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Industry ROUNDTABLE TECHNOLOGY

PRESENTED BY:


Hodgson Russ LLP
ATTORNEYS


Is the Albany area welcoming to tech firms? Has New York state been supportive? How do you find qualified people? Law firm Hodgson Russ and *Albany Business Review* recently convened a panel of 8 technology industry leaders at the Massry Center for Business at the University at Albany to answer these questions and others. Michael DeMasi, senior reporter at the *Albany Business Review*, moderated the discussion. The highlights are below.

▶ MEET THE PANEL


TAMI COLE
Title: President & CEO

Company: docstrats

FERNANDO GOMEZ-BAQUERO
Title: CEO

Company: BESS Tech

EDWARD "EDDIE" JOHNSON, JR
Title: President

Company: InfoEd Global Inc.

REG HARNISH
Title: CEO

Company: GreyCastle Security

ANNMARIE LANESEY
Title: President

Company: Greane Tree Technology

JOE MASCIOTTO
Title: President

Company: SI Technologies Inc.

RUTVIK J. MEHTA, PhD
Title: CEO & Materials Scientist

Company: ThermoAura

DAVID PRESCOTT
Title: President

Company: IntegraOptics


Does the Albany area have a welcoming and supportive culture for tech firms? If not, how can it be improved?

FERNANDO GOMEZ-BAQUERO: I've been living in the area about seven years. When I came here, the first thing that I noticed was that tech was very much embedded in the region, and I think it had a lot to do with RPI and GE. On the smaller tech side, even though people are very interested in it, I think that there is still a lot of work to be done for this area to be a hub for small technology companies. Financing is the first one. It's much more predominant in Silicon Valley or even in Boston. And it's just an ecosystem. It's a group of people that are interested in technology that support some other types of technologies, and it sort of snowballs from that.

ANNMARIE LANESEY: I would say that, without a doubt, this region is more accustomed to big business. And even though we don't have any super big businesses here, it is definitely challenging for small business to make some ground. I think we're doing things and planting seeds around a start-up ecosystem, because a start-up ecosystem and a tech ecosystem go hand in hand. And I just don't think there's enough support for new businesses, new ideas.

TAMI COLE: I'm blessed to have the reputation of Documentation Strategies that Ann Moynihan started, so that helps a lot in terms of a known brand recognition for a small firm. But I do see some challenges getting into conversations with some of the larger organizations. Sometimes it's just easier to just kind of go with the status quo instead of looking into the smaller firms and saying, how can we expand and take what they're doing to help our business accelerate faster and more efficiently?

DAVID PRESCOTT: In order to support the growth of tech industries, you have to have the manufacturing and blue collar industries also for us to work on, and for us to have opportunities to do additional business. One of the pieces that's not great is a lot of the tech firms in the area have a high dependency on state

contracts, state jobs, which should not be the basis. It should be commercial. I think SUNY Nano and Global-Foundries have done a great job of injecting the business opportunities into the area.

JOE MASCIOTTO: I was born in Brooklyn and raised on Long Island. I think the biggest problem we have in Albany are the native Albanians. "Smallbany" and things along those lines are not welcoming to growth. I've got two sons that could not wait to move away. So I think the biggest problem that we still have is the cache that Albany's Tech Valley. We still don't have that cache. And until we can really make that part of our bloodline, we won't attract people to stay here; and if we can't attract people to stay here, we can't grow our businesses; and if we can't grow our businesses, we can't attract people to stay here.

EDWARD JOHNSON, JR: I feel like we're outgrowing Albany and it's very hard for us to stay here. Now, we're not moving. We've literally had to go to other corners of the world to get people, particularly developers, that will actually help us grow. We go to every job fair, every search engine possible. And a lot of people don't want to do business with an e-mail address. They want to go to an office and sit down and feel that community. It's very hard to move people up here because a lot of the talent exists in larger cities. And because of the cost of living index, it's hard for them to make an adjustment and say, I was making 180,000 there, I'd make 130, 140 here, and we're trying to say that's better. You can buy a better house, a better this. They don't get that.



Rutvik, to what extent is the area supportive of tech firms?

RUTVIK J. MEHTA: I think we have momentum in the right direction right now. But as many of us said, the ecosystem needs to be better. Unfortunately, one of the hardest things to build, you can't just build it overnight, is entrepreneurship and tech support culture.

