really didn't want to go to, because I don't understand the point of such things.

My downtime tends to resemble my uptime. Weekends are workdays, but toned down. Over the whole weekend, I may have five meetings, as opposed to six on a weekday. I used to play piano for 30 minutes at night, but I had to pull that out of my schedule. I don't have time for nonwork stuff.

Personal Niche Helps Lead **Franchising Growth**

by Mark Henricks

The personal services category will rank second in 2012 in employment growth and fourth in growth of the number of establishments among 10 categories tracked in the latest franchise industry economic forecast from the International Franchise Association. That's good news for franchisers whose concepts provide consumers with education, health, entertainment, financial, and similar services.

It's also good news for the franchisees who own and operate 107,678 personal service franchise establishments, as well as their 651,204 employees. Both those figures were up more than 2 percent over the previous year in the IFA's May update of the annual outlook report.

Establishment and employee counts were both healthy compared to other franchise segments. But it was in economic output that personal services really shined. The $87.31 billion in annual sales forecast for the category was up a robust 6.1 percent over the previous report. The boom is fueled by consumer spending that has been growing since 2010 and rose 5.7 percent in 2011 with further growth to come, according to the association's analysis.

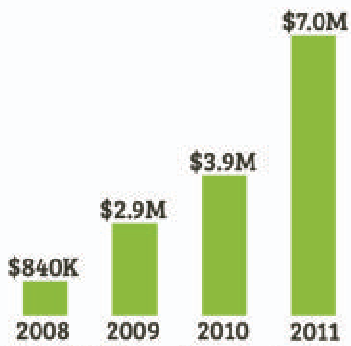
Other observers agree. "Having represented over 75 different industries I can tell you firsthand that personal care franchises are the hot commodity right now," says Britt Schroeter, a Baltimore, Maryland, franchise consultant and executive and co-author of The Franchisee Workbook (Bascom Hill, 2011). Underlying the solid recent numbers for personal services are some innate characteristics that make Schroeter exceptionally positive about the category long-term.

"On the 'want' side, we like that they play to our desire for stress reduction and play to our vanity," Schroeter says. "On the 'need' side of the equation, personal care franchises are in the most technology resistant, outsourcing resistant, and recession resistant space in the United States."

Overall, the category stands out as one of the most promising in all of franchising. And some of its subcategories, such as senior care, are even more exciting as an aging population increases outlays for home health care faster than most other expenses. "Personal care franchises will continue to outpace the GDP," Schroeter says, "with the most significant growth coming from personal care franchises that specialize in servicing seniors."

What Economic Downturn?

101 Mobility Franchises are Experiencing Record Growth



101 Mobility total system sales including all corporate owned and franchise territories

Inc. 500 | 5000

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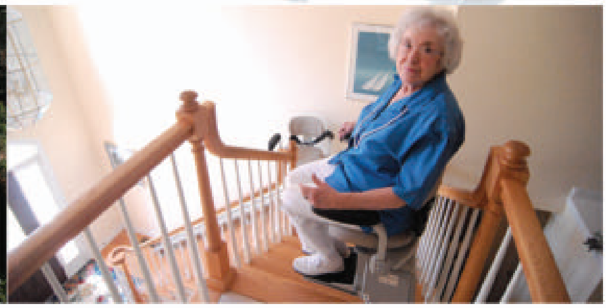

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- **UNDERSERVED CUSTOMER BASE** – Aging population desperately needs mobility equipment.
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101 Mobility sits solidly in the center of this franchise industry sweet spot. Dave Pazgan, president and CEO of the Wilmington, North Carolina-based franchiser of businesses that that sell, install, and service personal mobility equipment including stair lifts, ramps, and wheelchair lifts. “Our business is very hands on and rewarding in that the products we offer can truly change the lives of our customers, providing them access to their homes and communities that may otherwise be difficult or impossible,” Pazgan says.

Business-wise, 101 Mobility franchisees benefit from addressing a largely underserved and fragmented market. “We are building a dominant brand in an industry that doesn’t currently have one,” Pazgan says. The franchiser offers large territories to give franchisees the opportunity to grow their businesses into substantial operations.

Consumers also appreciate the 101 Mobility offering. “In many cases, qualified competent providers of mobility equipment are hard to find,” Pazgan says. “Our franchisees are highly trained, their technicians are factory certified, and consumers have the added comfort of knowing that the support doesn’t end at the local level. There is a national company standing behind the franchisee to help when needed.”

The combination creates a concept that joins economic opportunity with a chance to make available a needed personal service. “Many of our franchisees, in addition to the business and industry potential, are excited about the fact that their franchise offers a service that can have a strong positive impact on the quality of life for their customers,” Pazgan says.

The company has 28 open locations, mostly on the East Coast and in the Midwest but also as far west as Colorado. A total of 60 locations are planned to be open by the end of 2013. Pazgan says Florida, California, and the Northeast are all targets for expansion.

