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INNERLOOP

BOWSER: I WON'T HOLD UP PROJECTS



► With nine months before she might become D.C.'s next mayor, Muriel Bowser vows to keep the Gray administration's major projects moving along.

MICHAEL NEIBAUER, 4

► Bowser deserves more respect than she's being given.

DOUGLAS FRUEHLING, 44



EXECUTIVE PROFILE

LISA GABLE WANTS YOU TO EAT YOUR VEGGIES! 37

T H E L I S T

► General Dynamics holds largest contract of fiscal '13 30

► Changes among the top 3 technology contractors 32

WASHINGTON BUSINESS JOURNAL

Car talk. Coffee talk.

Meet the man who marries them both with a new Web series

HOW I..., 35



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FEDBIZ EXTRA

NORTHERN EXPOSURE

How tough times for an Alaskan behemoth are hurting a local contractor

BY JILL R. AITORO | PAGE 26

BREAKING GROUND

The Post close to HQ decision?

Facing a deadline to find a new home, The Washington Post hopes to make a deal work a few blocks away from its current headquarters.

DANIEL J. SERNOVITZ, 20

FEDBIZ

I'm definitely not leaving'

Embattled CEO Tony Jimenez vows to stick it out as he returns to MicroTech following the "worst three months of my life."

JILL R. AITORO, 10

TECHFLASH

Proliferation of passwords

The Shahbazi brothers target those pesky passwords with their new Kickstarter-funded venture, LogMeOnce.

BILL FLOOR, 8



WASHINGTON
BUSINESS JOURNAL

April 4, 2014
Vol. 32, No. 51, \$4.00
1555 Wilson Blvd.
Suite 400
Arlington, VA 22209



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washingtonbusinessjournal.com



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TECHFLASH

BILL FLOOK covers technology, startups, biotech and venture capital

► BILL'S TAKE

Crowd funding tech startups? Ugh, imagine the cap table

April 5 marks the second anniversary of President Barack Obama's sweeping Jumpstart Our Business Startups (JOBS) Act. One of its most touted provisions, allowing equity-based crowd funding for non-accredited investors, remains stalled in SEC rulemaking.

David Verrill sounds fine with this delay. As chairman of the Overland Park, Kan.-based Angel Capital Association, a trade group that represents angels and other accredited investors, Verrill is wary of allowing unaccredited crowds to trade cash for equity in startups.

He's echoing one of the core criticisms of the JOBS Act: that equity crowd funding sounds like a nice idea, but is going to create far more problems than it solves. Federal regulators are still puzzling over how to structure the online intermediaries – dubbed “portals” – that will facilitate deals between startups and the investing public. Among the many potential complications: How will crowd funded founders manage 1,000 new mini-bosses? How will unsophisticated backers keep from getting scammed? How will subsequent professional investors react to a cap table with more names than a high school yearbook?

The two most popular crowd funding sites – Kickstarter and Indiegogo – are donations platforms. A startup might ship a prototype to its Kickstarter investors, but it doesn't owe them any shares. Those platforms, Verrill said, “don't muck up the cap table of the company, they are simply ways of testing the marketplace.”

Of course, Kickstarter isn't perfect. No equity means backers are excluded from any upside of an exit, as we just saw in the case of Facebook's \$2 billion acquisition of Oculus VR, which had raised \$2.4 million from nearly 1,000 investors. Groused Ted Leonsis on his blog: “The founders and the VC investor will cash out. And the users who helped finance the product get an email of explanation as a thank you.”



CEO Kevin Shahbazi, left, and CTO Mike Shahbazi hope to raise \$50,000 in a Kickstarter campaign for LogMeOnce, their new startup.

JOANNE S. LAWTON / STAFF

Logging on

FORMER TRUST DIGITAL CEO TURNS TO KICKSTARTER TO GET HIS PASSWORD MANAGEMENT STARTUP OFF THE GROUND

Kevin Shahbazi – a serial entrepreneur perhaps best known as the former CEO and co-founder of Trust Digital – opened up a Kickstarter campaign this week for his latest startup: LogMeOnce.

The McLean company provides a password management dashboard, coupled with a USB stick, that Shahbazi says will make keeping track of website login information both easier and safer. LogMeOnce is looking to raise \$50,000 in the campaign.

CEO Kevin Shahbazi is building the startup alongside brother Mike Shahbazi, president and CTO. The two co-founded McLean-based mobile security provider Trust Digital in 2001, where they held the same positions until a leadership change in 2004. The compa-

ny was bought by antivirus giant McAfee in 2010 for an undisclosed amount. The brothers went on to launch two other startups since leaving Trust Digital: eView Technologies and Avocado Security, before taking on LogMeOnce.

Like other local crowd funding campaigns, LogMeOnce's Kickstarter bid doubles as a pre-sale offer for an early version of the product. It's a strategy that worked for D.C.-based Web design startup Macaw, which raised \$276,000 last year on the promise of a product license.

Macaw blew past its \$75,000 Kickstarter goal by generating a groundswell of enthusiasm in the design community. So who is going to back a project like LogMeOnce?

“It's an interesting congregation of a little of everybody,” Shahbazi said. “Peo-

ple who want to test the product, people who really understand and appreciate some new technology.”

What ties backers together, he said, is “all of them need password management.”

LogMeOnce is a hybrid software-hardware play. Its identity management portal consolidates links to all of a user's sites on a single page, allowing one-click login. Behind the scenes, login and password information is stored in Facebook, LinkedIn or any other site as encrypted gibberish.

The hardware, in this case, is LogMeOnce's USB stick. You may have heard security experts in the news pushing for something called “two-factor authentication,” the practice of adding an extra layer of security to a site beyond just a login and password. That second factor could be a SMS message sent to a user's smartphone, or an emailed code. In LogMeOnce's case, it's a secure thumb drive loaded with the company's software, without which access to the service is blocked.

The company now employs 18 in its McLean office, which is complemented by a team in the U.K. Its Kickstarter campaign is set to run for two months.

► IPO REVIEW: 2U INC

- IPO date: March 28
- Ticker symbol: TWOU (NASDAQ)
- Amount raised: \$119 million
- First-day performance: Shares took an early dip but rose to \$13.98 by the close, up 7.54 percent.
- Second-week stock performance: As high as \$14.80 and as low as \$13.60 between March 31 and April 2.
- Market cap (as of April 1): \$550.17 million
- Profit and loss: 2U posted a \$27.9 million net loss last year on \$83.1 million revenue.



“The biggest challenge still facing the company today is [that] preconceived notions of online education are terrible.”

CEO CHIP PAUCEK, on the company's biggest challenges. Another is getting profitable.

COURTESY 2U