REG HARNISH: From a business perspective, Albany's a conservative area. We opened a Rochester office to



Left to right: (Backrow) David Prescott, Edward "Eddie" Johnson, Jr, Joe Masciocco, Reg Harnish, (Frontrow) Tami Cole, Rutvik J. Mehta, PhD, Fernando Gomez-Baquero, Anmarie Lanesey

PHOTOS BY DONNA ABBOTT-VLAHOS

harness the talent from that city because there just are very few resources here. But for us, the least welcoming thing is the taxes and business climate here. It is absolutely painful to own a business in New York State and it's not getting any better. Cybersecurity, it's a global industry at this point, so we really can do our work anywhere.

GOMEZ-BAQUERO: A lot of people think that the regional economic awards are great, but what we're seeing is that they're actually hindering some projects. I'll give you a real life example of something. We've been trying to do a project since last year, since June. We pitched it to different entities around the state, and they all said we would like to do it, we're waiting for the economic awards. So they happen in January, so wait, wait, wait, wait, wait. Now we have to wait until the money's awarded. So, four, six months more. Now we're getting into the cycle where nobody's doing anything for about a year period because everybody's just waiting and saying we can get money from the state.

PRESCOTT: I see a lot of entities or start-ups that live or function solely off of grants or incentives they get in order to function or be there, but they can't survive and function on their own without the grants and incentives, which kind of defeats the purpose of starting the initiative in the first place. What I would rather see: lower the tax base, lower the opportunities so people can essentially grow.



What's your biggest challenge?

HARNISH: Our biggest problem is the evolution of human psychology in a lot of ways. The industry is really so young. We've been fighting computer crime since the '60s, but not in any material way. You think

about cybersecurity and cybercrime, it's only in the last five years that it's become a household word. The problem is so complex. We don't arrest hackers, we get no cooperation from them. America's the only country where it's illegal. It's so early, we don't have the business infrastructure, not even the technological infrastructure. We don't understand the problem.

'... It is definitely challenging for small business to make some ground. I think we're doing things and planting seeds around a start-up ecosystem, because a start-up ecosystem and a tech ecosystem go hand in hand.'

ANMARIE LANESEY,

President, Greene Tree Technology

MEHTA: Some of these concerns about hiring, we do have those challenges. But for us, because we're a manufacturing start-up, we basically took this new tech, developed it at our company, and using R&D, came to a point where we're ready to switch on our factory and start doing high volume manufacturing. And managing this transition, it's really a challenge right now.



Has New York state been helpful to you in that regard?

MEHTA: Yes and no. NYSEDA has been a fantastic support. We have these gigantic manufacturing

machines which need thousands of amps of electrical power. So we needed to upgrade the power source at our plant. Between National Grid and NYSEDA, the CEG, they helped us. It happened very smoothly. In our interaction with the state, we've had mostly good interactions.

GOMEZ-BAQUERO: We grew from being at a university to a start-up and then R&D and then moving up that chain. Manufacturing is rather difficult to do, in this state in particular. I've heard a lot of officials of the state saying manufacturing is the focus but the reality is that the support is not there. NYSEDA is one of the most amazing agencies I've ever seen. But NYSEDA cannot do it alone.

LANESEY: Hiring (has) been a problem from day one. We do rapid application development, so we build stuff very quickly and it needs to work. So we're using technologies that are on the forefront of computer science. The schools are not teaching these things. Even RPI doesn't have a class in Ruby on Rails. Not only do we not have an abundance of engineers, but the salaries that folks are getting across the country, they're incredibly high. I graduated from RPI and I grew up here. My family's all here. But all of my friends from college did not stay. There has to be a real compelling reason for them to stay here. What we want to do is train folks in computer science, do bootcamp-style coding academies. The initiative is called Albany Can Code. We're going to have a pilot starting in the spring. We had hired someone who graduated from one of the local colleges and they weren't able to perform. At the same time, we had a recruiter come to us and say we have this young man. He has worked in kitchen doing restaurant work, and he taught himself some programming. I looked at his code. It's quite good. And within a matter of a couple months, he became a real performer for us.

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There's a common theme here about difficulties finding qualified people. Each one of you could offer up a potential solution that you're trying or have tried and found successful.