With a target audience of seniors needing in-home non-medical services, Seniors Helping Seniors could hardly be better positioned. The Reading, Pennsylvania, franchiser permits franchisees to capitalize on the growing demand for personal care by a growing market, and at the same time build a business that satisfies their own personal need to contribute. “Love and caring are always in demand and the Seniors Helping Seniors franchise is a way for people with hearts who enjoy helping others and giving back to their communities to do good and make money by providing a very valuable and rapidly growing service,” says CEO and co-founder Philip Yocom.

The franchise model employs senior citizens to perform services, a feature which also gives active seniors an opportunity to stay involved and give back. Senior Helping Seniors includes a range of services, from transportation, light housekeeping, yard work and minor home repairs to overnight care, pet care, and shopping. As peers to their customers, their senior citizen caregivers also supply, perhaps most importantly, companionship. “Seniors Helping Seniors franchise partners are able to generate ongoing repeat business with their broad scope of services and the caring manner in which they are provided to a deserving population whose needs continue to grow,” Yocom says.

According to Kiran Yocom, chairwoman and co-founder, the franchise’s growth is driven by a combination of swelling demand for senior in-home services plus would-be franchisees’ desire to genuinely help others. Senior care services amply fits both of these needs. “When our franchise partners put their heads on their pillows at night they can feel very good about their day,” she says.

After years of steady growth in the number of territories and markets serviced, Seniors Helping Seniors has more than 200 franchise territories in over 40 states. This year, the company also began its international expansion efforts, and as one of its first initiatives in that area recently hosted a prospective group of master license owners from England. The beginning of international franchising represents a major milestone for the company that was begun 10 years ago by Kiran Yocom.

"I started Seniors Helping Seniors services as a mission to fill a need that was not being served by our own community in our own backyard," she says. "Today, our franchise partners throughout the country recognize it as a way they can serve others and profit themselves. It is truly a heartfelt win for all everyone."

Fiesta Insurance Franchise is looking for a win by providing income tax return preparation service along with insurance for automobiles, homeowners, renters, and motorcycle riders as well as health, life, and many specialty insurance products. Franchisees of the Huntington Beach, California-based company also can supply customers with commercial insurance products including workers compensation, commercial vehicle, professional liability and business owners insurance.

Their personal tax and financial services include electronic and paper preparation and filing of federal and state personal and business tax returns. The franchisees also can make bank products available, as well as services such as accounting, bookkeeping, notary, travel, money transfer, and motor vehicle registration.

Pairing tax preparation with insurance positions Fiesta Auto Insurance owners significantly better than if they had either one alone. Because filing tax returns and carrying auto and other types of insurance are legally required, clients have a strong motivation to obtain them. Because it can handle both types of needs, Fiesta Auto Insurance can be one-stop shop for many of them.

Fiesta Auto Insurance targets Hispanic consumers specifically and blue-collar consumers in general. These customers often pay their insurance monthly by coming in person to the business offices. Their regular visits give franchisees a chance to sell them additional services year-round.

The franchises also require only a modest investment to get up and running, and the businesses have good expansion prospects from the beginning because the Hispanic market is fast growing and relatively underserved when it comes to financial services and products. The recipe helps franchises reach break-even quickly and start turning a profit.

FIESTA AUTO INSURANCE

Fiesta Auto Insurance now has approximately 125 open offices. They are concentrated in California, Texas, Florida, and New York where Hispanic markets are already large, but locations are opening up fast in other states. Over the next year, the company anticipates opening up 100 new franchise locations and plans ultimately call for about 2,600 locations concentrated in the states where it's strongest now.

Personal services is already one of the strongest segments in the franchising field. The niche accounts for 14 percent of the total number of franchise establishments, according to the IFA. Its sales volume output comes to 11 percent of the total. However, its number of employees only represents 8 percent of the total number of franchise business employees. When relatively few employees produce relatively larger revenues, that means productivity levels are significantly above the averages in the other categories across the industry.

In 2007, each worker in personal services franchises generated $119,192, according to the IFA. That was down slightly from the prior year, but since then it's been all up. For 2012, personal services productivity, measured by dollars per work, hit $134,077, up 3.5 percent from the year before in the fourth straight annual improvement.

The same sort of industry-pushing performance from personal care franchises can be anticipated in the near future. "Stable, recession resistant, low risk, low investment, 'need' not 'want,' low overhead -- those are the buzz words of the day," Schroeter says. And personal care concepts provide all those and more.