PRESCOTT: We often have to recruit people from outside the region, try to convince them to come here. And a common theme that a lot of them will be fearful of which prevents them from wanting to relocate here is there's no other opportunities here. Or if I relocate here, there's no opportunity for my spouse. All the people coming out of college, they're very, very heavily loaded in debt. One of the theories is look, if you stay here, after five years, we'll forgive -- you know, the state schools -- the student loans for staying at a local business.



With Transfinder in Schenectady, you've had to go overseas to find qualified people.



JOHNSON: Yes. And we haven't had a lot of success. Looking for strong talent is like drilling for oil. And you have to go to a lot of different areas. We haven't had a lot of luck overseas. Some of the countries where they do have decent talent are very expensive. If you look at the UK, Ireland, and Australia, the cost of living there is insane. Then a lot of people talk about resources in Asia. We tried three or four different times, but we didn't have success. There's a significant language barrier at times. There's obviously a clock barrier. I haven't found the skill level to be comparable with what we have, and it's not cheaper in the end. And we've looked to setting up offices there, but it just doesn't make sense.



You have offices in Australia and South Africa?

JOHNSON: Yes. We set up those offices initially to keep a footprint in these time zones. And we've also tried to harvest developer resources. And where they exist and where they have comparable skill levels to what our expectations may be, they're somewhat cost-prohibitive. I don't look at resumes. I pretty much bring everyone in and test them. We have several people that work for us that have never been in college. The degree unfortunately does not guarantee the skill.

MASCIOCCO: When it comes to network system engineers, the only way I have been able to find good network system engineers is to acquire small businesses. When I interview people out of computer science school, it's abysmal what the talent pool is. The second problem that we have, we need people that are good with their hands and good with their minds at the same time. And very seldom does that go hand in hand. What I'd like to see is a real focus on trade schools. Not everybody that graduates high school needs a four-year college degree in nothing.

PRESCOTT: We have the office in Brazil. We looked to possibly promote and move some of our people from up in the Albany area that had worked and developed down to Brazil. Brazil's set up to promote and to encourage people to hire down there was set up very, very strong. For us to bring a network engineer or network technician from the United States and put them to work down there would have cost us almost \$200,000 per year per person because of the way they handle their taxation and their duties to bring in a foreigner to do work.



GOMEZ-BAQUERO: We do see a pool of a lot of people that are great and we can hire, and that's thanks to SUNY Poly and also the legacy of IBM. And you see young people coming out of school, you see people in the middle of their careers, and you see people at the end of their careers, especially because of IBM. And they're a fantastic pool of knowledge, from operators to CEO's to everything there. In our business, we hire semi-conductor people, but we're in the energy storage space. So one thing that I would say that is interesting that we've done is teach them that their skills are transferable. So you have great people in the semi-conductor space that, they never think that they could work on something different. In energy storage, they're great skills. So when they see that, they get really excited about it. They think it's a new opportunity. Some of them would rather work for a small company than a large company, so work can be very tedious in GlobalFoundries. You come up with this surprising thing with someone doing something completely different, and then comes into this space and it's fantastic.

HARNISH: Good cybersecurity consultants are tough to find. You need soft skills with security skills as well. Early on, the problem was the same. It was that all these college graduates are moving away. How do we retain them? Quickly we figured out that we don't care if they move away because they're not qualified anyway. So we solved the problem by creating our own course. It's Cybersecurity 101. You go to our course and we're recruiting right out of class. We're creating our next employees with this alliance with Hudson Valley Community College, which we intend to replicate around the country.

LANESEY: What I'm finding is that the universities and

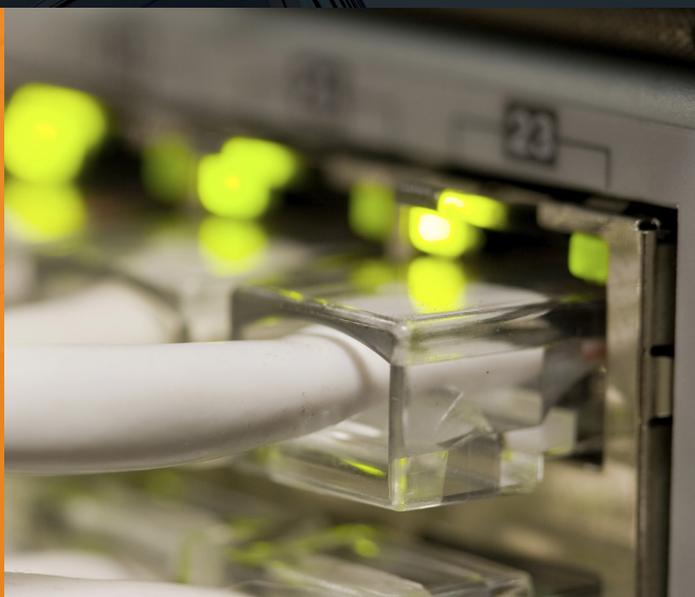


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the colleges, they're slow. They're not understanding. We cannot wait 18 months. We need a course now. That's what needs to happen. Like, we need six weeks to get it ready. That's how quickly technology will change. So I think the universities and the colleges and the academic institutions need to understand, it's already starting to happen in the private sector. So there's already these for-profit coding academies that are doing incredibly well across the world that are really kind of putting a real hard edge to the universities in this field that are just not keeping up and producing the kind of people. So private sector, I mean, it's sort of training the folks that the universities aren't. So it's a warning to them. It's going to happen with or without them.



PRESCOTT: Academia in the higher education world I think had its very strong relevance years ago before we pushed a lot of that curriculum and that aptitude training down into the high school level, which is where it's at now, which is why we're seeing the ability of people to come out of high school and rapidly pick up on things and learn things and not go to higher education. I'm not trying to jump up and down and say don't go to college or whatever. I'm saying academia needs to step up to the next level. I sit on a board of advisors for a local college. Where they keep asking me what do I need the students to come out with in order to be successful network engineers? I keep telling them you really need to train them to be electricians, to be hands-on, to be able to run that. They have no courses in electrical engineering or electronics. They continue to push software classes and coding classes down the throats of network engineers. We have no use for software coding in the skill sets that we use.



Can you share some stories about how you got the money you needed to get where you are today?

GOMEZ-BAQUERO: When we started, a lot of the money that we received was through grants. After that part, we started raising some private capital, and mostly working with angel groups, people that were willing to take a look at this. And that works okay for that initial development. When you get to the phase that you're now growing and you're working with a customer and you really need to take that big jump, that's when things get really bad here. I think that there's a big disconnect right now. There's a lot of VC money going for software. Nothing on the manufacturing side. Clean tech -- no one is putting money into clean tech particularly, so I've seen no VC money at all. So I'm having to jump to strategic driven customers. But it's a pretty difficult thing to do because you're basically telling them, well, I'll deliver the product, so invest in me. It's easier if you're manufacturing a consumer product, then people have gone to crowd funding.

LANESEY: We're a service-based company, so we've never had to go out and find financing. Really, we had a customer the day we started doing business. We shifted from doing the software product, you know, when my husband and partner were working nights and weekends and trying to get this software product out the door, we realized there was no way we were going to be able to keep it on the market, so we started saying we'll do services to fund that software product. And we quickly became a service-based business because we had customers that wanted to hire us to do the work that we did. So from day one, we were profitable. We didn't have a business until we started making money, and that was in 2009, so shortly after the economy had taken quite a tank.



HARNISH: Venture capital is not what it used to be. This is my fourth business. And I was lucky enough to ride that wave of startups in the '90s. In the middle 2000s, there

was a bit of resurgence. I've had some success so I was able to privately finance GreyCastle. But if I needed to get money, if I was actually in a position where I needed money to start this company, I wouldn't have been able to do it. It doesn't really exist for the types of companies -- despite the multiples that we've proven over the last five years. So we'll do \$6 million in sales, we've created 22 jobs in downtown Troy, we've gotten exactly \$5,000 from the state, the county, the city. And that went to a shredder, a couple of encrypted flash drives, and maybe like a printer. So we've had no help. I don't think the money really exists. We have Dick Frederick who runs Eastern New York Angels. He's practically a family member at this point. He does some amazing things.

'Looking for strong talent is like drilling for oil.'

EDWARD JOHNSON, JR., President,
InfoEd Global Inc.



MEHTA: We did initially start with the National Science Foundation and we got grant money from NYSERDA as well, and of course we have the Eastern New York Angels. They were our first investor, then they've done a follow-up. When you're a clean tech company and you're trying to raise \$1 to \$3 million, it's a very, very bad region to be. We had a VC fund actually come and tell us, you know, we like your idea, but for us to actually put a guy on your board and spend the amount of due diligence and stuff we have to do for a \$1 million investment, it's not worth it.