$654,503
Average Franchise Revenue*
• LOW OVERHEAD / SMALL STAFF
• YEAR ROUND INSURANCE REVENUE
• SEASONAL TAX REVENUE
• FASTEST GROWING FRANCHISES
FIESTA AUTO INSURANCE
SEGUROS DE AUTO
Desde $1 Por Dia
105
FIESTA
TAX SERVICE
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*Figure reflects the average revenue of our franchise locations opened for a period of 61-72 months as of April 30th, 2012. The figures noted are published in the Item 19 section of our 2012 Franchise Disclosure Document. Individual financial performance will vary.
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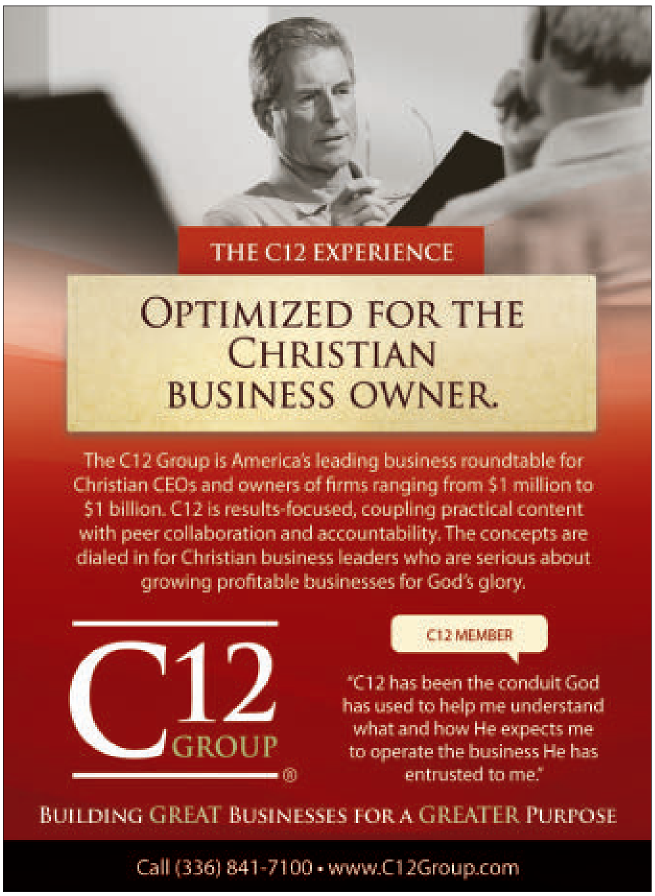
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A Wild Ride in a Red Wagon

How an Italian immigrant created an icon of the American childhood

The Classic Radio Flyer has sold millions of these steel wagons. It even trademarked the shape.

It's hard to imagine a 1950s suburb without a little red wagon on the corner, filled with a pile of kids who would mentally transform it into a spaceship or stagecoach. Radio Flyer, based in Chicago, has sold more than 100 million wagons since its founding nearly a century ago. These little wagons were the creation of Antonio Pasin, who came to the U.S. from Italy in 1914, at 16. Pasin, the son of a cabinetmaker, settled in Chicago and started a business building cabinets for phonographs. But the wooden wagon he built to cart around his tools proved to be his most popular creation. Customers kept requesting one for their children.

Pasin named his new business Liberty Coaster, after the Statue of Liberty. After receiving a big wholesale order for 7,000 wagons, Pasin opened a factory in Chicago and began making the wagons from steel. He used techniques—and scrap metal—from the booming auto industry.

He named his first steel wagon Radio Flyer, in homage to the newly invented radio and the dawning of air travel. Never mind that those words had nothing do with wagons. "They were simply buzzwords of the day," says Antonio's grandson Robert Pasin, who now runs the company. Had Antonio been naming the wagon today, muses Robert, he may have called it Cloud Computer. The wagons came in many colors, but red always sold the best.

Even as the company grew, the poor immigrant boy in Antonio still felt desperate to prove his worth, says Robert. In the midst of the Depression—and against the advice of nearly everyone he knew—Antonio took out a $30,000 loan, risking his business and his family's security on a publicity stunt at the 1933 Chicago World's Fair. "Grandma said it was the only time she ever saw him really stressed and unable to sleep," recalls Robert. Antonio commissioned Coaster Boy, a 45-foot-tall art-deco statue of a boy riding a wagon. Beneath Coaster Boy was a shop that sold mini souvenir wagons for 25 cents. Fortunately for Antonio, the souvenir sales generated enough cash to repay the loan and enough buzz to make his company a household (or at least a sidewalk) name.

Sales of children's wagons grew along with the baby boom. When Antonio was in his 70s, his son Mario Pasin took over and renamed the company Radio Flyer. In an attempt to broaden the company's customer base, Mario launched a line of wheelbarrows, garden carts, and outdoor furniture for adults; many of these products were sold under private labels such as Sears Craftsman. He handed the business to his own son, Robert, in 1997. Since then, Robert Pasin has tried to pull Radio Flyer into modern times. He has introduced new products, including scooters, tricycles, and training bikes. Now, customers can design their wagons online, tricking them out with canopies, padded seats, and engraving. Robert built his own Coaster Boy of sorts—a 15,000-pound replica of the original Radio Flyer that sits outside the Chicago headquarters. He also closed the Chicago factory and outsourced production, in 2004. Last year, Radio Flyer's sales hit $76 million.

Antonio died in 1990, at 93. His now-104-year-old widow, Anna, still lives in their suburban Chicago home. A little red wagon sits on her porch. —*Reshma Memon Yaqub*

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