PRESCOTT: I'm on the other side. We're in the middle of acquiring an R&D company that has IT, so very similar to where both of you are at. So I get to look at it from the opposite side. It's hardware. We know it works. So now we just have to spend money on commercializing it. One of the things that I evaluated and looked at very strongly, you know, about the reason software is easier, is you have a talent pool and resources, kind of like you said you acquired companies to get talent. Software companies, they might start off with a software programming plan, but they can quickly just take the staff and change projects.

JOHNSON: Software ain't that easy.



LANESEY: Dave knows how hard it is. But we see a lot of startups coming to us to look to hire us to build their software concepts. I find myself more and more often sort of explaining to them how hard it is, especially when they don't have developers themselves. It's not what VCs or other investors are looking for. And I can point them to ENYA, and I certainly do, but usually they come already knowing that. And I'm not saying ENYA isn't doing great work, they're doing really awesome work for many companies at this table and many, many more, but we need more. One of the things I've been working on, just privately with some friends, is a private angel fund or angel group because there's nowhere else to go.

MASCIOCCO: Similar to Annmarie's point, we started our business from scratch in '92. We didn't seek any VC funding or anything along those lines. We financed our company the old fashioned way: I mortgaged my house to the hilt. And 18 months later, I owed Visa \$49,785 just to put food on the table. That's how we

funded our business because nobody would loan us money. Now we don't need money and people want to loan us money all the time. But I think there's a void in the banking industry in the Capital District that is getting worse with the acquisition of First Niagara Bank. What we need are more smaller banks that recognize the local businesses that don't want an SBA loan. But do I need a \$3 million line of credit from time to time? Yeah. And companies like First Niagara have been supporting businesses like ours with that kind of support. Key Bank not so much.



COLE: I was lucky enough to -- and I know lucky is a relative term -- but I have an SBA loan with Key Bank which was quite the roller coaster ride to get. Now, we want to increase the credit line. Well, show us all these financials, show us all these. You know, it's not that much. Without the SBA loan, we simply couldn't have done it, because the other group of banks we had been talking to required a minimum of 20 percent down personal investment, and we just couldn't come up with that. So we looked at VCs and we looked at the returns they wanted, and it just didn't make sense. So it was either traditional financing or nothing.



My last question has to deal with minimum wage. Most of the talk and focus has been on how this is going to impact retailers in New York state.

My questions are, do you support or oppose the governor's push for the \$15 minimum wage? And secondly, what effect, if any, would a higher minimum wage have on your business?

JOHNSON: Loaded question. It has absolutely no effect on my business. My concern is just some of the anecdotal stories that I've heard around New York City. For example, from other people -- this is secondhand -- is that when they raised the minimum wage, that was a trigger for some fast food chains to say basically great, that's what we needed to automate. That's what I've heard. But to my business firsthand, it has no effect.



MASCIOCCO: This is just bad politics that hurts businesses. We have no one in our business that makes minimum wage either, but we have a lot of people in our business that make three times the minimum wage. So if we up the minimum wage, someone who's making \$44 an hour now, do I have to pay them \$48, \$68?

COLE: It doesn't affect us. We don't have minimum wage employees. But I look at when I bring somebody on board, especially when I'm looking at out-of-box thinking, someone who's looking for opportunity, I do gauge that, well, we're going to start here. Now that the minimum wage is 15, it really changes -- well, if I'm only going to give you \$3 to \$5 more than minimum wage, that doesn't feel good to me as a business owner. So do I not hire that person, not provide that opportunity? It's going to be a struggle.

GOMEZ-BAQUERO: For us as a company, it really doesn't affect us at all. All of our employees earn more than that. If I put on my economist hat, I would say I think that raising the minimum wage is sort of a simplified solution to something that is way more complex. What I think is that there needs to be a little more work understanding how to take people -- in poverty, or they're really struggling, they have three or four jobs, and they can't keep up -- how to take those people and put them in some occupation that might raise them from that, and raise what I call the effective wage. It's very simplistic to say we're going to solve everything. \$15. That's it. Everybody's happy. Economies don't work that way. The world doesn't work that way either. It's not going to do anything.